

Personal Exemptions and Individual Income Tax Rates, 1913-2002

Data Release

Of all the sources of Federal revenue, the individual income tax is the most productive, accounting for over half of total Federal tax collections. In Fiscal Year 2001, this tax amounted to \$1.2 trillion of the \$2.1 trillion total amount collected. The individual income tax is closely tied not only to income distribution and, thus, at least theoretically, to ability to pay, but also to family size. To a varying extent, it takes into account taxpayer family obligations through a system of personal exemptions in combination with certain deductions, which act to reduce the base on which tax is computed.

The modern U.S. income tax was enacted in 1913, following ratification of the Sixteenth Amendment to the Constitution. For about 30 years thereafter, until the advent of World War II, the tax applied only to high-income individuals. Exemptions from the tax were high, and few people had incomes large enough for even the lowest tax rate to apply, much less the higher, graduated rates. This all changed with World War II, when exemptions were sharply reduced and graduated tax rates for "regular tax" were sharply increased, the top rate, at one point, to 94 percent. Since then, the effect of changing personal exemptions, deductions, and tax rates, along with the overall increases in income, has greatly increased the gross individual income tax yield (i.e., the tax before refunds), from 1 percent of "personal income," as estimated by the Department of Commerce, to over 10 percent of personal income for the most recent years [1].

The 1913 tax applied to salaries and wages, interest, dividends, rents, royalties, pensions, annuities, income from estates or trusts, profits of sole proprietorships and partnerships, and gain from sales of most types of property. However, the salaries and wages that were taxable excluded those of State and local government employees, and taxable interest excluded Federal, in addition to State and local, Government bond interest. Dividends were exempt from the basic "normal tax," but not from the higher,

graduated "surtax" rates. Deductions were allowed for "personal" interest, Federal excise taxes, taxes paid to State and local governments, casualty or theft losses, and business expenses. Tax was collected at the source in the case of salaries and wages, interest, rents, and annuities, with an exemption of \$3,000 for single persons and \$4,000 for married couples. A normal tax of 1 percent was applied to income above the exempted amounts, along with a surtax that ranged from 1 percent to 6 percent.

Some of the more significant changes to the basic individual income tax since the 1913 Act are listed below:

- Collection of tax at the source was discontinued for 1916, but was reinstated, starting with 1943, for taxes on salaries and wages.
- A personal exemption allowance for dependents and a deduction for charitable contributions were introduced for 1917.
- The deduction of Federal excise taxes was eliminated for 1917; the deduction for State excise taxes other than those on gasoline was eliminated for 1964; and the deduction for State gasoline taxes was eliminated for 1979.
- So-called "capital gains," i.e., the profit realized from sales of qualifying property, were singled out for preferential treatment, starting with 1922 (although profits on sales of certain property received special treatment as early as 1918). While special treatment has generally continued, it has been modified many times, in terms of definitions of qualifying property, length of time property was held, includable or excludable portions of gains, treatment of losses, and the applicable tax rates.
- The exemption from tax of salaries of State and local government employees was eliminated, effective 1939.

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- A tax “look-up” table for use by certain low-income taxpayers was introduced for 1941, thus simplifying the tax computation for these individuals. The tax look-up table was later expanded to higher income levels.
- A deduction for unusually large medical expenses was introduced for 1942 (and was modified several times thereafter).
- The “standard deduction” concept was introduced for 1944 as an alternative to requiring taxpayers to itemize qualifying personal expenses.
- An “income-splitting” concept was introduced for 1948 for married couples, permitting them to treat their joint incomes as half earned by each spouse and taxed as if each spouse were taxed separately, usually resulting in a lower combined tax.
- The tax base was redefined and called “taxable income,” starting with 1954. Previous tax bases were derived from a statutory “net income.”
- An “income averaging” concept was introduced for 1964 but was rescinded, effective 1987. It was then reintroduced for farmers only, starting with 1998.
- An “earned income credit” against tax which was “refundable” was created for certain low-wage earners, starting with 1975 (and was subsequently modified several times).
- A “minimum tax” on specified “tax preference” items was introduced for 1970. This tax then evolved into the “alternative minimum tax,” starting with 1979.
- Unemployment compensation was made partially taxable, starting with 1979, and was made fully taxable, starting with 1987.
- Social Security benefits were made partially taxable for 1984. The taxable portion was increased, starting with 1994.

- Inflation adjustments were introduced for personal exemptions, “standard deductions,” and the tax “bracket” boundaries for 1985. (Inflation adjustments were also taken into account in defining the tax return filing thresholds.)
- State sales taxes were no longer deductible, beginning with 1987.
- Deductions for “passive losses” could be offset only against “passive gains,” starting with 1987, in order to discourage “tax shelters.”
- Deductions for “personal” interest and mortgage real estate loan interest were limited, and those for investment interest could only be applied against investment income, starting with 1987. Deductions for personal interest were disallowed altogether, starting with 1991.

