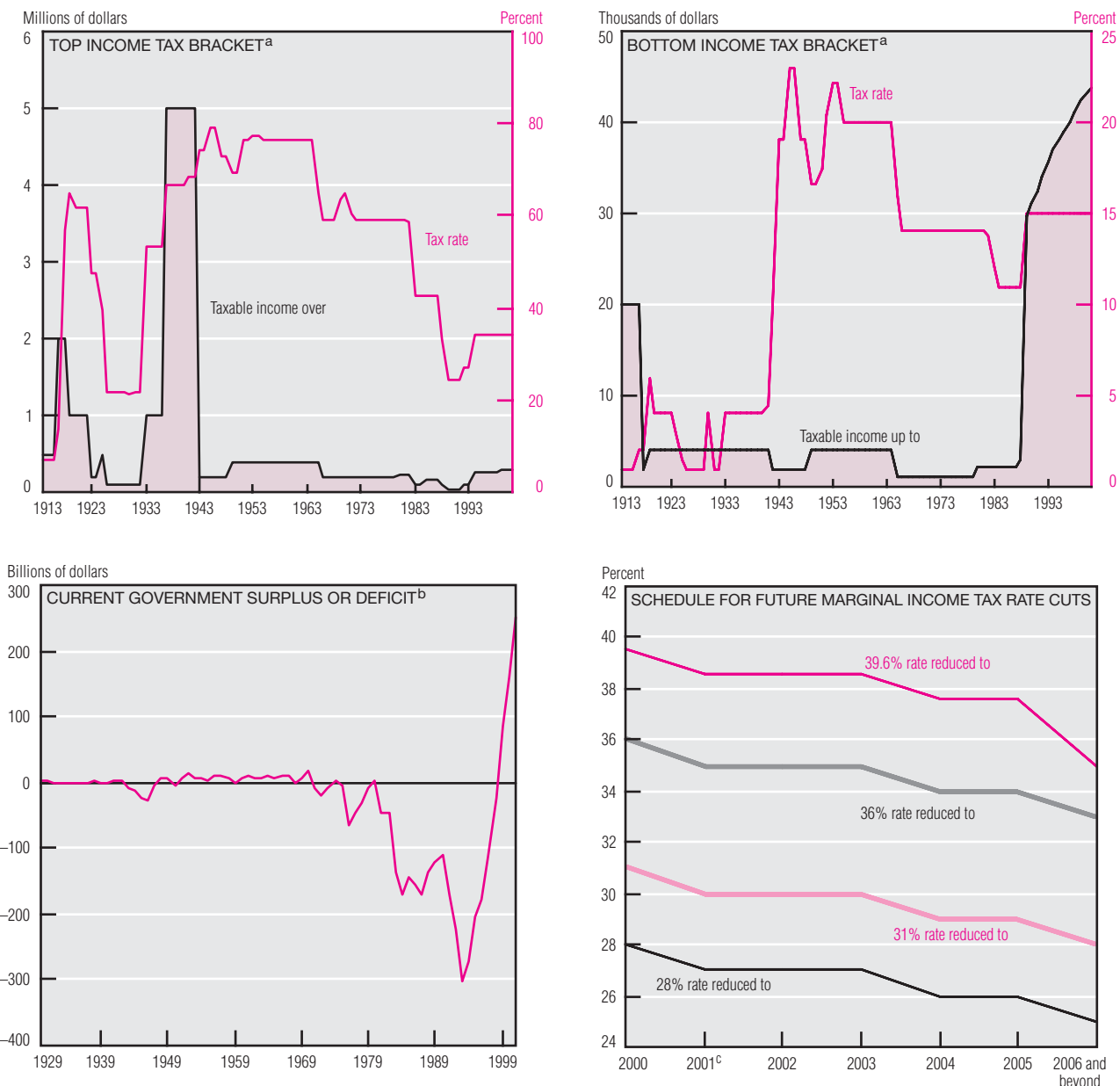


A Brief History of Marginal Income Tax Rates



a. Rates apply to joint filers (1948–present). Taxable income excludes zero-bracket amount (1977–86). Tax rates shown do not include the effects of the alternative minimum tax (1979–present) or those of phase-outs for exemptions, deductions, and other tax benefits.

b. Calendar years. Negative values indicate deficits.

c. Effective July 1.

SOURCES: U.S. Department of Commerce, Bureau of Economic Analysis, National Income and Product Account Tables; and Joint Committee on Taxation, "Overview of Present Law and Economic Analysis Relating to Marginal Tax Rates and the President's Individual Income Tax Rate Proposals," March 6, 2001, JCX-6-01.

The U.S. income tax was first enacted in 1861, abolished in 1872, reintroduced in 1894, and declared unconstitutional by the Supreme Court in 1895. The Sixteenth Amendment (1913) empowered Congress to levy taxes on "income from whatever source derived," without apportioning the revenue among the states. Soon after, the Revenue Act reinstated the income tax but made it applicable to only a very few, relatively affluent households.

Generally, marginal rates were increased and brackets lowered before both world wars. Between the wars,

the top marginal rate for the highest bracket was raised sharply twice, but each increase was accompanied by a sharp rise in the top bracket, making it applicable only to the very rich. Tax rates were hiked again before the Korean War. In contrast, rates were lowered substantially during the early 1960s, just before the Vietnam War. These rate cuts, which followed Keynesian fiscal prescriptions, were intended to stimulate the economy by boosting consumer demand.

Since the early 1960s, the trend in marginal tax rates has generally been negative. The rate reductions

of the early 1980s were part of a comprehensive fiscal and regulatory effort to create credible, long-lasting work and investment incentives.

Marginal rates were hiked before the Gulf War and again in 1993 to combat runaway federal deficits. More recently, projections of surging federal surpluses partly reversed the early 1990s' rate hikes. The rate reduction schedule enacted in 2001, however, incorporates implementation lags that could induce workers and businesses to postpone productive activity and investment.