TAXATION & PUBLIC FINANCE

WITH DR. MIKE CASEY

ECONOMICS STANDARDS:

NE.6.E.3 Examine fiscal policy tools used by the executive and legislative branches of the government (e.g., taxation, spending)

PFM.8.E.2 Critique components of personal money management in order to build short-term and long-term wealth

PFM.8.E.5 Examine employment forms W-4, W-2, I-9; payroll deductions; and other deductions in order to file an appropriate income tax form

PERSONAL FINANCE STANDARDS:

PF.2.EI.1 Compare and contrast the methods by which employees are paid (e.g., direct deposit, paper check, payroll card)

PF.2.EI.2 Represent and analyze various types of income deductions and how they impact income (e.g., payroll taxes, deductions, gross pay, net pay)

PF.2.EI.3 Analyze differences among salary, hourly, commission, and overtime pay

PF.2.EI.4 Complete work related forms (W4, I9, Medical Forms, Life Insurance Forms, Retirement Forms

FACS/CTE STANDARDS:

7.2.2 Investigate sources of income.

ACRE SOCIAL STUDIES LIBRARY

MATERIALS INCLUDED:

- *Content Overview*
- *Vocabulary Connections*
- *Discussion & Writing Prompts*
- *Lesson & Activity Pacing Guide*
- *Small Group Activities*
- *Project Based Activities*

AUTHOR

K. Michael Casey is a Professor of Finance in the College of Business at the University of Central Arkansas. He completed his Doctor of Business Administration (DBA) in finance from Louisiana Tech University in 1996. To date, he has published more than 100 articles in such journals as the Financial Review, the Journal of Real Estate Finance and Economics, and the Journal of Computer Information Systems. He is also coauthor of the high school textbook Personal Financial Literacy, with Jeff Madura and Sherry Roberts. The text is in its fourth edition and is available through Pearson's Career & Technical Education.

EDITOR

Terra Aquia is the K12 Programs Coordinator at the Arkansas Center for Research in Economics at the University of Central Arkansas. She received her B.A. in History in 2016 and a Master of Arts in Teaching in 2022. In her role, she works with a variety of scholars to create interdisciplinary social studies educational content for K- 12 teachers & students in Arkansas. Her research focuses on best practices for interdisciplinary teaching and active-learning pedagogy.

ACRE

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INTRODUCTION: JOBS AND COMPENSATION METHODS

Many of you may have a job now and all of you will have a job at some point in the future. Unless you were born wealthy, you will find yourself working to make a living and provide financial support for your family.

Employees are paid in several different ways that include hourly wages, salaries, tips, sales commissions, bonuses, and overtime pay. Let's look at each method next.

Hourly wages – Many individuals are paid hourly. This method is commonly used for entry-level jobs in the retail and construction sectors of the economy. The national minimum wage per hour is $7.25 per hour but many states, including Arkansas, have passed minimum wage legislation that increases that hourly amount. **As of April 2022, Arkansas's minimum wage is currently $11.00 per hour.**

Salary – Managers in most businesses typically receive a salary, or a fixed amount per week or month regardless of the number of hours worked. For example, you might get a job with a $45,000 per year salary after you earn your college degree. Your teacher is a salaried employee that may work far more than 40 hours a week during the school year.

Sales commissions –Some jobs, such as auto salespersons and real estate agents, earn their income from sales commissions. For example, a real estate salesperson might receive 3% of the value of the sale for their income. Jobs that only pay commission require you to accept the risk of meeting your quota or making sales. The real estate salesperson mentioned above will not have a paycheck unless they sell some real estate. Some sales jobs do offer a minimum base pay plus commission while others are straight commission.

Tips – Workers in many occupations, such as waitstaff, rely on tips for most of their income. In Arkansas the minimum wage for tipped employees is $2.63 per hour. If their tips do not reach an amount that will bring their pay up to the current Arkansas minimum wage of $11 per hour, the employer must make up the difference. In many restaurants employees earn a small hourly base rate and keep their tips.

Bonuses – Bonuses are a lump sum non-recurring amount of pay. Workers may also receive holiday bonuses or have the ability to earn bonuses by reaching sales or performance goals that trigger the bonus award.

ESSENTIAL QUESTIONS

How am I compensated for my time and labor at a job?

What taxes am I responsible for paying?

Should I consider local, state, and federal taxes when financial planning?

LEARNING OBJECTIVES

Students analyze tax systems to learn how institutions collect and distribute tax dollars.

Students complete a variety of tax forms.

Students calculate tax liability for a variety of scenarios.

NOTES:

BUDGET BUILDING BASICS

Students must learn the difference between their gross and net pay when planning budgets and short and long term savings goals.

For more activities focused on net vs. gross income & for practice budget scenarios, check out our ACRE curriculum on Budget Building Basics.

NOTES:

Overtime pay – In most cases hourly employees that work over 40 hours a week must be paid overtime pay. Overtime pay is usually 150% of the current hourly rate. For example, someone making $12 an hour that works 45 hours in one week must be paid $18 an hour for the last five hours worked. In some case compensatory time may be earned instead of cash overtime.

Regardless of how you earn your money you will notice a difference between the amount of money you earn (gross pay) and the amount of money you bring home. Let's look at why we see this difference in our paychecks.

HOW ARE YOU PAID?

Most large employers now pay solely through direct deposit. You provide your bank account routing information to your employer and your earnings are electronically deposited in your bank account. However, in some cases you can elect how to get paid. Some of you may opt to receive payment with a check or payroll card. In very rare circumstances you may even be paid in cash. Cash is used primarily when the employment arrangement is very short term, such as a few hours or a day. Payment methods vary by employer but over 80% of employers now use direct deposit. Direct deposit saves time and money for the employer since they no longer have to print and mail paper checks. It also saves employees time since they do not have to physically deposit their checks.

GROSS VS NET PAY

Your pay stub will have an amount labeled "Gross pay." Gross pay is the amount you earned before any deductions were taken out of your pay. For example, if you make $15 per hour and you worked 40 hours that week your gross pay would be $600. You can compute this amount by multiplying your hourly rate $15 x 40 hours = $600.

Your "Net pay" is the amount you actually receive after deductions were taken out of your gross pay. Sometimes you hear this referred to as take-home pay. As you can see, FICA, federal taxes, state taxes, and other deductions can really reduce the amount of money you actually get deposited into your bank account.

We will look at some of these deductions from gross pay in the next section.

TAXES OVERVIEW

Taxes are required by law at the federal and state levels and tax rates vary greatly from state to state. Many individuals grumble about taxes, either that they are required to pay too much, what tax dollars are spent on are inefficient, or that the tax system is overly complex and complicated. Specifically defined, taxes are a mandatory contribution to local, state, or federal revenues. Tax revenues are used to fund government programs we need or want. These contributions are collected in various ways that can include adding the tax to the cost of goods and services, employer deductions from your payroll check, and remissions to the state and federal government when you file your annual tax return or pay your property taxes. Now let’s look at the payroll taxes we pay and their purposes. Then we will cover some other common voluntary payroll deductions.

- **Payroll taxes** – Payroll taxes are deducted from your paycheck and remitted on your behalf to the appropriate state or federal agency. The three mandatory payroll taxes that most people pay are state income taxes, federal income taxes, and FICA. FICA includes taxes paid to cover Social Security and Medicare.

- **Federal income taxes** – Federal income taxes are assessed on taxable income. We will cover how to compute taxable income later in this module. The U.S. tax system is a progressive tax system so there are currently seven federal income tax brackets with successively higher tax rates applied to higher levels of income. Federal taxes are used to pay for numerous government services including health programs, the military, to pay interest on the national debt, food assistance, education programs, housing assistance, and numerous other government programs. The current tax rates range from 10% to 37% depending on your income level.

