Tax Brackets

So, what bracket are you in?

That depends on two things: Filing status and your taxable income.

Filing status is simple enough: Are you doing your taxes as a single or couple?

Taxable income is a little trickier. It requires adding all sources of income and subtracting allowable deductions. If you want to make it easy, online programs like Turbo Tax will compute all available deductions for you and tell you what bracket you belong in.

Keep in mind the Tax Cuts and Jobs Act of 2017 nearly doubled the standard deduction to $12,000 for single filers and $24,000 for married couples filing jointly.

TurboTax estimated that nearly 90% of taxpayers took the standard deduction in 2019. That should save you the trouble of calculating all those deductions.

Tax Brackets and the Tax Cuts and Jobs Act of 2017

The most recent tax policy – the Tax Cuts and Jobs Act of 2017 – didn't add any brackets, but it did rearrange some percentages in the seven brackets.

The most notable change was reducing the marginal tax rate in three of the four lowest brackets by 1%-to-4%. The new law also nearly doubled the standard deduction for all segments of taxpayers.

Since then, the IRS has provided tax inflation adjustments – raising the standard deduction to $12,200 for single taxpayers and married couples filing separately. Married couples filing jointly or a surviving spouse can deduct $24,400, and heads of households receive a deduction of $18,350.

Taxpayers can either use the standard deduction or itemize deductions to reduce the amount of taxable income they must pay.

Here is a look at what the brackets and tax rates are for 2019-2020:

2019 Tax Brackets (Due July, 15 2020)

Tax rate	Single filers	Married filing jointly*	Married filing separately	Head of household
10%	$0 – $9,700	$0 – $19,400	$0 – $9,700	$0 – $13,850
12%	$9,701 – $39,475	$19,401 – $78,950	$9,701 – $39,475	$13,851 – $52,850
22%	$39,476 – $84,200	$78,951 – $168,400	$39,476 – $84,200	$52,851 – $84,200
24%	$84,201 – $160,725	$168,401 – $321,450	$84,201 – $160,725	$84,201 – $160,700
32%	$160,726 – $204,100	$321,451 – $408,200	$160,726 – $204,100	$160,701 – $204,100
35%	$204,101 – $510,300	$408,201 – $612,350	$204,101 – $306,750	$204,101 – $510,300
37%	$510,301 or more	$612,351 or more	$306,751 or more	$510,301 or more

*Qualifying widow(er)s can use the joint tax rates

Future Tax Adjustments for 2020-2021

In November 2019, the IRS released the new tax brackets for 2020-2021 with modest changes. The standard deduction was also modified raising the deduction to $12,400 for both single filers and married couples filing separately. Married couples filing jointly can deduct $24,800, and those filing as heads of households can deduct $18,650 in 2021.

Here is a look at what the brackets and tax rates are for 2020-2021:

2020 Tax Brackets (Due April 2021)

Tax rate	Single filers	Married filing jointly*	Married filing separately	Head of household
10%	$0 – $9,875	$0 – $19,750	$0 – $9,875	$0 – $14,100
12%	$9,875 – $40,125	$19,751 – $80,250	$9,876 – $40,125	$14,101 – $53,700
22%	$40,126 – $85,525	$80,251 – $171,050	$40,126 – $85,525	$53,701 – $85,500
24%	$85,526 – $163,300	$171,051 – $326,600	$85,526 – $163,300	$85,501 – $163,300
32%	$163,301 – $207,350	$326,601 – $414,700	$163,301 – $207,350	$163,301 – $207,350
35%	$207,351 – $518,400	$414,701 – $622,050	$207,351 – $311,025	$207,351 – $518,400
37%	$518,401 or more	$622,051 or more	$311,026 or more	$518,401 or more

*Qualifying widow(er)s can use the joint tax rates

How to Calculate Your Tax Bracket

As we mentioned above, determining your tax bracket comes down to your filing status and taxable income. Here are some details that should help.

There are five different filing statuses:

- **Single Filing** – Unmarried, legally separated and divorced individuals all qualify all single.
- **Married Filing Jointly** – A married couple agrees to combine income and deduct the allowable expenses.
- **Married Filing Separately** – A married couple files separate tax returns to keep an individual income lower. This is beneficial in certain situations like repaying student loans under an income-driven repayment plan.
- **Head of Household** – Unmarried individuals who paid more than half the cost of keeping up a home for the year and have a qualifying person living with them in their home for more than half the year.
- **Qualifying Widow(er)** – A widow(er) can file jointly in the year of their spouse's death. A qualifying widow(er) has a dependent child and can use the joint tax rates and the highest deduction amount for the next two years after their spouse's death.

