

chapter 14 review

Multiple Choice

Identify the letter of the choice that best completes the statement or answers the question.

- ___ 1. What do taxes collected under the Federal Insurance Contribution Act (FICA) fund?
- Social Security and Medicaid
 - Social Security and Medicare
 - Medicare and Medicaid
 - Medicaid and Supplemental Security Income
- ___ 2. Which of the following defines a means-tested program?
- Eligibility depends on income.
 - Any person who is a U.S. citizen is eligible.
 - Age is a major criterion for eligibility.
 - People pay first and receive benefits later.
- ___ 3. Who generally bears most of a sales tax when the demand for the good taxed is inelastic?
- the retailer
 - the consumer
 - the wholesaler
 - the producer
- ___ 4. What do Social Security taxes pay for?
- benefits to federal workers and military personnel
 - benefits to those who are unemployed
 - transportation and training expenses for low-income people
 - benefits to older citizens, surviving family members of wage earners, and people with certain disabilities
- ___ 5. Which of the following is one reason the federal government collects income taxes as a person earns?
- so that people do not realize exactly how much they are paying
 - so that the money can be put aside until it is needed
 - so that the government can pay bills as they come due
 - so that taxpayers can qualify for refunds of excess tax
- ___ 6. What is a major difference between an operating budget and a capital budget?
- In an operating budget, legislation is needed; in a capital budget, no legislation is needed.
 - An operating budget is raised by bonds; a capital budget is raised by taxes.
 - An operating budget consists of small amounts of money; a capital budget consists of large amounts of money.
 - An operating budget is for day-to-day expenses; a capital budget is for investment spending.
- ___ 7. What is an entitlement?
- a social welfare program providing benefits to people who meet certain eligibility requirements
 - a social welfare program paying bills for government spending such as supplies and utilities
 - a social welfare program spending funds over which legislators have direct control
 - a social welfare program providing payments that the government receives for certain services
- ___ 8. What is the major source of tax revenue for local governments?
- inheritance taxes
 - income taxes
 - property taxes
 - sales taxes
- ___ 9. All of the following are constitutional limits on the power to tax EXCEPT that

- a. tax money must not go to individual interests.
 - b. federal taxes must be the same in every state.
 - c. imports must not be taxed.
 - d. exports must not be taxed.
- ___ 10. Your department store receipt says that you paid a 5% sales tax on sports equipment. This sales tax is an example of a
- a. proportional tax.
 - b. progressive tax.
 - c. regressive tax.
 - d. income tax.
- ___ 11. The sales tax on a \$20.00 hammer is 7%, or \$1.40. Why is this tax a bigger burden for Josh, who has a \$15,000 income, than for Aaron, who has a \$150,000 income?
- a. The tax represents a larger proportion of Josh's income.
 - b. The burden is the same for both Josh and Aaron.
 - c. The tax rate is higher for Josh than for Aaron.
 - d. Josh will have to pay a greater property tax on the hammer than will Aaron.
- ___ 12. Suppose your total taxable income this year is \$75,000. You are taxed at a rate of 10% on the first \$25,000, 20% on the next \$25,000, and 30% on the final \$25,000. What is your total income tax?
- a. \$2,500
 - b. \$7,500
 - c. \$15,000
 - d. \$25,00
- ___ 13. The demand for cable television is relatively elastic, since if the price gets too high, people will rent DVDs or videos instead of watching cable. Who is likely to bear the incidence of a 10 percent tax on cable television?
- a. the consumer
 - b. the producer
 - c. the consumer and producer equally
 - d. the government
- ___ 14. All but which of the following may be claimed as a tax deduction?
- a. interest on a home mortgage
 - b. donations to charity
 - c. some medical expenses
 - d. money spent on household expenses
- ___ 15. Your pay stub deducts money for FICA. What does this mean?
- a. Money is being withheld to fund Social Security and Medicare.
 - b. Money is being withheld for federal, state, and city taxes.
 - c. Money is being withheld for personal exemptions and deductions.
 - d. Money is being withheld for excise and estate taxes.
- ___ 16. Which is an example of discretionary spending?
- a. Social Security
 - b. Medicare
 - c. Medicaid
 - d. education
- ___ 17. When you drive away from the gas pump, you have just paid a(n)
- a. import fee.
 - b. excise tax.
 - c. corporate income tax.
 - d. estate tax.
- ___ 18. The federal government spends the largest amount of its budget on Social Security, which is an example of
- a. federal aid to state and local governments.
 - b. discretionary spending.
 - c. mandatory spending.
 - d. defense spending.
- ___ 19. What happens to the money that your employer withholds from your paycheck?
- a. Your employer holds it until you leave your job and then returns it to you.
 - b. Your employer returns to you at the end of the year so that you can pay your federal taxes.
 - c. Your employer holds it in case you damage his property.
 - d. Your employer sends it to the federal government to help pay your income tax bill.
- ___ 20. Your aunt is a state employee. Her salary comes out of the state's
- a. capital budget.
 - b. operating budget.
 - c. general accounting budget.
 - d. federal budget.

