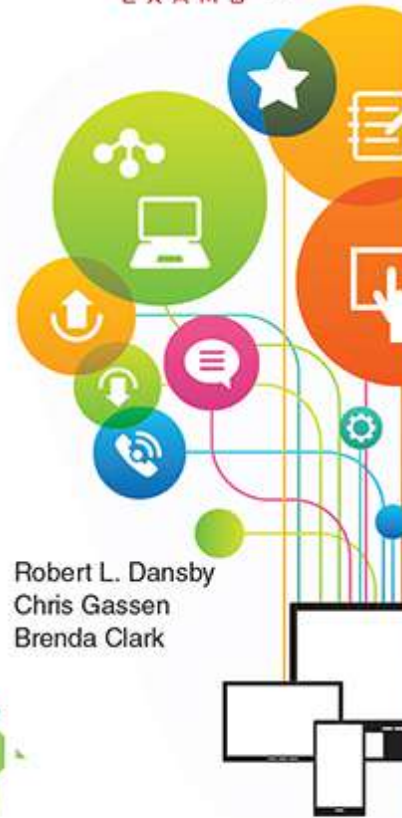


G-W Goodheart-Willcox Publisher

Principles of Business, Marketing, and Finance

PRECISION
EXAMS



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Presentations for PowerPoint

Principles of Business, Marketing, and Finance

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18

Income and Taxes

Section 18.1

Income

Objectives

- **Explain** the importance of financial management.
- **Describe** different forms of earned income.
- **Identify** payroll deductions.
- **Explain** the steps involved in creating a budget.

Key Terms

- personal financial management
- financially capable
- earned income
- minimum wage
- overtime wage
- tip
- payroll deduction
- allowance
- net pay
- FICA taxes
- fixed expense
- variable expense
- variance



Essential Question

Why is it important to understand how to make wise personal financial decisions?

Personal Financial Management

- **Personal financial management** is a process used by individuals to manage limited income to meet personal unlimited needs and wants
- **Financially capable** means having the ability to understand basic topics related to finance
- Financial decisions are affected by personal values, priorities, and goals

Personal Financial Management

- Use decision-making process for financial decisions
 - Evaluate trade-offs and opportunity costs

Steps in the Decision-Making Process



Earned Income

- **Earned income** is the income received from employment or from self-employment
- *Wage* is payment for work; calculated hourly, daily, or weekly
 - **Minimum wage** is the lowest hourly wage employers can pay most workers by law
 - **Overtime wage** is the amount paid for working time in a week that is beyond the standard 40-hour workweek
- *Salary* is fixed payment for work expressed as annual figure

Earned Income

- *Commission* is income paid as percentage of sales made
- **Tip** is money paid for service beyond the payment that is required; *gratuity*
- *Bonus* is money added to employee's base pay
- Income earned by self-employed individuals is *self-employment income*

Payroll Deductions

- **Payroll deduction** is a subtraction from gross pay
- **Allowance** is an amount of earnings not subject to income taxes
- **Net pay** is gross pay minus payroll deductions
 $\text{gross pay} - \text{payroll deductions} = \text{net pay}$
- **FICA taxes** are paid by employee and employer to finance Social Security and Medicare programs
- Federal, state, and local taxes are withheld from gross pay
- Other payroll deductions are voluntary

Budgeting Your Earnings

- *Personal budget* is a financial plan to project earnings and show how they will be allocated
- Steps in budgeting process
 - *Set a budget period*: Usually prepared monthly
 - *List estimated income*: Only include income available for current living expenses
 - *List estimated expenses*: **Fixed expense** is equal in amount each budget period. **Variable expense** can go up and down during the budget period.

Budgeting Your Earnings

- Steps in budgeting process (continued)
 - *Track spending*: Continuously monitor and record actual amounts
 - *Compare*: Compare budgeted and actual amounts at end of budget period. Difference between the amounts is a **variance**; can be *favorable* or *unfavorable*

Budgeting Your Earnings

CATEGORY	Budgeted Amount	Actual Amount	Variance
INCOME:			
John's take home pay	\$3,255	\$3,255	\$--
Susan's take home pay	2,878	2,878	--
Monthly interest from investments	200	290	90
Income subtotal	\$6,333	\$6,423	\$90
EXPENSES:			
House payment	\$1,317	\$1,317	\$--
Car payment	425	425	--
Life insurance premium	50	50	--
Auto insurance premium	85	123	-38
Health insurance	300	300	--
College Funds	200	200	--
IRA contributions	400	400	--
Heating and electricity	200	242	42
Telephone	90	110	-20
Water and sewer	50	58	-8
Lawn care	40	40	--
Gasoline/oil	250	305	-55
Auto repairs	0	40	-40
Clothing	100	80	20
Entertainment	200	170	30
Internet and cable	82	82	--
Groceries	400	456	-56
Eating out	200	212	-12
Gifts/Donations	300	240	60
Expenses subtotal	\$4,689	\$4,850	-\$161
Remainder (income - expenses)	\$1,644	\$1,573	\$71

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Section 18.1 Review

1. What does earned income include?

Earned income can be a wage, salary, or commission. It also includes tips, bonuses, and income from self-employment.

