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Statutory Individual Income Tax Rates and Other Elements of the Tax System: 1988 through 2008

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Summary

Statutory individual income tax rates, also referred to as "statutory marginal tax rates," are the rates of tax applicable to the last (marginal) increment of taxable income. Statutory rates play an important role in determining the real marginal tax rates, which affect taxpayers' economic behavior.

Developments since enactment of the Tax Reform Act of 1986 (TRA86; P.L. 99-514) are the most relevant to the current state of affairs. Since then, the Omnibus Budget Reconciliation Act of 1990 (OBRA90; P.L. 101-508), the Omnibus Budget Reconciliation Act of 1993 (OBRA93; P.L. 103-66), and the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA; P.L. 107-16) and its extensions all changed the marginal income tax rate structure. Under current law, upon expiration of tax cuts enacted in 2001-2007, the rate structure will revert in 2011 to the one set by OBRA93.

The six marginal income tax rates for 2008 are 10%, 15%, 25%, 28%, 33%, and 35%. Specific types of income, such as capital gains, may be subject to different sets of marginal tax rates. Alternative minimum tax system (AMT), a parallel tax system which has recently garnered considerable attention, also has a different set of parameters.

Since 1981, Congress established and expanded, with slight modifications, the policy of tax indexation. Tax indexation helps prevent automatic tax increases and unintended changes in the distribution of the tax burden due to inflation. Under current law, many key components of the tax structure are indexed for inflation. Such components include the tax rate brackets, the personal exemptions and their phase-out thresholds, standard deductions, the itemized deduction limitation threshold, and others. Not all elements of the tax system, however, are currently adjusted for inflation. One of the examples is the AMT.

This report summarizes information about the tax brackets and other key elements of the tax system that determine taxpayer's statutory marginal tax rate. Such elements include tax brackets, exemptions, standard deductions, etc. This report, originally written by Gregg A. Esenwein, now retired, is updated annually to reflect the most recent indexation adjustments and statutory changes.

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Various Concepts of Tax Rates and Distinctions Among Them

Statutory individual income tax rates, also referred to as "statutory marginal tax rates," are the rates of tax prescribed by law that are applicable to the last (marginal) increment of taxable income. For many policymakers and taxpayers the level of statutory marginal tax rates is one of the most conspicuous features of the tax system.

It is important to distinguish between real (or, effective) and statutory rates. While they sound confusingly similar, each designates a very different economic concept. Statutory rates are simply the tax rates written into law for specified tiers of taxable income. Real marginal tax rates are the rates that actually apply to the last (marginal) increment of income.

Real and statutory marginal tax rates may diverge considerably for some taxpayers, but in many cases they do coincide and in many others they are interconnected.[1] For example, some taxpayers facing 10% statutory rate, were subject to real marginal rate in excess of 31%. At the same time, "most taxpayers face effective marginal rates of 15 percent or less,"[2] often coinciding or nearly-coinciding with the statutory rate. Some of the elements of the tax system that give rise to the difference between the real and statutory rates include the earned income tax credit (EITC) phase-ins and phase-outs,[3] the alternative minimum tax (AMT),[4] phase-outs of personal exemptions and deductions,[5] etc.

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[1] For more information, see U.S. Congressional Budget Office, *Effective Marginal Tax Rates on Labor Income,* Nov. 2005, available online at [http://cbo.gov/ftpdocs/68xx/doc6854/11-10-LaborTaxation.pdf].

[2] Ibid., p. 1.

[3] For more information see CRS Report RL31768, *The Earned Income Tax Credit (EITC): An Overview,* by Christine Scott.

[4] For more information see CRS Report RL30149, *The Alternative Minimum Tax for Individuals,* by Steven Maguire.

[5] For more details see CRS Report RS22464, *The PEP and Pease Provisions of the Federal Individual Income Tax,* by Gregg A. Esenwein.

Economists believe that taxpayers change their behavior in response to effective (real), not statutory, marginal tax rates. It means that when deciding, say, whether to work more, taxpayers consider by how much their real after-tax income would actually change as a result of this decision. The concept may be extended beyond individual income tax to an overall tax, or even overall fiscal, system, which includes other federal and sub-federal taxes and payments.[6] This broader analysis, however, goes beyond the scope of this report.

In contrast, average tax rates describe the total tax burden, but do not directly affect individuals' economic decision-making. Average tax rates express total tax liability as a percentage of income. Unlike"marginal" variables, they do not reflect how a taxpayer's economic position change in response to his or her actions.

Major Legislation Affecting the Statutory Rates

Over the past decades, there have been several major changes in federal individual statutory marginal income tax rates. The Tax Reform Act of 1986 (TRA86; P.L. 99-514) is a starting point from which the modern tax structure evolved. TRA86 created a tax rate structure that consisted of just two statutory tax rates: 15% and 28%. However, TRA86 also legislated a 5% surcharge on the taxable income of certain upper-income households, which effectively created a third marginal tax rate of 33%.

The Omnibus Budget Reconciliation Act of 1990 (OBRA90; P.L. 101-508) eliminated the 5-percent surcharge and created a marginal tax rate structure consisting of three statutory marginal tax rates of 15%, 28%, and 31%. However, OBRA90 also contained a provision that limited the amount of itemized deductions that upper-income households could claim and a provision that modified the phase-out of the tax benefits of personal exemptions for upper-income households. These provisions increased effective marginal tax rates over the statutory marginal tax rates for affected taxpayers.

The Omnibus Budget Reconciliation Act of 1993 (OBRA93; P.L. 103-66) added two new marginal income tax brackets, at 36% and 39.6% rates, at the upper end of the income scale. It also delayed indexation of the two new tax brackets for one year. In addition, OBRA93 made permanent the limitation on itemized deductions and the phase-out of the tax benefits of the personal exemption.

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA; P.L. 107-16) created a new 10% marginal income tax bracket. It also reduced the top four marginal tax rates to 25%, 28%, 33%, and 35% with the changes phased-in over the period 2001 through 2006. Additional provisions of the act affected tax brackets and limitations on personal exemptions and deductions for higher income taxpayers. The Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA; P.L.

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[6] For an example of such analysis, see S. D. Holt and J. L. Romich, (2007), *Marginal Tax Rates Facing Low- and Moderate-Income Workers Who Participate in Means-Tested Transfer Programs*, National Tax Journal, vol. 60, no. 2, June 2007, p. 253.

108-27), and the Working Families Tax Relief Act of 2004 (WFTRA; P.L. 108-311) accelerated and extended the tax rate reductions originally enacted under EGTRRA.[7] Under current law, however, most of these changes are scheduled to expire at the end of 2010.

The following sections of this report describe each of these major acts in more detail.

Tax Reform Act of 1986

Among its many changes, the Tax Reform Act of 1986 (TRA86; P.L. 99-514) instituted a rather simple marginal tax rate structure for tax years after 1987. It consisted of two statutory tax rates: 15% and 28%. **Table 3** shows the elements of the 1988 tax structure. These rates applied to capital income as well as to labor income. By comparison, in 1986, there had been 14 non-zero marginal tax brackets and the top statutory marginal tax rate reached 50%.[8]

Although the TRA86 specified that there were only two statutory individual marginal income tax rates, it also adopted a 5% surcharge on the taxable income of certain upper-income households. This surcharge effectively created a third marginal tax rate of 33% (28% statutory marginal tax rate plus 5% surcharge).

Because the surcharge was first phased in and then phased out as incomes increased, marginal tax rates rose to 33% but then fell back to 28%, producing what came to be known as the tax rate "bubble." The surcharge was adopted so that the TRA86 would not change the distribution of the income tax burden relative to its distribution under pre-1986 tax law and meet the needed revenue targets. The surcharge allowed characterizing the TRA86 as having only two statutory marginal tax rates, while meeting these other goals.

The surcharge was designed to gradually eliminate the tax benefits of the 15% tax bracket and the tax benefits of the personal exemptions for upper-income households. For joint returns in 1988, the phase-out of the 15% tax rate started when taxable income exceeded $71,900 and ended when taxable income reached $149,250, and the phase-out of the exemptions followed from that point on. For single returns, the phase-out of the 15% tax bracket occurred over the taxable income range of $47,050 to $97,620. For heads of households, the phase-out occurred over the taxable income range of $67,200 to $134,930. The phase-out of the exemptions followed the phase-out of the 15% tax bracket for all filing statuses, but the range of income over which it occurred depended on the number of exemptions claimed by a taxpayer.

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[7] For more details see CRS Report RL34425, *Expiration and Extension of the Individual Income Tax Cuts Enacted in 2001 Through 2007,* by Maxim Shvedov.

[8] For historical rates and brackets in 1986 and other years see Tax Policy Center, *Tax Facts, Individual Income Tax Brackets, 1945-2008,* Excel file, visited on March 12, 2008, at [http://taxpolicycenter.org/taxfacts/Content/Excel/individual_rates.xls].

