



We the Taxpayers

Resource

Lesson 2 – The Taxes We Pay Video Script

Chances are, if you've ever gotten a paycheck, you've noticed that there is always some money taken out of it for taxes. Exactly how much money is taken out depends: on where you live, how much you're earning, who is in your household, and all kinds of other factors - but having some share of our paycheck go towards taxes is an experience that most of us have in common. This really is one of the most direct ways that we—the people—are connected to everyone else and to our society at large.

But what are those taxes coming out of our paychecks exactly? Well, probably the most talked about one is the federal income tax. Our federal income tax system is basically progressive—meaning that the higher your income, the greater rate, or percent, of that income will be paid in taxes. For example, people in our lowest tax bracket pay a rate of 10%, while those making more than \$400,000 pay a rate of 39.6%. This doesn't mean that someone making above \$400,000 has all of their income taxed at 39.6%—only their income above 400,000 is taxed at that rate. Depending on where you live, you might also have state and local taxes taken out of your paycheck as well. It's usually these state and local income taxes that are flatter, or less progressive, than federal income taxes.

You've also probably noticed that in addition to what we just talked about, there are other types of taxes deducted from your paycheck as well. These are sometimes referred to as FICA taxes—which just means that this money goes to support Social Security and Medicare. A total of 12.4% of earned income goes to support Social Security and 2.9% goes to support Medicare, but as an employee you only pay half of this rate and your employer pays the other half. FICA taxes apply to only the first \$113,000 of earned income, and, unlike the federal income tax, these rates are pretty flat, meaning that those making minimum wage pay the exact same rate as those making \$100,000.

Now that we've covered what comes out of our paycheck, it's important to note that not all income is treated the same. If for example, you earn a little money from investments like stocks and bonds, you're receiving "capital gains." Most capital gains income under about \$400,000 is taxed at a rate of 15%, and at 20% for income above \$400,000. Many wealthy people get a lot of their total income, and maybe even a majority of their income, through capital gains and investments. This means that some people with very high incomes are effectively paying a lower rate than people with much less income.

Which reminds me, people aren't the only ones that pay income taxes. Corporations do too. Currently, the official corporate tax rate is 35%. But many corporations don't actually pay this rate, because of different tax breaks and loopholes.

Although it may be the moment we're most aware of it, payday isn't the only time we experience the tax code in our daily lives. Another way we experience it is through the sales tax. We pay a sales tax on most things we buy—our groceries, food in restaurants, books and movies . . . When we are making really small



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purchases, we might not even notice it, but even a sales tax of only a few percent can mean hundreds or even thousands of dollars when we make big purchases, like when we buy new electronics or cars. Sales taxes are considered regressive, the opposite of progressive. This means that people with lower incomes actually pay a higher percentage of that income in sales tax than those with higher incomes do. For example, if Jack makes \$500/week and Molly makes \$2,000 a week and they each buy \$100 worth of groceries, they'll both pay a 7% sales tax of \$7. That \$7 is a greater percent of Jack's income than Molly's. That may not seem like a lot, but if you think about all the different things we pay sales tax on, even just our necessities, that can really add up.

Sometimes, different levels of government will pass additional taxes to try and influence behavior or to pay for certain things that governments help provide. For example, as a way of trying to discourage their use, states place a tax on cigarettes and alcohol. Special gasoline taxes or money from toll roads will be used to build and maintain roads and bridges, and property taxes are used to help fund public schools.

Clearly, with what we pay in taxes shaping so many different aspects of our lives, it's critical for us to think about what our faith asks of us. Now, we may not have any specific teachings about how best to tax investment income, or what we should exempt from a sales tax, but we can have conversations about how to model who-pays-what after the teachings of our traditions, so that what we pay in taxes brings us closer to a more just world.