

Taxes: The Price That People Pay for Public Benefits

LESSON DESCRIPTION (Background for the Instructor)

In this lesson, students will learn about different types of taxes that are charged to U.S. citizens to fund public benefits and activities and what the money that is collected from taxes is used for. Students will also learn about the concepts of progressive versus regressive taxes, marginal income tax rates, tax avoidance and tax evasion, and how to reduce income tax liability via the use of tax deductions and credits.

The lesson includes five activities that instructors can select from. In these activities, students will:

- ◆ Conduct a *Web Quest* to learn what the money collected from taxes in the U.S. is used for
- ◆ View and debrief a YouTube video, *The Progressive Income Tax* (describes a progressive payment system using the story of three brothers with unequal incomes who share repayment of a joint expense)
- ◆ Complete a *Tax Table Analysis Activity* worksheet with questions about federal marginal tax brackets
- ◆ View and debrief a YouTube video, *Tax Avoidance vs. Tax Evasion*, and conduct a Web Quest to learn about the stories of famous tax evaders in U.S. history and the punishment that they received
- ◆ View and debrief a YouTube video, *Tax Deductions vs. Tax Credits* and complete the *Tax Deduction and Tax Credit Case Studies* worksheet

The lesson also contains 10 assessment questions (5 multiple choice and 5 True-False), learning extensions (i.e., suggested learning activities beyond the scope of the lesson plan), and references and resources.

INTRODUCTION (Background for the Instructor)

Taxation is a key financial education concept. Taxes provide financial resources for a democratic society and social benefits such as roads, schools, public libraries, and Social Security, that U.S. citizens enjoy. The amount of taxes that people owe is based on where they live and work and their income, assets (e.g., investments), expenses, family size, and other factors. Taxes owed by Americans include the following:

- ◆ **Estate Taxes**- Taxes charged at the federal and state government level on transfers of property, based on the value a person's assets (e.g., cash, securities, real estate, life insurance), at the time of death. A generous estate tax exclusion is applied, however, so many families never actually pay estate taxes. A related type of tax is gift tax, which is a tax on transfers of property by people while they are still alive.
- ◆ **Excise Taxes**- Taxes charged on top of the sale price for certain items including gasoline and certain "sin items" (e.g., alcoholic beverages and cigarettes). The intent of the tax on the "sin items" is to both raise revenue and discourage unhealthy practices such as smoking and public drunkenness.
- ◆ **Income Taxes**- Taxes based on income and marital status (e.g., single, married couple filing jointly) and charged by federal, state, and local government using a series of escalating marginal tax brackets.
- ◆ **Payroll Taxes**- Taxes deducted directly from workers' paychecks, these taxes include FICA tax (6.2% of wages for Social Security and 1.45% of wages for Medicare) and taxes for temporary disability insurance (TDI) and state unemployment insurance (SUI) deducted by New Jersey and other states.

- ◆ **Property Taxes**- Taxes charged by local governments (i.e., cities, towns, counties) based on the market value of a home or other real estate. Some states also charge taxes on personal property such as a car.
- ◆ **Sales Taxes**- Taxes calculated as a percentage (e.g., 6%) of the price paid for goods and services and charged by state and local governments. The same percentage rate of sales tax is charged to everyone residing in a certain geographic area, regardless of income.

For most people, their tax literacy begins when they get a job. The first thing given to a new employee is a W-4 Form, which determines the amount of money deducted from a paycheck.

Federal income tax rates are set by Congress and change periodically. Many people refer to them as “tax brackets.” Technically, the correct term is *marginal* tax rate: the tax rate (%) paid on the last dollar of a person’s (or married couple’s, if filing jointly) taxable income (i.e., gross income minus adjustments, exemptions, deductions, and credits). The amount of taxes owed is based on filing status and income.

Income taxes are a *progressive tax*. This means that people have a higher marginal tax rate (e.g., 25% vs. 15%) as their income rises and the tax rate on their last dollar of taxable income increases. Estate taxes that assess a higher tax rate on higher levels of transferred wealth are another example of a progressive tax.

