

# THE BASICS OF TAXES



*Advanced Level*



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RECOMMENDED GRADE LEVELS	AVERAGE TIME TO COMPLETE	EACH LESSON PLAN IS DESIGNED AND CONTINUALLY EVALUATED "BY EDUCATORS, FOR EDUCATORS." THANK YOU TO THE FOLLOWING EDUCATORS FOR DEVELOPING COMPONENTS OF THIS LESSON PLAN.
10-12	<p><b>Anticipatory Set &amp; Facilitation:</b> 55 minutes</p> <p><b>Conclusion/Assessment Options:</b> 20-50 minutes</p> <p><i>Time does not include optional items.</i></p>	<ul style="list-style-type: none"> <li>Shelly Stanton, Business Educator, Billings, Montana</li> </ul>

NATIONAL STANDARDS	LESSON PLAN OBJECTIVES
<p>The curriculum is aligned to the following national standards:</p> <ul style="list-style-type: none"> <li>National Standards for Financial Literacy</li> <li>American Association of Family and Consumer Sciences</li> <li>Council for Economic Education</li> <li>National Business Education</li> <li>National Jump\$tart Coalition</li> <li>Common Core English Language Arts</li> </ul>	<p>Upon completion of this lesson, participants will be able to:</p> <ul style="list-style-type: none"> <li>Identify the purpose of taxes</li> <li>Differentiate between the types of taxes</li> </ul>

MATERIALS		
MATERIALS PROVIDED IN THIS LESSON PLAN	MATERIALS SPECIFIC TO THIS LESSON PLAN BUT AVAILABLE AS A SEPARATE DOWNLOAD	MATERIALS TO ACQUIRE SEPARATELY DEPENDING ON OPTIONS TAUGHT
<ul style="list-style-type: none"> <li>The Basics of Taxes Scavenger Hunt 2.2.2.A1</li> <li>The Basics of Taxes 2.2.2.A2</li> <li>What do your peers know about taxes? 2.2.2.A3</li> <li>Taxes Foldable Rubric 2.2.2.B1</li> <li>The Basics of Taxes Vocabulary List 2.2.2.E1</li> <li>The Basics of Taxes QR Codes 2.2.2.E2</li> <li>Test Your Tax Knowledge! 2.2.2.E3</li> <li>The Basics of Taxes Information Sheet 2.2.2.F1</li> <li>The Basics of Taxes Note Taking Guide 2.2.2.L1</li> </ul>	<ul style="list-style-type: none"> <li>The Basics of Taxes Answer Key 2.2.2.C1</li> <li>The Basics of Taxes PowerPoint Presentation 2.2.2.G1</li> <li>Managing Your Money Unit Multiple Choice Test Bank and Answer Key 2.2.0.M1 &amp; C1</li> </ul>	<ul style="list-style-type: none"> <li>QR Code Reader</li> <li>Magazines</li> <li>Cameras</li> <li>Markers, colored pencils, and/or crayons</li> <li>Colored paper</li> <li>Stapler</li> <li>Large pieces of paper (1 per every 2-5 participants)</li> <li>Computer and/or Internet access</li> <li>Chairs</li> </ul>

**RESOURCES**

**EXTERNAL RESOURCES**

**External resources referenced in this lesson plan:**

- Google Maps: <http://maps.google.com>
- Google Earth: <http://earth.google.com>
- Bankrate state tax rates: [www.bankrate.com/finance/taxes/check-taxes-in-your-state.aspx](http://www.bankrate.com/finance/taxes/check-taxes-in-your-state.aspx)
- IRS Understanding Taxes Student website: [www.irs.gov/app/understandingTaxes/student/index.jsp](http://www.irs.gov/app/understandingTaxes/student/index.jsp)
- Consumer Jungle student-oriented website: [www.consumerjungle.org](http://www.consumerjungle.org)

**TAKE CHARGE TODAY RESOURCES**

**Similar lesson plan at a different level:**

- None available

**Optional lesson plan resources:**

- Foldables Active Learning Tool 3.0.26
- True or False Active Learning Tool 3.0.12
- Technology Integration Options Active Learning Tool 3.0.50
- Tablet Applications for the Personal Finance Classroom Active Learning Tool 3.0.52

**CONTENT**

**EDUCATOR MATERIALS**

- Materials to support educators when preparing to teach this lesson plan are available on the Take Charge Today website.

