

# All About Taxes



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**W-2**  
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# Tax



# 1040

Department of the Treasury  
**U.S. Individual**

For the year Jan 1 to Dec 31

City  
**W-2**  
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# Tax



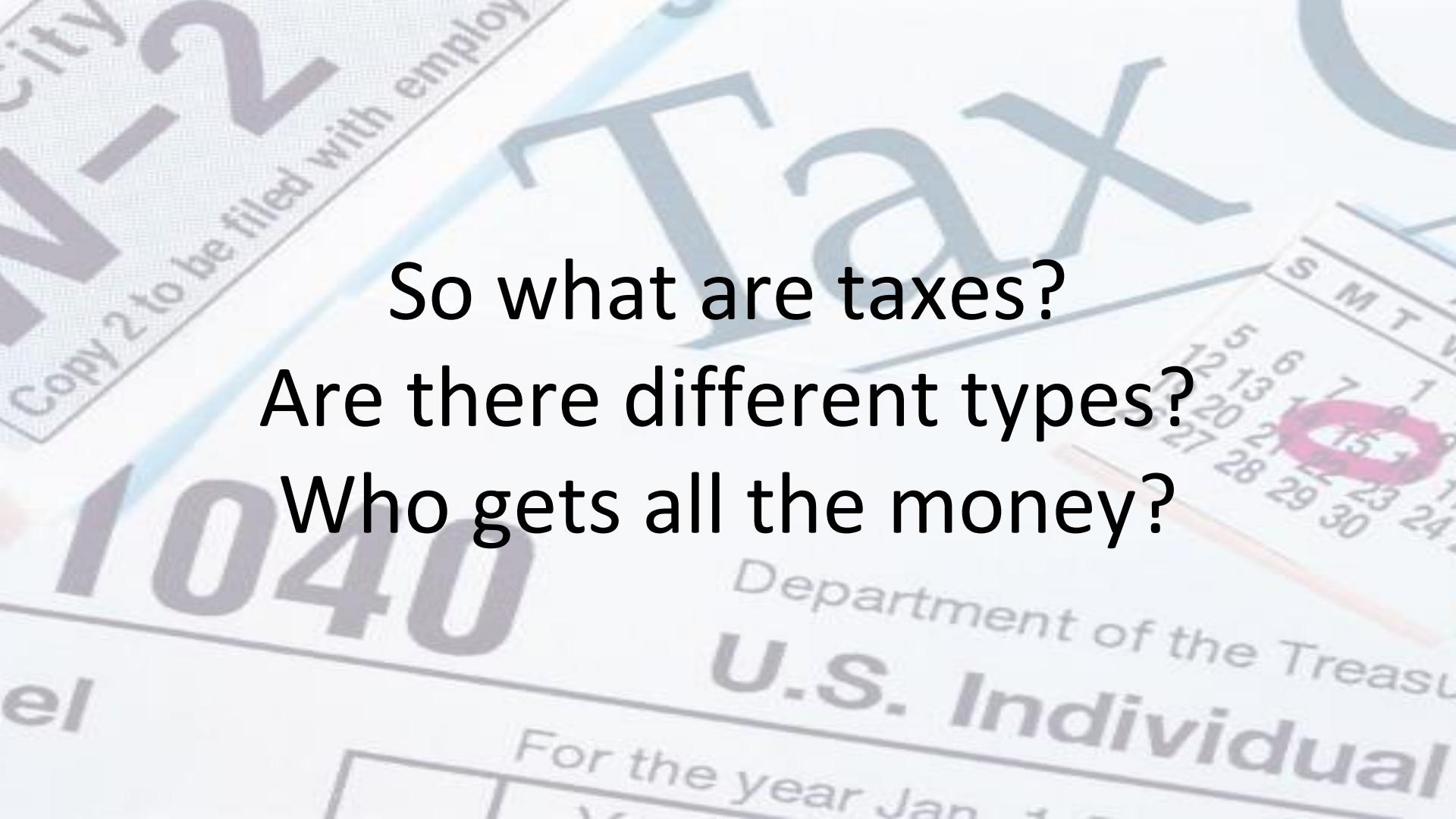
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# Fiscal Policy Reminder!

