

**Solution**

- a. For someone who is not self-employed, the FICA Medicare tax rate is 1.45% of the gross income. The pay stub shows that the gross income for the current period is \$3024. So the Medicare tax withheld in this pay period is calculated as follows.

$$\text{FICA Medicare Tax: } \$3024 \cdot 0.0145 \approx \$43.85$$

- b. The FICA Social Security tax rate for employees is 6.2%, for the first \$137,700 of gross income. Since this employee's annual gross income is less than that, the 6.2% tax rate is applied to the entire income earned during the pay period.

$$\text{FICA Social Security Tax: } \$3024 \cdot 0.062 \approx \$187.49$$

- c. The current deductions consist of all the taxes withheld for the current pay period. We need to add together the Medicare tax, the Social Security tax, and the federal income tax (FED TAX).

$$\text{Current Deductions: } \$43.85 + \$187.49 + \$347.08 = \$578.42$$

- d. To find the net pay, we subtract the current deductions from the current total.

$$\text{Net Pay: } \$3024 - \$578.42 = \$2445.58$$

**✓ Skill Check 6.4.3**

Use Table 6.4.4 to calculate the FICA taxes that a self-employed person owed in 2020 if their gross income was \$94,538.

This section provided a brief introduction to federal revenue from individual income taxes and payroll taxes. Federal tax laws and the budget for the United States Government are updated annually. For more information on federal taxes, visit the IRS website [www.irs.gov](http://www.irs.gov). For more information on the United States Government Budget, visit either govinfo at <https://www.govinfo.gov/app/collection/budget> or the Congressional Budget Office at <https://www.cbo.gov/>.

**Skill Check Answers**

1. \$12,400   2. \$2536   3. \$14,464.31

## 6.4 Exercises

**✓ CONCEPT CHECK**

- The form you must fill out each year when you file your income taxes is \_\_\_\_\_.
- What is an example of an expense you can subtract from your gross income to arrive at your adjusted gross income?
- Your taxable income is your adjusted gross income once certain \_\_\_\_\_ have been subtracted.
- Individual income taxes and \_\_\_\_\_ taxes are two of the biggest revenue generators for the federal government.
- True or False: A person's entire taxable income is taxed at the same rate.

 **PRACTICE**

Determine the gross income using the given information.

6. A registered nurse has an annual salary of \$63,458, earned \$125.72 of interest on their savings account, paid \$776 in student loan interest, and contributed \$3600 toward a 401(k).
7. A physical therapist assistant has an annual salary of \$57,410, earned \$723.55 in interest on various investments, paid \$276 in student loan interest, and contributed \$4200 toward an IRA.
8. A computer programmer has an annual salary of \$72,230, earned \$1206.39 in interest on various investments, and contributed \$3600 toward a 401(k).
9. An epidemiologist has an annual salary of \$65,755, earned \$158.23 in interest on a savings account, and contributed \$4000 toward a 401(k).
10. A dental assistant earns \$38,500 per year, paid \$700 in student loan interest, and contributed \$1200 to a 401(k).
11. A paramedic earns \$32,600 per year, earned \$266.32 in interest on various investments, and contributed \$1200 toward an IRA.
12. A middle-school teacher has an annual salary of \$56,250, earned \$52.26 in interest on a savings account, paid \$654.03 in student loan interest, and contributed \$2400 towards an IRA.
  - a. Determine the middle-school teacher's gross income.
  - b. Determine the middle-school teacher's adjusted gross income.
13. An architect has an annual salary of \$78,250, earned \$240.88 in interest on a savings account, paid \$1250 in student loan interest, and contributed \$4800 towards a 401(k).
  - a. Determine the architect's gross income.
  - b. Determine the architect's adjusted gross income.

Use Table 6.4.1 to calculate the total amount of taxes paid by a single taxpayer for the given income amount.

- |              |               |               |
|--------------|---------------|---------------|
| 14. \$32,500 | 15. \$24,800  | 16. \$45,650  |
| 17. \$75,200 | 18. \$175,000 | 19. \$220,700 |

Use the partial 2020 IRS tax worksheet to calculate the amount of federal income tax charged to each taxpayer.

### 2020 Tax Computation Worksheet—Line 16



See the instructions for line 16 to see if you must use the worksheet below to figure your tax.

**Note.** If you are required to use this worksheet to figure the tax on an amount from another form or worksheet, such as the Qualified Dividends and Capital Gain Tax Worksheet, the Schedule D Tax Worksheet, Schedule J, Form 8615, or the Foreign Earned Income Tax Worksheet, enter the amount from that form or worksheet in column (a) of the row that applies to the amount you are looking up. Enter the result on the appropriate line of the form or worksheet that you are completing.

