

Taxes

The Average Tax Rate and the Marginal Tax Rate

This is a hypothetical illustration

<u>Income Level</u>	<u>Marginal Tax Rate</u>	<u>Tax</u>	<u>Total Taxes</u>	<u>Average Tax Rate</u>

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This is a hypothetical illustration

<u>Income Level</u>	<u>Marginal Tax Rate</u>	<u>Tax</u>	<u>Total Taxes</u>	<u>Average Tax Rate</u>
0 - \$100	0 %	0	\$ 0	0.0 %

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The Average Tax Rate and the Marginal Tax Rate

This is a hypothetical illustration

Income Level	Marginal Tax Rate	Tax	Total Taxes	Average Tax Rate
0 - \$100	0 %	\$ 0	\$ 0	0.0 %
\$101 - \$200		\$10		

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The Average Tax Rate and the Marginal Tax Rate

This is a hypothetical illustration

Income Level	Marginal Tax Rate	Tax	Total Taxes	Average Tax Rate
0 - \$100	0 %	\$ 0	\$ 0	0.0 %
\$101 - \$200		\$10		
		Additional Taxes Paid	(\$10)	
	MTR =	-----		
		Additional Taxable Income	(\$100)	

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Income Level	Marginal Tax Rate	Tax	Total Taxes	Average Tax Rate
0 - \$100	0 %	\$ 0	\$ 0	0.0 %
\$101 - \$200	10 %	\$10		
	↑	Additional Taxes Paid	(\$10)	
	MTR =	-----		
		Additional Taxable Income	(\$100)	

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Income Level	Marginal Tax Rate	Tax	Total Taxes	Average Tax Rate
0 - \$100	0 %	\$ 0	\$ 0	0.0 %
\$101 - \$200	10 %	\$10		

↑

Additional Taxes Paid (\$10)

MTR = -----

Additional Taxable Income (\$100)

The Marginal Tax Rate (MTR) is the rate you pay on the last dollars you earned

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Income Level	Marginal Tax Rate	Tax	Total Taxes	Average Tax Rate
0 - \$100	0 %	\$ 0	\$ 0	0.0 %
\$101 - \$200	10 %	\$10	\$10	

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Income Level	Marginal Tax Rate	Tax	Total Taxes	Average Tax Rate
0 - \$100	0 %	\$ 0	\$ 0	0.0 %
\$101 - \$200	10 %	\$10	\$10	

Total Taxes Paid (\$10)

ATR = -----

Entire Income (\$200)

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The Average Tax Rate and the Marginal Tax Rate

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Income Level	Marginal Tax Rate	Tax	Total Taxes	Average Tax Rate
0 - \$100	0 %	\$ 0	\$ 0	0.0 %
\$101 - \$200	10 %	\$10	\$10	5.0 %
Total Taxes Paid				(\$10)
ATR = -----				
Entire Income				(\$200)

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The Average Tax Rate and the Marginal Tax Rate

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Income Level	Marginal Tax Rate	Tax	Total Taxes	Average Tax Rate
0 - \$100	0 %	\$ 0	\$ 0	0.0 %
\$101 - \$200	10 %	\$10	\$10	5.0 %
Total Taxes Paid				(\$10)
ATR = -----				
Entire Income				(\$200)

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The Average Tax Rate and the Marginal Tax Rate

This is a hypothetical illustration

Income Level	Marginal Tax Rate	Tax	Total Taxes	Average Tax Rate
0 - \$100	0 %	\$ 0	\$ 0	0.0 %
\$101 - \$200	10 %	\$10	\$10	5.0 %
Total Taxes Paid				(\$10)
ATR = -----				
Entire Income				(\$200)

The Average Tax Rate (ATR) is the overall rate you pay on your entire income

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The Average Tax Rate and the Marginal Tax Rate

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<u>Income Level</u>	<u>Marginal Tax Rate</u>	<u>Tax</u>	<u>Total Taxes</u>	<u>Average Tax Rate</u>
0 - \$100	0 %	\$ 0	\$ 0	0.0 %
\$101 - \$200	10 %	\$10	\$10	5.0 %
\$201 - \$300	12 %	\$12	\$22	7.3 %

