Theodore Roosevelt's 6th Annual Message to Congress (December 3, 1906) Excerpt

Historical Context

The government initiated its first income tax to cover the cost of the Civil War in the 1860s. That tax was repealed in 1872. President Theodore Roosevelt explained his philosophy on taxes in this speech to Congress. He supported both a national income tax and an inheritance tax. President from 1901 to 1909, Roosevelt led many reform movements, but did not see change on this issue during his time in office. In 1913, Congress passed the Sixteenth Amendment to the U.S. Constitution establishing a permanent income tax system. "The Congress shall have power to lay and collect taxes on incomes, from whatever source derived …"

Excerpt

The question of taxation is difficult in any country, but it is especially difficult in ours with its Federal system of government ... [T]here are many kinds of taxes which can only be levied by the General Government so as to produce the best results ... [T]he National Government should impose a graduated inheritance tax, and, if possible, a graduated income tax. The man of great wealth owes a peculiar obligation to the State, because he derives special advantages from the mere existence of government. Not only should he recognize this obligation in the way he leads his daily life and in the way he earns and spends his money, but it should also be recognized by the way in which he pays for the protection the State gives him. On the one hand, it is desirable that he should assume his full and proper share of the burden of taxation; on the other hand, it is quite as necessary that in this kind of taxation, where the men who vote the tax pay but little of it, there should be clear recognition of the danger of inaugurating any such system ... Whenever we, as a people, undertake to remodel our taxation system along the lines suggested, we must make it clear beyond peradventure that our aim is to distribute the burden of supporting the Government more equitably than at present; that we intend to treat rich man and poor man on a basis of absolute equality, and that we regard it as equally fatal to true democracy to do or permit injustice to the one as to do or permit injustice to the other.

Tax Freedom Day (1999) Excerpt - Burton Folsom

Historical Context

Taxes play an integral part in the United States market economy. The interaction of three economic sectors are the heart of the economic system: households; businesses and corporations; and the local, state, and federal government. The government participates directly through the goods and services it purchases and provides. About one-third of the nation's economy is based on government spending. Revenue for government spending comes from taxes. The government initiated its first income tax to cover the cost of the Civil War in the 1860s. That tax was repealed in 1872. In 1913 Congress passed the Sixteenth Amendment to the U.S. Constitution establishing a permanent income tax system. Taxes fall into three basic categories: progressive, regressive, and proportional. The federal income tax is based on the progressive tax system. Income taxes are collected on a graduated scale, taking a larger percentage of income from the wealthy. People with income below a minimum level do not pay income taxes. A regressive tax is collected without regard to the taxpayer's income or ability to pay. Regressive taxes place more burden on low- and middle-income wage earners. The added sales tax on higher-priced durable goods—homes, cars, and washing machines—is regressive because it takes a greater portion of a low-income family's earnings. A proportional or "flat" tax requires each individual or family to pay a fixed rate. In 1995 two Republican congressmen proposed major tax reform. The plan sought to replace the existing progressive tax system with a flat 20% tax for all income levels. They argued that the clarity and efficiency of a proportional tax system would benefit all taxpayers. Those against the flat tax proposal said that it benefited the wealthy. They argued that large government spending cuts would be necessary to balance the loss of revenue from high-income taxpayers who traditionally pay higher tax rates. In this article Burton Folsom, a senior fellow in economic education at the Mackinac Center for Public Policy, criticizes the current income tax system.

Excerpt

This year, [the] average citizen will have to work 130 days to pay off his total tax bill, earning his "tax freedom" only on the 131st day, May 11. That's one day later than last year and several months later than Tax Freedom Day was when the progressive income tax was first established in 1913. The principle behind the progressive income tax-which asserts that the more you earn, the larger the percentage of tax you must pay-is not what the nation's Founders wanted. An attempt by Congress to impose one late in the nineteenth century was declared unconstitutional by the Supreme Court. It took a constitutional amendment, ratified in 1913, for such a tax to be legal.

The income tax of 1913 started small, but grew quickly in size and scope. The top rate was first set at a mere 7 percent-and married couples were only taxed on income over $4,000 (equivalent to $80,000 in today's dollars) It took the politicians less than one generation to sharply increase the tax and expand the base of those who had to pay it. Presidents Herbert Hoover and Franklin Roosevelt, using the excuses of depression and war, permanently enlarged the income tax.

...

