

The Tax Man Cometh ~~Chapter 4~~

- * Governments need to spend lots of money to fix the market failures of:
 - 1.
 - 2.
 - 3.
 - 4.
- * Where do governments get this money?

3 Types

1. progressive –
2. regressive –
3. proportional –

To calculate the “rate” or “percentage” of the tax: dollar amount paid/dollar amount earned
To calculate the dollar amount paid: tax percentage x dollar amount earned

Federal Taxes

1. income –

rate:
type:

2. FICA

1. Social Security -

rate:
type:

Example:

What dollar amounts AND % of their income will somebody making the following amounts pay toward Social Security:

\$45,000 –

\$72,000 –

\$90,000 –

\$100,000 –

2. Medicare/Medicaid –

rate:
type:

Example:

What dollar amounts AND % of their income would somebody making the following amounts pay toward Medicare/Medicaid

\$53,000 –

\$90,000 –

\$110,000 –

\$500,000 -

3. corporate income –

rate:
type:

4. excise taxes –

rate:
type:

Example:

Lets assume 11% of the money that is paid for gasoline goes toward the federal excise tax on gasoline (accurate). What dollar amount and percentage of their income will someone making the following figures pay toward this tax, assuming they both spend exactly 1,000 per year on gasoline?

\$45,000 -

\$100,000 –

Q: So why is an excise tax regressive?

A: People with higher incomes spend a smaller percentage of their income on that good and therefore pay a lower percentage of their income toward that tax – they get to “shelter” more of their income from that tax

State and Local Taxes

* most states and cities have income taxes

PA rate –
type:

WM rate:
type:

* most states and localities also have:

sales taxes -
property taxes -
state lotteries -

* these are all regressive taxes

* why – poorer people devote a larger “share” of their income toward these taxable goods – wealthier people save more of their money and “shelter” it from these taxes

Example:

PA has a sales tax of 6% on clothing. What percentage of their income and dollar amount would someone making the following amounts of money pay toward this tax?

making 50,000/year
spends 1,000 on clothing

making 100,000/year
spends ~~2,000~~ on clothing
1,500

