

## Module 9: Economics

### Topic 3 Content: Taxes

#### Introduction



**Glover Mint:** This episode of WUSG News will cover one of the certainties of life – taxes. Our financial analyst, Cain S. Hayek, is with us today. He will be guiding us through an overview of taxes in the United States.

## Module 9: Economics

### Topic 3 Content: Taxes

#### Purpose of Taxes



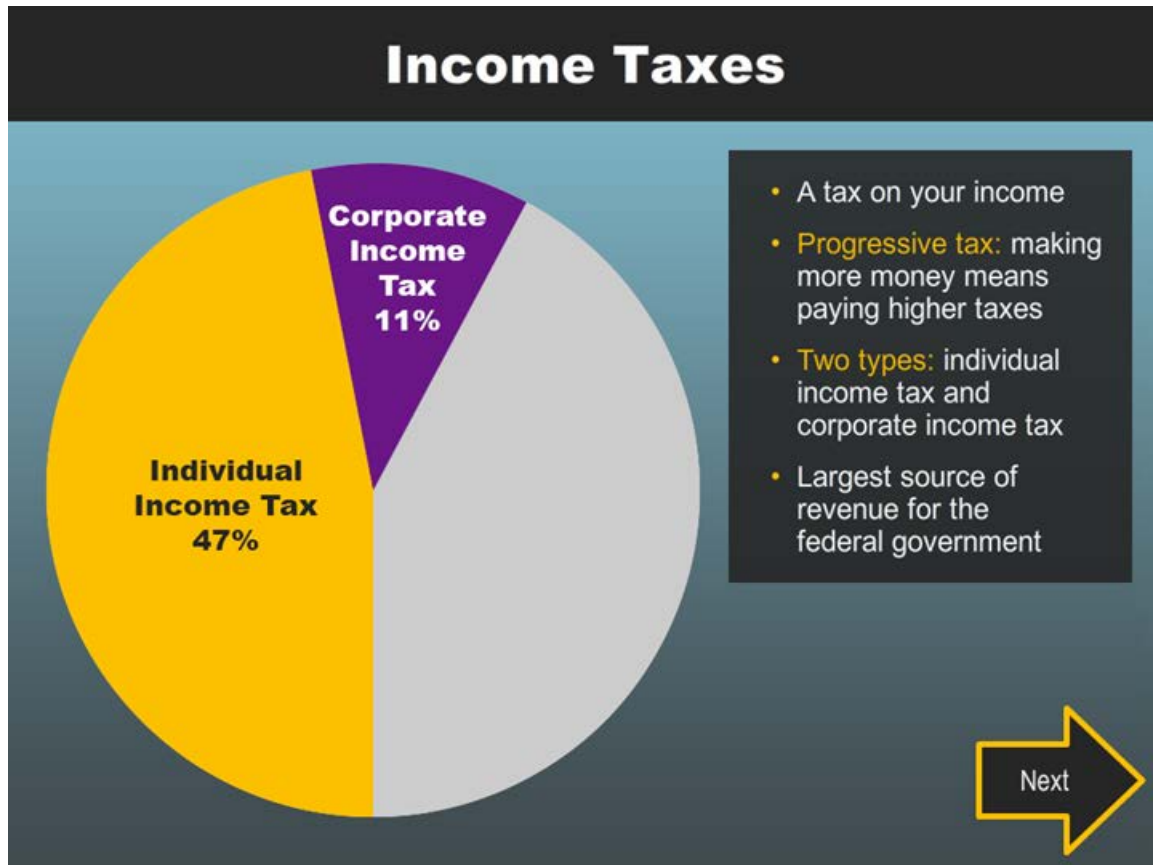
**Cain S. Hayek:** Thank you, Glover. If you live in a modern society, taxes are an inevitable part of life. Taxation is a power used by governments to raise revenue. Without the power to tax, a strong government could not exist, as the Founding Fathers learned under the Articles of Confederation.

There is little doubt that the Founding Fathers knew the importance of taxation, as the first expressed power of Congress under Article I of the Constitution is the "...Power To lay and collect Taxes..." This power was originally limited to excise taxes, which are taxes on the sale of a specific item; however, that was changed by the ratification of the Sixteenth Amendment.

