

Understanding Taxes

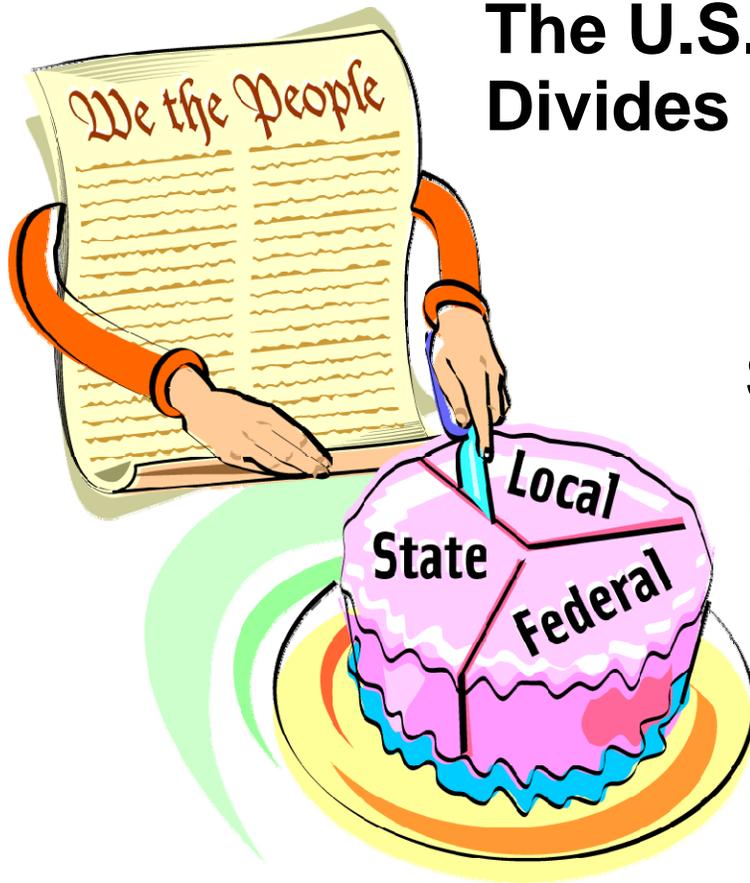
Theme 4: What Is Taxed and Why

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*

What Is Taxed and Why



