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In this chapter you will find useful information on the tax system in the USA, including Federal Tax and State Tax.

How does the Tax system work in the USA?

There are compulsory deductions on income at source (just like PAYE, PRSI etc.). In the USA 2 income taxes apply; Federal Tax and State Tax. In the USA you must file a tax return every year before 15th April.

What is Federal Tax and how does it work?

The law requires that any person who is earning a certain income (starting with just a few thousand dollars per year) is required to pay federal income taxes.

Federal taxable income is the difference of income that you earned and any exemptions plus deductions plus adjustments. The amount of federal taxes that you pay depends upon a number of factors like the gross amount of your salary, other incomes (e.g. bank interests, stock dividend) the filing status (like single, married, household) and the number of dependents (children, parents) etc.

What is Income?

Income is the amount that you earned during that year.

Examples of income are salary and bonus from your employer, tips, interest from bank, dividend from shares; social security income and unemployment benefits paid by the government are also examples of income. If you work as a regular employee normally all your estimated federal and local taxes are deducted from your salary. At the end of the year you must complete tax returns stating all your earnings (including documentary proof) along with those of your spouse and dependents (if applicable) to see whether you owe money or will be getting money back.

What is Adjustment?

Adjustments are in addition to itemised or standard deductions. Some examples of adjustments would include an individual retirement account, moving expenses, student loans, and educational fee deductions.

What is Adjustment Gross Income?

Adjustment of Gross Income is the difference of income and adjustments.

For more detailed information on Federal taxes please refer to the website www.irs.gov

What is State Tax and how does it work?

State taxes vary from state to state. The amount of state taxes that you pay depends upon various factors like:

- The gross amount of your salary
- Other incomes such as tips, bank interests, stock dividends
- The state and the county you live, the filing status (like single, married, household)
- The number of dependents (children, parents) etc
- If you happen to stay in a tax exempted state like Texas or Florida there is no need for you to pay state income tax.

Free Tax Filing

There are companies that offer free online tax filing for both Federal and State taxes. The free services offered by these companies will depend upon some eligibility criteria. For more information on taxes please refer to the website www.irs.gov to find out the companies offering free online tax filing of federal and state taxes.

The following are some website that may help you to file your taxes online:

www.taxbrain.com

www.online-taxes.com

www.esmarttax.com

www.taxactonline.com

www.taxact.com

www.taxengine.com

What other deductions may also apply to my wages?

- Social Security
- Medicare.