- **State income taxes** – Not all states levy state income taxes. For example, citizens of Texas and Florida do not pay state income taxes. State income taxes are used to fund state government and state services. Most states use state taxes to fund law enforcement agencies, education, prison and corrections systems, road building and maintenance, provide health coverage to low-income families, and other social benefits deemed necessary by the state’s lawmakers. States that do not have state income taxes fund these programs out of property taxes and sales taxes.

COMPARING TAXES STATE TO STATE:

Ask your students to compare some state level taxes from Arkansas and it's boarder states (LA, OK, TN, etc.) How are the tax rates in these states similar or different to one another? Do you think state & local taxes are a big factor individuals consider when deciding where they want to live? Why or why not?

NOTES:

CHECKING YOUR PAYSTUBS

With the increase in automation and digital banking, many people have stopped regularly checking their paystubs, instead checking their bank accounts for a direct deposit.

Encourage your students to always take a look at their paystub. This lesson provides several example paystubs so students know where to find key information, like the detailed breakdown of their compensation as well as tax payments, health insurance contributions, and other amounts being adjusted before money is direct deposited into a bank account.

NOTES:

- **FICA taxes**– FICA, an acronym for the Federal Insurance Contributions Act, is used to fund retirement and health care costs of most Americans. FICA is a payroll tax and is deducted from your paycheck each pay period. This FICA amount is then matched by your employer and remitted to the U.S. government. Currently FICA withholdings are 7.65% of your gross or total income. This 7.65% is comprised of 6.2% that goes to fund Social Security and another 1.45% that funds Medicare. Your employer matches the 7.65% and therefore sends 15.3% (i.e., 2 x 7.65% = 15.3%) of your total income to the federal government. The Social Security component (6.2%) is capped and will not be deducted from your paycheck if you earn enough money to reach the cap. For 2022 the cap is $147,000. However, this cap is indexed to inflation and increases every year accordingly. The Medicare portion (1.45%) is not capped and will be withheld on every dollar you earn.

APPLYING THE CONCEPT

So, how much will you receive in Social Security when you retire? The amount you receive is based on how much you pay in over your earning years. The Social Security system has an easy estimator you can use to determine your expected income. Play around with it and see how much you might receive per month. Of course, this assumes the system will not be modified. The website is https://www.ssa.gov/cgi-bin/benefit6.cgi

EXAMPLE PAYSTUB

Jenny Everyman
123 Main St. Anytown, US

Pay Period:
01/01/2023 - 01/15/2023

Earnings:

Hours:	Rate:	This Period:	YTD:
80	11.00	880.00	880.00
Gross Pay		880.00	880.00
Total Deductions		$206.92	
Net Pay		$673.08	

Required Deductions:

Federal Income Tax	$64.00
Medicare/Medicaid	$12.76
Social Security Tax	$54.56
State Tax	$17.60

Other Deductions:

Health Insurance	$14.00
401K	$44.00

VOLUNTARY PAYROLL DEDUCTIONS

Health insurance premiums - Many people pay at least a portion of their health insurance premiums. It is common for an employer to pay a portion, or even all, of the health insurance premiums for an employee. However, many employees require family coverage for their spouse and children and this amount is typically paid by the employee. Health insurance premiums paid through your employer are also deducted from your gross pay and will reduce your take-home pay. This amount can vary significantly depending on the employer.

Life insurance premiums – Another benefit that employers may furnish for their employees is life insurance. Life insurance policies pay the designated beneficiary in the event the covered individual dies. We buy life insurance to keep our loved ones from undue financial hardship that can occur when we pass on. A common employer provided life insurance policy would be 1 x the person's salary. So, someone making $50,000 a year would be provided with $50,000 in life insurance coverage. However, it is usually possible for the employee to buy additional increments of their salary. You might be able to buy another 3x your salary in life insurance which would bring the total life insurance amount up to $200,000 in this example. The employee would be responsible for paying the premiums on the amount not covered by the employer. This amount would be deducted from your gross pay.

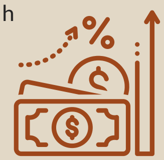
Retirement contributions - Some individuals also contribute to their retirement accounts through payroll deductions. For example, an employer might offer employees a 401k retirement account. In many cases the employer will contribute money to the employee's retirement account an employment benefit. However, the employee can also make contributions up to a limit determined by the Internal Revenue Service (IRS). As of April 2022, the annual contribution amount an employee can contribute is $20,500. Retirement contributions are taken out before taxes are computed so they reduce your overall tax liability.

Health Savings Accounts (HSA) – An HSA is a tax-free savings account that can be used to pay medical expenses not covered by your high-deductible insurance plan. You can use the HSA to pay for deductibles and copays when you use a doctor or pharmacy. Funds in this account can be rolled over from one year to the next. Contributions to your HSA account are also deducted from your paycheck.

Flexible Savings Accounts – A FSA is a tax-free account that can be used to pay medical expenses not covered by your insurance plan. You can use the FSA to pay for deductibles and copays when you use a doctor or pharmacy. The FSA differs from the HSA since it can be used with non-high-deductible insurance plans. The FSA has a "use-or-lose-it" whereby any funds remaining in the account at the end of the year are lost to the employee. Contributions to your FSA account are also deducted from your paycheck. Employees with an option can only pick one or the other (HSA or FSA).

BUILDING WEALTH

One key strategy in building wealth is thinking about risk when planning for the future. What if I or a loved one gets sick? How do I plan for when I can't or don't want to work any more? Often, insurance packages and savings plans can be deducted directly from a paycheck BEFORE going into a bank account. In this way, students "Pay themselves first" by investing money earned wisely. See more building wealth activities in ACRE's Building Wealth curriculum.



NOTES:

COMPLETING WORK RELATED FORMS

Template versions of most work related forms are available on the IRS website. You can use these to guide your students through each form step by step or print out copies for your students to annotate.

NOTES:

Union dues – Some employees are required to join a labor union. In other cases, union membership may be optional. Labor unions represent the employees as a group and engage in collective bargaining with employers to secure better pay, benefits, and working conditions for the employees. Union members must pay union dues (i.e. membership fees) to support the union. These union dues are deducted from your paycheck.

Other possible optional deductions – Employees often have the ability to buy numerous other insurance coverages through their employer. These include but are not limited to:

- Vision insurance
- Dental insurance
- Optional insurance coverages such as cancer policies, or heart health policies
- Disability insurance
- Charitable donations

As you can see deductions can take a big bite out of your paycheck. However, notice that some deductions can reduce your overall tax liability. In the next section we will show you how to compute your tax liability and file your taxes.

WORK-RELATED FORMS

When you begin employment there are a number of forms you will need to fill out that tell the employer how much to withhold from your gross pay. These forms include:

I9 – the I9 form is also known as the Employment Eligibility Verification form that employees are required by the Department of Homeland Security to fill out showing they are U.S. citizens or foreign nationals that can legally work in the United States. You must provide documentation that supports your employment status.
https://www.uscis.gov/sites/default/files/document/forms/i-9-paper-version.pdf

W4 – the W4 form is the Employee's Withholding Certificate required by the Internal Revenue Service (IRS). The IRS states the purpose of the W4 form is: "Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay. If too little is withheld, you will generally owe tax when you file your tax return and may owe a penalty. If too much is withheld, you will generally be due a refund."
https://www.irs.gov/pub/irs-pdf/fw4.pdf

When your employer withholds money from your check it means they reduce the amount of your check that you receive and use that money for the stated purpose. For example, you might see $12.45 was withheld for state taxes. Your employer will send that money to the state to pay your estimated state income taxes on that amount of earnings.

