

## Federal Taxes

Taxes are a complex subject and this document focuses only on the Federal Tax System. Think of the Federal Tax System as an animal you are keeping. The bigger the animal the more it eats and craps.

Over time, Republicans came to view the elephant emblem as a sign of strength and intelligence, while their opponents portrayed it as a timid and clumsy behemoth. Democrats seized the "jackass" label, and transformed it into a clever and courageous donkey. As is still true today, it's all in the spin

Liberals wants a bigger Federal Government than Conservatives. The more God is removed from Government the bigger Government becomes.

Remember once a camel's nose is under the tent, it is not long before the entire body of the camel is under the tent!

All taxes are divided between individuals and business. Business's like GE did not pay any Federal Income Tax at all. All businesses has more write offs than individuals. The larger the business the more power it has over Congress or people in Congress. Some businesses hide their income by supporting foreign governments. The focus is not what is best for the USA but what is best for the company.

It is common that members of Congress hire tax layers to do their taxes. This is a sign that our tax system is too complex. The 'fat tax' or 'consumption tax' will take care of the problem of the tax system being too complex and controlling. Control is more important for most members in Congress. That is why there are so many 'loop holes' in our current tax system.

This document explains the functions of the categories used to collect and spend Federal Tax Dollars:

- Federal Government – Responsible for receiving and spending tax dollars. The saying, "Congress should eat their own dog food" comes to mind. Congress owns the IRS and is directed by the President.
- IRS - The collection arm of the Federal Government.
- Taxpayers pay taxes to the Federal Government.
- Companies like Turbo Tax, H & R Block, etc support the Taxpayers.

All disputes over taxes are handled by the IRS and Taxpayer. Final disputes are handled by the Tax Court (if it goes that far).

Your tax bracket is the rate you pay on the "last dollar" you earn; but as a percentage of your income, your tax rate is generally less than that. First, here are the tax rates and the income ranges where they apply: Remember that deductions and exemptions are not included in this tax.

Tax Year: 2011

Filing Status: Married filing jointly

| <u>If your taxable income is between</u> | <u>your tax bracket is:</u> |
|--|-----------------------------|
| • 0 and \$17,000                         | 10%                         |
| • \$17,000 and \$69,000                  | 15%                         |
| • \$69,000 and \$139,350                 | 25%                         |
| • \$139,350 and \$212,300                | 28%                         |
| • \$212,300 and 379,150                  | 33%                         |
| • \$379,150 and above                    | 35%                         |

Top earners are the target for new tax increases, but the U.S. tax system is already highly progressive. The top 1 percent of income earners paid 38 percent of all federal income taxes in 2008, while the bottom 50 percent paid only 3 percent. Forty-nine percent of U.S. households paid no federal income tax at all.

Total means-tested welfare spending (cash, food, housing, medical care, and social services for the poor) has increased 17-fold since the beginning of Lyndon Johnson's War on Poverty in 1964. Though the current trend is unsustainable, the Obama Administration plans to increase future welfare spending rather than enact true policy reforms.

When federal spending grows faster than Americans' paychecks, the burden on taxpayers becomes greater. Over the past few decades, middle-income Americans' earnings have risen only 27 percent, while spending has increased 299 percent.

Is Congress not getting enough tax dollars or are they spending too much money? The best question is how Congress is spending your money. People only pay what is required to pay. Control of the people is what Congress is after not tax revenue. Buying votes and class warfare is common for most members in Congress.

Remember Al Capone was incarcerated for income tax evasion not criminal activities.

The main driver behind long-term deficits is government spending—not low revenues. While revenue will surpass its historical average of GDP by 2021, spending will shoot past its historical average of GDP in the same year.

The federal government collects taxes in order to finance various public services. As policymakers and citizens weigh key decisions about revenues and expenditures, it is instructive to examine what the government does with the money it collects.

In fiscal year 2010, the federal government spent \$3.5 trillion, amounting to 24 percent of the nation's Gross Domestic Product (GDP). While the level of 2010 expenditures — as a share of GDP — exceeds those of recent years, the composition of the budget largely resembles the patterns of recent years. Of that \$3.5 trillion, almost \$2.2 trillion was financed by federal tax revenues. The remaining \$1.3 trillion was financed by borrowing; this deficit will ultimately be paid for by future taxpayers.

### *The Tax System explained in beers:*

Suppose that every day, ten men go out for beer and the bill for all ten comes to \$100...

If they paid their bill the way we pay our taxes, it would go something like this...

- The first four men (the poorest) would pay nothing.
- The fifth would pay \$1.
- The sixth would pay \$3.
- The seventh would pay \$7.
- The eighth would pay \$12.
- The ninth would pay \$18.
- The tenth man (the richest) would pay \$59.

So, that's what they decided to do.

The ten men drank in the bar every day and seemed quite happy with the arrangement, until one day, the owner threw them a curve ball. "Since you are all such good customers," he said, "I'm going to reduce the cost of your daily beer by \$20". Drinks for the ten men would now cost just \$80.

