Taxable and Nontaxable Income

LESSON DESCRIPTION (Background for the Instructor)

In this lesson, students will learn about types of income that are deemed taxable by the federal and/or state government (e.g., salaries and interest on savings) and those that are not (e.g., gifts and inheritances and child support). They will watch two videos, complete a word match and the Is it Taxable or Nontaxable? game, conduct an online search to learn what happens when people do not pay their “fair share” of income taxes, and use simple math functions to calculate taxes due on a simple federal income tax return.

The lesson includes five activities that instructors can select from. In these activities, students will:

♦ View the videos Taxable and Nontaxable Income and These Types of Income are Nontaxable and answer debriefing questions about taxable and nontaxable income
♦ Complete a word match between key income tax terms and their definitions
♦ Play a Is it Taxable or Non-Taxable? polarity activity to identify correct information about taxes
♦ Calculate the correct taxable income and taxes owed for income tax case study problems
♦ Conduct a Web Quest to learn about what happens when people don’t declare taxable income

The lesson also contains 10 assessment questions (5 multiple choice and 5 True-False), learning extensions (i.e., suggested learning activities beyond the scope of the lesson plan), and references and resources.

INTRODUCTION (Background for the Instructor)

Income can be defined in a global way as any money that an individual or household receives either regularly (e.g., a weekly paycheck) or on a one-time only or an occasional basis (e.g., a gift or prize winnings). In the eyes of the federal government income tax agency, the Internal Revenue Service (IRS), there are two types of income: taxable and nontaxable.

Taxable income, as the words imply, is income that is subject to federal and/or state income tax. This lesson will focus on federal income taxes and the IRS defines taxable income as income derived from a wide variety of sources unless it is specifically exempt from taxation. Even income from illegal activities is considered taxable. In this lesson, which focuses on simple income tax concepts and calculations, taxable income will be calculated as gross income (i.e., all sources of income) minus deductions.

Common sources of taxable income include salaries and wages, interest and dividends, capital gains from the sale of securities or property, unemployment benefits, pensions, Social Security (above specific base amounts), retirement plan (e.g., 401(k) and traditional IRA) distributions, rental income, business income, bartering income (e.g., swapping home improvement work by a contractor for wedding photography by a photographer where both parties must report the fair market value of the services that they received), prizes and awards, gambling income (e.g., state lottery winnings), royalties, and most court awards.

Common sources of nontaxable income include life insurance proceeds paid to a beneficiary, child support payments from an ex-spouse, gifts and most inheritances, worker’s compensation, income from qualifying scholarships, garage sale proceeds, the proceeds of many homes, welfare benefits, qualified withdrawals from a Roth IRA, disability insurance payments, and court settlements for an injury or sickness.
Tax calculations involve sources of gross income, knowledge about taxable and nontaxable income sources, and income tax deductions. As a result of the 2017 Tax Cuts and Jobs Act (TCJA), about 90% of taxpayers take the standard deduction. The other 10% who benefit from itemizing deductions typically have large mortgage interest payments, charitable contributions, and/or medical expenses. The standard deductions for single and married taxpayers, respectively, in 2019 are $12,200 and $24,400. For annual income tax updates, visit this College for Financial Planning web site: https://www.cffp.edu/annual-limits.

Two final pieces of information are necessary to calculate income tax owed: tax brackets and income tax rates. To understand tax brackets, it is important to understand that the United States has a progressive income tax system. This means that taxpayers pay more tax as their taxable income increases. Tax brackets are ranges of income that are taxed at certain tax rates. Tax brackets are adjusted annually for inflation.

Tax rates are the percentage at which someone’s income is taxed. Under the TCJA, there are currently seven different income tax rates: 10%, 12%, 22%, 24%, 32%, 35%, and 37%. People pay different tax rates on different increments of their annual income from the first dollar earned to the last. The rate of tax that taxpayers pay on their last (highest) dollar of income is called their marginal tax rate.

