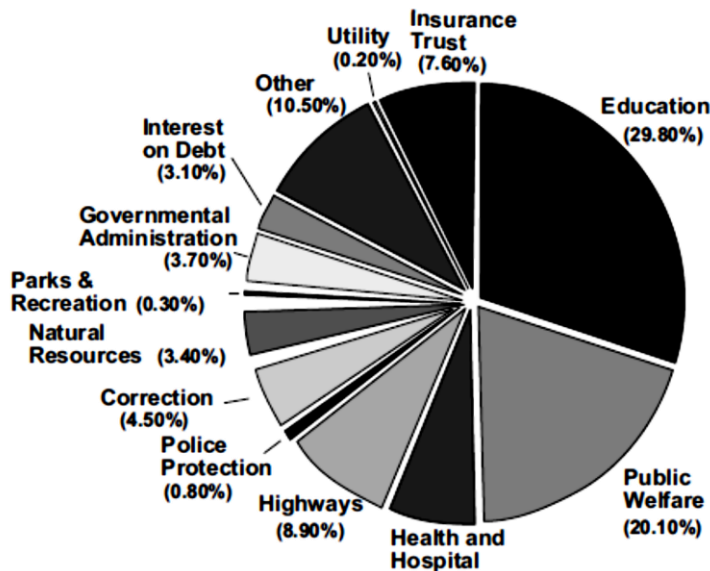


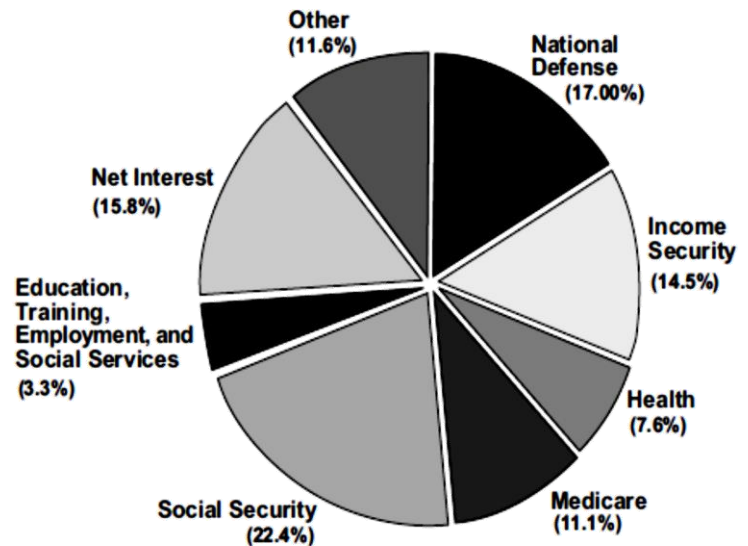
# The Wonderful World of Taxes

The Federal Government operates on a fiscal year that begins on October 1 and ends on September 30. Most of the Federal Government's revenue comes from personal income taxes. Other sources of revenue include social security and other insurance taxes and contributions, corporate income taxes, excise taxes. For a government to operate, it must have a constant and reliable source of income. Government at all levels needs money in order to pay its expenses. For example, **property tax** is collected by local governments to run school systems. **Estate tax** is a tax on property that is transferred to others on the death of the owner. **Sales tax** is collected by state governments to repair roads and provide many state benefits. An **excise tax** is an additional tax the government collects on certain goods to either regulate or limit their sale or to raise additional revenue. An **income tax** is collected by the federal government to fund national defense programs, run national agencies such as the Federal Bureau of Investigation (FBI) and Central Intelligence Agency (CIA), and to support hundreds, even thousands, of federal programs to improve the lives of its people. All of these taxes paid by the people make up **government revenue**.

