Teacher’s Guide

**Taxation**

**Time Needed:** One to two class periods

**Materials Needed:**
- Student worksheets
- Projector (optional)
- Transparencies (3, or project from computer; optional)

**Copy Instructions:**
- Reading (2 pages; class set)
- Review (2 pages; class set)
- Tax Activity (2 pages; class set)

**Learning Objectives.** Students will be able to:
- Identify the government’s sources of tax revenue
- Explain that government uses tax money to provide certain goods and services.
- Explain how federal, state, and local taxes support the economy as a function of the U.S. government.
- Describe the impact of taxation.
- Analyze a pay stub.
- Calculate sales tax and compare the effect of different tax rates on total price paid.

**STEP BY STEP**

- **ANTICIPATE** by asking students to explain what a “tax” is. Who pays taxes? To whom are they paid? Can students think of a time when they themselves have paid taxes?
- **DISTRIBUTE** the Taxation reading to each student.
- **READ** with the class, pausing to discuss as appropriate. [Please note: The threshold for qualifying for the estate tax is subject to change. In recent years, the threshold has been as high as $5 million, but Congress could put it as low as $1 million.]
- **DISTRIBUTE** the Tax Activity worksheets to each student.
- **PROJECT** the Reality (Pay)Check projection master. Go through the sample pay stub with students and discuss.
- **ALLOW** students to complete the Reality (Pay)Check activity.
- **PROJECT** the sales tax projection master. Use it to explain to students that the rate of sales tax can vary depending on where you are (tax rules, of course, vary from state to state). Make sure students understand that on this map, the state sales tax applies everywhere, and that the cities are inside the county, so the county sales tax applies inside the cities.
- **ALLOW** students to complete the How Much Does It Cost? activity. You may want to walk through these together if they struggle with the math.
- **REVIEW** the answers to the activities if you wish.
- **DISTRIBUTE** the review worksheet.
- **ASSIGN** students to complete the review worksheet.
- **CLOSE** by asking students to silently recall one type of tax they learned about. Call on students until all the taxes discussed in the lesson have been named.
Government Services

So what does the government do? Just look around! If you’ve driven on a road, visited a library, gone to an airport, or been to a military base, you’ve seen the government in action. Many government services are designed to keep the nation and its citizens safe. The government inspects places where food is made, provides police officers and FBI agents, and keeps long-range missiles ready in case of attack. (Ever wondered how much a missile costs and who pays for it?) Other services are designed to keep the nation’s economy running smoothly by helping citizens earn a living and business be competitive. The government educates people, supports farmers and small business owners, and investigates companies that operate unfairly. There are services that help people who have fallen on hard times by offering them help finding jobs and buying food.

The government provides all kinds of other services, too. It improves our quality of life by maintaining parks and operating museums. It generates electricity, prints money, builds rockets, clothes prisoners, repairs traffic lights … the list is endless! Thousands of people earn their living providing all these services to citizens. In fact, the federal government is the biggest employer in the nation.

Paying for Services

Most people would agree that going out to eat is fun… until the check arrives. But people accept that if they want to eat out, they have to pay the bill. It’s the same with government services: If we want to have a military, or space rockets, or traffic lights, we have to pay for them. (Whether people agree on what we should pay for is another question!) We pay for these things with taxes. There are many kinds of taxes.

Sales Tax

Sales tax is the tax you pay when you buy something. Government at all levels can impose sales tax. If you break down the total tax you pay on an item, you may find that part of it is city sales tax, part might be county tax, and part may be state sales tax. If you’ve noticed that sales tax varies from place to place, that’s why. Also, not everything is taxed at the same rate. In many states, groceries are exempt from sales tax. States and local governments use sales taxes to fund many kinds of programs. Sometimes, citizens will even vote to impose a sales tax on themselves for a special purpose, such as education.
**Taxation**

**Excise Tax**

While sales tax applies to all the stuff in your shopping cart, an **excise tax** only applies to certain products. States often put excise taxes on alcohol and tobacco. At the federal level, there are excise taxes on gasoline, air transportation, fishing equipment, and even indoor tanning! You won’t usually see an excise tax listed on your receipt because it is a tax the seller owes to the government. However, sellers usually include the amount of the tax in the price of the item. That’s why excise taxes are often called “hidden” taxes. As the consumer, you might not know the tax exists.

