

Taxes & Inflation



Taxman—The Beatles

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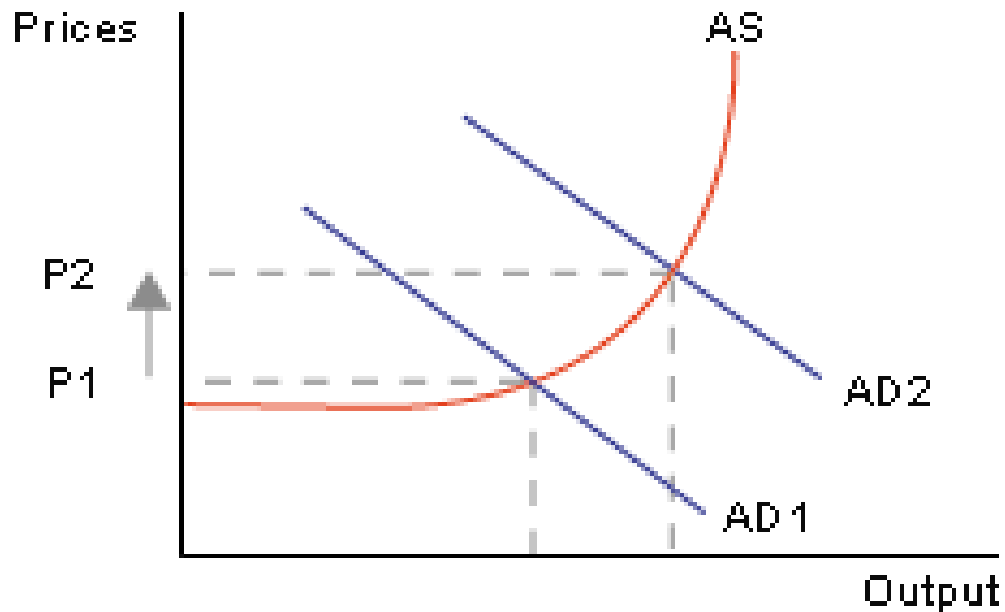
Estate tax articles

Before we look at taxation, a few words
on inflation.....

3-Types of Inflation

- **Demand-Pull Inflation:**

- *Many people want products at the same time*

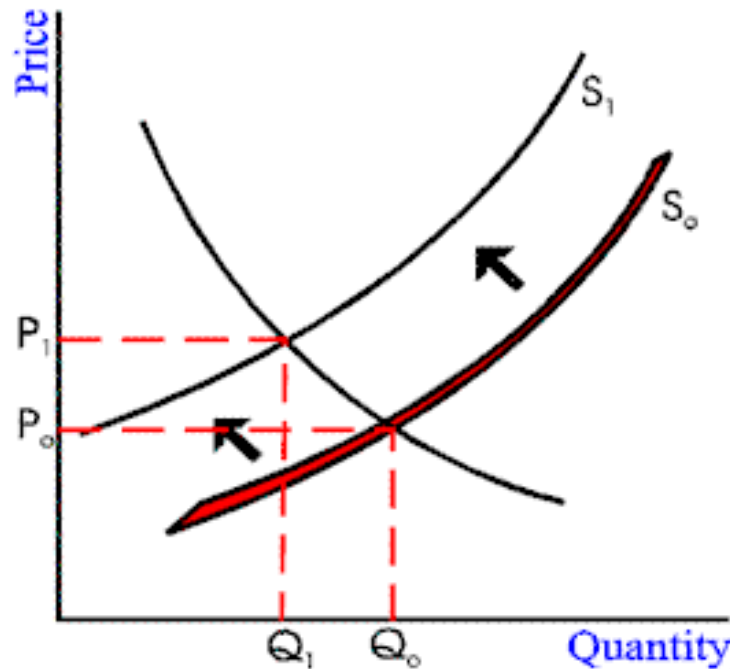


3-Types of Inflation

- **Cost-Push Inflation**

- Increase in cost of any *factors of production*
- examples: price of oil, wages, steel, etc....

