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Tax Rates Yesterday, Today and Tomorrow

By Bob Veres, Inside Information

How do today's tax rates compare with what Americans have paid in the past?

We're hearing a lot about taxes in these more modern days, mostly about the need for Congress to raise or lower them, make them fairer or simpler, or perhaps (the best option for some) do away with them altogether. If this feels like a familiar discussion, it is. Since the passage of the Tariff Act of October 3, 1913 (which implemented the 16th Amendment to the Constitution, which, in turn, made a tax on income for U.S. citizens constitutional), Congress has re-jiggered our income tax rates an astonishing 40 different times. This includes the remarkable period from 1976 through 1993, when tax rates were shifted around 10 times in 18 years.

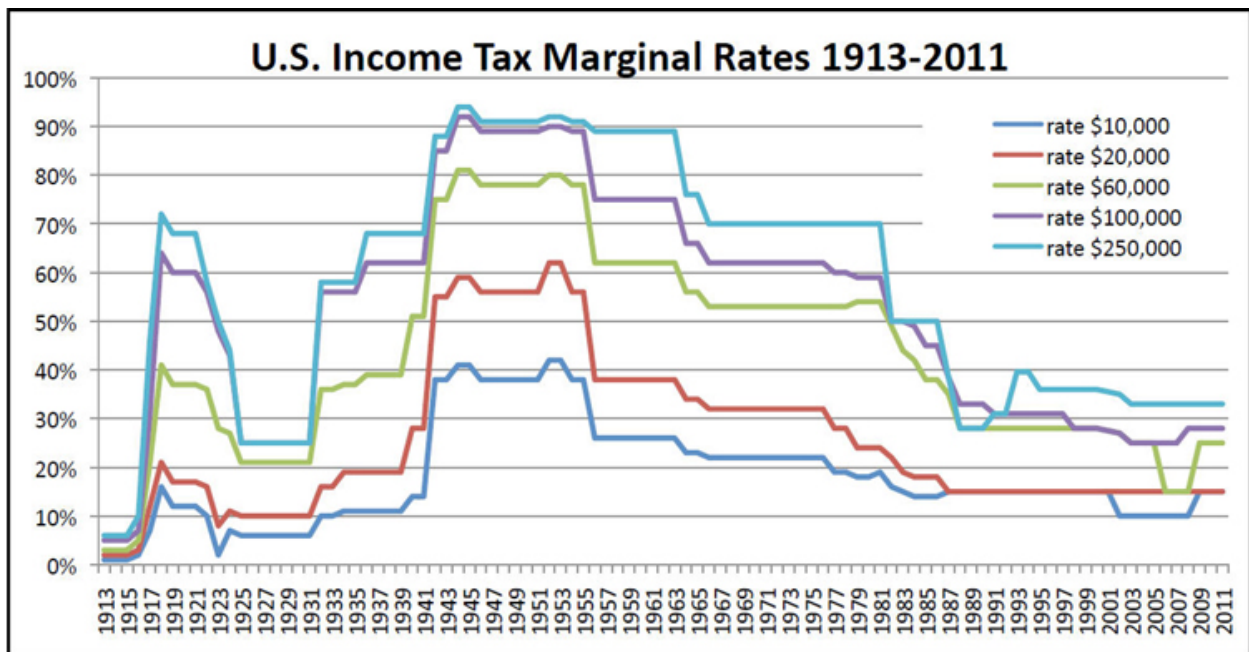
Recently, we have been on pace to break that record. Our tax laws changed in 2001, 2003, 2005, 2006, 2008, and the Tax Relief Act of 2010 made a few minor adjustments while making significant changes in our estate and gift taxes. A cynic might almost think that Congressional leaders re-debate tax issues every year or two so that major campaign donors will find a direct vested interest in these legislative deliberations.

What's interesting about all this is how tax rates compare today to what they have been in the past. The chart at the end of this article, using data from the Tax Foundation, shows the marginal federal income tax rate, year-by-year, for persons earning \$10,000 a year, \$20,000, \$60,000, \$100,000 and \$250,000. You can see that the government was a bit timid as it reached into the pockets of its citizens in the early years; a person earning \$10,000 paid just 1% of income through the 1915 tax year, while persons earning more than \$250,000 a year were taxed at a whopping 6% rate until a jump in 1916 brought our highest marginal tax rate all the way up to 10%. By 1918, caution had been thrown to the winds; the top marginal rate had rocketed up to 72% before dropping back to 68% through the 1921 tax year. From 1944 through 1955, top bracket

taxpayers were paying over 90% of their adjusted gross income to Uncle Sam, and the rate stayed at 70% or above through 1981. Meanwhile, persons of more modest means, earning \$10,000 or \$20,000, settled into a 10% to 15% bracket, which is where they are today.

As you can see from the chart, higher-income Americans have experienced a long, slow decline in their tax rates since 1981. You would have to go all the way back to 1931 to find rates lower than the 33% we've enjoyed for the past eight years on income over \$250,000, or the 28% rate on income over \$100,000. Even the \$60,000 taxpayer is paying at a lower marginal rate than any taxpayer who lived between 1932 through 2002. Note also that (here's where that silly cartoon comes into the discussion) the highest rates coincided with years in which the U.S. was fighting wars abroad: World Wars I and II, the war in Vietnam--and, of course, the Cold War. This time around, the U.S. has been fighting expensive wars in Afghanistan and Iraq without raising the levies on its citizens.

What will happen going forward? There are obviously no guarantees except, perhaps, that we can expect more tax debate. If the recent past is any indication, Congress will pass new tax legislation--and label it "reform"--every two years or so, although certainly not in connection with any efforts to bring in campaign contributions. With today's highest bracket rates looking low by historical standards, it might be safer to plan for the possibility that Uncle Sam will get a little bolder about reaching a hand in our pockets; even the Ryan plan would collect more total dollars than we are paying today. Rumor has it that our Uncle owes a lot of money to China that might have to be paid back eventually.



Impress your friends! Send them a list of the tax laws passed by Congress since the 16th Amendment passed in 1913:

Tariff Act of October 3, 1913
Revenue Act of 1916
Revenue Act of 1917
Revenue Act of 1918
Revenue Act of 1921
Revenue Act of 1924
Revenue Act of 1926
Revenue Act of 1928
Revenue Act of 1932
Revenue Act of 1934
Revenue Act of 1936
Revenue Act of 1938
Revenue Act of 1940
Revenue Act of 1941
Revenue Act of 1942
Individual Income Tax Act of 1944
Revenue Act of 1945
Revenue Act of 1948
Revenue Act of 1950
Revenue Act of 1951
Internal Revenue Code of 1954
Revenue Act of 1964
Tax Reform Act of 1969
Tax Reform Act of 1976
Tax Reduction and Simplification Act of 1977
Revenue Act of 1978
Economic Recovery Tax Act of 1981
Tax Equity and Fiscal Responsibility Act of 1982
Tax Reform Act of 1984
Tax Reform Act of 1986
Technical and Miscellaneous Revenue Act of 1988
Omnibus Budget Reconciliation Act of 1990
Omnibus Budget Reconciliation Act of 1993
Taxpayer Relief Act of 1997
Economic Growth and Tax Relief Reconciliation Act of 2001
Jobs Growth and Tax Relief Reconciliation Act of 2003
Tax Increase Prevention and Reconciliation Act of 2005
Tax Prevention and Reconciliation Act of 2006
Economic Stimulus Act of 2008
Tax Relief Act of 2010

Historical tax rates and tax acts:

www.taxfoundation.org/.../federalindividualratehistory-20080107.pdf