## Module 9: Economics

### Topic 3 Content: Taxes

#### Income Taxes



**Cain S. Hayek:** In 1913, the Sixteenth Amendment to the U.S. Constitution was ratified. It stated:

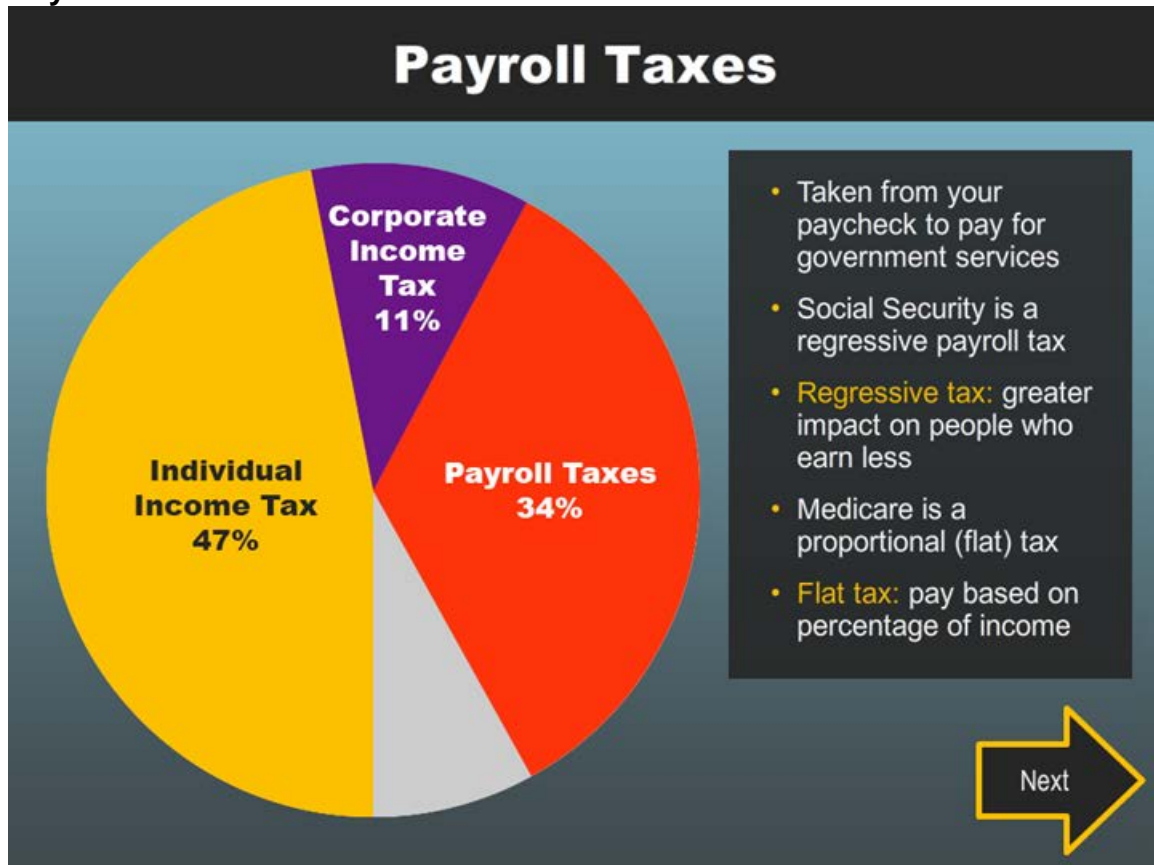
“The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration.”

This Amendment created the income tax, which is, simply put, a tax on your income. It is a progressive tax, which means that the more money you make, the higher your taxes will be. There is an individual income tax and a corporate income tax. The income taxes collected from individuals and corporations are the largest source of revenue for the federal government. According to the Office of Management and Budget, 47% of the federal government’s tax revenue in 2015 was from the individual income tax. An additional 11% was earned through the corporate income tax.

## Module 9: Economics

### Topic 3 Content: Taxes

#### Payroll Taxes



**Cain S. Hayek:** According to the Office of Management and Budget, payroll taxes constituted 34% of the federal government's tax revenue in 2015. A payroll tax is a tax that is taken out of your paycheck to pay for different government services, such as Medicare and Social Security.

