### **Uncle Sam Takes a Bite**

#### **LESSON DESCRIPTION** AND BACKGROUND

Young people are sometimes surprised to learn that the pay they earn is not the same as the pay they take home. This lesson introduces students to the concepts of gross pay, net pay, marginal tax rate, income taxation, tax planning using pretax dollars for retirement savings and insurance, and the completion of Form 1040EZ. It teaches them how to compute tax savings from using pre-tax dollars for insurance and retirement plans. It asks the question, "Is it better to get a tax refund or to withhold lower tax payments throughout the year?" The students use paycheck stubs, W-2 forms, and tax tables to calculate taxable income, marginal tax rates, and taxes owed. They also complete a 1040EZ form.

Lesson 7 correlates with national standards for economics and personal finance as shown in Tables 1-2 in the introductory section of the publication.

#### **ECONOMIC AND PERSONAL FINANCE CONCEPTS**

- Gross pay
- Income taxation
- Marginal tax rate
- Net pay

#### **OBJECTIVES**

At the end of this lesson the student will be able to:

- Identify and explain the meaning of key terms such as gross pay, net pay, deductions, benefits, tax credits, itemized deductions, marginal tax rate, withholding, personal exemption, standard deduction.
- Identify the types of benefits provided by employers.

- Distinguish between required and optional tax deductions.
- Compute tax savings from using pre-tax dollars for insurance.
- Calculate taxable income and the amount of a tax refund.

#### TIME REQUIRED

Two or three 45-minute class periods

#### **MATERIALS**

- A transparency of **Visual 7.1**, **7.2**, **7.3**, **7.4**, and 7.5
- A copy for each student of **Exercise 7.1**, **7.2**, 7.3, and 7.4 from the Student Workbook
- A copy for each student of **Illustration 7.1** from the Student Workbook

### ADDITIONAL RESOURCES



To download visuals, find related lessons, correlations to state standards, interactives, and more visit <a href="http://fffl.councilforeconed.org/9-12/lesson7">http://fffl.councilforeconed.org/9-12/lesson7</a>.

#### **PROCEDURE**

1. Tell the students that the pay they earn is not the same as the pay they take home. Ask: What accounts for the difference between pay that is earned and take-home pay? (Answers will vary, but should include taxes [FICA tax, federal and state income tax] and benefits payments [contributions to health and dental insurance, retirement savings, union dues, etc.].) Explain that this lesson has two main goals: to help the students understand how taxes affect net pay, and to introduce strategies people can use to reduce their taxes, enabling them to bring home the largest paycheck that they are legally entitled to.

- 2. Explain that most people can easily file their own federal income taxes by using Form 1040EZ or free tax-calculating packages online. Especially when they are young and don't have many deductions or exemptions, the students should not have to pay anyone to prepare their taxes.
- 3. Ask the students to imagine that they have just agreed to start working at a part-time job, 15 hours per week, at \$10 per hour. Ask: How much will that first week's paycheck be? (Some students might fall for your trick question and say that the first paycheck will be \$150. Explain that \$150 is not correct.)
- 4. Explain that the amount of money that appears on an employee's paycheck is not the total amount of money the employee earned. Several deductions are taken out of paychecks. Many of these deductions are for taxes. That is how Uncle Sam takes his biggest bite.
- 5. Give each student a copy of **Exercise 7.1** from the *Student Workbook*. Ask the students to read the exercise and answer the questions. Discuss the answers.
- a. What is gross pay? (Gross pay is the total amount of money an employee earns before any deductions are made).
- b. What is net pay? (Net pay is the amount left after all deductions for taxes and benefits payments are taken out of the gross pay.
   Net pay is sometimes called take-home pay.)
- c. Is the amount of money shown on your paycheck equal to the total number of hours worked times your rate of pay? (No. Mandatory deductions for taxes and benefits payments are taken out of your paycheck.)
- d. Name at least three mandatory deductions that are taken out of gross pay. (The deductions include federal income tax, state income tax, Social Security tax, Medicare tax, local income tax.)
- e. Name three other deductions. (Other deductions may include life insurance, disability insurance, medical insurance, dental

