



Parent/Guardian Discussion Guide

Tax Simulation: Understanding Taxes™

OVERVIEW

This guide provides discussion questions to augment the course *Tax Simulation: Understanding Taxes*. Your child has been learning about tax preparation software through engaging online simulations created by EVERFI® from Blackbaud®. This guide is designed to provide prompts that could spark meaningful discussions about taxes and how to file them.

HOW TO USE THIS DISCUSSION GUIDE

Create an opportunity for your child to share what they know. We suggest starting by asking the discussion prompt questions. Then follow up with questions related to the key terms. Sample answers have been provided in italics to help guide your discussion.

SIMULATION: FILING YOUR TAXES

During this simulation, your child helps a character named Carlos file his taxes electronically while learning how online tax preparation software can be helpful, secure, and effective.

Topics:

- How tax preparation software works
- Documents needed to file taxes
- Important pointers for getting a maximum refund

Discussion Prompts

1. How do you prepare your taxes using online software?
 - *The user-friendly online tax preparation software uses prompts to guide you through the tax preparation process.*
2. What do you need in order to be ready to prepare your taxes?
 - *You need to collect all relevant tax forms, such as a W-2, before filing your taxes.*
3. How could tax credits and deductions help with filing taxes?
 - *Claiming credits and deductions help you reduce the amount of taxes owed.*

SIMULATION: FILING YOUR TAXES

Key Terms

- **Credit:** Items that reduce the amount of taxes you need to pay.
- **Deduction:** In tax terms, any purchase or expense that reduces the overall amount of money that you earn.
- **Income Tax:** This is money that is withheld from an employee's paycheck or paid quarterly by a contracted worker and used for federal, state, and local needs.
- **Tax Preparation Software:** An online program that helps an individual complete tax forms that can then be filed with the IRS.
- **W-2 Form:** This form reports the total annual income and the amount of taxes withheld from an employee's paychecks.

SIMULATION: TAX CREDITS FOR FAMILIES

In this simulation, your child helps a character named Martin claim more tax credits for his family through the Earned Income Tax Credit (EITC) by better understanding who in his household can claim him as a dependent.

Topics:

- Earned Income Tax Credit
- Determining dependency

Discussion Prompts

1. What is a dependent and how is it determined?
 - *A dependent refers to someone who is supported financially by another person. To be considered a dependent, you must have at least 50% of your living expenses be paid for, live in the same household for at least 6 months of the year with your financial supporter and either be disabled or be a child under the age of 19 (or under 24 years old and a full-time student) who is an immediate family member or descendant. Step relatives and adopted family members are included in this definition.*
2. What are the benefits of claiming a credit related to the children or dependents in our family?
 - If eligible, tax credits related to child and dependent care will reduce the amount of taxes we owe.

Key Terms

- **Child and Other Dependent Tax Credit** – A tax break that is available to taxpayers with dependent children. To qualify, taxpayers must meet certain eligibility requirements that consider the age of the child as well as the relationship to the adult.
- **Dependent**– A person who is supported by another person financially.
- **Earned Income Tax Credit**– A tax break for low- to moderate-income workers and families.

SIMULATION: TAXES FOR GIG WORKERS

In this simulation, your child will help a character named Chinwe manage her gig economy tax burden by filing her taxes using a 1099-NEC form and making estimated tax payments going forward. Your child will become familiar with independent or contract work tax implications, including paying estimated taxes for the coming year.

Topics:

- Gig economy
- Tax form 1099-NEC
- Estimated tax payments

Discussion Prompts

1. What is at least one pro and one con of working in the gig economy versus a wage-earning job at a local business?
 - There is more flexibility in gig economy work but taxes need to be paid quarterly.
2. Why do gig economy workers need to pay estimated quarterly taxes?
 - Taxes are not taken out of contract work payments, so they need to pay taxes throughout the year on their own. Gig economy workers are usually considered contract workers.

Key Terms

- 1099-NEC – A tax form that reports Non-Employee Compensation (NEC), which means money earned by independent contractors, freelancers, or self-employed individuals.
- Estimated tax payments – The amount of money that self-employed workers (like those in the gig economy) must pay four times a year.

SIMULATION: TAXES FOR STUDENTS

In this simulation, your child helps Dana claim higher education expenses on her taxes and navigate the tax implications of 529 plan disbursements and interest on student loans.

Topics:

- Tax form 1098-T for tuition payments
- Tax form 1099-Q for 529 disbursements
- Tax form 1098-E for student loan interest paid

Discussion Prompts

1. What are some examples of tax forms that you might get if you continue your studies at an institution of higher education?
 - Tax forms related to tuition payments, 529 disbursements, and interest paid on student loans.
2. What types of deductions can a student claim on taxes?
 - Qualified expenses that can be claimed include course requirements like tuition, class fees, computers, and internet fees.

SIMULATION: TAXES FOR STUDENTS

Key Terms

- 1098-T- A tax form produced by a higher education institution to report payments received and the balance still owed by an enrolled student.
- 1099-Q - A tax form that reports money that was disbursed, or withdrawn, from an education savings account, known as an ESA or 529 plan, to pay for qualified educational expenses, like tuition.
- 1098-E- A tax form that reports interest that was paid in the past year on student loans.

SIMULATION: TAXES FOR INVESTMENTS AND CRYPTOCURRENCY

In this simulation, your child helps Ailani learn how to report interest from savings accounts and purchases of cryptocurrency for tax purposes.

Topics:

- Tax form 1099-INT
- Tax form 1099-DIV
- Tax considerations for cryptocurrency

Discussion Prompts

1. How are investments or stocks taxed?
 - These are taxed on earnings, like dividends or interest, that are paid to the investor, or on any money earned when they are sold.
2. How is cryptocurrency taxed?
 - Cryptocurrency is only taxed when it is sold, traded, or converted to other currencies.
3. How do you file taxes with investment and cryptocurrency earnings?
 - Tax forms related to interest earnings and dividend payments will be sent from the financial institution where you have your accounts. You will need to keep track of all cryptocurrency transactions yourself.

Key Terms

- 1099-DIV- A tax form that reports qualifying dividend payments to investors.
- 1099-INT- A tax form that reports interest payments made to investors.
- Cryptocurrency- A digital asset, or valuable item, that can be used like money to make purchases or saved, like an investment.