



Paychecks and Taxes

DESCRIPTION: You will walk students through an exercise where they "work" for a week and then receive paychecks. They will then physically rip off taxes from their paychecks as you review the four types of taxes that come out of an employee's paycheck.

Advanced Set Up

- Cut up fake paychecks
- Cut up real paychecks

Focus Standards

Common Core Standards
CCSS.ELA-Literacy.L.6.6, CCSS.ELA-Literacy.RI.6.7, CCSS.ELA-Literacy.SL.6.1, CCSS.ELA-Literacy.L.7.6, CCSS.ELA-Literacy.SL.7.1, CCSS.ELA-Literacy.L.8.6, CCSS.ELA-Literacy.SL.8.1, CCSS.Math.Content.6.RP.A.3, CCSS.Math.Content.7.RP.A.3

National Mathematics
Numbers and Operations K-8.3:
Compute Fluently and Make Reasonable Estimates

National Personal Finance
Income and Careers K-12:
Standard 2: Identify sources of personal income.
Standard 3: Describe factors affecting take-home pay.

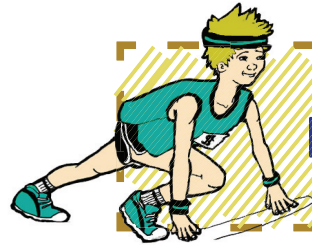
Financial Responsibility and Decision Making K-12:
Standard 5: Develop communication strategies for discussing financial issues.

Materials Needed

- Garbage Can
- Fake paychecks worksheet
- How to Complete a Paycheck Worksheet
- Paychecks worksheet

Small Change Questions

- Why is it important to know all the different components of your paycheck?
- If you could run any type of business, what would be?



Learning Objectives

- Students demonstrate knowledge of mechanics of a paycheck.
- Students define the different types of taxes and deductions.
- Students describe a paycheck as earned income.



Activity Instructions

1. Have everyone get out of their seats and stand somewhere in the room where they have some space to move around without hitting anyone else.
2. Ask for one volunteer and have him or her come up to the front of the room.
3. Ask the class to tell you the way most people make money. They **EARN** it by having a job. People who earn money by having a job are called **EMPLOYEES**. They are trading their time for money. Ask them who usually tells employees what to do: the boss, or the **EMPLOYER**. The volunteer is now their boss.
4. Have the boss tell the rest of the class to do something silly for the next 30 seconds. He or she can have his or her employees do jumping jacks, run in place, pat their heads and rub their stomachs, or anything else that is safe and stays within the classroom.
5. **OPTIONAL:** You can have the Jeopardy music playing or another 30 second clip of a song, or hum something.
6. Have the class do this routine four more times to represent one week of work. Then hand the boss a stack of paychecks and have him or her hand them out to each of his or her classmates. Have the students go back to their original

- What are some advantages to being an employee? A business owner? What are some of the disadvantages of each position?

employee spots and ask them if they get to keep the whole thing. Have the class share and if someone does not come up with the answer, say, “But you haven’t paid TAXES yet.” Money they earn before taxes are taken out of their paycheck is called **GROSS PAY**.

7. Have each student rip off \$100 and say this represents **FEDERAL TAXES**. Ask them what federal taxes pay for. Have a garbage can in the front of the room and have the students throw the \$100 in the garbage can.
8. Have them rip off another \$100 and throw it in the garbage can. This represents **STATE TAXES**. The amount of state tax is different in every state. Ask them what state taxes pay for.
9. Repeat this for **MEDICARE** and **SOCIAL SECURITY** taxes.
10. The money they have left over after taxes have been removed is called **NET PAY**.
11. Share that as an employee, all your taxes are taken out before you even see your money. As a business owner, not only do you get to call the shots, you also get to pay your taxes after you pay for all your business expenses.
12. Have students turn to a partner and tell each other whether they would rather be a business owner or employee and why. Have one partner explain what gross pay is and the other explain what net pay is and discuss how taxes affect someone’s income.
13. Pass out the worksheet called, “How to Complete a Paycheck.”
14. Have the students work with one or two other people next to them and give them 10-15 minutes to figure out how to complete a paycheck. Gross pay is \$2,800. There are percentages, multiplication, and basic addition and subtraction involved. Be available for questions.
15. Once everyone seems to be complete, go over the exercise to make sure the students have accurate numbers.

Earnings		this period
GROSS PAY		\$ <u>2,800</u> . <u>00</u>

Deductions	Statutory
Federal Income Tax (12%)	\$ <u>336</u> . <u>00</u>
Social Security Tax (6%)	\$ <u>168</u> . <u>00</u>
Medicare Tax (1%)	\$ <u>28</u> . <u>00</u>
State Income Tax (7%)	\$ <u>196</u> . <u>00</u>
Deductions	Other
Company Health Insurance	\$ <u>100</u> . <u>00</u>
TOTAL DEDUCTIONS	\$ <u>828</u> . <u>00</u>

• Paycheck Pockets • 123 Paycheck Way • Money Town, USA
 Completed by: Payroll clerk's name

EARNINGS STATEMENT for
Student's name

Period Beginning mm / dd / yy
 Period Ending mm / dd / yy

Gross Pay	\$ <u>2,800</u> . <u>00</u>
Total Deductions	\$ <u>828</u> . <u>00</u>
	=
NET PAY	\$ <u>1,972</u> . <u>00</u>



Assessment

- Did the student fully participate in whole and small group activities?
- Was the student able to accurately answer the questions regarding pay and taxes at the end of the anticipatory set?

