Corporation Income Tax Brackets and Rates, 1909-2002

Data Release

This article gives the history of corporation income tax rates since the inception of the modern Federal corporation income tax in 1909. The income brackets to which the rates applied are included, but it should be borne in mind that these brackets are not really comparable over time because the definition of "income" is not constant. It has altered almost from year to year due to revised tax laws, changing accounting practices, and changes in the economy (not to mention the taxpayers' ever-growing sophistication in tax avoidance). It would not be possible to even summarize these changes in a short article or in table form; so, the information in this article does not allow the calculation of actual tax burdens or effective tax rates.

A Federal tax on corporate income has been imposed at the corporation level since 1909. The principle of taxing corporations as entities separate from their owners was established by the Revenue Act of 1894. In that Act, definitions of taxable income and tax rates were applied to the corporation without regard to the status of its owners. (The earlier Civil War tax acts had taxed corporate income to the owners under the individual income tax.) The 1894 Act was ruled unconstitutional, but when a constitutional way of taxing corporate income was enacted in 1909, the same principle prevailed. When the individual income tax was revived in 1913 (after the 16th Amendment removed all question of constitutionality), a separate corporation income tax was continued along with it. This tax structure has remained to the present.

There has always been considerable tension between the corporation income tax and the individual income tax, because corporations are owned, directly or indirectly, by individuals who (ultimately) receive a share of the corporations' incomes. This can result in the same income being taxed twice, and various ways of lessening the burden have been included in the tax system. The "double taxation" burden has been reduced at times by allowing corporations to be pass-through entities that are not taxed, allowing deductions or credits for dividends, and reducing the rates on capital gains. Different corporate and individual tax rates can also result in opportunities to shelter income from tax, especially if corporate tax rates at a given level of income are lower than those faced by the owners. From almost the beginning of the income tax, there have been restrictions or additional taxes on excessive accumulations of undistributed corporate profits and special rules and rates for individuals who incorporate to avoid taxes.

Another problem with imposing a corporate tax is that the corporate form is used for many different kinds of entities, ranging from ordinary for-profit businesses to religious, charitable, and other nonprofit organizations. Organizations not organized or operated for profit were originally exempt from the corporate tax, and those devoted to religion, charity, education, and other goals deemed socially desirable (as specified in Internal Revenue Code section 501(c)(3)) still are. However, in 1950, otherwise exempt organizations were made subject to the ordinary corporate tax rates on business income unrelated to their exempt purposes.

Whether mutual and cooperative organizations are for-profit businesses has sometimes been hard to decide. Mutual savings institutions were made taxable in 1951 (except credit unions, which are still tax-exempt), but paid little tax until their reserve deductions were revised in 1963. Mutual insurance companies have always been subject to tax, but usually under special rules. (Even now, mutual property and casualty companies with annual premiums of under $350,000 are tax-exempt, and those with premium income between $350,000 and $1,200,000 are taxed only on investment income.) Rural electrical and telephone cooperatives are not taxed on member income; other cooperatives are subject to the regular corporate rates but are allowed to deduct distributions to members (which are taxed at individual rates to members). Regulated investment companies (mutual funds) and real estate investment trusts (pooled real estate investment funds) are subject to the corporation income tax, but are allowed to deduct income allocated to shareholders if they allocate virtually all of their incomes.

The most prevalent organization that avoids the corporation income tax, however, is the "S corpora-

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tion" (named for the subchapter of the Code that defines it). Since 1958, closely held companies meeting certain other restrictions could avoid paying the corporate tax by electing to allocate all income to the shareholders, who are then taxed on it at individual tax rates. More than half of all corporations now file as S corporations.

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The treatment of affiliated groups of corporations has also been a problem. Corporations that own each other or that are subject to the same ownership or control (defined in various ways over the years) have been subjected to several different tax regimes. They have variously been required to consolidate their income statements for tax purposes (1917-1921), forbidden to do so except for railroads and a few other companies (1934-1941), allowed the option but required to pay at a higher tax rate (1932-1933, 1942-1963), and allowed the option without penalty (1922-1931, 1964 to the present).

Table 1, below, gives a history of corporate tax rates from 1909 to 2002. These are the rates that applied to whatever the then-current definition of "taxable income" was. Because of the complexity of defining the income base subject to the corporation income tax rates, no attempt has been made to account for year-to-year changes in the base in the table. The complexity is so great, in fact, that a history of the corporate tax base could not be summarized in an article such as this. This means, of course, that a given tax rate from one year is not necessarily comparable to that for another, especially for widely separated years.

