



Section 1: Guided Reading and Review

What Are Taxes?

A. As You Read

As you read Section 1, supply the requested information in the spaces provided.
Explain what gives the government the power to collect taxes.

1. _____

List four ways in which the government's power to tax is limited.

2. Tax money can't go to an individual person
3. Federal tax must be the same in every state
4. Can't tax church services
5. Can't tax exports

List and define the three types of tax structures.

6. Proportional- the same percentage of income is taken in taxes as income increases
7. Progressive- a larger percentage of income is taken in taxes as income increases
8. Regressive- a smaller percentage of income is taken in taxes as income increases

List and define the characteristics of a good tax.

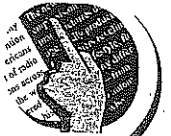
9. Simplicity- tax laws should be simple and easy to understand
10. Efficiency- should collect taxes without spending too much money and time
11. Certainty- should be clear when a taxpayer need to pay taxes
12. Equity- tax system should be fair

B. Reviewing Key Terms

Complete each sentence by writing the correct term in the blank provided.

13. The income, property, good, or service that is subject to tax is considered a tax base.
14. The incidence of a tax is the final burden of a tax.
15. Sales tax is a type of regressive tax.
16. With a proportional the percentage of income paid in taxes remains the same for all income levels.
17. Income tax is a type of progressive tax.
18. The income that government receives is called revenue.

Section 2: Guided Reading and Review Federal Taxes



A. As You Read

As you read Section 2, fill in supporting facts or details under each main idea by answering each question.

Main Idea: Individual income taxes are imposed on the income of all individuals living in the country.

- Why do employers withhold a set amount of your income? they withhold it for income tax purposes, the amount is based on an estimate on how much you will owe in federal income tax
- What is taxable income? taxable income is income that tax has to be paid on.
Total Income - exemptions and deductions = Taxable Income

Main Idea: Federal Insurance Contributions Act (FICA) taxes fund two large government programs:

- What does Social Security provide? Social Security provides benefits for to surviving members of wage earners and to people whose disabilities prevent them from working. It is also a retirement fund to provide pensions to old-age workers
- What is Medicare? Medicare is a national health insurance program that helps pay for health care for people over the age of 65. It also covers people with disabilities

Main Idea: Taxes are sometimes used to affect behavior.

- What items are taxed for the purpose of changing behavior? Tobacco products and alcoholic beverages

B. Reviewing Key Terms

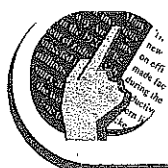
Match the descriptions in Column I with the terms in Column II. Write the letter of the correct answer in the blank provided.

Column I

- E 6. amounts that you can subtract from your income when filing taxes
- C 7. form used to file one's income taxes
- A 8. income on which tax must be paid
- F 9. tax on a monetary gift from a living person valued above a certain amount
- G 10. tax on the total value of the money and property of a person who has died.
- D 11. tax payments taken out of an employee's pay before he or she receives a paycheck
- B 12. tax levied on foreign goods brought into the United States

Column II

- taxable income
- tariff
- tax return
- withholding
- deductions
- gift tax
- estate tax