**Income Tax**

**Income tax** is the tax you pay on money you receive from various sources. Some income is money you earn by working at a job. There are other kinds of income, too. Banks pay interest on money you keep in a savings account. People who own buildings may receive rent from their tenants. People who own businesses receive money for the goods and services they offer. People can also receive income from investing their money in things like stocks. All of this income is taxable, which means people must report it to the government and may have to pay taxes on it. Federal income tax forms are due every year! **April 15th** is the last day you can turn them in.

Like people, businesses also pay income tax. The **corporate income tax** is a tax on profits made by corporations. Both the individual and corporate income tax are **progressive taxes**, meaning the more income or profit a person or company has, the higher tax rate they pay.

**Social Security and Medicare Tax**

**Social Security** is the basic retirement program run by the federal government. During your working years, the **Social Security tax** takes a percentage of your earnings and puts it into the Social Security system. Then, when you reach a certain age, you become eligible to receive monthly payments. People who become disabled and cannot work may also be eligible to receive payments from Social Security. **Medicare** is the federal government’s health care system for people age 65 and over. Money for this program also comes out of your paycheck in the form of a tax.

**Other Taxes**

There are many other kinds of taxes the government collects:

- Local governments collect **property taxes**, which are taxes people pay on land they own. Schools and fire services are often funded with property taxes.
- The **estate tax** is a tax the government collects when a person dies. Often called “death taxes,” the estate tax only applies when everything the deceased person owned is worth a lot of money—usually millions of dollars. Most people don’t have to worry about this tax.
- The government also imposes **tariffs**, which are taxes on goods that are imported to the U.S. from other countries. The purpose of tariffs is to help U.S. companies compete with foreign companies.
A. Which Tax Is It? Match each scenario with the tax it is describing.

1) Yvonne buys gloves that cost $10.00. At the register, she must pay $10.80.
2) Sasha bought a townhouse last year. She just got a tax bill from the county showing the value of her house and the amount of tax she owes.
3) Bigmart sells boots that are made in China and boots made in the U.S. Bigmart must pay 27% tax on each pair made in China, but not on the U.S.-made pairs.
4) State citizens voted to add a 75-cent tax to each pack of cigarettes to pay for programs to help people quit smoking.
5) Jake got his paycheck today. He worked 40 hours at $20 per hour. His gross pay was $800, but the amount of his paycheck was only $623.15.
6) Clyde Cash owned two houses, three office buildings, a Bugatti Veyron, antiques, stocks, and a jet, all worth $25 million. He passed away. His heirs owe the government $9 million in taxes.

B. Tax Organizer. Use what you learned in the reading to complete this graphic organizer.

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**Taxes You Pay**

**When You Buy Stuff**

- A percentage of the total price for everything in your shopping cart.
- Added to the price of certain items such as _____________.
- Added to the price of many goods made in other _________.

**Out of Your Income**

- A percentage of the total amount of income you have for the _____.
- Used to fund a ________ program for U.S. workers.
- Used to fund a health care program for people age ______ and over.

**On Stuff You Own**

- A tax on the value of land and property you own.
- A tax on what you own when you die, if it is worth a very high amount.
C. Government Revenue. *Revenue* is a fancy word for income. Use the proportions in the chart to help you label each dollar amount. Then add to see the total amount of taxes the federal government received in 2011.

<table>
<thead>
<tr>
<th>Dollar Amount</th>
<th>Tax Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>$1,100,000,000,000</td>
<td>(__________)</td>
</tr>
<tr>
<td>$819,000,000,000</td>
<td>(__________)</td>
</tr>
<tr>
<td>$181,000,000,000</td>
<td>(__________)</td>
</tr>
<tr>
<td>+ $211,000,000,000</td>
<td>(__________)</td>
</tr>
</tbody>
</table>

→ Total Revenue 2011

D. Tax Brackets. The U.S. has a *progressive* tax system, meaning the more income you have, the higher tax rate you pay. Use the tax table to help you label the rest of Jim’s money to show the tax rate he will pay on each part of what he made.

