

Key Terms

ability to pay—A concept of tax fairness that states that people with different amounts of wealth or different amounts of income should pay tax at different rates. Wealth includes assets such as houses, cars, stocks, bonds, and savings accounts. Income includes wages, interest and dividends, and other payments.

progressive tax—A tax that takes a larger percentage of income from high-income groups than from low-income groups.

voluntary compliance—A system of compliance that relies on individual citizens to report their income freely and voluntarily, calculate their tax liability correctly, and file a tax return on time.

Summary

The federal income tax has not always been a part of the American taxation system. Early in our nation's history, it was only in times of war or crisis that the government used the income tax to generate needed revenue.

The earliest federal income tax was a **progressive tax** that was put in place to raise needed money during the Civil War. This tax was based on citizens' **ability to pay**. The government relied on **voluntary compliance** with the income tax. The federal income tax was repealed in 1872.

In 1894, Congress passed a new version of the federal income tax which the Supreme Court later declared unconstitutional. In 1909, Congress again proposed a federal income tax. The Sixteenth Amendment, which allows the federal government to tax citizens' incomes directly, was ratified in 1913.

Activity 1

Fill in the time line with the tax events listed below.

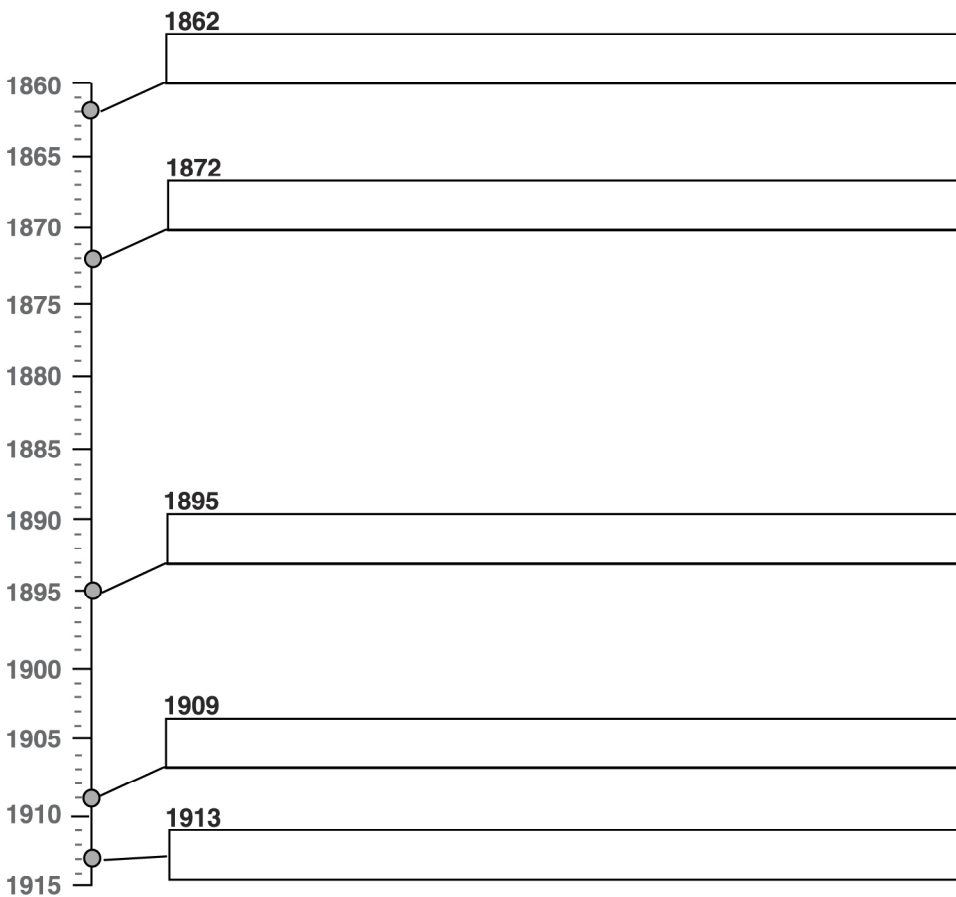
The Sixteenth Amendment is ratified.

The first income tax is devised.

The income tax is declared unconstitutional.

The income tax is repealed.

Congress proposes to make income tax part of the Constitution.



Activity 2

Using the timeline in Activity 1, summarize the events leading to the ratification of the Sixteenth Amendment. Write your answer in the space provided.

Activity 3

Choose one of the situations described below. Then write a short letter to your state's congressional representative explaining what your character thinks about the proposed federal income tax. Find a classmate who has written from the other character's perspective, and compare your responses.

- You are a wealthy factory owner at the beginning of the twentieth century. You make millions of dollars every year, and none of it is taxed. You use your profits to build more factories, which provide more jobs for workers and create more profits. Now the government wants to tax your income. Do you think the income tax is fair?
- You are a factory worker in 1909, working long hours and making little money. Most of your income pays for food and rent. A federal income tax will help the government provide services you need but can't afford, such as medical care. Do you think the income tax is fair?
