

# Understanding Taxes



Theme 4: What Is Taxed and Why





## 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



## Theme 4: What Is Taxed and Why

### The U.S. Constitution Divides Government Powers



Federal Responsibilities

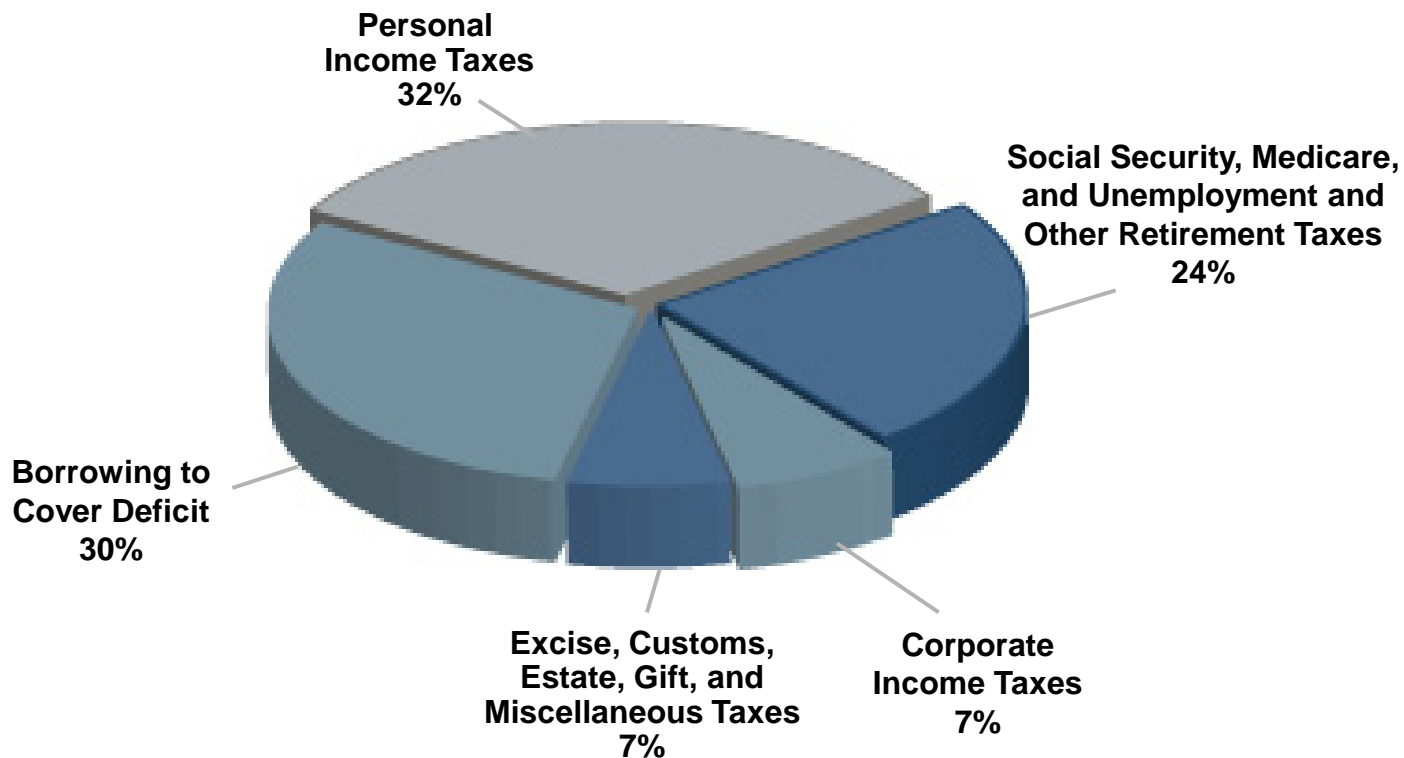
State Responsibilities

Local Responsibilities



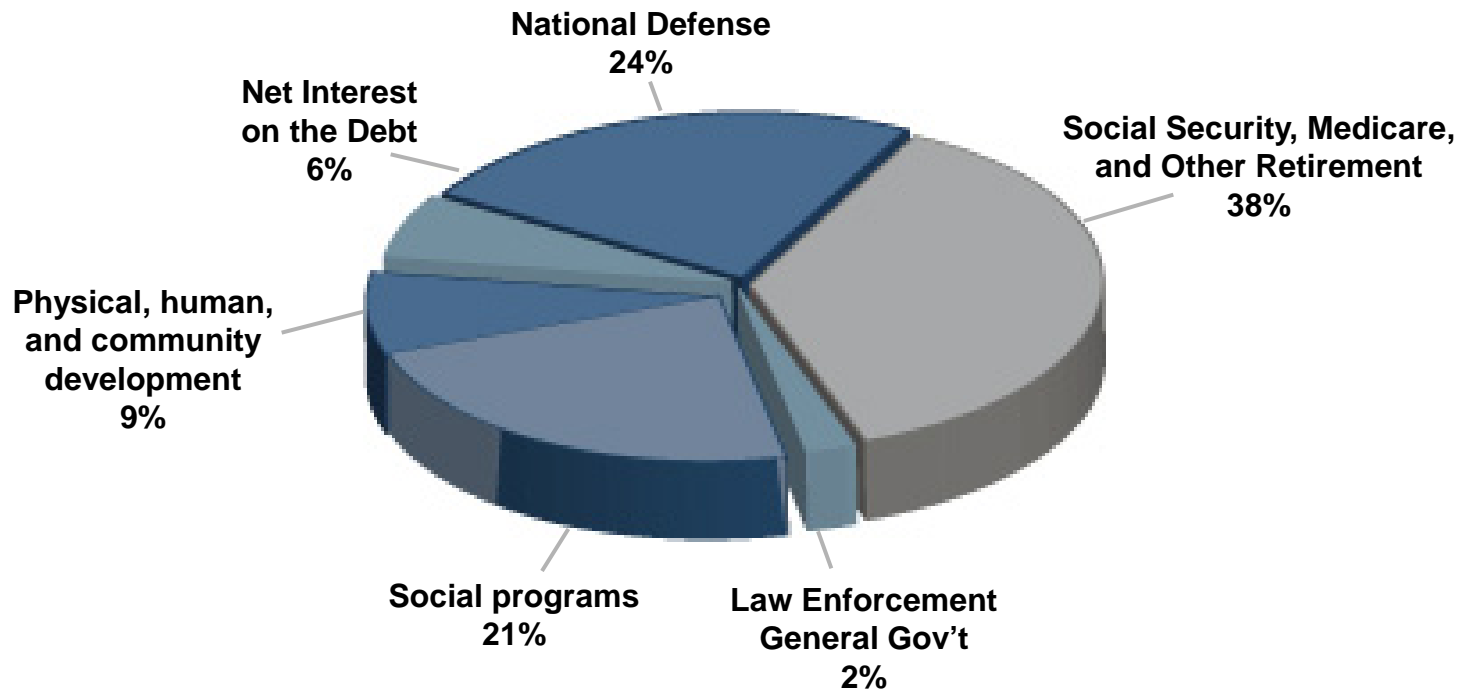


