

# **Understanding Taxes**

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***Theme 6: Understanding the IRS***

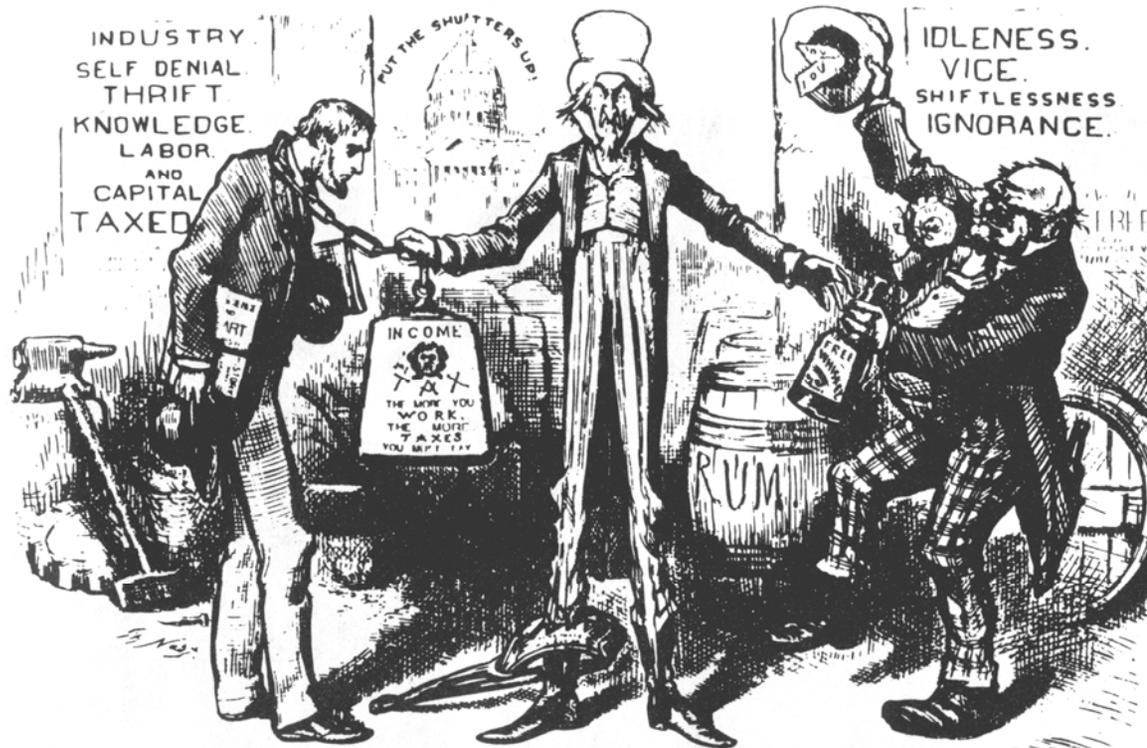
## **Understanding the IRS**

**Congress has set a goal that 80% of all tax returns be filed electronically by the year 2007.**

**IRS e-file**

# Understanding the IRS

## Chief Sources of Revenue



## Understanding the IRS

### The Sixteenth Amendment

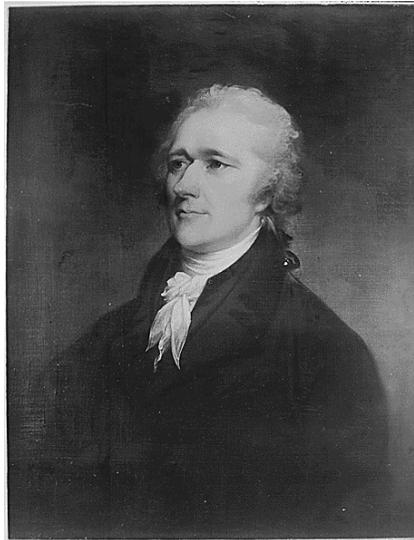
The Congress shall have the power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several states, and without regard to any census or enumeration.

