

# 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 receives 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 or false.
- Participate in a class discussion about taxes and paychecks.

### NOTE

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Please remember to consider your students' accommodations and special needs to ensure that all students are able to participate in a meaningful way.

### KEY INFORMATION

#### Building block:

 Financial knowledge and decision-making skills

**Grade level:** High school (9-12)

**Age range:** 13-19

**Topic:** Earn (Getting paid, Making money, Paying taxes)

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

**Teaching strategy:** Direct instruction, Gamification

**Bloom's Taxonomy level:** Understand, Apply

**Activity duration:** 45-60 minutes

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### National Standards for Personal Financial Education, 2021

Earning income: 8-5, 8-6, 8-7, 8-8, 8-9, 12-6, 12-7, 12-10, 12-11

These standards are cumulative, and topics are not repeated in each grade level. This activity may include information students need to understand before exploring this topic in more detail.

## Preparing for this activity

- While it's not necessary, completing the "Becoming familiar with taxes" activity first may make this one more meaningful.
- Print copies of all student materials for each student, or prepare for students to access them electronically.
- Become familiar with the Federal Trade Commission resource on paychecks at <https://consumer.gov/managing-your-money/your-paycheck#what-it-is>.
- Become familiar with the "Taxes: Understanding the basics" handout.
- Print a copy of the answer guide (in this guide) so you can read the statements about taxes to the class and share answers.
- Consider displaying the "How to read a pay stub" poster before doing this activity.
  - You can order the poster for free here: <https://pueblo.gpo.gov/CFPBpubs/CFPBpubs.php?PubID=13465>.
- Obtain a computer or tablet with Internet access for each team of students.
- Obtain a computer and a projector or a smartboard so you can review the web resource with students.

### What you'll need

#### THIS TEACHER GUIDE

- **Understanding taxes and your paycheck (guide)**  
[cfpb\\_building\\_block\\_activities\\_understanding-taxes-paycheck\\_guide.pdf](cfpb_building_block_activities_understanding-taxes-paycheck_guide.pdf)
- **A copy of the answer guide (in this guide)**
- **The Federal Trade Commission resource on paychecks at**  
<https://consumer.gov/managing-your-money/your-paycheck#what-it-is>
- **Computer and a projector or smartboard**

#### STUDENT MATERIALS

- **Understanding taxes and your paycheck (worksheet)**  
[cfpb\\_building\\_block\\_activities\\_understanding-taxes-paycheck\\_worksheet.pdf](cfpb_building_block_activities_understanding-taxes-paycheck_worksheet.pdf)
- **Computers or tablets with Internet access**
- **Taxes: Understanding the basics (handout)**  
[cfpb\\_building\\_block\\_activities\\_taxes-understanding-basics\\_handout.pdf](cfpb_building_block_activities_taxes-understanding-basics_handout.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. In fact, after getting your first paycheck, it's not uncommon to ask, "Where did all my money go?" This may be your first direct experience with paying payroll and income taxes. Understanding why and how taxes and other items are deducted from a worker's paycheck is an important step toward gaining financial knowledge.

## TIP

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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

- Ask students to share what they know about taxes.
  - If needed, explain that governments collect different taxes, including personal income tax, sales tax, and property tax. The money collected from taxes is used for public services that benefit society as a whole, such as public schools, police protection, public libraries, community centers, and parks.
- Read the "Exploring key financial concepts" section to students.
- Be sure to explain to students that people who are self-employed, such as entrepreneurs or ride-share drivers, also have to pay taxes, but those taxes aren't withheld from their earnings. They have to pay taxes on their own.
- Give students the "Taxes: Understanding the basics" handout and give them a few minutes to read it.
- Tell students they'll divide into teams and play a game where they'll decide whether statements about paychecks and taxes are true or false.
- Let students know that if they're unsure whether a statement is true or false, they can use a government webpage and the handout to help them confirm the correct answer.
- Using a projector or a smartboard, review the Federal Trade Commission resource on paychecks at <https://consumer.gov/managing-your-money/your-paycheck#what-it-is> with students.
  - Note: If you don't have technology available to show the webpage, you can print and copy the information for students.

- Be sure students understand key vocabulary:
  - **Federal Insurance Contributions Act (FICA):** A law that requires taxes to be 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.
  - **Tax credit:** A dollar-for-dollar reduction in a tax. It can be deducted directly from taxes owed. Tax credits can reduce the amount of tax you owe or increase your tax refund, and some credits may result in a refund even if you don't owe any tax.
  - **Tax deduction:** An amount (often a personal or business expense) that reduces income subject to tax.
  - **Taxes:** Required payments of money to governments, which use the funds to provide public goods and services for the benefit of the community as a whole.

#### TIP

Visit CFPB's financial education glossary at [consumerfinance.gov/financial-education-glossary/](https://consumerfinance.gov/financial-education-glossary/).

## Group work

- Divide students into teams.
- Distribute the "Understanding taxes and your paycheck" worksheet to each student.
- Give a computer or tablet with Internet access to each team.
- Tell students they'll only have 15-20 minutes to complete their worksheets.
- Suggest that one 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.

- Remind teams that they can review <https://consumer.gov/managing-your-money/your-paycheck#what-it-is> and the “Taxes: Understanding the basics” handout 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.
- Once the teams have finished, read each statement on the answer guide one at a time and ask each team to indicate whether they believe the 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.

## Wrap-up

If there’s time, have students answer the reflection question on their own and share their responses.

## Suggested next steps

Consider searching for other CFPB activities that address the topic of earning, including getting paid, making money, or paying taxes. Suggested activities include “Calculating the numbers in your paycheck” and “Investigating taxes in your life”.

## Measuring student learning

Students’ answers on their worksheets and during discussion can give you a sense of their understanding.

The answer guide on the next page 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. People often confuse a paycheck and a pay stub. A pay stub is what you use to get your money.

**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. You can get the money from your bank or credit union account if your employer directly deposits it there. You can also receive your paycheck on a payroll card. In some cases, people receive a paper paycheck that they deposit in their account or give to a bank, credit union, or other business to get cash.**

2. People often confuse gross income and net income. Net income is what you actually receive after deductions.

**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. Net income, which is also called take-home pay, is the money you get in your paycheck after the deductions.**

3. FICA is another name for Federal Income Tax.

**FALSE: FICA stands for the Federal Insurance Contributions Act, the law authorizing the federal government to collect payroll taxes. The federal government uses FICA taxes from your paycheck to support Social Security and Medicare programs.**

4. Federal law requires employers to deduct money for federal income taxes and payroll (FICA) taxes (Social Security and Medicare taxes).

**TRUE: Federal law requires employers to deduct money for federal income taxes and payroll (FICA) taxes (Social Security and Medicare taxes).**

5. Your withholdings selections allow you to choose how much money your employer takes out of your paycheck for income taxes.

**TRUE: By selecting your withholdings on your W-4 form, you can choose how much money your employer takes out of your paycheck for income taxes. When you have a big change in your life (such as getting married, having a baby, or changing your job), the amount of income taxes you owe may increase or decrease. To have the right amount of money deducted for income taxes, you change your withholdings.**

6. Sales taxes are deducted from your paycheck.

**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.