



FLORIDA...

The Story Continues

CHAPTER 12, Paying for Government

PEOPLE

Floridians do not pay income taxes. In many states, people pay state taxes on the money they make. In Florida, they do not. However, people still expect the state to pay for roads, community colleges, prisons, and other things. So the State raises money by charging many taxes and fees. Sales tax is one of these taxes. So is the communication tax that is added to most cell phone bills.

EVENTS

Fees help pay for state services. The documentary stamp fee brings Florida millions of dollars each month. This fee is charged every time someone buys a home or other property. The price of the stamp is based on the price of the property. License plate fees also help pay for state services. People pay extra for vanity plates containing words. They also pay extra for plates that promote causes, like protecting sea turtles. However, everyone who buys license plates pays added fees, even if they are not getting special plates. These extra fees help to pay for emergency medical services, law enforcement radio systems, and the juvenile justice system.

PEOPLE

Lawbreakers help pay for government. In 2009, the Florida Department of Environmental Protection fined companies more than nine million dollars for polluting. The state uses some of the fines to improve the environment. Florida collects other fines, too. In 2010 millions of dollars were collected from people who ran red lights and were caught by traffic cameras.

EVENTS**1839: People paid property taxes even before Florida became a state.**

Property taxes were introduced in Florida in 1839, taxing land people owned. These taxes were an important source of state revenue. This changed in 1934 when the state stopped collecting property taxes. From then on, cities and counties collected the money. Today, cities and counties use the money from property taxes to pay for local public services.

PLACES**1967: Some Florida cities and counties are allowed to charge special “Tourist Development Taxes” (TDTs).**

Tourism is a huge business in Florida. So the state of Florida, the cities, and the counties spend millions of dollars to attract tourists. They get some of this money from TDTs. One TDT is the extra tax on hotel rooms and places that tourists rent. Part of that money is used to improve beaches. Another part is used to build theme parks and sports stadiums.

EVENTS**Present: The Florida state government has checks and balances.**

The constitution of Florida divides the powers of state government into three branches: the executive, the legislative, and the judicial. The branches are separate, but they are not entirely independent. Each branch of the government shares in the powers of the other two. This means that each branch can also limit the powers of the other branches. This ability to limit the powers of other branches serves as a check and balance.



Unpacking the Florida Standards <...>

Read the following to learn what this standard says and what it means. See FL8-FL20 to unpack all the other standards related to this chapter.

Benchmark LA.7.1.7.1 The student will use background knowledge of subject and related content areas, prereading strategies, graphic representations, and knowledge of text structure to make and confirm complex predictions of content, purpose, and organization of a reading selection.

What does it mean?

Explore a variety of reading skills and strategies to become an active reader. Use information that you already know, prereading strategies, graphic organizers, and knowledge about text structure to figure out what the text means and find important information. Go to the Reading Skills lessons and the Taking Notes graphic organizers that appear in each chapter for help. See also the Become an Active Reader pages at the front of this book.

CHAPTER 12

PAYING FOR GOVERNMENT

Essential Question How does the government raise money and manage the national budget process?



Florida Next Generation Sunshine State Standards

SS.7.C.2.11 Analyze media and political communications (bias, symbolism, propaganda). **SS.7.E.1.6** Compare the national budget process to the personal budget process. **SS.7.E.2.1** Explain how federal, state, and local taxes support the economy as a function of the United States government. **LA.7.1.6.1** The student will use new vocabulary that is introduced and taught directly. **LA.7.1.6.2** The student will listen to, read, and discuss familiar and conceptually challenging text. **LA.7.1.7.1** The student will use background knowledge of subject and related content areas, prereading strategies, graphic representations, and knowledge of text structure to make and confirm complex predictions of content, purpose, and organization of a reading selection. **MA.7.A.1.2** Solve percent problems, including problems involving discounts, simple interest, taxes, tips, and percents of increase or decrease.



WHY CIVICS Matters

Taxes are one important way the government collects money. As a citizen, you should know how government collects and spends your tax money.

PROJECT **Citizen**



STUDENTS TAKE ACTION

HELPING TEENS IN NEED In some communities there are teens who are homeless. If you lived in one of these communities, what would you do to provide a place for homeless teens to do their homework and have access to other services? As you read this chapter, think of how you might change your community to help homeless teens.

FOCUS ON WRITING

WRITING A NEWSPAPER OR MAGAZINE ARTICLE

For much of the country's history, newspapers and magazines have been an important way for citizens to learn about what their federal, state, and local governments are doing. In this chapter, you will read about how government is funded and how it manages and spends money. Then you will write a newspaper or magazine article about one aspect of government taxes or government spending.

Reading Skills

In this chapter you will read about how the government raises and spends money. You will also learn about the types of taxes that fund federal, state, and local governments. You will read about the various agencies that collect tax

revenue and ensure that it is spent properly. You will discover how the federal budget is prepared and approved. Finally, you will study the national debt and why the government borrows money for the budget.

Problem Solving

FOCUS ON READING

Governments often face problems. Officials and citizens usually work together to propose solutions to these problems. Understanding the problem-solving process will help you evaluate proposed solutions and deal with problems as they appear.

Solving Problems Problem solving involves several steps: asking questions, identifying and evaluating information, comparing and contrasting, and making judgments. It is a process for thinking through almost any situation.

Use the following steps to understand and solve problems.

- 1. Identify the problem.** Ask questions to make sure you know exactly what the situation is and why it is a problem.
- 2. Gather information.** Ask questions and conduct research to learn more about the problem.
- 3. List options.** Identify possible options for solving the problem.
- 4. Evaluate the options.** List the advantages and disadvantages of each possible solution.
- 5. Choose and implement a solution.** Choose the solution that seems best and apply it.
- 6. Evaluate the solution.** Once the solution has been tried, evaluate how effectively it solved the problem.

Helpful Hints for Problem Solving

- 1.** Be sure to clearly identify the problem.
- 2.** List as many options as possible when considering solutions.
- 3.** Evaluate whether a solution worked or not. Understanding why a solution succeeded or failed can help you the next time you face a similar problem.



LA.7.1.6.2



You Try It!

The following passage is from the chapter you are about to read. Read it and then answer the questions below.

Import Taxes

*From
Chapter 12,
p. 303*

The U.S. government collects taxes on many products imported from foreign countries. This import tax is called a tariff, or sometimes a customs duty. At one time customs duties were the main source of revenues for the federal government. For example, in 1850 about 90 percent of the federal budget came from customs duties.

