



Financial Literacy Education Student Handouts



Lesson 10: Paying Taxes

Warm-Up

Think about the last time you visited a national, state or local park. Who pays to keep the park clean and maintained?

Learning Targets

I can:

- Explain the basic tax filing process, from earning income to filing a tax return using forms like a W-2, 1040, and 1099.
- Describe how taxes affect my take-home pay and how different types of income can be taxed differently.
- Explain why governments collect taxes and identify public services that are paid for with tax dollars.

Glossary

Deductions: Taxes, insurance premiums, and the cost of other programs that are subtracted from your gross income on a paycheck.

Earned (active) income: Money you earn from working for yourself or others.

Gross pay: Money you earn before any taxes or other deductions are taken out of a paycheck.

Net pay: Money taken home after taxes and other deductions are taken out of your paycheck.

Tax credit: An amount that is subtracted directly from the taxes you owe, which can lower your tax bill dollar for dollar.

Tax deduction: An amount you subtract from your income before taxes are calculated, which lowers the amount of money the government taxes you on.

Taxes: Money people and businesses pay to the government to help pay for public services.

Tax return: A form sent to a government that shows how much money you earned and how much tax you paid, so they can see if you owe more money or should get money back.

Unearned (passive) income: Money you earn without working.

Withholding: The part of your paycheck that an employer takes out and sends to the government to help pay taxes throughout the year. These are sometimes also called *deductions*, not to be confused with *tax deductions*.

Year-to-date (YTD): The total amount of money you have earned or paid so far from the beginning of the year up to today.

Note Catcher

Main Ideas/Key Information

What are we discussing?

Notes

What did I learn?

Summary/Application

Why does it matter to me?

Reading a Pay Stub

Name:

Directions:

1. Together with your group, review the sample pay statement on the following pages and the notes and tips provided.
2. Answer the questions below.

Questions:

1. What does the **pay period** tell you?
 - a. The date the paycheck is issued.
 - b. The date you receive your paycheck.
 - c. The group of calendar days covered by the paycheck.
 - d. The amount of money you earn per hour.
2. Based on the pay stub, what is the employee's **gross pay** for this pay period?
 - a. \$496.00
 - b. \$720.00
 - c. \$640.00
 - d. \$3,200.00
3. How many **hours** did the employee work during this pay period?
 - a. 20
 - b. 32
 - c. 40
 - d. 64
4. What is the **total amount of deductions (withholdings)** taken out of the paycheck this pay period?
 - a. \$138.36
 - b. \$720.00
 - c. \$198.40
 - d. \$144.00
5. Which of the following taxes **cannot be refunded**?
 - a. Federal income tax
 - b. State income tax
 - c. Local taxes
 - d. FICA taxes (Social Security and Medicare)
6. What is the employee's **net take-home pay** for this pay period?
 - a. \$640.00
 - b. \$496.00
 - c. \$720.00
 - d. \$2,480.00

Sample Pay Statement

Anytown Parks and Recreation Department

Pay Period: 08/01/2026-08/15/2026

Pay Date: 08/22/2026

Check #: 523

The **pay period** is the group of calendar days covered by your paycheck, and your employer decides how often and when you get paid.

Employee: Sam Swim Instructor

SSN #: XXX-XX-1234

Employee ID: 67

Earnings	Rate	Hours	This Period	Year-to-Date
Regular	\$20.00	32	\$640.00	\$3,200.00
Gross Pay			\$640.00	\$3,200.00

Deductions	This Period	Year-to-Date
Federal income tax	\$64.00	\$320.00
FICA SS tax	\$39.68	\$198.40
FICA Medicare	\$9.28	\$46.40
Oregon income tax	\$30.40	\$152.00
Oregon Transit tax	\$0.64	\$3.20
Total Deductions	\$144.00	\$720.00

	This Period	Year-to-Date
Net Pay	\$496.00	\$2,480

Net pay (or take-home pay) is the amount of money after taxes and other deductions are taken out.

Withholdings can also be called **deductions** on a pay stub (not to be confused with **tax deductions**, which reduce your taxes owed when filing a tax return).

