

Taxation Lesson Plan

Overview

In this lesson students will be learning about income tax and why certain states have an income tax. Students will be learning about taxes from the start to finish, from filling out tax forms to calculating what percentage will be taken out of their income.

Objectives

By the end of the lesson, students will:

- Understand that the federal government collects individual federal income tax to pay for government expenditures.
- Become aware of the individual income tax, the collection procedures, filing of returns, and some of the IRS forms used.
- Calculate individual federal income tax using different rates and structures.
- Improve their knowledge of the existing tax system.

Vocabulary

- **Income Tax:** a tax levied by a government directly on income, especially an annual tax on personal income.
- **Deductible:** a cost or expense that can be subtracted from your taxable income, reducing the amount of taxes you owe to the government.
- **Gross Income:** your income before it is taxed.
- **Net Income:** the gross income minus taxes and other deductions, i.e. your take-home pay.











Standards

This listing is based on the Jump\$tart National Standards for Personal Finance. To see how this lesson aligns with other standards (including for your state), visit: <https://www.personalfinancelab.com/standards-alignment/>

Employment and Income

- Standard 2. Compare sources of personal income and compensation.
- Standard 3. Analyze factors that affect net income.

Lesson Plan Includes

	Direct Instruction		Presentations
	Class Discussion		Technology-Based Activity
	Full Class Activities		Worksheets
	Small Group Activities		Assessments
	Individual Activities		External Resources

Activity Summary

- Introduction
 - Time: 5 mins
- PFL Budget Game
 - Time: 20 mins.
- 'Tax Filing and the Form 1040'
 - Time: 10 mins.
- 'When to Hire a Tax Professional'
 - Time: 7 mins
- 'Common Tax Deductions'
 - Time: 11 mins.
- 'Payroll Best Practices'
 - Time 15 mins.
- Income Tax Activity
 - Time: 10 mins.
- Filling Out Forms
 - Time: 15 mins.
- Teacher Led Discussion
 - Time: 15 mins.

Introduction

Explain to students that today they will be learning about income tax.

Explain:

- **Income tax:** is a tax levied by a government directly on income, especially an annual tax on personal income.

Show students a blank W4 form.

Ask students:

- Do they know what the purpose of this form is?

Explain:

- The form is a W4 and it is a way for the government to track your employment history in order to tax your income.
- Not all states have income tax and tell students whether or not your state has income tax.

Independent Activities

Activities designed for students to learn independently, either in class or as homework. Some activities include presentations if you prefer to use them for direct instruction instead of independent study.

Independent Activities Include:

1. PersonalFinanceLab Budget Game.....**Time:** 20 Minutes
2. 'Tax Filing and the Form 1040' Lesson.....**Time:** 10 Minutes
3. 'When to Hire a Tax Professional' Lesson.....**Time:** 7 Minutes
4. 'Common Tax Deductions' Lesson.....**Time:** 11 Minutes
5. 'Payroll Best Practices' Lesson.....**Time:** 15 Minutes
6. Income Tax Activity.....**Time:** 10 Minutes



1. PersonalFinanceLab Budget Game

Have students complete 20 minutes of the PersonalFinanceLab.com Budget Game.

Time: 20 Minutes

Type:  Technology-Based Activity

Required Resources: PersonalFinanceLab.com site license & computer access.

 Individual Activity/Homework

 Class Discussion

Resource Links

[Budget Game - PersonalFinanceLab](#)

How to Play the Budget Game

[Tutorial Video](#)

Getting Started

1. Either as a class, or individually, students can watch the [How to Play the Budget Game](#).
2. If your students need more help, there are [Tutorial Videos](#) on every aspect of the Budget Game.
3. With every paycheck, students will have income tax deducted, which they will see on their pay stub.
4. Ask students to identify the different taxes and withholdings on their paycheck, and identify which items can potentially be refunded.

Discussion Questions

1. Which items on your pay stub could be refunded? Which are not?
2. Based on the amount of income you expect to earn in a full year of the Budget Game, would you expect a tax refund in the real world?
3. How much tax would your employer also be paying, which is not listed on your paycheck?

