

Unit/Lesson Description

Students know something about taxes. They've paid that extra penny or two for a candy bar or a pack of gum, so they've experienced sales taxes. They may have been aware of tax initiatives in their school district.

In this lesson, students will learn about the different forms of taxes and fees and why they are necessary to generate revenue for local government. They will discuss other people's opinions of taxation, calculate property tax and local personal income tax, and list their community's public goods and services that are supported by user fees.

Concepts

Civics – revenue, user fees, payments from other governments, property tax, real property, personal property, assessment, sales tax, local personal income tax
Economics – revenue, user fees, state and federal aid, property tax, sales tax, local personal income tax

Related Subject Areas

Math – tax calculation
Language Arts – writing in verse

Instructional Objectives

Students will be able to:

- define property tax.
- explain property assessment.
- define revenue and explain its purpose.
- define sales tax.
- define local personal income tax.
- define and provide examples of user fees.
- describe payments from other governments.

Time Required

2-3 class periods

Materials Required

- Activity 1, *What's Missing?* (one per student)
- Activity 1, *What's Missing? Answer Sheet* (one per student)

Activity 2, *Taxing Problems* (one per student)

Activity 2, *Taxing Problems Answer Sheet* (one per student)

Activity 3, *Local Government Financing* (one per student)

Activity 3, *Local Government Financing Answer Sheet* (one per student)

Visual 1, *Terse Verse*

Visual 2, *Understanding Taxes*

Visual 3, *Assessed Values*

Visual 4, *Joe Homeowner's Tax Bill*

Visual 5, *Sales Tax Calculation*

Visual 6, *Sources of General Revenue for Missouri Local Governments* (optional: one per student)

Visual 7, *Expenditures of Missouri Local Governments by Service Area* (optional: one per student)

Procedure

1. Distribute Activity 1, *What's Missing?*, and allow students time to fill in the blanks.
2. Distribute Activity 1, *What's Missing? Answer Sheet* to each student. Explain that complaints about taxes are found as far back in history as the New Testament of the Bible. Ask students to interpret the meaning of each quote. Offer assistance as necessary.
3. Display Visual 1, *Terse Verse*. If students don't understand the meaning of terse, ask a volunteer to look it up and read the definition for the class. Read the verse aloud.
4. Ask students what conclusion they've drawn about people's view of paying taxes. (*The views range from irritation to anger.*)
5. Display Visual 2, *Understanding Taxes*. Ask students how Oliver Wendell Holmes felt about taxes. (*He considered taxes to be the means for developing a more civilized society.*)
6. Explain that although taxpayers may not be happy about it, taxes are necessary in order for the government to provide services that citizens want and need.
7. Write the following list on the board and tell students to copy the list for their notebooks.
 - a. Property Tax
 - b. Sales Tax

- c. Local Personal Income Tax
 - d. Charges and User Fees
 - e. State and Federal Aid
8. Explain that **revenue** is money received. Local governments collect revenue to pay for public goods and services in five ways. Three of these methods — property tax, sales tax and local personal income tax — are direct taxes. Charges and user fees are payments for purchased public goods and services. State and federal aid are tax monies paid to the state or federal government and then transferred to local government.
9. Explain that **property tax** is a significant source of revenue for most local governments. The property tax is a tax on people's real property and personal property. **Real property** is land and buildings, including manufactured homes (built somewhere else and then assembled on a person's land). **Personal property** is tangible property, other than real estate, money, household furniture, or wearing apparel owned by an individual. Personal property includes cars, trucks, airplanes, and motorcycles. Note: Mobile homes may be either real or personal property depending on whether the homeowner owns or rents the land.
10. Explain that property receives an **assessment**, meaning that a local official, the assessor, determines a value for the property. The people in the assessor's office try to be consistent by placing similar values on similar properties. The assessed value is ultimately based on what a property would sell for. When there are problems in assessment, it is because the best way to determine what a property would sell for is to sell it. If the property, or similar properties, have not sold recently, the assessor must estimate the value.
11. Explain that the property isn't taxed on its total market value. The assessor's office calculates the taxable value at a percentage of the market value. State law specifies the percentage for a particular category of property.
12. Display Visual 3, *Assessed Values*. Explain that land with a building on it that is used for housing is termed residential and only 19 percent of its market value is taxed. Note: Agricultural land is assessed at 12 percent of its *productive capability*.
13. Continue with Personal Property Assessments. Help students with the personal property table.
14. Display Visual 4, *Joe Homeowner's Tax Bill*. Explain that Mr. Homeowner has a home with a market value of \$50,000. He also has two cars with a combined