Your employer will use the W4 form that you filled out to estimate how much money to withhold from your check each pay period. When you file your taxes at the end of the fiscal year you may get some of this money back in the form of a tax refund.

Medical forms – employees may fill out medical forms for many reasons. Some employers require potential employees to fill out medical forms to evaluate an applicant's health and abilities before they start a job. This is common in jobs requiring higher levels of physical fitness. Other medical forms are used to inform the health insurance carrier of medical history and existing medical conditions.

Life insurance forms – if your employer provides life insurance, or allows you to purchase life insurance through payroll deductions, you will need to fill out a form identifying your beneficiaries. Your beneficiaries, commonly your spouse and children, are the individuals designated to receive the life insurance proceeds if you die.

Retirement contribution forms – many employers provide some type of retirement benefit such as a 403b plan, 401k plan, or a defined benefit plan. In most cases you will make pre-tax contributions to one of these plans and your employer will make contributions on your behalf. Some of these plans will give you the ability to select your investments. You will fill out contribution forms that show where your funds should be invested. You will also need to designate one or more beneficiaries for your retirement account in case you die.

TAX SYSTEMS

One of our nation’s founding fathers understood that taxes were necessary to fund government services. Other things might be temporary but taxes are a certainty! However, there are differences in tax systems that determine how much you will pay in taxes. Let’s look briefly at the three possible tax systems.

Progressive tax system – The U.S. federal tax system is a progressive tax system. Progressive tax systems charge higher tax rates on successively higher amounts of income. The rationale for progressive tax systems is that people who make more money can afford to pay more in taxes and therefore pay for a larger share of government spending. Most tax systems are progressive tax systems.

QUOTE TO CONSIDER:

What did Benjamin Franklin mean when he said:

“ Our new Constitution is now established, everything seems to promise it will be durable; but, in this world, nothing is certain except death and taxes.”

NOTES:

HOW MUCH SHOULD AN INDIVIDUAL PAY: RESEARCH PROJECT

Your students have probably heard friends, family members, politicians, and the news media discussing tax systems and the best ways for collecting tax revenue. Using the three tax systems discussed here, have a discussion with students about effective taxation. Which systems do they deem the most or least "fair?" Students can research and compare tax models across countries, and account for factors like population size, natural resources, & the size of the labor force. A research project template for this activity is available in the resources at the end of the unit.

NOTES:

Regressive tax system – Regressive tax systems charge lower tax rates as a person’s taxable income rises. Most income tax systems are not regressive but we all pay regressive taxes. Sales taxes are regressive since lower income people will pay a larger percentage of their overall income in the form of sales tax relative to someone who is in a higher income tax bracket. Some states and nations have an overall regressive system when you combine sales taxes, income taxes, property taxes, and other taxes. Using that metric you will see that wealthier taxpayers pay less of their total income in taxes.

Flat tax system – A flat tax system is one where everyone pays the same percentage tax on income, regardless of whether they are low income or high income. Greenland has a flat tax rate of 45%. Everyone pays 45 cents of every dollar of income to the government. This is also one of the highest tax rates in the world. Other nations such as Mongolia and Kazakhstan have much lower flat tax rates of 10%. In the U.S. , publishing executive Steve Forbes ran for president in 1996 using a flat tax platform. He proposed a flat tax of 17% on all income regardless of whether you were rich or poor.

COMPUTING YOUR TAX LIABILITY

The government requires that we pay taxes on “taxable income” and not “gross income.” To determine our taxable income, we begin with gross income and reduce it by any legally allowable deductions. The following IRS website covers deductions and credits available in the 2022 tax year. https://www.irs.gov/credits-deductions-for-individuals

Gross income includes wages, salaries, bonuses, tips, investment income, and income from most sources including cancelled debt and government benefits.

After computing our gross income, we can reduce it by the following:

- Contributions to HSAs and FSAs
- Student loan interest paid
- Contributions to retirement accounts
- Educator expenses
- Alimony payments
- Other special situations

Adjusted Gross Income (AGI) – After subtracting the allowable amounts just mentioned you reach a number known as adjusted gross income or AGI.

Taxable Income – Taxable income is determined by subtracting either the standard deduction or your total itemized deductions from AGI. Taxpayers are allowed to use the larger amount. In most cases it will be the standard deduction. The amount of the standard deduction depends on your filing status and the tax year. The two most common filing statuses are single, and married filing jointly. For the tax year 2021 the standard deduction for a single taxpayer was $12,550.

The standard deduction for the filing status "married filing jointly" is exactly twice that amount or $25,100. The other tax filing statuses are married filing separately, qualifying widow(er), and head of household. The IRS has strict definitions for which filing status you must use. However, married couples can elect to file "married filing jointly" or "married filing separately," depending on which status reduces their tax liability the most.

Some taxpayers may elect to itemize their deductions if that amount is larger than the standard deduction. Taxpayers that itemize can total their deductions from the following sources:

- Mortgage interest
- Charitable contributions
- Unreimbursed medical and dental expenses
- Long-term care premiums
- Personal property taxes paid
- State and local taxes paid
- Unreimbursed job-related expenses
- Other miscellaneous deductions defined by the IRS

If the total of the itemized deductions exceeds the standard deduction then the taxpayer will use the itemized total deduction. However, since the Tax Cuts and Jobs Act of 2017 significantly increased the standard deduction most people are better off taking the standard deduction instead of itemizing. Less than 12% of U.S. taxpayers opted to itemize deductions in 2020.

Tax Liability – After taking the deduction that results in the lowest taxable income you can now determine how much tax you owe. The following tax table shows the tax rates that apply to various levels of income. The U.S. tax system is known as a progressive tax system which means that taxpayers pay a larger fraction of their taxable income in taxes as their income increases.

Once you determine your taxable income and filing status you can compute your tax liability. Note in the following table that higher levels of income are taxed at higher tax rates which makes the U.S. tax system progressive.

Let's work an example for a single taxpayer using the following 2022 tax tables and a taxable income of $32,111.

The first $10,275 will be taxed at a 10% rate and result a tax liability of $1,027.50. The remaining $22,161 (e.g., $32,111 - $10,275 = $21,836) of income will be taxed at a higher rate of 12%. So, the total tax liability in this example is:

$10,275 x 10%	= $ 1,027.50
$21,836 x 12%	= $ 2,620.32
Total taxes	**= $3,647.82**

QUESTION FOR DISCUSSION:

Less than 12% of U.S. taxpayers opted to itemize deductions in 2020, even though itemizing allows one to deduct a variety of expenses. Why do you think that is?

NOTES:

TAX BRACKET SCENARIOS

In an activity included in the resources section of this document, you'll find an activity that asks students to calculate an individual's tax liability at a variety of income levels. This activity will get students comfortable navigating tax brackets.