**PARTICIPANT READING**

- The Basics of Taxes Information Sheet 2.2.2.F1

**LESSON FACILITATION**

**PREPARE**

*Visual indicators to help prepare the lesson*

**INSTRUCT**

*Instructions to conduct the lesson facilitation*

**CUSTOMIZE**

*Potential modifications to lesson facilitation*

**VOCABULARY ACTIVITY**

**Vocabulary Scavenger Hunt**

Approximate time: 5 minutes prior to instruction and 30 minutes at the end of instruction

Materials to prepare:

- *The Basics of Taxes QR Codes 2.2.2.E2*
- QR code reader (on a smartphone or tablet) per participant
- *The Basics of Taxes Scavenger Hunt 2.2.2.A1* per participant

**Before instruction:**

1. Print each QR code and hang it around the room. Do not hang the terms. They are provided as an answer key for the instructor.
2. Give each participant a *The Basics of Taxes Scavenger Hunt 2.2.2.A1*
3. Have participants use a QR code reader to scan the QR codes and identify the terms.
4. Then, have participants match the terms and definitions on their *The Basics of Taxes Scavenger Hunt 2.2.2.A1*.
5. As a class, discuss the correct answers.

**After instruction:**





If QR code readers are not available, have participants use the *Basics of Taxes Information Sheet 2.2.2.F1* to complete the activity.



<ol style="list-style-type: none"> <li>6. Divide participants into teams of 2-4.</li> <li>7. Tell participants that they will be continuing their vocabulary scavenger hunt by working as a group to find objects or pictures that represent at least five words on the vocabulary list.</li> <li>8. The scavenger hunt can be conducted in a variety of ways:             <ol style="list-style-type: none"> <li>a. Provide participants with magazines, computers, or other materials where they can search for pictures</li> <li>b. Provide participants with cameras (or ask them to use their camera phones or tablets) and allow them to search the classroom or school to take pictures of items that represent each word</li> <li>c. Allow multiple days or time outside of class to complete the scavenger hunt and allow participants to search outside of class and school for items and pictures.</li> </ol> </li> <li>9. Have participants turn in their pictures/objects for each word when the scavenger hunt is complete.</li> </ol>	<p>Extend the scavenger hunt by having participants showcase their findings via a display and share their display.</p>
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<p><b>ANTICIPATORY SET OPTIONS</b> There are two anticipatory set options provided for this lesson.</p> <ol style="list-style-type: none"> <li>1. Option 1: Virtual Tour</li> <li>2. Option 2: Map</li> </ol>	
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<p style="text-align: center;"><b><u>Option 1: Virtual Tour</u></b></p>  <p><u>Approximate time:</u> 10 minutes <u>Materials to provide:</u></p> <ul style="list-style-type: none"> <li>▪ Computer with Google Maps pulled up in Satellite mode</li> </ul> <ol style="list-style-type: none"> <li>1. Take participants on a virtual tour of your local community to identify public services and facilities provided through tax dollars.</li> <li>2. Google Maps is the recommend website to use for the virtual tour. There are two modes for Google Maps: Map and Satellite. Choose the Satellite mode to see pictures.</li> <li>3. Conduct the tour and instruct participants to write down everything they see that is paid for with taxes.             <ol style="list-style-type: none"> <li>a. Try to take participants past multiple services such as a library, police station and fire department.</li> </ol> </li> <li>4. At the end of the tour, ask participants to share what items they recorded during the tour. Fill in any gaps of items participants may not have recorded or may not have realized are paid for by taxes.</li> <li>5. Some items could include:             <ol style="list-style-type: none"> <li>a. Roads, sidewalks, stop lights, road signs, schools, post offices, fire stations, etc.</li> </ol> </li> <li>6. Discuss the significance of the tour. Possible discussion questions include:             <ol style="list-style-type: none"> <li>a. What would your week be like without any of the items recorded during the tour?</li> <li>b. What could happen if there were not public schools?</li> <li>c. What would transportation be like without road signs?</li> </ol> </li> </ol>	 <p>A Google Earth app is available for tablets and smartphones.</p> <p>Take participants on a walking tour of your community to identify items provided by tax dollars.</p> <p>If conducting facilitation option 2, the virtual tour works well during the activity on slide 6.</p>
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 <p style="text-align: center;"><b><u>Option 2: Map</u></b></p> <p><u>Approximate time:</u> 10 minutes <u>Materials to prepare:</u></p>	
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- Piece of paper per participant
  - Markers, colored pencils, and/or crayons
1. Provide each participant with a piece of paper and a writing utensil.
  2. Instruct participants to draw a detailed map of how they got to school this morning. The map should include the mode of transportation used, any major landmarks that were passed along the way, and any other items, services, or people that helped them get to school.
  3. When the maps are complete, ask participants to make a list of the items they used or encountered that were paid for by tax dollars.
  4. Have participants share some of these items. Fill in any gaps of items participants may not have recorded or may not have realized are paid for by taxes.
  5. Some items could include:
    - a. School bus, bus driver, roads, sidewalks, stop lights, road signs, cross walks, etc.
  6. Discuss the significance of their map. Possible discussion questions include:
    - a. What would your week be like without any of the items recorded?
    - b. What could happen if there were not public schools?
    - c. What would transportation be like without road signs?