All this may help to place into context the frequent changes in personal exemptions and tax rates that occurred over the years (see Table 1). The amounts deductible for personal exemptions have varied considerably (although less dramatically than the tax rates) and have been related to marital or filing status. Since 1917, exemptions have also taken into account family size, as per capita exemptions were recognized for “dependents.” The income from which these exemptions could be deducted also changed. In addition, for 1948 through 1986, extra personal exemptions were allowed for taxpayer(s) who were elderly or blind. Starting with 1987, these latter exemptions were replaced by additional “standard deductions” for these individuals. At the same time, the personal exemption was phased out for certain high-income individuals.

Maximum marginal tax rates (excluding those for “excess profits tax”) reached 77 percent during World War I, and 94 percent (before limitations) during World War II. They then reached 92 percent during the Korean War and for several years thereafter remained at 91 percent. Maximum rates had declined to 24 percent during the late 1920’s, but then rose to 79 percent in the mid-1930’s. From 1965 to 1980, the maximum rate was 70 percent. In be-

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tween, there were special Vietnam War surcharges. The maximum tax rate was reduced to 69.125 percent (after a statutory rebate) for 1981, to 50 percent for 1982, then to 38.5 percent for 1987. (These rates for the later years exclude the effects of "minimum tax" and "alternative minimum tax.") The maximum rate was further reduced to 28 percent for 1988, but a phaseout of the lowest tax bracket rate and of personal exemptions for certain high-income taxpayers increased this rate to 33 percent of the income within the phaseout range. After the phaseout provisions were rescinded, there followed increases in the top rate to 31 percent for 1991, then 39.6 percent for 1993. This has now been followed by gradually diminishing maximum rates that are being phased in, starting with 2001. The top rate for this first year was 39.1 percent, with 38.6 percent the top rate for the second year (2002).

While changes in rates are always interesting to note, they should not be viewed independently of other changes in law. Some of these changes are listed above. Often such changes accompany the changes in rates, which, in combination, determine an individual's effective tax rate (defined as total income tax after credits as a percentage of income). Changes in the dollar cutoff points associated with the various tax rate brackets are another consideration.

The tax rates summarized in Table 1 are, for the most part, limited to those for the "regular" income tax, i.e., to the "normal tax" and "surtax." Since Table 1 is a summary, it addresses only the rates applicable to joint filings of tax returns by husbands and wives (when they differed from those of other taxpayer filing statuses) and only to the highest and lowest tax rates. Moreover, they do not reflect the special tax provisions applicable to capital gains (and losses) and, for the more recent years, to provisions under the "minimum tax" and its successor, the "alternative minimum tax." Table 1, as it appears here, will be included and updated as part of the historical material presented in each issue of the *Bulletin*.

A brief history of capital gain taxation of the minimum tax and alternative minimum tax, as well as

of some of the other additional or add-on taxes considered part of the individual income tax, may be presented in future issues of the *Bulletin*, along with histories of some of the major tax credits. Selected information about these taxes and credits may currently be found elsewhere in the *Bulletin*, chiefly in articles and statistics on the individual income tax and in footnotes to the historical statistics. They are also discussed in more detail, either for these same years or for earlier years, in *Statistics of Income—Individual Income Tax Returns* (starting with 1954), *Statistics of Income—Part 1* (for 1934-1953), and in the single volume *Statistics of Income* reports for the pre-1934 years of the modern income tax. Besides the individual income tax, histories of some of the other major Federal taxes are also being considered for future *Bulletins*.

Notes and References

- [1] "Personal income" is, in general, a more broadly-defined concept of total income than is "adjusted gross income," the present income concept used for tax administration. For the differences between the two, see, for example, the reconciliation of the two in Table 4, of the "Selected Historical and Other Data" section of this issue of the *Bulletin*. For tax as a percentage of personal income, see Table 8 in this section and in Pechman, Joseph A., *Federal Tax Policy*, fifth edition, 1987, The Brookings Institution.

NOTE: Much of the information in this article was based either on "Seventy Years of Individual Income Taxation," 1983, an unpublished paper by Joseph A. Pechman, The Brookings Institution and Hoover Institution, written for Statistics of Income use, based on his then forthcoming book, *Federal Tax Policy*, fourth edition, published by The Brookings Institution; or on Pechman, *Federal Tax Policy*, fifth edition, The Brookings Institution, 1987. In addition to these two sources, other sources are listed at the end of Table 1.

SOURCE: IRS, *Statistics of Income Bulletin*, Spring 2002, Publication 1136 (Revised 6-02).

Personal Exemptions and Individual Income Tax Rates, 1913-2002

Table 1.--U.S. Individual Income Tax: Personal Exemptions and Lowest and Highest Bracket Tax Rates, and Tax Base for Regular Tax, Tax Years 1913-2002

[Amounts are in dollars.]

