

How 2019 tax bracket changes affect your wallet

by Mia Taylor January 4th, 2019

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In November, the IRS issued the new 2019 federal income tax brackets as part of the 2017 Tax Cuts and Jobs Act, passed under Donald Trump.

Without getting too much into the weeds, this is an important change to note. Prior to 2018, the IRS adjusted the income limits for each tax bracket based on inflation rates and the Consumer Price Index, which tracks the variation in prices for consumers on retail goods. This was to prevent something called tax bracket creep — when inflation pushes you into a higher tax bracket, leading to an increase in income taxes but no increase in purchasing power.

As of January 1, 2019, there's a new way the IRS calculates which tax bracket you're in.

“The IRS is using a new slower moving inflation rate to adjust the tax brackets. Over time, this will cost taxpayers money as the tax bracket increases might not keep up with actual wage and income inflation,” said Jim Holtzman, a certified financial planner and advisor with Legend Financial Advisors.

Here are some of the other key takeaways tied to the new tax brackets and rates.

The tax bracket rates decreased ...

It's important to understand that there are still seven federal income tax brackets, but they have been adjusted slightly, said Tiffany Parikh, tax consultant at Accurate DFW Tax Solutions.

The brackets prior to 2018 were: 10%, 15%, 25%, 28%, 33%, 35% and 39.6%, depending on the income of the taxpayer. As of January 1, 2018, the new brackets were: 10%, 12%, 22%, 24%, 32%, 35%, and 37%.

... & income levels for each bracket have changed

The second key change to understand, Parikh said, is that the income levels associated with each bracket have been adjusted slightly.

Tax bracket 2017	Rate	Tax bracket 2018	Rate	Tax Bracket 2019	Rate
\$0 — \$9,325	10%	\$0 — \$9,525	10%	\$0 — \$9,700	10%
\$9,326 — \$37,950	15%	\$9,526 — \$38,700	12%	\$9,701 — \$39,475	12%
\$37,951 — \$91,900	25%	\$38,701 — \$82,500	22%	\$39,476 — \$84,200	22%
\$91,901 — \$191,650	28%	\$82,501 — \$157,500	24%	\$84,201 — \$160,725	24%

Tax bracket 2017	Rate	Tax bracket 2018	Rate	Tax Bracket 2019	Rate
\$191,651 — \$416,700	33%	\$157,501 — \$200,000	32%	\$160,726 — \$204,100	32%
\$416,701 — \$418,400	35%	\$200,001 — \$500,000	35%	\$204,101 — \$510,300	35%
\$418,400 & over	39.6%	\$500,001 & over	37%	\$501,300 & over	37%

In short, many taxpayers will likely have a lesser tax burden because they've moved to a lower tax bracket.

“Those who used to be in the 25% tax bracket for instance, are now 22%,” said Holtzman. “So that will be a direct drop in the amount of taxes paid.”

These tax bracket changes amounts to \$1.2 trillion in savings over 10 years, said Parikh. She said some taxpayers could end up with as much as \$1,050 more in their wallet. This is based on a single filer with an income of \$38,700 in the 12% tax bracket. Under last year's law, that same person would have been in the 15% bracket.

Taxes can get complicated — check this easy guide to filing your taxes to get a jump start on tax season.

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