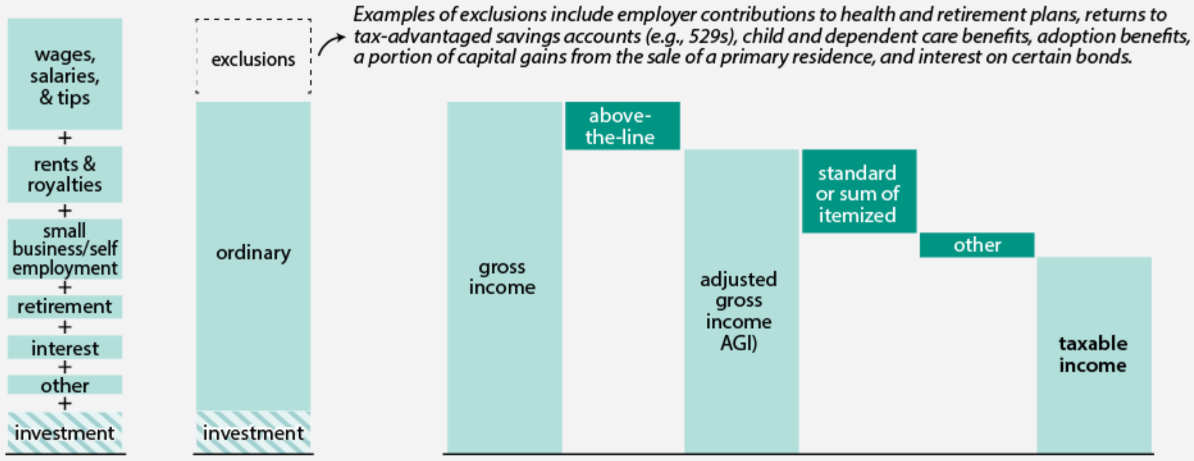
# The Individual Income Tax, 2023

## How Income Tax Liability Is Calculated for Individuals, Families, and Passthrough Businesses

### 1 Calculate Taxable Income

Add up income from various sources to calculate gross income (or total income). Then subtract allowable deductions to arrive at taxable income.

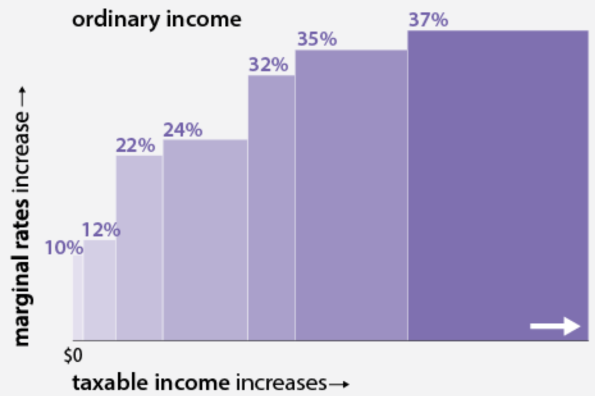


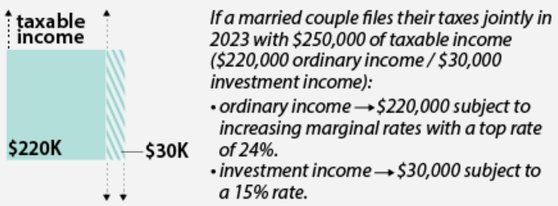

All income is generally counted toward gross income, unless it is excluded by law; i.e., there is an **exclusion**. Gross income may be further characterized between **ordinary income** and **long-term capital gains and qualified dividends** (referred to in this infographic as "investment income") which are taxed at different rates.

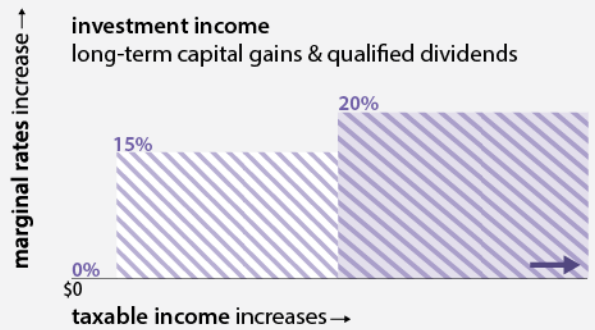
Any **above-the-line deductions** are subtracted from gross income to calculate adjusted gross income **(AGI)**. Above-the-line deductions include those for student loan interest, individual retirement account (IRA) contributions, certain educator expenses, and health savings accounts (HSAs). Then, either the **standard deduction** or the sum of **itemized deductions** (whichever is greater) is subtracted from AGI. Itemized deductions include those for charitable giving, mortgage interest, state and local taxes (SALT), and medical expenses. Finally, **other deductions** are subtracted to arrive at **taxable income**. In 2023, the other deduction is the 199A deduction for passthroughs.

### 2 Apply Marginal Rates

Marginal tax rates are applied to taxable income to arrive at precredit income tax liability. Special reduced rates apply to investment income, with overall taxable income determining the applicable rate.



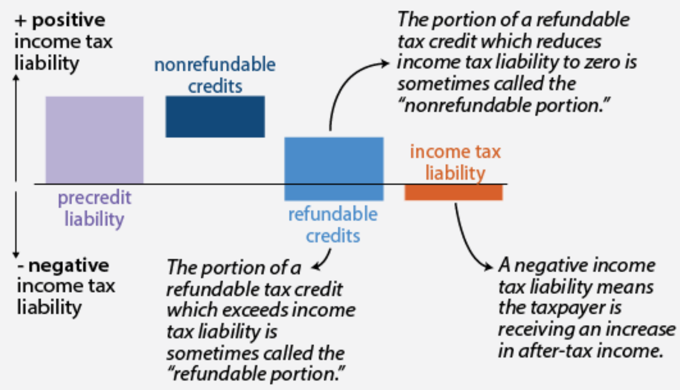




### 3 Subtract Tax Credits

Nonrefundable tax credits are first subtracted from precredit income tax liability, followed by refundable tax credits to calculate income tax liability.

Tax credits reduce income tax liability dollar for dollar the amount of the credit. Nonrefundable tax credits—including the child and dependent care credit, the Lifetime Learning credit, the saver's credit, and the credit for other dependents—cannot be greater than precredit income tax liability. Hence, these credits cannot reduce income tax liability below zero. In contrast, refundable tax credits—like the earned income tax credit (EITC), the child tax credit, and the American Opportunity tax credit—which are claimed after nonrefundable credits, are not limited by income tax liability, (meaning they can reduce income tax liability below zero).




Information prepared by Margot L. Crandall-Hollick, Specialist in Public Finance and Jamie L. Hutchinson, Visual Information Specialist.

**Notes:** Various provisions of the tax code may vary by filing status, which is not depicted in this infographic. In addition, certain taxpayers' investment income may be subject to a 3.8% net investment income tax (NIIT), which is also not depicted in this graphic. The different sizes of income in section 1 do not reflect actual shares of different types of income reported on tax returns. In addition, the relative size of precredit liability and tax credits in section 3 do not reflect actual amounts reported on tax returns.

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