

UNIT 14 – TAXES (7 Days)

Governments provide a means to obtain goods and services that the marketplace operating without government would not provide. In order to provide goods and services, governments tax their citizens. Students need to understand their tax obligations and how income, sales, personal property, real property, and estate taxes affect them, as well as the deductions and credits available to them.

EPF.16 The student will demonstrate knowledge of taxes by

a) describing the types and purposes of local, state, and federal taxes and the way each is levied and used.

(BUS6120.089)

Day 1 Why should citizens pay taxes – what’s in it for us?

EPF.15 The student will demonstrate knowledge of income earning and reporting by

c) calculating net pay

e) completing a standard W-4 form

(BUS6120.088)

EPF.16 The student will demonstrate knowledge of taxes by

e) explaining the content and purpose of a standard W-2 form.

(BUS6120.093)

Day 1 Gross pay, withholding, and net pay

EPF.16 The student will demonstrate knowledge of taxes by

d) examining potential tax deductions and credits on a tax return.

(BUS6120.092)

Day 1 Tax deductions and tax credits

Day 2 Completing a 1040 EZ and determining your tax bracket and average tax rate

EPF.16 The student will demonstrate knowledge of taxes by

c) computing local taxes on products and services.

(BUS6120.091)

Day 1 Computing local taxes

EPF.16 The student will demonstrate knowledge of taxes by

f) explaining the similarities and differences between state and federal taxation of inheritances.

(BUS6120.094)

Day 1 Inheritance and estate taxes - what’s the difference?

Evaluation Day

Day 1 - Why should citizens pay taxes – what’s in it for us?

Content Knowledge

Political rhetoric can obscure the fact that without taxes, many essential government functions cannot operate. At this juncture it is useful to remind students of what they learned in Unit 7 about the role of government in a market economy, and reinforce that learning with concrete examples from local, state, and national government.

Teaching Tips

- 1) The teacher may want to review the material from Unit 7 in preparation for this day’s lesson.
- 2) Have the students brainstorm local, state, and national functions of government and what is needed to accomplish those functions. For example, local police protection requires squad cars, gas, mechanical services, employment of officers, desks, a building to house the police department, utilities for that building, employment of dispatchers, etc. At the state level, law enforcement requires laboratories, employment of forensic experts and laboratory personnel, buildings in which to carry out those functions, employment of state troopers to be able to pursue criminals beyond the limits of the local jurisdiction, cars for them, etc. At the national level, the FBI enables the pursuit of criminals across state lines, and it requires many of the same kinds of items and employees. The same could be done for education, courts, etc.

The teacher may want to distribute a schema in which students can note particulars needed at each of the local, state, and national level for any of a variety of government functions.

- 3) Ask: Which of these functions can be fulfilled by private enterprises? Why will some of these functions not be fulfilled in the absence of funding to the government? Review the role of incentives. Ask: What is the primary incentive in a market system? (*Profit.*) Can private enterprises profitably fulfill all of the functions that we ordinarily ask government to fulfill? (*Private entities can fulfill some of the functions – for example, private schools – but not all of them. Private schools provide education for the children of people with middle and upper incomes, but not the level of education that we find desirable for society as a whole including lower income families. Private roads and airports are possible in some cases, but the great expense of construction and maintenance in most cases of long distance roads and large airports can’t practically be recaptured in fees charged to those using the roads and airports. National defense can only be provided through government, because there is no workable way for private enterprises to extract payment from people who are benefited but who would not voluntarily pay.*) Because many of these functions can’t profitably be performed by private enterprises, we seek fulfillment of many functions from government. For government to be able to fulfill these functions, citizens must pay taxes.

4) The teacher may wish to use one of the activities from the first three lessons below, which are directed at demonstrating the concept of public goods. The fourth lesson includes a game that students can use as a review of the types of taxes and where the revenue is used.

Lessons and Resources

Economics in Action Lesson 5: The Role of Government in a Market Economy

Focus: High School Economics Lesson 11: Public Goods and Services

Old McDonald to Uncle Sam: Lesson Plans from Writers Around the World Lesson 6: Public Goods and Services

EconEdLink Lesson: Tic Tac Taxes <https://www.econedlink.org/resources/tic-tac-taxes/>

EPF.15 The student will demonstrate knowledge of income earning and reporting by
c) calculating net pay
e) completing a standard W-4 form

Day 1 – Gross pay, withholding and net pay

Content Knowledge

It is important to understand what deductions (mandatory or voluntary) are, or may be, taken from your gross pay in order to determine your “take home pay.” By properly calculating deductions, an individual can avoid over-withholding, which results in an income tax refund, or under-withholding, which results in owing additional income taxes.