Today the United States uses tariffs primarily to regulate foreign trade rather than to raise money. For example, tariffs can be used to raise the prices of imported goods. Tariffs make goods from other countries either as expensive or more expensive than American-made products. In this way tariffs can protect American industry from competition from foreign industry. On the other hand, tariffs can also hurt American consumers by raising the prices of certain products. Using tariffs as a way to control trade, rather than as a source of revenue, is often a difficult balancing act.

After you have read the passage, answer the following questions.

1. What problem is described in this passage?
2. What additional sources could you use to gather more information about the problem?
3. What are the advantages and disadvantages of using tariffs to control trade?
4. What other options for controlling foreign trade does the government have?
5. What solution would you propose? Give reasons to support your answer.

KEY TERMS

Chapter 12

Section 1

interest (p. 295)
national debt (p. 295)
revenue (p. 296)
fees (p. 297)
fine (p. 297)
bond (p. 298)

Section 2

income tax (p. 299)
progressive tax (p. 300)
profit (p. 300)
regressive tax (p. 302)
property tax (p. 302)
tariff (p. 303)

Section 3

balanced budget (p. 307)
surplus (p. 307)
deficit (p. 307)
audit (p. 307)

Academic Vocabulary

Success in school is related to knowing academic vocabulary—the words that are frequently used in school assignments and discussions. In this chapter, you will learn the following academic word:

primary (p. 296)

As you read Chapter 12, notice both the problems and solutions involved in the raising and spending of money by the government.

SECTION 1



SS.7.E.2.1; LA.7.1.6.1; LA.7.1.7.1

Raising Money

BEFORE YOU READ

The Main Idea

Each year the local, state, and federal government provide Americans with services such as police, schools, highway construction, and defense. These services cost huge amounts of money. The government pays for these services with taxes collected from citizens.

Reading Focus

1. Why is the cost of government so high?
2. What guidelines do governments use when taxing citizens?
3. Other than taxes, what are two ways to pay for government?

Key Terms

interest, p. 295
national debt, p. 295
revenue, p. 296
fees, p. 297
fine, p. 297
bond, p. 298



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TAKING NOTES

Use the graphic organizer online to take notes on how governments raise money.



Many different kinds of taxes such as sales taxes on meals, pay for the goods and services you receive from government.

CIVICS IN PRACTICE

Why should you pay taxes? One reason is that taxes help pay for the many services you receive. For example, imagine the United States without the Interstate Highway System. Taxes—money from people like you—helped pay for this huge highway network. As a citizen, it is up to you to pay a fair share for what you receive. At the same time, it is the right of citizens to question government spending and to make sure that taxes are spent wisely and fairly. You are entitled to know how and where your money goes.

The High Cost of Government

It costs an enormous amount of money today to run the government. One reason it costs so much is that the United States serves a larger population than ever before—more than 300 million people. As the population has grown, the cost of living has also risen. Today a dollar will not buy as much as in earlier years. Adding to the costs, the government provides many more programs and services today than in the past.

National and Personal Budget Processes

QUICK FACTS

The national, or federal, budget process is similar in many ways to the personal budget process. In both, the first step is to identify sources of revenue, or money. The main source of revenue in the national budget comes from taxes. By contrast, revenues in a personal budget come mostly from wages and salaries.

The next step is to identify *mandatory* and *discretionary* categories of spending. Mandatory expenses are items that are necessary and have to be paid. Discretionary expenses are controllable and a matter of choice. For example, in a personal budget, a house payment or rent is a mandatory expense, but food and leisure expenses are discretionary.

The final step involves the actual preparation of a budget. In this step, individuals, families, and the government decide on a time period and on how much money should be spent on expenses.



Our nation's budget is for a fiscal year, a 12-month period. Personal budgets are usually prepared on a weekly or monthly basis.

ANALYSIS SKILL

COMPARING

How does the national budget process compare to the personal budget process?

The Federal Budget

Government programs and services are expensive. The single largest cost to the federal government is in benefit payments to people who are elderly, disabled, or living in poverty. For example, in 2010, total government spending was about \$3.5 trillion. Of that amount, about \$1.5 trillion, or about 43 percent, went to Social Security, Medicare, and Medicaid programs. The numbers of people who receive these benefits will continue to rise.

The government also spends a large amount of money on national defense. From 1990 to 2001, defense spending decreased. After 2001, however, defense costs began to rise. Following terrorist attacks in 2001, government leaders pushed for even greater increases. In December 2001 Congress approved a \$318 billion defense bill. The Iraq War, which lasted eight years, cost about \$700 billion. By 2010, defense spending accounted for about 20 percent of the federal budget. Defense spending will continue to account for a large portion of government spending.

Another large part of the budget is debt. Over the years, the government has spent more money than it has raised. To make up the difference, the government borrows money. Like any borrower, the government pays interest on this money. **Interest** is the payment made for the use of borrowed money. Interest is a certain percentage of the amount of money borrowed. When large amounts of money are borrowed, the amount of interest is also large. This interest plus the total amount of money that the U.S. government has borrowed is known as the **national debt**.

READING CHECK

Finding Main Ideas What are the main expenses of the federal government?

The Tax System

Federal, state, and local governments all raise most of the money to pay for services and programs by collecting taxes. Taxes are compulsory—citizens and businesses are required to pay them. One reason taxes are

ACADEMIC VOCABULARY

primary:
main, most
important

compulsory is to allow governments to estimate the amount of money they will raise. This helps governments plan for the future. Another reason taxes are compulsory is to make sure people pay them. If taxpayers could choose how much and when to pay, governments might never have enough money to pay for what they need.

Establishing Priorities

All citizens have the right to expect that the government will spend the taxpayers' money wisely. Government officials, therefore, face difficult decisions. What government programs most need money? What programs will bring the greatest benefits to the most people? Government officials must decide which activities need funding, in order of their urgency and need. This process is called establishing priorities. Programs with highest priority get funded first. Programs with a lower priority may not receive funds. In recent years there has been much debate over the country's priorities.

Purposes of Taxation

The **primary** purpose of taxes is to raise **revenue**, or money. At the federal, state, and local level, this revenue funds the everyday running of government. Each level also uses tax dollars to provide goods and services, such as national defense, public schools, police protection, and roads.

These goods and services benefit individuals, businesses, and the economy. For example, you probably use a government road or sidewalk to go to school. A business might use the same road to transport goods and services. Moreover, the government likely hired a private construction firm to build this road and pays for workers to maintain it.

Another purpose of taxes is to regulate, or control, some activities. For example, taxes on imports are sometimes set at a high level. The goal is not to raise large sums of money but to discourage imports and to support economic activity in the United States. High taxes on cigarettes and alcoholic beverages are partly intended to discourage their use.

