# How Much Federal Income Tax Will I Pay In 2018

Tax Cuts and Jobs Act

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The Tax Cuts and Jobs Act, Pub. L. 115–97 (text) (PDF), is a United States federal law that amended the Internal Revenue Code of 1986, and also known as the Trump Tax Cuts, but officially the law has no short title, with that being removed during the Senate amendment process. The New York Times described the TCJA as "the most sweeping tax overhaul in decades". Studies show the TCJA increased the federal debt, as well as after-tax incomes disproportionately for the most affluent. It led to an estimated 11% increase in corporate investment, but its effects on economic growth and median wages were smaller than expected and modest at best.

Major elements of the changes include reducing tax rates for corporations and individuals, increasing the standard deduction and family tax credits, eliminating personal exemptions and making it less beneficial to itemize deductions, limiting deductions for state and local income taxes and property taxes, further limiting the mortgage interest deduction, reducing the alternative minimum tax for individuals and eliminating it for corporations, doubling the estate tax exemption, and reducing the penalty for violating the individual mandate of the Affordable Care Act (ACA) to $0.

Most of the changes introduced by the bill went into effect on January 1, 2018, and did not affect 2017 taxes. Many tax cut provisions contained in the TCJA, notably including individual income tax cuts, such as the changes to the standard deduction in §63 of the IRC, were scheduled to expire in 2025 while many of the business tax cuts were set to expire in 2028. However, in 2025, Congress passed the One Big Beautiful Bill Act, which extends most provisions of the TCJA beyond their original expiration dates. Extending the cuts have caused economists across the political spectrum to worry it could boost inflationary pressures and worsen America's fiscal trajectory. The Congressional Budget Office estimated that extending the expiring provisions would add $4.6 trillion in deficits over 10 years.

Corporate tax in the United States

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Corporate tax is imposed in the United States at the federal, most state, and some local levels on the income of entities treated for tax purposes as corporations. Since January 1, 2018, the nominal federal corporate tax rate in the United States of America is a flat 21% following the passage of the Tax Cuts and Jobs Act of 2017. State and local taxes and rules vary by jurisdiction, though many are based on federal concepts and definitions. Taxable income may differ from book income both as to timing of income and tax deductions and as to what is taxable. The corporate Alternative Minimum Tax was also eliminated by the 2017 reform, but some states have alternative taxes. Like individuals, corporations must file tax returns every year. They must make quarterly estimated tax payments. Groups of corporations controlled by the same owners may file a consolidated return.

Some corporate transactions are not taxable. These include most formations and some types of mergers, acquisitions, and liquidations. Shareholders of a corporation are taxed on dividends distributed by the corporation. Corporations may be subject to foreign income taxes, and may be granted a foreign tax credit for such taxes. Shareholders of most corporations are not taxed directly on corporate income, but must pay tax on dividends paid by the corporation. However, shareholders of S corporations and mutual funds are taxed currently on corporate income, and do not pay tax on dividends.

Almost half of all private employment in the United States is within businesses that do not pay a corporate tax, but which rather pass the business income through to the owners' individual income taxes.

Alternative minimum tax

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The alternative minimum tax (AMT) is a tax imposed by the United States federal government in addition to the regular income tax for certain individuals, estates, and trusts. As of tax year 2018, the AMT raises about $5.2 billion, or 0.4% of all federal income tax revenue, affecting 0.1% of taxpayers, mostly in the upper income ranges.

An alternative minimum taxable income (AMTI) is calculated by taking the ordinary income and adding disallowed items and credits such as state and local tax deductions, interest on private-activity municipal bonds, the bargain element of incentive stock options, foreign tax credits, and home equity loan interest deductions. This broadens the base of taxable items. Many deductions, such as mortgage home loan interest and charitable deductions, are still allowed under AMT. The AMT is then imposed on this AMTI at a rate of 26% or 28%, with a much higher exemption than the regular income tax.