value of \$15,000. His home is assessed at 19 percent of \$50,000, for an assessed value of \$9,500. His cars are assessed at 33.3 percent, for an assessed value of \$5,000. The total assessed value of his property is \$14,500.

15. Explain that in Joe's case, he lives in an area where his taxes are \$5.70 per \$100 of assessed valuation. This means that for every \$100 of the \$14,500 assessed value, he must pay \$5.70. Imagine that Joe had \$14,500 in \$100 bills. He would have 145 of them. For every bill, he would have to pay \$5.70.
16. Point out to students that a tax rate of \$5.70 per \$100 really means that a taxpayer must pay a tax of 5.7 percent on the assessed value of his property. In Joe's case, we can figure his tax simply by multiplying the assessed value of his property by 5.7 percent ($.057 \times \$14,500 = \826.50).
17. Explain that the county collects property taxes for itself and other local governments, including school districts, and municipalities, in the county. This, the 5.7 percent tax on Joe's property, will be the sum of various separate property tax rates set by the county, school district, and municipality in which Joe lives. Since school districts and municipalities set their own rates, the property tax rate might well vary from city to city or school district to school district within the same county.
18. Explain that \$826.50 is a lot of money, but we shouldn't feel too sorry for Joe and his neighbors. He and his neighbors elect local representatives that will support obtaining the public goods and services that they want, and they vote for the tax increases to pay for these public goods and services. With the money the local governments collect, Joe gets paved roads, snow removal, good schools for his kids, fire protection, and whatever else he and his neighbors want and are willing to pay for.
19. Explain that of the \$5.70 for each \$100 of assessed valuation, the local government collects \$5.67 and the state of Missouri gets three cents.
20. Distribute Activity 2, *Taxing Problems*. Assign the tax problems for in-class work or homework.
21. Explain that local governments also receive revenue from sales taxes. The **sales tax** is a tax on certain goods sold in a community. It is collected by the store. The store sends all sales tax collected to the Missouri Department of Revenue which distributes to the receiving local government, keeping 1% as a collection fee.

22. Explain that the state of Missouri has a sales tax rate of 4.225 percent. That means for every dollar spent in the state, another 4.225 cents is added on to the price the consumer pays. Instruct students to figure the total dollar cost to the consumer on the following purchases. Use Visual 5, *Sales Tax Calculation* for a formula.
- What is the total dollar cost of a sweater priced at \$40.00, when Missouri sales tax is applied? (*\$41.69*)
 - What is the total dollar cost of a used car priced at \$10,000, when the Missouri sales tax is applied? (*\$10,422.50*)
23. Show a transparency of a receipt, or instruct students to look at the receipts they brought from home. Guide them to the sales tax line, and ask them what percent of the total dollar cost of the item was due to the addition of sales tax. (Note that some receipts may show only the dollar amount and not the percentage. If that is the case, instruct students to calculate the sales tax percentage using the method shown on Visual 1.)
24. Ask the following questions:
- What is the sales tax rate paid for the item? (*Answers should be consistent if the purchases were made in the same community and did not include food or prescription drugs. If the receipt contains purchases of food or prescription drugs, the sales tax will not include the state's 4.225 percent.*)
 - What is the difference between the state sales tax rate and the rate you paid?
25. Explain that the difference is the amount of sales tax charged by the local community. Sale tax is based on the point of sale. If the students made the purchase in a city, the sales tax is probably a combination of a county sales tax and a city sales tax. If the purchase was made in an unincorporated area, the sales tax is mandated by the county. NOTE: The purchase of an automobile is taxed based on the purchaser's place of residence, not the point of sale.
26. Explain that their community's sales tax pays for some of the services, amenities, and infrastructure provided by the city or county. This tax is placed on all items purchased within the community; however, the community's residents may not always carry the entire tax burden. For example, visitors to the community pay sales tax on the items they buy.
27. Visitors may also pay taxes in other forms, such as taxes on hotel rooms and taxes on tickets for entertainment they enjoy while visiting. Some of the community's