Linking to Today

Taxes, Then and Now

In the 1700s, before and after the Revolutionary War, government was funded with sales taxes collected on goods like tea and whiskey. Then, in the 1800s, the government found it needed to collect property and income taxes to cover things like the cost of war and building new roads.

In modern times, Americans pay taxes on where they live, what they buy, and the money they make from their jobs. However, we also have the right to elect officials whom we believe will spend that money in the best way possible.

ANALYSIS SKILL

DRAWING CONCLUSIONS

Why do you think taxes are often an important issue in political campaigns?



Principles of Taxation

Governments try to follow certain principles, or rules, when they set up tax systems. These rules aim to raise the funds necessary to run the government without creating too great a burden for taxpayers.

Ability to Pay Taxes are set at different rates. This makes it possible for citizens at all income levels to pay. For example, taxes on people's earnings are lower for those with low incomes. Taxes are higher for those with high incomes. People with very low incomes do not pay income taxes.

Equal Application The principle of equal application of taxes is an important part of the U.S. tax structure. Equal application means that taxes are applied at the same rate for similar taxable items. For example, a local tax on property is the same for all property worth the same amount of money. Sales taxes and other taxes collected on the goods we buy are the same for everyone purchasing goods of equal price.

Scheduled Payment Taxes are paid on a set schedule. Employers withhold a portion of taxes from their workers' paychecks. They send this tax revenue directly to the government on a regular schedule. People who are self-employed are responsible for withholding the necessary funds for their taxes. They also send this money directly to the government in installments during the tax year.

Imagine that all taxes had to be paid in one lump sum. Most Americans would find paying taxes in one lump sum very difficult. Instead, federal and state governments collect income taxes over the course of the year. People who owe more than the amount withheld from their paychecks must pay in full by an April 15 deadline. However, taxpayers can request to pay any taxes that they still owe in installments. These are payments

made throughout the year on a set schedule. These late payments are charged interest and penalty fees.

READING CHECK

Drawing Inferences and Conclusions Why are some taxes set at different rates?

Other Ways to Pay for Government

Governments at all levels get most of their money from taxes of one kind or another. However, there are also other sources of revenue available. Governments may raise fees or fines. They may borrow money.

Fees and Fines

Fees are payments charged by governments for various licenses. Hunting licenses and marriage licenses are examples. The federal government raises billions of dollars annually. It does this by collecting a range of fees. The federal government receives fees for trademark registration, grazing rights on federal land, and entrance fees to national parks. State governments raise large sums of money from the fees paid by residents for driver's licenses and automobile license plates.

Money charged as a penalty for breaking certain laws is called a **fine**. Local governments in particular raise revenue from fines for actions such as illegal parking, speeding, and other traffic violations.

Governments also provide some special services that are paid for directly by the people or organizations who use these services. For example, the federal government sells timber from national forest reserves. It sells electricity from certain federal dam projects. State governments collect payments from drivers who use certain toll roads and bridges. Many local governments install parking meters to collect payments from individuals who park their cars along city streets.

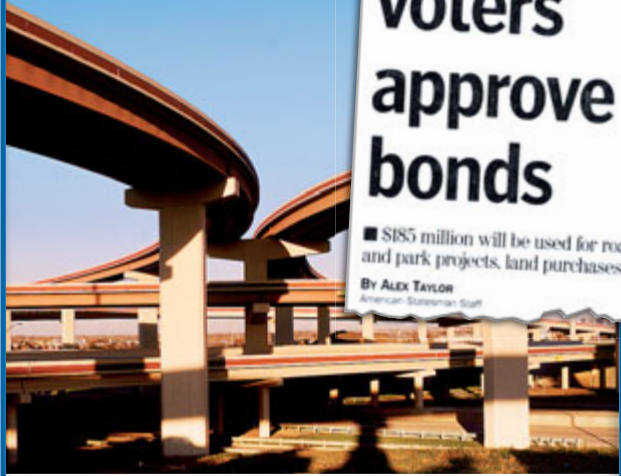
Government Borrowing

As you have read, governments raise most of their funds through taxes and other revenue. Occasionally, tax revenue is not enough to pay for government expenses. As a result, governments must borrow money to meet their expenses. Large projects, such as bridges or schools, cost a lot to build. State and local governments usually cannot pay for them in full out of the government's income for a single year. Therefore, state and local governments must borrow the additional money needed.

Governments borrow money by issuing bonds. A government **bond** is a certificate. It states that the government has borrowed a certain sum of money from the owner of the bond. The government promises to repay the loan on a certain date. It will also pay interest on the amount borrowed. Bonds allow governments to raise money for public projects while giving investors an opportunity to make a profit.

When a government issues a bond, it is taking on debt that it must repay. For this reason, most local governments must have voter approval before they can issue a bond. Voters have a chance to support or oppose specific bond proposals in a bond election.

Government Bonds



Travis voters approve bonds

■ \$185 million will be used for road and park projects, land purchases

By ALEX TAYLOR
American-San Antonio Staff

State and local governments often use bonds to finance long-term projects, such as highway construction.

For example, bond elections often take place when school districts need to raise money to build or repair facilities. If a bond is not approved, officials have to find other ways to raise the money or to address that particular need.

READING CHECK

Analyzing Information Why do governments borrow money?

SECTION 1 ASSESSMENT



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ONLINE QUIZ

Reviewing Ideas and Terms

- Define** Write a brief definition of the terms **interest** and **national debt**.
 - Elaborate** Why are businesses and citizens required to pay taxes?
- Define** Write a brief definition of the term **revenue**.
 - Explain** What are the purposes of paying taxes?
 - Predict** What might happen if the government did not collect any taxes?
- Define** Write a brief definition of the terms **fees**, **fine**, and **bond**.
 - Summarize** What principles does the government use to set up taxes?

Critical Thinking

- Analyzing Information** Copy the graphic organizer. Use it and your notes to identify the three principles of taxation and to explain why each one is important.

Principle			
Importance			

FOCUS ON WRITING

- Decision Making** Write a proposal explaining what government programs and services you think should have the highest priority and why.

SECTION 2



SS.7.E.2.1; LA.7.1.6.1; LA.7.1.7.1

Types of Taxes

BEFORE YOU READ

The Main Idea

Taxes are the main source of revenue for the local, state, and federal governments. The types of taxes each level of government uses to raise money vary.

Reading Focus

1. What are the two main kinds of income taxes?
2. What are the other major types of taxes?

Key Terms

income tax, *p. 299*
progressive tax, *p. 300*
profit, *p. 300*
regressive tax, *p. 302*
property tax, *p. 302*
tariff, *p. 303*



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TAKING NOTES

Use the graphic organizer online to take notes on different types of taxes.



