

The Basics of Taxes

Advanced Level





What are taxes?



Taxes –

A sum of money demanded by a government to support the government itself as well as specific facilities or services

Paid by **taxpayers** –

A person who pays a tax to national, state, county or municipal (city/town) governments



Are you a taxpayer?

Community

Community – a group of people with common interests and concern for the common good

United States

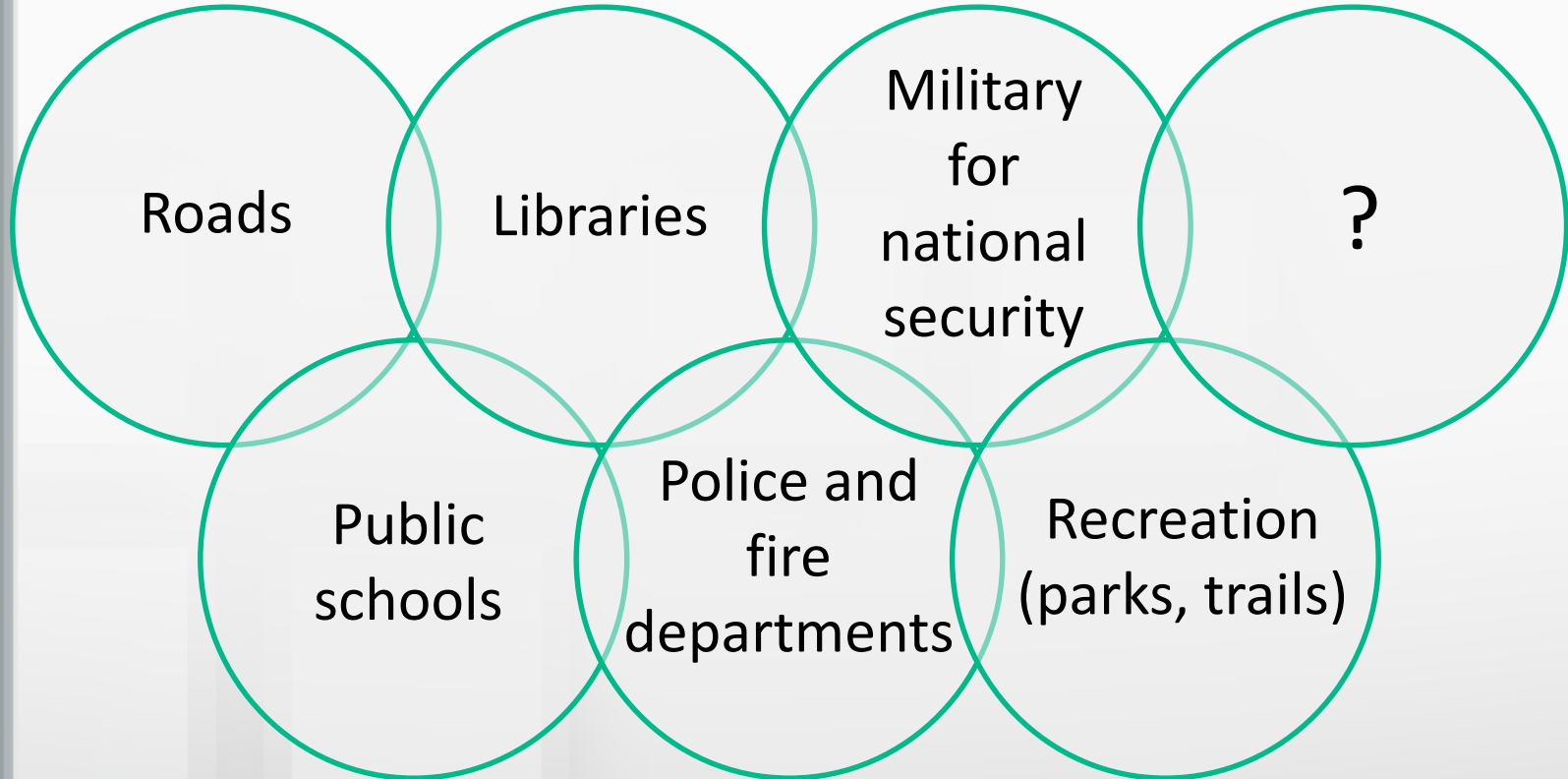
State

County

City/
town



What are benefits of being a part of these communities?



