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30 SIMPLE WORDS—HOW THEY IMPACT YOU TODAY (HINT: TAXES, TAXES, TAXES)

While taxes have always affected American culture and history, income taxes have really only been around for 100 years. Phrases such as “no taxation without representation” have influenced and even affected history. Most taxes in the early years of the United States were derived from tariffs and excise taxes.

The first income tax imposed in the United States was in 1861 during the Civil War under the Revenue Act of 1861. The tax was 3% of income over \$800, or about \$24,000 in 2020 dollars. When the Civil War ended, so did the income tax.

The federal income tax returned in 1894 after the passage of the Revenue Act of 1894. While the Revenue Act mainly addressed tariffs, it also included the first peacetime income tax. Mr. Charles Pollack didn't like paying the tax, so he sued, lost, appealed, lost, and eventually the Supreme Court agreed to hear his case. In 1895, the Supreme Court found the income tax unconstitutional. Why was it unconstitutional?

Article 1, Section 2, Clause 3 of the Constitution states: “Representatives and direct taxes shall be apportioned among the several States which may be included within this Union, according to their respective Numbers...” The reasoning was that the income tax on property was not apportioned among the “Numbers”. For example, an industrialized state might pay more income taxes per Representative than an agrarian, agricultural state where the farm owners consumed much of what they produced and sold very little, thus having little income and even littler tax to pay.

As president, Theodore Roosevelt pushed for an income tax. In 1909, his successor, President Taft, proposed a constitutional amendment and on July 12, 1909 the resolution proposing the 16th Amendment was passed by Congress and submitted

to the state legislatures. At that time, 36 of the 48 States needed to ratify the Amendment in order for it to be added to the Constitution. Less than four years later, on February 3, 1913, the Amendment had achieved ratification. Eventually all but six states ratified the Amendment (Connecticut, Rhode Island, Utah, Virginia, Florida, and Pennsylvania).

How many pages was the constitutional amendment? One page and 30 words...

“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.”

Sounds simple doesn't it? The Revenue Act of 1913, the first year of income taxes, had tax rates start at 1% and peak at 7%. It affected very few people since only those with incomes in excess of \$3,000 had to file and pay taxes (\$79,000 in today's dollars). The Internal Revenue Code was only about 400 pages in 1913. Today it is over 75,000 pages and takes a plethora more to explain it....and the fonts are much, much smaller.

Why review this history? No reason. However, many in the tax industry feel that the 2021 tax season preparing 2020 tax returns will be the most complex and confusing since 1986. Why? The Affordable Care Act, passed in 2010, took full effect in 2014. Add to that the Tax Cuts and Jobs Act of 2017 plus all of the COVID-19 legislation and almost everyone will be affected in some way by these three legislative events.