VIDEO: HOW TAX BRACKETS WORK

The video linked here provides an additional visual example of how tax brackets work: https://www.youtube.com/watch?v=VJhsjUPDulw

NOTES:

2022 FEDERAL TAX BRACKETS

Tax rate	Single	Head of household	Married filing jointly or qualifying widow	Married filing separately
10%	$0 to $10,275	$0 to $14,650	$0 to $20,550	$0 to $10,275
12%	$10,276 to $41,775	$14,651 to $55,900	$20,551 to $83,550	$10,276 to $41,775
22%	$41,776 to $89,075	$55,901 to $89,050	$83,551 to $178,150	$41,776 to $89,075
24%	$89,076 to $170,050	$89,051 to $170,050	$178,151 to $340,100	$89,076 to $170,050
32%	$170,051 to $215,950	$170,051 to $215,950	$340,101 to $431,900	$170,051 to $215,950
35%	$215,951 to $539,900	$215,951 to $539,900	$431,901 to $647,850	$215,951 to $323,925
37%	$539,901 or more	$539,901 or more	$647,851 or more	$323,926 or more

Source: IRS

CHECK YOUR WORK!

Once you determine your tax liability you can compare it to your W-2 form provided by your employer. In this example, if your employer withheld more that $3,647.82 from your paycheck you will get a tax refund equal to the difference.

TAX CREDITS

Tax credits differ from tax deductions. Tax deduction lower your taxable income while tax credits reduce your tax liability on a dollar-for-dollar basis. For example, if your tax liability was $4,200 and you have a tax credit of $1,000 then you will only pay the difference, or $3,200. The most common tax credits are:

Earned income tax credit – this tax credit is available for low income households. In 2022, this credit ranged from $560 to $6,935 depending on your marital status, the number of children you have, and your income. You could only claim the EIC if your AGI was below $59,187 in 2022 if you were married and filing jointly with three or more children. The amount is lower for other filing statuses and households with fewer children. As with most other tax items, the numbers are indexed to inflation so they change every year.

Lifetime learning credit – this tax credit allows you to claim a credit of 20% of the first $10,000 you spend on tuition and fees. This credit is capped at $2,000 per year. Income limits also apply so higher income individuals will not be able to claim this credit. The income limits change every year.

Child tax credit – for 2022 tax year you can get up to $3,600 per child tax credit for each child under the age of six. The credit falls to $3,000 for children between the ages of six and 17. This credit phases out at higher levels of income. For example, if you were married filing jointly the maximum you can make and still receive this credit is $150,000. After you reach that income threshold you will lose $50 for each $1,000 you make above that level. However, it will not fall below $2,000 per child unless your income exceeds $400,000 for married filing jointly.

Other tax credits include:

- Child and dependent care tax credit
- American opportunity tax credit
- Adoption credit
- Saver's credit
- Residential energy credit

Student loan interest deduction – this deduction can be taken even if you take the standard deduction. You do not have to itemize to receive it. This deduction begins phasing out at Modified AGIs of $75,000 for taxpayers filing single and $150,000 for married filing jointly.

OTHER TAXES

Sales taxes – Sales taxes are taxes assessed when you buy a product or service. The seller collects the sales tax and remits it to the state government. Sales taxes can vary quite a bit from state to state and also within a state. The current Arkansas state sales tax is 6.5% which is the 5th highest state sales tax rate in the nation. However, each municipality or city can assess a local sales tax that is added to the amount collected by vendors. For this reason, Arkansas has 397 different sales tax jurisdictions with sales tax rates ranging from 6.5% to 12.625! The sales tax you pay depends on the location of item purchased. If you buy $100 worth of products (non-grocery items) in the city of Gillham, Arkansas you will also pay 12.635% in sales tax. Your total bill will be $112.63. The average sales tax collected in Arkansas at the point of sale is 9.133%.

CLASS CONVERSATION:

Have a discussion about the types of taxes your students pay. Some students think that if they don't have a job, they aren't tax payers. Remind students that they are a part of the economy -- every time they make a purchase, they are paying taxes. If they have a car and pay for fuel, they are paying fuel taxes. Young adults contribute to our tax systems in a variety of ways.

NOTES:

TAXATION AT THE STATE LEVEL: ZOOMING IN ON ARKANSAS

While the taxes we've been Federal taxes, states have their own tax policies for collecting and spending revenue. Even some cities have local tax ordinances.

Have students review some Arkansas tax information available from the Arkansas Department of Finance and Administration: https://www.dfa.arkansas.gov/excise-tax/sales-and-use-tax/local-sales-and-use-tax-information/tax-collection-data/state-tax-collections

NOTES:

Property taxes – Many states, including Arkansas, assess taxes on real estate. The tax rate that is applied to real estate is called millage and it differs based on school zones since this tax largely goes to pay for k-12 education. This tax rate is applied to the assessed value of the real estate. The assessed value of the real estate is 20% of the property's market value.

The average millage rate in Arkansas is .57% so someone with a home with an assessed value of $200,000 would pay $1,140 in real property taxes ($200,000 x .0057 = $1,140). The following calculator can help you estimate the property taxes for various towns in Arkansas.

https://smartasset.com/taxes/arkansas-property-tax-calculator

Personal property taxes – Arkansas residents also pay personal property taxes. Each year they will be required to assess their "personal property," includes automobiles, boats, ATVs, RVs, livestock, motorcycles, trailers, and airplanes. You must contact the county tax assessor between January 1 and May 31st and let them know what you own. You may add vehicles or delete vehicles from the tax record at this time. Your personal property taxes will also be based on 20% of the asset's market value. You will receive a bill in the mail requesting payment.

Capital gains taxes – Investors pay capital gains taxes on any asset they sell that is held for longer than one year. A capital gain occurs when you sell an asset, such as stocks or real estate, for more than what you paid for the asset. The capital gains tax rate is only applied to the amount of the increase. For example, assume you bought 100 shares of Apple in 2012 for $12 a share and sold it last week for $150 a share. You would pay capital gains on the amount of the increase. So, the capital gain is 100 shares x ($150 - $12) = 100 x $138 = $13,800 which is the total increase in value of your investment. Long-term capital gains earned on assets held for more than one year are taxed at a lower rate than ordinary income. The current maximum capital gains tax rate is 20% while the highest tax rate paid on ordinary income is 37%. The lower capital gains tax rate encourages investors to buy assets and hold them longer than one year so their tax rate on gains will be lower. Interest income derived from savings accounts is taxed as ordinary income. Notice that this difference in tax treatment discourages saving and encourages long-term investing.

Tax Freedom Day – Tax Freedom Day usually falls near April 16. This day represents the average length of time Americans overall must work to pay the nation's tax burden. As taxes increase this date will move deeper into the year.

Tax Free Weekend – Some interesting articles on the cost of the program, effectiveness, who is impacted, what are the unintended consequences?

HOW TAXES AFFECT YOUR FINANCIAL PLAN

Taxes reduce the amount of money you have available to spend. However, the government has several provisions in the tax code designed to encourage you to save for retirement and education. Taking advantage of these tax breaks allows you to accumulate wealth much faster. Review your materials on tax advantaged retirement plans such as 401(k) plans and IRAs.

ADDITIONAL ACTIVITY OPTIONS:

For additional hands on activities and simulations, check out this unit from the Foundation for Teaching Economics on "Where does our money go?" https://www.fte.org/teachers/teacher-resources/lesson-plans/making-sense-of-the-federal-budget-debt-deficits/lesson-2-where-does-our-money-go/

NOTES:

PACING GUIDE

ACTIVITY ONE: COMPUTING TAX LIABILITY (45 MINUTES)

Students are asked to compute the tax liability for a single taxpayer at various income levels using 2022 Tax Information. Students practice examining tax brackets and determining taxable amounts of income at different rates.

ACTIVITY TWO: MARK UP THE TEXT - SEVEN TYPES OF TAXES (30 MINUTES)

Students use a Mark-Up-The-Text guide to close read the article on the seven types of taxes. After reading, allow students to share relevant information they learned and have a discussion about how taxes are collected. Ask students which taxes they believe are most/least effective.