If routes to school are too short then have participants draw a map from a familiar location in your community to the school.

**RECOMMENDED FACILITATION**

There are two options to facilitate this lesson.

Option 1: Foldable

Option 2: PowerPoint

**Option 1: Foldable**

Approximate time: 45 minutes

Material to prepare:



- *Foldables Active Learning Tool 3.0.26*
- 6 different colored sheets of paper per participant
- Create a sample foldable
- 1 *The Basics of Taxes Information Sheet 2.2.2.F1* per participant
- 1 *Taxes Foldable Rubric 2.2.2.B1* instruction sheet per participant

**Step 1: Create a sample foldable**

1. Create a sample foldable (a layered, color-coded, graphic organizer) to show participants. Instructions are included in the *Foldables Active Learning Tool 3.0.26*.
2. Once the foldable is created, label the “title” flap of each section with the questions indicated below. The top sheet becomes the title of the foldable. When complete your foldable should resemble the following:

What I know about taxes (or another title)
What are taxes?
What is a community?
What are the benefits of taxes?
What is federal income tax?
What is state income tax?
What is a payroll tax?

There are many other forms of foldables available for this lesson.

How do employers contribute to payroll taxes?
What is a property tax?
What is a sales tax?
What is an excise tax?
What are the two most important things to know about taxes?



**Step 2: Participants create foldables**

3. Provide each participant with six sheets of paper, preferably different colors.
4. Show participants how to create a foldable using the sample.



**Step 3: Complete the foldable**

5. Provide each participant with a *The Basics of Taxes Information Sheet 2.2.2.F1* and *Taxes Foldable Rubric 2.2.2.B1* instruction sheet.
6. Have participants label their tabs with the questions noted on the *Taxes Foldable Rubric 2.2.2.B1*.
7. Instruct participants to use the *The Basics of Taxes Information Sheet 2.2.2.F1* to complete each section of the foldable.



**Step 4: Debrief**

8. As a class, discuss each section of the foldable as a class filling in any gaps in content and answering any questions.
  - a. *The Basics of Taxes PowerPoint presentation 2.2.2.G1* may be used to guide the discussion.

**Option 2: PowerPoint**



Approximate time: 45 minutes

Material to prepare:

- 1 *The Basics of Taxes Note Taking Guide 2.2.2.L1* per participant
- *The Basics of Taxes PowerPoint presentation 2.2.2.G1*
- 1 large sheet of paper per group of 2-5



1. Pass out one *The Basics of Taxes Note Taking Guide 2.2.2.L1* to each participant.
2. Present the *The Basics of Taxes PowerPoint presentation 2.2.2.G1*

**Part 1: What are taxes?**

3. Slide 2: What are taxes?
  - a. Ask participants if they are taxpayers. Explain that they are taxpayers. They have most likely purchased an item that included a tax. If they have a job, they pay taxes on the income they earn, etc.
4. Slide 3: Community
  - a. Discuss the definition of community and explain that the United States is a community along with your state, county, and city/town. These communities are organized into governments.
5. Slide 4: What are benefits of being a part of these communities?
  - a. Ask participants to brainstorm what benefits they receive from being a part of the U.S., their state, county, and city/town.
  - b. Use the examples provided to explain that being a part of a community

Instead of using *The Basics of Taxes Note Taking Guide 2.2.2.L1* use the foldable from facilitation option 1 as the note taking guide used in conjunction with the PowerPoint.

has many benefits.

6. Slide 5: You are better off being in a community than by yourself
  - a. Discuss the curriculum principle “You are better off being in a community than by yourself.” Explain to participants that as a taxpayer in a community they receive many benefits. It would be difficult to create these benefits by yourself.
7. Slide 6: How do you benefit from taxes?
  - a. Split participants into groups of 2-5.
  - b. Provide each group with a large piece of paper.
  - c. Have each group make a list of things they use that are funded by tax dollars. Examples include:
    - i. School and all of the supplies within the school
    - ii. Teachers
    - iii. Sports facilities within a school (football field, track)
    - iv. Sidewalks
    - v. Roads
    - vi. Road signs
    - vii. Stop lights
    - viii. Parks
  - d. When the list is complete, have participants determine how these items contribute to their well-being. Ask participants what they would do if they didn’t have these items.



