

# Warm Up

- As of 2015, what percentage of American workers are employed full time? Part time?
- What was the original minimum wage? Is minimum wage a price floor or price ceiling?
- What is a base year? In regards to a base year, what is an outlier?
- What is a set aside contract? What is an example?
- What is the Glass Ceiling? What two groups does this have the most impact on in the United States?
- What is the two tier wage system? Name a company that uses this system.
- CEQ: What is Corporate Inversion? What two pharmaceutical companies cancelled their merger due to the criticism of Corporate Inversion?

# Chapter 9

Spring 2016



# The Economics of Taxation

- Sin Tax – A relatively high tax designed to raise revenue and reduce consumption of a socially undesirable product
  - Ex) Liquor, Tobacco
- Incidence of Tax – The final burden of the tax
- Tax Loopholes – Exceptions or oversights in the tax law that allow some people and businesses to avoid paying taxes.
  - Ex) Many corporations paid \$0 in income taxes over the last 15 years





# The Economics of Taxation

- Individual Income Tax – The tax on peoples earning’s.
  - Ex) money that comes out of your paycheck
- Sales Tax – A general tax levied on most consumer purchases
  - Ex) \$ .99 cent product actually costs \$1.07



# The Economics of Taxation

- Withholding Tax – Interest free loan for the government. Some paid back with a tax return.
- Benefit Principle of Taxation – Those who benefit from government goods and services should pay in proportion to the amount of benefits they receive.



# The Economics of Taxation

- Ability-to-Pay Principle of Taxation – The belief that people should be taxed according to their ability to pay regardless of the benefits they receive.
- Proportional Tax – Same Percentage Rate to everyone regardless of income
  - Ex) Flat Tax
- Average Tax Rate – Total taxable income divided by the total income.
  - Ex) If I make \$52,000/year I really make \$36,000



# Warm Up

- Compare and Contrast the Ability-to-Pay Principle of Taxation with the Benefit Received Principle of Taxation.
- What is a withholding tax? Where is it taken from?  
When did it begin and why?
- What is a Sin Tax?
- Is Sales tax a local, state or federal tax?
- Is Income tax a local, state or federal tax?
- What is a tax loophole?
- CEQ: What is Corporate Inversion? What two pharmaceutical companies cancelled their merger due to the criticism of Corporate Inversion?

# The Economics of Taxation

- Progressive Tax – A tax that imposes a higher percentage rate of taxation on persons with higher incomes.
  - Ex) United States
- Marginal Tax Rate – The tax rate that applies to the next dollar of taxable income, that increases.
  - Ex) \$1,000 tax on \$10,000, \$4,000 tax on \$20,000, \$30,000 tax on \$100,000
- Regressive Tax – A tax that imposes a higher percentage rate of taxation on low incomes than on high incomes.



# The Federal Tax System

- 16th Amendment – Allowed Congress to levy an income tax.
- IRS – Internal Revenue Service
  - The Branch of the U.S. Treasury Department in charge of collecting taxes.
  - Tax Return – An annual report to the IRS summarizing total income, deductions, and the taxes withheld by employers.



# The Federal Tax System

- Indexing – An upward revision of the tax brackets to keep workers from paying more in taxes just because of inflation.
- FICA – Federal Insurance Contributions Act (Also known as payroll tax) – Set up to pay Social Security and Medicare
- Medicare – Federal Health Care program available to all senior citizens, regardless of income.



# Warm Up

- What is a progressive tax? Graph it.
- What is a regressive tax? Graph it.
- What is Income Tax? Is it progressive, regressive or flat?
- What is Sales Tax? Is it progressive, regressive or flat?
- What is a Sin Tax?
- What is a proportional tax?
- What is the benefit principle of taxation?
- What does a tax do to the supply/demand curve?  
Graph it



# The Federal Tax System

- Corporate Income Tax – The tax a corporation pays on its profits
- Excise Tax – A tax on the manufacture or sale of selected items.
  - Ex) Gas, Liquor
- Luxury Tax – Additional tax on expensive items.  
Phased out in 2003
- Estate Tax – Tax the government levies on the transfer of property when a person dies
  - Only if the home is worth more than \$2 million

# The Federal Tax System

- Gift Tax – A tax on donations of money or wealth and is paid by the person who makes the gift
  - Designed to make sure that rich people do not give away their valuable goods to avoid paying a tax on them.
- Customs Duty – A charge levied on goods brought in from other countries.



