

Student \_\_\_\_\_

Date \_\_\_\_\_

Class \_\_\_\_\_

Teacher \_\_\_\_\_

## CHAPTER 12 Planning Your Tax Strategy

### Reviewing Key Terms: Complete the Sentence



**DIRECTIONS:** Using terms from the following list, complete the sentences below. Write the letter of the term you have chosen in the space provided.

- |                  |                       |                       |
|------------------|-----------------------|-----------------------|
| A. tax liability | D. taxable income     | G. itemized deduction |
| B. income tax    | E. tax deduction      | H. tax credit         |
| C. exclusion     | F. standard deduction | I. allowance          |
|                  |                       | J. tax audit          |

- \_\_\_\_\_ is the tax on wages, salaries, and self-employed earnings.
- \_\_\_\_\_ is an amount of money set by the Internal Revenue Service that is not taxed.
- The total amount of taxes you owe is your \_\_\_\_\_.
- A detailed examination of your tax return by the Internal Revenue Service is called a(n) \_\_\_\_\_.
- Your \_\_\_\_\_ is your adjusted gross income less any allowable tax deductions and exemptions.
- A(n) \_\_\_\_\_ is an amount of money that can be subtracted directly from taxes you owe.
- An expense that you can subtract from your adjusted gross income to figure your taxable income is called a(n) \_\_\_\_\_.
- Income that is not subject to taxes is called a(n) \_\_\_\_\_.
- A specific expense that a person can deduct from his or her adjusted gross income is a(n) \_\_\_\_\_.
- A(n) \_\_\_\_\_ is an adjustment to the tax withheld from your paycheck, based on your marital status and whether you have dependents.

Student \_\_\_\_\_

Date \_\_\_\_\_

Class \_\_\_\_\_

Teacher \_\_\_\_\_

# CHAPTER 12 Planning Your Tax Strategy

## Understanding Key Concepts



**DIRECTIONS:** *On a separate sheet of paper, answer the following questions.*

1. List six of the many government services that are paid for with taxes.
2. Name the four categories of items on which people pay taxes.
3. How are the taxes on employees' earnings collected?
4. What is the difference between gross income, adjusted gross income, and taxable income? Write a formula for calculating a person's adjusted gross income (AGI) and another formula for calculating his or her taxable income.
5. Compare and contrast standard deductions, itemized deductions, exemptions, and tax credits. Give an example of each.
6. Victor is a 20-year-old American citizen who lives with his parents and goes to college part-time. Does he qualify as a dependent on his parents' tax return?
7. Jamie cannot file her tax return by the April 15 due date. What should she do?
8. Ryan has a wife, two children, and a mortgage. He made less than \$50,000 this year. Because his job does not provide insurance, he had to pay out of his own pocket for the delivery of his younger child in June. Would you recommend that he use Form 1040A or Form 1040 when filing his taxes? Explain.
9. Teri is being audited by the IRS. Offer what you consider the three most helpful tips to make the audit go more smoothly.
10. Bart made \$40,000 in adjusted gross income this year. He spent \$200 on union dues, \$500 on job-related education, and \$200 on business tools. How much of these job-related expenses can he deduct? Explain.

Copyright © by The McGraw-Hill Companies, Inc. All rights reserved.

Student \_\_\_\_\_

Date \_\_\_\_\_

Class \_\_\_\_\_

Teacher \_\_\_\_\_

# CHAPTER 12 Planning Your Tax Strategy

## Activity 1: Looking for Help



### SKILLS ACHIEVED

Writing, Listening, Speaking, Acquiring and evaluating information

**OBJECTIVE:** Survey local tax-preparation organizations to find out their costs and services.

Completing tax returns can be complicated and confusing. Numerous commercial and volunteer organizations exist to help you. Some charge a fee, while others are staffed by volunteers and are free. Use the chart below to compile information on three tax-preparation organizations in your community. At least one should be a free service. In the Cost/Service column, note which forms are included in the base rate. In the Eligibility column, note any restrictions on who may use the service.

