

Income Tax Made Easy

TEACHER'S GUIDE

THIRD EDITION

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AND

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WALCH  EDUCATION

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To the Teacher

INTRODUCTION

Purpose

Although almost all workers must go through the annual rite of preparing tax return forms, most of us face it with trepidation.

We find it painful to part with our hard-earned money, difficult to deal with the forms, and just plain exasperating because we are never completely certain we haven't made mistakes or paid too much. Yet filing the tax return form is an integral and inevitable part of a worker's responsibilities.

In classrooms across the country, teachers prepare their students to become fully participating members of our society. Whether their focus is social studies, citizenship, economics, government, mathematics, parenting, or English as a second language, educators discuss income tax. We have aimed at making these materials a useful resource for teachers in all these fields.

Overview

We discuss a number of workplace issues: withholding, paychecks, deductions, and Social Security cards. Most importantly, we take readers step by step through the income tax process. We begin with an overview of taxes, gradually introduce essential concepts, and look at how our tax dollars are spent. We include vocabulary activities, puzzles, word searches, and questions to support the conceptual information. Finally, we discuss the forms and procedures for filling them out in a hands-on, simple, and informative manner. Case studies are provided for practice.

Our guiding principle has been to reduce the anxiety and intimidation people feel when confronting their income tax returns. Our materials include all the information students and teachers need for a course of study on federal income taxes. We believe that, taken a step at a time, the study of income taxes can be fun, comprehensive, and entertaining.

Background

This effort grew out of Patricia's first experience with income tax instruction nearly 30 years ago in a small rural community in northern California. She was asked to deliver a short, two-day course for farm workers on how to fill out 1040A forms, as a component of the English as a Second Language program. (The 1040EZ did not yet exist.) Initially, she took weekly groups of 10 to 20 people with their W-2 forms line by line through the 1040A form.

Although the local IRS was very supportive and provided wall charts and other materials, virtually no adequate classroom materials were available. Nevertheless, the response from the students was overwhelming. After they had completed their own forms, they went on to fill out the forms of their neighbors, aunts, uncles, cousins, and others. Patricia was interviewed a number of times on television, and the course became a regular program feature during the income tax season.

Positive Impact

The impact of doing your own income tax can be profound. Many people are wary of legal and civic obligations, and they often take their forms to be completed by professionals. By going through the forms one line at a time and by applying some basic principles of cooperative education, students—whether adult or secondary—can develop a self-sufficient attitude. Also, they may save themselves time and money. Quasi-legal responsibilities needn't be a mystery; with a little time and effort, they can be mastered. And what better place for this process to occur than in the classroom!

COURSE MATERIALS

Whether your goal is to discuss income tax in general terms or to teach your students to fill out the 1040EZ, the 1040A, or both, the course materials provide everything you need to know to direct a unit on income tax. Of course, it takes volumes to hold all the rules and fine points of federal income taxes, but this book presents the basic concepts that apply to the most common situations.

Student Workbook

The student activity text discusses each concept in short, easy-to-handle topics. Each part of the book starts with a list of topics and specialized vocabulary. (There is no vocabulary for Part 7.) A glossary defines the vocabulary words. Step-by-step instructions tell students how to complete the 1040EZ and 1040A forms. The 1040 (long form) is mentioned but not covered, because it is used to address more complex tax situations. Still, the basic concepts also apply to students who use this form. We also mention electronic filing—the concepts in the book apply to both forms and e-filing. The Appendix provides information on and exercises for supplementary forms that many people must use in addition to the basic tax return forms.

Teacher's Guide

The teacher's guide contains all the information in the student activity text, plus answers on the activity pages, additional questions, extensions, and notes. The notes provide additional background information that you may find useful.

In addition, the first page of each part provides an overview, including topics, objectives, student activities, things you need, and important points to consider.

Since these materials can be used for many different types of classes and students, all the activities we suggest may not be appropriate for all situations. Disregard any activity that is not suitable for your students.

