

Teacher Lesson Plan

Theme 4: What Is Taxed and Why
Lesson 4: Direct and Indirect Taxes

Time Frame

One to four hours

Curriculum Area(s)

- Economics
- Civics/Government
- Technology
- History/Social Studies

Purpose

To help students understand that a tax levied on one person or group may ultimately be paid by others

Objectives

Students will be able to

- explain that all taxes are ultimately paid by the individual.
- define direct tax and indirect tax and differentiate between them.

Materials

Online

[Student Lesson—Direct and Indirect Taxes](#)
[Activity 1: Classifying Direct and Indirect Taxes](#)
[Activity 2: Business Beginnings](#)
[Activity 3: Chuck’s Chocolate Factory](#)
[Activity 4: Tax Your Memory](#)
[Assessment—Direct and Indirect Taxes](#)
[Assessment Solutions—Direct and Indirect Taxes](#)

Print (PDF)

[Teacher Lesson Plan](#)
[Info Sheet—Flow of Direct and Indirect Taxes](#)
[Worksheet—Tax and Gourmet Chocolates](#)
[Worksheet Solutions—Tax and Gourmet Chocolates](#)
[Assessment—Direct and Indirect Taxes](#)
[Assessment Solutions—Direct and Indirect Taxes](#)
[Complete Lesson Pack](#)

Web Links

[Motor Fuel Excise Tax Rates](http://www.taxadmin.org/fta/rate/mf.pdf) <http://www.taxadmin.org/fta/rate/mf.pdf>
[Maryland Income Tax Rates](http://taxes.marylandtaxes.com/Individual_Taxes/Individual_Tax_Types/Income_Tax/)
http://taxes.marylandtaxes.com/Individual_Taxes/Individual_Tax_Types/Income_Tax/
[Maryland Property Tax Rates](http://www.dat.state.md.us/sdatweb/taxrate.html) <http://www.dat.state.md.us/sdatweb/taxrate.html>

Background

Taxes can be either direct or indirect. A **direct tax** is one that the taxpayer pays directly to the government. These taxes cannot be shifted to any other person or group. An **indirect tax** is one that can be passed on—or shifted—to another person or group by the person or business that owes it.

Businesses may recover the cost of the taxes they pay by charging higher prices to customers, paying lower wages and salaries, paying lower dividends to shareholders, or accepting lower profits.

Ultimately, individuals pay almost all taxes. Businesses and corporations use a tax shift to pass taxes on to their customers, clients, patients, employees, and stockholders.

Key Terms

direct tax—A tax that cannot be shifted to others, such as the federal income tax.

indirect tax—A tax that can be shifted to others, such as business property taxes.

tax shift—The process that occurs when a tax that has been levied on one person or group is in fact paid by others.

Opening the Lesson

Ask students what taxes people pay directly to the government. Make sure that students understand that income and property taxes are paid directly to the government. Other taxes, such as sales tax, are paid indirectly. For example, a store tells you how much sales tax is owed on the item. You pay the store the sales tax, and the store pays the tax to the government. Some indirect taxes are harder to see.

Developing the Lesson

Have students examine factors that determine the price of a product. Use milk as an example. In addition to supply and demand, the milk price reflects the costs of the storeowner, the dairy, and the farmer. All three must pay for the lease or purchase of a facility, equipment, maintenance, salaries of employees, and taxes.

Taxes include property taxes, payroll taxes, sales or excise taxes on equipment, and corporate or business income taxes. Ask students:

- How do business owners get the money to pay their taxes?

Explain that business owners must charge enough for their products to cover their expenses, which include taxes. The customer who buys milk at the store pays a portion of the taxes of each business that has handled it.

Online Activities

Direct students to [Student Lesson—Direct and Indirect Taxes](#).

Have students complete one or more of the following activities.

- Activity 1: Classifying Direct and Indirect Taxes—Classify taxes as Direct or Indirect.
- Activity 2: Business Beginnings—Discover how business location affects profits and taxes.
- Activity 3: Chuck’s Chocolate Factory—How are profits affected when you shift rising property taxes to your customers?
- Activity 4: Tax Your Memory—Test your tax IQ when you play this memory concentration game.

Print Activity

Print [Worksheet—Tax and Gourmet Chocolates](#) and distribute it to students.

[Worksheet Solutions—Tax and Gourmet Chocolates](#)

Classroom Activity

Study [Info Sheet—Flow of Direct and Indirect Taxes](#) to understand the differences between direct and indirect taxes. Ask a student to summarize how businesses can shift taxes. Organize students into groups. Have each group write a plan for opening a new business and describe the nature of the business, telling what it makes or does. Have each group brainstorm a list of expenses, including taxes and user fees, they will incur in day-to-day business operations. Each group should explain how it would pay for its business expenses.

Concluding the Lesson

Ask students to explain why taxpayers sometimes consider sales taxes and other indirect taxes more acceptable than income and property taxes. Help students understand that although some taxes, such as sales taxes, may be hidden in the cost of goods, individuals ultimately pay them.

Online Assessment

Direct students to complete [Assessment—Direct and Indirect Taxes](#) for this lesson.

[Assessment Solutions—Direct and Indirect Taxes](#)

Print Assessment

Print [Assessment—Direct and Indirect Taxes](#) and have students complete it on paper.

[Assessment Solutions—Direct and Indirect Taxes](#)

Links

To learn more about how taxes can affect the decisions of consumers and business owners, see [Theme 5, Lesson 1](#).