

## Lesson C2-1

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# Understanding Federal and State Income Taxes

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**Unit C.** Agribusiness in the World Market

**Problem Area 2.** Understanding Agribusiness Taxes

**Lesson I.** Understanding Federal and State Income Taxes

### **New Mexico Content Standard:**

**Pathway Strand:** Agribusiness Systems

**Standard: III:** Apply generally accepted accounting principles and skills to manage budget, credit, and optimal application of AFNR business assets.

**Benchmark: III-A:** Use key accounting fundamentals to accomplish dependable book-keeping and associated files.

**Performance Standard: 6.** Prepare tax forms (e.g., W-4, I9, Depreciation, 1099, Workers Compensation).

**Student Learning Objectives.** Instruction in this lesson should result in students achieving the following objectives:

1. Discuss why the tax system was started.
2. Explain general principles of taxation.
3. Demonstrate how to fill out state and national forms.

**List of Resources.** The following resources may be useful in teaching this lesson:

**Recommended Resources.** One of the following resources should be selected to accompany the lesson:

IRS Publications: Farmer's Tax Guide, Schedule 2210-F, 4835, 1040-J and many others.

IRS Publications: Understanding Taxes—High School Resource Kit.

Rogers, Betty C. *Mathematics for Agriculture*. Danville, Illinois: Interstate Publishers, Inc., 2000. (Textbook, Chapter 4)

Internet address: [www.irs.gov](http://www.irs.gov) (The above IRS Publications are available through this Web site.)

## List of Equipment, Tools, Supplies, and Facilities

Writing surface

Overhead projector

Transparencies from attached masters

Copies of student lab sheets

Calculator

**Terms.** The following terms are presented in this lesson (shown in bold italics):

Business expenses

Depreciation

Excise tax

Gross income

Internal Revenue Service

Retirement plans

Self-employment tax

**Interest Approach.** Use an interest approach that will prepare the students for the lesson. Teachers often develop approaches for their unique class and student situations. A possible approach is included here.

*Have students write down at least 20 things that they know tax money pays for. Write down a list of several examples on the board or overhead. Discuss the importance of each example and check to see how many examples relate to individuals personally.*

# Summary of Content and Teaching Strategies

**Objective 1:** Discuss why the tax system was started.

**Anticipated Problem:** Why do we need taxes? What would be different if taxes were not collected?

- I. Taxation is not a new idea. In fact, citizens have paid taxes for more than 2,500 years. The taxing of citizens was started to finance services that the government provided for the people of the country. The Constitution actually gives congress the right to levy all federal taxes.
  - A. We need taxes to pay for many things that we take for granted. Schools, roads, payment of elected officials, police, military forces, public buildings, firefighters, and bridges are just a few examples of ways that tax money is spent. Since governments cannot create wealth, they must spend from wealth created by the citizens of their country. By taxing incomes, selling drivers licenses, requiring the purchase of business permits, and selling bonds and notes, the local, regional, and national governments can obtain money that is used for government program expenses.
  - B. If taxes were to be protested services would be kept at the levels currently seen or even reduced. The roads might stop being maintained or specific government programs would not be able to exist without tax money.

*Use TM: C2–1A as a transparency to discuss tax usage. After discussion, use LS: C2–1A as an assignment to research how life would be different if taxes were not collected.*

**Objective 2:** Explain general principles of taxation.

**Anticipated Problem:** What does a taxation program need in order to be successful?

- II. A taxation program needs several key components in order to be successful. Some of the components include being convenient to pay and collect, being flexible, having the ability to support its necessary expenses, and above everything it should be fair to everyone.
  - A. A beneficial tax program must be convenient for the taxpayers to contribute to. It must also be easy and financially considerate when deciding how it is collected. It would not make any sense to spend more collecting the taxes than what is being collected. In order to be convenient to all parties involved, a tax system should be well thought out and managed with great skill.
  - B. Another principal that all tax systems should consider is their flexibility. There are many things that happen to change the economy each and every year. Inflation and other economic factors should always play a role in determining the tax rate. If a program is not flexible or elastic enough, it may not be able to handle the stresses of economic growth or decline.

- C. A tax system must consider all of its expenses and charge its taxpayers accordingly. If there is too much money taken from the people, the tax system should have a fair and timely way to reimburse the people. If there was not enough money taken from the people, it could be very expensive to direct collection of funds a second time.
- D. Lastly, it is extremely important for a good tax system to be fair to all of the taxpayers. No one should be expected to pay an amount based on anything except his or her own income. How long someone has lived in an area, race or religion, just to name a few should not be considered to determine taxes owed.

Use TM: C2–1B as a transparency to discuss characteristics of a successful taxation program. Use LS: C2–1B as a lab to brainstorm new taxation ideas.

### **Objective 3:** Demonstrate how to fill out state and national forms.

**Anticipated Problem:** How do I fill out tax forms?

- III. The very first thing that you need to do is to gather the correct forms. If you are unsure what forms to use, get advice from a tax consultant or read through **Internal Revenue Service**, which is the collection agency for taxes in the United States, publications to find out what form correctly matches your situation. Once you have all the proper forms, gather your receipts and other records to fill in the necessary columns. There are a few terms that you may need to know:
  - A. **Gross income** is all income you receive in the form of money, property, and services that is not exempt from tax. This includes wages, tips, interest, alimony, rental income, and others.
  - B. **Business expenses** are generally deductions because they are costs of operating your farm or business. They include the use of your home as an office, mileage, health insurance, **depreciation** (or to fall in value because of time and usage), labor hired, feed, and repairs.
  - C. **Self-employment tax** is a Social Security and Medicare tax for individuals who work for themselves. It is similar to the Social Security and Medicare taxes withheld from the pay of wage earners. If you are self-employed by carrying on a trade or business for yourself, you must pay self-employment tax.
  - D. If you are in business for yourself, you may want to consider a retirement plan. **Retirement plans** are savings plans that offer you tax advantages to set aside money for your own and your employee's retirement.
  - E. **Excise taxes**, which are taxes on the manufacture, sale, or consumption of a commodity, can be credited to you depending on the kind of fuel you purchased, whether it was taxed, and the purpose for which you used the fuel.