Taxpayers rush to post offices to mail their federal income tax returns by the April 15 deadline.



Different levels of government rely on a variety of the taxes that you pay. For example, the federal government relies on income taxes.

You are probably also familiar with sales taxes. State and local governments depend on them for their revenue. School districts rely on property taxes. Wherever you live and whatever job you have, you will pay taxes of one kind or another.

Income Taxes

The largest source of revenue collected by the federal government is the tax on the earnings—the income—of individual citizens and businesses. These taxes on earnings are called **income tax**. Americans filed more than 144 million individual federal tax returns in 2009. The federal government collected some \$1.2 trillion in tax revenues from these returns. The amount any one citizen pays is calculated according to how much the person earns and other considerations set out in the U.S. tax code.

PRIMARY SOURCE

POLITICAL CARTOON Social Security

For many Americans, income taxes are deducted directly from their paychecks. Federal and state income taxes as well as Social Security and Medicare taxes are deducted each time an employee is paid.



The Federal Insurance Contributions Act, or FICA, collects Social Security taxes from workers' paychecks.

ANALYSIS SKILL

ANALYZING PRIMARY SOURCES

Do you think having income taxes deducted from each paycheck is a good idea? Why or why not?

FOCUS ON

In 2009, the IRS collected about \$110,156,800,000 in taxes from Florida businesses and individuals.

How Much Do We Pay?

The government permits all taxpayers to deduct, or subtract, a certain amount of money from their taxes for themselves and each dependent. A dependent is a person who relies on another person, usually a family member, for financial support. These amounts are called exemptions.

The individual income tax is a progressive tax. A **progressive tax** is a tax that takes a larger percentage of income from higher-income groups than from lower-income groups. Progressive taxes are based on a person's ability to pay.

How Do We Pay?

Most taxpayers do not pay all their income tax at the time they file their annual tax returns. Instead, their employers take income tax payments out of each paycheck. This happens throughout the year. Employers then forward the tax money on to the government. This system of making small tax payments each payday makes it easier for the government to collect the payments. This system also makes payment easier for most Americans to afford. Even so, it can take the federal government some time to accurately calculate the federal tax revenues for a single year. This is due in part to factors such as refunds and late payments.

Social Security Taxes

When an employer deducts income tax from an employee's paycheck, he or she also deducts Social Security tax. Money collected from this tax is used mainly to provide income to retired people and people with disabilities. You can read more about Social Security in another chapter.

State and Local Income Taxes

All but a few of the state governments and some city governments also collect an individual income tax. Each of these states and cities has its own income tax laws and rates. Such tax rates are much lower than those for the federal income tax.

Corporate Income Taxes

Like individual income taxes, corporate income taxes are an important source of revenue for both the federal and state governments. This tax is based on a corporation's profits. **Profit** is the income a business has left after paying its expenses. In 2009, the federal government collected more than \$225 billion in corporate income taxes. These taxes came from 2.5 million companies.

READING CHECK

Summarizing What are the different types of income taxes?

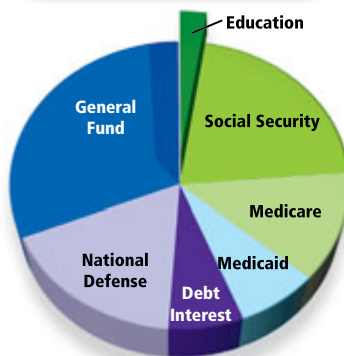
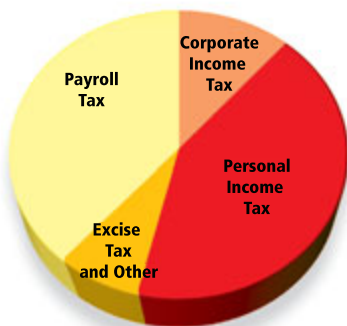
Government Taxing and Spending

Each level of government collects taxes from many different sources and spends them on slightly different programs.

Revenues

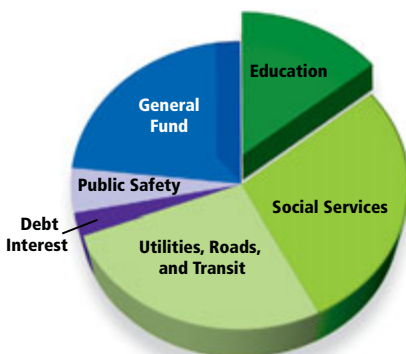
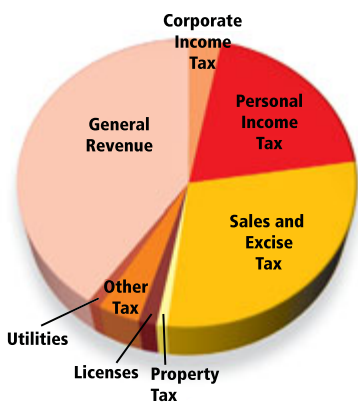
Expenditures