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The Average Tax Rate and the Marginal Tax Rate

This is a hypothetical illustration

<u>Income Level</u>	<u>Marginal Tax Rate</u>	<u>Tax</u>	<u>Total Taxes</u>	<u>Average Tax Rate</u>
0 - \$100	0 %	\$ 0	\$ 0	0.0 %
\$101 - \$200	10 %	\$10	\$10	5.0 %
\$201 - \$300	12 %	\$12	\$22	7.3 %
\$301 - \$400	15 %	\$15	\$37	9.3 %

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<u>Income Level</u>	<u>Marginal Tax Rate</u>	<u>Tax</u>	<u>Total Taxes</u>	<u>Average Tax Rate</u>
0 - \$100	0 %	\$ 0	\$ 0	0.0 %
\$101 - \$200	10 %	\$10	\$10	5.0 %
\$201 - \$300	12 %	\$12	\$22	7.3 %
\$301 - \$400	15 %	\$15	\$37	9.3 %
\$401 - \$500	28 %	\$28	\$65	13.0 %

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The Average Tax Rate and the Marginal Tax Rate

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Income Level	Marginal Tax Rate	Tax	Total Taxes	Average Tax Rate
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\$101 - \$200	10 %	\$10	\$10	5.0 %
\$201 - \$300	12 %	\$12	\$22	7.3 %
\$301 - \$400	15 %	\$15	\$37	9.3 %
\$401 - \$500	28 %	\$28	\$65	13.0 %
\$501 - \$600	50 %	\$50	\$115	19.2 %

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The Average Tax Rate and the Marginal Tax Rate

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Income Level	Marginal Tax Rate	Tax	Total Taxes	Average Tax Rate
0 - \$100	0 %	\$ 0	\$ 0	0.0 %
\$101 - \$200	10 %	\$10	\$10	5.0 %
\$201 - \$300	12 %	\$12	\$22	7.3 %
\$301 - \$400	15 %	\$15	\$37	9.3 %
\$401 - \$500	28 %	\$28	\$65	13.0 %
\$501 - \$600	50 %	\$50	\$115	19.2 %
> \$600	80 %	\$80	\$195	32.5 %

$ATR = \frac{\text{Total Taxes Paid}}{\text{Entire Income}}$

$ATR = \frac{\$10}{\$100} = 10\%$

$ATR = \frac{\$10}{\$100} = 10\%$

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Types of Taxes

- **Direct taxes**
 - A tax with your name on it
- **Indirect taxes**
 - Taxes on things

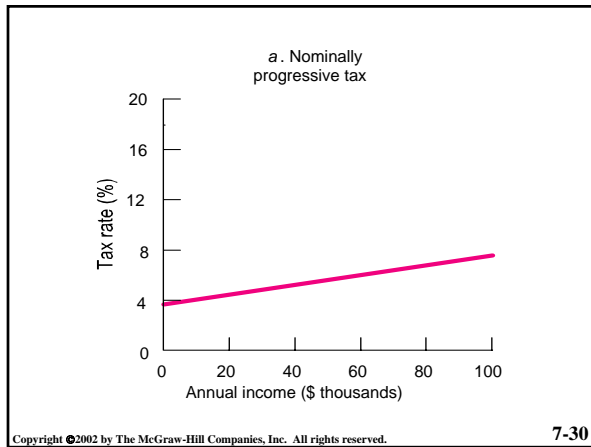
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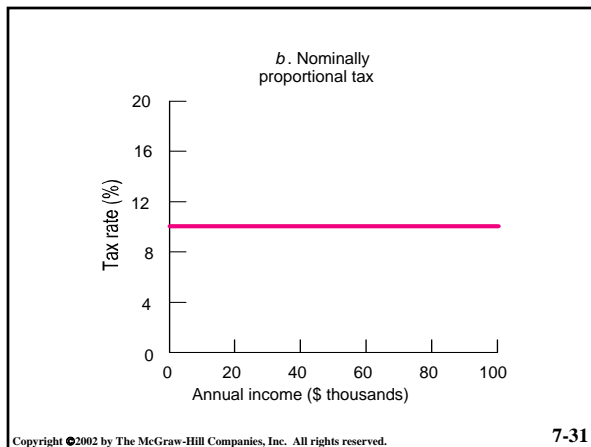
Types of Taxes (Continued)

