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*Key*

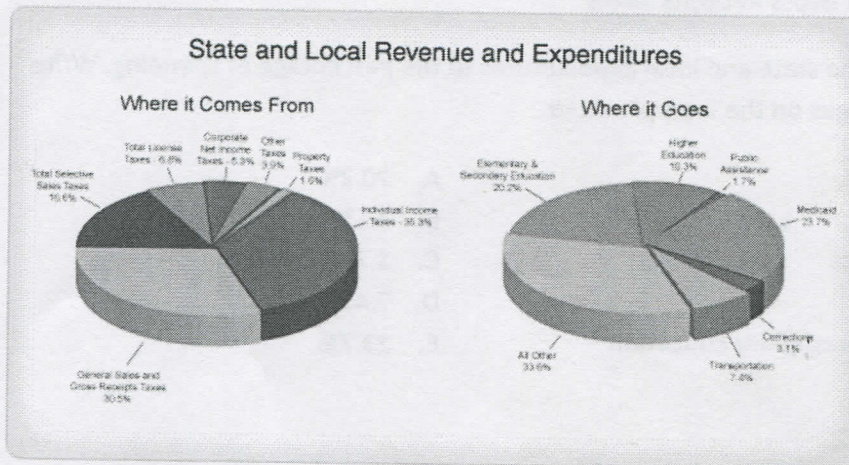
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**What is Taxed and Why? Federal/State/Local Taxes WS 1**

REVENUE SOURCES FOR STATE AND LOCAL GOVERNMENTS			
Type of Tax	Definition	Examples	Revenues Support
Transaction taxes	Taxes on economic transactions, such as the sale of goods and services. These can be based on a set of percentages of the sales value (sales taxes), or they can be a set amount on physical quantities ("per unit"—gasoline taxes).	<ul style="list-style-type: none"> <li>Retail sales taxes</li> <li>Excise taxes on vehicles, boats, gasoline, and tobacco</li> <li>"Value added" taxes imposed on goods at each stage of processing</li> <li>Restaurant and hotel taxes</li> </ul>	<ul style="list-style-type: none"> <li>State and local services, such as education, welfare, Medicaid, police, employment services, parks, fish and wildlife</li> <li>Gasoline taxes are often earmarked for state highway construction and maintenance.</li> </ul>
Income taxes	Taxes on income, both earned (salaries, wages, tips, commissions) and unearned (interest, dividends). Income taxes can be levied on both individuals (personal income taxes) and businesses (business and corporate income taxes).	<ul style="list-style-type: none"> <li>Federal, state or local withholding taxes</li> <li>Taxes on interest or dividend payments</li> <li>Taxes on awards or prizes</li> <li>Taxes on profits and earnings in businesses</li> </ul>	<ul style="list-style-type: none"> <li>Increasingly supplementing or taking the place of some sales taxes to support state expenses</li> <li>Beginning to be used on local level as well, largely to support education and welfare programs</li> </ul>
Property taxes	Taxes on personal and business property	<ul style="list-style-type: none"> <li>Taxes on property, especially real estate (land and buildings) and also boats, recreational vehicles, business inventories, or stocks and bonds ("intangibles")</li> </ul>	<ul style="list-style-type: none"> <li>Traditional source of funding for schools and local services (police, fire, libraries, parks, water, and sanitation)</li> </ul>

Data from 2012





To avoid cutting services, City Council members have proposed various ways to raise additional revenue. Some have proposed increasing property taxes. Others want to increase the local sales tax from 1 percent to 2 percent. Another proposal is to charge individual income taxes at a flat rate of 2 percent.

1. If a consumer spends \$4,000 per year on taxable items, how much additional sales tax would they pay per year under the proposed plan? \$40
2. How many of these consumers would it take to make up the difference between the old federal grant and the new one? 375 consumers
3. If a couple's taxable earnings are \$35,000 per year, how much local income tax would the couple pay under the proposed plan? \$700
4. About how many such taxpayers would it take to make up the difference between the old federal grant and the new one? Between 21 & 22

Match the descriptions with the correct key term. Write the capital letter of the correct key term on the line provided.

- A. General Sales Taxes                      B. Individual Income Taxes                      C. Property Taxes

5. The largest share of federal tax revenue comes from B.
6. What homeowners pay based on the value of their residence. C
7. Taxes collected on the sale of clothes are an example of this type of tax. A

Rank the following revenue sources in the order in which they contribute to the state and local income. 1 = greatest amount and 5 is the least amount contributed. Use the pie chart on the front of this paper.

8. 1 Individual Income Tax
9. 5 Property Tax
10. 3 License Taxes
11. 4 Corporate Income Taxes
12. 2 General Sales & Gross Receipts Taxes

Using the same pie chart, match the state and local expenditures to the percentage of spending. Write the letters of the correct percentages on the lines provided.

- |   |          |
|---|----------|
| 13. <u>E</u> Medicaid                         | A. 20.2% |
| 14. <u>D</u> Transportation                   | B. 3.1%  |
| 15. <u>C</u> Public Assistance                | C. 1.7%  |
| 16. <u>B</u> Corrections                      | D. 7.4%  |
| 17. <u>A</u> Elementary & Secondary Education | E. 23.7% |