

SESSION 2:

Earning Income and Paying Taxes

Session Description

Students will learn about sources of income for most people and the type of income related to each source. They will learn about human capital and the return to investments in human capital. They will learn about government transfer programs. They will also learn about income and payroll taxes, gross income, and net income.

Talking Points

Money Management

1. People earn income by providing resources in the marketplace.
 - a. If they provide labor, they receive income in the form of a wage or salary.
 - b. If they provide natural resources—land or trees or resources found underground—they earn rent.
 - c. People can earn interest income from letting other people borrow their money.
 - d. People earn interest when they keep money in savings accounts and CDs. People also earn interest, dividends, and capital appreciation or gains through financial investments that they make.
 - e. People who own or start new businesses (entrepreneurs) earn income in the form of profit.
2. Some people receive income support from the government because they have low incomes or because they qualify in some other way for government assistance. For example, people who are retired receive Social Security payments and people with low incomes are eligible for welfare payments. Both Social Security and welfare payments are transfer payments because money is transferred from those currently working to those receiving welfare or Social Security.
3. The choices people make over their lifetimes about education, jobs, and careers affect their incomes and their opportunities.
4. People with more education and more job skills tend to earn higher incomes than those with less education and fewer job skills.
5. Getting more education and learning new job skills can increase a person's human capital and productivity. Human capital is the education and skills that a person possesses.

Tools for Teaching the Missouri Personal Finance Competencies

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6. Investing in human capital involves obtaining more education and more job skills. Such investments generally pay off with higher levels of income over a lifetime. However, there are opportunity costs associated with obtaining education, training, and skills.
7. A career is based on working at the same type of job/occupation or profession for many years. Different careers require different types of education and training.
8. People choose jobs or careers for which they are qualified based on the income they expect to earn and the benefits they expect to receive. Benefits include things such as health insurance coverage and retirement plans. People also make choices based on expected job satisfaction, independence, risk, family, or location.

Taxes, Government Transfer Programs, and Employee Benefits

1. Income earned from working and most other sources of income are taxed. Taxes are required payments to the government. Governments use the revenue from these taxes to operate and provide goods and services.
2. Taxes that most people pay on income include
 - a. federal income taxes and, in some states, a state income tax;
 - b. payroll taxes for the Federal Insurance Contributions Act (FICA), which include both Social Security payments and Medicare payments; and
 - c. taxes on interest and dividends earned as well as taxes on capital gains.
3. The amount of income tax and FICA paid affects net pay.
 - a. Gross pay is the amount people earn for the work that they do.
 - b. Net pay is the amount people receive after taxes and other deductions are taken out.
4. How much income tax a person pays is tied to the amount they earn and the information they report to their employer on the W-4 form. The form tells employers what factors to consider when determining the amount of tax an employee pays and include whether the employee
 - a. is single or married,
 - b. is the head of a household, or
 - c. has a spouse who is employed.
5. Another factor that affects an employee's net pay is deductions for employee benefits. For example, if the company offers health care, typically an employee pays a portion of the monthly cost. This payment is deducted from the employee's pay. And, if the

company provides a 401(k) or Roth 401(k) retirement account, the employee's contributions are deducted each pay period either before or after taxes are paid, depending on the type of retirement account.

6. Once all taxes and other payments are deducted from a paycheck, the amount remaining is net pay.
7. Once people pay their bills, the amount remaining is their disposable income.

Session 2: Standards and Benchmarks

Missouri Personal Finance Competencies

Income

1. Identify components and sources of income.
2. Analyze how career choice, education, skills, and economic conditions affect income and goal attainment.
3. Relate taxes, government transfer payments, and employee benefits to disposable income.

