

## Tax Portion of the Budget Project

Before you can pay income taxes, you need to have a job. So let's find out what you'll be doing and how much you'll be earning.

### Part I: Scenario

Select Scenario from below (there are 4) to find out your job, gross income, and family situation. Choose one of the four scenarios to work with.

### Part II: Claim Allowances

In order for your employer to pay you, he must first determine how much of your paycheck will go to the government. So once you know your gross pay each year, you must claim allowances on your W-4 form. Use the Personal Allowances Worksheet (Below) to help you.

After determining the number of allowances you will claim, find out how much federal income tax will be withheld from your paycheck for the year. First, find the scenario you were given. Then, use the chart to determine your withholdings based on your chosen allowances.

You will submit the number of allowances and its accompanying federal withholding amount to your instructor.

Personal Allowances Worksheet	
A. Enter "1" for yourself if no one else can claim you as a dependent	A. _____
A. Enter "1" if	
○ You are single and have only one job; or	
○ You are married, have only one job, and your spouse does not work; or	B. _____
○ Your wages from a second job or your spouse's wages (or the total of both) are \$1,500 or less.	
A. Enter "1" for your <b>spouse</b> . But, you may choose to enter "-0-" if you are married and have either a working spouse or more than one job. (Entering "-0-" may help you avoid having too little tax withheld.)	C. _____
A. Enter number of dependents (other than your spouse or yourself) you will claim on your tax return.	D. _____
A. Add lines A through D and enter total here. This is the total number of allowances you may claim.*	E. _____

### Scenario 1:

You are single and employed full-time as a manager. You have no children. Your gross income is \$49,500. You contributed \$1,800 to an IRA account. You paid \$2,985 in home mortgage interest. You made \$750 in charitable donations. You spent \$2,700 in non-reimbursed medical expenses beyond the 7.5% of adjusted gross income.

Number of Allowances	Federal Withholding
0	\$7,682.48
1	\$6,757.40
2	\$5,832.58

### Part III: Calculate Taxable Income

Now it's time to file your taxes! Submit the work to the steps described below to your instructor.

1. Subtract any adjustments from your gross income to determine your adjusted gross income, or AGI.
2. Determine if you will take a standard or itemized deduction based on your given scenario. If you take a standard deduction, use \$5,700 if you are single and \$11,400 if you are married.
3. Calculate the value of your exemptions. Use \$3,650 for each person supported by the income reported.
4. Subtract the deductions and exemptions from the adjusted gross income (AGI). This is your taxable income.

### Part IV: Calculate Tax Liability

Now you will use the table below and your taxable income to determine your tax liability for the year. Submit the tax liability, and the work to achieve it, to your instructor.

If your taxable income is...	your tax liability 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 of \$8,375
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	\$16,781.25 plus 28% of the excess over \$82,400

### Part V: Analysis

Now you will compare the amount of federal withholding to your tax liability. Did you overestimate your personal allowances? Did you underestimate? It's time to find out! Respond to each of the following statements using complete sentences and submit to your instructor.

1. Provide the number of allowances and amount of federal withholding you claimed at the beginning of the activity. Explain why you claimed this number of allowances.
2. Explain how you would determine if you owe the federal government money or if you would receive a refund.
3. Explain how you would calculate the amount of your payment to the government or the amount of your refund. Provide the solution.
4. Change the number of personal allowances that you made at the beginning of this activity. Provide the following information to your instructor:
  - your new federal withholding
  - the new amount of your refund from the government or balance owed to the government
  - an explanation on why changing your personal allowances will increase or decrease the amount of taxes you must pay or the amount of a refund you will receive.
5. After calculating the amount of money you must pay to the government or receive as a refund, would you reconsider how many personal allowances you claimed on the W-4? Why or why not?

### Scenario 2:

You are single and employed full-time at a department store. You have one child. Your gross income is \$24,600. You contributed \$600 to an IRA account. You paid \$1,675 in student loan interest payments. You made \$940 in charitable donations.

Number of Allowances	Federal Withholding
0	\$2,774.46
1	\$2,219.36
2	\$1,664.52
3	\$1,109.42

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5. After calculating the amount of money you must pay to the government or receive as a refund, would you reconsider how many personal allowances you claimed on the W-4? Why or why not?

**Scenario 3:**

You are married and employed full-time as a supervisor at a corporate office. Your spouse does not work. You have no children. Your gross income is \$43,600. You contributed \$400 to an IRA account. You paid \$875 in student loan interest payments. You made \$1,000 in charitable donations. You spent \$3,850 in non-reimbursed medical expenses beyond the 7.5% of adjusted gross income.

Number of Allowances	Federal Withholding
0	\$5,655.00
1	\$4,740.58
2	\$4,182.88
3	\$3,628.04

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5. After calculating the amount of money you must pay to the government or receive as a refund, would you reconsider how many personal allowances you claimed on the W-4? Why or why not?

**Scenario 4:**

You are married and employed full-time as a salesperson. Your spouse does not work. You have one child. Your gross income is \$131,400. You contributed \$1,200 to an IRA account. You paid \$6,275 in home mortgage interest. You made \$1,250 in charitable donations. You spent \$4,475 in non-reimbursed medical expenses beyond the 7.5% of adjusted gross income.

Number of Allowances	Federal Withholding
0	\$28,874.56
1	\$27,838.72
2	\$26,802.62
3	\$25,766.52
4	\$24,730.68

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