A *regressive tax*, like sales tax, takes a lower percentage of income as income rises. For example, two people earning \$10,000 a year and \$100,000 a year, respectively, would both owe the same \$6 on a \$100 purchase in a state with 6% sales tax. The \$6 sales tax is a smaller percentage of the high-earner’s income.

No one wants to pay more than they have to. The process of taking advantage of available strategies to reduce taxes to their lowest legal level is called *tax avoidance*. Engaging in fraudulent activities (e.g., understating income and overstating deductions) is called *tax evasion* and is a crime punishable by fines and even jail time. Some famous tax evaders in U.S. history include gangster Al Capone, actor Wesley Snipes, *Survivor* winner Richard Hatch, and singers Willie Nelson and Chuck Berry.

A *deduction* is a previously paid expense that reduces the amount of taxes owed. A person can take the *standard deduction*, which is a specific amount allowed by the tax code each year, or itemize deductions if the total of deductions is more than the standardized amount. Allowable itemized deductions on federal income tax returns include charitable donations, mortgage interest paid, state income tax, and property tax.

A *tax credit* is a dollar-for-dollar reduction of taxes owed. For example: \$1,000 tentative tax - \$500 tax credit = \$500 final tax. There are various tax credits including the Earned Income Tax Credit (for workers with a certain income and/or number of children), Child and Dependent Care Credit, Child Tax Credit (for parents of qualified children), and Saver’s Credit (for retirement savings by workers with a certain income).

The income tax savings from a tax deduction depends on a taxpayer’s marginal tax bracket. For example, in the 25% tax bracket, a \$1,000 tax deduction will lower a person’s tax liability by \$250 (25% of \$1,000). The other \$750 spent on a tax-deductible item (e.g., a donation to a charity) would be paid out-of-pocket. A \$1,000 tax credit would lower the same taxpayer’s tax bill by \$1,000 regardless of marginal tax bracket.

Taxpayers are responsible for paying their taxes throughout the year via withholding from their paycheck and/or quarterly estimated payments. Estimated taxes are due April 15, June 15, September 15, and January 15 of the following calendar year. After their first year of estimated payments, taxpayers generally receive a “coupon book” from the IRS and a state/city tax agency with payment vouchers and mailing envelopes.

OBJECTIVES

Students will be able to:

- ◆ Describe different types of taxes in the U.S. and what the money collected from taxes is used for.
- ◆ Explain the difference between a progressive and regressive tax structure.
- ◆ Demonstrate understanding of federal income tax brackets and marginal tax rates.
- ◆ Explain the difference between tax avoidance and tax evasion and legal ways to reduce income taxes.
- ◆ Apply understanding of the difference between tax credits and tax deductions to case study scenarios.

NEW JERSEY PERSONAL FINANCIAL LITERACY STANDARD

- ◆ Standard 9.1.12.F6: Explain the concept and forms of taxation and justify the use of taxation to fund public activities and initiatives.
See <http://www.state.nj.us/education/aps/cccs/career/FLFAQ.htm#gradcredit> and <http://www.state.nj.us/education/cccs/2014/career/91.pdf> for information about Standard 9.1

TIME REQUIRED

45 to 180 minutes (depending upon student progress and content depth and number of activities used)

MATERIALS

- ◆ *Web Quest: What Money Collected From Taxes is Used For* activity handout
- ◆ YouTube Video (4:59): *The Progressive Income Tax: A Tale of Three Brothers*:
https://www.youtube.com/watch?v=S6HEH23W_bM
- ◆ *Tax Table Analysis* activity handout
- ◆ YouTube Video (2:02): *Tax Avoidance vs. Tax Evasion*:
<https://www.youtube.com/watch?v=ClOenRSdPQA>
- ◆ *Web Quest: Famous U.S. Tax Evaders* activity handout
- ◆ YouTube Video (2:24): *Tax Deductions vs. Tax Credits*:
<https://www.youtube.com/watch?v=AulaBFxwgj0>
- ◆ *Tax Deduction and Tax Credit Case Studies* activity handout
- ◆ *Taxes in the United States Quiz* (ASSESSMENT)
- ◆ Optional: Downloadable tax forms (1040 E-Z, W-4 Form) from the IRS Web site: www.irs.gov.

