

The Real Rate of Return

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

Worksheet for 2010

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%	33.00%
\$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	25.00%	25.00%	28.00%	25.00%	35.00%
\$100,000	28.00%	25.00%	28.00%	25.00%	35.00%
\$125,000	28.00%	25.00%	33.00%	28.00%	35.00%
\$175,000	33.00%	28.00%	33.00%	28.00%	35.00%
\$200,000	33.00%	28.00%	35.00%	33.00%	35.00%
\$275,000	33.00%	33.00%	35.00%	33.00%	35.00%
\$375,000	35.00%	35.00%	35.00%	35.00%	35.00%

- In a perfect world you would be able to keep 100% of your investment return. 1.000
- Determine your marginal tax bracket from the table above.
Enter your marginal bracket as a decimal, e.g., 28.00% = .280. _____
- Subtract line 2 from line 1. This is the percentage left after taxes are paid. _____
- Enter the before-tax return on the investment as a decimal, e.g., 10% = .10. _____
- After-tax return** - Multiply line 3 times line 4. _____
- Enter an estimated average annual inflation rate, as a decimal, e.g., 5.0% = .05.¹ _____
- Real rate of 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.

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How much must you earn on an investment (the gross return) to obtain your desired real rate of return (after taxes and inflation)? The examples shown below are hypothetical.

Assuming 2.5% Inflation

Approx. Tax Bracket	Break Even	Desired Real Rate of Return						
		5.00%	6.00%	8.00%	10.00%	12.00%	15.00%	20.00%
0.00%	2.5%	7.5%	8.5%	10.5%	12.5%	14.5%	17.5%	22.5%
10.00%	2.8%	8.3%	9.4%	11.7%	13.9%	16.1%	19.4%	25.0%
15.00%	2.9%	8.8%	10.0%	12.4%	14.7%	17.1%	20.6%	26.5%
25.00%	3.3%	10.0%	11.3%	14.0%	16.7%	19.3%	23.3%	30.0%
28.00%	3.5%	10.4%	11.8%	14.6%	17.4%	20.1%	24.3%	31.3%
33.00%	3.7%	11.2%	12.7%	15.7%	18.7%	21.6%	26.1%	33.6%
35.00%	3.8%	11.5%	13.1%	16.2%	19.2%	22.3%	26.9%	34.6%
50.00%	5.0%	15.0%	17.0%	21.0%	25.0%	29.0%	35.0%	45.0%

Assuming 4.0% Inflation

Approx. Tax Bracket	Break Even	Desired Real Rate of Return						
		5.00%	6.00%	8.00%	10.00%	12.00%	15.00%	20.00%
0.00%	4.0%	9.0%	10.0%	12.0%	14.0%	16.0%	19.0%	24.0%
10.00%	4.4%	10.0%	11.1%	13.3%	15.6%	17.8%	21.1%	26.7%
15.00%	4.7%	10.6%	11.8%	14.1%	16.5%	18.8%	22.4%	28.2%
25.00%	5.3%	12.0%	13.3%	16.0%	18.7%	21.3%	25.3%	32.0%
28.00%	5.6%	12.5%	13.9%	16.7%	19.4%	22.2%	26.4%	33.3%
33.00%	6.0%	13.4%	14.9%	17.9%	20.9%	23.9%	28.4%	35.8%
35.00%	6.2%	13.8%	15.4%	18.5%	21.5%	24.6%	29.2%	36.9%
50.00%	8.0%	18.0%	20.0%	24.0%	28.0%	32.0%	38.0%	48.0%

Assuming 6.0% Inflation

Approx. Tax Bracket	Break Even	Desired Real Rate of Return						
		5.00%	6.00%	8.00%	10.00%	12.00%	15.00%	20.00%
0.00%	6.0%	11.0%	12.0%	14.0%	16.0%	18.0%	21.0%	26.0%
10.00%	6.7%	12.2%	13.3%	15.6%	17.8%	20.0%	23.3%	28.9%
15.00%	7.1%	12.9%	14.1%	16.5%	18.8%	21.2%	24.7%	30.6%
25.00%	8.0%	14.7%	16.0%	18.7%	21.3%	24.0%	28.0%	34.7%
28.00%	8.3%	15.3%	16.7%	19.4%	22.2%	25.0%	29.2%	36.1%
33.00%	9.0%	16.4%	17.9%	20.9%	23.9%	26.9%	31.3%	38.8%
35.00%	9.2%	16.9%	18.5%	21.5%	24.6%	27.7%	32.3%	40.0%
50.00%	12.0%	22.0%	24.0%	28.0%	32.0%	36.0%	42.0%	52.0%

Values shown in this presentation are hypothetical and not a promise of future performance.