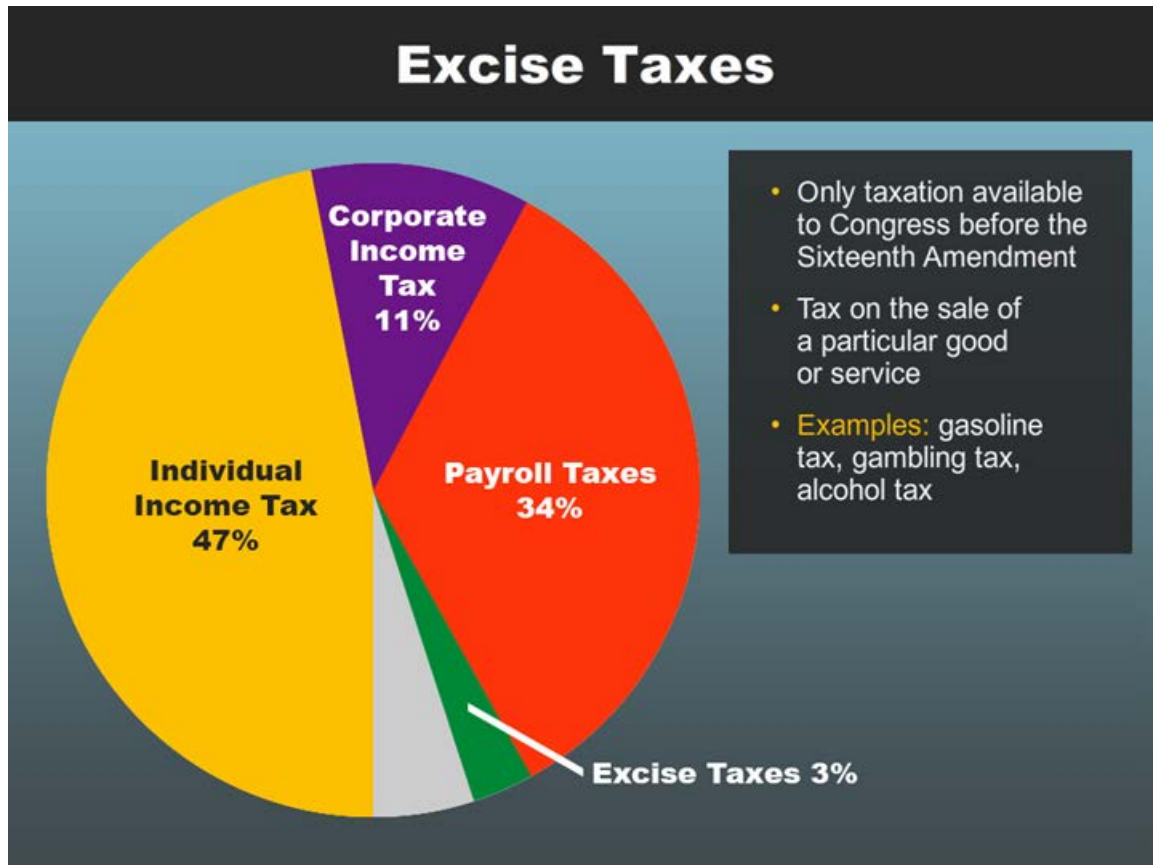
The Social Security tax is a regressive tax, which means it has a greater impact on people who earn a lower income. This is because there is a cap on the total amount an individual has to pay, so a person with a higher income ends up paying less proportionally.

Medicare is a proportional tax, also known as a flat tax. This means that individuals pay a certain percentage of their income, regardless of how much or how little money they make.

