

keeping each refund request under \$5,000. One mistake, apparently undetected by the IRS, was having the refunds under different names all deposited in his checking account.

MEMBERS ASK

CLIENT'S ASK—HOW DID FEDERAL INCOME TAX BEGIN?

In the nation's early history, very few taxes were imposed in the U.S. to run the government. From 1791 until 1802, the Government collected internal taxes on alcohol, carriages, sugar, tobacco, auctioned-off property, corporate bonds, and slaves.

Then, in order to pay off the debts that were incurred from the War of 1812, sales taxes were imposed on gold, silverware, jewelry, and watches. Congress did away with these taxations. And the Government was supported by collecting tariffs from imports brought into the country.

Congress then passed the nation's first income tax law in 1862 to support the Civil War effort. It was a forerunner of the modern income tax in that it was based on a progressive scale, much like what is used today. The lowest tax rate was a flat 3% and it applied to people who earned anywhere between \$600 and \$10,000 a year. The next highest tax rate was 5% and it was levied on any income amount that exceeded \$10,000. For people who earned a higher dollar amount, the rates were increased accordingly. Additional sales and excise taxes were added, and an "inheritance" tax also made its debut.

The Act of 1862 was also the beginning of the Internal Revenue Service called the office of the Commissioner of Internal Revenue. The Commissioner was given the power to assess, levy and collect taxes and the right to enforce the tax laws through seizure of property and income and through prosecution. His powers and authority remain very much the same today.

Rates were changed when the Government instituted the Internal Revenue Act of June 30, 1864. The people who earned between \$600—\$5,000 paid 5% while the people who earned over \$5,000+ paid 10% of their incomes. This tax change was needed in order to generate additional revenue to fund the Civil War. Now, every taxpayer had to submit a list of their income as well as a list of any taxable property they might have to the tax assessor before the first Monday in May. And, fines were

imposed on people who failed to abide by the tax laws.

Internal revenue collections reached their highest point in the nation's 90-year history of more than \$310 million in 1866, an amount not reached again until 1911.

In 1872, Congress did away with the imposed income tax once again. Instead of taxing people's incomes, Congress once again looked towards the taxation of goods, tobacco and alcohol, for revenue. It had a short-lived revival in 1894 and 1895.

Questioning the validity of the taxes imposed during the Civil War times; lead the U.S. Supreme Court to finally hand down a ruling in 1895, which said that the income tax was unconstitutional because the taxes were not collected proportionately among the states. To correct this situation, the 16th Amendment to the Constitution was ratified on February 25, 1913. Now, income taxes were a permanent part of the United States economy, and Congress could tax incomes however they saw fit.

In 1918, annual internal revenue collections for the first time passed the billion-dollar mark, rising to \$5.4 billion by 1920. With the advent of World War II, employment increased, and so did tax collections to \$7.3 billion. The withholding tax on wages was introduced in 1943 and was instrumental in increasing the number of taxpayers to 60 million and tax collections to \$43 billion by 1945.

Congress enacted the largest tax cut in U.S. history in 1981, approximately \$750 billion over six years. The tax reduction, however, was partially offset by two tax acts, in 1982 and 1984, which attempted to raise approximately \$265 billion.

The Tax Reform Act of 1986, one of the most far-reaching reforms of the U.S. tax system since the adoption of the income tax, was an attempt to remain revenue neutral. The act called for a \$120 billion increase in business taxation and a corresponding decrease in individual taxation over a five-year period. Following were what seemed to be a yearly tradition of new tax acts that began in 1986.

Over the years, there have been several grass root efforts by Americans who believe that the idea of a mandatory income tax and the Sixteenth Amendment are unconstitutional. At least one group claims to have proof that the amendment was not even ratified because at least eleven states did not vote on it. The main goal of these groups is to get the amendment declared legally null and void.

Tax Timeline

1813 The Revenue Act; taxes were imposed when and as needed.

Pre-1862 U.S. government operations funded through collected import duties and sold public lands.

July 1, 1862 Congress formed Office of Commissioner of Internal Revenue to meet fiscal demands of the Civil War. (After the war, tax efforts declined.)

1913 16th constitutional Amendment introduced our first Income Tax.

(World War I; heavy fiscal demands: Increase tax efforts.)

1916-1951 New tax legislation enacted every year.

1939 U.S. Tax Laws first codified as an integral part of the U.S. Code—IRC 1939.

1954 U.S. tax code amended and becomes IRC 1954.

1986 Code completely revamped—IRC 1986 U.S. Code, Title 26, Internal Revenue Code of 1986.

1997 Taxpayer Relief Act—new beneficial rules to offset education costs.

2001 Economic Growth and Tax Relief Reconciliation Act—began phased in changes with sunset provisions causing the new tax laws to terminate in 2011 and launched a series of enactments of annual legislative changes which bring us to 2007.

LEGISLATIVE AND GOVERNMENT RELATIONS UPDATE

May, 2006

NSTP's Executive Director represented NSTP members at the Treasury hearing in Washington DC. One issue affecting NSTP membership, the ability of return preparers to represent the taxpayer at the initial examination, was a focus of testimony. While Treasury has made no announcement, discussions with the Office of Professional Responsibility indicate that no change will be made to the current provision and tax professionals can continue to represent the clients for whom they have prepared the return at the initial examination.

Summer, 2006

NSTP presents Circular 230—The Basics at six IRS Nationwide Tax Forums and participates as a panelist on the Office of Professional Responsibility presentation at the Forums.