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Understanding Your Tax Bracket

What the bracket really means, and how to plan around it

"Tax planning is not avoiding tax. It is sequencing it."

Jordan Hyde, Founder

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The Myth That Costs People Money

Almost every new client arrives with some version of the same worry: "I do not want a raise, it will push me into the next bracket." It is one of the most expensive misunderstandings in personal finance.

Brackets are not cliffs. They are steps. Earning one more dollar never costs you the income you already have. It only changes the rate on the next dollar, and only if that dollar crosses the line.

THE HLG VIEW

If your bracket fear is driving a no to a raise, a promotion, or a Roth conversion, you are leaving real money on the table. Bracket math is arithmetic. It is almost never the reason to say no.

How a Bracket Actually Works

The U.S. uses a progressive system. Your income is sliced into layers and each layer is taxed at its own rate.

2026 federal income tax brackets

Rate	Single (taxable income)	Married Filing Jointly
10%	\$0 to \$12,400	\$0 to \$24,800
12%	\$12,400 to \$50,400	\$24,800 to \$100,800
22%	\$50,400 to \$105,700	\$100,800 to \$211,400
24%	\$105,700 to \$201,775	\$211,400 to \$403,550
32%	\$201,775 to \$256,225	\$403,550 to \$512,450
35%	\$256,225 to \$640,600	\$512,450 to \$768,700
37%	Over \$640,600	Over \$768,700

Source: IRS Revenue Procedure 2025-32 (tax year 2026). Standard deduction for 2026 is \$16,100 single and \$32,200 married filing jointly. The first dollars of income are sheltered by the deduction and taxed at zero.

Marginal vs. Effective Rate

Two numbers describe your tax picture. Most people only know one.

Marginal rate: the rate on your next dollar of income. This is the number that matters for Roth conversions, for bonus decisions, and for whether to realize a capital gain this year.

Effective rate: total federal tax divided by total income. This is the number that describes what you actually paid. It is always lower than your marginal rate because of the lower layers underneath.

Rule of thumb

Marginal rate drives decisions. Effective rate describes results. Do not mix them up.

A Worked Example for 2026

Take a married couple filing jointly. Gross income is \$150,000. Standard deduction is \$32,200, so taxable income is \$117,800.

Bracket layer	Income in layer	Tax on layer
10% up to \$24,800	\$24,800	\$2,480
12% from \$24,800 to \$100,800	\$76,000	\$9,120
22% from \$100,800 to \$117,800	\$17,000	\$3,740
Total federal income tax		\$15,340

Marginal rate: 22 percent (that is the rate on the next dollar they earn). Effective rate: 10.2 percent (that is \$15,340 divided by \$150,000 gross). Both are true. They describe different things.

THE HLG VIEW

This couple has roughly \$93,600 of "headroom" left in the 22 percent bracket before hitting 24 percent. That is the space we look at for Roth conversions, bonus timing, and gain harvesting.

Which Account Gets the Next Dollar?

Once you know your marginal rate, the account-type question becomes arithmetic, not philosophy.

If your marginal rate is	Lean toward
10% or 12%	Roth. Paying tax now at these rates is almost always a win.
22% or 24%	Split. Use Roth for flexibility, Traditional to lower current taxable income.
32% or 35%	Traditional first, up to the match and deductible limits.
37%	Traditional, then taxable, then consider Roth conversions in low-income years later.

These are defaults, not rules. State tax, expected retirement bracket, pension income, and business-owner considerations can all move the answer.

A Word on Capital Gains

Long-term capital gains and qualified dividends get their own ladder. For 2026, married couples filing jointly pay 0 percent on long-term gains up to about \$97,250 of taxable income. For single filers, the 0 percent band runs up to about \$48,625.

Strategy

In low-income years (sabbatical, early retirement, before RMDs start), realize long-term gains up to the top of the 0 percent band. You reset cost basis without paying federal tax.

Five Common Mistakes

1. Refusing a raise because "it puts me in the next bracket." Only the new dollars cross into the new rate.
2. Making Roth contributions at a 12 percent marginal rate, then Traditional contributions at a 32 percent rate. This is backwards.
3. Ignoring the standard deduction. In 2026 a married couple shelters the first \$32,200 of income from federal tax at a zero rate.
4. Confusing marginal and effective rates. Decisions are made at the margin; results are measured in effective terms.
5. Leaving Roth conversion space unused in the gap years between retirement and RMDs. That headroom does not roll forward.

Authoritative Resources

2026 tax figures (IRS): [Revenue Procedure 2025-32](#)

2026 retirement plan limits: [IRS Notice 2025-67](#)

Federal tax rates page: irs.gov/filing/federal-income-tax-rates-and-brackets

Disclosures

Prepared by Hyde Legacy Group for its clients. Educational only. Not tax or legal advice. Figures reflect IRS releases for tax year 2026. State taxes, phaseouts, AMT, and the net investment income tax may change the picture for any individual. Confirm numbers with your CPA before acting.