

# What Teens Need to Know About Taxes

Presented by:  
Holly Chase, CFP®

## Today's Objective

1. Who and Why We Pay Taxes
2. Transaction-Based Taxes
3. Ownership-Based Taxes
4. Income-Based Taxes
5. The 1040

## Taxes

Scared



Frustrated

Angry

Give up!

Empty pockets!

## Who Pays Taxes?

People  
Companies  
Estates  
Trusts

## Why Do We Pay Taxes?

Senior citizens

Schools

Military

Police

Criminal Justice

Roads


Healthcare



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## Types of Taxes

Sales



Income

Property

Social Security

Estate


Medicare



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## Transaction-Based Taxes

1. Sales tax...but the buyer pays
2. Flat 6% state sales tax; local municipalities may levy an additional 1-2%
3. Exemptions for:
  - a. Clothing
  - b. Grocery store food
  - c. Drugs/medical supplies
  - d. Caskets, burial vaults, and grave markers
  - e. Flags



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## Ownership-Based Taxes

**Property**  
(State/Local)


- Real estate
- Vehicles (not PA)
- Paid annually

**Estate**  
(Federal)

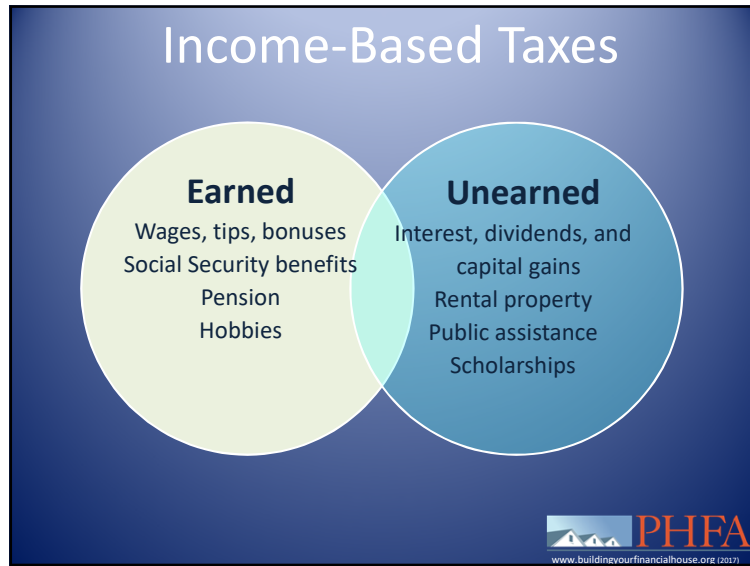
- Everything you own less debts over \$11,200,000 (2018)

**Inheritance**  
(State)

- 0% - Spouses
- 4.5% - Direct descendants
- 12% - Siblings
- 15% - Other heirs



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## To Tax or Not to Tax? (Federal)

<del>LIAP</del>	Bribes	Military Pension	Lottery
<del>Social Security</del>	Wages	<del>Scholarships</del>	Debt Forgiven
401(k) Distribution	Hobbies	Unemployment	<del>Cash Gifts</del>
<del>Life Insurance</del>	<del>Child Support</del>	Prohibited self-employment activities	<del>Tax</del>
<del>Veteran's Disability Benefits</del>	<del>Non-cash Gifts</del>	<del>Worker's Compensation</del>	Non-cash Prizes

PHFA  
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- ## Payroll Taxes
1. Social Security tax
    - a. 6.2% flat tax assessed on wages
    - b. Not assessed on pre-tax healthcare deductions and de minimis items
    - c. Everyone with earned income up to \$128,400
    - d. Determines future benefits
  2. Medicare tax
    - a. 1.45% flat tax on wages; assessed on everyone with no earnings limit
    - b. Not assessed on pre-tax healthcare deductions and de minimis items
    - c. Pays for current Medicare program
- PHFA  
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- ## State and Local
1. Pennsylvania
    - a. 3.07% flat tax assessed on all income
    - b. Employers withhold from wages
    - c. Few deductions from income
    - d. Tax forgiveness for low income filers
  2. Local
    - a. Flat tax on earnings;
    - b. Rate depends on locality, i.e., Philadelphia (3.8907%), Pittsburgh (3%), Harrisburg (2%), Erie (1.18%)
    - c. Employers withhold from wages
- PHFA  
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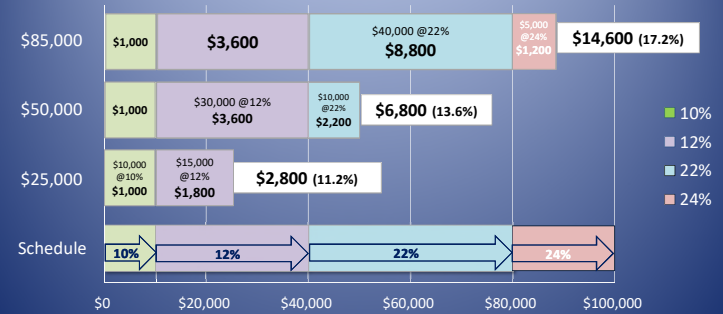
# Federal – Progressive Tax

