2011 Annual Report to Congress

National Taxpayer Advocate

Annual Report to Congress

From Tax Collector to Fiscal Automaton: Demographic History of Federal Income Tax Administration, 1913-2011

From Tax Collector to Fiscal Automaton: Demographic History of Federal Income Tax Administration, 1913-2011[1]

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EXECUTIVE SUMMARY

Background

Study of almost one hundred years of federal income tax administration reveals two trends. On one hand, the U.S. population as a whole grew, coupled with an increase in the percentage of the population required to file tax returns. On the other hand, the number of returns per Internal Revenue employee increased, not keeping pace with taxpayer population growth until the middle of the century. (See Table 1, Income Tax Demographic History.) These trends were facilitated by automation.

The automation of tax administration underlies the shift of revenue collection from an elite to a popular base, which has been famously titled in legal history as a transformation from "Class Tax to Mass Tax." What began as taxpayer interaction with local collectors became impersonal over the century.

Analysis

Taking the last 98 years under the federal income tax law in four parts, the period started with 1913 enactment, proceeded to 1939 codification, followed by 1954 recodification, and concluded with 1986 recodification and reform. In the end, this history poses questions for the future of tax administration.

Establishment of Income Tax as a "Class" Tax, 1913-1938

In 1913, Congress enacted a highly progressive income tax. This locally administered tax helped fund the American effort in World War I, and sustained the government during the Great Depression.

Transformation into a "Mass" Tax, 1939-1953

In 1942, a sweeping legislative transformation to fund the next war effort turned the mass of the populace into income taxpayers. Wartime popularization resulted in "a marriage of convenience that survived" between the American people and the income tax. The war revenue measure persisted into peacetime, forming a permanent national infrastructure.

Automation and Meltdown, 1954-1985

Post-World War II modernization proceeded along the lines of a centralized reorganization announced in 1952 as a dramatic break from a tradition of local collectors, which had become corrupted over time by bribery and its ilk. Centralization facilitated technological advancement in Service Centers and similar new sites. There, central processing proceeded in volumes that ultimately induced a computer and management meltdown in 1985. Thus, the risk associated with centralization appeared in this period.

Restructuring and an Emerging New Mission, 1986-2011

An accumulation of refundable credits in the last quarter century, after the 1975 enactment of the Earned Income Tax Credit (EITC), added disbursement to the IRS's role of revenue collection. In 1998, legislation eliminated vestiges of local administration by restructuring the IRS into functional divisions (each with nationwide scope). Modernized after the meltdown, IRS computer systems generated results like an automaton, without the intervention of human judgment. The uniformity of the mass tax thus arrived at an extreme.

Conclusion with Recommendations

In short, the IRS started as a revenue bureau but now administers social expenditures as well, through highly automated systems. Automation, with standard forms and procedures, was necessitated by the return volume of the mass tax introduced in 1942. As described by early 20th-century sociologists, formal standardization allowed government offices to administer a large volume of cases efficiently and dispassionately but at a cost of substantive discretion, "without regard for persons" in a "dehumanized" manner.

Automation was compounded by geographic centralization of command designed to combat local corruption. This combination of automation and centralization posed the question of whether the tax system had grown into a conglomerate beyond controls that could eliminate the risk of meltdown. Over time, this tax system was increasingly characterized by complexity. Ironically, complex, centralized automation could seem inappropriate in some respects for late 20th and early 21st-century mandates to deliver benefits to a diversity of targeted populations (such as low income workers qualifying for the EITC).

The lessons of history include the mid-century effort to popularize the income tax as well as reliance on automation, all in the context of a diversifying taxpayer base. History poses a question whether steadily increasing volume can be addressed simply by more automation, which presumably would work if taxpayers were uniform, or if increased diversity along with increased volume raises qualitatively different challenges.

Generally, history can be useful if studied systematically. Toward that end, Volume 1 of this report contains a Legislative Recommendation: *Appoint an IRS Historian*. Likewise, taxpayer diversity can be understood if studied systematically. Accordingly, Volume 1 in the Most Serious Problems section contains an Introduction to Diversity Issues: *The IRS Should Do More to Accommodate Changing Taxpayer Demographics*, with associated recommendations.

