

Taxes

Hello!

With the official tax deadline having passed, many Americans have filed their 2012 taxes while others have filed an extension. I am in the group of extension filers this year but still had to pay what my accountant determined would be my estimated 2012 federal and state tax liability so as to avoid any underpayment penalty.

This led me to think of how many other taxes we pay over our lifetime and in reviewing them, it was mind-boggling. I want to provide you with a summary of what we as individuals pay as well as those taxes being paid by businesses. They are split into two main categories – personal taxes and fees and business taxes.

Personal Taxes & Fees

Income Taxes

- **Federal Income Taxes** – assessed by the IRS on the annual earnings of individuals, corporations, trusts and other legal entities. These taxes are levied on all forms of earnings that make up a taxpayer's taxable income, such as employment earnings or capital gains.
- **State Income Taxes** – these are collected on the state level. Of the 50 states, seven do not have state income taxes: Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming.
- **Local Income Taxes** – these are income taxes imposed at the local level.

- **Alternative Minimum Taxes** – imposed by the federal government on individuals, corporations, estates, and trusts. This is an additional tax to the federal income tax and is imposed at a nearly flat rate on an adjusted amount of taxable income above a certain threshold or exemption.

Payroll Taxes

- **Social Security Taxes** – paid by employees on earned income to support the benefits under the Social Security System. For this year, the tax rate to employees is 6.2% on earned income up to \$113,700.
- **Medicare Taxes** – paid by employees on earned income to cover the cost of administering the Medicare program. The Medicare tax rate paid by employees has been 1.45% of one's earnings, but effective this year, there is an additional 0.9% Medicare tax that will be assessed for those with certain income levels (\$200,000 for single filers and \$250,000 for joint filers).

Property Taxes

- **Real Estate Property Taxes** – they are assessed by the local government for real estate owners. The tax is usually based on the value of the property (including the land) one owns and is paid by anyone who owns residential and commercial property.
- **Vehicle License Fees** – these are collected by each state's DMV for registering vehicles, recreational vehicles (RVs), and boats.

Consumption Taxes & Fees

- **Sales Taxes** – these are assessed by a state's government where goods and services are sold. It is collected by the retailer and then passed on to the state. Of the 50 states, five do not have sales taxes: Alaska, Delaware, Montana, New Hampshire, and Oregon.
- **Utility Taxes** – these are charged for usage of various services including gas, electricity, water, waste management as well as for subscribers of telephone and cable and satellite TV.
- **Road and Bridge Toll Charges** – user fees that typically pay for the road construction and bridge maintenance without raising taxes on non-users.
- **Air Transportation Taxes** – imposed by the federal government on all domestic and international flights originating or returning to the United States.

Investment-Related Taxes

- **Interest Income** – the interest received in non-retirement accounts is taxed as ordinary income (excluding municipal bond interest).
- **Dividends** – for those receiving dividends in a non-retirement account, they may be subject to paying taxes on these depending on their income. For qualified dividends, they are taxed between 0-20% (depending on one's federal tax bracket), while for non-qualified dividends, they are taxed at ordinary income tax rates.
- **Capital Gains** – any realized capital gains in non-retirement accounts and capital gain distributions from funds are taxed. If the asset sold or the distribution made was for a security that was held for at least one year, the tax rate is between 0-20% (depending on one's federal tax bracket), while for assets held for less than one year, they will be taxed at ordinary income tax rates.

Estate Taxes

- **Federal Estate Taxes** – upon one's death, if his or her assets exceed a certain amount (for this year, the exemption amount is \$5.25 million), the beneficiaries will be subject to paying estate taxes.
- **State Estate Taxes** – these are collected at the state level and each state has its own respective exemption amount. The states which currently collect this are: Connecticut, Delaware, Hawaii, Illinois, Maine, Maryland, Massachusetts, Minnesota, New Jersey, New York, North Carolina, Oregon, Rhode Island, Tennessee, Vermont, & Washington.

Business Taxes

- **Federal Corporate Income Taxes** – C-Corporations are required to file a federal corporate tax return with the IRS every year.
- **State Corporate Income Taxes** – these are assessed on corporations doing business within the state or receiving income from property in the state.
- **Employer Social Security Taxes** – these are paid by employers on an employee's income to support the benefits under the Social Security System. For this year, the tax rate to employers is 6.2% on an employee's earned income up to \$113,700.
- **Employer Medicare Taxes** – paid by employers on an employee's wages/salary to cover the cost of administering the Medicare program. The Medicare tax rate paid by employers is 1.45% of an employee's earnings with no threshold limit.
- **Federal and State Unemployment Taxes** – provides for payments of unemployment compensation to individuals who have lost their jobs.

- **Worker's Compensation Taxes** – each employer who is required to be covered by the Workers' Compensation Act, and every employee covered by this Act, is assessed a fee

Conclusion

The above list does not include all taxes that individuals and businesses are subject to as the list is quite exhaustive. Most would agree that taxes are necessary to support federal, state, and local government services such as schools, building and maintaining roads and bridges, police and fire services, defense programs, etc. That being said, tax revenues may also be used to pay for items ones do not support such as costs associated with wars or on corporate bailouts.