



WHY IS THIS IMPORTANT?

This history illustrates that there are continuous changes to tax laws. It is imperative to pay close attention to these changes as they will likely impact your bottom line. For example, a change in the income tax rate influences your investment portfolio and the value of your home.

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WORLD WAR I

Congress passed the 1916 Revenue Act followed by the War Revenue Act of 1917 to assist with financing US participation in World War I. As a result, income tax rates increased from 15% in 1916 to 67% in 1917. In 1918, there was another spike as income tax rates grew to 77%. Following the war, federal income tax rates dropped to 25% from 1925 through 1931.

GREAT DEPRESSION

During the Great Depression, Congress raised taxes again from 25% to 63% on the top earners.

WORLD WAR II

In 1944, the top rate peaked at 94 percent on taxable income over \$200,000 (\$2.5 million in today's dollars). That's a high tax rate.

1950s - 1980s

Over the next three decades, the top federal income tax rate remained high, never dipping below 70 percent. In the 1980s, The Economic Recovery Tax Act of 1981 cut the highest rate from 70 to 50 percent, and indexed the brackets for inflation.

1990s - 2012

During the 1990s, the top rate jumped to 39.6 percent. However, the Economic Growth and Tax Relief and Reconciliation Act of 2001 dropped the highest income tax rate to 35 percent from 2003 to 2010. The Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010 maintained the 35 percent tax rate through 2012.

2013 - 2017

The American Taxpayer Relief Act of 2012 increased the highest income tax rate to 39.6 percent. The Patient Protection and Affordable Care Act added an additional 3.8 percent on to this making the maximum federal income tax rate 43.4 percent.

2018 - 2020

The highest income tax rate was lowered to 37 percent for tax years beginning in 2018. The additional 3.8 percent is still applicable, making the maximum federal income tax rate 40.8 percent.

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