- ___ 21. Which of the following is NOT tax exempt?
- the federal military base near your home
 - your family's church
 - the homeless shelter in your neighborhood
 - the convenience store on the corner
- ___ 22. Which of the following is an example of state spending?
- the state police who stopped to assist you when you had a flat tire
 - the state campground where your family vacations
 - state water quality inspections
 - all of the above
- ___ 23. The main source of funding for your school probably comes from
- state sales taxes.
 - local property taxes.
 - payroll taxes.
 - federal income taxes.

Matching

Identifying Key Terms

Match each term with the correct statement below.

- | | |
|--------------------------|-----------------------|
| a. corporate income tax | g. incidence of a tax |
| b. estate tax | h. deductions |
| c. regressive tax | i. real property |
| d. proportional tax | j. Medicaid |
| e. individual income tax | k. withholding |
| f. gift tax | l. Social Security |
- ___ 24. a tax on the total value of the money and property of a person who has died
- ___ 25. a tax for which the percentage of income paid in taxes remains the same for all income levels
- ___ 26. a tax on the amount of money a person earns
- ___ 27. a tax for which the percentage of income paid in taxes decreases as income increases
- ___ 28. a tax on the value of a company's profits
- ___ 29. taking tax payments out of an employee's pay before he or she receives it
- ___ 30. variable amounts that you can subtract from your gross income
- ___ 31. the final burden of a tax
- ___ 32. entitlement program that benefits low-income families, some people with disabilities, and elderly people in nursing homes
- ___ 33. physical possessions, such as land and buildings

Identifying Key Terms

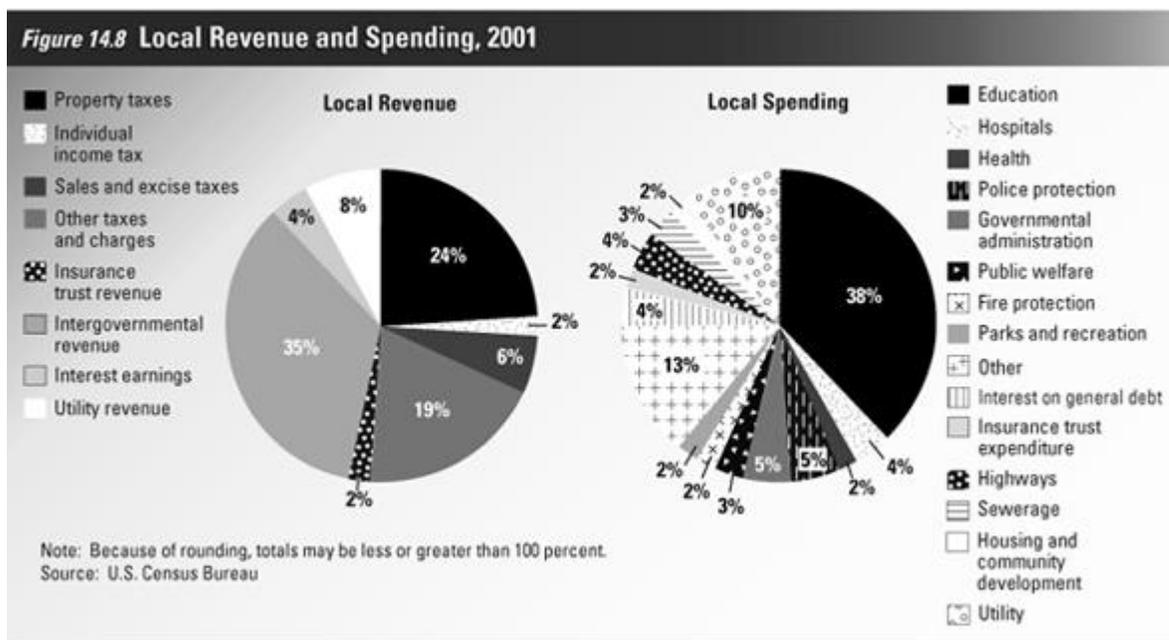
Match each term with the correct statement below.

