

Ea\$y Money – Taxes: Income tax – rates/brackets, credits, deductibles, penalties

What it is: When we receive our paycheck each pay period we are often surprised at how much of our check goes toward taxes. So, what is income tax and how is it used? Well, income tax is imposed on financial income generated by all entities within government jurisdictions. Income tax is a key source of funds that the government uses to fund its activities and serve the public. By law, businesses and individuals must file an income tax return every year to determine whether they owe any taxes or are eligible for a tax refund.

The U.S. income tax was established in 1913 as a way to raise money for the federal government without burdening the average household with the high living costs imposed by duties. Prior to the income tax a considerable portion of the government operating income came from tariffs and those who advocated for free trade believed that ending tariffs allowed the American markets to develop without obstruction.

How it works: 2015 Tax Year Brackets (Jan. 1 - Dec. 31, 2015) Tax Return due on April 18, 2016

Tax Rate	Single	Married/Joint & Widow(er)	Married/Separate	Head of Household
10%	\$1 - \$9,225	\$1 - \$18,450	\$1 - \$9,225	\$1 - \$13,150
15%	\$9,226 to \$37,450	\$18,451 to \$74,900	\$9,226 to \$37,450	\$13,151 to \$50,200
25%	\$37,451 to \$90,750	\$74,901 to \$151,200	\$37,451 to \$75,600	\$50,201 to \$129,600
28%	\$90,751 to \$189,300	\$151,201 to \$230,450	\$75,601 to \$115,225	\$129,601 to \$209,850
33%	\$189,301 to \$411,500	\$230,451 to \$411,500	\$115,226 to \$205,750	\$209,851 to \$411,500
35%	\$411,501 to \$413,200	\$411,501 to \$464,850	\$205,751 to \$232,425	\$411,501 to \$439,200
39.6%	over \$413,200	over \$464,850	over \$232,425	over \$439,200

Why it matters: One of the most frequently asked questions is about tax penalties for health insurance coverage. The penalty can never exceed the national average cost for a bronze plan though. The IRS announced in Revenue Procedure 2015-15 that the maximum 2015 penalty would be \$2,484 for a single individual and \$12,420 for a family of five. The easiest way to sign up for a health plan under the Affordable Care Act is to go to the online health insurance

marketplace for Iowa at HealthCare.gov. If you're not ready to enroll right now, you can get more information online, over the phone, or in person.

Who should care? If you have children there are special tax credits that you can claim so be sure to take advantage of them. For 2015, the maximum Earned Income Tax Credit (EITC) amount available is \$3,359 for taxpayers filing jointly with one child; \$5,548 for two children; \$6,242 for three or more children (up from \$6,143 in 2014) and \$503 for no children. Phaseouts are based on filing status and number of children and begin at \$8,240 for single taxpayers with no children and \$18,110 for single taxpayers with one or more children.

NOTE: This information is provided as an educational service and is not intended as, nor should it be considered legal advice but provides general information.

For more information:

- Iowa State University Extension and Outreach Money Blogs tips, <http://blogs.extension.iastate.edu/moneytips/>
- Iowa State University Extension and Outreach Human Sciences website at www.extension.iastate.edu/humansciences/
- Internal Revenue Service <http://www.efile.com/tax-service/tax-calculator/tax-brackets/>