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## Federal income tax withheld calculator

In the United States, the amount of tax you owe depends on several factors, one of them being how much money you make each year. The U.S. Tax Code is based on a progressive tax system. Essentially, this means everyone pays a percentage of their income to the federal government, but higher-income filers pay a higher percentage than those with less income. In theory, this system distributes the individual income tax burden tax burden more heavily onto those who have more and thus are more able to contribute. Likewise, it shifts the burden away from those who can't afford as much. Over time, tax deductions, credits, and loopholes have modified and complicated our tax laws. However, the basics aren't overly complex. The U.S. income tax system uses a relatively simple series of "stepped" income tax rates to determine how much you owe. How Much You're Taxed Your total federal income tax owed is based on your adjusted gross income (AGI). When you complete your Form 1040 and its attached schedules, you enter all of your income from various categories, such as wages, interest and dividends, and business income. Then, you take various above-the-line deductions, such as contributing to an IRA or paying student loan interest. These deductions reduce your gross income to arrive at your AGI. Your AGI is used to determine your eligibility for certain tax breaks, but it's not your taxable income. From AGI, you deduct either the standard deduction or itemized deductions to arrive at your taxable income. How Much You Owe After you figure out your taxable income, you can determine how much you owe by using the tax tables included in the Form 1040 Instructions. Though these tables look complicated at first glance, they're actually quite straightforward. You simply look up your income, find the column with your filing status (single, married filing jointly, married filing separately, or head of household), and the intersection of those two figures is your tax. For simplicity's sake, the tax tables list income in \$50 chunks. The tables only go up to \$99,999, so if your income is \$100,000 or higher, you must use a separate worksheet (found in the Form 1040 Instructions) to calculate your tax. To illustrate, let's say your taxable income (Line 10 on Form 1040) is \$41,049. Using the tables, you'd go to the 41,000 section and find the row applicable to incomes between \$41,000 and \$41,050. Then, you can easily find the tax you owe: \$4,816 for single filers \$4,528 for married couples filing jointly \$4,816 for married couples filing separately \$4,641 for heads of household Federal Income Tax Brackets Tax tables show the total amount of tax you owe, but how does the IRS come up with the numbers in those tables? Perhaps the most important thing to know about the progressive tax system is that all of your income may not be taxed at the same rate. 2020 Tax Brackets Income tax brackets for the 2020 tax year (tax returns filed in 2021) are as follows: Rate Single, Taxable Income Over Married Filing Jointly, Taxable Income Over Head of Household, Taxable Income Over 10% \$0 \$0 12% \$9,875 \$19,750 \$14,100 22% \$40,125 \$80,250 \$53,700 24% \$85,525 \$171,050 \$85,500 32% \$163,300 \$326,600 \$163,300 35% \$207,350 \$414,700 \$207,350 37% \$518,400 \$622,050 \$518,400 For most people, the first dollar they earn in a year is taxed at a lower rate than the last dollar they earn. Think of it this way: Picture seven buckets representing the seven tax brackets. You're a single taxpayer, and as you start earning money at the beginning of the year, your income starts filling the first bucket, representing the 10% tax bracket. Once your income reaches \$9,875 (the beginning of the 12% bracket), your income spills over into the 12% bucket. Once you get to \$40,125, it spills over into the 22% tax bracket bucket, and so on. At tax time, all of the money in the first bucket is taxed at 10%, money in the second bucket is taxed at 12%, and money in the third bucket is taxed at 22%. If you have more than \$518,400 in income for 2020, your income will have spilled into all seven buckets, but only the money sitting in the last bucket is taxed at the highest federal income tax rate of 37%. Using the brackets above, you can calculate the tax for a single person with a taxable income of \$41,049. The first \$9,875 is taxed at 10% = \$988 The next \$30,250 is taxed at 12% = \$3,630 The last \$924 is taxed at 22% = \$203 In this example, the total tax comes to \$4,821. You'll note that this is not quite the \$4,816 the tax tables told you you'd owe. The numbers don't always add up perfectly. However, what's in the tax tables is what the IRS legally determines you owe, and that trumps figures arrived at from any detailed calculations you might do. Marginal Tax Brackets The highest tax bracket that applies to you is called your marginal tax bracket. It's the one bracket that you cross into but don't make it out of by the end of the year. Since you don't hit the maximum in this bracket, this is the percentage you should keep your eye on. It's the rate at which you're taxed for any additional ordinary income you bring in throughout the year. Let's consider an example. Say you're a single taxpayer earning a salary of \$51,200. You have no pre-tax withdrawals, such as a 401(k), or above-the-line adjustments to reduce your adjusted gross income, and you claim the standard deduction rather than itemize. Your taxable income would be \$38,800 (\$51,200 minus the standard deduction of \$12,400). That's the 12% tax bracket, but it's only \$1,325 away from the 22% tax bracket. Now, let's say you earned \$200 of interest income from your savings, received a bonus of \$500 from your regular job, and earned \$1,000 from a side business. That's \$1,700 in additional income for the year. Of that, \$1,325 would be taxed at 12%, and the remaining \$375 would be taxed at 22%. Simply put, the more money you make, the less of it (as a percentage) you get to keep if that additional income pushes you into a higher tax bracket. How to Stay in a Lower Tax Bracket You can reduce your tax bill with tax deductions and tax credits. Another way to reduce your taxable income, and thus stay in a lower tax bracket, is with pre-tax deductions. A pre-tax deduction is money your employer deducts from your wages before withholding money for income and payroll taxes. Some common deductions are: Returning to the example above, let's say you decide to participate in your employer's 401(k) plan and contribute \$1,500 per year to your account. Now, your taxable income is \$39,000 (\$51,200 salary - \$1,500 401(k) contribution + \$1,700 in other income - \$12,500 standard deduction). You remain in the 12% tax bracket while saving for retirement. It's a win-win. For 2020, you can contribute up to \$19,500 to a 401(k) plan. If you're age 50 or above, you can contribute an additional \$6,500 in "catch-up" contributions, for a total of \$26,000. In 2021, the contribution limit will remain at \$19,500, or \$26,000 if you're age 50 or older. If you're self-employed or don't have access to a 401(k) plan at work, you can still reduce your taxable income while saving for retirement by contributing to a Traditional IRA or SEP-IRA through a broker or robo-advisor like SoFi Invest. These contributions reduce your AGI because they are above-the-line deductions (reported as Adjustments to Income on Schedule 1 attached to Form 1040). For 2020, you can contribute up to \$6,000 to a Traditional IRA (\$7,000 if you're age 50 or older). The contribution limits are the same for 2021. SEP-IRAs allow self-employed people and small business owners to put away much more. For 2020, you can contribute up to 20% of your net income, up to a maximum of \$57,000. In 2021, that maximum increases to \$58,000. Final Word Most people watch chunks of each paycheck disappear toward their tax liability throughout the year with little understanding of how much they may owe when all is said and done. Then, during tax season, they wait for an accountant or tax preparation software from H&R Block to announce whether they'll receive a refund or owe money to the IRS. With a little understanding of the tax brackets, you can take the drama out of tax time, no complex mathematics required. This knowledge may even help you make smarter decisions about saving and investing.

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