### 2012 Tax Table for Unmarried Individuals

<table>
<thead>
<tr>
<th>Tax Rate</th>
<th>Income</th>
<th>What It Means:</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>$0 - $8,700</td>
<td>You pay 10 percent on your first $8,700.</td>
</tr>
<tr>
<td>15%</td>
<td>$8,700 - $35,350</td>
<td>You pay 15 percent on income over $8,700 but under $35,350.</td>
</tr>
<tr>
<td>25%</td>
<td>$35,350 - $85,650</td>
<td>You pay 25 percent on income over $35,350 but under $85,650.</td>
</tr>
<tr>
<td>28%</td>
<td>$85,650 - $178,650</td>
<td>You pay 28 percent on income over $85,650 but under $178,650.</td>
</tr>
<tr>
<td>33%</td>
<td>$178,650 - $388,350</td>
<td>You pay 33 percent on income over $178,650 but under $388,350.</td>
</tr>
<tr>
<td>35%</td>
<td>Over $388,350</td>
<td>You pay 35 percent on every dollar you make over $388,350.</td>
</tr>
</tbody>
</table>
**C. Reality (Pay)Check.** When you get a paycheck, your check stub offers lots of information about the taxes you pay. Study Wanda Worker’s paycheck stub and answer the questions below.

<table>
<thead>
<tr>
<th>Wanda W. Worker</th>
<th>Employee #: 54-9832</th>
<th>Date: 6/12/2014</th>
<th>Amount: $738.36</th>
</tr>
</thead>
</table>

**HOURS AND EARNINGS**

<table>
<thead>
<tr>
<th>Description</th>
<th>Current Pay Period</th>
<th>Year to Date Earnings</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Hours</td>
<td>Rate</td>
</tr>
<tr>
<td>Regular Pay</td>
<td>72.00</td>
<td>12.75</td>
</tr>
<tr>
<td>Paid Time Off (PTO)</td>
<td>8.00</td>
<td>12.75</td>
</tr>
<tr>
<td>TOTAL</td>
<td>80.00</td>
<td></td>
</tr>
</tbody>
</table>

**FEDERAL INCOME TAX SUMMARY**

<table>
<thead>
<tr>
<th></th>
<th>Current</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Pay</td>
<td>1,020.00</td>
<td>12,240.00</td>
</tr>
<tr>
<td>Minus: Pre-Tax Deductions</td>
<td>93.00</td>
<td>1,116.00</td>
</tr>
<tr>
<td>Taxable Amount Minus: Taxes</td>
<td>927.00</td>
<td>11,124.00</td>
</tr>
<tr>
<td></td>
<td>188.64</td>
<td>2,263.68</td>
</tr>
<tr>
<td>Net Pay</td>
<td>738.36</td>
<td>8,860.32</td>
</tr>
</tbody>
</table>

**Pay to: Wanda W. Worker**

$738.36

Seven hundred thirty-eight and 36/100

Michael M. Manager

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1) How much does Wanda earn per hour?

$ ____________

2) What are Wanda’s total earnings for the current pay period?

$ ____________

3) List the 4 kinds of taxes that are taken out of Wanda’s check:

__________________  __________________
__________________  __________________

4) Which tax had the least amount taken out?

   The most?
   Least: __________________
   Most: __________________

5) How much did Wanda pay in taxes this pay period?

$ ____________

6) How much has Wanda paid in total taxes this year?

$ ____________

7) How much federal tax has Wanda paid so far this year?

$ ____________

8) What was Wanda’s gross pay during the current pay period?

$ ____________

9) Was Wanda’s entire gross pay taxable?

   ☜ Yes ☞ No

10) The difference between gross pay and net pay is that gross pay is the amount a person earns before ________________________________
   while net pay is the amount they ___________________________.

11) Wanda receives a check for which amount?

