12-25-25

Let's be grateful for the gift of tax indexing

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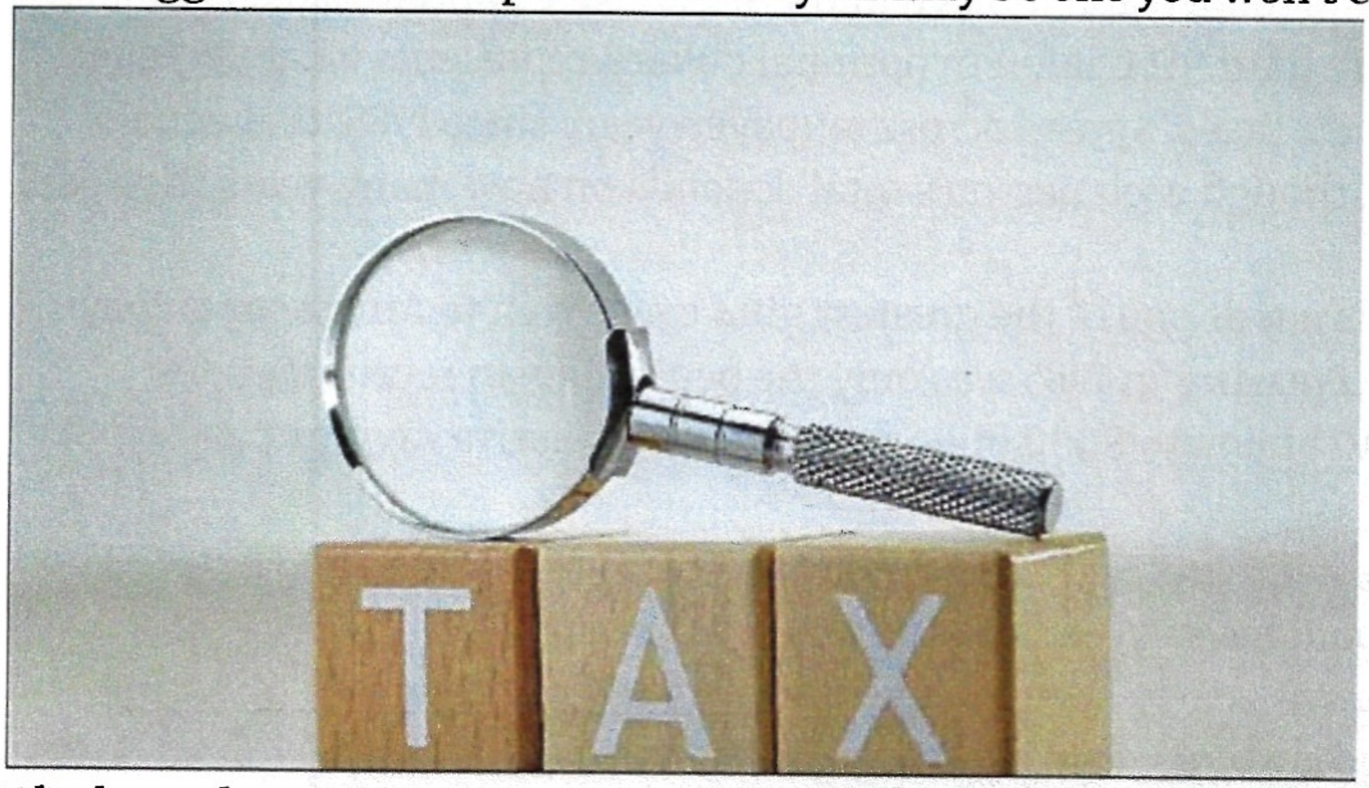
The Denver Gazette · 25 Dec 2025 · B5 · Wil Armstrong is an entrepreneur and investor in Denver and chairman of the Board of Trustees at Colorado Christian University. He has assembled a coalition of more than 30 policy groups advocating indexing capital gains taxes.

Your biggest Christmas present of the year may be one you won't even notice!



