

# INTRODUCTION TO TAXES



# INTRODUCTION

UNDERSTANDING TAXES IS CRUCIAL FOR MANAGING YOUR FINANCES EFFECTIVELY. TAXES ARE COMPULSORY FINANCIAL CHARGES IMPOSED BY GOVERNMENTS ON INDIVIDUALS AND BUSINESSES TO FUND PUBLIC SERVICES AND INFRASTRUCTURE. HERE'S A COMPREHENSIVE GUIDE TO HELP YOU GRASP THE BASICS OF TAXATION AND LEARN HOW TO FILE YOUR TAXES.

## WHAT ARE TAXES?

TAXES ARE FEES LEVIED BY GOVERNMENTS TO GENERATE REVENUE FOR PUBLIC EXPENSES. THESE EXPENSES INCLUDE HEALTHCARE, EDUCATION, INFRASTRUCTURE, DEFENSE, AND PUBLIC SAFETY. THERE ARE VARIOUS TYPES OF TAXES, BUT THEY GENERALLY FALL INTO TWO CATEGORIES: DIRECT TAXES AND INDIRECT TAXES.

- **DIRECT TAXES:** THESE ARE PAID DIRECTLY TO THE GOVERNMENT BY THE INDIVIDUAL OR ORGANIZATION ON WHOM THEY ARE IMPOSED. EXAMPLES INCLUDE INCOME TAX AND PROPERTY TAX.

- **INDIRECT TAXES:** THESE ARE COLLECTED BY AN INTERMEDIARY (LIKE A RETAILER) FROM THE PERSON WHO BEARS THE ULTIMATE ECONOMIC BURDEN OF THE TAX (LIKE A CUSTOMER). EXAMPLES INCLUDE SALES TAX AND VALUE-ADDED TAX (VAT).

## TYPES OF TAXES

1. **INCOME TAX:** THIS IS A TAX ON AN INDIVIDUAL'S OR A CORPORATION'S EARNINGS. IT IS TYPICALLY PROGRESSIVE, MEANING THE TAX RATE INCREASES AS THE TAXABLE AMOUNT INCREASES.

- **EXAMPLE:** JANE EARNS \$40,000 A YEAR. SHE PAYS A CERTAIN PERCENTAGE OF HER INCOME TO THE GOVERNMENT AS INCOME TAX.

2. **SALES TAX:** THIS IS A TAX ON SALES OR ON THE RECEIPTS FROM SALES. IT IS USUALLY ADDED TO THE PRICE OF GOODS AND SERVICES AT THE POINT OF SALE.

- **EXAMPLE:** WHEN JOHN BUYS A NEW TV FOR \$500, HE PAYS AN ADDITIONAL \$30 AS SALES TAX, MAKING THE TOTAL COST \$530.

3. **PROPERTY TAX:** THIS IS A TAX ON PROPERTY OWNERSHIP, USUALLY LEVIED ON REAL ESTATE. THE AMOUNT IS BASED ON THE PROPERTY'S VALUE.

- **EXAMPLE:** SARAH OWNS A HOUSE VALUED AT \$200,000. SHE PAYS \$2,000 ANNUALLY AS PROPERTY TAX.

4. **PAYROLL TAX:** EMPLOYERS WITHHOLD PAYROLL TAXES FROM EMPLOYEES' WAGES AND REMIT THEM TO THE GOVERNMENT. THIS INCLUDES SOCIAL SECURITY AND MEDICARE TAXES.

- **EXAMPLE:** EVERY TIME EMMA RECEIVES HER PAYCHECK, A PORTION IS DEDUCTED FOR SOCIAL SECURITY AND MEDICARE TAXES.

5. **CORPORATE TAX:** THIS IS A TAX ON THE PROFITS OF CORPORATIONS. THE RATE VARIES BY COUNTRY AND THE SIZE OF THE BUSINESS.

