HISTORY

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Why We Pay Taxes

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Since 1950, individual income taxes have been the primary source of revenue for the U.S. federal government. Together with payroll taxes (used to fund social programs like Social Security and Medicare), income taxes amount to roughly 80 percent of all federal revenue, and are the essential fuel on which our government runs.

The history of income taxes in the United States goes back to the Civil War, when Abraham Lincoln signed into law the nation's first-ever tax on personal income to help pay for the Union war effort. After it was repealed a decade later, Congress tried again in 1894, enacting a flat rate federal income tax. But the U.S. Supreme Court ruled the tax unconstitutional the following year, because it didn't take into account the population of each state.

Then in 1909, Congress passed the 16th Amendment, which allowed the federal government to tax individual personal income regardless of state population. The required number of states ratified the amendment in 1913, and Americans have been required to pay federal income taxes ever since.

Who pays taxes, and when?

By law, any American whose gross income is over $10,000 (or $25,000 for married couples filing jointly) or who earned more than $400 from self-employment must file a federal income tax return. There are also a number of other circumstances that might require you to file, including selling your home or owing taxes on money you withdrew from your retirement account. In Puerto Rico, which is a U.S. territory, residents aren't required to pay federal income tax if their income is only from sources within Puerto Rico, but they do pay Social Security, Medicare, import, expert and commodity taxes, for a total federal tax bill of more than $3 billion per year, according to the *New York Times*.

Back in 1913, Congress chose March 1 as the official due date for paying taxes, but a few years later they moved it to March 15 (for no apparent reason). In 1955, another tax overhaul pushed back the deadline an entire month, to April 15, giving the government more time to hold on to tax dollars before paying any refunds it might owe. In the case that April 15 falls on a Saturday, Sunday or holiday, Tax Day becomes the first succeeding business day after that date.

How are taxes calculated?

The federal income tax system is designed to be progressive, which means the more taxable income you make, the higher the tax rate. Taxpayers can often reduce the amount of tax they owe by using various tax credits, deductions and exclusions (or loopholes).

Tax rates have varied widely over the years, especially for the nation's highest earners, ranging from an initial low of around 7 percent in 1913 to a top rate of 91 percent in the early 1960s. In 2016, taxpayers in the top tax bracket (income level) paid a tax rate of 39.6 percent, according to the Tax Policy Center; they included some 860,000, or 0.5 percent of the total number of U.S. households. Nearly 80 percent of U.S. households were in the 15 percent bracket or lower, including those Americans with no taxable income and those who don't file tax returns.

Because the United States has a marginal tax rate system, not all of an individual's income may be taxed at the same rate. When you earn enough income to put you into a higher tax bracket, only the extra income in that bracket is taxed at the higher rate, not all of your income. For individuals in the highest tax bracket, their first dollars of income are taxed in the lowest bracket, and they go up from there.

How are refunds decided?

Most Americans pay their taxes as they go through the year, rather than in one lump sum on Tax Day. Employees often have their income tax deducted from each paycheck and sent directly to the Internal Revenue Service (IRS), while self-employed workers are required to pay estimated taxes quarterly. At the end of the year, if you've paid more than what you owe, the federal government will issue you a tax refund. The IRS typically sends out refunds within 21 days of receiving tax returns, but in some cases it can take as long as eight weeks.

What has changed in the recent tax law?

In late 2018, President Donald Trump signed the Tax Cuts and Jobs Act, which represented the most significant change to the tax code in more than 30 years. The bill lowered tax rates in five out of the seven tax brackets, starting in 2018 and going through 2025. While it increased the standard deduction for both individuals and married couples filing jointly, the new law eliminated the personal exemption, which every individual had been entitled to claim on their tax return (provided they weren't someone else's dependent).

Among various other changes, the new tax law raised amounts that workers can contribute to retirement savings accounts, doubled the existing Child Tax Credit to $2,000 for every child in a household under 17 and expanded the use of funds in specialized college savings accounts (called 529s) to include other levels of education, like private K-12 schooling. In a benefit that applies only to a small percentage of wealthy Americans, the new law also doubled the estate tax exemption to $11.2 million per individual and $22.4 million per couple, greatly reducing the amount of families subject to the estate tax.