To demonstrate how the 5% surcharge worked to "phase out" the tax benefits of the 15% tax bracket consider the following example based on joint returns for 1988. The difference between taxing the first $29,750 of taxable income at 28% instead of 15% was $3,867.50 (obtained as $29,750 multiplied by 13%, the difference between 28% and 15%). Five percent of the difference between the upper and lower phase-out limits was also $3,867.50 ($149,250 less $71,900 multiplied by 5%). Hence, assessing the 5% surcharge on taxable income between $78,400 and $162,770 was equivalent to having taxed the first $32,450 of taxable income at 28% rather than 15%.

A 5% surcharge was also used to phase out the tax benefits of the personal exemption for upper-income households. In 1988, each personal exemption was worth $1,950 and produced a tax savings for a household in the 28% marginal tax rate bracket of $546 ($1,950 times 28%). To recapture this tax savings a 5% surcharge was assessed against $10,920 of taxable income for each personal exemption claimed. A 5% surcharge against this amount of taxable income increased tax liability by $546 ($10,920 times 5%), which exactly offset the tax savings from the personal exemption.

The phase-out of personal exemptions started immediately after the phase-out of the 15% tax bracket and the phase-out of each exemption occurred sequentially. This meant that the taxable income range over which the 5% surcharge offset personal exemptions depended on the number of personal exemptions claimed on the tax return. For example, on a joint return claiming two personal exemptions, the 5% surcharge would apply to taxable income between $149,250 and $171,090 ($149,250 plus two times $10,920). On a joint return with four personal exemptions, the 5% surcharge would apply to taxable income between $149,250 and $192,930 ($149,250 plus four times $10,920).

Omnibus Budget Reconciliation Act of 1990

The Omnibus Budget Reconciliation Act of 1990 (OBRA90; P.L. 101-508) created a three-tiered statutory marginal income tax rate structure with rates of 15%, 28%, and 31%, effective in tax years beginning in 1991, as shown in **Table 5**. OBRA90 eliminated the tax bubble created under TRA86, but replaced it with a limitation on itemized deductions and a new approach to phasing out the tax benefits of the personal exemption for upper-income households.

OBRA90 reintroduced a tax-rate differential on capital gains income. OBRA90 contained a provision which limited the tax on capital gains income to a maximum of 28%. This provision was effective starting in tax year 1991. Under TRA86, capital gains had been treated as ordinary income and taxed at regular rates of up to 33%.

The OBRA90 limitation on itemized deductions worked as follows. For tax years starting in 1991, otherwise allowable deductions were reduced by 3% of the amount by which a taxpayer's adjusted gross income (AGI) exceeded $100,000 (or $50,000 in the case of married couples filing separate returns). For example, in 1991, if a taxpayer's AGI was $110,000, then his otherwise allowable itemized deductions would be reduced by $300 ($110,000 less $100,000 times 3%). This provision effectively raised the marginal income tax rate of those taxpayers affected by approximately 1 percentage point. A dollar of income in excess of $100,000 was taxed as if it were $1.03, since in addition to the tax on an extra dollar of income, the taxpayer lost tax deductions by giving up $0.03 of itemized deductions.

This limitation was scheduled to expire after tax year 1995 under OBRA90, but was later extended. Allowable deductions for medical expenses, casualty and theft losses, and investment interest were not subject to this limitation. For tax years after 1991, the $100,000 threshold was indexed for inflation.

The phase-out of the tax benefits of the personal exemption worked as follows. Each personal exemption was phased out by a factor of 2% for each $2,500 (or fraction thereof) by which a taxpayer's AGI exceeded a given threshold amount. In 1991, the threshold amount for a joint return was $150,000; for a single return the threshold was $100,000; and for heads of households the threshold was $125,000.

For example, in 1991, a joint household whose AGI was $183,000 would lose 28% of their total personal exemptions claimed. The AGI amount in excess of the threshold in this instance would be $33,000, $183,000 AGI less $150,000 threshold limit. The $33,000 excess divided by $2,500 would produce a factor of 13.2 which when rounded up would equal 14. This figure is multiplied by 2% to arrive at the final disallowance amount of 28%. Hence, if the family had claimed two personal exemptions, which at $2,150 each would total $4,300, they would only be allowed to deduct $3,096 ($4,300 total personal exemptions less the $1,204 disallowance, which is 28% of the total).

For tax years after 1991, these income threshold amounts were indexed for inflation. The personal exemptions phase-out provision was also scheduled to expire after tax year 1995.

Omnibus Budget Reconciliation Act of 1993

The Omnibus Budget Reconciliation Act of 1993 (OBRA93; P.L. 103-66) made several changes in the individual marginal income tax rate structure. First, it added two new marginal tax rates, 36% and 39.6%, at the upper end of the income spectrum. The 39.6% marginal tax rate bracket was created by imposing a "10% surtax" on high-income taxpayers (39.6=36 + 3.6, which is 10% of 36).

Although OBRA93 was enacted in August of 1993, the increase in the top marginal tax rates was made effective retroactively to January 1, 1993. Affected taxpayers, however, were not assessed penalties for underpayment of 1993 taxes resulting from the tax rate increase. Taxpayers were also allowed to pay any additional 1993 taxes in three equal installments over a two-year period.

Second, OBRA93 delayed indexation of the new top marginal income tax brackets for one year. Hence, the nominal dollar tax brackets for the 36% and 39.6% marginal tax rates remained at the same level for both tax years 1993 and 1994.

Finally, OBRA93 made permanent both the itemized deduction limitation and the phase-out of the tax benefits from personal exemptions.

Economic Growth and Tax Relief Reconciliation Act of 2001

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA; P.L. 107-16) made several major changes to the marginal tax rate structure. Many of the act's provisions were set to phase-in over a period of time, but subsequent 2003 and 2004 legislation, described in the next section, overrode the schedule originally set by EGTRRA. **Table 1** shows the time line of changes related to the marginal tax rate structure enacted under EGTRRA and subsequent bills, discussed below.

First, the 2001 Act created a new 10% bracket. It applied beginning in tax year 2002 to the first $12,000 of taxable income for married couples filing jointly, the first $10,000 of taxable income for heads of households, and the first $6,000 of taxable income for single individuals. For tax year 2001, the act created a "rate reduction tax credit," mimicking the effects of the 10% tax rate bracket for most taxpayers.[9]

In tax years 2003-2007, these provisions of EGTRRA were superseded by subsequent legislation. In 2008, EGTRRA set the 10% marginal tax rate bracket at $7,000 and $14,000 for single and married taxpayers, respectively. Starting with tax year 2009, these bracket amounts are scheduled to be indexed for inflation.

Second, the 2001 Act gradually reduced the top four marginal income tax rates. Under prior income tax law, the top four marginal tax rates were 28%, 31%, 36% and 39.6%. When fully phased in, the 2001 Act reduced the top four marginal income tax rates to 25%, 28%, 33% and 35%. Under EGTRRA the reductions were scheduled to take place in 2001 through 2006, but the subsequent legislation accelerated the EGTRRA phase-in schedule.

Third, EGTRRA also repealed the limitation on itemized deductions and personal exemptions for high-income taxpayers. The repeal was scheduled to be phased in between 2006 and 2009. The limitation was completely repealed for 2010, but it reappears again in 2011, once the EGTRRA's tax cuts expire.

Fourth, some of the act's measures designed to reduce the marriage penalty affected the rate bracket structure. The act increased the width of the 15% tax bracket for married couples filing joint returns to twice the width of the 15% tax

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[9] For more information see CRS Report RS21171, *The Rate Reduction Tax Credit — 'The Tax Rebate' — in the Economic Growth and Tax Relief Reconciliation Act of 2001: A Brief Explanation*, by Steven Maguire.

bracket for single returns. Under EGTRRA this provision was scheduled for phase-in over a four-year time period starting in 2005, but the subsequent legislation accelerated this time line. Under EGTRRA, the end point of the 15% tax bracket for joint returns was scheduled to be 180% of the end point of the 15% tax bracket for single returns in 2005, 187% in 2006, 193% in 2007, and 200% in 2008 and subsequent years.[10]

Finally, the 2001 Act increased the standard deduction for joint returns to twice the size of the standard deduction for single returns. The change was scheduled to be phased in over a five-year period, 2005 to 2009, but it was accelerated by the subsequent bills as well. This had an effect, as far as tax rate brackets were concerned, of raising the lower threshold of the lowest tax bracket for married taxpayers filing joint returns.

Jobs and Growth Tax Relief Reconciliation Act of 2003 and the Working Families Tax Relief Act of 2004

Among the several acts extending the EGTRRA, the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA; P.L. 108-27) and the Working Families Tax Relief Act of 2004 (WFTRA; P.L. 108-311) contained provisions that directly affected statutory income tax rates.

JGTRRA accelerated several changes to the individual income tax rate structure first enacted under EGTRRA. It moved forward to 2003 the tax rate reductions, expansion in the 10% tax bracket, and widening of the 15% tax bracket for joint returns to twice the width of the 15% tax bracket for single returns. Under EGTRRA some of these changes would not have been fully phased in until 2009.

