

Teacher Lesson Plan

Module 6: Exemptions

Time Frame

One to two class periods

Curriculum Area(s)

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

Purpose

To help students understand personal and dependency exemptions and how exemptions affect income that is subject to tax

Objectives

Students will be able to

- explain how exemptions affect income that is subject to tax.
- determine the number of exemptions to claim on a tax return.

Materials

Online

[Student Lesson—Exemptions](#)

[Tax Tutorial—Exemptions](#)

[Simulation 6—Identifying Filing Status, Dependents, and Exemptions](#)

[Assessment—Exemptions](#)

[Assessment Solutions—Exemptions](#)

Print (PDF)

[Fact Sheet—Exemptions](#)

[Teacher Lesson Plan—Exemptions](#)

Tax Forms

[Form 1040, U.S. Individual Income Tax Return](#)

Background

Each **exemption** reduces the income that is subject to tax by the **exemption amount**. For 2008, the exemption amount is \$3,500. There are two types of exemptions: **personal exemptions** and **dependency exemptions**. Personal exemptions are for the taxpayer and spouse. Dependency exemptions are for those who pass the **dependency tests** covered in Module 4. Remind students that just one exemption can be claimed per person. An exemption for a particular person cannot be claimed on more than one tax return.

Key Terms

Exemptions — There are two types: personal exemptions and dependency exemptions. While each is worth the same amount, different rules apply to each type.

Exemption amount — The exemption amount changes yearly and for 2008 the amount is \$3,500. Each exemption reduces the income subject to tax by the exemption amount.

Personal exemption(s) — Can be claimed for the taxpayer and spouse.

Dependency exemption — Can be claimed for those who pass the dependency tests for qualifying child or qualifying relative. Each dependency exemption reduces the income subject to tax by the exemption amount. The exemption amount changes yearly. Can be claimed for a "qualifying child" or a "qualifying relative" only if three tests are met: (1) dependent taxpayer test, (2) joint return test, and (3) citizen or resident test. Additionally, there are five (5) other tests to determine if a child can be a "qualifying child" and four (4) tests to determine if someone can be claimed as a "qualifying relative."

Opening the Lesson

Hand out Fact Sheet—Exemptions. Use the following questions to prompt students to share what they know about exemptions:

- What does it mean to claim a dependency exemption?
For each dependent claimed, the taxpayer can reduce the income that is subject to tax.
- How many exemptions can a taxpayer claim if the taxpayer is married and has two small children?
The taxpayer can claim four exemptions—two personal exemptions for the taxpayer and spouse and two dependency exemptions for the children.

Note: For students who may want to work independently on this module, refer them to Student Lesson—Exemptions

Developing the Lesson

Direct students to [Tax Tutorial—Exemptions](#), and explain that this tax tutorial focuses on personal and dependency exemptions. Tell students that they will learn how exemptions affect the income that is subject to tax. Emphasize that just one exemption can be claimed per person. An exemption for a particular person cannot be claimed on more than one tax return.

Online Activity

Direct students to [Simulation 6—Identifying Filing Status, Dependents, and Exemptions](#). Explain to students that they will answer a series of questions to determine the filing status and exemptions for Alicia Garcia. Students will see how the information they provide is used to complete the label, filing status, and exemption sections of the income tax return for Alicia Garcia.

Concluding the Lesson

After students have completed [Tax Tutorial—Exemptions](#) and [Simulation 6—Identifying Filing Status, Dependents, and Exemptions](#), ask them whether they have questions about exemptions. To ensure that they understand the material, ask the following questions:

- What are the two types of exemptions?

Personal exemptions for taxpayer and spouse and dependency exemptions for dependents

- How many exemptions can a high school student claim on her own tax return if her parents can claim her as a dependent on their tax return?

None; a taxpayer cannot claim an exemption for herself if she can be claimed as a dependent on another taxpayer's return.

Assessment

As a final review, summarize the major lesson points. Remind students that exemptions reduce the income that is subject to tax and that an exemption for a particular person cannot be claimed on more than one tax return. When students are comfortable with the material, have them complete [Assessment—Exemptions](#).