Who Holds the Purse Strings?
Modern Budget (Expansion Activity)

In colonial times, Americans fought for the right to control taxation and spending through representatives in the US House of Representatives. Today, money decisions still matter, not only for governments but also for individuals and families.

According to the US Census Bureau, the **average** US household income in 2023 was $114,500. However the **median** household income was $80,610.

Taxes are an important part of any government system. In the United States, there is a Progressive Tax System in which people who make more money also pay a higher percentage of taxes.

*Note: The power of the US government to collect taxes on income was established in the Sixteenth Amendment.

The average tax percentage in the United States is approximately 15 percent.

Example with 15 percent tax: A family who makes $80,610 (this is called "gross pay") would pay $12,091.50 in taxes ($80,610 x 0.15 = $12,091.50), and that leaves them with $68,518.50, which is called "net pay" ($80,160 – $12,091.50 = $68,518.50).

According to the Survey from the US Bureau of Labor Statistics (BLS), the average family spends about 30 percent of their income on housing, 17 percent on transportation, and 13 percent on food (often combined as "needs"). These amounts mean that 50 to 60 percent of a family's income is spent on these necessities.

Students can use the [Economic Policy Institute Family Budget Calculator](#) to find out what the average family budget is for their county, state, or metro area.

A popular way of budgeting is called the [50/30/20 method](#) in which income is divided into 3 categories: 50 percent for needs (housing, food, transportation), 30 percent for wants (hobbies, entertainment, travel), and 20 percent for savings and debt repayment.

If a family's net pay is $68,518.50 and they spend 50 percent on needs, they would have $34,259.25 left ($68,518.50 x 0.50 = $34,259.25). The family would decide on the other 30 percent for wants ($20,556) and 20 percent for savings and debt repayment ($13,704).

Consider what would happen if the tax rate went from 15 percent to 20 percent. Where would you choose to take the extra 5 percent from? The following worksheet gives you a chance to study that question.

Student Budget Worksheet

Students will receive a fictional **monthly income**. After confirming the taxes that will be collected, students will allocate their money into needs, wants, and savings. Then they should fill in the pie chart with the correct numbers.

Monthly Income: _____
Taxes (20%): _____
Remaining Income: _____

Category	% of Remaining	Amount
Needs	50%	
Wants	30%	
Savings/Debt	20%	