WFTRA extended several tax provisions of the JGTRRA that were scheduled to expire at the end of 2004. Among other things, the WFTRA extended the increase in the 10% income tax bracket through 2007, at which point EGTRRA's relevant provisions are fully phased in, maintaining a constant level of the tax relief.

The 2004 act also extended marriage penalty relief through 2008. The standard deduction and 15% tax bracket for joint returns were set at twice their level for single returns. In 2009 and 2010, EGTRRA provisions apply, maintaining the same level of tax relief.

Both acts also established a more preferential treatment of long-term capital gains and dividends. They reduced the tax rates applicable to these kinds of income to 15%, or even 0% for certain taxpayers.

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[10] For more information on these changes see CRS Report RL34425, *Expiration and Extension of the Individual Income Tax Cuts Enacted in 2001 Through 2007*, by Maxim Shvedov.

Table 1. Phase-in and Expiration of Select Provisions Under EGTRRA and Follow-up Acts

Provision	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Tax Rates and Brackets											
Create 10 percent tax bracket	EGTRRA: $12,000 / $6,000 brackets for couples / singles.		JGTRRA: $14,000 / $7,000 for couples / singles. Index in 2004.		WFTRA: $14,000 / $7,000 for couples / singles.			EGTRRA: $14,000 / $7,000 for couples / singles. Index in 2009.			Bracket expires.
Reduce tax rates in top four tax brackets	EGTRRA:	EGTRRA:	JGTRRA:			EGTRRA:					Reverts to:
	39.1%	38.6%	35%			35%					39.6%
	35.5%	35%	33%			33%					36%
	30.5%	30%	28%			28%					31%
	27.5%	27%	25%			25%					28%
Reduce tax rates on capital gains and dividends	No change.		JGTRRA: 15% or 5% rate depending on income.					JGTRRA: 15% / 0%	TIPRA: 15% / 0%		Up to 20% or regular tax rates.
Limits on Itemized Deductions and Personal Exemptions											
Reduce or eliminate limits on itemized deductions and personal exemptions	No change.					EGTRRA: Reduce limits by one-third.		EGTRRA: Reduce limits by two-thirds.		EGTRRA: Repeal limits.	Limits reinstated.
Marriage Penalty Relief											
Increase standard deduction for married couples	No change.		JGTRRA: Deduction for couples is 200% of the deduction for singles.		WFTRA: Deduction for couples is 200% of the deduction for singles.				EGTRRA: Deduction for couples is 200% of the deduction for singles.		Reverts to 167%.
Expand 15 percent bracket for married couples	No change.		JGTRRA: Top of the bracket for couples is 200% of that for singles.		WFTRA: Top of the bracket for couples is 200% of that for singles.			EGTRRA: Top of the bracket for couples is 200% of that for singles.			Reverts to 167%.

Source: CRS adaptation of Congressional Budget Office and Joint Committee on Taxation tables and publications.

Note: EGTRRA — Economic Growth and Tax Relief Reconciliation Act of 2001 (P.L. 107-16, 2001, introduced as H.R. 1836); JGTRRA — Jobs and Growth Tax Relief Reconciliation Act of 2003 (P.L. 108-27, 2003, introduced as H.R. 2); WFTRA — Working Families Tax Relief Act of 2004 (P.L. 108-311, 2004, introduced as H.R. 1308); TIPRA — Tax Increase Prevention and Reconciliation Act of 2005 (P.L. 109-222, 2006, introduced as H.R. 4297).

Effects of Inflation on Income Tax Liabilities

During periods of inflation, the progressive nature of the tax structure designated on a current (nominal) dollar basis produces automatic tax increases and unintentional changes in the distribution of the tax burden. The federal individual income tax system in the United States is progressive. That is, as incomes rise, income tax liabilities as a share of income also rise. In addition, the income tax is calculated on the basis of current dollar amounts. Absent periodic indexation of the tax system elements, a larger share of taxpayers would be subject to higher tax liabilities, simply because their nominal income increased, regardless of how their real income had changed.

The effects of inflation on income tax liabilities could be substantial even in periods of low inflation, such as the last two decades. Still, according to the Bureau of Labor Statistics, $1,000 in 1989 is worth about $1,707, or almost 71% more, in 2008.[11] Year-to-year change might appear negligible, but over a period of several years, it compounds to make a substantial difference.

Consider a hypothetical example of what lack of indexation would have implied for a taxpayer, if the 1989 tax structure applied without indexation in 2008. For illustration consider a four-person family with adjusted gross income (AGI) of $35,000 in 1989, a rounded up 1989 family median income of $34,213, according to the Census.[12] If we assume that the family used the standard deduction, then its taxable income would have been $21,800 ($35,000 less standard deduction of $5,200 and four personal exemptions at $2,000 apiece), and the tax liability — $3,270. This translates into an after-tax income of $31,730 ($35,000 less $3,270), or an average tax rate of 9.3% ($3,270 divided by $35,000 income).

Now consider what would have happened in 2008 if this family's nominal income just kept up with inflation. The AGI would have been approximately $60,000. If the tax structure were not indexed for inflation, the family's taxable income would have been $46,800. The tax liability would have increased to approximately $9,081 in current 2008 dollars, or $5,319 in constant 1989 dollars ($9,081 adjusted for the cumulative inflation of about 71%). This would represent a tax liability increase of 63% in real terms. The family's after-tax income would be $50,919 in current 2008 dollars, or $29,826 in constant 1989 dollars ($50,919 adjusted for the cumulative inflation of about 71%), a decrease of 6%. Its average tax rate would have increased from 9.3% to 15.1%.

This example illustrates how this family's real after-tax income declined by 6%, because of the so-called, "bracket creep." Its income tax burden increased by 63% in real terms between 1989 and 2008. This effect would be even more pronounced in the periods of a high inflation.

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[11] BLS, *CPI Inflation Calculator*, web page, visited on Apr. 2, 2008, at [http://data.bls.gov/cgi-bin/cpicalc.pl].

[12] U.S. Census, *Historical Income Tables — Families, Table F-5. Race and Hispanic Origin of Householder — Families by Median and Mean Income: 1947 to 2005,* web page, visited on Apr. 2, 2008, at [http://www.census.gov/hhes/www/income/histinc/f05.html].

Under indexed tax system, the family would have experienced no change in their real after-tax income. For instance, under an indexed system the value of the standard deduction for a joint return would have increased from $5,200 in 1989 to $8,877 in 2008. The personal exemption would have increased from $2,000 to $3,414. Under these circumstances the family's 2008 taxable income would have been $37,465 ($60,000 income less standard deduction and personal exemptions). Tax brackets would have adjusted as well. Based on this taxable income and the adjusted brackets, their income tax liability would have been $5,620 in current 2008 dollars, or $3,291 in constant 1989 dollars — about the same as in 1989 (the difference is due to rounding). In short, the nominal amounts might be different, but real values would have stayed the same for this family.

Congress enacted income tax indexation as a part of an overall package of statutory marginal tax rate reductions contained in the Economic Recovery Tax Act of l981.

> The Congress believed that "automatic" tax increases resulting from the effects of inflation were unfair to taxpayers, since their tax burden as a percentage of income could increase during intervals between tax reduction legislation, with an adverse effect on incentives to work and invest. In addition, the Federal Government was provided with an automatic increase in its aggregate revenue, which in turn created pressure for further spending.[13]

There was very little debate about this aspect of the bill. The act specified which elements of the tax system were subject to indexation. Over the years, as the tax system changed, additional elements entered the list.

List of the indexed elements of the tax system has been gradually expanding over the years. For example, one of the most notable changes occurred with the passage of the TRA86, which extended indexation to some of the newly created elements of the tax system, such as the additional standard deductions for the elderly and the blind, the EITC, and others. More recently, EGTRRA applied indexing to the EITC phase-out amounts in 2008.

Table 2 lists indexed tax items and provides the year of the first adjustment.[14] Several provisions on the list are only partially indexed: some of their parameters are adjusted for inflation, while others are not. For example, most of the amounts related to the child tax credit are not adjusted for inflation, including the amount of the credit itself or phase-out thresholds for higher-income taxpayers, but earned income floor used in calculating the credit's refundable amount is adjusted for inflation.

Indexing might make the tax system somewhat more technically complex, but this is a minor complication. The year-to-year changes in dollar amounts are usually

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[13] U.S. Congress, Joint Committee on Taxation, *General Explanation of the Economic Recovery Tax Act of 1981*, JCS-71-81, Dec. 31, 1981, as redistributed by CCH Internet Tax Research NetWork.

[14] James C. Young, "A Summary of 2007 Inflation Adjustments Impacting Individuals," *Tax Notes*, Oct. 15, 2007, p. 246.

small, so taxpayers hardly ever face unexpected changes that might materially affect them. On the revenue side, indexing results in lower government receipts.