TABLE 1, Income Tax Demographic History

Year	Event	Indiv. returns (Mn)[2]	As a % of	U.S. pop. (Mn)[3]	Int. Rev. employees[4]	All returns (Mn)[5]	Returns/ employee
1913	Income tax law enacted	0.358	0.368	97.2	4,000	0.675	169
1914	F. 1040 introduced	0.358	0.361	99.1	3,972	0.657	165
1916	Emergency Revenue Act	0.437	0.429	102.0	4,718	0.778	165
1917	Withholding repealed; war profit tax	3.47	3.36	103.3	5,053	3.86	764
1924	Revenue Act, EIC, BTA	7.37	6.46	114.1	15,884	8.11	511
1930	*Lucas v. Earl, Poe v. Seaborn*	3.85	3.13	123.2	11,979	5.30	442
1935	Social Security Act	4.67	3.67	127.4	16,523	5.32	322
1939	IRC codified	6.47	4.94	131.0	22,623	7.16	316
1942	Revenue Act, Tax Court of U.S.	26.3	19.5	134.9	29,065	27.8	956
1943	Current Payment Tax Act	37.0	27.1	136.7	36,338	40.5	1,115
1944	Individual Income Tax Act	47.1	34.0	138.4	46,171	52.7	1,141
1948	Revenue Act, joint filing	52.1	35.5	146.6	52,143	74.4	1,427
1953	BIR renamed as IRS	57.8	36.1	160.2	53,463	93.2	1,743
1954	IRC recodified	56.7	34.8	163.0	51,411	88.9	1,729
1969	Tax Reform Act	75.8	37.4	202.7	66,064	110.7	1,676
1975	Tax Reduction Act	82.2	38.1	216.0	82,616	126.0	1,525
1976	Tax Reform Act	84.7	38.8	218.0	85,455	127.1	1,487
1978	TCE established	89.8	40.3	222.6	86,258	136.7	1,585
1982	TEFRA; F. 1040EZ introduced	95.3	41.0	232.2	83,756	170.4	2,034
1986	Tax Reform Act recodified IRC	103.0	42.8	240.7	96,395	188.0	1,950
1988	Taxpayer Bill of Rights	109.7	44.8	245.0	115,494	194.3	1,682
1996	Taxpayer Bill of Rights II	120.4	44.6	269.7	107,751	208.9	1,939
1998	Restructuring & Reform Act	124.8	45.2	276.1	111,712	224.5	2,009
2001	EGTRRA	130.3	45.6	285.5	97,707	227.9	2,332
2010	Affordable Care Act	141.2	45.7	308.7	107,621	230.4	2,141

2 IRS Statistics of Income (SoI) Hist. Summary (1913-1965) Table 38 at 207-08; Comm'r of Int. Rev. (CIR) Ann'l Rep'ts (1939-1943); SoI Bull. Hist. Data Table 9 (1950-2008); IRS Pub. 55B, Data Book (2010).

3 U.S. Bur. of the Census, Statistical Abstract of the U.S. (2003) No. HS-1, *Population*: 1900-2002; Census, *Population Distrib'n & Change*: 2000 to 2010 (Mar. 2011).

4 IRS Pub. 1694 at 249-50; Pub. 55B (1996-2010).

5 SoI, 1916 (1913-1916) at 14-15 (including personal & corporate income tax returns but no excises, which would have been measured more accurately by gallons, pounds, or warehouses, as the case may be, rather than returns); SoI, 1917 at 7 & 15 (including personal, corporate & partnership income tax returns but no excises); SoI, 1924 at 1 & 12 (including personal, corporate & partnership income tax returns but no excises); Work and Jurisdiction of Bir at XI, Table III (1927-1947) (including income, profit, estate & gift tax returns but not excises); Comm'r of Int. Rev. (CIR) Ann'l Rep'ts (1948-1988); Pub. 55B (1996-2010).

TABLE 2, Personal Exemptions and Lowest and Highest Bracket Tax Rates, and Tax Base for Regular Tax, 1913-2011[6]