Employers are compelled by law to require their employees to complete W-4 forms. Employees use the Form W-4 to report allowances and filing status to their employer. The numbers you submit will be used by your employer to determine your withholding amounts for Federal income tax only. Social Security and Medicare are calculated as flat percentages and are not affected by your filing status. Employers use the W-2 to report annual wages paid to their employees. If you have more than one job, you will receive one W-2 per employer. The numbers in those boxes are used by your tax preparer to determine your tax liability

Vocabulary

Childcare Reimbursement – Deductions from gross pay to fund accounts to help employees pay for childcare.

Federal Insurance Contributions Act (FICA) – Deductions from gross wages or salaries to fund contributions to Social Security benefits.

Federal Withholding Tax – Deductions from gross pay for federal income tax payments.

Insurance – Deductions from gross pay for various types of insurance (health, dental, life, etc.)

Medical Reimbursement – Deductions made from gross pay to fund accounts that allow employees to use “pre-tax” dollars to pay for certain medical expenses like co-pays and pharmaceuticals.

Retirement – Deductions made from gross pay to fund employee retirement accounts.

Savings – Deductions made from gross pay to fund other savings plans, including the purchase of savings bonds.

State Withholding Tax – Deductions from gross pay for state income tax payments.

W-2 – A federal income tax document that employers complete and send to their employees and to the Internal Revenue Service at the end of a year; shows employee compensation and taxes withheld.

W-4 – A federal income tax document that instructs an employer about how much money to withhold from an employee's paycheck for tax purposes.

Virginia Board of Education Framework

EPF 15c: Gross pay is total money earned before deductions.

EPF 15e: The information provided on the W-4 form determines how much is withheld from one's gross pay.

EPF 16e: The W-2 form is issued by employers and is an end-of-year summary of one's gross taxable income and withholdings.

It is required by the Internal Revenue Service and included when individuals file their income tax returns.

Some deductions are required; some may be voluntary.

Net pay results when deductions such as the following are subtracted from gross pay:

- Federal Insurance Contributions Act (FICA) contributions
- State and federal taxes
- Insurance
- Savings
- Retirement
- Medical reimbursement (pre-tax deduction)
- Child care reimbursement (pre-tax deduction)

Teaching Tips

1) It is recommended that the teacher go through these activities in this order – W-4 (setting up withholding), the pay stub (for example, handout 2.1 from the It's Your Paycheck curriculum), and W-2 (the yearly totals). Prepare a worksheet for students to use to calculate the savings from using pre-tax dollars for medical or child care reimbursement.

2) The teacher should have W-4 forms available to distribute to the class. Guide students through the process of completing the form. Make sure they understand the purpose of the W-4 form and its effect on one's pay. Ask them to explain why the federal and state income tax systems require withholding. (*It makes tax collection much easier for governments.*)

3) Explain gross and net pay. Go through the deductions from gross pay shown on the pay stub to determine net pay. Exercise 7.1 from the Financial Fitness lesson below provides some useful charts summarizing mandatory and voluntary deductions.

4) Explain why a taxpayer would want to make voluntary payments using pre-tax dollars. Exercise 7.2 from the same Financial Fitness lesson addresses such tax saving strategies. Have students calculate the savings from using medical or childcare reimbursement funding from pre-tax dollars, using the workshop you have prepared.

5) Once students have a grasp of the deductions, provide an example of a W-2 form and work through it with the students.

Lessons and Resources

Financial Fitness for Life 9-12 Lesson 7: Uncle Sam Takes a Bite, exercise 7.1, What are all these deductions from my paycheck? and exercise 7.2, Tax Saving Strategies

Online

It's Your Paycheck Curriculum, Lesson 2: W is for Wages, W-4 and W-2

http://www.stlouisfed.org/education_resources/paycheck.cfm

W-2 Form

<http://www.irs.gov/pub/irs-pdf/fw2.pdf>

W-4 Form

<http://www.irs.gov/pub/irs-pdf/fw4.pdf>

EFP.16 The student will demonstrate knowledge of taxes by
e) explaining the content and purpose of a standard W-2 form.
(BUS6120.093)

Day 1 – Tax deductions and tax credits

Content Knowledge

People respond to the tax systems' incentives by making charitable contributions, buying homes, obtaining higher education, and making improvements that save energy. Responding to these incentives can make a large difference in the amount of income tax one pays.