Some elements of the tax system are not adjusted for inflation. In recent years, a problem caused by one such element garnered considerable attention of the policymakers and the public: the fast-growing number of taxpayers that could be affected by the alternative minimum tax (AMT). The AMT is an alternative income tax system, originally intended to affect only the high-income taxpayers. With the passage of time, as nominal incomes of taxpayers rose across the board, the AMT affected a larger number of taxpayers at a broader range of income levels. It is estimated that, absent congressional action, the number of taxpayers subject to the AMT will increase from over 1 million in 2001 to about 26 million in 2008, and almost 36 million in 2017.[15] In recent years, Congress has adjusted AMT parameters to avoid this in a series of one-year adjustments, but at this point it is not clear how this ongoing issue will be resolved in the long term.[16]

While the AMT is currently the most notable problem caused by the lack of indexation, the AMT exemptions are not the only parameters in the tax system not adjusted for inflation. Therefore it is conceivable that lack of indexation may pose new complications in other areas of the tax system in the future.

The Mechanics of Indexation

Most provisions are indexed using the technical calculation described below. The methodology is the same, although specific parameters may vary by provision. In some instances, the calculation methodology differs somewhat in one way or another. Such examples include the EITC or transportation benefits. The variations are insignificant from an economic standpoint, as long as they do not result in systematic deviations from the rate of inflation.

The adjustment for any given tax year is based on the percentage amount by which the average Consumer Price Index for all urban consumers (CPI-U) for the twelve month period ending on August 31 of the preceding year exceeds the average CPI-U during a specified twelve month base period. The base period differs depending upon the tax component under consideration, as listed in **Table 2**.

With the exception of the EITC and some other instances, inflation adjustments are currently rounded down to the nearest multiple of $50. Although rounding down affects the accuracy of any given year's inflation adjustment, the effect is not cumulative since each year's adjustment is calculated to reflect the entire amount of inflation that has occurred between the adjustment year and the base period.

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[15] U.S. Congress, Joint Committee on Taxation, *Present Law and Background Relating to the Individual Alternative Minimum Tax,* JCX-38-07, June 25, 2007, pp. 11, 17.

[16] For more information please see CRS Report RS21817, *The Alternative Minimum Tax (AMT): Income Entry Points and "Take Back" Effects,* by Steven Maguire.

For example, the adjustment factor for the standard deductions in 2008 was calculated as follows. The average CPI-U for the base period, September 1987 through August 1988, was 116.62. The average CPI-U for the period September 2006 through August 2007 was 204.87. Given these amounts, the inflation adjustment factor for 2008 was 1.76 (204.87/116.62).

This inflation adjustment factor was then applied to $2,000 — the base year value of the exemption in 1989 — resulting in $3,513. Rounding this number down to the nearest multiple of $50 yields the final value of the exemption in 2008: $3,500.

Table 2. Indexed Elements of the Individual Income Tax System

Item	Base Period Is the 12-Month Period Ending	Adjustment First Occurs in Calendar Year
Standard deduction	31-Aug-87	1989
Unearned income of minor child (base amount)	31-Aug-87	1989
Exemptions	31-Aug-88	1990
Educational savings bonds	31-Aug-89	1991
Exemption phase-out	31-Aug-90	1992
Itemized deduction limitation (3% of AGI)	31-Aug-90	1992
Tax rate schedules:		
10% bracket	31-Aug-02	2004
15%/25%/28% brackets	31-Aug-92	1994
33%/35% brackets	31-Aug-93	1995
Earned income credit	31-Aug-95	1997
Standard deduction for employed dependents	31-Aug-97	1999
Medical savings accounts	31-Aug-97	1999
Annual gift tax exclusion	31-Aug-97	1999
Qualified transportation fringe benefits:		
Categories 1 and 2	31-Aug-01	2003
Category 3	31-Aug-98	2000
HOPE, lifetime learning, and child tax credits	31-Aug-00	2002
Education loan interest	31-Aug-01	2003
Adoption expenses/credit	31-Aug-01	2003
Traditional and Roth IRA income phase-outs	31-Aug-05	2007
Section 179 expense amounts	31-Aug-06	2008

Source: James C. Young, "A Summary of 2007 Inflation Adjustments Impacting Individuals."

Tax Rate Schedules for 1988 Through 2008

The following tables present the personal exemption amounts, standard deductions, and the statutory marginal tax rates schedules for each tax year from 1988 through 2008.

Table 3. Personal Exemptions, Standard Deductions, and Statutory Tax Rates, 1988

Personal Exemptions	$1,950
Standard Deductions	
Joint	$5,000
Single	3,000
Head of Household	4,400
Additional Standard Deductions for the Elderly and the Blind	
Joint	$600
Single/Head of Household	750
Statutory Marginal Income Tax Rates, Joint Returns	
If *taxable income* is:	Then, *tax* is:
$0 - $29,750	15% of the amount over $0
$29,750 - $71,900	$4,462.50 + 28% of the amount over $29,750
*$71,900 - $171,090**	*$16,264.50 + 33% of the amount over $71,900*
$171,090 and over	$47,905.20 + 28% of the amount over $171,090
Statutory Marginal Income Tax Rates, Single Returns	
If *taxable income* is:	Then, *tax* is:
$0 - $17,850	15% of the amount over $0
$17,850 - $43,150	$2,677.50 + 28% of the amount over $17,850
*$43,150- $100,480**	*$9,761.50 + 33% of the amount over $43,150*
$100,480 and over	$28,134.40 + 28% of the amount over $100,480
Statutory Marginal Income Tax Rates, Heads of Household	
If *taxable income* is:	Then, *tax* is:
$0 - $23,900	15% of the amount over $0
$23,900 - $61,650	$3,585 + 28% of the amount over $23,900
*$61,650 - $145,630**	*$14,155 + 33% of the amount over $61,650*
$145,630 and over	$40,776.40 + 28% of the amount over $145,630

* Implicit tax bracket, generated by the "tax bubble," as described in text. The bracket's upper bound depends on the number of exemptions claimed by the taxpayer. Example in this table assumes one exemption for single returns, two for the other statuses.

Table 4. Personal Exemptions, Standard Deductions, and Statutory Tax Rates, 1989

Personal Exemptions	$2,000
Standard Deductions	
Joint	$5,200
Single	3,100
Head of Household	4,550
Additional Standard Deductions for the Elderly and the Blind	
Joint	$600
Single/Head of Household	750
Statutory Marginal Income Tax Rates, Joint Returns	
If *taxable income* is:	Then, *tax* is:
$0 - $30,950	15% of the amount over $0
$30,950 - $ 74,850	$4,642.50 + 28% of the amount over $ 30,950
*$ 74,850 - $177,720**	*$16,934.50 + 33% of the amount over $ 74,850*
$177,720 and over	$50,881.60 + 28% of the amount over $177,720
Statutory Marginal Income Tax Rates, Single Returns	
If *taxable income* is:	Then, *tax* is:
$ 0 - $ 18,550	15% of the amount over $0
$ 18,550 - $ 44,900	$ 2,782.50 + 28% of the amount over $ 18,550
*$ 44,900 - $104,300**	*$10,160.50 + 33% of the amount over $ 44,900*
$104,300 and over	$29,772.40 + 28% of the amount over $104,300
Statutory Marginal Income Tax Rates, Heads of Household	
If *taxable income* is:	Then, *tax* is:
$ 0 - $ 24,850	15% of the amount over $0
$ 24,850 - $ 64,200	$ 3,727.50 + 28% of the amount over $ 24,850
*$ 64,200 - $151,210**	*$14,745.50 + 33% of the amount over $ 64,200*
$151,210 and over	$43,458.80 + 28% of the amount over $151,210

* Implicit tax bracket, generated by the "tax bubble," as described in text. The bracket's upper bound depends on the number of exemptions claimed by the taxpayer. Example in this table assumes one exemption for single returns, two for the other statuses.

Table 5. Personal Exemptions, Standard Deductions, and Statutory Tax Rates, 1990

Personal Exemptions	$2,050
Standard Deductions	
Joint	$5,450
Single	3,250
Head of Household	4,750
Additional Standard Deductions for the Elderly and the Blind	
Joint	$650
Single/Head of Household	800
Statutory Marginal Income Tax Rates, Joint Returns	
If *taxable income* is:	Then, *tax* is:
$ 0 - $ 32,450	15% of the amount over $0
$ 32,450 - $ 78,400	$ 4,867.50 + 28% of the amount over $ 32,450
*$ 78,400 - $185,730**	*$17,733.50 + 33% of the amount over $ 78,400*
$185,730 and over	$53,152.40 + 28% of the amount over $185,730
Statutory Marginal Income Tax Rates, Single Returns	
If *taxable income* is:	Then, *tax* is:
$0 - $ 19,450	15% of the amount over $0
$ 19,450 - $ 47,050	$ 2,917.50 + 28% of the amount over $ 19,450
*$ 47,050 - $109,100**	*$10,645.50 + 33% of the amount over $ 47,050*
$109,100 and over	$31,122.00 + 28% of the amount over $109,100
Statutory Marginal Income Tax Rates, Heads of Households	
If *taxable income* is:	Then, *tax* is:
$0 - $ 26,050	15% of the amount over $0
$ 26,050 - 67,200	$ 3,907.50 + 28% of the amount over $ 26,050
*$ 67,200 - $157,890**	*$15,429.50 + 33% of the amount over $ 67,200*
$157,890 and over	$45,357.20 + 28% of the amount over $157,890

* Implicit tax bracket, generated by the "tax bubble," as described in text. The bracket's upper bound depends on the number of exemptions claimed by the taxpayer. Example in this table assumes one exemption for single returns, two for the other statuses.

