

# Tax Preparation Supporting Worksheet

Practice Problems for Tax Planning Concepts

## Problem 1: Basic Tax Calculation

Calculate the tax liability for the following taxpayer using the 2023 tax brackets.

### Scenario: Taylor's Tax Situation

- Filing status: Single
- Gross income: \$55,000
- Above-the-line deductions: \$3,000 (IRA contribution)
- Chooses standard deduction
- No tax credits

Show your calculations:

Gross Income

\$55,000

Minus: Above-the-line deductions

\$

= Adjusted Gross Income (AGI)

\$

Minus: Standard Deduction (\$13,850)

\$

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= **Taxable Income**

\$

Calculate tax using brackets (10% on first \$11,000, 12% on \$11,001-\$44,725, 22% on remainder):

10% bracket:  $\$11,000 \times 0.10 =$

\$

12% bracket:  $\$33,725 \times 0.12 =$

\$

22% bracket: Remainder  $\times 0.22 =$

\$

**Total Tax Liability**

\$

### Solution:

$$\text{AGI} = \$55,000 - \$3,000 = \$52,000$$

$$\text{Taxable Income} = \$52,000 - \$13,850 = \$38,150$$

Tax Calculation:

- 10% on \$11,000 = \$1,100
- 12% on \$27,150 (\$38,150 - \$11,000) = \$3,258
- 22% on \$0 (income doesn't reach 22% bracket)

**Total Tax Liability = \$4,358**

### Problem 2: Deduction vs. Credit Comparison

Morgan is in the 22% tax bracket and has the option to claim either a \$2,000 deduction OR a \$400 tax credit. Which provides greater tax savings?

Calculate the value of each option:

\$2,000 deduction  $\times 22\%$  tax rate =

\$

\$400 credit (dollar-for-dollar) =

\$

- The \$2,000 deduction provides more savings
- The \$400 credit provides more savings
- They provide equal savings

**Solution:**

\$2,000 deduction x 22% = \$440 tax savings

\$400 credit = \$400 tax savings

**The \$2,000 deduction provides more savings (\$440 vs \$400)**

Note: This is only because Morgan is in the 22% bracket. If Morgan were in the 12% bracket, the deduction would only save \$240, making the credit more valuable.

### Problem 3: Choosing Filing Status

Determine the most advantageous filing status for each situation:

**Situation A:**

Alex is married and both spouses work. Together they earn \$120,000. Should they file jointly or separately?

Your analysis:

Consider: Standard deduction differences, tax bracket differences, credit eligibility...

**Situation B:**

Jordan is single but provides more than half the support for their elderly parent who lives with them. What filing status should Jordan use?

Your answer and reasoning:

Which status? Why is it more beneficial?

### Solutions:

**Situation A:** Married Filing Jointly is usually better because:

- Higher standard deduction (\$27,700 vs \$13,850 each)
- Lower marginal tax rates at same income levels
- Access to more credits and deductions

**Situation B:** Head of Household because:

- Higher standard deduction than Single (\$20,800 vs \$13,850)
- More favorable tax brackets
- Jordan qualifies since they're unmarried and provide >50% support for a qualifying person

### Problem 4: Tax Planning Strategy

Casey earns \$50,000 and has the following potential deductions. Should Casey itemize or take the standard deduction?

#### Casey's Potential Itemized Deductions:

- Mortgage interest: \$8,000
- State income taxes: \$3,500
- Property taxes: \$2,800
- Charitable contributions: \$1,200

Calculate total itemized deductions:

Mortgage interest \$8,000

State income taxes \$3,500

Property taxes \$2,800

Charitable contributions \$1,200

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**Total Itemized Deductions** \$

Standard Deduction (Single)

\$13,850

- Itemize deductions
- Take standard deduction

### Solution:

Total Itemized = \$8,000 + \$3,500 + \$2,800 + \$1,200 = \$15,500

Standard Deduction = \$13,850

**Casey should itemize because \$15,500 > \$13,850**

Tax Planning Tip: If Casey's itemized deductions were closer to the standard deduction, Casey could consider "bunching" deductions - making two years of charitable contributions in one year to exceed the standard deduction, then taking the standard deduction the following year.

### Reflection Questions

1. Based on these problems, what's the most important factor in determining whether a deduction or credit provides more value?

Your answer...

2. How would your tax strategy change as you move through different life stages (student, early career, homeowner, parent)?

Your answer...

3. What's one tax planning action you could take this year to reduce your future tax liability?

Your answer...

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**PFL Academy | Chapter 2.5: Tax Planning and Compliance**

Tax rates and deductions based on 2023 figures. Verify current rates at IRS.gov