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 – 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?

- Roads
- Libraries
- Military for national security
- Public schools
- Police and fire departments
- Recreation (parks, trails)
“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
- Payroll Tax
- Sales Tax
- Property Tax
- Excise Tax
Income tax

Income tax - tax on earned and unearned income

Earned income - money earned from working for pay

Example: Wages and salaries earned from employment

Unearned income - income received from sources other than employment

Example: Interest earned from a savings account
Components of income tax

Federal income tax + State income tax = Income tax
# Federal Income Tax

<table>
<thead>
<tr>
<th>Tax is determined by?</th>
<th>Paid by?</th>
<th>Helps fund?</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Earned and unearned income</td>
<td>• Majority of people living in the U.S.</td>
<td>• Operations of federal government</td>
</tr>
<tr>
<td>• Higher income = more tax paid</td>
<td></td>
<td>• Government programs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• education</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• defense of the nation</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• disaster relief</td>
</tr>
</tbody>
</table>
## State Income Tax

<table>
<thead>
<tr>
<th>Tax is determined by?</th>
<th>Paid by?</th>
<th>Helps fund?</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Earned and unearned income</td>
<td>• Those living in states with a state income tax</td>
<td>• Varies by state</td>
</tr>
<tr>
<td>• Higher income = More tax paid</td>
<td>• Not all states have a state income tax</td>
<td>• Examples:</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• State highways</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Operations of state government</td>
</tr>
</tbody>
</table>

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)

<table>
<thead>
<tr>
<th>Tax is determined by?</th>
<th>Paid by?</th>
<th>Helps fund?</th>
</tr>
</thead>
<tbody>
<tr>
<td>A set percentage of earned income</td>
<td>Individuals who earn income from working for pay</td>
<td>Social Security program</td>
</tr>
<tr>
<td>Deducted out of paycheck (except for self-employed)</td>
<td>Employers</td>
<td>Medicare program</td>
</tr>
</tbody>
</table>
### 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

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Employers also pay Social Security and Medicare

Match their employees tax contributions

Employee contribution: $100

Employer contribution: $100

Self-employed people pay both the employee and employer contributions

Employer pays $200 in payroll taxes to the federal government
What is the difference between income tax and payroll tax?

<table>
<thead>
<tr>
<th>Income Tax</th>
<th>Payroll Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid on both earned and unearned income</td>
<td>Paid on only earned income</td>
</tr>
<tr>
<td>Amount paid depends on many different factors but increases as income increases</td>
<td>A set percentage of earned income is paid</td>
</tr>
<tr>
<td>Funds many different operations and programs of the federal government</td>
<td>Funds the Social Security and Medicare programs</td>
</tr>
</tbody>
</table>
## Property Tax

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

<table>
<thead>
<tr>
<th>Tax is determined by?</th>
<th>Paid by whom?</th>
<th>Helps fund?</th>
</tr>
</thead>
</table>
| • Percentage of property value | • Property owners  
  o Fee to license car is a property tax | • Schools  
  • Expenses of state and local governments |
| • Amount paid varies depending upon where you live | | |
Sales Tax

Sales tax – tax on purchased goods and services

<table>
<thead>
<tr>
<th>Tax is determined by?</th>
<th>Paid by?</th>
<th>Helps fund?</th>
</tr>
</thead>
<tbody>
<tr>
<td>• A percentage added to the original price of an item</td>
<td>• Anyone who purchases an item charged with sales tax</td>
<td>• Expenses of state and local governments</td>
</tr>
<tr>
<td>• $1.00 item charged 6% sales tax = $1.06</td>
<td>• Some states don’t have sales tax</td>
<td></td>
</tr>
</tbody>
</table>

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.

<table>
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<tr>
<th>Tax is determined by?</th>
<th>Paid by?</th>
<th>Helps fund?</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Purchase of certain items:</td>
<td>• Anyone who purchases certain items</td>
<td>• Expenses of state and local governments</td>
</tr>
<tr>
<td>• Gas</td>
<td>• Varies by location</td>
<td></td>
</tr>
<tr>
<td>• Hotel rooms</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Airline tickets</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Cigarettes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Alcohol</td>
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<tr>
<td>• Often included within the price of these items</td>
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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.