Info Sheet

What Is the IRS?

Theme 6: Understanding the IRS
Lesson 1: The IRS Yesterday and Today

Internal
Revenue
Service

- During the early years of the United States, federal taxes were “external;” they were tariffs or customs duties placed on products that came into the United States from other countries. Because the American Revolution began as a protest over unpopular taxes, Americans were very wary of “internal” taxation.

- The first Secretary of the Treasury, Alexander Hamilton, proposed the Revenue Act of 1791 as a way to pay off the government’s debts. This resulted in our country’s first internal tax—an excise tax on alcohol and tobacco.

- Shortly after becoming president, Thomas Jefferson abolished all internal taxes and allowed the country to support itself on land sales and customs duties alone. To finance the War of 1812, however, the country temporarily returned to the use of internal excise taxes. The taxes were canceled as soon as the war ended.

- Not until the American Civil War did Congress again resort to internal taxation. It was at this time that the Office of the Commissioner of Internal Revenue first was created, and with it the United States’ first income taxes.

- Income tax is the leading source of revenue (money) for the United States government. It includes taxes on both earned and unearned income. Individuals pay personal income taxes and businesses pay business or corporation income taxes. Earned income includes commissions, salaries/wages, and tips. Unearned income includes interest and dividends.

- The wartime income tax of the 1860s ended in 1872. In 1913 the Sixteenth Amendment was passed, and the United States finally had a permanent system of income taxation. The Bureau of Internal Revenue was given the responsibility of collecting the taxes.

- Between 1952 and 1953, the Bureau of Internal Revenue was reorganized and improved. Civil service directors replaced the politically appointed tax collectors, and the agency’s name was changed to Internal Revenue Service. Today the IRS continually seeks to emphasize the “service” in its name.