Don’t Be Scared of April

Halloween may be scary for children, but for grownups it’s April 15 that may evoke fear and dread. Even if we’ve done our taxes well ahead of time, or are expecting a refund, this “Tax Day” may symbolize the scary unknown in terms of our personal finances. Will we be blindsided by a huge obligation we have no means to pay? If we’ve left our calculations until the last minute, stress may be felt in the household. Our children may pick up on it, and learn to fear the whole subject of taxes themselves. This year, consider vowing to dispel that fear and stress with a little tax education, and have fun in the process.

Kids are insatiably curious about the adult world, which includes money and work. Your older children may already be working outside the home and paying taxes themselves. If they are, sit down with them and walk them through the process of filing for taxes, even if their income is so low they are not required to file. It’s always a good idea to have a baseline return for the record. If they’re not working, talk to them about taxes nevertheless. It’s good preparation for a world they’ll be entering all too soon.

Begin by explaining that a tax is one way our government raises money so that it can provide services back to us. Taxes can be assessed by the federal government, the state, the county or the city. Our elected officials have the job of deciding the fairest way to collect this money. Income tax – what we pay on April 15 – is a portion of money we’ve earned, from working, investments, and so on. Sales taxes are a portion of what we pay whenever we buy something, like clothes or cars. Items that are not considered necessities, like cigarettes, may be heavily taxed. Food, on the other hand, may not be taxed at all. There are many other types of taxes, like property tax, excise tax, and inheritance tax. Basically, anytime money changes hands, it may be taxed.

Explain that if your children have ever bought a toy or some school supplies, they probably have paid a tax. However, if they haven’t made much money of their own, they probably haven’t had to pay income tax. Playing a little game, however, may help them understand what’s involved.

Start by spending a few minutes discussing different occupations. Ask your children to estimate how much each pays. Why do some jobs pay more than others? Explain that some jobs require a great deal of education, training, or experience. Some jobs are more dangerous than others; some are more in demand than others. Some involve responsibility for money, equipment, or even people’s lives. Ask them what job or career they think they would like to have, and how much they think it would pay.
If you have access to a computer, look up the median salary for the job each child has selected by going to the U.S. Bureau of Labor Statistics home page (www.bls.gov) and typing the name of the occupation in the search box. Or, to keep it simple, you might want to write different jobs and salary amounts on pieces of paper and have each child pick one.

Next, decide what each child’s tax status will be. You might allow them to choose for themselves whether to be “single” or “married filing jointly.” Alternatively, write the options on slips of paper and have them each choose one.

Now using an actual 1040EZ (short) form, help each child figure out what his or her taxes would be. (Forms are available in many post offices, libraries, and IRS offices, or may be downloaded from the IRS site, www.irs.gov.) Have the child fill out his or her own name and address. Then, on line 1, write the annual salary for that child’s job. Write it again on line 4. Put the standard deduction on line 5 ($9,750 for “single” or $19,500 for “married”). Subtract to get the child’s “taxable income” on line 6. Use the tax tables in the instructions to figure out the total income tax for that amount, and write it on line 10.

Now try changing the tax status to see what the difference will be, or change the job and salary to get different results. Finish the activity by reminding your kids that paying taxes means you’ve made some money.

Get Started

Today is a great day to start to gain control and begin preparing for the future. To learn more or access helpful materials, speak with a local financial professional or visit https://www.massmutual.com/for/family-finance.