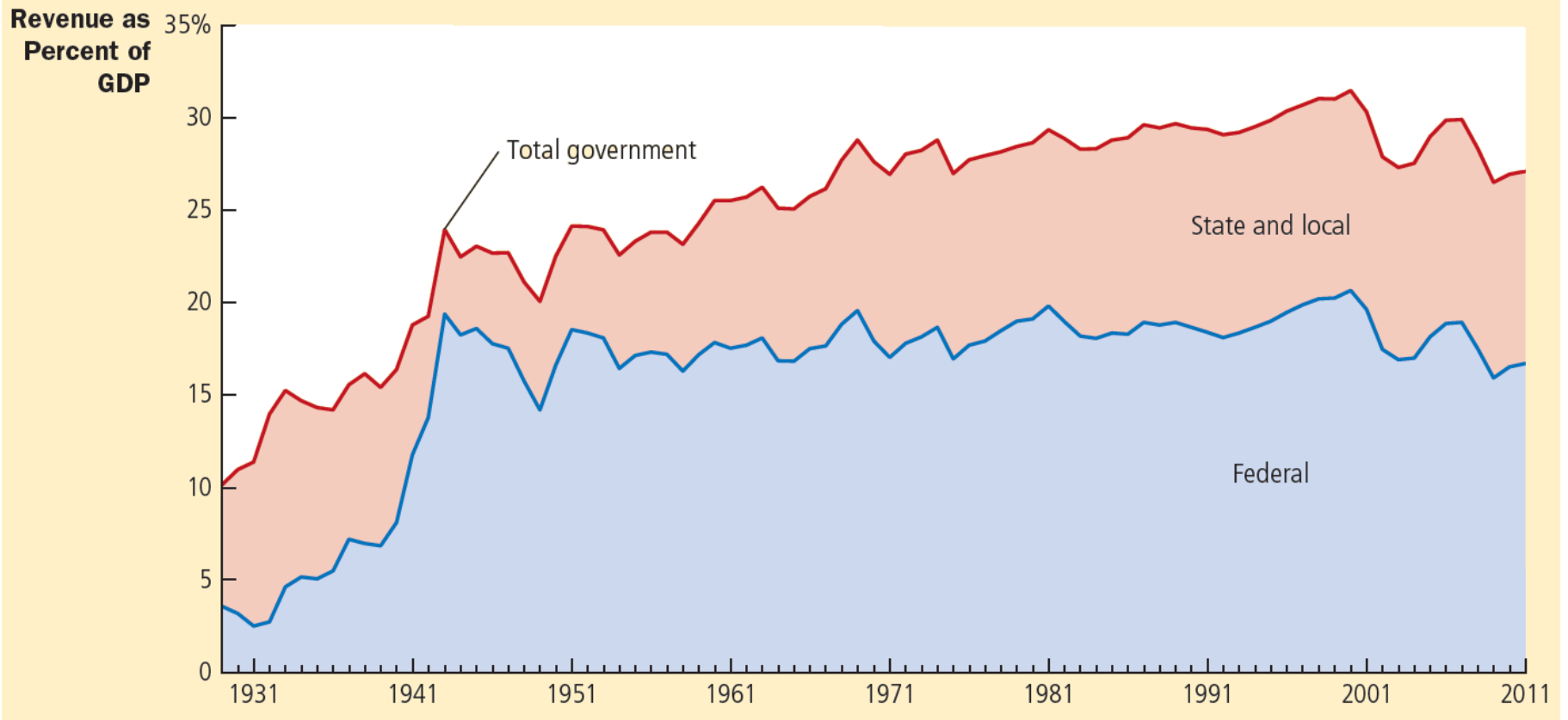


Taxes in the Real World

Econ 101

US Government Size



Source: *Historical Statistics of the United States*; Bureau of Economic Analysis; and author's calculations.

Tax Revenues as a % of GDP

Denmark	48%	Canada	31
Sweden	45	Greece	31
France	44	Japan	28
Italy	43	Australia	26
Germany	37	United States	25
United Kingdom	36	Chile	21
Spain	32	Mexico	20

Source: OECD. Data are for 2011.

Where Does Tax Revenue Come From?

