

Income Taxes:

The tax code and all of the rules were created by the government and are constantly changed by Congress and the courts (keep that in mind when you repeatedly ask, “Why do we do this?”).

1040 Form (the tax return):

Lines 1 - 5: enter your FILING STATUS

Lines 6 - Enter EXEMPTIONS. These reduce your income on line 42.

Lines 7 - 22: You report your income. Income is not just from working.

Lines 23 - 37: Adjusted gross income (line 37)

Line 40: Standard deduction

Line 42: Enter the amount from 6(d)

Line 43: You pay tax based on your taxable income.

Line 44: Calculate your taxes owed

Line 61: Enter taxes withheld from your W-2. These are amounts you already paid towards the tax you owe.

Lines 72 or 75: Determine if you owe tax or have a refund coming.

The tax you owe is based on your taxable income (line 43) multiplied by the tax table (it's a chart).

Your taxes owed is based on
your filing status:

single
married filing jointly
married filing separately
head of household

Calculating tax owed

Step 1 Go to the correct filing status on the tax chart.

Step 2 Find which row the taxable income falls.

Step 3 Calculate

Married filing jointly:

income

$$33072: 1565 + .15(33072 - 15650) \\ = 4178.30$$

$$520,000: 94601.00 + .35(520,000 - 349700) \\ = 154,206.00$$

$$275: .1(275) = 27.50$$

Using the taxes owed from the proceeding problems. State what tax bracket the taxpayer is in and what percent of the taxable income was each of the taxes owed.

Round to the nearest tenth.

Tax bracket is the %
they pay for each additional
dollar of income (the current %)

<u>Income</u>	<u>Tax owed</u>	<u>% of income</u>	<u>Tax bracket</u>
33072	4178.30	$\frac{4178.30}{33072} = 12.6\%$	15%
33073	4178.45		
520000	154206.8	$\frac{154206}{520000} = 29.7\%$	35%
520,001	154206.35		
275	27.50	$\frac{27.50}{275} = 10\%$	10%
276	27.60		

Kelly's taxable income is \$203,250. Approximately what percent of her taxable income is her tax if she files as head of household? What tax bracket is she in? Round to the nearest tenth.

Taxable Income 203,250

Tax is: $41810.00 + .33(203250 - 178350)$
 $= 59027$ tax

Tax bracket: 33%

$$\text{Tax \%} = \frac{59027}{203250} = 24.6\%$$

Kelly's taxable income is \$137,450. Approximately what percent of her taxable income is her tax if she files as head of household?

Round to the nearest tenth.

Taxable
Income 137,450

Tax owed: 30,358

Tax bracket: 28%

Tax % = 22%

According to the tax schedule, Rich has to pay \$7,224 in taxes. What is Rich's taxable income if he files as married filing separately?

① Look at the "tax is" column.

② Find the row the tax belongs to:

Taxable Income
 * 31850 - 64250
 64250 - 97925

"The tax is"
 4386.25
 12486.25 ← too much
 use row
 above

$$\text{Tax}$$

$$7224 = 4386.25 + .25(X - 31,850)$$

$$7224 = 4386.25 + .25X - 7962.50$$

$$7224 = -3576.25 + .25X$$

$$\frac{10800.25}{.25} = \frac{.25X}{.25}$$

Taxable
Income
= 43201

According to the tax schedule, Rich has to pay \$13,000 in taxes. What is Rich's taxable income if he files as married filing jointly?

$$\text{Tax} = 13,000$$

* Taxable income is between
63,700 to 128,500

$$13000 = 8772.50 + .25(X - 63,700)$$

$$= 80,610 \text{ taxable income}$$

According to the tax schedule, Rich has to pay \$9,123 in taxes. What is Rich's taxable income if he files as single?

Taxable Income
31,850 to 77,100

"The tax is"
9,123

$$9123 = 4386.25 + .25(x - 31850)$$

$$9123 = 4386.25 + .25x - 7962.50$$

$$9123 = -3576.25 + .25x$$

$$12699.25 = .25x = \text{50797 income}$$

