



Taxes And Spending

“In this world, nothing is certain
but death and taxes”

-Benjamin Franklin

What are Taxes?

- Taxes are payments people are required to pay to local, state and national governments.
- Taxes are used to pay for services provided by government:
 - Schools
 - Police
 - Defense
 - Etc.

Taxes and the Constitution

- Article 1, Section 8, Clause 1 of the Constitution grants Congress the power to tax.
- The Sixteenth Amendment gives Congress the power to levy an income tax.

Limits on the Power to Tax

Certain taxes are prohibited or limited in the Constitution:

- The purpose of the tax must be for “the common defense and general welfare”
- Federal taxes must be the same in every state
- The government may not tax exports

Impact of Taxes

- Types of taxes affect people differently, depending on their income. 3 forms of taxes are:

Progressive Tax

Regressive Tax

Proportional Tax

Progressive Tax



- Def. Tax designed to take a larger percentage of income from the wealthy than the poor.
- Argument for: the wealthy can afford a higher tax and should pay more of the tax burden.
- Argument against: why should the hardest working and most successful pay more taxes? Wealthy are penalized for their success.
- Ex. Income Tax with Tax Brackets

Progressive Tax (cont.)

- A person making \$20,000 pays 10% income tax (\$2000). Their after tax income is \$18,000.
- A person making \$200,000 pays 30% tax (\$60,000). Their after tax income is \$140,000.

Distribution of Personal Income Dedicated to State Sales Tax in Massachusetts, 2008



Regressive Tax

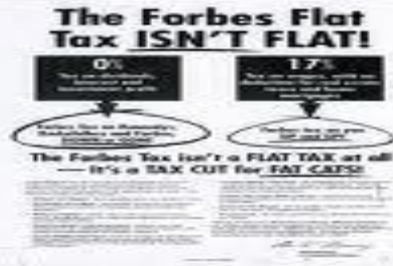


- **Def.** Tax which takes a higher percentage of income from the poor than from the rich.
- **Ex.** Sales Tax
- **Argument for:** Tax levied on what is bought. If you cannot afford the tax, do not buy the item.
- **Argument against:** Tax harms those who can least afford it.

Regressive Tax (cont.)

- Two people buy a \$20,000 car. They both pay \$1600 in sales tax.
- The first person makes \$30,000. The sales tax is 5.3% of his income. He has \$28,400 left after paying the tax.
- The second person makes \$100,000. The sales tax is 1.6% of his income. He has \$98,000 left after paying the tax.

Proportional Tax



- Def. **A tax that takes the same percentage of income from the wealthy and poor.**
- **Argument for:** Everyone is equal- pay same % of income.
- **Argument against:** The poor need their income more than the wealthy. They need every penny and cannot afford as much of a tax as the wealthy.
- Ex. **“Flat Tax” Income Tax**, (does not exist in our country, but some political parties support the idea)



Proportional Tax (cont.)

- On a “Flat” Income tax of 20%:
- A person making \$20,000 pays \$4000, after tax income= \$16,000
- A person making \$200,000 pays \$40,000, after tax income= \$160,000

Federal Income Taxes

- “Pay-as-You-Earn” Taxation
 - Federal income taxes are collected throughout the course of the year as individuals earn income
- Tax Withholding
 - The process by which employers take tax payments out of an employees pay before he or she receives it.



Federal Income Taxes (cont.)

- Tax Brackets
 - The federal income tax is a progressive tax. In 1998, there were five rates, each of which applied to a different range of income. The percent taxed ranges from 10% for the lowest income to 35% for the highest of incomes.

Married Filing Jointly		
Tax Rate	2008 Taxable Income	2007 Taxable Income
10%	Not over \$16,050	Not over \$15,650
15%	16,050 - 65,100	15,650 - 63,700
25%	65,100 - 131,450	63,700 - 128,500
28%	131,450 - 200,300	128,500 - 195,800
33%	200,300 - 357,700	195,850 - 349,700
35%	Over 357,700	Over 349,700



Federal Income Taxes (cont.)



- Tax Returns:
 - At the end of the year, an employer gives employees a report showing how much they withheld in taxes.
 - Individuals file a tax return with information regarding exemptions and deductions that adjust the amount of tax that should have been paid.
 - If you paid too much, you get a refund. If you paid too little, you must pay the balance.
 - All tax returns must be filed by **April 15th**.



Social Security Taxes



- Provides funds for older Americans, their survivors, and disability insurance.
- Program funded by the **Federal Insurance Contributions Act** (FICA).

