



## **The Darling Detective Agency: The Case of the Missing Money** (Transparent & Hidden Taxes)

Skyler & Dakota Darling were sitting in their office when suddenly they heard several rapid sharp knocks on their door.

“You expecting anyone, Dak,” asked Sky.

“Nope”

They returned to their work, trying to figure out how many times they had watched the episode of *Stranger Things* they were currently streaming as they tried to finish the day’s crossword puzzle.

More impatient knocking, and before they could do or say anything, the door banged open, and a tall-trench-coated figure wearing mirrored sunglasses strode in and sat in the chair in front of their desks.

“Name’s MacKenzie Moneysworth—Mac—and somebody stole my money. I want you to find them!

When Skylar and Dakota just stared, Mac said: “Well, you are detectives, right?”

Both nodded; Dak said: “Facts, give us some facts! We need clues to work with.”  
Skyler mumbled “Not that clues are helping us with this puzzle”, but luckily nobody heard.

*Mac:* I got paid my first paycheck on this sweet little job I just got. It’s supposed to be \$1,000 a week. But when I opened the envelope the check was for only \$815. I sure as hell wasn’t going to let my boss get away with that. So I went straight to his office and confronted him. I said: “You owe me \$185!”

He claims he doesn’t owe me a penny. He swears my salary is \$1,000 a week but he can only give me \$815. He gave me some gobbledygook I couldn’t understand and threw some papers at me. Said it was all legal.

So you read it and tell me how it’s legal for him to keep 15% of what he owes me? I want you to find my missing money.

*Sky:* You’re actually missing 16.5% and . . .

Mac: That's even worse! The point is—can you find it?

Dak: Well, sure, we can do that, but it will cost you. . .

Mac: Yeah, that's the other problem, I got nothing to pay you with until you get me back some of the money Mr. Big Boss stole from me.

Sky: Well, you still have \$815!

Mac: Nope—I spent it all—even a little more! Thank goodness for credit cards. Hey, don't look at me like that—I just moved and I needed stuff. I thought I was being smart and saving a little. But it all seems to be gone—except for a couple of dollars. I assume that's not enough to pay you. Well, given the décor of this office, maybe it is!

Dak: You better be a little nicer if you want us to do this work—especially given your shaky finances! So, what did you buy?

Mac: Don't worry, my credit card isn't anywhere near its limit. But really, you two sure are nosy!

Sky: How do you think we detect? Spill it already!

Mac: Ok, I deposited the check immediately because . . .

Dak (*snarkily*): Don't your checks automatically get deposited to your account?

Mac: Yeah, they will be but I haven't set up my account yet. And stop interrupting me. As I was saying: I needed stuff—and don't get started, I know you want the details. So: \$200 for some new tires for my truck; \$225 for some dishes, pots and pans; \$180 for some new shirts for work and \$110 at the grocery store. Oh, yeah, and \$35 on gas.

That adds up to only \$750 but somehow left me with only a little over \$10. So when I went to pay for my meal at the restaurant, I didn't have enough money. Luckily, my credit card was still good. And I was so depressed that I used it again to go to the movies!

Sky: O.K. enough—your life is too boring to hear anymore. And I guess we'll assume your credit is good. (*Sees Dak's skeptical look and adds*)—and we know where to find you if it isn't.

This is going to take some hard work. \$100 and we can do it for you by the end of the week, but for an extra \$50 we can have it for you tomorrow morning.

Mac: I want answers now, well tomorrow. Here, charge my card \$150.

Dak: (*running the credit card thru his machine*): Ok, now get out of here and let us work. But before you go, give us all your receipts, and I mean all!

*Mac (slapping the receipts on their desk and rushes out of the office, shouting): I'll be back at 9 a.m sharp.*

*Sky and Dak roll their eyes and break out laughing. After dancing and singing—it's like taking candy from a baby—for a bit, they put on their "Sherlock Holmes" detecting hats, got out their big magnifying glasses and begin searching for clues.*

## **The Hunt Is On**

*Sky: OK, let the fun times roll. Time to hunt for clues and find some answers.*

*Dak: Agreed, I think the first clue is to figure out what we need to know. I've already been thinking about that. And I think there are two main questions:*

- 1 Why did Mac earn \$1000 a week but only get \$815?*
- 2 Why did the \$750 in purchases eat up almost all of the \$815?*

*Sky: Excellent thinking. I'll take the first question.*

*Dak: Wait a minute! I thought of the questions, I get to choose.*

*Sky: Ok, ok, don't get your panties in a twist.*

*Dak: I choose the 2<sup>nd</sup> question. You can have the first.*

*Sky: (sighing): ok, let's begin.*

*A frenzied search through the receipts, books in their office (aka family room) and their two computers follows:*

*Finally,*

*Sky (paging through the receipts): Aha, I've got it! (dancing and waving a paper—the paystub)*

*Dak (competitively): well, I'm making lots of progress too.*

*Time lapse of them both working furiously throughout the day and night. Then simultaneously standing up and shouting  
Done!*

*Just then a sharp knock on the door and Mac sweeps in: Answers, give me my answers! Now!*

*Dak and Sky straighten their clothes and pat their hair down.*

*Dak (grabbing some coffee from the large pot near their desk and offering some to the others: And good morning to you too. Have a seat and we'll explain all.*

Basically, the mystery of your disappearing money can be solved by answering two questions:

1 Why did you only get \$815 when your pay is \$1000 a week?

2 Why did your purchases which total only \$750 leave you with only \$10 and change when you should have had \$65?

Sky will answer the easier (*Sky scowls*) I mean the first question.