Federal



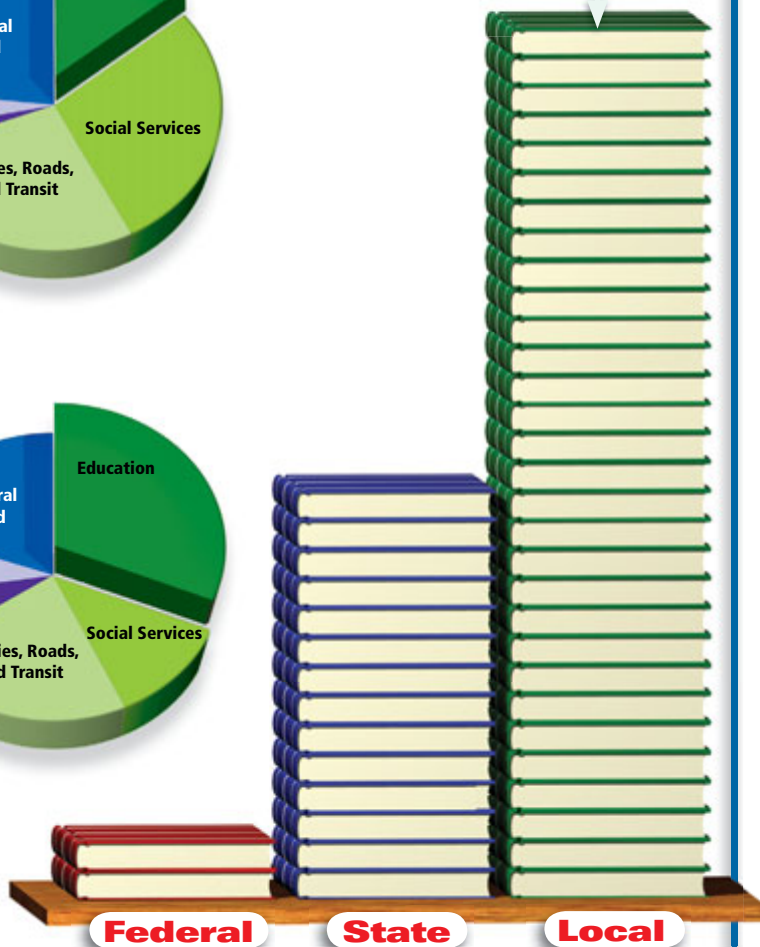
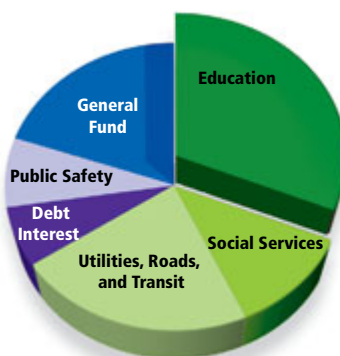
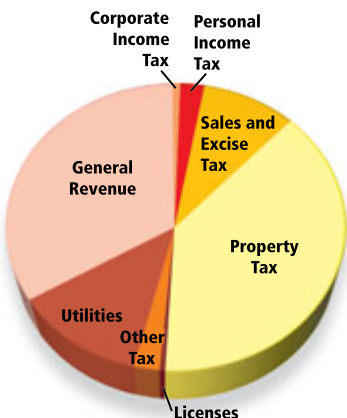
This graph shows the percentage of revenues each level of government spends on education. One book equals one percent of total spending. As you can see, local governments spend a much larger percentage of their revenue on education.

State



Education Spending

Local



ANALYSIS SKILL

ANALYZING INFORMATION

1. Why do you think that local governments spend the largest portion of their revenue on education?
2. What are the largest forms of revenue for federal, state, and local governments?

Other Kinds of Taxes

QUICK
FACTS

Governments at all levels rely on other taxes in addition to income taxes. Some taxes, such as sales taxes, are broad-based. Other taxes, such as fees and gift taxes, are collected from fewer people.

What is the difference between a user fee, such as a park entrance fee, and a general sales tax?



Excise

Fees

Sales



MT. RAINIER
NATIONAL PARK



Other Major Taxes

Income taxes are important to all levels of government. However, state and local governments rely on a variety of other taxes for their revenue. The federal government also relies on other kinds of taxes for some of its revenue.

Sales and Excise Taxes

Most states and many cities have a sales tax. This tax is collected on most products sold. A sales tax is a **regressive tax**. A regressive tax is a tax that takes a larger percentage of income from low-income groups than from high-income groups. This is true even though both groups pay the same sales tax rates. For example, a wealthy person and a poor person both buy the same television. A five-percent sales tax on the television will take a higher percentage of the poor person's total income.

Excise taxes are similar to sales taxes. The difference is that an excise tax is a tax collected only on certain services and goods, usually luxury items, sold in the United States. Items on which excise taxes are collected include air travel and luxury automobiles.

Property Taxes

The chief source of income for most local governments is the property tax. A **property tax** is a tax on the value of the property owned by a person or by a business. Property taxes are collected on real property and personal property.

Real property includes land, buildings, and other structures. Personal property includes such items as stocks, bonds, jewelry, cars, and boats. Much of the funding for public schools in the United States comes from local property taxes.

Estate, Inheritance, and Gift Taxes

When a person dies, that person's heirs may have to pay estate taxes on property left by the deceased. An estate tax is a federal tax on all the wealth a person leaves. Individuals may also be taxed on the share of the estate that they inherit, or receive. The inheritance tax is based on the portion of an estate received by an individual after the estate is divided.

Even a gift of money may be subject to a tax by the federal government. Any person who gives a gift worth more than \$13,000 must pay a gift tax.



Import

Import Taxes

The U.S. government collects taxes on many products imported from foreign countries. This import tax is called a **tariff**. It is sometimes called a customs duty. At one time customs duties were the main source of revenues for the federal government. For example, in 1850 about 90 percent of the federal budget came from customs duties.

Today the United States uses tariffs primarily to regulate foreign trade and support the U.S. economy. For example, tariffs can be used to raise the prices of imported goods. Tariffs make goods from other countries either as expensive or more expensive than American-made products. In this way tariffs can protect American industry from competition from foreign industry. On the other hand, tariffs can also hurt American consumers. They may raise the prices of certain products. Using tariffs to control and support the economy, rather than simply as a source of revenue, is often a difficult balancing act.

READING CHECK

Analyzing Information Why is it good for governments to rely on a wide variety of taxes?

SECTION 2 ASSESSMENT

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ONLINE QUIZ

Reviewing Ideas and Terms

1. **a. Define** Write a brief definition of the terms **income tax**, **progressive tax**, and **profit**.
b. Evaluate Do you think that a sales tax is a fair tax for all Americans?
2. **a. Define** Write a brief definition of the terms **regressive tax**, **property tax**, and **tariff**.
b. Explain What is the difference between an estate tax and an inheritance tax?

Critical Thinking

3. **Categorizing** Copy the graphic organizer. Fill in each box with a type of tax and an example of something to which that tax could be applied.

Types of Taxes	

FOCUS ON WRITING

4. **Supporting a Point of View** Should all U.S. taxes be made progressive taxes? Why or why not?

Analyzing a Documentary

Learn

Not all films are works of fiction. Documentaries are non-fiction films or television programs that present information on a particular topic in a factual way. Documentaries might focus on the life of a particular person, like Abraham Lincoln, or they may concentrate on an important event, such as the first moon landing. In either case, a documentary uses a combination of original source documents, personal interviews, photographs, and film to convey information about a subject.

A good documentary should add to your knowledge of a subject. But documentaries, like other forms of media, are biased in that they are told from the perspective of their creators. When you watch a documentary, it is important that you evaluate it carefully. Use the tips below to help you analyze a documentary.