**Part 2: Types of Taxes**

8. Slide 7: How do taxpayers pay taxes?
  - a. Ask participants to brainstorm how taxpayers pay taxes.
    - i. Taxes are paid in a variety of ways. Each will be discussed in detail.
9. Slide 8: Income tax
  - a. Discuss the definition of income tax. Stress that income tax is charged on both earned and unearned income. This includes what you earn from working for pay as well as income earned from other sources, such as interest from a savings account.
10. Slide 9: Components of income tax
  - a. Income tax includes both federal and state income tax.
11. Slide 10: Federal Income Tax
  - a. Discuss the details of federal income tax.
12. Slide 11: State Income Tax
  - a. Discuss the details of state income tax.
  - b. Ask participants if their state has state income tax. If Internet access is available have participants research if their state has state income tax and/or which states do and do not have state income tax.
13. Slide 12: Payroll Tax
  - a. Discuss the details of payroll tax.
  - b. Payroll tax is different from income tax because it is only charged on earned income.
14. Slide 13: What is Social Security?
  - a. Discuss the Social Security program that is funded by payroll tax.
15. Slide 14: What is Medicare?



If the anticipatory set was completed, have participants refer to the lists created to begin brainstorming for the activity on slide 6.

Give participants a time limit and have a “race” to see which group can list the most items paid for by tax dollars within that time.



Use a whiteboard app to complete the activity on slide 6 using tablets. Refer to the *Tablets Applications for the Personal Finance Classroom Active Learning Tool 3.0.52.*



View the taxes section of the Bankrate website for a comprehensive listing of taxes charged by state.

- a. Discuss the Medicare program that is funded by payroll tax.
- 16. Slide 15: Employers also pay Social Security and Medicare
  - a. In addition to charging individual earned incomes Social Security and Medicare taxes, employers are also required to match their employees' tax contributions.
  - b. For example, if an employee owes \$100 for Social Security and Medicare taxes, the employer will deduct this amount from the employee's paycheck. Then, the employer will pay the government a total of \$200 (\$100 for the employee's portion of the tax and \$100 for the employer's portion of the tax). Self-employed people must pay both the employee and employer Social Security and Medicare contributions on earned income.
- 17. Slide 16: What is the difference between income tax and payroll tax?
  - a. Discuss the key differences between income and payroll tax.
- 18. Slide 17: Property Tax
  - a. Discuss the details of property tax.
- 19. Slide 18: Sales Tax
  - a. Discuss the details of sales tax. Retail stores encompass any sale to the public for use or consumption. Therefore, this includes service businesses (such as restaurants), manufacturers, grocery stores, clothing stores, etc.
  - b. Ask participants if the state you live in has sales tax.
- 20. Slide 19: Excise Tax
  - a. Discuss the details of excise tax.

**Part 3: Summary**

- 21. Slide 20: How are tax rates determined?
  - a. Taxes are created by representative bodies such as city councils, county commissioners, state legislatures, and members of Congress. The representatives in these public positions are elected by voters. Taxpayers are also voters. Therefore, individually you don't have a lot of control over taxes, but as a voting group, taxpayers are able to elect public representatives who will represent the interests of the majority.
- 22. Slide 21: Taxes and Money Management
  - a. Discuss why it is important to learn about and understand taxes in conjunction with managing your money.
- 23. Slide 22: Summary
  - a. Summarize the main points of the lesson.



Have a question about taxes? Ask Jungle Bob on the Consumer Jungle website.

**CONCLUSION OPTIONS**

There are two conclusion options for this lesson.