Year	Personal exemptions			Tax rates for regular tax			
				Lowest bracket		Highest bracket	
	Single persons ($)	Married couples ($)	Dependents ($)	Tax rate (%)	Taxable income under ($)	Tax rate (%)	Taxable income over ($)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1913	3,000	4,000	N/A	1.0	20,000	7.0	500,000
1914	3,000	4,000	N/A	1.0	20,000	7.0	500,000
1915	3,000	4,000	N/A	1.0	20,000	7.0	500,000
1916	3,000	4,000	N/A	2.0	20,000	15.0	2,000,000
1917	1,000	2,000	200	2.0	2,000	67.0	2,000,000
1918	1,000	2,000	200	6.0	4,000	77.0	1,000,000
1919	1,000	2,000	200	4.0	4,000	73.0	1,000,000
1920	1,000	2,000	200	4.0	4,000	73.0	1,000,000
1921	1,000	2,500	400	4.0	4,000	73.0	1,000,000
1922	1,000	2,500	400	4.0	4,000	58.0	200,000
1923	1,000	2,500	400	3.0	4,000	43.5	200,000
1924	1,000	2,500	400	1.5	4,000	46.0	500,000
1925	1,500	3,500	400	1.125	4,000	25.0	100,000
1926	1,500	3,500	400	1.125	4,000	25.0	100,000
1927	1,500	3,500	400	1.125	4,000	25.0	100,000
1928	1,500	3,500	400	1.125	4,000	25.0	100,000
1929	1,500	3,500	400	0.375	4,000	24.0	100,000
1930	1,500	3,500	400	1.125	4,000	25.0	100,000
1931	1,500	3,500	400	1.125	4,000	25.0	100,000
1932	1,000	2,500	400	4.0	4,000	63.0	1,000,000
1933	1,000	2,500	400	4.0	4,000	63.0	1,000,000
1934	1,000	2,500	400	4.0	4,000	63.0	1,000,000
1935	1,000	2,500	400	4.0	4,000	63.0	1,000,000
1936	1,000	2,500	400	4.0	4,000	79.0	5,000,000
1937	1,000	2,500	400	4.0	4,000	79.0	5,000,000
1938	1,000	2,500	400	4.0	4,000	79.0	5,000,000
1939	1,000	2,500	400	4.0	4,000	79.0	5,000,000
1940	800	2,000	400	4.4	4,000	81.1	5,000,000
1941	750	1,500	400	10.0	2,000	81.0	5,000,000
1942	500	1,200	350	19.0	2,000	88.0	200,000

Table continued on next page.

6 Updated from IRS SoI Historical Table 23; for detailed annotations, see Table 23 at http://www.irs.gov/taxstats/article/0,,id=175910,00.html.

Year	Personal exemptions			Tax rates for regular tax			
				Lowest bracket		Highest bracket	
	Single persons ($)	Married couples ($)	Dependents ($)	Tax rate (%)	Taxable income under ($)	Tax rate (%)	Taxable income over ($)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1943	500	1,200	350	19.0	2,000	88.0	200,000
1944	500	1,000	500	23.0	2,000	94.0	200,000
1945	500	1,000	500	23.0	2,000	94.0	200,000
1946	500	1,000	500	19.0	2,000	86.45	200,000
1947	500	1,000	500	19.0	2,000	86.45	200,000
1948	600	1,200	600	16.6	4,000	82.13	400,000
1949	600	1,200	600	16.6	4,000	82.13	400,000
1950	600	1,200	600	17.4	4,000	84.36	400,000
1951	600	1,200	600	20.4	4,000	91.0	400,000
1952	600	1,200	600	22.2	4,000	92.0	400,000
1953	600	1,200	600	22.2	4,000	92.0	400,000
1954	600	1,200	600	20.0	4,000	91.0	400,000
1955	600	1,200	600	20.0	4,000	91.0	400,000
1956	600	1,200	600	20.0	4,000	91.0	400,000
1957	600	1,200	600	20.0	4,000	91.0	400,000
1958	600	1,200	600	20.0	4,000	91.0	400,000
1959	600	1,200	600	20.0	4,000	91.0	400,000
1960	600	1,200	600	20.0	4,000	91.0	400,000
1961	600	1,200	600	20.0	4,000	91.0	400,000
1962	600	1,200	600	20.0	4,000	91.0	400,000
1963	600	1,200	600	20.0	4,000	91.0	400,000
1964	600	1,200	600	16.0	1,000	77.0	400,000
1965	600	1,200	600	14.0	1,000	70.0	200,000
1966	600	1,200	600	14.0	1,000	70.0	200,000
1967	600	1,200	600	14.0	1,000	70.0	200,000
1968	600	1,200	600	14.0	1,000	75.25	200,000
1969	600	1,200	600	14.0	1,000	77	200,000
1970	625	1,250	625	14.0	1,000	71.75	200,000
1971	675	1,350	675	14.0	1,000	70.0	200,000
1972	750	1,500	750	14.0	1,000	70.0	200,000
1973	750	1,500	750	14.0	1,000	70.0	200,000
1974	750	1,500	750	14.0	1,000	70.0	200,000
1975	750	1,500	750	14.0	1,000	70.0	200,000
1976	750	1,500	750	14.0	1,000	70.0	200,000
1977	750	1,500	750	14.0	3,200	70.0	203,200
1978	750	1,500	750	14.0	3,200	70.0	203,200

Table continued on next page.