Tax brackets and tax rates for single taxpayers in 2019 are shown below:

<table>
<thead>
<tr>
<th>Tax Bracket</th>
<th>Tax Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 to $9,700</td>
<td>10%</td>
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With all of the information described above, taxpayers can calculate the amount of tax that they owe. Below is a simple example. Samantha is single and earned a gross income of $42,200 in 2019. Her taxable income after taking the $12,200 standard deduction for singles was $30,000 and she would pay $3,406 in federal income tax. The tax calculation, based on her tax brackets and tax rates, is as follows:

- The first $9,700 in taxable income would be taxed at the 10% tax rate: $9,700 x .10 = $970
- The remaining income to be taxed is $20,300 ($30,000 - $9,700)
- The $20,300 in taxable income would be taxed at the 12% tax rate; $20,300 x .12 = $2,436
- Adding the two tax brackets together, Samantha’s taxes would be $3,406 ($970 + $2,436)

Note: It is possible, however, that Samantha could receive certain tax credits and pay less than $3,406 in taxes but tax credits are beyond the scope of this lesson so only the standard deduction is discussed.

The IRS expects all sources of taxable income to be voluntarily reported and the amount of tax due on this income paid before the tax filing deadline (on or about April 15 of the year following each calendar (tax) year). When taxpayers do not report taxable income, their tax liability is less than it should be. Paying less than the full amount of income tax owed is known as tax evasion and it is a crime.

The consequences of failing to report taxable income are severe and can include criminal and civil penalties, depending on the type of fraud involved. A convicted tax evader is guilty of a felony and punishment can include up to five years of jail time, up to $250,000 in fines for individuals, or both. Fines and imprisonment are often well publicized by the IRS to discourage future tax law violations by others.
Note: Related information about income taxes can be found in the following lesson plan:
Standard 9.1.12.A.10 lesson plan *Income Tax Exemptions and Deductions*

**OBJECTIVES**

Students will be able to:

♦ Define basic income tax terms such as tax bracket, tax rate, and standard deduction.

♦ Describe five examples of taxable income and five examples of nontaxable income.

♦ Calculate the amount of tax owed by a single taxpayer taking the standard deduction.

♦ Describe how a progressive income tax structure works.

♦ Describe what tax evasion is and the types of penalties that tax evaders can face if convicted.

**NEW JERSEY PERSONAL FINANCIAL LITERACY STANDARD**


See [http://www.state.nj.us/education/aps/cccs/career/FLFAQ.htm#gradcredit](http://www.state.nj.us/education/aps/cccs/career/FLFAQ.htm#gradcredit) and [http://www.state.nj.us/education/cccs/2014/career/91.pdf](http://www.state.nj.us/education/cccs/2014/career/91.pdf) for information about Standard 9.1

**TIME REQUIRED**

45 to 180 minutes (depending upon student progress and content depth and number of activities used)

**MATERIALS**

♦ YouTube Video (1:20): *Taxable and Nontaxable Income* and debriefing questions: [https://www.youtube.com/watch?v=P-9DV11vVdM](https://www.youtube.com/watch?v=P-9DV11vVdM)

♦ YouTube Video (1:00): *These Types of Income Are Nontaxable* and debriefing questions: [https://www.youtube.com/watch?v=5R0oNWSqkdQ](https://www.youtube.com/watch?v=5R0oNWSqkdQ)

♦ *Taxable and Nontaxable Income Questions* activity handout

♦ *Income Tax Word Match* activity handout

♦ *Is it Taxable or Nontaxable?* polarity activity handout

♦ *Income Tax Math* activity handout

♦ *Web Quest: What Happens When You Don’t Declare Taxable Income?* activity handout

♦ *Taxable and Nontaxable Income Quiz* (ASSESSMENT)

*Teachers are encouraged to use as many of the student learning activities as time permits to provide a fuller understanding of income taxes. The activities can also be used for extra credit assignments, homework, or after-school activities.*

**PROCEDURE**

1. Ask students to raise their hand if they have filed a tax return and to describe what income was taxed.
Answers will vary. Students will probably indicate that their taxable income came from a part-time job but they might also list other income sources such as interest on a savings account or prize income.

