

Name:

IN THIS LESSON, YOU WILL:

- Using piecewise-linear equations without graphing in a realistic context
- Calculate using percentages
- Deconstruct a larger problem into smaller, constituent problems to solve
- Differentiate between deductions and credits on a U.S. tax return
- Compare and contrast the many different deductions available
- Differentiate between earned and unearned income and their tax implications
- Examine tax breaks that apply specifically to students and recent graduates



INTRO

DATA CRUNCH: How Old Are Most Taxpayers?

Analyze the data and answer the questions on this worksheet to complete the Data Crunch.



LEARN IT

VIDEO: [Types of Income](#)

There are two different types of income that go into your gross income. Watch this video to learn about the differences. Then, answer the following questions about earned and unearned income.

1. Choose whether each statement applies to earned income (E), unearned income (U).

Wages from your part-time job at the ice cream shop	E	U
Money from selling your stocks for a profit (capital gains)	E	U
Birthday gift check from your great aunt Ethel	E	U
Money from cat-sitting for your neighbor	E	U
The interest on your money in your savings account	E	U

2. Which type of income do you expect to be the majority of most people's income?
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REFERENCE: [Earned vs. Unearned Income](#)

Examine this reference slide showing some differences in how earned and unearned income are taxed. Then, answer the following questions.

1. Which income is subject to Social Security and Medicare tax?
 2. What is an advantage of having unearned instead of earned income?
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ARTICLE: [The difference between tax credits and deductions and why it matters](#)

You may have heard of people taking certain action because of the "tax break" it will give them. These tax breaks are ways to reduce your tax liability, the total amount of money you owe in taxes, and they come in a lot of different varieties and go by a number of different names. Read this article and answer the questions to learn about these opportunities to reduce your tax liability.

1. What is the difference between a tax deduction and a tax credit?
2. Which reduces your tax liability more, a deduction or a credit?

3. Which would you prefer, a refundable or a non-refundable credit? Explain your answer.

REFERENCE: [Taxes Flowchart](#)

This flowchart represents the different steps to calculate your taxable income from your gross income. Review this flowchart before learning about each of the steps below.

- 1. Why are itemized and standard deductions shown on the same line?**
 - 2. “The line” referred to is your adjusted gross income (AGI). It is your income after applying above-the-line but before applying below-the-line deductions, and it is an important factor in determining eligibility for many different benefits. Assuming your gross income doesn’t change, would you want your AGI to be larger or smaller? Explain why.**
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ARTICLE: [Increase Your Tax Refund With Above-the-Line Deductions](#)

Above-the-line deductions, also called adjustments to income on the Form 1040, are one of the ways to reduce the amount of taxes you will owe. Read through this list of common above-the-line deductions. Then, answer the questions below.

- 1. Why is it important to know about these above-the-line deductions even if you’re not itemizing deductions on your taxes?**
 - 2. What are two of these deductions that might be important to you in the future and why?**
 - 3. Tax deductions are a way for the government to incentivize (or disincentivize) certain behaviors. Looking at all of these deductions, what might be some behaviors the government is trying to encourage?**
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ARTICLE: [Itemized Deductions: What They Are and How They Can Slash Your Tax Bill in 2022](#)

Below-the-line, or “itemized,” deductions are commonly cited as a great way to save money on your taxes. However, there is more to them than it may seem. Read just the first section of this article stopping at “What it means to take the standard deduction.” Next, review the [infographic](#) at the bottom of the article.

Then, answer the questions below.

1. **True or false: Itemizing deductions always results in the lowest tax liability possible. Explain your reasoning.**
 2. **What is one disadvantage of itemizing your deductions?**
 3. **Iman is choosing between taking the standard deduction or itemized deductions. Her below-the-line deductions add up to \$9,800. What should she do?**
 4. **Skim the list at the bottom of this article: [Tax Deductions Guide, 20 Popular Breaks in 2021 - NerdWallet](#). Then, choose ONE deduction that interest you and write the following:**
 - a. The name of the deduction
 - b. The amount of the deduction
 - c. A brief explanation of what the deduction is for
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ARTICLE: [Tax Guide for Students and New Grads](#)

Thinking ahead to what's after high school, it is helpful to know there are certain tax benefits to investing in your education. Examine these education-based tax breaks, then answer the question below.

1. **Samiya is a college sophomore who is filing her taxes and has to decide between taking the American Opportunity Credit or the Lifetime Learning Credit on her tax return. Assuming she fulfills all the requirements for both, which should she choose to get the maximum tax credit and how much will she receive?**
 2. **Who would benefit most from knowing about these credits and why?**
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EDPUZZLE: [How Tax Brackets Actually Work](#)

Now that you've tallied all your deductions and figured out your taxable income, it's time to actually calculate the taxes that you owe. Watch this video to learn more about how the graduated income tax bracket system works. Then, answer the questions either in EdPuzzle or below.

1. A tax deduction...

- a. LOWERS a person's tax liability by LOWERING his/her taxable income
- b. INCREASES a person's tax liability by LOWERING his/her taxable income
- c. INCREASES a person's tax liability by INCREASING his/her taxable income
- d. has no impact on the amount of taxes a person pays

2. Which statement BEST describes marginal tax rates?

- a. Your income is taxed at the highest rate that applies to your income amount (e.g. all of your income is taxed in the highest pocket)
- b. Your income is equally split among the tax brackets (e.g. divide your income by # of brackets and apply the rates of each tax bracket)
- c. Your income is always taxed at the lowest rate of that tax year (e.g. all of your income is placed and taxed in the first pocket)
- d. Your income may fall into more than one tax bracket, so more than one tax rate can apply (e.g. fill up the first pocket and then move to the next pocket)

3. Which of the following statements describes the CORE misconception addressed in this video?

- a. The standard deduction reduces your tax liability
- b. Portions of your income are taxed at different rates, called marginal tax rates
- c. When the government wants to increase tax rates, it is usually referring to the rates for the highest tax brackets
- d. The tax rate of the highest tax bracket your income falls into is applied to your whole income



MATH CONNECTION - INCOME TAX BRACKETS

ACTIVITY: [MATH: Income Tax Brackets](#)

Now that you know how to reduce your gross income to get your taxable income. This math activity will give you the opportunity to calculate your resulting tax liability. Follow your teacher's directions to complete this activity on income tax brackets.



EXIT TICKET

Follow your teacher's instructions to complete the Exit Ticket.