- Remember, monetary policy involves:
  - The Federal Reserve
  - Manipulation of the money supply (how much currency is “out there”)
- But fiscal policy involves:
  - The legislative and executive branch
  - Taxing American citizens (revenue)
  - Spending those tax dollars (expenditures)



So what are taxes?  
Are there different types?  
Who gets all the money?

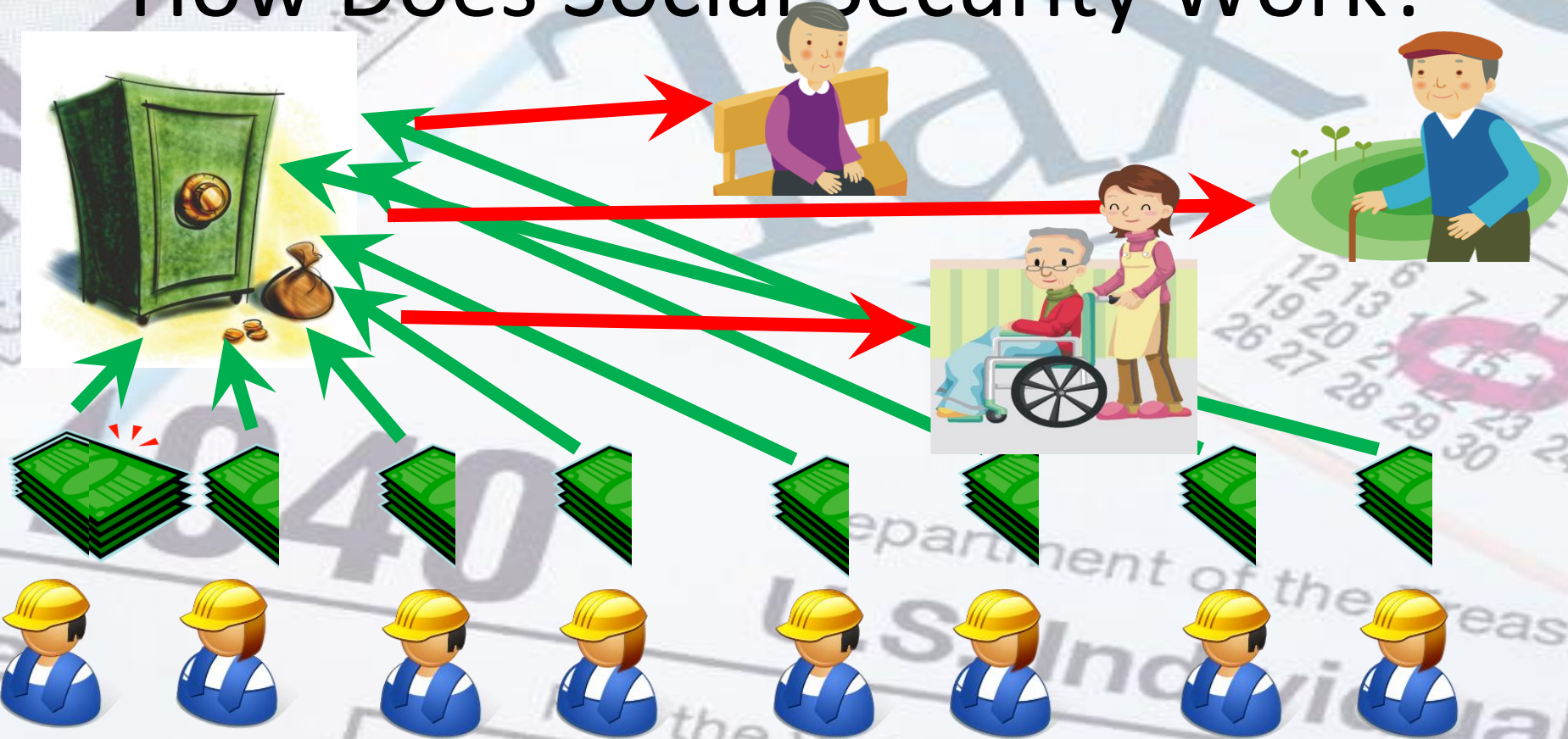
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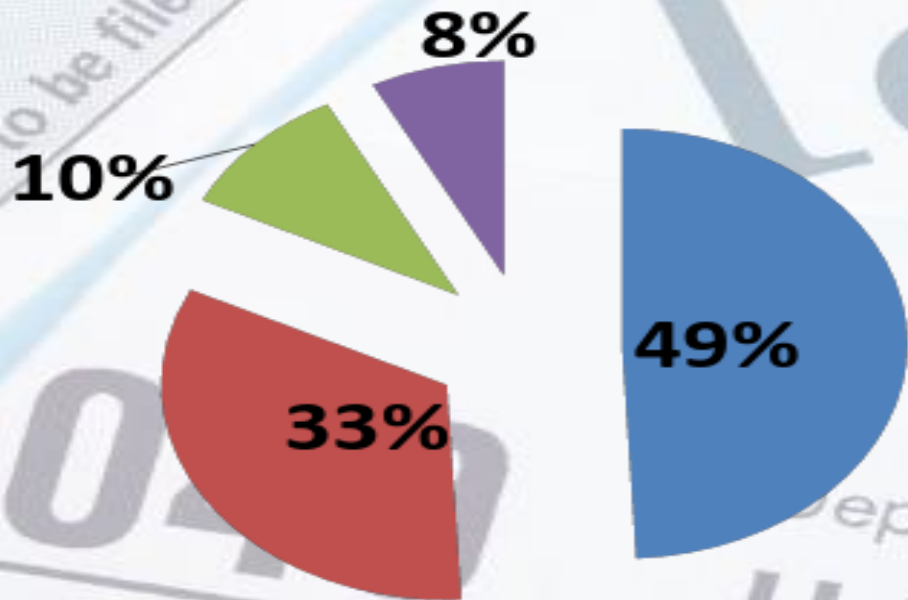
# Federal Taxes