Tax	Amount (billions)	Amount per Person	Percent of Receipts
Individual income taxes	\$1,075	\$3,446	43%
Social insurance taxes	906	2,904	36
Corporate income taxes	304	974	12
Other	235	753	9
Total	<u>\$2,520</u>	<u>\$8,077</u>	<u>100%</u>

Source: Bureau of Economic Analysis. Columns may not sum to total due to rounding.

2014 Individual Income Taxes

On Taxable Income...	...The Tax Rate Is
Below \$9,075	10%
Between \$9,075 and \$36,900	15%
Between \$36,900 and \$89,350	25%
Between \$89,350 and \$186,350	28%
Between \$186,350 and \$405,100	33%
Between \$405,100 and \$406,750	35%
Above \$406,750	39.6%

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Social Insurance Tax

- Social Security and Medicare Taxes: 6.2% on income up to \$113,700
 - Obligation to Pay split between employer and employee (but does it really matter?)
- Unemployment Benefits
 - Paid by employer
 - Varies

The 47%...

- 43% of Americans do not pay Federal Income Tax
 - 2/3 are elderly and retired
 - Most of the rest have income under \$20,000 and obtain enough deductions not to pay
- Everyone with a job pays Payroll tax

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Corporate Income Tax

Country	Tax Rate	Country	Tax Rate
USA	35%	Italy	28%
France	34%	United Kingdom	23%
Mexico	30%	Canada	15%
Japan	28%	Switzerland	8.5%

Corporate Income Tax

- Loopholes and exceptions make US corporate income tax revenues relatively low
- Average Effective Tax Rates...
 - Educational Services 28%
 - Retail 27%
 - Manufacturing 21%
 - Construction 19%
 - Finance 14%
- Corporate Profits are taxed twice though

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Other Taxes

- Excise Taxes 35%
 - Alcohol, Cigarettes...
 - Gas
- Estate Tax 7%
- Customs 13%
- Misc. 43%

How Does the US Spend It All?

The US Government is an insurance company with an army – Original Author Unknown

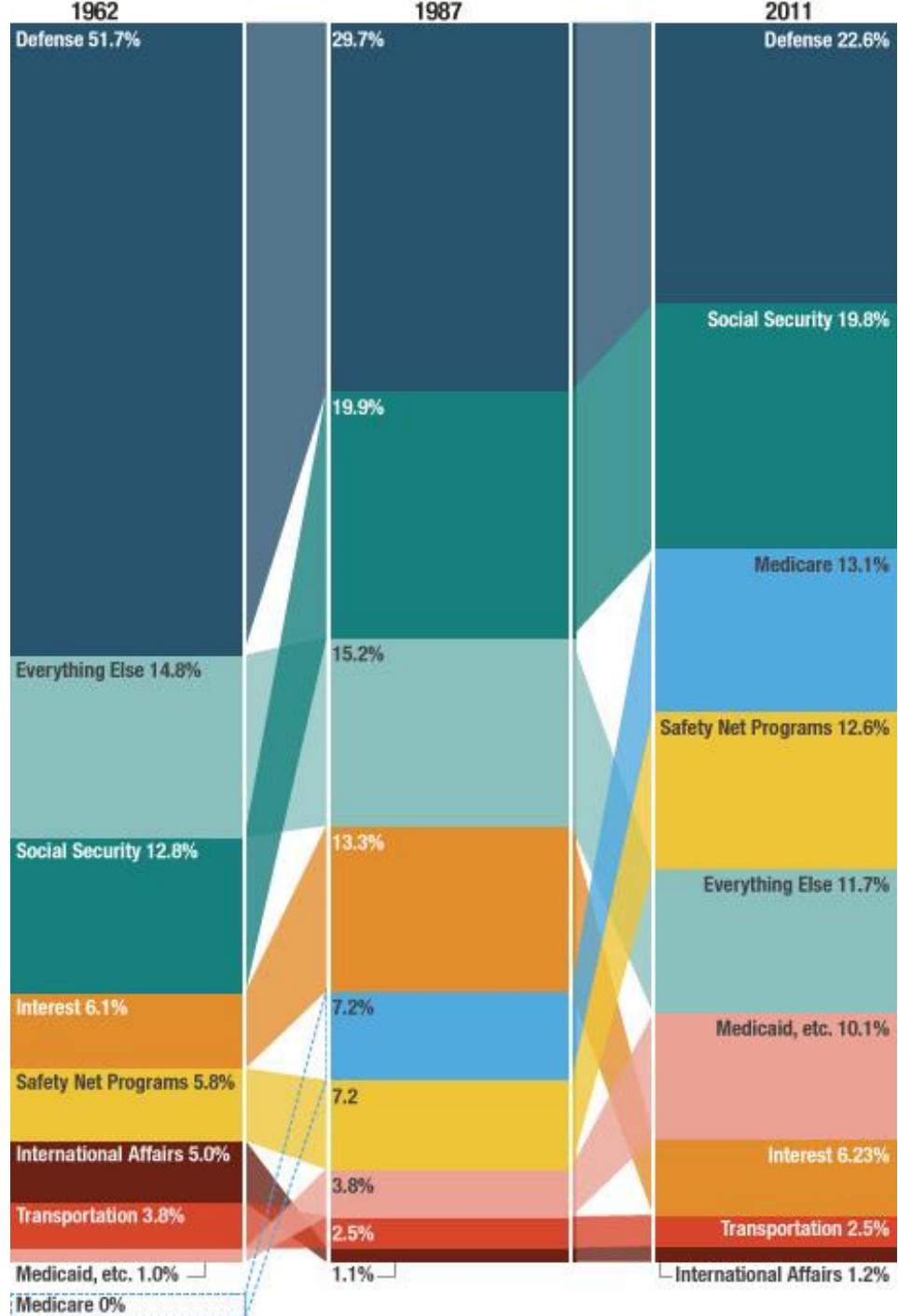
Category	Amount (billions)	Amount per Person	Percent of Spending
Income Security	\$1,233	\$3,951	33%
Health	940	3,013	25
National defense	717	2,298	19
Net interest	325	1,042	9
Other	542	1,737	14
Total	<u>\$3,757</u>	<u>\$12,042</u>	<u>100%</u>