Medicare

- Funds a national health insurance for people over 65 and with certain disabilities.
- Paid through FICA.



Unemployment Taxes

- Paid for by employers, provides “unemployment compensation” for workers laid off through no fault of their own and are actively looking for work.

Other Taxes

1. **Excise Tax:** tax on the sale or production of a good. Often used to discourage use of the item, called a “Luxuary” or “Sin” tax. Ex. Cigarettes, Alcohol, Gas, Telephone
2. **Estate Tax:** Tax on the total value of money and property of a person who has died. Only taken on estates over \$1.5 million. Opponents labeled it as the “Death Tax” because they believe it is unfair to wealthy, successful people.





Other Taxes (cont.)

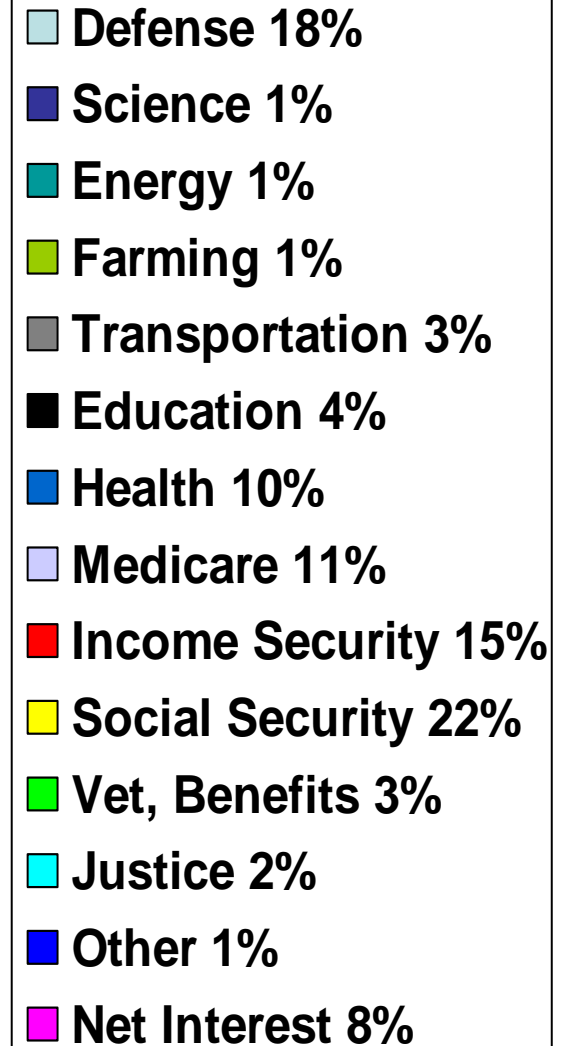
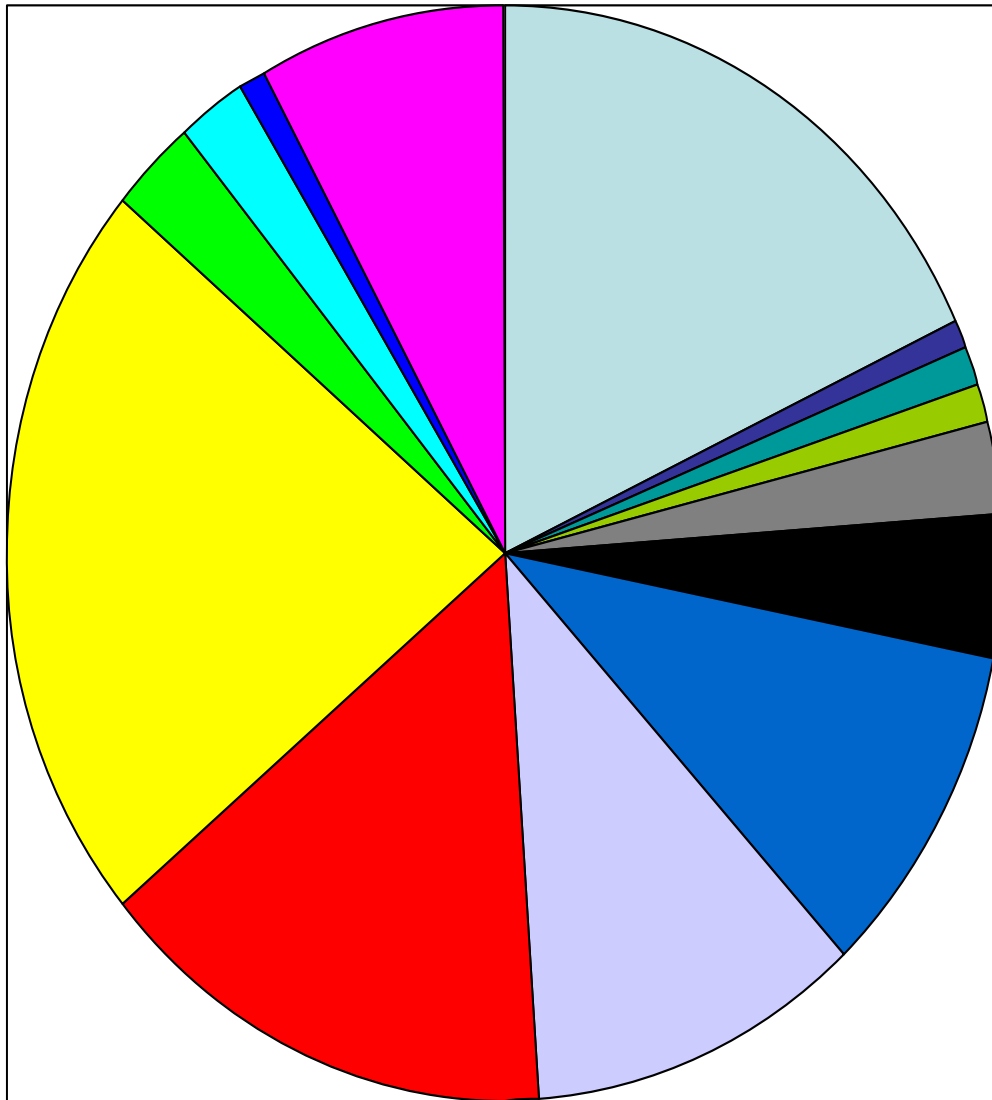


