

Personal Finance © 2012

Chapter 14: Planning Your Tax Strategy

Check Your Answers: Section Assessment

Section 1

Review Key Concepts

1. Three strategies include knowing how current taxlaws affect you, maintaining complete and accurate records, and making decisions to reduce your tax liability.
2. Your taxable income is your adjusted gross income less minus tax deductions and exemptions.
3. Tax deductions are subtracted from the adjusted gross income which will affect the amount of computed taxes owed while a tax credit is an actual dollar amount subtracted from the amount of taxes owed.
4. A W-4 form directs an employer on how much federal income tax should be withheld from an employee's paycheck based on the number of allowances claimed and if an employee requests additional money to be withheld.

Higher Order Thinking

5. Sample response: This is not a good idea. It is smarter to have less withheld and to use the extra money in your paycheck to earn interest in a savings account or other investment opportunity.

English Language Arts

6. **The Tax Foundation** Summaries will vary based on area chosen. Sample answer for the area of sales tax holidays might include the definition of a sales tax holiday as a time period when certain goods are exempt from state sales tax. While supporters claim that these holidays improve sales, evidence shows that this does not promote economic growth. Rather, they simply shift the timing of purchases. In addition, some retailers raise prices during these holidays thereby reducing consumer savings. The Tax Foundation findings show that these holidays are, in effect, a "gimmick."

Mathematics

7. **Federal Income Taxes** Total annual salary = \$30,000; Marital status = single; Rate on taxable income (from Figure 1): Single tax payer with annual salary between \$8,350 and \$33,950 = 15% of amount over \$8,350, plus \$835; Federal income tax owed = \$30,000 – \$8,350 = \$21,650 × 15% = \$3,247.50 + \$835 = \$4,082.50

Section 2

Review Key Concepts

1. There are two short forms, the 1040EZ and 1040A, as well as a long form known as Form 1040.
2. You should collect the correct tax forms and instruction booklets, copies of previous tax returns, your W-2 form(s), and any interest or dividend forms.
3. When choosing tax software, think about your personal situation, any special tax situations, the software features, and technical aspects of the program.

Higher Order Thinking

4. Responses will vary but may include that hiring a professional is preferred if you plan to itemize deductions but do not feel confident about what expenses are allowed as deductions.

21st Century Skills

5. **Access and Evaluate Information** Responses will vary. For example, in 2009 there were new tax incentives for home and auto buyers, people making their homes more energy efficient, people paying for college, and people receiving unemployment. There was also an expanded IRA deduction, an increased standard deduction for many taxpayers, a change in mileage rates, and a kiddie tax change. The standard deduction change could affect a student filing a return for a summer job.

Mathematics

6. **Deductions** Total itemized deduction = $\$3,750 + \$575 = \$4,325$; Standard deduction = $\$7,950$; Use the standard deduction; Adjusted gross income = $\$25,000 - \$7,950 = \$17,050$.

Section 3

Review Key Concepts

1. You have the right to ask for time to prepare and to ask for clarification of items in question. You also have the right to have your tax preparer, accountant, or lawyer present during the audit.
2. Consider strategies related to purchases, investments, and retirement.
3. The government allows you to defer paying taxes on retirement accounts until the money is withdrawn.

Higher Order Thinking

4. Lists will vary but may include computers, office furniture, and travel expenses.

English Language Arts

5. **Retirement Plans** Advantages may include that contributions to the account are automatically deducted from your paycheck so you do not have to remember to deposit money to the account; you retain control of the investment choices for your money; many

companies will match part or all of your contributions; and taxes are deferred until you withdraw the money.

Mathematics

6. Purchasing Strategies Amount of job-related expenses to exceed = $\$41,000 \times 2\% = \820 ;

Total job-related expenses = $\$450 + \$350 + \$400 + \$500 = \$1,700$; Allowable job-related expense deductions = $\$1,700 - \$820 = \$880$; Home equity interest paid = $\$12,350$; Total allowable deductions = $\$12,350 + \$880 = \$13,230$.