Table 6. Personal Exemptions, Standard Deductions, and Statutory Tax Rates, 1991

Personal Exemptions	$2,150
Standard Deductions	
Joint	$5,700
Single	3,400
Head of Household	5,000
Additional Standard Deductions for the Elderly and the Blind	
Joint	$650
Single/Head of Household	850
Statutory Marginal Income Tax Rates, Joint Returns	
If *taxable income* is:	Then, *tax* is:
$0 - $ 34,000	15% of the amount over $0
$ 34,000 - $ 82,150	$ 5,100 + 28% of the amount over $ 34,000
$ 82,150 and over	$18,582 + 31% of the amount over $ 82,150
Statutory Marginal Income Tax Rates, Single Returns	
If *taxable income* is:	Then, *tax* is:
$0 - $ 20,350	15% of the amount over $0
$ 20,350 - $ 49,300	$ 3,052.50 + 28% of the amount over $ 20,350
$ 49,300 and over	$11,158.50 + 31% of the amount over $ 49,300
Statutory Marginal Income Tax Rates, Heads of Households	
If *taxable income* is:	Then, *tax* is:
$ 0 - $ 27,300	15% of the amount over $0
$ 27,300 - $ 70,450	$ 4,095 + 28% of the amount over $ 27,300
$ 70,450 and over	$16,177 + 31% of the amount over $ 70,450

Table 7. Personal Exemptions, Standard Deductions, and Statutory Tax Rates, 1992

Personal Exemptions	$2,300
Standard Deductions	
Joint	$6,000
Single	3,600
Head of Household	5,250
Additional Standard Deductions for the Elderly and the Blind	
Joint	$700
Single/Head of Household	900
Statutory Marginal Income Tax Rates, Joint Returns	
If *taxable income* is:	Then, *tax* is:
$0 - $ 35,800	15% of the amount over $0
$ 35,800 - $ 86,500	$ 5,370 + 28% of the amount over $ 35,800
$ 86,500 and over	$19,566 + 31% of the amount over $ 86,500
Statutory Marginal Income Tax Rates, Single Returns	
If *taxable income* is:	Then, *tax* is:
$0 - $ 21,450	15% of the amount over $0
$ 21,450 - $ 51,900	$ 3,218 + 28% of the amount over $ 21,450
$ 51,900 and over	$11,744 + 31% of the amount over $ 51,900
Statutory Marginal Income Tax Rates, Heads of Households	
If *taxable income* is:	Then, *tax* is:
$0 - $ 28,750	15% of the amount over $0
$ 28,750 - $ 74,150	$ 4,313 + 28% of the amount over $ 28,750
$ 74,150 and over	$17,235 + 31% of the amount over $ 74,150

Table 8. Personal Exemptions, Standard Deductions, and Statutory Tax Rates, 1993

Personal Exemptions	$2,350
Standard Deductions	
Joint	$6,200
Single	3,700
Head of Household	5,450
Additional Standard Deductions for the Elderly and the Blind	
Joint	$700
Single/Head of Household	900
Statutory Marginal Income Tax Rates, Joint Returns	
If *taxable income* is:	Then, *tax* is:
$0 - $ 36,900	15% of the amount over $0
$ 36,900 - $ 89,150	$5,535 + 28% of the amount over $36,900
$ 89,150 - $ 140,000	$20,165 + 31% of the amount over $89,150
$ 140,000 - $ 250,000	$35,929 + 36% of the amount over $140,000
$ 250,000 and over	$75,529 + 39.6% of the amount over $250,000
Statutory Marginal Income Tax Rates, Single Returns	
If *taxable income* is:	Then, *tax* is:
$0 - $ 22,100	15% of the amount over $0
$ 22,100 - $53,500	$3,315 + 28% of the amount over $22,100
$ 53,500 - $ 115,000	$12,107 + 31% of the amount over $53,500
$ 115,000 - $ 250,000	$31,172 + 36% of the amount over $115,000
$ 250,000 and over	$79,772 + 39.6% of the amount over $250,000
Statutory Marginal Income Tax Rates, Heads of Households	
If *taxable income* is:	Then, *tax* is:
$0 - $ 29,600	15% of the amount over $0
$ 29,600 - $ 76,400	$4,440 + 28% of the amount over $29,600
$ 76,400 - $ 127,500	$17,544 + 31% of the amount over $76,400
$ 127,500 - $ 250,000	$33,385 + 36% of the amount over $127,500
$ 250,000 and over	$77,485 + 39.6% of the amount over $250,000

Table 9. Personal Exemptions, Standard Deductions, and Statutory Tax Rates, 1994

Personal Exemptions	$2,450
Standard Deductions	
Joint	$6,350
Single	3,800
Head of Household	5,600
Additional Standard Deductions for the Elderly and the Blind	
Joint	$750
Single/Head of Household	950
Statutory Marginal Income Tax Rates, Joint Returns	
If *taxable income* is:	Then, *tax* is:
$0 - $ 38,000	15% of the amount over $0
$ 38,000 - $ 91,850	$5,700 + 28% of the amount over $38,000
$ 91,850 - $ 140,000	$20,778 + 31% of the amount over $91,850
$ 140,000 - $ 250,000	$35,705 + 36% of the amount over $140,000
$ 250,000 and over	$75,305 + 39.6% of the amount over $250,000
Statutory Marginal Income Tax Rates, Single Returns	
If *taxable income* is:	Then, *tax* is:
$0 - $ 22,750	15% of the amount over $0
$ 22,750 - $ 55,100	$3,413 + 28% of the amount over $22,750
$ 55,100 - $ 115,000	$12,471 + 31% of the amount over $55,100
$ 115,000 - $ 250,000	$31,040 + 36% of the amount over $115,000
$ 250,000 and over	$79,640 + 39.6% of the amount over $250,000
Statutory Marginal Income Tax Rates, Heads of Households	
If *taxable income* is:	Then, *tax* is:
$0 - $ 30,500	15% of the amount over $0
$ 30,500 - $ 78,700	$4,575 + 28% of the amount over $30,500
$ 78,700 - $ 127,500	$18,071 + 31% of the amount over $78,750
$ 127,500 - $ 250,000	$33,199 + 36% of the amount over $127,500
$ 250,000 and over	$77,299 + 39.6% of the amount over $250,000

Table 10. Personal Exemptions, Standard Deductions, and Statutory Tax Rates, 1995

Personal Exemptions	$2,500
Standard Deductions	
Joint	$6,550
Single	3,900
Head of Household	5,750
Additional Standard Deductions for the Elderly and the Blind	
Joint	$750
Single/Head of Household	950
Statutory Marginal Income Tax Rates, Joint Returns	
If *taxable income* is:	Then, *tax* is:
$0 - $ 39,000	15% of the amount over $0
$ 39,000 - $ 94,250	$5,850 + 28% of the amount over $39,000
$ 94,250 - $ 143,600	$21,320 + 31% of the amount over $94,250
$ 143,600 - $ 256,500	$36,619 + 36% of the amount over $143,600
$ 256,500 and over	$77,263 + 39.6% of the amount over $256,500
Statutory Marginal Income Tax Rates, Single Returns	
If *taxable income* is:	Then, *tax* is:
$0 - $ 23,350	15% of the amount over $0
$ 23,350 - $ 56,550	$3,503 + 28% of the amount over $23,350
$ 56,550 - $ 117,950	$12,799 + 31% of the amount over $56,550
$ 117,950 - $ 256,500	$31,833 + 36% of the amount over $117,950
$ 256,500 and over	$81,711 + 39.6% of the amount over $256,500
Statutory Marginal Income Tax Rates, Heads of Households	
If *taxable income* is:	Then, *tax* is:
$0 - $ 31,250	15% of the amount over $0
$ 31,250 - $ 80,750	$4,688 + 28% of the amount over $31,250
$ 80,750 - $ 130,800	$18,548 + 31% of the amount over $80,750
$ 130,800 - $ 256,500	$34,063 + 36% of the amount over $130,800
$ 256,500 and over	$79,315 + 39.6% of the amount over $256,500

Table 11. Personal Exemptions, Standard Deductions, and Statutory Tax Rates, 1996

