

Marginal Tax Rates for Top Income Bracket, Very High Income Brackets and Median Families (Including Payroll Taxes)

Year	Marginal Tax Rate on the Top Income Bracket -- Joint Returns						Marginal Tax Rates (Incl. Payroll Taxes) for Selected Income Classes When This Type of Income Equals 12X Median Family Income							
	Ordinary Income	"Qualified" Dividends (if Different)	Earned Income (if Different)	Long- Term Capital Gains	Highest Bracket Starts at	Median Family Income	Marginal Income Tax Rate for Median Earner	Total Payroll Tax Rate Net of Credits	Total Medicare Tax on High Earners	Wages, Salaries, Bonuses	Interest	Dividends ("Qualified" after 2002)	Long-Term Cap Gains	Wages at Median Family Income
1953	88%			26%	\$ 180,000	\$ 4,242	22.2%	3%		59%	59%	59%	26%	24.83%
1954	87%			25%	\$ 180,000	\$ 4,167	20%	4%		53%	53%	53%	25%	23.53%
1955	87%			25%	\$ 180,000	\$ 4,418	20%	4%		56%	56%	56%	25%	23.53%
1956	87%			25%	\$ 180,000	\$ 4,780	20%	4%		56%	56%	56%	25%	23.53%
1957	87%			25%	\$ 180,000	\$ 4,966	20%	4.5%		59%	59%	59%	25%	23.96%
1958	87%			25%	\$ 180,000	\$ 5,087	20%	4.5%		59%	59%	59%	25%	23.96%
1959	87%			25%	\$ 180,000	\$ 5,417	20%	5%		59%	59%	59%	25%	24.39%
1960	87%			25%	\$ 180,000	\$ 5,620	20%	6%		59%	59%	59%	25%	25.24%
1961	87%			25%	\$ 180,000	\$ 5,735	20%	6%		62%	62%	62%	25%	25.24%
1962	87%			25%	\$ 180,000	\$ 5,956	20%	6.25%		62%	62%	62%	25%	25.45%
1963	87%			25%	\$ 180,000	\$ 6,249	20%	7.25%		62%	62%	62%	25%	26.30%
1964	77%			25%	\$ 400,000	\$ 6,569	18%	7.25%		56.0%	56.0%	56%	25%	24.37%
1965	70%			25%	\$ 200,000	\$ 6,957	17%	7.25%		55%	55%	55%	25%	23.40%
1966	70%			25%	\$ 200,000	\$ 7,532	19%	8.4%		55%	55%	55%	25%	26.30%
1967	70%			25%	\$ 200,000	\$ 7,933	19%	8.8%		55%	55%	55%	25%	26.63%
1968	75.25%			26.88%	\$ 200,000	\$ 8,632	20.43%	8.8%		62.35%	62.35%	62.35%	26.88%	27.99%
1969	77%			27.50%	\$ 200,000	\$ 9,433	20.90%	9.6%		66%	66%	66%	27.5%	29.10%
1970	71.75%			30.24%	\$ 200,000	\$ 9,867	19.48%	9.6%		61.5%	61.5%	61.5%	30.24%	27.74%
1971	70%	60%		32.5%	\$ 200,000	\$ 10,285	19%	10.4%		60%	60%	60%	30%	27.95%
1972	70%	50%		35%	\$ 200,000	\$ 11,116	19%	10.4%		50%	62%	62%	31%	27.95%
1973	70%	50%		35%	\$ 200,000	\$ 12,051	19%	11.7%		50%	62%	62%	31%	29.00%
1974	70%	50%		35%	\$ 200,000	\$ 12,902	22%	11.7%		50%	64%	64%	32%	31.84%
1975	70%	50%		35%	\$ 200,000	\$ 13,719	22%	11.7%		50%	64%	64%	32%	31.84%
1976	70%	50%		35%	\$ 200,000	\$ 14,958	22%	11.7%		50%	66%	66%	33%	31.84%
1977	70%	50%		35%	\$ 203,200	\$ 16,009	19%	11.7%		50%	66%	66%	33%	29.00%
1978	70%	50%		35/28%	\$ 203,200	\$ 17,640	22%	12.1%		50%	68%	68%	34/27.2%	32.15%
1979	70%	50%		28%	\$ 215,400	\$ 19,587	21%	12.26%		50%	68%	68%	27.2%	31.34%
1980	70%	50%		28%	\$ 215,400	\$ 21,023	21%	12.26%		50%	68%	68%	27.2%	31.34%
1981	69.13%	49.38%		27.7/19.8%	\$ 215,400	\$ 22,388	20.74%	13.3%		49.38%	67.15%	67.15%	26.9/19.8%	31.92%
1982	50%			20%	\$ 85,600	\$ 23,433	22%	13.4%		50%	50%	50%	20%	33.18%
1983	50%			20%	\$ 109,400	\$ 24,580	19%	13.4%		50%	50%	50%	20%	30.37%
1984	50%			20%	\$ 162,400	\$ 26,433	18%	13.7%		50%	50%	50%	20%	29.63%
1985	50%			20%	\$ 169,020	\$ 27,735	18%	14.1%		50%	50%	50%	20%	29.99%
1986	50%			20%	\$ 175,250	\$ 29,458	18%	14.3%		50%	50%	50%	20%	30.14%
1987	38.5%			28%	\$ 90,000	\$ 30,970	15%	14.3%		38.5%	38.5%	38.5%	28%	27.34%
1988	28%			28%	\$ 149,250	\$ 32,191	15%	15.02%		28%	28%	28%	28%	27.92%
1989	28%			28%	\$ 155,320	\$ 34,213	15%	15.02%		28%	28%	28%	28%	27.92%
1990	28%			28%	\$ 162,770	\$ 35,353	15%	15.3%		28%	28%	28%	28%	28.15%
1991	31%			28%	\$ 82,150	\$ 35,939	15%	15.3%		31%	31%	31%	28%	28.15%
1992	31%			28%	\$ 86,500	\$ 36,573	15%	15.3%		31%	31%	31%	28%	28.15%
1993	39.6%			28%	\$ 250,000	\$ 36,959	15%	15.3%		39.6%	39.6%	39.6%	28%	28.15%
1994	39.6%			28%	\$ 250,000	\$ 38,782	15%	15.3%	2.9%	41.89%	39.6%	39.6%	28%	28.15%
1995	39.6%			28%	\$ 256,500	\$ 40,611	15%	15.3%	2.9%	41.89%	39.6%	39.6%	28%	28.15%
1996	39.6%			28%	\$ 263,750	\$ 42,300	15%	15.3%	2.9%	41.89%	39.6%	39.6%	28%	28.15%
1997	39.6%			28/20%	\$ 271,500	\$ 44,568	15%	15.3%	2.9%	41.89%	39.6%	39.6%	28/20%	28.15%
1998	39.6%			20%	\$ 278,450	\$ 46,737	15%	15.3%	2.9%	41.89%	39.6%	39.6%	20%	28.15%
1999	39.6%			20%	\$ 283,150	\$ 48,831	15%	15.3%	2.9%	41.89%	39.6%	39.6%	20%	28.15%
2000	39.6%			20%	\$ 288,350	\$ 50,732	15%	15.3%	2.9%	41.89%	39.6%	39.6%	20%	28.15%
2001	39.1%			20%	\$ 297,350	\$ 51,407	15%	15.3%	2.9%	41.40%	39.1%	39.1%	20%	28.15%
2002	38.6%			20%	\$ 307,050	\$ 51,680	15%	15.3%	2.9%	40.91%	38.6%	38.6%	20%	28.15%
2003	35%	15%		20/15%	\$ 311,950	\$ 52,680	15%	15.3%	2.9%	37.36%	35.0%	15.0%	20/15%	28.15%
2004	35%	15%		15%	\$ 319,100	\$ 54,061	15%	15.3%	2.9%	37.36%	35.0%	15.0%	15%	28.15%
2005	35%	15%		15%	\$ 326,450	\$ 56,194	15%	15.3%	2.9%	37.36%	35.0%	15.0%	15%	28.15%
2006	35%	15%		15%	\$ 336,550	\$ 58,407	15%	15.3%	2.9%	37.36%	35.0%	15.0%	15%	28.15%
2007	35%	15%		15%	\$ 349,700	\$ 61,355	15%	15.3%	2.9%	37.36%	35.0%	15.0%	15%	28.15%
2008	35%	15%		15%	\$ 357,700	\$ 61,521	15%	15.3%	2.9%	37.36%	35.0%	15.0%	15%	28.15%
2009	35%	15%		15%	\$ 372,950	\$ 60,088	15%	15.3%	2.9%	37.36%	35.0%	15.0%	15%	28.15%
2010	35%	15%		15%	\$ 373,650	\$ 60,395	15%	13.3%	2.9%	37.36%	35.0%	15.0%	15%	26.29%
2011	35%	15%		15%	\$ 379,150	n.a.	n.a.	13.3%	2.9%	n.a.	n.a.	n.a.	n.a.	n.a.

Note: Some quirks in the tax laws (which explain some of the odd looking numbers in this table) are detailed in the notes that accompany this table.
Sources: IRS, Census Bureau, Social Security Administration.

Notes to Table on Marginal Tax Rates

Ordinary Income 1953-1963 – During these years, the putative top marginal tax rate was 91%, but every year the top rate was capped several percentage points lower (as shown).

Highest Tax Bracket Starts at 1953-1963 – A \$400,000 tax bracket was written into the law, but it applied only to the 91% marginal tax rate that was never in effect. The actual top tax rates (of 87-88%) took effect at lower incomes (i.e., at \$180,000 or more).

“Vietnam War” Tax Surcharge – A 10% across-the-board tax surcharge (on all brackets and all types of income, but not payroll taxes) was in effect from April 1, 1968 until March 31, 1970. As such, it boosted tax rates by 7.5% in 1968, 10% in 1969 and 2.5% in 1970. The pre-surcharge long-term capital gains tax rate was increased from 25% in 1969 to 29.5% in 1970, which explains the odd 30.24% figure for 1970. ($29.5 \times 1.025 = 30.24$)

Intra-Year Changes in Long-Term Capital Gains Tax Rates – There are four years where the reader can see two separate figures in a single year for the long-term capital gains tax rate. In each case, the tax rate was lowered during the year. The dates the new tax rates became effective were November 1, 1978; June 10, 1981; May 7, 1997; and May 6, 2003.

Strange Looking Tax Rates in 1981 – In 1981 there was a special one-time tax credit of 1.25% that applied across all tax brackets and types of income (but not payroll taxes). As an example, if we multiply the top statutory rate of 70% by .9875 we get 69.125%, which is rounded in the table to 69.13%.

Computation of Marginal Tax Rate at Median Family Income – To derive taxable income we assume four personal exemptions and use the standard deduction. The marginal *income* tax rate that prevails at that income level (which, by way of example, has been 15% every year since 1987) is then added to *combined* employee and employer payroll taxes (15.3% most years since 1990) and then divided by 1 plus the employer share of payroll taxes. For most of the years just mentioned we get $(.15 + .153)/(1 + .0765) = 28.1468\%$ (rounded in the table to 28.15%). This method is consistent with the treatment of payroll taxes in the National Income and Product Accounts.

Marginal Tax Rates at High Income Levels (i.e., 12X the Median Family Income) – For taxable income, we assume four personal exemptions and itemized deductions equal to 20% of gross income. Taxpayers at this level have been in the highest bracket without exception since 1982. For much of the 1970s, the wage tax was capped at 50% and high-income taxpayers always reached that level, but on interest and dividends, they were taxed anywhere from 2-10% below the maximum rate of 70%. Between 1965 and 1970, high-income taxpayers were 10-15% below the maximum tax rate (allowing for the Vietnam surcharge), but prior to 1964 (i.e., before the “Kennedy Tax Cut”), when the top tax rate was a super-high 87%, the gap was much wider – i.e., 25% or more.

Payroll Tax Credits – The payroll tax rate shown in the table reflects credits available to employees in three years – i.e., 0.3% in 1984 and 2.0% in both 2010 and 2011.

Tax Motivation and Fairness Survey

Preparing for the Tax Policy Center discussion of whether the rich should pay higher taxes, I went to “the horse’s mouth.” I surveyed 43 very-high-income people, seeking to understand (a) what has motivated their behavior, (b) what they believe motivates others with high income and (c) whether they believe the current tax structure is fair.

Recognizing that the survey is not “scientific” (I know every one of the people surveyed and worked with more than half of them), I still believe a survey of this sort can shed some light on the issue. Here is what I was told:¹

1) Age: mean 63, median 64. Although ages range from 44 to 81, fully 91% of the 43 respondents are between 52 and 71.

2) Retirement: Seven are not retired and never expect to retire (including the two oldest in the survey); 10 said they are not retired and did not elaborate further; seven said they expected to retire at various future dates (ranging from 64 to 78); 19 said they were retired. The mean age at retirement was 56, the median was 55, the two oldest were 68, five others were between 62 and 66, and 12 were 59 or younger when they retired. (The youngest were 38, 45, 48 and 48 respectively; everyone else was in his 50s.) Finally, eight of the people who are not retired are working at jobs that are much less lucrative than the career in which they earned the lion’s share of their wealth. They like to work.

3) Number of years working: The range is very wide. Our 81 year-old has worked 58 years, four worked 19 years or less, the mean is 36 years, the median is 37 and both figures will end up higher with more than half the respondents still working. Note, however, if we ignore the second less lucrative careers, both the mean and median stand at 33 years.

4) Question 4 is worth reproducing from the questionnaire. I first pointed out that prior to 1987, the maximum tax rate on the highest earners was never less than 50% and that after 1987 it ranged from 28% to 39.6%, averaging about 35%. I then asked:

How did the drop in the tax rates (between pre-1987 and post 1987) affect your motivation with regard to work? There are a number of possibilities:

a) Lower taxes enabled you to accumulate more wealth (with the same pretax income and the same standard of living) and so you could or (or will soon) retire earlier than you otherwise would have. (Note, this answer means you were DIS-incentivized to work by the drop in tax rates.)

b) Lower taxes enabled you to accumulate more wealth but you liked your job enough to keep working. (I.e., the lower tax rates had no effect either way.)

c) Lower taxes enabled you to accumulate more wealth but your self-esteem and/or identity was linked sufficiently to your job that that was the main motivation for

¹ Of 56 people polled, 76.8% responded. There were many comments attached to the responses to the survey – partly because I invited them. A very small numbers were unclassifiable in terms of this survey.

continuing to work after you no longer needed to. (I.e., the lower tax rates had no effect either way.)

d) Lower taxes enabled you to accumulate more wealth but you were motivated by that ability to work harder because it would lead to extra wealth that you could convey either (i) to the next generation(s) or (ii) to charities. (I do not care which of those two is the motivation – the point here is that the ability to retain a higher % was a POSITIVE incentive for you, leading you to work either harder or for more years.)

e) Lower taxes enabled you to accumulate more wealth and if the tax rate had been higher you would have quit earlier because you wouldn't want the federal gov't to take 50% of every dollar; 35% is plenty. (I.e., the way you think of it, it's not so much that the lower tax rates incentivized you to work harder/longer; rather what you consider to be higher/confiscatory tax rates, like 50%, would've prompted you to stop working sooner.)

f) None of the above. (If none, please elaborate.)

