

# Taxes and Government

- Describe where local, state, and federal governments get the money they spend
- Explain principles and type of taxation

# Where does federal government money come from?

- 20% of all income in US goes to Federal Government
- Gov't receives money from taxes/borrowing
  - 42% of federal money comes from Income Tax
  - 33% of federal money comes from Social Security/Medicare
  - 18% comes from other types of taxes

# Social Security/Medicare

- Paid by both employers/employees
  - Social Security = 6.2% each
  - Medicare = 1.45% each
  - Total Tax = 7.65% each or 15.3% total
  - Self-employed workers must pay the total

# Principles of Taxation

- Every taxpayer should be treated equally
  - Does not mean all taxpayers pay the same amount of tax
- Benefit Principle
  - Those who benefit from gov't goods & services should pay for it (ex.-toll roads)
- Ability to Pay Principle
  - Those with larger incomes should pay more (ex.-income tax)



# Progressive Tax

- Taxes take a larger share of income as the amount of income grows
  - Lowest rate is 15%
  - Highest rate is 39.6%

# Regressive Tax

- Taxes take a smaller share of income as income grows
  - Ex.-sales tax

# Proportional Taxes

- Take same share of income regardless of income amount
  - Ex-no really good samples
    - Property tax could be considered proportional

# How Taxes are Collected

- Direct Tax-paid directly to the government
  - Income tax/property tax
- Indirect Tax-taxes included in the cost of goods & services
  - Property tax included in cost of rent
- Pay-As-You-Earn-government takes their share as you earn
  - Withholding taxes



# Types of Taxes

- Income--state, federal, some cities
  - Based on earnings
- Sales Tax--taxes added to the price of goods and services
  - Appears on sales receipt
  - Generally state/local, no federal sales tax
    - Some items are exempt, varies by state

# Types of Taxes

- Property Taxes--taxes on the value of real estate property
  - Based on estimated value of property/assessed value
- Excise Taxes--tax on sale of specific goods and services
  - Included in price of item
    - Gasoline, cigarettes, alcoholic beverages
    - Firearms, oil products, air travel etc

# Types of Taxes

- Estate Taxes
  - Tax on the estate of a deceased person
    - Based on value of estate
- Gift Taxes
  - Tax on gifts of over \$10,000 to one person

# Types of Taxes

- Business/License Tax
  - License or permit to operate specified types of businesses
    - Ex.--doctor/hairdresser/teacher
- Custom Duties/Tariffs
  - Taxes on imports to help control flow of goods into US