Info Sheet 1 — Taxes in the 1930s and 1940s: Problems and Solutions

Theme 2: Taxes in U.S. History
Lesson 5: The Wealth Tax of 1935 and the Victory Tax of 1942

Taxes were often a solution to the economic problems of the United States during the Great Depression and World War II.

Problem: The Great Depression (1929–1941) leads to an unstable economy, massive unemployment, a low standard of living, and increased poverty.

Solution: The Roosevelt administration’s New Deal (1932–1938) creates federally funded jobs for unemployed Americans.

Problem: The New Deal programs are expensive, and the federal government needs additional revenue.

Solution: The Revenue Act of 1935 introduces the Wealth Tax, a progressive tax that cuts deeply into the incomes of the wealthy.

Problem: The wealthy dislike the Wealth Tax and use loopholes in the tax code.

Solution: The federal government prosecutes tax evaders and tightens loopholes in the tax code with the Revenue Act of 1937.

Problem: The expenses of war production between 1941 and 1945 are more than the government can afford.

Solution: The Revenue Act of 1942 introduces the Victory Tax—a mass tax that is progressive—but reduces exemptions and deductions so that almost every American worker pays income tax. The tax is withheld from workers’ paychecks.