

4/12 Lesson Plan

1. Introduction: What are taxes? (5-10 minutes) (Split up into groups to discuss; write these questions out on the board) Who here thinks taxes are interesting (show of hands)? Who here thinks taxes are applicable to them (show of hands)? Who here would be more interested in this topic if I told you the government might actually pay you money because of taxes, under certain circumstances (show of hands)?
 - a. Who knows what taxes are? (1-2 minutes)
 - i. Financial burden imposed by the government
 - b. What do you all think about taxes? (1-2 minutes)
 - c. Have you ever paid a tax? What are some of the kinds of taxes? (1-2 minutes)
 - i. Sales tax
 - ii. Property tax
 - iii. Income tax
 - iv. Consumption/Use taxes (IE cigarettes, gasoline, etc.)
 - d. What is the purpose of a tax? (5 minutes)
 - i. Redistribute wealth
 - ii. Fund public programs
 - iii. Distribute benefits (certain tax credits)
 - iv. Disincentivize behavior
2. Tax system
 - a. Federal vs. State (2-3 minutes)
 - i. Remember how we talked about federal vs. state judicial systems? There are federal and state taxes.

1. EX: state income tax vs. federal income tax
- b. Different kinds of taxes: (2-4 minutes)
 - i. Proportional: Regardless of income, you pay the same percentage of tax
 1. “Fairness reasons”
 - ii. Progressive: As income increases, percentage of tax you pay increases
 1. Rich people are arguably better able to bear tax burden
 - iii. Regressive: As income increases, the percentage of tax you pay decrease
 1. Superficially fair, flat rate for everything across the board
 2. Generally, most places steer clear of this
- c. We have a progressive tax system. What are some of the benefits of these kinds of tax systems? (3-5 minutes)
- d. Discuss how income is calculated and what is taxed (3-5 minutes)
 - i. The U.S. taxes income, rather than wealth. What’s the difference between income and wealth?
 1. Wealth is what you currently have, income is what you earn
 - ii. As a result, for something to count as income, you need a realization event, which is basically the moment at which work or wealth becomes income to you. For example, selling stock would be a realization event, or pay day would be a realization event.
- e. Federal Income Tax (Pretend 20% tax rate) (1-2 minutes)
 - i. Deductions
 1. Removes income from your tax calculations

2. For example, if you have \$100, a deduction for \$20 would mean you're taxed on \$80

3. So, you would pay \$16 in tax, leaving you with \$84.

ii. Credits (1-2 minutes)

1. Gives you money back for the value of the credit

2. For example, you're taxed on \$100 but you have a credit for \$20.

3. You would be taxed \$20, but credited \$20, so you would have \$100 left.

f. Common/Important Deductions and Credits (5-10 minutes)

i. Earned Income tax credit

1. Spend significant amount of time on this one

2. Income threshold changes depending on how many children you have, your age, and a few other less important criteria.

Number of children	Maximum earned income tax credit	Max AGI, single or head of household filers	Max AGI, married joint filers
0	\$600	\$17,640	\$24,210
1	\$3,995	\$46,560	\$53,120
2	\$6,604	\$52,918	\$59,478
3 or more	\$7,430	\$56,838	\$63,398

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ii. Mortgage interest deduction

iii. Child tax credit

iv. Childcare credit

v. Education credits:

1. American opportunity tax credit
 2. Lifetime learning credit
 - vi. Student loan interest deduction
 - vii. Self-employment expenses
3. Run the tax simulation (remainder of class, 20 minutes? 12 on simulation, 8 on discussion?)
- a. Four scenarios, four groups
 - b. Each group receives a story about an individual, with income, life circumstances.

Assume each individual is filing their own tax returns; those who are married will file jointly with their spouse. Students will calculate income from various sources, and then look at various deductions that might apply. Basically, just add up what you think their income is, and then write down what deductions you think might apply. If there's time, you'll tell the rest of the class what you think it is, and we'll go through it.
 - c. What did we learn from this? A lot of deductions and credits don't apply to the wealthiest, although they have ways of avoiding taxes (legally) that we won't discuss here. This is the system's way of aiming to equalize the tax burden somewhat.