

Clearing up the confusion about income taxes

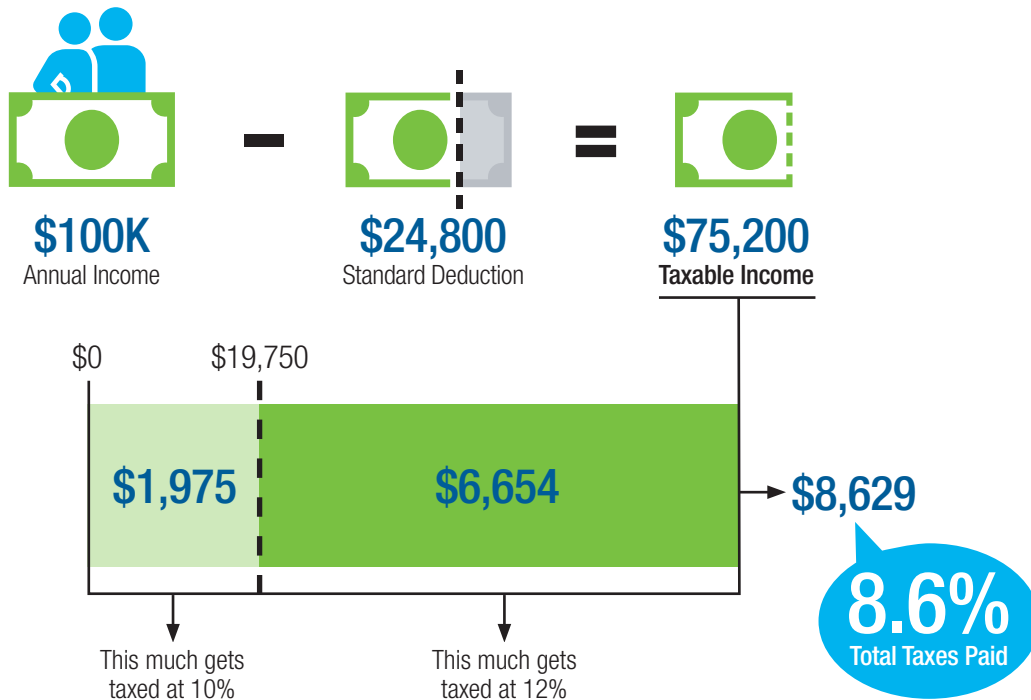
If you're confused as to how tax brackets work, you're not alone: nearly half of Americans don't know what tax bracket they're in.¹ But staying in the dark about your tax situation could affect your investment decisions as you prepare for retirement. Here we break down how tax brackets and rates really work so you can be better informed.

There are seven federal tax brackets, which determine the rate you pay on portions of your income. But being 'in' a tax bracket doesn't mean you pay that federal income tax rate on everything you make.

A married couple with a yearly combined income of \$100,000 would fall into the 22% tax bracket. But instead of paying \$22,000 to the federal government, you would pay much less.

Here's how it breaks down:

After accounting for the \$24,800 standard deduction applied to married couples filing jointly, you end up with only \$75,200 in taxable income, which is then taxed at different rates. You would pay 10% of the first \$19,750 and 12% of the next \$55,450. The total bill would be \$8,629, only 8.6% of your total income.



Source: Tax Foundation, FISCAL FACT No. 676, Nov. 2019.

Your income taxes may be lower than you think

The taxes you pay are generally significantly lower than the tax rate that corresponds with your income.

INCOME (MARRIED FILING JOINTLY)	INCOME TAX BRACKET	ACTUAL TAX RANGE (BLENDED)
\$0 – \$19,750	10%	0%
\$19,750 – \$80,250	12%	0 – 7.8%
\$80,250 – \$171,050	22%	7.8 – 13.9%
\$171,050 – \$326,600	24%	13.9 – 18.8%
\$326,600 – \$414,700	32%	18.8 – 21.3%
\$414,700 – \$622,050	35%	21.3 – 26.0%
Over \$622,050	37%	26.0 – 37.0%

Source: Tax Foundation, FISCAL FACT No. 676, Nov. 2019.

Talk to your financial professional about how to prepare for the retirement you envision.

¹ Nerdwallet 2019 Tax Study.

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