**Federal Income Tax Worksheet**

**Marginal Income Tax Table 2018**

**10% up to $9,525 32% $157,501 - 200,000**

**12% $9,526 - 38,700 35% $200,001 - $500,000**

**22% $38,701 - 82,500 37% $500,001 and up**

**24% $82,501 - 157,500**

**Directions: Answer the following questions using the 2018 U.S. marginal income tax rates for a single individual.**

If Jaime earns $10,000 from a job that he works after school and during the summer, how much federal income tax does he owe given the table above?

What is Jaime’s marginal tax rate, that is on the highest dollar?

What is Jaime’s average tax rate?

Suppose the personal exemption for Jaime is $3,700. How much federal tax would he owe?

How does this change Jaime’s marginal tax rate?

Average tax rate?

How much tax does he now owe?

If Tameka earns $50,000 from her job as an accountant, how much federal income tax does she owe based on the above table?

What is Tameka’s marginal tax rate, that is, on the highest dollar?

What is Tameka’s average tax rate?

Suppose the personal exemption for Tameka is $3,700 for herself and $3,700 for each of her 3 children. How much federal tax would she owe?

How does this change Tameka’s marginal tax rate?

What is her new average tax rate?

How much in taxes does she now owe?

**Adjusted Gross Income (AGI):** the amount of gross (total) minus your deductions.

**Tax deduction:** an amount subtracted from Adjusted Gross Income to lower the amount of tax owed. Home mortgage interest, local property tax payments, contributions to charity, and health or business expenses are the most common.

**Tax credit:** a direct reduction from the amount of taxes owed (not a deduction from income); tax credits are usually targeted to a policy or objective such as a child care tax credit, a residential energy improvement tax credit, a credit for certain education expenses, or a business tax credit for starting an employee pension program.

**Personal exemption:** dollar amount provided by the federal government (e.g. $3,700 in 2011) that is deducted from income for yourself and each “dependent” such as a child.

**Taxable income:** amount of income taxed after all deductions but before tax credits.

**Flat tax:** a percentage tax rate that is the same across all levels of income. Progressive tax: tax rates that increase as income rises.

**Marginal tax rate:** the rate at which the last (highest) dollar of income is taxed. Margin means “extra” or “added.”

**Marginal tax bracket:** dollar range in income that corresponds to a marginal tax rate.

**Average tax rate:** the amount of total taxes paid/owed divided by total income; this gives a sense of what the average income tax burden for an individual.

**Exclusions:** dollar amounts of income that are tax-exempt, or not subject to federal income tax. An example would be interest on most U.S. state and municipal bonds.

**Tax-deferred income:** income to be taxed at a later date, such as interest/earnings from a traditional Individual Retirement Account (IRA).

**Some interesting historical highlights:**

* When the U.S. income tax was instituted in 1913, the top marginal tax rate was 7%
* By 1921, the top marginal tax rate rose to 73%
* In 1922, it was lowered to 56% and in 1925 to 25%
* With the country’s economic needs during the Great Depression and

the wartime needs during World War II, the top marginal income tax

rate again increased gradually from 63% in 1932 to 94% in 1945

* In 1979, the top rate was lowered to 70% and in 1982 to 50%
* Since 1987, the top marginal tax rate has hovered near the 30s, and in

2003 became 35%, where it is today.