

2018 Tax Brackets

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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.¹

Income Tax Brackets and Rates

In 2018, the income limits for all tax 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 \$426,700 and higher for single filers and \$480,050 and higher for married couples filing jointly.

TABLE 1.

Table 1. Unmarried Individuals, Tax Brackets and Rates, 2018

Rate	Taxable Income Bracket	Tax Owed
10%	Not over \$9,525	10% of the taxable income
15%	\$9,525 to \$38,700	\$952.50 plus 15% of the excess over \$9,525
25%	\$38,700 to \$93,700	\$5,328.75 plus 25% of the excess over \$38,700
28%	\$93,700 to \$195,450	\$19,078.75 plus 28% of the excess over \$93,700
33%	\$195,450 to \$424,950	\$47,568.75 plus 33% of the excess over \$195,450
35%	\$424,950 to \$426,700	\$123,303.75 plus 35% of the excess over \$424,950
39.6%	Over \$426,700	\$123,916.25 plus 39.6% of the excess over \$426,700

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¹ <https://www.irs.gov/pub/irs-drop/rp-17-58.pdf>

TABLE 2.**Married Individuals Filing Joint Returns, Tax Brackets and Rates, 2018**

Rate	Taxable Income Bracket	Tax Owed
10%	Not over \$19,050	10% of the taxable income
15%	\$19,050 to \$77,400	\$1,905 plus 15% of the excess over \$19,050
25%	\$77,400 to \$156,150	\$10,657.50 plus 25% of the excess over \$77,400
28%	\$156,150 to \$237,950	\$30,345 plus 28% of the excess over \$156,150
33%	\$237,950 to \$424,950	\$53,249 plus 33% of the excess over \$237,950
35%	\$424,950 to \$480,050	\$114,959 plus 35% of the excess over \$424,950
39.6%	Over \$480,050	\$134,244 plus 39.6% of the excess over \$480,050

TABLE 3.**Heads of Households, Tax Brackets and Rates, 2018**

Rate	Taxable Income Bracket	Tax Owed
10%	Not over \$13,600	10% of the taxable income
15%	\$13,600 to \$51,850	\$1,360 plus 15% of the excess over \$13,600
25%	\$51,850 to \$133,850	\$7,097.50 plus 25% of the excess over \$51,850
28%	\$133,850 to \$216,700	\$27,597.50 plus 28% of the excess over \$133,850
33%	\$216,700 to \$424,950	\$50,795.50 plus 33% of the excess over \$216,700
35%	\$424,950 to \$453,350	\$119,518 plus 35% of the excess over \$424,950
39.6%	Over \$453,350	\$129,458 plus 39.6% of the excess over \$453,350

Standard Deduction and Personal Exemption

The standard deduction for single filers will increase by \$150 and by \$300 for married couples filing jointly (Table 4).

The personal exemption for 2018 increases by \$100 to \$4,150.

TABLE 4.**2018 Standard Deduction and Personal Exemption**

Filing Status	Deduction Amount
Single	\$6,500
Married Filing Jointly	\$13,000
Head of Household	\$9,550
Personal Exemption	\$4,150

Personal Exemption Phaseout (PEP) and “Pease” Limitation on Itemized Deductions

PEP and Pease are two provisions in the tax code that increase taxable income for high-income earners. PEP is the phaseout of the personal exemption and Pease (named after former U.S. Representative Donald Pease from Ohio) phases out 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 increase from last year to \$266,700 for single filers and \$320,000 for married couples filing jointly (Tables 5 and 6). PEP will end at \$389,200 for singles and \$442,500 for married couples filing jointly (both will increase from 2017), meaning that taxpayers with AGI above these limits will no longer benefit from personal exemptions.

TABLE 5.

2018 Pease Limitations on Itemized Deductions

Filing Status	Income
Single	\$266,700
Married Filing Jointly	\$320,000
Head of Household	\$293,350
Married Filing Separately	\$160,000

TABLE 6.

2018 Personal Exemption Phaseout

Filing Status	Phaseout Begins	Phaseout Complete
Single	\$266,700	\$389,200
Married Filing Jointly	\$320,000	\$442,500
Head of Household	\$293,350	\$415,850
Married Filing Separately	\$160,000	\$221,250

Alternative Minimum Tax

The Alternative Minimum Tax (AMT) was created in the 1960s to prevent high-income taxpayers from avoiding the individual income tax. This parallel tax income system requires high-income taxpayers to calculate their tax bill twice: once under the ordinary income tax system and again under the AMT. The taxpayer then needs to pay the higher of the two.

The AMT uses an alternative definition of taxable income called Alternative Minimum Taxable Income (AMTI). To prevent low- and middle-income taxpayers from being subject to the AMT, taxpayers are allowed to exempt a significant amount of their income from AMTI. However, this exemption phases out for high-income taxpayers. The AMT is levied at two rates: 26 percent and 28 percent.

The AMT exemption amount for 2018 is \$55,400 for singles and \$86,200 for married couples filing jointly (Table 7).

TABLE 7.
2018 Alternative Minimum Tax Exemptions

Filing Status	Exemption Amount
Unmarried Individuals	\$55,400
Married Filing Jointly	\$86,200
Married Filing Separately	\$43,100
Trusts & Estates	\$24,600

In 2018, the 28 percent AMT rate applies to excess AMTI of \$191,500 for all taxpayers (\$95,750 for married couples filing joint returns).

Under current law, AMT exemptions phase out at 25 cents per dollar earned once taxpayer AMTI hits a certain threshold. In 2018, the exemption will start phasing out at \$123,100 in AMTI for single filers and \$164,100 for married taxpayers filing jointly (Table 8.)

TABLE 8.
2018 Alternative Minimum Tax Exemption Phaseout Thresholds

Filing Status	Threshold
Unmarried Individuals	\$123,100
Married Filing Jointly	\$164,100
Married Filing Separately, Estates and Trusts	\$82,050

Earned Income Tax Credit

The maximum Earned Income Tax Credit in 2018 for single and joint filers is \$520, if the filer has no children (Table 9). The credit is \$3,468 for one child, \$5,728 for two children, and \$6,444 for three or more children. All of the aforementioned are relatively small increases from 2017.

TABLE 9.

2018 Earned Income Tax Credit Parameters

Filing Status		No Children	One Child	Two Children	Three or More Children
Single or Head of Household	Income at Max Credit	\$6,800	\$10,200	\$14,320	\$14,320
	Maximum Credit	\$520	\$3,468	\$5,728	\$6,444
	Phaseout Begins	\$8,510	\$18,700	\$18,700	\$18,700
	Phaseout Ends (Credit Equals Zero)	\$15,310	\$40,402	\$45,898	\$49,298
Married Filing Jointly	Income at Max Credit	\$6,800	\$10,200	\$14,320	\$14,320
	Maximum Credit	\$520	\$3,468	\$5,728	\$6,444
	Phaseout Begins	\$14,200	\$24,400	\$24,400	\$24,400
	Phaseout Ends (Credit Equals Zero)	\$21,000	\$46,102	\$51,598	\$54,998