ACTIVITY THREE: DATA ANALYSIS - ARKANSAS TAXATION & SPENDING (60 MINUTES)

Students analyze three economic data tables on Arkansas tax expenditures. They will review areas the state spends tax revenue on and how tax allocations have changed over time. Students then answer questions corresponding to the data provided.

ACTIVITY FOUR: TAXATION ACROSS THE GLOBE (RESEARCH PROJECT)

For this research project, students are asked to select and research a specific country, locating economic data about that country's demographics, tax system, and key expenditures. They will create a presentation using PowerPoint, Google Slides, Posterboard, or another display option, and present their research to their peers. After all students present, students are asked to look over all of the presentations and compare and contrast the countries tax systems.

ACTIVITY FIVE: COMPLETING TAX FORMS (45 MINUTES)

These blank templates can be easily copied for students to practice filling out a variety of tax forms. Teachers can also guide students through filling out each of the forms using generic information for income, family size, etc.

COMPUTING TAX LIABILITY (TEACHER VERSION)

Learning Objective: Compute the tax liability for a single taxpayer at various income levels using 2022 Tax Information.

Tax rate	Single	Head of household	Married filing jointly or qualifying widow	Married filing separately
10%	$0 to $10,275	$0 to $14,650	$0 to $20,550	$0 to $10,275
12%	$10,276 to $41,775	$14,651 to $55,900	$20,551 to $83,550	$10,276 to $41,775
22%	$41,776 to $89,075	$55,901 to $89,050	$83,551 to $178,150	$41,776 to $89,075
24%	$89,076 to $170,050	$89,051 to $170,050	$178,151 to $340,100	$89,076 to $170,050
32%	$170,051 to $215,950	$170,051 to $215,950	$340,101 to $431,900	$170,051 to $215,950
35%	$215,951 to $539,900	$215,951 to $539,900	$431,901 to $647,850	$215,951 to $323,925
37%	$539,901 or more	$539,901 or more	$647,851 or more	$323,926 or more

Source: IRS

Scenario 1: $44,216 in taxable income

The first $10,275 will be taxed at a 10% rate and result a tax liability of $1,027.50. The next increment of income which is $31,500 ($41,775 - $10,275 = $31,500) will be taxed at a higher rate of 12% which will add $3,780 to this individual's tax liability. The final increment of income that has not been taxed is equal to $2,441 ($44,216 - $41,775 = $2,441) and it will be taxed at a rate of 22%. So, the total tax liability in this example is:

$10,275 x 10% = $ 1,027.50

$31,500 x 12% = $ 3,780.00

$2,441 x 22% = $537.02

Total taxes = $5,344.52

Scenario 2: $81,289 in taxable income

The first $10,275 will be taxed at a 10% rate and result a tax liability of $1,027.50. The next increment of income which is $31,500 ($41,775 - $10,275 = $31,500) will be taxed at a higher rate of 12% which will add $3,780 to this individual's tax liability. The final increment of income that has not been taxed is equal to $39,514 ($81,289 - $41,775 = $39,514) and it will be taxed at a rate of 22% . So, the total tax liability in this example is:

$10,275 x 10% = $ 1,027.50

$31,500 x 12% = $ 3,780.00

$39,514 x 22% = $8,693.08

Total taxes = $13,500.58

Scenario 3: $121,452 in taxable income

The first $10,275 will be taxed at a 10% rate and result a tax liability of $1,027.50. The next increment of income which is $31,500 ($41,775 - $10,275 = $31,500) will be taxed at a higher rate of 12% which will add $3,780 to this individual's tax liability. The next increment of income that has not been taxed is equal to $47,300 ($89,075 - $41,775 = $47,300). This increment of income will be taxed at a rate of 22% which creates another $10,406 in tax liability. The final increment of income that has not been taxed is equal to $32,377 ($121,452 - $89,075 = $32,377). This amount will be taxed at a rate of 24%. So, the total tax liability in this example is:

$10,275 x 10% = $ 1,027.50

$31,500 x 12% = $ 3,780.00

$47,300 x 22% = $10,406.00

$32,377 x 24% = $7,770.48

Total taxes = $22,983.98

NAME: **DATE:** **CLASS PERIOD:**

COMPUTING TAX LIABILITY

Learning Objective: Compute the tax liability for a single taxpayer at various income levels using 2022 Tax Information.

Tax rate	Single	Head of household	Married filing jointly or qualifying widow	Married filing separately
10%	$0 to $10,275	$0 to $14,650	$0 to $20,550	$0 to $10,275
12%	$10,276 to $41,775	$14,651 to $55,900	$20,551 to $83,550	$10,276 to $41,775
22%	$41,776 to $89,075	$55,901 to $89,050	$83,551 to $178,150	$41,776 to $89,075
24%	$89,076 to $170,050	$89,051 to $170,050	$178,151 to $340,100	$89,076 to $170,050
32%	$170,051 to $215,950	$170,051 to $215,950	$340,101 to $431,900	$170,051 to $215,950
35%	$215,951 to $539,900	$215,951 to $539,900	$431,901 to $647,850	$215,951 to $323,925
37%	$539,901 or more	$539,901 or more	$647,851 or more	$323,926 or more

Source: IRS

Scenario 1: $44,216 in taxable income

Scenario 2: $81,289 in taxable income

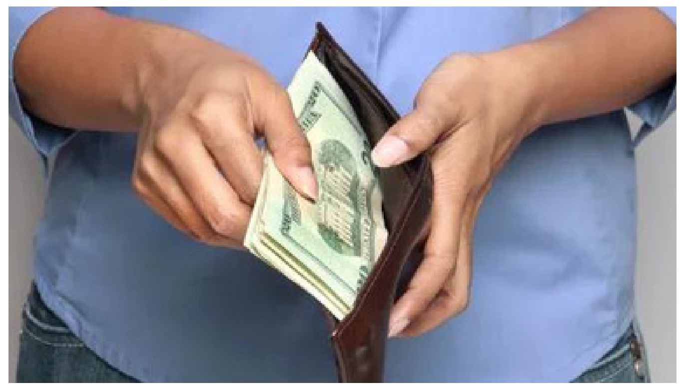
Scenario 3: $121,452 in taxable income

NAME: DATE: CLASS PERIOD:

MARK UP THE TEXT: SEVEN TYPES OF TAXES

Close read and mark up the following article. Number each paragraph. Circle key terms, authors, or any numbers in the article. Highlight or underline the author's key claims or other interesting pieces of information.

Seven Ways Americans Pay Taxes
Alexander Hess for USA Today
January 24, 2014



As Americans across the country rang in the new year, many were unaware that, at midnight, more than 50 different tax breaks expired. According to the Tax Foundation, among them were credits for everything from building motorsports facilities, producing biofuels, conducting business research and development, and even training a mine rescue team.

Clearly, the U.S. tax system can be very complex. Understanding the basics, especially the different types of taxes you may face, can be a valuable tool in financial planning.

Not all taxes are paid at the same time. Some, for example, are deducted from your paycheck. "Generally, three types of taxes will show up on a worker's pay stub: federal income taxes, payroll taxes (Social Security and Medicare), and state income taxes," Andrew Lundeen, manager of federal projects at the Tax Foundation, told 24/7 Wall St.

Other taxes, however, are levied at the register. State and local governments collect sales taxes on individual goods and services. Similarly, governments charge excise taxes on specific items, including gasoline and cigarettes.

