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?
T = $52,000 + $55,000 = $107,000. 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:**
$107,000 - $12,600(Standard deduction) – 4 x $4050 (4 people in family- Exemption per person):
TOTAL: $78,800

This instructional aid was prepared by the Tallahassee Community College Learning Commons.
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

<table>
<thead>
<tr>
<th>Amount</th>
<th>Difference</th>
<th>Percent</th>
<th>tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to $18,550</td>
<td>$18,550</td>
<td>10%</td>
<td>$1,855</td>
</tr>
<tr>
<td>$75,300-18,550</td>
<td>$56,750</td>
<td>15%</td>
<td>$8,512.50</td>
</tr>
<tr>
<td>$78,800 -75,300*</td>
<td>$3,500</td>
<td>25%</td>
<td>$875</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td>$11,242.50</td>
</tr>
</tbody>
</table>

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

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