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Michael L. Roberts

William D. Samson

HISTORICAL SURVEY OF THE PROGRESSIVITY OF THE U.S. INCOME TAX

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by
Michael L. Roberts
University of Alabama
and
William D. Samson
University of Alabama

While filing the 1988 tax returns, many taxpayers will see the full impact of the Tax Reform Act of 1986. Perhaps the most important changes made by this Act altered the progressivity of the federal income tax. Among these changes were (1) a reduction in the top marginal tax rate from 50% to 28%, (2) a compression of fourteen tax rate brackets into two: 15% and 28%, (3) larger exemption and standard deducation amounts which remove many low income taxpayers from the tax rolls, (4) a "phase out" of the benefit of the first tax rate bracket and exemption amounts such that, for the first time taxpayers with high incomes did not benefit from these items, and (4) an inversion of the historic relationship between the top corporate and individual tax rate. One of the major criticisms of the Tax Reform Act of 1986 has been that the combination of rate reduction and bracket compression reduced ("flattens") the progressivity of the income tax and thereby reduced the vertical equity of the tax rate structure. However, this point is certainly debatable given the increase in the exemption and standard deduction amounts and the numerous changes to reduce the deductions, exclusions, credits and other "leakage" from the computation of ability-to-pay (taxable income). Given these very significant changes to the U.S. income tax and also given that the full impact of this tax law is effective on the seventy-fifth anniversary of the 1913 adoption of the income tax, it is worth the time to look back and contemplate how progressivity of the income tax structure has changed over time. This paper summarizes the historical findings.

ANALYSIS OF HISTORICAL PROGRESSIVITY

Comparing the income tax for different tax years is risky at best when changes in society, business, economics, inflation, etc., are considered. However, given the limitations, an attempt at assessing historical progressivity is made here. Progressivity is a relative concept and involves making comparisons between different taxpayers as to their effective tax rates. However, in this analysis the historical statutory marginal tax rates, exemption amounts, etc., will be used instead.

The progressivity of the income tax structure is a function of several variables:

(1) the tax rate on the highest income brackets.
(2) the tax rate on the lowest income bracket,
(3) the level of income at which the highest tax rate is imposed,
(4) the amount of income exempt from tax (exemption and standard deduction amounts),
(5) the width of the various tax brackets, i.e., how much

income is taxed at each rate - how quickly is the top rate reached, and

(6) the number of tax rates (the number of tax brackets).

As Table 1 shows, the income tax has been used as a flexible economic device to increase or decrease tax revenues according to government need. Alternatively, the data indicate a trial and error approach to finding the "right" degree of progressivity.

While the progressive rate structure and the income tax seem closely tied together, the U.S. income tax has had proportional rates during its history, particularily in the earliest years. Interestingly, the progressive rate structure had its beginnings with the property tax rather than the income tax. However, since 1913, the United States income tax has utilized a progressive rate structure, but the degree of progressivity has been changed numerous times. In addition, the rates chosen for the top tax rate and bottom tax rate have also fluctuated widely over the last seventy-five years. As shown by Table 1, the statutory high-low rate differential has ranged from an initial 6% to a maximum of 91% during World War Two to 13% currently. While the current high-low statutory rate differential is not at the historical low, the ratio of high rate to low rate is. In 1988, this ratio stands at 1.87%. In other words, the top tax rate in 1988 is less than twice the lowest tax rate. From an historical perspective this ratio is remarkable because it is so small. In part, this current low ratio is due to a relatively high initial rate (15%) coupled with a quickly achieved, relatively low top tax rate (28%). This ratio reveals a measure of rate structure progressivity and the ratio supports the criticism that the 1986 Tax Reform Act drastically reduced progressivity.[1]

It should be noted that the highest rate ratio occurred not during World War Two, although the ratio was very high (30), but during the time of the 1929 stock market crash when top bracket tax rate was 48 times the lowest tax bracket rate.