Practice

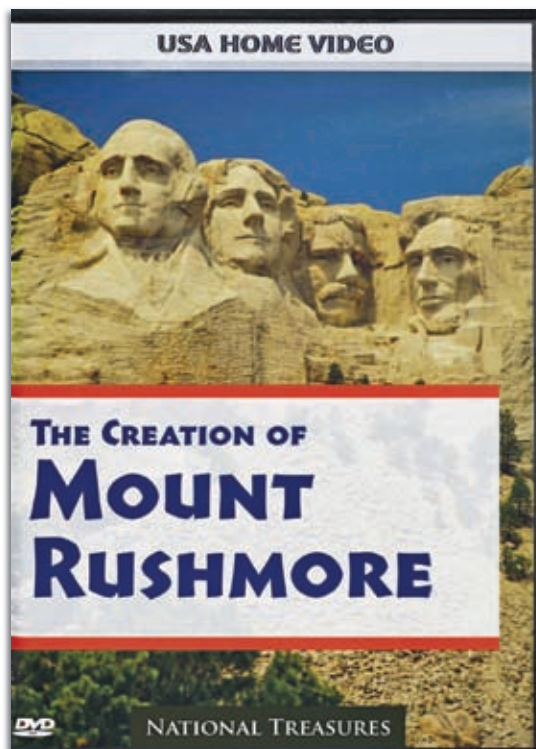
- 1 **Identify the point of view.** Documentary films present a topic in a certain way. It is important to be aware of how the director is trying to shape your opinion.
- 2 **Notice how the visuals and images make you feel.** Techniques like music, close-ups, slow-motion shots, or stills of a scene may be used to elicit emotional responses from the viewers. Notice how such techniques affect you emotionally. How do they affect the tone of the documentary?
- 3 **Investigate the source.** Who produced and directed the documentary? Ask yourself if the filmmakers have a special interest in presenting a particular point of view.

- 4 **Check the facts.** Be careful not to believe everything you see and hear. Use outside sources to confirm the information presented in the documentary.

Apply

Imagine that you have just watched a documentary about the artists that created the monument at Mount Rushmore. Use the image below and your knowledge of documentaries to answer the questions.

1. Who produced the film? How might that affect the point of view of the documentary?
2. What possible points of view might a documentary about Mount Rushmore present?
3. What sources might you use to verify the information presented in the documentary?





Managing the Country's Money

BEFORE YOU READ

The Main Idea

The federal, state and local governments collect and spend many billions of dollars each year. Each level of government has systems to manage public funds.

Reading Focus

1. How do governments collect public money?
2. What steps are involved in spending public money?
3. How do governments account for your money?

Key Terms

balanced budget, p. 307
surplus, p. 307
deficit, p. 307
audit, p. 307



TAKING NOTES

Use the graphic organizer online to take notes on the steps involved in planning the federal budget.



The U.S. Customs Service collects duties on goods brought into the United States.



You earn money. You spend money. Your goal is to spend less than you earn. This is called money management, or budgeting. Local, state, and national governments try to do the same. As a citizen you can contact your state representatives and members of Congress to let them know your concerns regarding government spending.

Collecting Public Money

Each level of government has a department whose responsibility it is to collect taxes. At the federal level, the collection of taxes is handled by the Internal Revenue Service (IRS). The IRS is an agency of the U.S. Department of the Treasury. Another agency of the federal government, the U.S. Customs Service, collects tariffs on imported goods.

State and local governments have established their own tax collection agencies. State tax collection agencies collect taxes such as state income taxes and inheritance taxes. Taxes collected by local tax collection agencies include local property taxes.

After tax money is collected, it is sent to the treasuries of the various governments. The U.S. Treasury Department spends federal tax dollars under the authorization of Congress.

In state and local governments the comptroller acts as the watchdog of the treasury. The comptroller is responsible for ensuring that public funds are spent only as authorized by the state legislature or city council.

READING CHECK

Analyzing Why is a state's comptroller of public accounts called a watchdog of the treasury?

Spending Public Money

As you have read, governments collect money to provide goods and services that taxpayers and other citizens want and need. Often, planning how to spend the money is the source of much political debate. As a citizen, you need to understand how governments at all levels plan to spend your money.

Planning Government Spending

All governments have budgets. As you know, a budget lists the amount and sources of expected revenue, or money income. A budget also specifies the proposed expenditures,

or money to be spent, for various public purposes. A budget is usually written to pay for the government's operations for one year.

The management of public funds is divided between the executive and legislative branches of government. The chief executive, such as the president, governor, or mayor, is responsible for drawing up the budget. However, the legislative branch must pass a budget into law before any public money can be spent. Once the budget has been passed, the executive branch must spend the money according to the approved budget.

Preparing the Federal Budget

In the federal government the president prepares a budget that details how public funds should be raised and how they should be spent. Planning the federal budget is very complicated. The president needs the help of several government agencies.

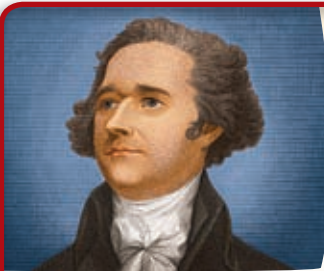
The chief agency that helps the president prepare the budget is the Office of Management and Budget (OMB). The OMB forecasts the amount of tax income the government will receive in the coming year.

Each of the executive departments makes a careful estimate of how much money it plans to spend the following year. All these estimates are submitted to the OMB. The president and the director of the OMB study the many requests. They establish priorities for the various departments' needs.

Congress and the Budget

Once the federal budget is prepared, the president sends it to Congress. Along with the budget, the president sends a message. It explains the budget and urges that it be passed.

Congress makes its own study of the proposed budget. As you have learned, only Congress has the power to raise and spend money. The House of Representatives and the Senate debate the various items in the budget. They make changes. Both houses of Congress must approve the final version of the federal budget. The budget is passed in the form of



FOCUS ON Alexander Hamilton (1757–1804)

Born on the West Indies island of Nevis in 1757, Alexander Hamilton moved to New York in 1772

for his formal education. Hamilton's abilities regarding finances revealed themselves at an early age.

In 1789 President George Washington appointed Hamilton as the first secretary of the treasury. As secretary of the treasury, Hamilton began a number of important proposals for the new nation. He created a plan to collect import duties and excise taxes for raising revenue and for paying off the national debt. He also developed plans for a congressional charter for the first Bank of the United States.

Hamilton was fatally wounded during a duel on July 11, 1804. He died in New York City the following day.

Making Inferences Why were Hamilton's proposals to pay America's debts and create a national bank so important to the new nation?

appropriations bills. Appropriations bills are bills that authorize the spending of funds. If approved, these bills are sent to the president to be approved or vetoed. These bills become the laws under which your tax dollars will be spent for the coming year.