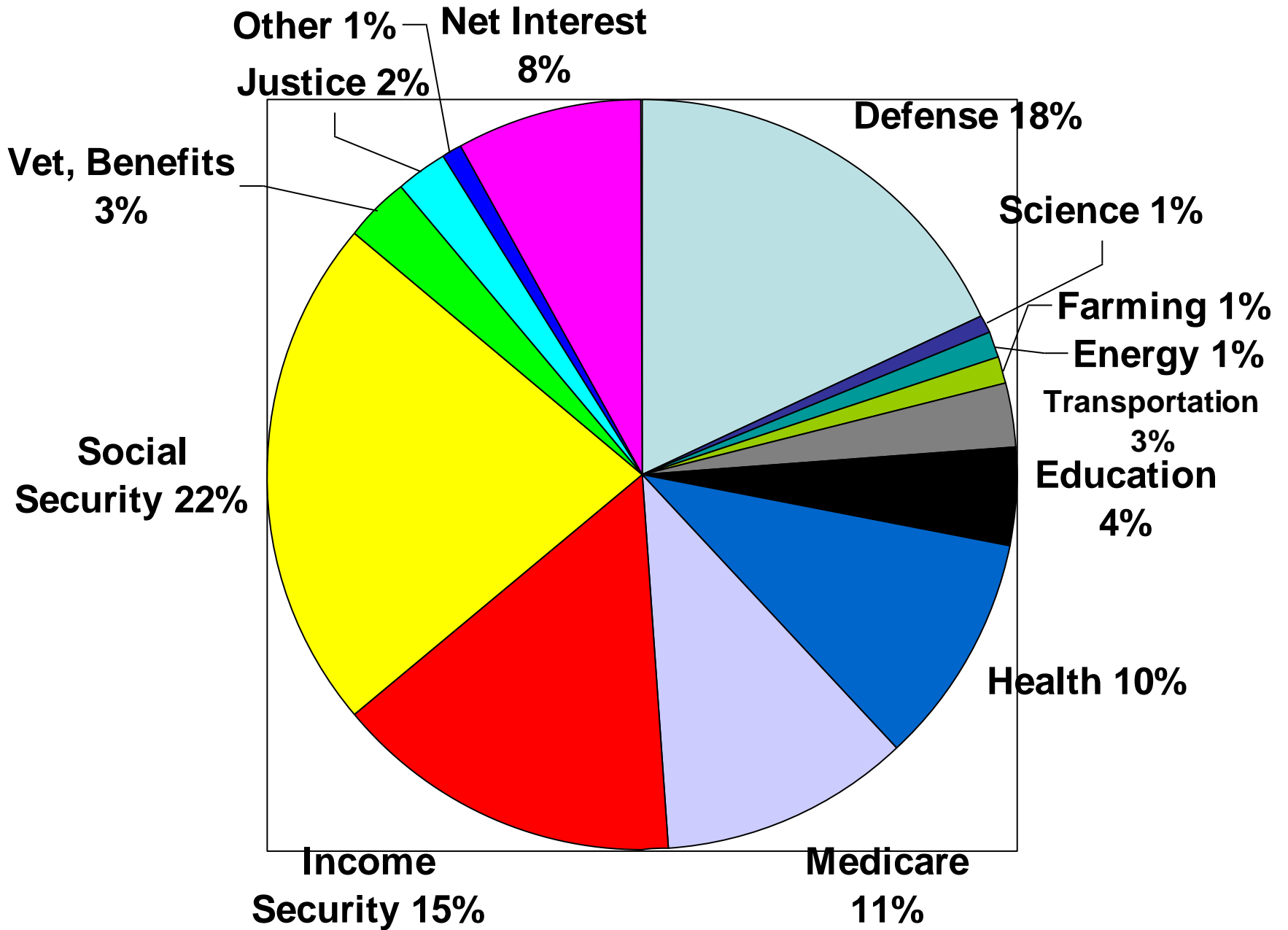
3. **Gift Tax:** Tax on money or property given as gift over \$10,000 per year.
4. **Import Taxes:** known as Tariffs, taxes on goods entering the U.S. Used to raise price of foreign goods and help American companies.