2. **Activity 1:** Show the videos *Taxable and Nontaxable Income* and *These Types of Income Are Nontaxable* and ask students to work in small groups to answer the five questions listed below. Debrief the activity. Below are answers to the *Taxable and Nontaxable Income Questions* handout questions:

**What are five types of income that are taxable?**

Answers can include court settlements that compensate for lost income, salaries and wages, money taken out of a traditional IRA, tips, and bartering income.

Supplement students’ answers with additional sources of taxable income listed on page 1.

**What are five types of income that are nontaxable?**

Answers can include insurance (e.g., health insurance) provided by employers, life insurance payouts, disability insurance payments (unless an employer paid the premiums), child support payments, gifts, inheritances, money taken out of a Roth IRA, and court awards or settlements for injury or illness.

Supplement students’ answers with additional sources of nontaxable income listed on page 1.

**What type of income may or may not be taxable depending on individual or household income?**

Social Security

**What is the maximum amount of taxable income that can be offset by a capital loss on investments?**

$3,000

**What are three states that do not have an income tax on their residents?**

The seven states that do not charge a state income tax on the incomes of their residents are Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming.

3. **Activity 2:** Distribute the *Income Tax Word Match* activity handout. Ask students to work together in small groups to match each word to its correct definition. Then debrief the activity. Correct matched responses for words and definitions are shown below.

**Income**- Any money that a person receives regularly or on a one-time or occasional basis.

**Interest and Dividends**- An example of taxable income.

**Internal Revenue Service (IRS)**- Federal government agency that oversees income taxes.

**Itemized Deduction**- An eligible expense (e.g., mortgage interest) that can be written off on income taxes.

**Life Insurance Proceeds**- An example of nontaxable income.

**Standard Deduction**- A flat dollar amount that is subtracted from gross income to determine taxes due.
Tax Bracket- Ranges of income that are taxed at certain percentages.

Tax Evasion- Nonpayment or underpayment of income tax by misstating income and/or tax write-offs.

Tax Rate- The percentage at which an increment of someone’s income is taxed.

Taxable Income- The amount of income used to determine how much tax someone owes.

4. Activity 3: Distribute the Is it Taxable or Nontaxable? polarity activity handout. Read each item on the handout and have students vote “Taxable” or “Nontaxable” by holding up a colored card (or “voting with their feet” by moving to opposite sides of the classroom for each choice option). Debrief each item as it is mentioned. Below are answers to the Taxable or Nontaxable? activity questions:

- Adoption Assistance from Employer- Nontaxable
- Barter Income- Taxable
- Capital Gains on Investments- Taxable
- Cash income- Taxable
- Child Support- Nontaxable
- Combat Pay to Service Members- Nontaxable
- Commissions- Taxable
- Contest Prizes- Taxable
- Garage Sale Proceeds- Nontaxable
- Gifts- Nontaxable
- Health Insurance Benefits- Nontaxable
- Inheritances- Nontaxable
- Interest and Dividends- Taxable
- Jury Duty Pay- Taxable
- Life Insurance Proceeds- Nontaxable
- Monetary Awards- Taxable
- Roth IRA Withdrawals (if qualified)- Nontaxable
- Side Hustle (Freelancing) Income- Taxable
- Traditional IRA Withdrawals- Taxable
- Unemployment Benefits- Taxable
- Workers Compensation Benefits- Nontaxable

Taxable or Nontaxable?