Key Takeaway

- Income tax is a mandatory deduction from your paycheck, which is used to fund government programs and services.
- The amount of income tax deducted from your paycheck may not necessarily result in a tax refund.
- Students should consider their expected annual income and tax deductions to determine their tax liability.








2. 'Tax Filing and the Form 1040' Lesson

Assign your students the “Tax Filing and the Form 1040” lesson on PersonalFinanceLab.com. This lesson introduces the term income tax to students and how it is used in the workplace. It covers different forms that are necessary for filing income tax and how to fill them out. They will be required to complete the quiz at the end as an assessment. If used as homework, follow up with discussion questions the next day.

Time: 10 Minutes

Required Resources: PersonalFinanceLab.com site license & computer access.

Type:  Technology-Based Activity  Presentation
 Individual Activity/Homework  Assessment
 Class Discussion

Resource Links

[Tax Filing and the Form 1040 \(personalfinancelab.com\)](https://personalfinancelab.com)

Presentation

[Tax Filing and the Form 1040 GoogleSlides Presentation](#)

Discussion Questions

1. What are the different forms involved with income tax?
2. Who pays income tax?
3. What is a tax return?
4. Do we have an income tax in our state?

Key Takeaways

- Income tax is a tax on earnings, including wages, investments, and other sources of income.
- Everyone who works in the US, including self-employed individuals and independent contractors, must file an income tax return each year.
- US citizens and residents must file an income tax return, even if they earn income in another country.
- Immigrant workers and US citizens living abroad must also file an income tax return, and may be exempt from paying taxes if they have low incomes.
- Form 1040 is the most common income tax return form, used to calculate tax owed or refund due.
- Taxpayers have 7 years to file corrections to claim missed deductions or report income.
- Most states have an income tax, with varying rates and thresholds.



3. 'When to Hire a Tax Professional' Lesson

Assign your students the “When To Hire A Tax Professional” lesson on PersonalFinanceLab.com. This lesson discusses when it is appropriate for people to file taxes themselves, and when it makes more sense to hire an accountant. There is also an additional lesson on “Tax Audits” also available as a supplement. Students will be required to complete the quiz at the end as an assessment. If used as homework, follow up with discussion questions the next day.

Time: 7 Minutes

Required Resources: PersonalFinanceLab.com site license & computer access.

Type:



Technology-Based Activity



Class Discussion



Individual Activity/Homework



Assessment

Resource Links

[When to Hire a Tax Professional \(personalfinancelab.com\)](https://www.personalfinancelab.com)

Supplemental Lesson

[Tax Audits \(personalfinancelab.com\)](https://www.personalfinancelab.com)

Discussion Questions

1. Why do taxes exist?
2. In your opinion, what are the advantages and disadvantages of hiring a tax professional?
3. The IRS holds about \$1 billion each year in unclaimed refundable tax credits. What does this mean?
4. What is a tax audit?
5. What is an auditor?
6. How are tax returns audited?
7. In your opinion, should your taxes be audited?

Key Takeaways

- There are three options for filing taxes: filing yourself, using tax preparation software, or hiring a professional accountant.
- Consider hiring a tax professional if your finances are complex or you're unsure about tax credits and deductions.
- Tax professionals can help ensure accuracy and identify potential issues, they can also assist with audits and provide ongoing financial planning.
- The IRS reviews tax returns to ensure accuracy and prevent fraudulent claims.
- Audits can be triggered by a random selection process or suspicious activity.
- Financial advisors can provide guidance on financial planning and investment decisions.
- Look for advisors with a fiduciary duty to ensure they prioritize your needs.



4. 'Common Tax Deductions' Lesson

Assign your students the “Common Tax Deductions” lesson on PersonalFinanceLab.com. This lesson discusses the most common types of tax deductions that every taxpayer should be familiar with. There is also an additional lesson on “Common Tax Additions” also available as a supplement. They will be required to complete the quiz at the end as an assessment.

