



**Chapter 14: Taxes and
Government Spending
Section 4**

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ECONOMICS

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Objectives

1. **Explain** how states use a budget to plan their spending.
2. **Identify** where state taxes are spent.
3. **List** the major sources of state tax revenue.
4. **Describe** local government spending and sources of revenue.



Key Terms

- **budget:** an estimate of future revenue and expenses
- **operating budget:** a budget for day-to-day spending needs
- **capital budget:** a budget for spending on major investments
- **balanced budget:** a budget in which revenue and spending are equal



Key Terms, cont.

- **tax exempt:** not subject to taxes
- **real property:** land and any permanent structures on the land to which a person has legal title
- **personal property:** movable possessions or assets
- **tax assessor:** an official who determines the value of property



Introduction

- How do local governments manage their money?
 - Local governments manage their money in accordance with priorities set by elected local government officials.
 - Local governments create budgets and collect taxes just like the federal government.



State Budgets

- Governments plan their spending by creating a budget.
- The federal government has one budget while state governments have two budgets.
 - An operating budget is a budget for day-to-day spending needs.
 - A capital budget is spending on major investments.
- Unlike the federal government, 49 states require balanced budgets—budgets in which revenues are equal to spending.
 - Checkpoint: Would the construction of a new courthouse come out of a state’s operating budget or capital budget?



Where are State Taxes Spent?

- Education
 - Every state spends taxpayer money to support at least one public state university.
 - They also provide financial help to local governments for public elementary and secondary schools.
- Public Safety
 - State police enforce traffic laws and help motorists in an emergency.
 - State governments build and run corrections systems.
- Public Welfare
 - State funds support hospitals and clinics and unemployment benefits.

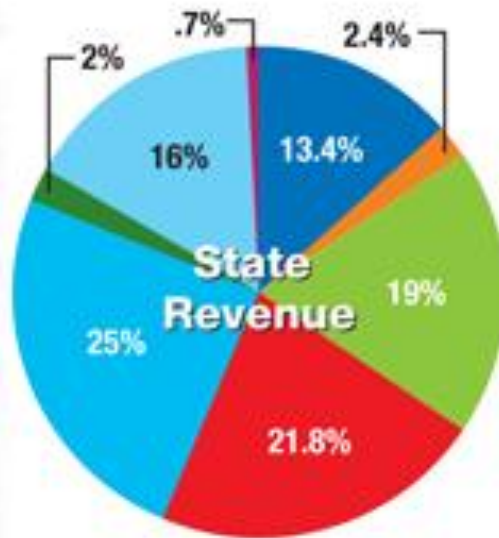


Where are State Taxes Spent?

- Highway and Transportation
 - State crews resurface roads and repair bridges.
 - States pay some of the cost of facilities like waterways and airports.
- Arts and Recreation
 - States fund parks, nature reserves, museums, and art and music programs.
- Administration
 - State governments spend money to keep the government running.
 - Revenues pay for state workers' salaries.



State Revenue and Spending, 2004-2005

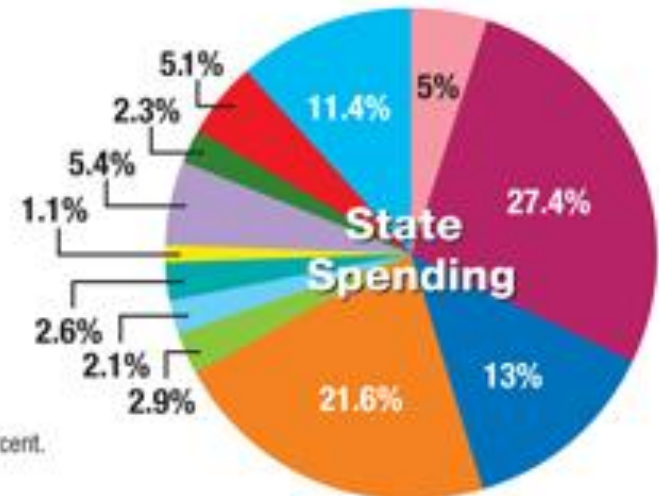


State Revenue Key

- Individual income tax
- Corporate income tax
- Sales and excise tax
- Insurance trust revenue
- Intergovernmental revenue
- Interest earnings
- Other
- Property taxes

