

## Transcript

# Calculating Federal Income Taxes

Let's say that you're a single person who is making \$50,000 a year. Let's figure out what your actual take-home pay would be after paying federal income taxes. And then in a future video, we can also think about what your state income taxes might be. If you're in a state that has income taxes.

So the first thing we need to think about is "What is our taxable income?" This \$50,000, which is kind of what you'd think your salary is. This is your gross income. And to get your taxable income we have to think about things like exemptions and deductions.

I'm not going to go into a bunch of depth right over here, but if we just assume that you are a very plain, vanilla tax filer. You're just going to take the standard deduction. You don't have a bunch of, you know, donations to charity or whatever else, or a mortgage interest or whatever else you might want to deduct. You'd take the standard deduction.

And then if you're just an individual, you're only taking ownership for yourself, only responsible for yourself, you'd get to have the personal exemption. If you have a spouse, if you have kids, you might have larger exemptions right over here.

So the key about the deduction and the exemption is these aren't deducted from your taxes, these reduce your taxable income. So you started at a gross income of \$50,000. Let's subtract out \$6,100 for the standard deduction and then \$3,900 for the personal exemption. And so your taxable income at the federal level is going to be \$50,000 minus this stuff. So this stuff adds up to \$10,000 of deductions and exemptions. So your taxable income is \$40,000.

Now, from this \$40,000, we can figure out how much you pay in federal income taxes. And right over here, I've done part of the current federal tax brackets. These change over time, so the real basic idea for this video is to get the idea of how these brackets work. These brackets might change from year to year.

And many people say, "Ok, \$40,000, it falls into this bracket right over here. And this bracket's at 25%, so the federal income tax must be 25% of the \$40,000." That is not how a tax bracket works. The way it works is you pay 10% on the first \$8,925. Then 15% on the increment up to \$36,250. And then 25% on the amount that is above \$36,250.

So let's calculate what that is. Get the calculator out. We're going to pay 10% of the first \$8,925. \$8,925...I have trouble pressing buttons on this calculator. And then to that, we're going to pay 15% on the next increment up to \$36,250. So that increment is \$36,250 minus \$8,925. I, once again, have trouble typing in a 5 there. And then I'm going to pay 25% on the increment above \$36,250. So our taxable income is \$40,000. So it's \$40,000 minus \$36,250. And let's see, did I type that in right? Yep, that looks pretty right. And I get \$5,929. I'll just round. So this gets us to \$5,929 of what I'll just call straight up federal income tax.

Now, we aren't done at the federal level. You also have, what's often called the FICA tax. Or your share of the FICA tax. This stands for the Federal Insurance Contributions Act—FICA. And this is essentially what you pay in into Social Security and Medicare.

And right over here, although M could be an employer or employee, so we'll make it employees' share of FICA. Which you pay: 6.2% for social security, 1.45% and you don't take into account deductions or exemptions. So you're going to pay it on the original \$50,000.

So let's calculate what that's going to be. So it's \$50,000 times... and you're going to pay .062 (6.2%) for social security, and then you're going to pay another 1.45% for Medicare, and then that gives you your FICA tax. It's \$3,825. So \$3,825 in your share of FICA taxes. And I keep talking about your share of FICA taxes. Your employer will also separately— this is the part that gets taken out of your salary —your employer will also pay another \$3,825 that you will never see. So this is essentially half of the FICA taxes that will go to the government due to the fact that you are working for your employer.

But now we have all of the taxes that you are going to pay. Or all of the things that are going to come out of your payroll. And so we can add those two things up. We have the \$3,825 plus \$5,929, gets us to \$9,754. \$9,754 in total federal things that are taken out of your paycheck. So your take-home pay is going to be \$50,000 minus this right over here. So that's going to be \$50,000 minus \$9,754, gets us to \$40,246. So \$40,246 is what you are left with if we just take into account the federal things. The taxes and the FICA taxes that are taken out of your paystub essentially.

Now if you are in a state that does not have state income taxes, and a city that doesn't have local income taxes, you're done. This would be your take-home pay.

In the next video, we'll think about how much more will be taken out of your pay if you are in a state that has state income taxes.

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