   ☜ Gross Pay ☞ Net Pay ☞ Taxable Amount

12) What are the two pre-tax deductions that are taken out of Wanda’s check?

   __________________ & __________________

13) Wanda paid $93 toward health insurance and retirement. Did she pay taxes on that $93?

   ☜ Yes ☞ No

14) If Wanda’s state did not have an income tax, how much extra money would she have kept so far this year?

$ ____________

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**PRE-TAX DEDUCTIONS**

<table>
<thead>
<tr>
<th>Description</th>
<th>Current</th>
<th>YTD</th>
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</thead>
<tbody>
<tr>
<td>Health Insurance</td>
<td>42.00</td>
<td>504.00</td>
</tr>
<tr>
<td>401K Retirement</td>
<td>51.00</td>
<td>612.00</td>
</tr>
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<td>Total</td>
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**TAXES**

<table>
<thead>
<tr>
<th>Description</th>
<th>Current</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>FEDERAL social sec</td>
<td>92.70</td>
<td>1112.40</td>
</tr>
<tr>
<td>Medicare state</td>
<td>13.44</td>
<td>161.28</td>
</tr>
<tr>
<td>Total</td>
<td>188.64</td>
<td>2,263.68</td>
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</tbody>
</table>

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**Placebo**

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**icivics**

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Tax Activity p.1
D. How Much Will It Cost? Maybe you’ve noticed that you can buy the same exact thing in two different places—for the same exact price—but end up paying different amounts. That’s because the sales tax is different. Find out how small changes in sales tax can affect the price you pay for the stuff you want:

STATE SALES TAX: 5%

Example: How much will you pay for a $50 shirt at Bigmart in A-Town?

1) ADD to find the tax rate:
   State tax 5%
   County tax 2%
   City tax + 2%
   Total Tax 9%

2) MULTIPLY the tax by the price:
   450 \( \times \) 9 = $4.50

3) MOVE the decimal point two places to the left. This is the amount of tax you will pay:
   450 \( \Rightarrow \) $4.50

4) ADD the tax and the price to see the final cost:
   $50.00 + 4.50 = 54.50

1) A pair of headphones costs $10 at both Bigmart in A-Town and Hugemart in B-Town. What would you actually pay for the headphones at each store?

Cost in A-Town: $_____  Cost in B-Town: $_____  

2) Lisa is going to buy a new car! It costs $15,000 at both A-Town Dealership and at Bob’s County Dealership. What would she actually pay for the car at each place?

Cost in A-Town: $_____  Cost at Bob’s: $_____  

3) A stereo costs $257 at the County Store and $250 at Hugemart in B-Town. With taxes, what would you actually pay at each store?

Cost in B-Town: $_____  At County Store: $_____  

If it costs you $10 in gas to drive to Hugemart, at which store will the stereo end up costing you the least?
   • Hugemart  • County Store  

4) The state is tired of people putting gum under tables and chairs. It just put a $1 excise tax on each pack of gum! Gum used to cost $0.75 per pack at both Bigmart and Hugemart. Change the price tags to show the new price at each store:

- Bigmart: $0.75
- Hugemart: $0.75
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Projection Master
Wanda W. Worker  
P.O. Box 1234  
Anytown, STATE 87654  
Employee #: 54-9832  
Date: 5/5/2014  
Amount: $ 738.36  

<table>
<thead>
<tr>
<th>Description</th>
<th>Current Pay Period</th>
<th>Year to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Earnings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hours</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Earnings</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **Regular Pay**: 72.00  
  - Current: 12.75  
  - Earnings: 918.00  
  - Year to Date: 11,934.00  

- **Paid Time Off (PTO)**: 8.00  
  - Current: 12.75  
  - Earnings: 102.00  
  - Year to Date: 306.00

