

The World of Taxes

(Levy Gulch - Article Summary)

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Modern history seems to indicate that taxes are a prerequisite in a successful society. A "tax" is defined as an "obligatory fee imposed on an increase of belongings" (Scholastic.com, 2015). This increase can take many different forms, but is most commonly assessed on property, products, and income. At first, it might seem hard to understand why the government is taking our money. However, when considering the benefits in public goods like the military, roads, public schools, and social security, etc., paying a fair share probably makes sense for most of us (Godfrey, 2013).

In a way, the government is set up like a common household. In a household there is a source of income, and that income is used to improve the household, to pay bills, and even buy some luxuries that make the household function a little better and be a more enjoyable place. The government works in a similar way, but the "household" is much bigger, in this case it is our country, state, or local area. And what is the government's source of income? Taxes.

The government has implemented many different kinds of taxes. There are taxes on income, sales, inheritances, property, and more. The two types of taxes that youth will have to worry about the most are sales tax and income tax. Sales taxes are set as a percentage of every dollar spent, and each state has their own rate ranging from 0% in Alaska to 7.5% in California. Youth will also encounter income taxes when they begin working and earning income. The employer will have the new employee fill out a W-4 form. This form won't determine how much the new employee will pay in taxes, but rather will determine how much is set aside from this person's paycheck each pay period in order to save up for the tax bill that will arrive at the end of the year. Most people who fill out the form according to the instructions will end up over-saving a little bit which means they will be entitled to a refund at the end of tax season. (Internal Revenue Service, n.d.)

It can sometimes be a challenge to decide when youth really need to start filing taxes. Yes, the Internal Revenue Service (IRS) will periodically check up on us, but often times we are left on our own to figure out when taxes need to be paid (Franklin, 2009). According to IRS publication 929, youth don't need to worry about paying taxes unless they earn more than \$6,300 in single year (Intuit Turbo Tax, 2016). No matter the case, it is always a good idea to check with your tax professional to get specific advice for your situation.

Understanding taxes and paying the correct amount can be a challenge. Parents and teachers can work with youth to give them a better understanding of taxes, how to pay them, and the benefits of being a responsible tax payer. Encourage children to take responsibility over the process of paying taxes and to appreciate the public goods and services available (White, 2014).

Download the educational game "Levy Gulch" at <http://www.uidaho.edu/nw-youth-financial-ed>.

References

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