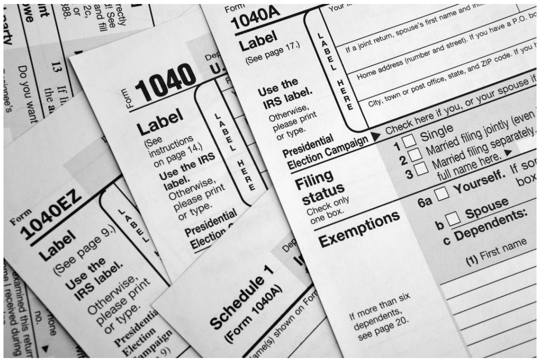
Not all authorities levy the same types of taxes. Income taxes serve as the largest source of revenue for the federal government, accounting for over 40% of yearly tax revenue. And according to projections from the Congressional Budget Office, income taxes, as well as social insurance taxes, should continue to account for the bulk of the U.S. government's tax revenue going forward.

At the state level, the picture is a bit more mixed. Different states use different tax structures to raise money for the various services they provide. While some states rely heavily on income taxes, others depend primarily on sales or property taxes. A few states, including Florida and Texas, have no personal income tax. Others "follow a structure similar to the federal [tax] code, but with different brackets and much lower rates," explained Lundeen.

Seven Ways Americans Pay Taxes

Alexander Hess for USA Today

January 24, 2014



Counties, cities, and other local areas often levy taxes to raise money as well. Property taxes, Lundeen noted, "are generally charged at the local level in order to pay for services such as schools, police and fire departments, and parks." Similarly, localities often charge an additional sales tax.

Not all taxes apply to everyone. The federal estate tax, often the subject of controversy, applies only after death and only if the estate is worth $5.34 million or more. Also, you may be able to avoid paying a number of excise taxes if you do not smoke, drink, or gamble. However, some excise taxes may be harder to avoid, including those levied on cell phone services, hotel stays, and gasoline purchases, according to Lundeen.

Here are seven ways Americans pay taxes.

1.Income Taxes: Income taxes can be charged at the federal, state and local levels. At the federal level, the amount paid depends on a number of factors, including income and marital status. Lundeen noted the U.S. has a progressive tax system, consisting of seven tax brackets. He added, "for each additional dollar in a new bracket, you pay that bracket's tax rate."

There are also a number of credits. For one, the Earned Income Tax Credit (EITC) gives a tax credit to low and moderate earners. State income tax structures vary considerably. Some states, such as Florida, do not levy an income tax at all. A few states use a single income tax rate, while many states apply different tax rates depending on income.

2. Sales Taxes: Sales taxes are taxes on goods and services purchased. These are usually calculated as a percentage of the price paid. Sales taxes vary by state, and even by municipality. In some states, there are no sales taxes at either the state or local level. Other states and local authorities can charge a hefty amount. In Tennessee, for example, consumers can pay as much as 9.44% in sales taxes when combining state and local taxes, according to the Tax Foundation.

In 12 states, sales taxes are higher than 8%. Sales taxes are often considered to be regressive, meaning lower-income individuals and households spend a greater proportion of their earnings to pay the tax, compared to higher income residents.

3.Excise Taxes: Excise taxes are similar to broad sales taxes, except they are charged on specific goods. States typically tax certain purchases, including gas, cigarettes, beer and liquor. Excise taxes are frequently levied on so-called "sin products," and often are intended not only to help raise money, but also to deter unhealthy behaviors. The federal government also collects such taxes, including 18.4 cents per gallon on gasoline and 24.4 cents per gallon on diesel fuel, as well as a 10% charge for tanning services. Excise taxes are often combined with sales taxes on a single purchase. According to Lundeen, in many cases a sales tax is paid on top of an excise tax.

Seven Ways Americans Pay Taxes
Alexander Hess for USA Today
January 24, 2014

4.Payroll Taxes: Both employees and employers have to pay the Social Security tax, one of two payroll taxes. For the Social Security tax, employees pay 6.2% of their wages, and employers match that for a total contribution of 12.4%. In 2013, the maximum earnings subject to the tax were $117,000. In 2011 and 2012, the amount employees had to contribute briefly declined to 4.2% of wages, as part of a payroll tax holiday designed to encourage people to spend more and boost the U.S. economy.

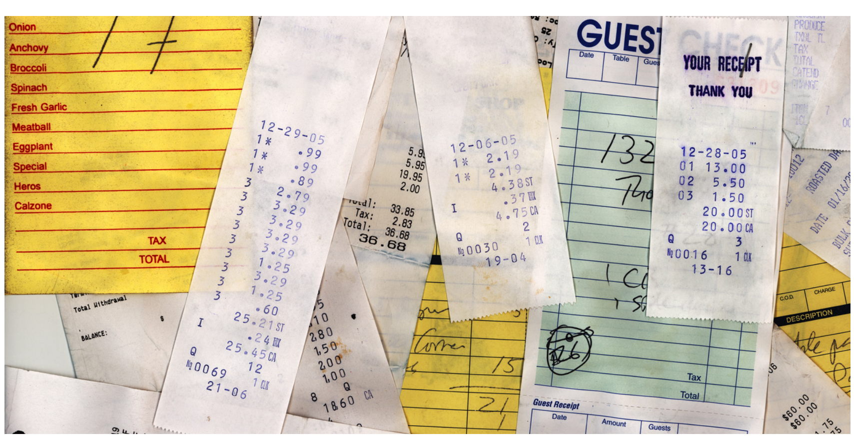
A similar tax also exists for Medicare. Both employees and employers are required to contribute 1.45% of wages, or 2.9% in total, to fund the program. Unlike Social Security, there is no maximum taxable wage. In fact, since last year, workers who earned more than $200,000 had to contribute an extra 0.9% of their wages to the program.

5.Property Taxes: Property taxes are usually imposed to fund local services. According to the Tax Foundation's Lundeen, these taxes are based on the property's market value, and are most often levied on real estate, but can also apply to other property, such as cars. In many instances, these taxes are deductible. However, according to the IRS, property taxes on real estate are only deductible if they are used to promote the "general public welfare," but not if they are used "for local benefits and improvements that increase the value of the property." Many homeowners also qualify for a mortgage interest deduction.

6.Estate Taxes: The IRS defines an estate tax as "a tax on your right to transfer property at your death." The estate tax is controversial, as it is seen by some as a penalty for dying. Cash, securities, insurance, real estate, and business interests are among the items considered part of an estate. However, for individuals, only estates exceeding $5.34 million are taxed by the federal government. Most Americans, therefore, are exempt from paying the federal estate tax. The highest estate tax rate charged at the federal level is 40%.

Estate taxes are also often levied at the state level. While states frequently use lower rates, they also often have lower exemptions than the federal government's $5.34 million cutoff. Some states have an inheritance tax, where the rate you pay depends on your relation to the deceased.

7.Gift Taxes: The gift tax is similar to the estate tax, in that it is a tax on transferring wealth. One important difference is that gift taxes involve two living people, Lundeen added. The federal government also has a far lower exemption level for the gift tax than it does for the estate tax. All gifts over $14,000 are taxable, with the tax to be paid by the recipient. The highest gift tax rate is 40% of the taxable gift amount. This tax applies not only to cash, but also to gifts like company shares or cars. Last year, Minnesota became the second state to implement its own gift tax, following Connecticut.



NAME: DATE: CLASS PERIOD:

DATA ANALYSIS: ARKANSAS TAX EXPENDITURES

Analyze the following figures displaying how the state of Arkansas allocates its tax revenues. Then answer the corresponding questions using complete sentences.

These tables can be located in The Citizen's Guide to Understanding Arkansas Economic Data from the Arkansas Center for Research in Economics.

