



You Are a Taxpayer

You've probably thought of yourself as a student, a kid, maybe an athlete or an artist or a gamer, but have you ever thought of yourself as... a taxpayer? If you've ever bought anything, you've probably paid taxes. A **tax** is an amount of money citizens and businesses are required to pay so that the government can function and provide services. There are many kinds of taxes, and they exist at all levels of government. The taxes you pay support all of the things the government does.

Government Services

So what does the government do? Just look around! If you've driven on a road, visited a library, gone to an airport, or been to a military base, you've seen the government in action. Many government services are designed to keep the nation and its citizens safe. The government inspects places where food is made, provides police officers and FBI agents, and keeps long-range missiles ready in case of attack. (Ever wondered how much a missile costs and who pays for it?)

Other services are designed to keep the nation's economy running smoothly by helping citizens earn a living and business be competitive. The government educates people, supports farmers and small business owners, and investigates companies that operate unfairly. There are services that help people who have fallen on hard times by offering them help finding jobs and buying food.

The government provides all kinds of other services, too. It improves our quality of life by maintaining parks and operating museums. It generates electricity, prints money, builds rockets, clothes prisoners, repairs traffic lights ... the list is endless! Thousands of people earn their living providing all these services to citizens. In fact, the federal government is the biggest employer in the nation.



Paying for Services

Most people would agree that going out to eat is fun... until the check arrives. But people accept that if they want to eat out, they have to pay the bill. It's the same with government services: If we want to have a military, or space rockets, or traffic lights, we have to pay for them. (Whether people agree on what we should pay for is another question!) We pay for these things with taxes. There are many kinds of taxes.

Sales Tax

Sales tax is the tax you pay when you buy something. Government at all levels can impose sales tax. If you break down the total tax you pay on an item, you may find that part of it is city sales tax, part might be county tax, and part may be state sales tax. If you've noticed that sales tax varies from place to place, that's why. Also, not everything is taxed at the same rate. In many states, groceries are exempt from sales tax. States and local governments use sales taxes to fund many kinds of programs. Sometimes, citizens will even vote to impose a sales tax on themselves for a special purpose, such as education.





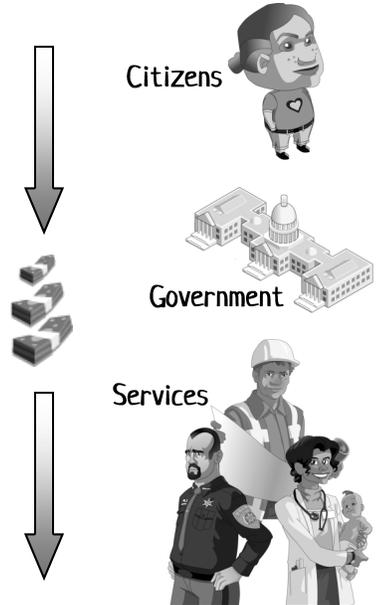
Excise Tax

While sales tax applies to all the stuff in your shopping cart, an **excise tax** only applies to certain products. States often put excise taxes on alcohol and tobacco. At the federal level, there are excise taxes on gasoline, air transportation, fishing equipment, and even indoor tanning! You won't usually see an excise tax listed on your receipt because it is a tax the seller owes to the government. However, sellers usually include the amount of the tax in the price of the item. That's why excise taxes are often called "hidden" taxes. As the consumer, you might not know the tax exists.

Income Tax

Income tax is the tax you pay on money you receive from various sources. Some income is money you earn by working at a job. There are other kinds of income, too. Banks pay interest on money you keep in a savings account. People who own buildings may receive rent from their tenants. People who own businesses receive money for the goods and services they offer. People can also receive income from investing their money in things like stocks. All of this income is taxable, which means people must report it to the government and may have to pay taxes on it. Federal income tax forms are due every year! **April 15th** is the last day you can turn them in.

Like people, businesses also pay income tax. The **corporate income tax** is a tax on profits made by corporations. Both the individual and corporate income tax are **progressive taxes**, meaning the more income or profit a person or company has, the higher tax rate they pay.



