

TEACHER EDITION

Page One Economics® is an informative accessible essay on timely economic issues. The Teacher Edition provides the essay; student questions with answers; and additional lesson ideas for classroom, extra credit, or make-up assignments.

The Student Edition includes the essay and student questions;
https://research.stlouisfed.org/publications/page1-econ/2016-12-01/income-tax-facts-and-filings_SE.pdf.

National Standards and Benchmarks (see page 13)



December 2016

Income Tax: Facts and Filings

Jeannette N. Bennett, Senior Economic Education Specialist



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Income Tax: Facts and Filings

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GLOSSARY

Adjusted gross income: Gross income minus specific adjustments.

File (a tax return): To mail or electronically transmit a taxpayer's income and tax liability information in a specified format.

Gross income: The total amount earned before any adjustments are subtracted.

Income: The payment people receive for providing resources in the marketplace. People also earn income in the form of rent, profit, and interest.

Income tax: Tax on income, both earned (salaries, wages, tips, commissions) and unearned (interest, dividends). Income taxes can be levied on both individuals (personal income taxes) and businesses (business and corporate income taxes).

Revenue: The income received by government from taxes and other nontax sources.

Tax credit: An amount directly deducted from the total tax owed.

Tax deduction: A fixed amount or percentage permitted by taxation authorities that a taxpayer could subtract from his or her gross income to reduce taxable income.

Taxes: Fees charged on business and individual income, activities, property, or products by governments. People are required to pay taxes.

Tax exemption: Amount allowed by the IRS that can be deducted from taxable income to reduce the amount of income tax owed. There are two types: personal and dependency. The personal exemption is for the taxpayer; the dependency exemption is based on the number of dependents the taxpayer has. The exemption amount is a set amount that changes from year to year.

"The hardest thing in the world to understand is the income tax."
—Albert Einstein

Introduction

It's on the calendar: the April 15th filing deadline for federal individual **income tax**. Just as a new year begins, it's tax-filing season and the frenzy begins. Some taxpayers are excited and eagerly anticipate a tax refund. Predictably, they are likely to **file** their tax returns early. Others are stressed and fearful of how much they might owe the government. Tax preparers are extremely busy filling out forms and filing tax returns. And on April 15th, some post offices stay open late to accommodate filers who wait until the last minute to make the midnight deadline. Why do tax forms cause such frenzy?

Taxes must be paid—it's the law. Federal individual income tax must be paid to the U.S. government on all forms of annual earnings that make up a taxpayer's taxable income. Taxable **income** is calculated based on the taxpayer's **adjusted gross income** for the tax year minus allowable **tax exemptions, deductions, and credits**. But making the calculations and completing the forms necessary for determining taxable income can be confusing and complex!

16th Amendment to the U.S. Constitution (1913)

The Congress shall have the power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration.

SOURCE: <http://www.ourdocuments.gov/doc.php?flash=true&doc=57>.

History of the Federal Income Tax

Congress initiated the first U.S. federal income tax in 1862 to collect **revenue** for the expenses of the Civil War. The tax was eliminated in 1872. It made a short-lived comeback in 1894 but was ruled unconstitutional the very next year. Then, in 1913, the federal income tax resurfaced when the 16th Amendment to the Constitution gave Congress legal authority to tax

2016 Income Tax Brackets

The seven IRS tax brackets are 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%. The amount of income tax owed depends on taxable income and filing status. Income falling within a particular bracket will be taxed at that tax rate. Additional income will be taxed according to the rate in the next tax bracket.