- **EXAMPLE:** ABC CORPORATION MADE A PROFIT OF \$1 MILLION LAST YEAR. IT PAYS A PERCENTAGE OF THIS PROFIT AS CORPORATE TAX.

6. **EXCISE TAX:** THIS IS A TAX ON SPECIFIC GOODS, SUCH AS ALCOHOL, TOBACCO, AND GASOLINE.

- **EXAMPLE:** FOR EVERY GALLON OF GASOLINE STEVE BUYS, HE PAYS AN EXTRA AMOUNT AS EXCISE TAX.

# HOW TO FILE TAXES

FILING TAXES CAN SEEM DAUNTING, BUT UNDERSTANDING THE PROCESS CAN MAKE IT MORE MANAGEABLE. HERE'S A STEP-BY-STEP GUIDE TO HELP YOU FILE YOUR TAXES CORRECTLY.

## STEP 1: GATHER YOUR DOCUMENTS

BEFORE YOU START FILING YOUR TAXES, COLLECT ALL NECESSARY DOCUMENTS. THESE MAY INCLUDE:

- W-2 FORM: PROVIDED BY YOUR EMPLOYER, SHOWING YOUR EARNINGS AND THE TAXES WITHHELD FROM YOUR PAYCHECK.
- 1099 FORMS: USED FOR VARIOUS TYPES OF INCOME LIKE FREELANCE WORK, INTEREST, AND DIVIDENDS.
- RECEIPTS AND RECORDS: FOR DEDUCTIONS AND CREDITS, SUCH AS CHARITABLE DONATIONS, MEDICAL EXPENSES, AND EDUCATION COSTS.

## STEP 2: CHOOSE YOUR FILING STATUS

YOUR FILING STATUS DETERMINES YOUR TAX BRACKET AND ELIGIBILITY FOR CERTAIN DEDUCTIONS AND CREDITS. THE COMMON FILING STATUSES ARE:

- SINGLE: FOR INDIVIDUALS NOT MARRIED.
- MARRIED FILING JOINTLY: FOR MARRIED COUPLES WHO COMBINE THEIR INCOME AND DEDUCTIONS.
- MARRIED FILING SEPARATELY: FOR MARRIED COUPLES WHO FILE SEPARATE RETURNS.
- HEAD OF HOUSEHOLD: FOR SINGLE INDIVIDUALS WITH DEPENDENTS.

## STEP 3: CALCULATE YOUR INCOME

ADD UP ALL SOURCES OF INCOME FROM YOUR DOCUMENTS. THIS INCLUDES WAGES, FREELANCE INCOME, INTEREST, DIVIDENDS, AND ANY OTHER EARNINGS.

- EXAMPLE: LISA EARNED \$35,000 FROM HER JOB AND \$5,000 FROM FREELANCE WORK. HER TOTAL INCOME IS \$40,000.

## STEP 4: APPLY DEDUCTIONS AND CREDITS

DEDUCTIONS REDUCE YOUR TAXABLE INCOME, WHILE CREDITS REDUCE YOUR TAX BILL DIRECTLY. COMMON DEDUCTIONS INCLUDE:

- STANDARD DEDUCTION: A FIXED AMOUNT THAT REDUCES YOUR TAXABLE INCOME.
- ITEMIZED DEDUCTIONS: SPECIFIC EXPENSES LIKE MEDICAL COSTS, MORTGAGE INTEREST, AND CHARITABLE DONATIONS.

TAX CREDITS INCLUDE:

- EARNED INCOME TAX CREDIT (EITC): FOR LOW TO MODERATE-INCOME WORKERS.
- CHILD TAX CREDIT: FOR TAXPAYERS WITH DEPENDENT CHILDREN.
- EXAMPLE: DAVID IS ELIGIBLE FOR A STANDARD DEDUCTION OF \$12,000 AND AN EITC OF \$1,500. THESE REDUCE HIS TAXABLE INCOME AND TAX BILL.

