



# Personal Income Tax



# Personal Income Tax

- The U.S. **government regulates economic activity** and how governmental policies such as **taxes impact individuals**.
- **Taxes have an impact on consumer spending and unemployment.**

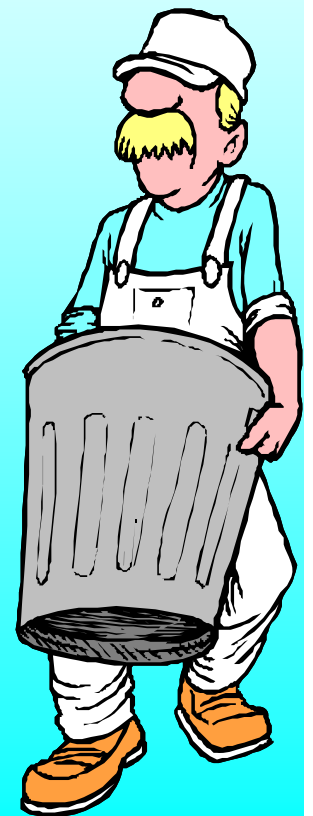


# INCOME TAX RATE REDUCTION: PROS



# Personal Income Tax

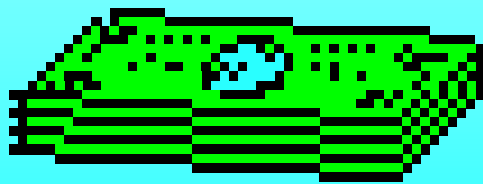
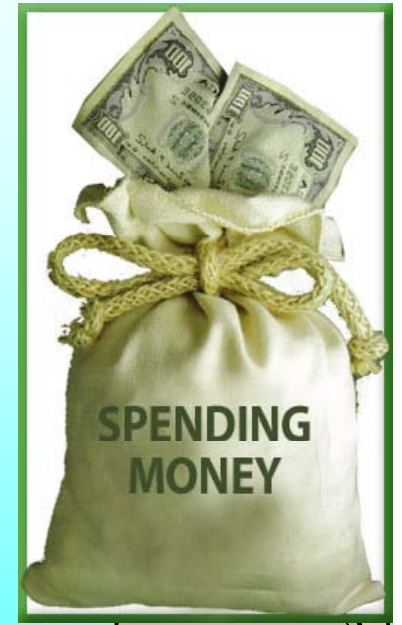
- By reducing personal income tax rates, the U.S. government can promote economic growth because lowered income tax rates generally mean that consumers have more money to spend on goods and services.





**What results would occur if the Government reduced personal income tax rates?**

**ANSWER: PEOPLE WOULD HAVE MORE MONEY TO SPEND.**



HOW CAN PERSONAL INCOME TAX RATE REDUCTION HELP THE ECONOMY?



INCREASED TV SALES PUT MORE PEOPLE TO WORK

More money available for consumer spending—can help to stimulate healthy economy

TAX REDUCTION ALLOWS COUPLE TO BUY NEW HOME



WORKER BUYS TV



WORKER HAS MORE SPENDING MONEY

NEW HOME SALES PUTS PEOPLE TO WORK



In order to stimulate the economy, the United States government lowers personal income tax rates. **Why would this action be expected to promote economic growth?**

- Consumers would have more money available to spend on goods and services



## 07 Question 39

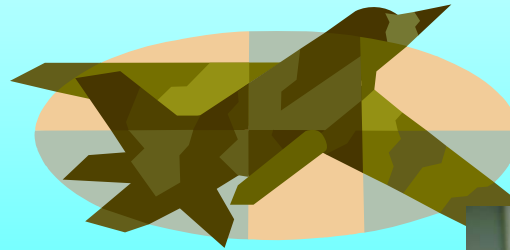
What would be the expected effect on spending by the public if the U.S. government **lowered personal income tax rates**? Explain your answer.

