**KEY TERMS AND IDEAS**

1. What is the main source of revenue for government?
2. Explain how progressive taxes, proportional taxes, and regressive taxes differ.
3. What are the tax bases for individual income taxes and property taxes?
4. Contrast direct taxes with indirect taxes.
5. How are tax deductions different from tax credits?
6. What is the difference between mandatory spending and discretionary spending?
7. How is a capital budget different from an operating budget?
8. What is the role of a tax assessor?

**CRITICAL THINKING**

1. Why is it important for a tax system to be efficient?
2. If a person making $200,000 a year pays a tax bill of $10,000 and a person making $20,000 pays a tax bill of $2,000, is the tax progressive, regressive, or proportional? Explain.
3. Suppose that a government decided to collect all of its revenue through a tax on tap water. Explain why this tax would or would not be fair.
4. Why might a government choose to levy an indirect tax rather than a direct tax?
5. What is another way in which governments might accomplish the same policy goals that they accomplish through tax incentives?
6. Why do you think that the government takes taxes out of people’s paychecks instead of waiting until they are due to collect them?
7. How might a mandatory spending program be changed into a discretionary spending program?
8. The U.S. Constitution mandates that the government provide for national defense. Why, then, is defense spending classified as discretionary?
9. How are the main sources of local revenue similar to and different from the main sources of state revenue?
10. How does state government influence health promotion and disease prevention?
11. What are the similarities and differences between state and local spending?