Year	Personal exemptions			Tax rates for regular tax			
				Lowest bracket		Highest bracket	
	Single persons ($)	Married couples ($)	Dependents ($)	Tax rate (%)	Taxable income under ($)	Tax rate (%)	Taxable income over ($)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1979	1000	2,000	1,000	14.0	3,400	70.0	215,400
1980	1000	2,000	1,000	14.0	3,400	70.0	215,400
1981	1000	2,000	1,000	14.0	3,400	69.1	215,400
1982	1000	2,000	1,000	12.0	3,400	50.0	85,600
1983	1000	2,000	1,000	11.0	3,400	50.0	109,400
1984	1000	2,000	1,000	11.0	3,400	50.0	162,400
1985	1040	2,080	1,040	11.0	3,540	50.0	169,020
1986	1080	2,160	1,080	11.0	3,670	50.0	175,250
1987	1900	3,800	1,900	11.0	3,000	38.5	90,000
1988	1950	3,900	1,950	15.0	29,750	28.0	29,750
1989	2000	4,000	2,000	15.0	30,950	28.0	30,950
1990	2050	4,100	2,050	15.0	32,450	28.0	32,450
1991	2150	4,300	2,150	15.0	34,000	31.0	82,150
1992	2300	4,600	2,300	15.0	35,800	31.0	86,500
1993	2350	4,700	2,350	15.0	36,900	39.6	250,000
1994	2450	4,900	2,450	15.0	38,000	39.6	250,000
1995	2500	5,000	2,500	15.0	39,000	39.6	256,500
1996	2550	5,100	2,550	15.0	40,100	39.6	263,750
1997	2650	5,300	2,650	15.0	41,200	39.6	271,050
1998	2700	5,400	2,700	15.0	42,350	39.6	278,450
1999	2750	5,500	2,750	15.0	43,050	39.6	283,150
2000	2800	5,600	2,800	15.0	43,850	39.6	288,350
2001	2900	5,800	2,900	10.0	6,000	39.1	297,350
2002	3000	6,000	3,000	10.0	12,000	38.6	307,050
2003	3050	6,100	3,050	10.0	14,000	35.0	311,950
2004	3100	6,200	3,100	10.0	14,300	35.0	319,100
2005	3200	6,400	3,200	10.0	14,600	35.0	326,450
2006	3300	6,600	3,300	10.0	15,100	35.0	336,550
2007	3400	6,800	3,400	10.0	15,650	35.0	349,700
2008	3500	7,000	3,500	10.0	16,050	35.0	357,700
2009	3650	7,300	3,650	10.0	16,700	35.0	372,950
2010	3650	7,300	3,650	10.0	16,750	35.0	373,650
2011	3700	7,400	3,700	10.0	17,000	35.0	379,150

TABLE 3, Tax Share by Income Level[7]

Year	Top % of Individual Returns[8]	Income Tax (%)[9]
2005	2.7	51.3
1995	1.9	36.6
1985	2.4	29.9
1975	1.2	22.1
1965	2.4	30.0
1955	1.8	29.8
1945	2.5	39.3
1935	2.6	83.7
1925	2.1	85.4
1915	2.1	49.5

TABLE 4, Individual Income Tax as a Percentage of Revenue[10]

Year	Income Tax ($ Bn)	Total Revenue ($ Bn)	%
1914	0.03	0.38	7
1927	0.91	2.87	32
1939	1.03	5.18	20
1953	32.5	69.7	47
1954	32.8	69.9	47
1985	396.7	742.9	53
1986	416.6	782.3	53
2010	1,176.0	2,345.1	50

7 TAS Research on IRS data from CIR Ann'l Rep't (1915), SoI (1925-2005).

8 For 1945-2005, by Adjusted Gross Income; 1915-1935, by net income. Note qualification as to completeness of data in CIR Ann'l Rep't (1915) at 24.

9 For 1955-2005, tax after credits; 1915-1945, tax liability.

10 *See infra* nn. 25, 46, 132, 183-84, & 290-91.

TABLE 5, Percentage of Women Filers

Year	Individual Income Tax Returns (Mn)	Women Filing as Single, Separate, or Head of Household (Mn)	%
1916[11]	0.437	0.0345	8
1938[12]	6.15	1.27	21
1953[13]	57.8	10.8	19
1969[14]	66.7	13.1	20
1979[15]	81.7	20.1	25
1989	94.4	26.5	28
1999	105.5	32.8	31

11 *See infra* n. 66.

12 *See infra* n. 68.

13 *See infra* n. 126.

