

Understanding Taxes



Theme 1: *Your Role as a Taxpayer*





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“*Taxes are what we pay
for civilized society.*”

– *Oliver Wendell Holmes, Jr., 1904*



*Understanding
Taxes* 

- Taxes are a necessary part of life in the United States.
- Although taxation has often received a less than favorable review by taxpayers, the benefits of taxation are positive.

What do you think is meant by this quote? Do you agree with it?
(Answers will vary.)



Taxes Fund Public Goods and Services



Understanding
Taxes 

- Taxes are required payments of money to various levels of government.
- Taxes provide revenue for public goods and services that benefit the community and the nation as a whole.

Taxes help support goods and services such as our national defense, state and local police and protection agencies, health care, public education, financial aid for the disabled and unemployed, and social services for low-income families.
- The amount of revenue raised by taxes determines the amount of services the government can afford to provide.



Early Taxes

- Cooking Oil, Foreigners, Slaves (Ancient Egypt)
- Sales, Inheritance, Imports, Exports (Ancient Rome)
- Beards, Beehives, Boots, Souls (Russia, 1702)
- Bachelors (England, 1695; Missouri, 1820)

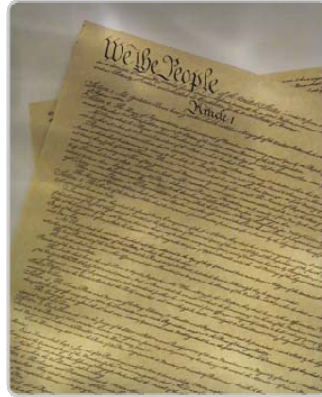


- Throughout history, taxation has been a powerful means of shaping civilization.
- Ancient Egyptians were known to tax all aspects of daily life.
 - Egyptians taxed foreigners, slaves, and the use of cooking oil necessary for preparing family meals.
 - Egyptians often were forced into slavery when taxes became too high to pay.
- Roman governments had an advanced system of taxation, which included taxes on sales, inheritance, imports, and exports.
 - The Roman emperor Vespasian was famous for his liberal use of taxation. He imposed the Fiscus Judaicus, which was a tax on Jews. In addition, he taxed the urine that was used in cleaning and tanning leather.
- Peter the Great of Russia taxed hats, boots, beehives, basements, chimneys, food, clothing, birth, marriage and burial in addition to taxing beards and souls.
- Even bachelors were taxed in England and the state of Missouri!



The Power to Collect Taxes

- American Revolution caused debt
- Tax was necessary to pay debt
- Article 1, Section 8 of the U.S. Constitution granted Congress power to tax



The U.S. Constitution gives Congress power to collect taxes

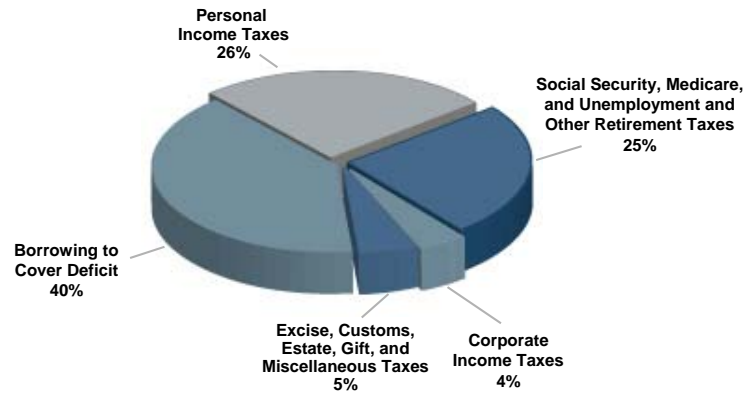
Understanding Taxes
IRS

- The American Revolution put our nation in a great deal of debt.
- To pay this debt and to meet the needs of the United States citizens, the framers of the Constitution in Article 1, Section 8, granted Congress the powers to tax.



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The Federal Government Dollar- Where It Comes From

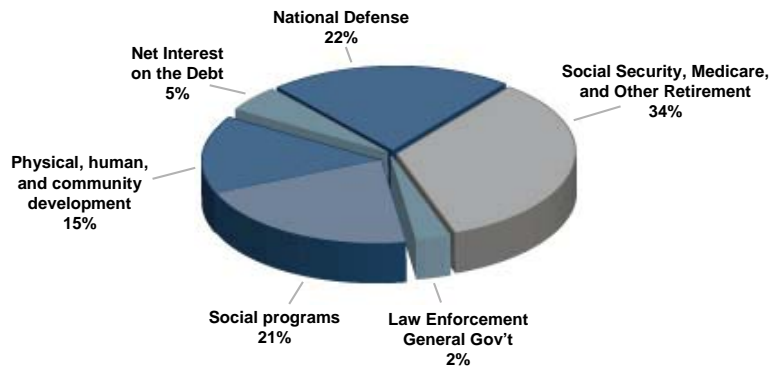


Understanding Taxes
IRS

- The income tax is the most significant means of raising revenue in the federal government.
- Payroll taxes, such as Social Security, Medicare, unemployment, and other retirement taxes (FICA), account for the second largest source of federal revenue through taxation.
- Excise, estate, gift, and corporate income taxes, as well as customs, borrowing to cover deficit, and miscellaneous taxes raise the rest of the revenue needed by the federal government



