Income Tax History

Abraham Lincoln: Father of the Income Tax (sort of)

Did you know that the Federal Income Tax was first signed into law by Abraham Lincoln as the Revenue Act of 1861? It was a flat tax of 3% on income over $800, and 5% for citizens living abroad. That tax was repealed by the Revenue Act of 1862, which was made explicitly temporary; it was set to expire in 1866. Abraham Lincoln signed another Revenue Act in 1864, which increased the tax rate on a progressive scale, and removed the temporary nature of the tax. According to Wikipedia, the tax scale was as follows:

- **0%**: under $600 (under $13,260 in 2008 dollars or the about the same as the average of $13,425 in combined personal exemption + standard deduction for single and married taxpayers in the year 2008)
- **5%**: from $600 to 5,000 (from $13,260 to $110,496 in 2008 dollars)
- **7.5%**: from $5,000 to $10,000 (from $110,496 to $220,993 in 2008 dollars)
- **10%**: $10,000 and above ($220,993 and above in 2008 dollars)

In 1894, the federal government attempted to impose another income tax through the Wilson-Gorman Tariff, but it was found to be unconstitutional by the Supreme Court. Then, in the court case *Pollock v. Farmers’ Loan & Trust Co.*, the Supreme Court found certain elements of the Revenue Act of 1864 to be unconstitutional, thus severely limiting the power of the federal government to collect income tax.

Then in 1913, the 16th amendment went into effect, and that changed everything. The official text of the 16th amendment states:

The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration.
It is important to note that up to this point, Article 1, Section 8, Clause 1 of the Constitution, also known as the Taxing and Spending Clause, provided for the Congress to be able to levy and collect taxes. However it imposed strict rules on how Congress could collect, and what Congress could spend the proceeds on. The 16th amendment cleared all that up, and American citizens have been paying income tax ever since.

**Income Tax Quick Facts**

- The very first income tax was a flat tax of 3% on income over $800 (~$18K when adjusted for inflation). Today, a progressive tax scale is used, with the lowest tax bracket being 10% for income up to $16K, and 35% for income over $357K.
- In 1913, income tax was due on March 1st, then in 1918 it was pushed back to March 15th. The due date was not pushed back to April 15th until 1955.
- If you’re expecting to get a refund from the IRS, your due date to file is actually October 15th, 6 months after the due date for those that have to pay.
- Because of how Capital Gains Tax works, people like Warren Buffett are taxed at a rate of 15% (without trying to evade taxes), while Buffett’s $60k/year secretary is taxed at 30%.
- According to the Congressional Budget Office (link opens in PDF), individual income taxes account for only 8% of GDP, while corporate income taxes account for only 2.7% of GDP.

**Tax Protestors**

- According to the War Resisters’ League, 54% of federal income taxes go towards military spending, which has led to a popular group of peace activists who stopped paying their income taxes as a means to protest the wars in Iraq and Afghanistan.
- The 2009 Tax Day Tea Party is a nationwide series of protests against...well, from what I’ve seen it’s more of a protest against liberal spending policies than it is a protest against
the income tax itself. It remains to be seen if this will be anything more than a fad considering the only thing on the event’s about page is that it is “a grassroots effort.” A grassroots effort to do what? I doubt the people showing up at these rallies burned their tax returns in protest, so it appears that April 15th is really just symbolic at best.

- The Mental Floss Blog has a collection of Notable American Tax Protestors, and they hilariously include Wesley Snipes on this list.
- A popular conspiracy theory among tax protesters is that the 16th amendment was never actually ratified, and thus the federal income tax is unconstitutional.

For more info on this subject, check out Federal Taxation in America: A Short History