Name of Firm	Cost/Services	Eligibility

Student \_\_\_\_\_

Date \_\_\_\_\_

Class \_\_\_\_\_

Teacher \_\_\_\_\_

## **CHAPTER 12** Planning Your Tax Strategy

### **Activity 2: Knowing Where to Look for Information**



#### **SKILLS ACHIEVED**

Reading, Writing, Knowing how to learn, Acquiring and evaluating information, Organizing and maintaining information, Participating as a member of a team

**OBJECTIVE:** *Work in a group to assemble an annotated source list of tax information.*

Knowing where to turn for information about filing your tax return and planning a tax strategy is extremely useful. This activity will give you the chance to work in a small group to put together a list of at least ten good sources of tax information, including books, publications from the IRS, Web sites, tax-preparation software, and other materials. Use your imagination to track down materials. As always, the community library is a good place to start; most have extensive tax information sections. Use the space at the bottom of this page to make notes, make group assignments, and organize your findings. Then use the chart on the next page to present your information.



Student \_\_\_\_\_

Date \_\_\_\_\_

Class \_\_\_\_\_

Teacher \_\_\_\_\_

## CHAPTER 12 Planning Your Tax Strategy

### Math-Building Skills: A Tax Pie



You have probably wondered how much total tax, and what kinds of taxes, you might have to pay as your financial life becomes more complicated. A good way to see quickly the distribution of a person's taxes is to make a pie chart. In this activity, you will use your drafting skills or graphing software to make a pie chart based on the information below. Create a pie chart that shows in percentages the taxes that Adam Moorehead paid in a recent year.

Federal income tax	\$5,380	Excise taxes	\$177
State income tax	\$612	Real estate taxes	\$638
City income tax	\$199	Social Security tax	\$1,356
Sales taxes	\$735	Medicare tax	\$319

Student \_\_\_\_\_

Date \_\_\_\_\_

Class \_\_\_\_\_

Teacher \_\_\_\_\_

# CHAPTER 12 Planning Your Tax Strategy

## Finance Online: Cutting Taxes



The object of planning a tax strategy is to pay your fair share and no more. This usually involves tax-cutting strategies. The Internet includes a treasure trove of advice on how to cut taxes.

How can taxpayers stop paying too much in taxes? They can start planning now for next year's tax return. For this activity, use an Internet search engine to find tax-cutting strategies. Visit as many Web sites as necessary to find answers to the questions.

Keywords Used	Site Names	Web-Site Addresses	Information Offered

1. How can a computer program help someone prepare to file next year's tax return?

\_\_\_\_\_  
\_\_\_\_\_

2. What tax benefits are available for college students?

\_\_\_\_\_  
\_\_\_\_\_

3. How can well-to-do taxpayers lower the taxes on their estates?

\_\_\_\_\_  
\_\_\_\_\_

Student \_\_\_\_\_

Date \_\_\_\_\_

Class \_\_\_\_\_

Teacher \_\_\_\_\_

# CHAPTER 12 Planning Your Tax Strategy

## Your Financial Portfolio Worksheet

### Take It EZ



Complete your income tax return, using this sample Form 1040EZ. Assume that your wages for the year were \$13,220 and you earned \$137 in interest. Your W-2 form shows that you had \$1,003 in federal income tax withheld. Your parents cannot claim you on their income tax return. Find your tax in the tax table below and calculate your refund or amount you owe.

**Tax Table**

### 20-- Tax Table

For persons with taxable income of less than \$50,000

**Example.** Mr. Brown is single. His taxable income on line 6 of Form 1040EZ is \$26,250. First, he finds the \$26,250-26,300 income line. Next, he finds the "Single" column and reads down the column. The amount shown where the income line and filing status column meet is \$4,010. This is the tax amount he should enter on line 10 of Form 1040EZ.