Key Terms

paycheck – if you work for someone else, you collect money after a certain period of time in the form of this check

employee – someone who works for someone else

employer – someone who hires other people to work for their business

earned income – money you make by trading your time and energy, usually in the form of a job

taxes – money collected by the government to help pay for public services like roads, schools, libraries, government buildings, government workers and officials.

Usually, local, state, and federal taxes are collected in various forms: sales tax (paid anytime you purchase something) and income tax (paid out of your paycheck if you are an employee and quarterly if you earn money another way) are common ways to collect taxes

deduction – the taxes and other payments that are automatically removed from every paycheck

Key Terms

federal income tax - The money for this tax is used to help fund federal programs and government workers.

state tax - The money for this tax is used to help fund state programs and state workers. The amount of state tax is different in every state and some states don't collect state taxes.

Medicare Tax - The money for this tax is used to help take care of medical bills for people over 65. The amount of Medicare you receive is based on the amount you contributed to Medicare in your working lifetime.

Social Security Tax - The money for this tax is used to help people who have retired. You can start collecting full social security at 65 and the amount you collect is based on the amount you worked in your lifetime.

gross pay - the amount of your paycheck before taxes and other deductions are taken out

net pay - your "take home" pay; the amount of your paycheck after all deductions have been taken out

*** PLEASE CUT ALONG THE SOLID LINE ***



How to Complete a Paycheck

5

Calculate each tax using this formula: GROSS PAY x TAX PERCENT. For instance, if your gross pay was \$1,000, the formula for the federal tax would be 1,000 x 12%.

4

Fill in the amount of the Gross Pay.

2

Fill in the name of the person who is receiving the paycheck.

1

Fill in the name of the person who is completing the paycheck.

• Paycheck Pockets • 123 Paycheck Way • Money Town, USA •

Completed by: _____

Earnings this period	
GROSS PAY	\$ _____.

Deductions Statutory	
Federal Income Tax (12%)	\$ _____.
Social Security Tax (6%)	\$ _____.
Medicare Tax (1%)	\$ _____.
State Income Tax (6%)	\$ _____.
Deductions Other	
Company Health Insurance	\$100.00
TOTAL DEDUCTIONS	\$ _____.

EARNINGS STATEMENT for _____	
Period Beginning	____/____/____
Period Ending	____/____/____
Gross Pay	\$ _____.
Total Deductions	\$ _____.
	= _____.
NET PAY	\$ _____.

6

Add all the Deductions together (Statutory and Other) and put the total in this line.

7

Put the amount of the gross pay (Step 4) in the first line and the amount of the total Deductions (Step 6) in the second line. Subtract the deductions from the gross pay (Step 4) - (Step 6) to get the Net Pay.

3

Period Beginning: The day after the last paycheck.
Period Ending: The day you are completing this paycheck.

Know the Lingo

deductions: The taxes and other payments that are automatically removed from every paycheck

deductions other: These are deductions an employee has decided to pay because it is part of the company's benefits.

deductions statutory: These are the deductions every employee is required to pay immediately.

earnings statement: A fancy way of saying paycheck

Federal Income Tax: The money for this tax is used to help fund federal programs and government workers.

gross pay: The amount of your paycheck before taxes and other deductions are taken out

Medicare Tax: The money for this tax is used to help take care of medical bills for people over 65.

net pay: your "take home" pay; the amount of your paycheck after you have taken out all deductions

Social Security Tax: The money for this tax is used to help people who have retired. You can start collecting full social security at 65 and the amount you collect is based on the amount you worked in your lifetime.

State Income Tax: The money for this tax is used to help fund state programs and state workers. The amount of state tax is different in every state.

Completed by: _____

Earnings this period _____

GROSS PAY \$ _____.

Deductions Statutory

Federal Income Tax (12%) \$ _____.

Social Security Tax (6%) \$ _____.

Medicare Tax (1%) \$ _____.

State Income Tax (7%) \$ _____.

Deductions Other

Company Health Insurance \$100 .00

TOTAL DEDUCTIONS \$ _____.

EARNINGS STATEMENT for

Period Beginning ____ / ____ / ____

Period Ending ____ / ____ / ____

Gross Pay \$ _____.

—

Total Deductions \$ _____.

=

NET PAY \$ _____.

Completed by: _____

Earnings this period _____

GROSS PAY \$ _____.

Deductions Statutory

Federal Income Tax (12%) \$ _____.

Social Security Tax (6%) \$ _____.

Medicare Tax (1%) \$ _____.

State Income Tax (7%) \$ _____.

Deductions Other

Company Health Insurance \$100 .00

TOTAL DEDUCTIONS \$ _____.

EARNINGS STATEMENT for

Period Beginning ____ / ____ / ____

Period Ending ____ / ____ / ____

Gross Pay \$ _____.

—

Total Deductions \$ _____.

=

NET PAY \$ _____.

Completed by: _____

Earnings this period _____

GROSS PAY \$ _____.

Deductions Statutory

Federal Income Tax (12%) \$ _____.

Social Security Tax (6%) \$ _____.

Medicare Tax (1%) \$ _____.

State Income Tax (8%) \$ _____.

Deductions Other

Company Health Insurance \$100 .00

TOTAL DEDUCTIONS \$ _____.

EARNINGS STATEMENT for

Period Beginning ____ / ____ / ____

Period Ending ____ / ____ / ____

Gross Pay \$ _____.

—

Total Deductions \$ _____.

=

NET PAY \$ _____.