

# UNDERSTANDING TAXES

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“In this world, nothing is certain but death and taxes.” –Benjamin Franklin



# WHAT ARE TAXES?

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- Taxes are payments people are required to pay to local, state and national governments.
- Taxes are used to pay for services provided by government
  - Schools
  - Defense
  - Roads
  - Police
  - Etc.





# WHAT OUR CONSTITUTION SAYS

*The Congress shall have Power To lay and collect Taxes, Duties, Imposts and Excises, to pay the Debts and provide for the common Defense and general Welfare of the United States; but all Duties, Imposts and Excises shall be uniform throughout the United States; . . .*



# CONSTITUTION AND TAXES

“No taxation without representation” was the rallying cry of the *Revolution*, but the purpose of the *Constitution* was to create an effective government, and for that to happen, the framers granted Congress broad powers of taxation. This would be taxation *with* representation – the cornerstone of any viable republican government.



# THE 16<sup>TH</sup> AMENDMENT

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The 16<sup>th</sup> Amendment, ratified on February 3, 1913, grants congress the authority to issue an income tax without having to determine it based on population.





# LIMITS

**Certain taxes are prohibited or limited in the constitution**

- **The purpose of a tax must be for “the common defense and general welfare”**
- **Federal taxes must be the same in every state.**
- **The government may not tax exports.**



# IMPACT OF TAXES

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Types of taxes impact people differently depending on their income.

- Proportional Tax
- Progressive Tax
- Regressive Tax





# PROPORTIONAL TAX

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A tax that takes the same percentage of income from the wealthy and poor.

Example: 20% Proportional or “flat” tax for everyone

A person who makes \$2,000 pays \$400 in taxes and takes home \$1,600

A person who makes \$20,000 pays \$4,000 in taxes and takes home \$16,000

A person who make \$200,000 pays \$40,000 in taxes and takes home \$160,000

What are the arguments FOR and AGAINST a proportional tax?



# PROPORTIONAL TAX

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**Argument for?** Everyone is equal and contributes the same.

**Argument against?** The wealthy can afford to give more. The less financially fortunate would feel the tax in a more substantial way.



# PROGRESSIVE TAX

Tax designed to take a larger percentage of income from the wealthy than the poor.

Examples:

- A person making \$20,000 pays 10% income tax (\$2,000). Their after-tax income will be \$18,000
- A person making \$200,000 pays 30% income tax (\$60,000). Their after-tax income will be \$140,000

What are the arguments FOR and Against a progressive tax?



# PROGRESSIVE TAX

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**Argument for?** The wealthy can afford to pay more tax and should therefore pay a higher tax rate.

