

Marginal Income Tax Rates by Income Source¹
(2015 Law at Estimated 2016 Income Levels)

Income Source	Marginal Tax Rate (%)
Wages	24.1
Interest ²	26.7
Pension distributions	22.2
Dividend (non-qualified) ²	30.0
Dividends (qualified) ²	19.4
Sole Proprietorship Income ³	22.7
Sole Proprietorship Losses ³	16.7
Farm Income ⁴	22.0
Farm Losses ⁴	15.2
Active Partnership Income ⁵	35.8
Active Partnership Losses ⁵	15.3
Passive Partnership Income ^{2,6}	36.1
Passive Partnership Losses ^{2,6}	23.8
Active S-corporation Income ⁷	35.9
Active S-corporation Losses ⁷	11.9
Passive S-corporation Income ^{2,8}	37.7
Passive S-corporation Losses ^{2,8}	17.1
Rental Income ^{2,9}	26.8
Rental Losses ^{2,9}	17.4
Long-term Capital Gains ²	21.3
Long-term Capital Losses ²	0.4
Short-term Capital Gains ²	32.2
Short-term Capital Losses ²	1.3

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Office of Tax Analysis

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Notes:

1. Marginal tax rates (MTR) are computed using the Office of Tax Analysis' (OTA) Individual Tax Model (ITM). The ITM extrapolates the 2010 Statistics of Income (SOI) Individual and Sole Proprietorship (INSOLE) data to represent the 2016 tax filing population using the Administration's economic assumptions from the Fiscal Year 2016 Mid-Session Review. MTRs for each income type are only computed for tax returns with non-zero amounts of that type of income. A tax return's MTR for a specific income item is computed by adding (or subtracting) a small amount of income and computing the resulting tax change. The MTR is simply the change in tax divided by the change in income. The averages in the table are income weighted by the type of income relevant for the MTR, e.g., by dividend income for the MTR on dividends. Consequently, the MTRs in this table represent the tax effect of increasing each tax return's income (of the appropriate type) by a small percentage. The returns from businesses, including short- and long-term capital gains, can be either positive (income) or negative (losses). MTRs are calculated separately for tax returns with income and losses to allow income weighting as described above.
2. MTRs include the effect of the 3.8% net investment income tax.
3. Sole proprietorship income/loss as reported on the form 1040, schedule C.
4. Farm income/loss as reported on the form 1040, schedule F.
5. Active partnership income/loss as reported on part II of the form 1040, schedule E.
6. Passive partnership income/loss as reported on part II of the form 1040, schedule E.
7. Active S corporation income/loss as reported on part II of the form 1040, schedule E.
8. Passive S corporation income/loss as reported on part II of the form 1040, schedule E.
9. Rental income as reported on part I of the form 1040, schedule E.