Personal Exemptions	$2,550
Standard Deductions	
Joint	$6,700
Single	4,000
Head of Household	5,900
Additional Standard Deductions for the Elderly and the Blind	
Joint	$800
Single/Head of Household	1,000
Statutory Marginal Income Tax Rates, Joint Returns	
If *taxable income* is:	Then, *tax* is:
$0 - $ 40,100	15% of the amount over $0
$ 40,100 - $ 96,900	$6,015 + 28% of the amount over $40,100
$ 96,900 - $ 147,700	$21,919 + 31% of the amount over $96,900
$ 147,700 - $ 263,750	$37,667 + 36% of the amount over $147,700
$ 263,750 and over	$79,445 + 39.6% of the amount over $263,750
Statutory Marginal Income Tax Rates, Single Returns	
If *taxable income* is:	Then, *tax* is:
$0 - $ 24,000	15% of the amount over $0
$ 24,000 - $ 58,150	$3,600 + 28% of the amount over $24,000
$ 58,150 - $ 121,300	$13,162 + 31% of the amount over $58,150
$ 121,300 - $ 263,750	$32,739 + 36% of the amount over $121,300
$ 263,750 and over	$84,021 + 39.6% of the amount over $263,750
Statutory Marginal Income Tax Rates, Heads of Households	
If *taxable income* is:	Then, *tax* is:
$0 - $ 32,150	15% of the amount over $0
$ 32,150 - $ 83,050	$4,823 + 28% of the amount over $32,150
$ 83,050 - $ 134,500	$19,075 + 31% of the amount over $83,050
$ 134,500 - $ 263,750	$35,025 + 36% of the amount over $134,500
$ 263,750 and over	$81,555 + 39.6% of the amount over $263,750

Table 12. Personal Exemptions, Standard Deductions, and Statutory Tax Rates, 1997

Personal Exemptions	$2,650
Standard Deductions	
Joint	$6,900
Single	4,150
Head of Household	6,050
Additional Standard Deductions for the Elderly and the Blind	
Joint	$800
Single/Head of Household	1,000
Statutory Marginal Income Tax Rates, Joint Returns	
If *taxable income* is:	Then, *tax* is:
$0 - $ 41,200	15% of the amount over $0
$ 41,200 - $ 99,600	$6,180 + 28% of the amount over $41,200
$ 99,600 - $ 151,750	$22,532 + 31% of the amount over $99,600
$ 151,750 - $ 271,050	$38,699 + 36% of the amount over $151,750
$ 271,050 and over	$81,647 + 39.6% of the amount over $271,050
Statutory Marginal Income Tax Rates, Single Returns	
If *taxable income* is:	Then, *tax* is:
$0 - $ 24,650	15% of the amount over $0
$ 24,650 - $ 59,750	$3,698 + 28% of the amount over $24,650
$ 59,750 - $ 124,650	$13,526 + 31% of the amount over $59,750
$ 124,650 - $ 271,050	$33,645 + 36% of the amount over $124,650
$ 271,050 and over	$86,349 + 39.6% of the amount over $271,050
Statutory Marginal Income Tax Rates, Heads of Households	
If *taxable income* is:	Then, *tax* is:
$0 - $ 33,050	15% of the amount over $0
$ 33,050 - $ 83,350	$4,958 + 28% of the amount over $33,050
$ 83,350 - $ 138,200	$19,602 + 31% of the amount over $85,350
$ 138,200 - $ 271,050	$35,986 + 36% of the amount over $138,200
$ 271,050 and over	$83,812 + 39.6% of the amount over $271,050

Table 13. Personal Exemptions, Standard Deductions, and Statutory Tax Rates, 1998

Personal Exemptions	$2,700
Standard Deductions	
Joint	$7,100
Single	4,250
Head of Household	6,250
Additional Standard Deductions for the Elderly and the Blind	
Joint	$850
Single/Head of Household	1,050
Statutory Marginal Income Tax Rates, Joint Returns	
If *taxable income* is:	Then, *tax* is:
$0 - $ 42,350	15% of the amount over $0
$ 42,350 - $ 102,300	$6,353 + 28% of the amount over $42,350
$ 102,300 - $ 155,950	$23,139 + 31% of the amount over $102,300
$ 155,950 - $ 278,450	$39,770 + 36% of the amount over $155,950
$ 278,450 and over	$83,870 + 39.6% of the amount over $278,450
Statutory Marginal Income Tax Rates, Single Returns	
If *taxable income* is:	Then, *tax* is:
$0 - $ 25,350	15% of the amount over $0
$ 25,350 - $ 61,400	$3,803 + 28% of the amount over $25,350
$ 61,400 - $ 128,100	$13,897 + 31% of the amount over $61,400
$ 128,100 - $ 278,450	$34,574 + 36% of the amount over $128,100
$ 278,450 and over	$88,700 + 39.6% of the amount over $278,450
Statutory Marginal Income Tax Rates, Heads of Households	
If *taxable income* is:	Then, *tax* is:
$0 - $ 33,950	15% of the amount over $0
$ 33,950 - $ 87,700	$5,093 + 28% of the amount over $33,950
$ 87,700 - $ 142,000	$20,143 + 31% of the amount over $87,700
$ 142,000 - $ 278,450	$36,976+ 36% of the amount over $142,000
$ 278,450 and over	$86,098 + 39.6% of the amount over $278,450

Table 14. Personal Exemptions, Standard Deductions, and Statutory Tax Rates, 1999

Personal Exemptions	$2,750
Standard Deductions	
Joint	$7,200
Single	4,300
Head of Household	6,350
Additional Standard Deductions for the Elderly and the Blind	
Joint	$850
Single/Head of Household	1,050
Statutory Marginal Income Tax Rates, Joint Returns	
If *taxable income* is:	Then, *tax* is:
$0 - $ 43,050	15% of the amount over $0
$ 43,050 - $ 104,050	$6,458 + 28% of the amount over $43,050
$ 104,050 - $ 158,550	$23,538 + 31% of the amount over $104,050
$ 158,550 - $ 283,150	$40,433 + 36% of the amount over $158,550
$ 283,150 and over	$85,289 + 39.6% of the amount over $283,150
Statutory Marginal Income Tax Rates, Single Returns	
If *taxable income* is:	Then, *tax* is:
$0 - $ 25,750	15% of the amount over $0
$ 25,750 - $ 62,450	$3,863 + 28% of the amount over $25,750
$ 62,450 - $ 130,250	$14,139 + 31% of the amount over $62,450
$ 130,250 - $ 283,150	$35,157 + 36% of the amount over $130,250
$ 283,150 and over	$90,201 + 39.6% of the amount over $283,150
Statutory Marginal Income Tax Rates, Heads of Households	
If *taxable income* is:	Then, *tax* is:
$0 - $ 34,550	15% of the amount over $0
$ 34,550 - $ 89,150	$5,183 + 28% of the amount over $34,550
$ 89,150 - $ 144,400	$20,471 + 31% of the amount over $89,150
$ 144,400 - $ 283,150	$37,598 + 36% of the amount over $144,440
$ 283,150 and over	$87,548 + 39.6% of the amount over $283,150

Table 15. Personal Exemptions, Standard Deductions, and Statutory Tax Rates, 2000

Personal Exemptions	$2,800
Standard Deductions	
Joint	$7,350
Single	4,400
Head of Household	6,450
Additional Standard Deductions for the Elderly and the Blind	
Joint	$850
Single/Head of Household	1,100
Statutory Marginal Income Tax Rates, Joint Returns	
If *taxable income* is:	Then, *tax* is:
$0 - $ 43,850	15% of the amount over $0
$ 43,850 - $ 105,950	$6,578 + 28% of the amount over $43,850
$ 105,950 - $ 161,450	$23,966 + 31% of the amount over $105,950
$ 161,450 - $ 288,350	$41,171 + 36% of the amount over $161,450
$ 288,350 and over	$86,855 + 39.6% of the amount over $288,350
Statutory Marginal Income Tax Rates, Single Returns	
If *taxable income* is:	Then, *tax* is:
$0 - $ 26,250	15% of the amount over $0
$ 26,250 - $ 63,550	$3,938 + 28% of the amount over $26,250
$ 63,550 - $ 132,600	$14,382 + 31% of the amount over $63,550
$ 132,600 - $ 288,350	$35,787 + 36% of the amount over $132,600
$ 288,350 and over	$91,857 + 39.6% of the amount over $288,350
Statutory Marginal Income Tax Rates, Heads of Households	
If *taxable income* is:	Then, *tax* is:
$0 - $ 35,150	15% of the amount over $0
$ 35,150 - $ 90,800	$5,273 + 28% of the amount over $35,150
$ 90,800 - $ 147,050	$20,855 + 31% of the amount over $90,800
$ 147,050 - $ 288,350	$38,292 + 36% of the amount over $147,050
$ 288,350 and over	$89,160 + 39.6% of the amount over $288,350

Table 16. Personal Exemptions, Standard Deductions, and Statutory Tax Rates, 2001