Tax year	Personal exemptions ¹			Tax rates for regular tax--			
				Lowest bracket		Highest bracket	
	Single persons	Married couples	Dependents	Tax rate ² (percent)	Taxable income under-- ³	Tax rate ² (percent)	Taxable income over-- ³
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1913.....	3,000	4,000	N/A	1.0	20,000	7.0	500,000
1914.....	3,000	4,000	N/A	1.0	20,000	7.0	500,000
1915.....	3,000	4,000	N/A	1.0	20,000	7.0	500,000
1916.....	3,000	4,000	N/A	2.0	20,000	15.0	2,000,000
1917.....	1,000	2,000	200	2.0	2,000	67.0	2,000,000
1918.....	1,000	2,000	200	6.0	4,000	77.0	1,000,000
1919.....	1,000	2,000	200	4.0	4,000	73.0	1,000,000
1920.....	1,000	2,000	200	4.0	4,000	73.0	1,000,000
1921.....	1,000	2,500 ⁴	400	4.0	4,000	73.0	1,000,000
1922.....	1,000	2,500 ⁴	400	4.0	4,000	58.0	200,000
1923.....	1,000	2,500 ⁴	400	3.0 ⁵	4,000	43.5 ⁵	200,000
1924.....	1,000	2,500	400	1.5 ⁶	4,000	46.0	500,000
1925.....	1,500	3,500	400	1.125 ⁷	4,000	25.0	100,000
1926.....	1,500	3,500	400	1.125 ⁷	4,000	25.0	100,000
1927.....	1,500	3,500	400	1.125 ⁷	4,000	25.0	100,000
1928.....	1,500	3,500	400	1.125 ⁸	4,000	25.0	100,000
1929.....	1,500	3,500	400	0.375 ⁸	4,000	24.0	100,000
1930.....	1,500	3,500	400	1.125 ⁸	4,000	25.0	100,000
1931.....	1,500	3,500	400	1.125 ⁸	4,000	25.0	100,000
1932.....	1,000	2,500	400	4.0	4,000	63.0	1,000,000
1933.....	1,000	2,500	400	4.0	4,000	63.0	1,000,000
1934.....	1,000	2,500	400	4.0 ⁹	4,000	63.0	1,000,000
1935.....	1,000	2,500	400	4.0 ⁹	4,000	63.0	1,000,000
1936.....	1,000	2,500	400	4.0 ⁹	4,000	79.0	5,000,000
1937.....	1,000	2,500	400	4.0 ⁹	4,000	79.0	5,000,000
1938.....	1,000	2,500	400	4.0 ⁹	4,000	79.0	5,000,000
1939.....	1,000	2,500	400	4.0 ⁹	4,000	79.0	5,000,000
1940.....	800	2,000	400	4.4 ^{9,10}	4,000	81.1 ¹⁰	5,000,000
1941.....	750	1,500	400	10.0 ⁹	2,000	81.0	5,000,000
1942.....	500	1,200	350	19.0 ⁹	2,000	88.0	200,000
1943.....	500	1,200	350	19.0 ⁹	2,000	88.0	200,000
1944.....	500 ¹¹	1,000 ¹¹	500 ¹¹	23.0	2,000	94.0 ¹²	200,000
1945.....	500 ¹¹	1,000 ¹¹	500 ¹¹	23.0	2,000	94.0 ¹²	200,000
1946.....	500	1,000	500	19.0 ¹³	2,000	86.45 ¹³	200,000
1947.....	500	1,000	500	19.0 ¹³	2,000	86.45 ¹³	200,000
1948.....	600 ¹⁴	1,200 ¹⁴	600	16.6 ¹⁵	4,000	82.13 ¹⁵	400,000
1949.....	600 ¹⁴	1,200 ¹⁴	600	16.6 ¹⁵	4,000	82.13 ¹⁵	400,000
1950.....	600 ¹⁴	1,200 ¹⁴	600	17.4 ¹⁶	4,000	84.36 ¹⁶	400,000
1951.....	600 ¹⁴	1,200 ¹⁴	600	20.4	4,000	91.0 ¹⁷	400,000
1952.....	600 ¹⁴	1,200 ¹⁴	600	22.2	4,000	92.0 ¹⁸	400,000
1953.....	600 ¹⁴	1,200 ¹⁴	600	22.2	4,000	92.0 ¹⁸	400,000
1954.....	600 ¹⁴	1,200 ¹⁴	600	20.0	4,000	91.0 ¹⁹	400,000
1955.....	600 ¹⁴	1,200 ¹⁴	600	20.0	4,000	91.0 ¹⁹	400,000

See notes at end of this table.

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Table 1.--U.S. Individual Income Tax: Personal Exemptions and Lowest and Highest Bracket Tax Rates, and Tax Base for Regular Tax, Tax Years 1913-2002--Continued

[Amounts are in dollars.]

