

External assessment 2024

Stimulus book

Philosophy & Reason

General instruction

- Work in this book will not be marked.



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Stimulus 1

Governments raise revenue through taxation to fund a range of public services, e.g. healthcare, education, welfare, security and infrastructure. (In nations like Australia, which operates a market-based economy, private providers of such services also frequently exist.)

Income tax is a major source of government revenue. This is a tax levied on income earned by individuals or entities. Income tax can be calculated *progressively* or as a *flat rate*.

A *progressive* income tax increases incrementally as taxable income increases. It imposes a lower tax rate on those with lower incomes and a higher tax rate on those with higher incomes.

In contrast, a *flat rate* income tax imposes the same tax rate on everyone, regardless of the amount of income earned.

The table provides an example of how each form of income tax operates.

Annual income	Progressive rate of income tax levied	Flat rate of income tax levied
\$0 – \$19 999	0%	20%
\$20 000 – \$49 999	20% on all income at or over \$20 000	
\$50 000 – \$99 999	30% on all income at or over \$50 000	
\$100 000 – \$200 000	37% on all income at or over \$100 000	
over \$200 000	45% on all income over \$200 000	

Using these rates, a sample taxpayer from each income bracket would pay the income tax shown.

	Annual income	Progressive income tax payable	Flat rate income tax payable
Taxpayer 1	\$10 000	\$0	\$2 000
Taxpayer 2	\$70 000	\$12 000	\$14 000
Taxpayer 3	\$150 000	\$39 500	\$30 000
Taxpayer 4	\$250 000	\$80 500	\$50 000
Total government revenue		\$132 000	\$96 000

As can be seen, in both tax systems, the higher one's income, the more income tax is paid. However, only a progressive income tax increases the proportion of tax payable as income increases.



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