

Lesson 2: Bread and Butter

TOPIC: Introduction to Taxes

OVERVIEW:

Following the module on careers with an overview of **income** and **taxes** is a natural progression for learners to grasp how a paycheck works, and the government's role in income.

Time: 60 min

Supplies:

- Loose-leaf paper
- Projector (for teacher presentation slides)
- Access to the Internet (optional)

Preparation:

- Make copies of student handouts
- Set up projector with presentation slides
- Cut pay stubs
- Set up individual or group computers with access to the Internet (optional)

Glossary with key vocabulary 15

OBJECTIVES:

1. Understand and explain the purpose of federal income and state tax and how it affects personal income
2. Apply mathematical skills and concepts to tax brackets and personal income
3. Describe and evaluate the importance of the current federal income tax system

INDIVIDUAL HANDOUTS:

- Tax Impact
- Sample Pay Stub

GROUP HANDOUTS:

- None

TEACHER PRESENTATION SLIDES:

- Explaining Taxes
- Income and Taxes
- Tax Brackets for 2018

ESSENTIAL QUESTIONS:

- Why do we pay income tax?
- How does paying income tax affect my life?
- How does paying income tax affect my community?

ASSESSMENT ACTIVITIES:

Pre-Assessment:

- **Activity:** Federal Spending

Post-Assessment:

- **Activity:** Tax Impact
- **Activity:** Progressive Tax versus Flat Tax

Instruction Steps

WARM UP

Federal Spending

10 MINUTES

Ask students:

- How much *do you think the U.S. government spends per year?*
- *Have them raise their hands to poll for the following possible answers: 4 million? 4 billion? Or 4 trillion?*
- *Share a recent statistic about the federal government’s spending. For example: in the 2017 fiscal year, the U.S. federal government spent \$3.98 trillion.*
- *Ask students to brainstorm how the government spends that money and where it comes from. Record student responses and return to them after reviewing the answer below.*

After students have been given the chance to share their responses, explain that: \$3.32 trillion of that money came from revenue, such as the federal **income tax**, while the remainder was borrowed. There were three major areas of spending: \$590 billion on defense, which includes such things as paying for our military, their equipment, and their salaries. \$939 billion was spent on Social Security, which includes paying monthly retirement benefits to older people. \$966 billion was spent on health care, which includes paying for health care for older people, people who cannot afford health care, and certain people who have disabilities. (Provide students with additional statistics about the 2017 budget using this resource at www.cbo.gov/publication/53624).

Give students the chance to share reactions.

Ask students: Return to the list of their initial brainstorm and discuss their connection to what they’ve discovered.

Grade-Level Modification:

Beginner: Show students one of the videos from the Extended Exploration activities English Language Arts Additional Resources to provide background information on taxes.

Advanced: Have students craft a short persuasive essay from the Extended Exploration activities English Language Arts Writing Prompt.

MONEY SMART TIP!



The Internal Revenue Service (IRS) provides online resources on “Understanding Taxes” both for teachers and students.
<https://apps.irs.gov/app/understandingTaxes/student/index.jsp>

GUIDED EXPLORATION

Understanding Important Vocabulary

10 MINUTES

Explaining Taxes

Current Amount	Withholding Deductions	Current Amount	Tax to Date
100%	10%	90%	10%
100%	10%	90%	10%
100%	10%	90%	10%
100%	10%	90%	10%

Money Smart for Young People Grades 3 – 5

Using the *Explaining Taxes* slide, provide students with a background and vocabulary on taxes and income. (These can also be found in the **Glossary**.)

- **Taxes:** A government fee on business and individual income, activities, products and services. Individuals have to pay taxes on their income (salaries, wages, tips, commissions). This is called **income tax**. In some locations, people have to pay a local income tax (to their city or county government), or a state income tax (to their state government), or both, along with a federal income tax (to our federal, or national, government). Businesses have to pay taxes on their profits. In some locations, there is also a tax on certain products and services that you buy, which is called a **sales tax**. Under the Federal Income Insurance Contributions Act, individuals contribute a certain percentage of their income to Social Security and Medicare.
- **Earned Income:** Money you get from working, including wages, commissions and tips. So, if you were working as a car salesperson, you would have to pay taxes on the commissions that you make from selling vehicles, and if you work as a waiter, you would have to pay taxes on the tips you receive from customers, in addition to your salary. Earned income also includes money earned from investments.
- **Payroll Deduction:** An amount an employer withholds from a paycheck. Mandatory deductions include various taxes. Some people choose to make voluntary deductions like charitable contributions, direct deposits into financial institution accounts, or loan payments.

