

Financial Literacy (“finlit”)
Winter Term 2023 - 2024
December 7, 2023

Making and Spending
Money

Class 6: Taxes and Business Plan Project



Freedom is Not Free

Operating our government costs money. Our government...



Employees

pays for salaries of government employees like firefighters, police officers, and public-school teachers, among others;



Infrastructure

builds and maintains airports, bridges, roads, shipping ports, and other infrastructure; and



Military

maintains a military to defend our country and preserve peace throughout the world; and



Services

provides services and social programs to those eligible, such as income security, Social Security, and Medicare.



Class Discussion

*Does our
government
make money by
selling products
or services?*



Class Discussion

*So, how does
the government
pay for what it
spends?*

How Governments Finance Spending



Borrowing

The U.S. Government is the world's largest borrower. The U.S. National Debt is over \$33.8 trillion. The U.S. Government borrows by issuing bonds, which are purchased by investors.



Fees

Governments may charge fees for certain services (ex. vehicle licensing). This is typically a small part of total government income.



Inflation

Inflation can benefit borrowers with high fixed rate debt, like the U.S. Government. Money in the future that repays debts has less purchasing power, so it is worth less in the future than today.



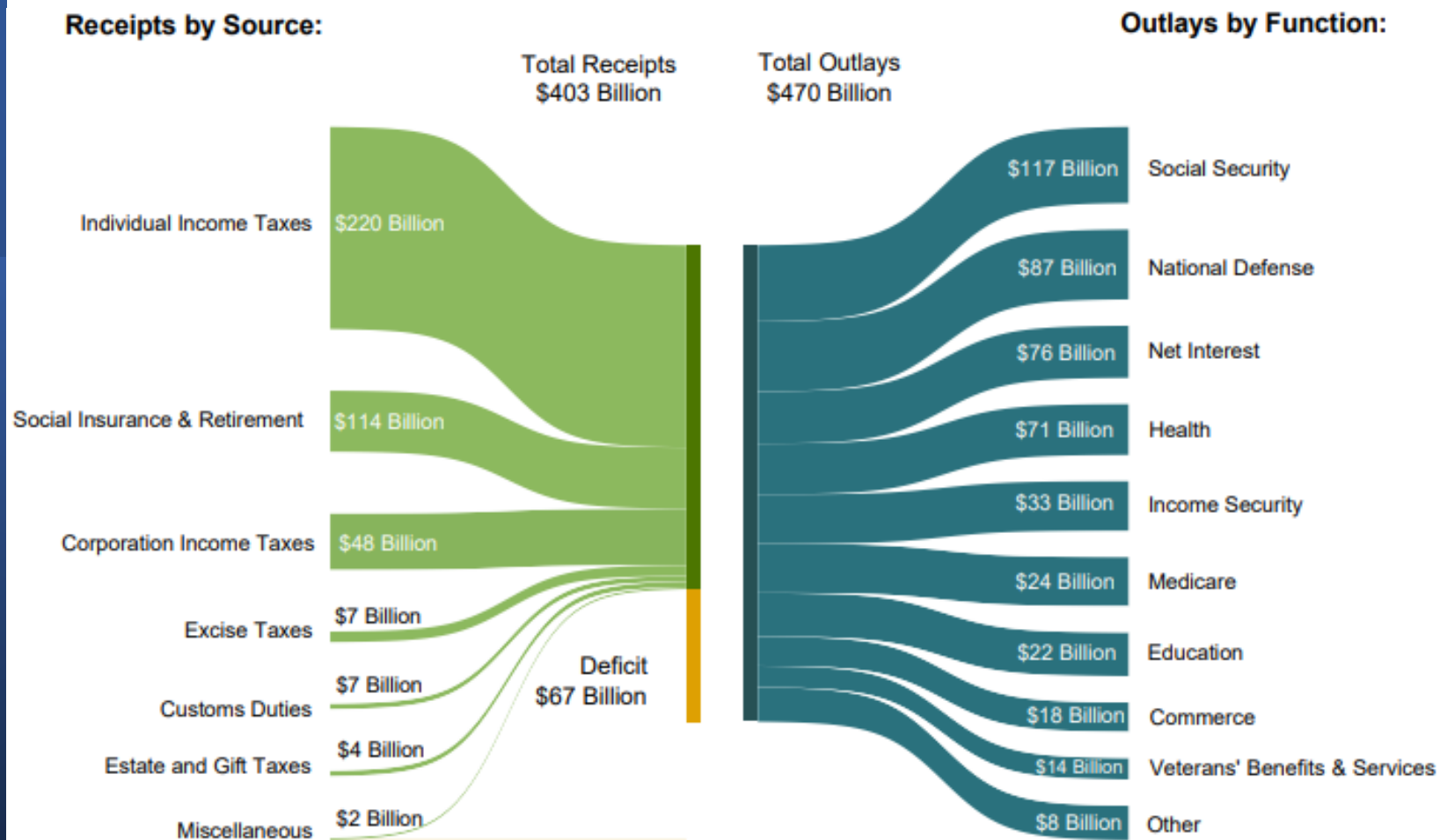
Taxes

This is the largest form of government income. Governments can tax anything. People are obligated to pay taxes or suffer the consequences.