Figure 6-2 The Automobile Market



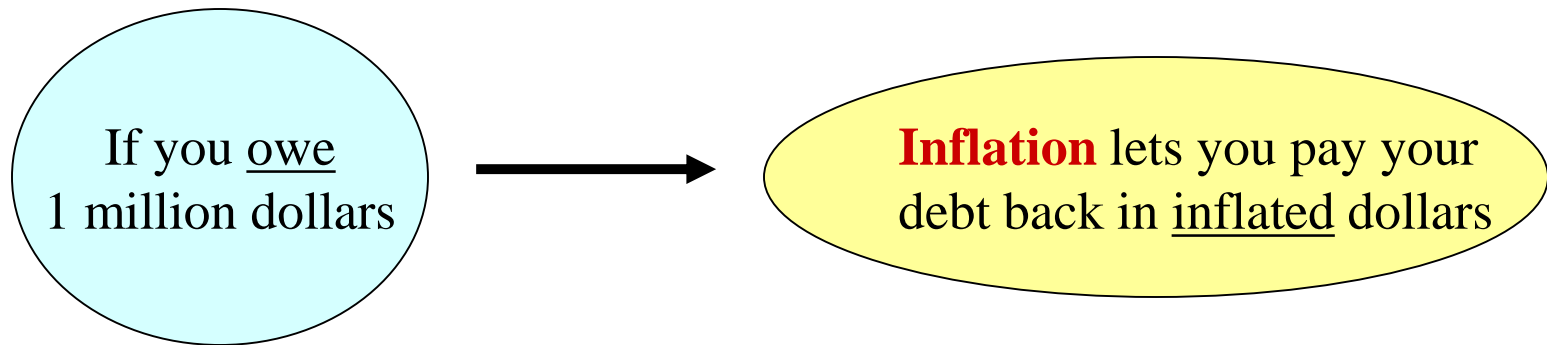
- **3-Types of Inflation**

Money Supply Inflation

--the kind experienced during our in-class candy simulation where the government prints too much money and its perceived value declines

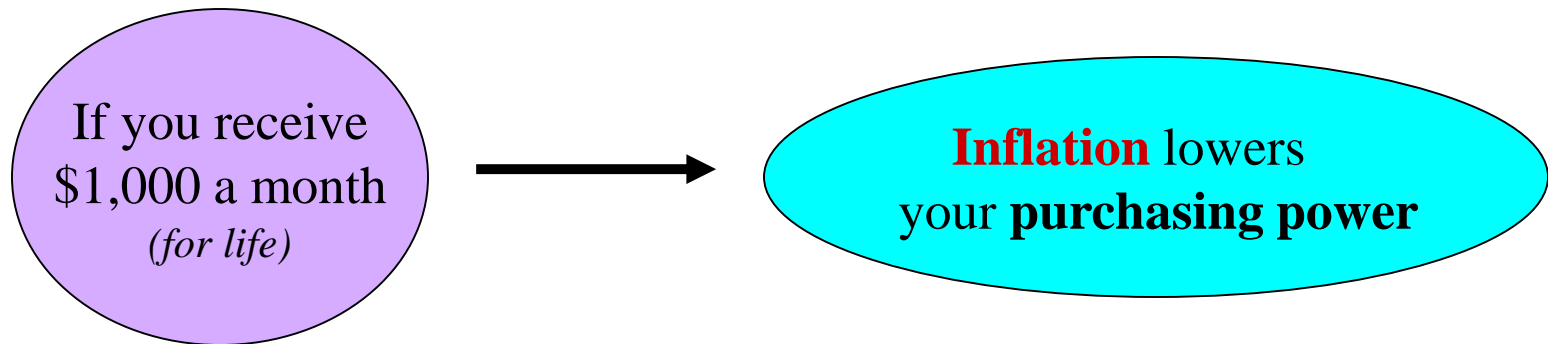
Who is Helped by inflation?

- **People in large amount of Debt**
 - *Large Mortgages, Car Loans, Student Loans*



Who is Hurt by Inflation?

- People on a **fixed income**



- **SAVERS**

Why is inflation Bad?

- Difficult for Business to plan & price goods/services
- Difficult to fight once it begins to rise

Will **Fiscal** & **Monetary** policy today cause inflation in 5-years?

Okay now, back to taxes.....

So why do we pay taxes anyway?

The Government Budget

Government Revenue

Taxes

Government Spending

All Gov't Expenses

What do we get for our tax money?

National

- Military
- Entitlements: Social Security, Medicare, etc.
- federal law enforcement
- post office
- diplomatic relations
- food and drug safety
- interstate highways

State

- K-12 education
- Higher education
- state parks
- environmental protection
- DMV
- state highways

