

The Effect of Inflation and Taxes on Investment Returns

To determine the true return on an investment, one must consider the effect of inflation and taxes on the gross return.

Worksheet for 2003

Taxable Income	Single	Married Filing Jointly	Married Filing Separate	Head of Household	Estate or Trust
\$6,000	10.00%	10.00%	10.00%	10.00%	28.00%
\$10,000	15.00%	10.00%	15.00%	10.00%	35.00%
\$25,000	15.00%	15.00%	15.00%	15.00%	35.00%
\$50,000	25.00%	15.00%	25.00%	25.00%	35.00%
\$75,000	28.00%	25.00%	28.00%	25.00%	35.00%
\$100,000	28.00%	25.00%	33.00%	28.00%	35.00%
\$125,000	28.00%	28.00%	33.00%	28.00%	35.00%
\$175,000	33.00%	33.00%	35.00%	33.00%	35.00%
\$200,000	33.00%	33.00%	35.00%	33.00%	35.00%
\$275,000	33.00%	33.00%	35.00%	33.00%	35.00%
\$350,000	35.00%	35.00%	35.00%	35.00%	35.00%

1. In a perfect world you would be able to keep 100% of your investment return. 1.000

2. Determine your marginal tax bracket from the table above. Enter your marginal bracket as a decimal, e.g., 39.1% = .391 _____

3. Subtract line 2 from line 1. This is the percentage left after taxes are paid. _____

4. Enter the before-tax return on the investment as a decimal, e.g., 15% = .15. _____

5. **After-tax return** - Multiply line 3 times line 4. _____

6. Enter an estimated average annual inflation rate, as a decimal, e.g., 5.0% = .05.¹ _____

7. **Inflation-adjusted return** - Subtract line 6 from line 5.² _____

¹ If line 6 is larger than line 5, there is a negative rate of return on the investment.

² To express line 7 as a percent, multiply line 7 by 100.