Important Notes

You should keep a few things in mind when using these materials. First, they are national in scope. They discuss federal income taxes. Because state and local taxes vary, you may wish to gather information on those taxes on your own.

Second, we used the latest information available to us when writing this book—for the 2007 tax year (filed by April 15, 2008). Each year, the amounts for deductions, exemptions, and the tax tables may change. Some rules may also change slightly. You should use the information in these books as examples and emphasize to students that they should use current forms, and carefully review instructions, for their own tax returns.

When performing classroom activities using student information, encourage students to keep personal information private, especially their Social Security numbers.

FREE SUPPLEMENTARY MATERIALS

Though we may grudgingly send our money to the IRS at tax time, as educators we can be thankful that the IRS provides a wealth of materials that can be used in the classroom—most at no charge. For example, you may be able to get a wall chart of the 1040EZ and 1040A for the current year. Forms are readily available, as are informational pamphlets and booklets. We highly recommend that you obtain a copy of Publication 17 for your reference. Resources are discussed in Part 8 of this book. The IRS web site has a great deal of useful material (www.irs.gov).

It may also be possible for a speaker from the IRS or the VITA (Volunteer Income Tax Assistance) organization to visit your classroom. Since VITA volunteers help people fill out their tax return forms, you may organize a session with VITA to help your students complete their own forms.

ADDITIONAL MATERIALS RECOMMENDED

Although you can teach a course on income tax with no additional materials, you may wish to have the following items on hand. Many of them are available at no charge.

- Publication 17
- amounts of exemptions, deductions, and so on, for the current year
- extra 1040EZ and 1040A forms for the current year
- W-4 forms (Withholding Allowance Certificate used by employers)
- SS-5 forms (application for Social Security card)
- information about state and local taxes (look in your local phone book for the appropriate agencies)
- telephone books, for exercise in Part 8
- ads and articles on income tax from newspapers and magazines
- books, videos, and other resources from the public library
- Internet access

HINTS, TIPS, AND CAVEATS

- Make the classes as interactive as possible. Encourage students to ask questions. It can be easy to misunderstand some points.
- If students find explanations or instructions on the forms themselves to be frustrating and confusing, assure them that it is not their fault. The forms are often difficult to understand, even for professionals.
- Heed the disclaimer. These materials are not intended to provide tax advice but simply to explain basic concepts and provide practice in filling out forms.
- Try to customize your presentation for your students. Make sure they understand the utility of the information. Skip anything they do not need to know.
- Consider the interdisciplinary nature of the materials. You can address math, English (can students write better instructions?), history, and social studies (when did the federal income tax begin? what was its purpose?).
- When filling out the forms, go through each step slowly. The instructions may seem intimidating, but if carefully considered, they can be understood. Do not go on to the next step if the first step is unclear.
- Should you be presented with a unique or difficult tax question, the final part lists sources for assistance, much of it free. Refer students to these sources. Remind them that you are not a professional income tax preparer.
- You can use these course materials as a very short unit or as one that can be covered during a longer course, such as a semester.
- If you are comfortable with income taxes, you may create your own taxpayer scenarios and provide answer keys. If you use a computer with tax software, this is especially easy to do.
- Keep a copy of Publication 17 handy for reference. You may even wish to order enough for all your students. Publication 17 often highlights differences from the previous tax year.
- Because these materials reflect figures and rules for 2007, you may wish to familiarize yourself with any differences.
- Remind students that they should use current forms for their own tax returns.
- You could use this as an opportunity to help students complete their own tax forms. The best way to do this might be to arrange a special session with someone from the IRS or VITA, if available.
- If using students' personal information for exercises, be sensitive to their privacy. They may not wish to reveal their personal circumstances. There is also a risk of identity theft if real Social Security numbers are used.

Final Note

The annual process of filing tax return forms is often discussed in the media with dread and anxiety. Although it is always a challenge to complete the forms properly, ignorance and the fear caused by ignorance can make the task appear all but impossible. Educators who work to explain the concepts and procedures to their students lead the way to a sense of mastery and self-sufficiency in an essential and inevitable aspect of their students' lives. Good luck, and have fun!

