

External assessment 2024

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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%<br>on all income at or over \$20 000  |                                |
| \$50 000 – \$99 999   | 30%<br>on all income at or over \$50 000  |                                |
| \$100 000 – \$200 000 | 37%<br>on all income at or over \$100 000 |                                |
| over \$200 000        | 45%<br>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 |
|---------------------------------|---------------|--------------------------------|------------------------------|
| <b>Taxpayer 1</b>               | \$10 000      | \$0                            | \$2 000                      |
| <b>Taxpayer 2</b>               | \$70 000      | \$12 000                       | \$14 000                     |
| <b>Taxpayer 3</b>               | \$150 000     | \$39 500                       | \$30 000                     |
| <b>Taxpayer 4</b>               | \$250 000     | \$80 500                       | \$50 000                     |
| <b>Total government revenue</b> |               | \$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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