Federal Spending 2003

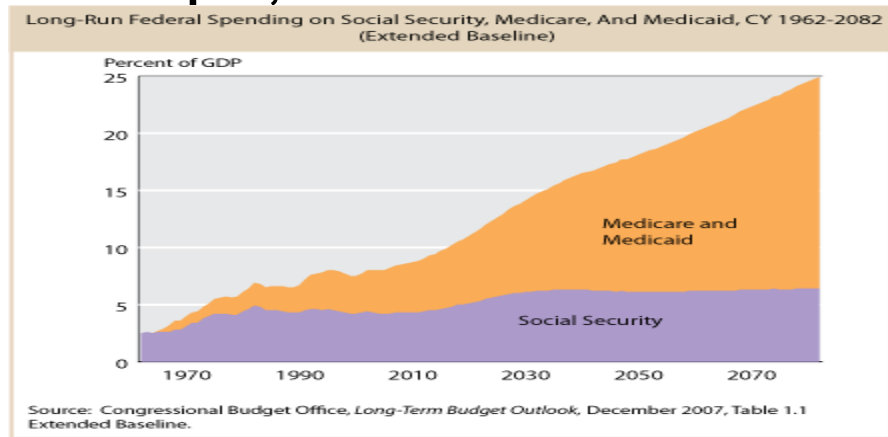
Where do my tax dollars go?





Entitlement Programs

- Def. Social welfare programs that people are “entitled to” if they meet certain requirements. Congress must fund these programs.
- Entitlements are very expensive because Congress cannot control how many people receive the benefits.
 - Ex. Social Security (#1 spending), Medicare, Medicaid, Food Stamps, etc.



Discretionary Spending

- Def. **Spending category where government can choose how to fund.**
 - Ex. Defense (#1 discretionary spending), education, research, student loans, technology, law enforcement, national parks and monuments, the environment, housing, transportation, disaster aid, foreign aid, farm subsidies, etc.



Surplus/Deficits

- **Balanced Budget:** when the government collects the same in revenue (taxes) as it spends.
- **Budget Surplus:** When the government takes in more revenue than it spends.
- **Budget Deficit:** When the government spends more than it takes in.



