The Effect on Federal Revenues Following Changes in the Capital Gains Tax Rate

(1) The top capital gains rate increased from 20% to 28% effective Jan 1, 1987.

(2) In anticipation of this rate hike, revenues as a % of GDP increased from 3.83% in 1985 to 6.95% in 1986 before dropping to 2.88% in 1987 and 2.92% in 1988.

(3) The top capital gains rate was cut from 28% to 20% in 1997.

(4) Following this rate cut, revenues as a % of GDP jumped from 2.89% in 1996 to 3.84% in 1997, 4.67% in 1998 and 4.99% in 1999.

(5) In 2003, the top capital gains rate was cut from 20% to 15%.

(6) Following this rate cut, revenues as a % of GDP increased from 2.56% in 2003 to 3.8% in 2004, 4.95% in 2005, and 5.42% in 2006.

Source: U.S. Department of the Treasury Office of Tax Analysis