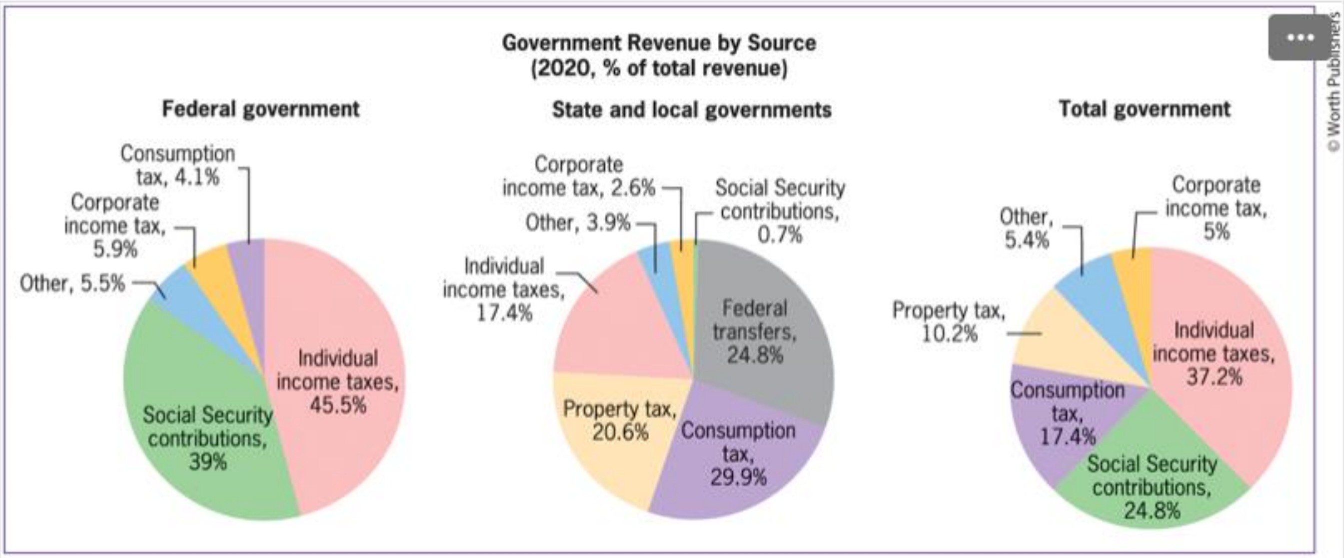

FIGURE 18-1 Government Revenue by Source • More than four-fifths of the federal government's revenue comes from individual income taxation (income and payroll taxes). For state and local governments, revenue is more evenly split among taxes on wealth (property), consumption, individual income, and federal transfers. In total, U.S. governments receive about three-fifths of their revenue from individual income taxes and payroll taxes.

Data from: Bureau of Economic Analysis (2021a), Tables 3.1–3.3.