Initially, the tax was generally imposed on corporate profits as defined under general accounting principles. Tax rules quickly diverged from accounting rules, however, since it was clear that the goals of the two systems were not the same. (Accounting rules guard against the temptation to overstate income, while tax rules must guard against the desire to minimize income.) The tax law now includes very specific definitions of many items of income and deductions, and many pages specifying when and how to account for the items; and many of these definitions and specifications have changed dramatically over the years.

The deduction for the depletion of oil and gas deposits is an example. It was first included as a tax-defined deduction in 1913 (which allowed the producer of any mineral a "reasonable" deduction not to exceed 5 percent of the value of the deposit). In 1918, as a war measure, a specific deduction for oil and gas deposits was enacted ("discovery value" depletion), which allowed deductions far in excess of the value of the deposit. This was limited to a percentage of net income from the property in 1921 (100 percent) and 1924 (50 percent). In 1926, discovery value depletion was replaced by a deduction of a flat percentage of net income from the property (27.5 percent from 1926 to 1969). In 1969, the percentage was reduced to 22 percent, and, in 1975, percentage depletion was repealed for all except smaller "independent" producers, for whom the rate was reduced to 15 percent. The rules were tightened further in 1986 and liberalized again for "marginal" production in the 1990's. Obviously, attempting to determine the actual tax rate on oil and gas income over the years would be no easy task.

Interpreting the historical tax rates is further complicated by the use of tax credits and the possibility of additions to tax. Credits are direct deductions from the tax figure calculated by the stated rates and are, thus, in reality a reduction in the tax rate. For example, credit for taxes paid to foreign governments has been allowed since 1918. (Before that, they could be taken as a deduction in computing taxable income.) Credits for various investments and for other policy goals were introduced in the 1960's and have continued to the present; in 2002, there were more than a dozen credits that could reduce the stated tax rate. Because they interact with one another and with other features of the tax system, it is not even possible to estimate what the tax rates would be if they were taken into account.

Finally, there are additional taxes that affect these rates. The general ones, such as the excess profits taxes or the separate tax on capital gains (which could have reduced the rates), and the ones applying to significant classes of taxpayers, such as "personal holding companies" or "personal service corporations," are noted in the table. Penalty and "recapture" taxes have not been included because, like the credits, it is not possible to estimate how they affect the general rate structure.

Sources

Joseph A. Pechman's *Federal Tax Policy* (Fifth Edition) contains a history of brackets and rates in tabular form and a brief narrative history of the corporation income tax through 1988. Brackets and rates since 1988 are given in the income tax forms and instructions (Form 1120 series), available through the IRS web site. A more complete history of the early corporation income tax, summarizing each law enacted from 1909 through 1945, was published in *Statistics of Income for 1949, Part 2*, Appendix A. There are other histories of the early income tax that go into more detail than Pechman, such as Roy G. and Gladys C. Blakey, *The Federal Income Tax* (1940), which also summarizes each major tax act. Since the 1960's, most tax acts have been summarized in publications by the Congressional Joint Committee on Taxation. An easily accessible summary of the corporation income tax, including many special provisions, is Jane G. Gravelle, *The Economic Effects of Taxing Capital Income*, Appendix A, A History of Capital Income Taxation in the United States. Histories of many special provisions, such as the depletion deduction described above, can be found in *Tax Expenditures: Compendium of Background Material on Individual Provisions*, published periodically by the Senate Budget Committee.

IRS, Statistics of Income Bulletin, Fall 2003, Publication 1136. (Rev. 12-03.)

Corporation Income Tax Brackets and Rates, 1909-2002

Table 1.--U.S. Corporation Income Tax: Tax Brackets and Rates, 1909-2002 [1]