## The Federal Government Dollar – Where It Comes From



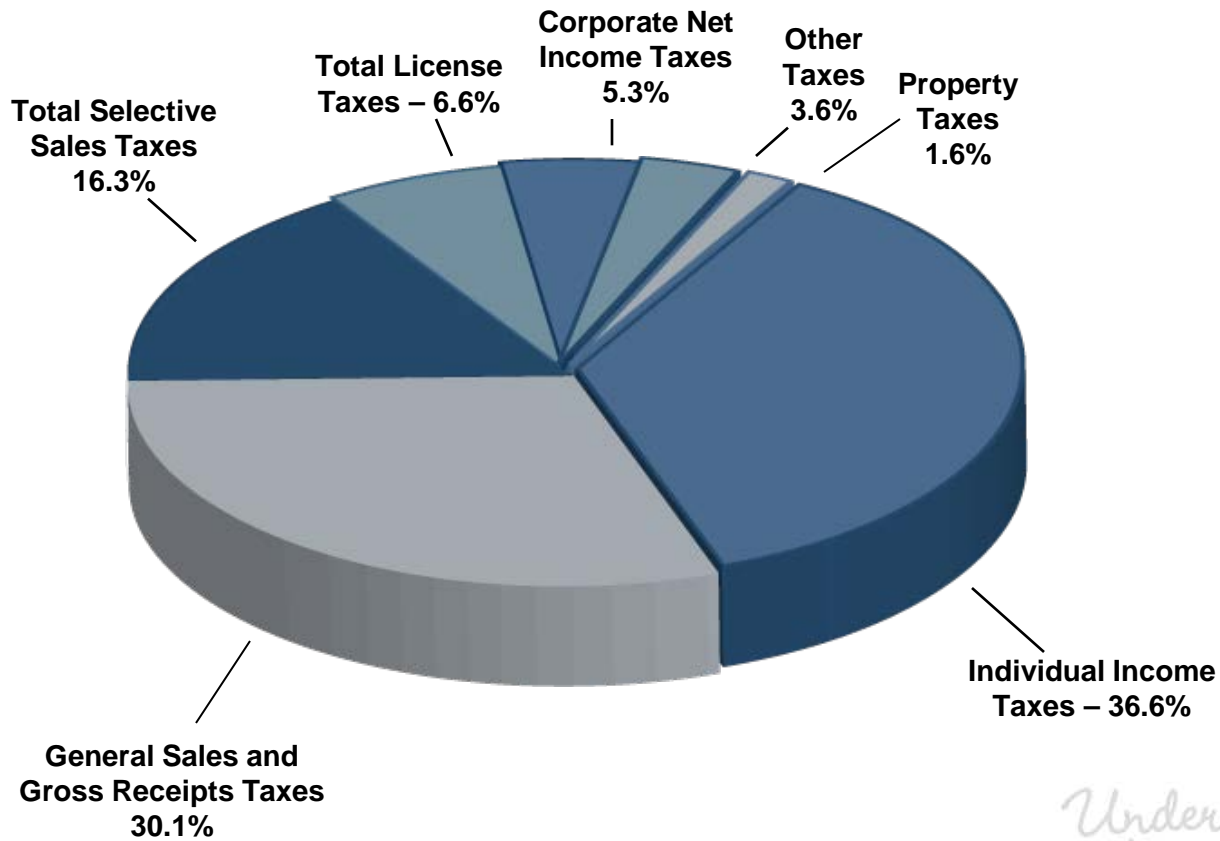


## The Federal Government Dollar – Where It Goes



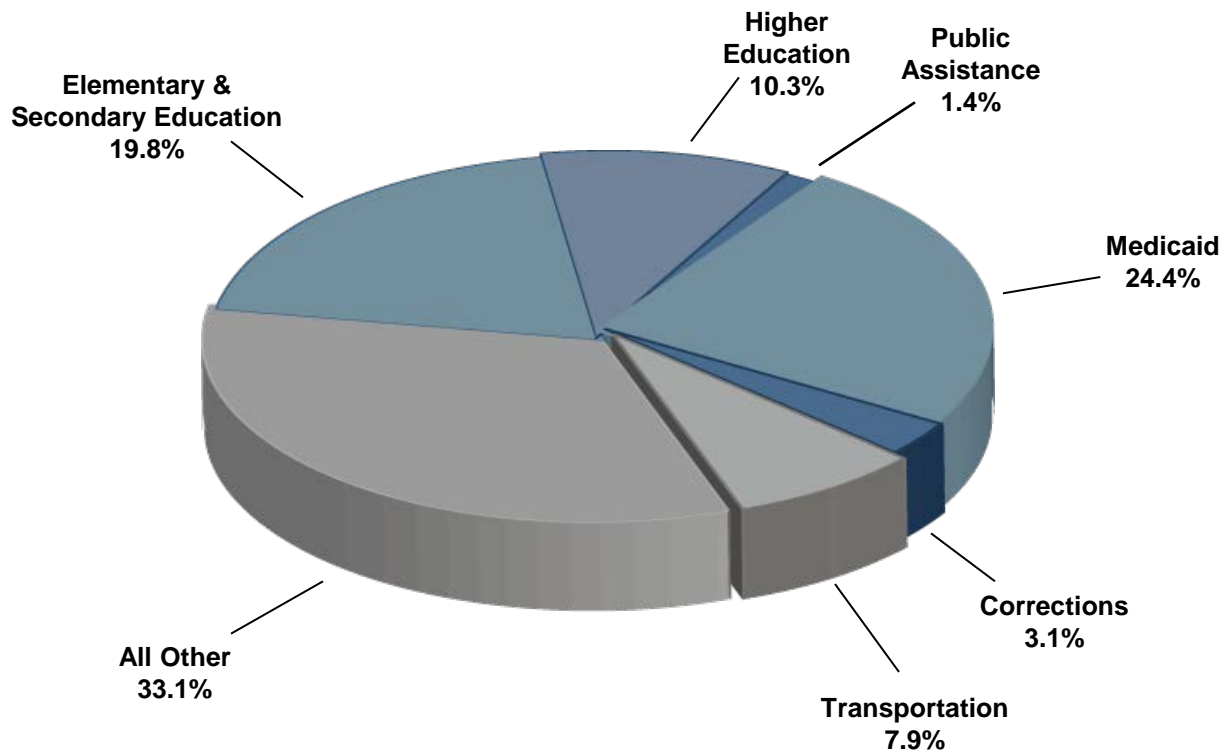


## The State Dollar – Where It Comes From





## The State Dollar – Where It Goes







## 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

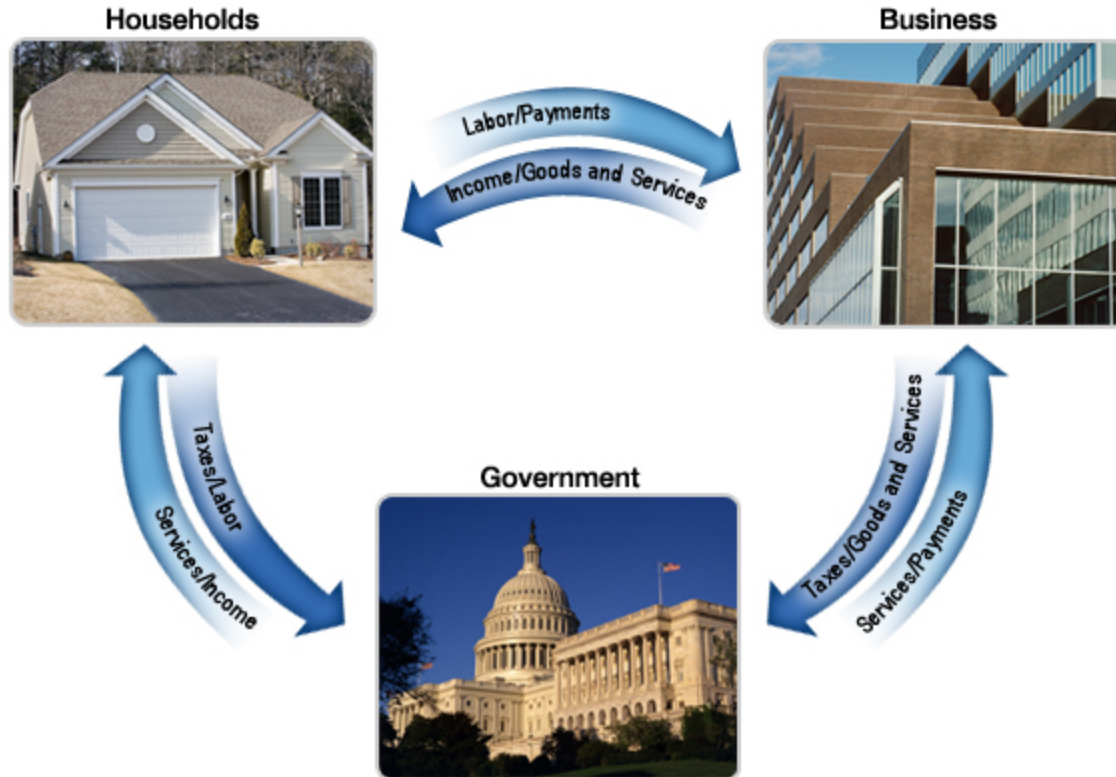