14 For 1969, see Ellen Yau, Kurt Gurka & Peter Sailer, *Comparing Salaries and Wages of Women Shown on Forms W-2 to Those of Men, 1969-1999*, SOI Bull. (Fall 2003) 274, 278-79, Table 1 (relating to returns with net income).

15 For 1979-1999, *see id*.

I. Introduction

When the federal individual income tax was enacted in 1913, it applied to high-income taxpayers. At that time, the predecessor bureau to the IRS started as a hands-on collector of various tariffs, excise taxes, and other revenues. In 1942, Congress enacted the "greatest tax bill in American history" largely to fund the U.S. effort in World War II, expanding the income tax to the middle class.[16] At that time, the Treasury made an historic effort to popularize the income tax, famously deploying the Disney cartoon character Donald Duck as a mascot of the public fisc.[17] A parallel effort to popularize the income tax among a diversifying taxpayer base has not occurred since then.

In the second half of the last century, the tax system was automated. During this period, women became a more significant taxpayer population. In recent decades, a diverse low income population has emerged as an important customer base of an increasingly "faceless" IRS. In short, a history of the past century of income tax administration can be characterized as a transformation "From Tax Collector to Fiscal Automaton," because the IRS started as a revenue bureau but now administers social expenditures as well, through highly automated systems.

II. Establishment of Income Tax as a "Class" Tax, 1913-1938

During the first 25 of the years under study, the federal individual income tax was established as a levy on a high-income population. The income tax helped fund the American effort in World War I, and after reductions during a postwar economic expansion, sustained the government during the Great Depression. During this period, the number of employees of the Treasury's Bureau of Internal Revenue (BIR) multiplied,[18] while legislative, administrative, and decisional law formed a foundation for taxpayer rights.

A. Tax Law Events

1. Constitutional Amendment and World War I, 1913-1918

In 1913, a requisite number of states ratified the Sixteenth Amendment, affirming constitutional authority to tax income.[19] That year, Congress enacted, and President Woodrow Wilson signed, legislation imposing tax of one percent on individual income over $3,000 ($4,000 for married couples), up to seven percent on incomes over $500,000.[20] The average American worker, putting in 12 hours a day and earning $800 a year, remained unaffected

16 Randolph Paul, Taxation in the United States (Boston: Little, Brown & Co., 1954) 294 *ff*.

17 Carolyn Jones, *Class Tax to Mass Tax: The Role of Propaganda in the Expansion of the Income Tax During World War II*, 37 Buff. L. Rev. 685 (1989). "Public fisc" is a figure of speech for the Government's Treasury. *See, e.g., Ariz. Christian School Tuition Org'n v. Winn*, 563 U.S. ____, 131 S. Ct. 1436, 1457 (2011) (Kagan, J. dissenting); Exec. Ord. 12,630, 53 Fed. Reg. 8,859 (Mar. 15, 1988) §§ 1(c), 3(a), 3(e) (signed by Pres. Reagan).

18 In 1913, the BIR had 4,000 employees; in 1938, 22,045. IRS Pub. 1694, IRS Historical Fact Book: A Chronology, 1646-1992 at 249.

19 U.S. Const. 16th amend.

20 Pub. L. No. 63-16; *see also* Pub. 1694 at 86. This legislation allowed a personal exemption deduction of $3,000 (comparable to more than $65,000 in 2011) plus $1,000 for a spouse.

by the tax.[21] The legislation, which also taxed corporate income, provided for income tax withholding by certain payers of income.[22]

Until this time, the BIR had administered assorted excises and tariffs relating to alcohol, tobacco, oleomargarine, and stamps.[23] To implement the income tax, the BIR on January 5, 1914, issued a four-page tax return with instructions, numbered in the ordinary sequence of forms and still known as the ubiquitous Form 1040.[24] That year, individual income tax accounted for less than eight percent of BIR collections.[25]

On September 8, 1916, months before entering World War I, President Wilson signed a popularly-named Emergency Revenue Act, doubling the income tax from one to two percent on incomes above $3,000 ($4,000 for married couples).[26] A surtax on incomes above $20,000 was increased on a graduated scale to a maximum rate of 15 percent.[27]

In 1917, Congress declared war and subsequently raised the income tax as high as 67 percent.[28] That same year, after public criticism, especially complaints from employers and employees about administrative burden and effective pay reduction, and a recommendation from Treasury Secretary William McAdoo, Congress repealed withholding, also known as collection at the source, but left in its place information reporting, or information at the source.[29]

By 1918, only about 15 percent of American families had to pay income taxes, and the tax payments of the wealthiest one percent of American families accounted for about 80

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21 Pub. 1694 at 86; *see also supra* Table 3, Tax Share by Income Level.

