

Name _____

Decoding Income Taxes: How Your Income is Taxed and Understanding Tax Brackets

Multiple Choice Questions

1. What is the purpose of adjustments or deductions when calculating income taxes?

- a) To increase your taxable income
- b) To reduce your taxable income
- c) To determine your effective tax rate
- d) To calculate your gross income

2. What is a progressive tax system?

- a) A system where everyone pays the same amount of tax
- b) A system where tax rates increase as income increases
- c) A system where tax rates decrease as income increases
- d) A system where tax rates stay constant regardless of income

3. How do marginal tax rates work in income tax brackets?

- a) All income is taxed at the same rate
- b) Only the income within each bracket is taxed at that specific rate
- c) Tax rates increase with each income bracket
- d) Tax rates decrease with each income bracket

4. What is your effective tax rate?

- a) The highest tax rate you pay
- b) The average rate at which your total income is taxed
- c) The total amount of tax you owe
- d) The tax rate for the first income tax bracket

5. What is the importance of filing income tax returns?

- a) It guarantees a higher tax rate for everyone
- b) It allows you to avoid paying any taxes
- c) It helps you claim deductions and tax credits
- d) It increases your tax liability

