**Financial Literacy**

**Tax Preparation**



**Directions**: as you watch the presentation on tax preparation, complete the following notes.

Is the federal income tax a progressive or regressive tax? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

That means that the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ your income the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ you are paying in taxes, both as a total amount and as a percentage.

About what percentage of your income goes to pay taxes? \_\_\_\_\_\_\_**%**

**Tax Vocabulary:**

**Tax brackets** are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in which the same tax rates apply. For example, you will be in one of these brackets, depending on your income

* \_\_\_\_\_**%**
* \_\_\_\_\_**%**
* \_\_\_\_\_**%**
* \_\_\_\_\_**%**

A **personal exemption** is an allowed \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in your income before taxes are computed

Who do you get personal exemptions for?

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
3. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Deductions** are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ that reduce taxable income. 

Examples of deductions:

1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
3. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
4. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

The **standard deduction** is a set deduction allowed by the \_\_\_\_\_\_\_\_\_\_ regardless of your actual expenses.

You can \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ deductions or take the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, but not both.

**Taxable income** is income subject to \_\_\_\_\_\_\_\_\_ after \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ are subtracted from \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

**Tax Example:**

**Marginal tax rates** are the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ paid on your \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ level of income.

In our example, the marginal tax rate is \_\_\_\_\_**%**

From the Fiscal Cliff agreement, what is the current highest marginal tax rate? \_\_\_\_\_\_**%**

The **average tax rate** is your \_\_\_\_\_\_\_\_\_\_\_\_\_\_ taxes divided by your \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. In our example, it is **$**\_\_\_\_\_\_\_\_\_\_/**$**\_\_\_\_\_\_\_\_\_\_\_\_ = \_\_\_\_\_\_\_**%**

Or by your total income: Your actual taxes divided by your \_\_\_\_\_\_\_\_\_\_\_\_\_\_ income. In our example, it is **$**\_\_\_\_\_\_\_\_\_\_/**$**\_\_\_\_\_\_\_\_\_\_\_ = \_\_\_\_\_\_**%**

**Filing Status**

If you are **single** at the end of the year with no dependents, you can file \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ .

If you are **married** at the end of the year and you and your spouse combine your incomes, you can file \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ .

If you are married at the end of the year, but you and your spouse do not combine your incomes, you can file \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ .

If you are unmarried but have at least one child living with you, you can file \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

**Other taxes you pay:**

* Social Security (FICA) is \_\_\_\_**%** for Social Security and \_\_\_\_\_\_**%** for Medicare.
* State and local income taxes
* **Excise taxes** for things such as:\_\_\_\_\_\_\_\_\_\_\_\_ taxes, \_\_\_\_\_\_\_\_\_\_ taxes, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ taxes, taxes on \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_ travel, etc.
* **Gift** and \_\_\_\_\_\_\_\_\_\_\_\_\_\_ taxes

**Who Has to File a Return?**

* You must file a return if your income is greater than **$**\_\_\_\_\_\_\_\_\_\_\_\_.
* If it is less than that, you might not need to file, depending on your \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (check with your tax advisor
* However, if your income is less than that and if you had \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, you will not get a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ unless you file a return.

**Itemizing Deductions:**

The most common itemized deductions are:

1. \_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ expenses that exceed \_\_\_\_\_\_**%** of your adjusted gross income
2. Tax expenses (\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_ can be deducted, but not \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, or \_\_\_\_\_\_\_\_\_\_\_\_\_ taxes)
3.  Home \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ interest
4. Charitable \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
5. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_ losses

A deduction will lower your tax bill, but not \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

The standard deduction is the government’s best estimate of what the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ would be able to deduct by itemizing.

Remember that you can take the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ or you can \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, but you can’t do both.

**Exemptions:**

You can take a personal exemption for yourself and for your spouse, plus you can take exemptions for your dependents. The rules to qualify as a dependent are:

1. Must have a qualifying relationship (\_\_\_\_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, step-\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, uncles, nieces, etc.
2. The dependent can’t earn more than the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ amount. Exception: this does not apply to children under the age of \_\_\_\_\_\_ or under \_\_\_\_\_\_\_\_ if full-time students
3. Must provide over \_\_\_\_\_\_\_\_\_\_\_ of the dependent’s financial support

**Tax formula**

The tax formula is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ less \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ equals \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ less \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ equals \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

For most taxpayers, the tax is calculated using \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_. Tax tables have tax \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ built in

**Income tax credits:**

Explain these income tax credits:

Tax credits will lower your tax bill, \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Explain these credits:

**Child Tax Credit**: (this can be a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ for parents who don’t pay taxes) up to **$**\_\_\_\_\_\_\_\_ per child

**American Opportunity Credit**: This is a credit for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, up to **$**\_\_\_\_\_\_\_\_\_\_ of the first **$**\_\_\_\_\_\_\_\_\_\_ of educational expenses

**Child and Dependent Care Credit**: This is a credit for money paid for \_\_\_\_\_\_\_\_\_\_ or other \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ care

**Earned income credit**: For low-income families, this may result in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ taxes paid

**Income Tax Due:**

The formula for income tax due is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ less tax \_\_\_\_\_\_\_\_\_\_\_\_\_ equals \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

**Picking a tax form:**

The **1040EZ form** can be used if you have no \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_; your taxable income is less than **$**\_\_\_\_\_\_\_\_\_\_\_\_\_\_, and no \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ deductions

The **1040A form** can be used if you have no \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_\_\_\_\_\_, capital \_\_\_\_\_\_\_\_\_, pension or Social Security \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_; and income less than **$**\_\_\_\_\_\_\_\_\_\_\_.

****The **1040 form** is used by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_