- | | |
|--------------------------|---------------------------|
| a. individual income tax | g. balanced budget |
| b. tax return | h. discretionary spending |
| c. tax incentive | i. mandatory spending |
| d. tax exempt | j. Medicare |
| e. tax assessor | k. tariff |
| f. tax base | l. personal property |
- ___ 34. not subject to taxes
- ___ 35. an official who determines the value of a property
- ___ 36. income, property, good, or service that is subject to a tax

- ___ 37. form used to file income taxes
- ___ 38. the use of taxation to encourage or discourage certain types of behavior
- ___ 39. a national health insurance program that helps pay for health care for people over age 65 or with certain disabilities
- ___ 40. budget in which revenues are equal to spending
- ___ 41. spending on certain programs that is required by existing law
- ___ 42. spending category about which government planners can make choices
- ___ 43. a tax on imported goods

Short Answer

Reading a Chart



- 44. According to Figure 14.8, what percentage of local revenue comes from property taxes?
- 45. According to Figure 14.8, what is the largest category of local spending?
- 46. According to Figure 14.8, what percentage of local spending is on police protection?
- 47. According to Figure 14.8, what is the largest source of local revenue?
- 48. According to Figure 14.8, what percentage of local spending is on education?
- 49. According to Figure 14.8, what percentage of local revenue comes from sales taxes?

Essay

Critical Thinking

- 50. **Expressing Problems Clearly** What does it mean that the federal income tax is a progressive tax?

51. **Recognizing Ideologies** Explain the four characteristics of a good tax.
52. **Making Comparisons** What is a balanced budget, and why is it so much easier to balance state budgets than the federal budget?
53. **Analyzing Information** How does a regressive tax work? Provide an example and explain how it is regressive.
54. **Recognizing Ideologies** What kinds of nondefense discretionary spending are the ones you would be least likely to cut? Why?
55. **Making Comparisons** How do different states assess the amount of state income taxes they collect?

chapter 14 review
Answer Section

MULTIPLE CHOICE

1. ANS: B DIF: Medium REF: 367 OBJ: 6.14.2.3
TOP: fica, social security
2. ANS: A DIF: Medium REF: 372 OBJ: 6.14.3.2
TOP: entitlement
3. ANS: B DIF: Medium REF: 363 OBJ: 6.14.1.5
TOP: incidence of tax
4. ANS: D DIF: Medium REF: 367 OBJ: 6.14.2.3
TOP: fica, social security
5. ANS: C DIF: Medium REF: 365 OBJ: 6.14.2.1
TOP: individual income tax
6. ANS: D DIF: Medium REF: 375 OBJ: 6.14.4.1
TOP: operating budget, capital budget
7. ANS: A DIF: Medium REF: 372 OBJ: 6.14.3.2
TOP: entitlement
8. ANS: C DIF: Medium REF: 379 OBJ: 6.14.4.4
TOP: revenue, property taxes
9. ANS: D DIF: Medium REF: 259-260 OBJ: 6.14.1.2
TOP: limits on taxation
10. ANS: C DIF: Medium REF: 260-261 OBJ: 6.14.1.3
TOP: tax bases
11. ANS: A DIF: Hard REF: 360-361 OBJ: 6.14.1.3
TOP: tax bases
12. ANS: C DIF: Hard REF: 261 OBJ: 6.14.1.3
TOP: income tax
13. ANS: B DIF: Hard REF: 362-363 OBJ: 6.14.1.4
TOP: tax burden
14. ANS: D DIF: Medium REF: 366 OBJ: 6.14.2.1
TOP: income tax
15. ANS: A DIF: Medium REF: 366 OBJ: 6.14.2.1
TOP: income tax
16. ANS: D DIF: Medium REF: 371-374 OBJ: 6.14.3.1
TOP: discretionary spending
17. ANS: B DIF: Medium REF: 368 OBJ: 6.14.2.4
TOP: excise taxes
18. ANS: C DIF: Medium REF: 372-373 OBJ: 6.14.3.2
TOP: social security
19. ANS: D DIF: Medium REF: 366 OBJ: 6.14.2.1
TOP: income tax
20. ANS: B DIF: Medium REF: 375 OBJ: 6.14.4.1
TOP: state budgets
21. ANS: D DIF: Medium REF: 377 OBJ: 6.14.4.3
TOP: state taxes
22. ANS: D DIF: Easy REF: 376-377 OBJ: 6.14.4.2

- TOP: state spending
 23. ANS: B DIF: Medium REF: 380 OBJ: 6.14.4.4
 TOP: local spending