Example: The income tax a single taxpayer with a taxable income of \$10,000 must pay is 10% for the first \$9,275 plus 15% for the remaining \$725.

$$10\% \times \$9,275 = \$927.50$$

$$15\% \times \$725 = \$108.75$$

$$\text{Total Tax} = \$927.50 + \$108.75 = \$1,036.25$$

Rate	Filing Status			
	Single	Married filing separately	Married filing jointly or qualifying widow(er)	Head of household
10%	\$0 to \$9,275	\$0 to \$9,275	\$0 to \$18,550	\$0 to \$13,250
15%	\$9,276 to \$37,650	\$9,276 to \$37,650	\$18,551 to \$75,300	\$13,251 to \$50,400
25%	\$37,651 to \$91,150	\$37,651 to \$75,950	\$75,301 to \$151,900	\$50,401 to \$130,150
28%	\$91,151 to \$190,150	\$75,951 to \$115,725	\$151,901 to \$231,450	\$130,151 to \$210,800
33%	\$190,151 to \$413,350	\$115,726 to \$206,675	\$231,451 to \$413,350	\$210,801 to \$413,350
35%	\$413,351 to \$415,050	\$206,676 to \$233,475	\$413,351 to \$466,950	\$413,351 to \$441,000
39.6%	\$415,051 or more	\$233,476 or more	\$466,951 or more	\$441,001 or more

SOURCE: IRS; <https://www.irs.com/articles/2016-federal-tax-rates-personal-exemptions-and-standard-deductions>.

income. The result was a revenue law that taxed the income of both individuals and corporations.¹

Collection of the Federal Income Tax

Income tax is collected by the Internal Revenue Service (IRS), a federal agency. The IRS was originally called the Bureau of Internal Revenue, but the name changed in the 1950s.² Making the collection of the tax easier, the Current Tax Payment Act was signed into law in 1943.

This law requires employers to withhold federal income tax from an employee’s paycheck each pay period and send the payment directly to the IRS on behalf of the employee.³ In this way, income tax is collected on a “pay as you earn” basis.

The amount withheld is determined by information the employee provides on an IRS W-4 form. This form collects information including the employee’s filing status, whether married or single, and allowances that can be claimed. The information is used to calculate a reasonable estimate of the amount of income tax to be withheld from each paycheck.

By January 31 of each year, employers must furnish employees a W-2 Wage and Tax Statement. This form is

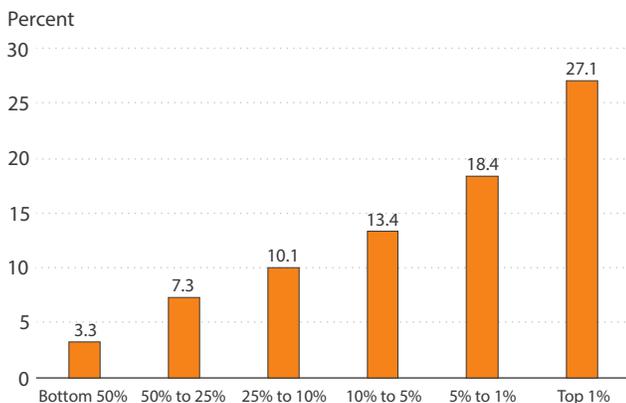
used by employees to complete individual tax returns. Among other things, it includes the total amount of income earned and the amount of federal income tax withheld over the given year. Generally, if too much federal income tax has been withheld, a taxpayer will receive a refund. If not enough has been withheld, the taxpayer must pay the government the additional amount owed.

The Individual Income Tax Structure

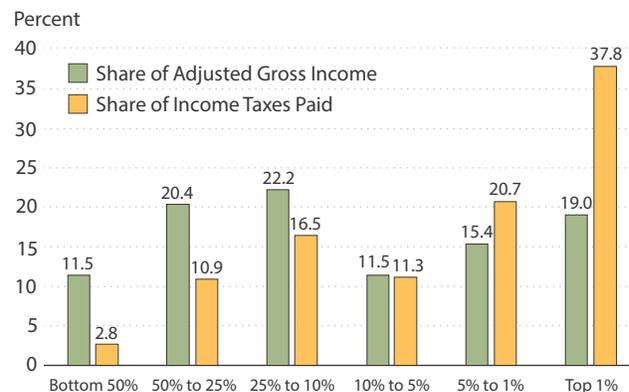
The federal individual income tax is a progressive tax based on the ability-to-pay principle. A progressive tax is a tax in which higher-income earners pay a larger percentage of their income in tax than do lower-income earners. The IRS categorizes taxable income into tax brackets, and each tax bracket pays a different tax rate. To arrive at the tax rate, the taxpayer’s filing status must be determined as explained in Publication 501 from the IRS. After calculating the amount of taxable income and identifying the filing status, the tax rate can be identified. For example, for 2016, the seven tax brackets range from 10 to 39.6 percent. (See “2016 Income Tax Brackets.”)