**Section A—** Use if your filing status is **Single**. Complete the row below that applies to you.

Taxable income. If line 15 is—	(a) Enter the amount from line 15	(b) Multiplication amount	(c) Multiply (a) by (b)	(d) Subtraction amount	Tax. Subtract (d) from (c). Enter the result here and on the entry space on line 16.
At least \$100,000 but not over \$163,300	\$	× 24% (0.24)	\$	\$ 5,920.50	\$
Over \$163,300 but not over \$207,350	\$	× 32% (0.32)	\$	\$ 18,984.50	\$
Over \$207,350 but not over \$518,400	\$	× 35% (0.35)	\$	\$ 25,205.00	\$
Over \$518,400	\$	× 37% (0.37)	\$	\$ 35,573.00	\$

**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 15 is—	(a) Enter the amount from line 15	(b) Multiplication amount	(c) Multiply (a) by (b)	(d) Subtraction amount	Tax. Subtract (d) from (c). Enter the result here and on the entry space on line 16.
At least \$100,000 but not over \$171,050	\$	× 22% (0.22)	\$	\$ 8,420.00	\$
Over \$171,050 but not over \$326,600	\$	× 24% (0.24)	\$	\$ 11,841.00	\$
Over \$326,600 but not over \$414,700	\$	× 32% (0.32)	\$	\$ 37,969.00	\$
Over \$414,700 but not over \$622,050	\$	× 35% (0.35)	\$	\$ 50,410.00	\$
Over \$622,050	\$	× 37% (0.37)	\$	\$ 62,851.00	\$

20. A single taxpayer with a taxable income of \$110,233
21. A single taxpayer with a taxable income of \$165,755
22. A married taxpayer filing jointly with a taxable income of \$120,824
23. A married taxpayer filing jointly with a taxable income of \$328,100
24. A qualifying widow with a taxable income of \$152,070
25. A qualifying widower with a taxable income of \$322,085
26. A single taxpayer with a taxable income of \$102,780
27. A single taxpayer with a taxable income of \$220,490

Based on the given Form 1040, did the taxpayer receive a federal tax refund or owe an additional amount to the IRS in 2020?

28.

Form 1040 (2020)		Page <b>2</b>
<b>16</b>	<b>Tax</b> (see instructions). Check if any from Form(s): 1 <input type="checkbox"/> 8814 2 <input type="checkbox"/> 4972 3 <input type="checkbox"/>	<b>16</b> 2,814.53
<b>17</b>	Amount from Schedule 2, line 3	<b>17</b>
<b>18</b>	Add lines 16 and 17	<b>18</b> 2,814.53
<b>19</b>	Child tax credit or credit for other dependents	<b>19</b>
<b>20</b>	Amount from Schedule 3, line 7	<b>20</b>
<b>21</b>	Add lines 19 and 20	<b>21</b> 0
<b>22</b>	Subtract line 21 from line 18. If zero or less, enter -0-	<b>22</b> 2,814.53
<b>23</b>	Other taxes, including self-employment tax, from Schedule 2, line 10	<b>23</b>
<b>24</b>	Add lines 22 and 23. This is your <b>total tax</b>	<b>24</b> 2,814.53
<b>25</b>	Federal income tax withheld from:	
<b>a</b>	Form(s) W-2	<b>25a</b> 2,596.17
<b>b</b>	Form(s) 1099	<b>25b</b>
<b>c</b>	Other forms (see instructions)	<b>25c</b>
<b>d</b>	Add lines 25a through 25c	<b>25d</b> 2,596.17
<b>26</b>	2020 estimated tax payments and amount applied from 2019 return	<b>26</b>
<b>27</b>	Earned income credit (EIC)	<b>27</b>
<b>28</b>	Additional child tax credit. Attach Schedule 8812	<b>28</b>
<b>29</b>	American opportunity credit from Form 8863, line 8	<b>29</b>
<b>30</b>	Recovery rebate credit. See instructions	<b>30</b>
<b>31</b>	Amount from Schedule 3, line 13	<b>31</b>
<b>32</b>	Add lines 27 through 31. These are your <b>total other payments and refundable credits</b>	<b>32</b> 0
<b>33</b>	Add lines 25d, 26, and 32. These are your <b>total payments</b>	<b>33</b> 2,596.17
<b>Refund</b>	<b>34</b> If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you <b>overpaid</b>	<b>34</b>
<b>35a</b>	Amount of line 34 you want <b>refunded to you</b> . If Form 8888 is attached, check here <input type="checkbox"/>	<b>35a</b>
<b>b</b>	Routing number	<b>c</b> Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings
<b>d</b>	Account number	
<b>36</b>	Amount of line 34 you want <b>applied to your 2021 estimated tax</b>	<b>36</b>
<b>Amount You Owe</b>	<b>37</b> Subtract line 33 from line 24. This is the <b>amount you owe now</b>	<b>37</b>
	<b>Note:</b> Schedule H and Schedule SE filers, line 37 may not represent all of the taxes you owe for 2020. See Schedule 3, line 12e, and its instructions for details.	
<b>38</b>	Estimated tax penalty (see instructions)	<b>38</b>