In conclusion, the search for the perfect tax has led to constant changes to taxation throughout the history of civilization. The frequency of the changes in the income tax represents a continuation of this search. The historical variation in progressivity variables reflects a trial and error approach to refining tax equity. The income tax does represent a tax base that is flexible to the needs of government and society's concept of fairness. Thus, given the fluctuations in rates, brackets, and levels of exempt income, it seems safe to conclude that the changes will continue in the future in the continuing search for the elusive goal of the perfect tax system.

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TABLE I
THE GREAT EXPERIMENT: PROGRESSIVITY FROM A HISTORICAL PERSPECTIVE

YEAR	INDIVIDUAL INCOME TAX: NUMBER OF TAX BRACKETS	TOP RATE	INCOME LEVEL FOR TOP RATE	EXEMPT INCOME Family of 4	LOWEST RATE	TOP-BOTTOM RATE COMPARISON: HI-LOW RANGE	RATIO
1861	1	3.0%	$0	$600	3.0%	0.0%	1.00
1862	2	5.0%	$10,000	$600	3.0%	2.0%	1.67
1863	2	5.0%	$10,000	$600	3.0%	2.0%	1.67
1864	3	10.0%	$10,000	$600	5.0%	5.0%	2.00
1865	2	10.0%	$5,000	$600	5.0%	5.0%	2.00
1866	2	10.0%	$5,000	$600	5.0%	5.0%	2.00
1867	1	5.0%	$0	$1,000	5.0%	0.0%	1.00
1868	1	5.0%	$0	$1,000	5.0%	0.0%	1.00
1869	1	5.0%	$0	$1,000	5.0%	0.0%	1.00
1870	1	2.5%	$0	$2,000	2.5%	0.0%	1.00
1894	1	2.0%	$0	$4,000	2.0%	0.0%	1.00
1913	7	7.0%	$500,000	$4,000	1.0%	6.0%	7.00
1914	7	7.0%	$500,000	$4,000	1.0%	6.0%	7.00
1915	7	10.0%	$500,000	$4,000	2.0%	8.0%	5.00
1916	13	14.0%	$2,000,000	$4,000	2.0%	12.0%	7.00
1917	21	82.0%	$2,000,000	$2,000	4.0%	78.0%	20.50
1918	56	77.0%	$1,000,000	$2,400	6.0%	71.0%	12.83
1919	56	71.0%	$1,000,000	$2,400	4.0%	67.0%	17.75
1920	56	71.0%	$1,000,000	$2,400	4.0%	67.0%	17.75
1921	50	58.0%	$200,000	$3,300	4.0%	54.0%	14.50
1922	50	58.0%	$200,000	$3,300	4.0%	54.0%	14.50
1923	50	58.0%	$200,000	$3,300	4.0%	54.0%	14.50
1924	43	46.0%	$500,000	$3,300	2.0%	44.0%	23.00
1925	23	25.0%	$100,000	$4,300	1.5%	23.5%	16.67
1926	23	25.0%	$100,000	$4,300	1.5%	23.5%	16.67
1927	23	25.0%	$100,000	$4,300	1.5%	23.5%	16.67
1928	23	25.0%	$100,000	$4,300	1.5%	23.5%	16.67
1929	23	24.0%	$100,000	$4,300	0.5%	23.5%	48.00
1930	23	25.0%	$200,000	$4,300	1.5%	23.5%	16.67
1931	25	25.0%	$200,000	$4,300	1.5%	23.5%	16.67
1932	57	63.0%	$1,000,000	$3,300	4.0%	59.0%	15.75
1933	57	63.0%	$1,000,000	$3,300	4.0%	59.0%	15.75
1934	30	63.0%	$1,000,000	$3,300	4.0%	59.0%	15.75
1935	30	63.0%	$1,000,000	$3,300	4.0%	59.0%	15.75