The U.S. Constitution Divides Government Powers

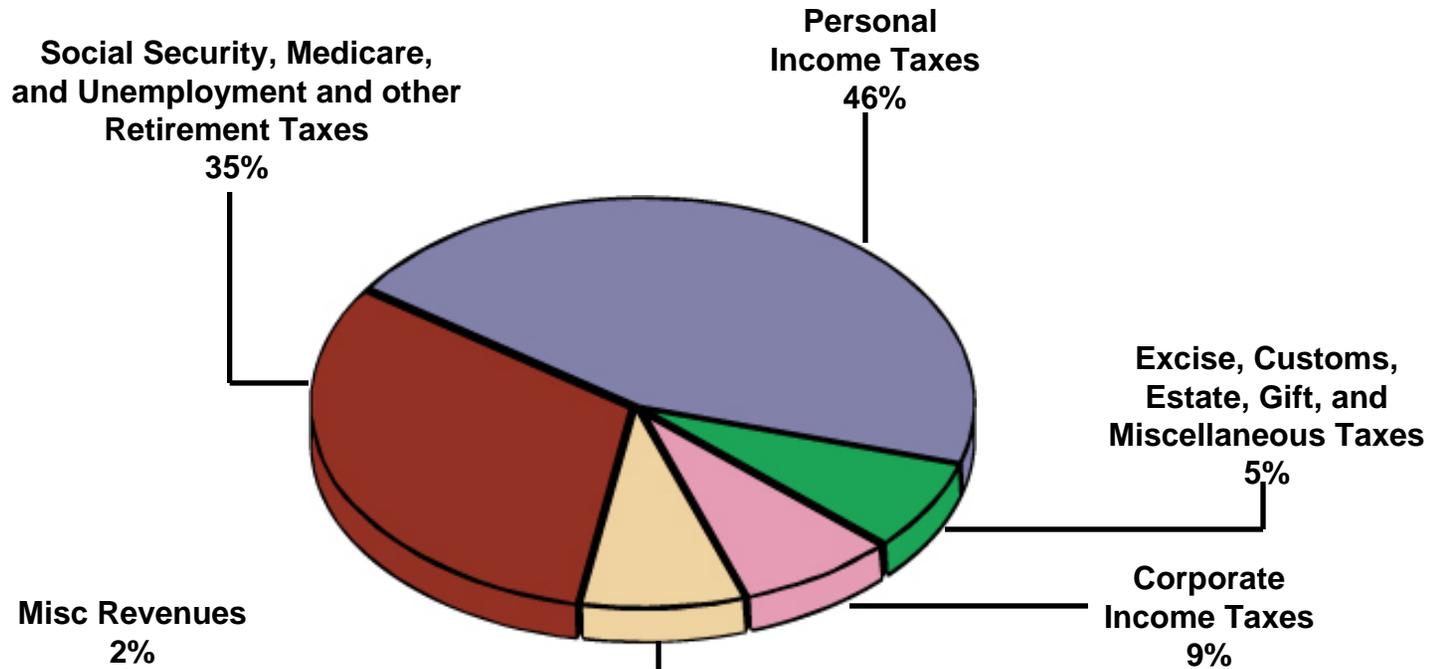
Federal Responsibilities

State Responsibilities

Local Responsibilities

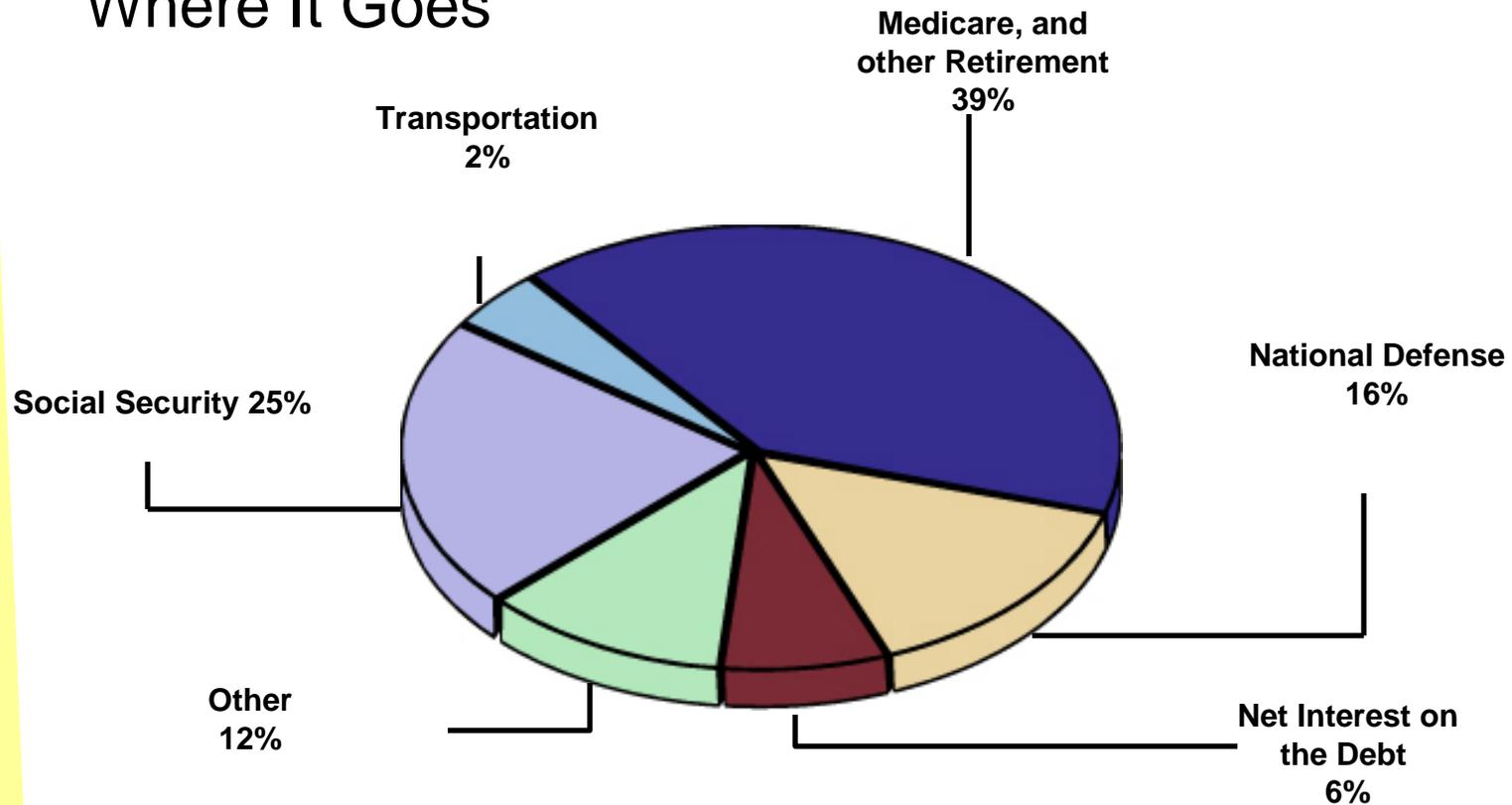
