



Tax Policy Center

Urban Institute and Brookings Institution

Income Tax Paid at Each Tax Rate, 1958–2009¹

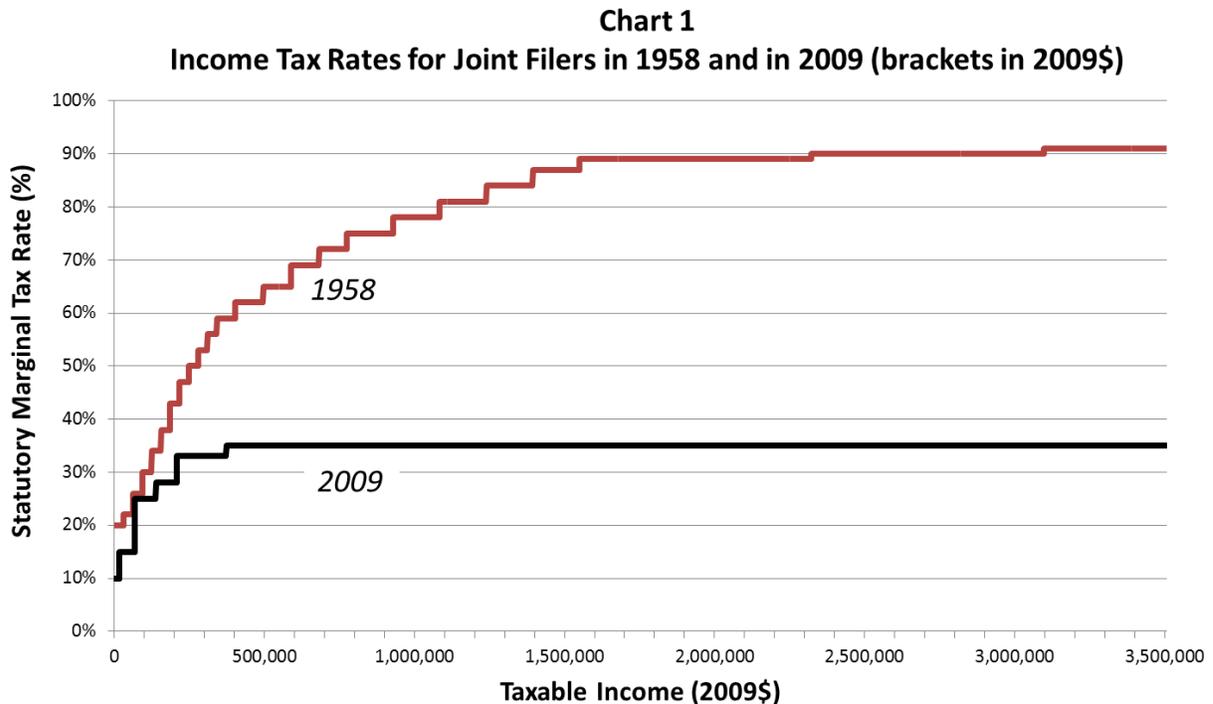
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ABSTRACT

The federal individual income tax has had many more brackets and much higher rates in the past than it does today. In 1958, for example, there were 24 brackets (versus 6 today) and the top rate was 91 percent (versus 35 percent today). The impact of more brackets and higher rates on taxpayers and revenues depends on how much taxable income falls in each of the tax rate brackets. We find that only a small fraction of returns was subject to rates above today's top rate of 35 percent in any year since 1958, but a significant fraction of tax was paid at these higher rates in many years. For example, prior to 1982 (when the top rate was reduced to 50 percent), taxable income in brackets above today's top 35 percent rate was taxed at an average effective rate of 48.8 percent. We estimate that increasing the effective tax rate on taxable income in the 35 percent bracket to 48.8 percent would have raised \$77 billion of additional income tax revenue in 2007.

¹ The tables and estimates in this paper have been updated to include data for 1980-1982, which were excluded in the original version.

In the past, the federal individual income tax has had many more brackets and much higher rates than it does today. For example, between 1954 and 1963 there were 24 brackets (compared to 6 today) and the top rate was 91 percent, with the rates in 19 of the 24 brackets higher than the current top rate of 35 percent.



The impact of more brackets and higher rates on taxpayers and revenues depends on how much taxable income falls in each of the tax rate brackets. In 1963, for example, only 501 returns (of 64 million filed) reported taxable income in the 91 percent bracket, and that taxable income generated only \$62 million in income tax revenue, or just 0.1 percent of the \$42 billion total reported. Of course, many more returns reported taxable income in the other high brackets in 1963, and reported taxable income in many of these brackets raised significant income tax revenue.

