

### Federal Taxing and Budgeting

Americans pay different taxes, to different governments, which are assigned different goals by the Constitution.

For example, Americans pay property or sales taxes to their state and local governments, which have responsibility for education, police, and fire departments, for example. (Many states also collect income taxes, as well.)

The Constitution assigns the federal government responsibility to provide national defense, a federal court system, the post office, and the like, which are largely supported by federal income taxes, both personal and corporate. Americans also pay federal payroll taxes to support programs such as Social Security and Medicare. (Both personal income and payroll taxes are withheld by one's employer, and given to the federal or state government first). Other sources of revenue include tariffs, inheritance taxes, and fees (such as postage or national park permits).

The federal budget is composed of three broad categories of expenditures: mandatory, discretionary, and interest payments on the pre-existing national debt. The amount of discretionary spending is up to Congress to decide in a given year, whereas mandatory spending is calculated based on already promised funding using eligibility formulas.

The states are generally required by their own state constitutions to have a balanced budget—that is, their expenditures cannot exceed their revenues. The federal government has no similar requirement and usually runs a deficit; paying interest on that deficit is one of seven major expenditures calculated by the Congressional Budget Office.

The Congressional Budget Office breaks down federal spending into seven categories, and calculates it as a percentage of the total American economic output (which is often called the Gross Domestic Product). In 2019, the United States GDP—the entire total of the American economic output-- was approximately 20 trillion dollars; total federal spending was 4.4 trillion dollars.

How much do you think the federal government spends on each of the seven categories of expenditures (your total will be 4.4 trillion)? How do you think total federal expenditures compare to total federal revenues (such as income taxes)?

### Mandatory Spending:

Social Security (a financial pension for those of retirement age) \_\_\_\_\_

Medicare (medical coverage for those of retirement age) \_\_\_\_\_

Medicaid \_\_\_\_\_

(financial assistance for medical treatment for low income individuals and families)

Other mandatory spending (e.g. pensions for veterans and federal employees) \_\_\_\_\_

**Discretionary Spending:**

- Defense \_\_\_\_\_
- Non defense \_\_\_\_\_  
(federal assistance for transportation, education, maintaining national parks,  
foreign aid, etc)

**Interest on the Debt** \_\_\_\_\_

**Total Federal Spending** **\$4.4 Trillion**

**Total Federal Revenues (income, payroll and inheritance** \_\_\_\_\_

**Questions:**

How did your guesses compare to the CBO reports?

Were there areas of spending that were much higher or lower than you expected?

Were federal revenues (taxes) as a percentage of GDP higher or lower than you expected?

What surprised you about the federal budget?