



Paying Your Taxes

Tashia was shocked. She had been looking forward to her very first paycheck from her job after school at the pet store. She had worked 10 hours, and she kept thinking about what she would do with her \$60 paycheck. She looked again at the paycheck in her hand. It was for only \$50.54. Just wait until she talked with her supervisor the next day! Whoever had taken her money from her was sure going to hear from Tashia.

You have probably had this experience. Tashia's paycheck was less than she expected. Taxes had been deducted. Her employer collects those taxes and sends the money to the appropriate federal or state agency. Tashia's paycheck paid for FICA (\$4.59), state withholding (\$2.34), and federal withholding (\$2.53).

Here's what you need to file your taxes:

- **W2:** Every job you had in the past year will send you a W2 form reporting your income.
- **1099INT:** Your savings account interest report. Your bank will send you this form reporting your interest income.
- **Charity and deduction receipts:** Charity donations reduce the amount of income on which your taxes are based for itemized deductions.
- **Business receipts:** No matter what small business you run, from dog walking to babysitting, you will have expenses. Use these receipts to figure the net income on which you should pay taxes.

What Is Income Tax?

The federal government collects tax from each income earner. Some taxes, called payroll taxes, are taken directly from a paycheck. The main payroll tax, listed as FICA on the pay stub, for Federal Insurance Contributions Act, pays for Social Security and Medicare. When taxes are filed on April 15, taxpayers pay taxes up to the level of their tax bracket. These taxes cover income of all sorts (not just salary, but also income on interest and stock sales). In order to even out this annual giant payment, the federal and state taxation agencies withhold part of each paycheck to cover the income tax. Then most earners get some of this withholding back as a refund, once they file their taxes.

Who Is the Federal Government?

From your mail carrier to the person who sends you a copy of your birth certificate when you apply for a social security card, the federal government is

Main Idea

Taxes on income are familiar to any teen with a paycheck. They will learn how taxes are paid, what forms to use, and whether to expect a refund. Teens will learn how to use a W2 to file the 1040EZ on paper or online.

After completing this lesson you will be able to:

- understand what taxes will be withheld from your paycheck
- file a 1040EZ and get a refund
- learn how taxes are used
- file taxes on paper or online
- have some ideas for using a tax refund to start a savings account

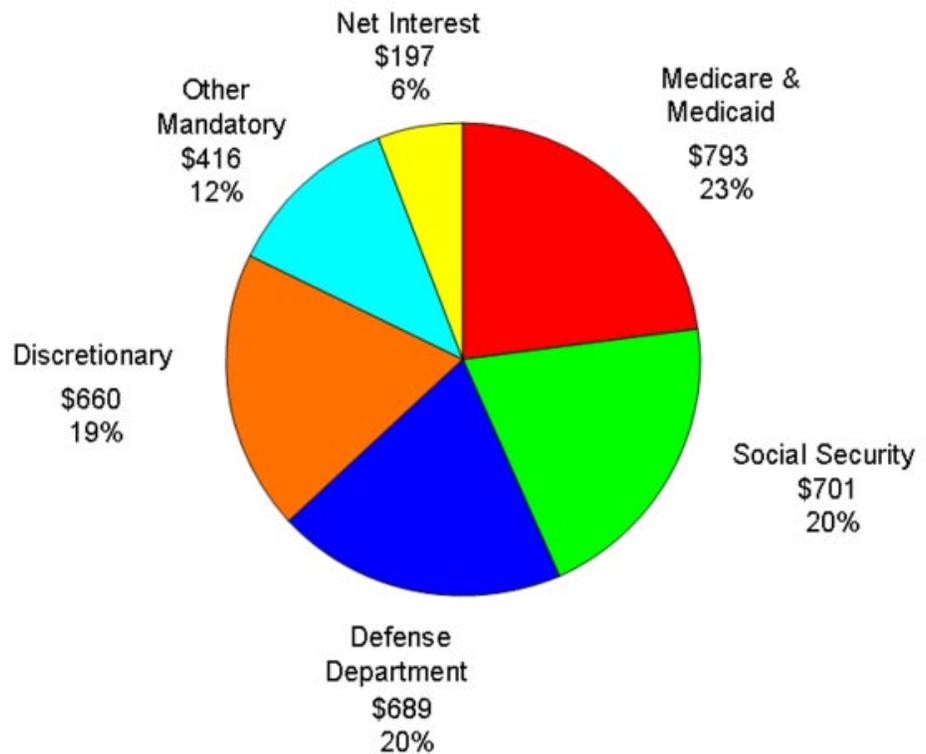
Key Terms

- 1040EZ
- 1099INT
- 1099MISC
- FICA
- Gross Income
- Income Tax
- Standard Deduction
- Tax Audit
- Tax Deduction
- Tax Exemption
- Tax Refund
- Tax Table
- W2
- W4

made up of the people and programs that serve our country. Federal programs fund building and maintaining interstate highways. The federal government keeps our ports safe and runs our National Parks and the military.

What Do They Use Taxes For?

When you look at your pay stub, it does not say exactly what your tax dollars are paying for. A large part goes to the military. The chart here shows that we spend as much on the military as on Social Security. Net interest is the interest paid on the national debt. When you take out a loan, you pay interest. And the federal government does the same thing by selling Treasury Bills and Treasury Bonds, on which it then pays interest.



