What are Tax Deductions and Credits?

Worksheet

A tax deduction reduces your taxable income (saves 10–37% depending on bracket); a tax credit directly cuts your tax bill by the credit amount.

Questions

1. 80K income,5K deduction, 22% bracket. How much tax do you save?

A) $1,100
B) $5,000
C) $22,000
D) $50

2. Which reduces your tax bill the most dollar-for-dollar?

A) Standard deduction
B) Tax credit
C) Itemized deduction
D) None — they're equal

3. Can you use both standard and itemized deductions?

A) Yes, always
B) No, must choose one
C) Yes, if married
D) Only in certain years

4. What's an example of a refundable tax credit?

A) Child Tax Credit
B) Mortgage Interest Credit
C) Earned Income Tax Credit
D) Adoption Credit

5. 80,000 income,10,000 itemized deduction, 22% tax bracket. Tax savings from deduction?

6. 15,000 tax liability,2,500 Child Tax Credit (non-refundable). Tax owed?

7. Standard deduction 2024: $14,600. Estimate tax savings vs. no deduction at 24% bracket.

8. Define: What's the difference between a tax deduction and a tax credit?

9. Define: Which is better: a 1,000 deduction or a1,000 credit?

10. Define: What's the standard deduction?

Answer Key

1. A) $1,100 — Savings = 5,000 × 22% =1,100.

2. B) Tax credit — A 1 credit cuts your bill by exactly1. A deduction saves 10–37% of the amount.

3. B) No, must choose one — You pick whichever is larger — not both.

4. C) Earned Income Tax Credit — EITC can refund money beyond your tax liability; others only reduce tax to $0.

5. Taxable income after deduction = 80,000 −10,000 = 70,000. Tax at 22% =70,000 × 0.22 = 15,400. Without deduction =80,000 × 0.22 = 17,600. Savings =17,600 − 15,400 =2,200.

6. Tax liability before credit = 15,000. Apply2,500 credit. Tax owed = 15,000 −2,500 = $12,500.

7. Tax with standard deduction: (80,000 −14,600) × 0.24 = 15,686. Tax with0 deduction: 80,000 × 0.24 =19,200. Savings = 19,200 −15,686 = $3,514.

8. Deduction: lowers taxable income (saves a % of the amount). Credit: directly reduces tax owed dollar-for-dollar.

9. Credit is better — it cuts tax by the full 1,000. Deduction saves only220–$370 (depending on bracket).

10. A fixed amount you can deduct without itemizing (2024: 14,600 single,29,200 married).