Name: _____ Date: _____

How Do Taxes Work?

Reading level 10 (6th grade) · 1285 words

How do taxes work? Tess, who is twelve, laid her sandwich receipt on the table and pointed at one line. It said TAX $0.72. "Who gets that?" she asked her cousin Malik. Malik is twenty-four and works at a bike shop. He will file his first full-year tax return early next year, so he had been reading about taxes all week. "A lot of people, in the end," he said. "Let me show you." Tess and Malik are made up. The rules are real, and where we work out an example, the arithmetic is ours.

A tax is money that the law makes people or businesses pay to a government, to cover the cost of what the government does. Malik explained that there are three levels of government, and each one collects. Cities and counties collect taxes. So do states. So does the federal government in Washington. Over a year, people meet all three: tax on what they buy, tax on land and buildings, and tax on what they earn.

Start with Tess's line. It is a sales tax, a percentage added to the price of most things sold in stores. The store collects it from the customer and sends it to the government. Five states have no state sales tax. In the other forty-five, a state rate and often a local rate add together. On July 1, 2026, the Tax Foundation put the average combined rate across the country at 7.53 percent. Tess's town charges a made-up 8 percent, and 8 percent of $9.00 is $0.72.

Two more kinds are close to home. A property tax is a tax on land and buildings, and most of it goes to local governments. It helps pay for schools, roads, police and fire crews. In 2021, by the Census Bureau's count, about 39 of every 100 dollars that local governments spent went to public schools. A state may tax income too. The Tax Foundation counted forty-one states that tax wages in 2026, so nine do not. The rates differ a great deal from state to state.

The federal government has its own taxes. Congress passes the tax laws, using a power the Constitution gives it. The Internal Revenue Service, a bureau of the Treasury, collects the money and helps people follow the rules. Once a year, most workers fill in a tax return, usually Form 1040. It lists income, subtracts amounts the law allows and works out the tax. By May 8, 2026, the IRS had received about 145 million returns for the 2025 tax year. Malik's will be for 2026.

Here is Malik's year, made up. He earns $45,000 in wages in 2026. He is single and has no other income. Not all of his pay is taxed. Most taxpayers may subtract a standard deduction, a flat amount the law sets by filing status. For a single person in tax year 2026, the IRS says it is $16,100. What is left is called taxable income, the amount the tax is figured on. For Malik, $45,000 minus $16,100 is $28,900, by our arithmetic.

Now the brackets. The IRS describes them as layers. Each layer of taxable income has its own rate, and the rates rise as the layers go up. For a single filer in 2026, the first $12,400 is taxed at 10 percent. That layer costs $1,240. The next layer, up to $50,400, is taxed at 12 percent. Above it come layers at 22 percent and more, up to a top rate of 37 percent. The IRS announced these 2026 numbers on October 9, 2025.

Malik's $28,900 fills the first layer and part of the second. The first $12,400 costs $1,240, and the other $16,500 sits in the 12 percent layer, where it costs $1,980. Added together, Malik's federal income tax is $3,220, by our arithmetic, which is about 7 cents for every dollar he earned. People call 12 percent his bracket, but he does not pay 12 percent of everything. He pays that rate only on the dollars that fall inside that layer, and the rest of his taxable income was taxed at the lower 10 percent rate.

Tess had heard a rumor at school. If you get a raise, it can push you into a higher bracket, and then you take home less. Malik shows her why a bracket alone cannot do that. Say his boss gives him a $2,000 raise. Those new dollars land in the 12 percent layer, so the extra tax is $240 and Malik keeps $1,760 more. That counts income tax only. Social Security and other taxes take a bit more, but none of them takes the whole raise.

What if a raise does cross a line? Take Ms. Ortiz, another made-up worker, whose taxable income is $50,000. The 22 percent layer starts at $50,400. A $1,000 raise puts $400 of it below that line, taxed at 12 percent, and $600 above it, taxed at 22 percent. The raise adds $180 in tax, so she keeps $820 after income tax. The IRS says you pay the higher rate only on the part of your income in the new bracket.

Most people do not wait until spring to pay. The federal income tax is a pay-as-you-go tax. An employer usually holds back income tax from each paycheck and sends it to the IRS in the worker's name. People with other kinds of income may pay in estimates. The return then adds up the whole year and compares the total with what was already paid. If too much was paid, the IRS sends a refund. If too little, the person pays the rest.

Dates matter. For income earned in 2025, most returns were due on April 15, 2026. When the 15th falls on a weekend or a holiday, the deadline moves to the next business day. A person who needs more time can ask for an automatic six-month extension. That moves the date to file, not the date to pay, because the tax is still due on the original deadline. Malik will use the 2026 numbers and file in 2027.

Tess asked the next question. Where does the federal money go? Malik pulled up the Treasury's final monthly report for the year that ended on September 30, 2026. The government collected about $5.4 trillion. About half came from income taxes paid by people. About a third came from Social Security, Medicare and other employment taxes. Corporations, customs duties and other taxes made up the rest. A trillion is a thousand billions, a number far too big to picture, so he turned it into cents.

The government spent about $7.4 trillion that year. Treasury sorts spending into about twenty categories. Out of each dollar, the biggest slice, about 23 cents, went to Social Security, which pays benefits to retired workers, to people with disabilities and to survivors. Next came Medicare, about 15 cents, which pays for hospital and other care for older and disabled people. Interest on money the government has borrowed took about 14 cents, and so did health programs other than Medicare. National defense took about 13. These are shares of spending, not a score.

Many of the things Tess uses every day sit in smaller slices. Roads and transit are in the transportation category, about 2 cents of each dollar. Parks are in a category called natural resources and environment, less than one cent. In most years the federal government pays less than a tenth of what public schools cost; states and local governments pay the rest. Tess looked at her receipt again. "So this line isn't a mistake," she said. "It's the first tax I ever noticed." Malik nodded. "And now you know where the big federal money goes."

Questions

1. Why did Tess's receipt show a $0.72 tax?

A. A percentage was added to the price
B. The shop charged a card fee
C. Her cousin owed the shop money

2. For a single filer in tax year 2026, how much is the standard deduction, according to the IRS?

A. $12,400
B. $16,100
C. $45,000

3. Why can a raise not lower a worker's take-home pay just by crossing into a higher bracket?

A. Brackets only apply to people who earn less than $12,400
B. Raises are never taxed at all
C. The higher rate applies only to the dollars above the line

4. In this book, what is a bracket?

A. A layer of taxable income with its own rate
B. A tax form that people mail in April
C. The money a store keeps from a sale

5. Who passes federal tax laws, and what does the IRS do?

A. The IRS passes the laws and Congress collects the money
B. Congress passes the laws and the IRS collects the money
C. The states pass the laws and the Treasury mails the forms

6. Which category took the biggest slice of federal spending in the year that ended September 30, 2026?

A. National defense

B. Interest on borrowed money

C. Social Security

Words to know

bracket: income layer

deduction: amount subtracted

taxable: counted for tax

return: yearly tax form

refund: money returned

Answer key: How Do Taxes Work?

1. A. A percentage was added to the price
2. B. $16,100
3. C. The higher rate applies only to the dollars above the line
4. A. A layer of taxable income with its own rate
5. B. Congress passes the laws and the IRS collects the money
6. C. Social Security