

# WHAT ARE TAXES?



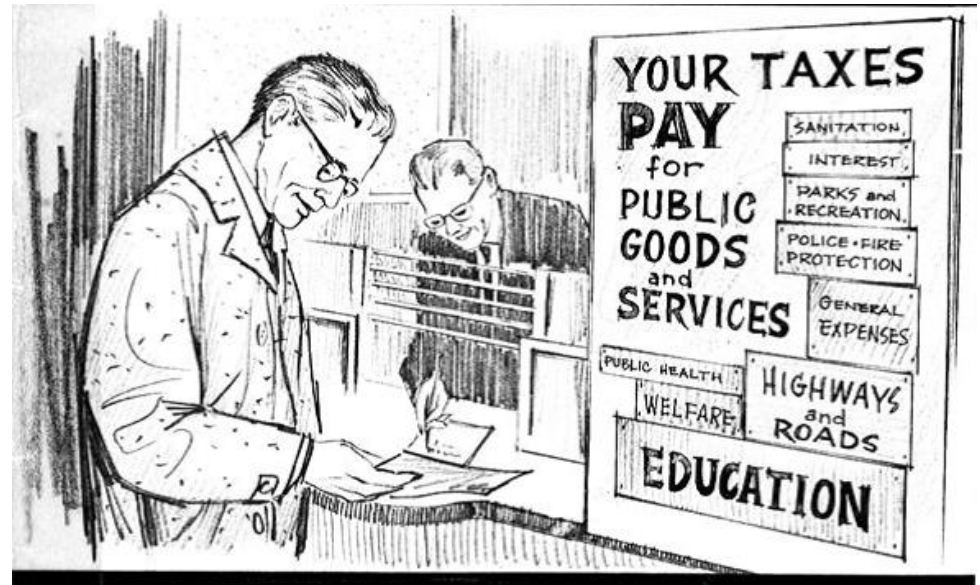
# WHAT GIVES THE MAN THE POWER TO COLLECT TAXES?

The Constitution  
gives Congress  
the power to tax.



# WHAT ARE THE FOUR WAYS IN WHICH THE MAN'S POWER TO TAX IS LIMITED?

- 1) Taxes cannot be used for individual interests
- 2) Federal taxes must be the same in every state
- 3) Taxes cannot be collected on exports
- 4) Taxes must be divided among the states based on population



# TYPES OF TAX

Proportional Tax	Progressive Tax	Regressive Tax
<p>Percentage of income paid remains the same for all income levels</p> <p>Example – Everyone pays 25%</p>	<p>Percentage of income paid increases as income increases</p> <p>The more you make the more you pay</p>	<p>Percentage of income paid decreases as income increases</p> <p>The more you make, the less you pay in taxes</p> <p>Countries... Denmark, Sweden, Norway, Netherlands, and Switzerland</p>

# WHAT MAKES A GOOD TAX?

Simplicity	Efficiency	Certainty	Equity
Tax laws should be easy to understand	Taxes should be paid and collected without costing taxpayers or administrators too much time or money	Taxpayers should clearly understand when and how much tax is due and how it should be paid	The tax system should be fair, so that no one pays too much or too little of the burden

# The benefits received principle

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- These taxes are referred to as “user taxes”
  - Like a toll road, only people that use the service pay.
- These taxes are good for some applications
  - Gas Tax
  - Pollution Tax
  - Congestion Tax



Gas taxes are used to pay for road construction.  
Shouldn't those that drive be those that pay?

- They are not good for other applications
  - National defense
  - Police and fire protection

How can you value the benefit of  
national defense or public safety?

# ON WHICH GOODS AND SERVICES MIGHT A TAX INCREASE BE HARDEST TO PASS ON TO CONSUMERS?

**Example:**

**Automatic Car Washes**



# WHAT DETERMINES THE INCIDENCE OF A TAX?



Incidence of tax = The final burden of a tax

The elasticity of demand of the product taxed



Generally, the more inelastic the demand, the more easily the seller can shift the tax to consumers.

The more elastic the demand, the more the seller bears the burden.