### insurance, retirement savings plan, and contributions to charity.)

- 6. Give each student a copy of **Exercise 7.2** from the *Student Workbook*. Emphasize the point that not all of our income is taxed at the same rate. The highest rate at which we are taxed is our marginal tax rate. This rate is the rate at which each additional dollar earned is taxed. People sometimes refer to the "tax bracket" they are in; this term refers to their marginal tax rate.
- 7. In **Exercise 7.2**, refer the students to the table, What's Your Bracket? Ask: What is the marginal tax rate for someone with a taxable income of \$33,000? *(25 percent.)* Remind the students that the marginal tax rate applies to the last dollar of earnings.
- 8. Ask the students to read **Exercise 7.2** and answer the questions at the end. Discuss the answers.
- a. What is Mike's marginal tax rate? (15 percent.) What does this mean? (The marginal tax rate is the highest rate at which your income is taxed. It is the rate at which each additional dollar of income earned is taxed. Note that not all of one's income is taxed at this rate.)
- b. How much does Mike save in taxes by paying for his health insurance with pre-tax dollars? (\$270, calculated as \$1,800 x 0.15.)
- c. What is Mike's taxable income? (\$18,250)
- d. How much does Mike save in taxes by using pre-tax dollars to save for retirement and pay for his health insurance? (\$420)
- e. What are some things Mike could do with his tax savings? (Answers will vary. Mike might save more for retirement, pay off debt, travel, buy clothing, etc.)
- f. How much tax was owed on the first \$5,000 of gross income? (\$0. Remind students that the first \$8,950 of income is not taxed.)



- g. Compare Mike's gross income to Ann's gross income. What do you notice? (They are the same.)
- h. Compare Mike's taxable income to Ann's taxable income. What do you notice? (Mike's taxable income is lower than Ann's.)

  Explain. (The use of pre-tax dollars to pay for retirement contributions and health insurance has reduced Mike's taxable income. Ann does not receive this tax benefit since she did not use any pre-tax dollars to reduce her taxable income.)
- 9. Display **Visual 7.1**. Go over some of the key information shown on the W-2 form. Explain that employers require their workers to determine the number of allowances that can be claimed in determining how much of an employee's earnings are to be withheld for taxes. These allowances are claimed on a

claimed for the next tax year. Employees can do this by checking with their employer's human resources specialist. For many people, it is a reasonable goal to have the amount of tax owed be equal to the amount that is being withheld. In this way, taxpayers don't have to pay additional taxes, nor are they having too much money withheld from their earnings.

10. In going over **Visual 7.1**, note that boxes 2 and 17 (the amount of federal and state income tax withheld) will be determined from the allowances declared as well as the employee's income. The amount withheld for Social Security is 6.2 percent of income earned (\$24,050 x 0.062 = \$1491.10) and the amount withheld for Medicare is 1.45 percent of income earned (\$24,050 x 0.0145 = \$348.73). These percentages for Social Security and Medicare taxes are determined by federal law.

	Mike's Taxable Income	Ann's Taxable Income
Gross income	\$30,000	\$30,000
Less personal exemption	\$3,500	\$3,500
Less standard deduction	\$5,450	\$5,450
Less 401(k) contribution	\$1,000	
Less health insurance premium	\$1,800	
Taxable income	\$18,250	\$21,050
Total tax savings	\$150 + \$270 = \$420	\$0

special form (Form W-4, Employee's Withholding Allowance Certificate) that is provided by the employer; the employee is restricted in how many allowances he or she may claim. Whenever an employee experiences key life events (such as marriage or the birth of a child), he or she should consider changing the number of allowances claimed. When more allowances are claimed, less money is withheld from the worker's paycheck, and net pay will be greater. If too few allowances are claimed, the worker may discover that a large share of taxes withheld from his or her pay checks will be returned later in the form of a tax refund. In this case, the worker may want to adjust the allowances

- 11. Display **Visual 7.2**. Explain how to complete Form 1040EZ, using Nicole's Form W-2 and a tax table. Demonstrate how to read a tax table, using **Visual 7.3**. As you work through this visual, ask the following questions:
- a. What is Nicole's adjusted gross income? (\$24,100)
- b. What is Nicole's taxable income? (\$15,150)
- c. What accounts for the difference between these numbers? (\$8,950 is the amount Nicole can claim as a personal exemption and a standard deduction as a single filer. This amount reduces her tax liability.)