Without doubt, the highest income earners pay a greater portion of *total* income taxes collected by the IRS. For

High-Income Taxpayers Pay the Highest Average Tax Rates
Average Income Tax Rate, by Income Group (2013)



Half of Taxpayers Pay 97.2 Percent of All Income Taxes
Share of Income and Share of Income Taxes Paid, by Income Group (2013)



NOTE: Original images ©Tax Foundation.
SOURCE: IRS; <http://www.irs.gov/uac/SOI-Tax-Stats-Individual-Income-Tax-Rates-and-Tax-Shares>. Tax Foundation. "Summary of the Latest Federal Income Tax Data, 2015 Update." November 19, 2015; <http://taxfoundation.org/article/summary-latest-federal-income-tax-data-2015-update>.

example, the top 50 percent of income earners paid 97.2 percent of all federal income taxes in the year 2013. (See the graphs.)

The Purpose of the Federal Income Tax

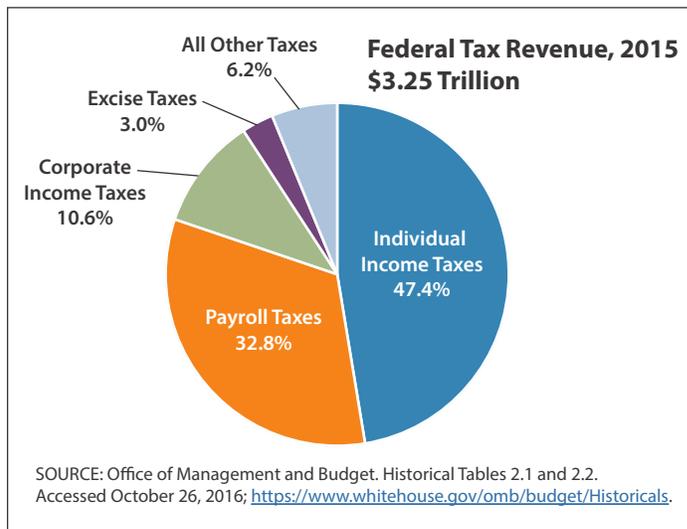
The U.S. government collects trillions of dollars in revenue from several types of taxes and fees. (See the pie chart.) Of all the federal taxes and fees, the individual income tax is the largest revenue source. For example, in 2015, it was \$1.54 trillion and nearly half of all tax revenue collected.⁴ Congress and the president determine how this tax revenue is spent. The revenue allows the government to operate and provide goods and services for citizens, such as roads, bridges, national parks, education, research, and national defense.

Tax Refunds

A tax refund is money owed to a taxpayer when total tax payments or credits are greater than the total tax liability. On average, nearly four out of five U.S. tax filers get a tax refund from the government each year.⁵ For the 2015 tax year, the IRS reports nearly 117 million individual income tax refunds, which totaled over \$346 billion.⁶

Overpayment

The majority of tax refunds are due to taxpayers having paid the government more than they actually owed in taxes. When a tax return is completed and an overpay-



ment is shown, the IRS refunds the overpayment. The government is not giving anything away—just returning money. Actually, since the government does not pay interest on an overpayment, the taxpayer is giving the government an interest-free loan out of each paycheck.

