

Understanding Taxes

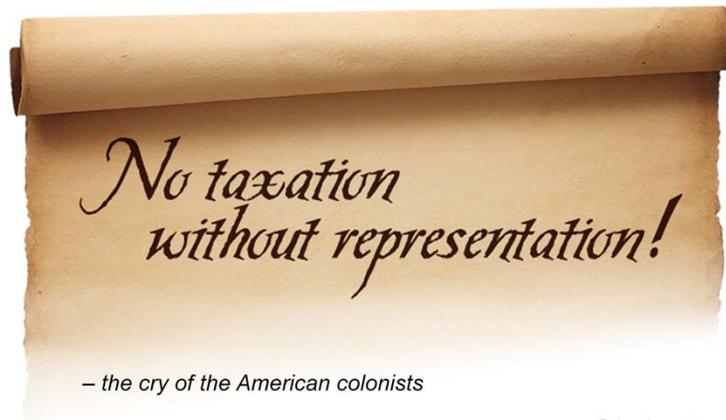


Theme 2: Taxes in U.S. History





No Taxation Without Representation



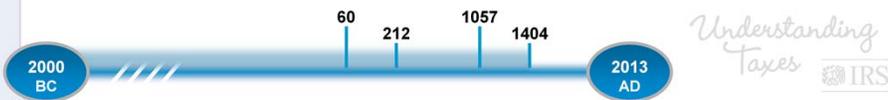
- Taxes and taxation have been important issues in America's past and will be important in America's future.
- Taxes can be cited as one cause of the American Revolution.
- Although slavery was a primary cause of the Civil War, issues of taxation also contributed to the secession of southern states and the onset of the war.

Have there been other tax issues in American history?

(Answers will vary.)



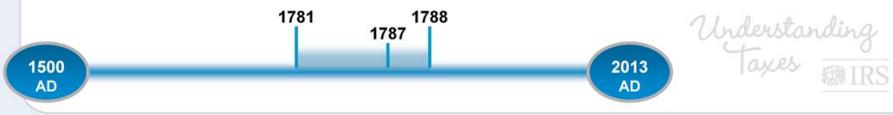
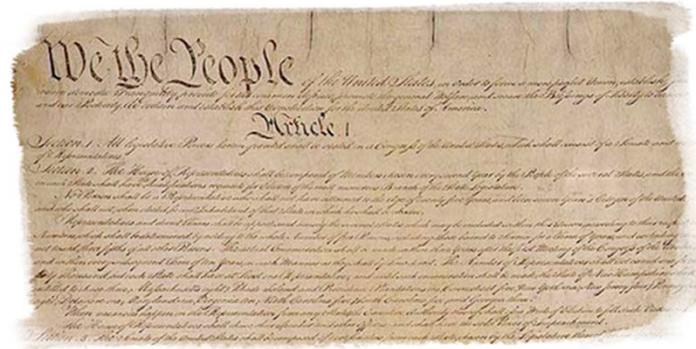
Taxes and Early Civilization



- Since the beginning of time, taxation has been an important part of civilization.
- 2000 B.C.—Tax collectors appeared in ancient tomb paintings.
- 60 A.D.—English fought the Romans over taxes.
- 212 A.D.—10% inheritance tax was imposed on all Romans.
- 1057—Lady Godiva's historic ride was to protest high taxes.
- 1404—Parliament passed the world's first income tax.



Taxation in the Constitution



- The current system of taxation in the United States has developed over the course of more than two hundred years.
- 1781—The writers of the Articles of Confederation did not support a strong federal government. Only state governments had the power to tax.
- 1787—Constitutional Convention considered taxation.
- 1788—The ratification of U.S. Constitution gave the federal government the power to tax citizens directly. Most early taxes were in the form of excise taxes or tariffs.



Whiskey Rebellion



1500
AD

1791

1794

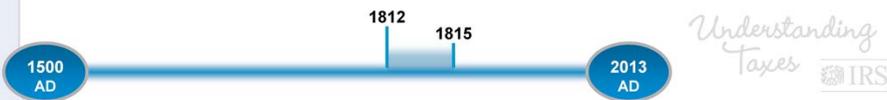
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- 1791—Congress enacted the Whiskey Tax. This was a direct tax on people who made and sold whiskey.
- 1794—Farmers in western Pennsylvania felt threatened by the tax, and many refused to pay it. Hundreds of farmers staged a violent uprising, the Whiskey Rebellion, to protest the tax. President Washington took steps to stop the rebellion.
- The Whiskey Rebellion was the first test of the federal government's constitutional power to tax.



War of 1812



- 1812—The War of 1812 with Britain meant that English goods were not available in the U.S.
- 1815—After the War of 1812, Americans bought a large amount of British goods, particularly textiles, because they were cheaper than American made-goods. This hurt the American textile mills in the north.



