

Understanding Taxes for Teens

Where Your Money Really Goes

Teen Finance Toolkit

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Why Taxes Matter to You

You get your first paycheck. You worked 20 hours at \$12/hour. That should be \$240, right?

Wrong. You open the envelope and see \$198.50.

Where did the other \$41.50 go? Taxes.

□ The Reality Check:

Taxes are everywhere. They're taken from your paycheck. They're added to your purchases. They're built into prices you don't even notice.

Understanding taxes isn't optional—it's essential. Because whether you understand them or not, you're paying them.

This guide breaks down every major type of tax you'll encounter, explains who gets the money, what it pays for, and how much you're really paying. Let's start with the big one.

Income Tax: The Tax on What You Earn

Income tax is the tax you pay on money you earn from working. It's the biggest chunk taken from your paycheck.

Federal Income Tax

Who collects it: The U.S. federal government (IRS – Internal Revenue Service)

What it pays for: National defense (military), Social Security, Medicare, federal highways, national parks, federal programs like food stamps, federal courts, FBI, NASA, and much more.

How it works: Progressive tax brackets. The more you earn, the higher percentage you pay on the top portion of your income.

□ 2025 Federal Tax Brackets (Single Filers):

- \$0 - \$11,925: 10%
- \$11,926 - \$48,475: 12%
- \$48,476 - \$103,350: 22%
- \$103,351 - \$197,300: 24%
- And higher brackets above that

Important: These are MARGINAL rates. You don't pay 12% on everything if you earn \$20,000. You pay 10% on the first \$11,925, then 12% only on the amount above that.

Example for teens:

You earn \$15,000 working part-time. After the standard deduction (\$15,750 for 2025), your taxable income is \$0. You'd pay ZERO in federal income tax for the entire year.

☐ Good News for Teen Workers:

Most teens earn less than the standard deduction amount (\$15,750 for 2025), which means you pay ZERO federal income tax. You might see it withheld from your paycheck, but you'll get it ALL back when you file your tax return.

This is why filing a tax return matters—even if you're not required to, you should file to get your refund! For more information about the Standard Deduction and filing a tax return, see the Teen Finance Tool guide [Filing Your First Tax Return](#).

State Income Tax

Who collects it: Your state government (if your state has income tax)

What it pays for: State highways, state police, public schools (big chunk), state universities, state parks, Medicaid, state programs.

How it works: Varies wildly by state. Some states have no income tax. Others have flat rates or progressive brackets.

☐ State Income Tax Examples:

NO State Income Tax:

- Alaska, Florida, Nevada, South Dakota, Tennessee, Texas, Washington, Wyoming

Flat Rate States:

- Pennsylvania: 3.07% on all income
- Illinois: 4.95% on all income
- Colorado: 4.40% on all income

Progressive Brackets (like federal):

- California: 1% to 13.3% (highest in nation)
- New York: 4% to 10.9%
- New Jersey: 1.4% to 10.75%

Your state's rate matters! A job paying \$40,000 in Texas (0% state tax) puts more money in your pocket than the same job in California (9.3% state tax on that income).

Local Income Tax

Some cities and counties also charge income tax. Not common, but they exist.

Examples: New York City adds 3-4% on top of state tax. Some Ohio cities add local taxes. Philadelphia has a 3.79% local wage tax.

Payroll Taxes: FICA (Social Security & Medicare)

These are separate from income tax and almost nobody understands them. Let's fix that.

Social Security Tax (OASDI)

Rate: 6.2% of your wages (your employer also pays 6.2%, so 12.4% total goes to Social Security)

What it pays for: Retirement benefits for current retirees, disability benefits, survivor benefits for families of deceased workers.

Important: You pay this even if you make \$1,000/year. There's no standard deduction for Social Security tax. If you earn it, you pay 6.2%.

Medicare Tax

Rate: 1.45% of your wages (your employer also pays 1.45%, so 2.9% total goes to Medicare)

What it pays for: Health insurance for people 65+ and some people with disabilities.

Also unavoidable: Like Social Security, you pay this on dollar one. No exemptions.

Your Paycheck Breakdown Example:

You work 40 hours at \$15/hour = \$600 gross pay

Deductions:

- Social Security (6.2%): \$37.20
- Medicare (1.45%): \$8.70
- Federal Income Tax: ~\$30 (withheld, likely refunded)
- State Income Tax: Varies by state (let's say \$20)

Net pay: ~\$504

You earned \$600 but took home \$504. That's 16% gone to taxes. And you can get some of it back (federal income tax) when you file your return.

□ **The Part Your Employer Pays:**

Your employer ALSO pays 6.2% Social Security + 1.45% Medicare on your behalf. This is money you never see, but it's part of the cost of employing you.

So if you earn \$600, the total going to Social Security and Medicare is actually \$91.80 (your \$45.90 + employer's \$45.90).

This is why employers care about payroll costs, not just wages.

Sales Tax: The Tax on What You Buy

Sales tax is added to most things you buy. You see it at checkout when your \$20 item becomes \$21.50.