What Is Taxed and Why

The Federal Government Dollar- Where It Comes From



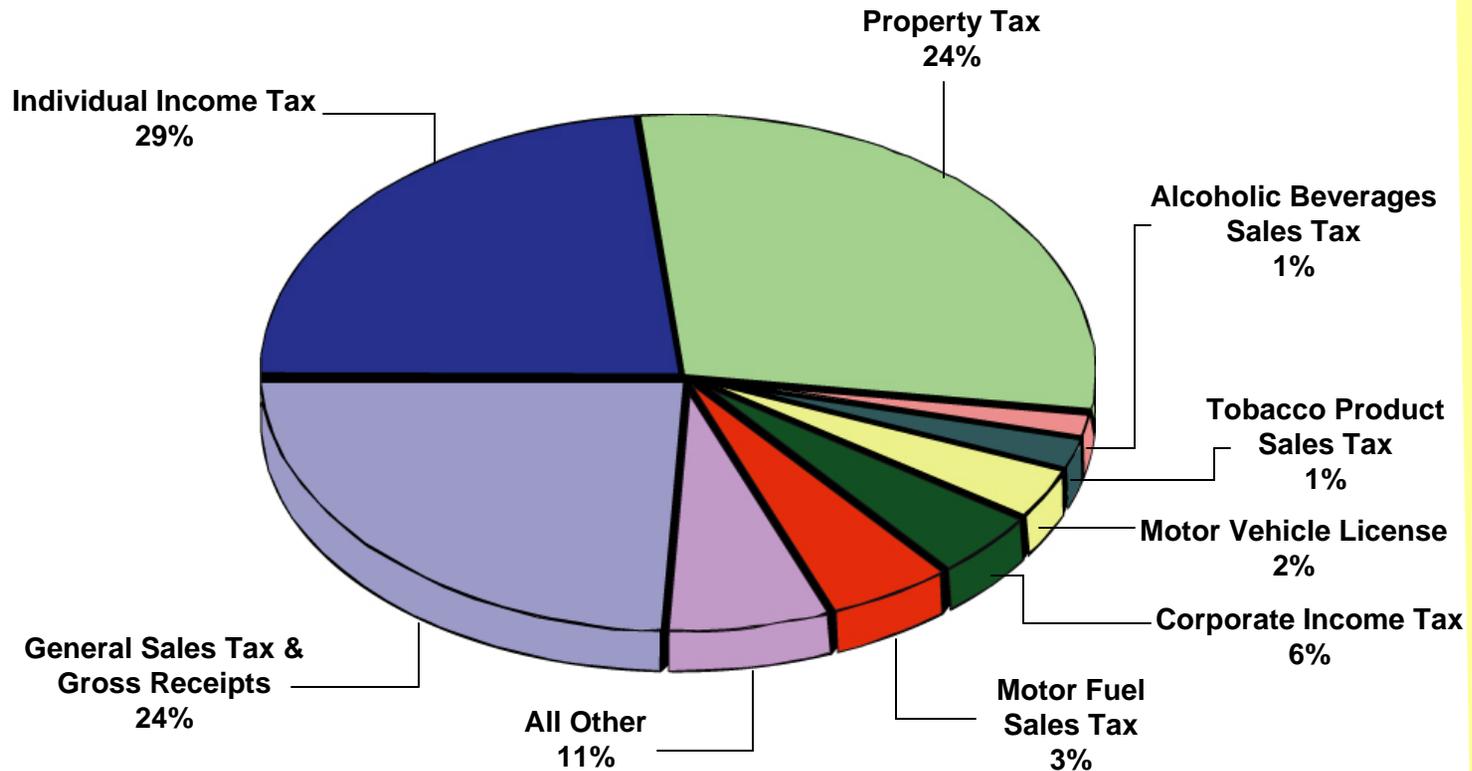
What Is Taxed and Why

The Federal Government Dollar- Where It Goes