- The federal government has **four** major sources of revenue:
  1. **Income tax** → a portion of a worker's paycheck withheld on each payday
  2. **Payroll tax** → taxes deducted from a worker's paycheck to fund Social Security and Medicare
  3. **Corporate profit tax** → corporations must pay taxes on the profits they earn
  4. **Excise ("sin") tax & estate tax** → taxes on certain goods like gas & alcohol/ tax on the wealth a deceased relative leaves their heirs

# How Does Social Security Work?



# Federal Taxes



- Individual Income Tax
- Payroll Tax
- Corporate Profits Tax
- Excise & Estate Taxes

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# Where Do Tax Dollars Go?

- The federal government spends tax dollars in **four** basic categories:

1. **Social Security, Medicare, & Health** → Social Security is the single largest expenditure for the federal government
2. **National Defense** → about 16.3¢ of every tax dollar
3. **Interest on the Debt** → the government must pay interest on the money we borrow from other countries
4. **“Other”** → education, highways, natural resources, etc.

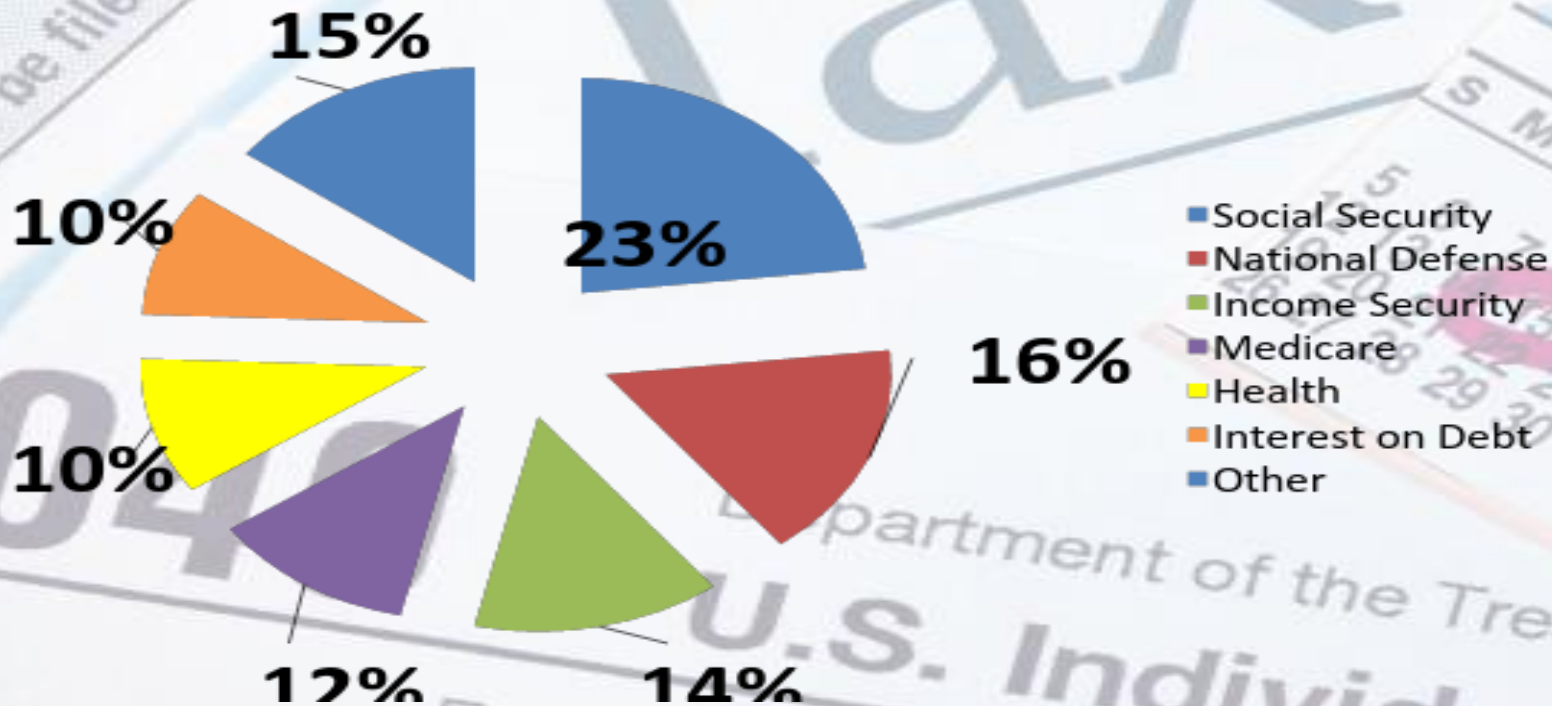
# The Federal Budget – Keeping Track of All the Money

- What happens if we spend more than we take in?
- What if we have money left over?
- Depending on how much money is taken in taxes and then spent by the government, we could have a budget:
  - **Deficit** → when the gov't spends more than it takes in