Optional checks for understanding:

- *What are some of the different taxes that people have to pay?* (For example: income taxes for local, state, and/or federal government; sales tax.)
- *How are those taxes used on the federal, or national, level?* (For example: federal government programs like defense spending, medical coverage and insurance, and Social Security.)
- *What does an income tax apply to?* (For example: the money you earn, including tips and commissions.)

GUIDED GROUP EXPLORATION

Tax Impact

30 MINUTES

Income and Taxes		
My First Job	My Second Job	My Third Job
Level of Education: Bachelor's degree	Level of Education: Master's degree	Level of Education: Master's degree plus an Advanced Certificate
Job Experience: First month on the job	Job Experience: Five years on the job	Job Experience: 20 years on the job
Salary: \$55,000 annually	Salary: \$76,000 annually	Salary: \$122,000 annually

Money Smart for Young People Grades 3 – 5

Tax Brackets	
If Taxable Income Is:	The Tax Is:
Not over \$9,525	10% of the taxable income
Over \$9,525 but not over \$38,700	\$952.50 plus 12% of the excess over \$9,525
Over \$38,701 but not over \$82,500	\$4,453.50 plus 22% of the excess over \$38,700
Over \$82,501 but not over \$157,500	\$14,089.50 plus 24% of the excess over \$82,500
Over \$157,501 but not over \$200,000	\$32,309.50 plus 32% of the excess over \$157,500
Over \$200,001 but not over \$500,000	\$46,689.50 plus 35% of the excess over \$200,000
Over \$500,001	\$150,889.50 plus 37% of the excess over \$500,000

<https://www.irs.com/articles/2018-federal-tax-rates-personal-exemptions-and-standard-deductions>
Money Smart for Young People Grades 3 – 5

Provide each student with a number: 1, 2, or 3. Their number corresponds to an option on the **Income and Taxes** slide. Using the **Tax Impact** handout, allow students to copy down the salary for the assigned number.

After students have discussed their opinions, allow them to use the **Tax Brackets for 2018** slide to locate the correct bracket for their income. Students should log their federal income tax bracket information on their Tax Impact handout.

Then, in the appropriate work area on the **Tax Impact** handout, students should calculate the yearly amount of money taken from their salary for federal income tax. Students should then apply their knowledge of percentages to determine what percentage of their salary they paid to taxes.

Grade-Level Modifications:

Beginner: Model computation using the shaded example on the **Tax Impact** handout. Have students work with a partner to solve each step of the handout.

Advanced: Have students' partner with someone that was assigned a different number and exchange tax handouts to check one another's work.

Provide students with the **Sample Pay Stub** handout. Allow students a moment to process the **Sample Pay Stub** and see if they can figure out important information like:

- *How frequently this person gets paid*
- *This person's yearly salary based on their biweekly earnings*
- *The total yearly federal income tax deduction based on the biweekly federal income tax deductions*

Tell students that the **Sample Pay Stub** matches one of the three job options: My First Job, My Second Job, or My Third Job. Ask students to try to figure out which job the stub matches. (Answer: My Second Job)

Allow a student from each of the three assigned jobs to share his or her salary, tax bracket, yearly income, tax payment, and the percentage of tax taken out of his or her salary. Write this information on chart paper or on the board for student reference in the coming discussion.

Then, take a moment to explain the U.S. "progressive tax" system, in which a larger percentage of federal income taxes are taken from high-income earners and the tax percentage increases as income goes up.

Allow students time to discuss:

- *Is this an effective way to tax people in the United States? Why or why not?*
- *Can you think of another way that you might want to tax people?*

Ask students to use the information they learned during the **Tax Impact** activity to support their answer.

WRAP UP
Progressive Tax Versus Flat Tax

10 MINUTES

Ask students to pull out a sheet of loose-leaf paper, on which they will be writing an argument.

In the United States, on the federal level, we currently have a progressive tax system, where people who make less money pay a lower percentage, and people who make more money pay a higher percentage. Some people want to change our tax system to a “flat tax,” where everyone, no matter what their yearly income, will pay the same percentage of taxes.

For example: everyone pays 15 percent of their income in taxes. *Which tax system do you prefer – the progressive tax or the flat tax?* Use mathematical examples to support your reasoning. Remind students that they can use examples from their classwork to support their answer.

Extended Exploration

Note: Use the following ideas to extend financial literacy concepts throughout the school year within core content areas through English Language Arts, Math, Social Studies and Economics, and Technology activities, projects, and discussions. Duration of activities will vary.