“You are better off being in a community than by yourself”



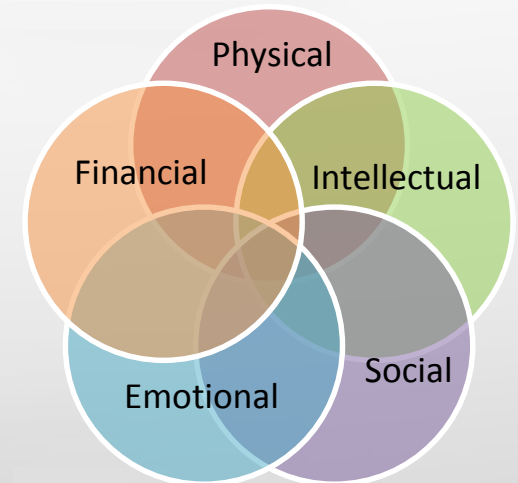
As a community member you receive many benefits you could not pay for individually

Taxes are a way members of a community provide for one another

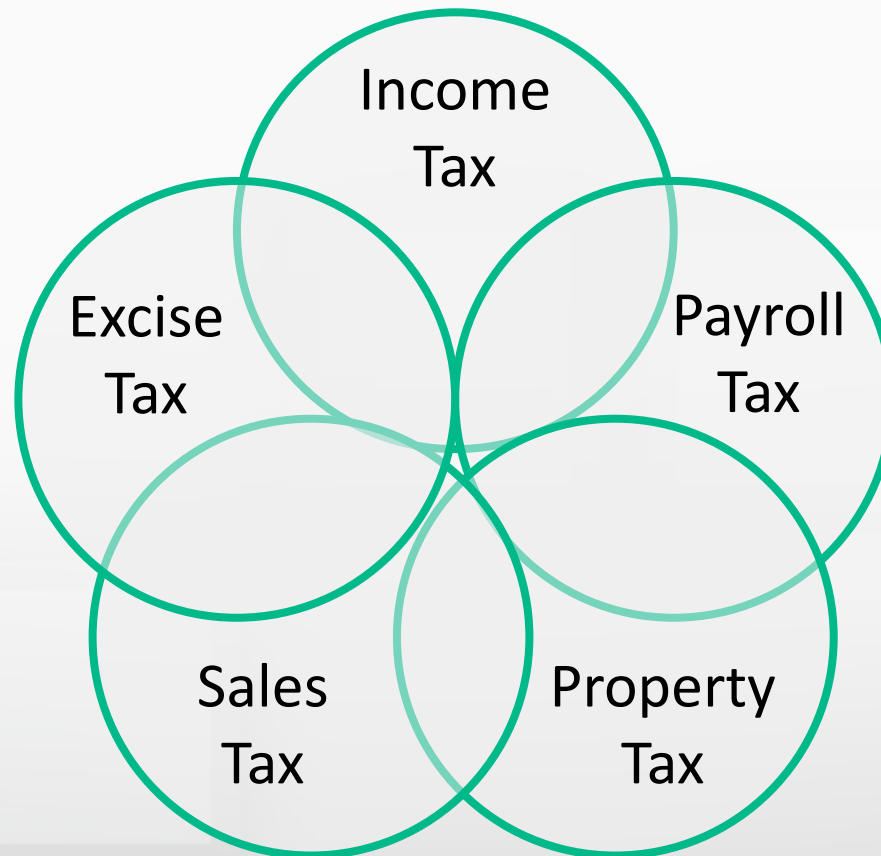
How do you benefit from taxes?



