

Guided Reading Activity

Taxes and Government Spending

Lesson 1 *Taxes*

Review Questions

Directions: Read each main idea and complete the statements below. Refer to your textbook as you write the answers.

A. Economic Impact of Taxes

Main Idea: Taxes impact the economy. They may alter behavior, spending, income distribution, and economic growth and productivity.

1. When a tax is placed on a product, its _____ increases, so its _____ may decrease. People react to the higher price by buying _____.
2. A _____ tax is a relatively high tax intended to discourage certain undesirable _____.
3. Taxes affect the _____ of income, or the way in which it is allocated among families, individuals, or other groups.
4. Taxes can affect _____ and economic growth by changing the _____, or motivation, to save, invest, and work.
5. The _____ of a tax refers to who bears the final _____ of the tax. Indirect taxes can be _____ to others, while direct taxes cannot.

B. Characteristics and Types of Taxes

Main Idea: Ideally, taxes should be fair, efficient, and effective. Tax money collected by the government should be used to benefit taxpayers, and taxes should be levied based on the ability to pay. There are three types of taxes: progressive, regressive, and proportional.

1. Tax _____, or fairness, is undermined by the tax _____ that some use to avoid paying their fair share of taxes.
2. _____, another criteria for effective taxes, means that tax laws should be written so that both _____ and tax collectors can understand them.

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3. Taxes should also be _____, or relatively easy to administer and reasonably successful at generating _____.
4. The _____ principle of taxation states that those who benefit from government goods and services should pay in _____ to the benefits they receive.
5. Another principle of taxation states that the _____ to pay should be the most important criterion in the amount of tax paid, regardless of how much each person benefits from a particular good or service.
6. The tax that funds Medicare is an example of a _____ tax because the same percentage is deducted from everyone's paycheck, regardless of income.
7. In a _____ tax system, the higher your _____, the higher the percent of earnings you pay in taxes.

C. Alternative Tax Approaches

Main Idea: The flat tax and the value-added tax are two types of alternatives to the current tax code that have been proposed to replace it.

1. The flat tax is a _____ tax in which everyone pays the same amount of tax on their income after a certain _____ has been reached.
2. One advantage of the flat tax is its _____. One disadvantage of the flat tax is that it removes _____ that are currently built into the tax code, such as rules that allow homeowners to deduct interest payments on their mortgage.
3. The _____ - _____ tax differs from a sales tax in that some tax is applied at each step in the _____ process.

Guided Reading Activity *cont.*

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D. Tax Reform Highlights

Main Idea: The tax code has been revised, or reformed, many times during the nation’s history. Reforms may raise or lower taxes on different groups depending on the political and economic conditions at the time. Tax reform may address tax inequities, budget surpluses, or the need for economic growth.

1. In 1981, President Reagan reformed the tax code by _____ taxes on individuals and _____ to encourage economic growth.
2. In 1986, tax law was reformed to include the alternative _____ tax to ensure that the wealthy could not _____ paying any taxes.
3. After some tax _____ were closed in 1993, Congress lowered the tax on _____ gains to allow rich investors to pay less tax on investment.
4. In 2001, there was a tax _____, so taxes were _____ accordingly.
5. President Bush tried to enact permanent tax _____, but with two wars to pay for, these cuts led to great _____ in the U.S. budget. When the Great _____ of 2008-2009 led to increased government spending, it was impossible to make Bush’s tax policies permanent.

Summary and Reflection

Directions: Summarize the main ideas of this lesson by answering the questions below.

If you were in a debate about taxes, what arguments would you make? Would you argue for the importance of everyone paying his or her fair share of taxes? Or would you argue in favor of lowering, “flattening,” or even eliminating taxes? Prepare solid reasons to support your argument, and use evidence to support it as well.