As Americans we should insist on equality in our tax code-and begin the next millennium by making the progressive income tax an oddity of our history, not a burden of our future.

from "What's Wrong with the Progressive Income Tax?" Mackinac Center for Public Policy

Terms of Tax Fairness (April 1, 1996) Excerpt - Robert Shapiro

Historical Context

Taxes play an integral part in the United States market economy. The interaction of three economic sectors are the heart of the economic system: households; businesses and corporations; and the local, state, and federal government. The government participates directly through the goods and services it purchases and provides. About one-third of the nation's economy is based on government spending. Revenue for government spending comes from taxes. The government initiated its first income tax to cover the cost of the Civil War in the 1860s. That tax was repealed in 1872. In 1913 Congress passed the Sixteenth Amendment to the U.S. Constitution establishing a permanent income tax system. Taxes fall into three basic categories: progressive, regressive, and proportional. The federal income tax is based on the progressive tax system. Income taxes are collected on a graduated scale, taking a larger percentage of income from the wealthy. People with income below a minimum level do not pay income taxes. A regressive tax is collected without regard to the taxpayer’s income or ability to pay. Regressive taxes place more burden on low- and middle-income wage earners. The added sales tax on higher-priced durable goods—homes, cars, and washing machines—is regressive because it takes a greater portion of a low-income family’s earnings. A proportional or “flat” tax requires each individual or family to pay a fixed rate. In 1995 two Republican congressmen proposed major tax reform. The plan sought to replace the existing progressive tax system with a flat 20% tax for all income levels. They argued that the clarity and efficiency of a proportional tax system would benefit all taxpayers. Those against the flat tax proposal said that it benefited the wealthy. They argued that large government spending cuts would be necessary to balance the loss of revenue from high-income taxpayers who traditionally pay higher tax rates. In this policy report, Robert J. Shapiro—vice president of the Progressive Policy Institute—discusses whether a progressive income tax is fair.

Excerpt

Without a doubt, most people don't enjoy paying taxes. But in a democracy like ours, people contribute private resources to provide the public goods they deem appropriate as a community, including helping those unable to make their way by themselves. In America, paying taxes embodies a civic relationship of mutual responsibility, and people's obligation to pay them is as legitimate as any other public duty.

... Fairness under a proportional or flat tax emphasizes equality: Everyone should be subject to the same tax rules, and therefore, everyone should pay taxes at the same tax rate and bear the same relative tax burden. By contrast, fairness under a progressive tax system stresses people's different circumstances: All people should pay taxes according to their ability to do so, and therefore, the tax system should exempt the poor and apply to everyone else tax rates and relative tax burdens that increase with income.

...

Progressive taxes apply only to people's annual income, not to their accumulated wealth, and so have only modest effects on concentrations of economic power. Moreover, while high income people don't stop working or saving because their marginal tax rate is high they find ways to avoid it or live with it ... In any event, lifting tens of millions of low income people into the middle class by direct income transfers would require much higher taxes not just on the wealthy, but also on strapped middle class families.

...

... [T]he additional burden of progressive taxation is a reasonable price to pay by those who in some respect start with more, for the privilege of prospering relatively more under America's laws and in her markets.

...

The current distribution of all forms of federal taxation can be summarized in the following ... :

• First, everyone bears some of the burden. Higher income people pay the bulk of all federal taxes mainly because they earn the bulk of all income, but even families living in poverty pay on average more than 6 percent of their income to the federal government.

• Second, a family's tax burden rises most sharply as it moves up from poverty to the middle class; beyond that, the tax burden increases with income at a more modest rate. A family living on $6,000 a year pays roughly 6.4 percent of those resources in federal taxes, and as its income increases to $25,000, the share it pays in taxes nearly triples to 16.8 percent. If the same family increased its income 20-fold more, to reach $500,000, its tax burden would only double to 32.7 percent.

• Third, two groups bear lighter tax burdens than others: Elderly people pay significantly less than younger households with comparable income; and at low and moderate income levels, families with children pay less than other households ...

• Fourth, the total federal tax burden is genuinely progressive at the bottom and at the top of the income ladder, and roughly proportional for everyone else. Relative to the current tax system, a pure flat or proportional tax system would leave poor families with 16 percent to 22 percent less to live on than they do today, and the wealthiest 1 percent with 12 percent more. For virtually everyone else, a truly flat system would raise or lower their disposable income by less than 3 percent.

from "Why Fairness Matters: Progressive Versus Flat Tax" Progressive Policy Institute