Tax year	Personal exemptions ¹			Tax rates for regular tax--			
				Lowest bracket		Highest bracket	
	Single persons	Married couples	Dependents	Tax rate ² (percent)	Taxable income under ³	Tax rate ² (percent)	Taxable income over ³
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1956.....	600 ¹⁴	1,200 ¹⁴	600	20.0	4,000	91.0 ¹⁹	400,000
1957.....	600 ¹⁴	1,200 ¹⁴	600	20.0	4,000	91.0 ¹⁹	400,000
1958.....	600 ¹⁴	1,200 ¹⁴	600	20.0	4,000	91.0 ¹⁹	400,000
1959.....	600 ¹⁴	1,200 ¹⁴	600	20.0	4,000	91.0 ¹⁹	400,000
1960.....	600 ¹⁴	1,200 ¹⁴	600	20.0	4,000	91.0 ¹⁹	400,000
1961.....	600 ¹⁴	1,200 ¹⁴	600	20.0	4,000	91.0 ¹⁹	400,000
1962.....	600 ¹⁴	1,200 ¹⁴	600	20.0	4,000	91.0 ¹⁹	400,000
1963.....	600 ¹⁴	1,200 ¹⁴	600	20.0	4,000	91.0 ¹⁹	400,000
1964.....	600 ¹⁴	1,200 ¹⁴	600	16.0	1,000	77.0	400,000
1965.....	600 ¹⁴	1,200 ¹⁴	600	14.0	1,000	70.0	200,000
1966.....	600 ¹⁴	1,200 ¹⁴	600	14.0	1,000	70.0	200,000
1967.....	600 ¹⁴	1,200 ¹⁴	600	14.0	1,000	70.0	200,000
1968.....	600 ¹⁴	1,200 ¹⁴	600	14.0	1,000	75.25 ²⁰	200,000
1969.....	600 ¹⁴	1,200 ¹⁴	600	14.0	1,000	77.0 ²¹	200,000
1970.....	625 ¹⁴	1,250 ¹⁴	625	14.0	1,000	71.75 ²²	200,000
1971.....	675 ¹⁴	1,350 ¹⁴	675	14.0	1,000	70.0 ²³	200,000
1972.....	750 ¹⁴	1,500 ¹⁴	750	14.0	1,000	70.0 ²⁴	200,000
1973.....	750 ¹⁴	1,500 ¹⁴	750	14.0	1,000	70.0 ²⁴	200,000
1974.....	750 ¹⁴	1,500 ¹⁴	750	14.0 ²⁵	1,000	70.0 ^{24,25}	200,000
1975.....	750 ^{14,26}	1,500 ^{14,26}	750 ²⁶	14.0	1,000	70.0 ²⁴	200,000
1976.....	750 ^{14,27}	1,500 ^{14,27}	750 ²⁷	14.0	1,000	70.0 ²⁴	200,000
1977.....	750 ^{14,27}	1,500 ^{14,27}	750 ²⁷	14.0 ²⁸	3,200 ²⁸	70.0 ²⁴	203,200
1978.....	750 ^{14,27}	1,500 ^{14,27}	750 ²⁷	14.0 ²⁸	3,200 ²⁸	70.0 ²⁴	203,200
1979.....	1,000 ¹⁴	2,000 ¹⁴	1,000	14.0 ²⁸	3,400 ²⁸	70.0 ²⁴	215,400
1980.....	1,000 ¹⁴	2,000 ¹⁴	1,000	14.0 ²⁸	3,400 ²⁸	70.0 ²⁴	215,400
1981.....	1,000 ¹⁴	2,000 ¹⁴	1,000	13.825 ^{28,29}	3,400 ²⁸	69.125 ^{24,29}	215,400
1982.....	1,000 ¹⁴	2,000 ¹⁴	1,000	12.0 ²⁸	3,400 ²⁸	50.0	85,600
1983.....	1,000 ¹⁴	2,000 ¹⁴	1,000	11.0 ²⁸	3,400 ²⁸	50.0	109,400
1984.....	1,000 ¹⁴	2,000 ¹⁴	1,000	11.0 ²⁸	3,400 ²⁸	50.0	162,400
1985.....	1,040 ^{14,30}	2,080 ^{14,30}	1,040 ³⁰	11.0 ²⁸	3,540 ^{28,31}	50.0	169,020 ³¹
1986.....	1,080 ^{14,30}	2,160 ^{14,30}	1,080 ³⁰	11.0 ²⁸	3,670 ^{28,31}	50.0	175,250 ³¹
1987.....	1,900 ³⁰	3,800 ³⁰	1,900 ³⁰	11.0	3,000 ³¹	38.5	90,000 ³¹
1988.....	1,950 ^{30,32,33}	3,900 ^{30,32,33}	1,950 ^{30,32,33}	15.0 ^{34,35}	29,750 ^{31,35}	28.0 ^{34,35}	29,750 ^{31,35}
1989.....	2,000 ^{30,32,33}	4,000 ^{30,32,33}	2,000 ^{30,32,33}	15.0 ^{34,35}	30,950 ^{31,35}	28.0 ^{34,35}	30,950 ^{31,35}
1990.....	2,050 ^{30,32,33}	4,100 ^{30,32,33}	2,050 ^{30,32,33}	15.0 ^{34,35}	32,450 ^{31,35}	28.0 ^{34,35}	32,450 ^{31,35}
1991.....	2,150 ^{30,32}	4,300 ^{30,32}	2,150 ^{30,32}	15.0	34,000 ³¹	31.0	82,150 ³¹
1992.....	2,300 ^{30,32}	4,600 ^{30,32}	2,300 ^{30,32}	15.0	35,800 ³¹	31.0	86,500 ³¹
1993.....	2,350 ^{30,32}	4,700 ^{30,32}	2,350 ^{30,32}	15.0	36,900 ³¹	39.6	89,150 ³¹
1994.....	2,450 ^{30,32}	4,900 ^{30,32}	2,450 ^{30,32}	15.0	38,000 ³¹	39.6	250,000 ³¹
1995.....	2,500 ^{30,32}	5,000 ^{30,32}	2,500 ^{30,32}	15.0	39,000 ³¹	39.6	256,500 ³¹
1996.....	2,550 ^{30,32}	5,100 ^{30,32}	2,550 ^{30,32}	15.0	40,100 ³¹	39.6	263,750 ³¹
1997.....	2,650 ^{30,32}	5,300 ^{30,32}	2,650 ^{30,32}	15.0	41,200 ³¹	39.6	271,050 ³¹
1998.....	2,700 ^{30,32}	5,400 ^{30,32}	2,700 ^{30,32}	15.0	42,350 ³¹	39.6	278,450 ³¹
1999.....	2,750 ^{30,32}	5,500 ^{30,32}	2,750 ^{30,32}	15.0	43,050 ³¹	39.6	283,150 ³¹
2000.....	2,800 ^{30,32}	5,600 ^{30,32}	2,800 ^{30,32}	15.0 ³⁶	43,850 ³¹	39.6 ³⁶	288,350 ³¹
2001.....	2,900 ^{30,32}	5,800 ^{30,32}	2,900 ^{30,32}	10.0 ³⁷	12,000 ^{31,38}	39.1 ³⁷	297,350 ^{31,38}
2002.....	3,000 ^{30,32}	6,000 ^{30,32}	3,000 ^{30,32}	10.0	12,000 ³¹	38.6	307,050 ³¹

