

How the Tax Brackets work – *courtesy of AARP*

In the American tax system, income taxes are graduated, so you pay different rates on different amounts of taxable income, called tax brackets. The more you make, the more you pay. For example, a single taxpayer will pay 10 percent on taxable income up to \$9,875 earned in 2020. The top tax rate is 37 percent for taxable income above \$518,400 for tax year 2020. There are seven tax brackets in all.

The Internal Revenue Service increases those brackets from year to year to account for inflation and reduce “bracket creep,” when taxpayers get pushed into higher tax brackets not because they earned more money, but because of rising inflation. In tax year 2020, for example, a single person with taxable income up to \$9,875 paid 10 percent, while in 2021, that income bracket rises to \$9,950. Similarly, other brackets for income earned in 2021 have been adjusted upward as well.

Tax Brackets for income earned in 2021

- 37% for incomes over \$523,600 (\$628,300 for married couples filing jointly)
- 35% for incomes over \$209,425 (\$418,850 for married couples filing jointly)
- 32% for incomes over \$164,925 (\$329,850 for married couples filing jointly)
- 24% for incomes over \$86,375 (\$172,750 for married couples filing jointly)
- 22% for incomes over \$40,525 (\$81,050 for married couples filing jointly)
- 12% for incomes over \$9,950 (\$19,900 for married couples filing jointly)
- 10% for incomes up to \$9,950 (\$19,900 for married couples filing jointly)

Tax Brackets for income earned in 2020

- 37% for incomes over \$518,400 (\$622,050 for married couples filing jointly)
- 35%, for incomes over \$207,350 (\$414,700 for married couples filing jointly)
- 32% for incomes over \$163,300 (\$326,600 for married couples filing jointly)
- 24% for incomes over \$85,525 (\$171,050 for married couples filing jointly)
- 22% for incomes over \$40,125 (\$80,250 for married couples filing jointly)
- 12% for incomes over \$9,875 (\$19,750 for married couples filing jointly)
- 10% for incomes up to \$9,875 (\$19,750 for married couples filing jointly)

Importantly, your highest tax bracket doesn't reflect how much you pay in federal income taxes. If you're a single filer in the 22 percent tax bracket for 2020, you don't pay 22 percent on all your taxable income. You pay 10 percent on taxable income up to \$9,875, 12 percent on the amount from \$9,876 to \$40,125 and 22 percent above that (up to \$85,525).

You should also note that the standard deduction will rise to \$12,550 for single filers for the 2021 tax year from \$12,400 the previous year. The standard deduction for couples filing jointly rose to \$25,100 in the 2021 tax year from \$24,800 in the 2020 tax year. Single filers age 65 and older can increase the standard deduction by \$1,700. Each joint filer 65 and over can increase the standard deduction by \$1,350 apiece, so \$2,700 total if both joint filers are 65-plus. You need to have more tax deductions than the standard deduction to make itemizing your tax return worthwhile.

The IRS uses the chained consumer price index (CPI) to measure inflation, as mandated by 2017 tax reform. Like the more well-known consumer price index, the chained CPI measures price changes in about 80,000 items. The chained CPI takes into account the fact that when prices of some items rise,

consumers often substitute other items. If the price of beef rises, for example, people switch to chicken.

If you're not an economist, the main difference between the two measures is that, over time, the chained CPI rises at a slower pace than the traditional CPI. (Which, to be precise, is the Consumer Price Index for All Urban Consumers or CPI-U.) From 2000 through 2019, the CPI rose by 47.7 percent and the chained CPI by only 40.8 percent, a difference of nearly 7 percentage points.

If you get slammed with a big tax bill for 2020, you should talk with a tax adviser about how to reduce that in 2021. It's probably easier to have extra taken out of each paycheck than face a big tax bill next year. A good first step is to look at how much tax you get taken from your paycheck. The Internal Revenue Service has a [free withholding estimator](#) that can tell you how much you should have taken out of each paycheck.