Federal Income Tax Basics – Video Transcript

Every year, millions of Americans file federal income tax returns to determine how much income tax they owe on income received during the year.

Whether your income is $10,000 or $10 million, the steps in determining your federal income tax are the same.

First, you determine and select your filing status: single, married filing jointly, married filing separately, head of household, or qualifying widow or widower.

Then you determine your gross income, which includes items such as wages, taxable interest, dividends, and capital gains.

Next, you determine your adjustments to income, sometimes called "above-the-line" deductions.

Adjustments to income may include items such as deductions for student loan interest, contributions to health savings accounts, and traditional IRAs.

Your total—or gross—income, minus your adjustments to income, equals your adjusted gross income, or AGI.

Next, you determine your remaining deductions.

You can generally choose to take a standard deduction that's based on your filing status, or to itemize deductions on Schedule A of IRS Form 1040. Itemized deductions can include deductions for medical expenses, mortgage interest, state and local taxes, and charitable contributions.

You may also claim a qualified business income deduction whether or not you itemize deductions.

Your taxable income equals your adjusted gross income minus your itemized deductions or the standard deduction, as well as the qualified business income deduction.

Your income tax liability is then calculated, based on the amount of your taxable income and your tax filing status. If you have long-term capital gains or qualified dividends, special tax rates may apply.

You may also be subject to alternative minimum tax or certain other taxes, such as self-employment tax.

The income tax you owe may be reduced, dollar for dollar, by certain tax credits. And, of course, any taxes that you have already paid through withholding or estimated tax payments are counted.

If your total payments and credits are more than your total tax, you may be entitled to a refund. If your total tax exceeds your total payments and credits, you may owe money.

While the steps are fairly straightforward, the federal income tax rules can be very complicated. That’s why it often makes sense to talk to a tax professional about your individual tax situation.