

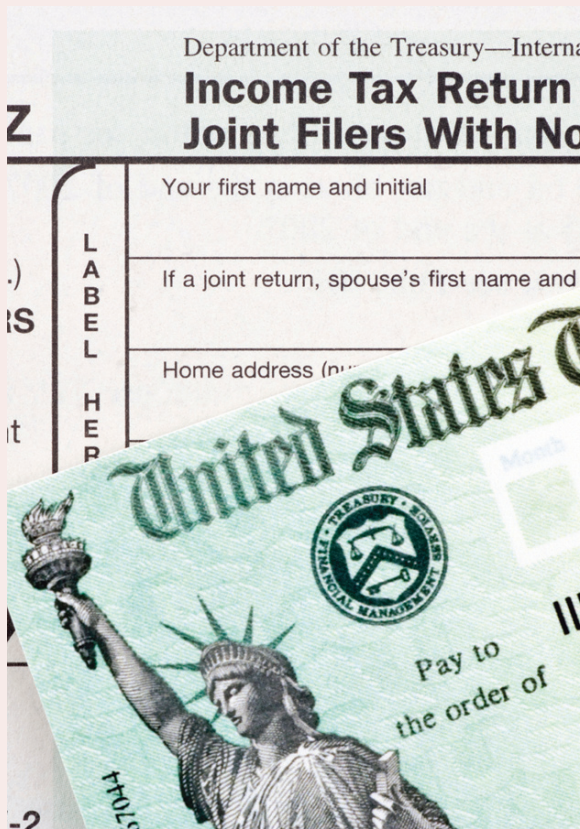
Unit 2:
Understanding Taxes

Personal Financial Literacy

Objectives

- Define gross and net income.
- List items deducted by law from a paycheck.
- List items deducted by request from a paycheck.
- State the purposes of income taxes.
- Discuss the consequences of failing to pay taxes.

Why Pay Taxes?



- Congress - levied taxes on Americans since 1789
- Taxes pay for
 - emergency services
 - clean water
 - schools
 - roads
 - government
 - libraries
 - parks

Income Taxes

- Taxes based on the ability to pay or benefits received
- **Progressive** - Example: income taxes; based on ability to pay. Larger incomes pay larger tax
- **Regressive** - Examples: sales tax, tolls; benefits-received tax; everyone pays the same if they buy the same.

Federal, State Local Taxes

- Federal taxes
 - From income tax, payroll deductions
 - Pay for national defense, roads, bridges, federal aid programs
- State taxes
 - From income taxes; states also charge a *sales* tax
 - Support education, prisons, employee pensions, public assistance programs

Local Government

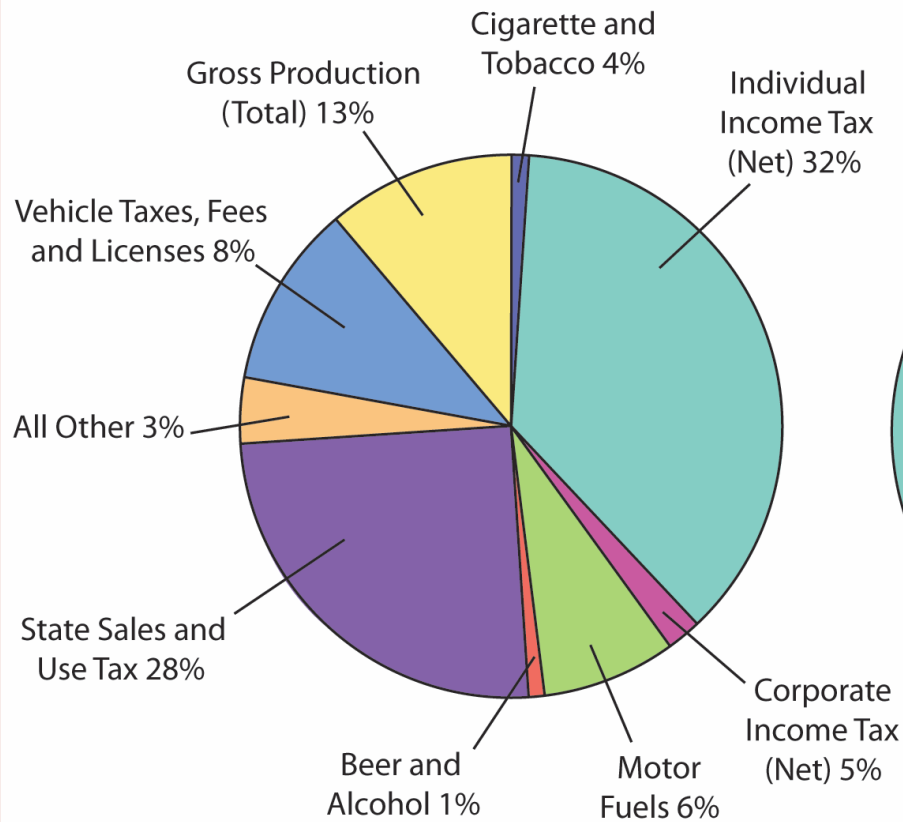
- Local governments add a sales tax rate onto state tax rate
- Also receive money from property taxes
- Local taxes fund education, public safety, roads, public libraries, and animal shelters