[Diagram showing taxable and nontaxable options]
5. **Activity 4:** Distribute the *Income Tax Math* activity handout with a copy of the tax brackets and tax rates for the current year. Ask students to work together to calculate the answers for each of three case study problems using simple math functions. Each of the case studies has two sections: a calculation of a person’s taxable income and a calculation of income taxes owed. Debrief each question using the descriptions of the correct answers found below.

**Stephen is a 20-year old college student who earned $8,500 last year from a job at night, on weekends, and during the summer. He also received a $5,000 inheritance recently from his deceased grandmother’s estate. What is his taxable income?**

The $5,000 inheritance is nontaxable income. Stephen’s earnings of $8,500 minus the 2019 standard deduction for singles of $12,200 equals a taxable income of -$3,700 ($8,500 minus $12,200).

**Assuming no additional tax breaks beyond the standard deduction, how much will Stephen be required to pay in income taxes?**

Income that is less than or equal to the standard deduction is not taxable. Thus, the IRS will not require Stephen to file a tax return. However, if he had income taxes withheld from his paycheck, he will need to file a tax return to receive a tax refund.

**Holly is a single 24-year old woman who earned $35,000 last year at her job in an advertising agency. She also received $500 in interest on her savings account and a certificate of deposit (CD) and $25,000 as a beneficiary of her deceased uncle’s estate. What is her taxable income?**

Holly’s earnings from her job and the interest on her savings are both taxable for a gross income of $35,500. After subtracting the 2019 standard deduction of $12,200 for singles, her taxable income is $23,300. The life insurance proceeds are nontaxable. However, if the $25,000 is saved or invested, the interest, dividends, and/or capital gains earned on that sum will be taxable in the future.

**Assuming no additional tax breaks beyond the standard deduction, how much will Holly be required to pay in income taxes?**

The first $9,700 would be taxed at the 10% tax rate: $9,700 x 10% = $970. The remaining $13,600 would be taxed at the 12% tax rate: $13,600 x 12% = $1,632. Adding the two amounts together, Holly’s taxes would be $2,602 ($970 + $1,632).

**Kathleen is 32 years old. After working at Company A for ten years and earning a Master’s degree, she changed jobs and is earning $57,200 working for Company B. She also earned $5,000 from a “side hustle,” made $500 at a garage sale, and won a $1,000 prize. What is her taxable income?**

Kathleen’s gross income is her $57,200 in earnings plus $5,000 from freelancing and the $1,000 prize for a total of $63,200. After subtracting the 2019 standard deduction for single taxpayers ($12,200), her taxable income is $51,000. The garage sale proceeds are nontaxable.

**Assuming no additional tax breaks beyond the standard deduction, how much will Kathleen be required to pay in income taxes?**
The first $9,700 would be taxed at the 10% tax rate: $9,700 \times 10\% = $970. The next $29,775 ($39,475 - $9,700) would be taxed at the 12% tax rate: $29,775 \times 12\% = $3,573. The remaining $11,525 ($51,000 - $39,475) would be taxed at the 22% tax rate: $11,525 \times .22 = $2,535.50. Adding the three amounts together, Kathleen’s taxes would be $7,078.50 ($970 + $3,573 + $2,535.50).

6. **Activity 5:** Distribute the *Web Quest: What Happens When You Don’t Declare Taxable Income?* activity handout and ask students to work together in small groups to find information about what happens when people do not report all of their taxable income to calculate the amount of tax that they owe. Debrief the activity with the entire class.

