

Applications

ANSWERS

Exercise 2

$0.20x - 0.10y$ if 20% of their medical expenses exceeds 10% of their adjusted gross income. Otherwise, the amount is \$0.

3e. $97,200 \leq t < 97,200$

3f. $95,650 \leq t < 95,700$

- Jake and Gloria are married, filing jointly. Their taxable income without deductions was \$120,440. They were able to reduce their total income by \$25,381 using Form 1040 and Schedule A. How much did they save in tax by claiming these deductions? Use the tax tables in the Appendix and the schedule on page 388. **\$6,341.50**
- The Lupos had x dollars in medical expenses. Medical insurance covered 80% of these expenses, so they had to pay 20% of the medical bills. For taxpayers in the Lupos' age bracket, the IRS allows medical and dental expense deductions for the amount that exceeds 10% of a taxpayer's adjusted gross income. Their adjusted gross income was y dollars. Express the amount they can claim as a medical deduction algebraically. **See margin.**
- Determine the tax for each filing status and taxable income amount listed using the tax tables in the Appendix, or using the current tables at www.irs.gov, depending on what your teacher requires.
 - single \$97,642 **\$20,406**
 - head of household \$95,100 **\$18,104**
 - married filing jointly \$99,999 **\$16,581**
 - married filing separately \$99,002 **\$21,253**
 - Given a taxable income amount $t = \$97,226$, express the tax table line that would be used in compound inequality notation. **See margin.**
 - Given the taxable income amount $t = \$95,656$, express the tax table line that would be used in interval notation. **See margin.**

Schedule Y-1—If your filing status is **Married filing jointly** or **Qualifying widow(er)**

If your taxable income is:		The tax is:	
Over—	But not over—		of the amount over—
\$0	\$18,450	----- 10%	\$0
18,450	74,900	\$1,845.00 + 15%	18,450
74,900	151,200	10,312.50 + 25%	74,900
151,200	230,450	29,387.50 + 28%	151,200
230,450	411,500	51,577.50 + 33%	230,450
411,500	464,850	111,324.00 + 35%	411,500
464,850	-----	129,996.50 + 39.6%	464,850

- Use Schedule Y-1 to answer the questions below.
 - What is the tax for taxpayers filing jointly with a combined taxable income of \$134,786? **\$25,381**
 - A married couple's tax is approximately \$30,000. What is their approximate taxable income? **\$153,300**

- Let x represent the taxpayer's taxable income and y represent the tax. Express the line of the Section D worksheet below as a linear equation in $y = mx + b$ form. Use interval notation to define the income range on which each of your equations is defined. **$y = 0.25x - 5,677.50$; $100,000 \leq x \leq 129,600$**

Section D—Use if your filing status is **Head of household**. Complete the row below that applies to you

Taxable income. If line 43 is—	(a) Enter the amount from line 43	(b) Multiplication amount	(c) Multiply (a) by (b)	(d) Subtraction amount	Tax. Subtract (d) from (c) Enter the result here and on Form 1040, line 44
At least \$100,000 but not over \$129,600	\$	$\times 25\%(0.25)$	\$	\$5,677.50	\$

- Von is a single taxpayer. His wages for the year are \$66,200. The amount withheld for federal taxes was \$9,930. His bank interest is \$1,200. Fill out his 1040EZ form. **Answers depend on the tax year.**

7. Write a piecewise function to represent the tax y for the taxable income interval in Schedule Y-2 below for a taxpayer whose filing status is married filing separately.

Schedule Y-2— If your filing status is Married filing separately

If your taxable income is:		The tax is:	
Over—	But not over—		of the amount over—
\$0	\$9,225	----- 10%	\$0
9,225	37,450	\$933.50 + 15%	9,225
37,450	75,600	5,156.25 + 25%	37,450
75,600	115,225	14,693.75 + 28%	75,600
115,225	205,750	25,788.75 + 33%	115,225
205,750	232,425	55,662.00 + 35%	205,750
232,425	-----	64,998.25 + 39.6%	232,425

See Additional Answers.

8. Ann's W-2 form reported total Medicare wages as \$88,340. She contributed \$50 per weekly paycheck to her FSA and \$90 per weekly paycheck to her retirement plan. She received a 1099 form from her bank for her savings account interest in the amount of \$800 and a 1099 form from a book publisher for royalties in the amount of \$3,700. What is Ann's adjusted gross income? **See margin.**


Exercise 8

Answer \$85,560

The answer given here assumes that the taxable amount is under the maximum. This amount could change. If you

9. Mike pays \$8,000 in property taxes, but receives a 28% tax deduction for it. What is Mike's net expense for property taxes? **\$5,760**

10. Identify the error(s) on Rorie's W-2 form at the right. **Boxes 1 and 16 should be \$86,100**
For each exercise, complete the indicated forms to find the amount of refund or amount owed. Round all answers to the nearest dollar. Use the tax tables in the Appendix or you can use the most recent completed tax year forms and tables available at www.irs.gov.

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 \$96,900.00	2 Federal income tax withheld \$23,256.00
c Employer's name, address, and ZIP code Saturn Publishing Company 251 Broadway Taftsville, VT 05073		3 Social security wages \$96,900.00	4 Social security tax withheld \$6,007.80
d Control number 2187690		5 Medicare wages and tips \$96,900.00	6 Medicare tax withheld \$1,405.05
e Employee's first name and initial Rorie Welles		7 Social security tips	8 Allocated tips
f Employee's address and ZIP code 615 Memorial Dr. Sudbury, VT 05233		9 Advance EIC payment	10 Dependent care benefits
15 State Employer's state ID number		11 Nonqualified plans	12a See instructions for box 12 E \$7,600.00
16 State wages, tips, etc. \$96,900.00		12b	12c
17 State income tax \$9,978.00		13 Statutory employees Retirement plan Third-party sick pay <input type="checkbox"/> <input checked="" type="checkbox"/> <input type="checkbox"/>	12d
18 Local wages, tips, etc.		14 Other caf125 \$3,200.00	19 Local income tax
19 Local income tax		20 Locality name	

11. Katie and Ken are married with three children. The following information was reported on their W-2 forms.

	Katie	Ken
Federal income tax withheld	\$ 9,800	\$11,500
Wages	\$49,000	\$52,000

They also received \$924.78 in interest on bank deposits and \$1,011 in stock dividends. Fill out Form 1040A for Katie and Ken. **Answers depend on the tax year.**

are using current tax information to answer this question, the answer may be different.

12. Connor and Samantha Lamberti are married with three children, Luke, Jamie, and Colby. Their total wages for the year were \$90,114. The total amount withheld from their paychecks for federal taxes was \$7,209.12. They received \$1,328 in bank interest and \$776 in dividends. Samantha had \$400 in educational expense deductions.

Exercises 6, 11, 12

Answers depend on the tax year. Answers for the most recently completed tax year can be found at 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, and can be downloaded and printed. Students will need access to the tables and schedules on the Internet.

They have medical insurance. Their itemized deductions are: Medical expenses: prescriptions \$550, doctors \$1,340, dentists \$1,761, eyeglasses \$430; Taxes: State income tax withheld \$7,108, real estate tax \$8,219; Interest paid: home mortgage loan \$6,629; Contributions: cash \$1,000; used clothing \$550; old toys \$150; Casualty and theft loss: Luggage stolen while on vacation \$4,600; and Unreimbursed employee expenses: union dues \$1,350; conference cost \$75.

Complete a current Form 1040 for them, including Schedules A and B. Round all entries to the nearest dollar.