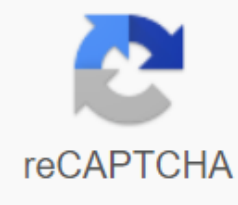




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Income tax fundamentals 2018 pdf

Taxes are inevitable, but if you're educated, you can soften their impact. Learn about organizing taxes and money, income taxes, and other issues on the Tax Channel. Paying federal income taxes now seems so routine that it's hard to imagine a time when the IRS was controversial. The federal income tax as we know it is actually just over a hundred years old. According to the Wes Priorities Budget Policy Center, individual income tax dollars made up 46% of federal tax revenue in 2014. That's a lot of money. How do income taxes work? Each spring, employers submit W-2 forms on behalf of their employees and Americans to fill out federal income tax returns on forms with opaque names like 1040 and 1099. Tax returns are the forms you submit to the IRS that determine your tax liability. If you work, your employer denies some income tax payments from your payroll. When you start a job you use the W-4 income tax form to indicate how your employer should withhold taxes from your payroll. The federal income tax system in this country is making progress. Progressive in taxation means that people with more money pay a higher rate in taxes. The IRS has income-related tax brackets. This increases your percentage of your income in higher tax. People with very low or no income pay no federal income tax at all. You don't take your tax framework and apply that percentage to all your income, though. That's because federal income taxes are marginal. When people refer to their tax framework, they actually refer to the top marginal tax framework in which they fall. If you qualify in the first bracket your income is taxed at this rate up to a certain income threshold. If you have income above and beyond what would put you in the first bracket, this additional income is taxable at the rate of the second marginal tax bracket, and so on. Filing your federal income tax correctly can be daunting, but income tax calculators and interactive software (like TurboTax or H&A; R Block) are demystifying the process. Planning on sending your kids to college? You will need to get your income tax returns handy to fill out the Free Federal Student Aid (FAFSA) application. A brief history of U.S. federal income taxes mentioned, federal income taxes have not always been a part of American life. Abraham Lincoln was a prelude to the IRS to help fund the war effort during the Civil War. But that tax was repealed in 1872. In 1894, the Supreme Court ruled that it was unconstitutional in 1895 because the tax was direct and was not established for population-based states. Then, in 1909, President Taft (sure as hell hadn't you thought about him in a long time) proposed a constitutional amendment that would give the government power Direct income tax without spreading the tax burden across the country by population. It took until 1913, but the 16th Amendment was ratt confirmed and the first Form 1040 was born. The Income Act of 1918 created a progressive income tax rate structure with a rate as high as 77%. Seriously. Since the federal IRS came into being it has been a source of political controversy - and groans from taxpayers. Taxable income has taxable income and there is non-taxable income. What is non-taxable income, you ask? Income payments, life insurance income received after the policy's death, refunds and welfare benefits are examples of non-taxable income. Your Social Security income may be taxable or not, depending on whether you have other income on the side and where you live. It should be clear that your taxable income can be quite different from your actual income, depending on your circumstances. Taxable income forms the basis of your taxes owed. If you're self-employed, your income tax situation is a little more complicated. Taxable income for the self-employed takes into account the fact that you didn't have an employer who avoids your income tax for you. In addition, you have to pay Social Security and Medicare taxes yourself, without an employer chipping in and deducting some of your wages to cover the tax bill. If you work for someone else you split the burden of Social Security and Medicare taxes with your employer. If you're self-employed, you carry that burden yourself. The good news is you can claim a deduction for some of this tax burden. If you expect to pay taxes of \$1,000 or more when you fill out your refund you have to pay an estimated tax during the year using Form 1040-ES. It may sound like pain but it will save you from getting one huge bill come April.Related article: Save for retirement, save on TaxesBottom LinePaying your income tax isn't exactly fun, but money funds a lot of important things that we all depend on. If filling out your tax returns you have scratching your head, consider enlisting the services of an accountant or some tax preparation software. If you're lucky enough to get a tax refund at the end of the process, there's a plan for what you'll do with that money. Pay off old debts? Inflate your emergency fund? Both great options. Tips for the pre-surviving tax season plan. Many financial advisers offer tax planning, which can help you minimize your income taxes and reach smart choices to reduce taxes down the road. A compatible tool like SmartAsset's SmartAdvisor can help you