

6-1 TAX TABLES, WORKSHEETS, AND SCHEDULES

To do now:

1. Write down the objective
2. Take out earbuds

OBJECTIVES

Understand reasons for taxes.

Compute marginal and average tax rate.

Compute federal income taxes using a tax table, formula and tax schedules.

You will need:

- **Papers on the student table**
- **Highlighter**
- **Textbook**
- **Calculator**
- **Pen or Pencil**
- **Notebook Paper**

Red Items are needed
during the lecture



- Taxes are charges imposed by government on its citizens in order to provide services such as:
 - Roads
 - Medicare
 - National defense
 - Education
- Congress writes the tax code.
- Internal Revenue Service (or IRS) enforces the tax code

Types of Taxes



- Progressive Tax
 - It requires a higher tax rate as **income increases**.
 - The rich pay more taxes both in actual dollars and **as a percent of income**
 - The federal income tax is a **progressive tax**

Types of Taxes



got fairness?

➤ Regressive Tax

- It is a decreasing percent of **one's income**.
- Rich and poor pay the same tax – so poor pay a **higher percentage of their income**.
- Sales taxes are **regressive**.

Marginal Taxes

MARGINAL Concept

- Marginal tax bracket (or MTB)
 - Progressive taxes are created **using tax brackets**.
 - Each bracket of income is taxed at a **specific rate**.
 - As income level rises the **tax rate rises**.
- Marginal tax rate is the rate at which your **next dollar of income is taxed**.

Marginal Tax Rates

Table 4-1

The Progressive Nature of the Federal Income Tax

Single Individuals

If taxable income is:

Marginal Tax Rate

Up to \$9,075

10%

Over \$9,075 but not over \$36,900

15%

Over \$36,900 but not over \$89,350

25%

Over \$89,350 but not over \$186,350

28%

Over \$186,350 but not over \$405,100

33%

Over \$405,100 but not over \$406,750

35%

Over \$406,750

39.6%

- Moving into a higher tax bracket only raises the tax rate on **that segment of income.**

Marginal Tax Rates

If you earned \$9,075:

If taxable income is:	Marginal Tax Rate
Up to \$9,075	10%
Over \$9,075 but not over \$36,900	15%

\$9,075

You would pay \$907.50 in taxes
($9,075 \times 10\% = 907.50$)

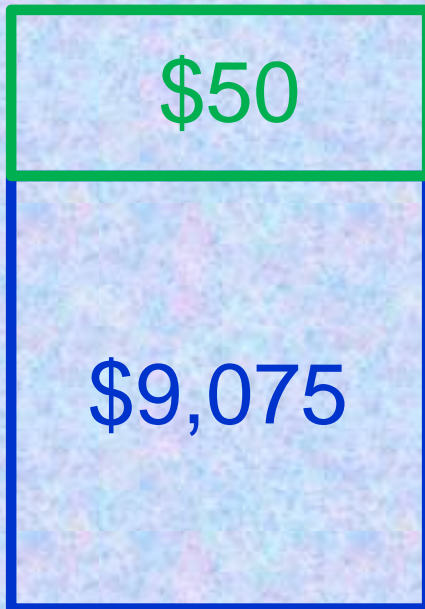
Marginal Tax Rates

If you earned \$9,075:

You got a raise and earned an additional \$50 for a total of \$9,125:

If taxable income is:	Marginal Tax Rate
Up to \$9,075	10%
Over \$9,075 but not over \$36,900	15%

Does that mean the whole \$9,125 is now taxes at 15%?



NO! You would pay \$7.50 more in taxes. $(50 \times 15\% = 7.50)$

Note: The first \$9,075 is still taxed at the lower %!!!!!!!!!!!!!!!!!!!!