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- d. How much federal income tax was withheld from Nicole's paycheck? (\$1,822)
- e. Where would Nicole get this information? (From her W-2 form.)
- f. How much tax does Nicole owe for 2008? **(\$1,875)**
- g. Where did she get this information? (By looking at the tax tables and finding the tax for a single filer whose taxable income was \$15,150.)
- h. Was too much or too little withheld from Nicole's paycheck? *(Too little.)*
- i. How much tax does Nicole still owe? (\$53)
- 12. Give each student a copy of **Exercise 7.3** from the *Student Workbook*. Ask the students to read the exercise and complete Jack's 1040EZ form. When they have done this, ask them to answer both sets of questions found in the exercise. Discuss the answers with the class. (Jack's completed tax form is found in **Visual 7.4**.)
- a. What is the difference between Jack's weekly gross pay and his net pay? (\$77.79)
- b. How many withholding allowances did Jack claim? **(0)**
- c. What is Jack's marginal tax rate? (15 percent. Students may need help answering this question. You may wish to tell students to look at the tax table to see the additional tax to be withheld for another \$100 of earnings. Students can then calculate the additional tax owed for this additional \$100 earned. The additional tax owed—\$15—represents 15 percent of the additional \$100 earned, which represents a 15 percent marginal tax rate.)
- d. Does Jack owe taxes or get a refund? (He gets a refund of \$442.)
- e. How would you recommend that Jack change his withholding allowances for next year? (Answers will vary. The students should note that Jack could claim himself as an allowance and, therefore, have fewer taxes withheld from his paycheck. By claiming at

least one allowance, he will have higher net pay. This will, of course, mean that his tax refund will be smaller, but he can use his higher net pay in many ways—e.g., to increase his savings in an interest-bearing account or to pay down debt.)

#### **CLOSURE**

Conclude the lesson by noting that many income tax forms are used in the United States. In general, the 1040EZ is the easiest federal income tax form to fill out. For many students—those who are entering the workforce permanently after graduating from high school or college and are not married, don't own a home, have no dependents, etc.—the 1040EZ federal income tax form will be the most appropriate to use. Explain to the students that as they grow older and buy houses, have children, have health care expenditures, pay property taxes, etc., they will probably have to fill out the more complicated 1040 form. While this form is more difficult to fill out (many students will seek help from tax professionals), it is nonetheless based on the same general principles of marginal taxation, tax withholding, etc., addressed in this lesson.

#### **ASSESSMENT**

Have the students complete **Exercise 7.4** from the *Student Workbook*. The completed form is shown on **Visual 7.5**. Here are suggested answers:

- a. What is Jill's weekly gross pay? (\$400) What is her weekly net pay? (\$334.74)
- b. Why is Jill's net pay different from Jack's when their gross pay is the same? (Jill selected one withholding allowance. This is indicated on her pay stub. Jack elected not to take the allowance he was permitted. This means that less tax was withheld from Jill's pay check.)
- c. Does Jill owe taxes or get a refund? (**Jill owes** \$45.)

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d. What would you recommend to Jill about adjusting her withholding allowances for next year? (She should probably keep the same level of withholding. Her taxes owed and the amount of tax collected were nearly equal. This allowed her to pay the amount owed easily; it also gave her full use of the portion of her income that was not needed for taxes.)

#### **EXTENSION**

Ask the students to interview their parents, a relative, or an older friend about the income tax forms that they fill out. In the interviews, the students should ask whether the interviewees prepared their own tax forms in the last tax year. Did they get a refund? How many allowances did they claim? What forms did they use? What kind of deductions and credits did they claim? As appropriate, the students may report on their interviews in class or write up a brief description of the interviews as a homework exercise.

# Nicole's W-2 Wage and Tax Statement

	a Employee's 123-45	OMB No. 154	This information is being furnished to the Internal Revenue Service. If you are required to file a tax return, a negligence penalty or other sanction with the service of t							
b Employer identification number (EIN) 00000000					ges, tips, other compensation 1,050.00		2 Federal income tax withheld 1,822.00			
c Employer's name, address Yourtown Suppo			cial security wages	4 Social security tax withheld 1,491.00						
10 Broadway Yourtown, MO 12356					dicare wages and tips 1,050.00 cial security tips	6 Medicare tax withheld 348.73 8 Allocated tips				
d Control number			9 Adv	vance EIC payment	10 Dependent care benefits					
e Employee's first name and Nicole M. Shoer 123 Briargate La Yourtown, MO 1	macher ane 2356		Suff.	13 Statuto employ	ner	12b		for box 12		
15 State Employer's state II 00000000	O number 1	6 State wages, tips, etc. 24,050.00	17 State incom 641.00	e tax	18 Local wages, tips, etc.	19 Local inco	ome tax	20 Locality nam		
Wage State	and Tax ment		200	08	•	f the Treasury	/—Internal	Revenue Servic		

