

Taxes Basics

Why do we pay taxes?

We pay taxes because federal and state governments need revenue to support infrastructure and public services. State and federal tax systems are also called *revenue systems*, because they pay for the building blocks of our communities.

Tax revenue pays for national and local government services such as building and repairing roads, highways, and bridges, and funding schools, libraries and parks. In the United States, most of our federal income tax dollars go towards Social Security, health programs like Medicare and Medicaid, the defense budget, interest on the national debt, and other social safety net programs such as SNAP benefits, school meals, and housing and childcare assistance. One study suggested that federal social safety net programs kept 37 million Americans out of poverty in 2018.¹¹⁵

There are three categories of taxes:

1. Taxes that apply to consumption: sales tax for goods and services.
2. Taxes that apply to what people earn: income and payroll taxes.
3. Taxes that apply to what people own: property and estate taxes.¹¹⁶

We will be focusing on income and payroll taxes in this section.

State & Federal Taxes

Federal income taxes are collected by the federal government each year to pay for various government programs, while state taxes are collected by certain state governments to fund state-specific services and bills.

Taxes vary by state: some states have flat tax systems (all income levels are taxed at the same rate), some have progressive tax systems (different income brackets are taxed at different rates, with higher incomes being taxed more), and some do not have a state income tax at all. Federal income taxes are progressive.

¹¹⁵ "Policy Basics: Where Do Our Federal Tax Dollars Go?" *Center on Budget and Policy Priorities*, April 9, 2020. <https://www.cbpp.org/research/federal-budget/where-do-our-federal-tax-dollars-go>

¹¹⁶ "Oregon Tax System: Explained." *Oregon Center for Public Policy*. Webinar, Oct. 28, 2021.