Figure One:

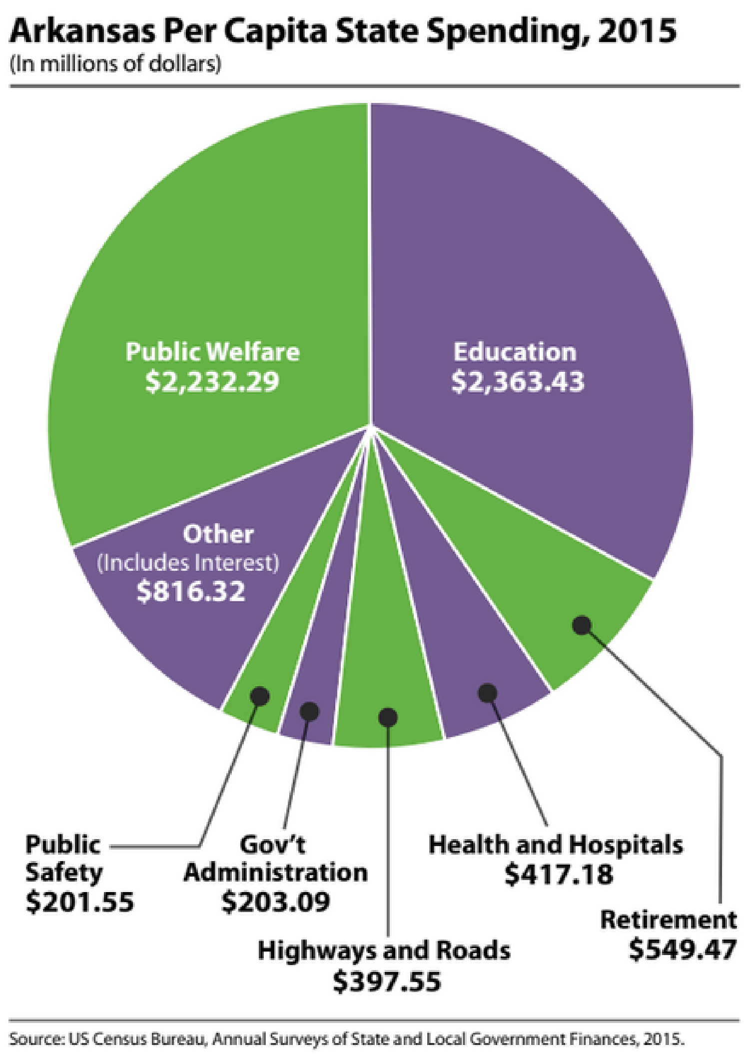


Figure Two:

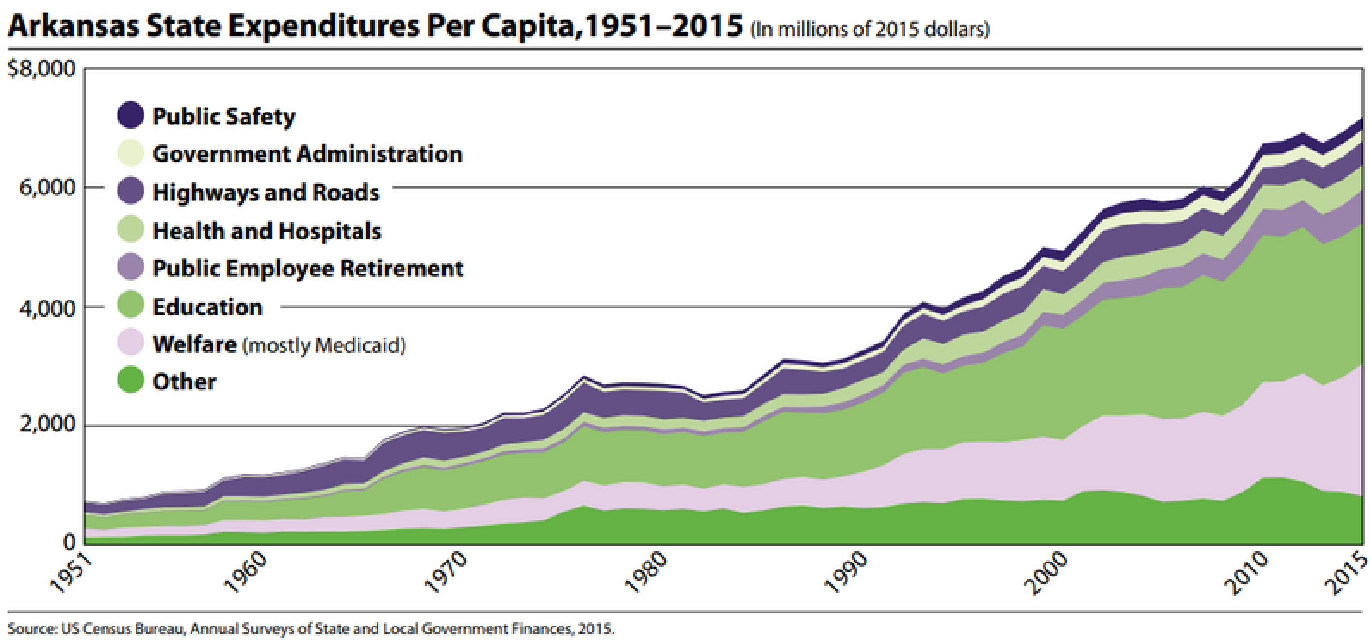
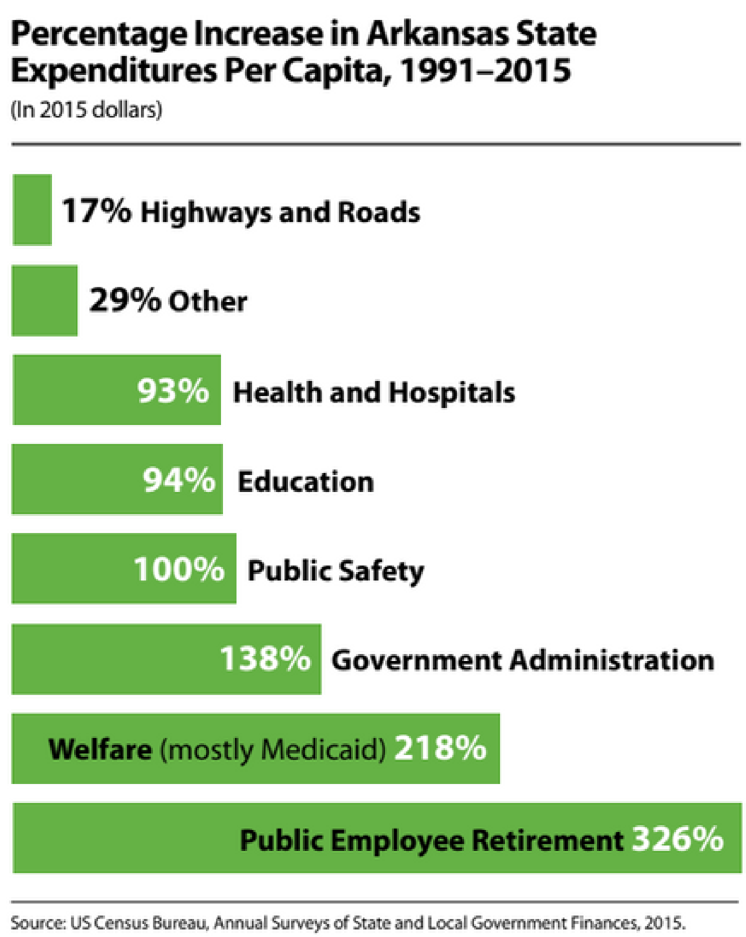


Figure Three:



Question 1:
What area of spending does Arkansas spend the most money on? The least?

