

## TAX STRATEGIES

# Understanding marginal vs. effective tax rate

Contrary to popular belief, long-term capital gains are not always significantly lower than taxes on ordinary income. In fact, there are situations where the individual's overall ordinary income rates are lower than the long-term capital gains rates.<sup>1</sup> Let's explore why. Most individuals believe their marginal tax rate<sup>2</sup> is the percentage of taxes they pay based on their annual income. However, you only pay the marginal rate on the amount that is above the income

bracket minimum. Part of the money is taxed at a much lower rate. The average of those rates is your effective tax rate. Therefore, the effective rate is much lower than an individual's marginal rate.

In the chart below, the effective tax rate is lower than the long-term capital gains rate in many instances.<sup>3</sup>

Ordinary income vs. Long-term Capital gains			
Gross income	Ordinary income rates		LT Capital gains tax rate
	Marginal tax rate	Effective tax rate	
\$100,000	12%	<b>7.64%</b>	15.00%
\$125,000	22%	<b>8.51%</b>	15.00%
\$150,000	22%	<b>10.20%</b>	15.00%
\$250,000	24%	15.00%	15.00%
\$275,000	24%	<b>15.8%</b>	18.80%
\$325,000	24%	<b>17.10%</b>	18.80%
\$500,000	32%	20.50%	18.80%
\$525,000	35%	<b>21.10%</b>	23.80%

This chart shows married filing jointly tax status with a standard deduction. Net Investment Tax (NIT) of 3.8% is added to capital gains after \$250,000.

### An annuity can reduce your tax burden and offer tax-deferral

One of the smartest ways to grow your wealth is by reducing the amount you pay along the way, including taxes. That's why it's important to look at how an annuity may provide a lower tax burden for some individuals. With an annuity, you pay ordinary income tax on distributions versus paying long-term capital gains rates on distributions from a brokerage account. Additionally, your money grows tax-deferred with an annuity. So your investment and earnings continue growing without diverting money to pay taxes.

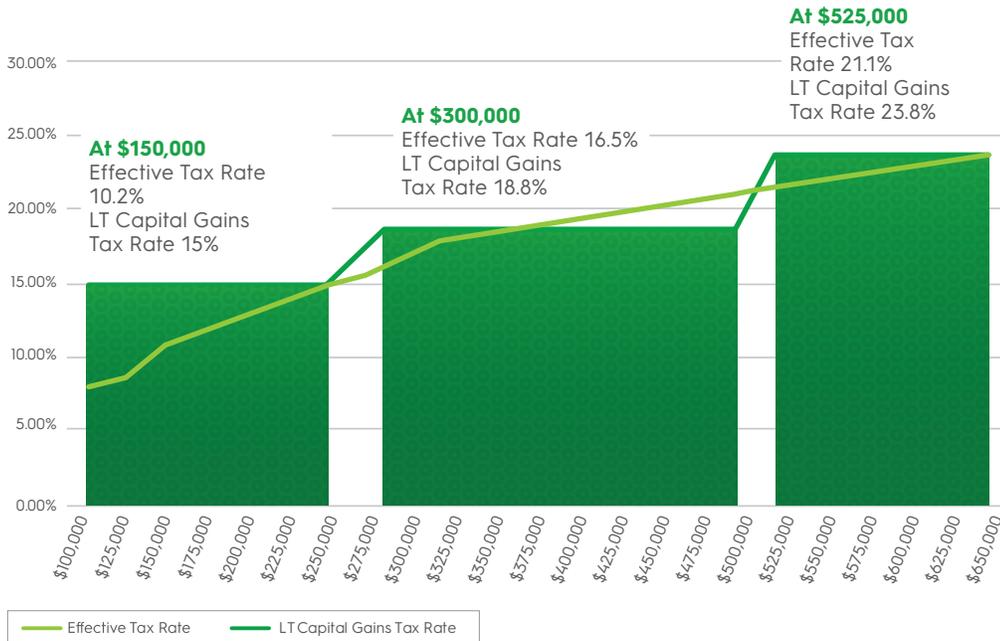
During retirement, you will face decisions about which accounts to draw from. When you begin drawing income during retirement, you may be in a lower tax bracket than during your working years. Married couples filing jointly with annual incomes between \$98,901 and \$250,000 would pay less in taxes under an effective tax rate than the long-term capital gains rate. Married couples are more likely to fall into this range during retirement. Looking at the chart on the next page, this is also the case at various other thresholds, where effective tax rates are lower than long-term capital gains rates.

1. Topic No. 559 Net Investment Income Tax | Internal Revenue Service (irs.gov).

2. IRS provides tax inflation adjustments for tax year 2062 | Internal Revenue Service.

3. Microsoft Copilot. (2025). Effective tax rate calculations for 2026 using IRS marginal brackets and standard deductions, Python Logic. Retrieved November 10, 2025, from <https://copilot.microsoft.com>.

## Comparing Ordinary Income & Long-Term Capital Gains Tax



**Ordinary Income Tax** includes, but is not limited to, wages, interest, distributed gains from annuities and distributions from qualified assets.

**Long-Term Capital Gains Tax** includes, but is not limited to, income from the sale of stock and mutual funds typically held in brokerage accounts.

This graph represents the effective tax rate and long-term capital gains tax rate for married filing jointly tax status. The effective tax rate calculations are based on the IRS 2026 marginal tax rates minus the standard deduction for married couples. The long-term capital gains tax rate for married filing jointly, including NIT of 3.8% for income over \$250,000.

### Please contact your financial professional to discuss your particular situation.

An annuity is intended to be a long-term, tax-deferred retirement vehicle. Earnings are taxable as ordinary income when distributed, and if withdrawn before age 59½, may be subject to a 10% federal tax penalty. If the annuity will fund an IRA or other tax qualified plan, the tax deferral feature offers no additional value. Qualified distributions from a Roth IRA are generally excluded from gross income, but taxes and penalties may apply to non-qualified distributions. Please consult a tax advisor for specific information. There are changes and expenses associated with annuities, such as mortality and expense risk charges, and surrender charges (deferred sales charges) for early withdrawals.

This information is a general discussion of the relevant federal tax laws provided to promote ideas that may benefit a taxpayer. It is not intended for, nor can it be used by any taxpayer for the purpose of avoiding federal tax penalties. Taxpayers should seek the advice of their own advisors regarding any tax and legal issues specific to their situation.

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