*Answers will vary. Students will likely find articles describing both monetary penalties and possible criminal penalties. Monetary penalties are charged because taxpayers have technically missed a tax payment by not reporting all of their taxable income. Penalties come in two categories: failure to file (5% of the unpaid tax for each month that a tax return is late up to a maximum of 25%) and failure to pay (0.5% of the unpaid tax for each month that tax goes unpaid). Criminal penalties from intentional failure to report income to the IRS can result in jail time of up to five years and fines of up to $250,000, depending upon the specifics of a tax evasion case and the charges that are made.*

*Intentionally filing an incorrect tax return by understating taxable income and the amount of taxes owed is a form of tax evasion. Not every taxpayer gets caught evading taxes but those that do intentionally will face fines and/or jail time. Penalties can be waived, however, if taxpayers can convince the IRS that they did not understand that certain income is taxable. Tax evasion affects individual taxpayers and the country as a whole. When less money is paid in taxes, there is less money to support public services including a strong military, national parks, and federal government agency services.*

**CLOSURE**

Ask students if they have any remaining questions about taxable and nontaxable income. Close out the lesson by asking them if they can list any famous (infamous) tax evaders in high profile cases who did not report all of their taxable income and faced fines, imprisonment, or both.


**GLOSSARY**

**Bartering Income** – The value of goods or services that are traded between individuals in lieu of cash payment (e.g., a haircut for a car oil change).

**Income** – Any money that a person receives regularly or on a one-time or occasional basis.

**Internal Revenue Service** – Federal government agency that oversees income taxes.

**Itemized Deduction** – An eligible expense (e.g., charitable donations, mortgage interest, and property taxes) that can be written off on income taxes.
**Marginal Tax Bracket**- A range of incomes that your last dollar of taxable income falls into.

**Marginal Tax Rate**- The rate of tax that taxpayers pay on their last (highest) dollar of income.

**Nontaxable Income**- Sources of income that do not need to be reported on an income tax return because they are not taxed by the IRS (e.g., inheritances, gifts, and life insurance policy benefits).

**Progressive Income Tax Structure**- A tax structure where taxpayers pay a higher percentage of their income in taxes as their income rises. In other words, taxes are based on a taxpayer’s ability to pay.

**Standard Deduction**- A flat dollar amount that is subtracted from gross income to determine tax.

**Tax Bracket**- Ranges of income that are taxed at certain percentages.

**Tax Evasion**- The crime of avoiding or under-paying income taxes by under-reporting income, taking unlawful tax write-offs, or both.

**Tax Filing Deadline**- The date that income tax returns are do. It is on or about April 15 of the year following each calendar (tax) year.

**Tax Rate**- The percentage at which an increment of someone’s income is taxed.

**Taxable Income**- The amount of income used to determine how much tax someone owes.

**LEARNING EXTENSIONS**

If time permits, the following activities can be used to extend the depth of this lesson:

♦ Show the Investopedia YouTube video *Tax Avoidance vs. Tax Evasion*: [https://www.youtube.com/watch?v=ClOenRSdPQA](https://www.youtube.com/watch?v=ClOenRSdPQA)

♦ Invite a local tax preparer as a guest speaker to discuss sources of taxable income, tax brackets and tax rates, and the consequences of tax evasion.


♦ Have students delve into back stories about famous tax evaders including how much taxable income they under-reported on their tax return, how they got caught, and how they were punished.


♦ Have students write a summary of what they learned about taxable income for the school newspaper.

♦ Have students interview a family member to learn more about their family’s income tax situation.
ASSESSMENT: Taxable and Nontaxable Income Quiz

Instructors are encouraged to use the questions below for content review or as a pre-and/or post-test to determine gains in student knowledge about taxable and nontaxable income after teaching this lesson.

Correct answers to the multiple choice and True-False questions are shown in boldface type.

Multiple Choice Questions

1. Which type of income is not subject to federal income tax?
   a. Adjusted gross income
   b. Foreign income
   c. Tax-deferred income
   d. Nontaxable income

2. Which of the following is not an itemized deduction?
   a. Contributions to charitable organizations
   b. Credit card interest and fees
   c. Mortgage interest
   d. Medical expenses

3. What is the range of federal income tax rates from 2018 through 2025 under current tax law?
   a. 0% to 45%
   b. 7% to 39%
   c. 10% to 37%
   d. 12% to 50%