Federal taxes include **federal income tax** and **Federal Insurance Contributions Act (FICA) taxes**. Federal income tax is taken out of each paycheck so people do not owe a large amount when they file their **1040 tax return**, and it can be refunded if too much is paid. **FICA taxes** pay for **Social Security** and **Medicare**. Social Security helps retirees, people with disabilities, and their families, while Medicare helps pay for health care for people age 65 and older. Both employees and employers pay FICA taxes, each contributing 7.65 percent, and these taxes are not refundable.

Not all states have **state income taxes**, but when they do, the tax is taken out of each paycheck to avoid a large bill later and may be refunded if too much was paid.

States, counties and cities may take other, additional **state or local taxes** out of your paycheck, and these taxes may or may not be refundable.

Reading a W-2

Name:

Directions:

1. Together with your group, review the sample W-2 on the following pages and the notes and tips provided.
2. Answer the questions below.

Questions:

1. What is the main purpose of a **W-2 form**?
 - a. To calculate how much you owe for each paycheck.
 - b. To report monthly work hours.
 - c. To summarize total earnings and taxes withheld for the year.
 - d. To request a tax refund.
2. How much did the employee earn in **total wages for the year**?
 - a. \$640.00
 - b. \$2,480.00
 - c. \$6,400.00
 - d. \$7,120
3. How much **federal income tax** was withheld during the year?
 - a. \$396.80
 - b. \$640.00
 - c. \$304.00
 - d. \$92.80
4. In addition to the Oregon income tax, **what other state or local income tax** is listed on the W-2?
 - a. Federal income tax
 - b. Oregon Transit tax
 - c. FICA Social Security tax
 - d. FICA Medicare tax
5. Looking at the W-2, how much **Social Security tax** was withheld for the year?
 - a. \$92.80
 - b. \$640.00
 - c. \$396.80
 - d. \$304.00
6. Why does the W-2 include **state income and tax information**?
 - a. To calculate overtime pay.
 - b. To report income and taxes paid to the state government.
 - c. To determine health insurance eligibility.
 - d. To show pay per hour.

Sample W-2 (Wage and Tax Statement)

22222		a Employee's social security number XXX-XX-1234		OMB No. 1545-0029	
b Employer identification number (EIN) 93-1234567			1 Wages, tips, other compensation \$6,400.00		2 Federal income tax withheld \$640.00
c Employer's name, address, and ZIP code Anytown Parks and Recreation Department 1234 NE Anytown Road Anytown, OR 97999			3 Social security wages \$6,400.00		4 Social security tax withheld \$396.80
			5 Medicare wages and tips \$6,400.00		6 Medicare tax withheld \$92.80
			7 Social security tips		8 Allocated tips
			9		10 Dependent care benefits
d Control number 00000000			11 Nonqualified plans		12a
e Employee's first name and initial Last name Suff. Sam Swim Instructor 5555 SE 55th Avenue, #5 Anytown, OR 97999			13 Statutory employee Retirement plan Third-party sick pay ☐ ☐ ☐		12b
			14a Other Oregon Transit Tax: \$6.40		12c
			14b Treasury Tipped Occupation Code(s)		12d
f Employee's address and ZIP code					
15 State	Employer's state ID number OR 0502015-0	16 State wages, tips, etc. \$6,400.00	17 State income tax \$304.00	18 Local wages, tips, etc.	19 Local income tax 20 Locality name

Form **W-2** Wage and Tax Statement
Copy 1—For State, City, or Local Tax Department

2026

Department of the Treasury—Internal Revenue Service

Analyze a Real Paycheck

Name:

Directions:

1. Find your own paycheck, or ask someone else to show you their paycheck.
2. Find the amounts identified below and write them in the spaces provided.

(Place paycheck here)

a. Pay rate: \$

b. Hours worked:

c. Gross pay: \$

d. FICA Medicare tax: \$

e. FICA Social Security tax: \$

f. Federal income tax: \$

g. State income tax (if applicable): \$

h. Other state and local tax(es) (if applicable; identify them and provide the amounts):

i. Other deductions (identify them and provide the amounts):

j. Total deductions: \$

k. Net pay: \$

l. Year-to-date gross pay: \$

m. Year-to-date deductions: \$

n. Year-to-date net pay: \$

Exit Ticket

One thing I learned about the tax filing process is:

Taxes affect my take-home pay because:

One public service paid with tax dollars is:
