

**What is the personal exemption?**

Personal exemptions for both taxpayers and dependents provide that only a person's income above some defined basic level is subject to tax. This helps ensure that the poorest households are not subject to the income tax. In 2016, the personal exemption is \$4,050.

In 2013, tax filers reported \$9.1 trillion in adjusted gross income (AGI) and claimed \$1.1 trillion in personal exemptions (although, as explained below, not all exemptions could be fully utilized to reduce tax liability). Filers who owed tax reported \$7.7 trillion of that AGI and claimed personal exemptions totaling \$637 billion.

In 1913, the personal exemption was set at \$3,000 (worth more than \$70,000 in today's dollars), so that very few persons were expected to pay tax. The 2015 personal exemption, at \$4,000, is substantially lower both in real terms and relative to average incomes. But the tax code has added other features since 1913, such as the standard deduction and various tax credits that have partly offset the exemption's decline in value.

The value of the personal exemption depends on an individual's marginal tax rate. Think of it as a first tax bracket at a zero rate. For instance, a single taxpayer who would otherwise owe 15 percent on his or her first \$4,000 of income saves \$600, whereas a single taxpayer in a 35 percent bracket saves \$1,400. Thus, under a progressive income tax, exemptions are worth more to high-income filers than to low-income filers. The rate structure itself can, however, be adjusted to compensate for that effect and achieve any desired degree of progressivity.

The personal exemption also links tax liability to household size. For instance, it implies that a household of four with \$116,200 of taxable income (before subtracting personal exemptions) and a household of two with \$108,100 of taxable income (before subtracting personal exemptions) are deemed to have the same ability to pay tax—in this case on \$100,000.

Since 1990, the personal exemption has been phased out at higher income levels. In 2016, the phaseout begins for single filers at \$259,400 and married filing jointly taxpayers at \$311,300. Under the American Taxpayer Relief Act of 2012, the thresholds are indexed for inflation.

The alternative minimum tax (AMT) denies taxpayers the use of personal exemptions. This feature is the second-largest source of tax increase in the AMT. As a result, larger families are more likely to owe AMT than smaller families.

## DATA SOURCES

Urban-Brookings Tax Policy Center. *Tax Facts*. "[Personal Exemption and Standard Deduction 2001–2015.](#)"

———. *Tax Facts*. "[Return Details by AGI and Marital Status 1999–2013.](#)"

## FURTHER READING

Carasso, Adam, and C. Eugene Steuerle. 2003. "[Personal Exemption Not What It Used to Be.](#)" *Tax Notes*, April 28.