

Understanding taxes and your paycheck

Students analyze statements about taxes to better understand how taxes affect people's paychecks.

Learning goals

Big idea

Understanding why and how taxes and other items are deducted from a worker's paycheck is an important step toward gaining financial knowledge.

Essential questions

- What are taxes and why do we pay them?
- How do taxes affect the money a person brings home in their paycheck?

Objectives


- Understand what taxes are deducted from our paychecks
- Understand how these deductions affect our paychecks

What students will do

- Determine which statements about taxes are true and false.
- Participate in a class discussion about taxes and paychecks.

KEY INFORMATION

Building block:

 Financial knowledge and decision-making skills

Grade level: High school (9-12)

Age range: 13-19

Topic: Earn (Getting paid, Paying taxes)

School subject: CTE (Career and technical education), English or language arts, Social studies or history

Teaching strategy: Direct instruction, Simulation

Bloom's Taxonomy level: Understand, Apply

Activity duration: 45-60 minutes

STANDARDS

Council for Economic Education
Standard I. Earning income

Jump\$tart Coalition

Employment and income - Standard 3

Financial decision-making - Standards 1 and 2

Preparing for this activity

- Print copies of all student materials for each student, or prepare for students to access them electronically.
- Review two resources students can research to answer questions on the worksheet:
 - The Federal Trade Commission’s resource on paychecks:
<https://www.consumer.gov/articles/1025-your-paycheck#!what-it-is>
 - The USA.gov webpage about state and local taxes:
<https://www.usa.gov/state-taxes>
- Secure a computer and a projector or a smartboard to show those web resources to students.

What you’ll need

THIS TEACHER GUIDE

- **Understanding taxes and your paycheck (guide)**
[cfpb_building_block_activities_understanding-taxes-paycheck_guide.pdf](#)
- Computer and a projector or smartboard
- Two web resources: <https://www.consumer.gov/articles/1025-your-paycheck#!what-it-is> and <https://www.usa.gov/state-taxes>

STUDENT MATERIALS

- **Understanding taxes and your paycheck (worksheet)**
[cfpb_building_block_activities_understanding-taxes-paycheck_worksheet.pdf](#)

Exploring key financial concepts

When you get your first paycheck, the terms and amounts on the pay stub may not always be easy to understand. You may wonder why your take-home pay is different from what you expected, based on what you earned. This may be your first direct experience with paying payroll and income taxes. In fact, it’s not uncommon to ask “Where did all my money go?” after getting your first paycheck. Understanding why and how taxes and other items are deducted from a worker’s paycheck is an important step toward gaining financial knowledge.

TIP

Because terms and laws related to taxes change, students should be encouraged to always look for the most up-to-date information.

Teaching this activity

Whole-class introduction

- Explain to students that they'll work in teams to complete the worksheet, determining whether each statement is true or false.
- Let students know that if they're unsure whether a statement is true or false, they can use two government webpages to help them confirm the correct answer.
- Using a projector or a smartboard, show the two Internet resources students can use if necessary:
 - A Federal Trade Commission resource on paychecks:
<https://www.consumer.gov/articles/1025-your-paycheck#!what-it-is>
 - The USA.gov webpage about state and local taxes:
<https://www.usa.gov/state-taxes>
 - Note: If you don't have technology available to share the resources in that way, you can print and copy them for students.
- Be sure students understand key vocabulary:
 - **FICA - Federal Insurance Contributions Act:** A tax deducted from your pay to contribute to Social Security and Medicare; your employer contributes the same amount on your behalf.
 - **Medicare:** A health insurance program for people who are 65 or older, certain younger people with disabilities, and people with permanent kidney failure requiring dialysis or a transplant; financed by deductions from wages and managed by the federal Social Security Administration.
 - **Payroll tax:** Taxes taken from your paycheck, including Social Security and Medicare taxes.
 - **Social Security:** Provides benefits for retired workers and people with disabilities, as well as the unmarried children, surviving spouses, or former spouses (in certain cases) of both.

TIP

Visit CFPB's financial education glossary at consumerfinance.gov/financial-education-glossary/.

Group work

- Divide the students into teams.
- Distribute the "Understanding taxes and your paycheck" worksheet.

- Let students know that they'll only have 15-20 minutes to complete their worksheets.
- Suggest that a student on each team read each statement aloud and that the team then work together to determine whether the statement is true or false.
- Invite students to share their thoughts and opinions openly with teammates.
- Teams can use <https://www.consumer.gov/articles/1025-your-paycheck#!what-it-is> and <https://www.usa.gov/state-taxes> if they're stuck.
 - However, they'll only have 15-20 minutes to respond to the statements so time is very limited. They'll need to think of creative ways to confirm their responses.

Wrap-up

- Review each statement one at a time.
- Read the statement and ask each team to indicate whether they believe that statement is true or false.
 - If they think it's true, they'll give a thumb's up sign.
 - If they think it's false, they'll give a thumb's down sign.
- After the voting for each statement, invite students to discuss the reasons for their responses.
 - Be sure each group contributes to the discussion.
- Share the correct answer with students and use the answer guide to help extend the discussions related to the questions.
- If there's time, have students review the reflection question and share their responses.

Suggested next steps

Consider searching for other [CFPB activities](#) that address the topic of earning, including getting paid or paying taxes.

Measuring student learning

Students' responses can give you a sense of their understanding.

This answer guide provides possible answers for the "Understanding taxes and your paycheck" worksheet.

Keep in mind that students' answers may vary. The important thing is for students to have reasonable justification for their answers.

Answer guide

1. FALSE: A pay stub comes with your paycheck and tells you how much money you earned, the pay period you're getting paid for, and what taxes and other money have been deducted from your pay. A paycheck is the money you receive for doing your job after deductions. To get the money, you cash your paycheck at a bank, credit union, or other business. You can also deposit your paycheck in your bank or credit union account.
2. TRUE: Gross income is all the money you earned at your job. But you don't get to keep all of your gross income because your employer takes money out to pay for taxes and benefits. Take-home pay, which is also called net income, is the money you get in your paycheck after the deductions.
3. TRUE: Federal law requires employers to deduct money for federal income taxes and FICA taxes (Social Security and Medicare taxes).
4. FALSE: FICA stands for the Federal Insurance Contributions Act. The federal government uses FICA taxes from your paycheck to support Social Security and Medicare.
5. TRUE: By selecting your withholdings, you can choose how much money your employer takes out of your paycheck for taxes. When you have a big change in your life (such as getting married, having a baby, or changing your job), the amount of taxes you owe may increase or decrease. To have the right amount of money deducted for taxes, you change your withholdings.
6. FALSE: You pay sales taxes when you buy goods and services, including things like cars, clothes, and movie tickets.

Reflection question: Answers will vary and may include deductions for insurance and retirement.