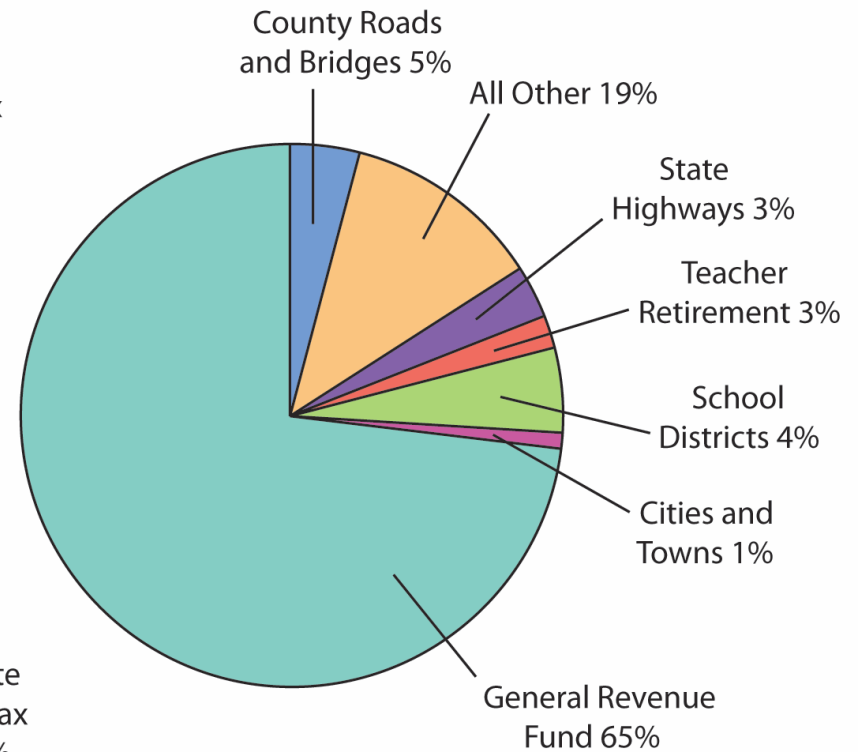
The Oklahoma Tax Dollar 2010-2011 (fiscal year)