- **TOTAL**: 80.00  
  - Current: 1,020.00  
  - Year to Date: 12,240.00

**FEDERAL INCOME TAX SUMMARY**

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<thead>
<tr>
<th>Description</th>
<th>Current</th>
<th>Year to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Pay</td>
<td>1,020.00</td>
<td>12,240.00</td>
</tr>
</tbody>
</table>
| Minus: Pre-Tax Deductions | | 93.00  
  - Health Insurance: 42.00  
  - 401K Retirement: 51.00  
| Taxable Amount | 927.00 | 11,124.00 |
| Minus: Taxes | | 188.64  
  - Social Security: 92.70  
  - Medicare: 13.44  
  - State: 25.03  
| Net Pay     | 738.36  | 8,860.32     |

**PRE-TAX DEDUCTIONS**

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<tr>
<td>401K Retirement</td>
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<td>612.00</td>
</tr>
<tr>
<td>Total Pre-Tax Deductions</td>
<td>93.00</td>
<td>1,116.00</td>
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**TAXES**

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<tr>
<th>Description</th>
<th>Current</th>
<th>Year to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Social Security</td>
<td>92.70</td>
<td>57.47</td>
</tr>
<tr>
<td>Medicare</td>
<td>13.44</td>
<td>161.28</td>
</tr>
<tr>
<td>State</td>
<td>25.03</td>
<td>300.36</td>
</tr>
<tr>
<td>Total</td>
<td>188.64</td>
<td>1,116.00</td>
</tr>
</tbody>
</table>

**PAYROLL SUMMARY**

<table>
<thead>
<tr>
<th>Description</th>
<th>Current</th>
<th>Year to Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Pay</td>
<td>738.36</td>
<td>8,860.32</td>
</tr>
<tr>
<td>Minus: Pre-Tax Deductions</td>
<td></td>
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</tr>
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<td>8,860.32</td>
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</table>

The government wants people to have health insurance and save for retirement, so offer you these benefits at all. These are benefits, not taxes. The withholding from your check is usually different from what you actually owe. You may get a refund or have to pay more taxes.
**TEACHER GUIDE**

**STATE SALES TAX : 5 %**

Example: How much will you pay for a $50 shirt at Bigmart in A-Town?

1) ADD to find the tax rate:

\[
\text{State tax} \quad 5 \% \\
\text{County tax} \quad 2 \% \\
\text{City tax} \quad + 2 \% \\
\text{Total Tax} \quad 9 \%
\]

2) MULTIPLY the tax by the price:

\[
\text{Price} \quad \times \quad \text{Total Tax Rate} = \text{Tax} \\
$50 \times 0.09 = 4.50
\]

3) MOVE the decimal point two places to the left. This is the amount of tax you will pay:

\[
450 \Rightarrow 4.50
\]

4) ADD the tax and the price to see the final cost:

\[
\text{Price} \quad + \quad \text{Tax} = \text{Final Cost} \\
$50.00 + 4.50 = 54.50
\]

Hint! If you’re not in a city, there is no city sales tax.
Taxation

Reality (Pay)Check. When you get a paycheck, your check stub offers lots of information about the taxes you pay. Study Wanda Worker’s paycheck stub and answer the questions below.

**Wanda W. Worker**

P.O. Box 1234

Anytown, STATE 87654

Employee #: 54-9832

Date: 6/12/2014

Amount: $ 738.36

---

### HOURS AND EARNINGS

<table>
<thead>
<tr>
<th>Description</th>
<th>Current Pay Period</th>
<th>Year to Date Earnings</th>
<th>Hours</th>
<th>Rate</th>
<th>Earnings</th>
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<tbody>
<tr>
<td>Regular Pay</td>
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<td></td>
<td>11,934.00</td>
</tr>
<tr>
<td>Paid Time Off (PTO)</td>
<td>8.00</td>
<td>12.75</td>
<td>102.00</td>
<td></td>
<td>306.00</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>80.00</td>
<td></td>
<td>1,020.00</td>
<td>12,240.00</td>
<td></td>
</tr>
</tbody>
</table>

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### FEDERAL INCOME TAX SUMMARY

