<u>Proportional Tax</u>

A **proportional tax** is a tax imposed so that the tax rate is fixed as the amount subject to taxation increases.[1] In simple terms, it imposes an equal burden (relative to resources) on the rich and poor. "Proportional" describes a distribution effect on income or expenditure, referring to the way the rate remains consistent (does not progress from "low to high" or "high to low" as income or consumption changes), where the marginal tax rate is equal to the average tax rate.[2][3] It can be applied to individual taxes or to a tax system as a whole; a year, multi-year, or lifetime. Proportional taxes maintain equal tax incidence regardless of the ability-to-pay and do not shift the incidence disproportionately to those with a higher or lower economic well-being.

Proportional taxes are uncommon in advanced economies, whose nationwide taxes typically include a graduated tax on household incomes and corporate profits, such that the marginal tax rate rises as the income or profit of the taxed entity rises.

Suppose, for example, that someone like Winston Smythe Kennsington III earns $10 million of income and pays $1 million in income taxes (10 percent) and that another person like Pollyanna Pumpernickel earns $10,000 in taxes and pays $1,000 in income taxes (also 10 percent). Because Winston and Pollyanna both pay 10 percent of their incomes in taxes, the income tax is proportional.

http://www.answers.com/topic/proportional-tax-1
http://www.amosweb.com/cgi-bin/awb_nav.pl?s=wpd&c=dsp&k=proportional+tax

Regressive Tax

A regressive tax can be defined as a tax that tends to increase the total percentage of income paid on those who must pay the tax. In contrast, those who have a higher income pay less of their total income on items taxed. A tax can also be considered regressive when poorer folks must purchase more of the items taxed than do richer folks.

What Does *Regressive Tax* Mean?
In simpler terms it is a tax that takes a larger percentage from low-income people than from high-income people. A regressive tax is generally a tax that is applied uniformly. This means that it hits lower-income individuals harder.

Some examples include gas tax and cigarette tax. For example, if a person has $10 of income and must pay $1 of tax on a package of cigarettes, this represents 10% of the person's income. However, if the person has $20 of income, this $1 tax only represents 5% of that person's income.

Sales taxes that apply to essentials are generally considered to be regressive as well because expenses for food, clothing and shelter tend to make up a higher percentage of a lower income consumer's overall budget. In this case, even though the tax may be uniform (such as 7% sales tax), lower income consumers are more affected by it because they are less able to afford it.

In simpler terms, the person who makes $30,000 US Dollars (USD) per year and drives an old car might need to purchase more gas. Say they need 20 gallons of gas per week, and the tax is $1.00 USD per gallon. In a years time the person pays slightly over $1000 USD on gas taxes alone, about 3% of total income.

Let’s say a similar person who makes $60,000 USD has a fuel-efficient car. He purchases 10 gallons of gas a week and pays just over $500 USD a year in total gas taxes. The percentage of income spent on gas tax each year is less than 1%, approximately 0.83%. You can see how this system is regressive tax in nature. The poorer person pays three times the amount of income as the richer person.

http://www.wisegeek.com/what-is-a-regressive-tax.htm
http://www.investopedia.com/terms/r/regressivetax.asp

Progressive Tax

A progressive tax is a tax rate applied to either income or profits, or spending, that increases as income/profits, or spending increases. This is the tax system used in the US, and in many other countries. Those who make the least amount of money tend to pay the lowest percentage of their income in taxes. People who make larger amounts of money are taxed at a higher percentage.

Taxation in most countries, including the US, is slightly more difficult to compute. Many misunderstand the progressive tax rate as the following formula: Mr. X who makes $20,000 US Dollars (USD) will pay 10% of his income in taxes. Mr. Y makes $40,000 USD and will pay 15% of his income. Ms. Z makes $60,000 USD and will pay 20% of her income in taxes.

http://www.wisegeek.com/what-is-a-progressive-tax.htm