Earned Income Tax Credit

A second reason for tax refunds is the earned income tax credit (EITC). Of the nearly 117 million refunds for individual income tax in 2015, almost 24.1 million were based on the EITC.⁷

The EITC is a **tax credit** for low- to moderate-income working taxpayers, particularly those with children. The

About the EITC

IRS Publication 596 is updated each year to assist taxpayers in determining the EITC allowed. Some of the general rules for 2015 are shown below.

Rules for Qualifying for the EITC in 2015

- You must have a valid Social Security number by the due date of your 2015 income tax return.
- Your filing status cannot be “married filing separately.”
- You must be a U.S. citizen or resident alien all year.
- You must have earned income.

Note: Your income must be less than the maximum amount given in the table. If you earn more, you do not qualify.

Number of qualifying children	Adjusted gross income for single taxpayers	Adjusted gross income for married filing jointly taxpayers
3 or more	Less than \$47,747	Less than \$53,267
2	Less than \$44,454	Less than \$49,974
1	Less than \$39,131	Less than \$44,651
0 (You must be at least age 25 but under age 65.)	Less than \$14,820	Less than \$20,330

SOURCE: IRS Publication 596.

amount of the EITC benefit depends on the recipient’s income and number of children. (See the “About the EITC” boxed insert.)

A tax credit directly reduces the amount of taxes owed. The EITC is different from most tax credits because it is a *refundable* tax credit. The credit can completely eliminate the income tax liability and result in a refund. For example, if a taxpayer has a tax liability of \$200 and an EITC of \$500, the taxpayer would be refunded the difference and receive a refund check in the amount of \$300.

Federal Spending

The EITC began with the Tax Reduction Act of 1975, and this anti-poverty program has expanded over the years as determined by Congress.⁸ The refundable portion of the EITC is classified as a spending program of the government and currently is the third-largest social welfare program in the United States. The largest two are Medicaid, a health care program for qualifying low-income individuals and those with disabilities, and

2013 Federal Spending on the Largest Anti-Poverty Programs

Program	Millions of dollars*
Medicaid	\$266,565
SNAP	\$82,603
EITC	\$55,123

NOTE: *Inflation adjusted.

SOURCE: Office of Management and Budget; <https://www.whitehouse.gov/sites/default/files/omb/budget/fy2014/assets/hist.pdf>.

Estimated EITC (billions of dollars)

Year	Total EITC	Refundable
2016	\$73.3	\$63.7
2017	\$76.0	\$66.1
2018	\$73.8	\$63.8
2019	\$75.6	\$65.3
Total estimated	\$298.7	\$258.9

SOURCE: The Joint Committee on Taxation. “Estimates of Federal Tax Expenditures for Fiscal Years 2015-2019.” December 7, 2015; <https://www.jct.gov/publications.html?func=startdown&id=4857>.

the Supplemental Nutrition Assistance Program (SNAP, formerly called food stamps), which helps low-income individuals purchase food.

The EITC is a benefit to taxpayers who receive it but directly reduces the amount of tax revenue for the U.S. government. In 2015, the refundable portion of the EITC was more than \$60 billion.⁹ Looking forward, the Joint Committee on Taxation has estimated the cost of the EITC for each year through 2019. (See the table “Estimated EITC.”)

Conclusion

The original income tax codes and regulations designed in 1862 took about 400 pages to describe. In 1913, the tax form was four pages and included one page of instructions.¹⁰ Today, the federal tax code is almost 75,000 pages,¹¹ and the IRS website lists over 2,000 different forms and publications.¹² The increasing complexity causes many taxpayers to rely on professional tax preparers to complete and file their tax returns. In fact, a study of the 2011 tax year shows more than half of the

145 million individual tax returns were completed by a paid tax preparer.¹³ With tax returns becoming longer and more complex and with more forms to file, the frenzy continues. ■

Notes

¹ Library of Congress. "Today in History: Tax Day." Accessed October 17, 2016; <https://www.loc.gov/item/today-in-history/april-15#tax-day>.