## STEP 5: DETERMINE YOUR TAX LIABILITY

SUBTRACT YOUR DEDUCTIONS FROM YOUR TOTAL INCOME TO GET YOUR TAXABLE INCOME. USE THE TAX TABLES PROVIDED BY THE IRS TO DETERMINE YOUR TAX LIABILITY.

- EXAMPLE: AFTER DEDUCTIONS, MARIA'S TAXABLE INCOME IS \$28,000. USING THE TAX TABLES, SHE DETERMINES HER TAX LIABILITY TO BE \$3,000.

## STEP 6: FILE YOUR TAX RETURN

YOU CAN FILE YOUR TAX RETURN ELECTRONICALLY OR BY MAIL. ELECTRONIC FILING (E-FILING) IS FASTER AND OFTEN MORE ACCURATE. YOU CAN USE TAX SOFTWARE OR HIRE A TAX PROFESSIONAL TO HELP YOU FILE.

- EXAMPLE: TOM USES TAX SOFTWARE TO E-FILE HIS RETURN. HE ENTERS HIS INCOME, DEDUCTIONS, AND CREDITS, AND THE SOFTWARE CALCULATES HIS TAX LIABILITY.

## STEP 7: PAY ANY TAXES OWED OR RECEIVE A REFUND

IF YOU OWE TAXES, MAKE SURE TO PAY THEM BY THE DEADLINE TO AVOID PENALTIES AND INTEREST. IF YOU OVERPAID, YOU WILL RECEIVE A REFUND.

- EXAMPLE: AFTER FILING, SARAH FINDS OUT SHE OWES \$500 IN TAXES. SHE PAYS THIS AMOUNT ONLINE. JOHN, ON THE OTHER HAND, IS DUE A REFUND OF \$200, WHICH HE RECEIVES A FEW WEEKS LATER.

# UNDERSTANDING KEY CONCEPTS

## TAX BRACKETS

TAX BRACKETS ARE RANGES OF INCOME THAT ARE TAXED AT SPECIFIC RATES. THE U.S. HAS A PROGRESSIVE TAX SYSTEM, MEANING HIGHER INCOME IS TAXED AT HIGHER RATES.

- EXAMPLE: FOR THE 2023 TAX YEAR, THE TAX BRACKETS FOR SINGLE FILERS ARE:
  - 10% ON INCOME UP TO \$10,275
  - 12% ON INCOME BETWEEN \$10,276 AND \$41,775
  - 22% ON INCOME BETWEEN \$41,776 AND \$89,075

## TAX DEDUCTIONS VS. TAX CREDITS

- TAX DEDUCTIONS: REDUCE YOUR TAXABLE INCOME. EXAMPLES INCLUDE THE STANDARD DEDUCTION AND MORTGAGE INTEREST DEDUCTION.
  - EXAMPLE: IF YOU HAVE A \$5,000 DEDUCTION AND YOUR INCOME IS \$40,000, YOUR TAXABLE INCOME BECOMES \$35,000.
- TAX CREDITS: REDUCE YOUR TAX BILL DOLLAR-FOR-DOLLAR. EXAMPLES INCLUDE THE CHILD TAX CREDIT AND EDUCATION CREDITS.
  - EXAMPLE: IF YOU OWE \$2,000 IN TAXES BUT HAVE A \$1,000 TAX CREDIT, YOUR TAX BILL IS REDUCED TO \$1,000.

## FILING DEADLINES

THE DEADLINE FOR FILING FEDERAL INCOME TAX RETURNS IN THE U.S. IS TYPICALLY APRIL 15. IF THIS DATE FALLS ON A WEEKEND OR HOLIDAY, THE DEADLINE MAY BE EXTENDED.

- EXAMPLE: FOR THE 2023 TAX YEAR, THE FILING DEADLINE IS APRIL 15, 2024.