Personal Exemptions	$2,900
Standard Deductions	
Joint	$7,600
Single	4,550
Head of Household	6,650
Additional Standard Deductions for the Elderly and the Blind	
Joint	$900
Single/Head of Household	1,100
Statutory Marginal Income Tax Rates, Joint Returns	
If *taxable income* is:	Then, *tax* is:
$0 - $ 45,200	15% of the amount over $0
$ 45,200 - $ 109,250	$6,780 + 27.5% of the amount over $45,200
$ 109,250 - $ 166,500	$24,394 + 30.5% of the amount over $109,250
$ 166,500 - $ 297,350	$41,855 + 35.5% of the amount over $166,500
$ 297,350 and over	$88,307 + 39.1% of the amount over $297,350
Statutory Marginal Income Tax Rates, Single Returns	
If *taxable income* is:	Then, *tax* is:
$0 - $ 27,050	15% of the amount over $0
$ 27,050 - $ 65,550	$4,058 + 27.5% of the amount over $27,050
$ 65,550 - $ 136,750	$14,646 + 30.5% of the amount over $65,550
$ 136,750 - $ 297,350	$36,362 + 35.5% of the amount over $136,750
$ 297,350 and over	$93,375 + 39.1% of the amount over $297,350
Statutory Marginal Income Tax Rates, Heads of Households	
If *taxable income* is:	Then, *tax* is:
$0 - $ 36,250	15% of the amount over $0
$ 36,250 - $ 93,650	$5,438 + 27.5% of the amount over $36,250
$ 93,650 - $ 151,650	$21,223 + 30.5% of the amount over $93,650
$ 151,650 - $ 297,350	$38,913 + 35.5% of the amount over $151,650
$ 297,350 and over	$90,637 + 39.1% of the amount over $297,350

Table 17. Personal Exemptions and Standard Deductions, 2002

Personal Exemptions	$3,000
Standard Deductions:	
Joint	$7,850
Single	$4,700
Head of Household	$6,900
Additional Standard Deductions for the Elderly and the Blind:	
Joint	$900
Single/Head of Household	$1,150

Table 18. Statutory Marginal Tax Rates, 2002

Joint Returns			
If *taxable income* is:			Then, *tax* is:
$ 0	to	$12,000	10% of the amount over $0
$12,000	to	$46,700	$1,200 + 15% of the amount over $12,000
$46,700	to	$112,850	$6,405 + 27% of the amount over $46,700
$112,850	to	$171,950	$24,266 + 30% of the amount over $112,850
$171,950	to	$307,050	$41,996 + 35% of the amount over $171,950
$307,050	and over		$89,281 + 38.6% of the amount over $307,050
Single Returns			
If *taxable income* is:			Then, *tax* is:
$0	to	$6,000	10% of the amount over $0
$6,000	to	$27,950	$600 + 15% of the amount over $6,000
$27,950	to	$67,700	$3,893 + 27% of the amount over $27,950
$67,700	to	$141,250	$14,626 + 30% of the amount over $67,700
$141,250	to	$307,050	$36,691 + 35% of the amount over $141,250
$307,050	and over		$94,721 + 38.6% of the amount over $307,050
Heads of Households			
If *taxable income* is:			Then, *tax* is:
$0	to	$10,000	10% of the amount over $0
$10,000	to	$37,450	$1,000 + 15% of the amount over $10,000
$37,450	to	$96,700	$5,118 + 27% of the amount over $37,450
$96,700	to	$156,600	$21,116 + 30% of the amount over $96,700
$156,600	to	$307,050	$39,086 + 35% of the amount over $156,600
$307,050	and over		$91,744 + 38.6% of the amount over $307,050

Table 19. Statutory Marginal Tax Rates, 2003 Under Prior Law
(prior to enactment of the Jobs and Growth Tax Relief Reconciliation Act)

Joint Returns			
If *taxable income* is:			Then, *tax* is:
$ 0	to	$12,000	10% of the amount over $0
$12,000	to	$47,450	$1,200 + 15% of the amount over $12,000
$47,450	to	$114,650	$6,518 + 27% of the amount over $47,450
$114,650	to	$174,700	$24,662 + 30% of the amount over $114,650
$174,700	to	$311,950	$42,677 + 35% of the amount over $174,700
$311,950	and over		$90,714 + 38.6% of the amount over $311,950
Standard Deduction for a joint return was $7,950			
Single Returns			
If *taxable income* is:			Then, *tax* is:
$0	to	$6,000	10% of the amount over $0
$6,000	to	$28,400	$600 + 15% of the amount over $6,000
$28,400	to	$68,800	$3,960 + 27% of the amount over $28,400
$68,800	to	$143,500	$14,868 + 30% of the amount over $68,800
$143,500	to	$311,950	$37,278 + 35% of the amount over $143,500
$311,950	and over		$96,236 + 38.6% of the amount over $311,950
Standard deduction for a single return is $4,750			
Heads of Households			
If *taxable income* is:			Then, *tax* is:
$0	to	$10,000	10% of the amount over $0
$10,000	to	$38,050	$1,000 + 15% of the amount over $10,000
$38,050	to	$98,250	$5,208 + 27% of the amount over $38,050
$98,250	to	$159,100	$21,462 + 30% of the amount over $98,250
$159,100	to	$311,950	$39,717 + 35% of the amount over $159,100
$311,950	and over		$93,214 + 38.6% of the amount over $311,950
Standard deduction for head of household return is $7,000			

Table 20. Personal Exemptions and Standard Deductions, Limitation on Itemized Deductions, and the Personal Exemption Phase-out, 2003

(after enactment of the Jobs and Growth Tax Relief Reconciliation Act)

Personal Exemptions	$3,050
Standard Deductions:	
Joint	$9,500
Single	$4,750
Head of Household	$7,000
Additional Standard Deductions for the Elderly and the Blind:	
Joint	$950
Single/Head of Household	$1,150
Limitation on itemized deductions:	$139,500
Phase-out of personal exemptions:	
Joint	$209,250
Head of household	$174,400
Single	$139,500

Table 21. Statutory Marginal Income Tax Rates, 2003

(after enactment of the Jobs and Growth Tax Relief Reconciliation Act)

Joint Returns			
If *taxable income* is:			Then, *tax* is:
$ 0	to	$14,000	10% of the amount over $0
$14,000	to	$56,800	$1,400 + 15% of the amount over $14,000
$56,800	to	$114,650	$7,820 + 25% of the amount over $56,800
$114,650	to	$174,700	$22,283 + 28% of the amount over $114,650
$174,700	to	$311,950	$39,097 + 33% of the amount over $174,700
$311,950	and over		$84,390 + 35% of the amount over $311,950
Single Returns			
If *taxable income* is:			Then, *tax* is:
$0	to	$7,000	10% of the amount over $0
$7,000	to	$28,400	$700 + 15% of the amount over $7,000
$28,400	to	$68,800	$3,910 + 25% of the amount over $28,400
$68,800	to	$143,500	$14,010 + 28% of the amount over $68,800
$143,500	to	$311,950	$34,926 + 33% of the amount over $143,500
$311,950	and over		$90,515 + 35% of the amount over $311,950
Heads of Households			
If *taxable income* is:			Then, *tax* is:
$0	to	$10,000	10% of the amount over $0
$10,000	to	$38,050	$1,000 + 15% of the amount over $10,000
$38,050	to	$98,250	$5,208 + 25% of the amount over $38,050
$98,250	to	$159,100	$20,258 + 28% of the amount over $98,250
$159,100	to	$311,950	$37,296 + 33% of the amount over $159,100
$311,950	and over		$87,737 + 35% of the amount over $311,950

Table 22. Personal Exemptions and Standard Deductions, Limitation on Itemized Deductions, and the Personal Exemption Phase-out, 2004

Personal Exemptions	$3,100
Standard Deductions:	
Joint	$9,700
Single	$4,850
Head of Household	$7,150
Additional Standard Deductions for the Elderly and the Blind:	
Joint	$950
Single/Head of Household	$1,200
Limitation on itemized deductions:	$142,700
Phase-out of personal exemptions:	
Joint	$214,050
Head of household	$178,350
Single	$142,700

Table 23. Statutory Marginal Income Tax Rates, 2004

Joint Returns			
If *taxable income* is:			Then, *tax* is:
$ 0	to	$14,300	10% of the amount over $0
$14,300	to	$58,100	$1,430 + 15% of the amount over $14,300
$58,100	to	$117,250	$8,000 + 25% of the amount over $58,100
$117,250	to	$178,650	$22,788 + 28% of the amount over $117,250
$178,650	to	$319,100	$39,980 + 33% of the amount over $178,650
$319,100	and over		$86,328 + 35% of the amount over $319,100
Single Returns			
If *taxable income* is:			Then, *tax* is:
$0	to	$7,150	10% of the amount over $0
$7,150	to	$29,050	$715 + 15% of the amount over $7,150
$29,050	to	$70,350	$4,000 + 25% of the amount over $29,050
$70,350	to	$146,750	$14,325 + 28% of the amount over $70,350
$146,750	to	$319,100	$35,717 + 33% of the amount over $146,750
$319,100	and over		$92,593 + 35% of the amount over $319,100
Heads of Households			
If *taxable income* is:			Then, *tax* is:
$0	to	$10,200	10% of the amount over $0
$10,200	to	$38,900	$1,020 + 15% of the amount over $10,200
$38,900	to	$100,500	$5,325 + 25% of the amount over $38,900
$100,500	to	$162,700	$20,725 + 28% of the amount over $100,500
$162,700	to	$319,100	$38,141 + 33% of the amount over $162,700
$319,100	and over		$89,753 + 35% of the amount over $319,100

