

Income Insights: Understand Your Effective Tax Rate

While the media and politicians tend to focus on marginal tax rates—the highest tax bracket applicable to your last dollar of income earned—it can actually be more helpful to understand your effective tax rate.

| Authors | Date | Topic |
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| Holly Swan | 8/21/2025 | Tax Management |

Understand Your Effective Tax Rate

The effective tax rate is a blended rate applied to your taxable income; it represents your average tax rate. This can provide a more realistic picture of your true tax burden and can be significantly lower than your marginal rate. Here's how to calculate your effective tax rate:

- 1. Determine your total taxable income:** This is your total income less any applicable deductions, and it can be found on Line 15 of your 2024 IRS Form 1040.
- 2. Locate your total taxes due:** This can be found on Line 24 of your 2024 IRS Form 1040.
- 3. Divide taxes due by total taxable income:** The output will be your effective tax rate.

Knowing both your effective tax rate and your marginal rate will help you make informed decisions in financial planning and budgeting. It can also help your financial advisor identify opportunities for improved tax efficiency within your investment portfolios.

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