The National Debt

When a government has a **balanced budget**, its revenue equals its expenditures. That is, the amount of money the government collects equals the amount of money it spends. However, frequently a government budget is not balanced. When a government collects more money than it spends, it has a **surplus**, or an excess of money. When a government spends more money than it collects, it has a **deficit**, or a shortage of money. When it runs a deficit, the federal government must borrow money each year to make up the difference between income and expenses. Borrowing money contributes more to the national debt. In 2005 the debt total neared \$8 trillion, and by 2011 it topped \$15 trillion.

Part of the revenue collected each year must be used to pay the interest on the national debt. This portion of the budget cannot be used to fund programs and services for the people. The interest on the debt is so high that future generations will be repaying the money that is being borrowed now. In addition, the federal government borrows much of the money it needs to make up for the deficit by issuing government bonds. Increasingly, these bonds are being bought by foreign investors. This means public tax dollars are going overseas to pay interest on these bonds.

There is no constitutional limit on the size of the national debt. Congress establishes a limit above which the debt cannot go. However, it periodically raises this limit as the need for more spending arises.

READING CHECK

Categorizing How are the budget responsibilities divided among the executive and legislative branches of government?

MATH 101

Calculating Using CPI

The Consumer Price Index (CPI) is a measure of the percentage change over time in the average cost of a market basket of goods and services purchased by consumers. The quantity and quality of the items in the basket are kept constant, so any changes in the cost of the basket are because of price changes and not because of changes to the items in the basket. An index number for each item in the basket and for the complete basket is given each year. You can calculate the percentage increase or decrease in prices by using these index numbers in this formula:

$$\left[\left(\frac{\text{Latest Index number}}{\text{Past Index number}} \right) \times 100 \right] - 100 = \text{Percent Change}$$

Here are a few examples of CPI (1982–1984 = 100):

Year	CPI
1990	130.7
1995	152.4
2005	195.3

ANALYSIS SKILL

ANALYZING INFORMATION

If a skateboard has an index number of 113 in 2006 and an index number of 89 in 1994, what has been the percentage increase in the price of the skateboard?

Accounting for Public Money

As a citizen, you have the right to know that your money is being handled properly. To ensure that funds are spent according to law, all levels of government provide for an audit of their accounts. An **audit** is a careful examination by trained accountants of every item of income and every expenditure.

Audits at Every Level

All governments must account for their revenues and expenditures. For example, in most states, local school districts must submit audit reports of their spending to the state department of education. At the federal level, the Government Accountability Office examines most federal expenditures.

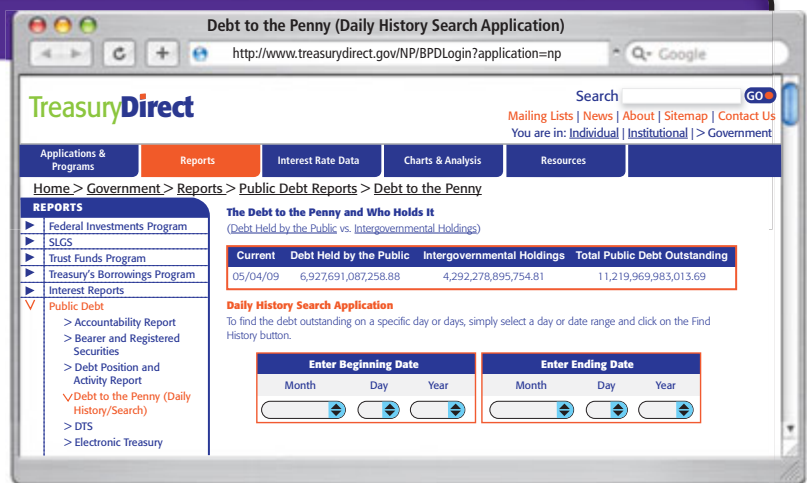
MEDIA INVESTIGATION

INTERNET

Data and the Internet

What is the current national debt? If you use the Internet to search for an exact figure, you may be surprised to find many different answers. Finding reliable facts and figures on the Internet can be challenging. However, certain clues will help you decide if an Internet source is reliable.

For example, reliable sources will provide the author's full name and contact information. They also should provide sources for their information. Be cautious of information you find on Web sites that do not provide this information.



ANALYSIS SKILL

MEDIA LITERACY

What should you look for to determine if a Web site is reliable?

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Citizen Responsibility

Even with audits and accountability, citizens must keep an eye on government revenue and spending. This means citizens must take an active role in the budgetary process. They must understand taxes, the use of public funds, and the national debt. When there is a problem or a question, citizens must make their voices

heard and get an answer. They should also vote on the local and national level for politicians and policies that match their economic beliefs. After all, it is their money that is being spent.

READING CHECK

Finding the Main Idea How do governments and citizens ensure that public funds are being spent properly?

SECTION 3 ASSESSMENT

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ONLINE QUIZ

Reviewing Ideas and Terms

1. **a. Recall** What agencies collect revenue for the federal government?
- b. Explain** What is the purpose of a government budget?
2. **a. Define** Write a brief definition of the terms **balanced budget**, **surplus**, and **deficit**.
- b. Contrast** What are the differences between the budget responsibilities of the president and Congress?
- c. Evaluate** Do you think that the budget always reflects all of the needs of American citizens?
3. **a. Define** Write a brief definition of the term **audit**.
- b. Predict** In your opinion, how does a growing national debt affect future generations?

Critical Thinking

4. **Categorizing** Use the graphic organizer and your notes to identify the responsibilities of the two branches of government in creating the federal budget. Add rows to the organizer as necessary.

Executive Branch	Legislative Branch

FOCUS ON WRITING

5. **Supporting a Point of View** Write a letter to the president with your recommendations for keeping the federal budget balanced.

STUDENTS TAKE ACTION

PROJECT Citizen



Helping Homeless Teenagers

What would it be like to not have a home or anywhere to turn for help? For some teenagers, this question is a reality. Acting on a proposal by local students, the city of Newberg, Oregon, opened a drop-in center. It helps teenagers who do not have a place to live.

Community Connection Project Citizen students in Ms. Terry McElligott's class were concerned about the fate of homeless teenagers. In one year alone, more than 100 runaways were reported to police in Newberg. "As I got farther into the project I learned how many kids are on the streets," said team member Paula McKinney.

Taking Action The students contacted existing teen shelters. They wanted to learn what sort of services would be needed to help the homeless. They also gathered input from local groups that helped teens. Students took on different roles in researching and preparing a proposal for the city to create a drop-in center where homeless teenagers could receive help and turn their lives around. They presented their proposal to the Newberg City Club and the School District Board of Directors. They also wrote to city leaders and contributed to articles in the local newspaper. They published brochures sent out with the school newsletter. They interviewed citizens to build support for their plan. Finally, the city agreed to sponsor a drop-in center for teenagers in crisis. Officials used the careful research and reports the students had provided to apply for funding to pay for the new center.



