

Income Tax Day 2 Deductions

Calculating your taxable income continued:

Step 5: Calculate your deductions: Deductions are subtracted from your adjusted gross income. There are two types of deductions from which to choose: a **standard deduction** or an **itemized deduction**. You should claim the larger of the two. The higher your deduction, the lower your taxable income.

A **standard deduction** reduces your income by a set amount. This amount is determined by your filing status. For the 2012 tax year, the standard deductions are given in the chart below

| Filing Status | Single (unmarried, divorced, legally separated) | Married filing Jointly | Married filing separately | Head of household (unmarried, pay more than 1/2 of cost to support a dependent) |
|-------------------------------|--|---------------------------|------------------------------|--|
| Standard Deduction | \$5950 | \$11,900 | \$5950 | \$8700 |

The other type of deduction is an **itemized deduction**. With this type of deduction, you find the sum of all the individual deductions to which you are entitled. The most common itemized deductions include: interest on your mortgage loan, contributions to charities, and state income taxes

1) Katherine is single and has the following deductible expenditures: \$3800 for interest on her home mortgage, \$900 for contributions to charity, and \$450 for state income taxes. Should she itemize her deductions or claim the standard deduction?

itemized: $3800 + 900 + 450 = \$5150$

Standard: \$5950

why? $5950 > 5150$

2) Julia is married filing jointly. She has the following deductible expenditures: \$9300 for interest on her mortgage, \$2240 for contributions to charity, and \$975 for state taxes. Should she itemize her deductions or claim the standard deduction?

Itemized: $9300 + 2240 + 975 = \$12,515$

standard: \$11,900

itemized b/c $12515 > 11900$

3) Nathan is the head of household. He has the following individual deductibles: \$5425 for interest on his mortgage, \$1260 for contributions to Goodwill, and \$2010 in state taxes. Should he itemize his deductions, or claim the standard deduction?

itemized: $5425 + 1260 + 2010 = \$8695$

Standard: \$8700

$8700 > 8695$

Taxable Income = Adjusted Gross Income – (personal exemptions and deductions)

4-6 Find the gross income, adjusted gross income, and taxable income for each of the following. Use the exemptions and deductions allowed in 2012. You will need to determine if the person should take the standard deduction or to itemize their deductions.

4) Shea is single and earned \$54,000 in wages as well as \$3000 from rent on one of his condos. He also earned \$600 in interest from a savings account. He contributed \$2000 to a tax-deferred savings plan. His itemized deductions include \$3000 in interest on his mortgage, and \$1600 in state taxes.

Gross: $54000 + 3000 + 600 = \$57,600$

AGI: $57600 - 2000 = \$55600$

Exemptions: -3800

Deductions: itemized: \$4600 standard: -5950

Taxable Income: $55600 - 3800 - 5950 = \boxed{\$45,850}$

5) Brandon is head of household with 6 children. He earned \$82,000 in wages as well as \$1500 in interest from a savings account. He contributed \$5,000 to an IRA. His itemized deductions include \$7000 from interest on his home mortgage, \$1900 for state taxes, and \$1000 for charity contributions.

Gross: $82000 + 1500 = \$83,500$

AGI: $83500 - 5000 = 78,5000$

Exemptions: $-3800 (7)$

Deductions: Itemized -9900 standard 8700

Taxable: $78500 - 3800 (7) - 9900 = \boxed{\$42,000}$

6) Darienne is married filing separately. She earned \$55,600 in wages from working at Intel, and \$12,000 in profits from an online business she owns. Her itemized deductions include \$2350 from interest on her home mortgage loan, \$1200 in real estate taxes, and \$2150 in self-employed business expenses.

Gross: $55600 + 12000 = \$67600$

AGI: $\$67600$

exemption: -3800

deduction: Itemized \$5700 standard $\$5950$

taxable: $67600 - 3800 - 5950 = \boxed{\$57,850}$