- **ANSWER:** If the U.S. government lowered personal income taxes, the public would have more disposable income. Because of this, the **public would probably spend more money.**



# INCOME TAX RATE REDUCTION: CONS

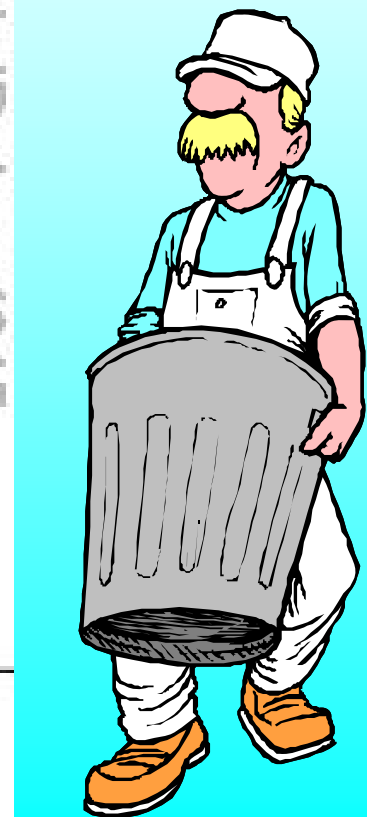
- **Government more likely to engage in deficit spending**
- **Less money available to manage government-run services; example services to the poor; military**
- **deficit spending**: the practice of spending funds in excess of income, esp. by a government



© Original Artist  
Reproduction rights obtainable from  
[www.CartoonStock.com](http://www.CartoonStock.com)

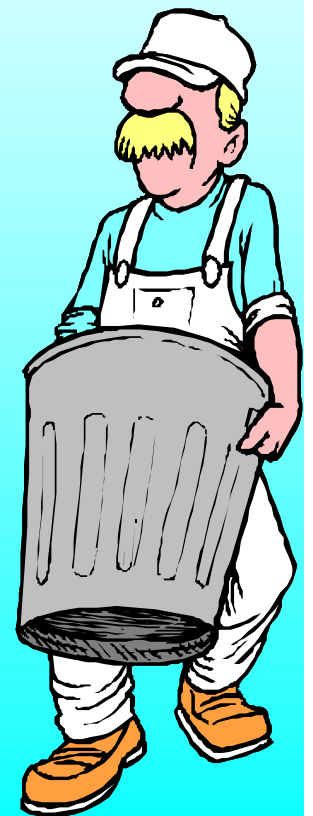


search ID: hsc4915



**deficit spending: How does the government spend money it does not have?**

- It borrows the money



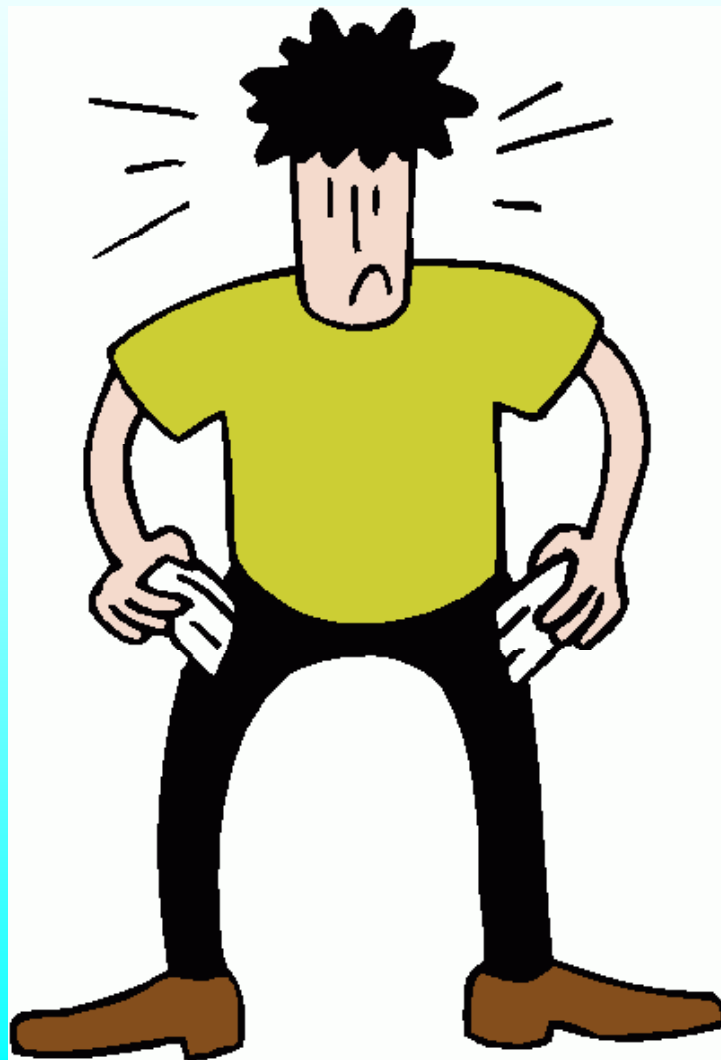
# INCOME TAX RATE

## INCREASE: CONS

- **Less money available for consumer spending—may contribute to unhealthy economy—shrinks the economy**