## Module 9: Economics

### Topic 3 Content: Taxes

#### Excise Taxes

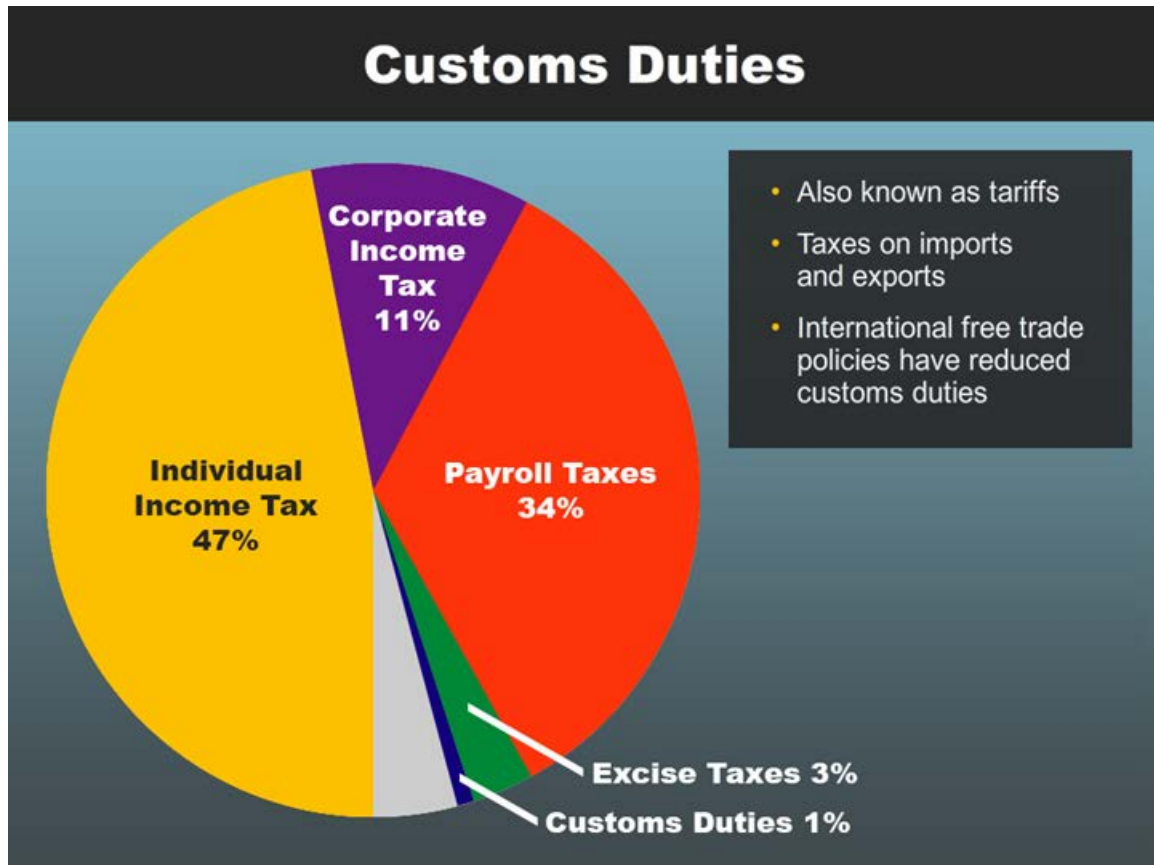


**Cain S. Hayek:** Before the ratification of the Sixteenth Amendment, which granted Congress the power to tax income, Congress was only able to raise revenue through excise taxes. In 2015, excise taxes accounted for 3% of federal tax revenue. As I said earlier, an excise tax is a tax on the sale of a particular good or service. Gasoline, for example, has an excise tax. In some cases, the government will use an excise tax to regulate or discourage an activity, such as gambling and drinking alcohol.

