Extending Concepts

Long-Term Capital Gains **In Exercises 17–20, use the table and the information below.**

Long-term capital gains, such as profit from the sale of stock held for more than one year, are taxed at different rates than ordinary income. For instance, if you have $25,000 of ordinary income and $10,000 of income from long-term capital gains, then your income from $0 to $25,000 is taxed at the marginal rates for ordinary income and your income from $25,001 to $35,000 is taxed at the marginal rates for long-term capital gains. The income brackets are filled by ordinary income first, and then by long-term capital gains beginning on the first dollar after ordinary income.

2010 Marginal Tax Rates for Single Taxpayers

Taxable Income	Ordinary Income	Long-term Capital Gains
$0–$8375	10%	0%
$8376–$34,000	15%	0%
$34,001–$82,400	25%	15%
$82,401–$171,850	28%	15%
$171,851–$373,650	33%	15%
$373,651+	35%	15%

17. A taxpayer has $30,000 of taxable ordinary income and $5000 of taxable income from long-term capital gains. Find the income tax and the effective tax rate.

18. A taxpayer has $100,000 of taxable ordinary income and $75,000 of taxable income from long-term capital gains. Find the income tax and the effective tax rate.

19. A taxpayer has a taxable income of $1,000,000.

a. Find the income tax and the effective tax rate when 10% of the taxable income is from long-term capital gains.

b. Find the income tax and the effective tax rate when 50% of the taxable income is from long-term capital gains.

c. What happens to the effective tax rate as the percent of taxable income from long-term capital gains increases? Explain your reasoning.

20. Using the graph, explain how the taxes paid as a percent of AGI can be lower for a taxpayer in a higher income bracket than for a taxpayer in a lower income bracket.