The Tax Cuts and Jobs Act of 2017 (TCJA) reduced the fraction of taxpayers who owed the AMT from 3% in 2017 to 0.1% in 2018, including from 27% to 0.4% of those earning $200,000 to $500,000 and from 61.9% to 2% of those earning $500,000 to $1,000,000.

The major reasons for the reduction of AMT taxpayers after TCJA include the capping of the state and local tax deduction (SALT) by the TCJA at $10,000, and a large increase in the exemption amount and phaseout threshold. A married couple earning $200,000 now requires over $50,000 of AMT adjustments to begin paying the AMT. The AMT previously applied in 2017 and earlier to many taxpayers earning from $200,000 to $500,000 because state and local taxes were fully deductible under the regular tax code but not at all under AMT. Despite the cap of the SALT deduction, the vast majority of AMT taxpayers paid less under the 2018 rules.

The AMT was originally designed to tax high-income taxpayers who used the regular tax system to pay little or no tax. Due to inflation and cuts in ordinary tax rates, a larger number of taxpayers began to pay the AMT. The number of households owing AMT rose from 200,000 in 1982 to 5.2 million in 2017, but was reduced back to 200,000 in 2018 by the TCJA.

Income tax in the United States

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The United States federal government and most state governments impose an income tax. They are determined by applying a tax rate, which may increase as income increases, to taxable income, which is the total income less allowable deductions. Income is broadly defined. Individuals and corporations are directly taxable, and estates and trusts may be taxable on undistributed income. Partnerships are not taxed (with some exceptions in the case of federal income taxation), but their partners are taxed on their shares of partnership income. Residents and citizens are taxed on worldwide income, while nonresidents are taxed only on income within the jurisdiction. Several types of credits reduce tax, and some types of credits may exceed tax before credits. Most business expenses are deductible. Individuals may deduct certain personal expenses, including home mortgage interest, state taxes, contributions to charity, and some other items. Some deductions are subject to limits, and an Alternative Minimum Tax (AMT) applies at the federal and some state levels.

The federal government has imposed an income tax since the ratification of the Sixteenth Amendment to the United States Constitution was ratified in 1913, and 42 US states impose state income taxes. Income taxes are levied on wages as well as on capital gains, and fund federal and state governments. Payroll taxes are levied only on wages, not gross incomes, but contribute to reducing the after-tax income of most Americans. The most common payroll taxes are FICA taxes that fund Social Security and Medicare. Capital gains are currently taxable at a lower rate than wages, and capital losses reduce taxable income to the extent of gains.

Taxpayers generally must determine for themselves the income tax that they owe by filing tax returns. Advance payments of tax are required in the form of tax withholding or estimated tax payments. Due dates and other procedural details vary by jurisdiction, but April 15, Tax Day is the deadline for individuals to file tax returns for federal and many state and local returns. Tax as determined by the taxpayer may be adjusted by the taxing jurisdiction.

For federal individual (not corporate) income tax, the average rate paid in 2020 on adjusted gross income (income after deductions) was 13.6%. However, the tax is progressive, meaning that the tax rate increases with increased income. Over the last 20 years, this has meant that the bottom 50% of taxpayers have always paid less than 5% of the total individual federal income taxes paid, (gradually declining from 5% in 2001 to 2.3% in 2020) with the top 50% of taxpayers consistently paying 95% or more of the tax collected, and the top 1% paying 33% in 2001, increasing to 42% by 2020.

Progressive tax

*income, so poor pay similar to rich even while latter has much higher income). The term is frequently applied in reference to personal income taxes,*

A progressive tax is a tax in which the tax rate increases as the taxable amount increases. The term progressive refers to the way the tax rate progresses from low to high, with the result that a taxpayer's average tax rate is less than the person's marginal tax rate. The term can be applied to individual taxes or to a tax system as a whole. Progressive taxes are imposed in an attempt to reduce the tax incidence of people with a lower ability to pay, as such taxes shift the incidence increasingly to those with a higher ability-to-pay. The opposite of a progressive tax is a regressive tax, such as a sales tax, where the poor pay a larger proportion of their income compared to the rich (for example, spending on groceries and food staples varies little against income, so poor pay similar to rich even while latter has much higher income).