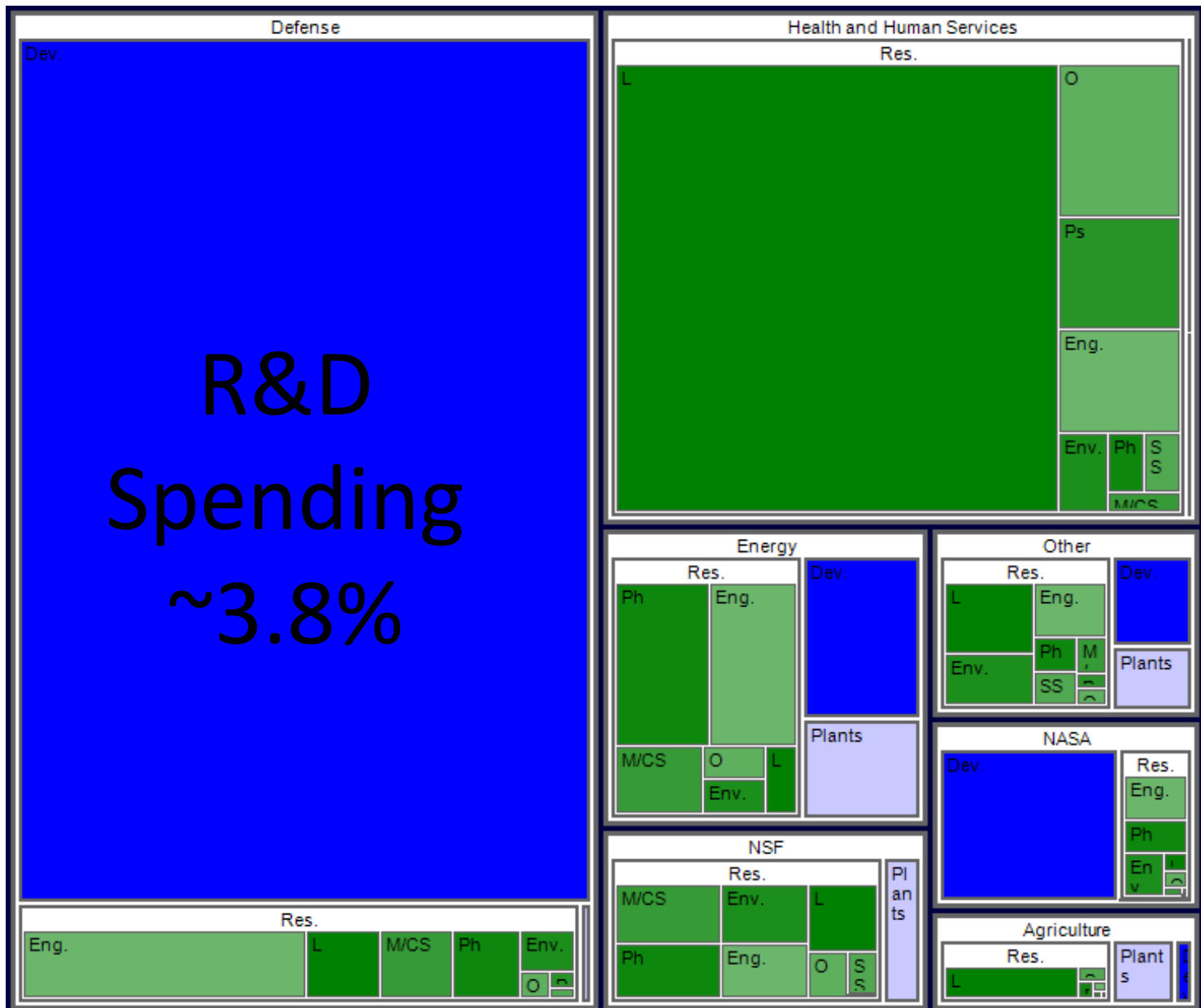
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