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Since we’ve started, you have learned so many new terms – and how to read a W-2 and know that:

* Box 1 Federal taxable wages, Box 16 State taxable wages and Box 18 City taxable wages are calculated as follows:
  + GROSS INCOME
  + Less employee payments for 401K traditional retirement plan
  + Less employee payments for the Cafeteria Plan (Health insurance premium)
  + Less employee payments for Transit check
  + EQUALS = Taxable wages (Federal, State, and NY City)
* But Box 3 Social Security taxable wages and Box 5 Medicare taxable wages calculated as follows
  + GROSS INCOME
  + Less employee payments for the Cafeteria Plan (Health insurance premium)
  + Less employee payments for Transit check
  + EQUALS = Taxable wages (Social Security and Medicare)

**Thus, Social Security and Medicare do NOT allow their taxable wages**

**to be reduced by an employee’s traditional 401K plan contributions**

These handouts are needed to complete Assignment #2

|  |  |
| --- | --- |
| 6.31 | EXERCISE – complete Maria’s Schedule C |
| IRS form | Schedule C |
| IRS form | 8829 – Home Office Deduction |
|  |  |

**ASSIGNMENT #2**

1. **Pull out your last W-2 and 1040 Tax return –**

Do you understand your taxable wages and how they were calculated?

Do you see how your BOX 1 federal taxable wages were transferred to your 1040 tax return, page 1, line 1

By the way –

* if you had more than one job during the year and received multiple W-2s on Form 1040 line 1 will be a combination of all your taxable wages.
* If you are married and filing a joint return, and you and your spouse received a W-2, form 1040 will be the total of both your AND your spouse’s taxable wages.

1. **6.31 EXERCISE - COMPLETE Maria’s Schedule C** – Read Exercise 6.31 and see if you can complete Maria’s Schedule C - your goal is to at least make it to line 29.
2. **6.32 EXERCISE – COMPLETE MARIA’S SCHEDULE 8829 – HOME OFFICE DEDUCTION**

This is a big challenge because we only briefly touched on it in class – but read Exercise 6.32 and see how far you can get in calculating Maria’s home office deduction. Remember there are two ways – the simplified method gives you $5 per square ft of office space in your home (up to a limit of 300 sq. ft or $1500). The more complicated way, involves completing schedule 8829. Give both a try – and see which method benefits Maria. If you get stuck on form 8829 - look at the IRS instructions

<https://www.irs.gov/instructions/i8829> just TRYING to do this makes you a winner.

Once you know Maria’s Home Office deduction enter on Schedule C line 30.

**Scan and email back Maria’s Schedule C completed to line 29 and Schedule 8829**

**and remember, HAVE FUN!**