Taxation in the U.S.

While taxes are part of the American way of life today, America was originally an income-tax-free country because there was not yet a federal government to impose one. Rather, early American colonists paid various taxes to the British government, such as a head tax, real estate taxes, and a tax on tea that resulted in the famous Boston Tea Party.

The Constitution gave Congress the power to tax the general public. The states collected these taxes and passed them on to the federal government. These consisted mainly of excise taxes: taxes on goods and services, such as alcohol and tobacco. An attempt to tax property failed, and the government relied on excise taxes until the later half of the 1800s.

The first income tax, and the first version of what we now call the Internal Revenue Service, was created in 1861 as a way to pay for the Civil War. At that time, the newly created federal agency known as the Office of the Commissioner of Internal Revenue took over the responsibility for collecting federal taxes. Excise taxes spread from alcohol and tobacco to many other products, such as gunpowder and tea. That first income tax was repealed in 1872, and reinstated in 1909 by the 16th Amendment to the Constitution, which gave Congress the right to impose taxes. Corporate income taxes were enacted in 1909. What we know of today as the federal income tax appeared in 1913, with a tax rate of 1% of net income. Many other taxes followed over the next century, such as real estate tax, gift tax, state sales taxes, and Social Security taxes.

Answer the questions True or False.

1. American colonists paid an American federal income tax. true false
2. The British government gave Congress the power to tax the general American public. true false
3. An excise tax is a tax on goods and services. true false
4. The first income tax in America was created to pay for the Civil War. true false