*Sky*: Take a look at this paystub you got from Big Boss.

*Mac*: Sure, I see it's a pay stub from Big Boss Inc. I saw that when I got it. But, it's umm, well, a little confusing. What are all these little boxes and numbers?

*Sky*: In a word: Payroll Deductions

*Mac (snidely)*: That's two words. And what do they mean?

*Sky (rolling eyes but otherwise ignoring Mac)*: Every employer withholds certain amounts of money from an employee's paycheck. Some of the withholding is voluntary on the part of the employee—like to pay for insurance—but some is mandatory because it is the law. Your employer has to do it, just like your boss told you. Either way, withholding means the actual paycheck you get is less than your full earnings.

Mandatory withholding amounts are mostly taxes that you owe. Occasionally the employer must withhold other amounts but in your case it's all taxes—\$185 of them. Your employer (Big Boss) withholds them from your salary and pays them on your behalf to the government to which they are owed.

So your \$1,000 a week salary from your boss is your gross pay, but the amount on your paycheck is your take-home pay: what you actually get after all the withheld deductions. This is called your net pay. And that is the \$815 you got.

*Mac (grabbing the paystub and yelling)*: \$185 in taxes! That's 20% of my pay! Just what are these taxes?

*Dak*: Calm down. It's only 18½% of your pay.

*Meanwhile Sky shoves the paystub in Mac's hand) and*

*Mac (shoots a dirty look at Dak and looks at the paystub and sputters)*: Still a lot of money. And I can't understand what this stuff is. What the !#@% is a OASDI tax?

*Sky*: OASDI stands for Old Age Survivors Disability Insurance or what you know as Social Security tax. It is one of the taxes employers must withhold from a person's paycheck and pay to the federal government on behalf of the employee. It is required by the Federal Insurance

Contributions Act, and by the Medicare Tax. Both sometimes appear on your paystub as FICA taxes. The other taxes are—

*Mac:* Wait, I want to hear more about those.

*Sky:* Sure I'd be glad to, but you'll have to pay more money.

*Mac:* Ok, I'll wait on that. Go on with what you were saying.

*Sky:* Those other taxes are income taxes withheld on your behalf so you won't have to pay them come tax day on April 15<sup>th</sup>. The \$88.50 is federal income tax; the \$20 is state; and lucky for you, you don't pay any city tax.

*Mac:* Wait, I want to know how Big Boss figured out how much to keep—I mean withhold. And also, you may think I'm lucky not paying city tax, but it's bad enough that I'm paying income tax twice. How can that be? It's unfair! It's got to be illegal.

*Sky:* I can tell you about how those withholding amounts were determined, but again it will cost you more. Be lucky that I'm explaining as much as I am

And I will tell you that paying income tax to both federal and state governments isn't unfair or illegal—so long as the state constitution allows a state income tax. Those are two different governments, each provides different services and benefits to you and each has its own authority to tax

*Mac:* So you're telling me to get over it? That there is nothing I can do about it?

*Sky:* Well yes and no—at least about the income tax withholding, but . . .

*Mac (sighing):* I know, it will cost. (Sky and Dak nod). Ok—for now at least. Let's move on to how I used \$750 of my measly \$815 to buy \$750 worth of products and ended up with only \$10 left. (*Mac stops, mouth and eyes wide and says*) Don't tell me: taxes??

*Dak (nodding like a bobblehead)* Yep. [Bottom line](#): sales taxes. It's a little complicated and I can explain if. . . .

*Mac (sighing very loudly):* If it's going to cost more just give me the bottom line: How much?

*Dak:* You paid sales tax—which the store passes on to the state—on the tires, dishes, clothes totaling \$54.50 plus . . . q

*Mac:* What about the groceries?

*Dak:* Nope. Our state doesn't tax food you buy at the grocery store but some of the things you bought there weren't food—like the paper towels—were taxed. And if you'd looked at your receipts, you would have seen the tax as a separate item!

*Mac:* I give up. I guess I wasn't cheated. Thanks, I guess.

*Dak:* Well, just so you know, we didn't cheat you—there's a little more. Tax I mean. The \$35 you spent on gas included tax. Roughly 50¢ per gallon. So if you paid \$2.50 a gallon, 20% was taxes—some to the federal government and some to the state.

*Mac:* Nobody told me that!

*Dak:* well, if you would have looked carefully at the sign at the gas station it would have said—in tiny, tiny print— tax included. Don't feel bad. Most people don't see those taxes—or even notice the sales tax much—and that's on purpose. If a tax is hidden or semi-hidden, then people don't complain so much about paying it. Income taxes are very [salient](#) or noticeable even when they are withheld from their paychecks. Even you noticed something wasn't right about what you got paid. And if you miss it in your paycheck, you notice it when you have to send in your tax return. But sales taxes—especially when hidden in the price are much easier to overlook.

That's why governments try to make taxes less salient or transparent to hide the pain of paying them. They've been doing this for centuries. Way back in the 1600s, a French finance minister (sort of like our Secretary of the Treasury) said:

*The art of taxation consists in so plucking the goose as to obtain the largest possible amount of feathers with the least possible amount of hissing.*

Jean Baptiste Colbert Louis XIV Minister of Finance 1665-1683

*Mac:* Well, thanks, I guess. I'm going to start hissing a lot. And maybe after I get my next paycheck, I'll come back for more details.