Budget Choices Matter

Trace how spending, taxes, and incentives shape economic decisions.

12.E4b "The president and Congress determine fiscal policy by establishing the level of spending and taxing in the annual budget. Some tax programs are designed to provide incentives to individuals and businesses that influence private sector..."

NAME ____________________ DATE ____________

1 READ AND MARK

Read it twice

YOUR JOB Underline spending and tax choices. Circle incentives. Mark the private behavior each incentive targets.

Fiscal Policy in Action

1. Fiscal policy concerns government spending and taxes. The president submits an annual budget proposal. Congress develops legislation, including appropriations and tax changes, and sends passed bills to the president to sign or veto; Congress can override a veto with the required votes. A budget proposal alone does not change law. Some spending and tax rules continue under existing laws rather than being rewritten each year.

2. Tax incentives change an activity's after-tax cost or return. Imagine a proposed credit for qualifying energy equipment: eligible households could subtract the credit from their tax bill under its rules. A deduction instead reduces taxable income, so its tax savings depend on the applicable tax rate. Neither forces a purchase. Households and businesses may respond differently depending on eligibility, costs, expected benefits, and available funds.

3. Federal spending on a port can pay contractors and support supply-chain investment. An equipment incentive may encourage businesses to purchase machinery, including imported machinery. But some recipients would have bought it anyway. Lower revenue from an incentive can increase borrowing or require other budget changes. Evaluating a proposal means comparing the additional behavior it induces with its costs and other possible uses of public funds.

2 ANSWER WITH EVIDENCE

Use the passage

1. What roles do the president and Congress have in making annual budget decisions?

2. Identify one way the budget can use spending and one way it can use taxes.

3. How could the proposed energy-equipment tax credit influence a household's spending?

4. What trade-off may result when taxes are lowered through an incentive program?

3 YOUR TURN

Your own words

Propose one fiscal-policy choice that includes a federal spending decision and a tax incentive. In three sentences, explain the private behavior the incentive targets and one budget trade-off policymakers would need to consider.

ANSWER KEY

Budget Choices Matter

PART 1 · READ AND MARK

Underline spending and tax choices. Circle incentives. Mark the private behavior each incentive targets. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	What roles do the president and Congress have in making annual budget decisions?	**The president proposes priorities and signs or vetoes bills. Congress develops and passes spending and tax legislation and can override a veto with the required votes.**
2	Identify one way the budget can use spending and one way it can use taxes.	**Spending can direct money to public purposes such as roads, research, or disaster relief. Taxes can change how much revenue the government collects.**
3	How could the proposed energy-equipment tax credit influence a household's spending?	**For an eligible household, the credit could lower tax owed and the purchase's after-tax cost, encouraging spending without requiring it.**
4	What trade-off may result when taxes are lowered through an incentive program?	**Lower taxes can leave less revenue for other programs unless officials borrow more, cut spending, or raise other taxes.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

Congress and the president could increase federal spending on broadband infrastructure while offering a tax credit to small businesses that buy qualifying digital equipment. The credit would lower the after-tax cost and could encourage private investment. The policy could require borrowing, spending cuts elsewhere, or other tax increases if revenue does not cover its cost.

Accept accurate role distinctions, including sign-or-veto authority. For the hypothetical proposal, require a spending choice, tax incentive, targeted behavior, and plausible budget trade-off. Do not assume every incentive changes every recipient's behavior.