The legendary 1981 Reagan tax cut — which ushered in a decade of prosperity — included a little-known provision called tax indexing. It put an end to inflation pushing Americans into higher tax brackets. Though it did not take effect until 1985, tax indexing has been saving taxpayers money ever since — far more money than most of us can imagine.

Tax indexing, sponsored and championed by my father, the late U.S. Sen. Bill Armstrong, R-Colo., was a direct response to the unprecedented inflation of that era and the resulting "bracket creep" that pushed people into higher tax brackets even when they received nothing more than cost-of-living raises. Government was profiting from inflation at the expense of working Americans. Indexing fixed that by adjusting personal tax rates and the standard exemption for inflation.

Between 1985 and 2024, tax indexing has saved American taxpayers more than $11 trillion. If you file a federal income tax return, your share of that savings amounts to $82,541 over that period, yet most of us never notice it.

That's because indexing worked quietly. At first, the annual adjustments seemed small. In 1985, the Treasury Department told Americans that the typical family would save $84 in taxes that year and $690 annually by 1989. Nationally, that totaled $9 billion in 1985. But as inflation accumulated over time, those indexed savings grew dramatically.

The data behind this $11 trillion estimate comes from research by the Tax Foundation, the Congressional Budget Office, the Congressional Research Service, the National Taxpayers Union, and others, using inflation and tax data from the IRS and the Bureau of Labor Statistics. Several assumptions underlie the calculation — including that all later tax-law changes still occurred (such as the 1986 Tax

Reform Act, the Bush tax cuts of 2001 and 2003, the Obama-era changes, the 2017 Trump tax cuts, and dozens of smaller revisions along the way). For purposes of this estimate, the only hypothetical change is the removal of indexing of personal income tax brackets, standard deductions, and personal exemptions beginning in 1985. Everything else remains the same.

The net result is striking. Had Congress never indexed taxes to inflation, individual income tax collections would have been 25 to 35 percent higher over time due to bracket creep.

Consider the math of 133.2 million average taxpayers during this period. Using that average, along with actual IRS collection data from 1985 through 2024, and applying a 30 percent bracket-creep effect, total individual income tax collections-which totaled about $38 trillion-would have approached $49 trillion without indexing. The difference-more than $11 trillion in nominal dollars-represents what taxpayers actually saved at the time they paid their taxes. Spread across taxpayer-years since 1985, that equals roughly $2,500 per taxpayer per year, though each person's total depends on how many years they paid income taxes.

Viewed nationally, tax indexing stands out as one of the greatest gifts ever given to American taxpayers. The $9 billion in savings cited by Treasury in 1985 was only the beginning. In recent decades, annual savings have ranged from $100 billion to $600 billion, pushing cumulative savings past the $11 trillion mark.

Believe it or not, this is a conservative estimate. Had Congress frozen the 1985 tax code and enacted no later rate cuts, cumulative savings would have exceeded $20 trillion.

In the 1980s, it was widely accepted-across party lines-that government should not profit by taxing imaginary gains created by an inflated currency. Tax indexing has been a massive and sustained boost to the American economy, a gift that keeps giving to every taxpayer, every year.

Indexing personal income taxes also set a broader precedent. Congress has since indexed numerous other provisions to inflation, including business tax brackets, the alternative minimum tax, estate and gift taxes, the earned income tax credit, retirement plan contribution limits, transportation and parking benefits, health flexible spending accounts, medical savings account thresholds, the foreign earned income exclusion, and deductible adoption expenses, among others.

Note

Unfortunately, Congress failed to act in one critical area: capital gains taxes were never indexed, though they desperately need to be. The fight against inflationary taxation is not yet won. Americans should not be taxed on inflation, and Congress and the President should finish the job by indexing capital gains taxes as well.

It's worth pausing to appreciate the irony of calling all this a "gift" when government simply allows people to keep more of their own money. Still, in the holiday spirit, even with more work left to do, I don't mind reflecting at this time of year on things done right. And whatever my share of that $11 trillion happens to be, I'll gladly take it — and remain grateful that, at least once, Congress got it right.