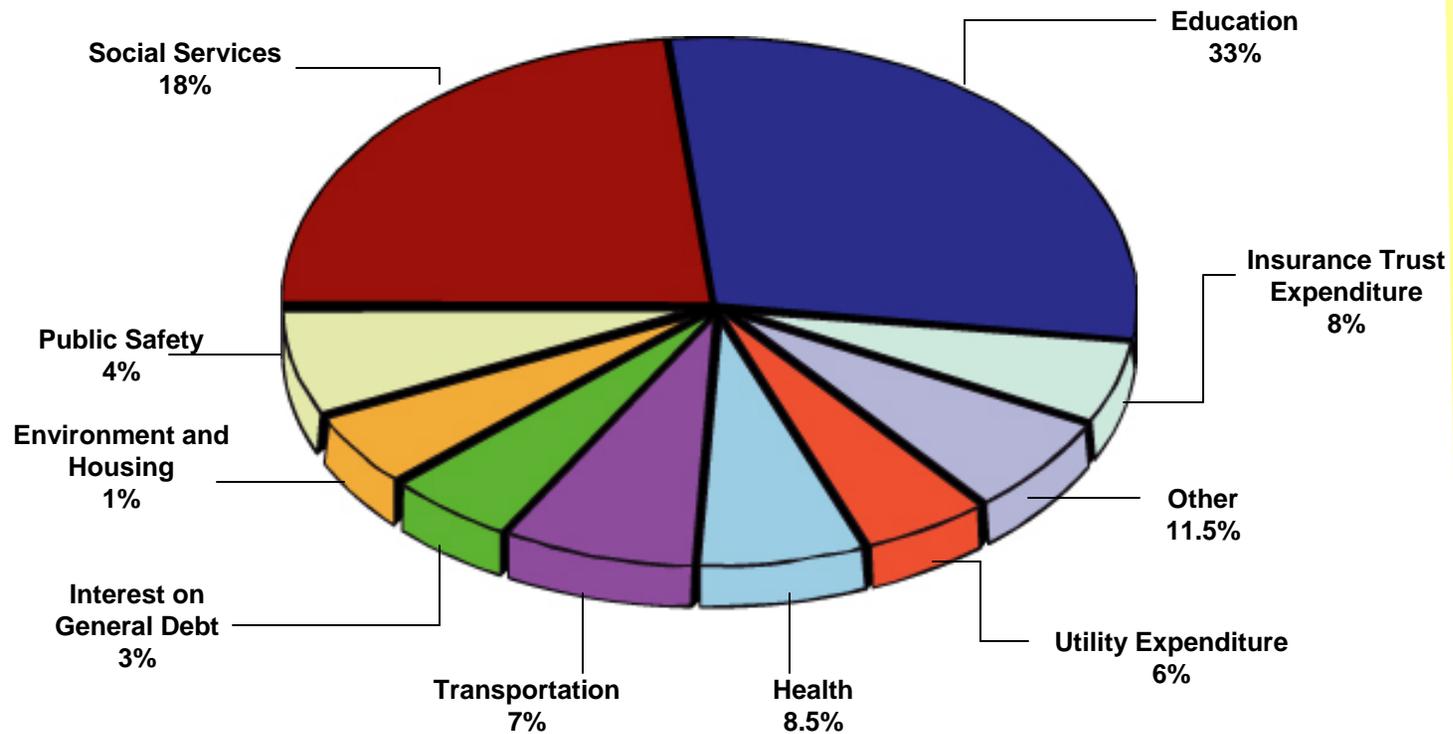
What Is Taxed and Why

The State Dollar- Where It Comes From



What Is Taxed and Why

The State Dollar- Where It Goes



