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LEARN | Understanding the Effective Tax Rate

5 minutes

The effective tax rate is a blended rate applied to your client's taxable income after deductions and represents his or her average tax rate.

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Did You Know?

The effective tax rate is more important for clients to consider than the marginal tax rate, which is the highest tax bracket applied to the last dollar earned.



Key Takeaway

The effective tax rate provides a more realistic picture of a client's true tax burden.

How to Calculate the Effective Tax Rate

Select an area to learn more about how the effective tax rate is calculated.

For this example, we use a married couple filing jointly in 2023 with taxable income (total income less deductions) of \$377,500.

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FIRST

Calculate Total Taxable
Income 🔍

A green speech bubble pointing towards the bottom left, containing a large white number 3.

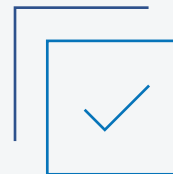
THIRD

Divide Income Tax Owed by
Total Income 🔍

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SECOND

Determine Taxes Owed From
Each Bracket 🔍



Bottom Line

The effective tax rate can be significantly lower than the rate associated with your clients' tax brackets and help clients withhold more accurately. In this example, 20.79% is significantly lower than the marginal tax rate of 32%.

Next Step

Use the effective tax rate to help clients adjust withholding accordingly and minimize tax surprises.

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Publication details: Tuesday, March 5, 2024 10:49 AM

Page ID: 45677 - <https://www.eatonvance.com/understanding-effective-tax-rate.php>