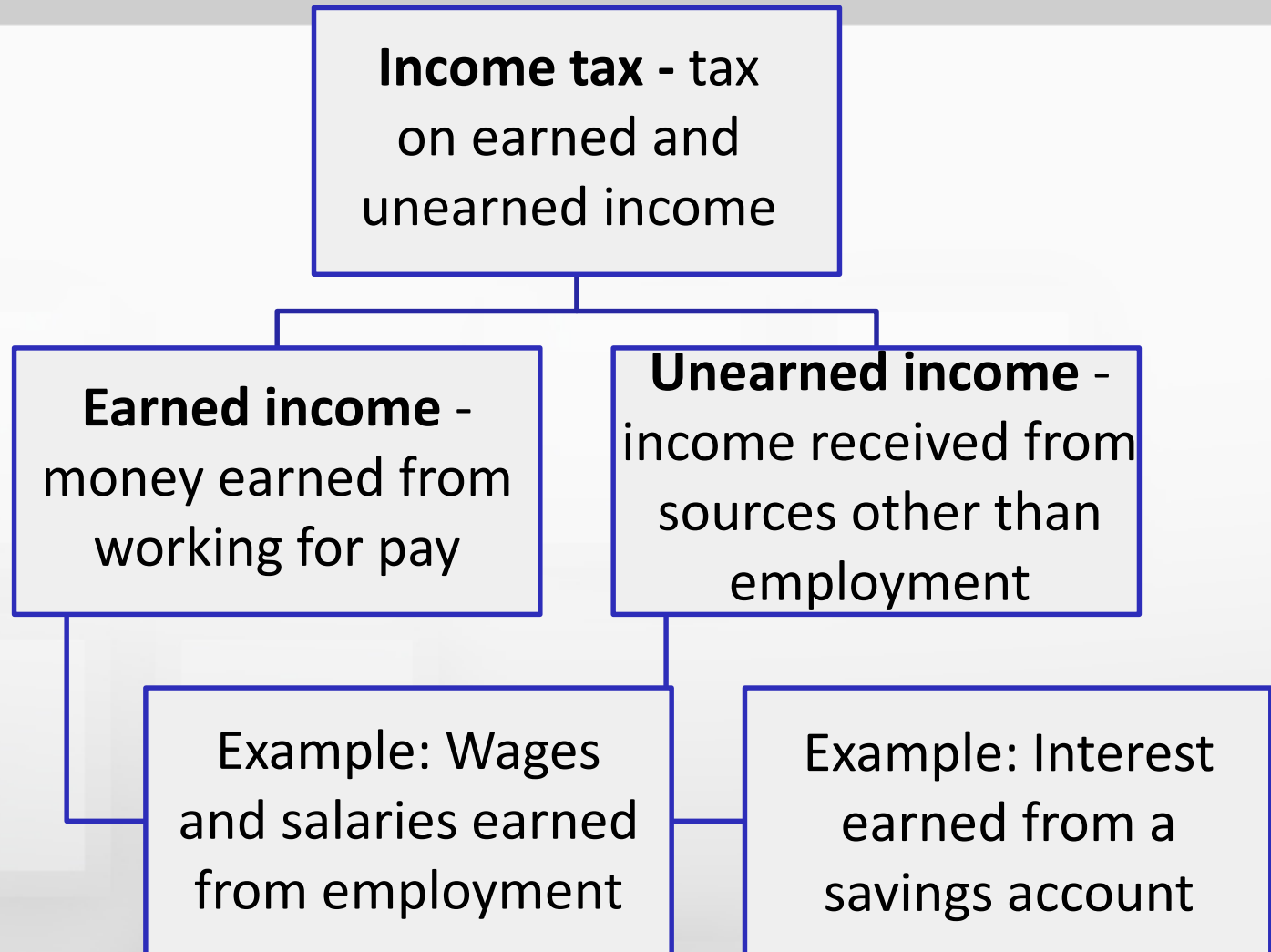
1. Make a list of things you use or benefit from that were funded, at least in part, by taxes
2. How do these items contribute to your well-being?
3. What would you do if you didn't have these items?