amenities may have user fees such as an entrance fees that would be paid by visitors as well as the community's residents. In this way, visitors to the city pay for some portion of the amenities.

28. Explain that another source of revenue for local governments is the **local personal income tax**, which is a tax on money a person receives as income. Ask students what they have heard about income taxes. (Students have likely heard adults discuss the federal income tax.)
29. Explain that states usually don't allow a local government to use both a sales tax and an income tax. In Missouri, only Kansas City and St. Louis are allowed to charge both types of tax. In all of the United States, only seven cities are allowed by their state to levy both taxes.
30. Explain that the local personal income tax may go by different names. In St. Louis, for instance, it is known as the city earnings tax. Businesses must pay taxes on their profits, and those who work in the city of St. Louis or who live in the city of St. Louis must pay taxes on the wages they receive.
31. Remind students that governments collect taxes to pay for public goods and services.
32. Ask the following questions:
 - a. What would happen if the government simply relied on people voluntarily to pay for public goods and services? (*Some people would consume the public goods and services but not pay for them. These people are referred to as free-riders.*)
 - b. Can you think of examples in which someone would pay taxes but not use all of the public goods and services available in the community? (*Older people would not use the schools or park playgrounds, and children would not use a senior citizen transportation service.*)
 - c. Can you think of examples in which someone would not be paying taxes but would use a community's public goods and services? (*Some people from outside the community may use the community's parks; people from outside the community drive on the community's roads.*)
33. Remind students that user fees are payments for purchased publicly provided goods and services that benefit specific individuals in a community.

34. Ask the following questions:
- How would user fees provide greater fairness toward people who don't use certain public goods and services? (*Those who didn't use the good or service wouldn't have to pay.*)
 - How would user fees pose special problems for poorer citizens? (*High user fees may discourage poorer citizens from using the service.*)
35. Remind students that **charges and user fees** are payments for purchased public goods and services. Examples are the admission price for the community swimming pool or recreation center, fees for holding your family reunion in a public park, parking fees at local government buildings, charges for water or sewer service. Ask students for examples of public services in their community that charge a fee.
36. Remind students that **state and federal aid** are tax monies paid to the state or federal government and then transferred to local government. For instance, the federal government and the state give money to counties for highways. They give money to school districts to provide education. Generally, communities must ask for federal money. They ask by writing a proposal telling the federal government that the community has a special need. This special need might be a new bridge, a mass transit system, or a special area of the community where new businesses can start up.
37. Display Visual 6, *Sources of General Revenue for Missouri Local Governments*, and provide copies for inclusion in each student's notebook. Explain that this chart provides a breakdown of sources of revenue for various local governments. Charges would include user fees, and local personal income tax would be included under "other taxes." Use the following questions to prompt discussion.
- What is the largest source of revenue for special districts? (*charges*)
 - What are some examples of special district services? (*sewer, water, parks, museum, fire protection*)
 - What are some examples of special district services for which you pay a fee? (*Answers will vary according to locality. Often, citizens pay a charge or user fee for sewer service and water; there may be an admission fee for the local museum.*)
 - What types of local governments are predominantly supported by sales tax? (*municipalities and counties*)
 - What is the sales tax rate in your area? (*Answers will vary.*)
 - What is the predominant source of revenue for all local governments? (*state and federal aid*)