find someone to work with to meet your needs. First answer a series of questions about your situation and goals. The plan will then narrow down your options from thousands of advisers to three registered investment advisors to suit your needs. You can Read their profiles to learn more about them, interview them over the phone or in person and choose who to work with in the future. It allows you to find a good match while the program does a lot of the hard work for you. Figure out if you'll get a refund or owe government money so you can plan your household budget accordingly. The SmartAsset tax return calculator can help you understand this. Photo credit: © iStock/Pgiam, © iStock/Victor PELAEZ Tours, © iStock/iStockFinlandPage 2 Do you know enough about financial management to handle all your investment yourself? Or do you need help from world experts? That question costs millions of Americans every year. If all of these describe you, you can benefit from professional financial advice:1. You're retiring soon – maximizing pension income requires smart decisions on complex issues such as Social Security, 401(k) and IRA.2 withdrawals. You manage your investments – individual investors should check their strategies with unbiased third parties. You may be ignoring opportunities in your portfolio.3 You have children – whether you're saving for college or planning their inheritance, there are several ways to ensure your kids are in care.4 Inheritance of Money – Have you noticed lottery winners often declare bankruptcy? It can be difficult to manage sudden increases in wealth.5. You have a financial advisor – depending on how you chose your advisor, there may be a better one for you. Family leads are convenient but don't always produce results.6 You're getting divorced – allowing money in a divorce can be messy. Impartial advice is key.7. You want to build wealth – if you are still decades away from retirement, good decisions today can add thousands to your retirement accounts. See 3 Your Financial Advisor Matches Find the right financial advisor that fits your needs and doesn't have to be difficult. SmartAsset's free tool works for you with top fiduciary financial advisors in your area within 5 minutes. Each consultant has been tested by SmartAsset and is legally obligated to act in your best interests. If you're ready to pair with local advisors to help you achieve your financial goals, get started now. The IRS is a term money you need to understand. Here's what it means. Taxes imposed on the profits of companies and individuals are referred to as income taxes. Income subject to income tax can come from various sources, including wages, salaries, dividends, interest, royalties, rents, winning bets and product sales. In the United States, the IRS is one of the largest sources of income for the federal government. A deeper definition when people talk about income taxes, they usually mean personal income tax, paid for by employees or other people who earn income. However, companies, Trusts, and many other types of entities also pay income tax based on income or income. Personal income tax: Most people don't pay tax on all their earnings. Instead, the IRS (IRS) offers a series of deductions, based on mortgage interest, a percentage of medical and dental bills, education expenses and many other expenses. People deduct these deductions from their gross income to determine their taxable income. Income tax for businesses: Businesses — small businesses, independent contractors, partnerships, and corporations — are required to pay income tax based on their income. These entities report their business income and then reduce capital and operating expenses. The difference is their taxable income. Local and local income taxes: Most U.S. states charge income taxes. As of 2017, only seven states do not require people to pay income taxes: Wyoming, Washington, Texas, South Dakota, Nevada, Florida and Alaska. Tennessee and New Hampshire charge income taxes only on investments and dividends. The U.S. income tax system is a voluntary system. Not in the sense that paying income taxes is optional, but that the federal government depends on each taxpayer to voluntarily report all of their profits on tax returns and calculate the appropriate tax themselves. The IRS enforces tax laws and ensures everyone pays tax properly. The agency receives a copy of a person's W-2 form each year, and if it doesn't file a refund, the agency can easily calculate its tax and send it the bill. The IRS can also collect interest and penalties for people who pay late tax, and file lawsuits against tax takers. Need help planning tax? Check bankrate's tax calculators. An example of income tax Fernando earning \$150,000 a year in wages, and this year he earned \$18,500 in short-term capital gains and \$3,000 in long-term capital gains. That puts his total income at \$171,500. Under IRS rules, he may deduct his state and local taxes of \$12,000 and charitable donations of \$2,000 of that amount, plus four personal exemptions of \$4,050 each for himself, his spouse and his two children. This puts his total taxable income at \$141,300. His total income tax would total \$26,000. Bankrate uses cookies to ensure you get the best experience on our website. By clicking or navigating this site, you accept our use of cookies as described in our Privacy Policy. Policy.