State Sales Tax

Who collects it: Your state government

What it pays for: Same as state income tax—schools, roads, police, state programs.

Typical rates: 4-10% depending on state

Local Sales Tax

Cities and counties often add their own sales tax on top of state sales tax.

Example: California state sales tax is 7.25%, but Los Angeles County adds 2.25%, so total is 9.5%.

□ **Sales Tax Varies Wildly:**

NO Sales Tax States:

- Alaska (but local areas can charge sales tax)
- Delaware, Montana, New Hampshire, Oregon

Highest Combined State + Local:

- Louisiana: 9.56% average
- Tennessee: 9.55% average
- Arkansas: 9.45% average

Lowest (excluding zero-tax states):

- Hawaii: 4.44% average
- Wyoming: 5.36% average
- Wisconsin: 5.43% average

What's Taxable vs. Exempt

Not everything is subject to sales tax. Rules vary by state, but generally:

Usually TAXED:

- Clothing and shoes (in most states)
- Electronics and gadgets
- Furniture and home goods
- Prepared food (restaurant meals, takeout)
- Cars, boats, recreational vehicles

Usually EXEMPT or LOWER RATE:

- Unprepared food/groceries (in most states)
- Prescription medications
- Medical devices
- Sometimes clothing (Pennsylvania, New Jersey, Minnesota exempt clothing)

□ The Grocery Store Trick:

Ever wonder why your grocery receipt shows some items taxed and others not?

Groceries (raw ingredients) = usually no tax

Prepared foods (rotisserie chicken, deli sandwiches) = taxed

Candy and soda = often taxed (not considered groceries in many states)

The rules are complicated and vary by state. Don't stress about memorizing them—just know sales tax exists and varies.

Property Tax: The Tax on What You Own

Property tax is an annual tax on real estate (land and buildings). Even though you might not own property yet, you need to understand this because it affects everyone.

How Property Tax Works

Who pays it: Property owners (homeowners, landlords, businesses)

Who collects it: Local governments (county, city, township)

What it pays for: LOCAL services—public schools (50-60% typically), police, fire departments, libraries, parks, local roads, garbage collection.

How much: Based on assessed value of property. Rates vary wildly by location—from 0.3% to 2.5% annually.

□ **Property Tax Example:**

Your parents buy a house for \$300,000
Local property tax rate: 1.5%

Annual property tax bill: \$4,500

That's \$375/month on top of the mortgage payment. Property taxes NEVER go away—even after the house is paid off, you pay property tax forever.

Why You Should Care (Even as a Renter)

"I rent, so property tax doesn't affect me." WRONG. Your landlord pays property tax and passes the cost to you through higher rent. Property taxes affect everyone.

School Tax

School tax is usually the biggest chunk of your property tax bill—often 50-60% of the total.

Why it's controversial: Even if you don't have kids, you pay school tax. Even if your kids go to private school, you pay for public schools. It's based on property value, not how much you use schools.

Why it exists: Society benefits from educated citizens. Good schools increase property values. It's how America funds public education.

Excise Taxes: The Hidden Taxes on Specific Goods

Excise taxes are taxes on specific products or activities. You often don't see them because they're built into the price.

Gasoline Tax

Federal gas tax: 18.4 cents per gallon (hasn't changed since 1993!)

State gas tax: Varies from 9 cents (Alaska) to 58 cents (California) per gallon

What it pays for: Roads, highways, bridges, public transportation. It's a "user fee"—people who drive pay for roads.

Cigarette and Tobacco Tax

Federal: \$1.01 per pack of 20 cigarettes

State: From 17 cents (Missouri) to \$5.35 (New York) per pack

Purpose: Discourage smoking (public health) and raise revenue for health programs.

If you don't smoke, you won't pay this tax!

Alcohol Tax

Varies by type (beer, wine, liquor) and state. Built into the price you pay.

Other Excise Taxes You Might Encounter

- **Airline tickets:** Federal excise tax of 7.5% + \$4.50 per flight segment
- **Phone service:** Federal excise tax on phone service
- **Tanning salons:** 10% federal excise tax (yes, really)
- **Hunting and fishing:** Excise taxes on equipment to fund wildlife conservation

Federal vs. State vs. Local: Who Gets What?

You pay taxes to three levels of government. Here's what each one does with the money.

Federal Government (Washington D.C.)

Taxes collected:

- Federal income tax
- Social Security and Medicare (FICA)
- Federal excise taxes

What it pays for:

- Military and national defense (15% of budget)
- Social Security payments to retirees (21% of budget)
- Medicare health insurance for 65+ (14% of budget)
- Medicaid health insurance for low-income (10% of budget)
- Interest on national debt (8% of budget)
- Veterans benefits, federal highways, national parks, FBI, NASA, federal courts, student aid, and much more

State Government (Your State Capitol)

Taxes collected:

- State income tax (in most states)
- State sales tax
- State gas tax, cigarette tax, etc.