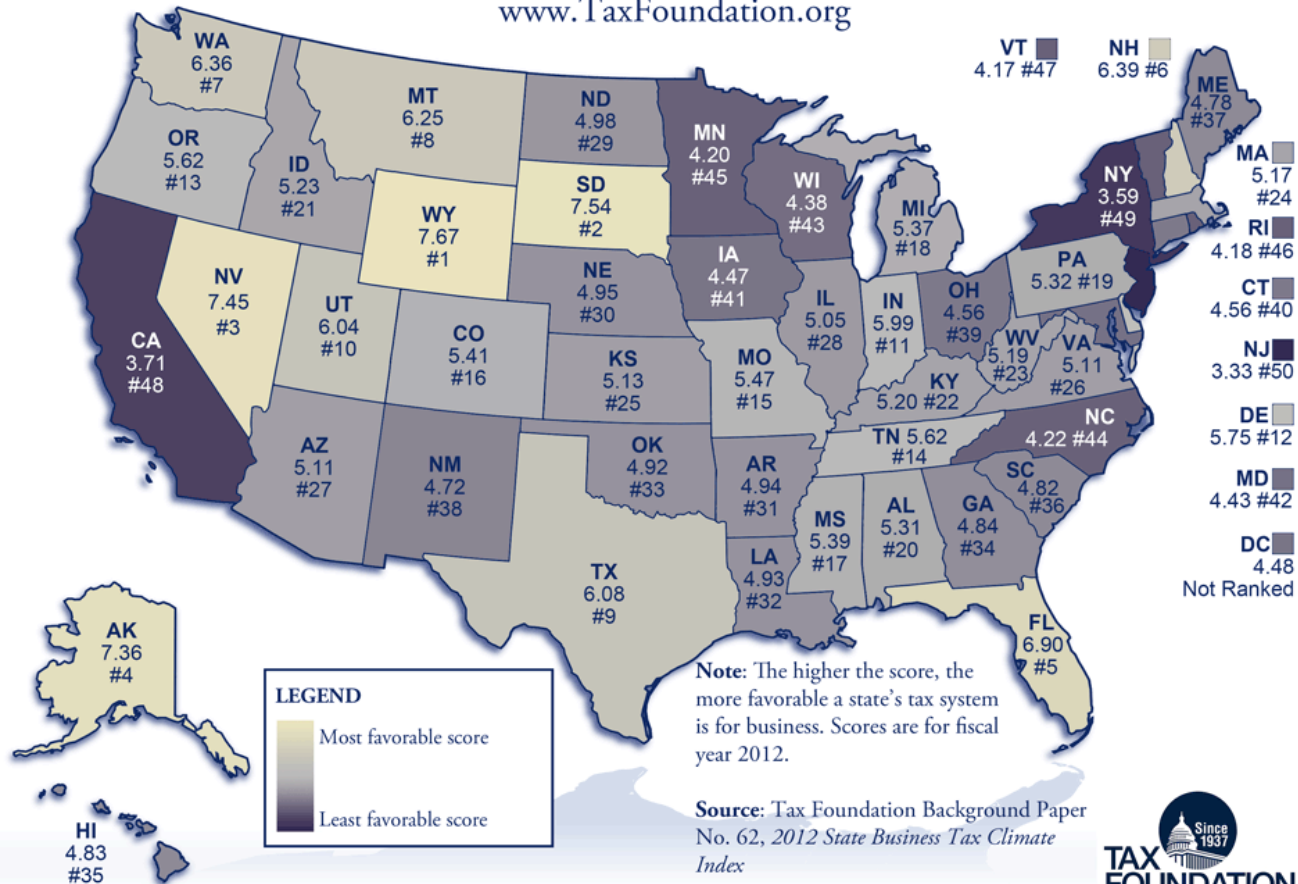


**STATE AND  
LOCAL  
TAXES AND  
SPENDING**

**Like the federal government, state and local governments use the revenue from taxes to pay for a variety of programs and services. In general, states spend the largest amounts on grants to local governments, education, and public welfare.**

## State Business Tax Climate Index 2012

www.TaxFoundation.org



# STATE BUDGETS

- ❑ Like families and individuals, governments must plan their spending ahead of time.
- ❑ The federal government has just one budget for all kinds of spending.
- ❑ States have two budgets:
  - Operating budgets
  - Capital budgets

# OPERATING BUDGETS

Pays for day-to-day expenses.