At least	But less than	Single	Married filing jointly
26,200	26,250	3,996	3,934
26,250	26,300	<b>4,010</b>	3,941
26,300	26,350	4,024	3,949
26,350	26,400	4,038	3,956

If Form 1040EZ, line 6, is—		And you are—		If Form 1040EZ, line 6, is—		And you are—		If Form 1040EZ, line 6, is—		And you are—	
At least	But less than	Single	Married filing jointly	At least	But less than	Single	Married filing jointly	At least	But less than	Single	Married filing jointly
Your tax is—		Your tax is—		Your tax is—		Your tax is—		Your tax is—		Your tax is—	
<b>4,000</b>				<b>5,000</b>				<b>6,000</b>			
4,000	4,050	604	604	5,000	5,050	754	754	6,000	6,050	904	904
4,050	4,100	611	611	5,050	5,100	761	761	6,050	6,100	911	911
4,100	4,150	619	619	5,100	5,150	769	769	6,100	6,150	919	919
4,150	4,200	626	626	5,150	5,200	776	776	6,150	6,200	926	926
4,200	4,250	634	634	5,200	5,250	784	784	6,200	6,250	934	934
4,250	4,300	641	641	5,250	5,300	791	791	6,250	6,300	941	941
4,300	4,350	649	649	5,300	5,350	799	799	6,300	6,350	949	949
4,350	4,400	656	656	5,350	5,400	806	806	6,350	6,400	956	956
4,400	4,450	664	664	5,400	5,450	814	814	6,400	6,450	964	964
4,450	4,500	671	671	5,450	5,500	821	821	6,450	6,500	971	971
4,500	4,550	679	679	5,500	5,550	829	829	6,500	6,550	979	979
4,550	4,600	686	686	5,550	5,600	836	836	6,550	6,600	986	986
4,600	4,650	694	694	5,600	5,650	844	844	6,600	6,650	994	994
4,650	4,700	701	701	5,650	5,700	851	851	6,650	6,700	1,001	1,001
4,700	4,750	709	709	5,700	5,750	859	859	6,700	6,750	1,009	1,009
4,750	4,800	716	716	5,750	5,800	866	866	6,750	6,800	1,016	1,016
4,800	4,850	724	724	5,800	5,850	874	874	6,800	6,850	1,024	1,024
4,850	4,900	731	731	5,850	5,900	881	881	6,850	6,900	1,031	1,031
4,900	4,950	739	739	5,900	5,950	889	889	6,900	6,950	1,039	1,039
4,950	5,000	746	746	5,950	6,000	896	896	6,950	7,000	1,046	1,046

Copyright © by The McGraw-Hill Companies, Inc. All rights reserved.



Student \_\_\_\_\_

Date \_\_\_\_\_

Class \_\_\_\_\_

Teacher \_\_\_\_\_

Form **1040EZ**

Department of the Treasury—Internal Revenue Service  
**Income Tax Return for Single and Joint Filers With No Dependents** (99) **20--**

OMB No. 1545-0675

**Label**

(See page 14.)  
**Use the IRS label.**  
Otherwise, please print or type.

L A B E L  H E R E	Your first name and initial	Last name
	If a joint return, spouse's first name and initial	Last name
	Home address (number and street). If you have a P.O. box, see page 14.	Apt. no.
	City, town or post office, state, and ZIP code. If you have a foreign address, see page 14.	

Your social security number  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
Spouse's social security number  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

**▲ Important! ▲**  
You must enter your SSN(s) above.

**Presidential Election Campaign** (page 14)

**Note.** Checking "Yes" will not change your tax or reduce your refund.  
Do you, or your spouse if a joint return, want \$3 to go to this fund? . . . . .

You                      Spouse  
 Yes  No             Yes  No

**Income**

**Attach Form(s) W-2 here.**  
Enclose, but do not attach, any payment.

**Note.** You must check Yes or No.

<b>1</b> Total wages, salaries, and tips. This should be shown in box 1 of your W-2 form(s). Attach your W-2 form(s).	1	
<b>2</b> Taxable interest. If the total is over \$1,500, you cannot use Form 1040EZ.	2	
<b>3</b> Unemployment compensation and Alaska Permanent Fund dividends (see page 16).	3	
<b>4</b> Add lines 1, 2, and 3. This is your <b>adjusted gross income</b> .	4	
<b>5</b> Can your parents (or someone else) claim you on their return? Yes. Enter amount from worksheet on back. <input type="checkbox"/> No. <input type="checkbox"/> If <b>single</b> , enter \$7,700. If <b>married</b> , enter \$13,850. See back for explanation.	5	
<b>6</b> Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-. This is your <b>taxable income</b> .	6	

**Payments and tax**

<b>7</b> Federal income tax withheld from box 2 of your W-2 form(s).	7	
<b>8</b> Earned income credit (EIC).	8	
<b>9</b> Add lines 7 and 8. These are your <b>total payments</b> .	9	
<b>10</b> <b>Tax.</b> Use the amount on line 6 above to find your tax in the tax table on pages 25-29 of the booklet. Then, enter the tax from the table on this line.	10	

**Refund**

Have it directly deposited! See page 21 and fill in 11b, 11c, and 11d.

