# Chapter 18 Income and Taxes

# Answer Key

### Part 1: Content Review

#### **Matching Terms**

- 1. F
- 2. E
- 3. I 4. C
- 4. C 5. H
- 6. A
- 7. D
- 8. G
- 9. B
- 10. J

#### **Multiple Choice**

- 1. A
- 2. C
- 3. C
- 4. D
- 5. D 6. A
- 6. A 7. C
- 7. C 8. B
- 9. A
- 10. C

### Completion

- 1. Financially capable
- 2. trade-off
- 3. earned income
- 4. tip or gratuity
- 5. payroll deduction
- 6. variable expense.
- 7. unearned income
- 8. itemized deduction
- 9. tax credit
- 10. VITA Program

# Part 2: Concept Review

#### **Open Response**

- Personal financial management is a process used by individuals to manage limited income to meet
  personal unlimited needs and wants. Having money creates the need for making decisions. Every
  financial decision has a cost. Choosing one option means giving up other options that may have been
  available. A trade-off is an item given up in order to gain something else. A trade-off then creates
  an opportunity cost. Opportunity cost is the value of the next best option that was not selected. A
  systematic approach can be applied to analyze trade-offs and opportunity costs when making financial
  decisions.
- 2. Any three of the following. A wage is a payment for work and is usually calculated on an hourly, daily, or weekly basis. Commission is income paid as a percentage of sales made by a salesperson. Tips are monies paid for service beyond the payment that is required. A salary is a fixed payment for work and is usually expressed as an annual figure. It is paid in periodic equal payments. A bonus is money added to an employee's base pay.
- A personal budget is a financial plan used by individuals to project anticipated earnings and show how they will be allocated. It is a financial plan for controlling spending and building wealth for your future. The budget process involves the following basic steps: 1. Set a budget period. 2. List estimated income. 3. List estimated expenses. 4. Track spending. 5. Compare budgeted amount with actual amounts.
- 4. The main difference between tax deductions and tax credits is where the subtraction is applied. A tax deduction is an amount that is subtracted from adjusted gross income, which further reduces taxable income. A tax credit is an amount that is subtracted from the taxes an individual owes, if eligible. Tax credits provide a greater advantage than tax deductions. Deductions reduce taxable income, but a credit reduces taxes.
- 5. Many individuals hire professionals to file their tax returns because it is convenient or the return is too complicated to prepare themselves. However, this is not the only option. Individuals might find that some tax forms are not too complicated to file themselves, such as the Form 1040A short form or the Form 1040EZ. A variety of computer software programs are available that enable individuals to file returns using a personal computer. These e-filing programs provide information, advice, and step-by-step directions for the filing process. Finally, there is assistance available through the IRS, volunteer organizations, and from tax preparation guides.

## Part 3: Math Skills

#### **Mixed Mathematics**

 \$35,000 annual gross pay / 52 payments = \$673.08 weekly gross pay Social Security Tax: \$673.08 × .062 = \$41.73 Medicare Tax: \$673.08 × .0145 = \$9.76 Federal Tax: \$673.08 × .10 = \$67.31 State Tax: \$673.08 × .03 = \$20.19 Health Insurance = \$70 gross pay - payroll deductions = net pay \$673.08 - \$41.73 - \$9.76 - \$67.31 - \$20.19 - \$70 = \$464.09

- \$40,000 annual gross pay / 52 payments = \$769.23 weekly gross pay Social Security Tax: \$769.23 × .062 = \$47.69 Medicare Tax: \$769.23 × .0145 = \$11.15 Federal Tax: \$769.23 × .10 = \$76.92 State Tax = \$769.23 × .03 = \$23.08 Health Insurance = \$70 gross pay - payroll deductions = net pay \$769.23 - \$47.69 - \$11.15 - \$76.92 - \$23.08 - \$70 = \$540.39
- \$52,000 annual gross pay / 52 payments = \$1,000 weekly gross pay Social Security Tax: \$1,000 × .062 = \$62.00 Medicare Tax: \$1,000 × .0145 = \$14.50 Federal Tax: \$1,000 × .10 = \$100.00 Health Insurance = \$60.00 gross pay - payroll deduction = net pay \$1,000.00 - \$62.00 - \$14.50 - \$100.00 - \$60.00 = \$763.50
- 4.  $\$19.75 \times 40 = \$790$  weekly gross pay Social Security Tax:  $\$790 \times .062 = \$48.98$ Medicare Tax:  $\$790 \times .0145 = \$11.46$ Federal Tax:  $\$790 \times .09 = \$71.10$ State Tax:  $\$790 \times .045 = \$35.55$ Local Tax:  $\$790 \times .01 = \$7.90$ Savings Plan:  $\$790 \times .04 = \$31.60$ Health Insurance: \$65.00gross pay - payroll deductions = net pay \$790.00 - \$48.98 - \$11.46 - \$71.10 - \$35.55 - \$7.90 - \$31.60 - \$65.00 = \$518.41
- 5. gross pay = regular pay + total OT wages regular pay:  $$19.75 \times 40$  hours = \$790.00OT hourly wage:  $$19.75 \times 1.5 = $29.63$ total OT wages:  $$29.63 \times 10 = $296.30$ Gross pay: \$790.00 + \$296.30 = \$1,086.30Social Security Tax:  $$1,086.30 \times .062 = $67.35$ Medicare Tax:  $$1,086.30 \times .0145 = $15.75$ Federal Tax:  $$1,086.30 \times .09 = $97.77$ State Tax:  $$1,086.30 \times .045 = $48.88$ Local Tax:  $$1,086.30 \times .01 = $10.86$ Savings Plan:  $$1,086.30 \times .04 = $43.45$ Health Insurance: \$65.00gross pay - payroll deductions = net pay \$1,086.30 - \$67.35 - \$15.75 - \$97.77 - \$48.88 - \$10.86 - \$43.45 - \$65.00 = \$737.24

# Part 4: Communication Skills

### Writing

Thank you for asking Green Lights, Inc. to bid on the installation and maintenance of an energy-efficient lighting system for your new branch office. After carefully reviewing the specifications you provided, we had our electricians conduct a thorough on-site survey of your new office. Our bid team used the electricians' evaluations along with your specs to create an estimate for this job. We project the complete installation

cost to be \$5575.00. This is a one-time charge, payable upon satisfactory completion of the work. For your convenience, I am attaching a detailed proposal. This proposal includes an option for us to handle full maintenance for 5 years at a cost of \$175 per year for a full-inspection, plus the cost of any repairs or replacement needs identified during the inspections. Thank you again for the opportunity to submit this bid. Please let me know if you would like to discuss our proposal before making your decision.