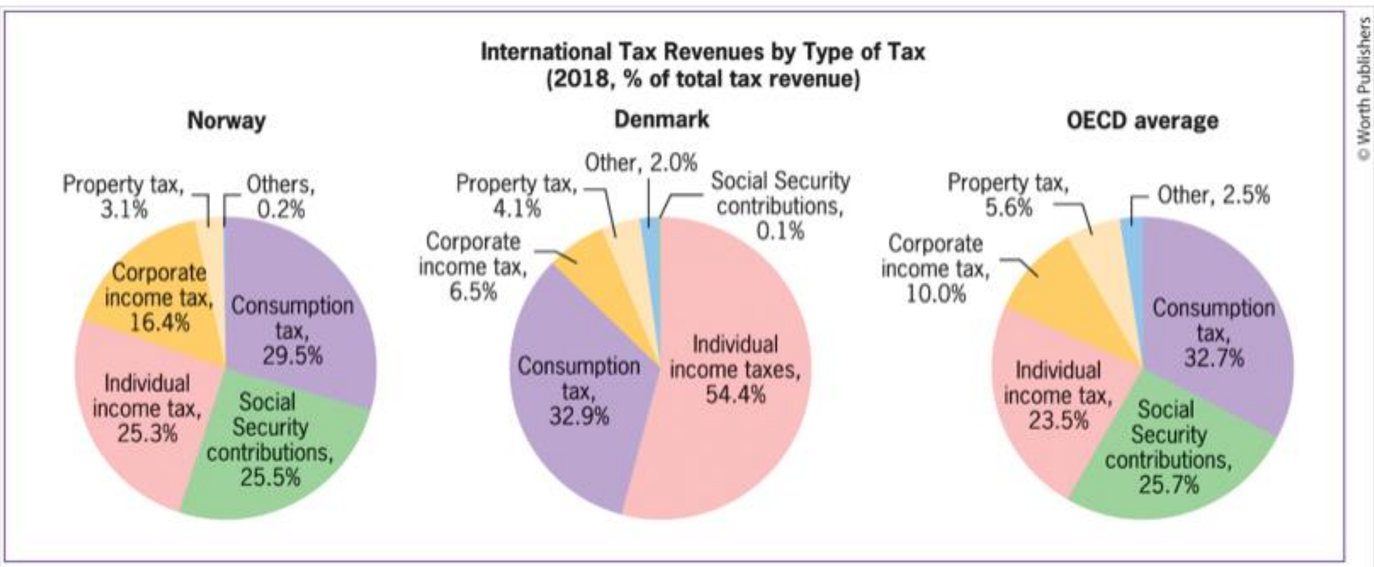

FIGURE 18-2 International Tax Revenues by Type of Tax • Consumption taxes provide a greater portion of national government revenue in all OECD countries than in the United States.

Data from: Organization for Economic Cooperation and Development (2020).

TABLE 18-1 Computing Jack's Income Tax

Gross income	$85,000
−Deductions	−2,000
=Adjusted gross income (AGI)	=83,000
−Exemptions	−0
−Standard (or itemized) deduction	−24,800
=Taxable income	−58,200
↓ Use income tax schedule (Figure 18-3)	↓
=Taxes owed	=6,589
−Credits	−6,000
=Total tax payment	=589
−Withholding	−2,000
=Final payment (refund) due	−$1,411

Jack has gross income of $85,000, from which he subtracts some deductions to get adjusted gross income (AGI). From AGI, he subtracts his family exemptions and either the standard deduction or itemized deductions (Jack chooses the former), yielding taxable income. A tax schedule is applied to determine taxes owed, and tax credits are then subtracted to arrive at the final tax payment.

