

MATH PRACTICE FOR ECONOMICS ACTIVITY 14

PAYING TAXES

Many factors affect how much income tax you pay. Two important factors are how much you earn and where you live. The amount you pay in federal taxes does not depend on where you live, but the amount you pay in state taxes varies from state to state.

Take a look at federal income tax first. Currently there are four tax brackets for individuals: 15 percent, 28 percent, 31 percent, and 36 percent. In addition, individuals with taxable incomes over \$250,000 must pay a 10 percent surtax, which actually creates a top tax rate of 39.6 percent.

Here is how to calculate federal tax for a single individual:

If taxable income is more than	But not more than	You pay	of the amount over
\$0	\$22,100	15%	\$0
22,100	53,500	\$3,315 + 28%	22,100
53,500	115,000	12,107 + 31%	53,500
115,000	250,000	31,172 + 36%	115,000
250,000		79,772 + 39.5%	250,000

Directions: Use the table to compute the tax that would be paid on each of the following incomes:

- (1) \$12,000 _____
- (2) \$28,000 _____
- (3) \$53,600 _____
- (4) \$120,000 _____
- (5) \$260,000 _____

What you pay in state income tax depends on what state you live in. Some states have a range of tax rates. Some, such as Illinois, Michigan, and Pennsylvania, have a flat rate, which applies to all incomes. Other states, like Connecticut, have a graduated tax. Still other states, such as South Dakota, have no state income tax at all.

Suppose your taxable income was \$12,000.

- (6) If you lived in Illinois, you paid 3 percent, or \$ _____.
- (7) If you lived in South Dakota, you paid 0 percent, or \$ _____.
- (8) If you lived in Michigan, you paid 4.3 percent, or \$ _____.
- (9) If you lived in Connecticut, you paid \$300 plus 4.5 percent of earnings above \$10,000, or _____.
- (10) If you lived in Pennsylvania, you paid 2.8 percent, or \$ _____.

If your taxable income was \$43,000, how much would you pay in state income tax in

- (11) Illinois? _____
- (12) Michigan? _____

Sales tax rates also vary from state to state. For example, the state sales tax in Hawaii is 4 percent, in Mississippi 7 percent, in Florida 6 percent, and in Indiana 5 percent.

How much sales tax would you have to pay on a \$12 CD bought in

- (13) Hawaii? _____
- (14) Mississippi? _____
- (15) Florida? _____
- (16) Indiana? _____

How much sales tax would you pay on a \$975 couch bought in

- (17) Hawaii? _____
- (18) Mississippi? _____
- (19) Florida? _____
- (20) Indiana? _____