Understanding Taxes

Theme 4: What Is Taxed and Why
Few of us ever test our powers of deduction, except when filling out an income tax form.

– Laurence J. Peter
The U.S. Constitution Divides Government Powers

Federal Responsibilities
State Responsibilities
Local Responsibilities
The Federal Government Dollar – Where It Comes From

- Personal Income Taxes: 42%
- Social Security, Medicare, and Unemployment and Other Retirement Taxes: 24%
- Borrowing to Cover Deficit: 22%
- Excise, Customs, Estate, Gift, and Miscellaneous Taxes: 6%
- Corporate Income Taxes: 7%
The Federal Government Dollar – Where It Goes

- Social Security, Medicare, and Other Retirement: 33%
- National Defense: 17%
- Social programs: 25%
- Net Interest on the Debt: 7%
- Physical, human, and community development: 14%
- Law Enforcement General Gov’t: 3%
The State Dollar – Where It Comes From

- **Individual Income Taxes**: 36.6%
- **General Sales and Gross Receipts Taxes**: 30.1%
- **Corporate Net Income Taxes**: 5.3%
- **Total License Taxes**: 6.6%
- **Other Taxes**: 3.6%
- **Property Taxes**: 1.6%
- **Total Selective Sales Taxes**: 16.3%

**Understanding Taxes**
The State Dollar – Where It Goes

Elementary & Secondary Education 19.8%

Higher Education 10.3%

Public Assistance 1.4%

Medicaid 24.4%

Corrections 3.1%

Transportation 7.9%

All Other 33.1%
Transaction Taxes

• Levied on economic transactions
• Set on percentages or physical quantities
• Support state and local services
State Income Taxes

- Come from earned and unearned income
- Levied on individuals and corporations
- Support state expenses, education programs, and welfare
Property Taxes

- Levied on property, especially real estate
- Can also be levied on boats, RVs, business inventories
- Fund schools, local services, welfare programs
Market Economy

Households

Labor/Payments
Income/Goods and Services

Business

Government

Taxes/Labor
Service/Income

Taxes/Goods and Services
Service/Payments
Conflicting Goals of Taxation

• Fairness
• Productivity
• Economic prosperity
• Promoting well-educated citizens and strong families
• Limiting government burden
Taxes and Equity

- Horizontal Equity: “Equals should be taxed equally.”
- Vertical Equity: “Unequals should be taxed unequally.”
Factors Affecting Tax Liability

- **Deductions**: Expenses that can be deducted before determining taxable income
- **Tax Credits**: Amounts that can be deducted from taxes owed
- **Tax Exemptions**: A part of income on which no tax is imposed
# Payroll Taxes

<table>
<thead>
<tr>
<th>Earnings</th>
<th>Hours</th>
<th>Amount</th>
<th>Deduction</th>
<th>Current</th>
<th>Year to Date</th>
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<tbody>
<tr>
<td>Regular</td>
<td>70.00</td>
<td>846.16</td>
<td>FICA Tax</td>
<td>69.06</td>
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<td>Overtime</td>
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<td>267.57</td>
<td>Medicare Tax</td>
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<td>Total</td>
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<td>Federal Tax</td>
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<td>NY State Tax</td>
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<td>NY City Tax</td>
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<td>Disability</td>
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<td>LTD</td>
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<td></td>
<td>1.00</td>
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<td>Year to Date Gross</td>
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<td>Net Pay</td>
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Direct and Indirect Taxes

Direct Tax:
• Tax paid directly to the government
• Cannot be shifted to another
• Includes personal income tax or property tax on a residence
Direct and Indirect Taxes

**Indirect Tax:**
- Can be shifted by a person or business
- Can be recovered by charging higher prices or paying lower wages
- Sales tax, business property tax, and payroll tax can be shifted