

Tax Tidbits

By Maria Schwieder

The word “tax” makes us cringe, and we are not nearly the first generation to feel this way. There is a lengthy historical background to the evolution of taxes that includes numerous quirky laws, provisions, and instances when taxes were declared “unconstitutional.” Below are some of the most interesting facts about taxes in the United States.

Bizarre and On the Books

In certain states, these bizarre tax laws make it easy to be fraudulent – and not even know it!

Jock Tax: Not just for jocks, this is a real tax placed on all performers. The revenue earned while performing is taxed according to the state of performance. Professional athletes are amongst those most affected by the tax since 50 percent of their games are in other cities.

Facial Hair Tax: According to Massachusetts tax law, it is illegal to have a goatee without proper licensing. Not only is a small fee required to wear the facial hair in public, but one can actually be fined if a license is not presented to a law enforcement official upon request.

The Illegal Drug Tax. In Alabama, North Carolina, and Nevada, tax law requires a stamp for illegal drugs that registers tax payments on the drugs. The stamp value, which goes on the container of goods, is determined by the amount of the contents, and can be purchased at the Department of Revenue. Don’t be afraid to report accurately because it is illegal for revenue employees to communicate any information about you to the authorities. As if arrest for possession were not bad enough, the stamp is the only redeeming part of the crime because it prevents a higher fine if the drug tax had not been paid.

Origins

Taxation was implemented on March 3, 1791 as an internal revenue law to fund the founding United States. A tax on distilled spirits and stills was followed by the rather arbitrary taxes upon “carriages, retail dealers in wine and foreign spirituous liquors, snuff, refined sugar, property sold at auction, legal instruments, real estate and slaves.” After only 11 years, these taxes were abolished in 1802. Taxes were refined and reinstated in 1813 and stopped again in 1818 for another 44 years.

In 1862 the first income tax began, exponentially improving the efficiency of the tax system. President Grover Cleveland reinstated the income tax in 1894 – however, the Supreme Court ruled it unconstitutional the very next year. This ruling lasted until 1913, when the 16th Amendment to the Constitution was ratified, giving Congress the right “to

lay and collect taxes on incomes.” Tax growth can be seen in comparing total receipts over the experimental decades, where the tax from 1791 to 1802 reached only \$6.7 million. In 1938 alone, the total amount was \$5.6 billion, and today the total amount accrued each day of the year is more than \$5.6 billion.

In the US in 1921, the first-bracket rate was increased to 4 percent on incomes over \$4,000, and the top rate was 73 percent on incomes over \$1 million. By 1944, the tax rate reached an all-time high, starting at 23 percent on incomes over \$2,000, and 94 percent on incomes over \$200,000. And you thought current rates were excessive!

The total number of 2003 tax returns filed with the Internal Revenue Service totaled 222 million. The good news for the trees is that 53 million (24%) of those returns were filed electronically – with many more expected for 2004.

Alternative Minimum Tax

The minimum tax (precursor to today’s AMT) was established in 1969 when angry taxpayers learned that 155 wealthy individuals, defined as households with annual income greater than \$200,000, paid no income tax. Adjusted for inflation, \$200,000 in 1969 is \$1.1 million in today’s dollars. More letters were written to Congress to complain about this situation than about the Vietnam War. Subsequently, the “Minimum Tax” was passed into law. Interestingly, the Minimum Tax didn’t work very well as five years later, 244 taxpayers with income above \$200,000 paid no tax!

The Alternative Minimum Tax was not established until 1978. In 1982 the Minimum Tax was repealed and the AMT was expanded to include most of the items previously covered by the Minimum Tax. The tax rate of the AMT was originally a flat 20 percent. In 1986, 1990, and 1993, Congress raised the rate to its current two-tier schedule, 26 and 28 percent.