

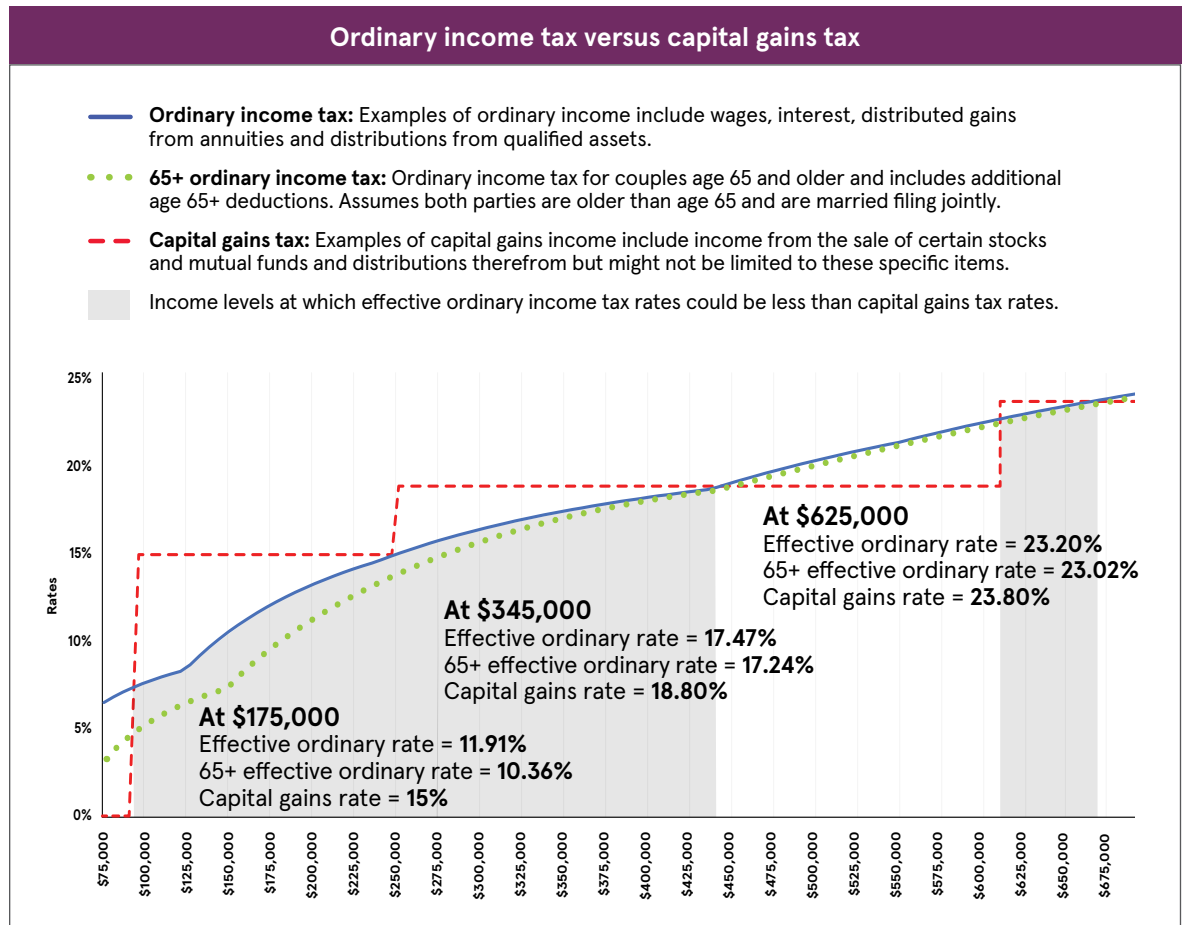
When ordinary income tax rates outshine capital gains rates

Some say it's an accepted rule of thumb that taxes on long-term capital gains* are "always" significantly lower than taxes on ordinary income. With the Tax Cuts and Jobs Act,¹ effective in 2018, it's time to take another look.

Long-term capital gains rates in 2018 were similar to those in 2017. For 2026 the rates remain the same, and thresholds have been indexed upward slightly.²

There are situations where a filer's effective ordinary income tax rate is less than the filer's capital gains tax rate. For example, a couple married filing jointly with \$175,000 of income pays an effective ordinary income tax rate of 11.91% and capital gains tax rate of 15%.³

The illustration on the right highlights long-term capital gains tax rates and ordinary income tax rates at various thresholds. The callouts in the gray bars highlight three different income levels in which effective ordinary income tax rates could be less than capital gains tax rates.



* For the purposes of this piece, all references to "capital gains" are long-term capital gains rates and do not include short-term capital gains.

¹ Tax Cuts and Jobs Act, Conference Report to Accompany H.R. 1, December 15, 2017.

² IRS, Rev. Proc. 2025-32, 2025.

³ Jackson calculated rates using data contained in IRS, Rev. Proc. 2025-32, 2025, and IRS, Topic No. 559, "Net Investment Income Tax," October 9, 2025.

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Jackson calculated the information in the chart using data contained in IRS, Rev. Proc. 2025-32, 2025, and IRS, Topic No. 559, "Net Investment Income Tax," October 9, 2025. Note that tax rates depicted reflect the effective 2026 taxation rates for a married couple filing jointly less the standard deduction, and do not include any additional credits or deductions. The age 65+ deductions include the \$1,650 per person standard deduction and the additional \$6,000 per person deduction for individuals age 65+, including income phaseouts. Capital gains rates reflect long-term capital gains rates plus the net investment income tax, where applicable.

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Comparing ordinary income and capital gains tax brackets and tax rates

Marginal tax rate versus effective tax rate

In a basic sense, the marginal rate is the tax bracket into which an individual's income falls. The effective tax rate for individuals is the average rate at which their earned income is taxed—calculated by dividing total tax expense by taxable income—and represents an individual's actual tax obligation.⁴

Other tax considerations

Beyond rates, there are other tax factors to consider to keep your money working for you. For example, some investments allow you to defer taxes on growth to a later date. Some research shows that by deferring taxes you can achieve an increase in additional returns ranging from 0.7% to 2.7% each year.⁵

Tax deferral offers no additional value if an IRA or a qualified plan, such as a 401(k), is used to fund an annuity and may be found at a lower cost in other investment products. It also may not be available if the annuity is owned by a legal entity such as a corporation or certain types of trusts.

⁴ Erin Gobler, *Business Insider*, "Marginal Vs. Effective Tax Rate: Two Ways to Measure What You're Paying the IRS," November 5, 2022.

⁵ Aaron Brask Capital, *Alpha Architect*, "Quantifying the Value of Retirement Accounts," April 10, 2018.

Ordinary income tax versus capital gains tax at certain income levels				
	Ordinary income tax rates			
Gross income	Effective tax rate	65+ effective tax rate	Marginal tax rate	Capital gains tax rate
\$100,000	7.64%	5.80%	12%	15.00%
\$195,000	12.94%	11.83%	22%	15.00%
\$275,000	15.81%	15.52%	24%	18.80%
\$395,000	18.30%	18.10%	24%	18.80%
\$450,000	19.25%	19.01%	32%	18.80%
\$615,000	23.01%	22.82%	35%	23.80%
\$680,000	24.16%	23.99%	35%	23.80%

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