Paying for Government Services

A lesson on taxes for grades 6–8
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Lesson description

In this lesson, students will learn about various types of taxes and how the money is used. The lesson begins with students working in small groups to brainstorm how the government spends money at several different levels: federal, state, and local. Students then explore a sample pay statement and discuss the differences between gross and net pay. They also learn that people who are self-employed must be prepared to pay their taxes on their own since they do not have an employer to withhold them. An optional activity is available which allows students to guess how much the federal government allocates to various expense categories.

Objectives

Students will be able to:

• List services typically provided by federal, state, and local governments
• Explain how governments obtain income through taxes
• Describe at least one difference between an employee and a freelancer

Lesson at-a-glance

<table>
<thead>
<tr>
<th>Section</th>
<th>Purpose</th>
<th>Approximate time</th>
</tr>
</thead>
<tbody>
<tr>
<td>Introduction</td>
<td>Introduce the presenter and the topic of the lesson</td>
<td>5 minutes</td>
</tr>
<tr>
<td>Activity: Government expenses</td>
<td>Students brainstorm and categorize government expenses</td>
<td>15–20 minutes</td>
</tr>
<tr>
<td>Activity: Who pays?</td>
<td>Students review a pay statement and learn about income and payroll taxes</td>
<td>15–20 minutes</td>
</tr>
<tr>
<td>Closing</td>
<td>Students are encouraged to approach taxes with confidence and get help, as needed</td>
<td>5–10 minutes</td>
</tr>
<tr>
<td>Total time</td>
<td></td>
<td>40–55 minutes</td>
</tr>
<tr>
<td>Extend activity: Guess the percent (optional)</td>
<td>Students guess what percent of the federal and state budgets are allocated to the most common expenses</td>
<td>An additional 10–15 minutes</td>
</tr>
</tbody>
</table>
Prepare

Materials: Arrive prepared.
- How does the government spend its money? handout—one for each small group of students
- How does the government spend its money? facilitation guide—one copy for each facilitator
- Guess the percent handout—one copy for each student
- Guess the percent handout answer key—one copy for each facilitator
- Paying for Government Services post assessment—one for each student (OPTIONAL)

Background: Understand the topic.

Students in middle school are likely familiar with the idea of taxes from their experiences with sales taxes. Most are often unaware of income and payroll taxes, however. In this lesson, students will learn about different taxes that are collected at each level of government. They should know the difference between federal, state, and local levels of government. The federal government collects money through federal income taxes and payroll taxes. Payroll taxes include the Federal Insurance Contributions Act (FICA) or Social Security taxes as well as Medicare taxes. These taxes are withheld from employees’ paychecks at the time they receive their checks. Unlike employees, individuals who are self-employed or freelancers are responsible for paying their own taxes after they receive their payment. In addition, they must pay the employer’s share of the payroll taxes. Given the rise in the number of people working as freelancers—either for their primary source of income or as a side job, it is valuable for students to understand this distinction.

Note that tax amounts and specifications may change over time. While the percentages charged for Social Security and Medicare taxes have remained relatively stable at 6.2 and 1.45 percent respectively, the maximum amount a person and/or employer pays. If you choose to mention these percentages to students, confirm the current amounts and any applicable thresholds or maximums.

Vocabulary: Use grade-appropriate definitions.

- Federal government: The government of a country, such as the government of the United States of America.
- Federal income tax: Taxes on income, both earned and unearned by the federal or U.S. government.
- Freelancer: A person who is self-employed and performs work for an agreed-upon fee.
- Gross pay: The amount an employee earns before taxes are subtracted.
- Income taxes: Taxes on income, both earned (salaries, wages, tips and commissions) and unearned (interest and dividends). Income taxes can be levied on both individuals (personal income taxes) and businesses (business and corporate income taxes).
- Internal Revenue Service (IRS): The federal agency in the US that collects income taxes in the United States.
- Medicare tax: Used to provide medical benefits for certain people when they reach age 65.
- Net pay: Is the amount the employee receives after deductions (also called take-home pay).
• **Payroll taxes:** Social Security and Medicare taxes.

• **Social Security tax:** A tax that provides benefits for retired workers and their dependents as well as for the disabled and their dependents. Also known as the Federal Insurance Contributions Act (FICA) tax.

**Delivery:** *Decide on the format.*

This lesson can be conducted with an entire class or in small groups. For each activity, there are several facilitation options provided. Be sure to review the options in advance and determine which one will work best given the setting, number of facilitators, etc. In some cases, the facilitation option you select will influence the number of handouts needed.

