

Chapter 2-Income, Benefits and Taxes

Section 2-2-Unearned Income and Payments

Unearned Income

- Money received from sources other than working in a job.
 - Sources:
 - **Interest**-money earned on savings accounts and other funds
 - **Dividends**-portion of a corporation's profits distributed to stockholders
 - **Stockholders**-people who buy stocks in a corporation
 - **Cash dividend**-payment is money shared with stockholders when a corporation makes a profit.
 - **Variable income**-money received from some type of other activity other than working under the direct control of another person or company
 - **Royalties**-payments for the use of copyrighted material
 - **Rent**-money collected from rental properties

Government Transfer Payments

- Transfer payments-money and benefits received from local, state or federal governments
 - Examples: Medicaid, Social Security, Medicare, Veteran's benefits
 - Transfer payments increase the disposable income of those who receive them

Taxes

- Money paid to the government at the federal, state and local levels
 - Based on consumption, income and wealth
 - **Direct taxes**-taxes that the consumer pays directly to the government
 - **Indirect taxes**-taxes that are charged on goods or services bought by the consumer.

Taxes (continued)

- **Use taxes**-paid by people who use certain goods or services provided by the government
 - Examples: Visitors to a state or national park pay entry fee
- **Excise taxes**-charged on specific goods and services
 - Examples: gasoline, phone services, utilities
 - Tax included in the price of product or service
 - Help pay for government goods and services (roads, police protection)
 - Luxury Tax-tax on a product not considered essential for a normal standard of living

Taxes (continued)

- Sales Taxes-taxes levied on consumer purchases of goods and services
 - Examples: clothing, appliances, food eaten at restaurants
 - Typically, medical services and prescriptions are not taxed
 - **Regressive Tax**-because these taxes take a larger percentage of income from lower-income people than higher-income

Taxes (continued)

- Taxes based on income:
 - **Income Tax**- a direct tax paid directly to the government
 - **Progressive tax**-the more you earn the more you pay
- Taxes based on wealth:
 - **Property tax**-paid by those who own real estate
 - **Estate tax**-taxes paid on the estate of a person who has died (federal tax)
 - **Inheritance tax**-taxes paid by the people who inherit money (state tax)
 - **Gift tax**-paid by people who gift more than \$13,000 to any person within a tax year

Benefits from Paying Taxes

- Direct Benefits: benefits received directly by a person paying taxes
 - Examples-social security, Medicare
- **Public goods:** goods and services paid for by taxes
 - Examples: national defense, police protection, national parks, roads, highways, public education
- **Indirect Benefits:** benefits that you received indirectly because others receive direct benefits from the government
- Examples:
 - Free vaccinations- you are protected from the spread of illness
 - Free education-produces a higher quality workforce—giving better products and services