You would pay \$907.50 in taxes $(9,075 \times 10\% = 907.50)$

Marginal Tax Rate and Financial Decisions



- Decreasing your taxable income through tax planning saves you more in taxes as your **marginal tax rate goes up.**
- Knowing your marginal tax rate will help you make better **financial decisions.**

Tax Rates



- Your average tax rate is lower than your **marginal tax rate**.
- Average tax rate (percent of taxable income) =
$$\frac{\text{total taxes paid}}{\text{income}} \times 100 = \underline{\hspace{2cm}}\%$$

If line 43 (taxable income) is—		And you are —			
At least	But less than	Single	Married filing jointly *	Married filing separately	Head of a household
Your tax is —					

51,000

51,000	51,050	9,100	6,851	9,100	7,819
51,050	51,100	9,113	6,859	9,113	7,831
51,100	51,150	9,125	6,866	9,125	7,844
51,150	51,200	9,138	6,874	9,138	7,856
51,200	51,250	9,150	6,881	9,150	7,869
51,250	51,300	9,163	6,889	9,163	7,881
51,300	51,350	9,175	6,896	9,175	7,894
51,350	51,400	9,188	6,904	9,188	7,906
51,400	51,450	9,200	6,911	9,200	7,919
51,450	51,500	9,213	6,919	9,213	7,931
51,500	51,550	9,225	6,926	9,225	7,944
51,550	51,600	9,238	6,934	9,238	7,956
51,600	51,650	9,250	6,941	9,250	7,969
51,650	51,700	9,263	6,949	9,263	7,981
51,700	51,750	9,275	6,956	9,275	7,994

Highlight → **Example 1**
From a Tax Table:

Ron is single.
 He is using an IRS tax form and calculates that his taxable income is \$51,482.

- a. How much does Ron owe in taxes? **\$9,213.00**
- b. What is his average tax rate?

$$\frac{\text{total taxes paid} \times 100}{\text{total income}}$$

$$\frac{9,213 \times 100}{51,482} = 17.9\%$$

Maria and Don are married taxpayers filing a joint return. Their combined taxable income is **\$153,900**. The IRS offers a tax schedule so that taxpayers can calculate their tax.

a. Use the tax schedule below for married taxpayers filing jointly to calculate Maria and Don's tax.

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	151,250	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 + 35%	464,850

Highlight

Tax = Base + ((income – bottom of tax bracket) x marginal rate converted)

Which line should we use? Line 4

Maria and Don are married taxpayers filing a joint return. Their combined taxable income is **\$153,900**. The IRS offers a tax schedule so that taxpayers can calculate their tax.

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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—	Base	Marginal	of the amount over— Bottom
\$0	\$18,450	.....	10%	\$0
18,450	74,900	\$1,845.00	+ 15%	18,450
74,900	151,250	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	+ 35%	464,850

$$\text{Tax} = \text{Base} + ((\text{income} - \text{bottom of tax bracket}) \times \text{marginal rate converted})$$

There are a lot of words in the formula.
Where are they? Label your Schedule!

Maria and Don are married taxpayers filing a joint return. Their combined taxable income is **\$153,900**. The IRS offers a tax schedule so that taxpayers can calculate their tax.

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				Bottom
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74,900	151,250	10,312.50 +	25%	74,900
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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 +	35%	464,850

$$\begin{aligned}
 \text{Tax} &= \text{Base} + ((\text{income} - \text{bottom of tax bracket}) \times \text{marginal rate converted}) \\
 &= 29,387.50 + ((153,900 - 151,200) \times .28) \\
 &= \mathbf{\$30,143.50}
 \end{aligned}$$

Maria and Don are married taxpayers filing a joint return. Their combined taxable income is \$153,900. The IRS offers a tax schedule so that taxpayers can calculate their tax.

b. What is their average tax rate?

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

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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 + 35%	464,850

$$\begin{aligned}
 \text{Average tax} &= \frac{\text{total taxes paid}}{\text{total income}} \times 100 = \underline{\hspace{2cm}}\% \\
 &= \frac{30,143.50}{153,900} \times 100 = \mathbf{19.59\%}
 \end{aligned}$$

Maria and Don are married taxpayers filing a joint return. Their combined taxable income is \$153,900. The IRS offers a tax schedule so that taxpayers can calculate their tax.

c. What is their marginal tax rate?

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

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74,900	151,250	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 + 35%	464,850

28%

Example 2 – You try it!

David and John are married and filing jointly. They have a taxable income of \$118,675.

- a. Use the formula to determine their tax.
- b. What is their average tax rate?
- c. What is their marginal tax rate?