**Argument against?** The wealthy should not be penalized for making more money with a higher tax rate.



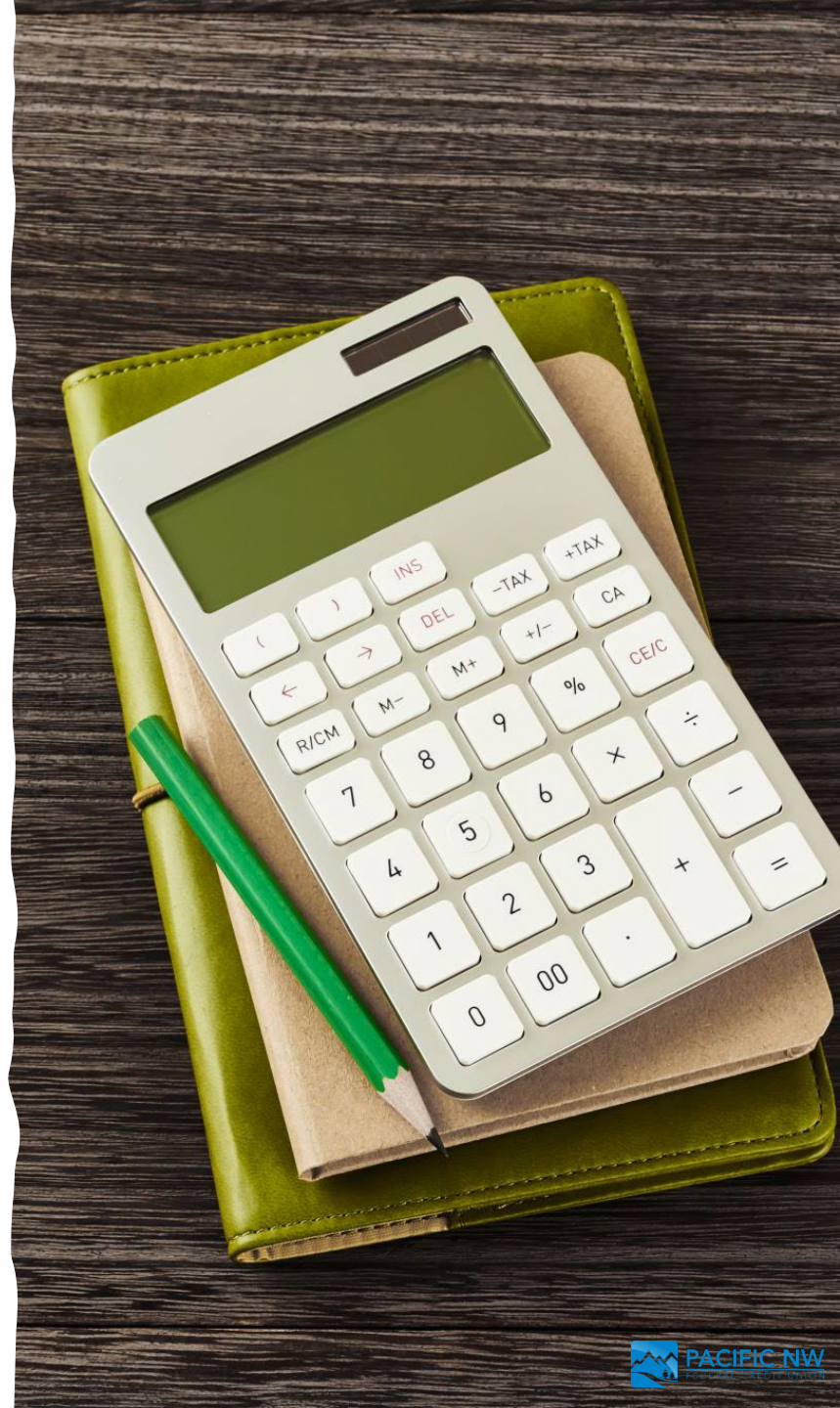
# REGRESSIVE TAX

A tax that takes a higher percentage of income from the poor than the rich.

Example: Sales Tax

- Two people buy a \$20,000 car. They both pay \$1,600 in sales tax.
- The first person makes \$30,000. The sales tax is 5.3% of their income. They have \$28,400 left after paying the tax.
- The second person makes \$100,000. The sales tax is 1.6% of their income. They have \$98,000 left after paying the tax.

What are arguments FOR and AGAINST a regressive tax?





# REGRESSIVE TAX

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**Argument for?** Since the tax is tied to purchases, a person will only pay tax on what they purchase, and they shouldn't purchase things they can't afford.