Teachers are encouraged to use as many of the student learning activities as time permits to provide a fuller understanding of taxes. The activities can also be used for extra credit assignments, homework, or after-school activities.

PROCEDURE

1. As an introductory activity, ask students to describe different types of taxes in the United States. Encourage them to think beyond taxes that are paid with cash and consider taxes that are deducted from a person's paycheck and taxes they may have heard a parent or the media discuss.

Answers will vary. Students will probably be most familiar with sales taxes paid on purchased items and federal and state income taxes and FICA payroll tax if they have a job with a regular paycheck. Fill in the students' discussion by describing the six types of taxes listed in the Introduction. For example, excise taxes (such as those charged on gas and cigarettes) are often hidden in the price of products or services.

Then ask students to explain what the money that is collected for taxes in the U.S. is used for.

Again, answers will vary. Answers could include Social Security, Medicare, Medicaid, food stamps, highways, federal and state government agencies, state universities, public libraries, and the military.

2. **Activity 1:** Distribute the *Web Quest: What Money Collected From Taxes is Used For* activity handout. Ask students to use an Internet search engine to find information about what the money collected from taxes in the U.S. is used for. Note that they will need to report the type of tax, the level(s) of government that collect(s) the tax, and the use(s) for the tax dollars that are collected.

Answers will vary but should reflect the fact that tax payments are made by individuals for "the common good" (public benefits and activities). For example, most state and local government tax revenue (e.g., sales tax, state income tax, property tax) goes toward general government expenses including police forces, jails, public libraries, schools, low-income assistance programs, health care, government agencies, public transportation (e.g., busses and trains), parks and recreation, and public employee salaries and pensions. Federal income and estate taxes fund general government expenses at the federal government level including government agency operations, national defense, homeland security, emergency disaster relief, foreign aid, and space exploration. FICA payroll tax pays for Social Security and Medicare benefits with current workers "paying it forward" to support the benefits that are being paid to current retirees. Federal and state excise taxes on gasoline are typically used to support highways and public transit systems.

3. **Activity 2:** Show the YouTube video *The Progressive Income Tax: A Tale of Three Brothers* and ask students to explain the key take-aways: https://www.youtube.com/watch?v=S6HEH23W_bM

Answers will vary but students should grasp the fact that under a progressive tax system, such as U.S. income taxes, taxes take a larger percentage of income from higher earners than those with less income. Students might also discuss the issue of fairness in assessing federal and state income taxes. Currently, income taxes are based on the ability of an individual or a household (if there are multiple earners) to pay.

Just like the three brothers shown in the video, U.S. citizens have a wide range of financial resources (e.g., income and invested assets) and are taxed accordingly. Income ranges (including salaries and the earnings on savings and investments) are categorized into a series of progressive categories, called marginal tax brackets, which are based on taxable income. Once people cross the cut-off income for a higher marginal tax bracket, the rate of tax paid on their last dollar of income increases (e.g., from 15% to 25%). Combining the incomes of a couple, where both spouses earn an income, can also raise marginal tax rates.

Just like wealthier brother in the video, not everyone thinks that a progressive tax structure is fair. Some argue that it effectively redistributes income from wealthier individuals to others and argue for other tax methods such as a flat tax that applies the same tax rate to everyone, regardless of income.

4. **Activity 3:** Using the web site <http://njaes.rutgers.edu/money/taxinfo/>, download and make copies of the table with federal marginal tax brackets for the current year. Explain to students, again, that income taxes are a progressive tax and the tax rate on the *last* dollar of taxable income earned rises as income increases. Various ranges of a person's income will be taxed at different rates.