The overwhelming answer from this survey (by 33 of 41 respondents²) was one version or another of “taxes had no impact.” Eight people simply said that, or offered a fuller explanation that did not fit into any of the options listed in the questionnaire, nine picked “b” (the like-my-job option), nine picked “c” (the self-esteem/ identity option) and seven picked a combination of “b & c.” Of the eight who chose a different answer, five chose option “a” (i.e., lower taxes enabled them to retire earlier), while one respondent said “a and c”, one said “b and d” and one said “e.”

5) Question 5 was the same as question 4 but here I was asking not what motivated the respondents; rather I wanted to know what they *guessed* motivated *other* high-income types. Here, the answers were somewhat less concentrated. I'll just list them (and where people mentioned two or more motivating factors, I'll split their votes fractionally):

- a) 7.17
- b) 5.75
- c) 7.58
- d) 3
- e) 2.5
- “no impact” 4
- did not answer 6
- unclassifiable answers 2

Comment on questions 4 and 5: Only options “d” and “e” (the motivated-to-build-extra-wealth and I-would've-been-discouraged-by-a-too-high-tax-rate options) are consonant with the standard claim that lowering top tax rates is desirable for the performance of the economic system because that is what is necessary to incentivize entrepreneurs, business leaders and the like. Only three respondents ascribed such motivations to themselves (for one it was “part” of his motivation) and only six ascribed such motivations to others (again, one was partial). Meanwhile, the choice that might be termed the “I-had-the-luxury-of-retiring-early option” (option “a”), was mentioned by only six people (in whole

² Two people did not answer this question.

or in part) in describing themselves, and was something only 10 respondents mentioned with regard to others (five of the 10 being partial motivations). Despite these low numbers, I can point out that 19/43 are actually retired, that 13 of them retired before the age of 60 (a nearly unheard of age during their parents' generation) and that another eight of the people who continue to work (and, are obviously highly motivated to do so) are doing so at a small fraction of their former earnings... *because they can afford to.*

6) The remainder of the questionnaire was devoted to the question of whether the current tax system is “fair” – meaning is the degree of progressivity in the tax system as it should be, or should it be steeper or flatter. Since I also asked the respondents whether they considered themselves to be a Democrat, a Republican or an Independent,³ I can break down the answers by party affiliation:

	<u>Democrats</u>	<u>Republicans</u>	<u>Independents</u>
<u>The current tax structure is</u>			
More or less fair	1	3	3
Should be more progressive	23	5	4
Should be less progressive	0	3	0
No opinion	1	0	0

<u>Would you boost the tax rate at the following income levels</u>	<u>Democrats</u>		<u>Republicans</u>		<u>Independents</u>	
	<u>Yes</u>	<u>No</u>	<u>Yes</u>	<u>No</u>	<u>Yes</u>	<u>No</u>
\$250 thousand	14	10*	4	7	1	6*
\$1 million	21	3	4	7	6	1
\$5 million	23	1	5	6	2	5
\$25 million	23	1	3	8	3	4

* 2 Democrats and 1 Independent did not want to introduce a higher tax rate at an income of \$250,000 but went out of their way to say they would at \$500,000 (which is not one of the choices given in the survey).

The difference of opinion between the parties is not a surprise, but it may be a surprise to see five of 11 Republicans came out in favor of a somewhat more progressive tax structure versus just three that want a flatter one. Moreover, while just four of the seven independents flatly stated they wanted a more progressive tax structure six of the seven wanted a higher tax bracket at the \$1 million mark and several voted for boosting the tax rate at other levels as well.

Conclusion: The high-income people I know (a) do not believe that they worked harder because their tax rates were low over the past 25 years, (b) for the most part don't believe that that's true about others either and (c) allowing for political differences there seems to be a strong consensus in favor of a more progressive tax system.

³ I stipulated that they should claim affiliation with one of the major parties if they agreed with that party's positions 75% or more of the time and consider themselves to be Independent otherwise.