29.

Form 1040 (2020)		Page <b>2</b>
<b>16</b>	<b>Tax</b> (see instructions). Check if any from Form(s): 1 <input type="checkbox"/> 8814 2 <input type="checkbox"/> 4972 3 <input type="checkbox"/>	<b>16</b> 3,765.14
<b>17</b>	Amount from Schedule 2, line 3	<b>17</b>
<b>18</b>	Add lines 16 and 17	<b>18</b> 3,765.14
<b>19</b>	Child tax credit or credit for other dependents	<b>19</b>
<b>20</b>	Amount from Schedule 3, line 7	<b>20</b>
<b>21</b>	Add lines 19 and 20	<b>21</b> 0
<b>22</b>	Subtract line 21 from line 18. If zero or less, enter -0-	<b>22</b> 3,765.14
<b>23</b>	Other taxes, including self-employment tax, from Schedule 2, line 10	<b>23</b>
<b>24</b>	Add lines 22 and 23. This is your <b>total tax</b>	<b>24</b> 3,765.14
<b>25</b>	Federal income tax withheld from:	
<b>a</b>	Form(s) W-2	<b>25a</b> 3,893.59
<b>b</b>	Form(s) 1099	<b>25b</b>
<b>c</b>	Other forms (see instructions)	<b>25c</b>
<b>d</b>	Add lines 25a through 25c	<b>25d</b> 3,893.59
<b>26</b>	2020 estimated tax payments and amount applied from 2019 return	<b>26</b>
<b>27</b>	Earned income credit (EIC)	<b>27</b>
<b>28</b>	Additional child tax credit. Attach Schedule 8812	<b>28</b>
<b>29</b>	American opportunity credit from Form 8863, line 8	<b>29</b>
<b>30</b>	Recovery rebate credit. See instructions	<b>30</b>
<b>31</b>	Amount from Schedule 3, line 13	<b>31</b>
<b>32</b>	Add lines 27 through 31. These are your <b>total other payments and refundable credits</b>	<b>32</b> 0
<b>33</b>	Add lines 25d, 26, and 32. These are your <b>total payments</b>	<b>33</b> 3,893.59
<b>Refund</b>	<b>34</b> If line 33 is more than line 24, subtract line 24 from line 33. This is the amount you <b>overpaid</b>	<b>34</b>
<b>35a</b>	Amount of line 34 you want <b>refunded to you</b> . If Form 8888 is attached, check here <input type="checkbox"/>	<b>35a</b>
<b>b</b>	Routing number	<b>c</b> Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings
<b>d</b>	Account number	
<b>36</b>	Amount of line 34 you want <b>applied to your 2021 estimated tax</b>	<b>36</b>
<b>Amount You Owe</b>	<b>37</b> Subtract line 33 from line 24. This is the <b>amount you owe now</b>	<b>37</b>
	<b>Note:</b> Schedule H and Schedule SE filers, line 37 may not represent all of the taxes you owe for 2020. See Schedule 3, line 12e, and its instructions for details.	
<b>38</b>	Estimated tax penalty (see instructions)	<b>38</b>

30. A paystub is shown for an employee who has a gross income of \$42,000 annually. Using Table 6.4.4, calculate the missing figures from the paystub, which is for the first pay period of the year.

Barbara's Bombtastic Bakery 1234 Main Street, Cleveland, OH 44105				EARNINGS STATEMENT		
EMPLOYEE NAME	SSN	EMPLOYEE ID	CHECK NO.	PAY PERIOD	PAY DATE	
Sample Employee Name	XXX-XX-1234	0000123456	23131	1/1/20 – 1/31/20	2/4/20	
INCOME	RATE	HOURS	CURRENT TOTAL	DEDUCTIONS	CURRENT TOTAL	YEAR-TO-DATE
GROSS WAGES	21.86	160.11	3500	FICA MED TAX FICA SS TAX FED TAX	a. _____ b. _____ 401.71	401.71
YTD GROSS	YTD DEDUCTIONS	YTD NET PAY	CURRENT TOTAL	CURRENT DEDUCTIONS	NET PAY	
3500			3500	c. _____	d. _____	

31. A paystub is shown for an employee who has a gross income of \$21,600 annually. Using Table 6.4.4, calculate the missing figures from the paystub, which is for the first pay period of the year.