PART 1

Introduction

OVERVIEW

Topics

- objectives
- concepts
- activities
- benefits
- disclaimer

Objectives

By the end of Part 1, students will be able to:

- state the topics and objectives of the course
- identify benefits of completing the course
- state that the course teaches basic concepts, and does not provide tax advice

Student activities

- Ask questions regarding course content.

Things you need

- course materials

Important points

- Ensure that students understand the purpose and intent of the course and the course materials.
- If you plan to include other activities, describe them during this part.

INTRODUCTION

Introduce the course

If you earn money, you probably have to pay taxes on what you earn (your income). To figure out how much you must pay in taxes, you must fill out an income tax return every year. Filling out the form may not be easy, and parting with your hard-earned money may be painful. But doing this is your duty as a worker in the United States. It's part of being a member of our society. It's also the law.

Like many people, you may think it's too difficult and confusing to do your own tax return. That's not necessarily so. This course will take you step by step through the process, one form and one step at a time. You'll learn how to take care of this civic responsibility on your own.

Describe Part 1

Part 1 introduces you to the course. In this part, we discuss the following items:

- **Objectives**

You will learn what you will be able to do after you complete the course.

- **Concepts**

We will discuss the topics and concepts included in the course.

- **Activities**

We will describe the activities in the course.

- **Benefits**

We will describe the benefits you will receive from completing the course.

- **Disclaimer**

We will discuss what the course is *not* intended for.

OBJECTIVES

Identify objectives

After completing this course, you will be able to:

- explain what the federal income tax is
- explain your filing responsibilities and deadlines
- fill out the simple forms most people use
- obtain more information about federal income taxes

CONCEPTS

Identify course concepts

The concepts we will discuss include:

- what the income tax is
- withholding
- filing a tax return
- filing procedures
- types of forms
- filling out forms—1040EZ and 1040A
- where you can get help

These are all concepts that every person who must pay taxes should know and understand.

ACTIVITIES

Describe activities

Describe the activities your students will complete during this course.

Activities in the course include:

- **exercises with tax-related concepts**
There is a crossword puzzle, a true–false quiz, and a word search.
- **exercises to help you practice using tax-related vocabulary**
Some words that you already know have a special meaning in tax situations, and you must understand the tax-related meaning. For example: *file*—“file a tax return,” *claim*—“claim a dependent” or “claim an exemption.” Other words may be new to you.
- **exercises to help you understand how the concepts relate to your situation**
You need to understand this before you can fill out the forms.
- **practice in filling out sample forms**
We will complete two different forms for people with different situations.

BENEFITS

Ask

Why is this information important to you?

- **You will have a better understanding of the process of paying taxes.**
- **Almost everyone who works must pay taxes and send in a tax return form.**

This is your civic responsibility, and it is the law.

You may need your tax return forms for immigration matters.

You may get money back when you send in your tax return form.

- **You may be able to fill out the forms by yourself without paying someone else to do it.**

- **If you need help filling out the form, you will learn ways to get that help for free.**

Emphasize practicality

The concepts taught in this class are very practical and will help you in your life.

DISCLAIMER

NOTE: Make it clear to students what this course does *not* do.

Clarify purpose

It is important to understand the purpose of the course and this book, and what they are not.

- This book is intended to be an introduction to the basic concepts of income taxes and filing income tax returns.
- It is not intended to be used as professional tax advice.

- If you need more information, you should contact the IRS, an accountant, or a professional tax preparer.
- Rules and information change from year to year. Be sure to check the information and instructions for the current year.

Ask

Do you have any questions about what you will learn in this course?

NOTE: Describe how you will assign homework or outside activities. Discuss how you will grade students, if their work is to be graded.

If you plan to have a session where students work on their own tax returns in class, tell them about this now.

