Taxes

Taxes paid at the federal level help support services available to individuals throughout the United States. One of the agencies in charge of collecting taxes is the Internal Revenue Service, commonly referred to as the IRS. The IRS was established around the Civil War. In 1862, Congress created the position of Commissioner of the Internal Revenue and enacted an income tax to pay for war expenses. Approximately ten years later, the income tax was repealed. That didn't last for long as the income tax was revived in 1894; however, the Supreme Court ruled it as being unconstitutional the following year.

An attempt to amend the Constitution of the United States began in the early part of the 20th century. For the amendment to take place, a three-quarter majority of the states was needed. This was achieved in 1913 and the 16th Amendment gave Congress the authority to enact income tax. The Bureau of Internal Revenue was created. The same year, the Form 1040 appeared after Congress levied a 1% tax on net personal incomes above $3,000. Individuals who had incomes more than $500,000 received a 6% tax. Just imagine … today's equivalency of $500,000 would be $12,864,591.84!

Personal income tax rates rose during the first World War. In 1918, the rate became 77% to help finance the war effort and dropped down to 24% in 1929. The Great Depression saw it increase yet again. However, it wasn't until World War II that Congress introduced payroll withholding and quarterly tax payments. In the 1950s, the agency was reorganized, and the Bureau of Internal Revenue was changed to the Internal Revenue Service. In 1998, the IRS was restructured and modernized to try and resemble the private sector model.

The IRS Form 1040 is a standard tax form that individuals have used for decades. Matter of fact, the Form 1040 has been around since 1913! Initially both the form and directions were merely four pages long. Today it consists of over 106 pages.

What are federal taxes used for? Your federal taxes help pay for programs that provide goods and services to the American people. The three biggest categories that the money from taxes is used on is major health programs (such as Medicare and Medicaid- you may have heard of these programs on the news), social security (think retirement for workers), and defense and security (all the Armed Forces, etc.). Other programs include safety net programs such as food stamps and unemployment. Taxes also help pay down the national debt.

College Scholarships. You are likely starting to think about various options after high school. If you decide to go to college or attend a vocational school, you might consider applying for scholarships to offset the costs of post-secondary education. However, it is important to understand that some scholarships are considered income and you are required to pay taxes on them. Always make sure you investigate exactly what your scholarship covers so you can anticipate whether you will owe additional taxes. The current tax laws state that there are two conditions that students must meet for their scholarship or fellowship to be considered tax free. These conditions are:

- You must be a candidate at an educational institution with a regular faculty and curriculum. This school must have a regularly enrolled body of students in attendance.
- The money you receive is for tuition and fees required for enrollment or fees, books, supplies, and equipment needed for taxes.

Scholarships that cover incidental expenses, such as room, board, and travel are considered income and are taxed at the federal level.

State Taxes

Much like federal income taxes, Illinois also collects a tax on what you earn. Each state sets their own tax rate. For example, some states like Florida and Alaska, have no income tax. Other states have a flat income tax (also called the proportional tax), which means that no matter what your income is, you pay the same tax rate. For example, if the flat tax rate is 3.0%, and you make $50,000/year, you would pay $1500 a year for taxes. Using that same rate, if you made $150,000/year, you'd pay $4,500 in taxes. Other states have what is called "progressive" income tax system. With this system, higher levels of income are taxes at a higher rate. They have different income brackets, and each pay bracket pays differently. For example, in Hawaii, there are 12 different tax brackets. There, if you make $50,000, you would pay 8.25%, which equals $4,125. If you made $150,000, your tax rate is 9%, and you'd pay $13,500. Illinois currently has a flat tax system, but recently there has been a push to change over to a progressive system.

Illinois Department of Revenue- In Illinois, this is the agency that collects your taxes. You can also choose to have your taxes withheld from each paycheck.

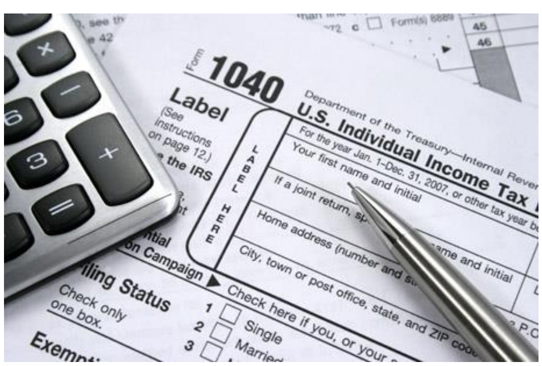
By contacting this agency, whether their website or over the phone, you can track your tax refunds, see how much you owe, and more.

Why do we pay state income taxes? The number one expense for states is education and funding their public schools. Your tax dollars help support the school you're currently in. Another big expense is transportation, which also includes ensuring roads and bridges are safe. Just like federal taxes, health care costs are also a big expense for the state. Other programs include state police, parks and recreation (like Park Districts), pensions, and more.

Local Taxes

Local taxes are administered by county or municipality (city) that you live in. Mostly, for Illinois, this refers to property taxes. While the state establishes general rules, is ultimately up to the local government how the rate is enacted. The amount of property tax to be paid is calculated on the total value of a property or a certain percentage of value. For example, the property tax rate in Darien, IL in DuPage County for 2017 was 6.79%. If your house is worth $350,000, you will pay $23,765 in property taxes throughout the year. This is usually done as part of your monthly mortgage payments and is factored in. The revenue from property taxes is used mostly for education.

Taxes withheld from paychecks. Employers are required to withhold taxes from all their employees' paychecks. The amount withheld is dependent on several different items such as how many dependents (typically children under the age of 18) there are in the household and the salary the individual earns.



The IRS encourages individuals to visit their website and use the Withholding Calculator to make sure individuals have the right amount of taxes withheld from their paycheck. This is important because if you have too little withheld from your paycheck then you will wind up owing the IRS money when you file your personal taxes in April. If the IRS withheld too much from your paycheck, then you will receive a refund.

It is important for individuals to check with accountants or tax professionals if they have any questions about federal, state, or local taxes.

Sources: Bureau of Labor & Statistics CPI Inflation Calculator and Internal Revenue Service