- **Salaries of state employees**
- **Supplies for offices**
- **Maintenance of state facilities**
  - State Capital**
  - Recreation Areas**
  - Roadside Parks**

# CAPITAL BUDGETS

**Pays for major capital, or investment, spending**

**If the state builds and new bridge or building, the money comes from this budget**

**Most of these expenses are met by long-term borrowing or the sale of bonds**



# BALANCING STATE BUDGETS

Unlike the federal government, states require balanced budgets, or budgets that are equal to spending.

These laws apply only to the operating budget, making it easier to balance than the federal budget



# **WHERE ARE STATE TAXES SPENT**

## **Education**

**State public colleges and K-12 public schools**

## **Public Safety**

**Police, Fire**

## **Highways and Transportation**

**Building and maintaining highway systems**

## **Public Welfare**

**Unemployment, some public hospitals**

## **Arts and Recreation**

**Museums, parks**

## **Administration**

**Salaries of state workers**

# **WHERE LOCAL TAXES ARE SPENT**

## **Law Enforcement**

**Local Police, County Sheriff, Park Police**

## **Public Facilities**

**Libraries, Airports, Public Hospitals**

## **Public Health**

**Restaurant Inspectors, Water treatment plants, Sewer  
Systems**



# **STATE TAX REVENUE**

**Where does the money come from to pay for all of these services?**

**Sales and individual income taxes provide the largest part of state revenues**

# **SALES TAX**

**A sales tax is a tax on goods and services.**

**This is a percentage of the purchase price and is added on at the cash register and paid by the purchaser**

**Many states tax gasoline and this tax is in addition to the federal tax.**

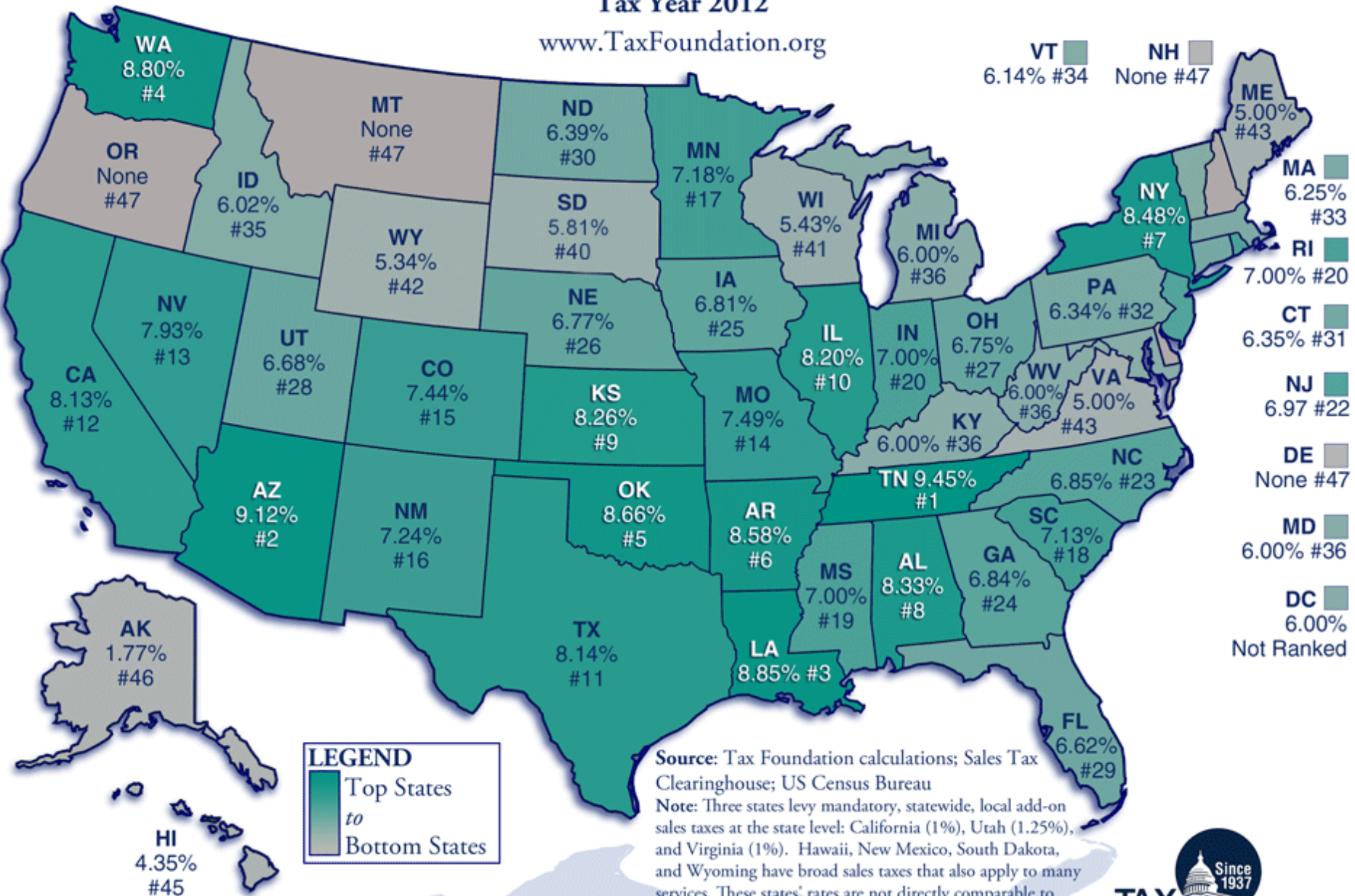
**Excise or sin taxes – taxes that are intended to discourage harmful behavior**