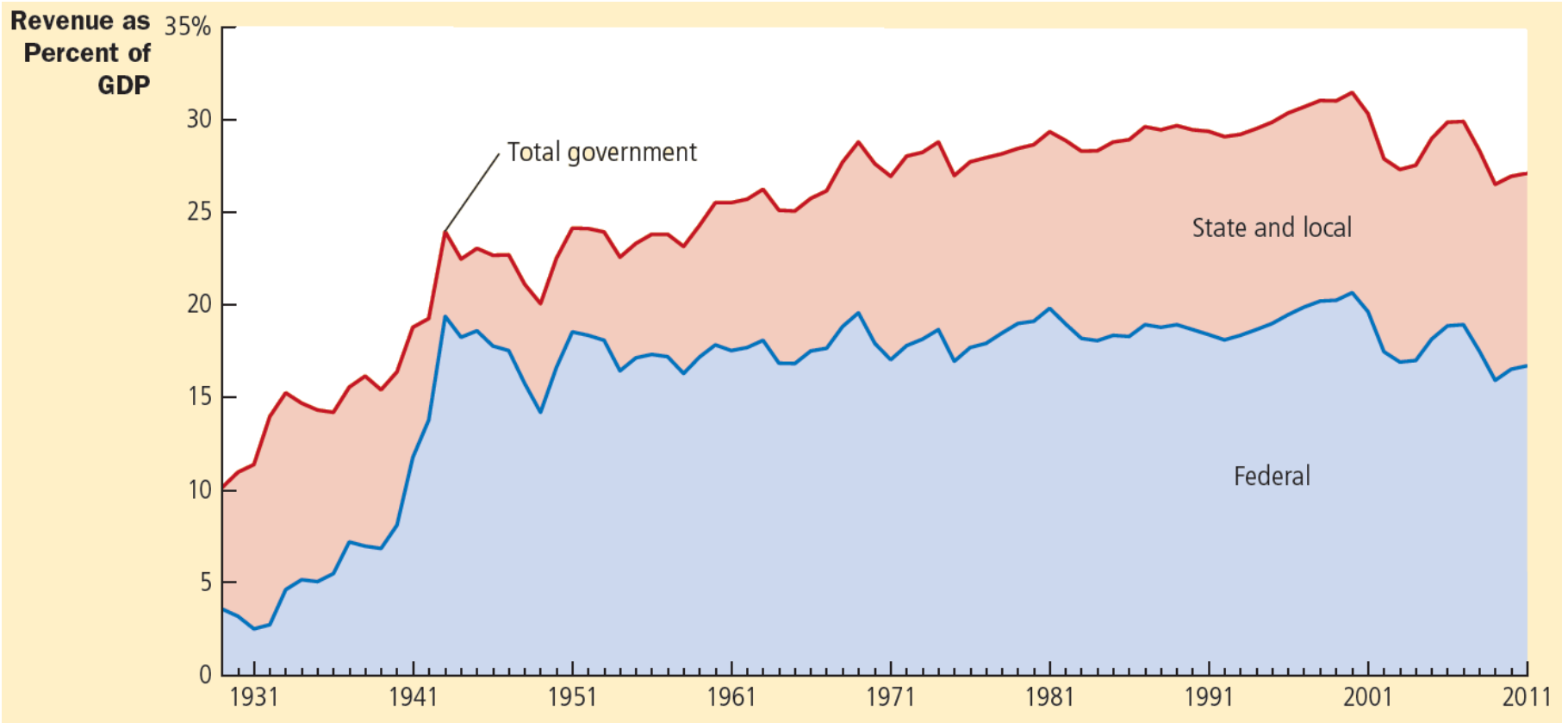
Source: Bureau of Economic Analysis.
Columns may not sum to total due to rounding.