MATCHING

24. ANS: B DIF: Easy REF: 368 OBJ: 6.14.2.4
 TOP: estate tax
25. ANS: D DIF: Easy REF: 361 OBJ: 6.14.1.3
 TOP: proportional tax
26. ANS: E DIF: Easy REF: 360 OBJ: 6.14.1.3
 TOP: individual income tax
27. ANS: C DIF: Easy REF: 361 OBJ: 6.14.1.3
 TOP: regressive tax
28. ANS: A DIF: Easy REF: 360 OBJ: 6.14.1.3
 TOP: corporate income tax
29. ANS: K DIF: Easy REF: 366 OBJ: 6.14.2.1
 TOP: withholding
30. ANS: H DIF: Easy REF: 366 OBJ: 6.14.2.1
 TOP: deductions
31. ANS: G DIF: Easy REF: 363 OBJ: 6.14.1.5
 TOP: incidence of tax
32. ANS: J DIF: Easy REF: 373 OBJ: 6.14.3.2
 TOP: medicaid
33. ANS: I DIF: Easy REF: 378 OBJ: 6.14.4.3
 TOP: real property
34. ANS: D DIF: Easy REF: 377 OBJ: 6.14.4.3
 TOP: tax exempt
35. ANS: E DIF: Easy REF: 380 OBJ: 6.14.4.4
 TOP: tax assessor
36. ANS: F DIF: Easy REF: 360 OBJ: 6.14.1.1
 TOP: tax bases
37. ANS: B DIF: Easy REF: 366 OBJ: 6.14.2.1
 TOP: tax return
38. ANS: C DIF: Easy REF: 369 OBJ: 6.14.2.4
 TOP: tax incentive
39. ANS: J DIF: Easy REF: 368 OBJ: 6.14.2.3
 TOP: medicare
40. ANS: G DIF: Easy REF: 376 OBJ: 6.14.4.1
 TOP: balanced budget
41. ANS: I DIF: Easy REF: 371 OBJ: 6.14.3.1
 TOP: mandatory spending
42. ANS: H DIF: Easy REF: 371 OBJ: 6.14.3.1
 TOP: discretionary spending
43. ANS: K DIF: Easy REF: 369 OBJ: 6.14.2.4
 TOP: tariff

SHORT ANSWER

44. ANS:
24 percent
- DIF: Hard REF: 379 OBJ: 6.14.4.4 TOP: revenue, property taxes
45. ANS:
education
- DIF: Hard REF: 379 OBJ: 6.14.4.4 TOP: revenue
46. ANS:
5 percent
- DIF: Hard REF: 379 OBJ: 6.14.4.4 TOP: revenue
47. ANS:
intergovernmental revenue
- DIF: Hard REF: 379 OBJ: 6.14.4.4 TOP: revenue, property taxes
48. ANS:
38 percent
- DIF: Hard REF: 379 OBJ: 6.14.4.4 TOP: revenue
49. ANS:
6 percent
- DIF: Hard REF: 379 OBJ: 6.14.4.4 TOP: revenue, sales taxes

ESSAY

50. ANS:
A progressive tax means that as a person's income goes up, the percentage of his or her income paid in taxes increases.
- DIF: Hard REF: 361 OBJ: 6.14.1.3 TOP: progressive tax
51. ANS:
The four characteristics of a good tax are: simplicity, which means that tax laws should be easy to understand; economy, which means that the government should be able to collect the tax without spending a lot of time or money; certainty, which means that the taxpayer should know how much they will have to pay; and equity, which means that the tax should be fairly assessed.
- DIF: Hard REF: 361-362 OBJ: 6.14.1.4 TOP: tax
52. ANS:
The state budgets are required by law to be balanced—that is, the money spent must equal the money taken in each year, but state budgets are easier to balance than the federal budget because only the state operating budget—the part that pays for day-to-day expenses—must balance. The capital budget does not have to be balanced.
- DIF: Hard REF: 376 OBJ: 6.14.4.2 TOP: balanced budget
53. ANS:

A regressive tax is a tax for which the percentage of income paid in taxes decreases as income increases. An example is sales tax, because higher-income households spend a lower proportion of their income on taxable goods and services.

DIF: Hard REF: 361 OBJ: 6.14.1.3 TOP: regressive tax

54. ANS:

Answers will vary. Students should provide a reasonable explanation for why the program they chose is essential.

DIF: Hard REF: 373 OBJ: 6.14.3.3 TOP: discretionary spending

55. ANS:

Of the states that collect state income taxes, some charge a flat rate regardless of income, some charge a percentage of the federal income tax, and some have progressive rates like the federal income tax.

DIF: Hard REF: 377-378 OBJ: 6.14.4.3 TOP: tax