

TEACHERS

LESSON NINETEEN Income Taxes

Introduction

Benjamin Franklin once said “nothing is as sure as death and taxes.” A certain amount of income tax is withheld from each paycheck, and that tax goes to the state or federal government to pay for public goods and services. The U.S. income tax program is designed to make taxation more “fair” because it is a progressive tax. Progressive taxes take a larger percentage of income from higher income groups than from lower income groups and are based on our “ability to pay.” The opposite is a regressive tax, meaning lower income earners pay a higher percentage of their income than higher income earners pay. The rate may be the same, but the impact is different. Our federal tax structure is designed to be somewhat progressive – the more we make, the more we pay because higher income earners have a greater ability to pay than lower income earners. To ensure we pay the correct amount, the government requires us to file an income tax return due April 15th of each year. Paying taxes is part of the responsibility of living in a market-based economy.

Definition of the week

Progressive tax: A tax taking a higher percentage of income from high income groups than from low income groups.

Purpose

This lesson will help students understand progressive taxes. Students will compute tax liability for different wage-earners.

Tool Kit

Employment advertisements or copy of U.S. Department of Labor Occupational Handbook

Procedure

1. Tell students April 15th is approaching; ask why that date is important. Remind them



Scavenger Hunt

The Internal Revenue Service is an agency of the federal government with the responsibility of collecting income taxes. Visit the IRS website at www.irs.gov to complete the following scavenger hunt on taxes.

1. The IRS was established in _____ by _____.
2. Other taxes collected by the IRS include _____.
3. In 2003, the IRS processed _____ tax returns and collected _____ in total revenue for the federal government.
4. The IRS Privacy Policy says _____.
5. List the Taxpayer Rights _____.
6. The four kinds of income often received by students are _____.
7. My favorite student activity on the IRS website is _____ because _____.
8. My favorite tax lesson is _____ and I learned _____.
9. A regressive tax is defined as _____, an example is _____.
10. The first electronic tax return was filed in _____.
11. Taxpayers receive a refund from the IRS when _____.
12. The U.S. tax system is based on voluntary compliance; tax _____ is legal but tax _____ is not legal.



Tax Brackets—2004 Taxable Income

Joint return	Single taxpayer	Rate
\$0–\$14,000	\$0–\$7,000	10.0%
14,000–56,800	7,000–28,400	15.0%
56,800–114,650	28,400–68,800	25.0%
114,650–174,700	68,800–143,500	28.0%
174,700–311,950	143,500–311,950	33.0%
311,950 and up	311,950 and up	35.0%

everyone who draws a paycheck is required to pay income taxes, and April 15th is the final day to pay those taxes.

2. Show them the tax brackets on the left. Discuss how income tax rates are set by the federal government and vary for different income groups. Have students choose five different careers that interest them and find annual income information on each. Help them select careers with different potential income. Use the tax brackets to compute the annual tax liability for each job. To compute income tax, note the following example: Someone earning \$100,000 per year, pays 10% income tax on the first \$7,000, 15% on the next \$28,400, 25% on the next \$68,800, etc. – rather than a straight 28% on the entire amount. Also, assume there are no tax deductions or exemptions in this activity, and remind students most states require income tax payments in addition to the federal income tax.

PARENT OPTION

Show your child one of your pay stubs detailing the state and federal income taxes taken out of your wages. Go to the Internal Revenue website (www.irs.gov) and help your child explore the information available. Select the webpage for individuals to find special information for parents and students. Be sure to help your child find http://www.irs.gov/app/understandingTaxes/jsp/s_student_home.jsp. Spend time together using the lessons, activities and simulations. Have your child talk with a CPA or tax preparation specialist about career opportunities. Search *The Oklahoman* or www.NewsOK.com for stories about income taxes. Visit the library with your child to research the various kinds of taxes paid in the United States. Research tax rates in each of the 50 states and have your child plot those rates on a U.S. map.

Coming next week
Charitable Contributions



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