



tax facts

from the Tax Policy Center

Income Tax Brackets Since 1985

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Before enactment of the Tax Reform Act of 1986 (TRA86), the individual income tax code included 25 marginal tax rates. No more than 10 percent of tax filers were in a single bracket and eight brackets included less than 1 percent of filers. The top income tax bracket of 50 percent was reduced from the 70 percent in effect in 1980 and a 93 percent rate affecting the very rich in the 1960s (not shown on table).

TRA86 slashed the number of official tax brackets to two, but it also created a phantom 33 percent tax bracket or “bubble” on the tax rate schedule. Caused by the phaseout of the 15 percent bracket, its effect was to make some middle-income people face higher marginal rates than the rich.

More significantly, TRA86 cut marginal income tax rates for almost everybody. (It paid for this by closing loopholes and raising corporate income taxes.) Before 1986, only 42 percent of tax filers were in the 15 percent tax bracket or lower. After TRA86, more than three-quarters of tax filers were in that category.

The 1990 tax act eliminated the 33 percent bubble and replaced it with a new 31 percent top rate that applied to the top 3 percent of filers. The 1993 tax law created 36 and 39.6 percent rates for the richest 1.4 percent of tax filers. All told, less than 4 percent of tax filers faced rates above 28 percent in 1996.

Because of growth in real incomes, which tends to push people up into higher tax brackets, the percentage of tax filers facing the highest tax rates increased in 2000. Still, fewer than 5 percent of tax filers faced rates above 28 percent. At the same time, the percentage of filers facing the lowest rates declined between 1992 and 2000, from 78 percent to less than 73 percent by 2000.

The 2001 and 2003 tax laws reduced most tax brackets. The top bracket was cut from 39.6 percent to 35 percent. The 28, 31, and 36 percent rates were cut by 3 percentage points each. While the lowest-income people in the 15 percent bracket had their rates cut by 5 percentage points, most people in that bracket did not get a rate cut.

For more than a decade, about one-fifth of tax filers have been in the zero tax bracket. Many are not legally required to file tax returns, but they do so to claim refunds of withheld tax or the refundable earned income tax credit.

Percent of Tax Filers by Marginal Tax Rate, Selected Years, 1985-2003¹

1985		1989		1992		1996		2000		2003	
Rate	Percent	Rate	Percent	Rate	Percent	Rate	Percent	Rate	Percent	Rate	Percent
0	15.4	0	17.8	0	20.4	0	19.7	0	18.8	0	19.8
11-12	12.3									10	20.3
14-18	33.4	15	57.8	15	57.6	15	56.6	15	53.9	15	37.0
20-28	26.1	28	20.6	28	19.0	28	19.7	28	22.3	25	17.9
30-33	6.7	33	2.8	31	3.0	31	2.2	31	3.0	28	3.0
34-38	3.7	28	0.7			36	0.9	36	1.2	33	1.2
42-50	2.4					39.6	0.5	39.6	0.7	35	0.8
≤16	42.0		75.6		78.0		76.3		72.7		77.1

¹Marginal tax rate is the highest income tax rate that applies to taxable income before income tax credits; includes tax returns filed by dependents.

Source: 1985-2000: Internal Revenue Service, *Statistics of Income, Individual Income Tax Returns, Publication 1304*. 2003: projections based on Tax Policy Center microsimulation model.



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