Year [2]	Taxable income brackets [3]	Rates (percent)
1909-1913 (February 28)	First $5,000	--
	Over $5,000	1.00
1913 (March 1)-1915	All taxable income	1.00
1916	All taxable income	2.00
1917 [4]	All taxable income	6.00
1918 [4]	First $2,000	--
	Over $2,000	12.00
1919-1921 [4]	First $2,000	--
	Over $2,000	10.00
1922-1924 [4]	First $2,000	--
	Over $2,000	12.50
1925	First $2,000	--
	Over $2,000	13.00
1926-1927	First $2,000	--
	Over $2,000	13.50
1928	First $3,000	--
	Over $3,000	12.00
1929	First $3,000	--
	Over $3,000	11.00
1930-1931	First $3,000	--
	Over $3,000	12.00
1932-1935 [5]	All taxable income	13.75
1936-1937 [5,6]	First $2,000	8.00
	Over $2,000, not over $15,000	11.00
	Over $15,000, not over $40,000	13.00
	Over $40,000	15.00
1938-1939 [5]	Taxable income $25,000 or less:	
	First $5,000	12.50
	Next $15,000	14.00
	Next $5,000	16.00
	Taxable income over $25,000	19.00
1940 [5,7]	Taxable income $31,964.30 or less:	
	First $5,000	14.85 [8]
	Next $15,000	16.50 [8]
	Next $5,000	18.70 [8]
	Next $6,964.30	38.30 [8]
	Taxable income over $31,964.30, not over $38,565.84:	
	First $5,000	15.40 [8]
	Next $15,000	16.90 [8]
	Next $5,000	18.90 [8]
	Next $13,565.84	36.90 [8]
	Taxable income over $38,565.84	24.00 [8]
1941 [5,7]	Taxable income $38,461.54 or less:	
	First $5,000	21.00 [9]
	Next $15,000	23.00 [9]
	Next $5,000	25.00 [9]
	Next $13,461.54	44.00 [9]
	Taxable income over $38,461.54	31.00 [9]

See footnotes at end of table.

Table 1.--U.S. Corporation Income Tax: Tax Brackets and Rates, 1909-2002 [1]

Year [2]	Taxable income brackets [3]	Rates (percent)
1942-1945[5,7]	Taxable income $50,000 or less:	
	First $5,000	25.00 [9]
	Next $15,000	27.00 [9,10]
	Next $5,000	29.00 [9,10]
	Next $25,000	53.00 [9,10]
	Taxable income over $50,000	40.00 [9,10]
1946-1949	Taxable income $50,000 or less:	
	First $5,000	21.00 [9]
	Next $15,000	23.00 [9]
	Next $5,000	25.00 [9]
	Next $25,000	53.00 [9,10]
	Taxable income over $50,000	38.00 [9,10]
1950[11]	First $25,000	23.00
	Over $25,000	42.00 [10]
1951[11]	First $25,000	28.75 [12]
	Over $25,000	50.75 [12]
1952-1963[11]	First $25,000	30.00 [13]
	Over $25,000	52.00 [13]
1964	First $25,000	22.00
	Over $25,000	50.00 [13]
1965-1967	First $25,000	22.00
	Over $25,000	48.00 [13]
1968-1969[14]	First $25,000	24.20 [15]
	Over $25,000	52.80 [13,15]
1970[14]	First $25,000	22.55 [16]
	Over $25,000	49.20 [16,17]
1971-1974[14]	First $25,000	22.00
	Over $25,000	48.00 [18]
1975-1978[14]	First $25,000	20.00
	$25,000-$50,000	22.00
	Over $50,000	48.00 [19]
1979-1981[14]	First $25,000	17.00
	$25,000-$50,000	20.00
	$50,000-$75,000	30.00 [20]
	$75,000-$100,000	40.00 [20]
	Over $100,000	46.00 [20]
1982[14]	First $25,000	16.00
	$25,000-$50,000	19.00
	$50,000-$75,000	30.00 [20]
	$75,000-$100,000	40.00 [20]
	Over $100,000	46.00 [20]
1983[14,21]	First $25,000	15.00
	$25,000-$50,000	18.00
	$50,000-$75,000	30.00 [20]
	$75,000-$100,000	40.00 [20]
	Over $100,000	46.00 [20]
1984-1986[14]	First $25,000	15.00
	$25,000-$50,000	18.00
	$50,000-$75,000	30.00 [20]
	$75,000-$100,000	40.00 [20]
	$100,000-$1,000,000	46.00 [20]
	$1,000,000-$1,405,000	51.00 [20]
	Over $1,405,000	46.00 [20]

See footnotes at end of table.

