



**Chapter 14: Taxes and
Government Spending
Section 2**

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ECONOMICS

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Objectives

1. **Describe** the process of paying individual income taxes.
2. **Identify** the basic characteristics of corporate income taxes.
3. **Explain** the purpose of Social Security, Medicare, and unemployment taxes.
4. **Identify** other types of taxes.



Key Terms

- **withholding:** taking tax payments out of an employee's pay before he or she receives it
- **tax return:** a form used to file income taxes
- **taxable income:** the earnings on which tax must be paid; total income minus exemptions and deductions
- **personal exemption:** a set amount that taxpayers may subtract from their gross income for themselves, their spouse, and any dependents
- **tax deduction:** a variable amount that taxpayers may subtract from their gross income



Key Terms, cont.

- **tax credit:** a variable amount that taxpayers may subtract from the total amount of their income tax
- **estate tax:** a tax on the total value of the money and property of a person who has died
- **gift tax:** a tax on the money or property that one living person gives to another
- **tariff:** a tax on imported goods
- **tax incentive:** the use of taxation to discourage or encourage certain types of behavior



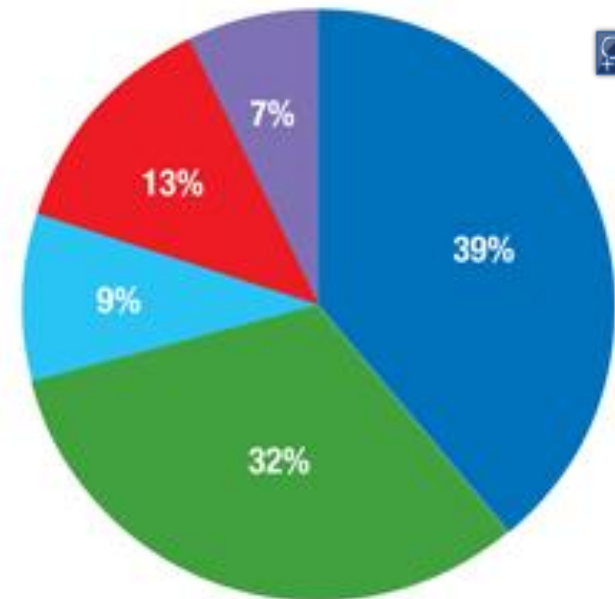
Introduction

- What taxes does the federal government collect?
 - Individual income taxes
 - Corporate income taxes
 - Social Security, Medicare, and unemployment taxes
 - Excise taxes and tariffs
 - Estate and gift taxes



Individual Income Taxes

- The government's main source of revenue comes from the federal tax on individual's taxable income.
 - What percentage of federal revenues do not come from individual and corporate income taxes?



- Personal income taxes
- Social Security, Medicare and unemployment, and other retirement taxes
- Borrowing to cover deficit
- Corporate Income taxes
- Excise, customs, gift and miscellaneous taxes

SOURCE: The Internal Revenue Service, U.S. Department of Treasury



“Pay-As-You-Earn” Taxation

- The amount of federal income tax a person owes is determined on an annual basis.
 - To lessen the burden that one large yearly tax would place on an individual and to make it possible for the government to meet its regular expenses, federal income tax is collected in a “pay-as-you-earn” system.
 - This means that individuals usually pay most of their income tax throughout the year as they earn income.



Tax Brackets

- The federal income tax is a progressive tax, which rises with the amount of taxable income.
- Your range of income puts you in a specific tax bracket.
 - If you are single, at what rate would you pay taxes on income over \$29,500 and less than \$71,950?

Schedule	If your taxable income is over –	but not over –	the tax is	of the amount over –
Schedule X – use if your filing status is single	\$0	\$7,550	10%	\$0
	\$7,550	\$30,650	\$755 plus 15%	\$7,500
	\$30,650	\$74,200	\$4,220 plus 25%	\$30,650
	\$74,200	\$154,800	\$15,107.50 plus 28%	\$74,200
	\$154,800	\$336,550	\$37,675.50 plus 33%	\$154,800
	\$336,550	no limit	\$97,653 plus 35%	\$336,550
Schedule Y – use if your filing status is married filing jointly	\$0	\$15,100	10%	\$0
	\$15,100	\$61,300	\$1,510 plus 15%	\$15,100
	\$61,300	\$123,700	\$8,440 plus 25%	\$61,300
	\$123,700	\$188,450	\$24,040 plus 28%	\$123,700
	\$188,450	\$336,550	\$42,170 plus 33%	\$188,450
	\$336,550	no limit	\$91,043 plus 35%	\$336,550

