

# Tax brackets and deductions

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Running head: TAX BRACKETS AND DEDUCTIONS Tax Brackets and Deductions Introduction Income tax refers to the levy imposed on annual incomes of individuals. In the United States, income tax is imposed by the federal government, states or local authorities. Income tax is obtained by applying tax rates applicable for the current financial period. Individuals and corporations are subject to direct taxation. Taxpayers are expected to review their income tax by filing tax returns from which relevant deductions can be made to obtain the actual amount owed in taxes by the taxpayers. There are many strategies for avoiding heavy tax burden by individuals. This paper explores the current year tax rates and possible deductions and strategies for minimizing taxable income.

#### Income Brackets and Tax Rates for Year 2012

Tax Rate (%)

Single

Married Filing Jointly

Married Filing Separately

Household Head

10

\$0-\$8, 700

\$0-17, 400

\$0-\$8, 700

\$0 - \$12, 400

15

\$8, 701-\$35350

\$17, 401-\$70, 700

\$8, 701-\$35, 350

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\$12, 401 – \$47, 350

25

\$35, 351-\$85, 650

\$70, 701-\$142, 700

\$35, 351 – \$71, 350

\$47, 351 – \$122, 300

28

\$85, 651-\$178, 650

\$142, 701-\$217, 450

\$71, 351 – \$108, 725

\$122, 301 – \$198, 050

33

\$178, 651-\$388, 350

\$217, 451-\$388, 350

\$108, 726 – \$194, 175

\$198, 051 – \$388, 350

35

\$388, 351 and over

\$388, 351 and over

\$194, 176 and over

\$388, 351 and over

The table above reflects the federal tax rates and brackets for year 2012 (Novack, 2012).

My income tax fall within \$35, 351-\$85, 650 tax bracket and is \$ 1950 from the next lowest tax bracket.

Probable Deductions from Federal Tax Income Tax

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The following are some of the possible tax deduction from the taxable income:

Education expenses including post-secondary tuition and interest on student loan

Contribution to personal health savings account or IRA

Itemized deductions which may include out-of-pocket medical expenses greater than 7.5 percent of adjusted gross income

Shifting tax to children who fall within 15% tax bracket

Theft and casualties on itemized properties

Credits such as those on retirement savings and education

Home mortgage if the acquisition is less than \$1 million as well as all interest paid during the entire year if the loan is secured by an investment property or second home (Hoffman et al., 2012).

I will file my tax return under the option of head of household in order to enjoy numerous credits and allowances. When filing under married, I will go for joint filing in order to reduce tax liability (Bankman et al., 2008; Murphy & Higgins, 2011).

#### References

Bankman, J., Griffith, T. D. & Pratt, K. (2008). Federal income tax: examples & explanations. New York, NY: Aspen Publishers.

Hoffman, W., Smith, J. E., Willis, E. & Boyd, J. H. (2012). Individual Income Taxes 2012. Mason, OH: Cengage Learning.

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Novack, J. (2012). 2012 Federal Income Tax Brackets (IRS Tax Rates). Forbes. Retrieved on May 27, 2012 from <http://www.forbes.com>.

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