4. What is the term used to describe the tax paid on a person’s last dollar of income?
   a. Marginal tax rate
   b. Adjusted gross tax rate
   c. Average tax rate
   d. Total tax rate

5. Which of the following sources of income is not taxed?
   a. 401(k) plan distributions
   b. Inheritances
   c. Prizes
   d. Bartered products and services

True-False Questions

1. Cash and prizes won on television game shows and reality show competitions are generally subject to federal and state income tax (TRUE: Cash and prizes from television reality shows are considered taxable income and must be reported on a tax return. There is perhaps no better illustration of the consequences of not doing this than Richard Hatch, winner of the first episode of the reality show Survivor, who did not report his prize and was subsequently convicted of tax evasion)
2. Tax tables list a range of incomes for marginal tax rates, the rate of tax paid on a person’s last dollar of income. Under current tax law, taxpayers can pay from 10% to 37% as a marginal tax rate on their last dollar of income. Taxpayers are taxed in stages. For example, someone at the 22% marginal tax rate would first have part of their income taxed at 10% and 12% rates before their income hit 22% rate territory.)

3. Federal income tax returns and tax payments are due on or about April 1 of each year (FALSE: The annual tax filing deadline is on or about April 15 of each year. The words “on or about” refer to the fact that, in some years, April 15 falls on a weekend or on some specific state holidays and the due date is pushed back a day or two. Exact due dates are always listed on the IRS web site).

4. U.S. citizens with income below a certain level are not required to file a federal income tax return (TRUE: Exact income amounts for filing a federal income tax return are adjusted annually for inflation. If someone falls below the limit for their tax filing status (e.g., a single taxpayer), they are not required to file a tax return. However, if tax withholding was taken out of their paychecks, they will want to file a tax return to get that money back as a tax refund).

5. Interest paid on a home mortgage is tax-deductible (TRUE: Homeowners who can benefit from itemizing tax deductions because their itemized deductions exceed the standard deduction can deduct home mortgage interest. In fact, homeowners with large mortgage loans that charge a high amount of interest are frequently among the 10% of taxpayers who can itemize deductions).

REFERENCES AND RESOURCES


Marginal Tax Rate (Investing Answers): https://investinganswers.com/dictionary/m/marginal-tax-rate

Tax Information (Rutgers Cooperative Extension): https://njaes.rutgers.edu/money/tax-info/.  

Taxable Income and Non-Taxable Income (Liberty Tax Service): https://www.libertytax.com/tax-resources/general-tax-information/taxable-nontaxable-income/


12 Top Sources of Nontaxable Income (Investopedia): https://www.investopedia.com/taxes/sources-nontaxable-income/


Taxable and Nontaxable Income Questions

Instructions: After watching the videos on taxable and nontaxable income, work together with other students to answer the following questions:

What are five types of income that are taxable?

What are five types of income that are nontaxable?

What type of income may or may not be taxable depending on individual or household income?

What is the maximum amount of taxable income that can be offset by a capital loss on investments?

What are three states that do not have an income tax on their residents?
Income Tax Word Match

Instructions:
Form a small work group. Read the words below and match them up with the correct definitions. Put the letter before each word in the space before its matching definition.

Words
A. Income
B. Interest and dividends
C. Internal Revenue Service
D. Itemized deduction
E. Life insurance proceeds
F. Standard deduction
G. Tax bracket
H. Tax evasion
I. Tax rate
J. Taxable income

Definitions
_____ An example of nontaxable income
_____ Ranges of income that are taxed at certain percentages
_____ The amount of income used to determine how much tax someone owes
_____ Any money that a person receives regularly or on a one-time or occasional basis
_____ The percentage at which an increment of someone’s income is taxed
_____ An example of taxable income
_____ Nonpayment or underpayment of income tax by misstating income and/or tax write-offs
_____ Federal government agency that oversees income taxes
_____ A flat dollar amount that is subtracted from gross income to determine taxes due
_____ An eligible expense (e.g., mortgage interest) that can be written off on income taxes
Is it Taxable or Nontaxable?