Sample Tier and Rate Schedule		Taxpayer 1 \$25,000	Taxpayer 2 \$50,000	Taxpayer 3 \$85,000
\$0 - \$10,000	10%			
\$10,001 - \$40,000	12%	\$25,000 x 12% = <b>\$3,000</b>		
\$40,001 - \$80,000	22%		\$50,000 x 22% = <b>\$11,000</b>	
\$80,001 - \$160,000	24%			\$85,000 x 24% = <b>\$20,400</b>

\*Tiers are simplified for illustrative purposes only and do not reflect actual numbers by which to calculate your taxes. See [www.irs.gov](http://www.irs.gov) for current tax information.



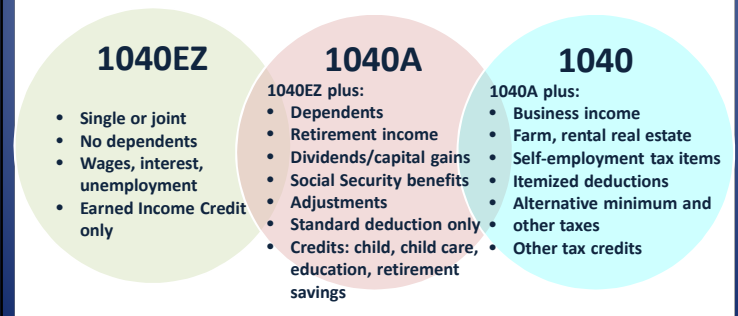
# Progressive Tax Calculation



# The 1040 – Year End “Resolution”




# 1040 Forms



## Filing Status

- Family status
- Determines tax tiers
- Sets standard deduction

1. Single
2. Married, filing jointly
3. Married, filing separately
4. Qualifying widow(er)
5. Head of Household



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## The Process

Total Income

–

Adjustments

–

Deductions

=

Taxable Income

↓

Total Tax

=

Other Taxes

+

Credits

–

Tax

–

Withholding

–


Refundable Credits

=

Net Result

Payment Due

Refund



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## Taxable Income

Total Income

–

Adjustments

–

Deductions

=

Taxable Income

Earnings

Investment

Business

Retirement

Social Security

Educator expenses

IRA contributions


Health Savings Account

Self-employment (health & retirement)

