STANDARD 2 TAXES - LESSON 2.1

Somebody Has to Pay

Overview

This lesson focuses on the different types of taxes paid and the services they provide.

Lesson Objectives

Students will be able to:

- Differentiate between "ability to pay" and benefits received" tax theories.
- Explain the differences between progressive and regressive taxes.
- Describe the role of public goods and services.

Lesson Procedures

1. Have students read Lesson 2.1. Use the Introduction scenario to acquaint them with basic concepts of the lesson. Have students respond to the questions to initiate class discussion.
2. Ask students what three levels of government rely on taxes and what the overall goal of the tax policy is in the United States.
3. Explain that taxation policies are based on two theories: the ability to pay and the benefits received. Ask students to explain both tax theories in their own words.
4. Explain the differences between a progressive and regressive tax. Have them give an example of a regressive tax. Ask students what products they have purchased that included a sales tax. (Bring a copy of a sales receipt showing the sales tax for your area.) Ask students to identify reasons that some people think the sales tax is an unfair tax.
5. Have students discuss the purpose of public goods and services. Introduce the concept of free rider, and ask students identify examples of free riders.
6. Have students complete Activity 2.1. Debrief the activity.
7. Conclude the lesson by revisiting the FINAL NOTE and why the government wants Mario to pay taxes. Ask students if their view on paying taxes has changed.
8. Use Lesson Review 2.1 to assess student learning.

PERSONAL FINANCIAL LITERACY

PASS OBJECTIVE

Objective 2.1: Identify and explain types of taxes (e.g., personal income, sales, and property taxes) and explain the reasons for taxation at the local, state, and federal levels (e.g., roads, water/sanitation services, social services, schools, and law enforcement).

"Taxation is the price which civilized communities pay for the opportunity of remaining civilized."

Albert Bushnell Hart

VOCABULARY

Ability to pay

Benefits-received principle

Free rider

Progressive tax

Regressive tax

Taxes

STANDARD 2 TAXES - LESSON 2.2

Voluntary Compliance

Overview

This lesson explains the ethical and moral reasons for paying taxes, along with the problems associated with failing to pay taxes.

Lesson Objectives

Students will be able to:

- Explain the legal and financial consequences of failing to pay taxes.
- Recognize the moral and ethical reasons for paying taxes.

Lesson Procedures

1. Have students read Lesson 2.2. Use the Introduction scenario to acquaint them with basic concepts of the lesson. Have students respond to the questions to initiate class discussion.

2. Explain that the tax system in the United States operates like an honor system, where the government relies on people to be honest when paying their taxes. Ask students how this relates to the idea of "voluntary compliance" when filing their personal income tax. Ask if they think being honest with the government when paying taxes is important. Be sure they explain their answers. (If they think it is okay to be dishonest, ask how they feel when someone is dishonest with them.)

3. Have students explain what it means to "underreport" their taxable income, and if they see that as being ethical. Also, have them explain what it means to have a "tax audit".

4. Ask students if they have ever watched their parents complete their tax return or if they have ever submitted an income tax return. Discuss the deadline and the forms needed to complete it, including the W-2, the 1040 for federal taxes, and the Oklahoma tax forms.

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PERSONAL FINANCIAL LITERACY

PASS OBJECTIVE

Objective 2.2: Explain the importance of meeting tax obligations and describe possible consequences of failing to meet those obligations (e.g., fees, penalties, interest, garnishment of wages, and imprisonment).

"Taxes are what we pay for civilized society."

Oliver Wendell Holmes, Jr

VOCABULARY

Ethics

Morals

Standard of living

Quality of life

Regressive tax

Taxes

Voluntary compliance

Voluntary Compliance

5. Explain the differences between deductions and exemptions. Ask how these relate to voluntary compliance or ethical behavior. Have them list examples of deductions and exemptions that would be allowed by the IRS.

6. Using the four reasons presented in this lesson, discuss why people pay taxes and describe the difference between standard of living and quality of life. Have students identify examples of how taxes improve both the standard of living and the quality of life in a country.

7. Explain the potential problems of making errors on your tax return, whether on purpose or accidental.

8. Have students complete Activity 2.2A and ask them to discuss their answers.

9. Have students complete Activity 2.2B and ask them to discuss their answers.

10. Conclude the lesson by revisiting the FINAL NOTE and why Ashley showed the best judgment. Remind the students that being honest on their tax returns is the best policy.

11. Use Lesson Review 2.2 to assess student learning.

Paying Your Taxes

Overview

This activity requires students to participate in a role-playing activity where taxes are physically represented with cups and beans. It helps students understand the relationship between personal income tax and personal income. It is designed to be used as part of either Lesson 2.1 or Lesson 2.2.

