Taxes, after all, are dues that we pay for the privileges of membership in an organized society.

- Franklin D. Roosevelt, Thirty-second President of the United States

Section II
Taxing and Spending
Local Taxes: Where Does All The Money Go?

Local governments are on the “front lines” on a daily basis with their taxpayers. They are constantly trying to increase their tax base and pay for the services they are expected to provide. Local governments must be available to their constituents to comment about the use of their taxes. Unlike State legislatures and Congress which are insulated from these comments on a day-to-day basis, local governments must be accessible. This lesson is a simulation in which students try to balance these two issues; increase the tax base by trying to bring in jobs and maintain a quality of life for the community.
Local Taxes: Where Does All The Money Go?

NCSCOS Civics and Economics Objective(s):

7.03 Compare examples of tradeoffs and opportunity costs of economic choices.

Warm-Up/Bell Ringer Activity:

Write on the board:
“What factors do you think influence the kind of and amount of services a local government provides?”

Materials Needed:
Local Taxes activity sheet

Time/Pacing:
One class period

Purpose/Objective of this Lesson:
Students will discuss the problems of a community’s desire for services and the availability of tax revenues.

Teacher Input:
Help students understand fair market value.
Explain the concept of a tax base.
Highlight the desires of the community.
Discuss what local services are provided in the community.
Local Taxes Activity sheet

Key Questions:
1. Where do local governments get their revenue?
2. What is the role of local government in the economic and social atmosphere of the community?

Strategies for Differentiation:
Students may also investigate local issues and their relationship to tax revenues.
**Class Activity**

**Guided Practice:**
Discuss the warm-up activity and the students' thoughts on the role of local government in their lives (i.e., the role of the police, the roads in front of their homes, etc.).

**Independent Practice:**
Pass out the activity sheets and allow students to work in groups of three to make decisions on the various scenarios.

**Summary/Closure:**
The students will present their views on the various scenarios. Through discussion, the class will come to consensus on what they think would be the "right" solution and why.
Local Taxes

Local governments depend upon property taxes for a major portion of their revenues. Real estate taxes are assessed on the value of the property (Assessment). Officials determine the “fair market value” of the real estate. Once this value has been set for tax purposes, a percentage is computed as the tax, which is to be paid annually. The revenues are used for local services. Among these services are streetlights, water and sewage facilities, police and fire protection, city parks and libraries, schools and other community facilities.

Local governments strive to increase the value of property in their area by trying to bring different types of businesses to their area. More businesses mean more population and more public services.

You are the chairman of the city council. You must decide what you are going to recommend to improve your city. Will you increase the tax base or raise taxes? After each proposal, make your decision and explain your reasoning.

1. A local builder wants to build a small subdivision of about 20 houses on land now used as a bird sanctuary. He is asking the council to change the zoning and extend the city sewer system into this area. It will cost the city $2.3 million to extend water and sewer service to this area. It is estimated that the town would receive an additional $75,000 in taxes annually if the land were to be replaced by 20 homes. Additional growth in the area would generate even more income for the city.
Student Activity

Local Taxes

2. It is proposed that the city sales tax (presently at half a penny) be increased to a full penny. The revenue from this tax increase will be used to build a park, a bike path, and a community center.

3. The city-owned bus system has been losing money for several years, and the buses are in bad shape. If the city raises property taxes by ten percent on houses worth more than $150,000, it could use the additional revenue to buy new buses. With new equipment and better service, perhaps people will use the system instead of driving themselves and reduce traffic congestion on the city's roads.

4. A large company is going to build a computer assembly plant that will employ several hundred workers. The company will locate the plant near your city if the city will lease it a building for $1 per year for fifty years and provide various other tax breaks. Other communities in your state have offered such assistance to the company. From your viewpoint, would the economic benefits of having a new business in town offset the tax revenues and rent given up by the city?
State Taxes: Why Do We Pay the State?

A state’s budget pays for day-to-day expenses. Those expenses provide salaries for state employees, supplies such as computers and paper, and maintenance of state facilities. State facilities include state parks, the state capitol and other government buildings, and recreation and roadside areas.

