

Key Elements of the U.S. Tax System

INDIVIDUAL INCOME TAX

How do federal income tax rates work?

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A. The federal individual income tax has seven tax rates that rise with income. Each rate applies only to income in a specific range (tax bracket).

CURRENT INCOME TAX RATES AND BRACKETS

The federal individual income tax has seven tax rates ranging from 10 percent to 37 percent (table 1). The rates apply to taxable income—adjusted gross income minus either the standard deduction or allowable itemized deductions. Income up to the standard deduction (or itemized deductions) is thus taxed at a zero rate.

TABLE 1

Tax Year 2020 Schedule and Rates



Single filers			Married couples filing jointly		
Taxable income (\$)		Marginal rate (%)	Taxable income (\$)		Marginal rate (%)
Over	But not over		Over	But not over	
\$0	\$9,875	10%	\$0	\$19,750	10%
\$9,875	\$40,125	12%	\$19,750	\$80,250	12%
\$40,125	\$85,525	22%	\$80,250	\$171,050	22%
\$85,525	\$163,300	24%	\$171,050	\$326,600	24%
\$163,300	\$207,350	32%	\$326,600	\$414,700	32%
\$207,350	\$518,400	35%	\$414,700	\$622,050	35%
\$518,400	and over	37%	\$622,050	and over	37%

Source: Internal Revenue Service. Rev. Proc. 2019-44.

Federal income tax rates are progressive: As taxable income increases, it is taxed at higher rates. Different tax rates are levied on income in different ranges (or brackets) depending on the taxpayer's filing status. In

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2020 the top tax rate (37 percent) applies to taxable income over \$518,400 for single filers and over \$622,050 for married couples filing jointly. Additional tax schedules and rates apply to taxpayers who file as heads of household and to married individuals filing separate returns. A separate schedule of tax rates applies to capital gains and dividends. Tax brackets are adjusted annually for inflation.

BASICS OF PROGRESSIVE INCOME TAXATION

Each tax rate applies only to income in a specific tax bracket. Thus, if a taxpayer earns enough to reach a new bracket with a higher tax rate, his or her total income is not taxed at that rate, just the income in that bracket. Even a taxpayer in the top bracket has some portion of income taxed at the lower rates in the tax schedule. For example, a single filer with \$60,000 in taxable income falls into the 22 percent bracket but does not pay tax of \$13,200 (22 percent of \$60,000). Instead, he or she pays 10 percent of \$9,875 plus 12 percent of \$30,250 (\$40,125 - \$9,875) plus 22 percent of \$19,875 (\$60,000 - \$40,125) for a total of \$8,990.

All tax brackets for married taxpayers are twice the size of those for singles, except for the penultimate bracket. This can cause a “marriage penalty” for some taxpayers in the highest tax bracket, as some couples pay more tax filing a joint return than they would if each spouse could file as a single person. Conversely, because most tax brackets for married couples are twice the size of those for singles, many married couples enjoy a “marriage bonus,” paying less in tax by filing jointly than they would if each partner filed as a single person.

HISTORY OF FEDERAL INCOME TAX BRACKETS AND RATES

Over the 100-plus year history of the modern federal income tax (short-lived income taxes existed before Congress ratified the 16th Amendment in 1913), the number of brackets and rates have changed dramatically and frequently. The federal income tax began with seven brackets but that number exploded to more than 50 by 1920 (figure 1). From then until the late 1970s, there were never fewer than 20 brackets. The last major federal tax reform, the Tax Reform Act of 1986, reduced the number of brackets from 16 to two, but that number has crept up to the current seven over the last three decades.