National Standards for Financial Literacy

Standard 1: Earning Income, Grade 8 Benchmarks

2. People make many decisions over a lifetime about their education, jobs, and careers that affect their incomes and job opportunities.
3. Getting more education and learning new job skills can increase a person's human capital and productivity.
4. People with less education and fewer job skills tend to earn lower incomes than people with more education and greater job skills.
5. Investment in education and training generally has a positive rate of return in terms of the income that people earn over a lifetime.
6. Education, training, and development of job skills have opportunity costs in the form of time, effort, and money.
8. Entrepreneurs take the risk of starting a business because they expect to earn profits as their reward, despite the fact that many new businesses can and do fail. Some entrepreneurs gain satisfaction from working for themselves.
9. Interest, dividends, and capital appreciation (gains) are forms of income earned from financial investments.
10. Some people receive income support from government because they have low incomes or qualify in other ways for government assistance.
11. Social Security is a government program that taxes the income of current workers to provide retirement, disability, and survivor benefits for workers or their dependents.

Standard 1: Earning Income, Grade 12 Benchmarks

1. People choose jobs or careers for which they are qualified based on the income they expect to earn and the benefits, such as health insurance coverage or a retirement plan that they expect to receive.

2. People choose jobs or careers for which they are qualified based on non-income factors, such as job satisfaction, independence, risk, family, or location.
3. People vary in their willingness to obtain more education or training because these decisions involve incurring immediate costs to obtain possible future benefits. Discounting the future benefits of education and training may lead some people to pass up potentially high rates of return that more education and training may offer.
4. People can make more informed education, job, or career decisions by evaluating the benefits and costs of different choices.
5. The wage or salary paid to workers in jobs is usually determined by the labor market. Businesses are generally willing to pay more productive workers higher wages or salaries than less productive workers.
6. Changes in economic conditions or the labor market can cause changes in a worker's income or may cause unemployment.
7. Taxes are paid to federal, state, and local governments to fund government goods and services and transfer payments from government to individuals. The major types of taxes are income taxes, payroll (Social Security) taxes, property taxes, and sales taxes.
8. People's sources of income, amount of income, as well as the amount and type of spending affect the types and amounts of taxes paid.

Common Core State Standards

- CCSS.ELA-Literacy.RH.9-10.1 Cite specific textual evidence to support analysis of primary and secondary sources, attending to such features as the date and origin of the information.
- CCSS.ELA-Literacy.RH.9-10.2 Determine the central ideas or information of a primary or secondary source; provide an accurate summary of how key events or ideas develop over the course of the text.
- CCSS.ELA-Literacy.RH.9-10.4 Determine the meaning of words and phrases as they are used in a text, including vocabulary describing political, social, or economic aspects of history/social science.
- CCSS.ELA-Literacy.SL.9-10.1 Initiate and participate effectively in a range of collaborative discussions (one-on-one, in groups, and teacher-led) with diverse partners on grades 9–10 topics, texts, and issues, building on others' ideas and expressing their own clearly and persuasively.
 - CCSS.ELA-Literacy.SL.9-10.1D Respond thoughtfully to diverse perspectives, summarize points of agreement and disagreement, and, when warranted, qualify or justify their own views and understanding and make new connections in light of the evidence and reasoning presented.

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- CCSS.ELA-Literacy.L.9-10.6 Acquire and use accurately general academic and domain-specific words and phrases, sufficient for reading, writing, speaking, and listening at the college and career readiness level; demonstrate independence in gathering vocabulary knowledge when considering a word or phrase important to comprehension or expression.
- CCSS.ELA-Literacy.RH.11-12.1 Cite specific textual evidence to support analysis of primary and secondary sources, connecting insights gained from specific details to an understanding of the text as a whole.
- CCSS.ELA-Literacy.RH.11-12.2 Determine the central ideas or information of a primary or secondary source; provide an accurate summary that makes clear the relationships among the key details and ideas.
- CCSS.ELA-Literacy.SL.11-12.1 Initiate and participate effectively in a range of collaborative discussions (one-on-one, in groups, and teacher-led) with diverse partners on grades 11-12 topics, texts, and issues, building on others' ideas and expressing their own clearly and persuasively.
 - CCSS.ELA-Literacy.SL.11-12.1D Respond thoughtfully to diverse perspectives; synthesize comments, claims, and evidence made on all sides of an issue; resolve contradictions when possible; and determine what additional information or research is required to deepen the investigation or complete the task.
- CCSS.ELA-Literacy.L.11-12.6 Acquire and use accurately general academic and domain-specific words and phrases, sufficient for reading, writing, speaking, and listening at the college and career readiness level; demonstrate independence in gathering vocabulary knowledge when considering a word or phrase important to comprehension or expression.

