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2021 Tax Brackets

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On a yearly basis the IRS adjusts more than 40 tax provisions for inflation. This is done to prevent what is called “bracket creep,” when people are pushed into higher income tax brackets or have reduced value from credits and deductions due to inflation, instead of any increase in real income.

The IRS used to use the Consumer Price Index (CPI) as a measure of inflation prior to 2018.^[1] However, with the Tax Cuts and Jobs Act of 2017, the IRS now uses the Chained Consumer Price Index (C-CPI) to adjust income thresholds, deduction amounts, and credit values accordingly.^[2]

2021 Federal Income Tax Brackets and Rates

In 2021, the income limits for all tax brackets and all filers will be adjusted for inflation and will be as follows (Tables 1). The top marginal income tax rate of 37 percent will hit taxpayers with taxable income of \$523,600 and higher for single filers and \$628,300 and higher for married couples filing jointly.

2021 Federal Income Tax Brackets and Rates for Single Filers, Married Couples Filing Jointly, and Heads of Households

Rate	For Unmarried Individuals	For Married Individuals Filing Joint Returns	For Heads of Households
10%	Up to \$9,950	Up to \$19,900	Up to \$14,200
12%	\$9,951 to \$40,525	\$19,901 to \$81,050	\$14,201 to \$54,200
22%	\$40,526 to \$86,375	\$81,051 to \$172,750	\$54,201 to \$86,350
24%	\$86,376 to \$164,925	\$172,751 to \$329,850	\$86,351 to \$164,900
32%	\$164,926 to \$209,425	\$329,851 to \$418,850	\$164,901 to \$209,400
35%	\$209,426 to \$523,600	\$418,851 to \$628,300	\$209,401 to \$523,600
37%	Over \$523,600	Over \$628,300	Over \$523,600

Source: Internal Revenue Service

2021 Standard Deduction and Personal Exemption

The standard deduction for single filers will increase by \$150 and by \$300 for married couples filing jointly (Table 2).

The personal exemption for 2021 remains eliminated.

2021 Standard Deduction

Filing Status	Deduction Amount
Single	\$12,550
Married Filing Jointly	\$25,100
Head of Household	\$18,800

Source: Internal Revenue Source

2021 Alternative Minimum Tax

The Alternative Minimum Tax (AMT) was created in the 1960s to prevent high-income taxpayers from avoiding the individual income tax. This parallel tax income system requires high-income taxpayers to calculate their tax bill twice: once under the ordinary income tax system and again under the AMT. The taxpayer then needs to pay the higher of the two.

The AMT uses an alternative definition of taxable income called Alternative Minimum Taxable Income (AMTI). To prevent low- and middle-income taxpayers from being subject to the AMT, taxpayers are allowed to exempt a significant amount of their income from AMTI. However, this exemption phases out for high-income taxpayers. The AMT is levied at two rates: 26 percent and 28 percent.

The AMT exemption amount for 2021 is \$73,600 for singles and \$114,600 for married couples filing jointly (Table 3).

2021 Alternative Minimum Tax Exemptions

Filing Status	Exemption Amount
Unmarried Individuals	\$73,600
Married Filing Jointly	\$114,600
Internal Revenue Service	

In 2021, the 28 percent AMT rate applies to excess AMTI of \$199,900 for all taxpayers (\$99,950 for married couples filing separate returns).

AMT exemptions phase out at 25 cents per dollar earned once taxpayer AMTI hits a certain threshold. In 2021, the exemption will start phasing out at \$523,600 in AMTI for single filers and \$1,047,200 for married taxpayers filing jointly (Table 4).

2021 Alternative Minimum Tax Exemption Phaseout Thresholds

Filing Status	Threshold
Unmarried Individuals	\$523,600
Married Filing Jointly	\$1,047,200
Source: Internal Revenue Source	

2021 Earned Income Tax Credit

The maximum Earned Income Tax Credit in 2021 for single and joint filers is \$543, if the filer has no children (Table 5). The maximum credit is \$3,618 for one child, \$5,980 for two children, and \$6,728 for three or more children. All these are relatively small increases from 2020.

2021 Earned Income Tax Credit Parameters

Filing Status		No Children	One Child	Two Children	Three or More Children
Single or Head of Household	Income at Max Credit	\$7,100	\$10,640	\$14,950	\$14,950
	Maximum Credit	\$543	\$3,618	\$5,980	\$6,728
	Phaseout Begins	\$8,880	\$19,520	\$19,520	\$19,520
	Phaseout Ends (Credit Equals Zero)	\$15,980	\$42,158	\$47,915	\$51,464
Married Filing Jointly	Income at Max Credit	\$7,100	\$10,640	\$14,950	\$14,950
	Maximum Credit	\$543	\$3,618	\$5,980	\$6,728
	Phaseout Begins	\$14,820	\$25,470	\$25,470	\$25,470
	Phaseout Ends (Credit Equals Zero)	\$21,920	\$48,108	\$53,865	\$57,414
Source: Internal Revenue Source					

2021 Child Tax Credit

The child tax credit totals at \$2,000 per qualifying child and is not adjusted for inflation. However, the refundable portion of the Child Tax Credit is adjusted for inflation but will remain at \$1,400 for 2021.

2021 Capital Gains Tax Rates & Brackets (Long-Term Capital Gains)

Long-term capital gains are taxed using different brackets and rates than ordinary income.

2021 Capital Gains Tax Rates & Brackets (Long-Term Capital Gains)

	For Unmarried Individuals, Taxable Capital Gains Over	For Married Individuals Filing Joint Returns, Taxable Capital Gains Over	For Heads of Households, Taxable Capital Gains Over
0%	\$0	\$0	\$0
15%	\$40,400	\$80,800	\$54,100
20%	\$445,850	\$501,600	\$473,750
Source: Internal Revenue Source			

2021 Qualified Business Income Deduction (Sec. 199A)

The Tax Cuts and Jobs Act includes a 20 percent deduction for pass-through businesses against up to \$164,900 of qualified business income for unmarried taxpayers and \$329,800 for married taxpayers (Table 7).

2021 Qualified Business Income Deduction Thresholds

Filing Status	Threshold
Unmarried Individuals	\$164,900
Married Filing Jointly	\$329,800
Source: Internal Revenue Source	

2021 Annual Exclusion for Gifts

In 2021, the first \$15,000 of gifts to any person are excluded from tax. The exclusion is increased to \$159,000 for gifts to spouses who are not citizens of the United States.

[1] Internal Revenue Service, "Revenue Procedure 2020-45," <https://www.irs.gov/pub/irs-drop/rp-20-45.pdf> (<https://www.irs.gov/pub/irs-drop/rp-20-45.pdf>).

[2] Robert Cage, John Greenlees, and Patrick Jackman, "Introducing the Chained Consumer Price Index," U.S. Bureau of Labor Statistics, May 2003, <https://www.bls.gov/cpi/additional-resources/chained-cpi-introduction.pdf> (<https://www.bls.gov/cpi/additional-resources/chained-cpi-introduction.pdf>).

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