US Spending Over Time





US Government Size



Source: *Historical Statistics of the United States*; Bureau of Economic Analysis; and author's calculations.

State and Local taxes account for ~40% of all taxes

State and Local Government

Tax	Amount (billions)	Amount per Person	Percent of Receipts
Sales taxes	\$462	\$1,481	22%
Property taxes	440	1,410	21
Individual income taxes	323	1,035	16
Corporate income taxes	48	154	2
Federal government	498	1,596	24
Other	293	939	14
Total	<u>\$2,064</u>	<u>\$6,615</u>	<u>100%</u>

Source: Bureau of Economic Analysis. Columns may not sum to total due to rounding.

Local Government Provides Many Public Goods

Category	Amount (billions)	Amount Per Person	Percent of Spending
Education	\$730	\$2,340	34%
Health	481	1,542	22
Public order and safety	285	913	13
Income security	163	522	8
Highways	127	407	6
Interest	109	350	5
Other	271	869	13
Total	<u>\$2,166</u>	<u>\$6,942</u>	<u>100%</u>

Source: Bureau of Economic Analysis. Columns may not sum to total due to rounding.

Who Pays?

- There is a tension between efficiency and fairness
- Most efficient (simplest and least deadweight loss) is a lump-sum tax
 - Applies equally to everyone (no paperwork)
 - Is a sunk cost (no impact on markets)
 - Is probably unfair
- Fairness Considerations
 - Ability to pay
 - Benefits principle

Who Pays?

- Regressive Tax System
 - Higher incomes pay lower *fraction* of income than lower incomes
 - Example; capped taxable income
- Proportional Tax
 - All incomes pay the same *fraction* of income
 - Example; flat tax
- Progressive Tax
 - Higher incomes pay higher *fraction* of income than lower incomes
 - Example; USA income taxes

Example

Income	Proportional Tax		Regressive Tax		Progressive Tax	
	Amount of Tax	Percent of Income	Amount of Tax	Percent of Income	Amount of Tax	Percent of Income
\$50,000	\$12,500	25%	\$15,000	30%	\$10,000	20%
100,000	25,000	25	25,000	25	25,000	25
200,000	50,000	25	40,000	20	60,000	30

Who Pays?

Quintile	Average Income	Taxes as a Percentage of Income	Percentage of All Income	Percentage of All Taxes
Lowest	\$23,500	1.0%	5.1%	0.3%
Second	43,400	6.8	9.8	3.8
Middle	64,300	11.1	14.7	9.4
Fourth	93,800	15.1	21.1	18.3
Highest	223,500	23.2	50.8	67.9
Top 1%	1,219,700	28.9	13.4	22.3

Source: Congressional Budget Office Analysis.
Figures are for 2009.