

2016 Tax Brackets

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Introduction

Every year, the IRS adjusts more than 40 tax provisions for inflation. This is done to prevent what is called “bracket creep.” This is the phenomenon by which people are pushed into higher income tax brackets or have reduced value from credits or deductions due to inflation, instead of any increase in real income.

The IRS uses the Consumer Price Index (CPI) to calculate the past year’s inflation and adjusts income thresholds, deduction amounts, and credit values accordingly. Rather than directly adjusting last year’s values for annual inflation, each provision is adjusted from a specified base year. For more information, see Methodology, below.

Estimated Income Tax Brackets and Rates

In 2016, the income limits for all brackets and all filers will be adjusted for inflation and will be as follows (Table 1). The top marginal income tax rate of 39.6 percent will hit taxpayers with taxable income of \$415,050 and higher for single filers and \$466,950 and higher for married filers.

Rate	Single Filers	Married Joint Filers	Head of Household Filers
10%	\$0 to \$9,275	\$0 to \$18,550	\$0 to \$13,250
15%	\$9,275 to \$37,650	\$18,550 to \$75,300	\$13,250 to \$50,400
25%	\$37,650 to \$91,150	\$75,300 to \$151,900	\$50,400 to \$130,150
28%	\$91,150 to \$190,150	\$151,900 to \$231,450	\$130,150 to \$210,800
33%	\$190,150 to \$413,350	\$231,450 to \$413,350	\$210,800 to \$413,350
35%	\$413,350 to \$415,050	\$413,350 to \$466,950	\$413,350 to \$441,000
39.6%	\$415,050+	\$466,950+	\$441,000+

Source: Author’s Calculations.

Standard Deduction and Personal Exemption

The standard deduction for single and married couples filing jointly will not increase in 2016 (Table 2). For taxpayers filing as head of household, it will increase by \$50 from \$9,250 to \$9,300.

The personal exemption for 2016 will be \$4,050.

Filing Status	Deduction Amount
Single	\$6,300.00
Married Filing Jointly	\$12,600.00
Head of Household	\$9,300.00
Personal Exemption	\$4,050.00

Source: Author’s Calculations.

PEP and Pease

PEP and Pease are two provisions in the tax code that increase taxable income for high-income earners. PEP is the phase-out of the personal exemption and Pease (named after former Senator Donald Pease) reduces the value of most itemized deductions once a taxpayer’s adjusted gross income reaches a certain amount.

The income threshold for both PEP and Pease will be \$259,400 for single filers and \$311,300 for married filers (Tables 3 and 4). PEP

will end at \$381,900 for singles and \$433,800 for married couples filing jointly, meaning these taxpayers will no longer have a personal exemption.

Filing Status	Income
Single	\$259,400.00
Married Filing Jointly	\$311,300.00
Head of Household	\$285,350.00
Source: Author's Calculations.	

Filing Status	Phase-Out Begin	Phase-Out Complete
Single	\$259,400.00	\$381,900.00
Married Filing Jointly	\$311,300.00	\$433,800.00
Head of Household	\$285,350.00	\$407,850.00
Source: Author's Calculations.		

Alternative Minimum Tax

Since its creation in the 1960s, the Alternative Minimum Tax (AMT) has not been adjusted for inflation. Thus, Congress was forced to "patch" the AMT by raising the exemption amount to prevent middle class taxpayers from being hit by the tax as a result of inflation.

On January 2, 2013, the American Taxpayer Relief Act of 2012 indexed the income thresholds to inflation, preventing the necessity for an annual "patch."

The AMT exemption amount for 2016 is \$53,900 for singles and \$83,800 for married couples filing jointly (Table 5).

Filing Status	Exemption Amount
Single	\$ 53,900.00
Married Filing Jointly	\$ 83,800.00
Married Filing Separately	\$ 41,900.00
Source: Author's Calculations.	

Earned Income Tax Credit

2016's maximum Earned Income Tax Credit for singles, heads of households, and joint filers is \$506, if the filer has no children (Table 6). The credit is \$3,373 for one child, \$5,572 for two children, and \$6,268 for three or more children.

Filing Status		No Children	One Child	Two Children	Three or More Children
Single or Head of Household	Income at Max Credit	\$6,610	\$9,920	\$13,930	\$13,930
	Maximum Credit	\$506	\$3,373	\$5,572	\$6,268
	Phase out Begins	\$8,270	\$18,190	\$18,190	\$18,190
	Phase out Ends (Credit Equals Zero)	\$14,880	\$39,296	\$44,648	\$47,955
Married Filing Jointly	Income at Max Credit	\$6,610	\$9,920	\$13,930	\$13,930

	Maximum Credit	\$506	\$3,373	\$5,572	\$6,268
	Phase out Begins	\$13,810	\$23,730	\$23,730	\$23,730
	Phase out Ends (Credit Equals Zero)	\$20,420	\$44,836	\$50,188	\$53,495
Source: Author's Calculations.					

Methodology

Each tax parameter is adjusted for inflation by taking its base value (from legislation) and multiplying it by the current fiscal year's average Consumer Price Index (CPI) and then dividing that by the base fiscal year's CPI.

Each parameter is rounded to either the nearest \$10, \$25, or \$100 (depending on the specified rounding method in the legislation, see Table 7).

For example, the base value for the top of the 10 percent tax bracket for singles is \$7,000. This number is multiplied by the average CPI for fiscal year 2016 (236.749) and then divided by the average CPI for fiscal year 2002 (178.675): $\$7,000 \times (236.749/178.674) = \$9,275.18$. This value is then rounded down to the nearest \$25 to yield 2016's 10 percent tax bracket of \$9,275.

Base Year	Parameter	Base Value (Single; HoH; Married)	Rounding Convention
1987	Standard Deduction	\$3,000; \$4,400; \$6,000	Down to nearest \$50
1988	Personal Exemption	\$2,000	Down to nearest \$50
1992	15% Bracket	\$22,100; \$29,600; \$44,200	Down to nearest \$50
	25% Bracket	\$53,500; \$76,400; \$89,150	Down to nearest \$50
1993	28% Bracket	\$115,000; \$127,500; \$140,000	Down to nearest \$50
	33% Bracket	\$250,000; \$250,000; \$250,000	Down to nearest \$50
1995	EITC	See Table 8, below	Nearest \$10, for thresholds. Nearest \$1, for credit amount.
2002	10% Bracket	\$7,000; \$10,000; \$14,000	Down to nearest \$25
2008	EITC Marriage Penalty Fix	\$5,000	Nearest \$10
2011	AMT	\$50,600, N/A, \$78,750	Nearest \$100
2012	35% Bracket	\$400,000; \$425,000; \$450,000	Down to nearest \$50
	PEP	\$250,000; \$275,000; \$300,000	Down to nearest \$50
	Pease	\$250,000; \$275,000; \$300,000	Down to nearest \$50
Note: Bracket values are the tops of each bracket.			

	No Children	One Child	Two Children	Three or More Children
Credit Rate	7.65%	34%	40%	40%
Phase-Out Rate	7.65%	15.98%	21.06%	21.06%
Income, Max Credit	\$4,220	\$6,330	\$8,890	\$8,890
Income, Phase-Out	\$5,280	\$11,610	\$11,610	\$11,610

