

The Real Rate of Return Worksheet

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 2021

Taxable Income	Single	Married Filing Jointly	Married Filing Separate	Head of Household	Estate or Trust
\$10,000	12.00%	10.00%	12.00%	10.00%	35.00%
\$20,000	12.00%	12.00%	12.00%	12.00%	37.00%
\$50,000	22.00%	12.00%	22.00%	12.00%	37.00%
\$75,000	22.00%	12.00%	22.00%	22.00%	37.00%
\$100,000	24.00%	22.00%	24.00%	24.00%	37.00%
\$125,000	24.00%	22.00%	24.00%	24.00%	37.00%
\$175,000	32.00%	24.00%	32.00%	32.00%	37.00%
\$200,000	32.00%	24.00%	32.00%	32.00%	37.00%
\$300,000	35.00%	24.00%	35.00%	35.00%	37.00%
\$400,000	35.00%	32.00%	37.00%	35.00%	37.00%
\$500,000	35.00%	35.00%	37.00%	35.00%	37.00%
\$1,000,000	37.00%	37.00%	37.00%	37.00%	37.00%

- 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., 24.00% = .240. _____
- 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**
$$= \left(\frac{1 + \text{after tax return}}{1 + \text{inflation}} \right) - 1$$

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

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Example: Marginal tax bracket = 24% (line 2 = .2400). Line 3 = $(1.000 - .2400) = .7600$. Before-tax return, line 4, = 8.0%, expressed as .0800. The after-tax return, line 5, = $(.7600 \times .0800) = .0608$. Inflation on line 6 is assumed to be 2.0%, expressed as .0200. Line 7 is thus $((1.0608/1.020) - 1) = (1.0400 - 1) = .0400$. Multiplied by 100, the “Real Rate of Return” = 4.0%.

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 2.0% Inflation

Approx. Tax Bracket	Break Even	Desired Real Rate of Return						
		2.00%	4.00%	6.00%	8.00%	10.00%	12.00%	14.00%
0.00%	2.0%	4.0%	6.0%	8.0%	10.0%	12.0%	14.0%	16.0%
10.00%	2.2%	4.4%	6.7%	8.9%	11.1%	13.3%	15.6%	17.8%
12.00%	2.3%	4.5%	6.8%	9.1%	11.4%	13.6%	15.9%	18.2%
22.00%	2.6%	5.1%	7.7%	10.3%	12.8%	15.4%	17.9%	20.5%
24.00%	2.6%	5.3%	7.9%	10.5%	13.2%	15.8%	18.4%	21.1%
32.00%	2.9%	5.9%	8.8%	11.8%	14.7%	17.6%	20.6%	23.5%
35.00%	3.1%	6.2%	9.2%	12.3%	15.4%	18.5%	21.5%	24.6%
37.00%	3.2%	6.3%	9.5%	12.7%	15.9%	19.0%	22.2%	25.4%

Assuming 4.0% Inflation

Approx. Tax Bracket	Break Even	Desired Real Rate of Return						
		2.00%	4.00%	6.00%	8.00%	10.00%	12.00%	14.00%
0.00%	4.0%	6.0%	8.0%	10.0%	12.0%	14.0%	16.0%	18.0%
10.00%	4.4%	6.7%	8.9%	11.1%	13.3%	15.6%	17.8%	20.0%
12.00%	4.5%	6.8%	9.1%	11.4%	13.6%	15.9%	18.2%	20.5%
22.00%	5.1%	7.7%	10.3%	12.8%	15.4%	17.9%	20.5%	23.1%
24.00%	5.3%	7.9%	10.5%	13.2%	15.8%	18.4%	21.1%	23.7%
32.00%	5.9%	8.8%	11.8%	14.7%	17.6%	20.6%	23.5%	26.5%
35.00%	6.2%	9.2%	12.3%	15.4%	18.5%	21.5%	24.6%	27.7%
37.00%	6.3%	9.5%	12.7%	15.9%	19.0%	22.2%	25.4%	28.6%

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Assuming 6.0% Inflation

Approx. Tax Bracket	Break Even	Desired Real Rate of Return						
		2.00%	4.00%	6.00%	8.00%	10.00%	12.00%	14.00%
0.00%	6.0%	8.0%	10.0%	12.0%	14.0%	16.0%	18.0%	20.0%
10.00%	6.7%	8.9%	11.1%	13.3%	15.6%	17.8%	20.0%	22.2%
12.00%	6.8%	9.1%	11.4%	13.6%	15.9%	18.2%	20.5%	22.7%
22.00%	7.7%	10.3%	12.8%	15.4%	17.9%	20.5%	23.1%	25.6%
24.00%	7.9%	10.5%	13.2%	15.8%	18.4%	21.1%	23.7%	26.3%
32.00%	8.8%	11.8%	14.7%	17.6%	20.6%	23.5%	26.5%	29.4%
35.00%	9.2%	12.3%	15.4%	18.5%	21.5%	24.6%	27.7%	30.8%
37.00%	9.5%	12.7%	15.9%	19.0%	22.2%	25.4%	28.6%	31.7%

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