

Earned Income



The term **earned income** refers to the money a worker receives from a company for performing a particular job. This includes his or her regular salary along with any commissions, tips, and bonuses. For example, a waitress receives both a paycheck and tips. Together, these are her earned income.

A department in the federal government, called the Internal Revenue Service (IRS), collects taxes from working individuals. These taxes are used to pay for services provided by the federal government. Income tax is calculated as a percentage of an individual's earned income, called tax brackets. The chart below shows the current federal tax brackets. It is broken into two categories: people who file as an individual (single) and those who file jointly (married).

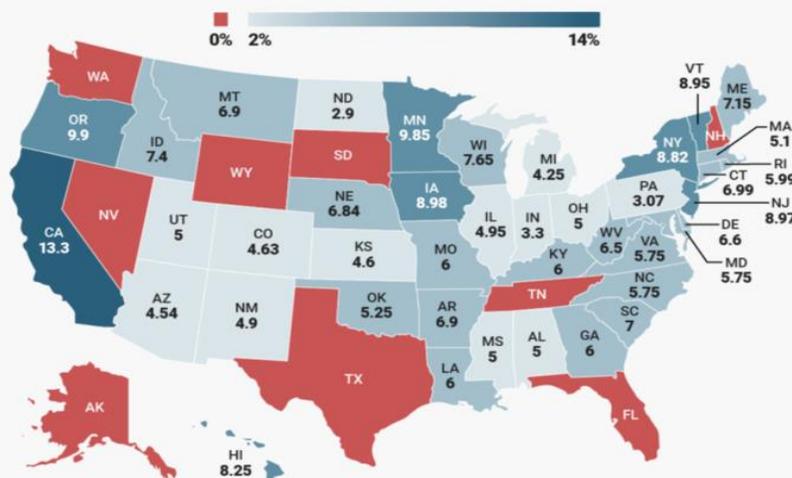
2019 Federal Tax Brackets

| Tax Rate | Annual Earned Income | |
|----------|------------------------|------------------------|
| | Single Filing | Married Filing |
| 10% | \$0 to 9,700 | \$0 to \$19,400 |
| 12% | \$9,701 to \$39,475 | \$19,401 to \$78,950 |
| 22% | \$39,476 to \$84,200 | \$78,951 to \$168,400 |
| 24% | \$84,201 to \$160,725 | \$168,401 to \$321,450 |
| 32% | \$160,726 to \$204,100 | \$321,451 to \$408,200 |
| 35% | \$204,101 to \$510,300 | \$408,201 to \$612,350 |
| 37% | \$510,301 and above | \$612,351 and above |

Sources: *Business Insider* and the IRS

Some states have an income tax which is also based on an individual's earnings. In Illinois, state taxes help pay for services available to people who live in the state. Some states that do not require individuals to pay state income tax. However, everyone earning income above \$12,000 and who is under the age of 65 is required to pay federal income tax. The chart to the right lists a variety of state income rates paid by residents.

Maximum income tax rate per state, 2017



Source: TaxFoundation.org

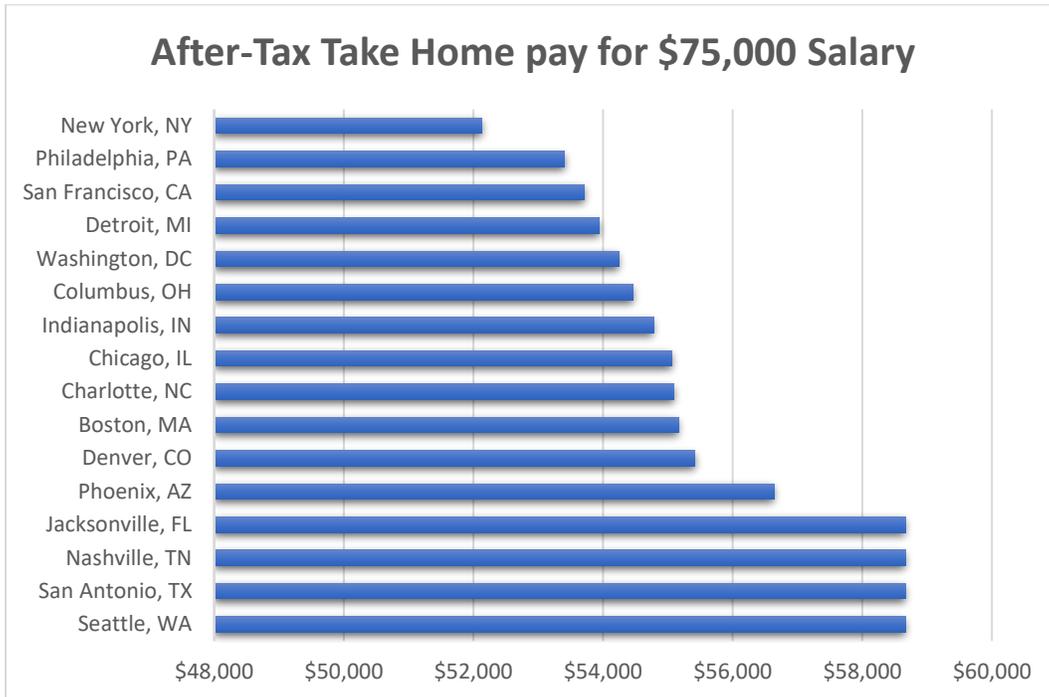
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Taxes are regularly deducted from workers' paychecks. Most people are required to annually file income tax returns which is used to calculate whether the right amount of income tax has been withheld

Loudenback, Tanza. "How Much Money You Take Home from a \$75,000 Salary after Taxes, Depending on Where You Live." *Business Insider*, Business Insider, 2 Feb. 2019, www.businessinsider.com/paycheck-calculator-what-is-take-home-pay-new-tax-brackets-2019-1.

Loudenback, Tanza. "What People at Every Income Level from \$21,000 to \$266,000 Will Have to Pay in Taxes This Year." *Business Insider*, Business Insider, 24 Jan. 2019, www.businessinsider.com/new-federal-income-tax-brackets-tax-calculations-2019-1

from a paycheck throughout the year. The chart below shows how much workers receive from a \$75,000 salary in different cities across the United States.



Besides paying taxes, individuals can use their earned income to add to their savings accounts, retirement plans, or spend it. Remember, it's always important to save some of your money in a safe place, such as a savings account at a bank. Regularly putting small amounts into your savings account can add up quickly!

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