Distribute the *Tax Table Analysis Activity* handout and ask students to work together in small groups to answer the questions on the handout. Answers to the questions are shown below:

How many federal income tax marginal tax rates are there? **7 in 2016**

What is the lowest federal income tax marginal tax rate? **10% in 2016**

What is the highest federal income tax marginal tax rate? **39.6% in 2016**

How many tax different tax filing status categories are there? **Four (single, married filing jointly, married filing separately, and head of household).**

How do marginal tax brackets affect the taxable equivalent yield (return on investment) of tax-exempt investments? **The higher an investor's tax bracket (e.g., 35% vs 15% rate), the higher the taxable equivalent yield of an investment. Thus, tax-free investments are especially attractive to high earners.**

Higher earners have a higher marginal tax rate than lower earners. Do you think this is fair?

Students will likely differ in their thoughts about whether federal income tax rates are fair. Ask them to defend their opinion (e.g., progressive rates are fair because higher earners have a better ability to pay).

5. **Activity 4:** Show the YouTube video *Tax Avoidance vs. Tax Evasion* and ask students to explain the key take-aways: <https://www.youtube.com/watch?v=ClOenRSdPQA>

Answers will vary. Students should indicate an understanding that tax avoidance includes perfectly legal strategies (e.g., maximizing the use of tax deductions and credits) to reduce taxes while tax evasion (intentionally avoiding taxes that are owed) is a crime punishable by fines, penalties, and even jail time.

Also tie back to the theme of the content standard for this lesson, Civic Financial Responsibility, and note that it is the duty of U.S. citizens to pay their "fair share" of income taxes to support public benefits. Tax evaders are not good citizens and are not contributing to the financial support of the country.

Distribute the *Web Quest: Famous U.S. Tax Evaders* activity handout and ask students to work together in small groups and use an Internet search engine to find information about high-profile tax evasion cases in U.S. history. Ask students to list the name of each tax evader and write down a brief summary of the case and the punishment received for tax evasion.

After allowing about 15-20 minutes for online searching, debrief the activity with the full class.

Some famous American tax evaders are listed in the Introduction. For more information about tax evasion cases in U.S. history, see <http://www.efile.com/tax-evaders-tax-cheaters-tax-evasion/>

<https://www.legalzoom.com/articles/10-celebrities-convicted-of-tax-evasion>

<http://www.usatoday.com/story/money/business/2014/02/28/famous-tax-cheats/5903143/>

<http://www.investopedia.com/financial-edge/0110/five-famous-tax-cheats.aspx>

6. **Activity 5:** Show the YouTube video *Tax Deductions vs. Tax Credits* and ask students to explain key take-aways: <https://www.youtube.com/watch?v=AulaBFxwgi0>.

Answers will vary. Students should indicate an understanding that tax credits are more valuable than tax deductions. A tax credit directly lowers taxes dollar for dollar. For example, a \$1,000 tax credit results in \$1,000 less owed in taxes. A tax deduction, is a deduction from your income, not the amount of tax owed. For example, a \$5,000 deduction for mortgage interest would save someone in the 15% marginal tax bracket \$750 ($\$5,000 \times .15$). To determine the tax savings from a federal income tax deduction, multiply it by a taxpayer's marginal tax rate. Tax credits and tax deductions are both tools to practice tax avoidance.

Distribute the *Tax Deduction and Tax Credit Case Studies* activity handout and ask students to read the five case study scenarios together in small groups and answer the questions (math problems) that test their understanding of the tax-saving ability of tax credits and tax deductions. After allowing about 15-20 minutes for discussion and analysis, debrief the activity with the full class. Answers to the case study questions are shown below:

Kim and Paul are the parents of a two-year old child, Bella, and are eligible for a \$1,000 child tax credit. If their tentative tax bill is \$4,000, how much will their final tax bill be?

\$3,000 (\$4,000 tentative tax - \$1,000 child tax credit) See <https://www.irs.gov/uac/Ten-Facts-about-the-Child-Tax-Credit> for more information about the child tax credit.