  - **Surplus** → has money left after all expenditures
  - **Balance** → spends exactly what it takes in

$\$2.1 \text{ billion in taxes} - \$2.4 \text{ billion in expenditures} = \$0.3 \text{ billion deficit}$

$\$2.7 \text{ billion in taxes} - \$2.2 \text{ billion in expenditures} = ?$

# Federal Expenditures



# State v. Local Government

## State Revenues

1. **Intergovernmental revenue** → money states receive from the federal gov't
2. **Sales tax** → tax levied on consumer purchases
3. **Contributions** → state workers contribute money to retirement plans
4. **Income tax** → state income taxes vary (7 states have no income tax)

## Local Revenues

1. **Intergovernmental revenue** → money local gov't receives from the state
2. **Property tax** → taxes people pay on the land and houses they own
3. **Other sources** → utilities (water & electricity), local sales tax, local fines & fees



# State v. Local Government – Where Does the Money Go?

## State Expenditures

1. **Entitlement programs** → programs that provide health, nutrition, and income payments to people meeting certain requirements
2. **Higher education** → colleges & universities
3. **Employee retirement**
4. **Highways & hospitals**

## Local Expenditures

1. **Primary and secondary education** → elementary through high school
2. **Police & Fire Protection**
3. **Water Supply**
4. **Sewage & Sanitation** (garbage collection)