

Unit 4

Section 1 - Government Expenitures and Revenue



Pre Knowledge. Answer the following questions:

1. What are the 3 levels of government?

2. For each level of government state:

A) 3 means of revenue

B) 3 expenses

There are three levels of government - federal, provincial and municipal. Each level of government has the means of getting money (revenues) and spending money (expenditures).

Local, Provincial and Federal

Local Governments: local property taxes provide approximately 90% of the tax revenue of municipalities. There are also fines, parking meters, building permits as well as grants from provincial governments.

Provincial Government: Provincial government revenues come from many more sources than those of local governments.

- Provincial Income Tax
- Corporate Income Tax
- Provincial Sales Tax (PST)
- Other – taxes on gasoline, alcohol and cigarettes

Federal Government: The federal government has a much wider range of taxes than the provincial government. According to the Constitution Act of 1867, the federal government has the right to raise money “by any mode or system of taxation”. The federal government has four major sources of revenue:

- Federal Income Tax - the amount of federal income tax paid by the individual depends on a number of factors (the number dependants, the greater number of expenses connected with employment etc). Federal income tax is progressive; the more you earn the more you pay.
- Corporate Income Tax – A significant source of government revenue. The tax is paid on the profits of corporations.
- Employment Insurance Contributions
- Excise taxes and duties – Excise taxes are imposed on the sale of many luxury or non-essential items (tobacco, alcohol). Customs duties are collected on goods that are brought into the country.

Government Revenues

- To pay for expenditures we must first collect revenues.
- Taxes are obligatory payments made by individuals and corporations to government. They are compulsory; we must pay them; we cannot decide this year to opt out of paying income tax (we have no choice).

Types of Taxes

A *direct tax* is one that is levied on a person who cannot pass the tax along to someone else. HST is an example of a direct tax.

(You buy a shirt, you pay the tax)

An *indirect tax* is one that can be passed on to other people.

A tariff is an indirect tax. The cost of the tax is passed on to the consumer (included in the price of the imported car).

A *progressive tax* is a tax that progresses or increases along with the amount earned. This means that the higher our income the more we pay both in dollar terms and proportionately.

http://www.youtube.com/watch?v=xmJS2Vx_cSw



With *regressive taxes*, the percentage paid in tax regresses or declines as income increases. For example, the HST is regressive in that the rich and poor pay the same percentage of tax on any one item.

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Government Expenditures

Municipal: building and maintenance of local roads, sewers, sidewalks, streetlights and the services of local police, garbage collection and fire departments.

Provincial: provincial public servants and the supplies they needed, and for the maintenance and construction of provincial buildings. They also spend money on highways and bridges, as well as funding for elementary, secondary and post secondary education.

Federal:

- Trade, commerce, justice and foreign relations
- Finance the construction of transportation facilities
- Approximately one-half of federal government expenditures are for development
 - Old age security benefits
 - Guaranteed income supplements
 - Employment insurance
 - Family allowances
 - Veterans' benefits
- Under fiscal arrangements, equalization payments are made to poorer provinces
- The cost of maintaining Canadian embassies and consulates, the costs of the Canadian aid program to other countries, and the cost of operating Parliament.
- Financing the public debt

The Federal Public Debt

The federal public debt (sometimes called the national debt) is the total amount owed by the federal government, mostly to Canadians in the form of government bonds. The debt is a result of federal government budget deficits (when expenditures were greater than revenues) in the past.

Cartoon Analysis Assignment