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## **What Does Tax Bracket Mean?**

Tax bracket, tax bracket, tax bracket! You hear it all the time but what does it really mean? It is the percent of tax that you pay based on your income level. Here are some things to remember:

- It can be very confusing because a portion of everyone's income is taxed at each percentage.
- Your actual tax liability is not as high as the tax rate shown on the schedule.
- Your tax bracket is based off your taxable income not your adjusted gross income.
- Your taxable income is the income left after you subtract your standard deduction (or itemized deduction) and your personal exemptions.

The first two bullet points need to be explained. If you look at the tax table the IRS published for 2008 (please see [www.irs.gov](http://www.irs.gov)) it would appear that a Single person with a taxable income of \$65,000 would be in the 25% tax bracket and therefore would pay \$16,250 in tax based on that percentage.

However, if you do the math, the Single person with a taxable income of \$65,000 is only paying 25% tax on the amount of income over \$32,550. In this case it would be \$32,450. The first \$32,550 is broken down and the first \$8025 is taxed at 10% and the next \$24,525 is taxed at 15%. So instead of paying \$16,250 in taxes, in reality the tax liability is only \$12,594 a savings of \$3656 or about 19%.

To discuss your tax bracket and taxable income call or stop by either Associated Tax office in Omaha at 48<sup>th</sup> and Dodge or 30<sup>th</sup> and Ames.