

Guided Reading Activity

Taxes and Government Spending

Lesson 2 *Federal Government Finances*

Review Questions

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

A. Establishing the Federal Budget

Main Idea: The federal budget is for a fiscal year and is prepared by the executive branch. However, all spending must be approved and the budget finalized by both houses of Congress.

1. A 12-month _____ year does not have to coincide with a _____ year. The government's fiscal year starts on October 1st and expires on September 30th of the following calendar year.
2. The Office of _____ and Budget, part of the executive branch, prepares the initial _____ budget. However, the president's budget is only a _____.
3. After being discussed and evaluated, each House _____ prepares an _____ bill, which is an act of Congress that allows federal agencies to spend money for a specific purpose.
4. Both the House and the _____ often seek expert, nonpartisan advice from the Congressional _____ Office about fiscal aspects of the bill.
5. If the House and Senate both approve the _____ bill that they worked out, they send it to the _____ for approval.
6. If there is no _____ on a budget, a continuing budget _____ can be approved to keep the government functioning.

B. Federal Government Revenue Sources

Main Idea: The federal government gets revenue from payroll, income, and corporate taxes, from excise and estate taxes, from fees and customs duties, from borrowing, and from other sources.

1. About forty percent of all government _____ comes from _____ taxes; in most cases, these taxes are collected through a _____ withholding system.

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2. Because tax revenues _____ based on economic conditions, the government never knows exactly how much revenue it will have or how much it will need to spend in a year, so sometimes it must _____ money.
3. Social Security and _____ are funded through _____ taxes deducted from people's paychecks.
4. The tax a corporation pays on its profits, known as _____ tax, is the fourth-largest source of federal revenue.
5. Gasoline and alcoholic beverages are subject to an _____ tax, which is incorporated into the price and is the same for everyone.
6. _____ tax is the tax on the transfer of property when a person dies. Fewer than 2 percent of estates pay any tax.
7. Customs _____ are taxes applied to goods brought into the United States from _____ countries.
8. User _____ are charged for the use of a good or service, such as entrance to a _____ park.

C. Federal Expenditures

Main Idea: The federal government spends money on Social Security, national defense, social services for the needy, and activities that promote national welfare, such as food and airline safety.

1. _____, or pork, are terms used to describe line-item budget expenditures that circumvent normal budget-building procedures.
2. _____ spending is authorized by law and continues without any need for annual _____ by Congress.
3. National _____ is a kind of _____ spending that takes up a large part of the budget.

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4. Social _____ is a form of _____ payment for which the government receives neither goods nor services.
5. Although Medicaid spending is _____, other programs, such as cancer research and occupational safety are considered _____ spending.

D. From Deficits to Debt

Main Idea: If budget deficits are too deep or go on too long, the nation must borrow to meet its financial obligations. Borrowing increases the national debt, or money borrowed from others.

1. _____ spending involves annual government spending in excess of _____ collected.
2. The United States sells _____ notes to make up for revenue shortfalls, but this leads to an increase in the _____ debt.
3. One way public debt differs from _____ debt is that the latter affects the debtor's _____ power. Also, most of the national debt is debt we owe to _____, while private debt is owed to others.

E. Impact of the National Debt

Main Idea: The national debt tends to transfer purchasing power from the private to the public sector. If the government borrows too much money, it may crowd out others, such as homebuyers, who also need to borrow money from a limited pool of available credit.

1. The national debt can cause a transfer of _____ power from the private sector; when public debt increases, taxes _____ and people have less money for themselves.
2. Because the government borrows so much, it can compete with business and individuals for the _____ of available funds; this competition causes a _____ effect.

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F. Reducing Deficits and the Debt

Main Idea: Proposals for eliminating deficits and reducing the debt include “pay-as-you-go” provisions, spending caps, line-item vetoes, increasing revenue, and cutting social programs.

1. “Pay-as-you-go” provisions require that all new spending be _____ by reductions in spending elsewhere in the budget.
2. A spending _____ is a legal limit on annual _____ spending.
3. Other approaches to deficit reduction include raising taxes and cutting _____, such as disability benefits, unemployment benefits, and nutritional aid to poor children.
4. In a budget stalemate, a _____ may require deep and arbitrary cuts in all government spending.
5. The debt _____ only permits borrowing for expenditures that have already been _____ by Congress.

Summary and Reflection

Directions: Summarize the main ideas of this lesson by answering the following question.

The government has many obligations to provide services to its tax-paying citizens. If you were in Congress, how would you balance the need for the government to spend money on necessary things with a prudent approach to controlling the debt and the deficit? Use examples in your answer.