*—The 16th Amendment to the Constitution of the United States*

## Understanding the IRS

### Important People in Tax History

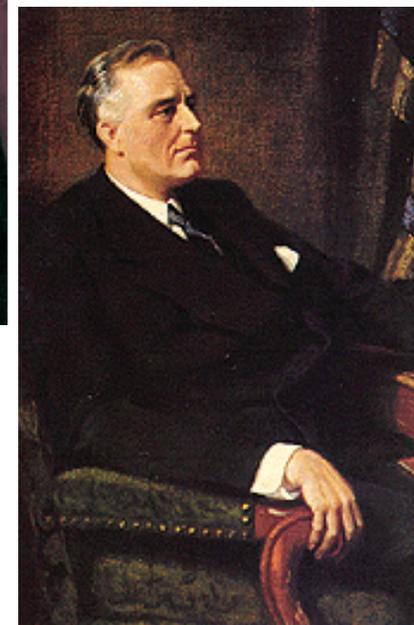
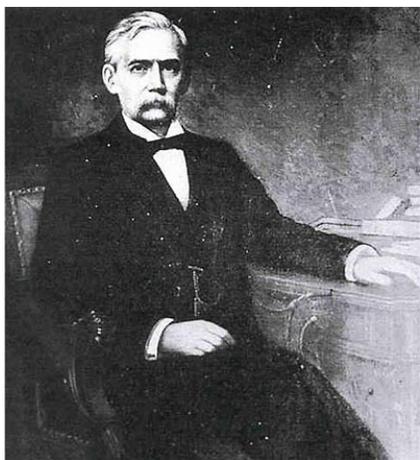
- Lord Charles Townshend
- Alexander Hamilton
- Abraham Lincoln



## Understanding the IRS

### Important People in Tax History

- William Wilson
- Oscar W. Underwood
- Franklin D. Roosevelt



## Understanding the IRS

### Important People in Tax History

- Harry S. Truman
- Shirley Peterson
- William J. Clinton



## Understanding the IRS

### Voluntary Compliance

- Keep necessary records
- Report income accurately
- Correctly calculate tax liability
- File returns on time



# Understanding the IRS

## Pay-As-You-Go Withholding

- Taxes are paid as income is earned
- Taxes are withheld based on Form W-4 information

----- Cut here and give Form W-4 to your employer. Keep the top part for your records. -----

Form <b>W-4</b> Department of the Treasury Internal Revenue Service	<b>Employee's Withholding Allowance Certificate</b> ▶ Whether you are entitled to claim a certain number of allowances or exemption from withholding is subject to review by the IRS. Your employer may be required to send a copy of this form to the IRS.	OMB No. 1545-0074 <b>2007</b>
1 Type or print your first name and middle initial.	Last name	2 Your social security number
Home address (number and street or rural route)		3 <input type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Married, but withhold at higher Single rate. Note: If married, but legally separated, or spouse is a nonresident alien, check the "Single" box.
City or town, state, and ZIP code		4 If your last name differs from that shown on your social security card, check here. You must call 1-800-772-1213 for a replacement card. ▶ <input type="checkbox"/>
5 Total number of allowances you are claiming (from line H above or from the applicable worksheet on page 2)		5
6 Additional amount, if any, you want withheld from each paycheck		6 \$
7 I claim exemption from withholding for 2007, and I certify that I meet both of the following conditions for exemption. • Last year I had a right to a refund of all federal income tax withheld because I had no tax liability and • This year I expect a refund of all federal income tax withheld because I expect to have no tax liability. If you meet both conditions, write "Exempt" here ▶ 7		
Under penalties of perjury, I declare that I have examined this certificate and to the best of my knowledge and belief, it is true, correct, and complete. Employee's signature (Form is not valid unless you sign it.) ▶		
8 Employer's name and address (Employer: Complete lines 8 and 10 only if sending to the IRS.)		Date ▶
9 Office code (optional)	10 Employer identification number (EIN)	

For Privacy Act and Paperwork Reduction Act Notice, see page 2. Cat. No. 10220Q Form W-4 (2007)

# Understanding the IRS

## Form W-2

- Shows how much employees earn
- Copy must be attached to tax return

22222		Employee's social security number		OMB No. 1545-0008		
b Employer identification number (EIN)			1 Wages, tips, other compensation	2 Federal income tax withheld		
c Employer's name, address, and ZIP code			3 Social security wages	4 Social security tax withheld		
			5 Medicare wages and tips	6 Medicare tax withheld		
			7 Social security tips	8 Allocated tips		
d Control number			9 Advance EIC payment	10 Dependent care benefits		
Employee's first name and initial		Last name	Suff.	11 Nonqualified plans		
f Employee's address and ZIP code			13 Statutory employee <input type="checkbox"/> Nonstatutory employee <input type="checkbox"/>		12a	
			14 Other		12b	
					12c	
					12d	
15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