John is eligible to itemize federal income tax deductions and donates \$500 to his favorite charity, Big Brothers/Big Sisters. He is in the 25% tax bracket. How much income tax will he save?

\$125 ($\$500 \times .25$) See <https://www.irs.gov/Charities-&-Non-Profits/Charitable-Organizations/Charitable-Contribution-Deductions> for more information about charitable contribution deductions.

Rita qualifies for a \$750 earned income tax credit (EITC) because she has a job (earned income) and a 4-year old child. Before taking the EITC, she tentatively owes \$3,500 in federal income tax. How much will she owe after taking the EITC?

\$2,750 (\$3,500 tentative tax- \$750 EITC) See <https://www.irs.gov/Credits-&-Deductions/Individuals/Earned-Income-Tax-Credit> for more information about the EITC.

Pablo and Connie just bought a house in New Jersey and can now itemize deductions on their federal income tax return for the first time. In the 25% marginal tax bracket, how much will their \$10,000 deduction for mortgage interest and property taxes save them in income taxes?

\$2,500 ($\$10,000 \times .25$) See <https://www.irs.gov/publications/p936/> for more information about the mortgage interest deduction.

Josie put \$2,000 into an individual retirement account (IRA) and qualified for a 20% retirement savings contributions tax credit (a.k.a., Saver's Credit) of \$400. With a \$2,800 tentative tax, what will be her final tax bill after taking the tax credit?

\$2,400 ($\$2,800 - \400) See <https://www.irs.gov/uac/Save-Twice-with-the-Savers-Credit> for more information about the Saver's Credit

CLOSURE

Ask students if they have any remaining questions about income taxes. To reinforce the concept of the use of taxation to fund public activities, ask students what would likely happen in the U.S. if there were no taxes (e.g., no public education, no highway maintenance, and no armed forces to protect the country).

GLOSSARY

Marginal Tax Bracket- The ranges in income for taxpayers that are associated with marginal tax rates.

Marginal Tax Rate- The tax rate paid on the last (highest) dollar of personal or (if married) household earnings. Current (2016) federal marginal tax rates range from 10% to 39.6%.

Progressive Tax- A type of tax where the tax rate increases as taxable income increases (e.g., income tax).

Public Benefit- Any service or activity for citizens that is provided by government and funded by taxes.

Regressive Tax- A type of tax where the tax rate decreases as taxable income increases (e.g., sales tax).

Tax- Money paid to various levels of government to support public benefits. Taxes are charged to citizens based on their earnings (income and payroll taxes such as FICA), property (real estate and personal property taxes), purchases (sales and excise taxes), and wealth (estate and gift taxes).

Tax Avoidance- The use of legally available tax reduction strategies to decrease the amount of tax owed.

Tax Credit- Amount subtracted from a taxpayer's tentative tax to determine the final amount of tax owed.

Tax Deduction- Amount of an expense (e.g., charitable donation) subtracted from gross income that lowers income tax owed by the amount multiplied by a taxpayer's marginal tax rate (e.g., $\$500 \times .15$).

Tax Evasion- The use of illegal tax reduction methods that is punishable by criminal charges and penalties.

W-4 Form- Form used by employers to determine payroll taxes withheld from their employees' paychecks.

LEARNING EXTENSIONS

If time permits, the following activities can be used to extend the depth of this lesson:

- ◆ Show and debrief key take-aways from the animated YouTube video *Schoolhouse Rock: Money-Tax Man Max Music Video*: <https://www.youtube.com/watch?v=6Q3NPgHZzDo>.