22 Pub. L. No. 63-16. Generally, this legislation required withholding by insurance companies or other payers of periodic income, and by fiduciaries or others in custody of income of another over $3,000.

23 Comm'r of Int. Rev. (CIR) Ann'l Rep't FYE June 30, 1920 (Washington, DC: Gov't Printing Ofc.) 8. Like alcohol and tobacco, oleomargarine was an agricultural product subject to government regulation through an excise tax, under the Oleomargarine Tax Act of 1886, 24 Stat. 209, forming a not insignificant subject of tax law. *See McCray v. U.S.*, 195 U.S. 27 (1904) (upholding tax); *Miller v. Standard Nut Margarine Co.*, 284 U.S. 498 (1932) (construing scope of tax). The oleomargarine tax had a history reflecting the role of an excise in the economics of a particular product (in competition with the dairy industry in this case) beyond the scope of this study on income tax demographic history. *See* S. Rept. 81-309, 81st Cong. 1st Sess. (Apr. 28, 1949). On Mar. 23, 1950, Pres. Truman signed the Margarine Act, Pub. L. No. 81-459, by which Congress repealed the oleomargarine tax.

24 Pub. 1694 at 87; *see infra* Appdx. 1, Form 1040, *Return of Ann'l Net Income of Individuals* (1913).

25 CIR Ann'l Rep't FYE June 30, 1914, at 3.

26 Pub. L. No. 64-271, 39 Stat. 756; *see also* Pub. 1694 at 90. In addition to impending war, expenses like those for Mexican border patrol required revenue. *See* Paul, Taxation in the U.S. at 110.

27 Pub. 1694 at 90. For rates and brackets, see *supra* Table 2, Personal Exemptions and Lowest and Highest Bracket Tax Rates, and Tax Base for Regular Tax, 1913-2011; Pub. 1694 at 251.

28 Paul, Taxation in the U.S. at 113; Pub. 1694 at 251. The highest rate applied to a $2,000,000 bracket. For rates and brackets, see *supra* Table 2, Personal Exemptions and Lowest and Highest Bracket Tax Rates, and Tax Base for Regular Tax, 1913-2011; *see also* Pub. 1694 at 251. The 1917 legislation allowed a personal exemption deduction of $200 (comparable to almost $3,500 in 2011) for a dependent child. *See* Pub. L. No. 65-50, § 1203; *see also infra* Appdx. 2, Form 1040, *Individual Income Tax Return* for CY 1917, pg. 4, line 6.

29 *See* Charlotte Twight, *Evolution of Federal Income Tax Withholding: The Machinery of Institutional Change*, 14 Cato J. 3 (Winter 1995); Rob't Higgs, *Wartime Origins of Modern Income-Tax Withholding*, The Freeman (Dec. 24, 2007). Information reporting required a Form 1099 "setting forth the amount of such gains, profits, and income and the name and address of the recipients of such income." Treas. Reg. 33, Art. 34 (1918), reflecting Pub. L. No. 65-50.

percent of the revenues from the individual income tax. This wealthiest one percent of taxpayers paid marginal tax rates ranging from 15 to 77 percent.[30]

2. Progressivity and Transparency, 1919-1925

In 1919, individual and corporate income including excess profit taxes amounted to almost 68 percent of BIR collections.[31] At the same time, the federal individual income tax was steeply progressive. "A married man earning the average family income of about $2,300 would have owed no income tax. A better-off family earning $5,000 would owe just $51, while a very wealthy family with income of $100,000 would owe $22,557."[32] By 1923, the income tax affected only 12 percent of families.[33]

In 1923, the Treasury, in a plan of Secretary Andrew Mellon, proposed rate reductions, an earned income credit (EIC), and capital loss provisions, along with repeal of certain excises.[34] Secretary Mellon defended his proposed EIC, which at that time was for the wealthy who paid income tax, as follows:

> The fairness of taxing more lightly incomes from wages, salaries, or from investments is beyond question. In the first case, the income is uncertain and limited in duration; sickness or death destroys it and old age diminishes it; in the other, the source of income continues; the income may be disposed of during a man's life and it descends to his heirs.[35]

At that time, Secretary Mellon did not criticize taxes on savings. On June 2, 1924, President Calvin Coolidge signed a Revenue Act significantly reducing income taxes and establishing the EIC.[36] Tax reduction came at a time of postwar return to normalcy, economic growth, and politics associated with the Administration and Secretary Mellon (who was perceived by some as a Wall Street icon) that commentators branded "benevolent oligarchy."[37]

The Revenue Act of 1924 also contained significant procedural provisions. First, it allowed for the public listing of the name, address, and payment amount of every taxpayer, as well

30 W. Elliot Brownlee, Federal Taxation in America: A Short History, 2nd ed. (Cambridge Univ. Press, 2004) 63; *see also supra* Table 3, Tax Share by Income Level.