Table 24. Personal Exemptions, Standard Deductions, Limitation on Itemized Deductions and the Personal Exemption Phase-out Thresholds, 2005

Personal Exemptions	$3,200
Standard Deductions:	
Joint	$10,000
Single	$5,000
Head of Household	$7,300
Additional Standard Deductions for the Elderly and the Blind:	
Joint (each spouse)	$1,000
Single/Head of Household	$1,250
Limitation on itemized deductions:	$145,950
Phase-out of personal exemptions:	
Joint	$218,950
Head of household	$182,450
Single	$145,950

Table 25. Statutory Marginal Income Tax Rates, 2005

Joint Returns			
If *taxable income* is:			Then, *tax* is:
$ 0	to	$14,600	10% of the amount over $0
$14,600	to	$59,400	$1,460 + 15% of the amount over $14,600
$59,400	to	$119,950	$8,180 + 25% of the amount over $59,400
$119,950	to	$182,800	$23,318 + 28% of the amount over $119,950
$182,800	to	$326,450	$40,916 + 33% of the amount over $182,800
$326,450	and over		$88,321 + 35% of the amount over $326,450
Single Returns			
If *taxable income* is:			Then, *tax* is:
$0	to	$7,300	10% of the amount over $0
$7,300	to	$29,700	$730 + 15% of the amount over $7,300
$29,700	to	$71,950	$4,090 + 25% of the amount over $29,700
$71,950	to	$150,150	$14,653 + 28% of the amount over $71,950
$150,150	to	$326,450	$36,549 + 33% of the amount over $150,150
$326,450	and over		$94,728 + 35% of the amount over $326,450
Heads of Households			
If *taxable income* is:			Then, *tax* is:
$0	to	$10,450	10% of the amount over $0
$10,450	to	$39,800	$1,045 + 15% of the amount over $10,450
$39,800	to	$102,800	$5,448 + 25% of the amount over $39,800
$102,800	to	$166,450	$21,198 + 28% of the amount over $102,800
$166,450	to	$326,450	$39,020 + 33% of the amount over $166,450
$326,450	and over		$91,820 + 35% of the amount over $326,450

Table 26. Personal Exemptions, Standard Deductions, Limitation on Itemized Deductions and the Personal Exemption Phase-out Thresholds, 2006

Personal Exemptions	$3,300
Standard Deductions:	
Joint	$10,300
Single	$5,150
Head of Household	$7,550
Additional Standard Deductions for the Elderly and the Blind:	
Joint (each spouse)	$1,000
Single/Head of Household	$1,250
Limitation on itemized deductions:	$150,500
Phase-out of personal exemptions:	
Joint	$225,750
Head of household	$188,150
Single	$150,500

Table 27. Statutory Marginal Income Tax Rates, 2006

Joint Returns			
If *taxable income* is:			Then, *tax* is:
$ 0	to	$15,100	10% of the amount over $0
$15,100	to	$61,300	$1,510 + 15% of the amount over $15,100
$61,300	to	$123,700	$8,440 + 25% of the amount over $61,300
$123,700	to	$188,450	$24,040 + 28% of the amount over $123,700
$188,450	to	$336,550	$42,170 + 33% of the amount over $188,450
$336,550	and over		$91,043 + 35% of the amount over $336,550
Single Returns			
If *taxable income* is:			Then, *tax* is:
$0	to	$7,550	10% of the amount over $0
$7,550	to	$30,650	$755 + 15% of the amount over $7,550
$30,650	to	$74,200	$4,220 + 25% of the amount over $30,650
$74,200	to	$154,800	$15,108 + 28% of the amount over $74,200
$154,800	to	$336,550	$37,676 + 33% of the amount over $154,800
$336,550	and over		$97,653 + 35% of the amount over $336,550
Heads of Households			
If *taxable income* is:			Then, *tax* is:
$0	to	$10,750	10% of the amount over $0
$10,750	to	$41,050	$1,075 + 15% of the amount over $10,750
$41,050	to	$106,000	$5,620 + 25% of the amount over $41,050
$106,000	to	$171,650	$21,858 + 28% of the amount over $106,000
$171,650	to	$336,550	$40,240 + 33% of the amount over $171,650
$336,550	and over		$94,657 + 35% of the amount over $336,550

Table 28. Personal Exemptions, Standard Deductions, Limitation on Itemized Deductions and the Personal Exemption Phase-out Thresholds, 2007

Personal Exemptions	$3,400
Standard Deductions:	
Joint	$10,700
Single	$5,350
Head of Household	$7,850
Additional Standard Deductions for the Elderly and the Blind:	
Joint (each spouse)	$1,050
Single/Head of Household	$1,300
Limitation on itemized deductions:	$156,400
Phase-out of personal exemptions:	
Joint	$234,600
Head of household	$195,500
Single	$156,400

Table 29. Statutory Marginal Income Tax Rates, 2007

Joint Returns			
If *taxable income* is:			Then, *tax* is:
$ 0	to	$15,650	10% of the amount over $0
$15,650	to	$63,700	$1,565 + 15% of the amount over $15,650
$63,700	to	$128,500	$8,773 + 25% of the amount over $63,700
$128,500	to	$195,850	$24,973 + 28% of the amount over $128,500
$195,850	to	$349,700	$43,831 + 33% of the amount over $195,850
$349,700	and over		$94,601 + 35% of the amount over $349,700
Single Returns			
If *taxable income* is:			Then, *tax* is:
$0	to	$7,825	10% of the amount over $0
$7,825	to	$31,850	$783 + 15% of the amount over $7,825
$31,850	to	$77,100	$4,386 + 25% of the amount over $31,850
$77,100	to	$160,850	$15,699 + 28% of the amount over $77,100
$160,850	to	$349,700	$39,149 + 33% of the amount over $160,850
$349,700	and over		$101,469 + 35% of the amount over $349,700
Heads of Households			
If *taxable income* is:			Then, *tax* is:
$0	to	$11,200	10% of the amount over $0
$11,200	to	$42,650	$1,120 + 15% of the amount over $11,200
$42,650	to	$110,100	$5,838 + 25% of the amount over $42,650
$110,100	to	$178,350	$22,700 + 28% of the amount over $110,100
$178,350	to	$349,700	$41,810 + 33% of the amount over $178,350
$349,700	and over		$98,356 + 35% of the amount over $349,700

Table 30. Personal Exemptions, Standard Deductions, Limitation on Itemized Deductions and the Personal Exemption Phase-out Thresholds, 2008

Personal Exemptions	$3,500
Standard Deductions:	
Joint	$10,900
Single	$5,450
Head of Household	$8,000
Additional Standard Deductions for the Elderly and the Blind:	
Joint (each spouse)	$1,050
Single/Head of Household	$1,350
Limitation on itemized deductions:	$159,950
Phase-out of personal exemptions:	
Joint	$239,950
Head of household	$199,900
Single	$159,950

Table 31. Statutory Marginal Income Tax Rates, 2008

Joint Returns			
If *taxable income* is:			Then, *tax* is:
$ 0	to	$16,050	10% of the amount over $0
$16,050	to	$65,100	$1,605 + 15% of the amount over $16,050
$65,100	to	$131,450	$8,962.50 + 25% of the amount over $65,100
$131,450	to	$200,300	$25,550 + 28% of the amount over $131,450
$200,300	to	$357,700	$44,828 + 33% of the amount over $200,300
$357,700	and over		$96,770 + 35% of the amount over $357,700
Single Returns			
If *taxable income* is:			Then, *tax* is:
$0	to	$8,025	10% of the amount over $0
$8,025	to	$32,550	$802.50 + 15% of the amount over $8,025
$32,550	to	$78,850	$4,481.25 + 25% of the amount over $32,550
$78,850	to	$164,550	$16,056.25 + 28% of the amount over $78,850
$164,550	to	$357,700	$40,052.25 + 33% of the amount over $164,550
$357,700	and over		$103,791.75 + 35% of the amount over $357,700
Heads of Households			
If *taxable income* is:			Then, *tax* is:
$0	to	$11,450	10% of the amount over $0
$11,450	to	$43,650	$1,145 + 15% of the amount over $11,450
$43,650	to	$112,650	$5,975 + 25% of the amount over $43,650
$112,650	to	$182,400	$23,225 + 28% of the amount over $112,650
$182,400	to	$357,700	$42,755 + 33% of the amount over $182,400
$357,700	and over		$100,604 + 35% of the amount over $357,700