## Nicole's Form 1040EZ

Form <b>1040EZ</b>		Department of the Treasury—Into Income Tax Return Joint Filers With	n for Single	e and	2008			OMB No. 1545-0074
Label	١١	Your first name and initial	Last I Sho	name Demaker				al security number 45 : 6789
(See page 9.) Use the	L L B E L	If a joint return, spouse's first name						social security number
Otherwise, please print	밭 1	Home address (number and street) 23 Briargate Lane				Apt. no.		s must enter SSN(s) above.
or type. Presidential Election	E	City, town or post office, state, and	I ZIF COUE. II YOU III	ive a loreigh addre	ss, see page s.	J		a box below will not ur tax or refund.
Campaign (page 9)		Check here if you, or you	r spouse if a joir	nt return, want	\$3 to go to this fur	nd <b>&gt;</b>	You	☐ Spouse
Income	1	Wages, salaries, and tips. Attach your Form(s) W-2		shown in box 1	of your Form(s) W	V-2.	1	24,050
Attach Form(s) W-2 here.	_2	Taxable interest. If the tot	al is over \$1,500	), you cannot u	se Form 1040EZ.		2	50
Enclose, but do not	3	Unemployment compensa	tion and Alaska	Permanent Fun	d dividends (see pa	age 11).	3	04.400
attach, any payment.	5	Add lines 1, 2, and 3. Thi  If someone can claim you the applicable box(es) bel  You  S	(or your spouse	e if a joint retu	rn) as a dependent		4	24,100
	_	If no one can claim you ( \$17,900 if married filing	jointly. See bac	ck for explanati	on.	ingle;	5	8,950
	U	Subtract line 5 from line 4. This is your <b>taxable inco</b>		ger man ime 4,	enter -o	•	6	15,150
Payments	_7				W-2.		7	1,822
and tax		Earned income credit (E		2).	01	1	8a	
	9	Nontaxable combat pay el Recovery rebate credit (se		pages 17 and 1	8b 8).		9	
	10	Add lines 7, 8a, and 9. Th	ese are your tot	tal payments.		<b>&gt;</b>	10	1,822
	11	<b>Tax.</b> Use the amount on 1 28–36 of the booklet. The				ages	11	1,875
Refund Have it directly	12a	If line 10 is larger than line If Form 8888 is attached,		ne 11 from line	e 10. This is your	refund.	12a	
deposited! See page 18 and fill in 12b, 12c,	<b>▶</b> b	Routing number		<b> </b>	Type: Checking	g Savings		
and 12d or Form 8888.	► d	Account number  If line 11 is larger than lin	a 10 subtreat lin	a 10 from lina	11. This is			
you owe		the amount you owe. For	details on how t	o pay, see page	19.	<b>&gt;</b>	13	53
Third party designee	Desi nam			Phone no. ► (	)	Personal ide number (PIN	ntification	
Sign here	accu on a	er penalties of perjury, I declare urately lists all amounts and sour Il information of which the prepa	ces of income I rece	eived during the ta edge.	ax year. Declaration of	nowledge and be preparer (other t	han the taxpa	yer) is based
Joint return? See page 6.	You	r signature		Date	Your occupation Social worke	er		ne phone number 1) 965-0002
Keep a copy for your records.	Spor	use's signature. If a joint return,	both must sign.	Date	Spouse's occupation		(51-	
Paid preparer's	sign	parer's ature			Date C	Check if self-employed	Preparer ]	's SSN or PTIN
use only	your	's name (or s if self-employed), ress, and ZIP code				EIN Phone no.	( )	
For Disclosure, Pr	rivacy	Act, and Paperwork Reduction	on Act Notice, see	page 37.	Cat. No.	11329W	F	form <b>1040EZ</b> (2008