See notes at end of this table.

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Footnotes

N/A—Not applicable.

¹ Personal exemption amounts were deducted at different points in the tax computation, depending on the tax year. For some of the earlier years, they were deducted only from the statutory "net income" subject to the basic "normal tax," for other years, only from the "net income" subject to the "surtax," and, for still other years, from the "net income" subject to both normal tax and surtax. (Footnote 2, below, includes a description of "normal tax" and "surtax.") For more recent years, personal exemptions have been deducted in computing "taxable income," the current tax base for "regular" tax purposes.

² Tax rates shown in this table are for the "regular" income tax, i.e., for "normal tax" and "surtax," applicable to U.S. citizens and residents. Therefore, the rates exclude provisions unique to nonresident aliens. Tax rates exclude the effect of tax credits (which reduce the tax liability), except as noted, and several specific add-on or other taxes applicable to all or some tax years. Excluded are the "war excess profits tax" (1917), "victory tax" (1942-1943), Social Security "self-employment tax" (starting with 1951), tax under the "income averaging" provisions (1964-1986) and under the farm income averaging provisions (starting with 1998), and the "recapture taxes" resulting from having to recompute and pay back certain tax credits in later years (starting with 1963), the "maximum tax" on "earned income" or on "personal service income" (1971-1981), the "minimum tax" on "tax preferences" (1970-1983), and the "alternative minimum tax" on "tax preferences" (starting with 1979). Also excluded are such other taxes as the tax on recipients of accumulation distributions of trusts (starting with 1954) and the "special averaging tax" or "multiple recipient special averaging tax" on recipients of lump-sum distributions from qualified retirement plans (starting with 1974).

In addition, Table 1 excludes the taxes associated with the preferential treatment of capital gains, starting with 1922 (although certain gains received preferential treatment as early as 1918). At various times, these treatments have taken the form of special tax rates; special definitions; different asset holding periods; ceilings on taxes; and exclusions from income. Included among these special treatments were "alternative tax"

(1938-1986) and its variations for the earlier years, although all of these taxes were in some way tied to the tax structure for regular tax.

