What are taxes? A mandatory payment to the government.

Purpose of Taxation

* 1. Support basic govt. functions (military, services, etc.)
  2. To promote social/economic goals
     1. Ex. “sin” taxes/excise taxes (Tax on a certain good)
  3. To favor certain industries
     1. Renaissance Zones (low/no taxes in a certain area to boost the economy)
     2. Tax credits to encourage production in a certain industry
  4. Income redistribution
     1. Payroll Tax—Soc. Security/Medicare
     2. Income Tax (16th Amendment: 1913)
     3. Inheritance Tax

1. Two Principles of Taxation
   1. Ability to Pay Principle = How much *can* you pay?
      1. Income taxes
   2. Benefit Principle = How much do you *benefit* from a certain good/service?
      1. Gas taxes
      2. Sales taxes
      3. “The More you buy, the more you pay tax”

Collecting Taxes

1. Four principles of tax collection
   1. affordability
   2. clearly described—(W-2)
   3. convenient to pay
   4. collected efficiently
2. Tax Base = what is taxed (Businesses, property, which contribute to city services)
3. Tax rate = % of income that is paid in tax
   1. MI income tax rate: 4.5%

Tax structures

1. Proportional
   1. Takes same share of income at all levels
      1. Ex. Everyone pays 17%
      2. Property Taxes
      3. Fees
2. Progressive (“The more you make, the more you pay”)
   1. You are taxed more as your income increases
   2. Ex. Progressive income taxes
3. Regressive (“The More you make, the Less you pay”)
   1. You are taxed less as your income increases

Kinds of Taxes:

1. Sales—% tax on purchased goods (with exceptions)
   1. MI = 6% sales tax, IN = 7%
2. Income—tax on earned income
   1. Rate is Progressive (15%--39.5%)
   2. States have income tax too
3. Payroll/FICA taxes—taken from your check, goes into Soc. Security and Medicare
4. Corporate income taxes—tax on company profits
   1. Rate is Progressive (15%—35%)
5. Excise/Sin Taxes—Tax on certain items.
6. Estate/Gift Taxes—tax on inheritance
   1. Effective on estates worth more than 3.5 million