



### Test Drive Overview: Common Tax Form for Teens

(Estimated Time: 20 min)



In this Test Drive, students will play Tax Bingo to familiarize themselves with tax terms. Bingo cards and tax term clues are included for printing. Follow the "What's Next?" directions to analyze sample tax forms for the H&R Block Budget Challenge simulation character.

### Did You Know?



According to reports, 2011 taxpayers left over \$1 billion in unclaimed funds.

# INCOME TAX AND FORMS

**Pit Stop Summary:** This Pit Stop provides general guidelines to pass along to students about the tax implications of earnings, types of taxes withheld from pay and what tax forms they receive and complete.

## Navigation Tips:

1. Understanding the W-4.
2. Understanding the W-2.
3. Understanding which form to file for the simulation character. (1040EZ vs 1040A)

## Budget Challenge® Road Test for Personal Finance® — Rubber Meets the Road:

In the simulation, income is taxed by several divisions of the federal government and by the state government (there are no local taxes in the simulation).

**Navigation Tip #1:** The amount of taxes withheld from an employee's gross pay is determined by the personal information declared on the W-4.

- The W-4 form indicates an individual's marital status and number of allowances.
- Individuals usually claim an allowance for themselves, one for their spouse (if married filing jointly), and one for each dependent that will be reported on their tax return.
- Based on the W-4, employers withhold the appropriate amount of money for federal income taxes.
- States will either use the Federal W-4 or a similar state form to determine the amount of state and, in some instances, local income taxes to withhold.
- In the simulation, it is assumed the W-4 is completed at the start of employment. To see the taxes withheld in Budget Challenge, view the Payroll Calculator at the bottom of Student Home→Vendor Selections or the payroll checks at Student Home→Employer.

**Navigation Tip #2:** The employer is required to provide the employee with a W-2 showing how much they earned during the tax year, and the amount that was withheld for state and federal income taxes, the amount of wages subject to Social Security and Medicare taxes and the amount of those taxes that were paid.

- If tip income is reported, any taxes withheld on that income is also shown.
- This form is used by the employee to complete his or her annual tax return.
- In Budget Challenge, the W-2 form is available at Student Home→Employer. This W-2 is only an example based on the annualized gross income of the simulation character using the most recent paycheck.
- Students will not need to use this form to file a tax return in the simulation.

## Terminology Tune-Up:



**W-4 – Form for collecting data for an individual employee used to determine tax withholdings.**

**W-2 – Reports an employee's annual wages and the amount of taxes withheld from his or her paycheck.**

**1040EZ – Income tax return for single and joint filers with no dependents and simple tax circumstances.**

**1040 – Standard form that individuals use to file their federal income taxes.**

**1040A – Income tax return that allows for more complexity than the 1040EZ but less than the longer 1040.**

**1099 – A tax form that reports the year-end summary of all non-employee compensation.**

## Extended Learning Topics:

- Earned Income Tax Credit
- Self-employment tax for subcontractors

**The Test Drive Necessities:** Test Drive- Tax Bingo and Sample Tax Forms | Bingo cards and tax term clues



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# INCOME TAX AND FORMS

**Navigation Tip #3:** Most people who had earnings in a tax year should file a tax return, even if it is not required by law.

- The appropriate tax form is determined by your filing status, whether you have dependents, the type and amount of income earned, your eligibility for certain credits and /or deductions, and if you have to pay self-employment taxes.
- In Budget Challenge, students use the Tax Filing module (Student Home→Tax Filings) to answer questions about their simulation character to determine the appropriate tax form (1040EZ or 1040A) to file for their particular scenario.
- Students can analyze both forms and compare the tax due/refund on each.
- The forms are auto-populated using the W-2 information for each student using annualized totals of their most recent paycheck and 401(k) contribution percentage.
- The correct answer on which form is best to use for the simulation character is 1040A. This form gets a larger refund because of the student loan interest that is deducted on that form.