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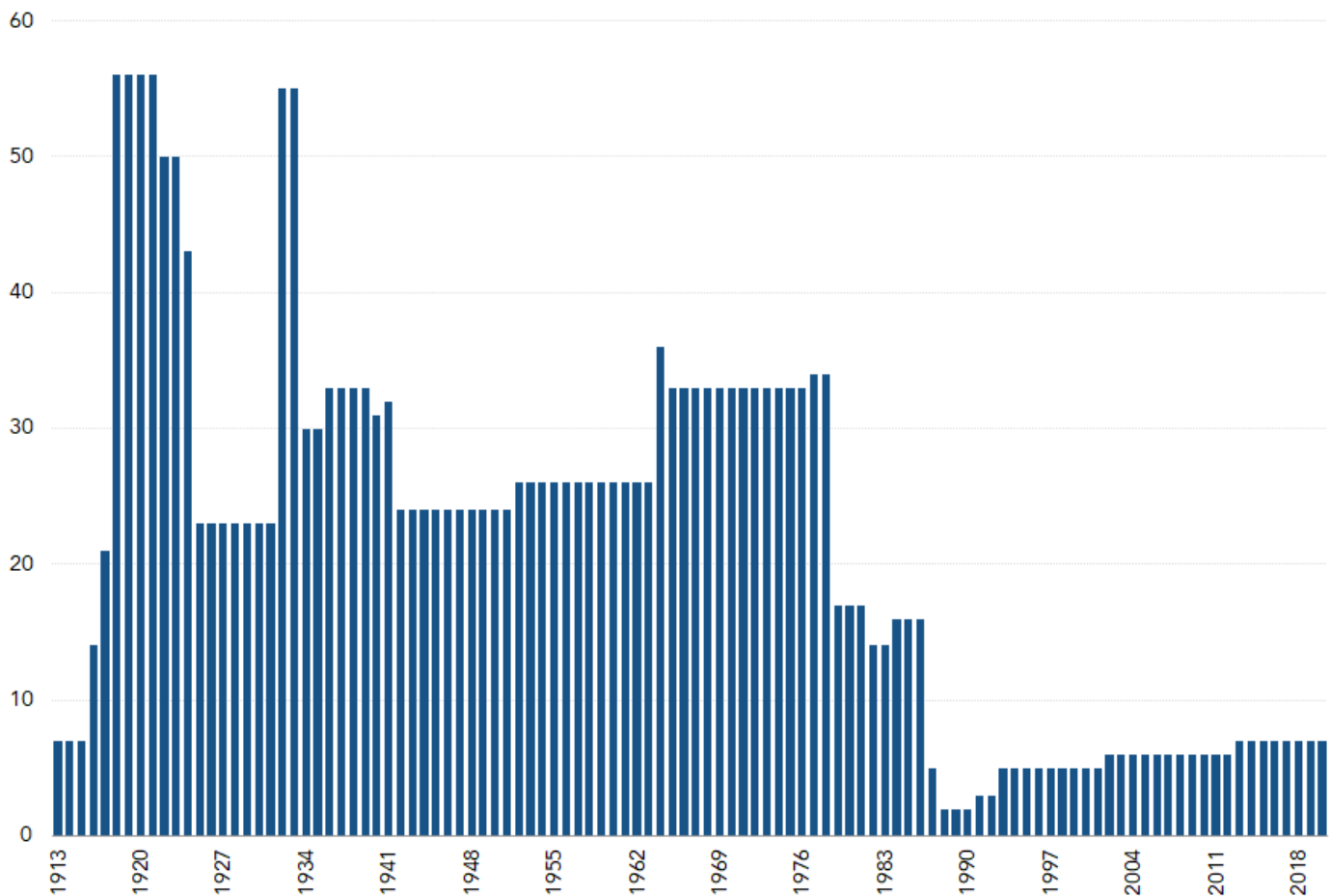
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FIGURE 1

Number of Federal Income Tax Brackets

Tax years 1913 – 2020



Source: Tax Foundation. "US Federal Individual Income Tax Rates History, 1862–2013 (Nominal and Inflation-Adjusted Brackets)," October 2013 and IRS Revenue Procedures, various years.

Note: The figure shows the largest number of tax brackets for any filing status in each year.

The top marginal federal income tax rate has varied widely over time (figure 2). The top rate was 91 percent in the early 1960s before the Kennedy/Johnson tax cut dropped it to 70 percent. In 1981, the first Reagan tax cut further reduced the top rate to 50 percent, and the 1986 tax reform brought it down to 28 percent. Subsequent legislation increased it to 31 percent in 1991 and to 39.6 percent in 1993. George W. Bush's tax cuts lowered the top rate to 35 percent, but it reverted to 39.6 percent when the American Taxpayer Relief Act of 2012 let the reduced top rate expire as scheduled. The Tax Cuts and Jobs Act lowered the top rate to 37 percent starting in 2018.

