

# Paying Taxes



## Objective

In this lesson, you will

## Defining Taxes



Key Term

Taxes are payments to federal, state, and local governments that are required by law.

Government Functions Supported by Taxes:	Types of Taxes:
<ul style="list-style-type: none"> <li>Funding _____ and _____ – Medicare and Medicaid, education, roads, airports, and public safety</li> <li>Providing income _____ – Social Security, welfare, disability, and unemployment insurance payments</li> <li>Paying _____ for government employees</li> </ul>	<ul style="list-style-type: none"> <li>_____ tax – tax on earnings, such as wages or salaries and tips</li> <li>_____ tax – tax on various goods and services that you pay at the time you buy something</li> <li>_____ tax – tax on goods and services such as gasoline, tobacco, alcohol, and telephone services.</li> <li>_____ tax – tax on the value of land or buildings that you own</li> </ul>

## Collecting Income Taxes



\_\_\_\_\_ income is the income you receive after taxes are deducted from your paychecks. Employers also have to pay employer payroll taxes to \_\_\_\_\_ for Social Security and \_\_\_\_\_.

Type of Tax Deduction	Explanation
FICA tax	<p>The Federal Insurance _____ Act, or FICA, tax is a combination of Social Security and Medicare or Medicaid.</p> <ul style="list-style-type: none"> <li>Social Security – provides income to _____ and disabled workers and dependents</li> <li>Medicare – helps pay for health insurance for the _____ and some disabled persons</li> <li>Medicaid – helps government pay _____ care costs for people with _____ incomes</li> </ul>
federal tax	The Internal _____ Service, or IRS, oversees collection of federal income tax.
state tax	State tax is an _____ tax that is required by most states.

You must file an income tax \_\_\_\_\_ form that tells federal and state governments:

- how much you \_\_\_\_\_ in taxes for the year just completed
- how much you have already \_\_\_\_\_ in paycheck deductions
- how much you still have to \_\_\_\_\_

April \_\_\_\_ is the deadline for \_\_\_\_\_ your income tax returns with both state and federal governments.

## Explaining Taxable Income and Tax Deductions

The money you make at your job is just part of your income. Income also includes the \_\_\_\_\_ you earn on your savings account.

You can deduct certain costs from your total income that will reduce the tax amount you owe. You can subtract money you have spent on \_\_\_\_\_ care, state and local taxes, mortgage \_\_\_\_\_, charitable \_\_\_\_\_, and tax-preparation fees from your total income.

## Filing Income Tax Returns

The five filing statuses are:

- \_\_\_\_\_
- \_\_\_\_\_
- *married filing separately*
- \_\_\_\_\_
- *qualifying widow(er)*

Use a tax \_\_\_\_\_, or table, to see what percentage of income has to be paid in taxes.



\_\_\_\_\_ tax is the extra tax you need to pay on any money you earned that is more than the lowest income amount in your tax bracket.

Jessica's parents make a taxable income of \$200,000 per year. Looking at the tax schedule, you can see that they are in the 33% tax bracket. They need to pay \$43,830.50 plus 33% of the amount over \$195,850. How much do they owe in taxes.

Tax Schedule for Married Filing Jointly Filing Status		
If taxable income is over	But not over	The tax is
\$0	\$15,650	10 percent of the amount over \$0
\$15,650	\$63,700	\$1,565.00 plus 15 percent of the amount over \$15,650
\$63,700	\$128,500	\$8,772.50 plus 25 percent of the amount over \$63,700
\$128,500	\$195,850	\$24,972.50 plus 28 percent of the amount over \$128,500
\$195,850	\$349,700	\$43,830.50 plus 33 percent of the amount over \$195,850
\$349,700	no limit	\$94,601.00 plus 35 percent of the amount over \$349,700

**Step 1:** First, subtract \$195,850 from \$200,000.

$$\$200,000 - \$195,850 = \$\underline{\hspace{2cm}}$$

Jessica's parents earned \$           above \$195,850.

**Step 2:** Calculate 33% of \$4,150.

$$\$4,150 \times 0.33 = \$\underline{\hspace{2cm}}$$

So, Jessica's parents owe a marginal tax of \$          .

**Step 3:** Add \$1,369.50 to \$43,830.50 to get the total tax amount.

$$\$43,830.50 + \$1,369.50 = \$\underline{\hspace{2cm}}$$

So, Jessica's parents have to pay \$           in taxes.

## Filling Out the 1040EZ Form

Two forms are needed to fill out your income tax returns.

1. W-2 form: Employers mail W-2 forms to their employees in                                 . A W-2 shows total earnings for the year and the total amount of taxes deducted from the                          pay.
2. 1040, 1040A, or 1040EZ form: You can use one of these forms to fill out your tax return.

The 1040EZ is perfect for young people who have few tax                                 . To use this form, you need the following qualifications:

- a taxable income of less than \$
- interest income of \$                         or less
- no

## Summary

What happens if the amount of taxes deducted from your income is more than the amount you owe?