Florida Expenditures: 1996



Federal Expenditures: 1996



## Three Types of Taxes: Progressive Taxes, Regressive Taxes, and Proportional Taxes

Almost all taxpayers are concerned about how much they pay in taxes. The best way for people to determine how much tax they pay is to figure their taxes as an effective tax rate. An *effective tax rate* is the percentage of a person's income he or she pays in taxes. Let's look at the effective tax rate of Joanne Walters. Joanne made \$10,000 last year and paid \$1,000 in taxes. Therefore, her effective tax rate was 10 percent. You can figure this rate by dividing the tax she paid, \$1,000, by the wages she earned, \$10,000. ( $1,000 \div \$10,000 = .1$  or 10 percent) Taxes are classified according to how the effective tax rates are adjusted in relation to a taxpayer's earnings.

A tax is termed a **progressive tax** if the effective tax rate increases as a person's income increases. A person who makes \$10,000 a year may have an effective tax rate of 10 percent, whereas a person who makes \$15,000 may have an effective tax rate of 15 percent. Income tax is an example of a progressive tax. It places a higher percentage rate of taxation on high-income earners than on low-income earners. A tax is termed a **regressive tax** if the effective tax rate decreases as a person's income increases. John and Wendy, both of whom use the same type and amount of gasoline each week. Each pays \$300 a year in taxes on the gasoline they purchase. John makes \$30,000 a year. He pays one percent of his income in taxes on gasoline. However, Wendy makes \$300,000 a year. She pays only 0.1 percent of her income in taxes on gasoline. And if Wendy's income goes up, the percentage of her wages she will pay in taxes on gasoline will go down. It takes a larger percentage of income from people with low incomes than from people with high incomes.

A tax is termed a **proportional tax** if the effective tax rate stays the same regardless of a person's income. In this case, a person is making \$10,000 a year and a person making \$15,000 a year both would be taxed at an effective tax rate of 10 percent.

**Directions:** Use all resources to complete the following statements. **One or more terms will be used more than once.**

**excise  
income  
progressive**

**property  
proportional**

**regressive  
sales**

1. Jean went to the store to buy a soft drink. It was 55 cents plus seven cents tax. The seven cents tax she paid was a \_\_\_\_\_ tax.
2. Mr. Greene has a savings account at his bank. His dividends for this year were \$200. He had to pay the government a \$20 tax on these dividends. The \$20 he paid was a \_\_\_\_\_ tax.
3. Joe has a part-time job at the grocery store. His first paycheck was \$54.20. The government collected a tax of \$5.42 on that salary. This is called a \_\_\_\_\_ tax.
4. Mrs. Brown put 10 gallons of gas in her car. She paid a five cents tax on each gallon that is intended to regulate her use of gas. The five cents tax she paid was a \_\_\_\_\_ tax.
5. John took his car to the mechanic to be repaired. This bill was \$120, including a tax of \$6. John paid a \_\_\_\_\_ tax.
6. Mr. and Mrs. George bought a new house for \$52,300. The county sent them a bill for taxes of \$932 for one year. The bill was a \_\_\_\_\_ tax.
7. When each person pays a three percent tax regardless of his or her level of income, the tax is called a \_\_\_\_\_ tax.
8. A tax levied at one percent on the first \$1,000 of income, two percent on the next \$1,000, and three percent on the next \$1,000 is a \_\_\_\_\_ tax.
9. A tax levied at 15 percent on the first \$1,000 of income, 12 percent on the next \$1,000, and so on is a \_\_\_\_\_ tax.
10. Ms. Fernandez made \$40,000 a year as a banker. She had to pay \$5,000 tax to the national government. This is a \_\_\_\_\_ tax.
11. Chandra makes \$25,000 a year. Dan makes \$17,000. Both spend \$3,000 a year on food. In the state where Chandra and Dan live, the sales tax on food is seven percent. On their \$3,000 food bill, Chandra and Dan each pay \$210 in sales tax. Why is the tax that they paid, considered a regressive tax?
12. Why are taxes important?
13. What are 10 different ways the state, and federal governments spend tax dollars? (identify each using the pie charts)

