LGA Personal Finance/Economics Class

*Vocabulary and Notes*

***Federal and State Government – March 11, 2014***

**The Federal Budget**

-Preparing the Budget – a blueprint of how the government will raise and spend money

-President and Congress work on

-Fiscal Year (FY) – 12 month period / may or may not match calendar year

-October 1 – September 30

-President submits proposed budget – outline of his ideas

-Congress submits budget resolution – total revenues and spending for the year and sets targets

**2 types of spending**

1. Mandatory spending – spending that does not need annual approval – ex. Interest on government debt and Social Security benefit checks
2. Discretionary spending – government expenditures that must be approved each year - ex. Defense, highway construction, space – 1/3 of budget

* Appropriations bill – approves spending for a particular activity (before government can spend any money Congress must pass this)
  + 13 separate appropriations bills that go through normal bill process before September 15
  + If they are not approved, a temporary or “stop gap” continuing bill can be passed

**2 parts of federal budget**

1. Revenues
2. Expenditures

**Federal Revenue**

**1. Income Tax**

**-**individual income tax is nearly half of the federal government’s revenue

-corporate income tax is about 10 percent of the revenue

-Tax return – annual report to the government that calculates the tax a worker must pay on his or her income

**2. Payroll Tax**

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Second-largest source of federal income (about 1/3rd)

-deducted from a worker’s paycheck to fund Social Security and Medicare

-Social Security – government program that provides money to people who are retired or disabled

-Medicare – pays some health care costs of elderly people

3. Excise Tax – taxes paid on purchase of certain goods (gasoline, tobacco, alcohol, legal betting, telephone service) – only 3.4 cents of every dollar collected

4. Estate Tax / Gift Tax – 1.3 cents of every federal revenue dollar

5. Miscellaneous Sources of Revenue – 2% of budget – ex. Fees from entering national parks and oil company fees to drill on public land

**3 kinds of taxes**

1. Proportional tax – same percentage charged regardless of how much someone makes
   1. Easiest tax to understand and figure
2. Progressive tax – tax rate (the proportion of earnings taken in taxes) increases as your income increases
   1. Ex. Federal Income Tax System
   2. The more you make, the larger percentage you pay in taxes
3. Regressive tax – percentage you pay goes down as you make more money
   1. Ex. Social Security taxes, gasoline taxes, sales taxes

**Federal Expenditures**

1. Social Security, Medicare, Income Security, and Health
   1. Largest single spending category (about 22.4% and rising)
2. National Defense
   1. Second largest category (around 16%)
3. Interest on Debt
   1. Amount paid depends on how much money
   2. is borrowed and interest rates of the debt

Balanced Budget – when spending equals revenues

***State and Local Governments***

Intergovernmental revenues – money that one level of government receives from another level of government

Sales tax – a general tax levied on consumer purchases of nearly all products

Property tax – taxes that people pay on the land and houses they own; usually real property; second largest source of local revenue

Real property – land and buildings

Personal property – portable objects such as stocks, bonds, jewelry, furniture, automobiles, and art

Entitlement programs – programs that provide *public welfare or human services* - government efforts to maintain basic health and living conditions for people who have insufficient resources of their own