

Tax 101 Activity 4

Years 7-12

THE BUDGET – TAXES AND SPENDING

Fact sheet

TAXATION AND SPENDING: 2016–17

The government's annual Budget shows how tax revenue is collected and how it will be spent. Pressures on the Budget can impact on the type and amount of taxes that are levied.

THE BUDGET

Every year, each level of government is required to prepare a budget to show how tax revenue will be collected (or 'raised') and how it will be spent. The Australian Federal Budget provides a well-known example of this process.

The Australian Federal Budget is prepared by the Treasurer and presented to parliament. After the Budget has been debated and approved by both Houses of Parliament, taxes are collected in line with the Budget. The Parliament decides on the levels of tax – not the Australian Taxation Office (ATO).

The first pie chart shows the revenue ('budget income') collected through various types of taxes. The second chart shows how the revenue is spent by the government ('budget expenditure').

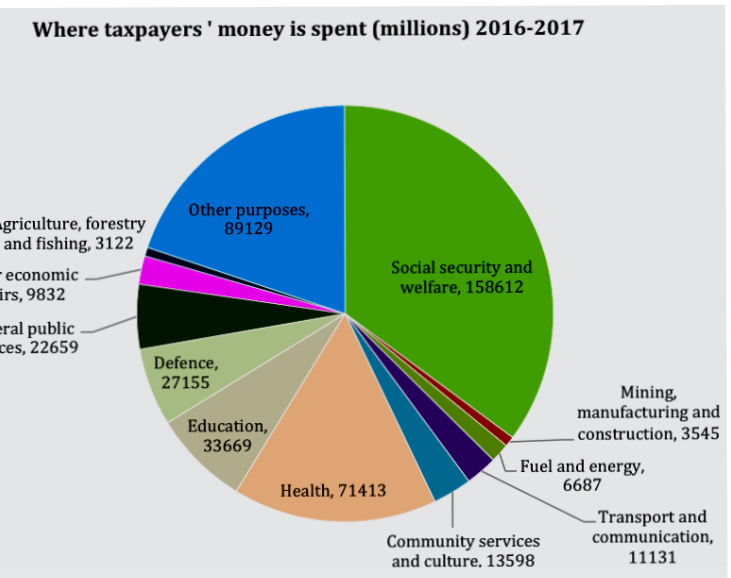
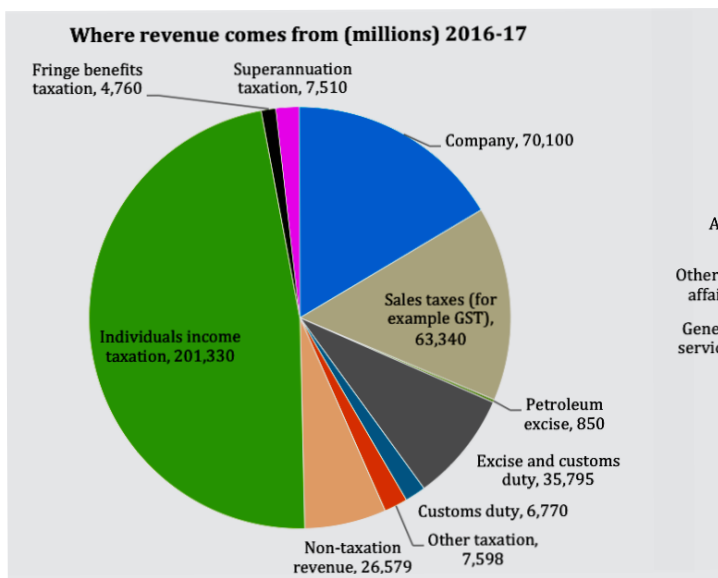
Income tax from individuals makes up 40% of the Australian Federal Budget income. The charts illustrate the major sources of revenue for the Australian Government and how the taxation revenue is spent.

Even with the best of planning, budgets can be challenged by events such as natural disasters, which can destroy infrastructure and stop economic and social activity for a period of time. Natural disasters require an increase in spending, both directly and indirectly, while also creating a reduction in tax revenue. These two factors have an effect on the Budget.

If there is not enough revenue to cover all of the proposed spending, then decisions have to be made about how to solve the problem.

The government could decide on one of the following options:

1. Cut spending so that revenue will cover expenditure. This raises questions, such as which services should be cut and how the community will be affected.
2. Increase taxes to allow spending to remain at the desired level. Who will pay the increased taxes? What type of taxes should be increased?
3. Keep taxes and spending as they are and borrow the money needed to cover the deficit (or shortfall). How will this money be repaid? What effect will the repayments have on the future levels of services?
4. Sell national assets to increase revenue. This is sometimes done to pay back past government borrowings.
5. The government may raise more income than it planned to spend (a surplus budget). In these circumstances, the government could change its decisions about how the tax revenue would be spent.



