



WINTHROP WEALTH  
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CLIENT QUESTION  
OF THE MONTH

## NOT ALL INVESTMENT INCOME IS TAXED THE SAME

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For the Client Question of the Month, we review different types of investment income and the associated taxation rules following the IRS guidelines. As we enter the final month of the year, it is important to be aware that not all income received from your investments is taxed the same. In addition, we provide the 2022 and 2023 federal income tax brackets for single filers, married couples filing separately or jointly, and head of households – the new 2023 tax brackets have been provided by the IRS and are adjusted for inflation.

Three different types of investment income and their associated IRS taxation rules.

### Interest

Income received for loaning funds to a bond issuer.

The type of interest decides how they are taxed:

#### ➤➤ **Municipal Bonds**

- Exempt from federal income tax\*
  - If investors reside in the same state where the bond is issued, it is tax exempt at state and local levels

#### ➤➤ **U.S. Treasuries**

- Taxable at the federal income tax rate, exempt at state and local levels

#### ➤➤ **Corporate Bonds**

- Fully taxable at all levels

### Dividends

Distributions of profit by a corporation to its shareholders.

The holding period decides how dividends are taxed:

#### ➤➤ **Qualified:** if the security has been held for a minimum of 61 days

- Taxed at the capital gains tax rate
  - *Example: dividends from publicly traded companies*

#### ➤➤ **Non-Qualified:** if the security has been held for less than 61 days

- Taxed at standard federal income tax rates
  - *Example: dividends from tax-exempt entities, including REITs*

### Capital Gains

Profits resulting from selling a capital asset or investment at a price higher than its purchase price and/or your adjusted cost basis for the security.

The holding period decides how capital gains are taxed:

#### ➤➤ **Short term:** security held for less than one year

- Taxed at standard federal income tax rates

#### ➤➤ **Long term:** security held for at least one year

- Taxed at capital gain tax rates of 0%, 15% or 20%, depending on your federal income tax bracket (plus 3.8% Net Investment Income tax<sup>\*\*</sup>)

## Federal Income Tax Brackets

2022 Federal Income Tax Brackets				
Tax Rate	Single Filers	Married Filing Jointly	Married Filing Separately	Head of Household
10%	\$0 – \$10,275	\$0 – \$20,550	\$0 – \$10,275	\$0 – \$14,650
12%	\$10,276 – \$41,775	\$20,551 – \$83,550	\$10,276 – \$41,775	\$14,651 – \$55,900
22%	\$41,776 – \$89,075	\$83,551 – \$178,150	\$41,776 – \$89,075	\$55,901 – \$89,050
24%	\$89,076 – \$170,050	\$178,151 – \$340,100	\$89,076 – \$170,050	\$89,051 – \$170,050
32%	\$170,051 – \$215,950	\$340,101 – \$431,900	\$170,051 – \$215,950	\$170,051 – \$215,950
35%	\$215,951 – \$539,900	\$431,901 – \$647,850	\$215,951 – \$323,925	\$215,951 – \$539,900
37%	\$539,901 or more	\$647,851 or more	\$323,926 or more	\$539,901 or more

Source: IRS.gov - <https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2022>

2023 Federal Income Tax Brackets				
Tax Rate	Single Filers	Married Filing Jointly	Married Filing Separately	Head of Household
10%	\$0 – \$11,000	\$0 – \$22,000	\$0 – \$11,000	\$0 – \$15,700
12%	\$11,001 – \$44,725	\$22,001 – \$89,450	\$11,001 – \$44,725	\$15,701 – \$59,850
22%	\$44,726 – \$95,375	\$89,451 – \$190,750	\$44,726 – \$95,375	\$59,851 – \$95,350
24%	\$95,376 – \$182,100	\$190,751 – \$364,200	\$95,376 – \$182,100	\$95,351 – \$182,100
32%	\$182,101 – \$231,250	\$364,201 – \$462,500	\$182,101 – \$231,250	\$182,101 – \$231,250
35%	\$231,251 – \$578,125	\$462,501 – \$693,750	\$231,251 – \$346,875	\$231,251 – \$578,100
37%	\$578,126 or more	\$693,751 or more	\$346,876 or more	\$578,101 or more

Source: IRS.gov - <https://www.irs.gov/newsroom/irs-provides-tax-inflation-adjustments-for-tax-year-2023>

\*Under the Tax Reform Act of 1986, interest received on private purpose municipal bonds is subject to the Alternative minimum tax (AMT). AMT is a separate income tax computation under the IRS that eliminates many deductions and credits, creating a tax liability for an individual.

Examples of bonds subject to AMT: bonds issued for not-for-profit 501(c)(3) organizations and “private activity” issuers such as airports.

\*\*The net investment income tax (NIIT) is a 3.8% tax on net investment income, such as capital gains, dividends, rental and other income after allowable deductions, to the extent the net amount exceeds a threshold. [applicable for individuals with modified adjusted gross income exceeding \$200,000 or \$250,000 for married taxpayers who are filing their taxes jointly.]

**Note:**

Municipal bonds are subject to availability and change in price. They are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise. Interest income may be subject to the alternative minimum tax. Municipal bonds are federally tax-free but other state and local taxes may apply. If sold prior to maturity, capital gains tax could apply.

Government bonds and U.S. Treasuries are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

Corporate bonds are subject to credit, market, and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

**Disclosures:**

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