- g. Where do the state and federal governments get the money that they send to local governments? (*The federal government and the state of Missouri both collect income taxes. The federal government and the state of Missouri also collect taxes on items such as gasoline and cigarettes. The state of Missouri collects sales taxes. Point out that some states have no income tax while other states have no sales tax. In these cases, the states must rely on other types of revenue to function.*)
38. Remind students that communities also use revenue from property taxes to pay for amenities, infrastructure, local schools, local fire protection, and other community needs. Display Visual 7, *Expenditures of Missouri Local Governments, by Service Area* and provide copies for inclusion in each student’s notebook. Begin a discussion of local government expenditures by asking the following questions:
- On what do local governments spend the most money? (*schools, libraries*)
 - What is the largest expenditure for municipalities? (*police, fire protection, jails*)
 - What is the largest expenditure for counties? (*welfare, hospitals, health*)
 - What percentage of all local government expenditures is allocated to local government administration? (*five percent*)

Closure

- Explain that the types of taxes and revenue sources that have been discussed in this lesson are typical of most local governments. However, most local governments have many additional sources of revenue such as gaming taxes and license fees. It should also be explained that as a result of the voters’ approval of the Hancock Amendment to the state constitution in 1980, limits were set on future taxation. This amendment was meant to limit government growth, or the amount of new taxes it takes in every year, at the rate of inflation. The Hancock Amendment is still in force today for every government entity except school districts.
- Explain you are going to play “tax jeopardy.” You will read an answer to the students and they must respond with the question.
 - When Leo paid an extra six percent on the price of his car, he paid this type of tax. (*What is a sales tax?*)
 - Jerry noticed that his paycheck from City Hauling was reduced by one percent because he was assessed this tax. (*What is a local personal income tax?*)
 - Rita pays \$450 annually because she has a house and a car and must pay this type of tax. (*What is property tax?*)

- d. Jonah only pays taxes on a percentage of his home's market value. (*What is assessed valuation?*)
- e. The state gives the local school district money for books. (*What is state aid?*)

Assessment

1. Have students complete Activity 3, *Local Government Financing*.
2. Instruct students to write a poem that describes their views on taxation. Students should recognize that taxes allow our governments to provide public goods and services that we all consume.

Extension

1. Place students in three groups. For homework, assign group one to call a local hotel or motel and ask if it charges a room tax (they may call it an occupancy tax). Assign group two to call local theaters, private attractions, and ticket agencies and ask if they charge an entertainment tax. Assign group three to call local public attractions and ask if they charge an entrance fee. Instruct students to be prepared to report their findings to the class.
2. Invite a speaker from the assessor's office to speak on his job, the skills required, and the duties.

ACTIVITY 1

WHAT'S MISSING?

Fill in the missing word in the following quotes. If you don't know the answer, fill in a word that might fit.

Like mothers, _____ are often misunderstood, but seldom forgotten.

Lord Bramwell

In this world nothing is certain but death and _____.

Benjamin Franklin

And it came to pass in those days, that there went out a decree from Caesar Augustus that all the world should be _____.

New Testament

There's nothing wrong with the younger generation that _____ won't cure.

Dan Bennett

Thinking is one thing no one has ever been able to _____.

Charles F. Kettering

Only little people pay _____.

Leona Helmsley

The promises of yesterday are the _____ of today.

Mackenzie King

I put all my money into _____. They're the only thing that's sure to go up.

Unknown

ACTIVITY 1

ANSWER SHEET

Like mothers, taxes are often misunderstood, but seldom forgotten.

Lord Bramwell

In this world nothing is certain but death and taxes.

Benjamin Franklin

And it came to pass in those days, that there went out a decree from Caesar Augustus that all the world should be taxed.

New Testament

There's nothing wrong with the younger generation that becoming taxpayers won't cure.

Dan Bennett

Thinking is one thing no one has ever been able to tax.

Charles F. Kettering

Only little people pay taxes.

Leona Helmsley

The promise of yesterday are the taxes of today.