² IRS. "Brief History of IRS." Accessed October 17, 2016; <https://www.irs.gov/uac/brief-history-of-irs>.

³ Tax History.com. "Historical Perspectives on the Federal Income Tax." Accessed October 17, 2016; <http://www.taxhistory.com/1943.html>.

⁴ Office of Management and Budget. Historical Tables 2.1 and 2.2. Accessed October 26, 2016; <https://www.whitehouse.gov/omb/budget/Historicals>.

⁵ Sahadi, Jeanne. "Nearly 8 Out of 10 U.S. Taxpayers Get Refunds." CNN Money, January 14, 2015; <http://money.cnn.com/2015/01/13/pf/taxes/taxpayer-refunds/>.

⁶ IRS. *Internal Revenue Service Data Book, 2015*. Publication 55B. Washington, DC: March 2016, pp. 17 and 19; <https://www.irs.gov/pub/irs-soi/15databk.pdf>.

⁷ IRS. *Internal Revenue Service Data Book, 2015*. Publication 55B. Washington, DC: March 2016, p. 2; <https://www.irs.gov/pub/irs-soi/15databk.pdf>.

⁸ Hungerford, Thomas L. and Thies, Rebecca. "The Earned Income Tax Credit and the Child Tax Credit: History, Purpose, Goals, and Effectiveness." Economic Policy Institute, September 25, 2013; <http://www.epi.org/publication/ib370-earned-income-tax-credit-and-the-child-tax-credit-history-purpose-goals-and-effectiveness/>.

⁹ IRS. *Internal Revenue Service Data Book, 2015*. Publication 55B. Washington, DC: March 2016, p. 19; <https://www.irs.gov/pub/irs-soi/15databk.pdf>.

¹⁰ Chamberlain, Andrew. "America's First Income Tax Form." Tax Foundation, July 7, 2005; <http://taxfoundation.org/blog/americas-first-income-tax-form>.

¹¹ Russell, Jason. "Look at How Many Pages Are in the Federal Tax Code." *Washington Examiner*, April 15, 2016; <http://www.washingtonexaminer.com/look-at-how-many-pages-are-in-the-federal-tax-code/article/2563032>.

¹² IRS. "Forms and Publications." Accessed October 19, 2016; <https://www.irs.gov/forms-pubs>.

¹³ McTigue, James R. Jr. "Paid Tax Return Preparers: In a Limited Study, Preparers Made Significant Errors." GA0-14-467T. Washington DC: April 8, 2014; <http://www.gao.gov/assets/670/662356.pdf>.

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Federal Reserve Bank of St. Louis *Page One Economics*®:

“Income Tax: Facts and Filings”

After reading the article, complete the following:

1. For each question, write the title of the section(s) of the article that addresses the question and write a response. Cite information from the text that verifies your response.

Question	Response
a. From the first income tax until today, explain reasons why the government needs income tax revenue. What benefits are provided by income tax revenue?	
b. How is a refundable tax credit different from most tax credits?	
c. What gives the federal government the authority to collect income tax? What is the connection between the Current Tax Payment Act and the W-4 form?	
d. How do tax brackets affect the amount of income tax revenue collected?	
e. Why are tax refunds issued to taxpayers? What effect do income tax refunds have on the amount of federal tax revenue?	
f. How does a taxpayer’s number of children affect the adjusted gross income limits to qualify for the EITC?	

2. It's tax-filing season, and George has asked you to review his tax facts and estimate his tax liability for the year.

George's Facts

- **Adjusted gross income: \$52,500**
- **Taxable income: \$31,900 after allowable credits, deductions, and exemptions**
- **W-2: \$7,875 withheld for federal income tax**
- **Filing status: Married filing jointly**
- **Children: None**

- a. Does George qualify for the EITC? Explain your answer.

- b. Use the chart in "2016 Income Tax Brackets" to calculate the additional income tax George will owe or the refund he will receive.