**Differentiation:** *Be aware of your audience.*

When conducting a lesson on taxes, it is important to consider the students and their experiences. Be prepared to acknowledge the range of experiences and backgrounds. Touch base with your classroom teacher in advance to inquire about the student population you will encounter. For example, some students may come from families holding strong opinions about taxes—either how much is charged, what is taxed, and/or how the tax money is used. Attempt to keep the conversation neutral, and, if needed, acknowledge that opinions on these topics can vary considerably.

**Tips for PwC facilitators:** *Make the most of your time in the classroom.*

Before facilitating this lesson for the first time, consider the following:

• Read through the entire lesson in advance.

• Touch base with the classroom teacher to make sure you know when to arrive, the process for entering the building, the room setup, photo release protocol, and any available technology. For example:
  — Where should you park? Where should you enter the building? Will you find your own way to the classroom or will someone meet you?
  — What is the room set up (individual desks, tables and chairs, etc.)? Will you have access to a whiteboard?
  — Are you allowed to take photos during the lesson? Remember, you are required to get specific written consent from parents/guardians before taking photos of minors. How will you handle the students whose parents/guardians have not given consent?
  — If you opt to use the post-assessments, should students take it using paper and pencil or online with school-provided devices? Will the teacher want to collect the assessments and forward the results, or should you collect them?

• If you will be presenting with another facilitator or team, consider each person’s strengths when deciding who will lead various sections of the lessons, how students will be organized during the lessons, and who is responsible for preparing the materials.

• Remember that adults in most high schools are addressed formally using their title (Mr./Mrs./Ms.). Plan to address the teacher and any of your colleagues in this manner, even if you would normally call each other by first names.
Educator insights: Adapt this lesson for your classroom.

PwC is pleased to offer these lessons for use by classroom teachers to support or augment their financial education efforts. Please recognize that the materials were designed for employees to use as facilitators when visiting a class. Therefore, some sections (such as the introduction) may be unnecessary. Feel free to adapt the materials in whatever way makes the most sense for your classroom including the optional extension activities at the end of the lesson.

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Teach

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Opening (5 minutes)

- Thank the teacher and introduce yourself to the class. Explain to the students that PwC is a professional services firm that is committed to providing all students with financial literacy education through its program, Access Your Potential®. In simple terms, explain what you do at PwC and how it relates to what the students will be learning during the lesson.

- Let students know that you are going to be introducing them to taxes—both what they can expect to pay taxes on in the future and how that money might be used.

Activity: Government expenses (15–20 minutes)

Set up

- Let students know that you want them to brainstorm a list of the ways that governments spend money. Tell students that there are different levels of government, including federal, state, and local. Review what constitutes each of the three levels of government.
  
  — Federal: Remind students that the federal government means the government of the nation or the United States.

  — State: Each state spends money in slightly different ways, but most have similar types of expenses.

  — Local: Local government can be that of a town, city, county, etc. Discuss what might be considered local government where the students live.

- Explain to students that government expenses at each level have similarities and differences. For example, governments at all levels spend money on roads. The federal government is responsible for federal highways. State governments oversee state roads, and local governments build and maintain roads in their communities.

Implementation

- Divide students into small groups and provide each group with a copy of How does the government spend its money? handout.

- Direct students to come up with as many government expenses as they can at each level.

- Allow time for students to brainstorm and complete the handout. See Facilitation options for additional ways to engage students in this activity.
Conclusion

- Compare and discuss student lists. Reference the How does the government spend its money? handout facilitation guide to debrief. If using the optional Guess the percent activity, do not mention the percentages shown on the facilitation guide.

- Tell students that goods and services that are provided by the government are commonly referred to as public goods and services. They are funded by the public and used by the public. Ask students to imagine what might happen if the police, for example, were only funded by certain members of a community. How might the service they provide be different than it is as a public good?

- (OPTIONAL) See the extend section for facilitation instructions for the Guess the percent activity.

Activity: Who pays (15–20 minutes)

Set up

- Explain to students that the federal government gets money (income) to pay for its expenses by collecting taxes from individuals and businesses.

- Ask students if they are familiar with any forms of taxes. Briefly discuss the difference between various types of taxes including:
  - Sales tax: Charged by state and local governments; commonly charged on goods or services you purchase
  - Income tax: charged by the federal government and many state and local governments; based on a percentage of a worker’s income
  - Payroll tax: charged by the federal government to pay for Social Security and Medicare; based on a percentage of a worker’s income
  - Property tax: charged by state and local governments; charged as a percentage of the value of items you own.