1936	33	79.0%	$5,000,000	$3,300	4.0%	75.0%	19.75
1937	33	79.0%	$5,000,000	$3,300	4.0%	75.0%	19.75
1938	33	79.0%	$5,000,000	$3,300	4.0%	75.0%	19.75
1939	33	79.0%	$5,000,000	$3,300	4.0%	75.0%	19.75
1940	35	89.0%	$5,000,000	$2,800	4.0%	85.0%	22.25
1941	31	81.0%	$5,000,000	$2,800	4.0%	77.0%	20.25
1942	23	88.0%	$150,000	$2,300	6.0%	82.0%	14.67
1943	25	93.0%	$200,000	$1,900	11.0%	82.0%	8.45
1944	25	94.0%	$200,000	$2,400	3.0%	91.0%	31.33
1945	25	86.5%	$200,000	$1,500	2.9%	83.7%	30.35
1946	25	86.5%	$200,000	$2,500	2.9%	83.7%	30.35
1947	25	86.5%	$200,000	$2,500	2.9%	83.7%	30.35
1948	25	82.1%	$400,000	$3,400	16.6%	65.5%	4.95
1949	25	82.1%	$400,000	$3,400	16.6%	65.5%	4.95
1950	25	84.3%	$400,000	$3,400	17.4%	66.9%	4.85
1951	24	91.0%	$400,000	$3,400	20.4%	70.6%	4.46
1952	27	92.0%	$600,000	$3,400	22.2%	69.8%	4.14
1953	27	92.0%	$600,000	$3,400	22.2%	69.8%	4.14
1954	24	91.0%	$400,000	$3,400	20.0%	71.0%	4.55
1955	24	91.0%	$400,000	$3,400	20.0%	71.0%	4.55
1956	24	91.0%	$400,000	$3,400	20.0%	71.0%	4.55
1957	24	91.0%	$400,000	$3,400	20.0%	71.0%	4.55
1958	24	91.0%	$400,000	$3,400	20.0%	71.0%	4.55
1959	24	91.0%	$400,000	$3,400	20.0%	71.0%	4.55
1960	24	91.0%	$400,000	$3,400	20.0%	71.0%	4.55
1961	24	91.0%	$400,000	$3,400	20.0%	71.0%	4.55
1962	24	91.0%	$400,000	$3,400	20.0%	71.0%	4.55
1963	24	91.0%	$400,000	$3,400	20.0%	71.0%	4.55
1964	28	77.0%	$400,000	$3,400	16.0%	61.0%	4.81
1965	25	70.0%	$200,000	$3,400	14.0%	56.0%	5.00
1966	25	70.0%	$200,000	$3,400	14.0%	56.0%	5.00
1967	25	70.0%	$200,000	$3,400	14.0%	56.0%	5.00
1968	25	75.0%	$200,000	$3,400	14.0%	61.0%	5.36
1969	25	77.0%	$200,000	$3,400	14.0%	63.0%	5.50
1970	25	73.0%	$200,000	$3,500	14.0%	59.0%	5.21
1971	25	70.0%	$200,000	$4,200	14.0%	56.0%	5.00
1972	25	70.0%	$200,000	$5,000	14.0%	56.0%	5.00
1973	25	70.0%	$200,000	$5,000	14.0%	56.0%	5.00
1974	25	70.0%	$200,000	$5,000	14.0%	56.0%	5.00
1975	25	70.0%	$200,000	$5,000	14.0%	56.0%	5.00
1976	25	70.0%	$200,000	$5,800	14.0%	56.0%	5.00
1977	25	70.0%	$203,200	$6,200	14.0%	56.0%	5.00
1978	25	70.0%	$203,200	$6,200	14.0%	56.0%	5.00
1979	15	70.0%	$215,400	$7,400	14.0%	56.0%	5.00
1980	15	70.0%	$215,400	$7,400	14.0%	56.0%	5.00
1981	15	70.0%	$215,400	$7,400	14.0%	56.0%	5.00
1982	12	50.0%	$85,600	$7,400	12.0%	38.0%	4.17
1983	13	50.0%	$109,400	$7,400	11.0%	39.0%	4.55
1984	13	50.0%	$162,400	$7,400	11.0%	39.0%	4.55
1985	14	50.0%	$169,020	$7,700	11.0%	39.0%	4.55
1986	14	50.0%	$175,250	$7,990	11.0%	39.0%	4.55
1987	5	38.5%	$90,000	$11,360	11.0%	27.5%	3.50
1988	2	28.0%	$29,750	$12,800	15.0%	13.0%	1.87