- c. George expects his income and filing status to remain the same for the next tax year. Review the facts and the results of George's income tax liability for the year. What, if any, changes might you suggest George make on his W-4 form? Defend your decision.

3. It's tax-filing season, and Parker has asked you to help fill out his income tax forms and complete his tax return based on these facts:

Parker's Facts

- **Adjusted gross income: \$12,000**
- **Taxable income: \$1,700 after allowable credits, deductions, and exemptions**
- **W-2: \$500 withheld for federal income tax**
- **Filing status: Married filing jointly**
- **Children: None**

- a. Use the table in "2016 Income Tax Brackets" to calculate the additional income tax Parker will owe or the refund Parker will receive.

- b. When Parker's tax refund arrived, Parker was surprised that it was not \$330 but \$543! Use the chart in "About the EITC" to explain why Parker received a larger refund than expected.

4. The Current Tax Payment Act requires taxpayers to pay federal income tax each time they receive a paycheck. Explain advantages and disadvantages of this "pay as you earn" law. How is the law beneficial to the government?

5. You have a great job, and your taxable income puts you in the 35% income tax bracket. Explain how the ability-to-pay principle affects you.

6. The EITC can be described as a transfer of money from those who pay taxes to those who receive the benefits. Explain how this design affects income redistribution in the United States.

7. Explain the difference between a tax deduction and a tax credit.

8. In 1913, the income tax form was four pages and included one page of instructions. Go to <https://www.irs.gov/pub/irs-utl/1913.pdf> to view the original form. Work with a partner to analyze the form. Identify at least two facts from the form that you find interesting.

Teacher's Guide

"Income Tax: Facts and Filings"

After reading the article, complete the following:

1. For each question, write the title of the section(s) of the article that addresses the question and write a response. Cite information from the text that verifies your response.

Question	Response
<p>a. From the first income tax until today, explain reasons why the government needs income tax revenue. What benefits are provided by income tax revenue?</p>	<p>Section Titles: History of the Federal Income Tax; Purpose of the Federal Income Tax</p> <p>The first income tax was used to pay expenses of the Civil War. Today it is used to pay for operation of the government and to provide goods and services to citizens, such as roads, bridges, national parks, education, research, and national defense.</p>
<p>b. How is a refundable tax credit different from most tax credits?</p>	<p>Section Title: Earned Income Tax Credit</p> <p>A tax credit directly reduces the amount of tax owed but does not result in a refund. A refundable tax credit reduces the amount of tax owed. If the tax is eliminated and any credit is left over, the balance of the credit is refunded to the taxpayer.</p>
<p>c. What gives the federal government the authority to collect income tax? What is the connection between the Current Tax Payment Act and the W-4 form?</p>	<p>Section Titles: History of the Federal Income Tax; Collection of the Federal Income Tax</p> <p>The 16th Amendment to the U.S. Constitution gives the government the authority to collect income tax. The Current Tax Payment Act requires taxes to be collected by employers on a pay-as-you-earn basis. The W-4 form provides the information needed to calculate a reasonable estimate of the amount of income tax to be withheld from each paycheck.</p>
<p>d. How do tax brackets affect the amount of income tax revenue collected?</p>	<p>Section Title: The Individual Income Tax Structure</p> <p>The tax brackets are designed to tax higher incomes at a higher percentage rate than lower incomes.</p>
<p>e. Why are tax refunds issued to taxpayers? What effect do income tax refunds have on the amount of federal tax revenue?</p>	<p>Section Titles: Overpayment; Earned Income Tax Credit; Federal Spending</p> <p>Refunds are issued to taxpayers primarily because of overpayment of taxes owed or the EITC. The amount of tax refunds directly reduces the amount of total federal tax revenue for the government.</p>
<p>f. How does a taxpayer's number of children affect the adjusted gross income limits to qualify for the EITC?</p>	<p>Section Title: Earned Income Tax Credit</p> <p>Each additional child up to three increases the qualifying adjusted gross income amount.</p>

2. It's tax-filing season, and George has asked you to review his tax facts and estimate his tax liability for the year.

George's Facts

- **Adjusted gross income: \$52,500**
- **Taxable income: \$31,900 after allowable credits, deductions, and exemptions**
- **W-2: \$7,875 withheld for federal income tax**
- **Filing status: Married filing jointly**
- **Children: None**

- a. Does George qualify for the EITC? Explain your answer.

