

Applications

Our forefathers made one mistake. What they should have fought for was representation without taxation.

Fletcher Knebel, American Author

- How can the quote be interpreted in light of what you have learned?
See margin.

Round all monetary answers to the nearest dollar. Use the tax tables in the Appendix or the appropriate schedule based on filing status.

- Chiara had \$5,700 in medical expenses last year. Her medical insurance covered 80% of these expenses. The IRS allows medical and dental expenses deductions for the amount that exceeds 7.5% of a taxpayer's adjusted gross income. If Chiara's adjusted gross income is \$35,432, how much can she claim as a medical deduction? Explain
See margin.
- Maria and Don had \$20,800 in medical expenses. Their family medical insurance covered 60% of these expenses. The IRS allows medical and dental expense deductions for the amount that exceeds 7.5% of a taxpayer's adjusted gross income. If their adjusted gross income is \$101,598, how much can they claim as a medical deduction? **\$700**
- Jonathan is a single taxpayer. His total income before deductions was \$63,110. He was able to reduce his total income by \$10,312 when he filled out Schedule A. How much did he save in tax by using Schedule A? **\$2,587**
- Vito is single. His total income before deductions was \$147,760. He was able to reduce his total income by \$14,198 when he filled out Schedule A. How much did he save in tax by using Schedule A? **\$3,975**
- Mr. and Mrs. Delta are filing a joint tax return. Together they had an income of \$100,830 last year. Their total deductions were \$16,848.
 - What was Mr. and Mrs. Delta's taxable income? **\$83,982**
 - What is the tax on the amount in part a? **\$13,681**
 - The Delta's received a combined education and child tax credit of \$2,500. How much tax must they pay after applying the tax credits? **\$11,181**
 - If their employers withheld \$10,201 in federal income tax, how much money will they owe to the federal government? **\$980**
- Complete this chart. See margin.

Total Income Before Deductions	Filing Status	Total Deductions from Form 1040, Schedule A, and Exemptions	Taxable Income	Tax
\$69,940	single	\$3,500	a.	b.
\$69,940	married filing separately	\$3,500	c.	d.
\$69,940	head of household	\$6,900	e.	f.
\$69,940	married filing separately	\$6,900	g.	h.
\$69,940	single	\$6,900	i.	j.

TEACH

Exercises 1–7

These exercises do not deal with the tax forms; they examine how much can be saved by using deductions and credits. They give the students practice using tax tables and schedules. They summarize the taxpayer experience, without getting into the line-by-line specifics of the forms. This “big picture” is important—it is easy to lose sight of the net effect when getting so entrenched in the forms.

ANSWERS

- “Taxation without representation” was a battle cry for American colonists before the Revolutionary War. Colonists felt it was unfair to pay taxes to a government in which you had no say. Knebel's quote underscores how people don't love paying taxes.
- 0; 20% of \$5,700 does not exceed 7.5% of \$35,432.
- 66,440
 - 12,950
 - 66,440
 - 12,971
 - 63,040
 - 10,819
 - 63,040
 - 12,100
 - 63,040
 - 12,100

Exercises 8 and 9
Have students check their answers with you every few lines. Walk around the room with your key and place a check next to the last item. Filling in these forms are not ideal homework assignments; students need frequent feedback to learn the forms better.

For each family, complete a form 1040, Schedule A, and Schedule B to find total itemized deductions, interest and ordinary dividends, adjusted gross income, taxable income, tax due, and amount of refund or amount owed. Round all answers to the nearest dollar.

8. Donald and Barbara Mims are married with one child, Ashley. Donald is a piano tuner and Barbara is a car detailer. Donald's W-2 is shown and Barbara's W-2 provided her wages as \$49,800 and the amount withheld for federal income tax as \$8,123.

They received \$556 in bank interest and \$412 in stock dividends.

Their itemized deductions are:
Medical expenses: doctors \$1,770, dentists \$2,300
Taxes: \$7,600
Interest Paid: \$5,290
Contributions: cash \$270, used clothing \$200
Casualty and Theft Loss: \$12,000
Job Expenses: union dues \$400, tax preparation fees \$175 See margin.

a Employee's social security number 000-00-0000		Safe, accurate, FAST! Use Visit the IRS website at www.irs.gov/efile.	
b Employer identification number (EIN) 00-0000000		1 Wages, tips, other compensation \$57,890.00	2 Federal income tax withheld \$9,765.00
c Employer's name, address, and ZIP code Frank's Pianos 231 Royal Guardsman Road Plano, TX 75074		3 Social security wages \$57,890.00	4 Social security tax withheld
		5 Medicare wages and tips \$57,890.00	6 Medicare tax withheld
		7 Social security tips	8 Allocated tips
d Control number		9 Advance EIC payment	10 Dependent care benefits
e Employee's first name and initial Last name Suff. Donald Mims		11 Nonqualified plans	12a See instructions for box 12
f Employee's address and ZIP code 175 Rickenbacker Road Plano, TX 75074		13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	12b
		14 Other	12c
15 State Employer's state ID number 00-0000000		16 State wages, tips, etc. \$57,890.00	17 State income tax \$1,340.00
		18 Local wages, tips, etc.	19 Local income tax
		20 Locality name	

9. Mike and Julianne Heedles both work.

Julianne is a part-time environmental lawyer whose W-2 provided the following information.

Wages, tips, other compensation: \$51,122.00
Social Security wages: \$51,122.00
Medicare wages: \$51,122.00
Federal income tax withheld: \$5,004.00
State income tax withheld: \$1,096.00

Mike is a gym teacher whose W-2 provided the following information.

Wages, tips, other compensation: \$77,851.00
Social security wages: \$77,851.00
Medicare wages: \$77,851.00
Federal income tax withheld: \$10,121.00
State income tax withheld: \$3,215.00

They have two children. They received \$1,897 in bank interest and \$876 in stock dividends. Mike had \$400 in educational expense deductions he can report on Form 1040.

Their itemized deductions are as follows.

Medical Expenses: prescriptions \$600, doctors \$5,240, dentists \$2,300, eyeglasses \$510
Taxes: State income from W-2, real estate \$9,213
Interest Paid: home mortgage loan \$7,110
Contributions: cash \$980, used clothing \$450, old furniture \$250
Casualty and Theft Loss: storm damage to home not covered by insurance \$3,450; camera stolen while on vacation \$600
Job Expenses: union dues \$1,200, tax preparation fees \$395 See margin.

ANSWERS

- 8. total itemized deductions: \$17,033; interest: \$556; dividends: \$412; adjusted gross income: \$108,658; taxable income: \$81,125; tax due: \$12,969; refund: \$4,919
- 9. total itemized deductions: \$22,314; interest: \$1,897; dividends: \$876; adjusted gross income: \$131,346; taxable income: \$95,032; tax due: \$16,444; owe: \$1,319