Worksheet Solutions **Tax Reform Acts of 1969 and 1986**

Theme 2: Taxes in U.S. History
Lesson 6: Tax Reform in the 1960s and 1980s

Key Terms

***deficit*—**The result of the government taking in less money than it spends.
***inflation*—**The simultaneous increase of consumer prices and decrease in the value of money and credit.
***tax code*—**The official body of tax laws and regulations.
***tax credit*—**A dollar-for-dollar reduction in the tax. Can be deducted directly from taxes owed.
***tax cut*—**A reduction in the amount of taxes taken by the government.
***tax deduction*—**A part of a person's or business's expenses that reduces income subject to tax.
***tax exemption*—**A part of a person's income on which no tax is imposed.

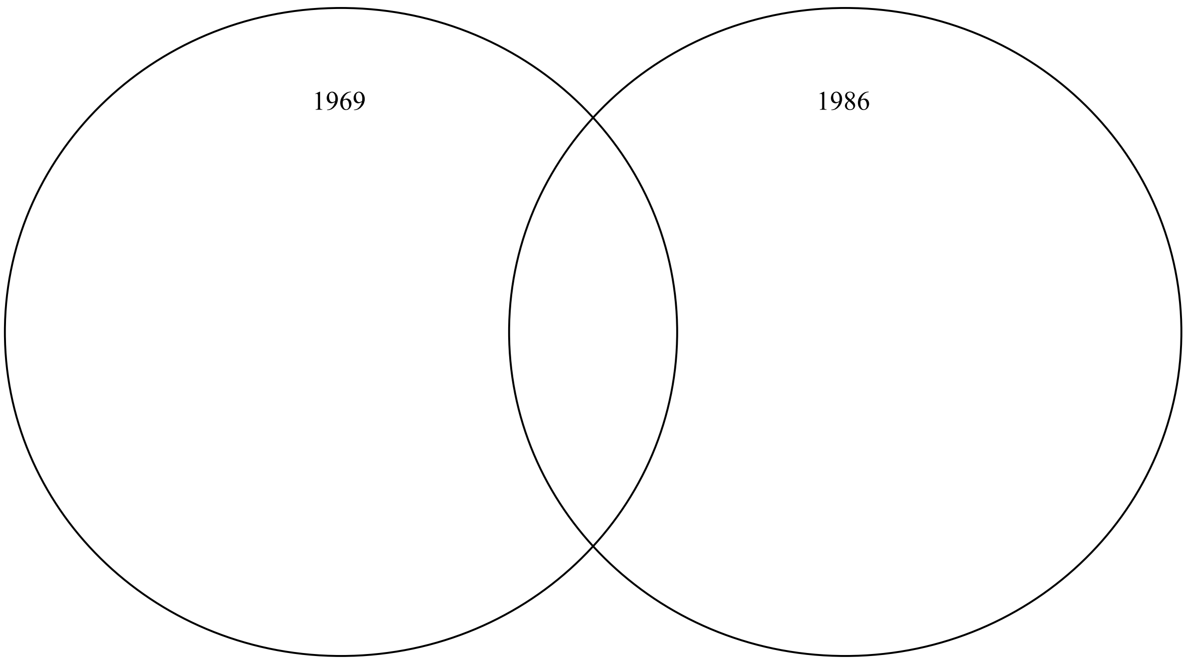
Summary

Since the 1940s, many **tax deductions**, **tax exemptions**, and **tax credits** were added to the **tax code** to allow individuals and companies to keep portions of their income that would otherwise go to the government. Economic productivity and **inflation** helped the government make up lost tax revenue.

The government introduced tax reforms when the tax code became too complicated and unfair. The Tax Reform Act of 1969 closed loopholes used by high income earners and corporations. The act also offered **tax cuts** for individuals and increased the tax exemptions for lower-income groups. The Tax Reform Act of 1986 introduced tax cuts and a simplified tax structure, substantially reducing money owed by the highest income earners. The government hoped the wealthy would pay their fair share and then invest the remaining money to boost the American economy. Despite these tax reforms, the government operated at a deficit during the 1980s.

Activity 1

Compare and contrast the Tax Reform Acts of 1969 and 1986 by filling in the Venn diagram below. In the left circle, list items specific to the Tax Reform Act of 1969. In the right circle, list items specific to the Tax Reform Act of 1986. In the center, list items common to both.



Suggested answers:
1969: increased exemptions for lower income groups, closed loopholes in the tax code; 1986: simplified the tax code/structure; allowed wealthy to keep money for investing; both (center of diagram): introduced tax cuts; encouraged the wealthy to pay their share

Activity 2

Identify the effects of the Tax Reform Acts of 1969 and 1986 by completing the "Who Benefits?" chart below. Explain which income groups appear to benefit from the tax reforms and which do not.

	WHO BENEFITS?	
Who?	**Benefit? (Yes/No)**	**How do they benefit?**
the wealthy	**yes**	**They pay their fair share and then get to invest the money that is left over.**
low-income taxpayers	**both**	**They pay fewer taxes yet have fewer public programs.**
corporations	**both**	**Pay less, invest more, loopholes are no longer available.**
the federal government	**yes**	**It encourages the wealthy to invest in the economy. It simplifies the tax code.**

Activity 3

Tax cuts may seem favorable for everyone, yet some people oppose them. Research the two sides of tax cuts. On a separate sheet of paper, explain who generally is in favor of tax cuts, who is not, and why.

Suggested answers: Students should understand that the wealthy generally are in favor of tax cuts because the cuts allow them to keep and invest larger portions of their incomes. Politicians favor tax cuts because the cuts make them look good at election time. Corporations like tax cuts for the same reasons the wealthy do, unless corporations are expected to generate revenue lost to individual tax cuts. Generally, people who rely on public programs will oppose tax cuts because they know that the cuts usually mean a reduction in federal spending on public programs. Usually, too, lower-income groups do not receive as large a tax cut as the wealthy do.