

Chapter 6
Income Taxes

Section 6-1

TAX TABLES, WORKSHEETS, AND SCHEDULES

Objective:
Understand

Compute

Compute federal income taxes using

Taxes

- Taxes are charges imposed by government on its citizens in order to provide services such as:
 -
 -
 -
 -
- Congress _____ the tax code.
- Internal Revenue Service (or IRS) _____ the tax code

Types of Taxes

- Progressive Tax
 - It requires a higher tax rate as
 - The rich pay more taxes both in actual dollars and
 - The federal income tax is a
- Regressive Tax
 - It is a decreasing percent of
 - Rich and poor pay the same tax – so poor pay a
 - Sales taxes are

Marginal Taxes

- Marginal tax bracket (or MTB)
 - Progressive taxes are created

- Each bracket of income is taxed at a
 - As income level rises the
- Marginal tax rate is the rate at which your

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

Marginal Tax Rate and Financial Decisions

- Decreasing your taxable income through tax planning saves you more in taxes as your
- Knowing your marginal tax rate will help you make better

Tax Rates

- Your average tax rate is lower than your

Average tax rate (percent of taxable income)=

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

Example 1 - TABLE

Ron is single. His taxable income is \$51,482. How much does Ron owe in taxes? What is his average tax rate?

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
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

Example 2 - FORMULA

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)**

Over—	But not over—	The tax is:	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

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	\$	× 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	\$

Tax Formula =

- Use the tax schedule below for married taxpayers filing jointly to calculate Maria and Don's tax.
- What is their average tax rate?
- What is their marginal tax rate?

Example 2 – Now You Try It!

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

- Use the formula to determine their tax?
- What is their average tax rate?
- What is their marginal tax rate?

Example 3 - SCHEDULE

For taxable incomes over \$100,000, taxpayers must use the tax worksheet. Here is a portion of the worksheet for married taxpayers filing jointly. Calculate Maria and Don's tax using this worksheet. (Income is \$153,900)

Example 3 – Now You Try It!

Davida 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?

Assignment 6-1

Read Pages 330 to 335

Do Page 336: #2-9, 11, 13a&b, 14-20b

Use the formula method for #6-8, 15, 18, 20a