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## **Years In Tax History: 1914 and 1944**

By Eric A. Larson, CPA, CrFA -- Partner

In 2014, we celebrate two major anniversaries. First, the founding of Michael Silver & Company CPAs (70 years), and the anniversary of the first income tax filing season (100 years). Have you ever wondered what rates the original income tax filers paid on their 1913 income? Or, what Michael Silver's original tax clients faced in 1944?

First, let's go back to 1913 and the ratification of the 16th amendment, which gave Congress the authority to pass the first income tax law. Individual tax rates began at 1% and rose to 7% for those with income over \$500,000 (\$11.3M in today's dollars). Less than 1% of the population paid income tax. And CPAs, whose certification had been created in 1897, went through their first "tax season" in the spring of 1914. No, I was not there, even though my children believe that I was!

Michael Silver & Company CPAs was founded in 1944, at the end of World War II. Since the government had needed more money to finance the war, there were 24 tax brackets, beginning at 23% and rising to 94% for individuals. The 94% was for those with incomes over \$200,000 (\$2.54M in today's dollars). About 31% of the population paid income taxes. Michael Silver & Company CPAs experienced their first "tax season" and, although I was still not around, by now, my parents were.

For the 2013 filing year, there are 7 tax brackets ranging from 10% to 39.6%, with a 3.8% surtax on "unearned" income for higher income taxpayers, and an Alternative Minimum Tax for taxpayers with certain "preference" items. According to IRS statistics, 46% filed returns. I have been with Michael Silver & Company CPAs for 11 years now, and I am a veteran of more tax seasons than I care to mention.

In 1944, to finance the war, the federal tax receipts rose to 22% of GDP; in 2013, they were about 19% of GDP. With the higher tax brackets and lower number of taxpayers in 1944, the wealthiest taxpayers bore the lion's share of the liability. Contrast that with today's relatively low tax brackets and the larger number of taxpayers, and it would appear the tax burden has shifted downward. So, although you may not be particularly pleased about the tax bracket you are in now, the tax rates are certainly lower than those faced by Michael Silver's original tax clients.

Please join us in celebrating 70 years of Sterling Silver Service!

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