Question 2:
How has spending in Arkansas changed over time? Note a few specific years and expenditure changes.

Question 3:
Where you surprised by how tax expenditures are allocated? Are there areas where you think the state should spend more or less?

Question 4 (Research!):
If one wanted to make a change to how Arkansas spends its tax revenues, what would they have to do? Who is responsible for determining how state tax revenues are spent?

NAME: DATE: CLASS PERIOD:

RESEARCH PROJECT

Select a country from the list to research. Using PowerPoint, Google Slides, Posterboard, or another display option, create a presentation that includes a variety of information about how that country collects and spends tax revenue Be prepared to present your research to your peers.

Select a country from the following list:

Australia
China
India
Ireland
Japan
Demark
Norway
Sweden
Russia
Jamaica
Canada
Finland
United Kingdom
Germany

While creating your presentation, make sure to include the following information:

- Population Size
- Languages Spoken
- The location (what continent it's on)?
- Highlight major landmarks, rivers, lakes, & capital city
- What countries share boarders with this one?
- What is the average age of the labor force?
- What kind of tax plan does the country have?
- How are taxes paid? By individuals, businesses, etc?
- How is tax revenue allocated & spent? What are the main areas of government expenditures.

NAME: DATE: CLASS PERIOD:

COMPLETING TAX FORMS

Learning Objective: Review common tax forms and learn what information is required for employment and tax payments.

Document One: W-4 Form

Form **W-4**

Department of the Treasury
Internal Revenue Service

Employee's Withholding Certificate

Complete Form W-4 so that your employer can withhold the correct federal income tax from your pay.
Give Form W-4 to your employer.
Your withholding is subject to review by the IRS.

OMB No. 1545-0074

2023

Step 1: Enter Personal Information

(a) First name and middle initial | Last name | (b) Social security number

Address

City or town, state, and ZIP code

Does your name match the name on your social security card? If not, to ensure you get credit for your earnings, contact SSA at 800-772-1213 or go to www.ssa.gov.

(c) ☐ **Single** or **Married filing separately**
☐ **Married filing jointly** or **Qualifying surviving spouse**
☐ **Head of household** (Check only if you're unmarried and pay more than half the costs of keeping up a home for yourself and a qualifying individual.)

Complete Steps 2–4 ONLY if they apply to you; otherwise, skip to Step 5. See page 2 for more information on each step, who can claim exemption from withholding, other details, and privacy.

Step 2: Multiple Jobs or Spouse Works

Complete this step if you (1) hold more than one job at a time, or (2) are married filing jointly and your spouse also works. The correct amount of withholding depends on income earned from all of these jobs.

Do **only one** of the following.

(a) Reserved for future use.

(b) Use the Multiple Jobs Worksheet on page 3 and enter the result in Step 4(c) below; **or**

(c) If there are only two jobs total, you may check this box. Do the same on Form W-4 for the other job. This option is generally more accurate than (b) if pay at the lower paying job is more than half of the pay at the higher paying job. Otherwise, (b) is more accurate . . . . ☐

TIP: If you have self-employment income, see page 2.

Complete Steps 3–4(b) on Form W-4 for only ONE of these jobs. Leave those steps blank for the other jobs. (Your withholding will be most accurate if you complete Steps 3–4(b) on the Form W-4 for the highest paying job.)

Step 3: Claim Dependent and Other Credits

If your total income will be $200,000 or less ($400,000 or less if married filing jointly):

Multiply the number of qualifying children under age 17 by $2,000 $

Multiply the number of other dependents by $500 . . . . . $

Add the amounts above for qualifying children and other dependents. You may add to this the amount of any other credits. Enter the total here . . . . **3** $

Step 4 (optional): Other Adjustments

(a) Other income (not from jobs). If you want tax withheld for other income you expect this year that won't have withholding, enter the amount of other income here. This may include interest, dividends, and retirement income . . . . **4(a)** $

(b) Deductions. If you expect to claim deductions other than the standard deduction and want to reduce your withholding, use the Deductions Worksheet on page 3 and enter the result here . . . . **4(b)** $

(c) Extra withholding. Enter any additional tax you want withheld each **pay period** . . **4(c)** $

Step 5: Sign Here

Under penalties of perjury, I declare that this certificate, to the best of my knowledge and belief, is true, correct, and complete.

Employee's signature (This form is not valid unless you sign it.) **Date**

Employers Only

Employer's name and address | First date of employment | Employer identification number (EIN)

For Privacy Act and Paperwork Reduction Act Notice, see page 3. Cat. No. 10220Q Form **W-4** (2023)

Document Two: I-9 Form

Employment Eligibility Verification
Department of Homeland Security
U.S. Citizenship and Immigration Services

USCIS
Form I-9
OMB No. 1615-0047
Expires 10/31/2022

►**START HERE: Read instructions carefully before completing this form. The instructions must be available, either in paper or electronically, during completion of this form. Employers are liable for errors in the completion of this form.**

ANTI-DISCRIMINATION NOTICE: It is illegal to discriminate against work-authorized individuals. Employers **CANNOT** specify which document(s) an employee may present to establish employment authorization and identity. The refusal to hire or continue to employ an individual because the documentation presented has a future expiration date may also constitute illegal discrimination.

Section 1. Employee Information and Attestation *(Employees must complete and sign Section 1 of Form I-9 no later than the* ***first day of employment****, but not before accepting a job offer.)*

Last Name *(Family Name)*	First Name *(Given Name)*	Middle Initial	Other Last Names Used *(if any)*

Address *(Street Number and Name)*	Apt. Number	City or Town	State	ZIP Code

Date of Birth *(mm/dd/yyyy)*	U.S. Social Security Number	Employee's E-mail Address	Employee's Telephone Number
	- -		

I am aware that federal law provides for imprisonment and/or fines for false statements or use of false documents in connection with the completion of this form.

I attest, under penalty of perjury, that I am (check one of the following boxes):

☐ 1. A citizen of the United States

☐ 2. A noncitizen national of the United States *(See instructions)*

☐ 3. A lawful permanent resident (Alien Registration Number/USCIS Number):

☐ 4. An alien authorized to work until (expiration date, if applicable, mm/dd/yyyy):
Some aliens may write "N/A" in the expiration date field. *(See instructions)*

Aliens authorized to work must provide only one of the following document numbers to complete Form I-9:
An Alien Registration Number/USCIS Number OR Form I-94 Admission Number OR Foreign Passport Number.

1. Alien Registration Number/USCIS Number:

OR

2. Form I-94 Admission Number:

OR

3. Foreign Passport Number:

Country of Issuance:

QR Code - Section 1
Do Not Write In This Space

Signature of Employee	Today's Date *(mm/dd/yyyy)*

Preparer and/or Translator Certification (check one):

☐ I did not use a preparer or translator. ☐ A preparer(s) and/or translator(s) assisted the employee in completing Section 1.

(Fields below must be completed and signed when preparers and/or translators assist an employee in completing Section 1.)

I attest, under penalty of perjury, that I have assisted in the completion of Section 1 of this form and that to the best of my knowledge the information is true and correct.

Signature of Preparer or Translator	Today's Date *(mm/dd/yyyy)*

Last Name *(Family Name)*	First Name *(Given Name)*

Address *(Street Number and Name)*	City or Town	State	ZIP Code

STOP *Employer Completes Next Page* STOP

Form I-9 10/21/2019 Page 1 of 3