In most states, the governor prepares the budget. The legislature then discusses and eventually approves the budget. Unlike the federal government, states have laws which require a balanced budget. A balanced budget means that the revenues are equal to spending.

This lesson will introduce students to state taxes, major expenditures and sources of state revenues. The purpose of this lesson is for students to develop an understanding of how the state government receives money, along with the decision-making process for allocating funds on the state level.
State Taxes: Why Do We Pay the State?

NCSCOS Civics and Economics Objective(s):
3.08 Examine taxation and other revenue sources at the state and local level.

Warm-Up/Bell Ringer Activity:
Write on the board “Where does the state get its money?”

Materials Needed:
“Information on Taxing and Spending in North Carolina” handout
“State Budgets” Activity Sheet
http://www.ncjustice.org/media/library/543_btcrupt12012005finalbudget.pdf
2005-06 North Carolina General Assembly - Approved State Budget

Time/Pacing:
One class period

Link(s) to Prior Learning:
Purchasing items in the state of North Carolina

Purpose/Objective of this lesson:
Students will understand how the state government receives money, along with the decision-making process for allocating funds on the state level.

Teacher Input:
The teacher will explain how the state of North Carolina obtains funds by using the “Information on Taxing and Spending in North Carolina” handout.

Optional: Invite a current or former state elected official from your area of the state to speak with students about the state budget and how legislators negotiate where to allocate the funds.

Optional: Teachers can create a mock school budget. Have students explain how they will save 20% by making cuts in something they have some experience with (i.e., athletics, cafeteria, band, technology, the arts, etc.).
Key Questions:
1. How does the state of North Carolina obtain its revenue?
2. Where does the state of North Carolina spend its money?

Strategies for Differentiation:
Have students conduct research on the various taxes in North Carolina. Ask the students to write a position paper explaining if the taxes go to the appropriate people and organizations, or if the taxes could be distributed in a more cost-effective manner.

Class Activity

Guided Practice:
• Discuss the warm-up activity. Ask the students the following questions:
• Have any students recently bought anything?
• How much was the sales tax?
• Do any of the students work?
• How much is taken out of their paycheck to pay taxes?

Independent Practice:
Have the students break into groups of three and pass out “State Budgets” Activity Sheet. They are to create a new state budget after the state has had a 20% reduction in tax revenues.

Summary/Closure:
Students are to present their budget recommendations to the class, who will be acting as the state legislature and will decide which budget they want.

Continuous Assessment:
Discussion
Presentations
Information on Taxing and Spending in North Carolina

State governments have major expenditures. The expenditures have continued to increase over the years. Taxes are the major source of income for the states.

Sales tax accounts for more than half of many state’s tax revenues. Sales tax in North Carolina is collected at seven percent on every dollar that is spent for purposes other than food and medicine. These pennies add up to millions of dollars. Income tax accounts for the second largest source of income for the state. Individuals are required to pay approximately seven percent of their income to the State of North Carolina. There are other taxes but these two add up to 90 percent of the state’s income.

<table>
<thead>
<tr>
<th>North Carolina Government Expenditure</th>
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</thead>
<tbody>
<tr>
<td>Education - Elementary and High School</td>
<td>40.9%</td>
</tr>
<tr>
<td>Health and Human Services</td>
<td>24.2%</td>
</tr>
<tr>
<td>UNC System</td>
<td>12.3%</td>
</tr>
<tr>
<td>Corrections</td>
<td>6.1%</td>
</tr>
<tr>
<td>Community Colleges</td>
<td>4.7%</td>
</tr>
<tr>
<td>Courts</td>
<td>2.6%</td>
</tr>
<tr>
<td>Debt Service</td>
<td>2.7%</td>
</tr>
<tr>
<td>Other</td>
<td>6.5%</td>
</tr>
<tr>
<td>Corrections</td>
<td>6.2%</td>
</tr>
<tr>
<td>Transportation (Highways)</td>
<td>.1%</td>
</tr>
<tr>
<td>Other</td>
<td>19.2%</td>
</tr>
</tbody>
</table>
State Budgets

Directions:
Students will need to visit the following web site, http://www.ncjustice.org/media/library/543_btcrrpt12012005finalbudget.pdf or a copy of the state budget needs to be provided to each student. Imagine you are the governor of the state of North Carolina. You realize that the state has some very serious budget shortfalls. Government revenues have fallen by twenty percent from last year's total. Your job is to decide what budget cuts are acceptable or how the revenues need to be redistributed. The other options are to raise taxes or to create new taxes. You must make some tough decisions for the state of North Carolina.

Below you are to write your recommendation to present to the state legislature in the morning. Explain the reasoning behind your choices.
Economic Investment in a Community: A Case Study

This lesson has students investigate the importance of business and business development at the state and county levels. Businesses provide jobs, pay wages, pay taxes, and improve the economy by offering products and services. The overall economic impact of a single large employer can create wealth for many individuals or bring a community to its knees with its absence.

Students will analyze a case study of a county government courting a major manufacturer. Then students will apply their research to their locality, analyzing tradeoffs of state funded incentives, local development and those who oppose them.

This lesson is intended to provoke thought about the role of state government in the economy, planning and courting development, and how development affects individual citizens as well as communities.
Economic Investment in a Community: A Case Study

NCSCOS Civics and Economics Goal and Objective(s):

3.08 Examine taxation and other revenue sources at the state and local level.
3.09 Describe the services provided by state and local government agencies and how funding is provided.
9.03 Explain the impact of the movement of human and capital resources on the United States economy.
9.04 Assess how current events impact decisions made by consumers, producers, and government policy makers.
9.08 Analyze the influence of environmental factors, economic conditions, and policy decisions on individual economic activities.
10.05 Describe examples of recurring public problems and issues.

Warm-Up/Bell Ringer Activity:
Ask the students to think about local businesses. What businesses are headquartered or have major plants in the area? Why? How does business affect the economy at the local and state level? Is it important to have business in a community? What can government do to encourage business?

Key Questions:
1. Why would the county government want a new business?
2. What could they do to encourage a new business to move to the area?
3. How would a new business help the community?
4. What has been done in your community to recruit new businesses?

Materials Needed:
Access to Internet and research databases

Time-Pacing:
One to four days
Link(s) to Prior Learning:
• What do local and state governments do for citizens and communities?
• What is an economy and how does it affect the people?
• What role do large employers play in the life of a community?

Purpose/Objective of this Lesson:
• Investigate relationships between state government, state economy and the local community.
• Analyze the financial incentives offered by state and local government to corporations, to determine the benefits to the community and the benefits to the corporation.

Teacher Input:
Using a real life example of what your community or a local community did with state assistance, explain the recruiting process for businesses to move to North Carolina communities.

Strategies for Differentiation:
Allow students to work in groups.
**Class Activity**
Read an article about a business moving to your community or to another community in North Carolina (i.e., Dell).

**Guided Practice:**
Ask students to rephrase what they learned, orally or in writing.

**Independent Practice:**
Ask students to write an analysis of the case study (the news article selected) from the class activity. Students will develop a statement of purpose and supporting facts to determine the benefits and costs of the initiative.

**Homework:**
Read two articles about the new Dell plant in North Carolina:

*North Carolina Gets Final Dell Decision on 1,500-Worker PC Plant*
http://www.conway.com/ssinsider/pwatch/pw041108.htm

*Dell Opens North Carolina Manufacturing Facility*

*Industry Week, March 2005,* 'Dell Strategy includes U. S. presence; North Carolina plant is one of three new U. S. sites to answer increasing demand for PCs.' Vinas, Tonya. (Available on NC WiseOwl)
Class Activity, Days 2-3
In groups, students will read a news article describing Dell, or another business that has relocated to North Carolina. Using census data, students will identify median income, education, family size, home ownership, and age breakdown of the community the business moved to. Why are these important to a business moving to a new town? (For additional skill development, ask students to create charts using spreadsheet software).

Guided Practice:
The teacher will introduce students to demographic information, using census data from the community to explain median income, household size and other terms that students may not be familiar with.

Independent Practice:
Working in groups, students will find and analyze census data about their community, their county, and the state, compare the data to the United States data, and create charts and graphs to display the data.

Homework:
Continue research
Class Activity, Day 4
Students will present their projects, taking questions from the teacher and class.

Summary/Closure:
Ask students the purpose of the project. Ask them to write one to two paragraphs about the project process, and about how government can work with business to improve the economy of a community.

Notes and Comments:
If there is a plant or facility that provides employment to the community, invite a speaker to talk about their investment in the community. Ask students to profile local businesses that support the economy. Some materials may be available from the Chamber of Commerce or other business development organizations.
Case Study Poster Project Requirements

Working in small groups, have students complete a poster, which includes:

1. Names of students (on the back)

2. Map of community with major roads identified

3. Census data
   a. Income compared to state and national averages (bar graph)
   b. Educational attainment for those over 25 (pie chart)
   c. Other major employers in the area

4. Proposal (must be reasonable/logical) of a major employer
   a. Number and type of jobs provided
   b. Educational qualifications (Do they match local community? Will additional training be needed?)
   c. Average salary, breakdown on $10,000 increments

5. Proposal of timeline using local officials

6. Plan for grants, tax incentives and other benefits

7. Two news or magazine articles that support/criticize the investment
Is There Such A Thing As A GOOD Tax?
Lesson Plan on Adam Smith’s Principles of Taxation and Types of Taxes

Many citizens are familiar with the quote, “Two things in life are for sure…. death and taxes”. Students are likely familiar with taxes, in that they already pay sales tax on the goods they buy. Understanding why taxes exist, and how all levels of government issue different types of taxes is essential to understanding how and why our government functions for and by the people.

In this lesson plan Adam Smith’s principles of what constitutes a “good” tax are covered. Students are asked to complete a chart that identifies different types of taxes, who pays and who benefits from the tax. The grid serves as notes on taxation and students need to use their textbook to complete the “Types of Tax” chart.
Is There Such A Thing As A GOOD Tax?

NCSCOS Civics and Economics Goals and Objective(s):

9.07 Analyze short and long-term effects of fiscal and monetary policy on the United States economy.

Warm-Up/Bell Ringer:
Ask if students pay taxes? (Answer- YES!!! All citizens pay sales tax on the products we buy).

Key Questions:
1. What is the difference between a progressive and regressive tax?
2. What are ways that the federal government and state governments generate revenue?

Materials Needed:
“Guidelines for Fair and Efficient Tax Notes”; teacher notes
“Types of Taxes” Chart with teacher key
Students will also need textbooks.

Time/Pacing:
Forty-five minutes of a class period

Link(s) to Prior Learning:
Students will be asked to recall the concepts of opportunity cost and trade-off.

Teacher Input:
The teacher will review the provided notes about the five principles of “good” taxation based on the ideas of economist Adam Smith. Key concepts to cover include: why governments tax citizens, the role of the Internal Revenue Service, and when taxes are high, how consumers have less to spend and save.
Continuous Assessment - Tools/Strategies:
As the teacher reviews the five principles of taxation, students should be asked probing questions such as, Where can you go to find tax forms? What is the role of the Internal Revenue Service in collecting taxes? What happens if you do not pay your taxes?

Strategies for Differentiation:
• The teacher needs to copy a blank grid as well as the provided key.
• The teacher or students will cut apart the pieces of the key and have students match pieces onto a grid as a review.

Class Activity

Independent Practice:
After the teacher reviews principles of “good” taxes, students will use their books to find the following terms and concepts: federal income tax, property tax, sales tax, luxury tax, withholding tax, social security tax, tariffs, and non-tax revenue. The teacher will divide the class into groups or have students work alone to identify each type of tax, using their textbook to complete the comparison sheet.