Any time you have students use their own information, they should take care to keep their Social Security numbers private.

PART 6

Filling Out Forms—1040EZ

OVERVIEW

Topics

- filling out the 1040EZ

Objectives

By the end of Part 6, students will be able to:

- fill out the 1040EZ tax return form

Student activities

- complete the 1040EZ

Things you need

- You may wish to distribute enough 1040EZ forms so that students can work with them separately from the student activity text. It will be easier to work with the form this way.
- If you will have students complete tax forms using their own information, they will need their tax information (see end of Part 5).
- Publication 17 will be useful for answering questions.

Important points

- The exercises in this part are based on 2007 information. This was the latest information available when the book was completed. Be sure students understand this.
- If none of your students will use the 1040EZ, you may skip this part and go

on to Part 7, which discusses the 1040A. However, since the 1040EZ is simpler, it can be a good introduction to working with forms.

- At the end of the exercise, you may wish to have participants repeat the exercise using tax forms for the current year. You will need to create your own answer key.
- If you have participants complete the forms with their own tax information, you should use current forms, if available. Contact the IRS to inquire if a volunteer from VITA is available to assist you during this activity.
- Most people consider their financial situation highly personal. If students do not wish to reveal their own information, we recommend that you respect their wishes.

FILLING OUT FORMS— 1040EZ

Describe Part 6

In Part 6, you will learn about:

- filling out the 1040EZ form
- We will go step by step through the form so that you understand each section.

VOCABULARY

Before we go any further, let's discuss the vocabulary for this part.

ACTIVITY: Before providing the definitions, ask for volunteers to define each word. Write brief definitions on a transparency or on the board, or send volunteers to the board to record their definitions. Have the class refine the sentence structure and spelling of each. Have students use each word in a sentence.

sighted—not blind

taxable income—income upon which you must pay taxes

claim—to list

dividends—money you receive from stocks or investments

tax-exempt—not taxable

ACTIVITY: Have students circle the first instance of each word.

INSTRUCTIONS

Discuss the instructions

- Read the information about Joe Hernandez, the sample taxpayer.
- Read the explanation of the 1040EZ form in this part.
- Complete the form using the information about the sample taxpayer.

NOTE: You can conduct this exercise in several ways. For example, you may have students read the scenario about Joe Hernandez and fill out the form as you review each section. Alternatively, you may have students read the scenario, then review each section so that they understand it, and then complete the form at the end.

1040EZ PRACTICE EXERCISE

ACTIVITY: Have students fill out the 1040EZ form for Joe Hernandez.

Joe Hernandez

- Joe Hernandez is a carpenter. He is single and has no dependents.
- He earned \$15,000 from one job and later earned \$3,500 from another job.
- His savings account at the bank earned \$200 in interest. He has about \$1,000 in deductions.
- He had a total of \$2,013 withheld from his pay.
- He lives at 300 Primavera Street, Apt. A, Impuesto, CA 90000. His Social Security number is 123-45-6789, and he would like to contribute to the Presidential Election Campaign fund.

WHO CAN USE THE 1040EZ?

Identify the requirements

You can use the 1040EZ if you meet the following requirements:

- sighted single person under 65, or
 - sighted married couple under 65 filing jointly
- AND
- total taxable income of \$100,000 or less
 - taxable interest income of \$1500 or less
 - no dependents
 - U.S. resident
 - uses standard deduction; may NOT itemize deductions
 - all taxable income comes from earnings reported on W-2, unemployment compensation reported on the 1099G, and interest reported on 1099-INT (no rental income or income from own business)

ACTIVITY: Can Joe Hernandez use the 1040EZ? Why or why not?

Yes. He is single with no dependents. His income is lower than the required limits. He only has about \$1,000 in deductions, so he prefers to use the standard deduction. He lives in California, so he is a U.S. resident.

Ask questions

1. Steve Carlson is married and has one dependent child. He has paid mortgage interest of \$7,000. He paid \$4,000 in state taxes and contributed \$400 to charity. Can he use the 1040EZ? Why or why not?

