

## **Business and Personal Finance © 2012**

### **Chapter 21: Planning Your Tax Strategy**

#### **Check Your Answers: Section Assessment**

##### **Section 1**

##### **Review Key Concepts**

1. Three strategies include knowing how current tax laws affect you, maintaining complete and accurate records, and making decisions to reduce your tax liability.
2. Your taxable income is your adjusted gross income less minus tax deductions and exemptions.
3. Tax deductions are subtracted from the adjusted gross income which will affect the amount of computed taxes owed while a tax credit is an actual dollar amount subtracted from the amount of taxes owed.
4. A W-4 form directs an employer on how much federal income tax should be withheld from an employee's paycheck based on the number of allowances claimed and if an employee requests additional money to be withheld.

##### **Higher Order Thinking**

5. Sample response: This is not a good idea. It is smarter to have less withheld and to use the extra money in your paycheck to earn interest in a savings account or other investment opportunity.

##### **English Language Arts**

6. **The Tax Foundation** Summaries will vary based on area chosen. Sample answer for the area of sales tax holidays might include the definition of a sales tax holiday as a time period when certain goods are exempt from state sales tax. While supporters claim that these holidays improve sales, evidence shows that this does not promote economic growth. Rather, they simply shift the timing of purchases. In addition, some retailers raise prices during these holidays thereby reducing consumer savings. The Tax Foundation findings show that these holidays are, in effect, a "gimmick."

##### **Mathematics**

7. **Federal Income Taxes** Total annual salary = \$30,000; Marital status = single; Rate on taxable income (from Figure 1): Single tax payer with annual salary between \$8,350 and \$33,950 = 15% of amount over \$8,350, plus \$835; Federal income tax owed =  $\$30,000 - \$8,350 = \$21,650 \times 15\% = \$3,247.50 + \$835 = \$4,082.50$