

TX301 INCOME TAX BASICS

INDIVIDUAL INCOME TAX CALCULATION

+ Income From All Sources	salaries, wages, consulting income, interest, dividends, capital gains on investment property, alimony, rental income, unemployment compensation, social security benefits (to an extent), retirement distributions, court awards for punitive damages, some disability benefit, gambling income, jury duty pay, all items listed below as tax-exempt income
- Tax-Exempt Income Included In Total Income Above	municipal bond income, nontaxable portion of social security benefits, roth retirement distributions, academic scholarships, some disability insurance payments, gifts, life insurance proceeds, inheritance, sale of principal residence (if meet criteria), child support, combat pay, court awards for physical injury or emotional distress
- Above the Line Deductions	educator expenses, health insurance for self-employed people, moving expenses, self-employed retirement plan contributions, 1/2 of self-employment tax, health savings account contributions, alimony paid, traditional IRA contributions, student loan interest, tuition deduction
= Adjusted Gross Income	
- Greater of: Itemized Deductions or Standard Deduction	itemized deductions include: medical expenses over a certain threshold, state and local income taxes, personal property taxes, real estate taxes, home mortgage interest and points, charitable contributions and other miscellaneous expenses over a certain threshold
- Personal Exemptions	you and each of your dependents is entitled to a personal exemption amount against your income, although personal exemptions start to be phased out for high income individuals(around \$250,000 for a single filer)
= Taxable Income	
x Tax Rate	there is a graduated tax system in the U.S., so there are actually several tax rates that will apply to your income, in addition certain items (such as dividends and capital gains) are taxed at lower rates
= Tax Before Credits	alternative minimum tax is also included before credits
- Tax Credits	common tax credits include the foreign tax credit, child and dependent care expenses, education credits, child tax credit and energy credits
= Tax After Credits	
+ Additional Taxes	additional taxes include self-employment tax, household employee taxes and others
= Total Tax	this is the end total amount of tax that you are responsible for paying to the federal government