Instructions: Review the sources of income below, decide whether each item is taxable or nontaxable, and be prepared to defend your responses during the class discussion.

- Adoption Assistance from Employer
- Barter Income
- Capital Gains on Investments
- Cash income
- Child Support
- Combat Pay to Service Members
- Commissions
- Contest Prizes
- Garage Sale Proceeds
- Gifts
- Health Insurance Benefits
- Inheritances
- Interest and Dividends
- Jury Duty Pay
- Life Insurance Proceeds
- Monetary Awards
- Roth IRA Withdrawals (if qualified)
- Side Hustle (Freelancing) Income
- Traditional IRA Withdrawals
- Unemployment Benefits
- Workers Compensation Benefits
Income Tax Math

Instructions:
Work together in small groups to answer the questions below using simple math calculations. Use the 2019 federal income tax rate chart for single individuals, below, for reference.

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Stephen is a 20-year old college student who earned $8,500 last year from a job at night, on weekends, and during the summer. He also received a $5,000 inheritance recently from his deceased grandmother’s estate. What is his taxable income?

Assuming no additional tax breaks beyond the standard deduction, how much will Stephen be required to pay in income taxes?

Holly is a single 24-year old woman who earned $35,000 last year at her job in an advertising agency. She also received $500 in interest on her savings account and a certificate of deposit (CD) and $25,000 as a beneficiary of her deceased uncle’s estate. What is her taxable income?

Assuming no additional tax breaks beyond the standard deduction, how much will Holly be required to pay in income taxes?

Kathleen is 32 years old. After working at Company A for ten years and earning a Master’s degree, she changed jobs and is earning $57,200 working for Company B. She also earned $5,000 from a “side hustle,” made $500 at a garage sale, and won a $1,000 prize. What is her taxable income?

Assuming no additional tax breaks beyond the standard deduction, how much will Kathleen be required to pay in income taxes?
Web Quest: What Happens When You Don’t Declare Taxable Income?

Use an online search engine (e.g., Google, Bing) to search for information about what happens to people who do not report taxable income to the IRS and get caught and/or convicted of tax evasion. Find three articles from government agencies, trade associations, non-profit-organizations, or other sources without a commercial interest. List several key take-aways from each of the articles in the spaces below.

<table>
<thead>
<tr>
<th>Information Source</th>
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Taxable and Nontaxable Income Quiz

Multiple Choice Questions:
Circle the correct answer from among the four answers provided.

1. Which type of income is not subject to federal income tax?
   a. Adjusted gross income
   b. Foreign income
   c. Tax-deferred income
   d. Nontaxable income

2. Which of the following is not an itemized deduction?
   a. Contributions to charitable organizations
   b. Credit card interest and fees
   c. Mortgage interest
   d. Medical expenses

3. What is the range of federal income tax rates from 2018 through 2025 under current tax law?
   a. 0% to 45%  
   b. 7% to 39%  
   c. 10% to 37%  
   d. 12% to 50%

4. What is the term used to describe the tax paid on a person’s last dollar of income?
   a. Marginal tax rate
   b. Adjusted gross tax rate
   c. Average tax rate
   d. Total tax rate

5. Which of the following sources of income is not taxed?
   a. 401(k) plan distributions  
   b. Inheritances
   c. Prizes
   d. Bartered products and services

True-False Questions:
Mark “T” for True or “F” for False in the space before each question.

_____ 1. Cash and prizes won on television game shows and reality show competitions are generally subject to federal and state income tax.

_____ 2. Tax tables list a range of incomes for average tax rates.

_____ 3. Federal income tax returns and tax payments are due on or about April 1 of each year.

_____ 4. U.S. citizens with income below a certain level are not required to file a federal income tax return.

_____ 5. Interest paid on a home mortgage is tax-deductible.
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