Materials

- Dry Beans
- Three Cups per student
- Markers to write on cups
- Stopwatch/alarm (Optional)

Procedures

1. Hand out three cups and 10 beans per student.
2. Have each student label their cups. One cup should read *STATE*; one cup should read *FEDERAL*; one cup should read *INCOME.*
3. Have students place all 10 beans in their *INCOME* cup and have them choose between withholding 0 beans, 1 bean, 2 beans, or 3 beans for both state and federal tax. They should write their choice (number chosen) on the state and federal cups. These numbers can be different.
4. Stop periodically during the lesson and tell students it is time to "withhold" beans. This means they have to place the amount of beans they chose to withhold in their *STATE* and *FEDERAL* cups.
5. Also, stop periodically throughout the lesson and deposit 3 additional beans into each student's *INCOME* cup.
6. At least once during the class period, give every student 2 "interest" beans if they have a minimum of 10 beans in their *INCOME* cup.
7. At the end of the class, tell them that it is Tax Day and the Federal government will collect their taxes. Everyone has to pay 5 beans. If they don't have enough in their *FEDERAL* cup, they have to use the beans from their *INCOME* cup to reach 5.
8. Repeat this step with their *STATE* cup.
9. If they have more than 5 beans in their *FEDERAL* or *STATE* cup, have them transfer the additional beans to their *INCOME* cup. Remind them that overpaying their taxes during the year allowed the government to use their money without paying them any interest.

   NOTE: You may want to have students trade in their *INCOME* beans for candy, stickers, or other tangible items at the end of class.

Completing Your Tax Forms

Overview

This activity reinforces the content in Standard 2 by providing students with the opportunity to use the appropriate IRS forms to complete a 1040EZ. It can be used to extend the lessons in Standard 2.

Materials

- W-4 Form (one per student or group)
- 1040EZ Form (one per student or group)
- 1040 EZ Tax Tables (one per student or group)
- W-2 Form (filled out) (one per student or group)
- 1099-INT (filled out) (one per student or group)

Procedures

1. Go to IRS.gov and print off the current W-4 and 1040EZ Forms and 1040EZ Tax Tables. Make one copy for each student (or place students in small groups and print one copy per group).
2. Distribute to each student a completed W-2 Form and discuss the information on the form.
3. Distribute to each student a completed 1099-INT and discuss the information on the form.
4. Distribute to each student a 1040EZ form and the 1040EZ Tax Tables. Use the completed W-2 Form and 1040EZ Tab Tables to fill out the 1040EZ.
5. Distribute W- 4 Forms and have students complete the form using one of the scenarios below. Remind students that most employers will require employees to fill out a W-4 before they start to work.

    Scenario 1 – Prepare a 1040EZ for Joseph R. Lemont. He is 17 years old, single, and works at Sammy's Burger House. He is claimed as a dependent on his parents' return. He does not want to contribute to the Presidential Election Campaign Fund. His W-2 Form shows $55.00 withheld for federal income tax, $2,400 earned for wages, and $183.60 withheld for social security tax. Joseph's address is 16 S. Park Avenue, Cincinnati, OH 45203. His Social Security number is 0012-34-5678.

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Completing Your Tax Forms

Scenario 2 – Prepare a 1040EZ for Andrea K. Rogers. She is 19 years old, single, and works at Penny's Nail Parlor. She is not claimed as a dependent on his parents' return. She wants to contribute to the presidential fund. She earned $6,291.41 last year. She received $42.30 in interest from her savings account. She has $904.35 withheld from her pay for federal income tax last year. Andrea's address is 2441 S. 86th Street, Calulu, OK. Her Social Security number is 330-45-7878.

Scenario 3 – Using your name, address, and a Social Security number (use a fake number, not your real one) to complete a 1040EZ using the following figures: Wages of $12,648.00, tips of $943.00, and $83.00 in interest income. You are not a dependent on your parents' return and you work at one job. Federal income tax in the amount of $1,248 was withheld.

6. Debrief the activity with the students.

Definitions:

W-4: Tax withholding form that tell employer amount of tax to withhold based on employees marital status, number of exemptions, dependents and other factors. *Tell students they will fill this form out with each new job they get.*

1040EZ: Tax form used to file taxes annually for those making less than $100,000 and do not have dependents and are single or married but filing jointly.

W2: Form that an employer must send to an employee and the IRS following the end of a year (Jan – Dec). The W2 reports the annual wages and amount of taxes withheld from their paycheck. This form is used for individuals to file taxes.

1099: Tax form that reports non-employee earnings (such as contract work, insurance proceeds, rent income from owned property and other miscellaneous income).

Extending the Lessons

Use the quotes in the lessons as an introduction or review of the lessons. Other potential quotes include:

"The power of taxing people and their property is essential to the very existence of government."
— James Madison, U.S. President

"No government can exist without taxation. This money must necessarily be levied on the people; and the grand art consists of levying so as not to oppress." — Frederick the Great, 18th Century Prussian King

Have students research and compare the different sales tax rates paid in communities in their area or across the state.

Have students identify a state or city where they would like to live and explore the state and local taxes in that area.

Resources

Lessons:

Understanding Taxes Lessons and Videos https://apps.irs.gov/app/understandingTaxes/

Math and Taxes https://www.treasurydirect.gov/indiv/tools/tools_moneymathtaxes.pdf

It Just Adds Up Lesson 24: Taxes Provide Goods and Services www.econisok.org

Free lesson plans at http://www.econedlink.org/

Free lesson plans and other resources at http://moneyisok.com/standards/standard-2-taxes/

Videos/Online Resources:

Understanding Taxes Lessons and Videos https://apps.irs.gov/app/understandingTaxes/

Intro to the W-4: https://www.bettermoneyhabits.com/work-and-income/understanding-pay-and-benefits/how-to-fill-out-w4.html

Teaching Tools:

Internal Revenue Service http://www.irs.gov

General personal finance resources available at:

- www.federalreserveeducation.org
- www.mymoney.gov

MoneyIsOk.org
Tools for implementing Oklahoma's Financial Literacy Standards