ENGLISH LANGUAGE ARTS

Writing Prompts:

Some people believe that they should not have to pay any income tax. Write a persuasive argument in which you support or disagree with that perspective. Use statistics, vocabulary, and information from today’s lesson to bolster your argument.

Additional Readings/Resources:

Schoolhouse Rock: Tax Man Max by Disney Educational Productions. A short cartoon song and video reviewing who pays taxes and how the government uses tax money. (Time of video: 3:23 minutes) www.youtube.com/watch?v=6Q3NPgHZzDo

A World Without Taxes by BizKids. A video production by students for students that discusses how taxes impact your life, what federal, local, and state income taxes pay for, and how taxes affect small business owners. (Time of video: 28:46 minutes)

www.youtube.com/watch?v=7SPJ_J1ps1k

MATH

Activity/Project Ideas:

Continue with the *Career Game* from Lesson 1 by asking students to calculate the amount of yearly federal income tax they would owe for their salary. Use the tax bracket information from this lesson as a guide.

Ask students to imagine that they are working a part-time job in high school, with hourly pay. Provide students with an appropriate number for hourly pay and the amount of hours they work throughout the year. Students should calculate the amount that they earn yearly through their part-time job, and then use the tax bracket information to determine the federal income tax that might be deducted.

SOCIAL STUDIES AND ECONOMICS

Activity/Project Ideas:

Research the history of the federal income tax in the United States. How did it come about? How much support for or backlash against it was there? How has it changed over the years?

Research the start of the Social Security and Medicare programs and their connection to income taxes.

TECHNOLOGY

Online Games/Tools:

Understanding Taxes by the IRS. Activities, tutorials, and simulations for students to learn more about taxes.

<http://apps.irs.gov/app/understandingTaxes/student/index.jsp>

Refund Rush. Step into the shoes of a tax preparer in this interactive game where you help clients decide how to best put their refund to use. Flash Required. **<https://financialentertainment.org/refundrush>**

Classroom activities from the Consumer Financial Protection Bureau (CFPB)

The CFPB has developed a set of classroom activities to help teachers develop and support the building blocks of financial capability in their students. Each activity is designed to be completed within a single class period and includes a teacher guide and supporting student material. Some specific activities that are relevant to this lesson include:

Identifying ways we all benefit from taxes

Students create a map highlighting resources and programs near them that are paid for with tax dollars.

www.consumerfinance.gov/practitioner-resources/youth-financial-education/teach/activities/identifying-ways-we-all-benefit-taxes/

Teaching others about Social Security

Students learn about Social Security and create a social media graphic that teaches people about how tax dollars are used to fund important Social Security benefits.

www.consumerfinance.gov/practitioner-resources/youth-financial-education/teach/activities/teaching-others-about-social-security/

Answer Key

Student Handout 1:

Tax Impact

Answers will vary.



Lesson 2: Bread and Butter TAX IMPACT

Name: _____

My First / Second / Third Job (circle one)

EXAMPLE:

If my salary is \$35,000, then I am looking at the second row. The tax is: \$907.50 plus 15% of the excess over \$9,075.

Compute to determine how much you will pay in taxes:

$\$35,000 - \$9,075 =$
 $\$25,925 \times .15 =$
 $\$3,888.75 + \$907.50 =$
I will pay \$4,796.25 in taxes

Education: _____ Salary: _____

Locate your salary on the tax bracket.

The tax is: _____

Compute to determine how much you will pay in taxes:

Compute to determine how much income you will have after taxes:

$\$35,000 - \$4,796.25 =$
I will have \$30,203.75 left

Compute to determine how much income you will have after taxes:

Compute to determine the percentage of your salary that is federal income tax:

$\$4,796.23 / \$35,000 = .137 \times$
 $100 = 13.7\%$ of my earned income goes to federal income tax

Compute to determine the percentage of your salary that is federal income tax:



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SAMPLE PAY STUB

Name: _____

Job Company Inc. 1 Industrial Drive Citytown, MA 12345		Earnings Statement		
Employee No.	Employee Name	Period Beg.	Period End	Check Date
543210	John Doe	10/25/2019	11/07/2019	11/10/2019
Earnings	Current Amount	Withholdings/Deductions		Current Amount
Regular pay	2,923.08	Federal Income Tax	571.39	
		Stae Income Tax	117.00	
		Social Security	180.00	
		Medicare/Medicaid	45.00	
		Insurance	175.00	
		Retirement Savings Plan	200.00	
		Charity	25.00	
		Health-/Child-Care Flex Plan	75.00	
Current Amount	Current Deductions	Net Pay	Check No.	
2,923.08	1,388.39	1,534.69	2756	