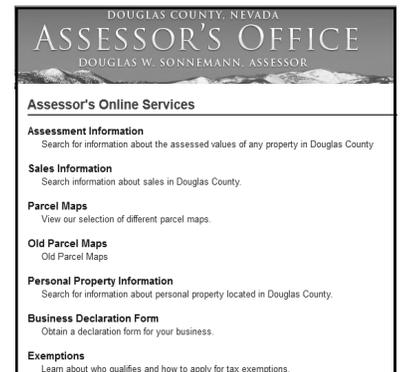
Social Security and Medicare Tax

Social Security is the basic retirement program run by the federal government. During your working years, the **Social Security tax** takes a percentage of your earnings and puts it into the Social Security system. Then, when you reach a certain age, you become eligible to receive monthly payments. People who become disabled and cannot work may also be eligible to receive payments from Social Security. **Medicare** is the federal government's health care system for people age 65 and over. Money for this program also comes out of your paycheck in the form of a tax.

Other Taxes

There are many other kinds of taxes the government collects:

- Local governments collect **property taxes**, which are taxes people pay on land they own. Schools and fire services are often funded with property taxes.
- The **estate tax** is a tax the government collects when a person dies. Often called "death taxes," the estate tax only applies when everything the deceased person owned is worth a *lot* of money—usually millions of dollars. Most people don't have to worry about this tax.
- The government also imposes **tariffs**, which are taxes on goods that are imported to the U.S. from other countries. The purpose of tariffs is to help U.S. companies compete with foreign companies.



In most places, a County Assessor decides what land is worth for property tax purposes.