- 1. Option 1: True or False
- 2. Option 2: Class Vote




**Option 1: True or False**

Approximate time: 20 minutes

Materials to prepare:

- *True or False Active Learning Tool 3.0.12*
  - 1 *True or False Questions for The Basics of Taxes 3.0.12.K1*
- 1 chair per participant plus 2 extra



<ol style="list-style-type: none"> <li>1. Conduct the true or false activity. Refer to the <i>True or False Active Learning Tool 3.0.12</i> for directions and materials.             <ol style="list-style-type: none"> <li>a. This activity is a competition among two teams conducting a relay race to review essential lesson plan concepts.</li> </ol> </li> </ol>	
<p style="text-align: center;"><b><u>Option 2: Class Vote</u></b></p> <p><u>Approximate time:</u> 20 minutes <u>Materials to prepare:</u></p> <ul style="list-style-type: none"> <li>▪ Optional: <i>Technology Integration Options Active Learning Tool 3.0.50</i></li> </ul> <ol style="list-style-type: none"> <li>1. The United States has decided to conduct a vote to decide whether or not to eliminate taxes. However, before the votes are cast, the President of the U.S. has asked everyone to analyze the decision by creating a list of pros and cons regarding taxes.</li> <li>2. Complete the pros and cons list either in small groups or as a class. Discuss the items on the pros and cons list.</li> <li>3. Allow everyone to vote on whether or not they would choose to keep taxes. The vote could be conducted in a variety of ways:             <ol style="list-style-type: none"> <li>a. If anonymity isn't important, simply have participants raise their hands to cast their vote.</li> <li>b. Have participants write their vote on a piece of paper and then count the votes.</li> <li>c. Use a polling or brainstorming/discussion website. Refer to the <i>Technology Integration Options Active Learning Tool 3.0.50</i> guide for specific websites.</li> </ol> </li> <li>4. Discuss the results!</li> </ol>	<div style="text-align: right;">  <p>Use a tablet or smartphone application to complete the pro and con list. Refer to the <i>Tablet Applications for the Personal Finance Classroom Active Learning Tool 3.0.52</i> guide for examples.</p> </div>
<p><b>ASSESSMENT OPTIONS</b> There are two assessment options for this lesson. Option 1: Reinforcement Worksheet Option 2: What do your peers know about taxes?</p>	
<p style="text-align: center;"><b><u>Option 1: Reinforcement Worksheet</u></b></p> <p><u>Approximate time:</u> 20 minutes <u>Materials to prepare:</u></p> <ul style="list-style-type: none"> <li>▪ <i>The Basics of Taxes 2.2.2.A2</i> per participant</li> </ul> <ol style="list-style-type: none"> <li>1. Complete <i>The Basics of Taxes 2.2.2.A2</i> worksheet.</li> </ol>	
<p style="text-align: center;"><b><u>Option 2: What do your peers know about taxes?</u></b></p> <p><u>Approximate time:</u> 30 minutes in class and time outside of class to conduct quiz <u>Materials to prepare:</u></p> <ul style="list-style-type: none"> <li>▪ <i>1 What do your peers know about taxes? 2.2.2.A3</i> per participant</li> <li>▪ <i>Test Your Tax Knowledge! 2.2.2.E3</i> for a sample true or false quiz</li> </ul> <ol style="list-style-type: none"> <li>1. Complete the <i>What do your peers know about taxes? 2.2.2.A3</i>.             <ol style="list-style-type: none"> <li>a. Participants will create a true or false quiz to test their peer's knowledge about taxes. After creating and conducting the quiz participants will examine the results and answer reflection questions</li> </ol> </li> </ol>	<div style="text-align: right;">   </div>



based on those results.

2. A sample true or false quiz is provided, *Test Your Tax Knowledge! 2.2.2.E3*. To simplify the assessment, have participants use this quiz instead of creating their own.
  - a. Two copies of the same quiz are provided for easy distribution.

Have participants create a poster that answers the questions presented on the *What do your peers know about taxes?* 2.2.2.A3. Refer to the *Technology Integration Options Active Learning Tool 3.0.50* guide for online poster creators.



## The Basics of Taxes Vocabulary List

	TERM	DEFINITION
1	Community	A group of people with common interests and concern for the common good
2	Earned income	Money earned from working for pay
3	Excise tax	Taxes collected from the seller or retailer and as such often remain “hidden” in the price of a product or service, rather than being listed separately
4	Income tax	A tax on earned and unearned income
5	Payroll tax	A tax on earned income
6	Property tax	A tax on property, such as land, buildings (including homes), and automobiles
7	Sales tax	A tax on purchased goods and services
8	Taxes	A sum of money demanded by a government to support the government itself as well as specific facilities or services
9	Taxpayer	A person who pays a tax to national, state, county or municipal governments
10	Unearned income	Income received from sources other than employment

