Understanding Taxes

Theme 1: Your Role as a Taxpayer
“Taxes are what we pay for civilized society.”

– Oliver Wendell Holmes, Jr., 1904
Taxes Fund Public Goods and Services

- Financial Aid
- Social Services
- State and Local Police
- Health Care for Elderly
- National Defense
- Public Education
Early Taxes

- Cooking Oil, Foreigners, Slaves (Ancient Egypt)
- Sales, Inheritance, Imports, Exports (Ancient Rome)
- Beards, Beehives, Boots, Souls (Russia, 1702)
- Bachelors (England, 1695; Missouri, 1820)
The Power to Collect Taxes

- American Revolution caused debt
- Tax was necessary to pay debt
- Article 1, Section 8 of the U.S. Constitution granted Congress power to tax

The U.S. Constitution gives Congress power to collect taxes
The Federal Government Dollar - Where It Comes From

- Personal Income Taxes: 32%
- Social Security, Medicare, and Unemployment and Other Retirement Taxes: 24%
- Borrowing to Cover Deficit: 30%
- Corporate Income Taxes: 7%
- Excise, Customs, Estate, Gift, and Miscellaneous Taxes: 7%
The Federal Government Dollar – Where It Goes

- National Defense: 24%
- Social Security, Medicare, and Other Retirement: 38%
- Net Interest on the Debt: 6%
- Social programs: 21%
- Physical, human, and community development: 9%
- Law Enforcement General Gov’t: 2%
- General Gov’t: 2%
How Taxes Evolve

1. House Ways and Means Committee
2. Full House
3. Senate Finance Committee
4. Full Senate
5. Joint Conference Committee
6. Senate/House Compromise bill

Branching Out:
- President vetoes bill
  - Veto override fails
  - Veto override passes
- President signs bill
  - Tax law enacted
Voluntary Compliance

Each person is responsible for filing a tax return.
Tax Avoidance versus Tax Evasion

• Tax Evasion: Failure to pay legally due taxes

• Tax Avoidance: Legal means of decreasing your tax bill
Taxpayer Rights

• Information on taxpayer returns is private

• Taxpayers have the right to appeal an IRS decision
The income tax law is a lot of bunk. The government can’t collect legal taxes from illegal money.

– Al Capone