Implementation

- Distribute a copy of the Who pays handout to each student. Share with students that this is an example of a pay statement for an employee in the state of North Carolina.

- Direct students to locate the line indicating the amount for gross pay. Ask how much this was. Answer: $449.50

- Challenge students to compare the gross pay with the net pay.
  - Why are they different? Answer: Gross pay is the amount someone earns before taxes are taken out. Net pay is how much pay the person actually receives—also called take home pay.
  - Which one is the same as the amount of her paycheck? Answer: Net pay

Facilitation option:

The following are additional methods for facilitating this activity:

- Assigned categories: Assign each small group to a level of government (i.e., federal, state, or local). Once groups are done brainstorming, allow time for students to share with the rest of the class. More than one small group may be assigned to the same level of government.

- Small facilitated groups: If there are several facilitators, divide the students into groups to work with a facilitator. Have students within groups work in pairs to complete one or more columns of the handout.

- Contest: Challenge groups to come up with as many examples of expenses as they can. Advise students that the expenses must be realistic.
— What is the difference—in dollars—between the gross and net pay amounts? Answer: $67.72
— How much was taken out of her paycheck for federal taxes? Answer: $64.72

• Explain that FICA and Medicare are both payroll taxes. Share that FICA stands for Federal Insurance Contribution Act. It pays for social security, which provides income money for people who are retired or have disabilities. Medicare pays for health insurance for people who are retired or have disabilities.

• Let students know that when an employee pays payroll taxes (FICA and Medicare) their employers pay an equal amount to the government. In the case of the example, the employee pays $27.87 for FICA and so does the employer for a total of $55.74. The total paid for Medicare ends up being $13.04.

• Ask students if they know what it means if a person is self-employed. People who are self-employed can also be called freelancers. Explain that individuals who work in this way are not employees of the company for whom they do work. Share that many people do work as freelancers. Provide examples such as people who drive for ride-hailing services, many graphic designers, and others with whom you may be familiar.

• Challenge students to consider the following scenario. A self-employed person or freelancer agrees to complete a job that takes 62 hours and pays $7.25 per hour. They receive a check for $449.50. Who made more money this freelancer or the person whose pay statement we reviewed?

• Explain that it might appear that the freelancer is earning more because the amount of their check is more. However, freelancers or self-employed people are still responsible for paying both income and payroll taxes. In addition, they must also pay the employer’s share of the payroll tax. This means the amount a freelancer pays for payroll taxes is actually double what it would be for an employee earning the same amount of money.

• Tell students that most people who are self-employed or freelancers estimate how much they will owe in federal income taxes and payroll taxes and pay a portion every three months—also called quarterly tax payments.

• Ask students to consider what might happen if a freelancer spent all of the money he or she earned at a job. What would they do when it comes time to pay their taxes? Explain that people who are self-employed should set money aside to pay for their taxes, so they aren’t surprised by their tax bill later and/or don’t have to pay a penalty for not paying enough.

• Share with students that there are differences between regular employees and freelancers, including things like no paid vacation or sick days, no employer-provided retirement benefits and more. However, more and more jobs are being filled by freelancers. Many people like this style of work because of the flexibility it provides, but they should understand the financial implications and be sure to plan ahead.

Conclusion

• Remind students that approximately half of the federal government’s budget is dedicated to Social Security and Medicare, which is funded through payroll taxes. The rest is funded by income tax.

• Let students know that understanding these taxes is important for at least two reasons. First, they will one day pay each of them. When they get their first paycheck, you don’t want them to be surprised when the total is for less than they anticipated or if they are a freelancer and need to pay their own payroll and income taxes. Second, they will one day be voters, evaluating the positions of candidates based on—among other things—their beliefs on taxes. This includes both how much is paid and how the money that is collected is spent by the government.
Closing (5–10 minutes)

- (OPTIONAL) Distribute a copy of the Paying Taxes post assessment to each student. Direct students to answer the questions. Inform them that they do not need to put their name on the assessment unless the teacher wishes to keep a copy for grading purposes.
- Thank students and the teacher for letting you come and talk to the class about taxes. Encourage students to always consider both sides of taxes: what they need to pay and what they gain from paying them. It can be easy to focus mainly on the amount that one pays without thinking about the benefits that are gained from paying them (i.e., national security, good roads, public education, parks, etc.).

