

LESSON 4 The Basics of Taxes

Taxes fund public services we use every day: schools, roads, parks, libraries, and more.

OBJECTIVES

Students will:

- understand that people are required to pay taxes, for which they receive government services
- identify and explain types of taxes people pay
- solve problems involving percentages

TIME

40 minutes

MATERIALS

- Pencils and paper
- What Taxes Come Out of a Paycheck? activity sheet
- Breaking Down a Paycheck family activity sheet

ADDITIONAL RESOURCES

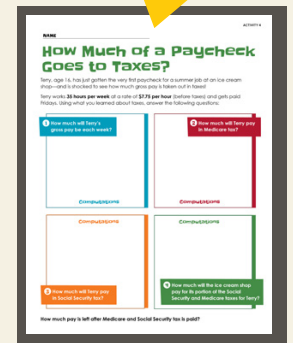
- You and Your Money (Section 2) and Monthly Family Budget Activity (Page 26), [Teens' Instructor Guide](#)
- Lessons 2 and 10, [Teens' Toolkit](#)

STANDARDS

- Common Core State Standards, Math Content 6.RP.A.3.C
- Council for Economic Education: Earning Income 11
- Jump\$tart Financial Literacy Standards: Employment and Income 3d

DIRECTIONS

1. Tell students: You pay taxes all the time, on the snacks you buy, on the clothes you wear, and at the restaurants where you eat. Ask the class to name taxes they've heard of and list them on the board. Answers might include sales taxes (like on things they buy), income taxes, property taxes, and Social Security and Medicare taxes.
2. Write the three levels of government on the board. Note that every level of government collects taxes from its citizens, and with the class's help, categorize the taxes they named in step 1 into the government levels: **federal** (income tax and Social Security and Medicare taxes), **state** (sometimes sales tax and income tax), and **local** (property tax and sometimes sales and income taxes).
3. Ask students to name some services and programs the government funds. List these on the board, then challenge students to match them to the correct level of government. For the federal government, answers might include armed forces, interstate highways, air traffic control, and Medicare and Social Security programs. State and local governments are responsible for education, police, local and state roads, elections, and waste disposal. Local government taxes may pay for recycling collection, libraries, and parks maintenance.
4. Taxes also pay for programs that help people who are retired, sick, or unable to work. For example, retirees receive monthly income from Social Security and medical care from Medicare. Another medical program, Medicaid, helps provide medical coverage for children, people with disabilities, and the elderly.
5. Discuss with students that many taxes are collected as deductions from a person's paycheck. Tell students to expect that 25 to 30 percent of their future paycheck will go toward taxes. Percentages for federal, state, and local taxes can vary depending on the taxpayer's amount of income and the state/city in which they live. Social Security and Medicare percentages are standard across all states. An employee pays 6.2% of their gross pay toward Social Security tax and 1.45% toward Medicare tax. Employers pay the same rates of these taxes as well.
6. Put the following example on the board to show students how to calculate a paycheck tax deduction. An employee is paid weekly and works 40 hours per week at a rate of \$15 an hour. Show students the calculation for gross pay as $\$15 \times 40 = \600 . Then show the following tax calculations (point out that the employer pays an equal amount of these two taxes):



(Lesson continued on next page.)



The Basics of Taxes

Social Security tax: $\$600 \times .062$ (6.2%) = \$37.20

Medicare tax: $\$600 \times .0145$ (1.45%) = \$8.70

7. Hand out the What Taxes Come Out of a Paycheck? activity sheet for students to work on as individuals or in pairs. Review answers as a class.
8. Hand out the Breaking Down a Paycheck family activity sheet. Ask students to take it home and complete it with their parents.

ANSWER KEY FOR STUDENT ACTIVITY SHEET

1. Gross pay = 35 hours \times \$7.75 = \$271.25
2. Medicare tax: $\$271.25 \times .0145$ = \$3.93 (rounded)
3. Social Security tax: $\$271.25 \times .062$ = \$16.82 (rounded)
4. Federal, state, and possibly local taxes will also come out of Terry's paycheck.

Now Try This: Terry can expect to see \$67.81 to \$81.38 taken out in total taxes. $\$271.25 \times .25$ = \$67.81 (rounded) to $\$271.25 \times .30$ = \$81.38 (rounded).

EXTENSION

Sometimes people object to certain taxes. For example, some people who don't have school-age children might object to paying local property taxes that fund neighborhood schools. Have your class debate: Should people who disagree with a specific government program have the right not to pay a portion of their taxes?

ASSESSMENT QUESTIONS

Ask your students to answer the following questions on a separate piece of paper:

1. What is the difference between gross pay and net pay?

Key points: Gross pay is the amount an employee has earned during the pay period before any deductions. Mandatory deductions like taxes and voluntary deductions such as savings plans and charitable contributions reduce gross pay to net pay, which is the amount an employee is actually paid.

2. Social Security, Medicare, and Medicaid are sometimes called "safety net programs." Why do you think they were given that name?

Key point: Programs like these help people who are in need.

NAME _____

What Taxes Come Out of a Paycheck?

Terry's first paycheck is coming—and Terry is preparing to see how many taxes will be paid out. Terry worked **35 hours per week** at a rate of **\$7.75 per hour** (before taxes). Like all workers, Terry will pay **6.2%** for Social Security and **1.45%** for Medicare. Using what you learned about taxes, answer the following questions:

1 How much will Terry's gross pay be each week?

2 How much will Terry pay in Medicare tax?

3 How much will Terry pay in Social Security tax?

4 What other taxes will be taken out of Terry's paycheck?

NOW TRY THIS: 25% to 30% of Terry's gross pay will go to taxes. What is the total amount of taxes Terry can expect to see taken out?



Breaking Down a Paycheck

Dear Parents,

Your child has been learning about deductions from gross pay, like federal and state income taxes, Social Security taxes, and Medicare taxes. In this worksheet, review together how the gross pay in a paycheck is reduced by mandatory and voluntary deductions to become net pay. (Share your own experiences!)

DIRECTIONS Review your child's pretend paycheck! Imagine your child earned \$500 in gross wages. Enter \$500 in the "Earnings" column, then make the necessary calculations to fill in the missing deductions and to find out their net pay. Repeat the exercise, this time choosing a figure for gross wages (as realistic or as big as they like!).

COMPANY				EARNINGS STATEMENT
Any Workplace, Workplace Street Address, Any City, State, USA				
EMPLOYEE NAME	EMPLOYEE ID	CHECK NO.	PAY PERIOD	PAY DATE
Name _____	112234	01234	4/29-5/4	5/8
INCOME	EARNINGS	DEDUCTIONS	CURRENT TOTAL	
SALARY PAY	\$ _____	Federal income tax @ 12%	\$ _____	
		State income tax @ 4%	\$ _____	
		Social Security tax @ 6.2%	\$ _____	
		Medicare tax @ 1.45%	\$ _____	
		401(K) Retirement Contribution	\$50.00	
				NET PAY _____

Pretend your gross wages are \$500, or dream up your own figure!

ANSWERS: Your child's pay stub may look like this (calculated for \$500 gross wages): Gross Pay—\$500.00; Federal Withholding—\$60; State Withholding—\$20 Social Security Tax—\$31; Medicare Tax—\$7.25; Retirement Contribution—\$50.00 Net Pay—\$331.75