UNIT 5 · WEEKS 5–6

Taxes

Student Workbook

Name:	______________________ ______________________ Date started: ______________ Date completed: ______________

What you will learn in this unit: How the US tax system works • Tax brackets, marginal vs. effective rates • FICA (Social Security and Medicare) • Filing a tax return and the 1040 • Tax credits and deductions • Self-employment taxes

Lessons 5.1 & 5.2 — Tax System & Income Tax Basics

KEY VOCABULARY

Term	Write the definition in your own words
Progressive tax	
Marginal tax rate	
Effective tax rate	
Standard deduction	
Taxable income	
W-2 form	
W-4 form	
Tax bracket	

TAX BRACKET CALCULATION

2025 Federal Tax Brackets (Single filer): 10% on income $0–$11,925 | 12% on income $11,926–$48,475 | Standard deduction: $15,000

Step 1 — Taxable income:	$40,000 – $15,000 = $_______________
10% on first $11,925:	= $_______________
12% on remaining $_______________:	= $_______________
Total federal tax:	**= $_______________**
Effective tax rate:	**= total tax ÷ $40,000 = ___________________%**

True or False:

If a raise puts you in a higher bracket, ALL your income gets taxed at the higher rate.
T / F

Explain why in your own words:

👥 **Meet the group:**

Joseph: got a $2/hour raise, putting his income over the next bracket threshold. He refused the raise, telling his boss, “If I earn more, I’ll take home less because of taxes.” His boss looked confused.

Lucy: explained to Joseph after work: only the dollars above the threshold get taxed at the higher rate — not his entire income. A raise always increases take-home pay. Joseph still wasn’t sure he believed her.

Alex: earns self-employment income and files quarterly estimated taxes. He sets aside 25–30% of every payment he receives for taxes so there's never a surprise in April.

Sofia: had two W-2 jobs last year but didn't update her W-4 at the second job to account for her combined income. She under-withheld by $800 and owes it now.

Is Joseph correct that earning more can result in lower take-home pay? Explain why or why not using the term "marginal tax rate." What should Sofia do before starting any future second job?

✔ Lesson Finisher

1. Your income increases from $45,000 to $50,000, moving $2,850 into the 22% bracket. How is that $2,850 taxed?

a) All $50,000 is now taxed at 22%

b) Only the $2,850 above the bracket threshold is taxed at 22%

c) Your effective rate becomes 22% on all income

d) You pay 22% on everything above the standard deduction

2. In your own words, explain the difference between your marginal tax rate and your effective tax rate. Which one is actually a better measure of your real tax burden?

Lessons 5.3 & 5.4 — FICA & Filing Your Return

KEY VOCABULARY

Term	Write the definition in your own words
FICA	
Social Security	
Medicare	
Self-employment tax	
Tax return	
Tax refund	
Tax credit	
Tax deduction	

FICA CALCULATION

You earn $28,000 this year as a W-2 employee. Calculate your FICA taxes:

Social Security (6.2%):	$28,000 × 0.062 = $________________
Medicare (1.45%):	$28,000 × 0.0145 = $________________
Total FICA withheld:	**= $________________**

If you were self-employed and earned the same $28,000, your FICA rate would be 15.3% instead of 7.65%. Why?

CREDIT VS. DEDUCTION

You are in the 12% tax bracket. Which saves more — a $1,000 deduction or a $1,000 credit? $1,000 deduction saves: $1,000 × 12% = $_______________ | $1,000 credit saves: $_______________ | Winner: ___________________________

Meet the group:

Alex: ran his lawn business and earned $8,400 but didn't set aside anything for self-employment tax. In April he owes $1,187 in self-employment tax he doesn't have (calculated as $8,400 × 92.35% × 15.3%). He learns about quarterly estimated payments the hard way.

Sofia: had two W-2 jobs simultaneously last year. At her second job, she checked "Single, no adjustments" on her W-4 without realizing her combined income put her in a higher bracket. She owes $940 in April.

Lucy: files her return in February. She gets a $340 refund and immediately uses it to top off her emergency fund. She knows a large refund means she gave the government an interest-free loan — but she prefers the psychological boost.

Joseph: hasn't filed yet. It's October.

What is the penalty for not filing a tax return? (Research or estimate.) What specific action would have prevented Alex's $1,187 surprise in April?

✔ Lesson Finisher

1. Why do self-employed workers pay 15.3% for FICA instead of 7.65%?

a) They earn more money and therefore owe more

b) Self-employed workers pay both the employee and employer portions of FICA

c) The IRS charges self-employed workers a penalty rate

d) 15.3% only applies if income exceeds $100,000

2. Is a large tax refund actually good news? Explain your reasoning — what does a large refund tell you about your withholding?