Time: 11 Minutes

Required Resources: PersonalFinanceLab.com site license & computer access.

Type:  Technology-Based Activity  Assessment
 Individual Activity/Homework  Class Discussion

Resource Links

[Common Tax Deductions \(personalfinancelab.com\)](https://personalfinancelab.com)

Supplemental Lesson

[Common Tax Additions \(personalfinancelab.com\)](https://personalfinancelab.com)

Discussion Questions

1. What other items, other than your initial income from your paycheck can be taxed?
2. What is a W-2 or 1099?
3. In your opinion, should people pay taxes. If so, why? If not, why not?
4. Using examples, explain what Capital Gains is.

Key Takeaways

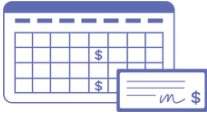
- Keep detailed records of expenses to claim deductions and credits.
- Claim the standard deduction if you don't have many expenses to deduct.
- Research and understand the eligibility requirements for each tax credit and deduction.
- Take advantage of tax credits and deductions to reduce your tax bill or increase your refund.
- There are two types of tax credits: refundable and non-refundable.
- Deductions are subtracted from your total taxable income, while tax credits are subtracted from the amount of tax you owe.

Common Tax Deductions

- Dependents and children
- Work-related expenses
- Job moving expenses
- Work equipment
- Car mileage
- Student loan interest
- Investment losses

Common Tax Credits

- Child tax credits
- Earned Income Tax Credit (EITC)
- Home ownership credits
- Education credits
- Insurance and investment credits








5. 'Payroll Best Practices' Lesson

Assign your students the “Payroll Best Practices” lesson on PersonalFinanceLab.com. This lesson breaks down the different types of taxes that are involved with people who are both employed and unemployed. They will be required to complete the quiz at the end as an assessment. If used as homework, follow up with discussion questions the next day.

Time: 15 Minutes

Required Resources: PersonalFinanceLab.com site license & computer access.

Type:  Technology-Based Activity  Presentation
 Individual Activity/Homework  Assessment
 Class Discussion

Resource Links

[Payroll Best Practices \(personalfinancelab.com\)](https://www.personalfinancelab.com)

Presentation

[Basics of Payroll Accounting GoogleSlides Presentation](#)

Discussion Questions

1. What are the reasons that people pay taxes?
2. What benefits do you get from paying taxes on your income?

Key Takeaways

- There are two types of taxes: employer taxes and employee taxes.
- **Employer taxes** are paid directly by the company, while **employee taxes** are withheld from each paycheck.
- Employer taxes include **Federal Insurance Contributions Act (FICA)** taxes, which support Social Security and Medicare, and Unemployment taxes, which fund unemployment insurance.
- FICA taxes are 6.2% for Social Security and 1.45% for Medicare, and are paid by both employers and employees.
- Unemployment taxes are 6% for Federal Unemployment Tax (FUTA) and vary by state for State Unemployment Insurance (SUI).
- The total employer tax is the sum of FICA and Unemployment taxes.
- Employee taxes, also known as withheld taxes, include FICA taxes and income taxes, which are withheld from each paycheck and remitted to the IRS.
- Employers must file Form 941 with the IRS quarterly to report income earned, pay employer FICA taxes, and remit employee income taxes withheld.



6. Income Tax Activity

In this activity, students will be learning how different taxes effect the amount of money they bring home. Students will see an example and then calculate the taxes based off of someone's income.