Taxation

Name: _____

A. Which Tax Is It? Match each scenario with the tax it is describing.

___ **TARIFF**

___ **PROPERTY TAX**

___ **ESTATE TAX**

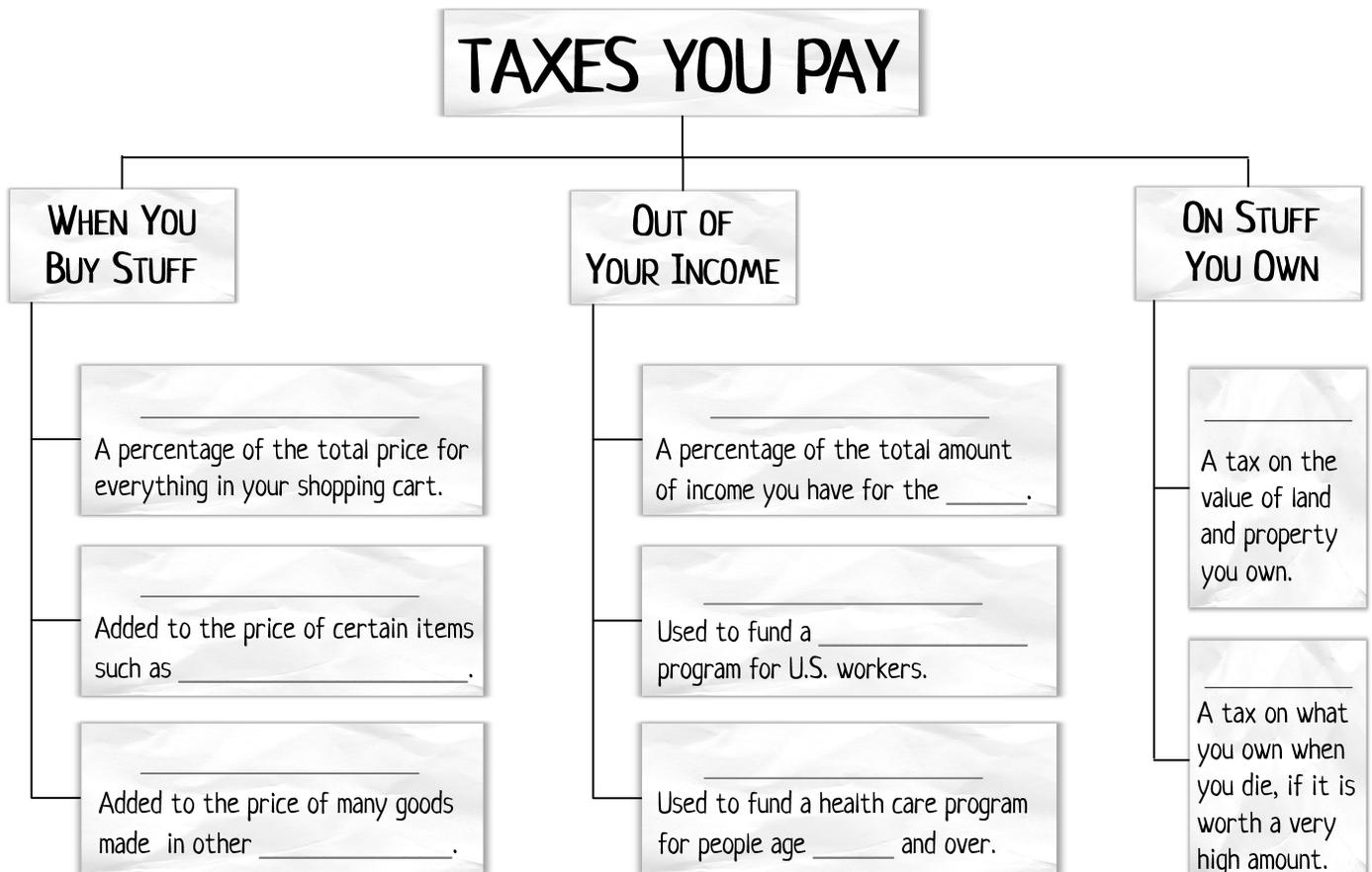
___ **INCOME/SOCIAL SECURITY/
MEDICARE TAXES**

___ **EXCISE TAX**

___ **SALES TAX**

- 1) Yvonne buys gloves that cost \$10.00. At the register, she must pay \$10.80.
- 2) Sasha bought a townhouse last year. She just got a tax bill from the county showing the value of her house and the amount of tax she owes.
- 3) Bigmart sells boots that are made in China and boots made in the U.S. Bigmart must pay 27% tax on each pair made in China, but not on the US-made pairs.
- 4) State citizens voted to add a 75-cent tax to each pack of cigarettes to pay for programs to help people quit smoking.
- 5) Jake got his paycheck today. He worked 40 hours at \$20 per hour. His gross pay was \$800, but the amount of his paycheck was only \$623.15.
- 6) Clyde Cash owned two houses, three office buildings, a Bugatti Veyron, antiques, stocks, and a jet, all worth \$25 million. He passed away. His heirs owe the government \$9 million in taxes.

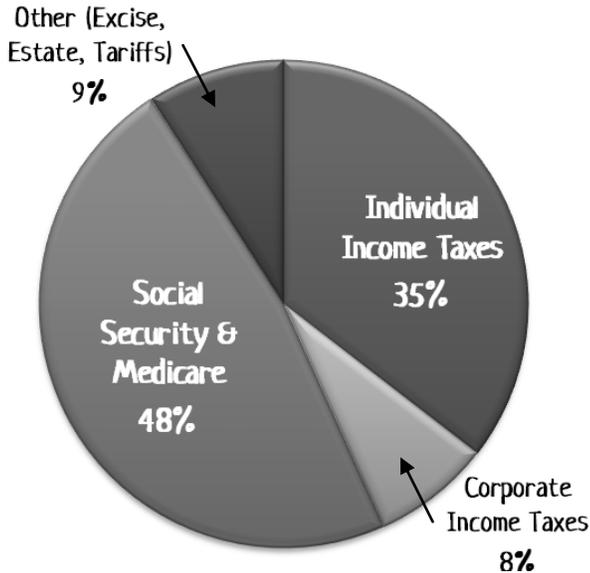
B. Tax Organizer. Use what you learned in the reading to complete this graphic organizer.



Taxation

Name: _____

C. Government Revenue. *Revenue* is a fancy word for income. Use the proportions in the chart to help you label each dollar amount. Then add to see the total amount of taxes the federal government received in 2011.