<table>
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<th>YTD</th>
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<tbody>
<tr>
<td>Gross Pay</td>
<td>1,020.00</td>
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<td></td>
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<tr>
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<td></td>
</tr>
<tr>
<td>Pre-Tax Deductions</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal Social Sec</td>
<td>92.70</td>
<td>1112.40</td>
<td></td>
</tr>
<tr>
<td>Medicare</td>
<td>57.47</td>
<td>689.64</td>
<td></td>
</tr>
<tr>
<td>State</td>
<td>13.44</td>
<td>161.28</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>188.64</td>
<td>2263.68</td>
<td></td>
</tr>
</tbody>
</table>

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### PRE-TAX DEDUCTIONS

<table>
<thead>
<tr>
<th>Description</th>
<th>Current</th>
<th>YTD</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Health Insurance</td>
<td>42.00</td>
<td>504.00</td>
<td></td>
</tr>
<tr>
<td>401K Retirement</td>
<td>51.00</td>
<td>612.00</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>93.00</td>
<td>1,116.00</td>
<td></td>
</tr>
</tbody>
</table>

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**TAXES**

<table>
<thead>
<tr>
<th>Description</th>
<th>Current</th>
<th>YTD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Social Sec</td>
<td>92.70</td>
<td>1112.40</td>
</tr>
<tr>
<td>Medicare</td>
<td>57.47</td>
<td>689.64</td>
</tr>
<tr>
<td>State</td>
<td>13.44</td>
<td>161.28</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>188.64</td>
<td>2263.68</td>
</tr>
</tbody>
</table>

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1) How much does Wanda earn per hour?

$ __12.75____

2) What are Wanda’s total earnings for the current pay period?

$ __1,020.00____

3) List the 4 kinds of taxes that are taken out of Wanda’s check:

- Federal
- Medicare
- Social Security
- State

4) Which tax had the least amount taken out? The most?

Least: Medicare

Most: Federal

5) How much did Wanda pay in taxes this pay period?

$ __188.64____

6) How much has Wanda paid in total taxes this year?

$ __2,263.68____

7) How much federal tax has Wanda paid so far this year?

$ __1,112.40____

8) What was Wanda’s gross pay during the current pay period?

$ __1,020.00____

9) Was Wanda’s entire gross pay taxable?

 Yes   No

10) The difference between gross pay and net pay is that gross pay is the amount a person earns before __taxes and other deductions are__ taken out while net pay is the amount they __actually receive after taxes__ and other deductions__.

11) Wanda receives a check for which amount?

 Gross Pay   Net Pay   Taxable Amount

12) What are the two pre-tax deductions that are taken out of Wanda’s check?

Health Insurance & 401k Retirement

13) Wanda paid $93 toward health insurance and retirement. Did she pay taxes on that $93?

 Yes   No

14) If Wanda’s state did not have an income tax, how much extra money would she have kept so far this year?

$ __300.36____
How Much Will It Cost? Maybe you’ve noticed that you can buy the same exact thing in two different places—for the same exact price—but end up paying different amounts. That’s because the sales tax is different. Find out how small changes in sales tax can affect the price you pay for the stuff you want:

1) A pair of headphones costs $10 at both Bigmart in A-Town and Hugemart in B-Town. What would you actually pay for the headphones at each store?

**A-Town**

- Tax rate = 9%
- $10 x 9 = 90
- Tax = $0.90

**Cost in A-Town:** $10.90

**B-Town**

- Tax rate = 10%
- $10 x 10 = 100
- Tax = $1.00

**Cost in B-Town:** $11.00

2) Lisa is going to buy a new car! It costs $15,000 at both A-Town Dealership and at Bob’s County Dealership. What would she actually pay for the car at each place?

**A-Town**

- Tax rate = 9%
- $15,000 x 9 = 135000
- Tax = $1,350.00

**Cost in A-Town:** $16,350

**Bob’s**

- Tax rate = 7%
- $15,000 x 7 = 105000
- Tax = $1,050.00

**Cost at Bob’s:** $16,050

3) A stereo costs $257 at the County Store and $250 at Hugemart in B-Town. With taxes, what would you actually pay at each store?

**B-Town**

- Tax rate = 10%
- $250 x 10 = 2500
- Tax = $25.00

**Cost in B-Town:** $275

**County Store**

- Tax rate = 7%
- $257 x 7 = 1799
- Tax = $17.99

**At County Store:** $274.99

If it costs you $10 in gas to drive to Hugemart, at which store will the stereo end up costing you the least?

