

TEACHER'S GUIDE



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Video Page



What's Taxing About Taxes?

Teacher's Guide

This Teacher's Guide includes the following:

- Suggested Lesson Plan
- Preview Questions
- Key Terms
- Viewing Guide
- Discussion Questions
- Activity: Who Chooses
- Quiz
- Enrichment and Integration Activities
- Answer Key

Suggested Lesson Plan

These materials may be used in a variety of ways. For maximum benefit, we suggest the following lesson plan:

- As a class, discuss the Preview Questions and Key Terms.
- Distribute copies of the Viewing Guide for students to use as a note-taking tool during the video.
- Play the video, pausing if needed to facilitate understanding and note-taking.
- Review and discuss answers to the Viewing Guide using Answer Key as a guide.
- Use Discussion Questions to spark class discussion, or assign these questions as homework.
- As a class or in small groups, complete the Who Chooses Activity.
- Replay the video as preparation for the Quiz.
- Administer and grade the Quiz using Answer Key as a guide.
- Optional: Assign one or more Enrichment Activities as homework or group projects.

What's Taxing About Taxes?

Preview Questions

(These are meant to be read aloud by the teacher.)

1. Why do we need taxes?
2. Who pays taxes?
3. How do taxes affect people's lives?
4. What's fair when it comes to paying taxes?

What's Taxing About Taxes?

Key Terms and Definitions

Federal income tax – the tax imposed by the federal government on taxable income

Flat tax – an income tax system in which everyone pays the same tax rate regardless of their income; or one in which everyone pays the same tax rate on all income above a certain amount (most flat tax proposals in the U.S. are of this second type)

Incentive – any factor, financial or non-financial, that provides a motive for a particular course of action, or counts as a reason for preferring one choice to the alternatives

Progressive tax – a tax in which the tax rate increases as the taxable amount increases

Quintile – a data set of 20% (1/5) of the entire group

Tax revenue – the income that is gained by governments through taxation

Tax code – Internal Revenue Code; federal tax law, printed in several volumes, covering income, payroll, estate and gift taxes

Tax rate – the percentage at which an individual or business is taxed (A marginal tax rate refers to the tax rate an individual would pay on one additional dollar of income.)

Name: _____

Date: _____

What's Taxing About Taxes? **Viewing Guide, page 1**

1. These students are about to discover what's so taxing about _____.
2. In 1913, when the _____ was established, the tax act was only 27 pages long.
3. From 1939 to 1943, the individual income tax evolved from being a tax on just _____ into a tax on just about everyone.
4. By 1943, the number of taxable returns climbed to _____ and the government's revenue was boosted to \$13 billion.
5. By 2013, Americans were spending over _____ hours and more than _____ on tax preparation.
6. That [money paid in taxes] is money that could be used to further _____ their business, to create jobs, to invest in equipment.
7. The top tax rate that people pay is _____, which is an income tax rate.
8. If business owners make the decision to either retire or close up their business, it will have an impact on the amount of _____ available.
9. The gross annual income of the top _____ of Americans starts at \$136,113.
10. These people [top 20%] make about 49% of all post-tax income earned in the U.S....They pay nearly _____ of all federal taxes.
11. _____ of households don't pay federal income tax.
12. The tax in the United States is a _____ tax, which taxes you more the more you earn.

Name: _____

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What's Taxing About Taxes? **Viewing Guide, page 2**

13. Just as a cigarette tax makes people not want to smoke, increasing the federal income tax could make people not want to _____.
14. Franklin Roosevelt wanted a _____ tax on everything individuals earned over \$25,000.
15. The richest _____ of Americans, people with an income of \$199,413 or more, paid...about 54% of all federal taxes.
16. The top 1%...make above \$685,701 a year. These people earn about 13% of all post-tax income...They pay a little more than _____ of the federal taxes.
17. "We [Estonia] were the first country that instituted and created this idea of the _____ personal income tax."

What's Taxing About Taxes?