## EXTENSIONS

IF YOU CANNOT FILE YOUR RETURN BY THE DEADLINE, YOU CAN REQUEST AN EXTENSION, WHICH GIVES YOU SIX MORE MONTHS TO FILE. HOWEVER, AN EXTENSION TO FILE IS NOT AN EXTENSION TO PAY ANY TAXES OWED.

- EXAMPLE: EMILY REQUESTS AN EXTENSION BY APRIL 15, 2024, GIVING HER UNTIL OCTOBER 15, 2024, TO FILE HER RETURN. SHE STILL NEEDS TO ESTIMATE AND PAY ANY TAXES OWED BY APRIL 15 TO AVOID PENALTIES.



# UNDERSTANDING KEY CONCEPTS

## PRACTICAL TIPS FOR FILING TAXES

- 1. ORGANIZE YOUR DOCUMENTS EARLY:** GATHER ALL NECESSARY DOCUMENTS WELL BEFORE THE FILING DEADLINE TO AVOID LAST-MINUTE STRESS.  
- EXAMPLE: MARK KEEPS A FOLDER FOR ALL HIS TAX DOCUMENTS, INCLUDING W-2S, 1099S, AND RECEIPTS FOR DEDUCTIONS.
- 2. USE FREE RESOURCES:** MANY COMMUNITIES OFFER FREE TAX PREPARATION ASSISTANCE FOR LOW-INCOME INDIVIDUALS AND FAMILIES THROUGH PROGRAMS LIKE VITA (VOLUNTEER INCOME TAX ASSISTANCE).  
- EXAMPLE: LISA VISITS A LOCAL COMMUNITY CENTER WHERE VOLUNTEERS HELP HER PREPARE AND FILE HER TAXES FOR FREE.
- 3. DOUBLE-CHECK YOUR RETURN:** MISTAKES CAN LEAD TO DELAYS OR PENALTIES. REVIEW YOUR RETURN FOR ACCURACY BEFORE FILING.  
- EXAMPLE: BEFORE E-FILING, DAVID DOUBLE-CHECKS HIS ENTRIES FOR INCOME, DEDUCTIONS, AND CREDITS TO ENSURE EVERYTHING IS CORRECT.
- 4. KEEP COPIES OF YOUR TAX RETURN:** RETAIN COPIES OF YOUR FILED TAX RETURNS AND SUPPORTING DOCUMENTS FOR AT LEAST THREE YEARS.  
- EXAMPLE: MARIA KEEPS DIGITAL AND PHYSICAL COPIES OF HER TAX RETURNS AND DOCUMENTS IN A SAFE PLACE.
- 5. PLAN FOR NEXT YEAR:** ADJUST YOUR WITHHOLDING OR MAKE ESTIMATED TAX PAYMENTS IF YOU HAD A SIGNIFICANT TAX BILL OR REFUND. THIS HELPS AVOID SURPRISES AT TAX TIME.  
- EXAMPLE: JOHN ADJUSTS HIS W-4 FORM AT WORK TO ENSURE THE CORRECT AMOUNT OF TAX IS WITHHELD FROM HIS PAYCHECK.

## CONCLUSION

UNDERSTANDING TAXES IS ESSENTIAL FOR FINANCIAL HEALTH AND COMPLIANCE WITH THE LAW. BY KNOWING THE BASICS OF TAXATION, HOW TO FILE TAXES, AND KEY TAX CONCEPTS, YOU CAN MANAGE YOUR TAXES MORE EFFECTIVELY. REMEMBER TO STAY ORGANIZED, USE AVAILABLE RESOURCES, AND SEEK HELP IF NEEDED. WITH THESE TIPS AND KNOWLEDGE, YOU CAN CONFIDENTLY NAVIGATE THE TAX SYSTEM AND MAKE INFORMED DECISIONS ABOUT YOUR FINANCES.

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Introduction to taxes. Try to apply it wherever you can.  
ENJOY!*

**Thank  
You!**

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