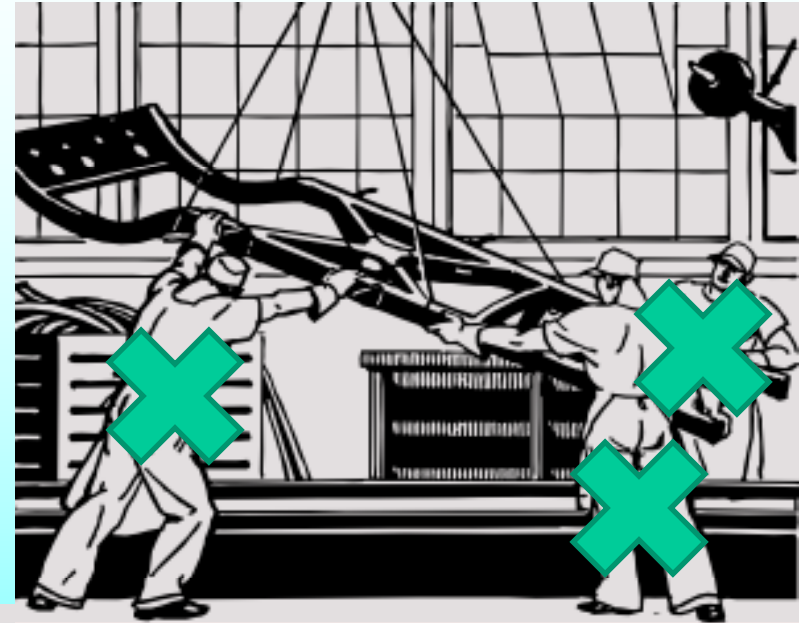
What would be the expected effect on consumer spending and on the unemployment rate if the United States government were to **increase personal income tax rates**?



If you do not have as much money to spend because the government has **increased personal income tax**, what will that do to businesses you once bought from?



- If people are not buying cars, what happens to the car industry?



If workers in the car industry are laid off and cannot spend much money, will it affect other businesses? Why

- Yes, because they stop purchasing or buying products that are made from other businesses.



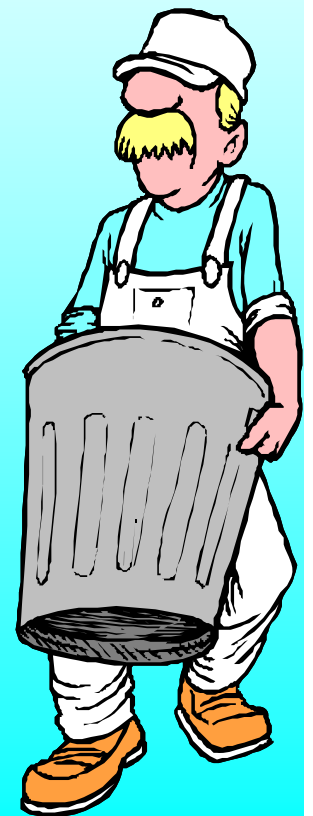
People who are laid off stop buying big ticketed items (items that cost a lot of money) such as flat screen TV's. This can affect people who make TV's.



## 09 Question 5 (chapter 6)

What would be the expected effect on consumer spending and on the unemployment rate if the United States government were to **increase personal income tax rates**?

- **If the U.S. government increased personal income tax rates, individuals would receive less money in each of their paychecks and therefore have less money to spend, which would decrease consumer spending. At the same time, an increase to the personal income tax and the resulting decrease in consumer spending would cause the unemployment rate to increase because companies would be receiving less revenues and investments (people spending less on consumer products), so they would not need as many workers.**



# Income Tax Rate Changes: Pros/Cons

## INCOME TAX RATE REDUCTION: PROS



- More money available for consumer spending—can help to stimulate healthy economy
- Business profits may increase—can help to stimulate healthy economy

## INCOME TAX RATE REDUCTION: CONS



- Government more likely to engage in deficit spending
- Less money available to manage government-run services; example services to the poor; military

## INCOME TAX RATE INCREASE: PROS



- More money available to manage government-run public services
- National debt could be reduced because of increased tax revenue.

## INCOME TAX RATE INCREASE: CONS



- Less money available for consumer spending—may contribute to unhealthy economy—shrinks the economy
- Business profits may decrease spending—may contribute to unhealthy economy; example companies may have to lay-off workers