## Federal Tax Table for Form 1040EZ

If Form line 6, is	1040EZ,	And yo	ou are-	If Form 1 line 6, is	040EZ,	And yo	ou are-	If Form		And yo	u are-	If Form 1 line 6, is	1040EZ,	And yo	ontinued u 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	At least	But less than	Single	Married filing jointly
		Your t	ax is-			Your t	ax is-			Your t	ax is-			Your t	ax is-
9,00	0			12,00	0			15,0	00			18,00	00		
9,000	9,050	953	903	12,000	12,050	1,403	1,203	15,000	15,050	1,853	1,503	18,000	18,050	2,303	1,901
9,050	9,100	960	908	12,050	12,100	1,410	1,208	15,050	15,100	1,860	1,508	18,050	18,100	2,310	1,909
9,100	9,150	968	913	12,100	12,150	1,418	1,213	15,100	15,150	1,868	1,513	18,100	18,150	2,318	1,916
9,150	9,200	975	918	12,150	12,200	1,425	1,218	15,150	15,200	1,875	1,518	18,150	18,200	2,325	1,924
9,200 9,250 9,300 9,350	9,250 9,300	983 990 998 1,005	923 928 933 938	12,200 12,250 12,300 12,350	12,250 12,300 12,350 12,400	1,433 1,440 1,448 1,455	1,223 1,228 1,233 1,238	15,200 15,250 15,300 15,350	15,250 15,300 15,350 15,400	1,883 1,890 1,898 1,905	1,523 1,528 1,533 1,538	18,200 18,250 18,300 18,350	18,250 18,300 18,350 18,400	2,333 2,340 2,348 2,355	1,931 1,939 1,946 1,954
9,400	9,450	1,013	943	12,400	12,450	1,463	1,243	15,400	15,450	1,913	1,543	18,400	18,450	2,363	1,961
9,450	9,500	1,020	948	12,450	12,500	1,470	1,248	15,450	15,500	1,920	1,548	18,450	18,500	2,370	1,969
9,500	9,550	1,028	953	12,500	12,550	1,478	1,253	15,500	15,550	1,928	1,553	18,500	18,550	2,378	1,976
9,550	9,600	1,035	958	12,550	12,600	1,485	1,258	15,550	15,600	1,935	1,558	18,550	18,600	2,385	1,984
9,600	9,650	1,043	963	12,600	12,650	1,493	1,263	15,600	15,650	1,943	1,563	18,600	18,650	2,393	1,991
9,650	9,700	1,050	968	12,650	12,700	1,500	1,268	15,650	15,700	1,950	1,568	18,650	18,700	2,400	1,999
9,700	9,750	1,058	973	12,700	12,750	1,508	1,273	15,700	15,750	1,958	1,573	18,700	18,750	2,408	2,006
9,750	9,800	1,065	978	12,750	12,800	1,515	1,278	15,750	15,800	1,965	1,578	18,750	18,800	2,415	2,014
9,800	9,850	1,073	983	12,800	12,850	1,523	1,283	15,800	15,850	1,973	1,583	18,800	18,850	2,423	2,021
9,850	9,900	1,080	988	12,850	12,900	1,530	1,288	15,850	15,900	1,980	1,588	18,850	18,900	2,430	2,029
9,900	9,950	1,088	993	12,900	12,950	1,538	1,293	15,900	15,950	1,988	1,593	18,900	18,950	2,438	2,036
9,950	10,000	1,095	998	12,950	13,000	1,545	1,298	15,950	16,000	1,995	1,598	18,950	19,000	2,445	2,044
10,0	00	,		13,00	0			16,0	00	,		19,00	00		
10,000	10,050	1,103	1,003	13,000	13,050	1,553	1,303	16,000	16,050	2,003	1,603	19,000	19,050	2,453	2,051
10,050	10,100	1,110	1,008	13,050	13,100	1,560	1,308	16,050	16,100	2,010	1,609	19,050	19,100	2,460	2,059
10,100	10,150	1,118	1,013	13,100	13,150	1,568	1,313	16,100	16,150	2,018	1,616	19,100	19,150	2,468	2,066
10,150	10,200	1,125	1,018	13,150	13,200	1,575	1,318	16,150	16,200	2,025	1,624	19,150	19,200	2,475	2,074
10,200		1,133	1,023	13,200	13,250	1,583	1,323	16,200	16,250	2,033	1,631	19,200	19,250	2,483	2,081
10,250		1,140	1,028	13,250	13,300	1,590	1,328	16,250	16,300	2,040	1,639	19,250	19,300	2,490	2,089
10,300		1,148	1,033	13,300	13,350	1,598	1,333	16,300	16,350	2,048	1,646	19,300	19,350	2,498	2,096
10,350		1,155	1,038	13,350	13,400	1,605	1,338	16,350	16,400	2,055	1,654	19,350	19,400	2,505	2,104