Extend

Activity: Guess the Percent (additional 10–15 minutes)

Set up

- Ask students for their opinions on which of the expenses is the greatest portion of the federal government’s budget.

Implementation

- Distribute a copy of the Guess the percent handout to each student.
- Explain that the pie chart shows a recent breakdown in the federal government’s spending with each “slice” of the pie showing the percent that is spent on a given expense. The expense categories are listed at the top.
- Direct students to use the expense categories list to guess which ones go with each “slice of the pie” and label them accordingly. Acknowledge that some of the percentages are very close or the same. Remind students that you are just looking for their guesses.

Conclusion

- Reveal the answers using the Guess the percent handout answer key.
- Ask students if they are surprised by any of the percentages. Discuss student responses.
Teacher-led follow up ideas

Bulleted list of ways the educator can extend the lesson once the facilitator leaves. Each list will include a mention of a corresponding module from the Digital Classroom, such as:

- Use the *Where Does the Government Get Its Money?* module in the intermediate level of the [Earn Your Future® Digital Classroom](https://app.pwcfdnearnyourfuture.org/) to help students learn even more about income and careers. This resource made possible by the PwC Charitable Foundation, Inc., is designed for students in grades 3–12 and can be delivered in multiple formats (classroom, small group, or individually) and has accompanying educator resource guides to assist in delivery. Students can engage with financial literacy concepts through innovative self-paced modules featuring custom videos, animations, and interactive activities. A free teacher login is required to access the modules.

- Invite students to view the website of a local government entity to determine what services it provides.

- Challenge students to research the types of taxes and amounts charged in your state and several others. They should examine and compare state sales and income tax rates.

- Assign students the task of creating a public service announcement for their local tax bureau. The announcement should tell people that their taxes will be due soon and remind them of the benefits they receive from paying taxes.
Standards correlation

This lesson is correlated to the National Standards for Financial Literacy from the Council for Economic Education available at http://www.councilforeconed.org/resource/national-standards-for-financial-literacy/. Standards are classified as primary or secondary. Primary standards are addressed directly and thoroughly. Secondary standards are addressed indirectly or partially.

<table>
<thead>
<tr>
<th>Primary</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Earning Income:</strong></td>
</tr>
<tr>
<td>• Income earned from working and most other sources of income are taxed. The revenue from these taxes is used to pay for government-provided goods and services.</td>
</tr>
<tr>
<td>• 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.</td>
</tr>
<tr>
<td>• 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.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Secondary</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Earning Income:</strong></td>
</tr>
<tr>
<td>• 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.</td>
</tr>
</tbody>
</table>
## Paying for Government Services

**How does the government spend its money? handout**

<table>
<thead>
<tr>
<th>Federal government</th>
<th>State Government</th>
<th>Local Government</th>
</tr>
</thead>
</table>
Paying for Government Services

How does the government spend its money? handout | Facilitation Guide

Note to facilitators: Use the following information to debrief the activity. If using the optional Extend activity: Guess the percent, do not reveal the percent of each budget allocated to the various expenses. The percentages shown indicate the approximate portion of the budget spent on that category. At the state level, the percentage is an average across all states and represents the amount spent from the states’ general fund (as opposed to federal funding distributed by the states). The actual percentage in your state may vary.

<table>
<thead>
<tr>
<th>Federal government</th>
<th>State Government</th>
<th>Local Government</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security retirement benefits (24%)</td>
<td>Education</td>
<td>Education</td>
</tr>
<tr>
<td>Medicare, Medicaid, Children’s Health Insurance Program (CHIP), and insurance marketplace subsidies (26%)</td>
<td>• Elementary and secondary (35.6)</td>
<td>Police</td>
</tr>
<tr>
<td>Defense/military (15%)</td>
<td>• Higher education (9.6%)</td>
<td>Roads</td>
</tr>
<tr>
<td>Roads/transportation (2%)</td>
<td>Medicaid (19.7%)</td>
<td>Libraries</td>
</tr>
<tr>
<td>Science and medical research (2%)</td>
<td>Transportation (0.9%)</td>
<td>Sidewalks</td>
</tr>
<tr>
<td>Education (3%)</td>
<td>Corrections facilities/jails (6.6%)</td>
<td>Fire protection and emergency services</td>
</tr>
<tr>
<td>“Safety net programs” (9%)</td>
<td>Public assistance (0.9%)</td>
<td>Parks and recreation</td>
</tr>
<tr>
<td>• Earned Income Tax Credit and Child Tax Credit</td>
<td>All other (26.7%)</td>
<td>Code enforcement, such as for building codes and inspections</td>
</tr>
<tr>
<td>• Supplemental Security Income</td>
<td>• CHIP</td>
<td></td>
</tr>
<tr>
<td>• SNAP (food stamps)</td>
<td>• Legislative and judicial branches</td>
<td></td>
</tr>
<tr>
<td>• School meals</td>
<td>• Economic development</td>
<td></td>
</tr>
<tr>
<td>Health benefits and pensions for public employees and veterans (8%)</td>
<td>• State police</td>
<td></td>
</tr>
<tr>
<td>Interest on debt (7%)</td>
<td>• Environmental protection</td>
<td></td>
</tr>
</tbody>
</table>

