

80 YEARS OF TAX HISTORY

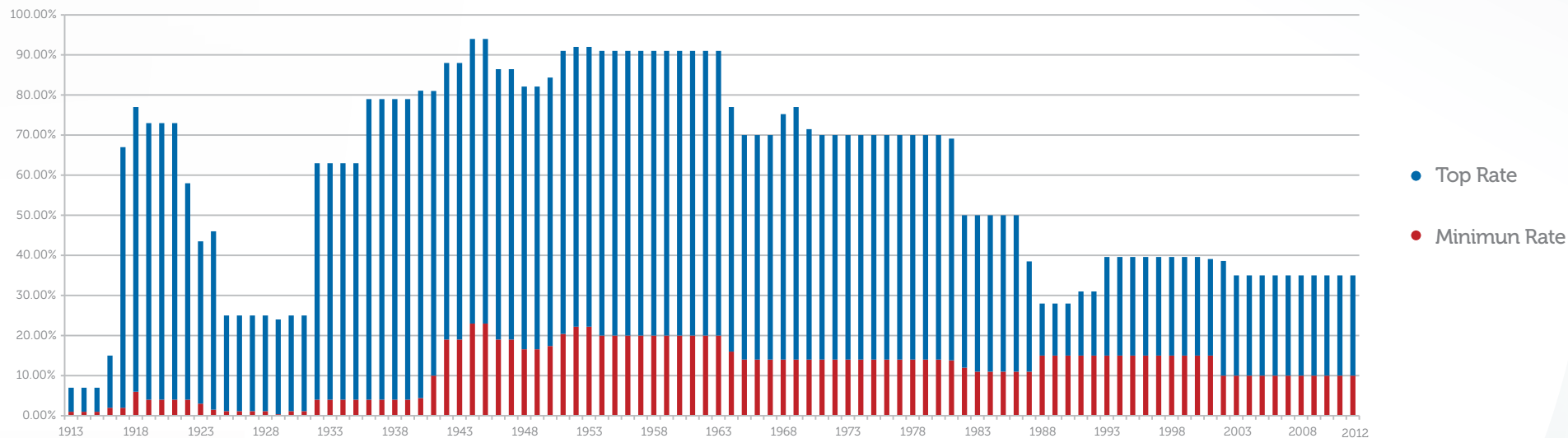
Federal Income Tax

Taxes are a significant variable in any type of planning. It is vitally important to remember that the amount of tax we must pay is determined by the political process, which is highly unpredictable. As the graphs below illustrate, the minimum rate, the maximum rate, and the thresholds where these rates apply have varied widely. The two most significant individual taxes are the Federal Income Tax and the Federal Estate and Gift Tax.

The Federal Income Tax

The Federal Income Tax was enacted in 1913, following ratification of the Sixteenth Amendment to the Constitution.

For about 30 years thereafter, until the advent of World War II, the tax applied only to high-income individuals. Exemptions from the tax were high, and few people had incomes large enough for even the lowest tax rate to apply, much less the higher, graduated rates.



This all changed with World War II, when exemptions were sharply reduced and graduated tax rates for "regular tax" were sharply increased. The top rate at one point was as high as 94%. When President Reagan signed the Economic Recovery Tax Act of 1981, the

maximum marginal tax rates were significantly reduced. Since that time, maximum marginal rates have increased from their lows in 1989-1990 to their current level.



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