



# Income

## Lesson Three: Taxes and My Income

The idea of a successful career and a big paycheck is appealing. What you may not know is that your take-home pay will be reduced by **taxes** that are automatically withheld from your wages, salaries, and tips and paid to the Internal Revenue Service (IRS) and most state governments. The IRS enforces tax laws enacted by the U.S. Congress, which is responsible for the nation's tax system.

Most everyone who holds a job pays **income tax**. You, too, need to develop an understanding of taxes and be prepared to deal with their impact on income. Tax knowledge is an integral part of personal financial management.

In this lesson, you will learn about the three main sources of tax revenue: income, sales, and property. You will find that U.S. citizens and residents are required to file annual income tax forms and must pay any additional tax owed to the IRS or state government or apply for a refund if they have overpaid.

Finally, you will determine your net monthly income (NMI) using income tax and **Social Security** and **Medicare** deductions (also known as FICA, Federal Insurance Contributions Act).

As you complete your workbook activities, you also will become familiar with the terms **Gross Annual Income**, **Gross Monthly Income**, **Net Annual Income**, and **Net Monthly Income**.

Notes:

**Vocabulary**

<b>Gross Annual Income (GAI)</b> Total pay or earnings made over a one-year period before any deductions have been taken.	<b>Net Annual Income (NAI)</b> Income amount remaining after a year's worth of deductions have been taken.
<b>Gross Monthly Income (GMI)</b> Total amount of earnings made over a month before any deductions (1/12 of GAI).	<b>Net Monthly Income (NMI)</b> Amount of monthly income remaining after all deductions have been taken (sometimes referred to as take-home pay).
<b>Income tax</b> A portion of one's personal income paid to a government.	<b>Social Security</b> A social insurance system that provides benefits to most Americans who are retired, sick, or too disabled to work, and to families of workers who have died.
<b>Medicare</b> A social insurance program that extends health coverage to almost all Americans age 65 and over.	<b>Taxes</b> Required payments to a government.

# What Are Taxes? Overview

If you earn \$10 per hour and work 40 hours a week, you'll have \$400 to spend, right? No. *Gross* income (the \$400) is different from *net* income. Net income is the amount you have left after you pay your taxes; it's what you actually have to spend.

Taxes are funds, or money, that local, state, and federal governments collect to pay their bills. Taxes, which are required, pay for the services government provides.

Income tax, sales tax, and property tax are the three main sources of tax revenue.

Many of these services are for things people could not afford individually, such as maintaining an army or building a highway system. The federal government (sometimes in partnership with states) uses tax money to pay for programs to help the country and its citizens.

## What is federally supported?

- Social Security, Medicare, and other retirement programs.
- National defense, veterans, and foreign affairs.
- Interest payments on the national debt.
- Physical, community, and human development programs (natural resources, environment, transportation, job training, and education programs).
- Social programs (Medicaid, food stamps, health programs, unemployment compensation, and assisted housing).
- Law enforcement and government administration (federal prisons, FBI, CIA, and the general costs of the federal government, including the collection of taxes).

## What is state or city supported?

- Public schools
- Local libraries
- Police, jails, courts
- Local parks and recreation
- Social services
- Firefighters
- Elections
- Mass transportation

Is it preferable to pay for these items with tax dollars or be charged as each is used? What do you think?

What do you think?