Summary/Closure:
Either the teacher or students should go over all answers using the board or overhead. A teacher key has been provided.
Guidelines for Fair and Efficient Tax Notes
(Notes for the Teacher)

According to Adam Smith's Principles of Taxation and Types of Tax, taxes must be:

1. Based on your ability to pay:
   - Progressive Tax - The more money you make, the more you pay (i.e., income taxes)
   - Regressive Tax - The same amount for all (i.e., sales tax)

2. Taxes should be clear and straightforward, easy to understand (i.e., The government provides booklets, forms and advice.)

3. Taxes should be collected in the most convenient way possible (i.e., sales tax is paid when you purchase an item; income tax at the end of the year)

4. Collected efficiently - Since part of each tax a consumer pays goes to the cost to collect taxes, collection should not cost more money than it takes to complete the job.

5. Added by other economists:
   - Taxes should be reasonable.
   - When taxes are high, consumers have less money to invest and save.
## Types of Tax Chart

(Student Activity)

<table>
<thead>
<tr>
<th>Type of Tax</th>
<th>Description</th>
<th>Progressive or Regressive</th>
<th>Who pays?</th>
<th>Who Benefits?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal income tax</td>
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<tr>
<td>Property tax</td>
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<td>Sales tax</td>
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<tr>
<td>Luxury tax</td>
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<tr>
<td>Social Security tax</td>
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<tr>
<td>Tariffs</td>
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<tr>
<td>Type of Tax</td>
<td>Description</td>
<td>Progressive or Regressive</td>
<td>Who pays?</td>
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<tr>
<td>---------------------</td>
<td>------------------------------------------------------------------------------</td>
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<td>------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Federal income tax</td>
<td>• Tax on the earnings of citizens.</td>
<td>Progressive</td>
<td>Individual citizens</td>
<td>Federal government. Income taxes are used to help fund and run government programs (i.e., defense, social programs).</td>
</tr>
<tr>
<td></td>
<td>• Tax is taken out of paycheck (payroll deduction).</td>
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<tr>
<td></td>
<td>• The federal government sets tax rate.</td>
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</tr>
<tr>
<td>Property tax</td>
<td>• Tax on homes, cars, boats.</td>
<td>Regressive</td>
<td>Individual citizens</td>
<td>State and local governments. Used to fund state/local budget expenses (i.e., education, road construction)</td>
</tr>
<tr>
<td></td>
<td>• Each state/local government sets tax rate.</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Sales tax</td>
<td>• Tax on the goods we buy.</td>
<td>Regressive</td>
<td>Individual citizens</td>
<td>State and local governments. Used to fund state/local budget expenses (i.e., education, road construction)</td>
</tr>
<tr>
<td></td>
<td>• Each state/local government sets tax rate.</td>
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</tbody>
</table>
### Luxury Tax
- Tax on certain goods that are not considered necessary (cigarettes, cars)
- Each state/local/federal government sets tax rate.

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
<th>Regressive</th>
<th>Taxpayers</th>
<th>Source</th>
</tr>
</thead>
</table>

### Social Security Tax
- Tax of the earnings of citizens
- Tax is taken out of paycheck (payroll deduction).

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
<th>Regressive</th>
<th>Taxpayers</th>
<th>Source</th>
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</thead>
</table>

### Tariffs
- Tax of foreign-made imported goods.
- Encourages consumers to "buy American."

<table>
<thead>
<tr>
<th>Type</th>
<th>Description</th>
<th>Regressive</th>
<th>Taxpayers</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tariffs</td>
<td>American businesses that make similar goods (i.e., Japanese cars versus American-made cars). American businesses are &quot;protected&quot; from competition due to the increased money consumers must spend on a foreign good.</td>
<td>Individual citizens and Businesses</td>
<td>American businesses that make similar goods (i.e., Japanese cars versus American-made cars). American businesses are &quot;protected&quot; from competition due to the increased money consumers must spend on a foreign good.</td>
<td></td>
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</tbody>
</table>