"We believe government should tax only to raise money for its essential functions," the Republicans state their case plainly on the Republican National Convention web site. That is, Republicans believe government should spend money only to enforce contracts, maintain basic [infrastructure](http://www.investopedia.com/terms/i/infrastructure.asp) and national security, and protect citizens against criminals.

The literature of the House Republican Conference goes on to illuminate the role of the government and how tax policies affect individuals: "The money the government spends does not belong to the government; it belongs to the taxpayers who earned it. Republicans believe Americans deserve to keep more of their own money to save and invest for the future, and low tax policies help drive a strong and healthy economy."

Tax relief is the Republican route to growing the economy. A Republican government would reduce taxes for businesses to allow businesses to grow and thus hire more employees. Republicans also seek to limit [income taxes](http://www.investopedia.com/terms/i/incometax.asp) for individuals so that people can hold on to more [disposable income](http://www.investopedia.com/terms/d/disposableincome.asp), which they can then spend, save or invest.

The tax policy for the Democratic Party calls for raising certain taxes to provide money for government spending, which in turn generates business. The party platform asserts that government spending provides "good jobs and will help the economy today."

Many Democrats are adherents to [Keynesian economics](http://www.investopedia.com/terms/k/keynesianeconomics.asp), or [aggregate demand](http://www.investopedia.com/terms/a/aggregatedemand.asp), which holds that when the government funds programs, those programs pump new money into the economy. Keynesians believe that prices tend to stay relatively stable and therefore any kind of spending, whether by consumers or the government, will grow the economy.

Like the Republicans, Democrats believe the government should subsidize vital services that keep cities, states and the country running: infrastructure such as road and bridge maintenance and repairs for schools. Democrats also call for tax cuts for the middle class. But who benefits most under each platform? The conventional wisdom is that corporations and the wealthy will benefit more with a Republican tax policy while small businesses and middle-class households will benefit from a Democratic tax policy.

Many of the quarrels that flare up when people debate tax policy evolve out of misunderstood concepts. Possibly the most misunderstood concept is the [tax rate](http://www.investopedia.com/terms/t/taxrate.asp). We hear that a politician wants to raise taxes on income and we cringe, convinced that higher taxes will whittle away every dollar we earn. But we don't pay a flat tax; we pay income taxes on a [marginal rate](http://www.investopedia.com/terms/m/marginaltaxrate.asp).

The marginal tax rate is the rate you pay on the last dollar of income you earn. For example, if you were single in 2008 and you brought in $50,000, you fell into the 25% [tax bracket](http://www.investopedia.com/terms/t/taxbracket.asp). But that doesn't mean that every dollar was taxed at 25%. It means that your first $8,025 was taxed at 10%, then everything up to $32,550 was taxed at 15% and everything above $32,551 was taxed at 25%.

Thus, when a Republican administration announces lower taxes, it is lowering the marginal tax rate - and critics grumble that the decrease benefits folks sitting on the higher rungs of the income ladder. Similarly, when Democrats announce an increase to the marginal rate, critics gripe that the increase will burden only high-income earners. (Read [The Market And Presidential Promises](http://www.investopedia.com/articles/financial-theory/08/presidential-election-cycle.asp) to see how, no matter who you vote for, announcements like tax changes can affect the markets.)

Of course, filing taxes is never as simple as plugging in your income and calculating your marginal rate. The [IRS](http://www.investopedia.com/terms/i/irs.asp) has bequeathed us a mishmash of regulations, deductions, credits and other magical formulas to thwart our efforts to file a quick federal return. Both political parties agree that the colossal tax code needs to be restructured and simplified. And, of course, each party has its own plan for how to tackle the problem.

The Democrats state that they "will shut down the corporate loopholes and [tax havens](http://www.investopedia.com/terms/t/taxhaven.asp) and use the money so that we can provide a … middle-class tax cut that will offer relief to workers and their families."

The Republicans assert that they "support giving all taxpayers the option of filing under current rules or under a two-rate flat tax with generous deductions for families. Religious organizations, charities and fraternal benevolent societies should not be subject to taxation."

Tax policy and the marginal rates we pay have volleyed back and forth, as Republicans and Democrats each took the reins of the White House. Under the Reagan administration, Congress passed the Economic Recovery Tax Act of 1981, which gave a 25%, across-the-board tax cut to individuals in all tax brackets - an act that became associated with the term [supply-side economics](http://www.investopedia.com/terms/s/supply-sidetheory.asp). Then Congress passed the Tax Reform Act of 1986, which, among other changes, lowered the highest marginal tax rate from 50-28%, and reduced the corporate tax rate.

In 1993, the Clinton administration repealed some of the Reagan tax cuts with the Omnibus Budget Reconciliation Act of 1993, which tacked on 36% and 39.6% marginal tax rates for individuals and a 35% rate for corporations. Note, however, that as inflation fell after the 1981 tax cuts, and the economy began to slow, Reagan agreed to repeal some of his own tax cuts, with the Deficit Reduction Act of 1984. The Reagan and Clinton tax increases served to reign in a budget deficit, which then allowed Clinton to announce a budget surplus of $230 billion in 2000.

Under Clinton, The Taxpayer Relief Act of 1997 offered a new tax benefit to families through the Per-Child Tax credit. This credit was refundable for many lower-income families and began a new trend of individual, refundable tax credits.

Under George W. Bush, in 2001, Congress signed into law a $1.35 trillion tax cut, which gave tax relief to individuals and families, with $300 to $600 rebates, doubled the child tax credit and again dropped the top marginal rate from 39.6-35%. The Bush tax cuts also provided major tax incentives for businesses. The Bush administration followed up with more rebates in the Jobs and Growth Tax Relief Reconciliation Act of 2003. (Not all promises were acted upon in previous years. Read [Talk Is Cheap: Campaign Promises And The Economy](http://www.investopedia.com/articles/economics/09/campaign-promises-president.asp), to take a look at a couple of past promises, and why they were not implemented.)