The Federal Government Dollar – Where It Goes



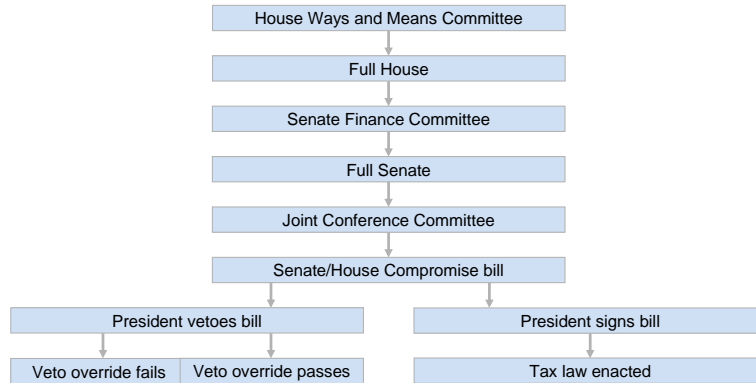
The percentages for federal spending do not total 100% due to rounding.

Understanding
Taxes 

- Social Security, Medicare, and other retirement programs make up the largest payout by the federal government. These programs provide income support for the retired and disabled and medical care for the elderly.
- National defense, veterans, and foreign affairs are another expenditure. Money is provided to equip, modernize, and pay our armed forces and to fund other national defense activities.
A portion of this funding is allotted for veteran's benefits and services. About 1 percent of this money is given to foreign countries and United States embassies abroad to provide military and economic assistance and maintenance.
- Social programs, such as Medicaid, food stamps, aid to families with dependent children, health research, public health programs, assisted housing, and social services are funded by revenue raised by taxes.
- Law enforcement, general government activities (including the collection of taxes), judicial activities, and prisons account for a small percentage of expenditures.



How Taxes Evolve



- The U.S. Constitution describes a formal tax legislation process. A proposed tax law, called a bill, follows specific steps, beginning in the Ways and Means Committee of the House of Representatives. After a tax bill is approved by both the House and the Senate, it goes to the President, who can either sign the bill into law or veto it.
 1. The tax bill is initiated in the House of Representatives and referred to the Ways and Means Committee. When members of this committee reach agreement about the legislation, they write the proposed law.
 2. The bill goes to the full House, where it is debated, possibly amended, and eventually approved.
 3. The bill goes to the Senate, where it is reviewed and often rewritten by the Finance Committee. The committee's version is then presented to the full Senate.
 4. After the Senate approves the bill, it is sent to a joint committee of House and Senate members, who try to arrive at a compromise version.
 5. The compromise version of the bill is sent to both the House and the Senate for approval.
 6. After Congress passes the bill, it goes to the President, who can either sign it into law or veto it.
 7. If the President vetoes the bill, Congress may try to override the veto with a two-thirds vote of each house. If this vote succeeds, the bill becomes law without the President's signature.



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Voluntary Compliance

Each person is responsible
for filing a tax return



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Tax Avoidance versus Tax Evasion

- Tax Evasion: Failure to pay legally due taxes
- Tax Avoidance: Legal means of decreasing your tax bill

- Two issues involved with voluntary compliance are tax evasion and tax avoidance.
- Tax evasion is the failure to pay legally due taxes.

In this form of underground economy, people fail to report income to the government.

This reduces the government's revenue and the filer's tax bill. This form of tax cheating is difficult to measure.

It is estimated that taxpayers voluntarily pay only 80 percent of their legally owed taxes.
- Tax avoidance is a legal means of decreasing your tax bill.

Examples of tax avoidance would be moving a business to a state with lower taxes, taking advantage of tax loopholes, or changing spending habits to avoid paying tax on certain items.
- The distinction between tax avoidance and tax evasion is knowing and taking legitimate deductions and credits when appropriate.



Taxpayer Rights

- Information on taxpayer returns is private
- Taxpayers have the right to appeal an IRS decision



- Taxpayers have the right to privacy. Information on returns is private and confidential and can only be examined by authorized tax personnel.
- Taxpayers have the right to appeal an IRS decision through the IRS or a court.



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“ *The income tax law is a lot of bunk. The government can't collect legal taxes from illegal money.* ”

– *Al Capone*



Understanding Taxes 

- Failure to pay legally owed taxes can result in fines or imprisonment for tax fraud or tax evasion.

Al Capone, a man remembered as one of the most notorious criminals of the twentieth century, was imprisoned for tax evasion in June, 1930.

Spiro Agnew, our thirty-ninth vice president (1969–1973), resigned from office after being fined for tax evasion.

- Be smart: Pay all taxes owed to the government!

Photo Credit: National Archives