<u>Dollar Amount</u>	<u>Tax Type</u>
\$ 1,100,000,000,000 (_____)	
\$ 819,000,000,000 (_____)	
\$ 181,000,000,000 (_____)	
+ \$ 211,000,000,000 (_____)	

→ Total Revenue 2011

D. Tax Brackets. The U.S. has a *progressive* tax system, meaning the more income you have, the higher tax rate you pay. Use the tax table to help you label the rest of Jim's money to show the tax rate he will pay on each part of what he made.

2012 TAX TABLE FOR UNMARRIED INDIVIDUALS

Tax Rate	Income	What It Means:
10%	\$0 - \$8,700	You pay 10 percent on your first \$8,700.
15%	\$8,700 - \$35,350	You pay 15 percent on income over \$8,700 but under \$35,350.
25%	\$35,350 - \$85,650	You pay 25 percent on income over \$35,350 but under \$85,650.
28%	\$85,650 - \$178,650	You pay 28 percent on income over \$85,650 but under \$178,650.
33%	\$178,650 - \$388,350	You pay 33 percent on income over \$178,650 but under \$388,350.
35%	Over \$388,350	You pay 35 percent on every dollar you make over \$388,350.



Taxation

Name: _____

C. Reality (Pay)Check. When you get a paycheck, your check stub offers lots of information about the taxes you pay. Study Wanda Worker's paycheck stub and answer the questions below.

Wanda W. Worker P.O. Box 1234 Anytown, STATE 87654		Employee #: 54-9832		Date: 6/12/2014 Amount: \$ 738.36		FEDERAL INCOME TAX SUMMARY						
HOURS AND EARNINGS						Current		YTD				
Description	Current Pay Period			Year to Date Earnings	Gross Pay		1,020.00		12,240.00			
	Hours	Rate	Earnings		Minus: Pre-Tax Deductions		93.00		1,116.00			
Regular Pay	72.00	12.75	918.00	11,934.00	Taxable Amount		927.00		11,124.00			
Paid Time Off (PTO)	8.00	12.75	102.00	306.00	Minus: Taxes		-188.64		-2,263.68			
TOTAL	80.00		1,020.00	12,240.00	Net Pay		738.36		8,860.32			
PRE-TAX DEDUCTIONS				TAXES				Company, Inc.				
Description	Current	YTD	Description	Current	YTD	Pay to: <u>Wanda W. Worker</u> \$ 738.36						
Health Insurance	42.00	504.00	FEDERAL SOCIAL SEC	92.70	1112.40	Seven hundred thirty-eight and 36/100						
401K Retirement	51.00	612.00	MEDICARE	13.44	161.28	<i>Michael M. Manager</i>						
STATE			STATE	25.03	300.36							
Total	93.00	1,116.00	Total	188.64	2,263.68							

- 1) How much does Wanda earn per hour?
\$ _____
- 2) What are Wanda's total earnings for the current pay period?
\$ _____
- 3) List the 4 kinds of taxes that are taken out of Wanda's check:

- 4) Which tax had the least amount taken out? The most?
Least: _____
Most: _____
- 5) How much did Wanda pay in taxes this pay period?
\$ _____
- 6) How much has Wanda paid in total taxes this year?
\$ _____
- 7) How much federal tax has Wanda paid so far this year?
\$ _____
- 8) What was Wanda's gross pay during the current pay period?
\$ _____
- 9) Was Wanda's entire gross pay taxable?
 Yes No
- 10) The difference between gross pay and net pay is that gross pay is the amount a person earns before _____ while net pay is the amount they _____.
- 11) Wanda receives a check for which amount?
 Gross Pay Net Pay Taxable Amount
- 12) What are the two pre-tax deductions that are taken out of Wanda's check?
_____ & _____
- 13) Wanda paid \$93 toward health insurance and retirement. Did she pay taxes on that \$93?
 Yes No
- 14) If Wanda's state did not have an income tax, how much extra money would she have kept so far this year?
\$ _____