

## Applications

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

—Fletcher Knebel, American author

1. How can the quote be interpreted in light of what you have learned about income taxes in this section?

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

2. Chiara had \$5,700 in out-of-pocket medical expenses last year. Her medical insurance covered 80% of these expenses. The IRS allows medical and dental expense deductions for the amount that exceeds 10% 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.**
3. 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 10% of a taxpayer's adjusted gross income. If their adjusted gross income is \$101,598, how much can they claim as a medical deduction? **\$0**
4. 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? **\$2,578**
5. 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? Use Schedule X on page 382. **\$3,975.44**
6. 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.
  - a. What was Mr. and Mrs. Delta's taxable income? **\$83,982**
  - b. What is the tax on the amount in part a? **\$12,581**
  - c. The Deltas received combined education and child tax credits of \$2,500. How much tax must they pay after applying the tax credits? **\$10,081**
  - d. If their employers withheld \$10,201 in federal income tax, how much money will they owe to the federal government? **\$0; they would get back \$118.**
7. Complete the following chart.

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.

For each family, complete 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.

## 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. This “big picture” is important—it is easy to lose sight of the net effect when entrenched in the forms.

## ANSWERS

1. “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 they had no say. Knebel's quote underscores how people don't love paying taxes.
2. 0; 20% of \$5,700 does not exceed 10% of \$35,432
7. (Using Appendix)
 

a. 66,440	b. 12,400
c. 66,440	d. 12,400
e. 63,040	f. 10,079
g. 63,040	h. 11,550
i. 63,040	j. 11,550

a Employee's social security number <b>000-00-0000</b>		Safe, accurate, FAST! Use  Visit the IRS website at www.irs.gov/efile.	
b Employer identification number (EIN) <b>00-000000</b>		1 Wages, tips, other compensation <b>\$57,890.00</b>	2 Federal income tax withheld <b>\$9,765.00</b>
c Employer's name, address, and ZIP code <b>Frank's Pianos 231 Royal Guardsman Road Plano, TX 75074</b>		3 Social security wages <b>\$57,890.00</b>	4 Social security tax withheld
		5 Medicare wages and tips <b>\$57,890.00</b>	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. <b>Donald Mims</b>  <b>175 Rickenbacker Road Plano, TX 75074</b>		11 Nonqualified plans	12a See instructions for box 12
		13 Statutory employee Retirement plan Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	12b
		14 Other	12c
			12d
f Employee's address and ZIP code		15 State Employer's state ID number <b>00-0000000</b>	16 State wages, tips, etc. <b>\$57,890.00</b>
		17 State income tax <b>\$1,340.00</b>	18 Local wages, tips, etc.
		19 Local income tax	20 Locality name

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### Exercises 8 and 9

Answers depend on the tax year. Answers for the most recently completed tax year can be found at [www.cengage.com/financial\\_alg2e](http://www.cengage.com/financial_alg2e). Students should use the tax forms, tables, schedules and worksheets from the most recently completed tax year. These are available at [www.irs.gov](http://www.irs.gov), and can be downloaded and printed. Students will need access to the tables and schedules on the Internet via a classroom or home computer or smartphone.

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

State income taxes withheld: \$2,034

Property taxes \$3,111

Interest paid: \$5,290

Contributions: cash \$540, used clothing \$600

Casualty and theft loss: \$12,000

Job expenses: union dues \$400, tax preparation fees \$175

9. Jordan and Julianne Marra 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

Jordan 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, Courtney and Michael. They received \$1,897 in bank interest and \$876 in stock dividends. Jordan 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 taxes \$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; uninsured camera stolen while on vacation \$600

Job expenses: union dues \$1,200, tax preparation fees \$395