# **AC309 Unit 5: Application Assignment – Investments**

Millie is a single taxpayer and her 2018 taxable income is $181,205, calculated as follows:

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| **Description** | **Amount** |
| Employee wages | 133,000 |
| Profit from business (Schedule C) | 15,000 |
| Ordinary income from partnership (Schedule E) | 22,000 |
| Interest income | 4,000 |
| Ordinary dividends (total dividends = 9,000) | 2,000 |
| Qualified dividends (total dividends = 9,000) | 7,000 |
| Short-term capital gain | 8,200 |
| Long-term capital gain | 6,900 |
| **Total Income – Form 1040, Line 6** | **198,100** |
| Deduction for ½ of self-employment tax | (495) |
| **Adjusted Gross Income – Form 1040, Line 7** | **197,605** |
| Standard deduction – Form 1040, Line 8 | (12,000) |
| Qualified business income deduction – Form 1040, Line 9 | (4,400) |
| **Taxable Income – Form 1040, Line 10** | **181,205** |

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| **Ordinary Income Bracket** | **Tax Calculation** |
| $0 - $9,525 | 10% of ordinary income |
| $9,526 - $38,700 | $952.50 plus 12% of ordinary income over $9,525 |
| $38,701 - $82,500 | $4,453.50 plus 22% of ordinary income over $38,700 |
| $82,501 - $157,500 | $14,089.50 plus 24% of ordinary income over $82,500 |
| $157,501 - $200,000 | $32,089.50 plus 32% of ordinary income over $157,500 |
| $200,001 - $500,000 | $45,689.50 plus 35% of ordinary income over $200,000 |
| $500,001 or more | $150,689.50 plus 37% of ordinary income over $500,000 |

Instructions

1. Separate Millie’s 2018 taxable income of $181,205 into its ordinary income and preferential income components. *Hint – your ordinary income and preferential income amounts should total Millie’s taxable income of $181,205.*

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| **Taxable Income** | **Ordinary Income** | **Preferential Income** |
| 181,205 |  |  |

1. Using the single taxpayer ordinary tax rate brackets on the previous page, compute Millie’s 2018 income tax liability she should report on her 2018 Form 1040, Line 11. *Do NOT calculate any self-employment tax, additional Medicare tax or net investment income tax that Millie might also be liable for (these additional taxes would be reported on Schedule 4 and Form 1040, Line 14).*

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| **Description** | **Amount** |
| Tax liability – ordinary income |  |
| Tax liability – preferential income |  |
| 2018 income tax liability (Form 1040, Line 11) |  |