Name: _____ Date: _____

Where Do Taxes Go?

Reading level 8 (4th grade) · 805 words

Dee buys a flashlight. It costs 10 dollars. At the register, the clerk says, "That is 10 dollars and 80 cents." Dee looks at her receipt. One line on it says tax. Where does that 80 cents go? Dee is made up. The rules in this book are real.

A tax is money that people must pay to the government. It pays for things that many people share. Dee lives under three kinds of government. One is her city or county. One is her state. One is the whole country, which is called the federal government. Each one collects its own taxes.

The 80 cents is a sales tax. It is added to the price at the store. For Dee, it is 8 cents on each dollar. That rate is made up. But in July 2026, the real average was close to it. Rates change from place to place.

The store does not keep the tax. It collects the tax from shoppers. Then it sends the money to the government that charged it. That is the state, and in many places a city or county too. In Washington State, the law says that stores collect the tax from shoppers.

What do states and towns do with tax money? They pay for things that people share. Roads, schools and police are three. Another tax helps pay for a lot of this. It is the property tax. People who own land and buildings pay it. Most of it stays close to home, with towns and counties.

Schools are a big part of local spending. By the Census Bureau's count, local governments spent about 39 of every 100 dollars on public schools in 2021. Much of that money came to them from the state and the country first. Local governments pay for roads and police too.

Dee fills her car with gas. The price of gas has taxes in it too. In 2026 the federal tax is 18.4 cents on each gallon. Each state adds its own tax as well. The federal money goes into a fund for roads and for public buses and trains.

Another tax comes out of Dee's pay. Her boss holds back part of each paycheck. The boss sends it to the Internal Revenue Service, or IRS. The IRS is part of the Treasury Department. Once a year, Dee fills in a tax return. It is a form that shows what she earned and what she has paid.

Congress writes the tax laws. It is the group of people in Washington who make the nation's laws. By May 8, 2026, the IRS had gotten about 145 million tax returns for the year 2025. Each one shows what one person or one family earned.

Where does the federal money come from? Dee reads the Treasury's report for the year that ended on September 30, 2026. About half of the money was income tax paid by people.

About a third was Social Security and Medicare tax. That tax comes out of paychecks, like hers. The rest came from other taxes and fees.

Then Dee reaches the part about spending. She pictures one dollar of everything the country spent that year, as 100 pennies. The biggest pile, about 23 cents, went to Social Security. It pays retired workers. It pays people with disabilities. It also pays the families of workers who have died.

Dee moves that pile aside. The next pile, about 15 cents, went to Medicare. Medicare helps pay for hospital care, nursing care and other care. It is for older people and people with disabilities. Taxes taken from paychecks go into special funds that pay for both programs.

Next is a pile of about 14 cents. It paid interest. The report calls the line net interest. Interest is extra money that a borrower pays. The country has borrowed money over many years. It still owes some of it, so it pays interest each year.

Two more piles are almost as big. Health programs other than Medicare took about 14 cents. National defense took about 13. It pays for the armed forces and the equipment they use. The Treasury sorts all spending into about twenty kinds. Each kind has its own line in its report.

Dee finds the smaller piles last. They include help for veterans, schools, roads and parks. Transportation, which covers roads and public transit, got about 2 cents of the dollar. Parks and other natural resources got less than one cent. All of these numbers are for one year, and they change from year to year.

Dee puts the flashlight in her bag. The receipt goes in her pocket. The 80 cents on it was never the store's money. It goes to the state, and in many places to the town or county too. There it helps pay for schools, roads and police.

Questions

1. Why does the store send the tax to the government?

A. The state owns the store
B. The store is holding it for the government
C. The tax pays the clerk

2. In this book, what does federal mean?

A. Belonging to the whole country
B. Belonging to one town
C. Belonging to a store

3. Which tax helps local governments pay for schools, roads and police?

A. Sales tax on a flashlight
B. A fee for a tax return
C. Property tax

4. What does the IRS do?

A. It runs the local schools
B. It collects federal taxes
C. It sets the price of gas

5. In the year that ended September 30, 2026, which piece of each federal dollar was the biggest?

A. National defense
B. Medicare
C. Social Security

Words to know

tax: required payment
federal: national government
property: land and buildings
interest: extra money paid
return: yearly tax form

Answer key: Where Do Taxes Go?

1. B. The store is holding it for the government
2. A. Belonging to the whole country
3. C. Property tax
4. B. It collects federal taxes
5. C. Social Security