

Getting Started...

How do you think the government spends your taxes?

Please write answers in your notebook and be ready to share!

Unit 5 Lesson 1

Government Spending & Taxes: How Your Taxes Work

An introduction to how federal, state, and local governments collect revenue through taxes and allocate funds across public goods, services, and transfer payments.

What Are Taxes?

Taxes are required payments made by individuals and businesses to local, state, and federal governments.

Tax Purposes

01

Fund Public Operations

Pays for government staff, courts, and administrative infrastructure.

02

Supply Public Goods

Finances shared services like national defense and roads that markets do not supply alone.

03

Support Citizens

Funds transfer payments and safety net programs to assist low-income households.

Two Major Categories of Government Spending

Federal spending is divided into two major functions.

~40%

Government Goods & Services

Direct purchases of physical goods, infrastructure, and services for community use.

~60%

Transfer Payments

Money collected from taxpayers and redistributed to individuals to support health, nutrition, and economic equity.

Public Goods & Services



Definition

Goods and services provided by the government because private markets cannot effectively supply them to everyone.

Key Examples

- National Defense/Military
- Highways/ Infrastructure
- National Parks/Public Spaces
- Emergency Services

Transfer Payments & Economic Equity

Economic Equity:

A policy goal aimed at achieving a more equal distribution of goods and services among citizens.

Transfer Payments

TAXATION & REVENUE

Revenue is collected from higher-income households through taxes.



DIRECT SUPPORT

Funds are transferred to low-income families to help them obtain food, shelter, and healthcare they couldn't otherwise afford.

Common Government Transfer Programs

SNAP (Food Stamps)

Assists families with purchasing nutritious food.

Medicaid

Covers health care and doctor expenses for low-income individuals.

Housing Assistance

Provides vouchers or public housing for affordable shelter.

TANF

Temporary cash assistance and job training for needy families with children.

Head Start

Early education and school readiness for young children.

Social Security

Income support for retirees, disabled workers, and surviving dependents.

Government Debt & Fiscal Policy

NATIONAL DEBT

Accumulated total of all annual federal budget deficits funded through government borrowing.

ROLE OF THE FEDERAL RESERVE

Manages monetary policy and interacts with government debt to support economic stability.

FISCAL POLICY & SPENDING

Balances mandatory social safety nets and discretionary spending against tax revenues.

CONSTITUTIONAL AUTHORITY

Article I, Section 8 authorizes Congress to lay and collect taxes and pay government debts.

Managing government debt requires balancing spending, public investment, and long-term economic sustainability.

Summary & Key Takeaways

Essential Funding

Taxes pay for public infrastructure, national defense, and government services.

Social Safety Net

Transfer payments redistribute tax revenue to support economic equity and families in need.

Progressive Impact

Other income quintiles provide the majority of tax revenue that sustains these programs.

Economic policy balances incentivizing market growth with providing essential public support.

End U5L1

Answer in notebook:

You just got your first job working 20 hours a week at \$15 per hour (\$300 total). You go to buy a \$280 (game console, piece of jewelry, nice clothing item, etc.) thinking you have enough cash, but your paycheck hits your bank account and it's only \$238. Where did the \$62 go?

Unit 5 Lesson 2

Lesson 2: Taxes and Paychecks

Understanding Wages, Taxes, and Your Paycheck

Earnings, tax withholdings, pay stubs, and financial planning.

**Gross pay is total earnings before deductions.
Net pay is your actual take-home pay.**

Gross Pay

The total income earned per pay period (hourly wage multiplied by hours worked) before any taxes or deductions are taken out.

Net Pay

The remaining take-home pay received after all mandatory taxes and voluntary deductions are subtracted.

Pay stubs detail earnings, tax withholdings, and deductions.

Pay Stub Overview

Details total hours worked, pay rates, total gross earnings, deductions, and final net pay.

Required Withholdings

Federal income tax, state income tax, and FICA taxes automatically subtracted by your employer.

Voluntary Deductions

Optional subtractions for health insurance coverage or retirement savings.

Income taxes fund essential public goods and government services.

Federal Income Tax

Collected by the IRS to fund federal programs, national defense, and public infrastructure.

State Income Tax

Collected by state governments to fund public education, state roads, and local emergency services.

Pay-As-You-Go System

Taxes are automatically withheld each pay period based on information provided on your Form W-4.

FICA Payroll Taxes Fund Social Security & Medicare

FICA = Federal Insurance Contributions Act

Social Security Tax (6.2%)

Funds retirement, disability, and survivor benefits for qualified workers and families.

Medicare Tax (1.45%)

Funds health insurance coverage for individuals aged 65 and older and eligible disabled individuals.

7.65%

Employee FICA Deduction

Automatically withheld from gross pay

✓ Total FICA Contribution: 15.3%

Employees pay 7.65% from gross pay, which is matched equally by their employer (total 15.3%).

Voluntary deductions allow employees to save for retirement directly from wages.

401(k) Plan

An employer-sponsored retirement account where pre-tax contributions reduce your current taxable income.

Key Difference

Pre-tax contributions lower upfront tax burden.

Roth IRA

An individual retirement account funded with post-tax dollars, allowing tax-free growth and tax-free qualified withdrawals.

Key Difference

Post-tax funding for 100% tax-free growth/payouts.

Compound Interest Benefit

Starting retirement contributions early in life maximizes long-term financial growth.

Understanding your paycheck helps you build strong financial habits!

✓ **Review Pay Stubs**

Always verify gross pay, tax deductions, and net pay on every paycheck.

Complete W-4 Forms Accurately

Ensures accurate federal tax withholding to prevent owing money at tax time.

✓ **Plan Your Budget**

Base personal spending and savings goals on net pay, not gross pay.

End U5L2

Unit 5, Lesson 3

Who, When, W-2 and 4: Tax Basics

Who Can Be Claimed as a Dependent?

Relationship

Child, stepchild, or sibling.

Age

Under 19 (or under 24 if full-time student).

Residency

Lives with parent/guardian over 6 months of year.

Support

Student provides under 50% of own financial support.

Who MUST File Taxes?

Mandatory Filing: Earned income over \$14,600 (Standard Deduction).

Unearned Income: Interest or investment gains over \$1,300.

Voluntary Filing: File even if under threshold to get tax refunds back!

When Do You File? (The Tax Calendar)

Upon Hire

Complete Form W-4 to set paycheck tax withholding.

January 31

Employers send Form W-2 showing annual wages and tax paid.

April 15

Tax Day—Deadline to submit federal and state returns.

Why the Form W-4 Matters

Completed when starting a new job.

Tells employer how much income tax to withhold.

Claiming dependents reduces tax withheld (increases take-home pay).

Accurate W-4 prevents owing money on Tax Day.

How Taxes Are Prepared

IRS Free File

Free guided software if income is under threshold.

Tax Software

Online programs (e.g., TurboTax).

Paper Mail-In

Free manual forms (slowest processing).