10,400	10,500	1,163	1,043	13,400	13,450	1,613	1,343	16,400	16,450	2,063	1,661	19,400	19,450	2,513	2,111
10,450		1,170	1,048	13,450	13,500	1,620	1,348	16,450	16,500	2,070	1,669	19,450	19,500	2,520	2,119
10,500		1,178	1,053	13,500	13,550	1,628	1,353	16,500	16,550	2,078	1,676	19,500	19,550	2,528	2,126
10,550		1,185	1,058	13,550	13,600	1,635	1,358	16,550	16,600	2,085	1,684	19,550	19,600	2,535	2,134
10,600	10,800	1,193	1,063	13,600	13,650	1,643	1,363	16,600	16,650	2,093	1,691	19,600	19,650	2,543	2,141
10,650		1,200	1,068	13,650	13,700	1,650	1,368	16,650	16,700	2,100	1,699	19,650	19,700	2,550	2,149
10,700		1,208	1,073	13,700	13,750	1,658	1,373	16,700	16,750	2,108	1,706	19,700	19,750	2,558	2,156
10,750		1,215	1,078	13,750	13,800	1,665	1,378	16,750	16,800	2,115	1,714	19,750	19,800	2,565	2,164
10,800	10,850	1,223	1,083	13,800	13,850	1,673	1,383	16,800	16,850	2,123	1,721	19,800	19,850	2,573	2,171
10,850	10,900	1,230	1,088	13,850	13,900	1,680	1,388	16,850	16,900	2,130	1,729	19,850	19,900	2,580	2,179
10,900	10,950	1,238	1,093	13,900	13,950	1,688	1,393	16,900	16,950	2,138	1,736	19,900	19,950	2,588	2,186
10,950	11,000	1,245	1,098	13,950	14,000	1,695	1,398	16,950	17,000	2,145	1,744	19,950	20,000	2,595	2,194
11,0	00			14,00	0			17,0	00			20,00	00		
11,000 11,050 11,100 11,150	11,100 11,150	1,253 1,260 1,268 1,275	1,103 1,108 1,113 1,118	14,000 14,050 14,100 14,150	14,050 14,100 14,150 14,200	1,703 1,710 1,718 1,725	1,403 1,408 1,413 1,418	17,000 17,050 17,100 17,150	17,050 17,100 17,150 17,200	2,153 2,160 2,168 2,175	1,751 1,759 1,766 1,774	20,000 20,050 20,100 20,150	20,050 20,100 20,150 20,200	2,603 2,610 2,618 2,625	2,201 2,209 2,216 2,224
11,200 11,250 11,300 11,350	11,250 11,300	1,283 1,290 1,298 1,305	1,123 1,128 1,133 1,138	14,200 14,250 14,300 14,350	14,250 14,300 14,350 14,400	1,733 1,740 1,748 1,755	1,423 1,428 1,433 1,438	17,200 17,250 17,300 17,350	17,250 17,300 17,350 17,400	2,183 2,190 2,198 2,205	1,781 1,789 1,796 1,804	20,200 20,250 20,300 20,350	20,250 20,300 20,350 20,400	2,633 2,640 2,648 2,655	2,231 2,239 2,246 2,254
11,400	11,450	1,313	1,143	14,400	14,450	1,763	1,443	17,400	17,450	2,213	1,811	20,400	20,450	2,663	2,261
11,450	11,500	1,320	1,148	14,450	14,500	1,770	1,448	17,450	17,500	2,220	1,819	20,450	20,500	2,670	2,269
11,500	11,550	1,328	1,153	14,500	14,550	1,778	1,453	17,500	17,550	2,228	1,826	20,500	20,550	2,678	2,276
11,550	11,600	1,335	1,158	14,550	14,600	1,785	1,458	17,550	17,600	2,235	1,834	20,550	20,600	2,685	2,284
11,600	11,650	1,343	1,163	14,600	14,650	1,793	1,463	17,600	17,650	2,243	1,841	20,600	20,650	2,693	2,291
11,650	11,700	1,350	1,168	14,650	14,700	1,800	1,468	17,650	17,700	2,250	1,849	20,650	20,700	2,700	2,299
11,700	11,750	1,358	1,173	14,700	14,750	1,808	1,473	17,700	17,750	2,258	1,856	20,700	20,750	2,708	2,306
11,750	11,800	1,365	1,178	14,750	14,800	1,815	1,478	17,750	17,800	2,265	1,864	20,750	20,800	2,715	2,314
11,800	11,850	1,373	1,183	14,800	14,850	1,823	1,483	17,800	17,850	2,273	1,871	20,800	20,850	2,723	2,321
11,850	11,900	1,380	1,188	14,850	14,900	1,830	1,488	17,850	17,900	2,280	1,879	20,850	20,900	2,730	2,329
11,900	11,950	1,388	1,193	14,900	14,950	1,838	1,493	17,900	17,950	2,288	1,886	20,900	20,950	2,738	2,336
11,950	12,000	1,395	1,198	14,950	15,000	1,845	1,498	17,950	18,000	2,295	1,894	20,950	21,000	2,745	2,344



