



POWELL CENTER FOR
ECONOMIC LITERACY

Lesson Plan

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Who Me? Pay Taxes?

Time Required

2 days

Economic Concepts

direct tax
income tax
indirect tax
property tax
sales tax
taxes

Overview

Many students today have trouble understanding the concept of taxation. They understand certain important services, such as fire and police protection, are provided to the public without direct payment. They may believe these services are free. However, middle school students are old enough to understand that goods and services provided by the government are not free, but paid for by taxes or by borrowing money from the public. Here is a fun way to get students thinking about taxes, budgeting, and government services.

This lesson is part of an eighth-grade U.S. history course. Taxation is introduced in the fall while examining the weaknesses of the Articles of Confederation. Discussions about taxes continue to take place throughout the year while discussing current events. This lesson provides a foundation for students to understand taxation and government services.

Objectives

- Students learn to identify goods and services provided by the government.
- Students learn about several types of taxes and how they affect people differently.
- Students learn through individual cases that many decisions about tax rates and tax revenues are a result of political factors as well as economic factors.



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Materials and Handouts

- Handout 1 **Types of Taxes**
- Handout 2 **What is a Fair Tax?**
- Handout 3 **Decision-Making Grid**
- Role Cards

Teaching Activity

Day 1

There's no such thing as a free lunch.

The people in this country receive many services from our government. We take many of these for granted, such as sewage treatment, paved roads, and national parks. These services don't just appear to us as a gift. The government pays for them with tax revenue — income received from taxing people. One example, which should interest students in public schools, relates to how much federal tax money goes into school lunches. Some students don't pay directly for their meals, while others pay a reduced rate, and still others pay full price. However, that full price is still subsidized by the government. Generally, full price covers approximately one-half the cost of preparing the meal. Where does the rest of the money come from? Taxes, of course.

Types of Taxes

Explain the concepts of income tax, property tax, and sales tax to the class. Income tax is collected at the federal level. Most states and even some cities also have an income tax. Property tax is normally levied at the local level. Citizens who own property, such as cars, boats, buildings, or land, must pay property taxes on the value of those items. Sales tax is usually levied at the local or state level. All individuals must pay a sales tax on taxable goods at the time of purchase. The amount of sales tax is determined as a percentage of the purchase amount. Some sales taxes are special purpose taxes collected to pay for a specific program.

Lead the class in a discussion on these three types of taxes. Ask students to complete Handout 1, **Types of Taxes**, and discuss their answers.

What is a fair tax?

People who live under different circumstances hold different opinions on whether or not a type of tax is fair. People have a variety of income levels, numbers of dependents, medical conditions, and other situations that contribute to an individual's ability to pay taxes. Ask students to read Handout 2, **What is a Fair**



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Tax?, and use the information to record additional information on Handout 1.

Why do we pay taxes?

To help students understand that taxes pay for government-provided services, lead a brainstorming session to list some of these services. Make a list of the ideas that are generated, and engage students in a class discussion on the source of the money used to pay for these services. Explain that the government can provide services, because it collects taxes from the people that it serves. Conclude the discussion by asking students to write answers to the following questions in their social studies journals:

- What are some government-provided services which you personally use?
- How does the government pay for those services?

Day 2

There's no such thing as a free lunch or a fair tax.

People living in different circumstances and from different backgrounds see things very differently. When this occurs, tax decisions become political issues. Review benefits-received and ability-to-pay principles with the class before beginning this part of the lesson.

Assign students to small groups. Give each group a **Decision-Making Grid**, Handout 3, and four **Role Cards**. Students should discuss each role card and use the grid to determine if the described individual would support a sales tax increase, a property tax increase, or an income tax increase. Ask each group to present their cases to the class and explain why they made each decision. Lead students in a discussion on what makes a fair tax. Many people think that *fair* is what is best for them in their situation. Ask the class whether a fair tax is a tax that is good for the majority of people.

