



MONEY SMART 2.0 LESSON GUIDE

for Grades 6-8



The National Theatre for Children

NTC Financial Literacy
K-12 Curriculum

LESSON 2 *Bread and Butter*

LESSON OVERVIEW

Following the lesson 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.

TOPIC: Introduction to Taxes

CLASS TIME: 60 minutes (excluding Expanded Information to Share activities)

LEARNING OBJECTIVES:

Students will be able to:

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

SUPPLIES:

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

PROCEDURE:

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

STUDENT HANDOUTS:

- Tax Impact
- Sample Pay Stub

TEACHER PRESENTATION SLIDES:

- Explaining Taxes
- Income and Taxes
- Tax Bracket for 2020

CRITICAL THINKING 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:

- Federal Spending activity

POST-ASSESSMENT:

- Tax Impact activity
- Progressive Tax versus Flat Tax activity

ANSWER KEY

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INSTRUCTION STEPS

WARM UP

FEDERAL SPENDING [10 MINUTES]

Post a recent statistic about the federal government's spending. For example: In the 2021 fiscal year, the U.S. federal government spent \$6.82 trillion. Ask students to write or think about how the government spent all of that money and where it came from. Log student responses and return to them after reviewing the answer below.

After students have been given the chance to share their responses, explain that: \$4 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: \$649 billion on defense, which includes such things as paying for our military, their equipment and their salaries. \$989 billion was spent on Social Security, which includes paying monthly retirement benefits to older people. \$1.44 trillion was spent on health coverage, which includes paying for health care for older people, people who cannot afford health care and people who are disabled. (Provide students with additional statistics about the 2021 budget using this resource at www.cbo.gov/system/files/2021-11/57539-MBR.pdf).

Allow students to share their reactions to this information. Return to the list of their initial answers and discuss their accuracy.

Grade Level Modifications:

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

GUIDED EXPLORATION

UNDERSTANDING IMPORTANT VOCABULARY [10 MINUTES]

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 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.

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INSTRUCTION STEPS

UNDERSTANDING IMPORTANT VOCABULARY (Continued)

- **Earned Income:** Money you get from working, including all earnings including 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 cars, 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]

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 Bracket for 2021** 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 in taxes.

Grade Level Modifications:

Beginner: Model computation using the shaded example on the **Tax Impact** handout.

Advanced: Cover up the computation model on the **Tax Impact** handout.

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INSTRUCTION STEPS

TAX IMPACT (Continued)

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 assigned job to share their salary, tax bracket, yearly income, tax payment and the percentage of tax taken out of their salary. Write this information on chart paper or on the board for student reference in the upcoming 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% 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.

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EXPANDED INFORMATION TO SHARE

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=e83ycfrAUGc

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 number 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.

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EXPANDED INFORMATION TO SHARE

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. apps.irs.gov/app/understandingTaxes/student/

ANSWER KEY FOR STUDENT HANDOUTS

Answers will vary.

Tax Impact

Name: _____

My **First** / **Second** / **Third** Job (circle one)

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.

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

EXAMPLE:

If my salary is \$35,000, then I am looking at the second row.

The tax is: \$995 plus 12% of the excess over \$9,950.

Compute to determine how much you will pay in taxes:

$$\underline{\$35,000 - \$9,950 =}$$

$$\underline{\$25,050 \times .12 =}$$

$$\underline{\$3,006 + \$995 =}$$

I will pay \$4,001 in taxes

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

$$\underline{\$35,000 - \$4,001 =}$$

I will have \$30,999 left

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

$$\underline{\$4,001/\$35,000 =}$$

$$\underline{.1143 \times 100 =}$$

11.43% of my earned income goes to federal income tax

Sample Pay Stub

Job Company Inc. 1 Industrial Drive Citytown, MA 12345		Earnings Statement		
Employee No. 54210	Employee Name John Doe	Period Beg. 10/25/2021	Period End 11/07/2021	Check Date 11/10/2021
Earnings	Current Amount	Withholdings/Deductions		Current Amount
Regular Pay	2,923.08	Federal Income Tax State Income Tax Social Security Medicare/Medicaid Insurance Retirement Savings Plan Charity Health/Child Care Flex Plan		571.39 117.00 180.00 45.00 175.00 200.00 25.00 75.00
Current Amount 2,923.08	Current Deductions 1,388.39		Net Pay 1,534.69	Check No. 2756