Time: 10 Minutes

Required Resources: Kids.gov Worksheet

Type:



Individual Activity/Homework



Worksheet



Class Discussion



External Resource

External Resource Link

[Income Tax Activity_\(kids.gov\)](https://www.kids.gov/parents/activities/learning/IncomeTaxActivity)

Discussion Questions

1. Does your state or territory have income tax?
2. What is FICA? Why do we contribute to Social Security and Medicare?

Key Takeaways

- When you work and earn income (salaries, wages, tips, etc.), your employer is required to withhold a portion of your earnings and remit it to the government as taxes.
- This includes federal income taxes, Social Security taxes, and Medicare taxes.
- The federal government's income tax withholding rates vary based on an individual's tax filing status, the number of dependents they claim, and their total income.
- To calculate net pay, you should subtract total deductions from gross wages, not just federal income taxes.
- Gross wages include all earnings before deductions, while net pay is the take-home pay after all applicable deductions have been made.
- The formula is: **Net Pay = Gross Wages - Total Deductions**

Full Class & Small Group Activities

Small Group Activities are designed for small groups of 3-4 students. These resources are best used after full-class direct instruction and activities.

Small Group Activities Include:

- 7. Filling Out Forms.....**Time: 15 Minutes**

Full Class Activities are designed for whole-class participation. These are best used along with the direct instruction portion of the lesson.

Full Class Activities Include:

- 8. Teacher Led Discussion.....**Time: 15 Minutes**



7. Filling Out Forms

In this activity, students will complete actual tax forms using their own information, preparing them for real-life situations where they will need to fill out tax forms accurately.

Time: 15 Minutes

Required Resources: Worksheet & computer access

Type:  Small Group Activity  External Resource  Worksheet

External Resource Link

[Forms, Instructions & Publications \(irs.gov\)](https://www.irs.gov/forms-instructions-and-publications)

Instructions

1. Print out tax forms.
2. Fill out an example for the class.
3. Have students fill out their own forms.
4. Have students check with a partner to see if they filled it out correctly.

Key Takeaways

- The **Internal Revenue Service (IRS)** is a government agency responsible for collecting taxes, enforcing tax laws, and providing tax assistance to individuals and businesses in the United States.
- The tax process begins with taxpayers receiving a W-2 form from their employer, which reports their annual income and taxes withheld, and then filing a tax return with the IRS to report their income, claim deductions, and pay any owed taxes.
- Taxpayers can file their tax return electronically or by mail.
- The IRS offers various forms and schedules to report different types of income, such as self-employment income, interest, and dividends, as well as deductions and credits that can reduce their tax liability.
- The IRS provides various resources and tools to help taxpayers navigate the tax process, including the IRS website, tax preparation software, and tax professionals, and also offers an appeals process for taxpayers who disagree with the IRS's determination of their tax liability or refund.



8. Teacher Led Discussion

In this activity, the teacher will be asking various questions that are more revolved around the math and numbers involved with payroll and taxation.

Time: 15 Minutes

Required Resources: notebook or paper and pens

Type:  Full Class Activity  Class Discussion

Instructions

- Ask each question and then have students write their answers on a whiteboard or sheet of paper and hold it up.
- Have one student explain how they got their answer.
 - a. If pay increases from \$9.50 to \$10 per hour and you work 8 hours a day, 5 days a week. What would your Gross Pay be for that week?
 - b. What would be the total amount if you worked for a month (4 weeks)?
 - c. If you took 30% as tax and other expenses, what would your Net Pay be for the month?
 - d. If an employer has 5 employees on payroll and each employee is paid \$9.50 per hour. How much must the employer pay per hour in total to his employees?
 - e. When the minimum wage is raised to \$10 per hour, how much must the employer now pay per hour in total to his employees?
 - f. Using your calculations, calculate the weekly cost (40 hours) that the employer would pay based on \$9.50 and \$10 per hour.
 - g. How much more would the employer have to pay when the minimum wage went from \$9.50 to \$10?
- At the end of the activity ask your students if they have any questions.

Answers

- a. \$400
- b. \$1,600
- c. \$1,120
- d. \$47.50
- e. \$50.00
- f. \$1,900 (\$9.50/h), \$2,000 (\$10/h)
- g. \$100

Conclusion

Remind students that:

- **Income tax** is a tax levied by a government directly on income, especially an annual tax on personal income.

Explain to students that the reason that we have income tax is to provide different benefits to people around the country.

Remind students whether or not there is an income tax in your state.