State Spending Key

- Other
- Intergovernmental revenue
- Education
- Public welfare
- Hospitals
- Health
- Corrections
- Natural resources
- Governmental administration
- Interest on general debt
- Highways
- Insurance trust expenditure



Note: Because of rounding, totals may be greater than or less than 100 percent.
SOURCE: U.S. Census Bureau



State Tax Revenue

- States receive most of their revenue through taxes.
 - Sales tax on goods and services is the main source of state revenue.
 - Some goods, like food and clothing, are tax exempt in certain states.
 - Even states without a sales tax impose excise taxes that apply to specific products and activities.
 - Many states also collect an individual income tax, which is paid in addition to the federal income tax.
 - Some states tax at a flat rate while other have progressive rates.



State Tax Revenue, cont.

- Corporate income tax—Most states collect income taxes from corporations that do business in the state.
 - These taxes make up a small amount of state tax revenues.
- Other state taxes include:
 - Licensing fees on certain businesses
 - Transfer taxes on stock certificates
 - Inheritance taxes
 - Property taxes, including real property and personal property



Paying for Our Schools



School taxes make up the largest part of the local taxes Americans pay. Across the country, increases in school taxes have far outpaced the national rate of inflation. *No one enjoys paying taxes, but schools will have to cut services if they are not funded.*

School taxes pay for a wide range of curricular and extracurricular activities. *You have more choices when funding is sufficient.*

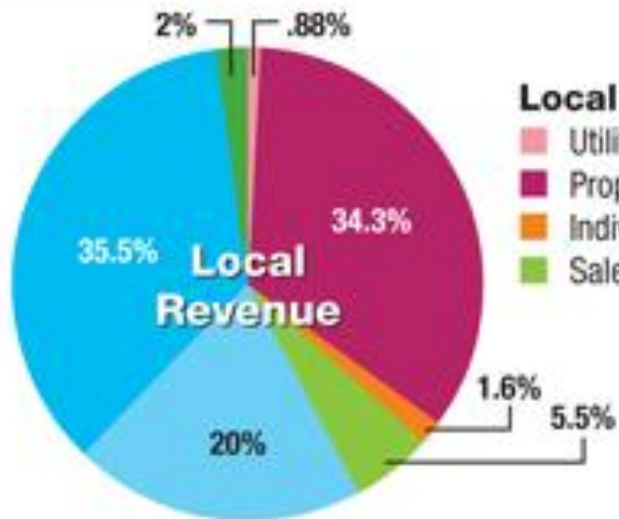


Local Government

- Local governments, including towns, cities, counties, and school districts, carry major responsibilities in the public school systems, law enforcement, and fire protection.
 - They also manage public facilities, parks, and recreation facilities.
 - They monitor public health, public transportation, elections, record keeping, and social services.



Local Revenue and Spending 2007



Local Revenue Key

- Utility revenue
- Property taxes
- Individual income taxes
- Sales and excise taxes
- Other taxes and charges
- Intergovernmental revenue
- Interest earnings

Local Spending Key

- Education
- Hospitals
- Health
- Police Protection
- Governmental administration
- Public welfare
- Fire protection
- Parks and recreation
- Other
- Interest on general debt
- Insurance trust expenditure
- Highways
- Sewerage
- Housing and community development
- Utility



NOTE: Because of rounding, totals may be greater than or less than 100 percent.
SOURCE: U.S. Census Bureau



Local Government Taxes

- Local governments levy property taxes, sales taxes, excise taxes, and income taxes.
- Many local taxes affect visitors and are designed to raise revenue from nonresidents.
 - Wall-to-wall traffic jams, for example, are prompting a few cities to consider a congestion tax.



Review

- Now that you have learned about how local governments manage their money, go back and answer the Chapter Essential Question.
 - How can taxation meet the needs of government and the people?

