

## Taxes

### History and Social Science SOL 4.6

#### **Federal**

The main federal tax is income tax. Most workers have to pay a tax on the money, or income, they earn. People who work for companies usually have a part of their pay deducted, or taken out, of each pay check. This money goes to the government. People who own their own business or for some other reason do not have money deducted from their paychecks pay estimated taxes four times each year. People also pay an income tax on money they earn in savings accounts and profits from stocks.

Each year individuals and couples file a federal tax return with the Internal Revenue Service (IRS). This must be done by April 15. On the tax return form, the person records the amount of money he or she made, the amount of taxes already paid, and any deductions. Deductions are costs that can be taken away from the amount of taxes paid. Deductions can sometimes be taken for medical or business expenses. If the person has paid too much money in taxes, they will get a refund from the federal government. If the person has not paid enough, they will have to pay more.

The amount of tax a person pays is based on their income after deductions are subtracted.

#### **State**

Each state has the power to make, collect, and spend their own taxes. Virginia has 30 state taxes. There are sales taxes on food, clothing, automobiles, boats, furniture, and computer equipment--almost anything that is purchased. Workers also pay an income tax to the state, although it is not as much as they pay to the federal government. Virginia also has an excise tax on tobacco, alcohol, and telephone services. Some roads, bridges, and tunnels have tolls. This money is used for highway improvement and maintenance.

The sales tax in Virginia is 3 1/2%.

Each wage earner also files a state tax return. In Virginia, these returns are due by May 1. The process is similar to filing a federal return. If the person has paid too much money in taxes, they will get a refund from the state government. If the person has not paid enough, they will have to pay more.

#### **Local**

Local taxes are collected by the city or county in which you live. The four major local taxes are real estate, personal property, utility, and sales and use taxes. The amounts are different in each area--there are about 135 different personal property tax rates in Virginia. Personal property taxes include taxes on houses, automobiles, boats, and recreational vehicles. Business owners pay a tax on their furniture and equipment. At this time, the personal property tax on some automobiles is being reduced by the state government. The taxes on land and buildings provides about 45% of local income.

Many areas also have an entertainment tax. People pay this tax when they buy concert tickets, stay at hotels, or eat in restaurants. Money from parking meters, traffic fines, construction permits, and local park and recreation fees goes to the localities.

License fees are local taxes. These include business licenses and dog licenses. There may also be consumer utility taxes on gas, electric, and telephone bills. In some areas, people pay a user fee for trash collection, sewer connection, water, and the use of parks and recreational facilities.

Local sales taxes are collected along with state sales taxes. All local areas have a one percent sales and use tax on retail sales. This is in addition to the state sales tax.

## Services Received as a Result of Taxes

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### **Federal**

The federal government provides for the following:

- welfare
- child care
- Medicare/Medicaid
- block grants to states for education and other programs
- maintenance of the Interstate Highway system
- Social Security
- national defense (the military)
- federal prisons and courts

### **State**

The state gets money from the federal government in addition to the money it gets from state taxes. The state government provides for the following:

- money for schools and universities
- state roads, highways, bridges, tunnels
- state law enforcement, such as the state police, courts, and prisons
- libraries
- professional licensing programs for doctors, lawyers, and teachers

### **Local**

Cities, towns, and counties also get money from the state and federal government. They provide the following services:

- schools
- libraries
- water treatment
- garbage/trash pick up
- local police and fire protection, jails, and courts
- local roads and city streets
- parks and recreation