**Other taxes apply to hotel and motel rooms, automobiles, rental cars, and insurance policies**

# Sales Tax: Combined State and Average Local Rates

Tax Year 2012

www.TaxFoundation.org



**LEGEND**  
 Top States  
*to*  
 Bottom States

**Source:** Tax Foundation calculations; Sales Tax Clearinghouse; US Census Bureau  
**Note:** Three states levy mandatory, statewide, local add-on sales taxes at the state level: California (1%), Utah (1.25%), and Virginia (1%). Hawaii, New Mexico, South Dakota, and Wyoming have broad sales taxes that also apply to many services. These states' rates are not directly comparable to other states' rates. Due to data limitations, table does not include sales taxes in local resort areas in Montana.



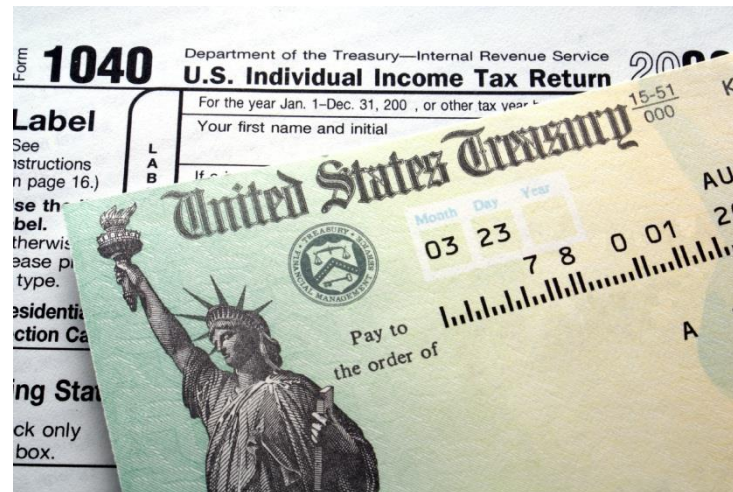
# STATE INCOME TAXES

Individual income taxes are another large contributor to many state's budgets.