The term is frequently applied in reference to personal income taxes, in which people with lower income pay a lower percentage of that income in tax than do those with higher income. It can also apply to adjustments of the tax base by using tax exemptions, tax credits, or selective taxation that creates progressive distribution effects. For example, a wealth or property tax, a sales tax on luxury goods, or the exemption of sales taxes on basic necessities, may be described as having progressive effects as it increases the tax burden of higher income families and reduces it on lower income families.

Progressive taxation is often suggested as a way to mitigate the societal ills associated with higher income inequality, as the tax structure reduces inequality; economists disagree on the tax policy's economic and long-term effects. One study suggests progressive taxation is positively associated with subjective well-being, while overall tax rates and government spending are not.

Estate tax in the United States

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In the United States, the estate tax is a federal tax on the transfer of the estate of a person who dies. The tax applies to property that is transferred by will or, if the person has no will, according to state laws of intestacy. Other transfers that are subject to the tax can include those made through a trust and the payment of certain life insurance benefits or financial accounts. The estate tax is part of the federal unified gift and estate tax in the United States. The other part of the system, the gift tax, applies to transfers of property during a person's life.

In addition to the federal government, 12 states tax the estate of the deceased. Six states have "inheritance taxes" levied on the person who receives money or property from the estate of the deceased.

The estate tax is periodically the subject of political debate. Some opponents have called it the "death tax" while some supporters have called it the "Paris Hilton tax".

There are many exceptions and exemptions that reduce the number of estates with tax liability: in 2021, only 2,584 estates paid a positive federal estate tax.

If an asset is left to a spouse or a federally recognized charity, the tax usually does not apply. In addition, a maximum amount, varying year by year, can be given by an individual, before and/or upon their death, without incurring federal gift or estate taxes: $5,340,000 for estates of persons dying in 2014 and 2015, $5,450,000 (effectively $10.90 million per married couple, assuming the deceased spouse did not leave assets to the surviving spouse) for estates of persons dying in 2016. Because of these exemptions, it is estimated that only the largest 0.2% of estates in the U.S. will pay the tax. For 2017, the exemption increased to $5.49 million. In 2018, the exemption doubled to $11.18 million per taxpayer due to the Tax Cuts and Jobs Act of 2017. As a result, about 3,200 estates were affected by this 2018 increase and were not liable for federal estate tax.

The current individual exemption in 2024 is $13.61 million, or $27.22 million for a married couple.

Tax

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A tax is a mandatory financial charge or levy imposed on an individual or legal entity by a governmental organization to support government spending and public expenditures collectively or to regulate and reduce negative externalities. Tax compliance refers to policy actions and individual behavior aimed at ensuring that taxpayers are paying the right amount of tax at the right time and securing the correct tax allowances and tax relief. The first known taxation occurred in Ancient Egypt around 3000–2800 BC. Taxes consist of direct or indirect taxes and may be paid in money or as labor equivalent.

All countries have a tax system in place to pay for public, common societal, or agreed national needs and for the functions of government. Some countries levy a flat percentage rate of taxation on personal annual income, but most scale taxes are progressive based on brackets of yearly income amounts. Most countries charge a tax on an individual's income and corporate income. Countries or sub-units often also impose wealth taxes, inheritance taxes, gift taxes, property taxes, sales taxes, use taxes, environmental taxes, payroll taxes, duties, or tariffs. It is also possible to levy a tax on tax, as with a gross receipts tax.