Tax deductions are subtracted from income on a tax form, to arrive at taxable income. Tax credits are subtracted from the tax owed, directly reducing the amount of tax payable.

Virginia Board of Education Framework

A tax deduction is a reduction in one's taxable income. Some examples of tax deductions include

- local taxes paid
- student loans
- charitable contributions
- interest paid on home mortgage.

A tax credit is a reduction of the tax itself. Tax credits may result from the purchase of, for example, energy-saving vehicles and appliances

Teaching Tips

- 1) Explain the difference between tax credits and tax deductions on a tax form. Provide copies of a 1040 EZ form and a standard form 1040. Have enough tax forms and instructions that each student can read the instructions and see how the credits and deductions function.
- 2) Contrast the simplicity of the 1040 EZ form, which provides for certain tax credits but minimal deductions, with the 1040, which provides for a much wider variety of deductions as well as credits. Introduce the difference between itemizing and taking a standard deduction.
- 3) Provide copies of the state tax form and instructions. Review the credits and deductions available under Virginia law.
- 4) Ask students to speculate on why the tax codes provide these particular deductions and credits. (*To provide incentives to get more education, to donate to charity, to save energy, etc.*)

Lessons and Resources

Capstone Unit 5, Lesson 29: Can taxes be incentives?

EconEdLink Lesson: Tax Time Scavenger Hunt <https://www.econedlink.org/resources/tax-time-scavenger-hunt/>

Online

Federal forms and instructions are available at: <http://www.irs.gov/>

Virginia forms and instructions are available at: <https://www.tax.virginia.gov/forms>

EFP.16 The student will demonstrate knowledge of taxes by
d) examining potential tax deductions and credits on a tax return.
(BUS6120.092)

Day 2 – Completing a 1040EZ and determining your tax bracket and average tax rate

Content Knowledge

Completing a 1040EZ tax form will solidify students' understanding of the income taxation process, credits and deductions.

The fairness or unfairness of our federal income tax system is a subject of ongoing public discussion. Understanding one's average tax rate, and how it differs from one's top marginal tax bracket, is important information for participating as a citizen in public discussions of tax policy.

Teaching Tips

- 1) Guide the students through completing a sample 1040 EZ income tax form, based on the information provided in the W-2. Then have the students complete Exercise 7.3 on Jack's W-2 and 1040EZ from the Financial Fitness lesson below.
- 2) Explain the difference between one's top marginal tax bracket, and one's average (sometimes referred as "effective") tax rate. Exercise 7.2 from the Financial Fitness lesson below, addresses tax bracket and average tax rate. Provide a problem set for students to use to determine tax brackets and average tax rates.
- 3) The teacher may wish to locate and assign current news articles involving tax brackets and effective tax rates, such as the example provided below.

Lessons and Resources

Financial Fitness for Life 9-12 Lesson 7: Uncle Sam Takes a Bite, exercise 7.2, Tax saving strategies, and exercise 7.3, Is it better to get a tax refund, or to have fewer taxes withheld?

Preparing Your Form 1040

<https://www.econedlink.org/resources/preparing-a-1040ez-income-tax-form/>

1040 EZ forms and instructions:

<http://www.irs.gov/pub/irs-pdf/f1040ez.pdf>

Reading

Article: Big Tax Break Depends on the difference Between Being Investor and Businessman, by John Aloysius Farrell

http://www.washingtonpost.com/business/big-tax-break-depends-on-difference-between-being-investor-and-being-businessman/2012/01/04/gIQA6IPchP_story.html

EPF.16 The student will demonstrate knowledge of taxes by
c) computing local taxes on products and services.
(BUS6120.091)

Day 1 - Computing local taxes

Content Knowledge

In planning spending, students need to know that in the United States, quoted prices ordinarily do not include sales taxes, and to be able to calculate the tax depending on where the goods or services are purchased. Understanding why additional taxes are added to some items but not to other items, gives students an economic perspective on taxes. Students also need to understand that they will be responsible for real and personal property taxes, to the extent that they own such property.

Virginia Board of Education Framework

EPF 16a: Most state and local government revenue comes from sales taxes, grants from the federal government, personal income taxes, and property taxes.

EPF 16c: Sales taxes are collected on the sale of most goods and services.

A base sales tax may be established by a state, and a locality may add additional sales taxes (e.g., meals tax).

Teaching Tips

1) The teacher will want to collect information on the sales tax and real and personal property tax rates for their locality and for nearby counties, cities, and states. What is the base sales tax rate? Are there meals or lodging tax rates that apply in addition? What personal property is taxed? How are real property taxes assessed? A problem set should be prepared for students to use in calculating real and personal property taxes.

