

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, exemptions 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 \$55,000. 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 + \$55,000 + \$600 = **\$107,600**. No adjustments such as IRA contributions, etc so this is their **AGI**

Decide on deduction type (standard or itemized)

Standard: \$12,600 or Itemized: \$8430; pick the largest!

Taxable Income:

\$107,600 - \$12,600 (STANDARD deduction) - 4 x \$4050 (4 people in family- Exemption per person):

TOTAL: **\$78,800**

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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 \$9,275	up to \$9,275	up to \$18,550	up to \$13,250
15%	\$9,276 to \$37,650	\$9,276 to \$37,650	\$18,551 to \$75,300	\$13,251 to \$50,400
25%	\$37,651 to \$91,150	\$37,651 to \$75,950	\$75,301 to \$151,900	\$50,401 to \$130,150
28%	\$91,151 to \$190,150	\$75,951 to \$115,725	\$151,901 to \$231,450	\$130,151 to \$210,800
33%	\$190,151 to \$413,350	\$115,726 to \$206,675	\$231,451 to \$413,350	\$210,801 to \$413,350
35%	\$413,351 to \$415,050	\$206,676 to \$233,475	\$413,351 to \$466,950	\$413,351 to \$441,000
39.6%	more than \$415,050	more than \$233,475	more than \$466,950	more than \$441,000
Standard Deduction	\$6,300	\$6,300	\$12,600	
Exemptions (per person)	\$4,050	\$4,050	\$4,050	\$4,050

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Amount	Difference	Percent	tax
Up to \$18,550	\$18,550	10%	\$1,855
\$75,300-18,550	\$56,750	15%	\$8,512.50
\$78,800 -75,300*	\$3,500	25%	\$875
		Total	\$11,242.50

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

How much tax do they owe?

Tax Owed: \$11,242.50

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

Final Tax Amount: **\$10,242.50**

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 an 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, filing jointly, 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?

Practice Exercises Answers

Answers: \$117,600, 2. \$141,650, 3. \$9,235, 4. \$255.50