SOURCE: Internal Revenue Service, the U.S. Department of Treasury



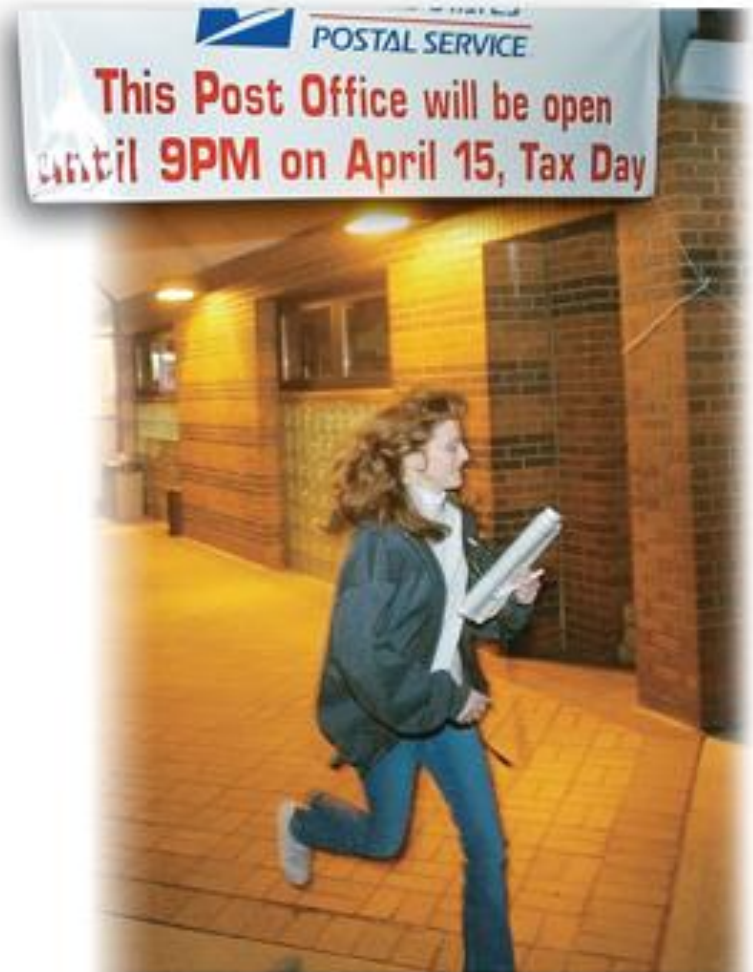
Withholdings and Tax Returns

- Employers help collect taxes by withholding money from your paycheck based on an estimate of how much you will owe in federal income tax for that year.
- After the calendar year ends, employers give their employees a report of how much income tax has already been paid.
 - Employees then fill out a tax return to send to the federal government.



Tax Returns, cont.

- On your tax return, you figure out how much of your income is taxable.
 - Taxable income is a person's total income minus exemptions and deductions.
- Tax returns are due to the Internal Revenue Service by April 15.



Corporate Income Taxes

- Like individual income taxes, corporate income taxes are progressive.
- Determining corporate income taxes can be more difficult than determining an individual's because businesses can take many deductions.
 - Companies often deduct the cost of employee's health insurance as well as many other costs of doing business.
 - Checkpoint: Why is it difficult to determine a corporation's taxable income?



Social Security and Medicare

- Employees also withhold money to help fund Social Security, Medicare, and unemployment insurance under the Federal Insurance Coalition Act (FICA).
 - Most of the FICA taxes you pay go to Social Security benefits for retired people, surviving members of wage earners, and disabled people.
 - The Medicare tax helps pay for health insurance for people over 65.



Unemployment

- The unemployment tax pays for “unemployment compensation” that people can receive when they are laid off.



Other Types of Taxes

- Excise taxes—a general revenue tax on the sale or manufacture of a good or service such as gasoline, cigarettes, and other items
- Estate taxes—a tax on the total value of the money and property of a person who has died
 - As of 2008, if the total value of an estate is \$2 million or less, there is no federal estate tax.



Other Types of Taxes, cont.

- Gift taxes—a tax on the money or property that one living person gives to another
 - The goal of the gift tax is to stop people from avoiding the estate tax by giving away property before they died.
- Import taxes—Tariffs, or import taxes, are taxes placed on imported goods.



Taxes That Affect Behavior

- The government sometimes uses taxes to encourage good behavior, which is known as a tax incentive.
 - Tax credits are often used as an incentive.
 - For example, people who use solar power receive an income tax credit.



Review

- Now that you have learned about the taxes that the federal government collects, go back and answer the Chapter Essential Question.
 - How can taxation meet the needs of government and the people?