In economic terms (circular flow of income), taxation transfers wealth from households or businesses to the government. This affects economic growth and welfare, which can be increased (known as fiscal multiplier) or decreased (known as excess burden of taxation). Consequently, taxation is a highly debated topic by some, as although taxation is deemed necessary by consensus for society to function and grow in an orderly and equitable manner through the government provision of public goods and public services, others such as libertarians are anti-taxation and denounce taxation broadly or in its entirety, classifying taxation as theft or extortion through coercion along with the use of force. Within market economies, taxation is considered the most viable option to operate the government (instead of widespread state ownership of the means of production), as taxation enables the government to generate revenue without heavily interfering with the market and private businesses; taxation preserves the efficiency and productivity of the private sector by allowing individuals and companies to make their own economic decisions, engage in flexible production, competition, and innovation as a result of market forces.

Certain countries (usually small in size or population, which results in a smaller infrastructure and social expenditure) function as tax havens by imposing minimal taxes on the personal income of individuals and corporate income. These tax havens attract capital from abroad (particularly from larger economies) while resulting in loss of tax revenues within other non-haven countries (through base erosion and profit shifting).

Progressivity in United States income tax

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In general, the United States federal income tax is progressive, as rates of tax generally increase as taxable income increases, at least with respect to individuals that earn wage income. As a group, the lowest earning workers, especially those with dependents, pay no income taxes and may actually receive a small subsidy from the federal government (from child credits and the Earned Income Tax Credit).

"Progressivity" as it pertains to tax is usually defined as meaning that the higher a person's level of income, the higher a tax rate that person pays. In the mid-twentieth century, marginal tax rates (the rate applied to the last bit of income) in the United States and United Kingdom exceeded 90%. As recently as the late 1970s, the top marginal tax rate in the U.S. was 70%. In the words of Piketty and Saez, "... the progressivity of the U.S. federal tax system at the top of the income distribution has declined dramatically since the 1960s". They continue, "... the most dramatic changes in federal tax system progressivity almost always take place within the top 1 percent of income earners, with relatively small changes occurring below the top percentile."

Progressivity, then, is a complex topic which does not lend itself to simple analyses. Given the "flattening" of tax burden that occurred in the early 1980s, many commentators note that the general structure of the U.S. tax system has begun to resemble a partial consumption tax regime.

Taxation in the United States

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The United States has separate federal, state, and local governments with taxes imposed at each of these levels. Taxes are levied on income, payroll, property, sales, capital gains, dividends, imports, estates and gifts, as well as various fees. In 2020, taxes collected by federal, state, and local governments amounted to 25.5% of GDP, below the OECD average of 33.5% of GDP.

U.S. tax and transfer policies are progressive and therefore reduce effective income inequality, as rates of tax generally increase as taxable income increases. As a group, the lowest earning workers, especially those with dependents, pay no income taxes and may actually receive a small subsidy from the federal government (from child credits and the Earned Income Tax Credit). Taxes fall much more heavily on labor income than on capital income. Divergent taxes and subsidies for different forms of income and spending can also constitute a form of indirect taxation of some activities over others. Taxes are imposed on net income of individuals and corporations by the federal, most state, and some local governments. Citizens and residents are taxed on worldwide income and allowed a credit for foreign taxes. Income subject to tax is determined under tax accounting rules, not financial accounting principles, and includes almost all income from whatever source, except that as a result of the enactment of the Inflation Reduction Act of 2022, large corporations are subject to a 15% minimum tax for which the starting point is annual financial statement income.

Most business expenses reduce taxable income, though limits apply to a few expenses. Individuals are permitted to reduce taxable income by personal allowances and certain non-business expenses, including home mortgage interest, state and local taxes, charitable contributions, and medical and certain other expenses incurred above certain percentages of income.

State rules for determining taxable income often differ from federal rules. Federal marginal tax rates vary from 10% to 37% of taxable income. State and local tax rates vary widely by jurisdiction, from 0% to 13.30% of income, and many are graduated. State taxes are generally treated as a deductible expense for federal tax computation, although the 2017 tax law imposed a $10,000 limit on the state and local tax ("SALT") deduction, which raised the effective tax rate on medium and high earners in high tax states. Prior to the SALT deduction limit, the average deduction exceeded $10,000 in most of the Midwest, and exceeded $11,000 in most of the Northeastern United States, as well as California and Oregon. The states impacted the most by the limit were the tri-state area (NY, NJ, and CT) and California; the average SALT deduction in those states was greater than $17,000 in 2014.