Source: Budget, 2016-2017, No 1, Statement 4: revenue, table 10, pp. 4-16

Source: Budget, 2016-2017, No 1, Statement 5: expenses and net capital table 3, pp. 5-7

TASK 1

MANAGING DISASTERS

Worksheet

YOU WILL:

- ▶ locate information about natural disasters and the effect on government budgets
- ▶ identify and infer immediate, short-term and long-term effects of a disaster on a community, economy and environment
- ▶ consider how budgets prioritise needs

YOU WILL NEED:

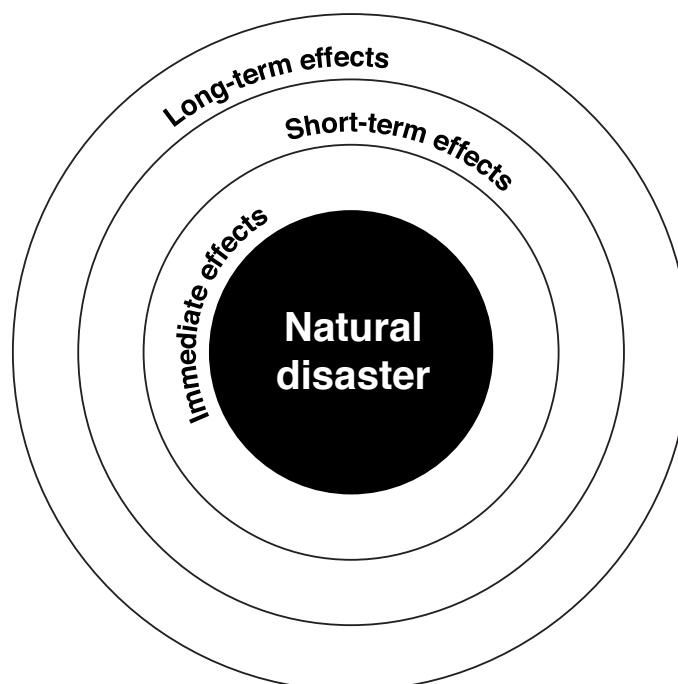
- ▶ *Fact Sheet: The budget – taxes and spending*
- ▶ speaker's prop such as a soft ball
- ▶ library resource access or digital devices (class or after-school access)

INVESTIGATE CONSEQUENCES

Effects of natural disasters

Investigate the impact of unexpected events such as a major natural disaster on the government's Budget:

1. **Identify** a recent disaster (natural or human).
2. Using the internet, **research** the recent disaster and its consequent impact on the Budget.
 - ▶ Enter 'natural disasters in Australia' into a search engine to search for resources.
 - ▶ Entering 'effect of natural disasters on budget' into a search engine will provide recent material.
 - ▶ Note that some of the video content can be quite graphic.
3. **Identify** which levels of government would be affected? In what way? (refer to *Activity 3: Fact sheet and Activity 3 Worksheet*)
4. Using information from your research, **infer** some immediate, short-term and long-term effects of the disaster on tax revenue.
5. **Represent** these on a consequence wheel similar to the one below.



Managing revenue and budget consequence roleplay

6. Read Fact Sheet: *The budget – taxes and spending*

- ▶ With the class, choose one of the natural disasters and discuss the consequences for people, the economy, the environment, and the government.
- ▶ Study these stimulus words to prepare you for the consequence game:

expenditure

tax revenue

budget

long-term effect, long-term expenditure

short-term effect, short-term expenditure

immediate effect, immediate expenditure

community

environment

economy



7. Play the consequence game using the following dialogue model:

- In your group, sit on one side of the table or the other, one side being 'Government Revenue' team and the other side 'Government budget' team.
- Starting on the budget side, one person takes the speaker's prop and states a consequence of the natural disaster that needs funding. This person passes the prop to a member of the other team.
- The receiver asks whether the need requires immediate, short-term or long-term funding. The speaker then passes the prop to a member of the other team.
- The receiver responds to the question by refining the request for the need. The speaker then passes the prop to a member of the other team.
- The receiver decides if the need is a high, medium or low priority and states which source of revenue will fund the need. The speaker then passes the prop to a member of the other team.
- The other side accepts or argues the priority decision, using consequences to justify any request for a change of decision.
- The revenue speaker re-assesses the decision if desired, being conscious of the limited number of priorities. The speaker then passes the prop to a member of the other team.
- The receiver states another consequence of the natural disaster that needs funding.
- And the process is repeated, being aware of the rules.

Rules:

Each player will have at least one opportunity to speak.

There can be no more than two high priorities and two low priorities.

Therefore, as the game progresses, previous consequences must be factored into the answers.

Consequence game overview

Budget team: states a community need

Revenue team: asks if the need is an immediate, short-term or long-term need

Budget team: finesses their request

Revenue team: decides if it is a high, medium or low priority; and identifies a source of money to fund the need

Budget team: responds to the decision using consequences to justify their position

Revenue team: re-assess the decision if necessary

Go online

View the video, 'The Australian Taxation System' to see how funds are raised and distributed by the Australian government:

<https://www.taxsuperandyou.gov.au/sites/default/files/interactives/shaping-the-system/index.html>

Try these online interactives about government services, revenue and budgeting:

Tax in your community:

<https://www.taxsuperandyou.gov.au/sites/default/files/interactives/tax-in-your-comm/index.html>

You make the decision:

<https://www.taxsuperandyou.gov.au/content/interactive-activity-a43-you-make-decision>