The Budget Balance

How budget choices and tax structures affect Americans

E.C.10.2 "Explain how changes in federal spending and taxation can affect budget deficits, surpluses, and the national debt, and describe how different tax structures (progressive, proportional, and regressive) distribute tax burdens among earners."

NAME _____ DATE _____

1 READ AND MARK

Read it twice

YOUR JOB Underline statements that link spending or tax revenue to a deficit, surplus, or debt. Circle each tax structure, then write "higher," "same," or "lower" beside it to show the percentage of income higher earners pay compared with lower earners.

A Flood Barrier and the Federal Budget

1. Imagine Congress debating a new federal flood barrier after a season of costly storms. The government expects $4.5 trillion in tax revenue and plans to spend $4.8 trillion during the year, including interest payments on existing debt. Because spending exceeds revenue by $0.3 trillion, the budget has a deficit. If lawmakers add $0.2 trillion for the barrier without changing taxes or other spending, the deficit rises to $0.5 trillion. If they also raise tax revenue by $0.2 trillion, the deficit stays at $0.3 trillion. A budget decision changes the gap between money coming in and money going out.

2. A deficit is a one-year shortfall, while the national debt is the total the federal government still owes from past borrowing. To cover a deficit, the government generally borrows, adding to that debt. Now imagine tax revenue reaches $5.0 trillion in a later year while total spending, including interest, stays at $4.8 trillion. The $0.2 trillion surplus could be used to pay down debt. Yet one surplus would not erase a much larger debt. Cutting spending or increasing tax revenue can shrink a deficit, but either choice can also affect public services or households' take-home pay.

3. How taxes are collected matters as much as how much is collected. Under a progressive income tax, higher earners pay a larger percentage of their income in tax than lower earners do. A proportional income tax takes the same percentage from every earner; at 10 percent, a $30,000 earner pays $3,000 and a $300,000 earner pays $30,000. A regressive tax takes a larger share of income from lower earners than higher earners. A flat sales tax can work this way when lower-income households spend a greater share of their income on taxed goods. Each structure divides the cost of government differently.

2 ANSWER WITH EVIDENCE

Use the passage

1. If Congress funds the flood barrier without raising tax revenue, how does the deficit change? Explain why.

2. In the later year, what is the budget balance, and how could it affect the national debt?

3. Under the passage's proportional tax, why does the $300,000 earner pay more tax dollars than the $30,000 earner even though the tax is not progressive?

4. Why can a flat sales tax place a greater income-based burden on lower earners?

3 YOUR TURN

Your own words

Create a different federal budget scenario using your own revenue and spending amounts in trillions of dollars. In four sentences, describe one spending or revenue change, calculate the new deficit or surplus and its likely effect on debt, and explain how one tax structure would divide the tax burden between lower and higher earners.

ANSWER KEY

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PART 1 · READ AND MARK

Underline statements that link spending or tax revenue to a deficit, surplus, or debt. Circle each tax structure, then write "higher," "same," or "lower" beside it to show the percentage of income higher earners pay compared with lower earners. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	If Congress funds the flood barrier without raising tax revenue, how does the deficit change? Explain why.	**The deficit rises from $0.3 trillion to $0.5 trillion because spending increases by $0.2 trillion while revenue stays the same.**
2	In the later year, what is the budget balance, and how could it affect the national debt?	**Revenue exceeds spending by $0.2 trillion, creating a surplus that could be used to pay down the national debt.**
3	Under the passage's proportional tax, why does the $300,000 earner pay more tax dollars than the $30,000 earner even though the tax is not progressive?	**Both pay 10 percent of their income. The higher earner pays more dollars because their income is larger, but their tax percentage is the same.**
4	Why can a flat sales tax place a greater income-based burden on lower earners?	**Lower-income households may spend a greater share of their income on taxed goods, so the sales tax takes a larger percentage of their income.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

My imaginary federal budget starts with $6 trillion in revenue and $5.6 trillion in spending, a $0.4 trillion surplus. Congress then raises spending by $0.7 trillion without changing revenue, producing a $0.3 trillion deficit. Borrowing to cover that deficit would add to the national debt. To raise future revenue, I would use a progressive income tax, under which higher earners pay a larger percentage of income than lower earners.

Accept any four-sentence scenario with consistent arithmetic and a correct explanation of debt and the chosen tax structure. A surplus may reduce debt if it is used to pay down existing borrowing.