

## The Tax Implications of Financial Decisions

The Internal Revenue Code is a very complex, often confusing and constantly changing set of rules. Individuals sometimes let tax issues cloud their decision-making. Here are three areas where some simple reminders can help you make wiser financial decisions:

### The income tax rate structure

Our marginal tax rate structure generally means that income at lower levels is taxed at lower rates than income at higher levels. There are complex rules about how to calculate taxable income, taking into account deductions and exemptions. The tax rates start at 10% and go up to 37%. Here are the tax tables for 2019.

### Income Tax Rate Schedules for 2020

2020 Single Return Rate Schedule		2020 Married Filing Jointly Rate Schedule	
Taxable income levels	Tax rate	Taxable income levels	Tax rate
0 to \$9,875	10%	0 to \$19,750	10%
\$9,876 to \$40,125	12%	\$19,751 to \$80,250	12%
\$40,126 to \$85,525	22%	\$80,251 to \$171,050	22%
\$85,526 to \$163,300	24%	\$171,051 to \$326,600	24%
\$163,301 to \$207,350	32%	\$326,601 to \$414,700	32%
\$207,351 to \$518,400	35%	\$414,701 to \$622,050	35%
Over \$518,401	37%	Over \$622,051	37%

### 2020 Taxation of Dividends and Long Term Capital Gains

Long term capital gains and qualifying dividends receive favorable tax treatment, based on taxable income levels.

Tax rate on long term capital gains and qualifying dividends	Taxable income levels for those filing individual returns	Taxable income levels for those filing joint returns
0%	Under \$40,001	Under \$80,001
15%	\$40,001 to \$441,450	\$80,001 to \$496,600
20%	Over \$441,451	Over \$496,601

### 2020 Medicare Surtaxes

As part of the health care reform enacted in 2010, additional Medicare surtaxes began in 2013 for high income wage earners and high income investors. The surtaxes apply when a single taxpayer's Modified Adjusted Gross Income (MAGI) exceeds a threshold of \$200,000 or joint return filers when their MAGI exceed \$250,000.

- For wage earners, an additional 0.9% Medicare surtax applies to wages (including bonuses and self-employment income) above the threshold amounts.
- For investors, an additional 3.8% Medicare surtax applies to net investment income (taxable interest, dividends, capital gains, etc.) in excess of the thresholds.

### Taxable vs. tax-free bonds

Those in higher tax brackets often benefit from tax-exempt interest income. To see if you should consider tax-exempt bonds, compare the after-tax yield of a taxable bond to the yield of a tax-exempt bond. Be sure the bonds have similar maturity dates and similar quality ratings. This chart can help with that comparison.

Tax free yield	Equivalent taxable yield in these tax brackets						
	<u>10%</u>	12%	22%	<u>24%</u>	<u>32%</u>	<u>35%</u>	<u>37%</u>
<b>3.0%</b>	3.3	3.4	3.8	3.9	4.4	4.6	4.8
<b>3.5%</b>	3.9	4.0	4.5	4.6	5.1	5.4	5.6
<b>4.0%</b>	4.4	4.5	5.1	5.3	5.9	6.2	6.3
<b>4.5%</b>	5.0	5.1	5.8	5.9	6.6	6.9	7.1
<b>5.0%</b>	5.6	5.7	6.4	6.6	7.4	7.7	7.9
<b>5.5%</b>	6.1	6.2	7.1	7.2	8.1	8.5	8.7

The tax brackets are those in effect in 2020.

According to the chart, a tax-exempt bond yielding 4.0% has an equivalent after-tax yield of 5.9% for someone in the 32% tax bracket. For that person, a taxable bond yielding more than 5.9% will produce a better after tax return. Taking time to understand how the tax laws apply to your financial situation will enable you to make more informed decisions.

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(Note:) You should always consult your tax advisor to determine how the rules apply to your situation and remember that state income taxes must be considered.

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