

Teacher Lesson Plan

Module 2: Wage and Tip Income

Time Frame

One to two hours

Curriculum Area(s)

- Technology
- Civics/Government
- Family and Consumer Sciences
- History/Social Studies
- Economics

Purpose

To help students understand that wage and tip income is taxable

Objectives

Students will be able to

- explain that income from wages and tips is taxable.
- describe how wage and tip income is reported to employees.

Materials

Online

[Student Lesson—Wage and Tip Income](#)

[Tax Tutorial—Wage and Tip Income](#)

[Simulation 2—Using Your W-2 to File Your 1040EZ](#)

[Assessment—Wage and Tip Income](#)

[Assessment Solutions—Wage and Tip Income](#)

Print (PDF)

[Fact Sheet—Wage and Tip Income](#)

[Teacher Lesson Plan—Wage and Tip Income](#)

Tax Forms

[Form W-2, Wage and Tax Statement](#)

Background

Wages, salaries, bonuses, and commissions are compensation received by employees for services performed. Food servers, baggage handlers, hairdressers, and others receive **tips** as gratuities for services performed.

Wages, salaries, bonuses, commissions, and some tips

- may be in the form of cash, goods and services, awards, or taxable benefits.
- are taxable and need to be reported on the taxpayer's individual income tax return.
- are reported on Form W-2, Wage and Tax Statement.

Employers report federal income tax withheld, Social Security tax withheld, and Medicare tax withheld on Form W-2. Employees use Form W-2 to complete their individual income tax returns.

All wages, salaries, bonuses, commissions, and tips are taxable, even if they are not reported on Form W-2.

Key Terms

bonus—Compensation received by an employee for services performed. A bonus is given in addition to an employee's usual compensation.

commission—Compensation received by an employee for services performed.

Commissions are paid based on a percentage of sales made or a fixed amount per sale.

salary—Compensation received by an employee for services performed. A salary is a fixed sum paid for a specific period of time worked, such as weekly or monthly.

tip income—Money and goods received for services performed by food servers, baggage handlers, hairdressers, and others. Tips go beyond the stated amount of the bill and are given voluntarily.

wages—Compensation received by employees for services performed. Usually, wages are computed by multiplying an hourly pay rate by the number of hours worked.

Opening the Lesson

Hand out Fact Sheet—Wage and Tip Income. Use the following questions to prompt students to share their knowledge of wage, salary, and tip income:

- What are wages?
Wages are compensation received by employees for services performed.
- What is the difference between wages and salaries?
Wages are usually based on an hourly pay rate, and salaries are a fixed sum paid for a specific period of time.
- Does anyone receive tip income? If yes, why do they receive tips?
Yes. Tips are received as a gratuity for services performed. Tips go beyond the stated amount of the bill and are given voluntarily.
- Are tips taxable?
All tips are taxable.

- What information is reported on Form W-2?
Form W-2 reports wages, salaries, tips, and federal income tax withheld as well as Social Security and Medicare taxes withheld.
- What do you do with your Form W-2?
Form W-2 is used to prepare the individual income tax return.

Note: Refer students who may want to work independently on this module to Student Lesson—Wage and Tip Income.

Developing the Lesson

Direct students to Tax Tutorial—Wage and Tip Income and explain that this tutorial focuses on wages, salaries, commissions, bonuses, and tip income. Tell students they will learn that payments received for services performed are taxable. They will learn how these payments are reported to employees, and they will have an opportunity to look at tax forms associated with wage and tip income.

Online Activities

Direct students to Simulation 2—Using Your W-2 to File Your 1040EZ. Explain to students they will use information from Form W-2 to complete Form 1040EZ for Cicely King, who receives salary income as an athletic trainer.

Concluding the Lesson

After students have completed Tax Tutorial—Wage and Tip Income and Simulation 2—Using Your W-2 to File Your 1040EZ, ask them whether they have questions about wage, salary, bonus, commission, or tip income. Ask whether they have any questions about Form W-2. To ensure they understand the material, ask the following questions:

- Can you provide examples of employees who receive taxable tip income?
food servers, hair stylists, baggage handlers, and so on
- How do you know how much wage and salary income to report on your tax return?
Wages, salaries, bonuses, and commissions are reported on Form W-2.

Assessment

As a final review, summarize the main lesson points. Remind students that wages, salaries, bonuses, commissions, and tips are taxable. Employers report these types of income on Form W-2, *Wage and Tax Statement*. Remind students that ALL tip income is taxable, even if it is not reported on Form W-2. Employees use Form W-2 to complete their individual income tax returns. When students are comfortable with the material, have them complete Assessment—Wage and Tip Income.