Discussion Questions, page 1

1. Why did the students decide to do interviews? What did they ask? What did the man-in-the-street interviews show about people's knowledge about taxes?
2. What has happened to the size of the tax code since the time the federal income tax was established? What does this indicate?
3. What happened to the federal income tax between 1939 and 1943? Why did the government need more money during those years?
4. Why do middle- and lower-income people need to hire accountants to do their taxes? What are some other productive things people could do with the time and money currently spent on tax preparation?
5. If a small business is taxed at a 35% rate on \$1 million in taxable income, how much would they pay in taxes? What are some other uses for that money? Should these people be required to pay more in taxes? Explain.
6. Think about the example from the film about the tax rate increasing each day of the week. Do you have a job? If so, what is your tax rate? Would you want to work if you knew you would be taxed at a rate of 50% or more? Why/why not? At what tax rate would you decide it wasn't worth it to work? Explain.
7. Who is more likely to have the option of cutting back on work when tax rates increase, a rich person or a poor person? When higher-income individuals earn less, how does this affect tax revenue? How does it affect the economy?
8. What are some ways American businesses respond to high tax rates? If you were a business owner, what would you do if your taxes went up? How would your actions affect your workers?
9. The top income quintile (top 20%) earns about 49% of the post-tax income in the U.S. but pays almost 69% of all federal taxes. Is this fair? Should they pay more or less than this? Explain.

What's Taxing About Taxes? **Discussion Questions, page 2**

10. 43% of households pay no federal income tax. What are the reasons for this?
11. How do income taxes affect people's incentives to work? Which system creates stronger disincentives – a flat tax or a progressive tax? Explain.
12. If your teacher decided to start averaging all of your class test scores and giving everyone the average score, would you study more or less than you do now? What would your classmates do? What do you think would happen to the total class output or production (learning)? What does this analogy show us about taxation and redistribution?
13. What is a social safety net? How generous does it need to be? What are the downsides to a safety net that is either too small or too large?
14. "Let's look at the facts: Who really pays taxes and what's really fair?" What is fair? If we know the facts, does this tell us what's fair? Explain.
15. What is the difference between a flat tax and a progressive tax? By what standard of fairness could someone consider a progressive income tax fair? By what standard of fairness could someone consider a flat tax to be fair?
16. What, if anything, is the difference between taxation and theft? The narrator suggests that taxation comes closer to theft the higher the marginal rates are. Do you agree? Explain.
17. "Higher tax rates could be construed as fines. It's like the government is saying, 'It's wrong to make money.'" Discuss.
18. Is it a good thing or a bad thing for society if a small fraction of the population ends up paying for all of the expenses of government? Explain.
19. Suppose we cut the top tax rate from 39.6% to 30%, while keeping the lowest two rates at 10 and 15%, and continuing the policies where low-income people pay no taxes. Suppose someone argues: "This isn't fair! This tax cut is going entirely to the rich, and low-income people aren't getting any of it." Is this person right? Is a system that taxes the rich at 30% of their next dollar, the middle class at 15% and the poor not at all, unfair to the middle class or poor? Is it fairer to them to tax the rich at 40% than at 30%? Does it benefit them to do so? Explain.

What's Taxing About Taxes?

Activity:

Who chooses? Who benefits? Who pays? What's fair?

[These four questions can be a useful tool for evaluating any policy or system. Posing the questions is a great way to stimulate critical thinking.]

As a class, or in small groups, discuss the following:

(For each question, think broadly about all the possible people or groups of people who may be affected, and remember there may be non-monetary costs and benefits.)

1. Do people choose to pay taxes? How do people's choices affect the taxes they pay? How do taxes affect people's choices?
2. Have you ever decided not to buy something because the sales tax made it too expensive? If you had a choice between buying an item in a high sales tax location or buying it in a low sales tax location, what would you do?
3. Who chooses or decides what federal income tax rates will be? How is this decided? Who has a say in the decision? Who benefits from the taxes? Who pays?
4. What are some other types of taxes? How can taxing something take away a choice from people? For example, how do cigarette taxes or soft drink taxes affect the choices available to people?
5. Suppose you make \$50,000 per year. Someone offers you a new job at \$100,000 per year, but to take it you would have to move to a new city. You have a choice to make. Now suppose the government imposes a tax of 80% on all income over \$50,000. Do you have the same choices available to you now? Explain.
6. Can taxation of income take away a choice from someone, or diminish people's choices? What if the government taxed all income at 100%? At what levels, if any, would you consider income taxes a deprivation of choice?

