

PRACTICAL INCOME TAX PROBLEM

Vern buys 100 shares of Dingdong stock for \$1,000. Vern sells 50 shares for \$750 three months later. Capital gain is \$250.

A Bond costing \$5,000 is sold for \$5,300 on May 31, 2016. The sale price includes \$200 of interest income accrued from January 1 to May 31. Interest income is \$200. Capital gain is \$100.

On October 30, 2012, Bob purchased a home for \$100,000. On October 1, 2016, Bob sold his home for \$600,000. Capital gain realized is \$500,000. Capital gain recognized is \$250,000.

Short-term: The holding period is one year or less.

Long-term: The holding period is more than one year.

Eric purchased stock that has a trade date of August 28, 2015. In order to qualify for the long-term holding period, the stock would have to be sold with a trade date on or after August 29, 2016.

Jane is single. Her only income for 2016 is her salary of \$500,000.

Salary	\$500,000
Standard deduction	(\$6,300)
Exemption (phased out)	<u>(\$ 0)</u>
Taxable income	\$493,700
Tax at regular tax rates:	
(\$9,275 - \$0) x 10%	\$928
(\$37,650 - \$9,275) x 15%	4,256
(\$91,150 - \$37,650) x 25%	13,375
(\$190,150 - \$91,650) x 28%	27,720
(\$413,350 - \$190,151) x 33%	73,656
(\$415,050 - \$413,350) x 35%	595
(\$493,700 - \$415,050) x 39.6%	<u>31,145</u>
	\$151,675
Tax	\$151,675

Joe Jackson is single. His only income for 2016 is a long-term capital gain of \$500,000. How is the gain taxed at different capital gain rates?

Long-term capital gain	\$500,000
Standard deduction	(\$6,300)
Exemption (phased out)	<u>(\$ 0)</u>
Taxable income	\$493,700

Tax at capital gain rates:

$(\$9,275 - \$0) \times 0\%$	\$0
$(\$37,650 - \$9,275) \times 0\%$	0
$(\$91,150 - \$37,650) \times 15\%$	8,025
$(\$190,150 - \text{\$91,650}) \times 15\%$	14,850
$(\$413,350 - \$190,151) \times 15\%$	33,480
$(\$415,050 - \$413,350) \times 15\%$	255
$(\$493,700 - \$415,050) \times 20\%$	<u>15,730</u>
	\$72,340

Tax **\$72,340**

Income Tax Rate (Single)

Taxable Income	Tax Rate		
	Ordinary income	Capital Gain (ST)	Capital Gain (LT)
\$0 - \$9,275	10%	10%	0%
\$9,276 - \$37,650	15%	15%	0%
\$37,651 - \$91,150	25%	25%	15%
\$91,151 - \$190,150	28%	28%	15%
\$190,151 - \$413,350	33%	33%	15%
\$413,351 - \$415,050	35%	35%	15%
\$415,051 or more	39.6%	39.6%	20%