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

If your taxable income is:		The tax is:	
<i>Over—</i>	<i>But not over—</i>		<i>of the amount over—</i>
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411,500	464,850	111,324.00 + 35%	411,500
464,850	129,996.50 + 35%	464,850

$$\begin{aligned}
 \text{Tax} &= \text{Base} + ((\text{income} - \text{bottom of tax bracket}) \times \text{marginal rate}_{\text{converted}}) \\
 &= 10,312.50 + ((118,675 - 74,900) \times .25) \\
 &= \mathbf{\$21,256.25}
 \end{aligned}$$

Example 2 – You try it!

David and John are married and filing jointly. They have a taxable income of \$118,675.

b. What is their average tax rate?

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

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411,500	464,850	111,324.00 + 35%	411,500
464,850	129,996.50 + 35%	464,850

$$\begin{aligned}
 \text{Average tax} &= \frac{\text{total taxes paid}}{\text{total income}} \times 100 = \underline{\hspace{2cm}}\% \\
 &= \frac{21,256.25}{118,675} \times 100 = \mathbf{17.91\%}
 \end{aligned}$$

Example 2 – You try it!

Davida and John are married and filing jointly. They have a taxable income of \$118,675.

c. What is their marginal tax rate?

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

If your taxable income is:		The tax is:	
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464,850	129,996.50 + 35%	464,850

25%

Example 3

← Highlight

From a **Schedule:**

For taxable incomes over \$100,000, taxpayers must use the tax schedule worksheet. Here is a portion of the worksheet for married taxpayers filing jointly.

Calculate Maria and Don's tax using this worksheet. (Taxable Income is \$153,900)

Note: IRS uses the Taxable income and the line that it appears on as interchangeable words.

Section B—Use if your filing status is **Married filing jointly** or **Qualifying widow(er)**. Complete the row below that applies to you.

	(a)	(b)	(c)	(d)	Tax
Taxable income If line 43 is—	Enter the amount from line 43	Multiplication amount	Multiply (a) by (b)	Subtraction amount	Subtract (d) from (c). Enter the result here and on Form 1040, line 44
At least \$100,000 but not over \$151,200	\$	× 25% (0.25)	\$	\$8,412.50	\$
Over \$151,200 but not over \$230,450	\$ 153,900	× 28% (0.28)	\$ 43,092	\$12,948.50	\$ 30,143.50
Over \$230,450 but not over \$411,500	\$	× 33% (0.33)	\$	\$24,471.00	\$
Over \$411,500 but not over \$464,850	\$	× 25% (0.35)	\$	\$32,701.00	\$
Over \$464,850	\$	× 39.6% (0.396)	\$	\$54,084.10	\$

Example 3 – You try it!

David and John have a taxable income of \$118,675. Use the Married Filing Jointly worksheet to determine the amounts for columns (a) and (c). What is their calculated tax?

Section B—Use if your filing status is **Married filing jointly** or **Qualifying widow(er)**. Complete the row below that applies to you.

	(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
Taxable income If line 43 is—					
At least \$100,000 but not over \$151,200	\$	× 25% (0.25)	\$	\$8,412.50	\$
Over \$151,200 but not over \$230,450	\$	× 28% (0.28)	\$	\$12,948.50	\$
Over \$230,450 but not over \$411,500	\$	× 33% (0.33)	\$	\$24,471.00	\$
Over \$411,500 but not over \$464,850	\$	× 25% (0.35)	\$	\$32,701.00	\$
Over \$464,850	\$	× 39.6% (0.396)	\$	\$54,084.10	\$

Example 3 – You try it!

David and John have a taxable income of \$118,675. Use the Married Filing Jointly worksheet to determine their tax?

Section B—Use if your filing status is **Married filing jointly** or **Qualifying widow(er)**. 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 \$151,200	\$ 118,675	× 25% (0.25)	\$ 29,668.75	\$8,412.50	\$ 21,256.25
Over \$151,200 but not over \$230,450	\$	× 28% (0.28)	\$	\$12,948.50	\$
Over \$230,450 but not over \$411,500	\$	× 33% (0.33)	\$	\$24,471.00	\$
Over \$411,500 but not over \$464,850	\$	× 25% (0.35)	\$	\$32,701.00	\$
Over \$464,850	\$	× 39.6% (0.396)	\$	\$54,084.10	\$

What do I do now?

The 6-1 Assignment

When is it due?

Next Class