# Jack's Completed Form 1040EZ Answers to Exercise 7.3

1040EZ	Income Tax Return for		2008			OMD N- 1545 0		
	Joint Filers With No De	Last name (99)	2000		Your socia	OMB No. 1545-0		
Label	Jack C.	Allen		)	222   80   6002			
See page 9.)		al Last name			Spouse's s	ocial security nur		
Jse the RS label.	Home address (number and street). If you ha							
Otherwise	1 100 Manle Street	ave a P.O. box, see page 9.		Apt. no.		must enter SSN(s) above.		
please print or type.	City, town or post office, state, and ZIP code	e. If you have a foreign add	ress, see page 9.		Chaokina	hay balaw will		
residential Election	Anytown, MO 12345					box below will ur tax or refund.		
Campaign page 9)	Check here if you, or your spouse	e if a joint return, wan	t \$3 to go to this fur	nd <b>&gt;</b>	You	☐ Spot		
ncome	1 Wages, salaries, and tips. This she Attach your Form(s) W-2.	ould be shown in box	1 of your Form(s) V	V-2.	1	20,800		
Attach Form(s) W-2 nere.	2 Taxable interest. If the total is over	er \$1,500, you cannot	use Form 1040EZ.		2			
nclose, but lo not	3 Unemployment compensation and	l Alaska Permanent Fu	and dividends (see pa	age 11).	3			
ttach, any ayment.	4 Add lines 1, 2, and 3. This is you	r adjusted gross inco	ome.		4	20,800		
	5 If someone can claim you (or yo the applicable box(es) below and  You Spouse If no one can claim you (or your	enter the amount from	the worksheet on b	ack.				
	\$17,900 if married filing jointly  6 Subtract line 5 from line 4. If line	. See back for explana	tion.	g.e.,	5	8,950		
	This is your <b>taxable income</b> .	3 is larger than time -	r, enter -o	<b>•</b>	6	11,850		
Payments	7 Federal income tax withheld from	<u> </u>	s) W-2.		7	1,822		
and tax	8a Earned income credit (EIC) (se b Nontaxable combat pay election.	e page 12).	8b		8a			
	9 Recovery rebate credit (see works	sheet on pages 17 and			9			
	10 Add lines 7, 8a, and 9. These are			<b>&gt;</b>	10	1,822		
	11 Tax. Use the amount on line 6 al 28–36 of the booklet. Then, enter			ages	11	1.380		
Refund Have it directly	12a If line 10 is larger than line 11, so If Form 8888 is attached, check h	12a	442					
leposited! See leage 18 and fill	▶ b Routing number	<b>_</b>	c Type: Checking	g Savings				
nd 12d or orm 8888.	▶ d Account number							
lmount ou owe	13 If line 11 is larger than line 10, su the <b>amount you owe.</b> For details	on how to pay, see pag	ge 19.	<u> </u>	13			
hird party	Do you want to allow another person to		th the IRS (see page		•	the following. L		
lesignee	Designee's name ►	Phone no. ► (	)	Personal ide number (PIN				
Sign	Under penalties of perjury, I declare that I ha accurately lists all amounts and sources of inc on all information of which the preparer has a	ve examined this return, a	and to the best of my k tax year. Declaration of	nowledge and be	elief, it is true,	correct, and /er) is based		
oint return? See page 6.	Your signature	Date	Your occupation		Daytim (	e phone number		
Geep a copy for our records.	Spouse's signature. If a joint return, <b>both</b> mu	st sign. Date	Spouse's occupation	on				
Paid preparer's	Preparer's signature		Date (	Check if self-employed	Preparer	's SSN or PTIN		
ise only	Firm's name (or yours if self-employed),			EIN	- 1			
,	address, and ZIP code			Phone no.	( )			