Lessons 5.5 & 5.6 — Deductions, Credits & Self-Employment

KEY VOCABULARY

Term	Write the definition in your own words
American Opportunity Credit	
Earned Income Tax Credit	
Itemized deduction	
1099 form	
Schedule C	
Quarterly estimated tax	
Gig economy	
Phase-out	

PRACTICE 1040 WALKTHROUGH

Open the Tax Simulator. Set: $25,000 income, your state, Single filer.

Fill in each line from the simulator:

Line	Description	Your amount
1a	Total wages from W-2	$________________
12	Standard deduction (subtract)	$________________
15	Taxable income	$________________
16	Federal income tax owed	$________________
FICA	Social Security + Medicare combined	$________________
State	State income tax	$________________
TOTAL	**All taxes combined**	**$________________**
Take-home	**Annual take-home pay**	**$________________**

If you babysit and earn $900 this summer, what do you need to do at tax time?

Is a large tax refund a good thing? Explain why or why not:

Meet the group:

Lucy: is in her first year of college and claims the American Opportunity Credit — up to $2,500 — for tuition she paid. This is a dollar-for-dollar reduction of her tax bill, not just a deduction.

Alex: deducts his phone (50% business use), equipment, and fuel as business expenses on Schedule C. This reduces his taxable self-employment income, which lowers both income tax and self-employment tax.

Joseph: heard he could deduct his home office. He uses his bedroom desk to scroll social media and occasionally fill out job applications. He claims the deduction. The IRS has specific requirements he doesn't meet.

Sofia: doesn't itemize because her standard deduction ($15,000) is higher than all her deductible expenses combined. This is correct for most young people.

What is the key difference between a tax credit and a tax deduction in terms of how each reduces your tax bill? Why is Joseph's home office deduction risky?

✔ Lesson Finisher

1. You are in the 12% tax bracket. Which saves you more money?

a) A $1,000 tax deduction (saves $120)

b) A $1,000 tax credit (saves $1,000)

c) They save exactly the same amount

d) A deduction always saves more for high earners

2. Alex earned $6,000 from his lawn business this year. What form does he file his business income on, and what is one expense he can legitimately deduct?

Unit 5 Review — Taxes

Tax season comes every April. This review prepares you to handle it.

PART 1 — UNIT SUMMARY

Lesson	Key concepts
5.1 & 5.2 Tax Basics	Progressive tax system • Marginal vs. effective rate • Raises always increase take-home pay • Standard deduction reduces taxable income
5.3 & 5.4 FICA & Filing	FICA = 7.65% employee / 15.3% self-employed • Credits beat deductions dollar-for-dollar • File on time even if you owe nothing • Refund = interest-free loan to the IRS
5.5 & 5.6 Credits & SE Tax	Schedule C for business income • Quarterly estimated taxes for self-employed • American Opportunity Credit worth up to $2,500 • Home office deduction has strict requirements

PART 2 — KEY TERMS REVIEW

Term	Your definition
Marginal tax rate	
Effective tax rate	
FICA	
Standard deduction	
Tax credit	
Tax deduction	
Schedule C	
Quarterly estimated tax	

PART 3 — THE GROUP WEIGHS IN

Meet the group:

It's mid-April. All four friends are dealing with taxes for the first time as working adults.

Lucy: filed in February using free tax software. She owed $0 (well-calibrated W-4) and got a $180 refund. She already has her W-4 updated for this year to get the refund closer to $0.

Joseph: hasn't filed. He's afraid he owes money and is hoping the deadline will pass without consequence. He will owe a penalty for late filing on top of whatever he owes.

Alex: made $9,200 from his business. He set aside 28% of every payment ($2,576) in a tax savings account throughout the year. His actual bill: $1,300 in self-employment tax ($9,200 × 92.35% × 15.3%). His income was below the standard deduction, so he owed no federal income tax. He has $1,276 left over — his 28% set-aside was conservative, which is exactly right when you're not sure what you'll owe.

Sofia: worked two W-2 jobs and didn't adjust her W-4 at job #2. She owes $940. She's shocked — she thought withholding was automatic and correct.

Discussion: What is the late-filing penalty rate? (Research it.) What would you tell Sofia to do at job #2 on day one to avoid this next year? Whose tax approach is most sustainable?

PART 4 — REFLECTION

The biggest tax myth I used to believe:	
One tax strategy I plan to use:	
If I earn self-employment income this year, I will:	