To gain some insight into the importance of high brackets in generating federal income tax revenues, we compiled data classified by statutory marginal tax rates from tables published since 1958 by the Statistics of Income (SOI) Division of IRS. The data cover all years, 1958 through 2009 (the latest year available), except one year for which the data were not published (1978). The data include the number of returns, adjusted gross income (AGI), taxable income, and income tax generated in each rate bracket for ordinary income or in special (generally much lower) brackets that applied in some or all years to capital gains and dividends, under the alternative minimum tax (AMT), and in certain other circumstances. Data items are classified in separate tabulations by the *highest* rate bracket that applied to the taxable income reported on a return (used to produce Chart 2 below), and by *any* rate bracket that applied (used to produce Chart 3 below). For example, the *highest* rate tabulation classifies the 501 returns that reported taxable income in the 91 percent bracket in 1963 only in the 91 percent bracket, while the *any* rate tabulation classifies these same 501 returns in the 91 percent bracket and in each of the lower brackets that applied (which depended on each return’s filing status and whether it reported capital gains

income). For comparability across years, for all years we reduced the number of rate brackets for both tabulations into six groups: 1 percent to 15 percent, 16 percent to 28 percent, 29 percent to 35 percent, 36 percent to 39.6 percent, 39.7 percent to 50 percent, and over 50 percent. In addition, we placed returns with no taxable income in a separate (“zero”) bracket.

Chart 2 shows the percentage of tax returns filed in each year classified by the highest statutory marginal tax rate that applied to the taxable income reported on the returns.²

- Only a small fraction of returns have been subject to rates above today’s top rate of 35 percent, except in the mid-1970s to the early-1980s, when high inflation combined with unindexed income tax brackets pushed as many as 13.0 percent of returns³ into high brackets.
- The highest statutory marginal tax rates were reduced below 36 percent in the Tax Reform Act of 1986 (effective in 1988)⁴ but were raised above 35 percent in the Omnibus Budget Reconciliation Act of 1993 (effective that year) and then reduced again below 36 percent in the Economic Growth and Tax Relief Reconciliation Act of 2001 (effective in 2003, after the speedup enacted in the Jobs and Growth Tax Relief Reconciliation Act of 2003).
- Before the Tax Reform Act of 1986 started to go into effect in 1987, the highest statutory marginal tax rate that applied to most taxable returns was between 16 percent and 28 percent. Since 1987, the highest rate that has applied to most taxable returns has been 15 percent or less.
- The percentage of returns with no taxable income has fluctuated only slightly and changed little over the entire period, from 21.9 percent in 1958 to 21.7 percent in 2007 (before the recession and additional filing for stimulus-related refundable credits temporarily drove the percentage up, in 2009, to 25.0 percent).

Chart 3 shows the percentage of federal individual income tax generated at each statutory marginal tax rate that applied to the taxable income reported on the returns. Note that the income tax amounts used to generate these percentages are before reduction by credits, so do not reflect net income tax liabilities reported on returns.

- A significant fraction of income tax liabilities was raised by rates above today’s top rate of 35 percent between 1958 and 1987 and again between 1993 and 2002.
- Rates above 50 percent raised a sizable fraction of income tax liabilities between 1958 and 1981⁵, after which the top rate was reduced to 50 percent by the Economic Recovery Tax Act of 1981.
- Over the entire period since 1958, most income tax liabilities have been generated by rates below 28 percent, and since 1988 a large fraction by rates of 15 percent or less. Taxpayers with liabilities in higher brackets, of course, have liabilities in these lower brackets as well, and some of this lower bracket liability is due to special rates on capital gains (and, since 2003, on dividends).

