

Financing Government

Current Federal Taxes

The Income Tax

The income tax is the largest source of federal revenue today. The tax is also a **progressive tax**, that is, the higher the income and the ability to pay, the higher the tax rate.

Individual Income Tax

- Individual income taxes regularly provide the largest source of federal revenue.
- The tax is levied on each person's taxable income.

Corporation Income Tax

- Each corporation must pay a tax on its net income, that is, on the earnings above the costs of doing business.

Social Insurance Taxes

There are three main types of social insurance taxes levied:

OASDI

- The Old-Age, Survivors, and Disability program is the basic Social Security program.

Medicare

- Medicare is health insurance for the elderly and part of the Social Security program.

Unemployment Compensation

- The unemployment compensation program pays benefits to jobless workers and is also part of the overall Social Security program.

Other Types of Taxes

Excise Taxes

- An **excise tax** is a tax laid on the manufacture, sale, or consumption of goods and/or the performance of services.

Custom Duties

- A **custom duty** is a tax laid on goods brought into the U.S. from abroad.

Estate and Gift Taxes

- An **estate tax** is a levy imposed on the assets (estate) of one who dies. A **gift tax** is one imposed on the making of a gift by a living person.

The Federal Government's Income

Federal revenue comes from several different sources:

The Federal Government's Income (in billions of dollars)

	1980	1990	1995	1999	2000*	2001*
Individual income taxes	\$244.1	\$466.9	\$590.2	\$879.4	\$951.6	\$972.4
Corporation income taxes	64.6	93.5	157.0	184.7	192.4	194.8
Social insurance taxes and contributions	157.8	380.0	484.5	611.8	650.0	682.1
Excise taxes	24.3	35.3	57.5	70.4	68.4	76.7
Estate and gift taxes	6.4	11.5	14.8	27.8	30.5	32.3
Customs duties	7.2	16.7	19.3	18.3	20.9	20.9
Miscellaneous receipts	12.7	27.8	28.6	34.9	42.5	39.9
Total receipts**	\$517.1	\$1,032.0	\$1,351.8	\$1,827.5	\$1,956.3	\$2,019.0

*Estimated

**Columns may not add to totals due to rounding and additional sources of income.

SOURCE: Office of Management and Budget

Revenue - 2011

- **Type** -yr [2011](#) +yr
 - [Total Direct Revenue](#) \$4.9 trillion
 - [Income Taxes](#) \$1.6 trillion
 - [Social Insurance Taxes](#) \$1.0 trillion
 - [Ad-valorem Taxes](#) \$1.1 trillion
 - [Fees and Charges](#) \$0.4 trillion
 - [Business and Other Revenue](#) \$0.7 trillion source:
guesstimated² estimated
- Click chart for table of Revenues

Taxing for Nonrevenue Purposes

- Besides taxing for revenue purposes, the Federal Government sometimes taxes for the purpose of regulating and even discouraging some activity that Congress thinks is harmful or dangerous to the public.
- The Supreme Court has upheld Congress's taxing for nonrevenue purposes.
- However, the Supreme Court can still rule a tax unlawful if it finds that the tax was imposed for improper reasons.