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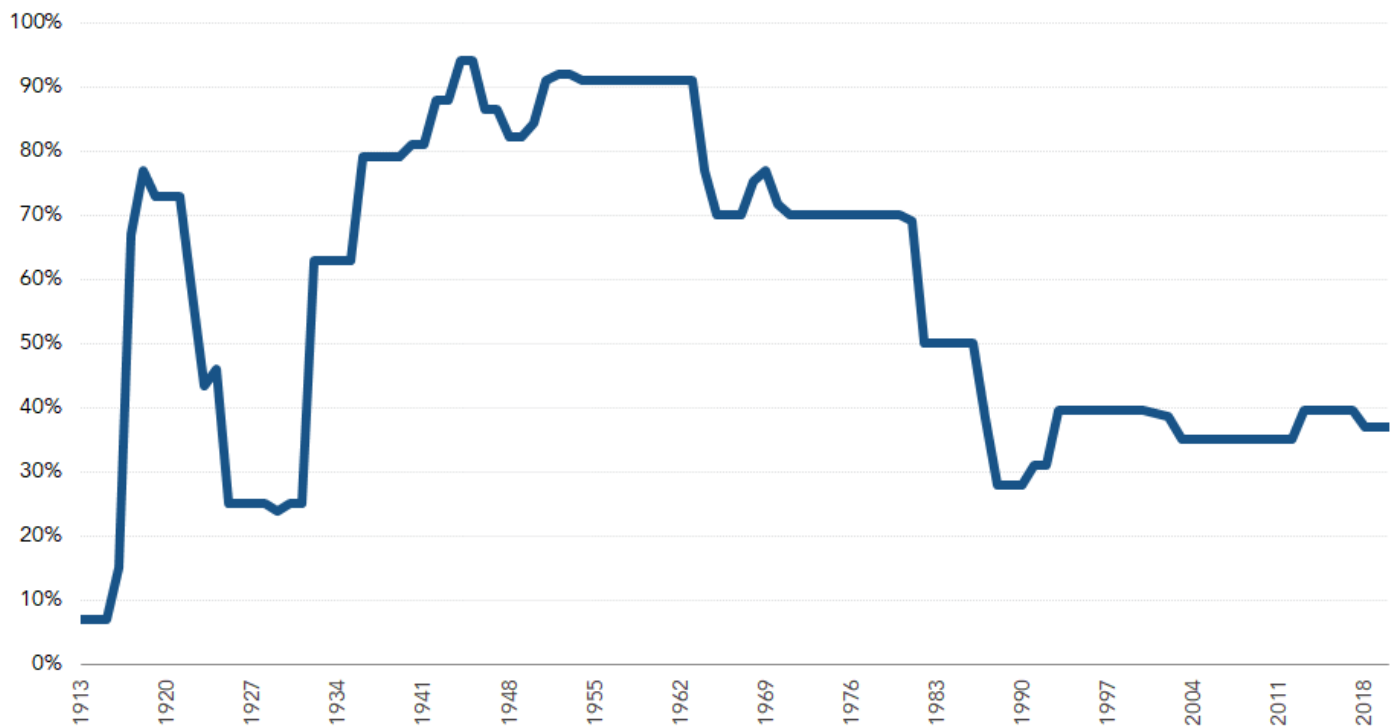
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FIGURE 2

Highest Federal Marginal Individual Income Tax Rate

Tax years 1913 – 2020



Sources: Joseph Pechman, *Federal Tax Policy*; Joint Committee on Taxation, Summary of Conference Agreement on the Jobs and Growth Tax Relief Reconciliation Act of 2003, JCX-54-03, May 2003; IRS Revenue Procedures, various years.

Notes: This figure contains a number of simplifications and ignores factors such as the amount of income or types of income subject to the top rates, or the value of standard and itemized deductions.

Updated May 2020

Data Sources

Internal Revenue Service. Revenue Procedure 2019-44.

Pechman, Joseph A. 2001. *Federal Tax Policy*. Washington, DC: Brookings Institution Press.

Tax Foundation. "US Federal Individual Income Tax Rates History, 1862–2013 (Nominal and Inflation-Adjusted Brackets)."

Urban-Brookings Tax Policy Center. Statistics. "Historical Individual Income Tax Parameters: 1913 to 2019."