- Levied on property, especially real estate
- Can also be levied on boats, RVs, business inventories
- Fund schools, local services, welfare programs



## Theme 4: What Is Taxed and Why

# Market Economy





## 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







## Theme 4: What Is Taxed and Why

# Payroll Taxes

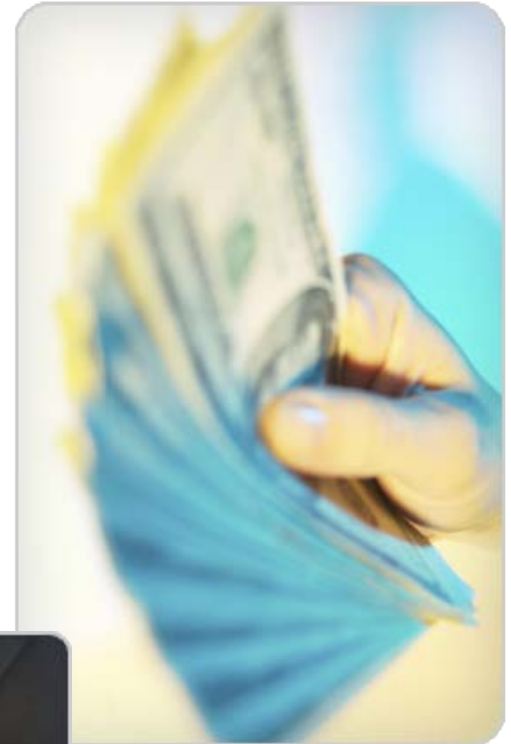
EARNINGS	HOURS	AMOUNT	DEDUCTION	CURRENT	YEAR TO DATE
Regular	70.00	846.16	FICA Tax	69.06	494.17
Overtime	14.75	267.57	Medicare Tax	16.15	115.58
Total	84.75	1,113.73	Federal Tax	116.17	880.89
			NY State Tax	52.40	347.98
			NY City Tax	27.05	183.34
			Disability	1.20	9.60
			LTD	1.00	
Year to Date Gross		\$7,970.53	Total	\$283.03	
			Net Pay	\$830.70	



## 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