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| **FAQs: Taxes**   |  | | --- | | **Question I work part time while I go to school and my employer takes taxes out of my paycheck? I'm not old enough to vote, but have to pay taxes. Isn't this a form of taxation without representation?**  Answer Many young people believe that, because they are not old enough to vote, they have no representation in government and, therefore, should not be required to pay taxes. The United States Congress is a body of elected representatives of the people. Under our representative form of government, the Congress has the power to enact all laws (including Federal tax laws). The members of Congress speak and vote as representatives of all the people in their State or district, including those who did not vote.  Taxes are the primary means by which the Federal Government obtains the money needed to finance its operations and programs. We are sure you would agree that it would be unfair to provide an exemption from tax for the income of a young person who cannot vote, while imposing the tax on the same amount earned by an older person. Under our Federal income tax laws enacted by Congress, every citizen or resident of the United States must file a Federal income tax return. They must also pay any tax due if his or her gross income for the tax year exceeds a specified amount. The law does not excuse anyone from tax because of age.  **Question I think that students should be exempt from paying taxes. Wouldn't this be a way of helping children save money for their education?**  Answer Federal income tax laws generally apply equally to all taxpayers. Under the law, every citizen or resident of the United States whose gross income exceeds specified amounts must file a Federal income tax return. Excluding a student's earnings from taxation, while imposing tax on the same amount earned by others who work full time is simply not fair. We are sure you would agree that this presents serious equity problems. The Congress often attempted in recent years to lessen, not to increase, the inequities in our tax system. The Treasury Department believes that it is best to provide tax relief through across-the-board reductions and not by exempting certain types of income from tax. In addition, there are several programs aimed at helping to fund college educations, including buying **United States Savings Bonds.**  **Question Why am I required to pay taxes on my unemployment compensation benefits?**  Answer Unemployment compensation has been fully included in income for tax purposes since the **Tax Reform Act of 1986**. Prior to the 1986 Act, unemployment compensation benefits were only excludible if the taxpayer's adjusted gross income and benefits exceeded specified levels. Congress concluded that unemployment compensation benefits, which essentially are wage replacement payments, should be treated for tax purposes in the same manner as wages or other wage-type payments (such as vacation pay or sick leave). Thus, repeal of the prior-law partial exclusion contributes to more equal treatment of individuals with the same economic income.  The Treasury Department recognizes that including unemployment benefits in income can result in a significant tax liability when filing the annual return. However, unemployment benefits are is designed to provide temporary income between employment. In some cases, recipients may prefer to have full payments during the unemployment period and make up any income taxes when they find new employment. Nonetheless, as part of legislation passed in 1994, Congress enacted a provision allowing unemployment recipients to voluntarily elect to have income taxes withheld from their unemployment benefits. In this way, the recipients can avoid tax payments with their annual return.  **Question Why does the Government collect taxes on tips that I receive? This is not part of my salary.**  Answer Tips, like all other forms of compensation for services, such as salary, are includible and have always been includible in income and subject to Federal income tax. Tips are different from regular salary, however, because while an employer knows the amount of salary paid to an employee and can report that amount to the [Internal Revenue Service](http://ustreas.gov/education/duties/bureaus/irs.shtml) (IRS), the employer may not know how much tip income an employee has received and may, therefore, be unable to report the amount of tip income to the IRS. Since 1966, tipped employees have been required to report the tip income that they receive to their employer. Reported tip income is included by the employer on the employee's W-2 Form. In addition, withholding with respect to tip income reported to the employer has been required since 1966.  If a tipped employee reports the full amount of tip income to the employer, these rules result in accurate information reports on the employee's income and withholding at a rate that reflects that income. Unfortunately, many taxpayers did not comply with these rules. In fact, the compliance rate with respect to tip income was estimated to be approximately 16 percent, which meant that many employees were reporting and paying tax on none or only a small portion of their tip income. To address this failure to report tip income, Congress enacted the tip reporting rules in 1982. These rules require employers to provide the IRS with information about their total sales and total tips that employees have reported.  If the total tips that employees have reported total at least eight percent of total sales, then no additional requirements are imposed. If, however, total tips reported by employees is less than eight percent of total sales, the employer must allocate the difference among its employees. The amount of tips allocated to each employee is reported to the employee and to the IRS. Of course, employees must pay tax only on the tips they actually receive, and if an employee can establish that he or she received less in tips than the employer reports to the IRS, then the employee would pay tax only on the smaller amount. Furthermore, the employer is not permitted to withhold taxes on any amount other than tips actually reported to the employer; the employer may not withhold on the eight percent of tips allocated to the employee. | |