Paying Taxes

What's Next Project

DUE DATE: At the beginning of class on Monday 4/18 (periods 2 & 4)
DUE DATE: At the end of class on Friday 4/15 (period 7)

As in the past, you need to show evidence of your reading by highlighting or annotating the text.

Income Taxes

You encounter many different types of taxes. Income tax is a tax levied on any money you earn. It is considered a progressive tax because the amount you must pay rises with your income.

By April 15 every year, individuals must report their total income to the Internal Revenue Service (IRS). This includes income from wages, profits from investments, and any winnings. If the gross income is over a certain amount, the individual must file a return. The chart below shows the gross income required for filing for a given year.

The filing status indicates if you file your taxes with a spouse, alone, or some other way. Tax forms from the IRS include directions describing each filing status.

ACTIVITY: Determining Filing Requirements

Use the chart above. Write YES if the following individuals must file a return and NO if they do not need to file a return.

1) A single, 40-year-old woman who earns $12,000.
2) A single, 70-year-old man who earns $6,213.
3) A married couple who are both under 65 and earn $21,000 combined.
4) A head of household under 65 who earns $9,210.
5) A married couple who are both over 65 and earn $45,731 combined.
Standard Deduction

An amount known as the standard deduction is subtracted from the total income when calculating the amount of tax owed. The standard deduction is a fixed dollar amount that depends on your filing status. The chart below summarizes the standard deduction for a given year for each filing status for individuals.

<table>
<thead>
<tr>
<th>IF your filing status is...</th>
<th>AND the number in the box above is...</th>
<th>THEN your standard deduction is...</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single</td>
<td>1</td>
<td>$7,850</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>9,400</td>
</tr>
<tr>
<td>Married filing jointly or Qualifying widow(er)</td>
<td>1</td>
<td>$13,850</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>15,100</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>16,350</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>17,600</td>
</tr>
<tr>
<td>Married filing separately</td>
<td>1</td>
<td>$7,550</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>8,800</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>10,050</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>11,300</td>
</tr>
<tr>
<td>Head of household</td>
<td>1</td>
<td>$10,800</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>12,350</td>
</tr>
</tbody>
</table>

ACTIVITY: Finding the Standard Deduction

Use the chart above to answer the questions

6) Veronica is a 30-year-old single woman. What is her standard deduction?
   __________

7) Craig is under 65 years of age and is the head of a household. What is his standard deduction?
   __________

8) Lucy is married, but she is filing separately from her husband. She is under 65 years old. What is her standard deduction?
   __________

9) Alexander and Abigail are a married couple under age 65 filing together. What is their standard deduction?
   __________
**Itemized Deductions (for your information)**

When calculating income tax, certain personal expenses are allowed as deductions from the adjusted gross income. These are known as itemized deductions. A taxpayer who itemizes deductions may not claim the standard deduction. The final tax should be calculated both ways to determine which is in the taxpayer's favor.

Itemized deductions include the following:

**MEDICAL EXPENSES**  
*Medical and dental expenses are generally deductible to the extent they exceed 7.5% of your income. Common expenses include:*

- adoption
- doctor/dentist fees
- drug/alcohol treatment
- guide dog costs
- handicap access devices for disabled
- hospital fees
- insurance premiums
- prescriptions
- medical devices
- operations
- organ donation
- physician diet/health programs
- psychiatric care
- school and/or home for disabled

**TAXES**  
*The following taxes are generally 100% deductible:*

- state/local taxes
- property taxes
- payments to mandatory state funds
- foreign income taxes
- real estate taxes
- value-based auto license fee
- general state/local sales tax

**INTEREST**  
*While most personal interest is no longer deductible, there is still interest expense deductions available to you.*

- home mortgage interest
- second home mortgage interest
- home equity loan interest
- interest on special assessments (as real estate tax)
- business interest
- investment interest
- "points" paid

**CHARITABLE CONTRIBUTIONS**  
*Money or property donated to qualified organizations can be deductible. Qualified organizations include:*

- churches
- non-profit schools
- non-profit hospitals
- public parks
- Boy Scouts and Girl Scouts
- war/veteran groups
- agencies such as Red Cross, Salvation Army, Goodwill
- YMCA/YWCA
- some environmental/conservation groups
Calculating Tax

Any amount that remains after the standard deduction is subtracted from the total income is considered taxable income. Once you know your taxable amount, you must consult a chart provided by the IRS that indicates the amount of tax you owe. Some taxpayers must complete a form 1040. The chart is located within the directions provided with this form. A portion of a sample chart is shown below.

To read the chart, first determine your taxable income, and then find that amount in the chart. For example, suppose you are single and your taxable income is $66,512. Find the row that shows at least 66,500, but less than 66,550. Read over to the column labeled Single. Your tax is $12,425.

ACTIVITY: Calculating Income Tax

Use the tax chart above to answer the questions.

