Key Points:
History Shows Raising Top Tax Rate Doesn't Lead to Revenue Windfalls

The Tax Cuts and Jobs Act (TCJA) of 2017 provided broad tax relief to individuals, families, and small businesses. Some now propose raising the top individual income tax rate. But such a move would harm millions of small businesses that file through the individual tax code, reducing incentives to work and invest. Moreover, history has shown that higher top rates do not lead to revenue windfalls because of these incentive effects.

Low individual income tax rates provide broad relief

• If TCJA expires, tax rates will revert to higher pre-2017 levels—increasing rates in 6 of the 7 brackets.

How Tax Rates Will Change by Bracket If TCJA Expires in 2026

2025	2026 If TCJA Expires
10%	10%
12%	15%
22%	25%
24%	28%
32%	33%
35%	35%
37%	39.6%

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• TCJA expiration would raise taxes by an average of $2,955 per tax filer.

• Low- and middle-income filers will face higher burdens due to the expiration of the standard deduction taken by 90% of taxpayers and the doubled child tax credit claimed by 46 million taxpayers.. The bottom half of taxpayers paid an average tax rate of just 3.7% in 2022, the most recent data available. Nearly one-third of taxpayers in this group paid no federal income taxes in part due to TCJA.

Increasing the top rate would be economically harmful, especially to small businesses

• 50 million small businesses—including sole proprietors, partnerships, and S-corporations—pay taxes through the individual income tax code, not the corporate tax code. Raising the top rate would directly impact their ability to invest, hire, and grow.

• Economists widely agree that higher tax rates discourage critical economic activity including investment, work, and saving. An increase in taxes of 1% of GDP can lead to an estimated 3% drop in GDP within three years, driven largely by declines in consumption and investment.

• Higher tax rates reduce the probability of business formation among top earners according to a National Bureau of Economic Research study. This results in reduced innovation and job creation throughout the economy.

• At lower income levels, increasing tax rates can reduce the incentive to work. For example, a single parent earning slightly more could lose up to 98% through higher taxes and phased-out government benefits from a tax increase, meaning she would keep only 2 cents of every extra dollar, per the Tax Foundation.

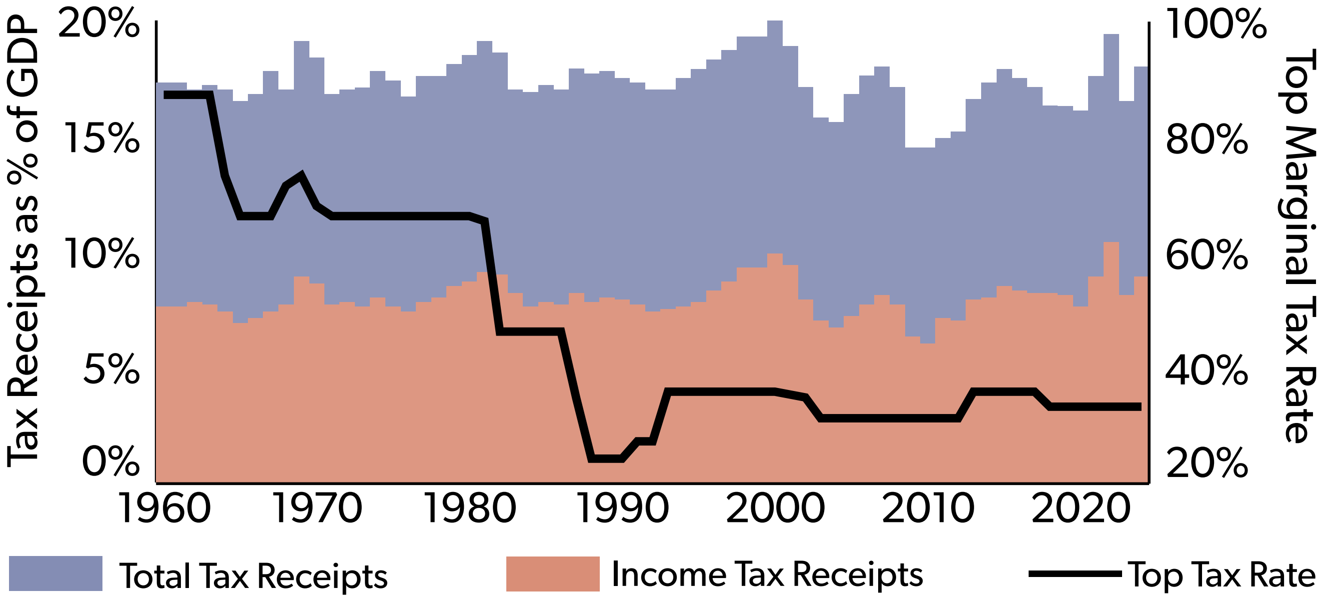
• Lower taxes will have the greatest economic benefit when paired with reduced federal spending and pro-growth policies.

Income tax rate increases do not lead to revenue windfalls

• Even as top rates have come down over time, federal tax receipts as a percentage of GDP have remained relatively stable, except in times of economic stagnation. From 2017 to 2018, individual income tax receipts as a percentage of GDP remained the same, while lower income Americans have paid a smaller share of the federal tax burden. Higher tax rates don't necessarily lead to higher revenues.

Tax Revenue Held Steady Despite Lowering Top Rate

Federal Tax Receipts vs. Top Marginal Rates: 1960-2024



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• Individual income taxes represent the largest share of federal revenue at 49%, about $2.4 trillion in 2024. In contrast to what some expected, individual income tax revenues rose slightly in the years immediately after TCJA lowered rates across the board.

• A 39.6% top federal income tax rate would push total tax rates in more than half of U.S. states over 50%, probably past the point on the Laffer Curve where tax increases reduce, rather than raise, revenue, according to the Cato Institute. This underscores the economic limits of taxing top earners and the risks of relying on them for new revenue.