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Taxes 101: A Brief History of Taxation in America

It's that time of year again — tax season! Some people dread it; some people (like me), who think of the tax refund as a bonus, love it, even if it was my own money to begin with. Either way, taxes can't be completely avoided — we all pay taxes.

While the majority of Americans may not know what their tax money is being used for, most of us know that taxes caused the American Revolution — the colonists fought against taxation without representation. The straw that broke the camel's back for the Revolutionary War was taxation on tea (the Boston Tea Party). Many people (at least my generation) don't know much more about how or why our anti-tax nation came to have so many taxes. We were not given history or explanations about the current taxes we deal with every day. There has to be more to the story than just a bunch of angry men throwing bales of tea into the river, right? How did we get from there to here? Let me explain.

The Navigation Acts (1651–1696): Commodities (sugar, rice, tobacco, etc.) bound for the colonies had to go through England first in order to be inspected and taxed, which raised the price for colonists.

The Sugar Act (1764): An extension of the Molasses Act of 1733, a tax on molasses was actually reduced, but heaver restrictions were imposed on where molasses (along with other goods) could be imported and exported, resulting in the colonists paying more in taxes.

The Stamp Act (1765): A tax was imposed on all printed material — legal documents, newspapers, books, pamphlets, etc. — in order to pay for the "protection" of the colonists by the British. This act is said to be the beginning of ill sentiment toward the British.

The Townshend Act (1767): Taxes were imposed on imported glass, lead, paper, and tea. Colonists became enraged and all taxes (except tea) were repealed in 1770.

The Tea Act (1773): The East India Trading Company gained complete control of the importation/exportation of tea (a monopoly), which in effect put many tea merchants in the colonies out of business. This resulted in colonists rebelling by preventing ships from unloading, leaving imported tea to rot on the docks, and even destroying tea by tossing it overboard — the Boston Tea Party.

The Whiskey Tax (1791): The whiskey tax was an excise tax, a tax on goods made or used within a country. Excises taxes, which are ongoing, could be used for a specific purpose (that's how they were popularized), but weren't always. The Whiskey Tax was intended to pay for the war debt from the

Revolutionary War. The tax led to the Whiskey Rebellion in 1794, a tax protest that turned violent in the Western frontier regions when farmers, who commonly turned excess crops into distilled liquors, revolted. Though President George Washington suppressed the revolt, distillers in rural areas proved almost impossible to tax.

Income tax (1861, 1894, 1913): The very first income tax actually was enacted in 1861 in order to help pay for the Civil War, and was repealed in 1872. Another income tax was passed in 1894 on rent money and personal property (then, as now, it was sold as a tax on the rich, and it emphasized taxing "accumulated wealth"), but it was quickly found unconstitutional in 1895 by the Supreme Court because the Constitution requires direct taxes to be imposed in proportion to a state's population. Our current income tax — the one you see on your paycheck today — was created in 1913, with the passage of the 16th Amendment.

Before 1913, there wasn't a permanent income tax. As mentioned above, there were brief income taxes put into place to pay for war, but there hadn't been anything federally mandated by an amendment to the Constitution.

Inflation (which isn't called a tax but has the same effect): Inflation is defined as an increase in the money supply, which results in increased prices to consumers. When money is printed to pay U.S. bills, the value of all *money* decreases, causing consumers to spend more money on the same goods, such as milk. (There is more paper money/electronic money spread through the population, so it is worth *less* — imagine what would happen to the price of pork if everyone raised pigs in their backyards.) Deficit spending leads to inflation, and inflation devastates the poor. How many of you have noticed your grocery bill go up lately?

Inflation is caused by government spending more than it takes in and by Federal Reserve policies. The Federal Reserve — the central banking system of the United States — was initiated in 1913 by Nelson Aldrich and several other rich, powerful men, such as John D. Rockefeller, in a secret meeting on Jekyll Island, off the coast of Georgia. The public was told that the Fed would provide the nation with a safer, more flexible, more stable monetary system, and the public got onboard because throughout the 1800s, there were several bank failures and bank runs, where banks went under when too many depositors wanted their money at once, and economic downturns.That these calamities were usually caused by cronyist government and bank policies, the public was unaware.

The Federal Reserve could set interest rates at any given time; it could print money whenever it desired, and — oh yeah — it was (and still is) a private organization, not part of the federal government. And it did create money and set interest rates, causing the Great Depression and every other major economic downturn since then, and it caused inflation. According to the US Inflation Calculator, an item that would cost $1.00 in 1913, would cost $23.95 now — an inflation rate of 2,295.1 percent. Books upon books and countless documentaries have been produced on the ill effects of the Federal Reserve — it's far too much to go into here.

But now we're getting off topic. Despite the original intent of taxes, today your federal income taxes are being used in a variety of areas. Here is a breakdown of what your money was spent on in 2014, according to [www.irs.gov:](http://www.irs.gov)

• Social Security/Medicare/Retirement: 42 percent

• National Defense/Veterans/Foreign Affairs: 22 percent

• Social Programs: 22 percent

• Interest on the national debt: 6 percent

• Physical, human & community development: 5 percent

• Law enforcement & other general government: 2 percent

One hot topic of debate that has existed since the beginning of America (and probably since the beginning of time), is who should pay for what. The 10th Amendment states, "The powers not delegated to the United States by the Constitution, nor prohibited by it to the states, are reserved to the states respectively, or to the people." In other words, if a power was not given to the federal government in the Constitution, then it belongs to the people. Guess what? Nowhere in the Constitution does it say that the federal government should be in charge of directing funds for welfare, community development, or local law enforcement. Our Founding Fathers knew that if the federal government was paying for local affairs, it would have control over those local affairs, and that was the last thing our Founding Fathers wanted. The whole purpose of the Constitution and Bill of Rights was the freedom of the people to govern themselves.

So there you have it in a (very, very small) nutshell. Many people will agree that taxes are necessary to a degree — if we want nice cities to live in, smooth highways to drive on, and a park for our kids to play in, we have to pay for it. But you have to ask yourself, what would our Founding Fathers think of our situation today?

Correction: The second-to-last paragraph originally stated, "In other words, if a power was not given to the federal government in the first nine amendments" and "Nowhere in the first nine does it say that the federal government should be in charge of…" This reference to the first nine amendments has been corrected to refer to the Constitution.

Informative Books:
The Creature from Jekyll Island: A Second Look at the Federal Reserve by G. Edward Griffin
Shadows of Power by James Perloff
Dollars & Sense by John F. McManus
End the Fed by Dr. Ron Paul
Economics in One Lesson by Henry Hazlitt