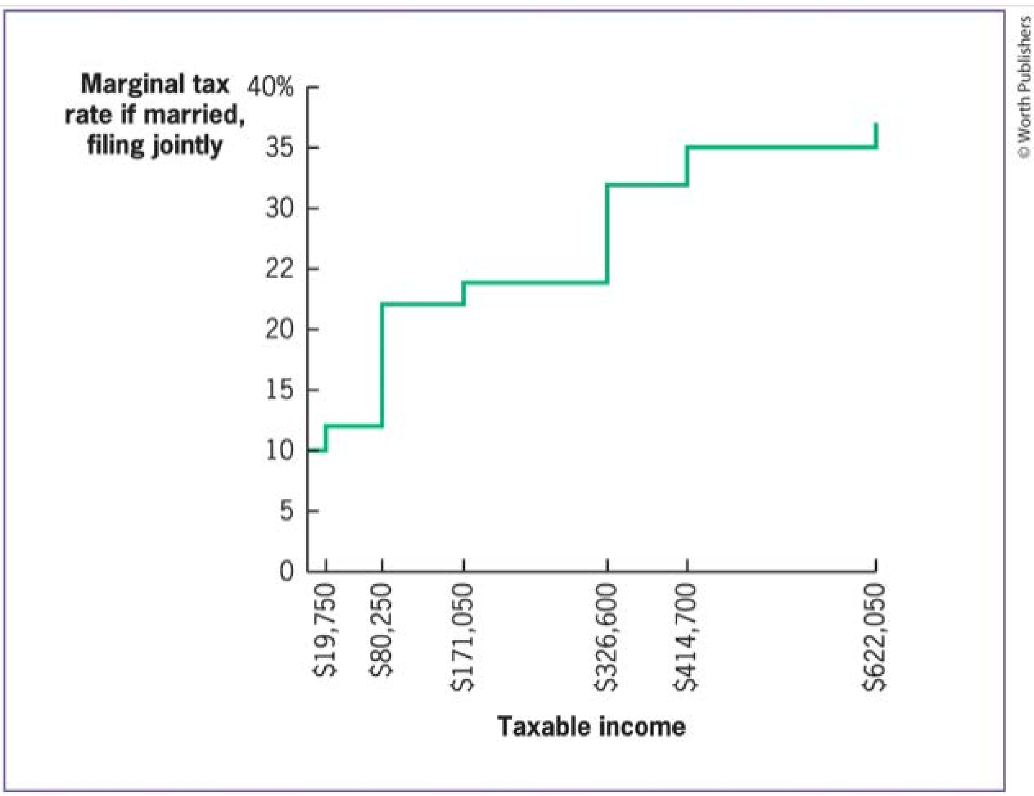

FIGURE 18-3 U.S. Federal Income Tax Rate Schedule, 2020 • In 2020, the tax rate on the next dollar of taxable income varied from 10% on married couples with taxable incomes below $19,750 to 37% on those with taxable incomes above $622,050.

Data from: IRS https://www.irs.gov/statistics.

TABLE 18-2 Selected Major Tax Expenditures for 2020

Fifteen largest income tax expenditures for 2020 (only includes corporate and individual income tax, not payroll or other taxes)

Tax Expenditure	**Amount (in millions) 2020**
Exclusion of employer contributions for medical insurance premiums	$214,420
Exclusion of net imputed rental income	125,990
Capital gains (except agriculture, timber, iron ore, and coal)	104,920
Defined contribution employer plans	83,520
Child credit	75,770
Defined benefit employer plans	73,831
Allow 20% deduction to certain pass-through income	53,132
Step-up basis of capital gains at death	51,750
Capital gains exclusion on home sales	45,750
Accelerated depreciation of machinery and equipment (normal tax method)	43,460
Reduced tax rate on active income of controlled	40,000
Deductibility of charitable contributions, other than education and health	39,540
Treatment of qualified dividends	31,530
Social Security benefits for retired and disabled workers and spouses, dependents, and survivors	30,900
Deductibility of mortgage interest on owner-occupied homes	27,090
Subtotal	**$1,041,603**
Total income tax expenditures, effect on federal government receipts	**$1,383,242**

Data from: U.S. Department of the Treasury (2021a).

In 2020, the government lost more than $1.3 trillion in revenue because of various exclusions and credits in the tax code. The largest such tax expenditures are shown here; the most important tax exclusions are those that favor employer contributions to health insurance and net imputed rental income.

TABLE 18-3 The Impact of Marriage on Tax Liabilities

	Individual Income	Total Family Income	Individual Tax	Family Tax with Individual Filing	Family Tax with Total Family Income
Yasmin **Doug**	$140,000 10,000	$150,000	$32,000 1,000	$33,000	$35,000
Jan **Elena**	75,000 75,000	150,000	13,000 13,000	26,000	35,000

A progressive tax system that is based on the individual incomes of each person in a married couple leads Yasmin and Doug to pay a much higher tax ($33,000) than Jan and Elena ($26,000), despite having the same family income ($150,000). On the other hand, a progressive tax system based on total family income imposes a “marriage tax” on both couples, as they both pay more in tax as married couples ($35,000) than they would as singles.