Higher education

Student loan interest

Greater of:  
Standard or  
Itemized



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## The Process

Taxable Income

/


Total Income

X 100 =

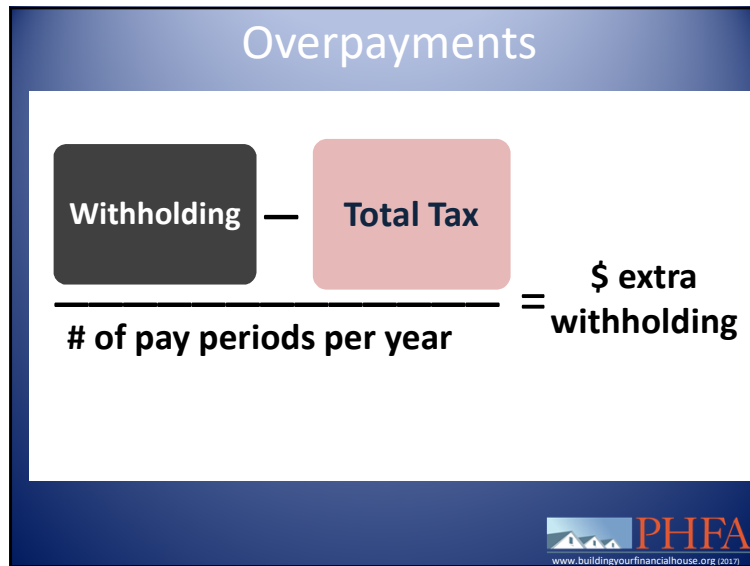
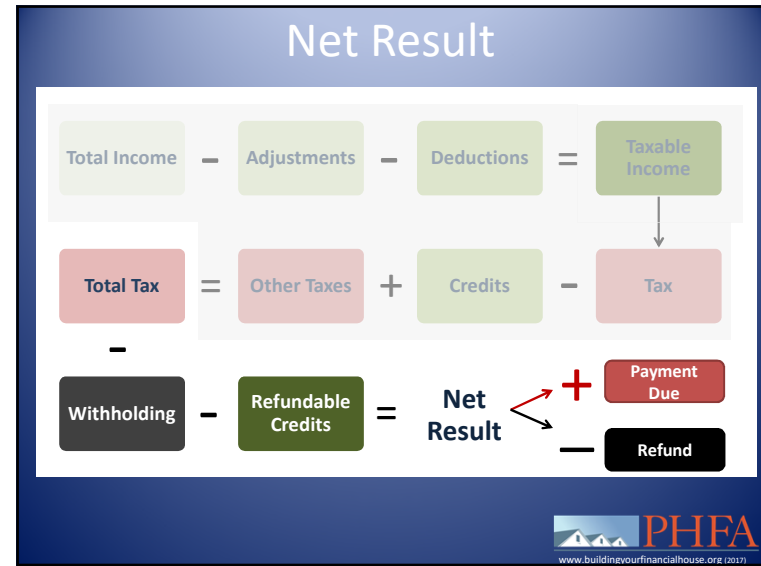
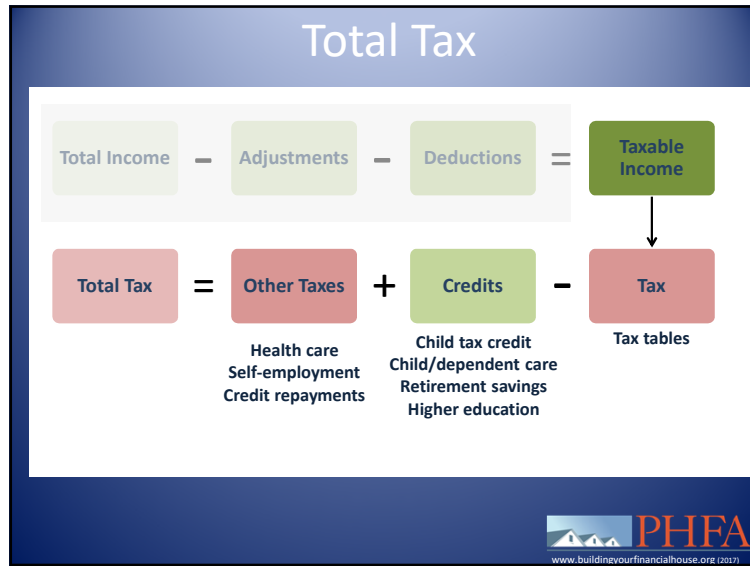
**% of income**

**ACTUALLY**


**subject to tax**



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### Adjust Withholding



www.irs.gov

**W-4** Employee's Withholding Allowance Certificate OMB No. 1545-0047  
2018

Form W-4 (2018) Department of the Treasury Internal Revenue Service

Whether you're entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.

1 Your first name and middle initial: \_\_\_\_\_ Last name: \_\_\_\_\_ 2 Your social security number: \_\_\_\_\_

Home address (number and street or rural route): \_\_\_\_\_ 3  Single  Married  Married, but withheld at higher single rate.  
Note: If married filing separately, check "Married, but withheld at higher single rate."

City or town, state, and ZIP code: \_\_\_\_\_ 4 If your last name differs from that shown on your social security card, check here. You must call 800-772-1213 for a replacement card.

5 Total number of allowances you're claiming (from the applicable worksheet on the following pages) . . . . . 5

6 Additional amount, if any, you want withheld from each paycheck . . . . . 6 \$


7 I claim exemption from withholding for 2018, and I certify that I meet both of the following conditions for exemption:  
 • Last year I had a right to a refund of all federal income tax withheld because I had no tax liability, and  
 • This year I expect a refund of all federal income tax withheld because I expect to have no tax liability.  
 If you meet both conditions, write "Exempt" here. ▶ 7

Under penalties of perjury, I declare that I have examined this certificate and, to the best of my knowledge and belief, it is true, correct, and complete.

Employee's signature: \_\_\_\_\_ Date: \_\_\_\_\_  
(This form is not valid unless you sign it.) ▶

8 Employee's name and address (Employer: Complete boxes 8 and 10 if sending to IRS and complete boxes 8, 9, and 10 if sending to State Treasury of New York.) \_\_\_\_\_ 9 First date of employment: \_\_\_\_\_ 10 Employee identification number (EIN): \_\_\_\_\_

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## Recap

1. Who and Why We Pay Taxes
2. Sales Tax
3. Property, estate, and inheritance taxes
4. Payroll, state, and local income taxes
5. Federal income taxes and the 1040 form



Making Cents - February 28, 2018



## Thank You!

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