

I'm not a robot



Qualified dividends and capital gain tax worksheet

[illegible]

that qualified dividends and capital gains stack on top. What does that mean? The first thing it means is that doubling or tripling your qualified dividends and capital gains does not push you into a higher ordinary income tax bracket. If you've got \$100,000 in ordinary income, it doesn't matter if you have \$100,000 in dividends or \$1 million in dividends. That ordinary income is going to be taxed at the same rate (although it could be affected by some deduction phaseouts based on AGI.) The second thing it means is that the opposite is not true. Increasing ordinary income can push your qualified dividends and capital gains into higher brackets. Let's say a single person has \$30,000 of taxable ordinary income and \$5,000 in qualified dividends. Those dividends are taxed at 0%. But if that person gets a better job and now has \$60,000 of taxable ordinary income and \$5,000 in qualified dividends, the dividends are taxed at 15%. In an example more relevant to those on this website, if you're Married Filing jointly and go from a taxable ordinary income of \$400,000 to \$600,000, your \$100,000 in qualified dividends are now going to be taxed at 20% instead of 15%. If you had increased your dividends by \$200,000 instead of your ordinary income by \$200,000, only \$200,000 of your now \$300,000 of dividends would be taxed at 20%, because dividends stack on top. The third thing it means is that your deductions are taken from your ordinary income, NOT your capital gains. This is not so intuitive, but it is indeed the way it works because of this worksheet. By the time you get to line 15 of the 1040 (line 1 on the worksheet), you've already applied all of your above-the-line and below-the-line deductions to arrive at your taxable income. THEN, you subtract your entire sum of qualified dividends and LTCGs from that taxable income amount. Thus, the deductions apply to ordinary income, NOT qualified dividend/LTCG income. Qualified dividends and long-term capital gains (as well as collectibles, capital gains, and depreciation recapture tax) always stack on top, and that is a good thing for you, the taxpayer. If you need help with tax preparation or you're looking for tips on the best tax strategies, hire a WCI-vetted professional to help you figure it out. What do you think? Did you ever consider this before? Will it affect the way you arrange your financial life?