1Federal government source: Center on Budget and Policy Priorities, 2019
State government source, National Association of State Budget Officers, 2019
Guess the percent handout

Directions: Use each of the following categories to label each slice of the pie chart.

- Benefits (public employees, retirees, veterans, etc.)
- Education
- Interest on debt
- Medicare
- Research
- Roads
- Safety net programs
- Social Security
- Other
Guess the percent handout | Answer key

Paying for Government Services

Defense 15
Social Security 24
Medicare 26
Interest on debt 7
Safety net programs 9
Roads
Research
Education
Other
Benefits for public employees, retirees, and veterans
Paying for Government Services

Who pays? handout

Main Street Grocers
123 Main Street
Anytown, NC 11122

Amira Dajani
123 Apple Avenue
Anytown, NC 11122
ID: 123456

<table>
<thead>
<tr>
<th>Federal filing status:</th>
<th>Single</th>
<th>Pay period:</th>
<th>Bi-weekly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal allowances:</td>
<td>0</td>
<td>Hours worked:</td>
<td>62</td>
</tr>
<tr>
<td>Additional withholding:</td>
<td>0</td>
<td>Rate of pay:</td>
<td>$7.25</td>
</tr>
<tr>
<td>State:</td>
<td>North Carolina</td>
<td>Check number:</td>
<td>Direct Deposit</td>
</tr>
<tr>
<td>State allowances:</td>
<td>0</td>
<td>Check date:</td>
<td>03/21/2020</td>
</tr>
<tr>
<td>Filing status:</td>
<td>S</td>
<td>Check amount:</td>
<td>$381.78</td>
</tr>
</tbody>
</table>

Gross pay $449.50
Federal income tax $30.33
FICA $27.87
Medicare $6.52
North Carolina state income tax $3.00
Net pay $381.78
Paying for Government Services

Post-assessment

Section 1: Please select the correct answer for each of the following questions.

1. A tax can be defined as
   a. a plan for using money
   b. money charged by the government and paid by people or businesses
   c. the cost of borrowing money
   d. money paid for work completed

2. Which of the following statements is not true?
   a. There are different types of taxes.
   b. Taxes are all spent the same from one state to another.
   c. Cities and counties are examples of local government.
   d. Federal income taxes are used to pay for the military.

3. Payroll taxes are made up of
   a. Social Security taxes and Medicare taxes
   b. Federal income taxes and state income taxes
   c. Retirement contributions and insurance payments
   d. Gross pay and net pay

4. Freelancers should be prepared to pay __________ amount in taxes as employees earning the same amount.
   a. the same
   b. a lower
   c. a higher
   d. a sometimes lower and sometimes higher

Section 2: Please choose the number on the scale that best indicates how strongly you agree or disagree with the following statements:

<table>
<thead>
<tr>
<th>Statement</th>
<th>Strongly disagree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>I understand the different types of taxes people pay.</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>I feel confident discussing taxes in the future.</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td>I am interested in learning more about managing my personal finances.</td>
<td>1</td>
<td>5</td>
</tr>
</tbody>
</table>

Section 3: Circle your grade level.

K 1 2 3 4 5 6 7 8 9 10 11 12
Paying for Government Services

Post-assessment | Answer key

Section 1: Please select the correct answer for each of the following questions.

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3. Payroll taxes are made up of
   a. **Social Security taxes and Medicare taxes**
   b. Federal income taxes and state income taxes
   c. Retirement contributions and insurance payments
   d. Gross pay and net pay

4. Freelancers should be prepared to pay _________ amount in taxes as employees earning the same amount.
   a. the same
   b. a lower
   c. **a higher**
   d. a sometimes lower and sometimes higher

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