Nontax Revenues and Borrowing

Nontax Revenues

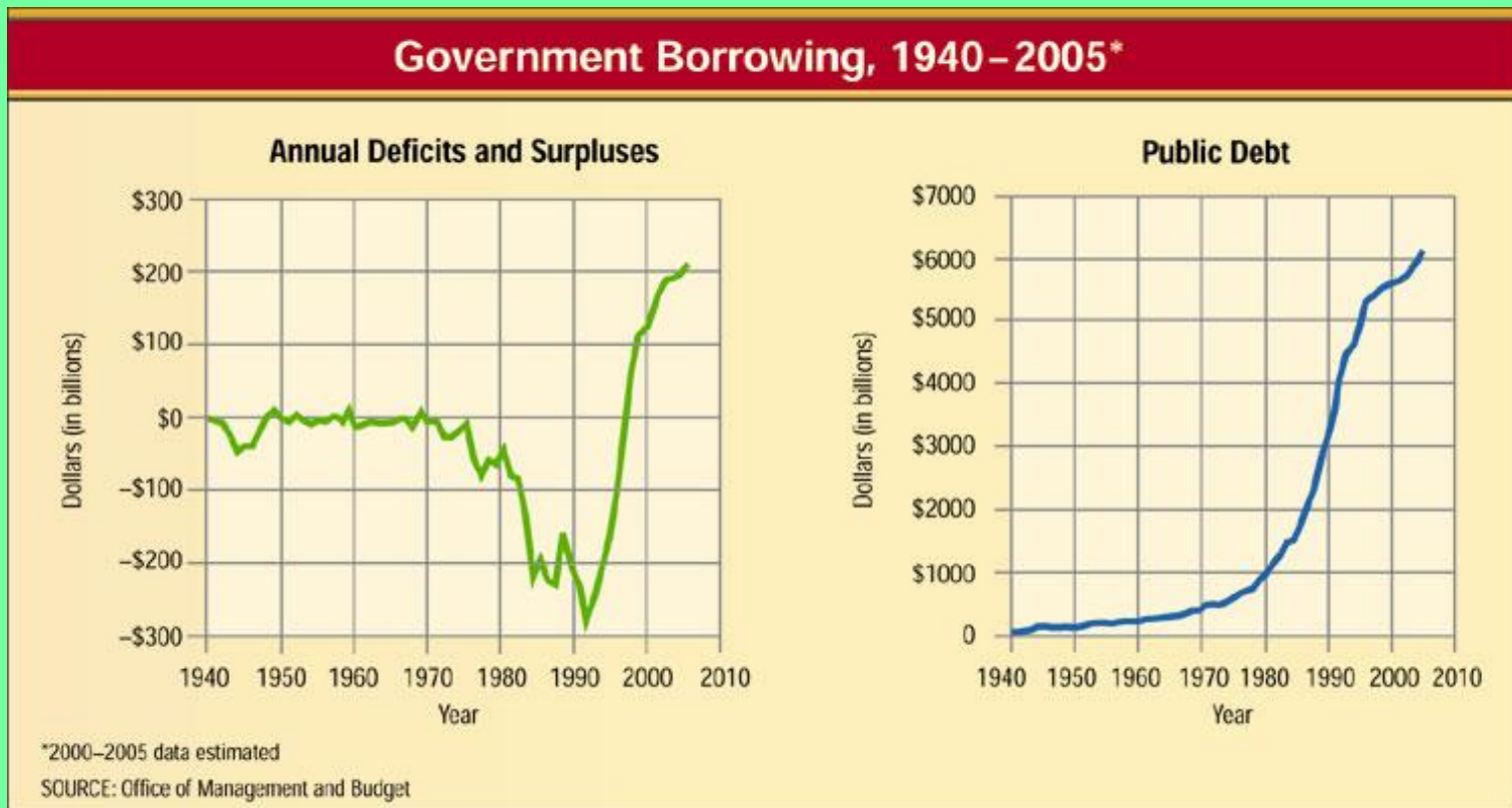
- Nontax revenues come from a variety of sources, including canal tolls; fees for passports, copyrights, and patents; interest earned; and selling philatelic stamps.

Borrowing

- Congress has the power “[t]o borrow Money on the credit of the United States.” (Article I, Section 8, Clause 2).
- A **deficit** is the shortfall between income and spending.
- A **surplus** is more income than spending.
- Congress must authorize all federal borrowing.

The Public Debt

The public debt is the government's total outstanding indebtedness. It includes all of the money borrowed and not yet repaid, plus the accrued, or accumulated, interest.



Causes and Effects of the Public Debt

Causes:

- Deficit financing
- Failure to repay the debt over time
- Interest accruing on the existing debt

Effects:

- Increased revenue needed to pay off the debt
- Fears of financial obligations for tomorrow's taxpayers

Federal Spending

Spending by the Federal Government accounts for billions of dollars and has effects on the economy as a whole.

Spending Priorities

- **Entitlements** are benefits that federal law says must be paid to all those who meet the eligibility requirements. Entitlements are the largest sector of government spending.
- Interest on the public debt has grown to be the second largest category of federal spending.
- Outlays for defense spending account for another large section of the federal budget.

Creating the Federal Budget

Creating the Federal Budget

Federal agencies send their money requests to the Office of Management and Budget (OMB).

The OMB reviews agency requests and melds them into the President's budget. In January or February, the President sends his budget to Congress.

Congress reviews budget, enacts several appropriations measures.

The President signs funding measures.

OR

The President vetoes one or more funding measures. If Congress cannot get a $\frac{2}{3}$ majority to override veto, Congress and the President must reach a compromise to resolve the dispute(s).