Barbara's Bombtastic Bakery 1234 Main Street, Cleveland, OH 44105				EARNINGS STATEMENT		
EMPLOYEE NAME	SSN	EMPLOYEE ID	CHECK NO.	PAY PERIOD	PAY DATE	
Sample Employee Name	XXX-XX-1234	0000123456	23131	1/1/20 – 1/31/20	2/4/20	
INCOME	RATE	HOURS	CURRENT TOTAL	DEDUCTIONS	CURRENT TOTAL	YEAR-TO-DATE
GROSS WAGES	11.25	160.00	1800	FICA MED TAX FICA SS TAX FED TAX	a. _____ b. _____ 206.59	206.59
YTD GROSS	YTD DEDUCTIONS	YTD NET PAY	CURRENT TOTAL	CURRENT DEDUCTIONS	NET PAY	
1800			1800	c. _____	d. _____	

 APPLICATIONS

Determine the taxable income using the given information. See Appendix B for tax forms.

32. A married taxpayer is filing taxes jointly with his spouse, and they do not have any dependents to claim. During the year, they contribute \$4800 to a traditional IRA. They also make charitable contributions of \$800 to the Wildlife Conservation Society and \$500 to Ronald McDonald House Charities. They have no other deductions, and their combined wages are \$124,938. Additionally, they earned \$374 in interest from their savings accounts, which is taxable.
33. A married taxpayer is filing taxes jointly with her spouse, and they do not have any dependents to claim. During the year, they contribute \$3600 to a traditional IRA. They also make charitable contributions of \$300 to the Conservation Fund, \$250 to the Sheldrick Wildlife Trust, and \$450 to the American Lung Association. They have no other deductions, and their combined wages are \$110,270. Additionally, they earned \$178 in interest from their savings accounts, which is taxable.

34. A single taxpayer is filing taxes and does not have any dependents to claim. During the year, she contributes \$1200 to a traditional IRA. She also makes charitable contributions of \$250 to the Elephant Sanctuary in Tennessee and \$350 to the Parkinson's Foundation. She has no other deductions, and her yearly wage is \$45,640. Additionally, she earned \$92 in interest from her savings accounts, which is taxable.
35. A single taxpayer is filing taxes and does not have any dependents to claim. During the year, they contribute \$1800 to a traditional IRA. They also make charitable contributions of \$400 to the American Red Cross and \$400 to Feeding America. They have no other deductions, and their yearly wage is \$62,700. Additionally, they earned \$256 in interest from their savings accounts, which is taxable.
36. A married taxpayer is filing taxes jointly with his spouse and they do not have any dependents to claim. During the year, they contribute \$3200 to a traditional IRA. They also make charitable contributions of \$125 to Comic Relief, \$500 to ProLiteracy Worldwide, and \$750 to the Alzheimer's Association. They have no other deductions, and their combined wages are \$135,760. Additionally, they earned \$730 in interest from their savings accounts, which is taxable.
37. A qualified widow is filing taxes and does not have any dependents to claim. During the year, she contributes \$4000 to a traditional IRA. She also makes charitable contributions of \$275 to the Trevor Project, \$350 to Give Kids the World, and \$500 to the Gary Sinise Foundation. She has no other deductions, and her yearly wage is \$125,750. Additionally, she earned \$220 in interest from her savings accounts, which is taxable.
38. A married taxpayer is filing taxes separately from his spouse and does not have any dependents to claim. During the year, he contributes \$2400 to a traditional IRA. He also makes charitable contributions of \$175 to the National Council on Aging and \$250 to K9s for Warriors. He has no other deductions, and his yearly wage is \$56,200. Additionally, he earned \$120 in interest from their savings accounts, which is taxable.
39. A single taxpayer is filing taxes and does not have any dependents to claim. During the year, they contribute \$1200 to a traditional IRA. They also make charitable contributions of \$500 to UNCF and \$400 to the Cancer Research Institute. They have no other deductions, and their yearly wage is \$73,000. Additionally, they earned \$351 in interest from their savings accounts, which is taxable.

**WRITING & THINKING**

40. Describe how this section has influenced your view on completing taxes.