

CHAPTER
16

Financing Government

SECTION 1

TAXES

TEXT SUMMARY

The Constitution gives the power to tax to Congress, but it places limits on that power. Congress must tax in accord with all parts of the Constitution. It can set taxes for public purposes only and may not tax exports. Direct taxes, except the income tax, must be apportioned according to State population. Indirect tax rates must be the same everywhere. Congress also may not tax any governmental function of a State or its local governments.

Americans today pay several kinds of federal taxes. The largest source of federal revenue, the income tax, is

levied on each person's yearly earnings. It is a **progressive tax**, meaning the higher the income, the higher the tax rate. Each U.S. income-earner files an annual **tax return**, a form that shows the tax owed. Businesses pay corporate income taxes.

Social insurance taxes fund three programs: Old-Age, Survivors, and Disability Insurance, known as Social Security; Medicare, or health care for the elderly; and unemployment compensation. These taxes are paid as **payroll taxes**, which employers withhold from paychecks and send to the government. Social insurance taxes are **regressive taxes**, meaning the rate is the same for everyone.

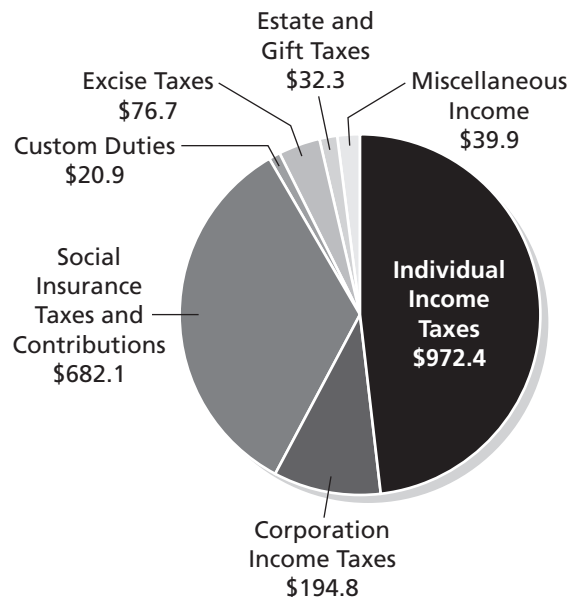
Congress places an **excise tax** on the making, selling, and using of certain goods and services. An **estate tax** must be paid on the assets of a person who has died. Gifts of over \$10,000 in one year are subject to a **gift tax**. A **custom duty** is a tax laid on goods brought into the United States from another country.

THE BIG IDEA

The Constitution gives Congress broad power to set federal taxes, which today are collected mostly as income taxes.

GRAPHIC SUMMARY: The Federal Government's Estimated Income, 2001

Total Income \$2,019.0
(in billions of dollars)



The Federal Government acquires billions of dollars in revenues from taxes.

REVIEW QUESTIONS

1. What makes the income tax a progressive tax?
2. **Graph Skills** How much of the federal revenue will come from individual income taxes in 2001?