No. George's income is too high to qualify for the EITC according to the IRS guidelines.

- b. Use the chart in "2016 Income Tax Brackets" to calculate the additional income tax George will owe or the refund he will receive.

First \$18,550, 10% tax = \$1,855

Next \$13,350, 15% tax = \$2,002.50

Total tax liability = \$3,857.50

Amount withheld = \$7,875.00

Estimated refund = \$4,017.50

- c. George expects his income and filing status to remain the same for the next tax year. Review the facts and the results of George's income tax liability for the year. What, if any, changes might you suggest George make on his W-4 form? Defend your decision.

Because George received a fairly large tax refund, he might want to have less federal income tax withheld from each paycheck. To do so, he can update the information on his W-4.

3. It's tax-filing season, and Parker has asked you to help fill out his income tax forms and complete his tax return based on these facts:

Parker's Facts

- **Adjusted gross income: \$12,000**
- **Taxable income: \$1,700 after allowable credits, deductions, and exemptions**
- **W-2: \$500 withheld for federal income tax**
- **Filing status: Married filing jointly**
- **Children: None**

- a. Use the table in "2016 Income Tax Brackets" to calculate the additional income tax Parker will owe or the refund Parker will receive.

\$1,700, 10% tax = \$170

Amount withheld = \$500

Refund = \$330

- b. When Parker's tax refund arrived, Parker was surprised that it was not \$330 but \$543! Use the chart in "About the EITC" to explain why Parker received a larger refund than expected.

His income and filing status qualify him for the EITC. The refund was due to the EITC.

4. The Current Tax Payment Act requires taxpayers to pay federal income tax each time they receive a paycheck. Explain advantages and disadvantages of this "pay as you earn" law. How is the law beneficial to the government?

Answers may vary but may include the following: One advantage for taxpayers is not having to pay one large sum at the time of filing. It is easier to pay a smaller amount on a regular basis. A disadvantage to taxpayers is that they don't have the money during the year for other things. The government benefits by being able to use the money paid interest-free until it is refunded.

5. You have a great job, and your taxable income puts you in the 35% income tax bracket. Explain how the ability-to-pay principle affects you.

As a higher-income earner, you pay a higher tax rate than lower-income earners. Generally, the more you earn, the more you pay.

6. The EITC can be described as a transfer of money from those who pay taxes to those who receive the benefits. Explain how this design affects income distribution in the United States.

The EITC can completely eliminate income tax liability and result in a refund. More than \$60 billion was refunded in 2016. Since most of the individual income tax revenue comes from higher-income taxpayers, the EITC is actually taking money from those with higher incomes and giving it to those with lower incomes.

7. Explain the difference between a tax deduction and a tax credit.

A tax deduction reduces taxable income. A tax credit is an amount directly deducted from the total tax owed.

8. In 1913, the income tax form was four pages and included one page of instructions.

Go to <https://www.irs.gov/pub/irs-utl/1913.pdf> to view the original form. Work with a partner to analyze the form. Identify at least two facts from the form that you find interesting.

Answers will vary.

Additional Resources

Econ Lowdown® of the Federal Reserve Bank of St. Louis provides numerous economic education resources for teachers to use with their students. These free resources include lesson plans, videos, online modules, interactive whiteboard lessons, and podcasts. They are available at <https://www.stlouisfed.org/education>.

The resources listed below from Econ Lowdown can be integrated with the content in this article.

