

What are Tax Brackets?

Updated for Tax Year: 2013

The United States uses a progressive tax system, which means different portions of your income are taxed at different rates. Learn more about this system and how it impacts you in this article about tax brackets.

Introduction

The United States uses a progressive tax system, which means different portions of your income are taxed at different rates. Generally speaking, you pay a higher overall tax rate if you have a higher taxable income.

Tax brackets are the physical representation of this system and show how much you have to pay at various income levels. Since tax brackets and rates periodically change, you should check to see if you are using accurate tables when filing your taxes.

If you use TurboTax to prepare your taxes, you can be sure it is always up to date with the latest tax laws and tax rates.

Understanding income tax brackets

Tax brackets show you the tax rate you will pay on each portion of your income. For example, if you are single, the lowest tax rate of 10% is applied to the first \$8,700 of your income. The next chunk of your income is then taxed at 15%, and so on, up to the top of your taxable income.

The progressive tax system ensures that all taxpayers pay the same rates on the same levels of taxable income. The overall effect is that people with higher incomes pay higher taxes.

Your effective tax rate

While it's likely you will pay income tax at various rates or tax brackets throughout the year, the actual percentage of your income that goes to the IRS is often referred to as your effective tax rate. The rate you must pay on the last dollar you earn is usually much higher than your effective tax rate.

For example, if half of your income is taxed at 10 percent and the other half at 15 percent, then your effective tax rate of 12.5 percent means that 12.5 cents of every dollar you earned this year goes to the IRS.

Current tax brackets

For 2013, there are seven different tax brackets with tax rates of 10, 15, 25, 28, 33, 35, and 39.6 percent. How much you will actually owe depends on both your income and your filing status.

For example, if you are a single filer, you will pay 10 percent on the first \$8,925 of income, but if you are married filing jointly, you and your spouse remain in that lower tax bracket until your income exceeds \$17,850.

Deductions affect your tax bracket

Deductions are a way for you to reduce your taxable income, which means less of your income is taxed in those higher tax brackets. For example, if your highest tax bracket this year is 33 percent, then claiming a \$1,000 deduction saves you \$330 in taxes. However, if your top bracket is 15 percent, that same deduction only saves you \$150 in tax.