Mackenzie King

I put all my money into taxes. They're the only thing that's sure to go up.

Unknown

ACTIVITY 2

TAXING PROBLEMS

Use the area below each problem to calculate the tax bills for the following taxpayers. Refer to the table at the bottom of the page for the percentages of value used to assess each type of property.

1. Rose lives in a house worth \$100,000. She has a 1970 Corvette worth \$25,000 and a 1953 Chevrolet worth \$20,000. The tax rate in her community is \$4.50 per \$100 assessed valuation. What is her tax bill?

2. Justin and Latisha live in a house worth \$85,000. Justin has a new Ford Taurus worth \$18,000, and Latisha has a new Chevrolet Cavalier worth \$17,000. The tax rate in their community is \$4.75 per \$100 assessed valuation. What is their tax bill?

3. David and Carla live on a farm where they use the land to raise crops. The productive capability of the farmland is \$300,000. Their house and surrounding five acres is worth \$100,000. They have \$150,000 worth of farm machinery. The tax rate in their community is \$3.50 per \$100 assessed valuation. What is their tax bill?

TYPE OF PROPERTY	ASSESSMENT PERCENT
RESIDENTIAL (including manufactured homes)	19% of Value
AGRICULTURAL	12% of its Productive Capability
OTHER PROPERTY (not classified as residential or agricultural)	32% of Value
FARM MACHINERY	12% of Value
BUSINESS, COMMERCIAL	32% of Value
PERSONAL PROPERTY (cars, trucks, motorcycles, boats. etc)	33.3% of Value

**ACTIVITY 2
ANSWER SHEET**

1. Rose lives in a house worth \$100,000. She has a 1970 Corvette worth \$25,000 and a 1953 Chevrolet worth \$20,000. The tax rate in her community is \$4.50 per \$100 assessed valuation. What is her tax bill?

Step 1. Multiply the value of the house by the percent of value assessed for residential property.

$$\$100,000 \times .19 = \$19,000$$

Step 2. Convert the tax rate of \$4.50 to a percentage term of 4.5%. Multiply the assessed value of the house by the decimal equivalent of 4.5% which is .045.

$$\$19,000 \times .045 = \$855 \text{ tax}$$

Step 3. Multiply the value of the cars by the percent of value assessed for cars.

$$\$45,000 \times 33.3\% = \$14,985$$

Step 4. Convert the tax rate of \$4.50 to a percentage term of 4.5%. Multiply the assessed value of the cars by the decimal equivalent of 4.5% which is .045.

$$\$14,985 \times .0333 = \$674.32 \text{ tax}$$

Step 5. Add the tax on the house and the cars to get total property tax.

$$\$855 + \$674.32 = \$1,529.32$$

2. Justin and Latisha live in a house worth \$85,000. Justin has a new Ford Taurus worth \$18,000, and Latisha has a new Chevrolet Cavalier worth \$17,000. The tax rate in their community is \$4.75 per \$100 assessed valuation. What is their tax bill?

House	\$16,150 x .0475 =	\$ 767.12
Cars	\$11,655 x .0475 =	<u>553.61</u>
TOTAL TAX		\$1,320.73

3. David and Carla live on a farm where they use the land to raise crops. The productive capability of the farmland is \$300,000. Their house and surrounding five acres is worth \$100,000. They have \$150,000 worth of farm machinery. The tax rate in their community is \$3.50 per \$100 assessed valuation. What is their tax bill?

Land & 5 acres	\$36,000 x .035 =	\$1,260.00
House	\$19,000 x .035 =	\$ 665.00
Machinery	\$18,000 x .035 =	<u>630.00</u>
TOTAL TAX		\$2,555.00

ACTIVITY 3

LOCAL GOVERNMENT FINANCING

The following describes tax and fee structures used by local governments. Please fill in the blanks with the appropriate word(s) found in the Word Bank below.

