

Math for Financial Literacy © 2013

Chapter 3: Income Taxes—Checkpoint Solutions

Checkpoint 3.1

1. Eva is an agronomist for the local farm bureau. Last year, her gross income was \$62,600. Adjustments to her income include an IRA contribution of \$4,115, a student loan interest deduction of \$556.72, and moving expenses of \$3,323.65. What was Eva's adjusted gross income?

Answer: \$54,604.63

2. Jackie is a museum curator. Last year, her gross income was \$53,160. Adjustments to her income include moving expenses of \$5,847.60, student loan interest of \$1,008.72, and a contribution to a health savings account of \$750. What was Jackie's adjusted gross income?

Answer: \$45,553.68

3. Trish and Miguel are married and have two children. Their combined adjusted gross income for last year was \$61,593. They will claim the standard deduction. Determine their taxable income.

Answer: \$35,193

4. Ming is single and had a taxable income last year of \$17,548. Her total withholdings were \$2,665. Determine whether Ming owes additional taxes or will receive a tax refund. Calculate the amount that she owes or will be refunded.

Answer: Ming will receive a refund of \$454.

5. Ethan and Isadora are married, filing jointly, and their combined taxable income is \$99,861. Ethan had \$9,047 withheld from his paycheck. Isadora had \$7,116 withheld from her paycheck. Determine whether Ethan and Isadora owe additional taxes or will receive a tax refund. Calculate the amount that they owe or will be refunded.

Answer: Ethan and Isadora owe additional taxes of \$1,181.

Checkpoint 3.2

1. Wendy purchased an empty lot in her neighborhood for \$45,000. Two years later, she sold the lot for \$47,000. What is Wendy's capital gain on this investment?

Answer: \$2,000

2. Barret purchased shares of stock in an airline for a total of \$7,812.71. Two years later, he sold the shares of stock for a total of \$5,990.83. What is Barret's capital loss on this investment?

Answer: -\$1821.88

3. Milton and Janessa purchased a house for \$85,900 to use as rental property. They sold the house three years later for \$107,350. If the capital gains tax rate is 15%, what is the capital gains tax on the sale of Milton and Janessa's investment?

Answer: \$3,217.50

4. Frederick purchased a boat for \$40,150. He sold the boat three years later for \$45,000. If the capital gains tax rate is 15%, what is the capital gains tax on the sale of the boat?

Answer: \$727.50

5. Diya purchased shares of stock in a beverage company for \$6,100. She also purchased shares in a communications company for \$3,650. A few years later, she sold the stock in the beverage company for \$5,078 and sold the stock in the communications company for \$4,019. What is Diya's net capital gain or loss?

Answer: -\$653

Checkpoint 3.3

1. Yosef works as an independent contractor providing corporate leadership training. He earns \$1,250 per day. Last month he delivered eight days of training. How much self-employment tax will Yosef pay for last month's work? Use the self-employment tax rate of 15.3%.

Answer: \$1,530

2. Ali works part-time as an independent contractor who bakes wedding cakes. Last month, he made seven cakes at \$450 each. How much self-employment tax will Ali pay for last month's work? Use the self-employment tax rate of 15.3%.

Answer: \$481.95

3. Angelica is a computer programmer who works as an independent contractor. She just completed a contract for \$3,500. What is the self-employment tax that Angelica will pay for her income on this contract? Use the self-employment tax rate of 15.3%.

Answer: \$535.50

4. Bernard lives in a state with a flat rate inheritance tax of 4.5%. He recently inherited a condominium worth \$110,075. What is the amount of inheritance tax that Bernard will have to pay?

Answer: \$4,953.38

5. Andrea lives in a state with a flat rate inheritance tax of 6.34%. She was named as a beneficiary on her cousin's life insurance policy, and recently inherited \$50,000 from that insurance policy. How much inheritance tax will Andrea have to pay?

Answer: \$3,170