Key Elements of the U.S. Tax System

INDIVIDUAL INCOME TAX

What are personal exemptions?

Q. What are personal exemptions?

A. Along with the standard deduction, personal exemptions provide that only income above a basic level is subject to tax, helping ensure that the poorest households are not subject to the income tax. They also link income tax liabilities to family size, reducing taxes for families with more dependents. The Tax Cuts and Jobs Act eliminated personal exemptions, but raised the standard deduction and the child credit as substitutes.

Before 2018, taxpayers could claim a personal exemption for themselves and each of their dependents. The amount would have been $4,150 for 2018, but the Tax Cuts and Jobs Act (TCJA) set the amount at zero for 2018 through 2025. TCJA increased the standard deduction and child tax credits to replace personal exemptions.

Personal exemptions have been part of the modern income tax since its inception in 1913. Congress originally set the personal exemption amount to $3,000 (worth more than $70,000 in today's dollars), so that very few persons were expected to pay the income tax. While the amount was substantially lower both in real terms and relative to average incomes by 2017, 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.

In addition to helping ensure that very low-income households do not pay income tax (and alleviating the administrative burden of collecting the tax on small amounts of income), personal exemptions also link tax liability to household size. For instance, in 2017 when the personal exemption amount was $4,050 and the standard deduction for a married couple was $12,700, a married couple with three children and income of $92,950 (before subtracting five personal exemptions and the standard deduction) and a married couple without dependents and income of $80,800 (before subtracting two personal exemptions and the standard deduction) had the same taxable income—in this case, $60,000.

As with other deductions and exemptions, however, the tax benefit from personal exemptions depends upon a taxpayer's marginal tax rate. For instance, a single taxpayer in the 12 percent tax bracket would save $498 of taxes with a personal exemption of $4,150, whereas a single taxpayer in the 32 percent tax bracket would save $1,328. Thus, under a progressive income tax, exemptions are worth more to high-income taxpayers than to low-income taxpayers. In contrast, tax credits can have the same value for all taxpayers. By replacing personal exemptions for dependents with expanded child tax credits, TCJA moved toward equalizing the tax benefit for children and other dependents across households with different incomes.

There were certain limits on personal exemptions under prior law. Since 1990, personal exemptions phased out at higher income levels. In 2017, the phaseout began at $261,500 for singles and $313,800 for married couples filing a joint return. Personal exemptions were completely phased out at $384,000 for singles and $436,300 for married couples.

In addition, the alternative minimum tax denied taxpayers the use of personal exemptions, making larger families more likely to owe the alternative minimum than smaller families.

Updated May 2020

Data Sources

Internal Revenue Service. *Statistics of Income, Appendix to Selected Historical and Other Data Tables.* Table 23. "US Individual Income Tax: Personal Exemptions and Lowest and Highest Bracket Tax Rates, and Tax Base for Regular Tax."

Further Reading

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