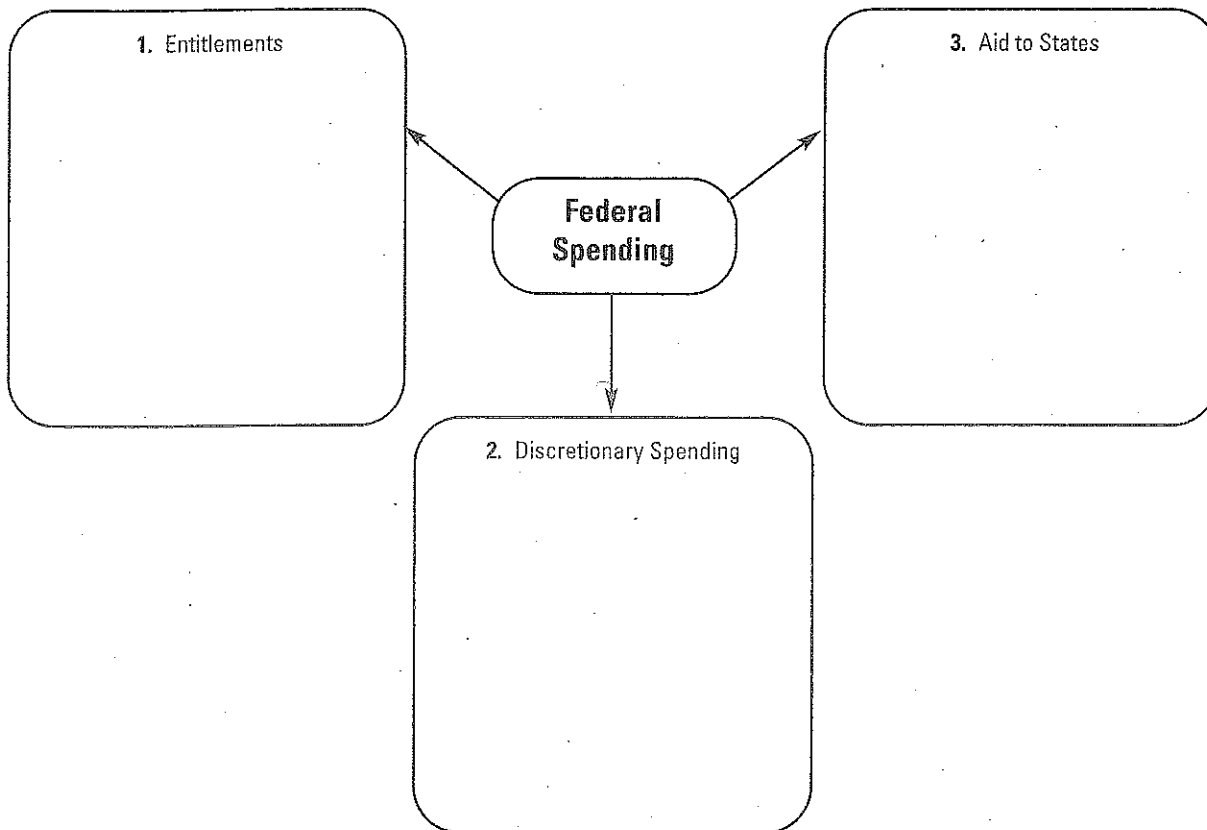
Section 3: Guided Reading and Review

Federal Spending

A. As You Read

As you read Section 3, provide examples of the categories of federal spending in the diagram below.

Categories of Federal Spending



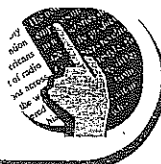
B. Reviewing Key Terms

Define the following terms.

4. discretionary spending a spending category about which government planners can make choices about
5. mandatory spending spending on certain programs that is required by law
6. entitlement social welfare programs that people get if they meet certain requirements

Section 4: Guided Reading and Review

State and Local Taxes and Spending



A. As You Read

As you read Section 4, fill in examples of each item in the space provided.

Spending

(State Governments)

Provide examples of goods or services on which state taxes are spent for each category.

1. Education: public schools
2. Public Safety: police
3. Highways and Transportation: highways & freeways
4. General Welfare: trash services & sewage
5. Arts and Recreation: parks and monuments
6. Administration: local governments city and subdivision governments

(Local Governments)

Provide examples of goods or services on which local taxes are spent for each category.

12. Law enforcement: police
13. Public facilities: airports
14. Public health: sewer systems

Sources of Revenue

(State Governments)

Provide examples of each type of tax from which states earn revenue.

7. Sales Tax: Tax on clothes
8. Excise Tax: tax on certain activities
9. Income Tax: tax on income (flat rate)
10. Corporate Income Tax: taxes from businesses
11. Business Taxes: licensing fees

(Local Governments)

Provide examples of each type of tax from which local governments earn revenue.

15. Property Taxes: taxes on property owners (houses, land)
16. Other Taxes: income tax and excise tax, payroll tax

B. Reviewing Key Terms

Answer each of the following questions.

17. What is the difference between real property and personal property? real property - physical property (land) personal property - possessions (furniture, cars)
18. What is the difference between an operating budget and a capital budget? Operating budget - budget for day-to-day stuff Capital budget - budget for major investments and spending
19. What is a sales tax? a tax on sold goods and services
20. What is the relationship between revenues and spending in a balanced budget? a budget is balanced when the revenues are equal to the spending