Table 1.--U.S. Corporation Income Tax: Tax Brackets and Rates, 1909-2002 [1]

Year [2]	Taxable income brackets [3]	Rates (percent)
1987 [22, 23]..	First $25,000	15.00
	$25,000-$50,000	16.50
	$50,000-$75,000	27.50
	$75,000-$100,000	37.00 [24]
	$100,000-$335,000	42.50 [24]
	$335,000-$1,000,000	40.00 [24]
	$1,000,000-$1,405,000	42.50 [24]
	Over $1,405,000	40.00 [24]
1988-1992..	First $50,000	15.00
	$50,000-$75,000	25.00
	$75,000-$100,000	34.00
	$100,000-$335,000	39.00
	Over $335,000	34.00
1993-2002..	First $50,000	15.00
	$50,000-$75,000	25.00
	$75,000-$100,000	34.00
	$100,000-$335,000	39.00
	$335,000-$10,000,000	34.00
	$10,000,000-$15,000,000	35.00
	$15,000,000-$18,333,333	38.00
	Over $18,333,333	35.00

[1] The rates shown are the "standard" or "ordinary" rates, applying to all taxable corporate net income unless otherwise provided. However, there have always been numerous exceptions and special rates based on the type of corporation, the type of income, and other factors. In addition, there have been, at various times, additional taxes related to income that increased the statutory rates. When possible, these are noted in other footnotes to this table for the years for which they were effective. Credits, deductions, and other alterations in the definition of taxable income also effectively alter the tax rate, but these are too numerous and too frequent to include in a table such as this.

The most important types of corporations to which these rates have not always applied, or not applied as they did to other corporations, are: *Section 501(c) and similar nonprofit corporations* : Corporations not organized or operated for profit are generally exempt from the corporation income tax except, since 1950, on business income unrelated to their exempt purposes. *Mutual and cooperative organizations*: Most of these were treated as nonprofits in the early days of the income tax. Most have long since been made taxable as ordinary corporations, but there are still some exceptions. Credit unions and small mutual property insurance companies are exempt. Rural electrical and telephone cooperatives are exempt on income generated in transactions with their members. Farmers' cooperatives are not taxed on income distributed to their members. *Insurance companies*: Because of the nature of insurance, determining taxable income has often been a problem for the tax system. Insurance companies have been subjected to a number of different tax structures since 1921, including special rates and complete exemption of premium income. They are currently taxed at the same rates as other corporations on income calculated using reserve deductions (which other corporations are not allowed). *Regulated Investment Companies (since 1936) and Real Estate Investment Trusts (since 1961)* : These investment companies are not taxed on profits distributed to shareholders if they distribute substantially all of their incomes annually. *S Corporations* : Since 1958, certain closely held corporations could elect to be taxed through their shareholders, as partnerships are, and not pay the corporate tax at all (except in special, unusual circumstances). *Foreign corporations*: Companies incorporated outside the U.S. are taxed on business income earned in the U.S. at the regular corporate rates, but may be taxed on investment income at special statutory or treaty rates. *U. S. corporations with foreign-source income*: The U.S. taxes the worldwide income of U.S. corporations; however, since 1918, taxes paid to foreign governments on foreign-source income can be credited against the U.S. tax otherwise due on that income. (Before 1918, the foreign taxes were allowed as a deduction against worldwide income.) *U.S. Possessions Corporations* : Since 1921, corporations earning most of their incomes in a U.S. possession were subject to reduced taxes. From 1921 to 1976, they were taxable only on U.S.-source income; since 1976, they have received a credit for manufacturing income earned in a possession (including Puerto Rico). The credit is now being phased out and is scheduled to end after 2005. *Affiliated groups*: Corporations that are closely affiliated through stock ownership have usually been allowed to consolidate their financial statements for tax purposes and file one return for the group, but there have always been restrictions and, sometimes, they have been charged an additional tax for the privilege. In 1932 and 1933, consolidated returns were subject to an additional tax of .75 percent. In 1934 and 1935, only railroad companies were allowed to file consolidated returns, and the additional tax was 1 percent. From 1936 to 1941, there was no additional tax, but the privilege was restricted to railroads and a few other companies. From 1942 to 1964, most domestic affiliated groups that met the stock ownership and other requirements could file consolidated returns, but the surtax on such a group was increased by 2 percentage points. The additional tax on consolidated returns was repealed, effective December 31, 1963.

The most important type of income to have received special rates was "long-term" capital gains. From 1942 through 1987, the tax rate was capped at a maximum rate lower than the highest corporate rate. (The rates are noted in footnotes to the table.) Although there is currently no special rate for corporations' capital gains, long-term capital gains are still treated separately from other income in the tax code.

During World War I, the Great Depression, World War II, and the Korean War, additional taxes were imposed on what were called "war profits" or "excess profits." These are noted in the table in footnotes to the applicable years.