# The Basics of Taxes QR Codes

1. Community

1



2. Earned Income

2



3. Excise Tax

3



4. Income Tax

4



5. Payroll Tax

6. Property Tax

5



6



7. Sales Tax

8. Taxes

7



8



9. Taxpayer

10. Unearned Income

7



8



# The Basics of Taxes Scavenger Hunt

	Total Points Earned
25	Total Points Possible
	Percentage

Name \_\_\_\_\_

Date \_\_\_\_\_

Class \_\_\_\_\_

### Part 1: QR Codes

**Directions:** Scan the QR codes and write the terms here. (1/2 point per term)

### Part 2: Match Definitions

**Directions:** Match the terms with the definitions below. (1 point each)

	Term	Definition
1		Income received from sources other than employment
2		A tax on earned income
3		A person who pays a tax to national, state, county or municipal governments
4		A group of people working together for a common good
5		A sum of money demanded by a government to support the government itself as well as specific facilities or services
6		Money earned from working for pay
7		Taxes charged on consumption items
8		A tax on items purchased in retail stores
9		A tax on earned and unearned income
10		A tax on property, such as land, buildings (including homes), and automobiles

### Part 3: Scavenger Hunt

**Directions:** Work in a small group to identify pictures or objects that represent at least five terms. (2 points each)

# Taxes Foldable Rubric

	Total Points Earned
15	Total Points Possible
	Percentage

Name \_\_\_\_\_

Date \_\_\_\_\_

Class \_\_\_\_\_

**Directions:**

1. Create a foldable as directed by your instructor.
2. Label the title flap of each section as follows:

What I know about taxes (or another title)
What are taxes?
What is a community?
What are the benefits of taxes?
What is federal income tax?
What is state income tax?
What is a payroll tax?
How do employers contribute to payroll taxes?
What is a property tax?
What is a sales tax?
What is an excise tax?
What are the two most important things to know about taxes?

3. Use the *The Basics of Taxes Information Sheet 2.2.2.F1* to complete each section of the foldable. Each section of the foldable should include the following information:
  - a. Answer the question on the title of the tab
  - b. Add the definition of any words in bold from that section of the reading
  - c. Add at least one other piece of information pertinent to the question presented
4. Your work will be evaluated with the following rubric:

	Exemplary	Satisfactory	Unsatisfactory	No Performance	Score
<b>For each tab</b>	9-7	6-4	3-1	0	
<ul style="list-style-type: none"> <li>▪ Questions are thoroughly answered</li> <li>▪ All key words and definitions are included</li> <li>▪ One extra piece of information is included</li> </ul>					
<b>Quality of Presentation Materials</b>	6-5	4-3	2-1	0	
<ul style="list-style-type: none"> <li>▪ Easy to understand</li> <li>▪ Accurate</li> <li>▪ Well-organized</li> </ul>					
<b>Total Points Earned</b>					
<b>Total Points Available</b>					<b>15</b>
<b>Percentage</b>					



# The Basics of Taxes Note Taking Guide

	Total Points Earned
	Total Points Possible
	Percentage

Name \_\_\_\_\_

Date \_\_\_\_\_

Class \_\_\_\_\_

**Directions:** Use the prompts provided to help you take notes during the lesson.

## What are taxes?

What are **taxes**?



Taxes are paid by taxpayers. Who are **taxpayers**?

## How do you benefit from the taxes you pay?

The answer is based in the principle "You are better off being in a community than by yourself."

What is a **community**?



Communities may include:



What are benefits of being a part of these communities?

Taxes are a way that members of a community provide for one another by helping fund the creation of roads, public schools, police and fire departments, military for national security, and much more.

## How do taxpayers pay taxes?

<i>Tax is determined by?</i>	<i>Paid by whom?</i>	<i>Helps fund?</i>
<b>Income tax</b> is a tax on earned and unearned income.		
1. What is <b>earned income</b> ? Provide an example.	2. What is <b>unearned income</b> ? Provide an example.	
Income tax is divided into federal income tax and state income tax.		
Federal Income Tax		
3.	Majority of people living in the U.S.	4.
State Income Tax		
5.	6.	Varies by state but examples include state highways and the operations of the state government
<b>Payroll tax</b> – A tax on earned income that supports the Social Security and Medicare programs (also known as FICA)		
7.	8.	The Social Security and Medicare programs 9. What is Social Security?  10. What is Medicare?

<i>Tax is determined by?</i>	<i>Paid by whom?</i>	<i>Helps fund?</i>
<b>11. What is <i>property tax</i>?</b>		
12.	Property owners The fee to license a car is a property tax	13.
<b>14. What is <i>sales tax</i>?</b>		
15.	16.	Expenses of state and local governments
<b>17. What is <i>excise tax</i>?</b>		
18.	Anyone who purchases certain items that are charged an excise tax Excise taxes charged vary by location	Expenses of state and local governments

How are tax rates determined?

