

## **Income Tax Lecture-3**

### **1. Capital Gains:**

- Capital gains are profits earned from the sale of assets such as stocks, bonds, or real estate.
- They are categorized into short-term gains (assets held for one year or less) and long-term gains (assets held for more than one year).
- Tax rates for capital gains vary based on how long the asset was held and the individual's tax bracket.

### **2. Self-Employment Tax:**

- Self-employment tax is a tax on income earned from self-employment activities, such as freelancing or running a business.
- It covers Social Security and Medicare taxes that would typically be withheld by an employer in traditional employment.
- Self-employed individuals are responsible for paying both the employer and employee portions of these taxes.

### **3. Tax Planning Strategies:**

- Tax planning involves arranging financial affairs in a way that minimizes tax liability.
- Strategies may include maximizing deductions, utilizing tax-advantaged accounts like IRAs or 401(k)s, and timing income and expenses.
- Understanding the tax implications of various financial decisions can help individuals and businesses optimize their tax situation.

### **4. Tax Deductions and Credits:**

- Tax deductions reduce taxable income and can include expenses such as mortgage interest, charitable donations, and business expenses.
- Tax credits directly reduce the amount of tax owed and can be more valuable than deductions since they provide a dollar-for-dollar reduction in tax liability.
- Common tax credits include the Earned Income Tax Credit (EITC), Child Tax Credit, and Education Credits.

### **5. Real-World Examples:**

- Examining real-world scenarios helps illustrate how tax concepts apply in practice.
- Case studies can demonstrate the impact of different tax strategies and decisions on overall tax liability.
- By analyzing examples, students can gain a deeper understanding of how to navigate complex tax situations effectively.

Encourage students to actively engage with the material, ask questions, and participate in discussions to reinforce their understanding of income tax concepts covered in Lecture 3.