# Chapter 10

- Per Capita – Per Person
- Public Sector – The part of the economy made up of federal, state and local governments
- Private Sector – The part of the economy made up of private individuals and privately-owned businesses
- Transfer Payment – A payment for which the government receives neither goods nor services in return
  - Ex) Social Security, Welfare, Unemployment



# Chapter 10

- Grant-in-aid – A transfer payment made by one level of government to another
  - Ex) Interstate Highways
- Distribution of Income – the Way in which income is allocated among families, individuals, or other designated groups in the economy
- Distribution of Wealth – Same as above, but also includes investments and assets
  - The gap is 10 times greater with wealth than income

# Warm Up

- What is the Private Sector?
- What is the Public Sector?
- What does Per Capita mean? Why is it important?
- What is an excise tax?
- What is wealth distribution?
- What is income distribution?
- Which has a greater gap between the top tier and the bottom tier?
- CEQ: What major telephone service went on strike today (40 k employees)? What do they want?

# Chapter 10

- Federal Budget – An annual plan outlining proposed revenues and expenditures for the coming year.
- Mandatory Spending – Spending authorized by law that continues without the need for approval by congress
- Discretionary Spending – Programs that need yearly approval
- Federal Budget Activity...



# Activity Reaction

- Write (½ - 1 page) about:
- What was your highest discretionary spending allocation?  
What was your lowest? (personal budget)
- Compare and contrast your guesses versus the actual amounts? (personal budget)
- Compare and contrast the actual budget with your budget? (group budget)
- What are your justifications for your decisions? (group budget)
- Is it easy to shrink the federal budget? Explain

# Chapter 10

- Fiscal Year – Any 12 month financial planning period
- Deficit – an excess of expenditures over revenues
- Surplus – an excess of revenues over expenditures
- Appropriations Bill – An act of Congress that allows federal agencies to spend money for specific purposes
  - This is heavily abused by congress to use “Pork Barrel” spending
- Medicaid – A joint federal-state medical insurance program for low-income people

# Chapter 10

- Balanced Budget Amendment – A constitutional amendment that requires that annual spending not exceed revenues
  - Ex) California
- Intergovernmental Expenditures – Funds that one level of government transfers to another level for spending
- Deficit Spending – Spending more money than you make



# Chapter 10

- Federal Debt – The total amount borrowed from investors to finance the government’s deficit spending
  - 1900 - \$ 1.3 Billion
  - 1929 - \$16.9 Billion
  - 1940 - \$50.7 Billion
  - 1988 – 2.5 TRILLION
  - 1999 - \$5 TRILLION
  - 2006 - \$5.6 TRILLION
  - 2008 – 10.9 TRILLION
  - 2009 - \$ 11.6 TRILLION – Enough to stretch \$1 bills to the sun and back 8 times
  - 2016 - \$19 TRILLION
  - 2017 - \$20 TRILLION and counting
    - New budget and tax proposals would see this number grow to \$29 TRILLION over the next 8 years

# Chapter 10

- **Balanced Budget** – An annual budget in which expenditures are equal to revenues
- **Trust Funds** – Special accounts used to fund specific types of expenditures such as Social Security and Medicare
- **Crowding-Out Effect** – The higher than normal interest rates that heavy government borrowing causes
- **Pay-as-you-go Provision** – A requirement that new spending proposals or tax cuts must be offset by reductions elsewhere

# Chapter 10

- Line-item Veto – The power to cancel specific budget items without rejecting the entire budget
  - Voted unconstitutional in 1996 by the Supreme Court
- Spending Caps – Legal limits on annual discretionary spending
- Entitlements – Broad social programs that use established eligibility requirements to provide health, nutritional, or income supplements to individuals



# Warm Up

- What is a glass ceiling?
- What is minimum wage?
- What's a giveback?
- What is an injunction?
- What is a Sin Tax?
- What are entitlements? What is another name for entitlements?
- What is larger? The federal deficit or the federal debt?
- What is "Pork Barrel" Spending? Name a real life example.
- CEQ: What is the leading cause of truck driver fatalities and what type of technology could solve this problem?

# III. Characteristics of a Good Tax

- 1. Equity- a tax has to be fair
  - Loopholes
  - Different types of taxes:
    - Benefit principle of taxation
      - Toll Roads
    - ‘ability to pay’ principle
      - Progressive income tax

# Characteristics of a Good Tax

- 2. Simplicity- a tax has to be easy to understand
  - Indiv. Income tax (complicated)
    - This is why people don't like the IRS
  - Sales tax
    - Much easier to understand



# Characteristics of a Good Tax

- 3. Efficiency- Ease of administration and successful at generating revenue
  - Indiv. Income tax
    - How is it collected
    - What is an inefficient tax?

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