

Taxes

Personal Budget Project

Income Tax

- Income Tax: Is a tax on income (No income tax in NH)
 - Federal Income Tax: based off of pay - causes your take home pay to be lower
 - Not a single tax applied to all wage earners
 - Your percent of income tax is based off of your income level and some additional factors
- Main purpose is to provide funds for the government so that services can be provided for its people
 - Police force, fire departments, schools, roads, national defense

Income Tax

- Taxes are paid as income is earned
- Individuals decide how much should be taken out of each paycheck
 - Withholdings
- At the end of each year a comparison of your Withholdings to what you Owe is calculated
- Gross Income: Total of all reportable income - the starting point for taxable income
- Deductions: buying a home, donating to charity, children
- Standard Deduction vs Itemized Deduction

W-4 Form

- [Form W-4: Employee's Withholding Allowance Certificate](#)
- Includes guidelines and three worksheets that help to come up with the number of allowances that can be claimed
- Tax Liability is determined by individual circumstances
 - Married, have children, etc. (Dependents)

Personal Allowances Worksheet

The Personal Allowances Worksheet guides you to allowances including, but not limited to, yourself, your spouse, each dependent, if you are single with children, and if you are a lower-income parent. The total of these values represent your basic allowances.

Deductions and Allowances Worksheet

The Deductions and Adjustments Worksheet can be used by those who plan to itemize, or list, deductions or who have other adjustments to their income that may reduce their taxes.

Itemized Deductions include charitable donations, state taxes, large medical expenses, and interest on home mortgage, among many other things. The calculations on this worksheet help you to determine the number of allowances to add to your basic allowances.

Deductions and Allowances Worksheet

The Two Earners/Multiple Jobs worksheet is for those who have more than one job or are married with a spouse who has a job. The calculations on this worksheet help these individuals avoid owing money at the end of the year. This worksheet helps you arrive at an extra dollar value to be deducted from each paycheck to account for all taxes owed.

W-2: Wage and Tax Statement

- [W-2: Wage and Tax Statement](#)
- Provides a summary of the money paid
 - Wages, tips, and other compensation
 - Taxes withheld (federal, state, local, Social Security, and Medicare)

Forms in the 1040

- When the year has come to an end and W2's have been received, it is time to file taxes with the IRS
- April 15th deadline
- Must disclose all relevant financial information and determine if they paid too much or not enough
- Three Versions of the 1040:
 - 1040 EZ: Easy Form
 - 1040A: Short Form
 - 1040: Long Form

Form 1040EZ

Form “[ten-forty EZ](#)” is the simplest of the three income tax forms. It’s only one page long, but it accounts for all the basic information required by the IRS when filing a return.

However, you can only use it if you are under age 65, single or married and filing jointly, have no dependents, and earned an income below \$100,000. Also, if you had income from interest, perhaps from investments, the interest cannot be more than \$1500.

*Prior to 2018

Form 1040A - Short Form

Form “[ten-forty A](#)” is called the short form because it’s shorter than the form “ten-forty.” However, it is longer than the form “ten-forty EZ.”

*Prior to 2018

Form 1040 - Long Form

Form “[ten-forty](#)” is known as the standard form. It is designed to cover every possible circumstance for personal income. You should use form “ten-forty” if you do not qualify to use “ten-forty EZ” or “ten-forty A.” This form must be used by any who is claiming itemized deductions or whose taxable income is at least one hundred thousand dollars.

Tax Withholdings

	Person 1	Person 2
Income	\$25,000	\$25,000
Personal Allowances	2 (1 for self and 1 for single job)	0 (afraid to owe, so claims 0)
Income tax Withheld	\$1,344.38	\$2,057.41

Calculating Taxable Income

- Taxable Income: The amount of your income that tax is applied to
- Lower tax responsibilities with adjustments, [deductions](#) and exemptions

Practice

	Claiming 2: on 1040	Claiming 0: On 1040
Gross Income	\$25,000	\$25,000
Adjustments	Student Loan Interest: \$163.32	Student Loan Interest: \$86.74
Deductions	Itemized Deductions: Dental Expense beyond 7.5% AGI: \$4,329.37 Home Mortgage Interest: \$4,526.98 Charitable donations: \$500	Standard Deduction: \$5,700
Exempetions	\$3,650	\$3,650

Calculations

	Claiming 2	Claiming 0
Gross Income	\$25,000	\$25,000
Adjustments	-\$163.32	-\$86.74
Adjusted Gross Income	\$24,836.68	\$24,913.26
Deductions	-\$4,329.37 + \$4,526.98 + \$500)	-\$5,700
Exemptions	\$3,650	\$3,650
Total Tax Liability	\$11,830.33	\$15,563.26

- ★ **The IRS will allow you to take either the standard deduction or the itemized, but not both**
- ★ **You are allowed the larger of the two**

Tax Table

If Taxable Income Is:	The Tax is:
Not over \$8,375	10% of the taxable income
Over \$8,375 but not over \$34,000	\$837.50 plus 15% of the excess over \$8375
Over \$34,000 but not over \$82,400	\$4,681.25 plus 25% of the excess over \$34,000
Over \$82,400 but not over \$171,850	\$16,781 plus 28% of the excess over \$82,400
Over \$171,850 but not over \$373,650	\$41,827.25 plus 33% of the excess over \$171,850
Over \$373,650	\$108,421.25 plus 35% of the excess over \$373,650

Practice

	Claiming 2	Claiming 0
Tax Liability	\$11,830.33	\$15,563.26
2nd Tax Bracket	$\$11,830.33 - \$8,375 = \$3,455.33$	$\$15,563.26 - \$8,375 = \$7,188.26$
15% Tax	$\$3,455.33 * 0.15 = \518.30	$\$7,188.26 * 0.15 = \1078.24
Total Tax Liability	$\$837.50 + \$518.30 = \$1,355.80$	$\$837.50 + \$1078.24 = \$1,915.74$

Do you get a return or do you pay?

- If the total tax is greater than your total payments, you will owe the difference
- If the total tax is less than the total payments, you will get a refund for the difference

Refund or Owe?

	Claim 2	Claim 0
Total withheld	\$1,344.38	\$2,057.41
Tax Liability	\$1,355.80	\$1915.74
Refund or Owe?	$\$1,344.38 - \$1,355.80 =$ $(\$11.42)$	$\$2,057.41 - \$1915.74 =$ $\$141.67$
	Owe: \$11.42	Refund: \$141.67

Tax Tips

You must realize that there is a lot to keep track of throughout the year to be ready to complete a tax return once the year is over. It is a good idea to keep all documents pertaining to income taxes in one place.

- Form W-4
- Pay Stubs
- Investment Summaries
- Receipts for Charitable Donations
- Home Mortgage Information
- Form W-2
- Any other relevant tax information (medical, day care, student loans, etc.)
- Form 1040 from previous years (need to keep all tax information for minimum of 7 years)