

THE FEDERAL RESERVE BANK OF ATLANTA

Taxes

How do we pay for the goods and services that government provides?

MACROECONOMICS

Taxes: How Do We Pay for the Goods and Services Government Provides? Infographic Activity (2024)

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Taxes: How Do We Pay for the Goods and Services the Government Provides? Activity

All levels of government must pay for the goods and services they provide, and tax money is used to pay those expenditures. However, the types of taxes and expenditures are different at the federal, state, and local level. Most states and local governments are required to have a balanced budget, but the federal government can have a deficit or surplus. Finally, tax systems can be classified as progressive, regressive, or proportional.

Activity 1

1. To begin this activity, introduce the [Taxes: How Do We Pay for the Goods and Services the Government Provides?](#) infographic to students, either on a projector, posted around the room, or share copies of the infographic at student tables or desks.
2. Have students work together in pairs or groups of three to complete [Handout 1: Taxes \(Macroeconomics\) Infographic Questionnaire](#) and review the answers together as a class.

Activity 2

1. Tell students that federal, state and local governments collect different categories of taxes to fund their spending. They may also borrow to fund expenditures, usually by issuing bonds, known as municipal bonds. Just as different types of taxes are collected at different government levels, different types of expenditures are made at federal, state, and local levels.
2. Place each of the signs “Federal” “State” and “Local” from [Handout 2: Tax Levies and Expenditures](#) at different locations on the walls of the classroom. Distribute cards from [Handout 2](#) that describe types of taxes to each student or for larger classes, one per pair or group of students. (There are eighteen cards).
3. Explain to students that they will do a “gallery walk” around the classroom and place the card they received under the type of government entity (federal, state, local) that levies the type of tax that is on their card or makes the types of expenditure that is on their card. Provide tape for students to attach the cards underneath the correct sign, or students may write the word(s) on their cards on a sticky note.
4. When students have completed the activity, check answers as a class, using the infographic as a guide.
5. Review with students the three types of tax systems:
 - a. Progressive tax: a system in which the tax rate increases as income increases.
 - b. Regressive tax: a system in which the tax rate decreases as income increases.
 - c. Proportional (flat) tax: a system in which the tax rate is the same for all incomes.

6. Display [Visual 1: Types of Taxes](#). Tell students that to review the different types of taxes, they will listen to a few scenarios and will vote on which type of tax system the scenario is representing. For progressive tax, raise one finger; for regressive tax, raise two fingers; and for proportional tax raise three fingers. Ask for student volunteers to read the scenarios.

Scenario 1: In this state, the state income tax is assessed at 10 percent of income, regardless of the amount. (*Proportional or flat tax—raise three fingers*)

Scenario 2: Both John and Jasmine buy \$100 worth of gasoline each month and each pay \$35 in excise taxes. John earns \$2,000 a month and Jasmine earns \$3200 per month. (*Regressive tax—raise two fingers*)

Scenario 3: This city assesses an occupational tax of one percent on the income of all workers in the city. (*Proportional or flat tax—raise three fingers*)

Scenario 4: Earners making \$40,000 or less pay five percent of their income in tax, earners making between \$40,001 and \$80,000 pay eight percent of their income in tax, and those making \$80,000 or more pay 11 percent of their income in tax. (*Progressive tax—raise one finger*)

7. Ask students if their state has sales and/or income taxes. Use the infographic to verify.

All states have sales taxes except for: Montana, Oregon, Alaska, New Hampshire, and Delaware. All states have income taxes except for: Washington, Nevada, Wyoming, South Dakota, Texas, Alaska, New Hampshire, Tennessee, and Florida. Tennessee and New Hampshire tax dividend and interest income.

8. Emphasize that when government tax revenues do not equal government expenditures, a budget deficit or surplus will occur. This can either increase or decrease the national debt.
9. As a review, distribute copies of [Handout 4: Review Puzzle](#), one each to student pair or group. Tell students to complete the puzzle by cutting out the cards and putting them in the proper order to make complete sentences.

Handout 1 Taxes (Macroeconomics) Infographic Questionnaire

All levels of government must pay for the goods and services they provide, and tax money is used to pay those expenditures. However, the types of taxes and expenditures are different at the federal, state, and local level. Most states and local governments are required to have a balanced budget, but the federal government can have a deficit or surplus. Finally, tax systems can be classified as progressive, regressive, or proportional.

Refer to the infographic to answer the following questions:

1. Define taxes.
2. What levels of government assess taxes?
3. What types of taxes are collected and what expenses are paid at the federal level?

Taxes	Expenses

4. What types of taxes are collected and what expenses are paid at the state level?

Taxes	Expenses

5. What types of taxes are collected and what expenses are paid at the local level?

Taxes	Expenses

6. How many states do not levy sales taxes? Name two.
7. How many states do not have income taxes? Name two.

8. When government spending exceeds tax receipts, what is that called? How does this affect the national debt?

9. How does a surplus occur?

10. Define each of the three types of taxes.

a. Progressive tax:

b. Regressive tax:

c. Proportional (flat) tax:

Handout 2: Tax Levies and Expenditures

FEDERAL

STATE

LOCAL

Income Tax	Corporate Tax
Payroll Taxes	Sales Taxes
Income Taxes	Corporate Taxes
Property Taxes	Sales Taxes
Social Security	Police
Education	Roads

Defense	Criminal Justice
Schools	Health Care
Public Health	

Visual 1: Types of Taxes

Progressive: Raise One Finger

Regressive: Raise Two Fingers

Proportional: Raise Three Fingers

Scenario 1:

In this state, the state income tax is assessed at 10 percent of income, regardless of the amount.

Scenario 2:

Both John and Jasmine buy \$100 worth of gasoline each month and each pay \$35 in excise taxes. John earns \$2,000 a month and Jasmine earns \$3200 per month.

Scenario 3:

This city assesses an occupational tax of one percent on the income of all workers in the city.

Scenario 4:

Earners making \$40,000 or less pay five percent of their income in tax, earners making between \$40,001 and \$80,000 pay eight percent of their income in tax, and those making \$80,000 or more pay 11 percent of their income in tax.

Handout 3: Review Puzzle

to local, state, and national government	and the national debt rises.	When the government receives more revenue than it spends,
it creates a deficit	Taxes are	and the national debt goes down.
A progressive tax is	for all incomes.	as income increases.
a system in which the tax rate decreases	A proportional (flat) tax is	a system in which the tax rate is the same
as income increases.	a system in which the tax rate increases	A regressive tax is
it creates a surplus	mandatory payments individuals, households, and businesses make	When the government spends more than it receives in revenue