2) Provide students with information on sales taxes. Ask: What are some reasons why meals and lodging may have additional taxation? Do they fall primarily on local residents, or on people from outside the locality? *(These taxes are often enacted as a means to collect revenue from outsiders. People would rather tax others than themselves. However, as the culture has moved towards more eating out, meals taxes are increasingly affecting local residents.)*

3) Explain personal property tax and real property tax and lead students through sample calculations. Have students practice calculating these taxes using the problem set the teacher has prepared.

Lessons and Resources

Financial Fitness for Life: Grades 6-8 Theme 3: Lesson 9: What Taxes Affect You?

Portal for data on revenues and expenditures, including state and local governments
<http://datapoint.apa.virginia.gov/>

EFP.16 The student will demonstrate knowledge of taxes by

f) explaining the similarities and differences between state and federal taxation of inheritances.

(BUS6120.094)

Day 1 - Inheritance and estate taxes – what’s the difference?

Content Knowledge

While both estate and inheritance taxes refer to taxes that come into effect upon someone’s death and the distribution of their property, federal estate taxes are payable by the estate and not by the person receiving the property. In some states, inheritance taxes are owed by the person who receives property from an estate. An understanding of these taxes is important in planning one’s estate.

Vocabulary

Bequest – the process of giving stocks, bonds, or any other assets to beneficiaries through the provisions of a will.

Distribution – the bequest of assets to heirs and the settlement of estate taxes.

Estate – All of the valuable things an individual owns, such as real estate, art collections, collectibles, antiques, jewelry, investments, and life insurance.

Estate planning – The collection of preparation tasks that serve to manage an individual’s asset base in the event of their incapacitation or death, including the bequest of assets to heirs and the settlement of estate taxes. Most estate plans are set up with the help of an attorney experienced in estate law.

Inheritance – All or part of a person’s estate/assets that is given to an heir once the person is deceased.

Probate – The legal process in which a will is reviewed to determine whether it is valid and authentic. Probate also refers to the general administering of a deceased person’s will or the estate of a deceased person without a will.

Virginia Department of Education Framework

Estate planning involves decisions regarding wills, trusts, and joint tenancy and seeks to accomplish the following:

- To state how a person wants his or her estate distributed after death
- To appoint the person who should distribute the estate
- To record other information, such as one's wishes regarding care of minor children
- To avoid probate, or to reduce taxes or other costs.

Current state and federal taxes must be considered when planning an estate (e.g., estate taxes, inheritance taxes, death taxes, gift taxes, federal/state income taxes) and any deductions and exemptions that apply to such taxes.

Estates exceeding the exempt amount are taxed by the federal government. The tax applies to the decedent’s gross estate, with a large portion of the estate exempted by a tax credit.

Inheritance tax is levied on gifts and bequests received by a taxpayer. Taxes vary based on the property inherited and the relationship of the inheritor to the decedent.

Teaching Tips

- 1) The teacher will need to be sure s/he has up to date information, as the federal estate tax has been in flux recently. For 2012, estates worth five million dollars or less are exempt from federal estate tax. For larger estates, an estate tax rate of 35% applies.
- 2) Explain the difference between estate tax (paid from the funds of an estate, before it is distributed) and inheritance tax (paid from the funds inherited). Explain that some object to these taxes especially to the extent that they affect estates that have valuable real property without sufficient other assets to pay the tax, causing the heirs to have to sell the real estate in order to pay the tax.
- 3) Explain that several states have inheritance taxes, but not Virginia. However a Virginia resident inheriting property from another state could be affected.
- 4) Ask: Who should be consulted with respect to estate tax matters, or other complicated tax matters? (*A certified public accountant.*) Who should be consulted about how to leave one's property after death? (*An attorney who handles wills and estates.*)

Lessons and Resources

Financial Fitness for Life, These 2, Lesson 7 - Uncle Sam Takes a Bite.

Estate tax extension through 2012

http://dontmesswithtaxes.typepad.com/dont_mess_with_taxes/2010/12/estate-tax-extension-through-2012-nudging-mama-off-the-train-in-two-years.html

McGuire Woods State Death Tax Chart Revised Jan. 3, 2012

http://www.mcguirewoods.com/news-resources/publications/taxation/state_death_tax_chart.pdf

State laws: Estate taxes

<http://estate.findlaw.com/estate-planning/estate-planning-law/estate-planning-law-state-taxes.html>

EVALUATION DAY