- ◆ Show and debrief key take-aways from the YouTube video *If Paychecks Could Talk*: https://www.youtube.com/watch?v=f_c_OsHICL8
- ◆ Assign the Council for Economic Education Econedlink lesson *Free Ride* where students will explore the cost of government-provided services: <http://www.econedlink.org/lesson/198/>.
- ◆ Play the *Tic Tac Taxes* game from another Council for Economic Education Econedlink lesson: <http://www.econedlink.org/teacher-lesson/370/Tic-Tac-Taxes>
- ◆ Access lessons about income taxes from the teacher site of the Internal Revenue Service course *Understanding Taxes*: <https://apps.irs.gov/app/understandingTaxes/>.
- ◆ Use content and activities from the *Explaining Taxes to Kids* lesson from the federal government web site Kids.gov: <https://kids.usa.gov/teachers/lesson-plans/money/explaining-taxes-to-kids/index.shtml>.
- ◆ Use content and activities about income taxes from Next Gen Personal Finance: <http://nextgenpersonalfinance.org/curriculum/tax-lessons/>.
- ◆ Use content and activities from the *Income Taxes* lesson from TD bank that is tied to New Jersey core curriculum content standards: <https://www.tdbank.com/wowzone/lessons/Gr9-12Lesson9.pdf>.
- ◆ Use a curated list of content and activities from the University of Missouri *Economics: Taxes* web site: <https://ethemes.missouri.edu/themes/757>.

ASSESSMENT: *Income Taxes Quiz*

Instructors are encouraged to use the questions below for content review or as a pre-and/or post-test to determine gains in student knowledge about taxes after teaching this lesson.

Correct answers to the multiple choice and True-False questions are shown in boldface type.

Multiple Choice Questions

1. Federal income tax is an example of what type of tax?
 - a. Regressive
 - b. Earned income
 - c. Progressive**
 - d. Standardized

2. The highest federal marginal income tax bracket under current tax law is
 - a. 35.2%.
 - b. 39.6%.**
 - c. 42.5%.
 - d. 47.8%.

3. The term “marginal tax rate” refers to taxation on what dollar amount of earnings?
 - a. The weighted average of earnings
 - b. The median amount of earnings
 - c. The first dollar of earnings
 - d. The last dollar of earnings**

4. If a person in the 25% marginal tax bracket who can itemize deductions makes a \$1,000 contribution to a qualified charity, what is the net out-of-pocket cost?
 - a. \$250
 - b. \$500
 - c. \$750 (\$1,000 – \$1,000 x .25)**
 - d. \$1,000

5. The tax form used by employers to determine their employees’ withholding for FICA payroll tax is
 - a. W-4 Form**
 - b. 1099 Form
 - c. W-2 Form
 - d. 1040-A Form

True-False Questions

1. For individuals, tax returns for a calendar year are usually due to the IRS no later than April 15 of the following year **(TRUE: The typical income tax filing deadline is April 15 (a.k.a., tax day). In some years, however, the deadline is extended by a few days. This occurs when April 15 falls on a weekend or on one of several legal holidays that occur in Washington, DC or in several states)**

2. Federal income taxes are used to directly support public schools in cities and towns across the U.S. **(FALSE: While there is a U.S. Department of Education at the federal government level that sets policy and coordinates federal funding for education, individual schools across the U.S. are primarily supported by property taxes that are collected at the local government level; i.e., by cities, towns, and counties)**

3. Charitable contributions are generally considered a tax credit. **(FALSE: Charitable contributions are a tax deduction available to those who have sufficient deductible expenses to be able to itemize)**

4. Tax avoidance is a crime that is punishable by penalties and possibly jail time **(FALSE: Tax evasion is the crime that is described in the question. Tax avoidance, on the other hand, is the use of legally available methods to reduce taxes owed. Examples include taking tax deductions and tax credits and investing in tax-free investments such as municipal bonds)**

5. Estimated tax payments to the IRS are required to be made quarterly. **(TRUE: Estimated tax payments are used to pay tax on income that is not subject to withholding by an employer. They are commonly used by retirees who owe tax on Social Security benefits, people who win big prizes or have large capital gains on investments, and self-employed individuals who are responsible for paying their own income taxes to the IRS. Estimated tax payments are due four times for each tax year on April 15, June 15, September 15, and January 15 of the following calendar year)**