Protective Tariff



1500
AD

1816 1824 1828 1832 1833

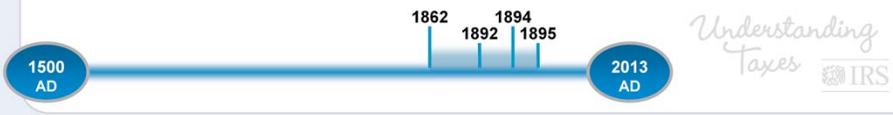
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- 1816—Congress adopted a tariff that protected U.S. industries from foreign competition.
- 1824—The tariff was increased, but Britain was still competitive.
- 1828—The Tariff of Abominations raised the tariff 50 percent to protect northern U.S. industries, but it hurt the South's sales of cotton to England.
- 1832—South Carolina declared the tariff “null, void, and no law” and threatened to leave the union if the government enforced the tariff.
- 1833—Nullification ended when the federal government and South Carolina agreed to the Compromise Tariff, which returned tax rates to those of 1816.



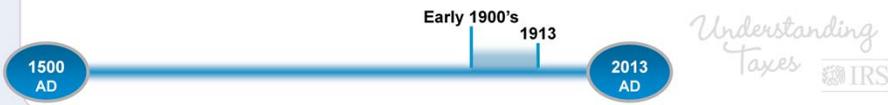
Civil War Income Tax



- 1862—The first U.S. income tax was collected to pay Civil War debt. It was later abolished.
- 1892—Income tax was a key issue in the presidential campaign.
- 1894—The first peacetime income tax was imposed, requiring people to pay a flat rate of 2 percent of their incomes.
- 1895—Income tax was declared unconstitutional by the Supreme Court because the Constitution required any direct tax to be divided among the states according to their populations.



1913 Sixteenth Amendment



- Early 1900s—By the early 1900s, the U.S. economy had grown considerably. As a result of industrialization and modernization, many people gained huge fortunes that were not taxed in any form.
- 1913—The Sixteenth Amendment gave the U.S. government the power to tax incomes.



Social Security Act of 1935



1500
AD

1929

1935

2013
AD

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- 1929—The Great Depression left millions of people unemployed, with little hope for jobs. As part of President Franklin D. Roosevelt's New Deal, the federal government created jobs for the unemployed.
- 1935—Frances Perkins, the first female cabinet member, was charged with developing an “old-age” insurance program. The result was the Social Security Act of 1935, designed to provide elderly retired workers with pensions.
- 1935—The Revenue Act of 1935 put the Wealth Tax in place to help pay for Roosevelt's New Deal programs.



Victory Tax of 1942



Form 1040
1943
UNITED STATES
INDIVIDUAL INCOME AND VICTORY TAX RETURN
FOR CALENDAR YEAR 1942

COMPUTATION OF NET INCOME

INCOME	Exemption	Number for War Bonds	Number for War Stamps
1. Salary, wages, and other income			
2. Dividend income			
3. Interest income			
4. Rental income			
5. Income from business or profession			
6. Income from real estate			
7. Income from other sources			
Total			
Less: Deductible expenses (attach separate statement)			
Computation after deductible expenses			

1500
AD

1942

1945

2013
AD

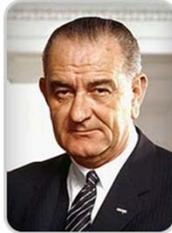
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IRS

- 1942—The Revenue Act of 1942 introduced the broadest and most progressive tax in American history, the Victory Tax. Tax withholding helped to create a regular flow of revenue into the U.S. Treasury.
- 1945—By the end of World War II, about 90 percent of American workers submitted income tax forms, and 60 percent paid taxes on their income.



Theme 2: Taxes in U.S. History

Tax Reform



1964—As a way to boost a sagging economy, a tax cut by the Johnson Administration allowed taxpayers to have more money to spend on consumer goods.



1969—Nixon's Tax Reform Act of 1969 closed loopholes used by the rich, and gave exemptions and tax cuts to lower-income groups.



1986—The Tax Reform Act of 1986 reduced and simplified taxes.



1997—The Tax Reform Act of 1997 made more than 800 changes to the existing tax code.

1500
AD

1964 1969 1986 1997

2013
AD

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- 1986—The Tax Reform Act of 1986 reduced and simplified taxes.
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Tax Reform



2009—President Obama signed the American Recovery and Reinvestment Act of 2009 on February 17. The Recovery Act's three main goals are to: create and save jobs, spur economic activity and invest in long-term economic growth, and foster accountability and transparency in government spending. The plan includes many federal tax cuts and incentives, including cutting taxes for 129 million working households by providing an \$800 Making Work Pay tax credit.

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2009

2013
AD

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