What it pays for:

- K-12 public education (30-40% of state budgets)
- Medicaid (20-25% of state budgets)
- State highways and transportation
- State police and prisons
- State universities and colleges
- State parks, environmental programs, social services

Local Government (County, City, Township)

Taxes collected:

- Property tax (biggest source)
- Local sales tax (in some areas)
- Local income tax (in some cities)

What it pays for:

- Local schools (50-60% of property tax)
- Police and fire departments
- Local roads and street maintenance
- Libraries, parks, recreation centers
- Garbage collection, snow removal
- Local courts, zoning, building inspections

□ Quick Summary:

Federal: Big picture stuff (military, Social Security, Medicare)

State: State services (schools, highways, state programs)

Local: Your neighborhood (schools, police, fire, roads, parks)

All three want a piece of your paycheck!

Other Taxes You'll Encounter

Capital Gains Tax

What it is: Tax on profits from selling investments (stocks, bonds, real estate)

Short-term: Held less than 1 year = taxed as regular income

Long-term: Held more than 1 year = taxed at 0%, 15%, or 20% (lower than income tax)

Estate Tax ("Death Tax")

What it is: Tax on large inheritances. Only kicks in for estates over \$13.99 million (2025). Most people never pay this.

Gift Tax

What it is: Tax on very large gifts. Annual exclusion is \$19,000 per person (2025). Your grandma can give you \$19,000/year tax-free. Most teens don't need to worry about this.

Import/Customs Duties (Tariffs)

What it is: Tax on goods imported from other countries. Built into the price of imported products. Controversial topic in politics (trade policy).

Real-Life Tax Impact: A Complete Example

Let's see how taxes actually affect a typical teen's life.

□ Meet Jordan, Age 17:

The Job:

Works part-time at Starbucks in Pennsylvania (has state income tax)
Earns \$12/hour × 15 hours/week = \$180/week = \$720/month

Annual income: \$9,360

Federal Income Tax:

Income: \$9,360 - Standard deduction: \$15,750 = -\$6,390 (negative)
Federal tax owed: \$0 (will get refund of anything withheld)

FICA (Social Security + Medicare):

Social Security (6.2%): \$580

Medicare (1.45%): \$136

Total FICA: \$716

State Income Tax (PA flat 3.07%):

$\$9,360 \times 3.07\% = \287

Total Annual Taxes Paid:

\$0 (federal) + \$716 (FICA) + \$287 (state) = \$1,003

Take-Home Pay:

$\$9,360 - \$1,003 = \$8,357$ for the year

That's \$696/month take-home from \$720 gross

Then Jordan goes shopping...

Buys clothes: \$100

PA sales tax: 6%

Total: \$106 (lost \$6 to sales tax)

Buys concert ticket: \$75

PA sales tax: 6%

Total: \$79.50 (lost \$4.50 to sales tax)

Total Tax Burden for the Year:

Payroll taxes: \$1,003

Sales tax (estimated on \$2,000 in purchases): ~\$120

Total: ~\$1,123 in taxes

Jordan earned \$9,360 and paid \$1,123 in various taxes.

Effective tax rate: 12%

The Bottom Line

Taxes are everywhere. They're in your paycheck. They're at the cash register. They're built into prices you don't even notice.

Understanding taxes doesn't mean you have to like them. But it does mean you can:

- **Plan your budget:** Know that \$15/hour isn't really \$15/hour take-home
- **Compare job offers:** \$40K in Texas (no state tax) vs. California (9.3% state tax) isn't the same
- **Make informed decisions:** Understand why prices differ, what your tax money funds
- **Avoid surprises:** Know what to expect from your first paycheck
- **Be an informed citizen:** Understand political debates about tax policy

□ Final Thoughts:

Taxes fund the society we live in. Roads, schools, police, fire departments, national defense, social programs—all paid for by taxes.

You can debate whether tax rates are too high or too low. You can debate how tax money should be spent. That's democracy.

But taxes themselves aren't optional. They're part of living in an organized society.

Now you understand them. That puts you ahead of most adults. □

Key Takeaways

✓ Remember These Tax Basics:

- 1. Income Tax:** Federal + State + Sometimes Local. Progressive rates. Most teens pay very little.
- 2. FICA:** Social Security (6.2%) + Medicare (1.45%) = 7.65% gone from every paycheck, no exceptions.
- 3. Sales Tax:** State + Local = 0% to 10%+ depending where you live. Not everything is taxed.
- 4. Property Tax:** Annual tax on real estate. Funds local schools and services. Affects everyone (even renters).
- 5. Excise Taxes:** Hidden taxes on gas, cigarettes, alcohol, airline tickets, etc. Built into prices.
- 6. Three Levels:** Federal (big programs), State (state services), Local (your neighborhood).
- 7. Your First Paycheck:** Will be smaller than you expect. Budget for take-home pay, not gross pay.
- 8. File a Tax Return:** Even if not required, file to get your federal income tax refund!

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