2011 Oklahoma Tax Commission Annual Report (<http://www.tax.ok.gov/annrpts.html>)

Tax Dollars Came From



Allocations of Tax Dollars



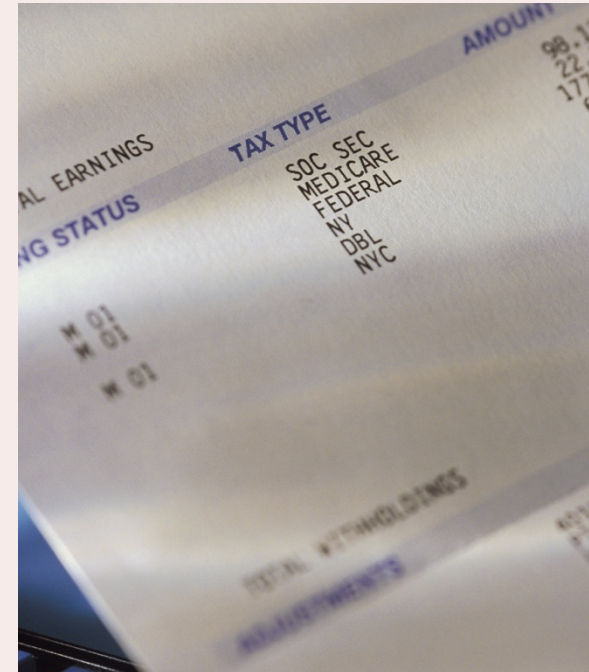
Your Income

- Gross income - amount of money you earn in a pay period
- What you take home:

Gross income — deductions = Net income

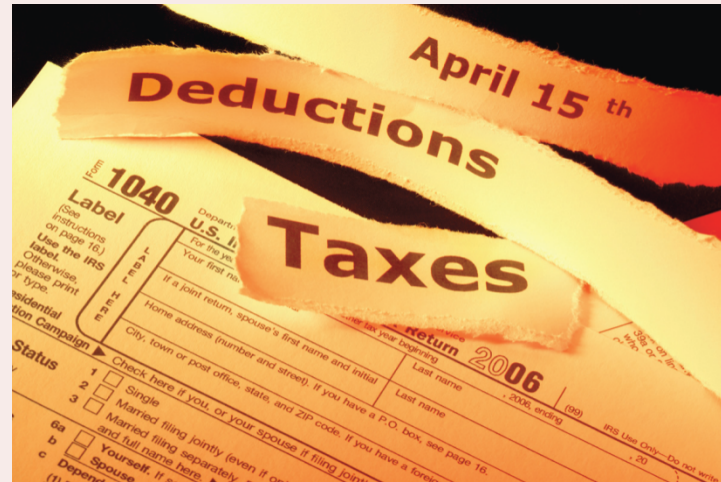
W-4 Form

- Form W-4 – tells employer how much to withhold from paychecks for federal taxes



Deductions

- Social Security tax
- Medicare tax
- State tax



Social Security Retirement

- Full retirement age - 67 if born after 1959.
Reduced benefits as early as 62.
- Age 62 – benefits reduced 30%; Age 63 –25%;
Age 64 –20%; Age 65 - 13.3%; Age 66 - 6.7%
- Benefits increase each year you wait after age 67, until age 70, to draw Social Security.


Optional Deductions

- Flexible spending account
 - Used for specific health care or childcare
 - Made with pre-tax dollars
 - reduces taxable income
- Insurance
- Retirement plans, pensions, annuities
- Charities
- Union Dues

W-2 Form

- Wage and Tax Statement by January 31st
- Shows income was earned in previous year and how much was withheld or deducted

Sample W-2

		a Employee's social security number		OMB No. 1545-0008		Safe, accurate, FAST! Use				Visit the IRS website at www.irs.gov/efile	
b Employer identification number (EIN)				1 Wages, tips, other compensation		2 Federal income tax withheld					
c Employer's name, address, and ZIP code				3 Social security wages		4 Social security tax withheld					
				5 Medicare wages and tips		6 Medicare tax withheld					
				7 Social security tips		8 Allocated tips					
d Control number				9		10 Dependent care benefits					
e Employee's first name and initial		Last name		Suff.		11 Nonqualified plans		12a See instructions for box 12			
						13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		12b			
						14 Other		12c			
								12d			
f Employee's address and ZIP code											
15 State	Employer's state ID number		16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name				

Form **W-2** Wage and Tax Statement

2011

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

Federal Tax Forms

- 1040EZ
- 1040A (short form)
- 1040 (long form)

Form
1040EZ

**Income Tax Return for Single and
Joint Filers With No Dependents (99) 2010**

OMB No. 1545-0074

**Name,
Address,
and SSN**

See separate instructions.