What Is Taxed and Why



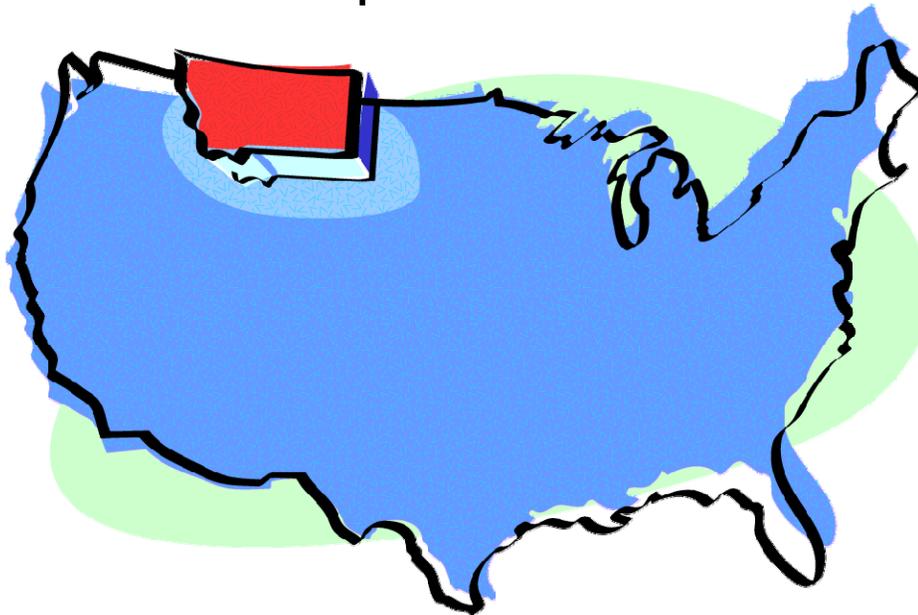
Transaction Taxes

- Levied on economic transactions
- Set on percentages or physical quantities
- Support state and local services

