

Marginal Tax, Standard Deduction and Exemptions

The percentage rate of **tax you** pay is known as the 'marginal tax rate'. It is calculated using your information including income, filing status, deductions and credits.

Definitions:

Gross Income = salary, wages, and tips + interest from savings accounts, prize money

Adjusted gross Income = Gross income - adjustments (contributions to IRA, tax-sheltered annuities, health savings account)

Taxable Income = Adjusted gross income - deductions - exemptions

Example:

Walt is married and files jointly with his wife. He earned \$52,000 while she earned \$48,000. How much tax do they owe?

They received \$600 interest.

They have two small children.

Their itemized deductions were \$8430.

They have a tax credit of \$1000.

Calculations for Walt & Family

Gross Income:

\$52,000 + \$48,000 + \$600 = **\$100,600**.

Decide on deduction type (standard or itemized)

Standard: \$10,900 or Itemized: \$8430; pick the largest!

Taxable Income:

\$100,600 - \$10,900 (STANDARD deduction) - 4(\$3500) (4 people in family):

TOTAL: **\$75,700**

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	Unmarried, divorced, or legally separated	Married and each partner files a separate tax return	Married and both partners file a single tax return	Unmarried and paying more than half the cost of supporting a child or parent
Tax Rate	Single	Married Filing Separately	Married Filing Jointly	Head of Household
10%	up to \$8025	up to \$8025	up to \$16,050	up to \$11,450
15%	\$8026 to \$32,550	\$8026 to \$32,550	\$16,051 to \$65,100	\$11,451 to \$43,650
25%	\$32,551 to \$78,850	\$32,551 to \$65,725	\$65,101 to \$131,450	\$43,651 to \$112,650
28%	\$78,851 to \$164,550	\$65,726 to \$100,150	\$131,451 to \$200,300	\$112,651 to \$182,400
33%	\$164,551 to \$357,700	\$100,151 to \$178,850	\$200,301 to \$357,700	\$182,401 to \$357,700
35%	more than \$357,700	more than \$178,850	more than \$357,700	more than \$357,700
Standard Deduction	\$5450	\$5450	\$10,900	\$8000
Exemptions (per person)	\$3500	\$3500	\$3500	\$3500

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Amount	Difference	Percent	tax
Up to \$16,050	\$16,050	10%	\$1,605
\$65,100-16,050	\$49,050	15%	\$7,357.50
\$75,700 -65,100*	\$10,600	25%	\$2,650
		Total	\$11,612.50

****don't go to end of bracket since it is more than their taxable income!***

How much tax do they owe?

Tax Owed: \$11,612.50

Tax Credit: \$1,000 (deduct from total tax)

Final Tax Amount: **\$10,612.50**

Practice Exercises

1. Dani is single with one dependent child. Her gross income is \$135,000. She has a tax credit of \$1000. What is her taxable income?
2. Alex is single with a gross income of \$152,000. What is his taxable income?
3. Susan is married and has 3 small children. She has a taxable income of \$98,100 and files jointly with her husband. She won a prize of \$2000 this year and has interest income of \$500. How much tax does she owe?
4. Daniel is married and has 2 small children. His family has a gross income of \$50,000. He has \$2000 in tax credits. How much is his tax bill?

Answers: \$120,000, 2. \$143,050, 3. \$13,572.35, 4. \$962.50