

Preparing Taxes

Personal Income Facts in the U.S.

- The U.S. tax code contains more than 3.7 million words and is more than 70,000 pages in length.
- Americans spend 7.6 billion hours every year preparing taxes – an average of about 25 hours per person.
- In addition, U.S. taxpayers spend over \$27 billion every year on tax preparation services – an average of about \$89 per person.

Personal Income Facts in the U.S.

- The Internal Revenue Service has a budget over \$11 million and employs about 80,000 people.
- The word “tax” means “I estimate” in Latin.
- Albert Einstein once said, “The hardest thing in the world to understand is income tax.”

Question: How might these facts affect people’s understanding of personal income tax and their willingness to pay?



IF your filing status is...	AND at the end of the tax year, you were...	THEN file a return if your gross income was at least...
Single	Under 65	\$12,000
	65 or older	\$13,600
Married, filing jointly	Under 65 (both spouses)	\$24,000
	65 or older (one spouse)	\$25,300
	65 or older (both spouses)	\$26,600
Married, filling separately	Any age	\$5
Head of Household	Under 65	\$18,000
	65 or older	\$19,600
Qualifying Widow(er)	Under 65	\$24,000
	65 or older	\$25,300

*If you were born on January 1, 1954, you are considered to be age 65 at the end of 2018. (If your spouse died in 2018 or if you are preparing a return for someone who died in 2018, see Pub. 501.) **Gross income means all income you received in the form of money, goods, property, and services that isn't exempt from tax, including any income from sources outside the United States or from the sale of your main home (even if you can exclude part or all of it). Don't include any social security benefits unless (a) you are married filing a separate return and you lived with your spouse at any time in 2018 or (b) one-half of your social security benefits plus your other gross income and any tax-exempt interest is more than \$25,000 (\$32,000 if married filing jointly). If (a) or (b) applies, see the instructions for lines 5a and 5b to figure the taxable part of social security benefits you must include in gross income. Gross income includes gains, but not losses, reported on Form 8949 or Schedule D. Gross income from a business means, for example, the amount on Schedule C, line 7, or Schedule F, line 9. But, in figuring gross income, don't reduce your income by any losses, including any loss on Schedule C, line 7, or Schedule F, line 9. ***If you didn't live with your spouse at the end of 2018 (or on the date your spouse died) and your gross income was at least \$5, you must file a return regardless of your age.

Personal Income Tax

- Employers (in most situations) are required to deduct federal income tax from an employee's paycheck
 - Gross income is the amount of earned income before deductions
 - Net income is the amount of "take home" pay in an employee's paycheck
 - Federal income tax is only one example of a deduction
 - Other possible types of deductions
 - State and local income tax, if required
 - Social Security and Medicare payments (called FICA)
 - Retirement contributions, health care payments, etc.


Paying Personal Income Tax

- Employers are required to provide employees with IRS Form W2 on or before January 31 of each year
- W2 forms include income and tax information needed about the past tax year (the preceding calendar year)
- Information on the W2 is used to complete IRS Form 1040 to indicate potential refunds (overpayment of taxes) or additional money owed (underpayment of taxes during the tax year)
- Form 1040 must be submitted to the appropriate IRS Office on or before April 15 of each year

W2 Information

- <https://www.hrblock.com/tax-center/irs/forms/how-to-read-a-w2-form/>

Sample W2

		a Employee's social security number 123-45-6789	Use www.irs.gov/efile		Safe, accurate, Visit the IRS website at OMB No. 1545-0008	FAST!
b Employer identification number (EIN) 46-0997139				1 Wages, tips, other compensation \$39,027	2 Federal income tax withheld \$3,125	
c Employer's name, address, and ZIP code Billie J. Does 6101 N. American Avenue Belton, MO 64012				3 Social security wages \$40,254	4 Social security tax withheld \$2,691	
				5 Medicare wages and tips \$40,254	6 Medicare tax withheld \$584	
				7 Social security tips	8 Allocated tips	
d Control number		9 Verification code		10 Dependent care benefits		
Happy Days Public Schools 100 N. Pleasant Run Blvd. Belton, MO 64012		Suff 11 Nonqualified plans		12a See instructions for box C DD 12 o d e		
		13 Statutory Retirement Third-party employee plan sick pay x		12b C D o d e		
		14 Other		12c C o d e		
				12d C o d e		
e. Employee's first name and initial and ZIP code		Last name Employee's address				
15 State MO	Employer's state ID number 2166973	16 State wages, tips, etc. \$39,027	17 State income tax \$1,597	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Taxable Wages vs Social Security Wages

- Taxable wages (Box 1) do not include deductions exempt from federal income tax such as:
 - Employer-sponsored retirement contributions
 - Health insurance payments
 - Flexible spending account contributions
 - Other miscellaneous payments/contributions
- Social Security and Medicare wages (Boxes 3 and 5) may include some deductions as specified by the IRS such as:
 - Flexible spending account contributions
 - Health insurance payments

Sample

Form **1040** Department of the Treasury—Internal Revenue Service (99) **2018** U.S. Individual Income Tax Return OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

Filing status: Single Married filing jointly Married filing separately Head of household Qualifying widow(er)

Your first name and initial Last name Your social security number

Your standard deduction: Someone can claim you as a dependent You were born before January 2, 1954 You are blind

If joint return, spouse's first name and initial Last name Spouse's social security number

Spouse standard deduction: Someone can claim your spouse as a dependent Spouse was born before January 2, 1954 Full-year health care coverage or exempt (see inst.)
 Spouse is blind Spouse itemizes on a separate return or you were dual-status alien

Home address (number and street). If you have a P.O. box, see instructions. Apt. no. Presidential Election Campaign (see inst.) You Spouse

City, town or post office, state, and ZIP code. If you have a foreign address, attach Schedule 6. If more than four dependents, see inst. and here ▶

Dependents (see instructions):		(2) Social security number	(3) Relationship to you	(4) <input checked="" type="checkbox"/> if qualifies for (see inst.):	
(1) First name	Last name			Child tax credit	Credit for other dependents
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>
				<input type="checkbox"/>	<input type="checkbox"/>

Sign Here Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Joint return? See instructions. Keep a copy for your records. ▶

Your signature Date Your occupation If the IRS sent you an Identity Protection PIN, enter it here (see inst.)

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 here (see inst.)

Paid Preparer Use Only

Preparer's name Preparer's signature PTIN Firm's EIN Check if:
 3rd Party Designee
 Self-employed

Firm's name ▶ Phone no.

Firm's address ▶

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2018)

Conclusion

- Federal income taxes are deducted from most employee's gross income in each paycheck.
- Employers are required to provide employees with a W2 showing information on income, taxes and deductions needed to complete their tax returns (Form 1040).
- Taxpayers may choose to use standard deductions or itemized deductions, whichever provides the largest reduction in taxable income.

Conclusion

- The deadline for filing a Form 1040 is April 15.
- Tax forms and instructions for completing them are available from various tax software packages and from the Internal Revenue Service web site. Another option is paying someone who specializes in taxes to complete the forms and submit them.