

Money Matters

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Skloff Financial Group Question of the Month

By Aaron Skloff, AIF, CFA, MBA

Q: Our taxes are confusing. What are the income tax rates and capital gains rates for 2023, following the Tax Cuts and Jobs Act?

The Problem – Maze of Tax Rates on Income and Capital Gains

Not all sources of your income are the same in the eyes of the IRS. The IRS treats your wages differently than income you earn on your investments. The IRS also treats interest on your savings account and bonds differently than dividends on your stocks and funds, and the gains you realize on your stocks and funds. This creates a ‘maze’ of different rates for different circumstances.

The Solution – A Map for the Maze of Tax Rates on Income and Capital Gains

There are a number of factors that could impact the taxes you pay on your income and investments. The following table provides income tax and capital gains rates for single filers and those married, filing jointly.

2023 Taxable Income					
Income Tax Rate	Single	Married, Filing Jointly	Rate on Long-Term Capital Gains and Qualified Dividends	Single	Married, Filing Jointly
10.0%	\$0-\$11,000	\$0-\$22,000	0.0%	\$0-\$44,625	\$0-\$89,250
12.0%	\$11,001-\$44,725	\$22,001-\$89,450	15.0%	\$44,626-\$492,300	\$89,251-\$553,850
22.0%	\$44,726-\$95,375	\$89,451-\$190,750	20.0%	\$492,301 and above	\$553,851 and above
24.0%	\$95,376-\$182,100	\$190,751-\$364,200			
32.0%	\$182,101-\$231,250	\$364,201-\$462,500			
35.0%	\$231,251-\$578,125	\$462,501-\$693,750	Investment Surtax Rate		
37.0%	\$578,126 and above	\$693,751 and above	3.8%	\$200,000	\$250,000

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Income and Income Taxes

For many taxpayers, their primary source of income is their wages. For others, it may be pension or social security income and/or retirement account withdrawals (RMDs or otherwise). Others may rely on savings account and bond interest. Most taxpayers can aggregate income from wages, pensions, social security and interest to determine their total income. Your total taxable income can be impacted by a number of factors, including, but not limited to: alimony payments, contributions to employer retirement plans and/or IRAs, contributions to HSAs, deductions (standard or itemized) and credits. These adjustments to your income result in your taxable income.

Standard Deduction

The 2023 standard deduction is to \$27,700 for those married and filing jointly and \$13,850 for single filers. Like a contribution to a pre-tax qualified retirement plan (i.e.: 401(k), 403(b), 457(b)) or IRA, a standard deduction reduces your taxable income.

Marginal Income Tax Brackets and Effective Income Tax Rate

Although the top **marginal income tax rate** of 37% is assessed on taxpayers with taxable income of \$578,126 and higher for single filers and \$693,751 and higher for married couples filing jointly, the actual tax rate paid is the **effective income tax rate**. The effective income tax rate is the blended rate you actually pay. Based on the table above, a single filer with taxable income of \$95,375 would have a top marginal income tax rate of 22% and an effective income tax rate of approximately 17%. The first \$11,000 of taxable income would be taxed at 10%, the next \$33,724 (from \$11,001 to \$44,725) would be taxed at 12% and the last \$50,649 (from \$44,726 to \$95,375) would be taxed at 22%.

Capital Gains and Qualified Dividends

Many taxpayers also own stocks, bond, mutual funds, exchange traded funds and other investments. If you receive a qualified dividend or buy and sell an investment for a gain outside of a tax sheltered account, you may be subject to a qualified dividend tax or capital gains tax. Short term capital gains (365 days or less) are taxed at ordinary income tax rates. Long term capital gains (366 days or more) are taxed at the rates in the table above. For example, a single filer with taxable income of \$44,625 would have a 0% qualified dividend rate and a 0% long term capital gains rate.

Investment Surtax

Single filers with taxable income of \$200,000 or higher and those married filing jointly with taxable income of \$250,000 or higher are further penalized with an investment surtax (net investment income tax). The investment surtax rate is 3.8% on income from investments, including, but not limited to: interest, dividends, short and long-term capital gains, rental income, royalty income and passive business income.

Action Steps

With a map for the maze of income taxes and capital gains taxes, you can better prepare yourself for the 2024 tax season. Work closely with your Registered Investment Adviser (RIA) and tax professional throughout 2023 to optimize all the factors that impact your taxes.

Aaron Skloff, Accredited Investment Fiduciary (AIF), Chartered Financial Analyst (CFA), Master of Business Administration (MBA) is CEO of Skloff Financial Group, a Registered Investment Advisory firm specializing in financial planning, investment management and benefits for small to middle sized companies. He can be contacted at www.skloff.com or 908-464-3060.