Name: _____

Date: _____

What's Taxing About Taxes? **Quiz, page 1**

1. When was the federal income tax permanently established in the United States?
 - A) 1813
 - B) 1913
 - C) 1933
 - D) 1943
2. Between _____, the individual income tax evolved into a tax on everyone, not just the rich.
 - A) 1913 and 1929
 - B) 1929 and 1933
 - C) 1939 and 1943
 - D) 1943 and 1970
3. How many households currently pay no federal income tax?
 - A) 1%
 - B) 13%
 - C) 43%
 - D) none
4. The top _____ consists of people earning over \$685,701/year.
 - A) 1%
 - B) 5%
 - C) 10%
 - D) 20%
5. The top 20% earn about 50% of all income but pay about _____ of all federal income tax.
 - A) 27%
 - B) 43%
 - C) 54%
 - D) 69%

Name: _____

Date: _____

What's Taxing About Taxes? **Quiz, page 2**

6. A tax that takes a larger percentage from the income of high-income individuals than from low-income individuals is a _____.
- A) flat tax
 - B) progressive tax
 - C) regressive tax
 - D) payroll tax
7. Higher taxes give business owners an incentive to _____.
- A) expand and increase hiring
 - B) close their business
 - C) move their business to another country
 - D) both B and C
8. Which two categories combined account for over half of all federal spending?
- A) health care and pensions
 - B) defense and transportation
 - C) education and welfare
 - D) defense and interest on the debt
9. Which country successfully adopted a flat tax?
- A) Germany
 - B) Finland
 - C) Sweden
 - D) Estonia
10. By 1943, more than _____ U.S. income earners were filing federal income tax.
- A) 4,000
 - B) 4,000,000
 - C) 40,000,000
 - D) 400,000,000
11. What's fair? What percent should people pay in taxes?

What's Taxing About Taxes?

Enrichment and Integration Activities, page 1

- I. Research: Job market. According to the video, airline pilots earn an income near the bottom of the top quintile (top 20%) of earners, around \$136,000 per year. Find five typical occupations for each of the income quintiles in the U.S. Present your data in a report that includes graphics.

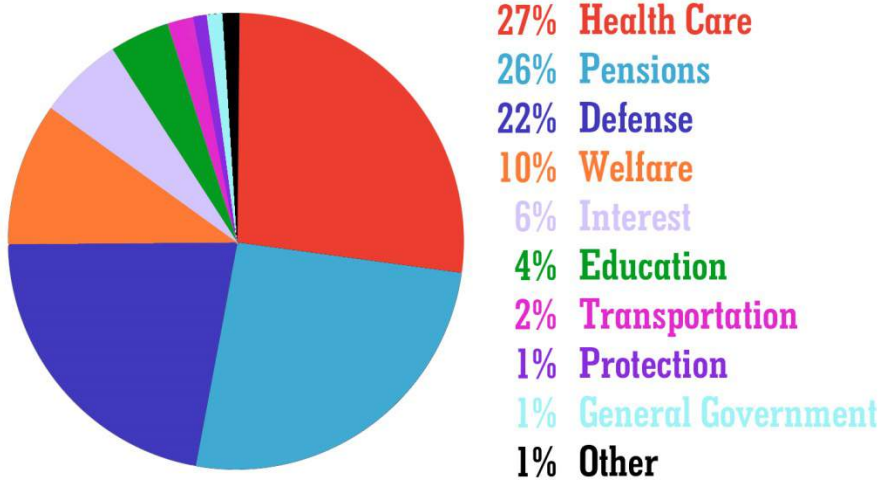
- II. Math: Percent and revenues. Technology: Spreadsheets. Suppose a person earning \$25,000 pays \$2500 in taxes, someone earning \$50,000 pays \$7500 in taxes, and a person earning \$250,000 pays \$62,500 under the current progressive tax system. What percentage of income does each pay in taxes? How much total tax revenue do these three individuals bring in to the government? Now imagine there is a proposal to switch to a flat tax. Approximately what would the flat tax rate need to be to bring in the same amount of total revenue as before? How much more or less would each individual in the example pay? Finally, suppose someone proposes a modified flat tax, in which the first \$20,000 in income is exempt from income taxes. How much would each individual pay if the flat tax rate is 25%? What would the total revenue be? Record your answers in a table. To incorporate technology, use a spreadsheet to display your data and use formulas to do the math calculations for you. Create various charts using the spreadsheet software.

- III. Debate, Speech or Persuasive Writing: Flat Tax. Research and study the flat tax in its various forms, and the arguments pro and con. Conduct a class debate with one side arguing for and the other side against the adoption of a flat tax in the U.S. Be sure to define the terms of your debate. OR, write a persuasive essay or give a speech in favor of or against the adoption of a flat tax. Support your position with evidence and reasoning.