Calculating Taxable Income

Taxable income requires a little bit of math.

First, you'll need to start with your gross income. This includes all of the money you made from various jobs as well as business, retirement or investment income.

Next, you need to determine your adjusted gross income (AGI). These are adjustments that can be taken before any deductions are applied. They can include student loan interest, moving expenses, paid alimony, tuition and fees as well as contributions to a traditional IRA among others. Subtract these expenses from your gross income to arrive at your AGI.

Finally, apply deductions including mortgage interest, state and local taxes, certain medical expenses, charitable contributions and any other deductions you might qualify for.

Now, you've arrived at your taxable income. But calculating how much you will pay in taxes isn't as simple as taking that number and multiplying it by your tax rate.

How Tax Brackets Work

In a common-sense world, if you were making $80,000 per year, it would make sense that paying taxes would be a matter of multiplying your total income ($80,000) by your tax bracket (22%) and you'd have your bill for the year ($17,600).

But we do not live in a common-sense world. We live in the United States, where the tax code is about as easy to read as the Dead Sea Scrolls. And twice as hard to understand.

The U.S. system uses something called marginal rates.

Marginal Tax Rates

Marginal tax rates refer to the rate you pay at each level (bracket) of income. Increments of your income are taxed at different rates, and the rate rises as you reach each of the seven "marginal" levels in the current system. This means you may have several tax rates that determine how much you owe the IRS.

Effective Tax Rates

The actual percentage of your taxable income that you owe to the IRS is called an effective tax rate. To calculate your effective tax rate, take the total amount of tax you paid and divide that number by your taxable income. Your effective tax rate will be much lower than the rate from your tax bracket.

Putting It All Together: Calculating Your Tax Bill

To calculate how much you owe in taxes, start with the lowest bracket. Multiply the rate by the maximum amount of income for that bracket. Repeat that step for the next bracket, and continue until you reach your bracket. Add the taxes from each bracket together to get your total tax bill.

For example, the individual with $80,000 in taxable income would pay the lowest rate (10%) on the first $9,700 ($970) they make; then 12% on anything they earn from $9,701 to $39,475 ($3,572); then 22% on the rest, up to $80,000 ($8,915) for a total tax bill of $13,458.

Effectively then, you are paying a tax rate of 16.8% (13,458 ÷ 80,000 = .168), which is less that the 22% tax bracket you're actually in.

Effective tax rates don't factor in any deductions, so if you wanted to find out what percentage of your salary goes to Uncle Sam, try using your gross income. Assuming the individual making $80,000 took the standard deduction ($12,000), only 13.5% of their gross income went to the IRS.

Make sense? Confusing? Who came up with idea? No. Yes. Politicians, probably with (a lot of) help from some well-intentioned mathematicians.

State and Local Tax Brackets

States and cities that impose income taxes typically have their own brackets, with rates that are usually lower than the federal government's.

California has the highest state income tax at 13.3% with Hawaii (11%), Oregon (9.9%), Minnesota (9.85%) and Iowa (8.98%) rounding out the top five.

Seven states – Florida, Alaska, Wyoming, Washington, Texas, South Dakota and Nevada – have no state income tax. Tennessee and New Hampshire tax interest and dividend income, but not income from wages.

Not surprisingly, New York City has a deserved reputation for taxing income with rates ranging from 2.9% to 3.65%, but surprisingly, they are not the worst. Most of Pennsylvania cities tax income, with Philadelphia leading the way at 3.98% and Scranton not far behind at 3.4%. Ohio has more than 550 cities and towns that tax personal income.

How Tax Brackets Add Up

Somehow, taxpayers wade through all that bracketology and make payments and get refunds. In 2017, the Internal Revenue Service collected $3.4 trillion in taxes from 245 million tax returns.

The IRS also issued returns to 121 million individuals, totaling $437 billion.

For the 2019 tax year, there were seven marginal tax brackets, with rates ranging from 10% to 35%, across four categories – single filers, married filing jointly or qualifying widow/widower, married filing separately, and head of household.

As complicated as that seems, it's certainly an improvement over what taxpayers were facing in 1918, when there were 55 tax brackets and top marginal rate was 77%. Imagine calculating your bill if you were in the 66th or so bracket!

The number of brackets eventually dropped to more manageable numbers, bottoming out in 1988 when single and married couples making $29,750 or less paid 15% and anyone over that paid 28%.

Taxes being a favorite toy of politicians to play with, the number of brackets steadily increased over the last 30 years and currently stands at seven brackets.

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