Until 1948, a single set of tax rates applied to all taxpayers, regardless of marital or filing status, and married couples filing joint returns were taxed on the combined income of each spouse. However, a second, lower set of rates was introduced, starting with 1948, for married couples filing jointly. (To simplify the Table 1 presentation for these more recent years, only the lowest and highest tax rates for married persons filing jointly are shown.) Under this change, the combined tax of husband and wife became twice the combined tax that would have applied if their combined "taxable income" ("net income" for years before 1954) were cut in half. Thus, taxpayers using the joint return filing status "split" their incomes for tax purposes, in effect doubling the width of their taxable income (or net income) size "brackets." The lowest and highest tax rate brackets shown in columns 4 and 6 in Table 1 are, therefore, the brackets for married couples filing jointly that result from taking into account this doubling of the bracket widths.

Starting with 1952, a third set of rates was introduced (not shown) for "heads of household," i.e., for unmarried individuals who paid over half the cost of maintaining a home for a qualifying person (e.g., a child or parent), or for certain married individuals who had lived apart from their spouses for the last 6 months of the tax year. This filing status was liberalized, starting with 1970, and provides approximately half the advantage of the income-splitting described above.

Starting with 1954, the full benefits of income splitting allowed married couples filing jointly (i.e., the same tax rates and taxable income brackets) were extended to a new, fourth filing status, "surviving spouse" (i.e., individuals widowed for 1 to 2 years following the death of a spouse, provided they had a dependent child and had not remarried). The remaining filing status was for "single persons," who used the rates formerly applicable to taxpayers in general. However, these latter rates were moderated, starting with 1969, by limiting the tax so that it would not exceed 20 percent more than the tax on married couples filing jointly. One result of the 1969 law change was that certain married couples filing jointly had

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to pay more tax than they would have paid if each spouse had filed separately. To help mitigate this effect, a special deduction in computing adjusted gross income was allowed for 1982-1986 for two-earner couples filing jointly. This deduction was initially 5 percent of the lesser of \$30,000 or the "earned income" of the spouse with the lesser earnings. The percentage was increased to 10 percent, starting with 1983. The deduction provision was repealed, starting with 1987, when new, lower rates and a reduced number of tax brackets began.

For tax years preceding 1954, the lowest tax rate, as shown in Table 1, was either the rate for the basic "normal tax" (if there was just one rate for normal tax) or the lowest of the several rates for "normal tax" (if there was more than one rate for normal tax). The highest tax rate was the sum of the uppermost of the graduated rates (if any) for normal tax, plus the uppermost of the additional, graduated "surtax" rates, provided that both rates were applied to the same income. For example, for 1932, there were two graduated rates for normal tax, 4 percent (on the first \$4,000 of income) and 8 percent (on all income over \$4,000), and graduated rates for "surtax" that ranged from 1 percent to 55 percent. In Table 1, the lowest rate for 1932 is, therefore, shown as 4 percent (the lower of the two normal tax rates) and the highest rate as 63 percent (the sum of the 8-percent higher, graduated rate for normal tax on income over \$4,000, plus 55 percent, the highest of the graduated, surtax rates, on income over \$1 million.). As another example, for 1941, there was just one rate for normal tax, 4 percent, but it applied to all income. The lowest of the surtax rates, 6 percent, was applied to all income under \$2,000, so that income under \$2,000 was taxed at both the 4-percent normal tax rate and the 6-percent surtax rate. Therefore, the lowest rate shown in Table 1 for 1941 is 10 percent, the sum of these two tax rates. The highest rate is the sum of the 4-percent normal tax on total statutory "net income," plus the highest graduated surtax rate, 77 percent on income over \$5 million, so that income over \$5 million was taxed at 81.0 percent, the sum of the two rates. For tax years starting with 1954, normal tax and surtax rates were, in effect, combined into a single rate structure.

³ The definition of the income base (and, thus, the tax "bracket" boundaries) to which the tax rates were applied differs over the years, depending on how the following were determined and figured: statutory adjustments to or

exclusions from income; personal exemptions; itemized deductions (which, for certain expenditures, were sometimes described as income "credits"); standard deductions; the various thresholds and ceilings; and statutory "taxable income" (and its predecessor "net income"). Therefore, the lowest and highest taxable income amounts, as shown in Table 1, are not comparable for all years, and the amounts described as for statutory taxable income for tax years preceding 1954 are actually for statutory net income. (Statutory net income was income after subtracting deductions but, for most years, was before subtracting personal exemptions. Statutory taxable income was after subtracting both deductions and personal exemptions. Taxable income is the tax base for recent years. Net income required certain adjustments to arrive at the tax base, depending on whether the income was subject to normal tax, surtax, or both). See also footnote 2, above.

⁴ For 1921-1923, the personal exemption amount for married couples (column 2) increased to \$2,000 if statutory "net income" exceeded \$5,000.

⁵ For 1923, the tax rates shown (columns 4 and 6) are after a 25-percent statutory credit or refund.