- Hugemart
- County Store

4) The state is tired of people putting gum under tables and chairs. It just put a $1 excise tax on each pack of gum! Gum used to cost $0.75 per pack at both Bigmart and Hugemart. Change the price tags to show the new price at each store:
A. Which Tax Is It? Match each scenario with the tax it is describing.

1) Yvonne buys gloves that cost $10.00. At the register, she must pay $10.80.

2) Sasha bought a townhouse last year. She just got a tax bill from the county showing the value of her house and the amount of tax she owes.

3) Bigmart sells boots that are made in China and boots made in the U.S. Bigmart must pay 27% tax on each pair made in China, but not on the US-made pairs.

4) State citizens voted to add a 75-cent tax to each pack of cigarettes to pay for programs to help people quit smoking.

5) Jake got his paycheck today. He worked 40 hours at $20 per hour. His gross pay was $800, but the amount of his paycheck was only $623.15.

6) Clyde Cash owned 2 houses, 3 office buildings, a Bugatti Veyron, antiques, stocks, and a jet, all worth $25 million. He passed away. His heirs owe the government $9 million in taxes.

B. Tax Organizer. Use what you learned in the reading to complete this graphic organizer.

TAXES YOU PAY

WHEN YOU BUY STUFF

Sales Tax
A percentage of the total price for everything in your shopping cart.

Excise Tax
Added to the price of certain items such as alcohol, tobacco, gasoline, air transportation, fishing equipment, OR indoor tanning Tariffs

Tariffs
Added to the price of many goods made in other countries.

OUT OF YOUR INCOME

Income Tax
A percentage of the total amount of income you have for the year.

Social Security Tax
Used to fund a retirement program for U.S. workers.

Medicare Tax
Used to fund a health care program for people age 65 and over.

ON STUFF YOU OWN

Property Tax
A tax on the value of land and property you own.

Estate Tax
A tax on what you own when you die, if it is worth a very high amount.
C. Government Revenue. Revenue is a fancy word for income. Use the proportions in the chart to help you label each dollar amount. Then add to see the total amount of taxes the federal government received in 2011.

\[
\begin{array}{|c|c|}
\hline
\text{Dollar Amount} & \text{Tax Type} \\
\hline
$1,100,000,000,000 & \text{Social Security & Medicare} \\
$819,000,000,000 & \text{Individual Income Tax} \\
$181,000,000,000 & \text{Corporate Income Tax} \\
$211,000,000,000 & \text{Excise, Estate, Tariffs} \\
\hline
2,311,000,000,000 & \rightarrow \text{Total Revenue 2011} \\
\hline
\end{array}
\]

D. Tax Brackets. The U.S. has a progressive tax system, meaning the more income you have, the higher tax rate you pay. Use the tax table to help you label the rest of Jim’s money to show the tax rate he will pay on each part of what he made.

<table>
<thead>
<tr>
<th>Tax Rate</th>
<th>Income</th>
<th>What It Means:</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>$0 - $8,700</td>
<td>You pay 10 percent on your first $8,700.</td>
</tr>
<tr>
<td>15%</td>
<td>$8,700 - $35,350</td>
<td>You pay 15 percent on income over $8,700 but under $35,350.</td>
</tr>
<tr>
<td>25%</td>
<td>$35,350 - $85,650</td>
<td>You pay 25 percent on income over $35,350 but under $85,650.</td>
</tr>
<tr>
<td>28%</td>
<td>$85,650 - $178,650</td>
<td>You pay 28 percent on income over $85,650 but under $178,650.</td>
</tr>
<tr>
<td>33%</td>
<td>$178,650 - $388,350</td>
<td>You pay 33 percent on income over $178,650 but under $388,350.</td>
</tr>
<tr>
<td>35%</td>
<td>Over $388,350</td>
<td>You pay 35 percent on every dollar you make over $388,350.</td>
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This activity should help students get a mental picture of how the progressive tax works.