A Fairy Tale of Taxation

During the Federalist Debates, the founding fathers decide that both the State governments and the new federal government can not impose any same kind of tax at the same time. If one government imposes a property tax, the other can not; if one has an income tax, the other can not, etc. Any taxing authority not delegated to the federal government will be reserved for the States. Congress will be responsible for collecting national taxes from the States who will collect the taxes from their citizens. The Debates also resolves that State taxes are to be classified as internal taxes and National taxes are to be classified as external taxes.

1787: A few members of the newly created U.S. Congress immediately try to transfer Congress' power to collect taxes to the Treasury Department. The bill is declared unconstitutional and fails to become law.

July 14, 1798: In preparation for a war with France, the Federal government imposes a $2 million direct tax. The tax is apportioned among the States who collect the tax from property owners.

July 22, 1812: To help pay for the costs of the 1812 war, the Federal government imposes a $3 million direct income tax. The tax is apportioned among the States who collected the tax from property owners. The law that imposed this tax provided a 15 percent discount to States that paid their apportioned tax up front. The following month, the Federal government creates tax districts, each with it's own private tax assessor and collector who earn a commission from the taxes they collect.

January 9, 1815: Again because of the 1812 War, the Federal government imposes a $6 million direct tax which was apportioned among the States. This tax allowed tax collectors to sell property of citizens that did not pay their share of the tax, however, essential property like homes, tools of trade and household utensils were exempt. To protect the public from abusive tax collectors, penalties applied to collectors who used extortion or otherwise broke the law to make collections.

August 5, 1861: The outbreak of Civil War leads the Federal government to impose a $20 million apportioned direct tax. The Act which created this war tax also included a new form of taxation; the income tax as we better know it today. This first general income tax was set at 1-3% which applied to less than 1 percent of the US population who had incomes over $800. To avoid apportionment requirements by the U.S. Constitution the new income tax was classified as an indirect tax. instead of the proper classification of a direct tax. The new income tax was not challenged until

1871. That delay allowed a precedent with Congress to incorrectly classify taxes to bypass Constitution restrictions on federal taxes. States were allowed to deduct 10 to 15 percent if they paid their share of the tax for their citizens up front. Also, because of the war, Congress was able to pass tax collection laws that would normally violate Constitutional Rights. To enforce the tax, Congress creates the position of Commissioner of Tax, a position that included the authority to hire an unlimited number of assistants.

1884: The Federal government imposes another income tax.

1895: In Pollock vs Farmers' Loan & Trust Co, the Supreme Court rules that general income taxes are unconstitutional because they are unapportioned direct taxes. To this day, the ruling has not been over-turned.

June 15, 1909: After the Supreme Court ruled general income taxes unconstitutional, President Taft proposes three new taxes to Congress. A graduated inheritance tax, another general income tax, and a new corporate tax. In the attempt to bypass the Supreme Court's Pollack ruling, Taft also proposes the 16th Amendment with the intention of taxing profits made from commercial activity.

1913: With the ratification of the 16th Amendment, Congress creates the federal internal income tax and the Federal Reserve Bank to fight the inflation caused by paper currency. All income tax collections are forwarded to the Federal Reserve to pay the interest on it's publicly circulated money. The withdrawal of currency from public circulation through the new tax and the new Federal Reserve stabilizes inflation.

January 24, 1916: In Brushaber vs. Union Pacific Railroad, the Supreme Court ruled: that the 16th Amendment doesn't over-rule the Court's ruling in the Pollock case which declared general income taxes unconstitutional; The 16th Amendment applies only to gains and profits from commercial and investment activities: The 16th Amendment only applies to excises taxes; The 16th Amendment did not Amend the U.S. Constitution; The 16th Amendment only clarified the federal governments existing authority to create excise taxes without apportionment.

1939: Congress passes the Public Salary tax, taxing the wages of federal employees.

1940: Congress passes the Buck Act authorizing the federal government to tax federal workers living in the States.

1942: Congress passes the Victory Tax under Constitutional authority to support the WWII effort. President Roosevelt proposes a voluntary tax withholding program allowing workers across the nation to pay the tax in installments. The program is a success and the number of tax payers increases from 3 percent to 62 percent of the U.S. population.

1944: The Victory Tax and Voluntary Withholding laws are repealed as required by the U.S. Constitution, however, the federal government continues to collect the tax claiming it's authority under the 1913 income tax and the 16th Amendment.

Today: A mixture of the 1913 income tax, the 16th Amendment, the Public Salary Act and the Victory tax has embedded itself as a legitimate tax on the people of the U.S. in spite of the long standing rulings by the Supreme Court that strictly limit the scope of any income tax.