

CHAPTER **One**

Introduction

any high school student who sets out to study taxes is probably saying, "Why should I bother? That's something my *parents* have to deal with." However, tax law doesn't distinguish by age. While there are age requirements for driving a car, watching movies, and voting, a person of *any* age can be responsible for paying taxes and filing a tax return. As long as that person has income, tax law applies.

In fact, high school students are earning and working more than ever before. Here are some facts that may surprise you: Ninety-one percent of high-school students make more than minimum wage, with an average salary of \$7.05 per hour. Nearly one-third of teens work more than 40 hours per week during the summer, and one-quarter work more than 35 hours per week during the school year. The average teen saves nearly \$1,000 from summer wages alone. Yet, in a recent exam given to 723 graduating seniors, only 21 percent knew that they might have to pay tax on savings account interest.

The problem is not that teens don't understand how tax law applies to them. Rather, it hasn't been *taught* to them—or if it has, not in an understandable way. This is evident because college students (ages 18–25) are historically the most likely age group to forfeit their tax refund by not filing a tax return. *Forfeiting* a refund means that these students paid more tax than they were required to but didn't fill out the necessary tax forms that would have returned the excess amount to them. In short, many students don't realize that they have hundreds of dollars just waiting for them. Teens don't know enough about tax law to take advantage of the time in their lives when they're most likely to receive a refund.



This book will explain basic tax law, beginning with the moment you're hired and ending with the submission of your tax return. The concepts of exemptions, dependents, withholding, payroll taxes, income, exclusions, and deductions will be introduced by using easy-to-follow examples. In addition, the reasons behind each concept will be explained. This will give you a further "tool" by which to grasp the information. Finally, you'll learn when it is necessary, and how, to file a tax return. Filing a return will not only give you a sense of responsibility and maturity, but it can also save you—or your appreciative parents—money.

This text will provide you with many real-life examples to help you understand how tax law applies. However, the examples are based on the 2001 tax year. You should know that whenever a dollar requirement is used, it applies only to 2001. In later years, those amounts will likely change. Therefore, it isn't important for you to memorize the dollar requirements. Rather, you should understand the concepts on which they're based and know where to find those amounts as you prepare your taxes in later years.

Also, this book focuses purely on federal tax law. States have their own tax laws (and tax forms), and it would be impractical—and quite distracting—to compile all those laws in this text. However, state tax concepts are similar to federal tax concepts, so learning the federal rules will help you learn the state rules.

Finally, before we begin you should also know that while age isn't a requirement for filing a tax return, it does make a difference in how the return is filled out. Your parents basically follow a simple formula of adding their income and then subtracting their deductions and exemptions to find out their tax. In your case, however, your deduction will be based on the amount of your income, and you will basically be ineligible for exemptions. So, in a sense, understanding taxes can get easier as you get older.

"Easier? I hope so because I didn't understand some of the terms in this paragraph," you might be thinking. Don't worry, because the simple explanations are about to begin.