<b>11a</b> If line 9 is larger than line 10, subtract line 10 from line 9. This is your <b>refund</b> .	11a	
<b>b</b> Routing number	<input type="text"/>	<b>c</b> Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings
<b>d</b> Account number	<input type="text"/>	

**Amount you owe**

<b>12</b> If line 10 is larger than line 9, subtract line 9 from line 10. This is the <b>amount you owe</b> . For details on how to pay, see page 22.	12	
---	----	--

**Third party designee**

Do you want to allow another person to discuss this return with the IRS (see page 22)?  Yes. Complete the following.  No

Designee's name	Phone no.	Personal identification number (PIN)
_____	____ ( ) _____	____

**Sign here**

Under penalties of perjury, I declare that I have examined this return, and to the best of my knowledge and belief, it is true, correct, and accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.

Joint return? See page 13. Keep a copy for your records.

Your signature	Date	Your occupation	Daytime phone number
_____	_____	_____	____ ( ) _____
Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation	
_____	_____	_____	

**Paid preparer's use only**

Preparer's signature	Date	Check if self-employed <input type="checkbox"/>	Preparer's SSN or PTIN
_____	_____		_____
Firm's name (or yours if self-employed), address, and ZIP code	EIN	Phone no.	
_____	_____	____ ( ) _____	

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 24.

Cat. No. 11329W

Form **1040EZ** (20--)

Copyright © by The McGraw-Hill Companies, Inc. All rights reserved.

Student

Date

Class

Teacher

# CHAPTER 12 Planning Your Tax Strategy

**Software  
Activity  
(Optional)**

## Spreadsheet Application

### Computing Taxable Income and Tax Liabilities



**OBJECTIVE:** Evaluate financial data in order to compute taxable income and tax liabilities.

#### Practice Situation

Shelly Calloway is a CPA and prepares income tax returns for several clients. Her clients have dropped off their income and expense data to her, and she has organized the information in the following manner as she prepares to complete their returns. Compute the adjusted gross income and tax due or tax refund amounts for Shelly's clients.

	Greg Miller	Cheryl Stafford	Valerie Bowman
Gross income (wages and salary)	\$48,000.00	\$55,000.00	\$33,500.00
Interest earned on savings	165.00	263.00	0.00
Standard deduction amount	7,850.00	6,900.00	4,700.00
IRA deduction	3,000.00	3,000.00	0.00
Child care tax credit	800.00	580.00	0.00
Medical expenses	0.00	5,950.00	0.00
Gifts to charity	0.00	4,525.00	0.00
Real estate taxes	0.00	2,840.00	0.00
Federal income tax withheld	2,542.39	8,260.26	3,955.98
Dependents other than self	3	2	0
Exemption amounts	12,000.00	9,000.00	3,000.00
Filing status	Married, filing joint return	Head of household	Single

Use the following tax rates to compute taxes owed:

Tax Rate	Single Taxpayer	Married Taxpayers	Head of Household
15%	\$6,000–\$27,950	\$12,000–\$46,700	\$10,000–\$37,450
27%	\$27,950–\$67,700	\$46,700–\$112,850	\$37,450–\$96,700

Copyright © by The McGraw-Hill Companies, Inc. All rights reserved.

