

The Stock Market Game™



Week In Review

April 16, 2010

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It was a taxing week. After six straight winning sessions, the major averages were down Friday, dragged lower by the financials after the SEC launched fraud charges against Goldman Sachs. Positive earnings reports from Bank of America ([BAC](#)) and JP Morgan Chase ([JPM](#)) couldn't beat back the bears. Consumer [sentiment](#) took a turn for the worse this week as well, and Greek debt woes continue, sparking further concern that the crisis may spread to other countries such as [Portugal](#).

Also this week, the tax man cometh. April 15th is income tax filing day in the United States and many angry taxpayers were out in protest yesterday. But protest or not, we all must render unto Caesar what is Caesar's. There was a report out this week from the [Tax Policy Center](#) claiming that 47 percent of Americans pay no federal income taxes. Making that statement without a qualification is a bit misleading as this [article](#) points out. Almost everyone pays taxes, whether you're paying sales taxes, payroll taxes, or state and local taxes, nearly everyone pays something. The people who avoid taxes most successfully are generally gangsters, but even they can expect a visit from the tax man before too long. That's how they got [Al Capone](#).

The other group that avoids taxes pretty successfully is students. However, students learn as they grow up that having virtually no income is a great tax avoidance strategy, but not a great long-term financial plan. And as we teach our Stock Market Game students, part of having a successful long-term financial plan is creating a diversified portfolio of stocks, bonds and mutual funds. Owning stocks, bonds and mutual funds inevitably generates what are known as "taxable events" and unlike teachable moments, these are not good things, but things that must be dealt with – unless you want to end up like [Al Capone](#).

So what are these taxable events? Essentially, what most SMG students should know is that whenever you have a realized gain on a stock, bond or mutual fund, it will be treated by the Internal Revenue Service as a [capital gain](#) that is subject to the capital gains tax. Also, when students get paid a dividend on a stock in the real world they are subject to a dividend tax. These [tax rates](#) are dependent on your income and how long you have held the investment. Interest [income on bonds](#) may or may not be taxable depending on the type of bond. Taxes are not assessed in the Stock Market Game simulation, but it's important for students to know, that just like the commissions they pay on transactions, there are costs to investing.

If you would like to teach your students more about taxes, visit the SMG [Teacher Support Center](#). In the Publications section there's an *In the News* newsletter that discusses capital gains taxes. It's titled "Screens and Teens".