Chapter 21 Planning Your Tax Strategy

SOFTWARE ACTIVITY (OPTIONAL)	Spreadsheet Application

Computing Taxable Income and Tax Liabilities

Objective: Evaluate financial data in order to compute taxable income and tax liabilities.

Practice Situation

Shelly Calloway is a CPA and prepares income tax returns for several clients. Her clients have dropped off their income and expense data to her, and she has organized the information in the following manner as she prepares to complete their returns. Compute the adjusted gross income and tax due or tax refund amounts for Shelly's clients.

	Greg Miller	Cheryl Stafford	Valerie Bowman
Gross income (wages and salary)	$48,000.00	$55,000.00	$33,500.00
Interest earned on savings	165.00	263.00	0.00
Standard deduction amount	7,850.00	6,900.00	4,700.00
IRA deduction	3,000.00	3,000.00	0.00
Child care tax credit	800.00	580.00	0.00
Medical expenses	0.00	5,950.00	0.00
Gifts to charity	0.00	4,525.00	0.00
Real estate taxes	0.00	2,840.00	0.00
Federal income tax withheld	2,542.39	8,260.26	3,955.98
Dependents other than self	3	2	0
Exemption amounts	12,000.00	9,000.00	3,000.00
Filing status	Married, filing joint return	Head of household	Single

Use the following tax rates to compute taxes owed:

Tax Rate	Single Taxpayer	Married Taxpayers	Head of Household
15%	$6,000–$27,950	$12,000–$46,700	$10,000–$37,450
27%	$27,950–$67,700	$46,700–$112,850	$37,450–$96,700

Name _____ Date _____ Class _____

	Greg Miller	Cheryl Stafford	Valerie Bowman
Adjusted Gross Income Computation			
Gross Income (wages and salary)			
Plus Interest Income			
Total Income			
Less IRA Deductions			
Adjusted Gross Income			
Tax Computation			
Adjusted Gross Income			
Less Itemized Deduction or Standard Deduction Amount			
Less Exemptions Amount			
Taxable Income			
Tax			
Less Tax Credits			
Total Tax			
Tax Withheld			
Tax Due			
Tax Refund Due			

Computation of Itemized Deduction for Cheryl Stafford:			
Adjusted Gross Income			
Medical Expenses Deduction:			
Medical Expenses Paid			
7.5% of gross income			
Medical Expenses Deduction			
Taxes Deduction:			
Real Estate Taxes			
Gifts Deduction:			
Gifts to Charity			
Total Itemized Deduction			

Chapter 21

Spreadsheet Directions

1. Start your spreadsheet software program and open problem **SA12.xls.**

2. Record gross income and interest income amounts for Greg Miller to compute his Total *Income*. Deduct Mr. Miller's IRA deduction from that amount.

3. Fill in the amounts for Mr. Miller's standard deduction and exemptions. Subtract standard deduction and exemption amounts from *Adjusted Gross Income* to compute his *Taxable Income*.

4. Use the tax rate schedule provided on page 140 and insert the formula to calculate Mr. Miller's tax due based on his taxable income. Next, adjust his tax due by any tax credits listed.

5. Input the deductions from Mr. Miller's paychecks. If the amount exceeds his tax due, he is entitled to a refund.

6. Repeat the same procedure for Ms. Stafford and Ms. Bowman. For Ms. Stafford, compute her total *Itemized Deduction* amount using the "Computation of Itemized Deduction for Cheryl Stafford" section of your spreadsheet.

7. After you complete the spreadsheet, save your work to a new file labeled **SA12***.xls.** (Replace *** with your initials.)

8. Print out a copy of your work if your teacher has instructed you to do so.

Interpreting Results

1. When completing the final tax returns for each client, which tax form is most appropriate for each client?

   _____

2. What is the taxable income for each of Shelly's clients?

   _____

3. Which of Shelly's clients will receive a tax refund? What is the amount?

   _____

Drawing Conclusions

1. When computing itemized deductions, what types of items should be considered? What criteria are used to determine whether the standard deduction should be used instead? Explain.

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2. Explain the difference between an exemption and a standard deduction.

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Chapter 21