

# Taxing and Budgeting

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# 1 Taxes

Taxes are the main way that the government brings in money. Federal, state, and local government all have the power to tax.

## Types of Taxes

- **National Taxes** - 16th amendment allowed income tax by the government. It accounts for about 60% of revenue
- **State Taxes** - Texas used to primarily use property taxes, but property value declined. Texas now has a general sales tax on retail items.  
Texas does not tax baby supplies, fresh food, and some other things.  
Texas has an **excise tax (selective sales tax)** that is placed on the sale, manufacture, or use of items like cigarettes, liquor, gas. Usually the tax is including in the price.
- **Local Taxes** - usually uses property taxes. **Ad valorem taxes** are asses according to the value of the item. *Real property* and *personal property* are what are taxed under ad valorem.  
Cities with a certain population can place their own sales tax.
- **Special Districts**

## Politics of Taxation

- **Tax base** - The item or activity to tax. We could tax a few items at a high rate or a lot of items at a low tax rate. When an item is taxed too high, people will buy replacements instead of the item
- **Broad-based tax** - Relatively low tax rate on many items. This doesn't discourage people from buying items.

## Who or why do we tax?

3 rationales for taxing

- **Regulatory taxes (sin taxes)** - taxes on behavior, eg. alcohol and tobacco.
- **Benefits received taxes** - If someone receives a greater benefit from a good, they should pay more.
- **Ability-to-pay tax** - The more you have, the more you pay, eg. income tax.

## Tax Rates

- **Progressive** - Tax rate increases as your income increases.
- **Regressive** - Places more of a burden on low-mid income people.

**Declining marginal propensity to consume** - Theory that says as income increases, we devote a smaller portion to spending and a larger portion to saving. *This is not true.*

**Tax Shifting** - Businesses are taxed, but they just increase the price of their goods to shift the tax onto the consumer.

**Supply side economics** - Supply side says we should have a regressive tax system because it's harder to evade and the rich stimulate the economy

## Non-Tax Revenue

Usually these appear as grants from the federal government

- **Categorical grant** - federal aid to a state or local government. They have very strict conditions:
  - Money can only be used for the specified reason
  - State must also supply a certain amount of money
  - Proof must be shown that the money was used as intended.
- **Block Grants** - These give control back to the state. It's like a categorical grant, but the state has more freedom to choose what it's used for. This is an example of **devolution**, where a higher government passes control to a lower government.

## Borrowing and Other Revenues

- **General obligation bonds** - bonds that are to be repaid from general taxes or other revenues. These are usually approved by the voters.
- **Revenue Bond** - bond to be repaid with revenues from the thing it finances.
- Other Revenues - can be income from lotteries, sale and lease of public lands, etc.

## 2 Budgeting

### Budgetary Process

- Incremental budgeting - Look at the budget from last year and base the new budget on that.
- Zero-based budgeting - A flat amount, not based on previous budgets.
- Appropriations - legal term for funding of agencies

### Politics of State Spending

- Log rolling - a trade of votes. Someone from a certain district can get a free vote from someone else who the policy doesn't affect, with the promise of a returned vote.
- Dedicated funds - money that (by law) must go to a certain place. For example, money from the lottery must go to education or veterans.