What is Income Tax?

Worksheet

Income tax is the government's charge on your earnings, calculated using tax brackets based on income level and reduced by deductions and credits you qualify for. You must file and pay annually.

Questions

1. Progressive tax system means...
A) Everyone pays the same rate
B) Higher income pays higher rate
C) No taxes on low income
D) Taxes decrease yearly

2. 80,000 income,13,850 standard deduction. 22% bracket. Tax owed (approx)?
A) $17,600
B) $14,553
C) $10,500
D) $8,800

3. Tax credit vs tax deduction?
A) Both same
B) Credit reduces rate; deduction reduces taxable income
C) Deduction = credit
D) Neither affects tax

4. Why do employers withhold taxes?
A) To build savings
B) Payment toward annual tax bill
C) Government requirement
D) Both B and C

5. Gross income 60,000. Standard deduction13,850. Tax bracket 12% on taxable. Estimate tax owed.

6. Self-employed income $80,000. SE tax ~15.3% of 92.35% of income. Income tax 22% bracket. Total tax?

7. Investment income (dividends, capital gains) $5,000. Long-term capital gains 15% rate. Tax?

8. Define: What is income tax?

9. Define: What are tax brackets?

10. Define: What is a deduction?

Answer Key

1. B) Higher income pays higher rate — Progressive tax rates increase as income rises.

2. B) $14,553 — (80,000 −13,850) × 0.22 = 66,150 × 0.22 =14,553

3. B) Credit reduces rate; deduction reduces taxable income — Deduction lowers taxable income; credit directly reduces tax owed dollar-for-dollar.

4. D) Both B and C — Withholding is mandatory and is an advance payment on your annual tax liability.

5. Gross: 60,000 Less standard deduction:60,000 − 13,850 =46,150 (taxable) Tax (12% bracket): 46,150 × 0.12 =5,538

6. SE tax: 80,000 × 0.9235 × 0.153 = 11,303 Taxable after SE/deductions: ~80,000 − 13,850 =66,150 Income tax: 66,150 × 0.22 =14,553 Total: 11,303 +14,553 = $25,856

7. Long-term capital gains taxed at 15% (preferable rate) Tax: 5,000 × 0.15 =750

8. A government levy on earnings from salary, business, investments, and other sources.

9. Income ranges with different tax rates — higher income, higher bracket and rate.

10. An expense you can subtract from gross income to reduce taxable income (e.g., mortgage interest).