## Progressive Taxes, Regressive Taxes, and Proportional Taxes

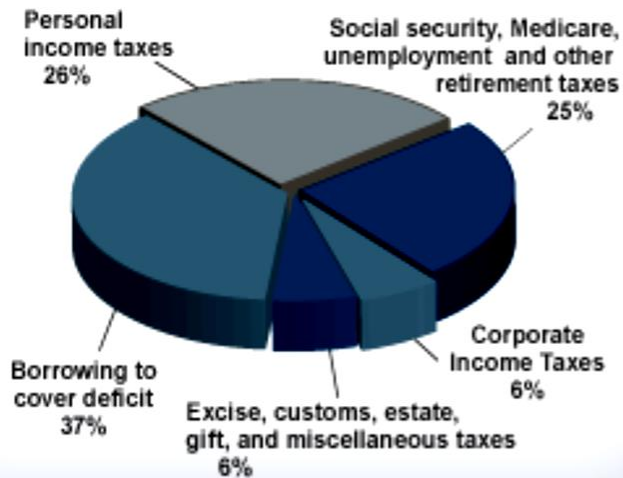


14. Is the state gasoline tax regressive, progressive, or proportional? Why?
15. Do you think that excise taxes on such consumer products as luxury automobile tires, jewelry, cosmetics would be regressive, progressive, or proportional? Why?
16. Do you think that high excise taxes on items such as tobacco or alcohol should be used to discourage people from consuming those items?

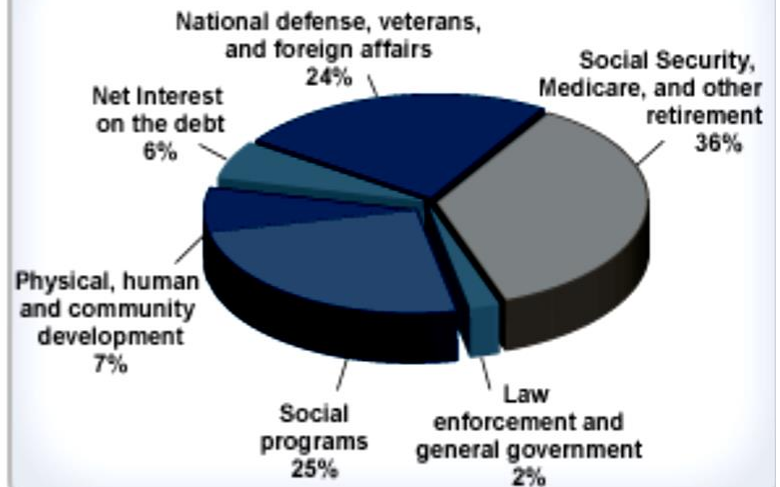
**Group Hug -Take a timeout and give each other a hug!**



**The Federal Government Dollar  
– Where it Comes From**



**The Federal Government Dollar  
– Where it Goes**



17. What are the top two ways the federal gov't gets its money?
18. What percentage of money comes from Social Security and Medicare, etc.?
19. What percentage does the gov't spend on:
  - a) Defense
  - b) Law enforcement
20. What do we spend most of our federal tax money on?

Use the table below to answer these questions.

| GOVERNMENT SPENDING |                                      |                                       |
|---------------------|--------------------------------------|---------------------------------------|
| Year                | Revenue,<br>(in billions of dollars) | Spending,<br>(in billions of dollars) |
| 1950                | \$39                                 | \$43                                  |
| 1960                | \$93.50                              | \$92                                  |
| 1970                | \$193                                | \$196                                 |
| 1980                | \$517.10                             | \$591                                 |
| 1990                | \$1,032                              | \$1,253                               |
| 2000                | \$2,025                              | \$1,789                               |

21. In what years did the government spend more than it collected?
22. Use a calculator to find out how many times larger revenue was in 2000 than in 1950?
23. Use a calculator to find out how much more we spent, then we took in as revenue in 1990?
24. Which grew more overall — revenue or spending?
25. How do you think government revenue and spending will change in the future? Explain.