## Module 9: Economics

### Topic 3 Content: Taxes

#### Customs Duties

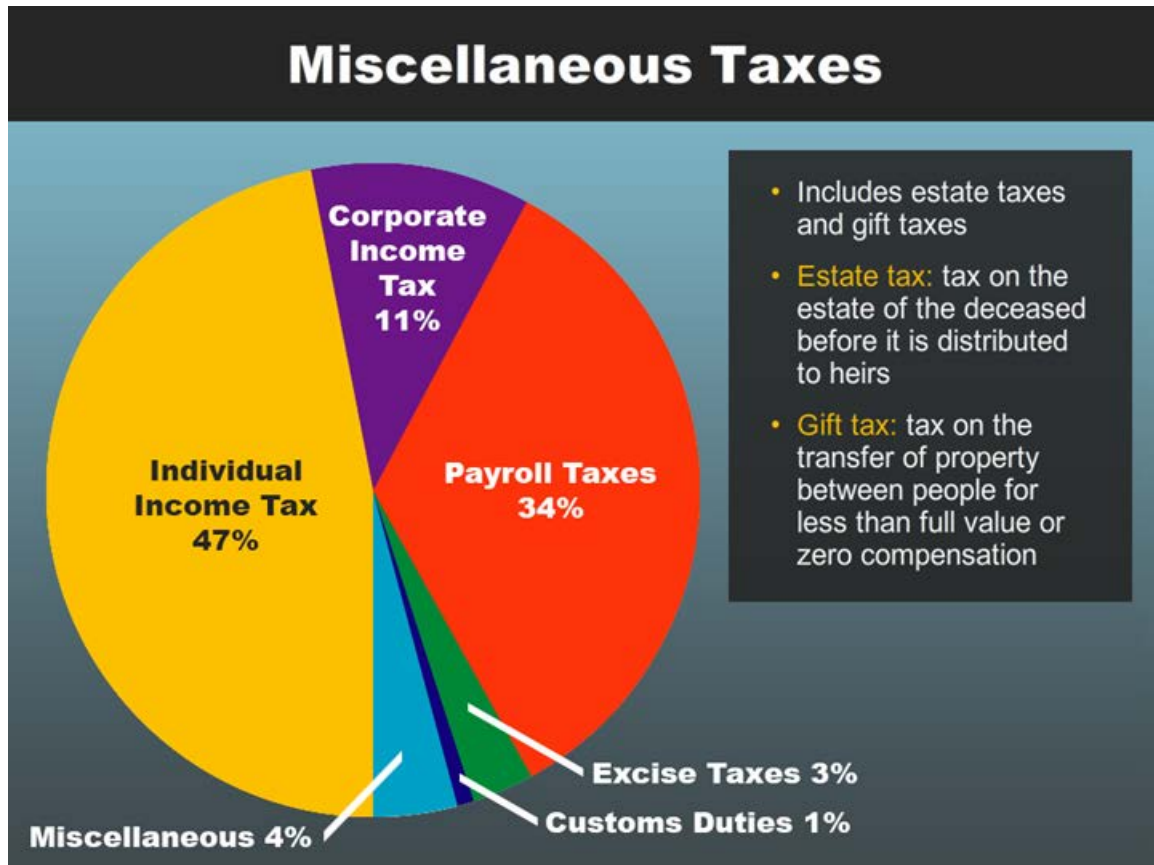


**Cain S. Hayek:** Customs duties, also known as tariffs, are taxes on imports and exports. Modern American foreign and economic policy is pushing for the expansion of international free trade, which has reduced the amount of income earned from customs duties.