Why is understanding taxes an important part of money management?



12. What is the Social Security program?

13. What is the Medicare program?

14. If an employee owes \$250 for payroll taxes, how much will the employer need to pay for payroll taxes?

15. What is one difference between income and payroll tax? (2 points)

16. What are two pieces of property besides an automobile that property taxes may be paid on? (2 points)

17. What is one difference between sales tax and excise tax? (2 points)

# What do your peers know about taxes?

	Total Points Earned
20	Total Points Possible
	Percentage

Name \_\_\_\_\_

Date \_\_\_\_\_

Class \_\_\_\_\_

**Directions:**

1. Create a true or false quiz to test your peer’s knowledge about taxes. (5 points for completion)
  - o Your quiz should include at least five questions relating to the concept of taxes.
2. Give this quiz to at least five of your peers who aren’t studying this course. (5 points for completion)

**After conducting your quiz, examine the results and answer the questions below:**

1. What did your peers understand about taxes? Give at least one example. (2 points)
  
  
  
  
  
  
  
  
  
  
2. What misconceptions did your peers have about taxes? Give at least one example. (2 points)
  
  
  
  
  
  
  
  
  
  
3. If you were teaching those who took your quiz, what would be the most important thing you would want them to know? (1 point)
  
  
  
  
  
  
  
  
  
  
4. In general, what are the five most important things you would want all of your peers to know about taxes? (5 points)

## Test Your Tax Knowledge!

**Directions:** Read the following questions and determine if they are true or false by circling your answer.

- |      |       |   |
|------|-------|---|
| True | False | 1. Every person living in the United States pays taxes.                                 |
| True | False | 2. Taxes only provide benefits to a select group of people living in the United States. |
| True | False | 3. People only pay taxes on the amount of money they make.                              |
| True | False | 4. The fee paid to license an automobile is a form of tax.                              |
| True | False | 5. Taxes are one of the largest expenses for many people.                               |

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# The Basics of Taxes

## Advanced Level

Ben Franklin once said, “But in the world nothing can be said to be certain except death and taxes.” **Taxes** are a sum of money that a government mandates that its citizens pay in order to support the government itself and all of its services. You are considered a **taxpayer in the United States if you live here and** pay taxes to national, state, county or municipal (city/town) governments.

*Taxpayers are voters!*

*So, how do you benefit from the taxes you pay?*

The answer is based in the principle that you are better off being a member of a community than by yourself. A **community** is a group of people with common interests and concern for the common good. The United States, along with your state, county, and city/town are all communities. Taxes provide the means for a community to fund the creation of roads, public schools, libraries, police and fire departments, military for national security, government benefit programs, recreation (such as parks and trails), and much more. Without taxes, it would be difficult for you to individually produce or purchase many of the benefits that come to you as a member of a community. Chances are that you have already benefited from taxes in some way today.

What are three ways you have benefited from taxes today?

- 1.
- 2.
- 3.



Taxes are charged in a variety of ways. Types of taxes include: income tax, payroll tax, property tax, sales tax, and excise tax.



## Income Tax

**Income tax** is a tax on earned and unearned income. **Earned income** is money earned from working for pay. Wages and salaries earned from employment are examples of earned income. **Unearned income** is income received from sources other than employment. Interest earned from a savings account or investment is an example of unearned income. Income taxes are charged by the federal government and most state governments, as well as some local governments.

### Federal Income Tax

Most income earned by people in the U.S. is subject to federal income tax. However, the amount of federal income tax you pay depends on the amount of income you earn. The higher your income, the more federal income tax you pay.

Federal income tax helps fund programs sponsored by the federal government, including the operations of the three federal government branches (executive, legislative, and judicial). National defense, the federal court system, food safety regulation, air traffic control, highway construction, and an array of programs that assist residents in times of need are just a few examples of federally funded government programs made possible by the collection of federal income taxes.

### State Income Tax

Individual states have the option to charge their citizens a state income tax. Some states do not have a state income tax. Just as with federal income tax, state income tax is determined by the amount of your earned and unearned income.

Specific uses for state income tax vary per state. Many states spend the majority of their state income tax revenue on education and health care, but there are many other important uses for this money, such as the development of state highways as well as fund the operations of the state government.

