# PFL Academy

Teacher Guide: Chapter 2.5 — Tax Planning and Compliance

## OVERVIEW

| TIME | MATERIALS | PREREQUISITES |
|---|---|---|
| 45-50 Minutes | Student Activity Packet | L-07, L-08, L-09 Tax Concepts |

## LESSON FLOW

**5 min** — **THE CHALLENGE**

- Read Kate vs. Dave comparison scenario.
- Discussion: "Which approach sounds more like you or your family? What are the consequences of each?"

**10 min** — **CORE CONCEPTS**

- Emphasize the LEGAL LINE: planning = legal, evasion = criminal.
- List examples of each on board. Connect to real-world consequences.
- Introduce tax-advantaged accounts: 401(k), IRA, HSA, 529.
- Explain Traditional vs. Roth decision based on current vs. future tax rate.

**25-30 min** — **APPLY IT**

- **Part A (8 min):** Classification activity. Discuss gray areas if they arise.
- **Part B (10 min):** Traditional vs. Roth comparison. Have students complete the table.
- **Part C (7-12 min):** Personal checklist. Make it relevant to students' actual situations.

**10 min** — **CHECK YOUR UNDERSTANDING**

- Complete in class or assign as homework.
- Discuss Q5 (proactive vs. reactive) to encourage self-reflection and goal-setting.

## DIFFERENTIATION

### Support

- Create a visual "legal line" diagram separating planning from evasion examples.
- Provide pre-filled examples for the Traditional vs. Roth comparison.
- Simplify checklist to focus on items most relevant to high school students.

### Extension

- Research famous tax evasion cases (Al Capone, Wesley Snipes) and their consequences.
- Calculate the long-term difference between starting retirement contributions at 18 vs. 28.
- Create a 5-year tax planning timeline for their expected life stages.

## ANSWER KEY

### Part A: Planning vs. Evasion Classification

**Action 1:** TAX PLANNING. IRA contributions are explicitly allowed and encouraged by tax law.

**Action 2:** TAX EVASION. Intentionally not reporting income is illegal, regardless of payment method.

**Action 3:** TAX PLANNING. Timing deductible expenses to maximize benefits is legal and common.

**Action 4:** TAX EVASION. Claiming fictitious dependents is fraud with serious penalties.

### Part B: Tax-Advantaged Account Comparison

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Traditional 401(k)/IRA:
- Withdrawal Tax Treatment: Taxed as ordinary income
- Best For: Higher earners now who expect lower taxes in retirement

Roth 401(k)/IRA:
- Withdrawal Tax Treatment: Tax-FREE (qualified withdrawals)
- Best For: Lower earners now who expect higher taxes in retirement
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**1.** A young person in a low bracket today pays little tax on Roth contributions. In retirement (potentially 40+ years later), all growth is tax-free. If they're in a higher bracket then, they avoid paying those higher rates on decades of growth.

### Part C: Personal Checklist

*Responses will vary. Look for realistic self-assessment and actionable next steps. Common actions for students: track income from part-time jobs, learn about education credits, consider starting a Roth IRA with summer job earnings.*

### Check Your Understanding

**1.** B (Contributing to a 401(k) to reduce taxable income)

**2.** Consequences of tax evasion: (1) Substantial financial penalties (up to 75% of underpaid tax), (2) Interest on unpaid taxes compounding daily, (3) Criminal prosecution and potential imprisonment, (4) Reputation damage, (5) Future scrutiny on all tax filings.

**3.** HSA Triple Tax Advantage: (1) Contributions are tax-deductible, reducing current taxable income, (2) Money grows tax-free inside the account, (3) Withdrawals for qualified medical expenses are tax-free.

**4.** Kate vs. Dave examples: (1) Kate files early (February) and receives refunds months before Dave (October); (2) Kate's year-round tracking captures all deductions while Dave loses receipts and misses legitimate deductions; (3) Kate contributes to retirement accounts reducing taxable income while Dave doesn't; (4) Kate researches tax law changes in December to adjust strategy while Dave is always reacting.

**5.** *Responses vary. Should include honest self-assessment and specific, actionable commitments (e.g., "set up a folder for tax documents," "research education credits I might qualify for," "ask parents about filing strategy").*

## COMMON MISCONCEPTIONS

| Misconception | Clarification |
|---|---|
| "Tax planning is only for wealthy people." | Everyone benefits from basic tax planning—contributing to retirement accounts, timing deductions, claiming eligible credits. Even students with part-time jobs can benefit. |
| "If I get paid in cash, I don't have to report it." | ALL income is taxable, regardless of payment method. Cash, checks, Venmo, barter—it all counts. Not reporting is evasion, not planning. |

| | |
|---|---|
| "I'm young, so retirement accounts don't matter yet." | Starting early is the MOST powerful advantage. $100/month from age 18 grows far more than $200/month from age 30 due to compound growth over additional years. |