# Jill's Completed Form 1040EZ

### **Answers to Exercise 7.4**

Form 1040EZ	Department of the Treasury—Internal Revenue Service Income Tax Return for Single and Joint Filers With No Dependents (99)  2008	OMB No. 1545-00	)74		
.abel	Your first name and initial Last name Jill O. Jones	Your social security number			
See page 9.)	A I if a injut vature appusals first name and initial I leat name	608 40 1234 Spouse's social security num			
se the	B E Last name	,			
therwise, lease print	Home address (number and street). If you have a P.O. box, see page 9.  Apt. no.  6 Sweetbriar Lane	You <b>must</b> enter your SSN(s) above.			
r type.	R E City, town or post office, state, and ZIP code. If you have a foreign address, see page 9.	Checking a box below will r	not		
residential ection ampaign	Anytown, MO 12345	change your tax or refund.			
age 9)	Check here if you, or your spouse if a joint return, want \$3 to go to this fund	➤ ☐ You ☐ Spous	se		
ncome	1 Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2.	1 20,800			
ttach orm(s) W-2 ere.	2 Taxable interest. If the total is over \$1,500, you cannot use Form 1040EZ.	2			
nclose, but	3 Unemployment compensation and Alaska Permanent Fund dividends (see page 11).	3			
o not		. 00.000	_		
tach, any syment.	4 Add lines 1, 2, and 3. This is your <b>adjusted gross income</b> .  5 If someone can claim you (or your spouse if a joint return) as a dependent, check	4 20,800			
	5 If someone can claim you (or your spouse if a joint return) as a dependent, check the applicable box(es) below and enter the amount from the worksheet on back.				
	You Spouse				
	If no one can claim you (or your spouse if a joint return), enter \$8,950 if <b>single;</b> \$17,900 if <b>married filing jointly.</b> See back for explanation.	5 8,950			
	6 Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0  This is your taxable income.  ▶	6 11,850			
ayments	7 Federal income tax withheld from box 2 of your Form(s) W-2.  8a Earned income credit (EIC) (see page 12).	7 1,335 8a	_		
nd tax	b Nontaxable combat pay election. 8b	oa	_		
	9 Recovery rebate credit (see worksheet on pages 17 and 18).	9			
	10 Add lines 7, 8a, and 9. These are your total payments.	<b>→</b> 10 1,335			
	11 Tax. Use the amount on line 6 above to find your tax in the tax table on pages 28–36 of the booklet. Then, enter the tax from the table on this line.	1,380			
Refund	12a If line 10 is larger than line 11, subtract line 11 from line 10. This is your refund.		_		
ave it directly eposited! See	If Form 8888 is attached, check here ▶ □	12a	—		
age 18 and fill 12b, 12c,	▶ b Routing number	s			
nd 12d or orm 8888.	▶ d Account number	_			
mount ou owe	13 If line 11 is larger than line 10, subtract line 10 from line 11. This is the <b>amount you owe.</b> For details on how to pay, see page 19.	<b>→</b> 13 45			
			No		
hird party esignee	, , , , , , , , , , , , , , , , , , , ,	dentification			
ign ere	Under penalties of perjury, I declare that I have examined this return, and to the best of my knowledge and I accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other on all information of which the preparer has any knowledge.	r than the taxpayer) is based	_		
pint return? ee page 6.	Your signature Date Your occupation	Daytime phone number (800) 124-6868			
eep a copy for our records.	Spouse's signature. If a joint return, <b>both</b> must sign.  Date  Spouse's occupation	Dispersion COM at STORY			
Paid preparer's	Preparer's signature Date Check if self-employed Firm's name (or Initial Check if self-employed Date Check if self	Preparer's SSN or PTIN			
se only	rim's name (or EIN yours if self-employed), address, and ZIP code Phone no	<u>;</u>	—		
or Disclosure, Pi	ivacy Act, and Paperwork Reduction Act Notice, see page 37.  Cat. No. 11329W	Form <b>1040EZ</b> (2	2008		