

The Birth and Growth of U. S. Tax Laws

- 1913:** **The Sixteenth Amendment** – Feb. 3, 1913 the 16th Amendment to the U. S. Constitution is ratified, granting Congress the power to tax personal income.
- 1916:** **Emergency Revenue Act** – To raise funds for World War I, Congress passes the Emergency Revenue Act of 1916, increasing personal income tax rate and imposing an archetype of the modern-day estate tax on estates worth more than \$50,000.00.
- 1924:** **Gift Tax** - Under this new law, cash gifts are taxed at the rate of 1 percent to 25 percent with a \$50,000 donor exemption and a \$5,000 annual exclusion per donee.
- 1926/32:** **Gift Tax Repealed, Reinstated** – The gift tax is repealed in 1926, only 2 years after being instituted. After the Great Depression, the tax is reinstated in 1932 to help revive the economy.
- 1935:** **Wealth Tax** – The nation rallies to counter the lingering Depression. As inflation and joblessness increase, Congress enacts the “Wealth Tax”.
- 1941/42:** **Revenue Acts** – To increase war-related production and help finance the costs of the growing militia, the 1941 Revenue Act lowers exemption levels and increases taxes, especially on “excess profits” relating to war profiteering. The act is modified in 1942 to broaden the tax base, making this the biggest tax increase between the years of 1940 and 1967.
- 1945:** **Revenue Act** – Despite a growing national debt, the Revenue Act of 1945 drastically cuts taxes, seeking to restore peacetime rates. The legislation pushes down individual income taxes from a high of 94 percent for incomes of \$1 million-plus, repeals the tax on excess war profits and lowers the top corporate income tax, but has little direct impact on estate and gift taxes.

- 1954:** **The Internal Revenue Code** – In an effort to codify the increasingly complex body of federal tax law, the Bureau of Internal Revenue renames itself the Internal Revenue Service in 1954 and overhauls the federal income tax. The new code expands the tax base to include most life insurance proceeds, which has the effect of increasing personal income tax while sparing estate taxes.
- 1969:** **Tax Reform Act** – The Tax Reform Act of 1969 increases tax rates for high-income earners and corporations, while decreasing rates for lower-income groups. The act also codifies complex requirements and benefits for setting up charitable trusts.
- 1976/78:** **Revenue Acts** – The Revenue Act of 1976 overhauls estate taxation, combining the previously separate exemptions for estate and gift taxes into a single, unified estate and gift tax credit. The Revenue Act of 1978 opens the door for non-taxed individual retirement accounts and defers employee pension plans, along with cutting ordinary income and capital gains taxes by billions.
- 1981:** **Economic Recovery Tax Act** – Representing the largest one-time tax cut in the nation’s history, the Economic Recovery Tax Act of 1981 is expected to save taxpayers \$750 billion in five years. But many of these cuts will be rolled back in the coming decade.
- 1982/84:** **Tax Equity and Fiscal Responsibility Act, Tax Reform Act** – Congress adopts the Tax Equity and Fiscal Responsibility Tax Act of 1982 to scale back tax breaks for big businesses and limit tax benefits involving retirement plans and partnerships. The Tax Reform Act of 1984 further contracts Reagan’s cuts.
- 1986:** **Tax Reform Act** – The Tax Reform Act of 1986 reduces individual tax rates across the board, broadens the tax base and eliminates tax shelters. The top tax rate is lowered to 28 percent and capital gains rates are lowered to the same level as ordinary income.

1997: **Taxpayer Relief Act** – The Taxpayer Relief Act of 1997 creates a variety of new tax breaks, including a credit for children under 17, college tuition tax credits and education individual retirement accounts, as well as penalty-free withdrawals from IRAs for qualified education expenses and first-home purchases. Floors for estate tax are raised from \$600,000 to \$1 million by year 2006 and the gift tax is indexed for inflation.

2001: **Economic Growth and Tax Relief Reconciliation Act** – The Economic Growth and Tax Relief Reconciliation Act is President George W. Bush’s first step towards a stated goal of eliminating the inheritance tax. It provided for a scheduled phase-out of rates and an increase in the unified credit, finally repealing the tax for the calendar year 2010.

-- “*Federal Tax Timeline*”, *Trusts & Estates*, October 2004, pp. 68-74