⁶ For 1924, the lowest tax rate (column 4) is after reduction by an "earned income credit," equal to 25 percent of the "normal tax" on the first \$5,000 of total statutory "net income" and the normal tax on the first \$10,000 of "earned net income," but limited to 25 percent of the normal tax on total net income.

⁷ For 1925-1927, the lowest tax rate (column 4) is after reduction by an "earned income credit" equal to 25 percent of the total tax on the first \$5,000 of total statutory "net income" and the total tax on the first \$20,000 of "earned net income," but limited to 25 percent of the total tax on earned net income (not to exceed 25 percent of the sum of "normal tax" on total net income plus the "surtax" on earned net income.)

⁸ For 1928-1931, the lowest tax rate (column 4) is after reduction by an "earned income credit" equal to 25 percent of the total tax on the first \$5,000 of total statutory "net income" and the total tax on the first \$30,000 of "earned net income," but subject to the same limitations described in footnote 7, above.

⁹ For 1934-1943, the tax rate (column 4) excludes the

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effect of an "earned income credit," allowed as a *deduction* equal to 10 percent of the first \$14,000 of "earned net income" (before credit) and the first \$3,000 of total statutory "net income" (before credit), but limited to 10 percent of earned net income (not to exceed 10 percent of total net income).

¹⁰ For 1940, tax rates (columns 4 and 6) include "defense tax," computed as 10 percent of the total "regular" tax, but limited to 10 percent of statutory "net income" in excess of the total regular tax.

¹¹ For 1944-1945, the personal exemption amounts (columns 1-3) were for "surtax" purposes only. The exemption for basic "normal tax" purposes was \$500 per tax return, augmented by the "earned income" of the spouse, up to \$500, on joint returns.

¹² For 1944-1945, the highest tax rate (column 6) was subject to a maximum effective rate limitation equal to 90 percent of statutory "net income."

¹³ For 1946-1947, tax rates (columns 4 and 6) are the effective rates after a statutory 5-percent reduction of combined "tentative normal tax and surtax." The highest rate (column 6) was subject to a maximum effective rate limitation equal to 85.5 percent of statutory "net income."

¹⁴ For 1948-1986, in addition to the personal exemptions (columns 1-2), there were additional personal exemptions for blind taxpayer(s) and for taxpayers(s) age 65 or over.

¹⁵ For 1948-1949, tax rates (columns 4 and 6) are the effective rates after statutory reductions ranging from 17.0 percent of the first \$400 of combined "tentative normal tax and surtax" to 9.75 percent of combined tentative normal tax and surtax over \$100,000. The highest tax rate (column 6) was subject to a maximum effective rate limitation equal to 77.0 percent of statutory "net income."

¹⁶ For 1950, tax rates (columns 4 and 6) are the effective rates after statutory reductions ranging from 13.0 percent of the first \$400 of combined "tentative normal tax and surtax" to 7.3 percent of combined tentative normal tax and surtax over \$100,000. The highest tax rate (column 6) was subject to a maximum effective rate limitation equal to 87.0 percent of statutory "net income."

¹⁷ For 1951, the highest tax rate (column 6) was subject

to a maximum effective rate limitation equal to 87.2 percent of statutory "net income."

¹⁸ For 1952-1953, the highest tax rate (column 6) was subject to a maximum effective rate limitation equal to 88.0 percent of statutory "net income."

¹⁹ For 1954-1963, the highest tax rate (column 6) was subject to a maximum effective rate limitation equal to 87.0 percent of statutory "taxable income."

²⁰ For 1968, the highest tax rate (column 6) includes a Vietnam War surcharge equal to 7.5 percent of tax (as defined for this purpose). However, this surcharge did not apply to "regular" tax generated at the lowest rate.

²¹ For 1969, the highest tax rate (column 6) includes a Vietnam War surcharge equal to 10 percent of tax (as defined for this purpose). However, this surcharge did not apply to "regular" tax generated at the lowest rate.

²² For 1970, the highest tax rate (column 6) includes a Vietnam War surcharge equal to 2.5 percent of tax (as defined for this purpose). However, this surcharge did not apply to "regular" tax generated at the lowest rate.

²³ For 1971, "earned net income" was subject to a "maximum tax" of 60 percent (not shown in column 6).

²⁴ For 1972-1981, "earned net income" (broadened to become "personal service net income" after 1976) was subject to a "maximum tax" of 50 percent (not shown in column 6).

²⁵ For 1974, tax rates (columns 4 and 6) do not take into account a statutory rebate of 10 percent of total income tax after credits. In general, the minimum rebate was \$100 and the maximum, \$200, but could not exceed the tax liability.

²⁶ For 1975, a \$30-per-capita tax credit was allowed in addition to the personal exemptions shown in columns 1-3.

²⁷ For 1976-1978, a tax credit was allowed, in addition to the personal exemptions shown in columns 1-3, that was equal to the larger of \$35 per capita or 2 percent of the first \$9,000 of statutory "taxable income."