Student \_\_\_\_\_

Date \_\_\_\_\_

Class \_\_\_\_\_

Teacher \_\_\_\_\_

	Greg Miller	Cheryl Stafford	Valerie Bowman
<b>Adjusted Gross Income Computation</b>			
Gross Income (wages and salary)			
Plus Interest Income			
Total Income			
Less IRA Deductions			
Adjusted Gross Income			
<b>Tax Computation</b>			
Adjusted Gross Income			
Less Itemized Deduction or Standard Deduction Amount			
Less Exemptions Amount			
Taxable Income			
Tax			
Less Tax Credits			
Total Tax			
Tax Withheld			
Tax Due			
Tax Refund Due			

<b>Computation of Itemized Deduction for Cheryl Stafford</b>			
Adjusted Gross Income			
<b>Medical Expenses Deduction:</b>			
Medical Expenses Paid			
7.5% of gross income			
Medical Expenses Deduction			
<b>Taxes Deduction:</b>			
Real Estate Taxes			
<b>Gifts Deduction:</b>			
Gifts to Charity			
<b>Total Itemized Deduction</b>			

Copyright © by The McGraw-Hill Companies, Inc. All rights reserved.

Student \_\_\_\_\_

Date \_\_\_\_\_

Class \_\_\_\_\_

Teacher \_\_\_\_\_

### Spreadsheet Directions

1. Start your spreadsheet software program and open problem SA12.xls.
2. Record gross income and interest income amounts for Greg Miller to compute his *Total Income*. Deduct Mr. Miller's IRA deduction from that amount.
3. Fill in the amounts for Mr. Miller's standard deduction and exemptions. Subtract standard deduction and exemption amounts from *Adjusted Gross Income* to compute his *Taxable Income*.
4. Use the tax rate schedule provided on page 140 and insert the formula to calculate Mr. Miller's tax due based on his taxable income. Next, adjust his tax due by any tax credits listed.
5. Input the deductions from Mr. Miller's paychecks. If the amount exceeds his tax due, he is entitled to a refund.
6. Repeat the same procedure for Ms. Stafford and Ms. Bowman. For Ms. Stafford, compute her total *Itemized Deduction* amount using the "Computation of Itemized Deduction for Cheryl Stafford" section of your spreadsheet.
7. After you complete the spreadsheet, save your work to a new file labeled SA12\*\*\*.xls. (Replace \*\*\* with your initials.)
8. Print out a copy of your work if your teacher has instructed you to do so.

### Interpreting Results

1. When completing the final tax returns for each client, which tax form is most appropriate for each client?  
\_\_\_\_\_

2. What is the taxable income for each of Shelly's clients?  
\_\_\_\_\_

3. Which of Shelly's clients will receive a tax refund? What is the amount?  
\_\_\_\_\_

### Drawing Conclusions

1. When computing itemized deductions, what types of items should be considered? What criteria are used to determine whether the standard deduction should be used instead? Explain.  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

Copyright © by The McGraw-Hill Companies, Inc. All rights reserved.

Student

Date

Class

Teacher

2. Explain the difference between an exemption and a standard deduction.

---

---

---

---

---

---

---

# CHAPTER 12 Planning Your Tax Strategy

## SELF-ASSESSMENT QUIZ

**DIRECTIONS:** Identify the letter of the choice that best completes the statement or best answers the question.

1. The tax a person pays when he or she buys a music CD is (A) sales tax (B) excise tax (C) estate tax (D) gift tax.
2. An example of an inheritance tax is the money collected on (A) a pizza order (B) cigarettes and gasoline (C) a deceased person's money (D) property left in a will.
3. The federal government's leading source of revenue is (A) property taxes (B) sales taxes (C) income taxes (D) Social Security taxes.
4. In which category do tips belong? (A) earned income (B) dividend income (C) interest income (D) tax-deferred income
5. An exemption is subtracted from a person's (A) gross income (B) adjusted gross income (C) taxable income (D) amount of taxes owed.
6. The money a person receives from the government when he or she pays too much in taxes is called a tax (A) liability (B) refund (C) credit (D) exclusion.
7. A W-4 form determines the amount an employee will (A) make in estimated payments (B) pay in taxes (C) receive in Social Security (D) have withheld.
8. If a person cannot file his or her federal tax return by April 15, he or she must file (A) Form 4868 (B) Form 1040EZ (C) a W-2 form (D) Form 1099-INT.
9. Of the following steps, which is the last a person performs when preparing his or her tax return? (A) entering total wages (B) subtracting deductions from adjusted gross income (C) subtracting tax owed from tax withheld (D) claiming an earned income tax credit.
10. Which amounts are tax-deferred? (A) interest paid on mortgage loans (B) real estate taxes (C) interest made on municipal bonds (D) investments in IRAs