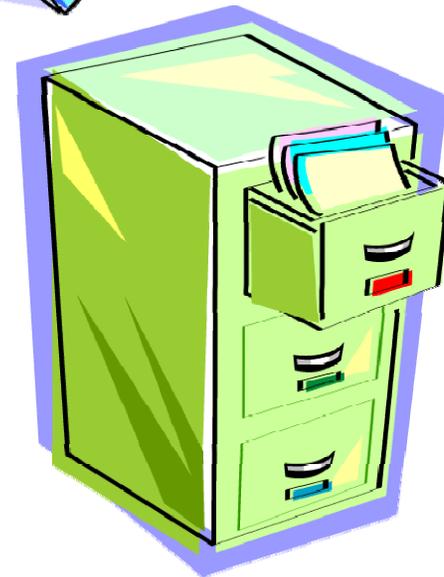
Form **W-2** Wage and Tax Statement

2007

Department of the Treasury—Internal Revenue Service

# Understanding the IRS

## Financial Record Keeping



## **Understanding the IRS**

### **Financial Record Keeping**

#### **Save:**

- Paycheck stubs
- Bank statements
- Completed tax returns and forms
- Warranty information
- Receipts
- Credit card statements

## **Understanding the IRS**

### **Financial Record Keeping**

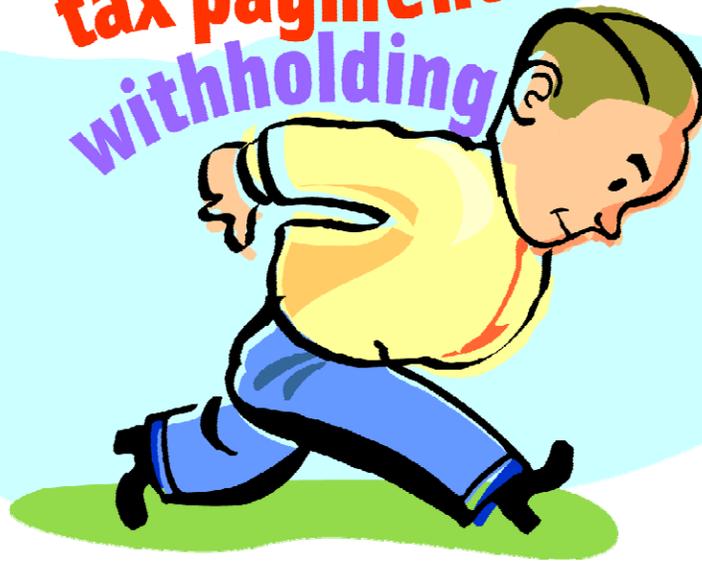
#### **Store items in:**

- Envelopes or accordion file
- Filing cabinets
- Computer
- Safety deposit boxes

# Understanding the IRS

**Tax Liability**

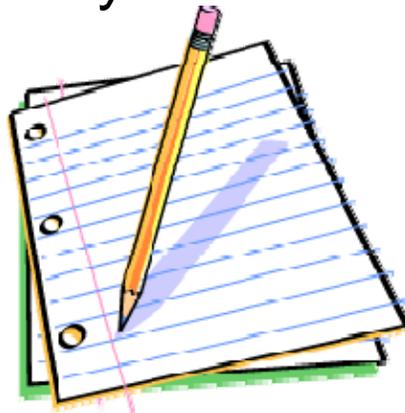
**deductions**  
**exemptions**  
**tax credits**  
**tax payments**  
**withholding**



## Understanding the IRS

### Methods of Tax Return Preparation

- Electronically
- Tax Preparation Software
- Manually



## **Understanding the IRS**

### **Electronic Tax Preparation and Transmission**



## **Understanding the IRS**

### **Methods of Electronic Tax Preparation and Transmission**

- Personal Computer
- Tax Professional

## Understanding the IRS

### Refunds