Some states have a flat percentage rate (proportional tax)

Some charge a percentage of a person's federal income tax

Some have progressive rates, with a tax structure like the federal income tax



# **CORPORATE INCOME TAX**

**Most states collect corporate income taxes from companies that do business in the state.**

**What would be the benefits and drawbacks to this type of tax?**



# BUSINESS TAX



Licensing fees for professional work such as hairdressers, carpenters, contractors,

# PROPERTY TAXES

Property taxes are levied on property owners in local communities to offset the expense of services.

An official (tax assessor) determines the value of the property.

Property taxes are usually figured as a fixed dollar amount per \$1,000 of the assessed value and are the main source of funding for public schools.



# **OTHER TAXES**

**Sales and excise taxes aimed at tourists**

**Payroll taxes**



# LIMITS ON STATE TAXES

Just as the United States Constitution limits the federal government's power to tax, it also puts limits on the states.

Because trade and commerce are considered national enterprises, states cannot tax imports or exports. They also cannot tax goods sent between states.

State governments cannot tax other things as well:

- Federal property – military bases

- Nonprofit organizations

- Religious groups

- Charities



# WHAT IS THE DIFFERENCE BETWEEN AN OPERATING BUDGET AND A CAPITAL BUDGET?

An operating budget is for day-to-day expenses

A capital budget is for major investment expenditures.



# WHAT IS A SALES TAX?

A tax on goods and services

LIBBY'S CHICKEN V	0.69	F
HEALTHY CHOICE CH	1.99	F
IRISH SPRING GREE	2.29	T
Meat	3.38	F
CAMPBELL CHICK NO save 0.06	0.99	Fm
CAMPBELL CHICK NO save 0.06	0.99	Fm
Meat	3.20	F
GRAPES GREEN	2.10	F
CUT WATERMELON	2.00	F
13 items.		
Sub Total	20.95	
Taxes	0.20	
<b>Total: 21.15</b>		
Charge:	21.15	
Cash change	0.00	
<b>YOU SAVED:</b>	<b>0.62</b>	

# WHAT IS THE RELATIONSHIP BETWEEN REVENUES AND SPENDING IN A BALANCED BUDGET?

In a balanced budget, revenues and spending are equal



# **WHAT IS THE MAJOR SOURCE OF REVENUE FOR MOST STATE GOVERNMENTS?**

**Sales and individual income taxes**

# **HOW DO MOST STATES FINANCE THEIR CAPITAL BUDGET?**

**Long-term borrowing or the sale of bonds**

# **WHAT ARE THE MAIN SOURCES OF REVENUE FOR LOCAL GOVERNMENTS?**

**Property taxes**



# **HOW DOES THE CONCEPT OF A BALANCED BUDGET APPLY TO STATE GOVERNMENT?**

**Only the operating budget must be balanced**

# **FOR WHICH EXPENSE DO STATE GOVERNMENTS PROVIDE FINANCIAL HELP TO THEIR LOCAL GOVERNMENTS?**

**Public school systems**

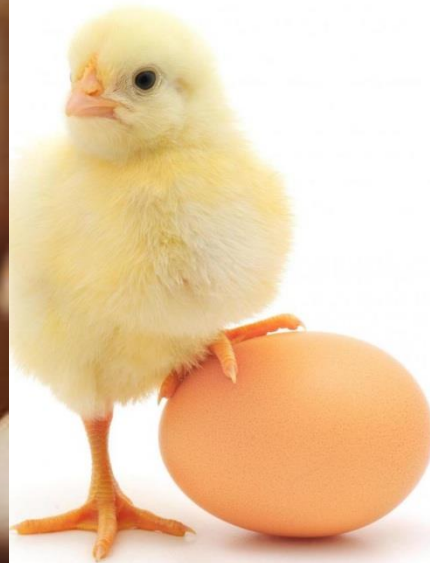
# **WHAT IS A TAX ASSESSOR?**

**An official who determines the value of a property**

# **WHAT DOES IT MEAN TO BE TAX EXEMPT?**

**To not be subject to taxes**

# HOW MANY OF YOU KNOW THAT CHICKENS LAY EGGS AND THAT BABY CHICKENS COME OUT OF THOSE



Mr. VanAntwerp claims that approximately 50% of sophomores were shocked to find this to be true.