How do taxpayers pay taxes?



Income tax



Components of income tax



Federal
income
tax



State
income
tax

Income tax

Federal Income Tax



Tax is determined by?

- Earned and unearned income
- Higher income = more tax paid

Paid by?

- Majority of people living in the U.S.

Helps fund?

- Operations of federal government
- Government programs
 - education
 - defense of the nation
 - disaster relief

State Income Tax



Tax is determined by?

- Earned and unearned income
- Higher income = More tax paid

Paid by?

- Those living in states with a state income tax
- Not all states have a state income tax

Helps fund?

- Varies by state
- Examples:
 - State highways
 - Operations of state government



Does your state have state income tax?

Payroll Tax

Payroll tax – A tax on earned income that supports the Social Security and Medicare programs (also known as FICA)

Tax is determined by?

- A set percentage of earned income
- Deducted out of paycheck (except for self-employed)

Paid by?

- Individuals who earn income from working for pay
- Employers

Helps fund?

- Social Security program
- Medicare program





What is Social Security?

Purpose

- Income for:
 - Retirees
 - People with profound disability
 - Children who have lost a parent
 - A person with children who has experienced the death of a spouse

Tax charged

- 6.2% of earned income (decreased to 4.2% for 2011-12)
- Up to an annual maximum





What is Medicare?

Purpose

- Helps pay for health care for senior citizens

Tax charged

- 1.45% of earned income
- No limit



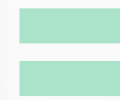
Employers also pay Social Security and Medicare

Match their employees tax contributions

Employee
contribution:
\$100



Employer
contribution:
\$100

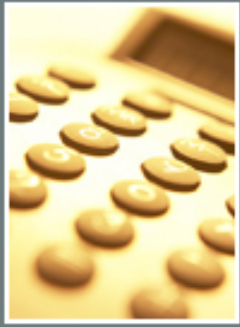


Employer
pays \$200 in
payroll taxes
to the
federal
government

Self-employed people pay both the
employee and employer contributions



What is the difference between income tax and payroll tax?



| Income Tax | Payroll Tax |
|---|---|
| Paid on both earned and unearned income | Paid on only earned income |
| Amount paid depends on many different factors but increases as income increases | A set percentage of earned income is paid |
| Funds many different operations and programs of the federal government | Funds the Social Security and Medicare programs |

Property Tax

Property tax - a tax on property, such as land, buildings (including homes), and motor vehicles

Tax is determined by?

- Percentage of property value
- Amount paid varies depending upon where you live

Paid by whom?

- Property owners
 - Fee to license car is a property tax

Helps fund?

- Schools
- Expenses of state and local governments



Sales Tax

Sales tax – tax on purchased goods and services

Tax is determined by?

- A percentage added to the original price of an item
- \$1.00 item charged 6% sales tax = \$1.06

Paid by?

- Anyone who purchases an item charged with sales tax
- Some states don't have sales tax

Helps fund?

- Expenses of state and local governments



Does your state have sales tax?

Excise Tax

Excise taxes – taxes collected from the seller or retailer and as such often remain hidden in the price of a produce or service

Tax is determined by?

- Purchase of certain items:
 - Gas
 - Hotel rooms
 - Airline tickets
 - Cigarettes
 - Alcohol
- Often included within the price of these items

Paid by?

- Anyone who purchases certain items
- Varies by location

Helps fund?

- Expenses of state and local governments



How are tax rates determined?



Determined by public representatives (city councils, county commissions, state legislatures, Congress)



Elected by voters



Taxpayers = voters



Work as a voting group to elect representatives who will represent the majority



Taxes and Money Management



Taxes play a role in both earning and spending

One of the largest expenses for many people



Why do you think understanding taxes is an important part of money management?

Summary

Without taxes it would be hard to pay for many of the benefits of being a member of a community

Taxes are charged in many different forms

The amount of taxes you pay and what you pay those taxes on will vary depending upon where you live and your income

Understanding taxes is an important part of money management

