FEDERAL INCOME TAXATION
FALL 2005
PROFESSOR LILY BATCHELDER

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Class Time and Makeup Classes

Class meets Mondays and Thursdays, 2:05 p.m. to 3:55 p.m. in FH 216. Makeup class times will be scheduled if needed.

Course Books

Books are available at the NYU Bookstore.

Required:


Supplemental Materials (when posted on Blackboard).

Recommended:


Note: You will need the current edition of the casebook and the Code. If you choose to use an out-of-date version of the Code, you are responsible for updating any superseded sections.

First Assignment

A copy of the initial syllabus is posted on Blackboard and will be available in class. For the first class, please complete the following assignment.

Introduction to Tax Policy: G&S, pp. 1-88
Code §§ 1, 61, 62, 63, 67
Problem Set #1 (see below)
The mechanics of calculating federal income tax liability

The following summary illustrates each step in the process of calculating an individual's federal income tax liability. As you will learn, the Code section references provided in the outline are a starting point; other Code sections may alter the rules provided in these basic provisions.

STEP ONE: Calculate gross income (Code § 61).

STEP TWO: Subtract "above-the-line" deductions (enumerated in Code § 62).

STEP THREE: The resulting figure is known as adjusted gross income (Code § 62).

STEP FOUR: Subtract "below-the-line" deductions = the sum of personal exemptions (Code §§ 151 and 152) and either a standard deduction (Code § 63) or itemized deductions (start with Code §§ 67).

STEP FIVE: The resulting figure is known as taxable income (Code § 63).

STEP SIX: Apply the tax rate schedules (found in Code § 1) to taxable income to determine tentative tax liability.

STEP SEVEN: Subtract from tentative tax liability any available tax credits. Bear in mind the important distinction between "deductions" and "credits": deductions reduce income, while credits directly reduce tax liability.

STEP EIGHT: The remaining amount is final tax liability.

Understanding tax rates

Jane, who is single and childless, will have taxable income of $100,000 for 2005. (Taxable income is the "bottom line" income figure used to compute tax liability; it already takes into account Jane's personal exemption and itemized deductions or standard deduction.)

Consult Section 1 of the Code to calculate Jane's tax liability for 2005. Unless otherwise noted, assume that she has no available tax credits.
Questions:

(a) What is Jane's total tax liability? (Hint: Section 1 will show you that you may need to look on the internet to answer this question.)

(b) What is Jane's average tax rate? (The average tax rate is the total tax liability divided by taxable income.) The average tax rate is a good measure of Jane's overall tax burden and can be used to compare tax rates across taxpayers.

(c) What is Jane's marginal tax rate? (The marginal tax rate is the rate of tax Jane would pay on an additional dollar of taxable income – i.e., the extra tax that she would owe if her income were $100,001.) The marginal tax rate will affect Jane's tax decisions at the margin – i.e., how much an additional dollar of income or deduction will change her tax liability.

(d) Suppose Jane were offered an opportunity to earn $1,000 extra this year by doing some consulting work. In weighing whether or not to take the job, Jane might weigh the value of her leisure time and the time needed for her other personal and professional commitments against the after-tax value of the consulting fee. What is the after-tax value of the consulting fee to Jane?

(e) Assume that Jane decides not to undertake the consulting job, so her taxable income remains $100,000. Jane's accountant calls and tells Jane that she's going to be entitled to an extra deduction of $1,000. How much is the extra deduction worth to Jane?

(f) What if Jane’s accountant tells her that she’s going to be entitled to a tax credit of $1,000. How much is the tax credit worth to Jane?

(g) Would your answers to (e) or (f) change if Jane's taxable income were only $25,000? What if her taxable income were only $10,000?