## Module 9: Economics

### Topic 3 Content: Taxes

#### Miscellaneous Taxes

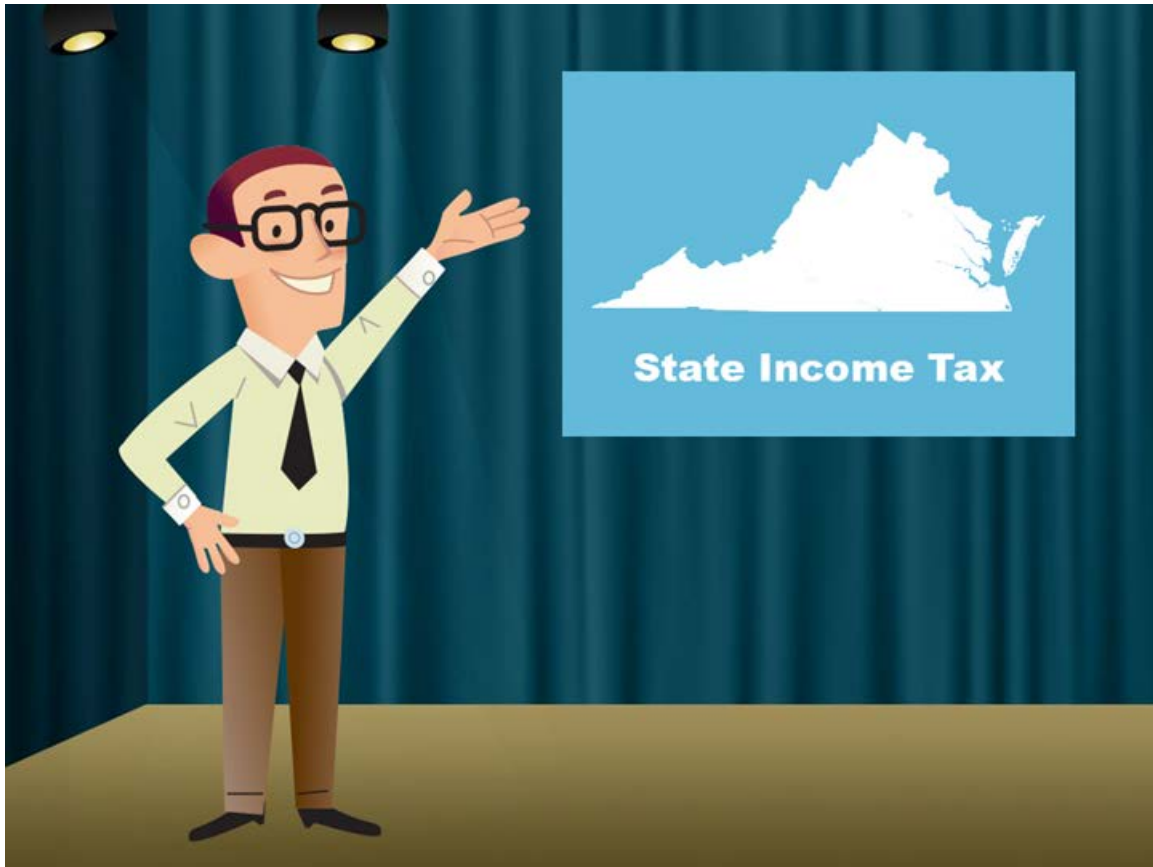


**Cain S. Hayek:** The final piece of our federal tax revenue pie is composed of miscellaneous taxes. These include taxes such as gift taxes and estate taxes. An estate tax is levied on the estate of a person who passes away, before any inheritance is distributed to any heirs of the deceased. A gift tax is a tax on the transfer of property from one person to another person who receives less than full value or zero compensation in return.

## Module 9: Economics

### Topic 3 Content: Taxes

#### State Taxes



**Cain S. Hayek:** Before we end this episode, I would like to discuss taxation at the state level. Every state government chooses its own method of taxation. Many states, including Virginia, use an income tax similar to that of the federal government in order to raise revenue. A few other state taxes, it is important to mention are sales taxes, real estate taxes, and personal property taxes.



## Module 9: Economics

### Topic 3 Content: Taxes

#### Sales Taxes



**Sales tax:** taxes imposed by the state government on the sale of different goods and services

**Make a Selection Below**

Sales Tax      Real Estate Tax

Personal Property Tax

**Cain S. Hayek:** Sales taxes are imposed by the state government on the sale of different goods and services. The retailer is responsible for collecting the tax and then passing it on to the state.

## Module 9: Economics

### Topic 3 Content: Taxes

#### Real Estate Taxes



**Real estate tax:** tax imposed on immovable property

**Examples:** house, building, piece of land

**Make a Selection Below**

Sales Tax      Real Estate Tax

Personal Property Tax

**Cain S. Hayek:** A real estate tax, sometimes called a property tax, is a tax imposed on immovable property, such as a house, a building, or a piece of land. Real estate tax is the proper term used by the IRS.

## Module 9: Economics

### Topic 3 Content: Taxes

#### Personal Property Taxes



**Personal property tax:** tax imposed on assets that are able to move

**Examples:** car, boat, mobile home

**Make a Selection Below**

Sales Tax      Real Estate Tax

Personal Property Tax      **Next**

**Cain S. Hayek:** Personal property tax is distinct from the real estate tax, in that it applies to assets that are able to move, such as a car, a boat, or a mobile home.

**Module 9: Economics**  
**Topic 3 Content: Taxes**

Ending of Episode



**Glover Mint:** We really appreciate you helping explain the various types of taxation to our audience, Cain. I can't think of anyone better suited to the task. Thank you for tuning in.