What Is Taxed and Why

State Income Taxes

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



What Is Taxed and Why

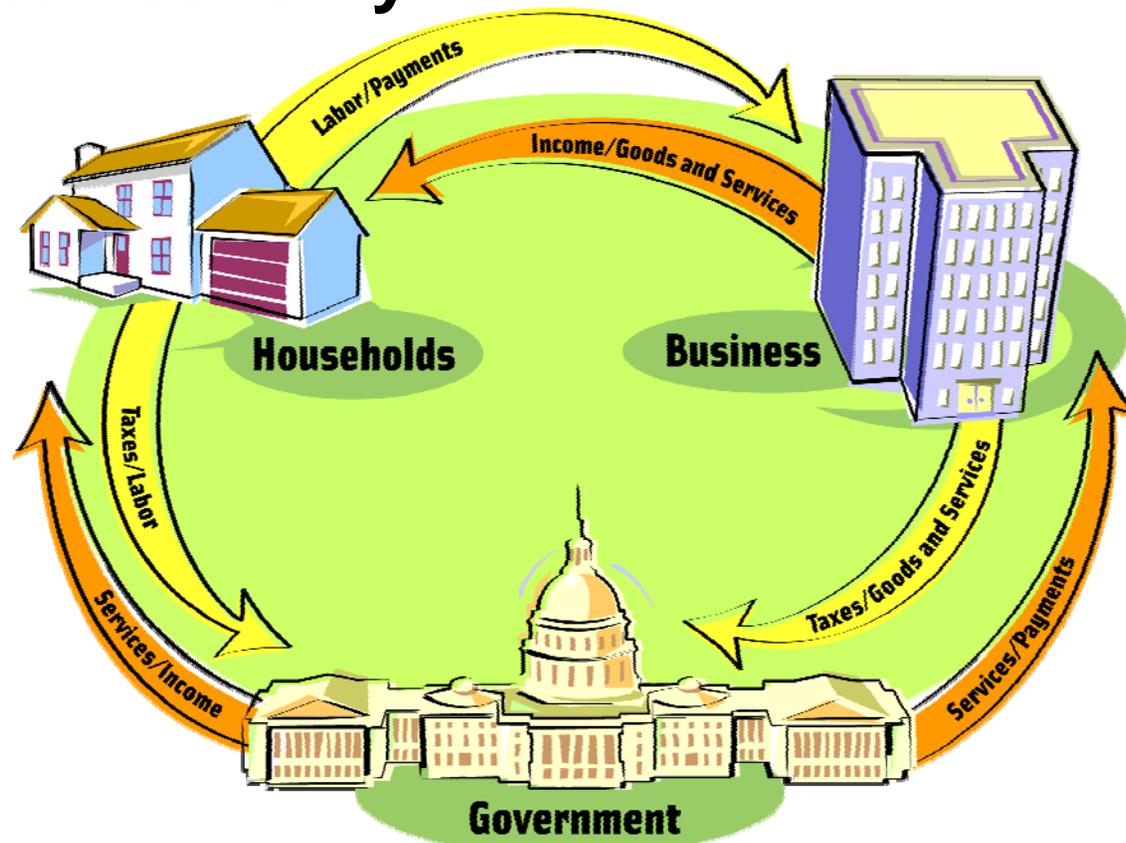
Property Taxes

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



What Is Taxed and Why

Market Economy



What Is Taxed and Why

Conflicting Goals of Taxation

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



What Is Taxed and Why

Taxes and Equity

- Horizontal Equity:
“Equals should be taxed equally.”
- Vertical Equity:
“Unequals should be taxed unequally.”



What Is Taxed and Why

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



What Is Taxed and Why

Payroll Taxes

EARNINGS	HOURS	AMOUNT	DEDUCTION	CURRENT	YEAR TO DATE
Regular	70.00	846.16	FICA Tax	69.06	494.17
Overtime	14.75	267.57	Medicare Tax	16.15	115.58
Total	84.75	1,113.73	Federal Tax	116.17	880.89
			NY State Tax	52.40	347.68
			NY City Tax	27.05	183.34
			Disability	1.20	9.60
			LTD	1.00	
Year to Date Gross		\$ 7,970.53	Total	\$ 283.03	
			Net Pay	\$ 830.70	

Dr. [Signature]

What Is Taxed and Why

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



What Is Taxed and Why

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