2. What is the formula for calculating gross pay? For net pay?

$\text{hourly wage} \times \text{hours worked} = \text{gross pay}$

$\text{gross pay} - \text{payroll deductions} = \text{net pay}$

3. Which payroll deductions are mandatory?

Mandatory payroll deductions include Social Security taxes, Medicare taxes, and income taxes.

Section 18.1 Review

4. List examples of items that are considered payroll deductions.

Some deductions are mandatory, such as Social Security taxes, Medicare taxes, and income taxes. Other payroll deductions are optional, such as health insurance and retirement savings plans.

5. List the five steps of the budget process.

The five steps of the budget process are set up a budget period, list estimated income, list estimated expenses, track spending, and compare estimated and actual amounts.

Section 18.2

Taxes

Objectives

- **Differentiate** the forms used in filing an income tax return.
- **Explain** how to calculate taxable income.
- **Explain** how to prepare a Form 1040EZ.
- **Identify** where tax information and assistance can be found.

Key Terms

- tax return
- Form W-2 Wage and Tax Statement
- unearned income
- taxable income
- tax deduction
- itemized deduction
- standard deduction
- exemption
- tax credit



Essential Question

What information must an individual have to complete a tax return?

Filing an Income Tax Return

- **Tax return** is a report containing information used to calculate taxes owed by the taxpayer
 - Must be filed by April 15
- **Form W-2 Wage and Tax Statement** shows earnings and tax deductions withheld during the year
 - *Form 1040*: Taxpayers with taxable income more than \$100,000; *long form*
 - *Form 1040A*: Taxpayers with taxable income less than \$100,000, no business income, no itemized deductions; *short form*
 - *Form 1040EZ*: Taxpayers with taxable income less than \$100,000; simplest form to use

Income

- *Gross income* includes earned and unearned income
 - *Earned income* is earnings from employment
 - **Unearned income** is earnings from sources other than work
- **Taxable income** is the amount on which taxes are calculated
- **Tax deduction** is an amount subtracted from adjusted gross income, which further reduces taxable income
- **Itemized deduction** is an allowed expense that can be deducted from adjusted gross income

Income

- **Standard deduction** is a fixed amount that may be deducted from adjusted gross income
- **Exemption** is an amount a taxpayer can claim for each person who is dependent on that person's income
 - *Personal exemptions* are those claimed for the taxpayer or the taxpayer and spouse
 - *Dependent exemptions* are those claimed for children or other individuals supported by the taxpayer
- **Tax credit** is an amount that is subtracted from the taxes an individual owes, if eligible