*A variety of techniques can be used to help students master this objective. Students need copies of lab sheet LS: C2–1C and IRS publications to understand how to fill out tax forms. Use TM: C2–1C to assist students in identifying the terms associated with taxes.*

**Review/Summary.** Focus the review and summary of the lesson around the student learning objectives. Call on students to explain the content associated with each objective. Use their responses as the basis for determining any areas that need re-teaching.

**Application.** Use lab sheets to practice filling out a tax form by giving students realistic numbers to compute. The following lab activities will be helpful to students in applying the lesson's content:

LS: C2-1A Identifying Tax Programs

LS: C2-1B Creating a Tax Program

LS: C2-1C Completing Tax Forms

**Evaluation.** Evaluation should focus on student achievement of the lesson objectives. Various techniques can be used, such as student performance on the application activities.

## **Answers to Sample Test:**

### ***Part One: Matching***

1. a
2. c
3. b
4. d

### ***Part Two: Completion***

1. business expense
2. retirement plan
3. self-employment tax
4. IRS

### ***Part Three: Short Answer***

Student answers should include the following:

- a. convenient for taxpayers
- b. flexible to the changes in the economy
- c. considers expenses and does not over or undercharge citizens
- d. fair to taxpayers and only based on income not race or gender

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# Test

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## Lesson C2–1: Understanding Federal and State Income Taxes

**Part One: Matching**

*Instructions.* Match the term with the correct response. Write the letter of the term by the definition.

- |               |                        |
|---------------|------------------------|
| a. tax money  | c. gross income        |
| b. excise tax | d. government programs |

- \_\_\_\_\_ 1. Collected each year from citizens who earn income.
- \_\_\_\_\_ 2. All the income you receive in the form of money, property, and services.
- \_\_\_\_\_ 3. Can be credited depending on what kind of fuel you use and where you purchased it.
- \_\_\_\_\_ 4. Many would not exist if the government did not collect taxes.

**Part Two: Completion**

*Instructions.* Provide the word or words to complete the following statements.

1. You can deduct your mileage and use of your home as an office as a \_\_\_\_\_.
2. A \_\_\_\_\_ is a savings plan that offers tax advantages for your own and your employee's retirement.
3. A \_\_\_\_\_ is what people who own their own business pay.
4. The \_\_\_\_\_ is responsible for collecting taxes from the citizens of the United States.

**Part Three: Short Answer**

*Instructions.* Provide information to answer the following question.

List and explain the four components of a successful taxation program.

# **TAX USAGES**

- 1. Schools**
- 2. Roads**
- 3. Payment of elected officials**
- 4. Police**
- 5. Military forces**
- 6. Public buildings**
- 7. Firefighters**
- 8. Bridges**

# **CHARACTERISTICS OF A SUCCESSFUL TAXATION PROGRAM**

- 1. Convenient for the taxpayers to contribute to.**
- 2. Flexible to the yearly changes in the economy.**
- 3. Considers all expenses and charges taxpayers accordingly.**
- 4. All citizens are taxed equally based on income.**

# **TAXATION TERMINOLOGY**

**Gross Income:** All the income you receive in the form of money, property, and services not exempt from tax.

**Business Expenses:** Deductions that are costs of operating your business.

**Self-employment Tax:** A Social Security and Medicare tax for individuals who work for themselves.

**Retirement Plans:** Savings plans that offer tax advantages to set aside money for your own and your employee's retirement.

**Excise Taxes:** Taxes that can be credited to you depending on the kind of fuel you purchased, whether it was taxed, and the purpose that the fuel was used for.

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# Lab Sheet

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## Identifying Tax Programs

How would life be different if we suddenly stopped collecting taxes?

There are many things that taxes collected by the government go for. How do they directly affect your everyday life?

**Purpose:**

Identify several local, state, and national programs that we use every day.

**Materials:**

- Lab sheet
- Writing utensil
- Access to research information

**Procedure:**

Find five government programs that are funded by tax money in each of the following areas.

Local programs in your town or county:

State programs in your own or other states:

National programs that benefit the entire country:

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# **Lab Sheet**

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## **Creating a Tax Program**

***Purpose:***

Create a system that would replace the current tax collection system that we abide by.

***Materials:***

Lab sheet  
Writing utensil  
Creativity

***Procedure:***

In the space below, describe a new tax system that takes fairness, convenience, flexibility, and expenses into consideration. Include a description of who would be in charge of the system and why you think it will work, and identify at least five potential problems with the system.

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# Lab Sheet

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## Completing Tax Forms

**Purpose:**

Practice filling out real IRS publications with fictitious numbers.

**Materials:**

Copies of an IRS publication (either state or federal)  
Writing utensil

**Procedure:**

Use the following information in completing the tax forms. Depending on the types of forms you are using, some of the information may not be used on the forms.

A married couple has a combined income of \$65,000 for the previous year. In addition, they received \$525.00 in interest on their savings. The couple has two children that live with them. During the year, they paid \$1,200 in interest on their home mortgage. They also paid \$1,800 in property tax and gave \$1,400 to their church and other charities. Each spouse also contributed \$2,000 to an Individual Retirement Account (IRA). During the year, the couple paid \$14,000 in federal taxes and \$3,500 in state taxes.

1. Use the information above to complete the tax forms.
2. Will the family owe taxes or will they receive a refund?