

Brooklyn College

School of Business

Department of Accounting

Accounting 7101X

Accounting for the Non-Accountant

Taxation

Handout

SUMMARY OF TAXES IN THE U.S.

Imposed by Jurisdiction

<u>Type of Tax</u>	<u>Federal</u>	<u>State</u>	<u>Local</u>
Property taxes --			
<i>Ad valorem</i> on realty	No	Yes	Yes
<i>Ad valorem</i> on personalty	No	Yes	Yes
Transaction taxes --			
Excise	Yes	Yes	Few*
General sales	No	Most	Some
Severance	Yes**	Most	No
Estate	Yes	Some	No
Inheritance	No	Some	No
Gift	Yes	Few	No
Income taxes --			
Corporations	Yes	Most	Few
Individuals	Yes	Most	Few
Employment taxes --			
FICA	Yes	No	No
FUTA	Yes	Yes	No
Customs duties	Yes	No	No
Franchise taxes	No	Yes	No
Occupational taxes	Yes***	Yes	Yes

* An example of a local excise tax might be a tax on hotel occupancy.

** For Federal public lands and continental-shelf areas.

*** An example would be the tax on the occupation of accepting wagers.

TAX STRUCTURE

- Tax base: amount to which the tax rate is applied
- Tax rates: applied to the tax base to determine the tax liability
 - May be proportional, progressive, or regressive

- Examples:

<i>Income</i>	<u>\$10</u>	<u>\$20</u>	<u>\$30</u>
Proportional Tax	\$3 (.3)	\$6 (.3)	\$ 9 (.3)
Progressive Tax	\$3 (.3)	\$7 (.35)	\$12 (.4)
Regressive Tax	\$3 (.3)	\$5 (.25)	\$6 (.2)

TAX FORMULA

Income (broadly conceived)

Less: Exclusions

Gross Income

Less: Deductions for Adjusted Gross Income

Adjusted Gross Income

Less: Deductions from Adjusted Gross Income the
or greater
Standard Deduction of

Less: Exemptions

Taxable Income

X appropriate tax rates (tax table, tax rate schedule, alternative rates)

Tax Liability before credits

Credits

Tax liability

Less: Tax Payments (withholding, estimated payments)

Tax Due (Refund)

PARTIAL LIST OF EXCLUSIONS FROM GROSS INCOME

Accident insurance proceeds	Military allowances
Annuities (cost element)	Minister's dwelling rental value allowance
Bequests	Railroad retirement benefits (to a limited extent)
Child support payments	Scholarship grants (to a limited extent)
Cost-of-living allowance (for military)	Social Security benefits (to a limited extent)
Damages for personal injury or sickness	Unemployment compensation (to a limited extent)
Gifts received	Veterans' benefits
Group term life insurance, premium paid by employer (for coverage up to \$50,000)	Welfare payments
Inheritances	Workers' compensation benefits
Interest from state and local (i.e., municipal) bonds	
Life insurance paid on death	
Meals and lodging (if furnished for employer's convenience)	

PARTIAL LIST OF GROSS INCOME ITEMS

Alimony	Hobby income
Annuities (income element)	Interest
Awards	Jury duty fees
Back pay	Living quarters, meals (unless furnished for employer's convenience)
Bargain purchase from employer	Mileage allowance
Bonuses	Military pay (unless combat pay)
Breach of contract damages	Notary fees
Business income	Partnership income
Clergy fees	Pensions
Commissions	Prizes
Compensation for services	Professional fees
Death benefits	Punitive damages
Debts forgiven	Rents
Director's fees	Rewards
Dividends	Royalties
Embezzled funds	Salaries
Employee awards (in certain cases)	Severance pay
Employee benefits (except certain fringe benefits)	Strike and lockout benefits
Estate and trust income	Supplemental unemployment benefits
Farm income	Tips and gratuities
Fees	Travel allowance (in certain cases)
Gains from illegal activities	Treasure trove (found property)
Gains from sale of property	Wages
Gambling winnings	
Group term life insurance, premium paid by employer (for coverage over \$50,000)	

PARTIAL LIST OF ITEMIZED DEDUCTIONS

Medical expenses in excess of 7.5% of AGI

State and local income or sales taxes

Real estate taxes

Personal property taxes

Interest on home mortgage

Investment interest (to a limited extent)

Charitable contributions (within specified percentage limitations)

Casualty and theft losses in excess of 10% of AGI

Miscellaneous expenses (to the extent such expenses exceed 2% of AGI)

 Union dues

 Professional dues and subscriptions

 Certain educational expenses

 Tax return preparation fee

 Investment counsel fees

 Unreimbursed employee business expenses (after a percentage
 reduction for meals and entertainment)

Filing Status

- **Single**

- **Married Filing Jointly**

- **Married Filing Separately**

- **Head of Household**

- **Surviving Spouse {Qualifying Widow(er)}**

DEPENDENCY EXEMPTION

QUALIFYING CHILD

MUST MEET THE TESTS OF RELATIONSHIP, DOMICILE, AND AGE.

RELATIONSHIP: son, daughter, stepson, stepdaughter,
brother, daughter, stepbrother, stepsister,
half brother, half sister,
or a descendant of such an individual,
(e.g. grandchildren, nephews, nieces)

adopted child also qualifies

DOMICILE: must have the same principle place of abode
as taxpayer for at least half the year ...
temporary absences due to special circumstances
are not considered

AGE: under 19 or 19 - 23 and full-time student
age does not apply if individual is disabled

**A CHILD WHO PROVIDES OVER ONE-HALF OF HIS OR HER
OWN SUPPORT CANNOT BE CLAIMED AS A DEPENDANT**

OR

QUALIFYING RELATIVE

MUST MEET FOLLOWING THREE TESTS

SUPPORT TEST

GROSS INCOME TEST

RELATIONSHIP OR MEMBER OF HOUSEHOLD

Both Qualifying Child & Qualifying Relative

must also meet following two tests

CITIZENSHIP OR RESIDENCY

JOINT RETURN

Property Transactions

$$\begin{array}{l} \text{Selling Price - Selling Expenses} \\ \text{AMOUNT REALIZED} \end{array} \text{ ---- } \begin{array}{l} \text{Cost + (-) Adjustments} \\ \text{ADJUSTED BASIS} \end{array} = \text{REALIZED GAIN (LOSS)}$$

$$\text{REALIZED GAIN (LOSS)} = \text{RECOGNIZED GAIN (LOSS)} + \text{POSTPONED GAIN (LOSS)}$$

Section 121 Exclusion

UP TO 250,000

Must meet OWNERSHIP & USE Test.

2 out of last 5 years

**Can only use exclusion once every 2 years
..... Exceptions**

- **Change in place of employment**
- **Health**
- **Unforeseen circumstances**

MARRIED can exclude up to 500,000

Ownership test either spouse

Use test Both spouses

And neither spouse is ineligible.