²⁸ For 1977-1986, in order to help preserve the concep-

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tual comparability of the amounts shown with those for earlier and later years, the lowest tax rates in column 4 and the lowest "taxable income" amounts in column 5 exclude the so-called "zero tax rate" and the "zero bracket amount," which were unique to the tax computation for these 10 years.

²⁹ For 1981, tax rates (columns 4 and 6) are after a 1.25-percent statutory tax credit.

³⁰ Starting with 1985, the personal exemption amounts (columns 1-3) reflect annual adjustments for inflation, using the U.S. Department of Labor Consumer Price Index for Urban Consumers ("CPS-U").

³¹ Starting with 1985, tax "bracket" boundaries (columns 5 and 7) were indexed for inflation, using the U.S. Department of Labor Consumer Price Index (as described in footnote 30). However, for 2002 (and continuing through 2008), indexing does not apply to the lowest tax bracket boundary (column 5).

³² Starting with 1988, the amount eligible to be deducted for personal exemptions (columns 1-3) was phased out for certain high-income taxpayers. For 1988-1990, this was accomplished as part of the tax computation (see footnote 34, below).

³³ For 1988-1990, excludes the effect on certain high-income taxpayers of the phaseout of the amount deductible for personal exemptions (columns 1-3).

³⁴ For 1988-1990, the tax rates (columns 4 and 6) exclude the effects on certain high-income taxpayers of the phaseout both of the benefit of the 15-percent tax rate (compared to the 28-percent rate) and the amount deductible for personal exemptions. This phaseout was accomplished by imposing an additional, 5-percent tax on income above certain levels, based on filing status, thus creating a "temporary" 33-percent tax rate. At the point where the taxpayer had completely phased out the two benefits by use of the 33-percent rate, the tax rate on any remaining taxable income above the phaseout range returned to 28 percent (see also footnote 35). As Table 1 shows, beginning with 1991, this phaseout was replaced by including an additional, 31-percent, graduated rate for taxable incomes above certain levels. Two other, higher, graduated rates were subsequently added, starting with

1993, the higher of which is shown in Table 1.

³⁵ For 1988-1990, the 15-percent tax rate (column 4), which applied to the first \$29,750 of statutory "taxable income" (column 5), gradually increased to the top "brackets" rate, 28 percent (column 6), when taxable income (included in column 7) reached between \$71,900 and \$149,250. This was the range at which the 15-percent rate was phased out for certain high-income taxpayers, all of whose income was then effectively taxed at the higher 28-percent rate through use of the "temporary" 33-percent rate (see footnote 34, above, for additional information). The boundaries of the phaseout range were adjusted for inflation for 1989-1990, although the top tax rate on the taxable income above that covered by the phaseout range remained 28 percent. Therefore, the top taxable income and top tax bracket rate shown in Table 1 for 1988-1990 do not take into account the higher, 33-percent, "temporary" phaseout rate.

³⁶ For 2000, the tax rates (columns 4 and 6) do not reflect a special statutory refund, partially offset for 2001, of between \$300 and \$600, depending on the size of income tax for 2000 and filing status. See also footnote 37, below.

³⁷ For 2001, the tax rate (column 4) does not reflect a 5-percent tax credit of up to \$300, \$500, or \$1,000, depending on the filing status. This credit effectively reduced the lowest rate on the income shown in column 5 from 15 percent to 10 percent, in lieu of an explicit 10-percent rate. However, the credit was reduced by the amount of the special statutory refund made in 2001 (based on tax for 2000), described in footnote 36, above.

³⁸ For the change in the lowest tax "bracket" boundary (columns 5 and 7) for 2001, see footnotes 36 and 37, above.

SOURCE: Advisory Commission on Intergovernmental Relations, *Significant Features of Fiscal Federalism, Volume I, Budget Processes and Tax Systems, 1995*, September 1996 (based, in part, on Tax Foundation, *Facts and Figures on Government Finance, 1988-89 edition, 1988*); Pechman, Joseph A., *Federal Tax Policy*, fifth edition, The Brookings Institution, 1987 (based on relevant public laws and reports prepared by the Congressional Joint Economic Committee, including *The*

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Federal Revenue System: Facts and Problems, 1961, and *The Federal Tax System: Facts and Problems*, 1964); *Statistics of Income—Part I* (in particular, the historical synopses of laws included as appendices in the reports for 1949-1953) and *Statistics of Income—Individual Income Tax Returns* (annually, for 1954-1988); and relevant public laws and reports issued by the Congressional Joint Committee on Taxation for subsequent years, as well as reports, such as *Overview of the*

Federal Tax System for 1990, 1991, and 1994, Committee on Ways and Means, U.S. House of Representatives, and reports issued by the Congressional Joint Committee on Taxation for subsequent years, including *Overview of Present Law and Economic Analysis Relating to Marginal Tax Rates and the President's Individual Income Tax Rate Proposals*, 2001.