

Title of Lesson: Personal Income Taxes – Lesson 3 Income

Grade Level(s): 11th-12th grade

Materials Needed: IRS Supplemental Training Guide, Volunteer Student Guide

Lesson Overview: In this lesson you will learn to distinguish between taxable and nontaxable income. You will also learn where to report the different types of income. In addition, you will learn to make income entries on tax forms.

Learning Objectives:

- Determine what taxable and nontaxable income is.
- Determine where to report income on Forms.

Procedures:

1. Read the objectives.
2. Go over the list of income.
3. Discuss the parts of a W-2.
4. Show students where income is reported.
5. Read Example 1.
6. Review Exercise 1. Have students use the chart to explain why each form of income named was either included or excluded when computing the total taxable income.
7. Read Example 2.
8. Work Exercise 2 together.
9. Discuss potential fraud possibilities.
10. Discuss what happens when tips are received.
11. Discuss interest and the 1099.
12. Work Exercise 3 together.
13. Complete Quiz 3

Method of Evaluation (if applicable, please include the answer key on a separate sheet of paper):

Income Tax Quiz 3 – Income (attached with answer key)

Options and variations of lesson (optional):

Relevance to NBEA or NCTM Standards (see Educator Resources at www.oscpa.com):

NBEA Standards for Accounting, Section IV, Special Applications, Part C Income Taxation – Differentiate between taxation at the personal and business levels is relevant in the lesson. Students are learning about personal income tax and how it pertains to personal income tax returns.

Personal Finance Section II Earning a living, Differentiate between income and wealth and Identify sources of earned income. In this lesson students will learn about earned and unearned income.

Identify types of income other than wages. Students are learning to distinguish between all types of income and what is considered taxable income for personal tax purposes.

Skills students will gain:

Students will learn how to distinguish between earned and unearned income. Students will learn how to read a W-2 and how to prepare a personal tax return using these types of income.

Please include, on a separate sheet, a short biography for yourself, as well as your credentials (resumes are acceptable). Contest entries should be sent via e-mail to awelch@oscpa.com or mailed in typed form to OSCPA, Attention: Amy Welch, 1900 NW Expressway, Ste. 910; Oklahoma City, OK, 73118. Questions can be directed to Amy at awelch@oscpa.com or by phone at 405/841-3800, ext. 3806 or toll free at 800/522-8261. All lessons become the property of OSCPA and cannot be returned

Income Tax Quiz – Lesson 3

1. Marie and her husband Arturo have three Forms 1099-INT:

State of Washington Bond interest \$300
Epping Credit Union \$600
Brenton Savings and Loan \$960

How much interest income should they report on Form 1040 Schedule B, Part I?

- A. \$1,560
 - B. \$1,860
 - C. \$ 300
 - D. \$1,260
2. Jose received a Form 1099-DIV with the following amounts:

Box 1a, Ordinary dividends = \$500
Box 2a, Total capital gain distributions = \$200
Box 4, Federal income tax withheld = \$100

If Jose wants to file Form 1040A, which of the following is correct?

See 1040A and Schedule 1.

- A. Jose can report the amounts directly on Form 1040A
 - B. Jose must report the amounts on Schedule 1
 - C. Jose cannot file Form 1040A; he must file Form 1040
3. Which of the following forms of income is generally taxable?
- A. Dividends
 - B. Qualified scholarship
 - C. Child support
 - D. Life insurance proceeds paid upon death
4. Toni received the following income: long-term care benefits, interest, alimony, inheritance, and IRA distributions. Which income is exempt from federal taxes?
- A. Long-term care benefits
 - B. Alimony
 - C. Inheritance
 - D. IRA distributions

5. Which type of income may be reported on Form 1040EZ?
- A. Unemployment compensation
 - B. Capital gain distributions
 - C. Interest income of \$1,800
 - D. IRA distributions
6. Lois had several employers during the tax year. On February 3 of this year, she comes into the VRPP site and tells you that she has not received the Form W-2 for XYZ Inc. What should you tell Lois to do?
- A. Use Form 4852 instead
 - B. Contact the IRS before February 15
 - C. Ask the employer to issue the Form W-2 right away
7. Elaine has worked part time as a nanny and received \$1,200 for the tax year. The employer withheld her income taxes. Which of the following is correct?
- A. Her employer does not have to issue Form W-2
 - B. The employer must issue a Form W-2
8. Troy is a single college student whose education is funded by his part time job as a waiter and a taxable fellowship grant. His only other source of income is a savings account that earned \$1,290 in interest this year.

Which of the following forms should Troy probably use to report his income?

- A. Form 1040EZ
 - B. Form 1040A
 - C. Form 1040A and Form 4852
 - D. Form 1040
9. Which of the following tip income is exempt from federal income tax?
- A. Noncash tips
 - B. Tips of less than \$20
 - C. Allocated tips
 - D. None of the above

10. Keri works as a food server in an expensive restaurant. She tells you that she did not report her tip income of \$18,100 to her employer. Which form(s) can Keri use to file her taxes?
- A. Form 1040EZ, 1040A, or 1040
 - B. Form 1040A or 1040
 - C. Form 1040 or Form 1040A with Form 4137
 - D. Form 1040 with Form 4137
11. Keith has received a Form W-2 for his part time job, but did not receive a Form W-2 for a taxable college scholarship he won last year. How should he report the two sources of income on his Form 1040A?
- A. Enter the total of the two amounts on line 7
 - B. Enter the total of the two amounts on line 7 and write "SCH" with the scholarship amount to the left of line 7
 - C. Enter only his part time income on line 7 and write "SCH" with the scholarship amount to the left of line 7
12. Pat and Tracy are not legally married. If Pat uses his funds to buy a bond in the name of Tracy, who is the sole owner of the bond, then the tax on the bond's interest must be paid by ____.
- A. Pat
 - B. Tracy
 - C. Both Pat and Tracy
13. Which of the following Form 1040A filers have to complete Schedule 1, Part I before reporting their interest on lines 8a and 8b?
- A. Pam, who received just one Form 1099-INT for both her \$410 tax-exempt interest and \$1,180 in taxable interest
 - B. Hal, who received five Forms 1099-INT for a total of \$877 in taxable interest income
 - C. Neither of the above
14. Kent and his wife Jeri received a Form 1099-DIV for \$1,800 in ordinary dividend income from shares they own jointly. How do you report this income if they file separate returns?
- A. Allow them to decide how they want to divide the amount between their two returns
 - B. Report \$900 on his return and \$900 on her return
 - C. Report the entire amount on one return or the other

Income Tax Quiz 3 - Income

1. A
2. A
3. A
4. B
5. A
6. C
7. B
8. A
9. D
10. D
11. B
12. C
13. A
14. B