1989

Historical survey of the progressivity of the U.S. income tax

Michael L. Roberts
William D. Samson

Follow this and additional works at: https://egrove.olemiss.edu/aah_notebook

Part of the Accounting Commons, and the Taxation Commons

Recommended Citation
Available at: https://egrove.olemiss.edu/aah_notebook/vol12/iss1/6

This Article is brought to you for free and open access by the Archival Digital Accounting Collection at eGrove. It has been accepted for inclusion in The Accounting Historians Notebook by an authorized editor of eGrove. For more information, please contact memanuel@olemiss.edu.
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 deduction 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
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, particularly 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.

MANUSCRIPTS AND SHAGGY DOG STORIES
Anyone wishing to submit article manuscripts, short notes, cartoons, shaggy dog stories, letters to the editor, or other filler to THE ACCOUNTING HISTORIANS NOTEBOOK should send the material to be editor, Dale L. Flesher, School of Accountancy, University of Mississippi, University, MS 38677

The Accounting Historians Notebook, Vol. 12 [1989], No. 1, Art. 6
https://egrove.olemiss.edu/aah_notebook/vol12/iss1/6
### Table I

**THE GREAT EXPERIMENT:**

**PROGRESSIVITY FROM A HISTORICAL PERSPECTIVE**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>INDIVIDUAL INCOME TAX</th>
<th>FAMILY OF 4</th>
<th>RANGE</th>
<th>RATIO</th>
</tr>
</thead>
<tbody>
<tr>
<td>1861</td>
<td>$0</td>
<td>$3,000</td>
<td>60%</td>
<td>1.00</td>
</tr>
<tr>
<td>1862</td>
<td>$0</td>
<td>$4,000</td>
<td>60%</td>
<td>1.00</td>
</tr>
<tr>
<td>1863</td>
<td>$0</td>
<td>$5,000</td>
<td>60%</td>
<td>1.00</td>
</tr>
<tr>
<td>1864</td>
<td>$0</td>
<td>$6,000</td>
<td>60%</td>
<td>1.00</td>
</tr>
<tr>
<td>1865</td>
<td>$0</td>
<td>$7,000</td>
<td>60%</td>
<td>1.00</td>
</tr>
<tr>
<td>1866</td>
<td>$0</td>
<td>$8,000</td>
<td>60%</td>
<td>1.00</td>
</tr>
<tr>
<td>1867</td>
<td>$0</td>
<td>$9,000</td>
<td>60%</td>
<td>1.00</td>
</tr>
<tr>
<td>1868</td>
<td>$0</td>
<td>$10,000</td>
<td>60%</td>
<td>1.00</td>
</tr>
<tr>
<td>1869</td>
<td>$0</td>
<td>$11,000</td>
<td>60%</td>
<td>1.00</td>
</tr>
<tr>
<td>1870</td>
<td>$0</td>
<td>$12,000</td>
<td>60%</td>
<td>1.00</td>
</tr>
</tbody>
</table>

**Note:** The table continues with similar entries for subsequent years, showing the progression of income tax rates and exemptions from 1861 to 1887. Each row represents a year, with the tax rate, income exempt, and comparison details provided.