31 CIR Ann'l Rep't FYE June 30, 1920, at 8. Excess profit taxes were war revenue measures imposed on income and gain of individuals and corporations over a floor enacted to approximate "normal" peacetime income. *See* Paul, Taxation in the U.S. at 118.

32 Anne L. Alstott & Ben Novick, *War, Taxes, and Income Redistribution in the Twenties: The 1924 Veterans' Bonus and the Defeat of the Mellon Plan*, 59 Tax L. Rev. 373, 393 (2006).

33 59 Tax L. Rev. at 394; *see also supra* Table 3, Tax Share by Income Level.

34 Paul, Taxation in the U.S. at 132.

35 Andrew W. Mellon, Taxation: The People's Business (NY: Macmillan, 1924) 56-57, quoted in Brownlee, Fed. Taxation at 77.

36 Pub. L. No. 68-176, 43 Stat. 253. Generally, the EIC was 25 percent of up to $10,000 (comparable to almost $130,000 in 2011) in wages, salary, and personal service compensation less allocable deductions, but unearned income up to $5,000 was creditable in any case. Pub. L. No. 68-176, § 209. Despite its particular name, the original EIC had a tax reduction effect across the board. By contrast, Congress was to enact a refundable Earned Income Tax Credit in 1975 as a targeted anti-poverty measure, a decade after the introduction of refundable credits, as discussed below.

37 Paul, Taxation in the U.S. at 132.

as disclosure on request of congressional committees, state officials, and as prescribed by regulation, the public.[38]

Second, the Act created a Board of Tax Appeals (BTA) as an adjudicator to supersede an administrative committee that had advised the Commissioner of Internal Revenue on appeals of assessments before payment.[39] Later that year, the appeal process was further professionalized when the BTA ruled that Certified Public Accountants and attorneys were the only representatives qualified to appear before them on behalf of taxpayers.[40] The BTA turned out to be popular enough that three years later, with 18,000 appeals pending, the Commissioner formed a committee of external members and revenue agents to help clear the docket.[41] This committee was to be the forerunner of the IRS Appeals function.[42]

3. Great Depression and Tax Enforcement, 1926-1934

As had those of 1921 and 1924, the Revenue Act of 1926 generally reduced taxes, lowering the top marginal individual income tax rate from 46 to 25 percent.[43] Nevertheless, post-World War I economic growth facilitated ongoing reliance on income tax rather than excises and tariffs, while policymakers continued to advocate for a broad income tax.[44] Progressive Congressman Cordell Hull (D-Tenn.) insisted that a "tax system vitally important as is the income tax should apply to a respectable number of persons."[45] In 1927, individual income tax alone accounted for almost 32 percent of BIR collections.[46]

The Revenue Act of 1928, which notably reduced corporate tax, expanded the BIR's interpretive power by authorizing prospective application of Treasury Regulations, even when a regulation reflected not new law but a court-ordered interpretation of pre-existing law.[47] Consequently, the BIR could be perceived as a lawmaker.[48] Practically, this legislation obviated a need to re-open settled cases upon a regulatory change; theoretically, the Act effectively elevated the tax regulator from the role of mere interpreter of pre-existing law.[49]

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38 Pub. L. No. 68-176, § 257; *see also* Dep't of the Treas., *Rep't to the Congress on Scope and Use of Taxpayer Confidentiality and Disclosure Provisions* (Oct. 2000); Jt. Comm. on Tax'n (JCT), *Study of Present-Law Taxpayer Confidentiality and Disclosure Provisions as Required by Section 3802 of the Internal Revenue Service Restructuring and Reform Act of 1998*, JCS-1-00 (Jan. 28, 2000).

39 Paul, Taxation in the U.S. at 136.

40 BTA Rule 2, 1924-2 Cum. Bull. 428 (July 19, 1924).

41 Pub. 1694 at 114.

42 *Id*.

43 Pub. L. No. 69-20, 44 Stat. 9; *see also* Pub. 1694 at 252.

44 59 Tax L. Rev. at 384.