## Payroll Tax

**A payroll tax** is a tax on earned income. This tax deduction from your paycheck supports both the Social Security and Medicare programs, dictated by the Federal Insurance Contributions Act (FICA). Therefore, these taxes are sometimes referred to as the FICA tax. Both taxes charge a set percentage of a person's earned income.

Payroll taxes are automatically deducted from your paycheck. However, if you are self-employed you are responsible for paying for your tax contributions toward these two programs.

### Social Security

The Social Security payroll tax helps fund the Social Security program. Social Security is a federal government program that helps citizens fund retirement, as well as helps people who have a profound disability, are under the age of 18 and experience the premature death of a parent, or the death of a spouse in a family with minor children. Your tax contribution toward Social Security is 6.2% of your earned income. The cumulative maximum amount of this tax contribution from your paycheck varies from year to year.

### Medicare

The Medicare program is federally funded through a Medicare payroll tax. The program's main purpose is to help pay for health care for senior citizens in the U.S. A person's tax liability is 1.45% of their earned income and there is no annual limit.

Have you received a paycheck? If so, how much did you pay in income tax? How much did you pay in payroll tax?



In addition to deducting Social Security and Medicare taxes from an individual's earned income, employers are required to match their employees' tax contributions. For example, if an employee owes \$100 for Social Security and Medicare taxes, the employer will deduct this amount from the employee's paycheck. Then, the employer will pay the government a total of \$200 (\$100 for the employee's portion of the tax and \$100 for the employer's portion of the tax). Self-employed people must pay both the employee and employer Social Security and Medicare contributions.



The differences between income tax and payroll tax are summarized in the table below:

Income Tax	Payroll Tax
Paid on both earned and unearned income	Paid on only earned income
Amount paid depends on many different factors but increases as income increases	A set percentage of earned income is paid
Funds many different operations and programs of the federal government	Funds the Social Security and Medicare programs

## Property Tax

A **property tax** is a tax on property, such as land, buildings (including homes), and motor vehicles (automobiles, boats, etc.). The fee paid to license an automobile is a property tax. Owners of homes, land, and buildings receive a property tax bill. Most property taxes are paid annually.

Property taxes are charged by state and/or local governments to pay for local schools and other expenses. Because of this, property taxes vary by location.


The fee paid to license a car is the property tax.

## Sales Tax

Some states fund their state government programs with sales taxes. A **sales tax** is a tax on purchased goods and services. Most states charge a sales tax for purchases made in "brick and mortar" retail stores. However, some states are beginning to collect a sales tax for items purchased through an online retailer (Amazon, Gap, Barnes and Noble, etc.). Taxable goods and services vary by state and even by city and county. State and local governments have the ability to determine what goods and services are charged a sales tax. Some states charge a tax on all goods and services while others will exempt items such as food purchases. And, some states choose not to charge a sales tax because they fund state and local services from other types of taxes.

State and local governments determine the amount of sales tax charged. Sales tax is typically a percentage of your total purchase and is added to the original price of an item. For example, if you want to purchase a \$1.00 item in a state that has a 6% sales tax, you will pay \$1.06 for that item. The \$0.06 sales tax charge is added to the item at purchase, and the store owner passes the collected tax to the government.

Does your state have a sales tax? If so, do you know what items are taxed and at what percentage they are taxed?



## Excise Tax

**Excise taxes** are taxes collected from the seller or retailer and as such often remain “hidden” in the price of a product or service, rather than being listed separately. Items that are charged excise taxes vary depending on the state and local area, but may include:

- Gasoline
- Hotel rooms
- Alcohol
- Cigarettes
- Airline tickets

Depending upon the item, an excise tax may have a different label, such as a resort tax.

Excise tax is often included within the price of an item, such as gasoline. Some items may be charged both a sales tax and an excise tax.

Have you ever purchased an item that included an excise tax?



### Summary

Taxes are an important part of our society. Without them, we would have difficulty paying for many of the benefits enjoyed by being a member of a community. Taxes are charged in many different forms. The amount of taxes you pay and what you pay those taxes on varies depending upon your income and where you live. Taxes are created by representative bodies such as city councils, county commissioners, state legislatures, and members of Congress. Voters, who in most cases are also taxpayers, elect the representatives in these public positions. Therefore, individually you don't have a lot of control over taxes, but as a voting group, taxpayers are able to influence the tax policies set by elected public representatives.

What actions could you take as a taxpayer and voter to change the amount of taxes paid?



Understanding taxes is an important part of money management. Taxes play a role in both earning and spending money. In addition, taxes can be a large component of your Spending Plan.  
Make sure to consider taxes when managing your money.