In addition to taxes based on net income, there have been from time to time taxes based on accumulated earnings that were not distributed to shareholders, designed to limit tax avoidance at the individual stockholder level. Taxes on "undue" accumulations have been imposed (though seldom paid) since the inception of the income tax. These were supplemented, since 1934, by a "personal holding company" tax, equal to the highest individual income tax rate, on the undistributed earnings of closely held companies accumulating investment income. There was also a Depression-era tax on accumulated earnings (noted below).

In recent years, there have also been "minimum taxes" designed to supplement the regular taxes. These have the effect of a separate set of tax rates. These are noted in footnotes to the table.

[2] Calendar year unless otherwise noted. Taxpayers whose fiscal years spanned years with different rates were required to prorate the year's income between the two rate structures. Before 1933, the proration was based on the number of months in each year; after 1932, it was based on the number of days in each year.

[3] "Taxable income" is used here to mean the amount of income to which the rates shown were applied. The concept has had various names and various meanings over the years covered; so, brackets for one year are not necessarily comparable with those for another.

Footnotes--Continued

[4] An additional tax on "excess profits" and /or "war profits" was in effect from 1917 to 1922. It was allowed as a deduction in computing income tax.

[5] An additional "declared value" excess profits tax, based on profits in excess of a percentage of the value of corporate stock, was in effect from 1933 through 1945. It was a deduction for income tax purposes.

[6] An additional surtax ranging from 7 percent to 27 percent was imposed on undistributed profits.

[7] From June 1940 to the end of 1945, a tax on profits in excess of average prewar earnings was also imposed. It was taken into account, as either a deduction or a credit, for the income tax and the other excess profits tax.

[8] The rates for 1940 include extra "defense tax" rates that are integrated with the regular rates in later years.

[9] These rates are the sum of the "normal tax" rates and the "surtax" rates, which actually applied to slightly different definitions of taxable income.

[10] Beginning with Tax Year 1942, gains on the sale of assets held for more than 6 months (long-term capital gains) could be treated separately from other taxable income and taxed at a maximum rate of 25 percent.

[11] An excess profits tax was also in effect from July 1950 through Calendar Year 1953. The tax was 30 percent of an adjusted profits figure reduced by credits for the level of prewar profits. It was not offset against income tax, but the sum of income and excess profits taxes was capped at a given percentage of income (from 62 percent to 70 percent).

[12] These rates reflect a tax increase (for the Korean War), effective March 31, 1951. The maximum capital gains tax rate was also increased to 26 percent.

[13] From April 1, 1954, through Calendar Year 1969, the maximum tax rate on capital gains was 25 percent.

[14] From 1969 through 1986, corporations were also subject to an "add-on minimum tax" on certain "tax preference" items (such as percentage depletion, accelerated depreciation, etc.) above a certain amount. For Tax Years 1969 through 1976, the tax was 10 percent of tax preferences in excess of $30,000; after 1976, the tax was 15 percent of preferences in excess of the greater of $10,000 or regular income tax.

[15] Rates include the Vietnam War surcharge of 10 percent.

[16] Includes a 2.5-percent Vietnam War surcharge.

[17] The maximum tax rate on long-term capital gains was increased to 28 percent.

[18] The maximum tax rate on long-term capital gains was increased to 30 percent.

[19] The holding period for long-term capital gain treatment of assets was increasedfrom 6 to 9 months in 1977 and 12 months in 1978. The rate remained at 30 percent.

[20] The maximum tax rate on long-term capital gains was 28 percent.

[21] Beginning in 1983, incorporated professional practices ("personal service corporations") have been taxed on all taxable income at the corporate tax rate applicable to the highest income bracket.

[22] The Tax Reform Act of 1986 (TRA86) established a new rate structure effective for Tax Year 1988 and made the rates for Transition Year 1987 an average of the pre-TRA rates for 1986 and the post-TRA rates for 1988.

[23] A new "alternative minimum tax" (AMT) replaced the add-on minimum tax, effective in 1987. It required a calculation of an alternative measure of taxable income that reduced or eliminated many tax preference items. The tax was 20 percent of the excess of this "alternative minimum taxable income" (AMTI) over $40,000. The $40,000 exemption was reduced by 25 percent of the excess of AMTI over $150,000. AMT in excess of regular tax could be carried over as a credit against regular tax in future years. In 1998, "small" corporations (generally, those with average gross receipts of less than $5 million) were exempted from the AMT.

[24] The maximum tax rate on capital gains was capped at 34 percent for 1987, which was to be the rate on the highest corporate tax bracket in 1988 and after, according to TRA86. The maximum capital gain rate was raised to 35 percent when the highest corporate rate bracket was increased in 1993.

Sources

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