Mandatory payments or charges collected by local, state, and/or national governments from individuals or businesses to cover the costs of government activities, goods, obligations, programs, and services:

Taxes

U.S. Federal Government Receipts & Outlays for October 2023



Source: [Monthly Treasury Statement October 2023](#)

U.S. Government Outlays & Receipts

- Last year, the U.S. Government had...
 - \$6.1 Trillion of outlays, and
 - \$4.4 Trillion of receipts, $\approx 49\%$ of which came from income taxes.

- A **\$1 bill** is 0.0043 inches thick.
 - \$1 bills stacked to **\$1 million** would be **358 feet tall**.
 - \$1 bills stacked to **\$1 trillion** would be **67,866 miles tall**.
 - \$1 bills stacked to **\$4.4 trillion** would be **298,610 miles tall**.

That's $\approx 60\%$ the height of the Space Needle, which is 605 feet tall!



Enough to wrap around the Earth ≈ 2.7 times!



That extends $\approx 60,000$ miles past the moon, which is 238,855 miles away from earth!

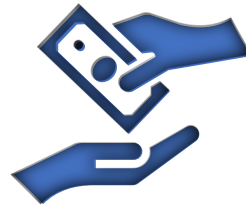


Examples of the Most Common Taxes



Excise Tax

Taxes on specific goods



Income Taxes

Taxes on money made



Estate Tax

Taxes on the estate of a deceased person



Payroll Tax

Taxes on earning money through employer payroll



Property Taxes

Taxes on the stuff you own



Sales Tax

Taxes on what people buy

Practical Application

Sales taxes increase the total cost of purchases. Work individually to calculate the total cost of the following:



\$4.95

Latte

Sales Tax Rate is 9.0%



\$7.95

Cheeseburger Meal

Sales Tax Rate is 8.0%



\$99.95

Cashmere Sweater

Sales Tax Rate is 10.5%

Practical Application

Work individually to answer the following questions:

Sales Tax on a Smartphone

A student saved \$800 to purchase a smartphone. The smartphone costs \$795. The government assesses a 10% sales tax rate. Does the student have enough money available to buy the smartphone?

Income Tax on Part Time Job

A student works part time at a fast-food company. The student earned \$20 per hour and worked 25 hours. Income taxes of 12% are withheld from the student's pay. How much money was withheld for income taxes?

Total Income Taxes Owed for the Year

A student had a summer internship and worked regularly as a babysitter. The student's taxable income totaled \$18,000. Income tax rates are 10% up to \$11,000 plus 12% on incomes over \$11,000 but under \$45,000. How much income taxes does the student owe?

Do Not Ignore Tax Effects



\$3,995

Gaming Computer

A student wants to purchase a high-end gaming computer that has a retail price of \$3,995.



\$380

!! Sales Taxes !!

At a 9.5% sales tax rate, the total retail cost of the gaming computer is **\$4,375**.



\$486

!! Income Taxes !!

At a 10% income tax rate, the student needs gross income of **\$4,861** to have net income of **\$4,375**.



Business Plan Project

Customers Pay to Resolve a Problem

People part with their money only if they can satisfy a **'need'** or a **'want'**



Class Discussion

*Has anyone
spoken with
others about the
problems they
encounter?*

Money Mavericks

Objective: Keep brainstorming problems people face. These could be day-to-day problems, simple problems, or complicated problems. Make a list of at least 5. Discuss whether each problem might have potential customers who are willing to pay to resolve the problem.





Three Key Takeaways

1. Taxes are essential for funding government operations, services, social programs, and staff.
2. There are various forms of taxes, each serving different purposes and being applied in different contexts.
3. Learning how to estimate taxes in everyday scenarios, such as sales tax on purchases and income tax on earnings, is helpful for planning.



Where to Learn More

- [Federal Revenue: Where Does the Money Come from](#) by National Priorities Project
- [Tax Definition: What is a Tax? Why Do We Pay Taxes?](#) By the National Tax Foundation
- [Teens and Income Taxes](#) by Logan Allec