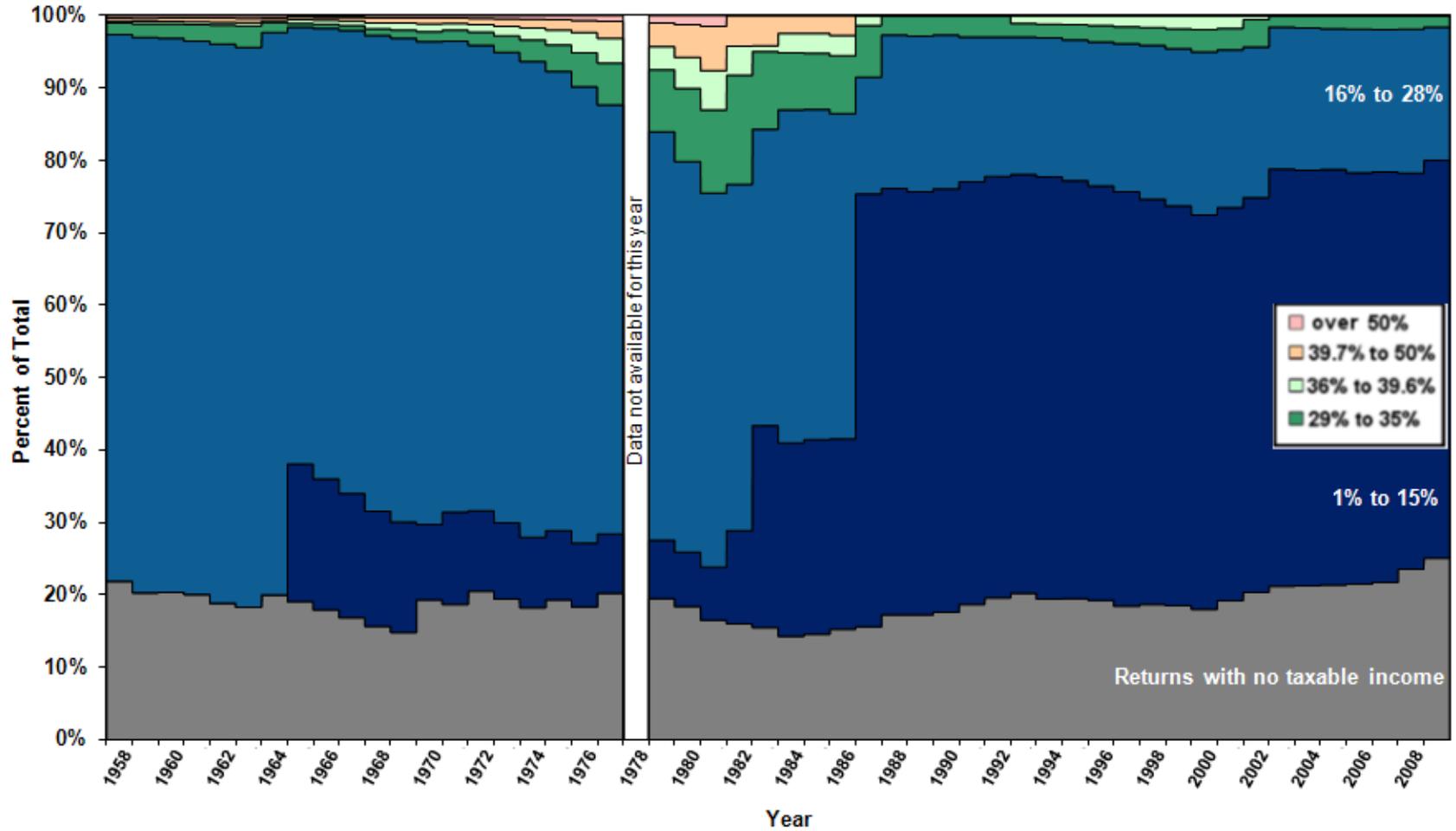
² Returns reporting negative AGI are excluded from the analysis.

³ The 13.0 percent figure is for 1981.

⁴ Although the top rate shown in the statutory rate tables for 1988–1990 was 28 percent, the phaseout of the benefit of lower rates resulted in the equivalent of a 33 percent rate bracket. The top rate group shown in Graph 1 for 1988–1990 is therefore 29 to 35 percent.