10) Andrew and Samantha are filing jointly. Their taxable income is $66,886. How much tax do they owe? __________

11) Felix is married but filing separately. His taxable income is $69,162. How much tax does he owe? __________

12) Tamara is single and has a taxable income of $72,445. How much tax does she owe? __________

13) Roderick is head of a household and earns $69,559. How much tax does he owe? __________
Refunds or Payment

Remember that taxes are withheld from payrolls by employers. The amount withheld is determined by information completed on your W-4 form. If the amount withheld is higher than the tax owed, the government will send you a refund check. If, however, the tax owed is higher than the amount withheld, you must pay an additional amount to the IRS.

Tax Form 1040EZ

Many taxpayers can complete a shortened version of the tax form, known as the 1040EZ. You can use the 1040EZ if you meet the following requirements:

- Your filing status is single or married filing jointly.
- Your taxable income is less than $100,000.
- You do not claim any dependents.
- You had only wages, salaries, tips, taxable scholarship or fellowship grants, unemployment compensation, or Alaska Permanent Fund dividends, and your taxable interest was not over $1,500.

Review the 1040EZ form on the next page as you review each specific part of the form.

**Line 1** - Enter the total amount of your wages, salaries, and tips. If you're filing a joint return, also include your spouse's income. For most people, the amount to enter on this line should be shown on their Form(s) W-2 in box 1.

**Line 2** - Anyone from whom you have earned taxable interest should send you a Form 1099-INT or Form 1099-0ID. Include taxable interest from banks, savings and loan associations, money market certificates, credit unions, and savings bonds.

**Line 3** - If you received unemployment compensation, you should receive Form 1099-G showing the total unemployment compensation paid to you. Enter the amount on the form.

**Line 7** - Enter the total amount of federal income tax withheld. This should be shown on your 2015 Form(s) W-2 in box 2. If you received a 2015 Form 1099-INT, 1099-G, or 1099-0ID showing federal income tax withheld, include the tax withheld in the total on line 7. This tax should be shown in box 4 of these forms.

**Lines 8a and 8b** - The EIC is a credit for certain people who work and have a qualifying child. The credit may give you a refund even if you do not owe any tax. Follow the directions to see if you qualify for this credit.

ACTIVITY: Completing a 1040EZ Form

Complete the form on the next page. Use your name and address (do not use your real Social Security number) along with the following information and chart. **Follow the directions as you go through each line!!!**

- Filing status: Single
- No dependents
- Wages, salary, and tips = $49,000
- Taxable interest = $192
- No unemployment compensation
- No EIC
- Federal tax withheld: $5,850

Make sure it is clear how much you receive as a refund (#13a) OR how much you owe money (#14).

Don't forget the "Sign here" section and the date!
### Income

- **1.** Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2.

- **2.** Taxable interest. If the total is over $1,500, you cannot use Form 1040EZ.

- **3.** Unemployment compensation and Alaska Permanent Fund dividends (see instructions).

- **4.** Add lines 1, 2, and 3. This is your **adjusted gross income**.

- **5.** If someone can claim you (or your spouse if a joint return) as a dependent, check the applicable box(es) below and enter the amount from the worksheet on back.
  - [ ] **You**
  - [ ] **Spouse**

  If no one can claim you (or your spouse if a joint return), enter $10,300 if single; $20,600 if **married filing jointly**. See back for explanation.

- **6.** Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-.

  This is your **taxable income**.

### Payments, Credits, and Tax

- **7.** Federal income tax withheld from Form(s) W-2 and 1099.

- **8a.** Earned income credit (EIC) (see instructions)
  - **8b.** Nontaxable combat pay election.

- **9.** Add lines 7 and 8a. These are your **total payments and credits**.

### Refund

- **10.** Tax. Use the amount on line 6 above to find your tax in the tax table in the instructions. Then, enter the tax from the table on this line.

- **11.** Health care: individual responsibility (see instructions) — Full-year coverage

- **12.** Add lines 10 and 11. This is your **total tax**.

### Amount You Owe

- **13a.** If line 9 is larger than line 12, subtract line 12 from line 9. This is your **refund**.

  If Form 8888 is attached, check here □

- **b.** Routing number □□□□□□□□ □□□□□□

- **c.** Type: □ Checking □ Savings

- **d.** Account number □□□□□□□□□□

### Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see instructions)? □ Yes. Complete below. □ No

- Designee’s name □□□□□□□□

- Phone no. □□□□□□□□

- Personal identification number (PIN) □□□□□□□□

### Sign Here

Under penalties of perjury, I declare that I have examined this return and, to the best of my knowledge and belief, it is true, correct, and accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

- Your signature □□□□□□□□

- Date □□□□

- Your occupation □□□□□□□□

- Daytime phone number □□□□□□□□

- Spouse’s signature. If a joint return, both must sign.

  - Date □□□□

  - Spouse’s occupation □□□□□□□□

  - If the IRS sent you an Identity Protection PIN, enter it here (see inst.) □

  - □ Self-employed

  - PTIN □□□□□□□□

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see instructions.

Cat. No. 11329W

Form 1040EZ (2015)