Taxes

How do we pay for the goods and services that government provides?

MACROECONOMICS

What Are Taxes?

Taxes are **mandatory payments** individuals, households, and businesses make to **local**, **state**, and **national governments**.

Taxes and government expenditures are different at each level of government.

	Property Taxes	Sales Taxes	Income Taxes	Corporate Taxes	Payroll Taxes
Federal			✓	✓	✓
State		✓	✓	✓	
Local	✓	✓	✓		

Types of Expenditures

Federal
- Social Security
- Health Care
- Defense

State
- Education
- Public Health
- Criminal Justice

Local
- Schools
- Roads
- Police

States Without Sales or State Income Taxes

WA**
OR
MT
ND
MN
ID
WY
SD
WI
MI
NY
NH*
VT
ME
MA
RI
CT
NV
UT
CO
NE
IA
IL
IN
OH
PA
NJ
DE
CA
AZ
NM
KS
MO
KY
WV
VA
MD
DC
OK
AR
TN
NC
SC
TX
LA
MS
AL
GA
AK
HI
FL

■ No Income Tax
■ No Sales Tax
■ No Income or Sales Tax

*NH taxes dividend and interest income
**WA taxes capital gains income

SOURCE: taxfoundation.org
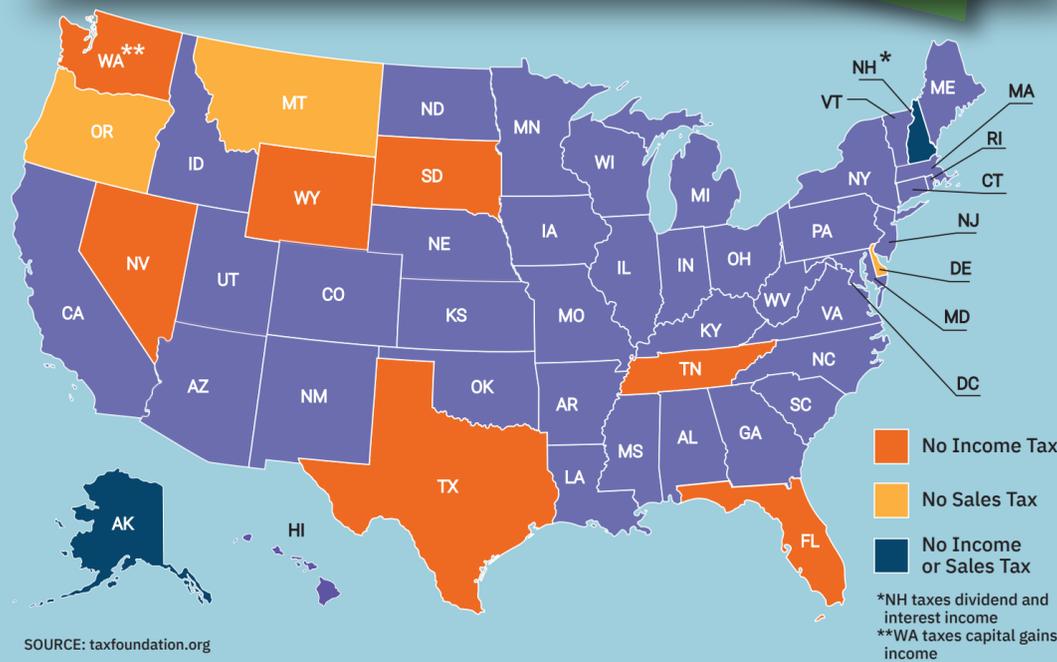
When revenue ≠ expenditures, the federal government runs a deficit or a surplus.

Deficit

When the government spends more than it receives in revenue, it creates a **deficit**, and the **national debt** rises.

National Debt

Surplus

When the government receives more revenue than it spends, it creates a **surplus**, and the **national debt** goes down.

Types of Tax Systems

Progressive Tax
A system in which the tax rate increases as income increases

INCOME — Increase
TAX RATE — Increase

Regressive Tax
A system in which the tax rate decreases as income increases

INCOME — Increase
TAX RATE — Decrease
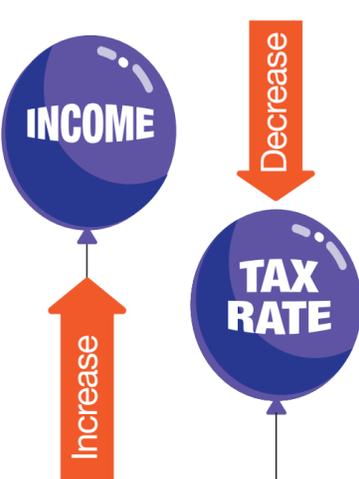
Proportional (Flat) Tax
A system in which the tax rate is the same for all income

INCOME
TAX RATE
Same