- **Progressive taxes**
 - Places a greater burden on those best able to pay and little or no burden on the poor
- **Proportional taxes**
 - Places an equal burden on the rich, the middle class, and the poor
- **Regressive taxes**
 - Places a heavier burden on the poor than on the rich

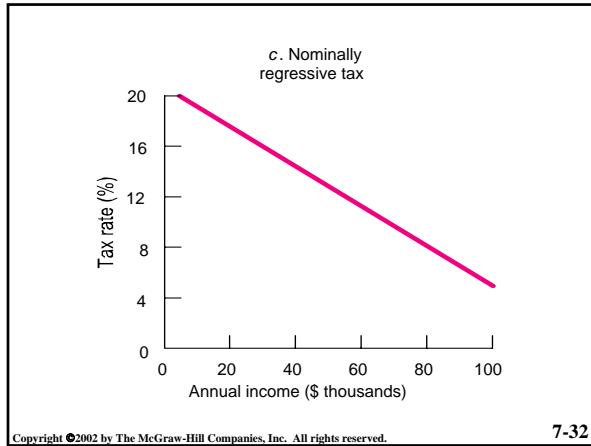
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Sources of Federal Revenue

- **Personal Income Tax**
 - The personal income tax is the largest source of federal revenue
 - Most of the poor pay little or no federal income tax

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Sources of Federal Revenue

- **The Social Security and Medicare taxes are the Payroll Tax**
 - What you pay is matched by your employer
- **The social security tax by law is set at 6.2% with a wage based limitation of \$80,400**
 - The inflation rate of the previous year raises the wage base
- **The Medicare tax of 1.45% applies to wages and salaries only. Income such as rental income, interest, dividends, and profit is exempt**

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Sources of Federal Revenue

- You pay 6.2% in payroll tax on wages up to \$80,400 and 1.45% on all wages
- The Payroll Tax is the *fastest growing* source of federal revenue

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The Incidence of the Social Security Tax at Various Income Levels in 1998

<u>Level of Earned Income</u>	<u>Taxes Paid</u>	<u>Average Tax Rate</u>
\$ 10,000	\$ 620.00	6.2%
68,400	4,240.80	6.2%
100,000	4,240.80	4.24%
1,000,000	4,240.80	0.424%

Note: The current social security tax by law is set at 6.2 % with a wage based limitation of \$80,400

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The Corporate Income Tax

- The corporate income tax is a tax on a corporation's profits
 - The maximum rate is 35%
- All corporations earning profits of at least \$335,000 pay an average of tax rate of 35%
 - Loopholes in the tax law allow many corporations to pay much lower taxes

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Excise Taxes

- An excise tax is a sales tax aimed at specific goods and services
- Most excise taxes are levied by the federal government
 - State and local governments also often levy taxes on the same items

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Excise Taxes (Continued)

- Excise taxes tend to reduce consumption of certain products of which the federal government takes a dim view (e.g., cigarettes)
- Excise taxes are usually regressive

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The Estate Tax

- The estate tax is a tax on the estates of people who die
 - It is a graduated tax that rises to 55%
 - It is levied only on estates valued at \$675,000 or more
 - More than 90% of estate taxes are paid by people with incomes above \$200,000 a year

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Sources of State and Local Tax Revenue

- **Sales Tax**
 - Is a source of over half of all taxes collected by the states
 - Is a highly regressive tax
- **Property taxes**
 - Provides 80% of all local tax revenue
 - Can distort business decisions about where to locate

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The State and Local Fiscal Dilemma (Continued)

- **Neighboring states and local governments are in direct competition with one another for tax dollars**
 - If one government's tax rates rise too far above the levels of its neighbors, it citizens will vote with their feet

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