- To pay for goods and services for the public, local governments need _____.
- Both the _____ and the _____ provide some money to help local governments pay for services.
- Local governments also raise funds directly. Charging citizens for using city water or using city parks and recreational facilities are examples of _____.
- The _____ is a significant source of tax revenue for local governments in general and for school districts in particular.
- _____ includes land and buildings, while _____ includes farm machinery and vehicles.
- _____ is a tax on the retail value of goods sold in the community and is an important source of revenue for counties and municipalities.
- Only two cities in Missouri – Kansas City and St. Louis – levy a _____, which is applied to a person’s earnings at the workplace in the city.

Word Bank

revenue

property tax

user fees

sales tax

personal property

state government

real property

federal government

local personal income tax

ACTIVITY 3

LOCAL GOVERNMENT FINANCING

ANSWER SHEET

The following describes tax and fee structures used by local governments. Please fill in the blanks with the appropriate word(s).

- To pay for goods and services for the public, local governments need **revenue**.
- Both the **state government** and the **federal government** provide some money to help local governments pay for services.
- Local governments also raise funds directly. Charging citizens for using city water or using city parks and recreational facilities are examples of **user fees**.
- The **property tax** is a significant source of tax revenue for local governments in general and for school districts in particular.
- **Real property** includes land and buildings, while **personal property** includes farm machinery and vehicles.
- **The sales tax** is a tax on the retail value of goods sold in the community and is an important source of revenue for counties and municipalities.
- Only two cities in Missouri – Kansas City and St. Louis – levy a **local personal income tax**, which is applied to a person’s earnings at the workplace in the city.

VISUAL 1
TERSE VERSE

*Indoors or out, no one relaxes
In March, that month of wind and taxes,
The wind will presently disappear,
The taxes last us all the year.*

Ogden Nash

*Don't tax you, don't tax me;
Tax the fellow behind the tree.*

Russell B. Long

*If you drive a car, I'll tax the street,
If you try to sit, I'll tax your seat.
If you get too cold, I'll tax the heat,
If you take a walk, I'll tax your feet.*

George Harrison

VISUAL 2

UNDERSTANDING TAXES

**I like to pay taxes.
With them I buy civilization.**

Oliver Wendell Holmes

VISUAL 3
ASSESSED VALUES

TYPE OF PROPERTY	ASSESSMENT PERCENT
RESIDENTIAL (including manufactured homes)	19% of Value
AGRICULTURAL	12% of its Productive Capability
OTHER PROPERTY (not classified as residential or agricultural)	32% of Value
FARM MACHINERY	12% of Value
BUSINESS, COMMERCIAL	32% of Value
PERSONAL PROPERTY (cars, trucks, motorcycles, boats. etc)	33.3% of Value

VISUAL 4

JOE HOMEOWNER'S TAX BILL



	FULL VALUE	ASSESSMENT	ASSESSED VALUE	TAX RATE	TAX LEVIED
HOME	\$50,000	19.0%	\$9,500		
CAR	15,000	33.3%	5,000		
TOTAL	\$65,000		\$14,500	0.057	\$826.50

VISUAL 5

SALES TAX CALCULATION

Set up a ratio, as follows, to find the value of X, the sales tax rate.

$$X = 100 * \frac{\text{Amount of sales tax}}{\text{Retail price of product}}$$

Solve for X. Divide the amount of sales tax by the retail price of the product you purchase. Then multiply by 100.

Example:

Imagine your receipt shows a purchase of a CD for total dollar cost of \$13.50. The sales tax is \$.85.

Calculate the sales tax rate as follows:

Step 1. Subtract the sales tax from the total dollar cost to get the retail price of the CD.

$$\$13.50 - \$.85 = \$12.65$$

Step 2. Divide the amount of sales tax by the retail price of the product you purchase.

$$\frac{\$.85}{\$12.65} = .067$$

Step 3. Then multiply by 100.

$$.067 * 100 = 6.7 \text{ percent}$$

$$\text{ANSWER: } X = 100 * \frac{\$.85}{\$12.65}$$
$$X = 6.7 \text{ percent}$$