REFERENCES AND RESOURCES

- Credits & Deductions* (Internal Revenue Service): <https://www.irs.gov/Credits-&-Deductions>
- Estimated Taxes* (Internal Revenue Service): <https://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Estimated-Taxes>
- Federal Income Tax Calculator* (Smart Asset): <https://smartasset.com/taxes/income-taxes>
- History of the U.S. Income Tax* (The Library of Congress): https://www.loc.gov/rr/business/hottopic/irs_history.html
- Income Tax Calculator* (CalcXML): <https://www.calcxml.com/calculators/federal-income-tax-calculator>
- Income Tax Calculator: 1040 Tax Estimator* (Bankrate): <http://www.bankrate.com/calculators/tax-planning/1040-form-tax-calculator.aspx>
- Income Tax Definition* (Investopedia): <http://www.investopedia.com/terms/i/incometax.asp>
- Kapoor, J.R., Dlabay, L.R., Hughes, R.J., & Hart, M.M. (2016). *Focus on Personal Finance*. New York, NY: McGraw Hill Education.
- Marginal Tax Rate* (Investopedia): <http://www.investopedia.com/terms/m/marginaltaxrate.asp>
- Policy Basics: Where do Our Federal Tax Dollars Go?* (Center on Budget and Policy Priorities): <http://www.cbpp.org/research/federal-budget/policy-basics-where-do-our-federal-tax-dollars-go>
- 7 Most Missed Tax Deductions and Credits* (My Money): <http://money.usnews.com/money/blogs/my-money/2014/03/13/7-most-missed-tax-deductions-and-credits>
- Tax Avoidance* (Investopedia): http://www.investopedia.com/terms/t/tax_avoidance.asp
- Tax Evasion* (Investopedia): <http://www.investopedia.com/terms/t/taxevasion.asp>
- Tax Information* (Rutgers Cooperative Extension): <http://njaes.rutgers.edu/money/taxinfo/>
- The Difference Between Tax Avoidance and Tax Evasion* (Internal Revenue Service): https://apps.irs.gov/app/understandingTaxes/whys/thm01/les03/media/ws_ans_thm01_les03.pdf.
- The 5 Biggest tax Credits You Might Qualify For* (Intuit TurboTax): <https://turbotax.intuit.com/tax-tools/tax-tips/Tax-Deductions-and-Credits/The-5-Biggest-Tax-Credits-You-Might-Qualify-For/INF18200.html>
- The 2015 Individual Investor's Guide to Personal Tax Planning* (2016). Chicago: American Association of Individual Investors.
- 2016 Tax Brackets* (Tax Foundation): <http://taxfoundation.org/article/2016-tax-brackets>
- What are Income Taxes?* (Turbo Tax): <https://turbotax.intuit.com/tax-tools/tax-tips/Taxes-101/What-are-Income-Taxes-/INF14797.html>
- What is the Difference Between Tax Avoidance and Tax Evasion* (About Money): <http://biztaxlaw.about.com/od/businessstaxes/f/taxavoidevade.htm>
- Your Federal Income Tax* (Internal Revenue Service): <https://www.irs.gov/pub/irs-pdf/p17.pdf>

Web Quest: What Money Collected From Taxes is Used For

The best way to truly understand taxes is to know what the money that is collected is used for. With this activity, you will visit web sites to research which levels of government collect which taxes and why.

Instructions:

1. Go to an online search engine (e.g., Google, Bing) and search for terms such as “how tax dollars are spent” and “what taxes are used for” and “where do federal (state) tax dollars go?”
2. Read three articles (not paid or political advertisements) that describe how tax dollars are used.
3. When you are done reading, complete the table below by describing five types of taxes, the level(s) of government that collect(s) the tax, and the use(s) for the tax dollars that are collected.
4. Be prepared to discuss the information that you found with the entire class.

Type of Tax	Level(s) of Government That This Tax is Collected By	Use(s) of This Tax Money (Public Benefits)

Tax Table Analysis Activity

Form a small group and review the table with federal marginal tax brackets for the current year.

Recall that income taxes are a progressive tax and the tax rate on the *last* dollar of taxable income earned rises as income increases. Various ranges of a person's income are taxed at different rates.

