A raise should not frighten you because someone says it will “put you in a higher tax bracket.” A tax bracket is a range of income taxed at a particular percentage. Federal income taxes work in layers, with different portions of your income taxed at different rates. When additional income enters a higher bracket, that higher rate applies only to the portion entering it. Your earlier income keeps its lower rates. Imagine filling several containers in order: filling the second container does not change what is already in the first. This is why crossing into a higher bracket, by itself, does not cause a raise to leave you with less money. You pay some tax on the additional earnings and keep the rest, before considering other taxes or changes to income-based benefits (Investopedia www.investopedia.com).

Before those brackets are applied, the government determines your taxable income, the amount of income subject to income tax after allowed reductions. That amount is not necessarily your salary. A deduction is one of those reductions: it lowers the income used to calculate your tax. Suppose you earn $50,000 and qualify for $15,000 in deductions. In this simplified illustration, your taxable income becomes $35,000. You do not receive a $15,000 payment from the government, and your tax bill does not automatically fall by $15,000. Instead, that amount is removed from the income being taxed. Your filing status, such as single or married filing jointly, also helps determine the deductions and bracket boundaries that apply. When comparing taxes with someone else, comparing salaries alone leaves out part of the calculation (Investopedia www.investopedia.com).

The actual federal brackets for a single person in tax year 2026 show how the layers fit together. The first $12,400 of taxable income is taxed at 10 percent. The portion above $12,400 through $50,400 is taxed at 12 percent. The portion above $50,400 through $105,700 is taxed at 22 percent. Higher layers face rates of 24, 32, 35, and eventually 37 percent. These are rates on taxable income, not automatically on the full amount of someone’s salary (Internal Revenue Service, the federal agency that administers federal tax laws www.irs.gov). A person reaching the 22 percent bracket has income in three layers: some taxed at 10 percent, some at 12 percent, and some at 22 percent. Even someone reaching the highest bracket still receives the lower rates on income in the earlier layers.

Consider a worker whose taxable income has reached $50,400, the top of the 12 percent bracket for a single filer in 2026. Another $100 of taxable wages enters the 22 percent bracket. That additional $100 creates $22 in federal income tax, leaving $78 before other taxes or benefit changes. The worker’s earlier income does not suddenly become subject to 22 percent. This rate on the next portion of income is called the marginal tax rate (Internal Revenue Service www.irs.gov). Your effective tax rate describes your tax bill as a percentage of income overall. For a simple illustration, a $3,000 tax bill divided by $30,000 of taxable income equals an effective rate of 10 percent on that taxable income. Different reports may use different definitions of income, so check what is being divided.

The marginal rate tells you about the next dollars; the effective rate describes the overall share going toward the tax being measured (Investopedia www.investopedia.com).

Wealthier households can have another advantage: some money earned through ownership receives different tax treatment from money earned through work. A capital gain is generally the profit from selling an investment for more than its tax basis, usually what you paid, with adjustments when required. Imagine buying ordinary investment shares for $500 and later selling them for $700. The gain is $200, not the entire $700 you receive. If you held the shares for more than one year, the profit generally qualifies as a long-term capital gain. Most gains in this category face federal rates of 0, 15, or 20 percent, depending on income and filing status. Some investments have different rules, and higher-income investors may owe an additional investment-income tax (Internal Revenue Service www.irs.gov). The lower rates are not reserved exclusively for wealthy people. However, someone who owns more investments has more opportunities to receive income that qualifies for them.

This helps explain a finding about Black American finances. A Treasury Department study published in 2023 estimated that White families received a disproportionate share of the benefits from favorable tax rates on investment gains and certain payments to shareholders. Differences remained even when researchers compared families within similar income ranges. Because tax returns do not report race, the researchers used statistical estimates rather than directly reported racial information (U.S. Department of the Treasury, the federal department responsible for national financial policy home.treasury.gov). The finding does not mean every White family owns investments or every Black family depends entirely on wages. It shows why the source of income belongs in the discussion. Two households can receive similar amounts of money, yet one may receive more of it through investments qualifying for lower rates. Understanding ownership therefore includes understanding how the income from ownership is taxed.

There is also a difference between becoming wealthier on paper and receiving taxable investment income. If those $500 shares rise in value to $700 while you continue holding them, the increase is an unrealized gain. You have an investment worth more, but you have not sold it. For ordinary investment shares outside retirement accounts, that increase generally does not produce federal capital-gains tax until a sale occurs (Internal Revenue Service www.irs.gov). This explains how a billionaire's reported wealth can increase substantially without that entire increase appearing as taxable income that year. The growing value of what someone owns and the income reported on a tax return are different measurements. A headline comparing taxes with wealth growth may therefore be describing something different from a worker comparing taxes with annual wages.

For lower-income workers, tax credits can reduce the bill directly. A deduction reduces the income being taxed; a credit reduces the tax itself. If your calculated tax bill is $800 and you qualify for a $500 credit that can be fully used, the bill falls to $300. A refundable credit can also provide money back when the credit exceeds the income tax owed. The

Earned Income Tax Credit, often shortened to EITC, provides this kind of assistance to qualifying workers with low to moderate incomes. Eligibility and the amount depend on earnings and other circumstances, including qualifying children (Internal Revenue Service www.irs.gov). Treasury's research found that Black families disproportionately benefited from this credit overall. The tax system contains provisions that support working households as well as provisions benefiting investment owners; knowing which ones apply helps a family claim the assistance available under the law (U.S. Department of the Treasury home.treasury.gov).

When reviewing your tax return, the form reporting your income and calculating your taxes, follow the money through the calculation. Start with the income reported. Find the deductions that reduce it, then locate taxable income. Examine the tax calculated on that income and the credits that reduce the bill. Ask a tax preparer to explain those amounts using your own return, rather than stopping at the size of a refund or the amount you owe. You should be able to explain why your taxable income differs from your earnings, why your highest bracket does not apply to every dollar, and which credits reduced your tax. That understanding gives you a firmer basis for evaluating a raise, keeping investment records, and recognizing when a change in your household calls for a closer look at your taxes.