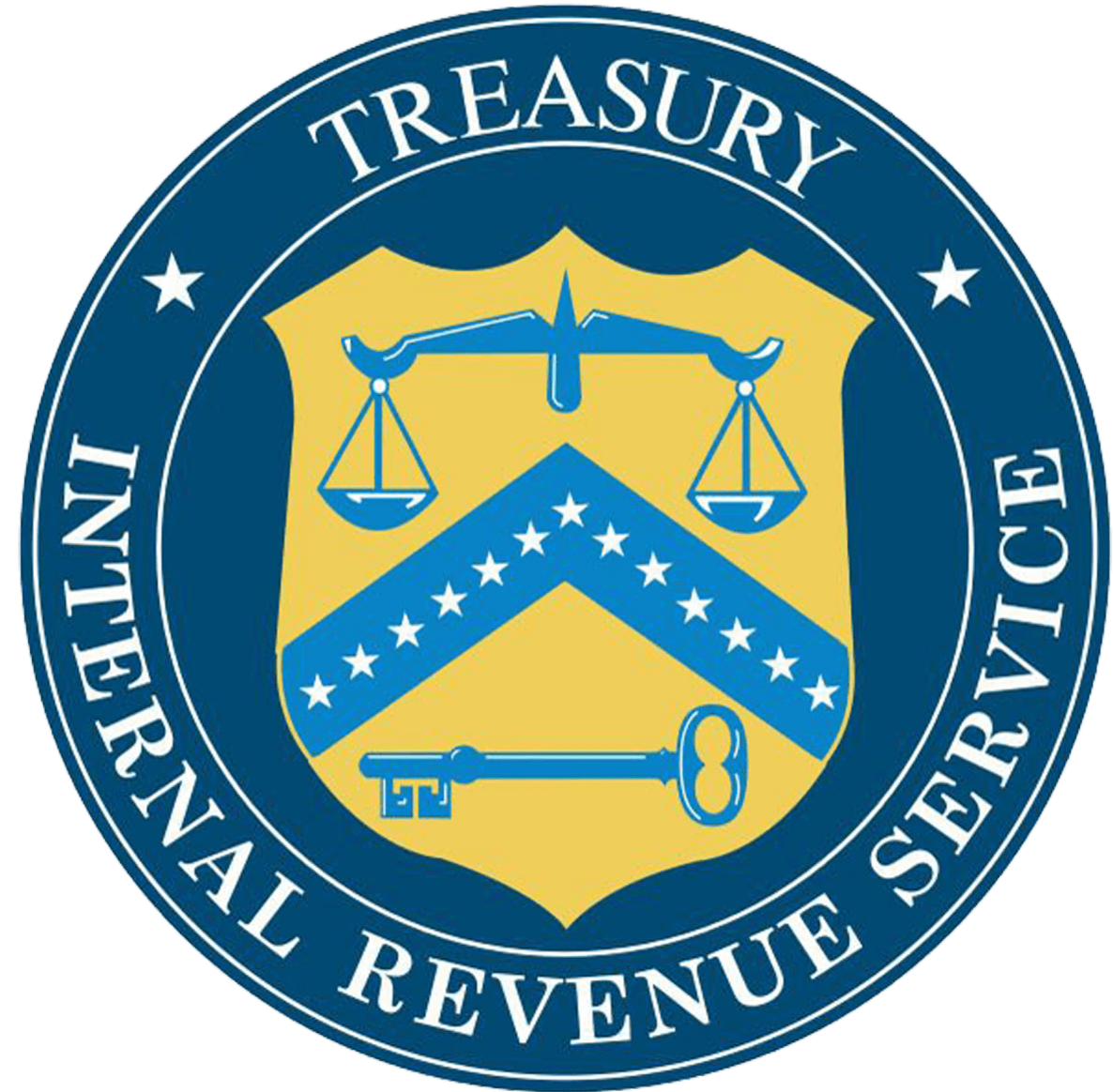
**Argument against?** The tax harms those who can least afford it.



# FEDERAL INCOME TAX

**Pay-as-you-earn taxation:** Federal income taxes are collected throughout the course of the year as tax payers earn income.

**Tax Withholding:** Employers take tax payments out of employees paycheck before they receive it so each individual does not have to save to pay taxes at the end of the year. Often the withholding is greater than the tax owed. In which case the employee will get a refund at the end of the year.





# FEDERAL INCOME TAX - TAX BRACKETS

The federal income tax is a Progressive Tax. In 2023 there were 7 tax brackets.

Tax Rate	Single	Head of Household	Married Filing Jointly or Qualifying Widow	Married filing separately
10%	\$0-\$11,000	\$0-\$15,700	\$0-\$22,000	\$0-\$11,000
12%	\$11,001-\$44,725	\$15,701-\$59,850	\$22,001-\$89,450	\$11,001-\$44,725
22%	\$44,726-\$95,375	\$59,851-\$95,350	\$89,451-\$190,750	\$44,726-\$95,375
24%	\$95,376-\$182,100	\$95,351-\$182,100	\$190,751-\$364,200	\$95,376-\$182,100
32%	\$182,101-\$231,250	\$182,101-\$231,250	\$364,201-\$462,500	\$182,101-\$231,250
35%	\$231,251-\$578,125	\$231,251-\$578,100	\$462,501-\$693,750	\$231,251-\$346,875
37%	\$578,126 or more	\$578,100 or more	\$693,751 or more	\$346,876 or more

