

5 Taxes

Everyone pays taxes. Sometimes the tax is visible. For example, people can see how much the government takes from their paychecks. However, other taxes are invisible. For example, people pay for some things without knowing that a tax is included in the price. Taxes cannot be avoided.

What are federal income taxes? For most workers, the **personal income tax** is deducted from their paycheck. At the end of the year, employers send each worker a tax statement, Form W-2. This statement must be filed with the worker's income tax form. If the worker has paid too much tax, the government will send the worker a refund. If the worker has not paid enough tax, the worker will have to pay the difference. The government agency that collects taxes is called the Internal Revenue Service (IRS). More than 40 percent of the money the federal government collects comes from this personal income tax.

Form W-2 Wage and Tax Statement

Form W-2 shows your name, address and Social Security number. Form 2 also shows the amount of your wages. It tells how much money was withheld for federal, state and Social Security taxes. Form W-2 comes in three parts. One part (Copy B) is filed with your federal income tax form. Another part (Copy 2) is filed with your state income tax form. The third part (Copy C) is kept by you for your personal records.

OMB No. 1545-0008	
ZIP code	6 Statutory employee, 7 Deceased pension plan, 8 Legal rep., 9 942 emp., 10 Subtotal, 11 Deferred compensation
	7 Allocated tips, 8 Advance EIC payment
	9 Federal income tax withheld, 10 Wages, tips, other compensation
4 Employer's state I.D. #	11 Social security tax withheld, 12 Social security wages
13 Social security tips	14 Medicare wages and tips
ZIP code	15 Medicare tax withheld, 16 Nonqualified plans
	17 See Instrs. for Form W-2, 18 Other

Another source of money is the **corporate income tax**. This is a tax placed on businesses. It brings in only about a third as much money as the personal income tax. Then there is the **Social Security tax**. Sometimes it is called the payroll tax. This is because it is taken directly out of your pay. Remember that your employer matches the amount of this tax you pay. The money raised by this tax is used to give pensions to retired workers.

corporate income tax
a tax placed on business

Social Security tax
a payroll tax taken from your paycheck and paid to retired workers

What are excise taxes and tariffs? The federal government also collects excise taxes. An **excise tax** (EK-syz) is a tax on a certain item. The price of gasoline includes a federal excise tax. So does the price of a pack of cigarettes. Additional money is raised through tariffs (TA-rifs), which are taxes on imported goods. You pay this tax if you buy something that was made in another country. If you buy a Swiss watch, part of the price will be the tariff. The main purpose of tariffs is not to raise money. Tariffs are used to encourage the consumer to buy goods made in the United States.

excise tax
a tax on a certain item, such as gasoline

What are some state taxes? The states have to raise their own money. They do this in much the same way as does the federal government. Most states have both personal and corporate income taxes. These two taxes raise about half the money states need. The other major state tax is the **sales tax**. A sales tax is a tax on the price of goods. The rate varies from state to state. In some states, the rate is as low as 3 percent. In other states, the rate may be as high as 8 or 9 percent.

States often have personal and corporate income taxes as well as sales and excise taxes

In some states, almost everything is subject to the sales tax. Taxes are often placed on such things as clothes, toys, theater tickets and motel rooms. Not every state taxes the same things. Some states do not tax clothing because the tax hurts low-income people too much.

Many states also use the excise tax. Again, this is a tax on a special item. Cigarettes, beer and wine, perfume and cars often have an excise tax. States also raise money by issuing licenses and permits. When you pay for your driver's license, you are paying a tax. If you obtain a fishing or hunting permit, you are paying a tax.

What are some local taxes? Local governments tax property. The **property tax** (PRAHP-ur-tee TAKS) raises about 85 percent of local tax money. City or town officials, called **assessors** (uh-SES-urs), judge what a piece of property is worth. Then they tax it according to its value. The

property tax
a tax charged on the value of property