The group still wanted to pay their bill the way we pay our taxes. So the first four men were unaffected. They would still drink for free. But what about the other six men? The paying customers? How could they divide the \$20 windfall so that everyone would get his fair share?

They realized that \$20 divided by six is \$3.33. But if they subtracted that from everybody's share, then the fifth man and the sixth man would each end up being paid to drink his beer.

So, the bar owner suggested that it would be fair to reduce each man's bill by a higher percentage the poorer he was, to follow the principle of the tax system they had been using, and he proceeded to work out the amounts he suggested that each should now pay.

- And so the fifth man, like the first four, now paid nothing (100% saving).
- The sixth now paid \$2 instead of \$3 (33% saving).
- The seventh now paid \$5 instead of \$7 (28% saving).
- The eighth now paid \$9 instead of \$12 (25% saving).
- The ninth now paid \$14 instead of \$18 (22% saving).
- The tenth now paid \$49 instead of \$59 (16% saving).

Each of the six was better off than before. And the first four continued to drink for free. But, once outside the bar, the men began to compare their savings.

"I only got a dollar out of the \$20 saving," declared the sixth man. He pointed to the tenth man, "but he got \$10!"

"Yeah, that's right," exclaimed the fifth man. "I only saved a dollar too. It's unfair that he got ten times more benefit than me!"

"That's true!" shouted the seventh man. "Why should he get \$10 back, when I got only \$2? The wealthy get all the breaks!"

"Wait a minute," yelled the first four men in unison, "we didn't get anything at all. This new tax system exploits the poor!"

The nine men surrounded the tenth and beat him up.

The next night the tenth man didn't show up for drinks, so the nine sat down and had their beers without him. But when it came time to pay the bill, they discovered something important. They didn't have enough money between all of them for even half of the bill!

And that, boys and girls, journalists and government ministers, is how our tax system works. The people who already pay the highest taxes will naturally get the most benefit from a tax reduction. Tax them too much, attack them for being wealthy, and they just may not show up anymore. In fact, they might start drinking overseas, where the atmosphere is somewhat friendlier.

The taxation system that you are ranting against is used widely throughout the world and is built to mitigate the negative effect to the poor, middle class, and rich people. It has been the source of political and economic stability for decades, and has allowed the poor to survive, the middle class to thrive, and the rich to get richer.

So my point is being really careful about what you wish for because you might get it.

**Q: What's the percentage breakdown of the government's tax revenue stream?**

**A: Nearly half of federal revenue came from income taxes on individuals last year, and another one-third came from social insurance taxes, mainly for Social Security.**

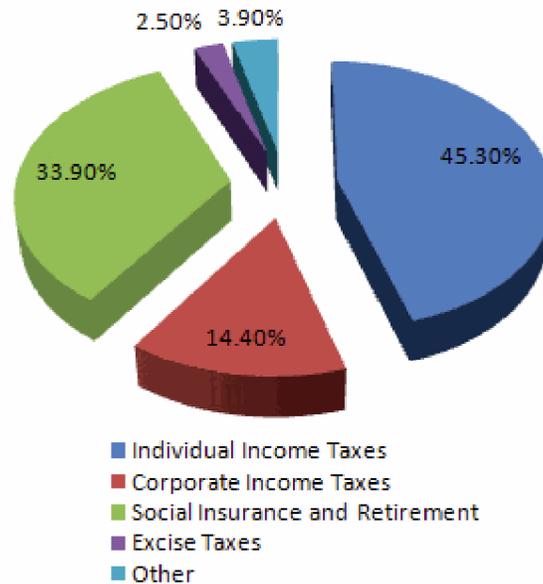
## **FULL QUESTION**

What percentage of all taxes collected are capital gains tax, corporate taxes, fees & tariffs (such as gas taxes), and personal income (less capital gains taxes)?

## **FULL ANSWER**

A breakdown comes from The White House Office of Management and Budget, which shows that in fiscal 2007 (the 12 months ending last Sept. 30) receipts from individual income taxes accounted for 45.3 percent of the government's total tax revenues, while receipts from social insurance and retirement taxes made up 33.9 percent and corporate income taxes 14.4 percent. Most of the social insurance and retirement taxes (94 percent of them) are Social Security and Medicare receipts; the category also includes unemployment insurance and Railroad Retirement. Excise taxes, which would include the gasoline tax our reader asked about, made up 2.5 percent of all receipts and 3.9 percent came from other sources. OMB's "other" category includes estate and gift taxes, and customs duties and fees.

## Percent Composition of Tax Receipts by Source (Fiscal 2007)



Source: The White House Office of Management and Budget

Capital gains taxes are included in income tax revenue, and the OMB doesn't give a breakdown for that. According to a 2002 Congressional Budget Office report, capital gains taxes "normally make up about 4 percent to 7 percent of individual income tax revenues" and are usually 2 percent to 3 percent of total federal tax revenues. The CBO notes that capital gains tax receipts are apt to fluctuate. The vast majority of taxpayers don't pay them, however: As we said in a previous Ask FactCheck, only 13 percent of income tax returns in 2006 included capital gains income, according to the IRS.

Mike