Preparing a Form 1040EZ

Department of the Treasury—Internal Revenue Service			
Form 1040EZ		Income Tax Return for Single and Joint Filers With No Dependents (99) 20--	
OMB No. 1545-0044			
Your first name and initial Kristy A.		Last name James	
If a joint return, spouse's first name and initial		Last name	
Your social security number 987 65 4321		Spouse's social security number	
Home address (number and street). If you have a P.O. box, see instructions. 1027 Cedar Street		Apt. no.	
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). Franklin, IL 65452		▲ Make sure the SSN(s) above are correct. Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input checked="" type="checkbox"/> You <input type="checkbox"/> Spouse	
Foreign country name		Foreign province/state/country	
Foreign postal code			
Income Attach Form(s) W-2 here. Enclose, but do not attach, any payment.	1 Wages, salaries, and tips. This should be shown in box 1 of your Form(s) W-2. Attach your Form(s) W-2.		1 28,956 98
	2 Taxable interest. If the total is over \$1,500, you cannot use Form 1040EZ.		2 200 (0)
	3 Unemployment compensation and Alaska Permanent Fund dividends (see instructions).		3
	4 Add lines 1, 2, and 3. This is your adjusted gross income .		4 29,156 98
	5 If someone can claim you (or your spouse if a joint return) as a dependent, check the applicable box(es) below and enter the amount from the worksheet on back. <input type="checkbox"/> You <input type="checkbox"/> Spouse If no one can claim you (or your spouse if a joint return), enter \$10,150 if single; \$20,300 if married filing jointly . See back for explanation.		5 10,150 (0)
	6 Subtract line 5 from line 4. If line 5 is larger than line 4, enter -0-.		6 19,006 98
Payments, Credits, and Tax	7 Federal income tax withheld from Form(s) W-2 and 1099.		7 3,020 42
	8a Earned income credit (EIC) (see instructions)		8a
	b Nontaxable combat pay election. 8b		
	9 Add lines 7 and 8a. These are your total payments and credits .		9 3,020 42
	10 Tax . Use the amount on line 6 above to find your tax in the tax table in the instructions. Then, enter the tax from the table on this line.		10 2,400 (0)
Refund Have it directly deposited? See instructions and fill in 13b, 13c, and 13d, or Form 8888.	11 Health care: individual responsibility (see instructions) Full-year coverage <input checked="" type="checkbox"/>		11
	12 Add lines 10 and 11. This is your total tax .		12 2,400 (0)
	13a If line 9 is larger than line 12, subtract line 12 from line 9. This is your refund . If Form 8888 is attached, check here <input type="checkbox"/>		13a 620 42
	▶ b Routing number <input type="text"/> ▶ c Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings ▶ d Account number <input type="text"/>		
Amount You Owe	14 If line 12 is larger than line 9, subtract line 9 from line 12. This is the amount you owe . For details on how to pay, see instructions.		14 0 (0)
Third Party Designee Do you want to allow another person to discuss this return with the IRS (see instructions)? <input type="checkbox"/> Yes . Complete below. <input checked="" type="checkbox"/> No	Designee's name ▶ Phone no. ▶ Personal identification number (PIN) ▶		
Sign Here Under penalties of perjury, I declare that I have examined this return and, to the best of my knowledge and belief, it is true, correct, and accurately lists all amounts and sources of income I received during the tax year. Declaration of preparer (other than the taxpayer) is based on all information of which the preparer has any knowledge.	Your signature ▶ Date ▶ Your occupation ▶ Daytime phone number ▶ Kristy A. James 3/1-- Sales Clerk (123) 456-7890 Spouse's signature. If a joint return, both must sign. ▶ Date ▶ Spouse's occupation ▶ If the IRS sent you an Identity Protection PIN, enter it. (see instructions) ▶		
Paid Preparer Use Only	Print/Type preparer's name ▶ Preparer's signature ▶ Date ▶ Check <input type="checkbox"/> if self-employed ▶ PTIN ▶ Firm's name ▶ Firm's EIN ▶ Firm's address ▶ Phone no. ▶		
For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see instructions. Cat. No. 11329W Form 1040EZ (90--)			

Preparing a Form 1040EZ

- Accuracy is important
- Personal information: Name, address, and Social Security number
- Income: All taxable income and exemptions
- Payments, Credits, and Tax: Tax withheld as reported on Forms W-2 and 1099, credits, and total tax
- Tax Refund or Amount Owed: Resulting amount and payment information
- Signature: Tax return must be signed to be processed

Sources of Tax Information and Assistance

- Sources of tax information and assistance:
 - Internal Revenue Service (IRS): Annual booklets, recorded phone messages, website, and toll-free hotline
 - Volunteer Income Tax Assistance (VITA) Program: Tax help for lower income taxpayers
 - Tax Counseling for the Elderly (TCE) Program: Free tax assistance for those 60 years and older
 - Tax attorneys and certified public accountants: Specialize in tax matters and preparation
 - Tax guides: Published each year by various sources

Section 18.2 Review

1. By what date must a tax return be filed?

Tax returns must be filed no later than April 15 of the year after the income was earned.

2. List three basic forms used to file income taxes.

Three basic forms used to file income taxes are 1040, 1040A, or 1040EZ.

3. Which taxpayers benefit from a standard deduction?

Taxpayers who do not have enough itemized deductions to benefit from them can choose the standard deduction.

Section 18.2 Review

4. What information is included on a Form 1040EZ?

The information included on a Form 1040EZ is personal information; income; payments, credits, and tax; tax refund or amount owed; and signature.

5. List some examples of resources for tax planning and assistance.

Sources available for tax planning and assistance are the Internal Revenue Service (IRS); Volunteer Income Tax Assistance (VITA) Program; Tax Counseling for the Elderly (TCE) Program; tax preparation services; and tax preparation guides.