After completing the **Decision-Making Grids** and class discussions, ask students to write a brief essay called "What is a Fair Tax?" Instruct students to incorporate the concepts of *ability to pay* and *benefits received* in their essays.

Handout 1
Types of Taxes

	Income Tax	Property Tax	Sales Tax
What type of tax is this? (progressive/regressive/flat)			
Who collects this tax?			
Who pays this tax?			
Who benefits from this tax?			
List examples of this type of tax.			

Note: The answers may differ from state to state. All questions do not have clearly right or wrong answers — even experts could disagree on some.

Handout 2

What is a Fair Tax?

There are different types of taxes. Three categories of taxes include the income tax, property tax, and sales tax. Income tax is collected at the federal level. Most states and even some cities also have an income tax. In our country, the income tax is a progressive tax, which means people with higher incomes pay a larger portion or a higher percentage of their income in taxes than people with lower incomes. Property tax is usually levied at the local level. Citizens who own property, such as cars, boats, buildings, or land, must pay property taxes on the value of those items. Sales tax is usually levied at the local or state level. All individuals must pay a sales tax on taxable goods at the time of purchase. The amount of sales tax is determined as a percentage of the purchase amount. Some sales taxes are special purpose taxes collected to pay for a specific program.

The revenue from some special taxes clearly goes to pay for specific things. For example, a tax on gasoline pays for streets and highways. This is an example of the benefits-received principle. Only those who benefit from the tax pay it. Sometimes this benefit is not as easy to determine. Do people who do not drive benefit from good highways? Do people without children benefit from good schools? According to the ability-to-pay principle, those who can best afford to pay taxes should pay the most taxes. The ability-to-pay principle would tax someone earning \$100,000 a year at a higher rate than someone who earns \$20,000 a year. These two principles are important when we try to determine what is a fair tax.

People hold different opinions on which taxes are fair. They also disagree on how government should spend tax revenue. Sometimes the question of fairness involves a difference of opinion on the different rates of income tax. People who earn a higher income pay higher tax rates. This is called a progressive tax. Some people prefer a flat rate, where everyone pays the same percent of their income. Others take issue with the property tax and sales tax. Some people see property taxes as being an unfair burden on property owners. Others see the sales tax as unfair. The sales tax is proportional in one sense and regressive in another. It is proportional in that consumers pay the same rate on their purchases, whether they buy \$10 or \$10,000,000 a year in taxable goods. The tax is generally classified as regressive, however, because low-income consumers typically spend a higher percentage of their *income* on taxable goods (and hence on the tax itself) than high-income consumers do. To avoid the regressive nature of the sales tax, many states exempt food from sales taxation.

Role Cards

Role Card 1

Occupation: accountant
Income: \$55,430
Family status: single, no children
Home: rents an apartment

Role Card 2

Occupation: artist
Income: \$43,610
Family status: single, no children
Home: rents an apartment
Other info: sole caregiver to 80-year-old mother

Role Card 3

Occupation: astronaut
Income: \$92,650
Family status: married, four school-age children
Home: owns home, pays mortgage
Other info: very happy sending children to public school

Role Card 4

Occupation: probation officer for family services
Income: \$27,120
Family status: single, two teenage children
Home: rents a two bedroom apartment
Other info: one child works part-time after school at a fast food restaurant

Role Card 5

Occupation: microbiologist
Income: \$57,190
Family status: married, two teenage children
Home: owns home, pays mortgage
Other info: often moves to different cities

Role Card 6

Occupation: bus driver
Income: \$31,160
Family status: married, one school-age child
Home: owns home, pays mortgage
Other info: child attends private school

Role Card 7

Occupation: retired chemical engineer
Income: \$51,150
Family status: married, grown children
Home: owns home, no mortgage
Other info: enjoys daily visits with grandchildren

Role Card 8

Occupation: computer systems analyst
Income: \$66,180
Family status: married, two teenage children
Home: owns home, pays mortgage
Other info: children have always attended private school

Role Card 9

Occupation: cook in local restaurant
Income: \$20,020
Family status: married, expecting a baby in two months
Home: rents an apartment