Communities around the country support youth centers to help homeless teenagers.

SERVICE LEARNING



1. How did students in Newberg respond to the problem of teenage homelessness in their community?
2. What methods did the students use to gain support for their idea?

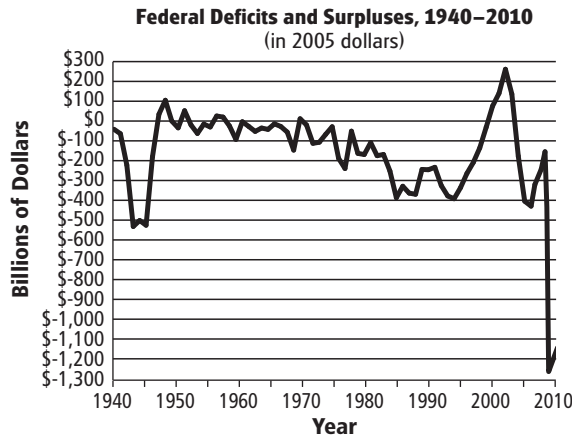
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CHAPTER 12 REVIEW



FLORIDA CIVICS EOC PRACTICE

1. The graph below shows federal deficits and surpluses for the years from 1940 to 2010.



Source: U.S. Office of Management and Budget

About when did the United States start to drop from an all-time (within the span of years on the graph) high surplus to a deficit of more than \$400 billion?

- A. 1947 C. 1985
B. 1950 D. 2000
2. What is the term for a tax that takes a larger percentage of income from low-income groups than from high-income groups?
- A. excise tax
B. property tax
C. regressive tax
D. progressive tax

Reviewing Key Terms

For each term below, write a sentence explaining its significance.

1. interest
2. national debt
3. revenue
4. fees
5. fine
6. bond
7. income tax
8. progressive tax
9. profit
10. regressive tax
11. property tax
12. tariff
13. balanced budget
14. surplus
15. deficit
16. audit

Comprehension and Critical Thinking

SECTION 1 (Pages 294–298)

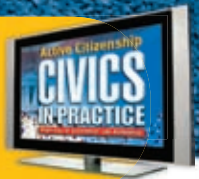
17. **a. Recall** What are three reasons for the high cost of government?
- b. Describe** What are the purposes of taxation, and what principles does the government use to try to make taxation fair?
- c. Elaborate** Explain one method governments use to finance large, long-term projects.

SECTION 2 (Pages 299–303)

18. **a. Recall** What are five main types of taxes that people have to pay?
- b. Explain** How is individual income tax calculated, and how do citizens pay individual income taxes?
- c. Evaluate** Do you think that the income tax should be a progressive tax? Why or why not?

Active Citizenship video program

Review the video to answer the closing question:
What are at least three benefits of working with others to improve your community?



SECTION 3 (Pages 305–308)

- 19. a. Recall** What is the difference between a surplus and a deficit?
- b. Elaborate** How do the president and the Congress each play a role in the federal government budget process?
- c. Identifying Points of View** In recent years some federal officials and members of the public have sought a constitutional amendment to require a balanced federal budget each year. However, Congress and many citizens have strongly resisted such an action. What are the reasons for supporting or opposing a balanced budget amendment?

Civics Skills

Analyzing a Documentary Use the steps for analyzing a documentary that you learned earlier in the chapter to answer the questions below.

- 1 Identify the point of view.
- 2 Notice how the visuals and images make you feel.
- 3 Investigate the source.
- 4 Check the facts.

- 20.** What types of information in a documentary might indicate the filmmaker's point of view?
- 21.** Why might documentary filmmakers want to try to elicit some type of emotion from their viewers?
- 22.** Why is it important to verify the information presented in a documentary?

Reading Skills

Problem Solving Use the Reading Skills taught in this chapter to answer the questions about the reading selection below.

Government officials, therefore, face difficult decisions. What government programs most need money? What programs will bring the greatest benefits to the most people? Government officials must decide which activities need funding, in order of their urgency and need. This process is called establishing priorities. (p. 296)

- 23.** What is the problem described in this passage?
- 24.** List three standards you would use to determine which government programs received the highest priority for funding.
- 25.** List several possible solutions to the problem described in the passage. What are the advantages and disadvantages of each?

Using the Internet

- 26. Exploring Government Finance** Through your online textbook, build your understanding of the current federal budget and national debt. Then create a chart illustrating major expenditures in the current federal budget and a graph that illustrates the changes in the national debt from 1985 to the present.

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FOCUS ON WRITING

- 27. Writing Your Article** Review your notes from this chapter. Then choose the subject you think would make the best newspaper or magazine article. Write an attention-grabbing headline or title. Then write your article, giving both your opinion and as many facts as possible.

Sales Tax on the Internet

You go to a store and buy a new CD or book. In most states you pay an extra amount of 4 to 8 percent of the purchase price. This sales tax goes to the state or local government. You buy the same item on the Internet. However, you will probably not pay sales tax. Some business owners say this system gives Internet retail companies an unfair advantage.

Why it Matters

People do have to pay taxes on goods purchased online from businesses in their own state. Out-of-state Internet sales, however, involve interstate commerce, which only Congress can regulate. In 1992 the Supreme Court ruled that cities and states cannot charge sales tax for any items purchased over the Internet from out-of-state companies. Since the time the Supreme Court made its ruling, however, Internet sales have exploded. They have cut into the sales of many local stores—and the sales taxes they collect.

The Internet taxation issue trickles down even farther. The Internet shopping boom has hurt cities and states that rely on sales taxes to fund services. In the 1990s, some states responded. They tried to pass special taxes on companies doing business over the Internet. Congress prohibited this practice in 1998. However, it encouraged states to begin working together to create a system that helps businesses easily calculate and pay any taxes they owe. Since 2000 some 40 states have joined together to work toward this sales tax system. A number of Internet retailers have also started voluntarily collecting taxes on out-of-state sales. In addition, a California court ruling strengthened the effort to collect sales taxes. It ordered a national music and book chain to pay taxes on Internet sales. Why? The court noted that, while customers purchased books online, they could return them at the company's local stores. This counted as local commerce.



Consumers, state governments, and retailers are working together to solve the issue of Internet sales taxes.

ANALYSIS SKILL

EVALUATING THE LAW

1. How does not paying sales tax on Internet purchases harm local businesses and city and state governments?
2. Do you think that people should pay sales tax on all Internet purchases? Why or why not?

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