Governmental budgeting

Business

Federal and state government budgets significantly rely on taxation as a source of revenues.

Taxation forms a basis in which governments can raise funds, estimate incomes and project expenditures for any given budget period. Taxes are categorized according to their sources and their contributions to the budget. For instance, individual income taxes contribute the largest portion of the tax revenues for budgeting (Lee et al., 2008). These are derived from individual incomes like salaries, wages, dividends and interest incomes.

The income taxes are imposed on all individuals; hence, the public is the principal contributor to the government budgets. Taxation on business enterprises like corporations is critical in government budgeting. The corporate tax imposed on a corporation's incomes and profits are significant as a source of revenue for budgeting. Excise duties and taxes on imports and exports are other essential revenue sources (Lee et al., 2008); where goods being imported or exported, tax is charged at the point of entry.

Taxation for social insurance incomes or payroll like Medicare taxes, federal employee retirement taxes and social security taxes is an essential source of revenues. The imposition of taxes on various sources of incomes ensures that the federal or state budgets are appropriately funded; therefore, adequate resource allocation is to the various areas of need. However, taxation of incomes and revenues is not the only source of incomes for government budgeting. Other sources of incomes are available, like evenues attributable to fines and penalties, licenses and permits, sales and use taxes, investments and interest (EOPUS, 2002). The federal or state governments require that certain requirements be met by various individuals, businesses or groups; failure to which fines and penalties are imposed.

These are characteristic revenue sources for budgeting. Gifts, estate taxes, forfeitures and public borrowing, where the government issues bonds to the public; are distinguishable sources of revenues for budgeting. Public borrowing is essentially used, when the governments have a need for easily accessible finances. Public bonds guarantee the public guaranteed returns; therefore, the public prefers investing their funds in them, hence a ready source for funds for the government. Government funds are financed by sales and use taxes, insurance taxes, licenses and permits, fines and penalties (Ruppel, 2012). The incomes from investment and interest are critical to government funds.

Proprietary funds derive their finances from unemployment and disability insurance, fees for services and sales. Investment and interest incomes including rent revenues are crucial (Ruppel, 2012). While, on the other hand, fiduciary funds are financed by personal income taxes, social security taxes, Medicare taxes, federal employee retirement fund taxes, investment and interests. Public policy should ensure that the receipt of revenues is not impaired at all times. The realization of optimum revenue receipts is characterized by a public policy that ensures the revenue system has complementary elements iin creating reliable collection methods, and production of revenues, while balancing the revenues sources (NCSL, 2010). Individuals are treated equitably, while facilitating compliance to the taxpayer by reducing tax compliance costs.

Public policy should create tax systems that are effective, efficient and accessible to taxpayers. The tax administration should be fair in service delivery by practicing professionalism and efficiency in their duties (NCSL, 2010). The receipt of revenues should be done in a responsive and inclusive environment, where accountability is critical to the taxpayers, for revenues rendered. The economic conditions are instrumental in influencing the revenue projections of any given period. The prevailing economic conditions determine the incomes of individuals; therefore, taxable incomes like wages, salaries, sales tax and corporate taxes are either reduced or increased (Dennis, 2010).

A strong economic growth trend creates an improved budget potential, since disposable income available to individuals is increased; hence an increase in taxes. However, a weak economic growth has the opposite effect where disposable income is reduced due to inflationary effects of the economy, hence reduced tax receivables (Dennis, 2010). The prevailing economic conditions are critical in the projection of the budget. The budget must incorporate the economic conditions in its projections to determine the most realizable budget outcomes. These are critical in ensuring unfair budgetary allocations and appropriations are not made; which may adversely affect the economic feasibility of the budget.