Role Card 11

Occupation: doctor
Income: \$139,640
Family status: married; two children, ages seven and 12
Home: owns home, pays mortgage
Other info: disappointed with overcrowded schools; will send children to private school next year

Role Card 13

Occupation: farm worker
Income: \$18,390
Family status: single, no children
Home: rents
Other info: moves often

Role Card 15

Occupation: firefighter
Income: \$29,690
Family status: married, two young children
Home: owns home, pays mortgage
Other info: encounters danger on the job; for example, potholes in the road or leaky fire hydrants

Role Card 10

Occupation: day-care worker
Income: \$17,400
Family status: single, no children
Home: rents an apartment
Other info: hopes to work in a new school in a pre-kindergarten class

Role Card 12

Occupation: emergency medical technician
Income: \$26,390
Family status: married, two elementary-age children
Home: rents home
Other info: disappointed with overcrowded schools

Role Card 14

Occupation: financial advisor
Income: \$79,290
Family status: divorced, three children
Home: rents home
Other info: wishes children were in private school

Role Card 16

Occupation: hairdresser
Income: \$21,810
Family status: single, no children
Home: rents, has roommate
Other info: listens to customers complain about high taxes

Role Card 17

Occupation: jeweler
Income: \$30,120
Family status: divorced, one young child
Home: owns home, pays mortgage
Other info: receives no child support; struggles to pay mortgage and child care expenses

Role Card 19

Occupation: nurse
Income: \$51,230
Family status: married, two children
Home: owns home, pays mortgage
Other info: children attend college

Role Card 21

Occupation: photographer
Income: \$29,590
Marital status: single, no children
Home: rents a studio
Other info: hired by city to photograph cracks in drainpipes

Role Card 23

Occupation: heating & air conditioning mechanic & installer
Income: \$37,290
Family status: married, four children
Home: Owns home, pays mortgage
Other info: youngest child is asthmatic

Role Card 18

Occupation: lawyer
Income: \$107,800
Family status: married, three young children
Home: owns home, pays mortgage
Other info: children attend neighborhood public school

Role Card 20

Occupation: pharmacist
Income: \$78,620
Family status: married, three teenage children
Home: owns home, pays mortgage
Other info: member of the school board

Role Card 22

Occupation: physical therapist
Income: \$60,350
Family status: married, grown children
Home: owns home, no mortgage
Other info: Elderly parent lives with couple

Role Card 24

Occupation: plumber
Income: \$43,450
Family status: married, two children
Home: owns home, pays mortgage
Other info: children attend private school, spouse is a school teacher

Role Card 25

Occupation: psychologist
Income: \$57,820
Family status: divorced, joint custody of three children
Home: owns home, pays mortgage

Role Card 27

Occupation: retired traveling salesperson
Income: \$29,000-fixed
Family status: widowed, grown children
Home: owns home, house is paid-for
Other info: happy to pay property tax when children were young but now would like a tax break

Role Card 29

Occupation: secretary
Income: \$26,540
Family status: married, four children
Home: owns home, pays mortgage
Other info: wants to quit job and go back to school

Role Card 31

Occupation: cashier for department store
Income: \$16,470
Family status: single
Home: rents a studio apartment
Other info: attending community college part-time

Role Card 26

Occupation: receptionist
Income: \$22,150
Family status: single
Home: shares rent with two roommates
Other info: wants to have children

Role Card 28

Occupation: roofer
Income: \$32,820
Family status: married, two children
Home: rents
Other info: pleased with children's education

Role Card 30

Occupation: Commercial Pilot
Income: \$129,230
Family status: divorced, three children
Home: rents
Other info: pays for mortgage on home where former spouse and children reside

Role Card 32

Occupation: waitress
Income: \$15,690
Family status: recently divorced, two grown children
Home: owns home, house paid for
Other info: was a stay-at-home mom until divorce

Salaries are based on averages taken from the *Occupational Outlook Quarterly*, 1999, published by the U.S. Department of Labor.