

TABLE 3.—*Individual taxpayers by adjusted gross income classes and marginal Federal income tax rates, 1962*

[Percent paying marginal rate]

	Adjusted gross income			
	\$20,000 to \$24,999	\$25,000 to \$49,999	\$50,000 to \$99,999	\$100,000 and over
Marginal Federal income tax rate:				
34 percent and less.....	84.3	14.1	2.3	6.4
36 to 50 percent.....	11.8	69.8	10.2	9.1
52 to 59 percent.....	3.8	12.4	45.0	7.1
62 to 69 percent.....		3.3	37.3	23.6
71 to 91 percent.....			4.4	53.4
Unclassified.....	.1	.4	.8	.4
All.....	100.0	100.0	100.0	100.0

Source: U.S. Treasury Department, Internal Revenue Service, "Statistics of Income," 1962, table 20.

Table 3 shows that the tax incentive for holding State and local securities was quite different for taxpayers with adjusted gross income in excess of \$25,000. Thus, 70 percent of taxpayers with adjusted gross incomes between \$25,000 and \$50,000 paid marginal tax rates ranging from 36 to 50 percent. About 82 percent of taxpayers with adjusted gross incomes between \$50,000 and \$100,000 paid marginal Federal tax rates ranging from 52 to 69 percent. And 53 percent of taxpayers with adjusted gross incomes exceeding \$100,000 paid marginal tax rates between 71 and 91 percent.

The prevalence of these high marginal tax rates for income earners above \$25,000 under the individual income tax rate schedules that existed from 1954 to 1963 suggests that there was a sizable potential market for State and local bonds among individuals which may not have been fully tapped due to the diversity of State and local securities and the resulting specialization that is required for expert investment choices. Another factor that limits the demand for State and local bonds by individuals is a desire for assets with potential capital appreciation such as common stocks. Capital appreciation postpones or reduces tax bills and may be desired as a hedge against inflation.

In appraising the financial portfolio composition by high-income recipients, the variability of a family's income from year to year also should be considered. During any 1 year, reported income may be high by previous standards or in terms of expected future income. To the extent that high tax rates are not experienced continuously, the demand for State and local obligations will be reduced.

Individuals' tax rates were reduced by the Internal Revenue Act of 1964, and income to which a marginal tax rate of 50 percent applied earlier would now be subject to a 42-percent marginal tax rate. Income with a 72-percent marginal tax rate earlier would now be subject to a 60-percent rate, and the top rate of 91 percent has now been reduced to a top marginal rate of 70 percent. Despite this reduction in tax rates, the comparative after-tax yield advantage of State and local bonds continues to be strong for top-income earners. In 1965, Aaa State and local bonds on average had a yield of 3.16 percent, and for investors that paid a 60-percent marginal tax rate this would be equivalent in after-tax income to a yield of 7.90 percent on an instrument earning taxable income. During 1965, the yield on corporate