Local

- Airports
- Police
- Fire department
- Libraries
- parks

Types of Taxes

- **Flat (Proportional)**

- Same % for everyone

- Example: Sales Tax**

- **Progressive-**

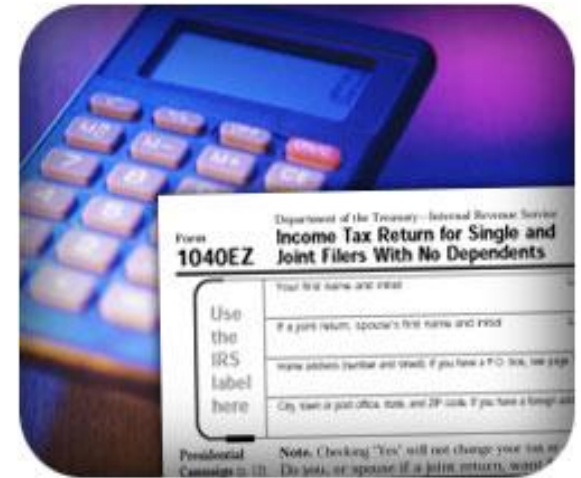
- Higher %** for higher income workers

- Example: Income Taxes**

- **Regressive-**

- Consumes larger % of lower income workers' salary

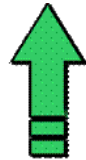
- Example: Alcohol excise tax**



Federal Income Tax

- **Progressive Income Tax**

As income



% Tax Rate



| 2013 Federal Tax Rates | Single | Married Filing Jointly & Surviving Spouses | Married Filing Separate Returns | Heads of Households |
|---------------------------|-----------------------|--|---------------------------------|-----------------------|
| <i>Personal Exemption</i> | \$3,900 | | | |
| <i>Std Deduction</i> | \$6,100 | \$12,200 | \$6,100 | \$6,100 |
| 10% | \$0 – \$8,925 | \$0 - \$17,850 | \$0 – \$8,925 | \$0 - \$12,750 |
| 15% | \$8,926 – \$36,250 | \$17,851 - \$72,500 | \$8,926 – \$36,250 | \$12,751 - \$48,600 |
| 25% | \$36,251 - \$87,850 | \$72,501 - \$146,400 | \$36,251 - \$73,200 | \$48,601 - \$125,450 |
| 28% | \$87,851 – \$183,250 | \$146,401 - \$223,050 | \$73,201 – \$111,525 | \$125,451 - \$203,150 |
| 33% | \$183,251 - \$398,350 | \$223,051 - \$398,350 | \$111,526 - \$199,175 | \$203,151 - \$398,350 |
| 35% | \$398,351 - \$400,000 | \$398,351 - \$450,000 | \$199,176 - \$225,000 | \$398,351 - \$425,000 |
| 39.6% | over \$400,001 | over \$450,001 | over \$225,000 | over \$425,000 |
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New 2018 Income Tax Rate Schedule

| Rate | Individuals | Married Filing Jointly |
|------|------------------------|------------------------|
| 10% | Up to \$9,525 | Up to \$19,050 |
| 12% | \$9,526 to \$38,700 | \$19,051 to \$77,400 |
| 22% | 38,701 to \$82,500 | \$77,401 to \$165,000 |
| 24% | \$82,501 to \$157,500 | \$165,001 to \$315,000 |
| 32% | \$157,501 to \$200,000 | \$315,001 to \$400,000 |
| 35% | \$200,001 to \$500,000 | \$400,001 to \$600,000 |
| 37% | over \$500,000 | over \$600,000 |

Progressive Taxes in “action”

| Tax Rate | Single |
|----------|-----------------------|
| 10% | \$0 – \$8,350 |
| 15% | \$8,351– \$33,950 |
| 25% | \$33,951 – \$82,250 |
| 28% | \$82,251 – \$171,550 |
| 33% | \$171,551 – \$372,950 |
| 35% | \$372,951+ |

EVERY taxpayer pays
10% on first \$8,350 of income

Example: If you Earn \$100,000 (single)

$(\$ 8,350 - 0) \quad \times .10 : \quad \$ 835$
 $(33,950 - 8,351) \quad \times .15 : \quad 3,840$
 $(82,250 - 33,951) \quad \times .25 : \quad 12,075$
 $(100,000 - 82,251) \quad \times .28 : \quad 4,970$

Total: \$ 21,720 or 21.7%

Who pays the most?

- **Top 1%** of Taxpayers (\$295,000 + Up)
 - *Pay 34% of all taxes*
- **Top 5%** of Taxpayers (\$121,000 + Up)
 - *Pay 55% of all income taxes*
- **Bottom 50%** of Taxpayers (\$40,000 + Below)
 - *Pay 4% of Income Taxes*

Review Quiz

#1: Why do people pay taxes?

The government uses the money to provide various services.

Review Quiz

#2: What are the three types of taxation?

Progressive

Flat/proportional

Regressive

What are some of the other taxes people pay, and which type of tax are they?

Specific Tax

Level of gov't
that collects the tax
--state, local, nat'l

Type of Tax—
Proportional,
regressive, progressive?

Social Security Tax

Nat'l

Proportional (flat)

Excise Tax on tobacco

State/Nat'l

Regressive

Tariffs

Nat'l

Proportional (flat)

Property taxes

(is the way we do education funding fair?)

Local

Progressive
(broadly speaking)

Medicare Tax

Nat'l

Proportional (flat)

Inheritance/Gift Taxes

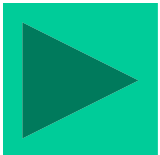
State/Nat'l

Progressive
(broadly speaking)

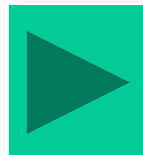
Tax Worksheet

3-Types of Inflation

Money Supply inflation



Bakery example



Tech Ticker debate on inflation

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