No. He has a dependent. Also, he should itemize rather than use the standard deduction.

2. Alex Young is a 17-year-old unmarried high school student in Maine. During the summer, he worked at a fast-food restaurant and earned \$4,600. He has no dependents. Can he use the 1040EZ? Why or why not?

Yes. He is single with no dependents. His income is lower than the required limits. He won't have many deductions, so he will not itemize deductions. He lives in Maine, so he is a resident of the United States.

ACTIVITY: If you want students to determine if they can use the 1040EZ, have them place a check mark in each box that applies to their situation. If they check all the boxes, they can use the 1040EZ.

Point out the form

The student activity text contains a blank copy of both sides of the one-page 1040EZ form.

NOTE: The form is for the 2007 tax year.

1040EZ—SIDE 1

Form **1040EZ** Department of the Treasury—Internal Revenue Service **Income Tax Return for Single and Joint Filers With No Dependents 2007** OMB No. 1545-0074

Label
(See page 8.)
Use the IRS label.
Otherwise, please print or type.

L A B E L H E R E	Your first name and initial	Last name		
	If a joint return, spouse's first name and initial	Last name		
	Home address (number and street). If you have a P.O. box, see page 9.		Apt. no.	
	City, town or post office, state, and ZIP code. If you have a foreign address, see page 9.			

Your social security number

Spouse's social security number

▲ You **must** enter your SSN(s) above. ▲

Presidential Election Campaign
(page 9)

Check here if you, or your spouse if a joint return, want \$3 to go to this fund ▶ **You** **Spouse**

Income
Attach Form(s) W-2 here.
Enclose, but do not attach, any payment.

1 Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2.	1	
2 Taxable interest. If the total is over \$1,500, you cannot use Form 1040EZ.	2	
3 Unemployment compensation and Alaska Permanent Fund dividends (see page 10).	3	
4 Add lines 1, 2, and 3. This is your adjusted gross income .	4	
5 If someone can claim you (or your spouse if a joint return) as a dependent, check the applicable box(es) below and enter the amount from the worksheet on back. <input type="checkbox"/> You <input type="checkbox"/> Spouse If no one can claim you (or your spouse if a joint return), enter \$8,750 if single ; \$17,500 if married filing jointly . See back for explanation.	5	
6 Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-. This is your taxable income .	6	

Payments and tax

7 Federal income tax withheld from box 2 of your Form(s) W-2.	7	
8a Earned income credit (EIC).	8a	
b Nontaxable combat pay election.	8b	
9 Add lines 7 and 8a. These are your total payments .	9	
10 Tax. Use the amount on line 6 above to find your tax in the tax table on pages 18–26 of the booklet. Then, enter the tax from the table on this line.	10	

Refund
Have it directly deposited! See page 15 and fill in 11b, 11c, and 11d or Form 8888.

11a If line 9 is larger than line 10, subtract line 10 from line 9. This is your refund . If Form 8888 is attached, check here ▶ <input type="checkbox"/>	11a	
▶ b Routing number <input type="text"/>		▶ c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings
▶ d Account number <input type="text"/>		

Amount you owe

12 If line 10 is larger than line 9, subtract line 9 from line 10. This is the amount you owe . For details on how to pay, see page 16.	12	
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Third party designee

Do you want to allow another person to discuss this return with the IRS (see page 16)? **Yes**. Complete the following. **No**

Designee's name ▶ _____ Phone no. ▶ () _____ Personal identification number (PIN) ▶ _____

Sign here

Under penalties of perjury, I declare that I have examined this return, and to the best of my knowledge and belief, it is true, correct, and accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Your signature	Date	Your occupation	Daytime phone number ()
Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation	

Paid preparer's use only

Preparer's signature	Date	Check if self-employed <input type="checkbox"/>	Preparer's SSN or PTIN
Firm's name (or yours if self-employed), address, and ZIP code	EIN	Phone no. ()	