To register your students for one or more of our online courses, on the Econ Lowdown website (linked above), click the “TEACHERS” button to create or access your account and visit the Instructor Management Panel.

Government Budgets (Online Course for Teachers and Students)

Students play the role of a freshman lawmaker in the U.S. House of Representatives trying to serve constituents’ goals and the long-term goals of the United States. Along the way, they learn about the federal budget process and how federal government initiatives and programs are funded.

<https://www.stlouisfed.org/education/government-budgets-online-course-for-teachers-and-students>

Government Spending and Taxes (Lesson)

Students engage in an activity that matches programs for low-income people with the type of economic inequity the program addresses. In addition, they observe an activity simulating tax payments and transfers.

<https://www.stlouisfed.org/education/government-spending-and-taxes>

Gini in a Bottle: Some Facts on Income Inequality (Page One Economics Classroom Edition)

Income inequality has been rising in the United States and other developed countries. This issue discusses income inequality, its causes, and some possible policy solutions.

<https://www.stlouisfed.org/education/page-one-economics-classroom-edition/gini-in-a-bottle-some-facts-on-income-inequality>

Income Inequality: It’s Not So Bad (Inside the Vault Classroom Lesson)

This lesson includes an article on the redistributing of wealth through taxation. Students examine the ability-to-pay principle of taxation. They also compare a progressive tax system and a flat tax system by analyzing taxation of the same household using one system and then the other.

<https://www.stlouisfed.org/education/income-inequality-its-not-so-bad>

It’s Your Paycheck! Lesson 2: “W” Is for Wages, W4 and W2

Students compute the gross pay for a fictional John Dough given his hourly wage and the number of hours worked. They compare gross pay with net pay. They learn what FICA and federal income taxes are, how to complete a W-4 form, and what a W-2 form is.

<https://www.stlouisfed.org/~media/Education/Curriculum/pdf/Its-Your-Paycheck-Lesson-2.pdf>

Standards and Benchmarks

Common Core State Standards

Grades 6-12 Literacy in History/Social Studies, Science, and Technical Subjects

History and Social Studies

- **Key Ideas and Details**

RH.11-12.1: Cite specific textual evidence to support analysis of primary and secondary sources, connecting insights gained from specific details to an understanding of the text as a whole.

RH.11-12.2: Determine the central ideas or information of a primary or secondary source; provide an accurate summary that makes clear the relationships among the key details and ideas.

- **Integration of Knowledge and Ideas**

RH.11-12.7: Integrate and evaluate multiple sources of information presented in diverse formats and media (e.g., visually, quantitatively, as well as in words) in order to address a question or solve a problem.

Reading: Informational Text

- **Key Ideas and Details**

RI.11-12.1: Cite strong and thorough textual evidence to support analysis of what the text says explicitly as well as inferences drawn from the text, including determining where the text leaves matters uncertain.

National Standards for Financial Literacy

Standard 1: Earning Income

Income for most people is determined by the market value of their labor, paid as wages and salaries. People can increase their income and job opportunities by choosing to acquire more education, work experience, and job skills. The decision to undertake an activity that increases income or job opportunities is affected by the expected benefits and costs of such an activity. Income also is obtained from other sources such as interest, rents, capital gains, dividends, and profits.

- **Benchmarks: Grade 12**

7. 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.

8. 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.

Voluntary National Content Standards in Economics

Content Standard 16: Role of Government and Market Failure

There is an economic role for government in a market economy whenever the benefits of a government policy outweigh its costs. Governments often provide for national defense, address environmental concerns, define and protect property rights, and attempt to make markets more competitive. Most government policies also have direct or indirect effects on people's incomes.

- **Benchmarks: Grade 12**

9. Governments often redistribute income directly when individuals or interest groups are not satisfied with the income distribution resulting from markets; governments also redistribute income indirectly as side-effects of other government actions that affect prices or output levels for various goods and services.

10. Different tax structures affect consumers and producers differently.