- IV. Survey: Tax knowledge. Conduct your own survey to gauge public awareness about taxes. Create a questionnaire designed to test people's knowledge about tax rates and who pays taxes. Using your questions, conduct interviews or ask people to complete the survey online. Tabulate your results and compare them with the information presented in the video. Present your findings in a written or oral report. To incorporate technology, use survey software to create your survey and to compile your data. Alternatively, use a spreadsheet software to create charts of your data.

What's Taxing About Taxes? **Enrichment and Integration Activities, page 2**

- V. Math: Budgeting. Look at the circle graph of government expenditures from the video, reprinted below. What are the three biggest categories of expenditures? If you wanted to reduce government spending in order to reduce taxes, which categories would you cut? Within those categories, what specific items would you spend less on?



Name: _____

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A Different Tax Rate Per Day Exercise

In the video, there is a hypothetical discussion about what if on each day of work, you were taxed at a different rate. Fill out the chart below to see the impact of various rates of taxation on net pay. In the blank columns, choose your own wage and calculate.

Alternatively, create your own spreadsheet and use formulas to do the calculations for you.

Calculate daily earnings based on 8 hours. For the weekly and annual salary, you will have to calculate those daily earnings.

Wage	\$15 per hour	\$9 per hour	\$400 per week	\$35,000 per year		
Daily earnings (gross pay)						
Mon. 10% Tax						
Mon Take Home (net) pay						
Tues. 20% Tax						
Tues Take Home (net) pay						
Wed. 30% Tax						
Wed. Take Home (net) Pay						
Thur. 40% Tax						
Thur. Take Home (net) Pay						
Fri. 50% Tax						
Fri. Take Home (net) Pay						
Weekly Gross						
Total Tax Deducted Mon - Fri						
Weekly Take Home (net) Pay						
Average Tax percentage (weekly)						

Let's say these taxation rules were in place, and you were going to work only 3 days per week. Which days would you choose to work? Why?

What's Taxing About Taxes? **Viewing Guide Answer Key**

1. taxes
2. income tax
3. the rich
4. 41 million
5. 6 billion hours; \$160 billion
6. expand
7. 39.6%
8. jobs
9. 20%
10. 69%
11. 43%
12. progressive
13. work
14. 100%
15. 10%
16. 27%
17. flat rate

Quiz Answer Key

1. B) 1913
2. C) 1939 and 1943
3. C) 43%
4. A) 1%
5. D) 69%
6. B) progressive tax
7. D) both B and C
8. A) health care and pensions
9. D) Estonia
10. C) 40,000,000

A Different Tax Rate Per Day Exercise Answer Key

Wage	\$15 per hour	\$9 per hour	\$400 per week	\$35, 000 per year		
Daily earnings (gross pay)	\$120	\$72	\$80	\$134.62		
Mon. 10% Tax	\$12	\$7.20	\$8.00	\$13.46		
Mon Take Home (net) pay	\$108	\$64.80	\$72.00	\$121.16		
Tues. 20% Tax	\$24	\$14.40	\$16.00	\$26.92		
Tues Take Home (net) pay	\$96	\$57.60	\$64.00	\$107.70		
Wed. 30% Tax	\$36	\$21.60	\$24.00	\$40.39		
Wed. Take Home(net)Pay	\$84	\$50.40	\$56.00	\$94.23		
Thur. 40% Tax	\$48	\$28.80	\$32.00	\$53.85		
Thur. Take Home (net) Pay	\$72	\$43.20	\$48.00	\$80.77		
Fri. 50% Tax	\$60	\$36.00	\$40.00	\$67.31		
Fri. Take Home (net)Pay	\$60	\$36.00	\$40.00	\$67.31		
Weekly Gross	\$600	\$360	\$400.00	\$673.10		
Total Tax Deducted Mon - Fri	\$180	\$108.00	\$120.00	\$201.93		
Weekly Take Home (net) Pay	\$420	\$252.00	\$280.00	\$471.17		
Average Tax percentage (weekly)	30%	30%	30%	30%		

Answers for discussion question will vary, but will likely reflect the idea that by working Mon – Wed, they will pay less in taxes and keep more of what they’ve earned. Ask them to calculate their average tax rate for working those 3 days. (20%)

Answers for the columns where students chose the wage amount will also vary and will have to be checked individually.

Consider using some “odd” wage amounts to increase the mathematical difficulty level. Skills used: multiplication, division, rounding, decimals, percentages...

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