The above pie chart shows the breakdown of how your tax dollars are spent. A large portion goes to national defense and social security. Six percent of the total budget goes to paying the interest on money the government has borrowed.

How and When Do I Pay My Taxes?

Taxes are due every year on April 15. However, if you are going to get a refund, it is best to file as soon as possible. You must wait until you receive a W2 form from each employer. These should come by about the third week in January. If you earned any interest income, you need to wait for your 1099INT to come.

What Forms Do I Use?

Most teens use the 1040EZ, either on paper or online. Even if you are going to hire someone to do your taxes, it is best to sit down with the 1040EZ form to make sure you have every single document you need. These papers

will include W2s, 1099s, 1099INTs, and any charitable donation receipts. If you ran your own business and made over \$400 in the year, you will need to have every business receipt. It is best if you list these items in a spreadsheet like Excel, or a program like Quicken or Microsoft Money. Then it is easy to get the total, and easy to check each receipt. You will attach the appropriate copy of your W2 (it will say right on the form if it is the state, federal, or your copy) directly to your 1040EZ if you are mailing in your return.

What Happens if I Don't Pay My Taxes or Misreport Income?

If you broke a lamp and your mom saw you do it, would you lie and say someone else did it? What if she didn't see it happen?

When you earn money and get a paycheck, that money is reported to the IRS (the Internal Revenue Service). If you pretend you don't have to file a tax return, the IRS will know, and they will send you a notice of failure to file, along with a penalty dollar amount you owe. If the IRS calculates that you owe money, they will start calculating interest you owe starting from April 15.

If you have your own business and make less than \$400 a year, you do not need to file. Once your business starts to earn more than \$400 a year, you do need to file. It is a little like breaking a lamp without your mother seeing. Would you still own up to it? Paying taxes you owe does give you benefits. You can start saving money in an IRA (Individual Retirement Account) that either reduces the amount of your taxes (how the traditional IRA works) or else will be available tax-free when you retire (the Roth IRA method).

Obviously, retirement is not at the top of every teen's list for what to do with money. However, consider this fact: the greatest tool for wealth creation is saving money. That's right, if you want to be wealthy some day, start saving now.

Should I Do My Own Taxes?

If your life is simple, and you have only a W2 and maybe a 1099INT to handle, you can probably do your taxes yourself, with a parent's help. Most teens who need to file taxes have their parents file for them, at least until they are out living on their own. Why? Parents claim you as a dependent on their tax form, and you may not claim yourself as a dependent on your own form.

Realistically, most people file their own returns only after they are out of college or otherwise working full-time at their first full-time job. Once you start to get more complicated with your money, it is time to have someone do your taxes for you.

Filing Your Taxes Online

Filing your taxes online is a new and growing trend. As long as you have all of your important documents with you (and a parent to help you), you can enter the correct number in the online tax filing system. You will have to come up with a secret Personal Identification Number (PIN). You should keep this number safe and not forget it. You will need to use it whenever you file online in the future.

Will I Get a Tax Refund?

You will probably get a refund, unless you do not have income tax withholding from your paycheck. If you have income from sources other than a paycheck, like selling stocks or running your own business, then you may well have to pay taxes; but this is not the case for most teens.

Summary

Taxes are part of earning a paycheck. These taxes help keep older people healthy, give poor people health care, and help pay for everything our government does. The federal government includes the military, the Interstate roads, and port safety. About nine cents of every tax dollar goes to interest on the national debt, and another twenty-one cents goes to the military.

The 1040EZ form can be filled out online or on paper, but it must be sent in before the government will return your withholding deduction in a refund check. If you have no charitable deductions, or if your deductions total less than the standard deduction, then the standard deduction should be taken. Not paying taxes can result in extra fees, interest, or even jail. Paying taxes can give the benefit of saving tax-free for retirement.

Key Terms

1040EZ

The quick tax form most often used, in paper or online, for those with uncomplicated tax situations.

1099INT

Report on interest income sent from the bank to both the IRS and the taxpayer for savings account interest.

1099MISC

Report of income made to the IRS and the taxpayer for any money paid by the job, instead of as a salaried employee.

FICA

Short for Federal Insurance Contributions Act, the name given on the paycheck stub for Social Security and Medicare taxes. The employee pays some of the FICA tax, and the employer pays some of this tax for each employee. Social Security pays benefits for older people, people with disabilities, and minor children and surviving spouses of deceased workers. Medicare pays for hospital insurance for those over 65.

Gross Income

The total income, before deductions, made in a year.

Income Tax

Tax paid to the state, federal, and local governments based on income earned over the past year.

Standard Deduction

The amount of deduction given for those not claimed as a dependent on a parent's taxes.

Tax Audit

A review of a tax return by the IRS in which the taxpayer must show proof of all deductions, expenses, and income.

Tax Deduction

A donation or expense that reduces the taxable income amount.

Tax Exemption

A number that includes the taxpayer and any dependents. Because most teens are listed as dependents on their parents' taxes, their tax exemption is 0.

Tax Refund

A check returning the taxpayer's money to the taxpayer after tax returns are filed and the overpaid tax is determined.

Tax Table

The table in the 1040EZ booklet showing levels of income on one side and the tax owed on the other side.

W2

Report sent from the employer to both the IRS and the employee, showing gross income, total taxes paid, and total voluntary deductions.

W4

The withholding form each new employee fills out, stating the number of exemptions. The more exemptions listed, the less withholding tax will be taken from the paycheck.