Ch. 9: Impacts of Taxes
1. Effects on Behavior
2. Resource Allocation
3. Productivity

Behavior Inspires
1. Get Married
2. Have Kids
3. Buy a House
4. Go to College

Discourages
- Tax designed to stop you from doing something
Ex: Alcohol + Tobacco

Resource Allocation
Taxes decrease supply
Causes prices to increase
Buy less stuff

Incidence of Tax
- Who actually faces the final burden of the tax.

3 Types of Taxes, Define, Ex
1. Progressive: As income increases, % tax increases
Ex: Income Tax
2. Regressive: The lower income you make, the more
it hurts you
Ex: Sales Tax
3. Proportional
   - everyone pays the same %
   Ex: Flat Tax, Corporate Tax

<table>
<thead>
<tr>
<th>Income</th>
<th>Amount of tax</th>
<th>% Income</th>
</tr>
</thead>
<tbody>
<tr>
<td>75,000</td>
<td>6,250</td>
<td>15</td>
</tr>
<tr>
<td>120,000</td>
<td>15,000</td>
<td>33</td>
</tr>
<tr>
<td>500,000</td>
<td>15,000</td>
<td>50</td>
</tr>
</tbody>
</table>

16th Amendment

FICA: Federal Insurance Contribution Act
   pays for employees of S.S. and Medicare

Social Security
   - Federal Retirement

2 Principles of Taxation

1. Ability to Pay Principle: The more money you have, the more taxes you should pay

2. Benefit Principle
   - the more govt. services you use, the more taxes you should pay
   Ex: Gas
Ch. 9 Study Guide

Fiscal Policy
Taxes + Gov Spending
Determined by Congress + President

Impacts of Taxes
1. Behavior Adjustment
2. Resource Allocation
3. Productivity

Behavior Adjustments
- Encourage
  1. Get Married
  2. Go to College
  3. Have Kids
  4. Buy a House

- Discourage
  Sin Tax
  - A tax designed to stop you from doing something
  Ex: Tobacco + Alcohol

Resource Allocation
Taxes decrease Supply
This increases prices
Which means people buy less stuff.

Incidence of Tax
- Who faces the final burden of the tax
  1. 4 (Vertical Distance between Supply Curves)
  2. 3 (Difference between Pe’s)
  3. 1 (Total Tax - What Consumers paid)
  4. 80 (Total Tax X Q with tax in place)
3 Types of Taxes, Define, Ex

1. Progressive: As income inc, % taxed increases
   Ex: Federal Income Tax

2. Regressive: The less money you make, the more this tax hurts you. Ex: Sales Tax

3. Proportional: Same % of Income
   Ex: Flat Tax, Corporate Tax

Income | Annual Tax | % of Income
50,000 | 10,000 | 20%
100,000 | 25,000 | 25%
150,000 | 35,000 | 23%

16th Amendment

FICA: pay for Social Security & Medicare

Federal Retirement

Federal: Income

State: Sales

Local: Property Tax, Amusement