**Presidential
Election
Campaign
(see page 9)**

P R I N T	Your first name and initial Sample	Last name Student
	If a joint return, spouse's first name and initial	Last name
C L E A R L Y	Home address (number and street). If you have a P.O. box, see instructions. 1234 My Street	
	City, town or post office, state, and ZIP code. If you have a foreign address, see instructions. My Town, ST 99999	
	Apt. no.	

Your social security number
1 2 3 4 5 6 7 8 9

Spouse's social security number

▲ Make sure the SSN(s) above are correct. ▲

Checking a box below will not change your tax or refund.

Check here if you, or your spouse if a joint return, want \$3 to go to this fund . . . **You** **Spouse**

Income

**Attach
Form(s) W-2
here.**

Enclose, but do not attach, any payment.

You may be entitled to a larger deduction if you file Form 1040A or 1040. See *Before You Begin* on page 4.

1	Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2.	1	13,164	00
2	Taxable interest. If the total is over \$1,500, you cannot use Form 1040EZ.	2	131	64
3	Unemployment compensation and Alaska Permanent Fund dividends (see page 11).	3		
4	Add lines 1, 2, and 3. This is your adjusted gross income .	4	13,295	64
5	If someone can claim you (or your spouse if a joint return) as a dependent, check the applicable box(es) below and enter the amount from the worksheet on back. <input checked="" type="checkbox"/> You <input type="checkbox"/> Spouse If no one can claim you (or your spouse if a joint return), enter \$9,350 if single ; \$18,700 if married filing jointly . See back for explanation.	5	5,700	00
6	Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-. This is your taxable income .	6	7,595	64

**Payments,
Credits,
and Tax**

7	Federal income tax withheld from Form(s) W-2 and 1099.	7	921	48
8	Making work pay credit (see worksheet on back).	8	0	00
9a	Earned income credit (EIC) (see page 13).	9a	0	00
b	Nontaxable combat pay election. 9b 0 00			
10	Add lines 7, 8, and 9a. These are your total payments and credits .	10	921	48
11	Tax. Use the amount on line 6 above to find your tax in the tax table on pages 27 through 35 of the instructions. Then, enter the tax from the table on this line.	11	758	00

Refund

Have it directly deposited! See page 18 and fill in 12b, 12c, and 12d or Form 8888.

12a	If line 10 is larger than line 11, subtract line 11 from line 10. This is your refund . If Form 8888 is attached, check here <input type="checkbox"/>	12a	163	48
b	Routing number <input type="text"/> c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings			
d	Account number <input type="text"/>			

**Amount
You Owe**

13	If line 11 is larger than line 10, subtract line 10 from line 11. This is the amount you owe . For details on how to pay, see page 19.	13		
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**Third Party
Designee**

Do you want to allow another person to discuss this return with the IRS (see page 20)? **Yes**. Complete the following. **No**

Designee's name	Phone no.	Personal identification number (PIN)
		<input type="text"/>

**Sign
Here**

Joint return? See page 6.

Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return, and to the best of my knowledge and belief, it is true, correct, and accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature <i>Sample Student</i>	Date 1/16/11	Your occupation Student	Daytime phone number (555) 555-5555
Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation	

**Paid
Preparer
Use Only**

Print/Type preparer's name	Preparer's signature	Date	Check <input type="checkbox"/> if self-employed	PTIN
Firm's name			Firm's EIN	
Firm's address			Phone no.	

Filing Taxes

- Paying taxes late = fine or penalty
- IRS or State can take income and property for tax payment
- File, even if you can't pay!



Unit Review

1. Explain the purpose of taxes.
2. What is the difference between gross income and net income?
3. How does an employer know how much federal tax to deduct from a paycheck?
4. Discuss progressive and regressive taxes, giving examples of each.
5. Compare and contrast the two types of deductions from paychecks.

Unit Review - Continued

6. Give examples of withholding.
7. What are two important dates related to income tax filing?
8. What government agencies oversee federal and state taxes in Oklahoma?
9. Describe the three types of federal tax forms and the requirements to use each.
10. Where can federal tax forms be found?
11. What happens when someone is late or refuses to file income taxes?

*career*tech

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