

Tax History Time Line

- 1813** The Revenue Act: taxes were imposed when and as needed.
- Pre-1862** U.S. government operations funded through collected import duties and sold public lands.
- 1862** Congress formed Office of Commissioner of Internal Revenue to meet fiscal demands of the Civil War. (After the war, tax efforts declined).
- 1913** 16th constitutional amendment introduced our first Income Tax. (World War I: heavy fiscal demands: increase tax efforts.)
- 1916-1951** New tax legislation enacted every year.
- 1939** U.S. Tax Laws first modified as an integral part of the U.S. Code-IRC 1939
- 1954** U.S. tax code amended and becomes IRC1954.
- 1986** Code completely revamped IRC 1986 U.S. Code, Title 26, Internal Revenue Code of 1986.
- 1997** Taxpayer Relief Act-new beneficial rules to offset education costs.
- 2001** Economic growth and Tax Relief Reconciliation Act Began phased in changes with sunset provisions causing the new tax laws to terminate in 2011 and launched a series enactments of annual legislative changes which bring us up to 2007.

For a description of these time line events
see the article on page 2.

As you can see, tax law has a history of constantly changing. We at SWTC Business Services, stay on top of these changes so that we can give you the best advise possible.

Just like the tax law, life is constantly changing. So when you have questions about your situation, just call us and we will be there to help.

Fraud By Preparer

Generally the IRS must make a tax assessment within a three-year period after a taxpayer files his or her return. An exception to this rule exists, however, for a false or fraudulent return with the intent to evade tax. Nothing in the statute suggests the limitations period is extended only in the case of the taxpayer's fraud.

In *Allen v Commissioner*, all parties agreed that it was the paid tax preparer, not the taxpayer himself, who committed fraud when preparing Mr. Allen's 1999 and 2000 income tax returns. Mr. Allen argued that allowing an extension period for the fraudulent intent of the preparer would be burdensome because it would require taxpayers to keep records indefinitely.

The Tax Court held that it is every taxpayer's obligation to review his or her returns for items that are obviously false or incorrect. The IRS has the same need for an extended limitations period to investigate, whether the fraud was committed by the taxpayer or the taxpayer's preparer. The court felt that finding otherwise would allow a taxpayer to receive the benefit of a fraudulent return by hiding behind the preparer and escape paying tax if the government was unable to investigate fully the fraud within the limitations period.

Motivational Quote

"There's only one way to succeeding in anything,
and that is to **give it everything.**"

Vince Lombardi (1903-1970)
Hall of Fame Football Coach

Tax Calendar for August

Business

Aug 15 – Monthly Payroll Taxes Due

Aug 20 – State Sales Tax Due

How Did Federal Income Tax Begin?

In the nation's early history, very few taxes were imposed in the U.S. to run the government. From 1791 until 1802, the Government collected internal taxes on alcohol, carriages, sugar, tobacco, auctioned-off property, corporate bonds and slaves.

Then, in order to pay off the debts that were incurred from the War of 1812, sales taxes were imposed on gold, silverware, jewelry, and watches. Congress did away with these taxations. And the Government was supported by collecting tariffs from imports brought into the country.

Congress then passed the nation's first income tax law in 1862 to support the Civil War effort. It was a forerunner of the modern income tax in that it was based on a progressive scale, much like what is used today. The lowest tax rate was a flat 3% and it applied to people who earned anywhere between \$600 and \$10,000 a year. The next highest tax was 5% and it was levied on any income amount that exceeded \$10,000. For people who earned a higher dollar amount, the rates were increased accordingly. Additional sales and excise taxes were added, and "inheritance" tax also made its debut.

The Act of 1862 was also the beginning of the Internal Revenue Service called the office of the Commissioner of Internal Revenue. The Commissioner was given the power to assess, levy and collect taxes and the right to enforce the tax laws through seizure of property and income and through prosecution. His powers and authority remain very much the same today.

Rates were changed when Government instituted the Internal Revenue Act of June 30, 1864. The people who earned between \$600-\$5,000 paid 10% of their incomes. The tax change was needed in order to generate additional revenue to fund the Civil War. Now, every taxpayer had to submit a list of their income as well as a list of any taxable property they might have to the tax assessor before the first Monday in May. And, fines were imposed on people who failed to abide by the tax laws.

Internal revenue collections reached their highest point in the nation's 90-year history of more than \$310 million in 1866, an amount not reached again until 1911.

In 1872, Congress did away with the imposed tax once again. Instead of taxing people's incomes, Congress once again looked towards the taxation of goods, tobacco and alcohol, for revenue. It had a short lived revival in 1894 and 1895.

Questioning the validity of the taxes imposed during the Civil War times: lead the U.S. Supreme Court to finally hand down a ruling in 1895 which said that the income tax was unconstitutional because the taxes were not collected proportionately among the states. To correct this situation, the 16th Amendment to the Constitution was ratified on February 25, 1913. Now, income taxes were a permanent part of the United States economy and Congress could tax however they saw fit.

In 1918, annual internal revenue collections for the first time passed the billion-dollar mark, rising to \$5.4 billion by 1920. With the advent of World War II, employment increased, and so tax collections to \$7.3 billion. The withholding tax on wages was introduced in 1943 and was instrumental in increasing the number of taxpayers to 60 million and tax collections to \$43 billion by 1945.

Congress enacted the largest tax cut in U.S. history in 1981, approximately \$750 billion over six years. The tax reduction, however, was partially offset by two tax acts, in 1982 and 1984, which attempted to raise approximately \$265 billion.

The Tax Reform Act of 1986, one of the most far-reaching reforms of the U.S. tax system since the adoption of the income tax, was an attempt to remain revenue neutral. The act called for a \$120 billion increase in business taxation and a corresponding decrease in individual taxation over a five year period. Following were what seemed to be a yearly tradition of new tax acts that began in 1986.

Over the years, there have been several grass root efforts by Americans who believe that the idea of a mandatory income tax and the Sixteenth Amendment are unconstitutional. At least one group claims to have proof that the amendment was not even ratified because at least eleven states did not vote on it. The main goal of these groups is to get the amendment declared legally null and void.