Use data in the table to answer the first five questions, below. Then discuss the final question with your group. There is no "right" or "wrong" answer to this question as long as you can defend your answer.

How many federal income tax marginal tax rates are there?

What is the lowest federal income tax marginal tax rate?

What is the highest federal income tax marginal tax rate?

How many tax different tax filing status categories are there?

How do marginal tax brackets affect the taxable equivalent yield (return on investment) of tax-exempt investments?

Higher earners have a higher marginal tax rate than lower earners. Do you think this is fair?

Web Quest: Famous U.S. Tax Evaders

Instructions:

1. Go to an online search engine (e.g., Google, Bing) and search for terms such as “famous U.S. tax evaders” and “tax evaders in U.S. history.”
2. Read three articles (not paid advertisements) that describe stories of people famous Americans who were convicted of tax evasion.
3. When you are done reading, complete the table below by listing the names of five famous tax evaders, a brief summary of their cases, and the punishment that they received for tax evasion.
4. Be prepared to discuss the information that you found with the entire class.

Name of Tax Evader	Brief Summary of the Tax Evasion Case	Punishment Received for Tax Evasion

Tax Deduction and Tax Credit Case Studies

Form a small group, read the five case study scenarios below, and answer the questions (math problems) that test your understanding of the tax-saving ability of tax credits and tax deductions.

Kim and Paul are the parents of a two-year old child, Bella, and are eligible for a \$1,000 child tax credit. If their tentative tax bill is \$4,000, how much will their final tax bill be?

John is eligible to itemize federal income tax deductions and donates \$500 to his favorite charity, Big Brothers/Big Sisters. He is in the 25% tax bracket. How much income tax will he save?

Rita qualifies for a \$750 earned income tax credit (EITC) because she has a job (earned income) and a 4-year old child. Before taking the EITC, she tentatively owes \$3,500 in federal income tax. How much will she owe after taking the EITC?

Pablo and Connie just bought a house in New Jersey and can now itemize deductions on their federal income tax return for the first time. In the 25% marginal tax bracket, how much will their \$10,000 deduction for mortgage interest and property taxes save them in income taxes?

Josie put \$2,000 into an individual retirement account (IRA) and qualified for a 20% retirement savings contributions tax credit (a.k.a., Saver's Credit) of \$400. With a \$2,800 tentative tax, what will be her final tax bill after taking the tax credit?

Income Taxes Quiz

Multiple Choice Questions:

Circle the correct answer from among the four answers provided.

1. Federal income tax is an example of what type of tax?
 - a. Regressive
 - b. Earned Income
 - c. Progressive
 - d. Standardized
2. The highest federal marginal income tax bracket under current tax law is
 - a. 35.2%.
 - b. 39.6%.
 - c. 42.5%.
 - d. 47.8%.
3. The term “marginal tax rate” refers to taxation on what dollar amount of earnings?
 - a. The weighted average of earnings
 - b. The median amount of earnings
 - c. The first dollar of earnings
 - d. The last dollar of earnings
4. If a person in the 25% marginal tax bracket who can itemize deductions makes a \$1,000 contribution to a qualified charity, what is the net out-of-pocket cost?
 - a. \$250
 - b. \$500
 - c. \$750
 - d. \$1,000
5. The tax form used by employers to determine their employees’ withholding for FICA payroll tax is
 - a. W-4 Form
 - b. 1099 Form
 - c. W-2 Form
 - d. 1040-A Form

True-False Questions:

Mark “T” for True or “F” for False in the space before each question.

- _____ 1. For individuals, tax returns for a calendar year are usually due to the IRS no later than April 15 of the following year.
- _____ 2. Federal income taxes are used to directly support public schools in cities and towns across the U.S.
- _____ 3. Charitable contributions are generally considered a tax credit.
- _____ 4. Tax avoidance is a crime that is punishable by penalties and possibly jail time.
- _____ 5. Estimated tax payments to the IRS are required to be made quarterly.

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