The United States is one of two countries in the world that taxes its non-resident citizens on worldwide income, in the same manner and rates as residents. The U.S. Supreme Court upheld the constitutionality of imposition of such a tax in the case of Cook v. Tait. Nonetheless, the foreign earned income exclusion eliminates U.S. taxes on the first $120,000 of annual foreign source earned income of U.S. citizens and certain U.S. residents living and working abroad. (This is the inflation-adjusted amount for 2023.) Payroll taxes are imposed by the federal and all state governments. These include Social Security and Medicare taxes imposed on both employers and employees, at a combined rate of 15.3% (13.3% for 2011 and 2012). Social Security tax applies only to the first $132,900 of wages in 2019. There is an additional Medicare tax of 0.9% on wages above $200,000. Employers must withhold income taxes on wages. An unemployment tax and certain other levies apply to employers. Payroll taxes have dramatically increased as a share of federal revenue since the 1950s, while corporate income taxes have fallen as a share of revenue. (Corporate profits have not fallen as a share of GDP).

Property taxes are imposed by most local governments and many special purpose authorities based on the fair market value of property. School and other authorities are often separately governed, and impose separate taxes. Property tax is generally imposed only on realty, though some jurisdictions tax some forms of business property. Property tax rules and rates vary widely with annual median rates ranging from 0.2% to 1.9% of a property's value depending on the state. Sales taxes are imposed by most states and some localities on the price at retail sale of many goods and some services. Sales tax rates vary widely among jurisdictions, from 0% to 16%, and may vary within a jurisdiction based on the particular goods or services taxed. Sales tax is collected by the seller at the time of sale, or remitted as use tax by buyers of taxable items who did not pay sales tax.

The United States imposes tariffs or customs duties on the import of many types of goods from many jurisdictions. These tariffs or duties must be paid before the goods can be legally imported. Rates of duty vary from 0% to more than 20%, based on the particular goods and country of origin. Estate and gift taxes are imposed by the federal and some state governments on the transfer of property inheritance, by will, or by lifetime donation. Similar to federal income taxes, federal estate and gift taxes are imposed on worldwide property of citizens and residents and allow a credit for foreign taxes.

Form 1040

*1040, officially, the U.S. Individual Income Tax Return, is an IRS tax form used for personal federal income tax returns filed by United States residents*

Form 1040, officially, the U.S. Individual Income Tax Return, is an IRS tax form used for personal federal income tax returns filed by United States residents. The form calculates the total taxable income of the taxpayer and determines how much is to be paid to or refunded by the government.

Income tax returns for individual calendar-year taxpayers are due by Tax Day, which is usually April 15 of the following year, except when April 15 falls on a Saturday, a Sunday, or a legal holiday. In those circumstances, the returns are due on the next business day after April 15. An automatic extension until October 15 to file Form 1040 can be obtained by filing Form 4868 (but that filing does not extend a taxpayer's required payment date if tax is owed; it must still be paid by Tax Day).

Form 1040 consists of two pages (23 lines in total), not counting attachments. The first page collects information about the taxpayer(s) and dependents. In particular, the taxpayer's filing status is reported on this page. The second page reports income, calculates the allowable deductions and credits, figures the tax due given adjusted income, and applies funds already withheld from wages or estimated payments made towards tax liability. On the right side of the first page is the presidential election campaign fund checkoff, which allows individuals to designate that the federal government give $3 of the tax it receives to the presidential election campaign fund. Altogether, 142 million individual income tax returns were filed for the tax year 2018 (filing season 2019), 92% of which were filed electronically.