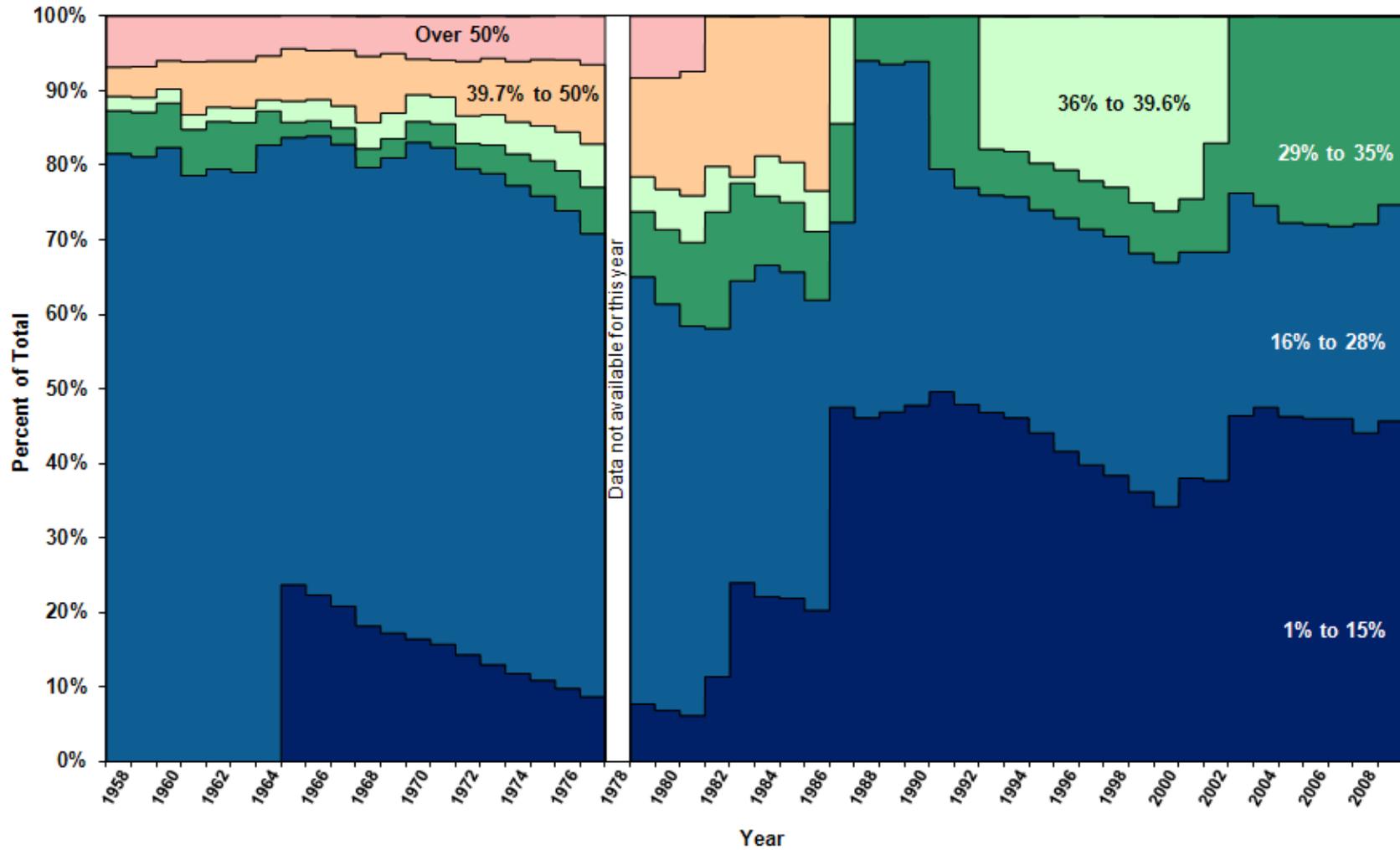
⁵ No data are available for 1978, but there is no reason to suspect that the fraction in this year was much different than in the remainder of the period, for which the data is available.

Chart 2
Percentage of Returns by the Highest Applicable Statutory Marginal Tax Rate
1958-2009



[Underlying Data](#)

Chart 3
Percentage of Income Tax Generated at Each Statutory Marginal Tax Rate
1958-2009



[Underlying Data](#)

How much higher would income tax liabilities have been in 2007 (the last prerecession year) if the higher rates in prior years had been in effect? To get a rough estimate for the years prior to 1982, when rates were highest (above 50 percent), we first calculated the tax generated as a percent of the taxable income in brackets above 35 percent in every available year prior to 1982. We then compared these percentages to the 35 percent top rate in 2007. The percentage in these pre-1982 years was higher than 35 percent by an average of 13.8 percentage points; that is, the average effective rate in these brackets was 48.8 percent. Note that an additional 13.8 percentage point effective rate on taxable income in the 35 percent bracket in 2007 would have been possible with many bracket structures and rates (not just those in effect prior to 1982). If taxable income in the top bracket in 2007 had been taxed at an average rate of 48.8 percent, income tax liabilities (before credits) would have been \$77 billion (6.7 percent of total pre-credit liabilities) higher, taking into account likely taxpayer behavioral responses to the rate increase.⁶ This estimate is quite rough but nevertheless illustrates the important contribution of higher rate brackets in generating federal income tax revenues in the past.

⁶ The behavioral response was estimated assuming that the 13.8 percentage point rate increase applied to all taxable income in the 35 percent bracket and using the standard TPC taxable income elasticity of .25.