# FEDERAL TAX RETURNS

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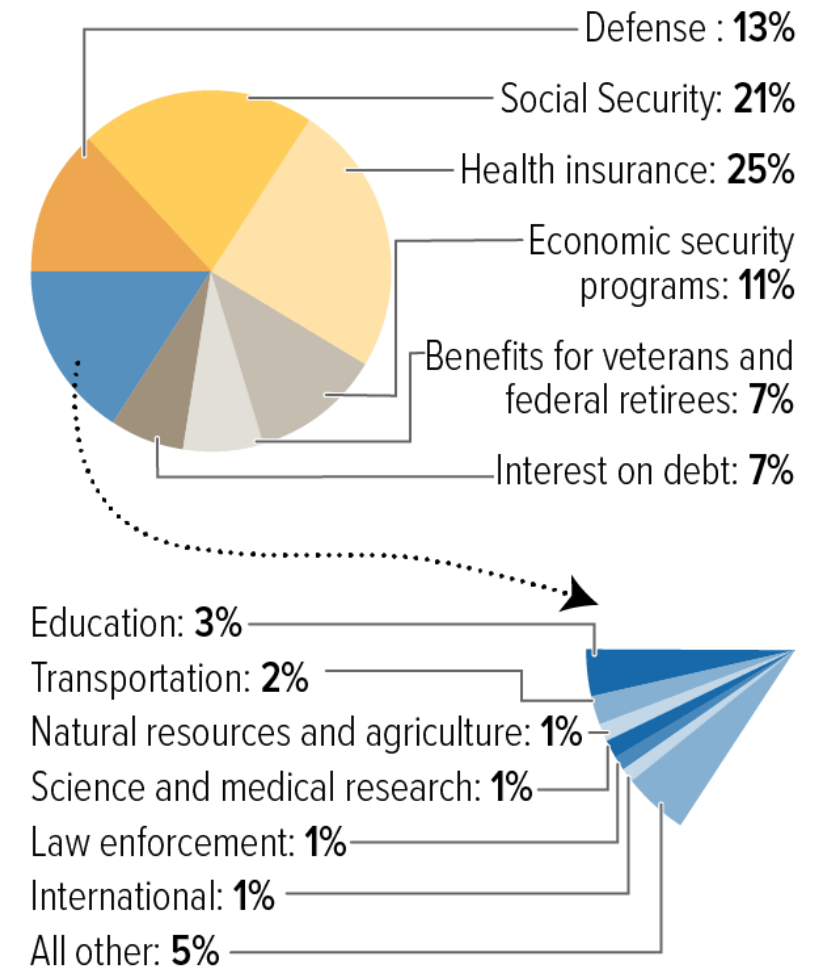
- At the end of the year employers give employees a report showing how much they withheld in taxes.
- Earners then file a tax return with information about their wages that year. Deduction and exemptions are taken into account and the amount of tax that should have been paid is adjusted.
- If you paid too much you get a refund. If you paid too little you must pay the remaining balance.
- All tax returns must be filed by April 15<sup>th</sup>.





# WHERE DO MY TAXES GO?

## Most of the Budget Goes Toward Defense, Social Security, and Major Health Programs



Note: Percentages do not add to 100 percent due to rounding.

Source: 2022 figures from the Congressional Budget Office, May 25, 2022

<https://www.cbpp.org/research/federal-budget/where-do-our-federal-tax-dollars-go>

# STATE AND LOCAL TAXES

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We pay state taxes to cover the needs of

- The state of Oregon
- Multnomah County
- The city of Portland
- Portland Public Schools

These taxes pay for services within the state, county, city and school district.





# STATE TAXES

- Sales Tax: Tax on goods sold within the state
- Excise Tax: Tax on specific items. Examples include cigarettes, alcohol, or gasoline. This tax is also known as the “Sin Tax.”
- State Income Tax: Earnings of people living in the state are taxed.
- Corporate Income Tax: Corporations in the state are taxed.

**Interesting Fact:** Oregon is one of five states without a sales tax. Can anyone name the other four states that also have no sales tax?



# THE OTHER FOUR STATES ARE....

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Alaska

Delaware

Montana

New Hampshire





# HOW OREGON SPENDS TAXES

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Go to the link below. Click through different areas of spending that interest you. You might be surprised what departments get a large budget and what areas of spending get a smaller budget.

<https://www.oregon.gov/transparency/pages/revenue.aspx>

One thing that is clear?

It takes a LOT of money and departments to run a state!



# QUESTIONS?

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