Session 2: Resources

Income and Earning Income

1. Complete one of the following, either the print lesson or the online course:
 - a. Print lesson with PowerPoint and whiteboard resources:
[It's Your Paycheck—Know Your Dough, Lesson 1: Invest in Yourself](http://www.stlouisfed.org/education_resources/its-your-paycheck-curriculum-unit/);
http://www.stlouisfed.org/education_resources/its-your-paycheck-curriculum-unit/
 - b. Online course: It's Your Paycheck—Know Your Dough, Lesson 1: Invest in Yourself
 - i. Go to www.stlouisfed.org.
 - ii. Choose "Education Resources."
 - iii. Choose  [Teachers: Go directly to the Online Course Login](#) .
 - iv. Create an account or, if you already have an account, log in.
 - v. Register your class for the "It's Your Paycheck—Know Your Dough, Lesson 1: Invest in Yourself" course.

NOTE: The introductory activity in the online course is different from the activity in the print lesson.

2. Online videos: Personal Finance 101 Conversations (NOTE: Making education decisions is related to this unit as well as Session 1 [Decisionmaking], so these videos are included in both sessions.)
 - a. [Episode 14, FAFSA 101](http://www.stlouisfed.org/education_resources/personal-finance-101-conversations/episode-14-fafsa-101/) (7:43); http://www.stlouisfed.org/education_resources/personal-finance-101-conversations/episode-14-fafsa-101/
 - b. [Episode 15, College Choice 101](http://www.stlouisfed.org/education_resources/personal-finance-101-conversations/episode-15-college-choice-101/) (5:26); http://www.stlouisfed.org/education_resources/personal-finance-101-conversations/episode-15-college-choice-101/
 - c. [Episode 16, Financial Aid 101](http://www.stlouisfed.org/education_resources/personal-finance-101-conversations/episode-16-financial-aid-101/) (8:38); http://www.stlouisfed.org/education_resources/personal-finance-101-conversations/episode-16-financial-aid-101/
3. Print lesson with whiteboard resources: [Government Spending and Taxes](http://www.stlouisfed.org/education_resources/government-spending-and-taxes/);
http://www.stlouisfed.org/education_resources/government-spending-and-taxes/

Paying Taxes

4. Complete one of the following, either the print lesson or the online course:
 - a. Print lesson with PowerPoint and whiteboard resources:
[It's Your Paycheck—Know Your Dough, Lesson 2: "W" Is for Wages, W2 and W4](http://www.stlouisfed.org/education_resources/its-your-paycheck-curriculum-unit/);
http://www.stlouisfed.org/education_resources/its-your-paycheck-curriculum-unit/

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- b. Online course: It's Your Paycheck—Know Your Dough, Lesson 2: "W" Is for Wages, W2, and W4
 - i. Go to www.stlouisfed.org.
 - ii. Choose "Education Resources."
 - iii. Choose  [Teachers: Go directly to the Online Course Login](#) .
 - iv. Create an account or, if you already have an account, log in.
 - v. Register your class for the "It's Your Paycheck—Know Your Dough, Lesson 2: "W" is for Wages, W2, and W4" course.

5. Online lessons: Personal Finance 101 Chats (Lessons in the form of instant-messaging chats)
 - a. [W-4](#) (Provides instruction for how to complete a W-4 form);
http://www.stlouisfed.org/education_resources/personal-finance-101-chats/personal-finance-101-chat-w-4/
 - b. [1040 EZ](#) (Provides instruction for how to complete a 1040-EZ form);
http://www.stlouisfed.org/education_resources/personal-finance-101-chats/pf-101-chat-1040ez/