State and Local Taxes

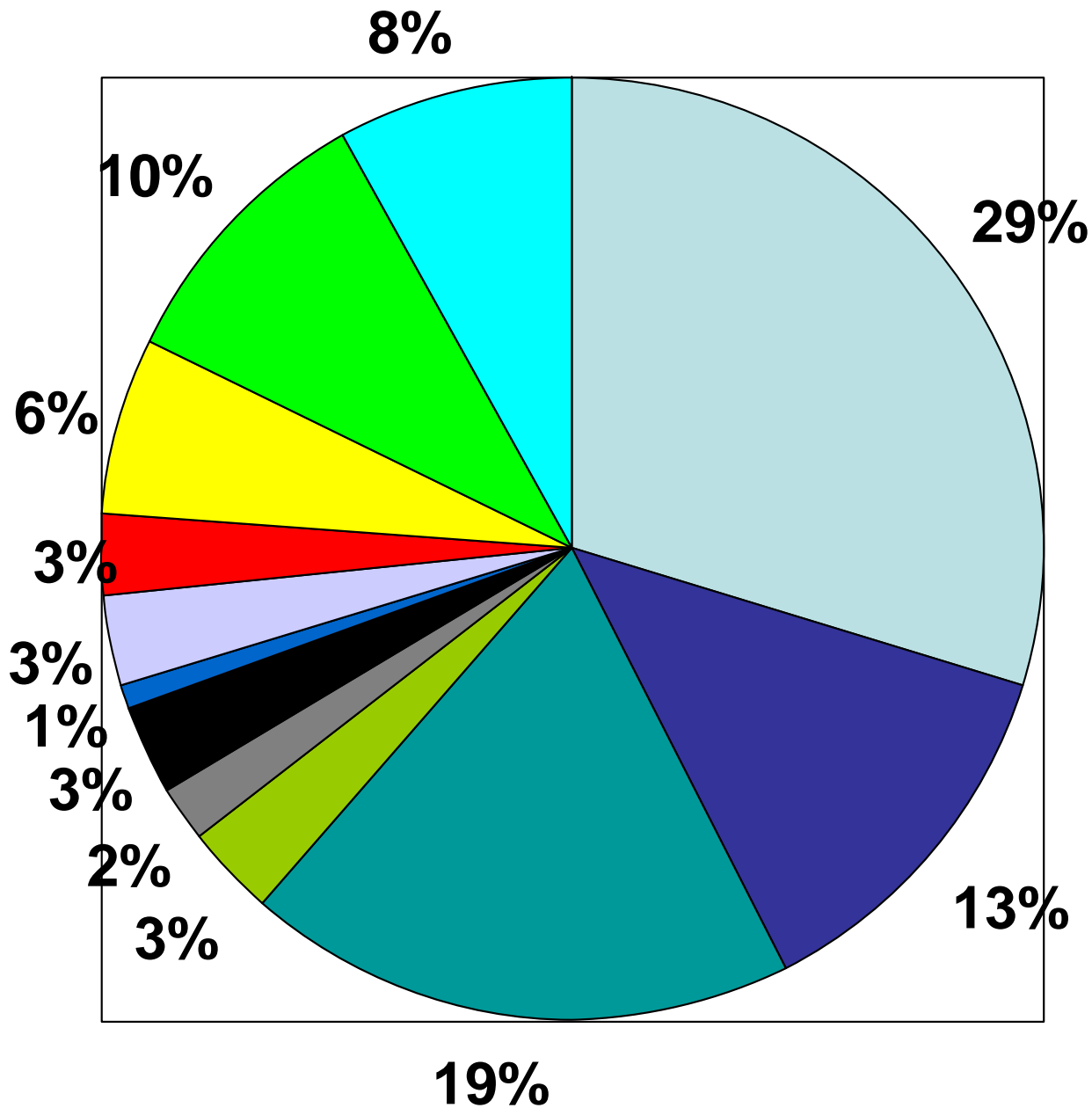
- New York State, Monroe County, The City of Rochester and the Rochester City School District all collect taxes from residents.
- These taxes pay for services within the state/county/city/school district.

State Taxes

- **Sales Tax:** Taxes on goods sold within the state. Not levied on food.
- **Excise Tax:** “**Sin Tax**” on sale of certain items ex. cigarettes, alcohol, gasoline.
- **State Income Taxes**
- **Corporate Income Taxes:** Taxes on corporations in the state

State Spending

- **Education:** SUNY colleges, funding to public schools
- **Public Safety:** State police, prisons
- **Highways and transportation**
- **Public Welfare:** Hospitals, unemployment
- **Arts and Recreation:** Parks, museums, historic sites
- **State employees**



Local Taxes

- **Property Tax**: a tax levied on the value of property (real estate) owned. The main source of public school funding.
- **Sales Tax**: additional taxes above state sales tax.
 - NYS sales tax is 4.5%, Monroe County adds 3.5% for a total of 8% sales tax.

Local Spending

- **Public Schools**
- **Law enforcement/Fire Protection**
- **Local Parks/Recreation**
- **Public Health** (hospitals, sewers, food inspectors)
- **Public Transportation**
- **Social Services** (food stamps, welfare, etc.)
- **Records** (Birth/Death certificates, marriage licenses)