

Know Your True Tax Rate

It has been widely reported that the TCJA lowers federal income tax rates for many people. The highest tax rate, for example, has fallen from 39.6% to 37%. Many people who are in lower brackets also stand to benefit.

Example 1: Alice Young had \$100,000 of taxable income in 2017. As a single filer, Alice was in the 28% tax bracket. If Alice has that same \$100,000 in taxable income in 2018, she will be in a 24% bracket. Indeed, Alice could add as much as \$57,500 in taxable income this year and maintain her lower 24% tax rate.

Not for Everyone

However, there are some quirks in the new tax rates. Some people actually face higher rates.

Example 2: Brad Walker had \$220,000 of taxable income in 2017, which put him in a 33% tax bracket. With the same income in 2018, Brad will face a 35% tax rate.

In addition, the federal tax rates such as 24% or 35% are just one factor in determining the true rate you'll pay by adding taxable income, or the true amount you'll save with a tax deduction. Many people owe state or even local income tax, which might be fully or partially deductible on a federal tax return or not deductible at all. Various other provisions of the tax code will also impact your marginal tax rate—the percent you'll owe or save by adding or reducing taxable income.

Knowing your true tax rate can help you make knowledgeable financial decisions, some of which are explained elsewhere in this issue. By starting with your 2017 tax return and incorporating your expectations as well as your plans for 2018, our office can help you determine the value of tax related actions.