Tax Increases in Historical Perspective

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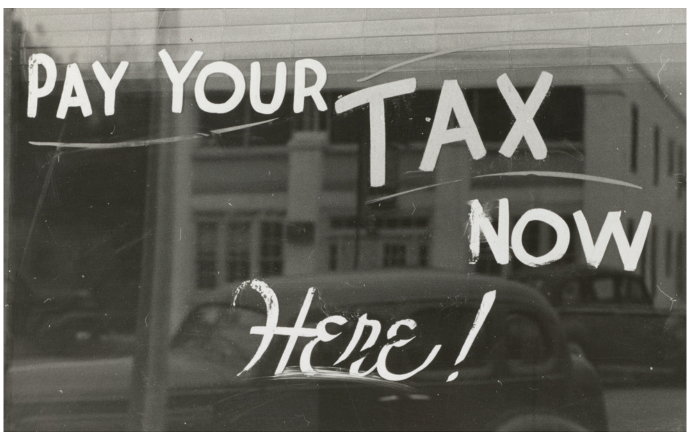
President Biden's proposed $2 trillion plan to overhaul and upgrade American infrastructure has arrived hand in hand with proposals to increase both corporate and individual taxes. Neither proposal is yet in final form, but it looks increasingly likely that we are about to enter an era of higher tax rates. What is sometimes obscured in this discussion, however, is the fact that we are living in a historically low tax environment. Read on to learn about how individual U.S. tax rates have changed over time and what this might mean for what is to come in the next few months.

Income Tax

From the early 1930s through the 1970s the highest marginal tax rate ranged from 63% to 91%, significantly higher than the current top 37% rate (excluding the Additional Medicare Tax).



The 1950s were a decade of especially high taxes. In 1954, the top rate was 91% for married taxpayers filing jointly (MFJ) who earned more than $200,000 ($2m in today's dollars). Below this top rate, a married couple earning more than $40,000 ($400,000 in today's dollars) was subject to a 56% tax rate over that threshold. Tax rates also started higher — the lowest marginal tax rate in 1954 was 20% versus 10% today.

Taxes began to decrease after their 1950s peak before settling in near their current brackets in the early 1990s. In 1971, the top tax rate for MFJ couples was 70% on income over $200,000 ($1.3m in today's dollars). Further down the brackets, a MFJ couple earning more than $44,000 ($290,000 in today's dollars) would pay 50% on income above that amount.

Here in Oregon, we weren't immune from higher taxes during the 1950s. In 1956, MFJ taxpayers earning more than $10,000 ($100,000 in today's dollars) were subject to a top tax bracket of 11.6% versus today's top 9.9% bracket for MFJ taxpayers earning more than $250,000.

Capital Gains Tax

The current conversation on rising tax rates includes a focus on eliminating the step-up in basis at death in conjunction with increasing capital gains rates. Increasing preferential capital gains rates may herald a major shift in tax-planning advice and philosophy, but it isn't without precedence based on historical rates.

The 1970s had the highest capital gains rates in the past 90+ years, with the maximum rate for long-term gains starting at 36.5% and topping out at almost 40% in the latter half of that decade.

As recently as the early 1990s, the top capital gains rate was just over 29%. While increasing capital gains rates is still in early proposal form, we are closely watching potential changes due to the significant impact they will have on our clients.

Looking to the future

Despite the huge differences in historical tax rates, some economists argue that the average rate paid by the highest income earners in the 1950s was not, in fact, significantly higher than what we pay today. This is due to a variety of factors, including tax avoidance and a relatively lower share of income earned by the very top percentage of earners in the 1950s versus today.

Whichever argument you find more convincing, it is clear that taxes are low today relative to historical standards. With trillions of spending on infrastructure and continued COVID relief measures expected in the next few months, Arnerich Massena is paying close attention to proposed tax plans in order to keep our clients informed of upcoming changes and associated planning opportunities.