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## Retrospective on the 1981 Reagan Tax Cut

The passage of the Reagan tax cut—the Economic Recovery Tax Act (ERTA)—in August 1981 was a watershed event in the history of federal taxation.

The centerpiece of the bill was an across-the-board 25 percent cut in individual marginal rates. However, the bill also included a number of lesser-known reforms that have had a dramatic and lasting impact on the Internal Revenue Code—indexation of tax rates to end “bracket creep,” improved tax treatment of depreciation and lease payments, reformed tax treatment of overseas income, and more.

As a tribute to the Reagan tax legacy, the Tax Foundation has assembled the following historical retrospective on the Reagan tax plan, featuring a collection of original Tax Foundation analyses conducted in the wake of the ERTA’s passage nearly a quarter-century ago. All documents are in PDF format:

**Special Report: The Economic Recovery Tax Act of 1981:** *Read the original Tax Foundation analysis of the Reagan tax-cut plan, from its steep reduction in marginal rates to its indexation of tax rates to end the hidden tax of “bracket creep.” Originally published September 1, 1981—a Tax Foundation classic.*

**The Fairness Issue:** *Was the 1981 tax cut a “fair” tax cut? A common criticism of the Reagan plan was that it disproportionately benefited the wealthy. In this classic response, Tax Foundation economists show that tax cuts only tilt unfairly toward high-income people if they eliminate a larger percentage of their tax burden. But since ERTA’s tax cut was proportional—giving equal percentage tax cuts to all income brackets—they argue that it was therefore fair.*

**Evolution of the Federal Tax System: 1954-1983:** *At the time, the Reagan cut was seen by many economists as radical and unprecedented. To see why, the cuts must be viewed in historical context. This Tax Foundation memo provides a brief history of the federal tax code leading up to the ERTA’s passage, underscoring its historical importance.*

**The IRAs are Coming... And Some Other Breaks, Too:** *The Reagan tax plan is sometimes described as a short-run policy that was designed to bump the U.S. economy out of recession. But fully one-fourth of the cuts were geared toward long-run economic growth, through provisions aimed at boosting savings and capital accumulation.*

**Debate Over Business Taxes:** *Most analyses of the Reagan plan focus on individual taxes. But the ERTA also made sweeping reforms to business taxes—including the implementation of the Accelerated Cost Recovery System (ACRS), which revolutionized the tax treatment of depreciation in an attempt to boost capital accumulation and economic growth.*