45 Quoted in Jos. J. Thorndike, *The Republican Roots of New Deal Tax Policy*, Tax Analysts (Aug. 28, 2003) at www.taxhistory.org.

46 CIR Ann'l Rep't FYE June 30, 1927, Table 1 at 53; *see also supra* Table 3, Tax Share by Income Level.

47 Pub. L. No. 70-562, 45 Stat. 791.

48 This perception arose at a time when a school of thought known as legal realism was casting aside a notion of law as a formal essence of which courts were mere interpreters in favor of a realist depiction of law as that which judges decide in practice. *See* Morton J. Horwitz, *Legal Realism, the Bureaucratic State, and the Rule of Law*, The Transformation of American Law, 1870-1960: The Crisis of Legal Orthodoxy (Oxford Univ. Press, 1992) 213-46.

49 Paul, Taxation in the U.S. at 140.

In 1929, the stock market crash brought an end to a decade of tax reduction, ushering in the Great Depression.[50] In 1930, high-level courts handed down three decisions affecting federal income taxation.

The Supreme Court denied the effect for federal tax purposes of California businessman Guy Earl's assignment of income to his wife.[51] Had the couple been able to split income by contract, each of them potentially could have come under a lower bracket.[52] Later, that result was achieved by operation of law for another West Coast couple, when the Court opined that the European-style community property regime in the State of Washington automatically made spouses owners of half of each other's income.[53]

The Federal Court of Appeals in New York created the so-called Cohan rule by allowing a reasonable amount of business deductions by Broadway star George M. Cohan even though he could not produce receipts.[54] Taken together, these court cases demonstrate that the federal income tax was inextricably involved in American family and business affairs.

The Revenue Act of 1934 imposed graduated tax on capital gain, and restored the EIC, which had lapsed two years earlier.[55] This Act also codified the positions of General Counsel of the Treasury and Assistant General Counsel for Internal Revenue, whose first incumbent was Robert Jackson, later to become a Supreme Court Justice.[56]

Underscoring the role of government tax attorneys, in 1934 the Roosevelt administration's Justice Department brought former Secretary Mellon before a grand jury, which declined to indict him for some $3 million of asserted deficiencies.[57] Instead, the BTA heard and ultimately accepted the magnate's version of his case, revolving around deductions of charitable donations intended for a National Gallery of Art.[58] This case exemplifies how high-profile tax enforcement had become.

4. Social Security and Tax Compliance, 1935-1938

In 1935, Congress enacted and President Roosevelt signed the popularly-named Wealth Tax Act, increasing surtax rates on income above $50,000 from 63 to 79 percent.[59] Moreover, that year saw enactment of the Social Security Act, financing new social insurance benefits

50 *See* Paul, Taxation in the U.S. at 148.

51 *Lucas v. Earl*, 281 U.S. 111 (1930).

52 Patricia A. Cain, *The Story of Earl: How Echoes (and Metaphors) from the Past Continue to Shape the Assignment of Income Doctrine*, Tax Stories: An In-Depth Look at Ten Leading Federal Income Tax Cases (NY: Foundation Press, 2002).

53 *Poe v. Seaborn*, 282 U.S. 101 (1930).

54 *Cohan v. Comm'r of Int. Rev.*, 39 F.2d 540 (2nd Cir. 1930).

55 Pub. L. No. 73-216, 48 Stat. 680. The 1934 Act allowed marital exemptions and dependency credits for surtax purposes. Paul, Taxation in the U.S. at 179. Subsequently, the Rev. Act of 1943, Pub. L. No. 78-235, § 107, 58 Stat. 21, would repeal the EIC.

56 Pub. 1694 at 122.

57 Paul, Taxation in the U.S. at 151.

58 *Mellon v. Comm'r*, 37 BTA 977 (1937).

59 Pub. L. No. 74-407, 49 Stat. 1014; *see also* Pub. 1694 at 127.

through a payroll tax on employers and employees of one percent of the first $3,000 of salaries and wages (comparable to almost $50,000 in 2011), collected through withholding administered by the BIR on behalf of a Trust Fund.[60] The same year, less than a quarter century after the enactment of the income tax, the Supreme Court famously characterized taxes as "the lifeblood of government, and their prompt and certain availability an imperious need."[61]

In 1937, concern with tax ethics prompted legislation to prevent tax avoidance. For example, a reported tax avoidance device was to incorporate country estates as businesses to convert personal expenses into business deductions.[62] In 1938, legislation expanded the use of closing agreements, which had been in place for ten years, as a settlement mechanism between a taxpayer and the BIR.[63] Thus, concerns with compliance and compromise that persist today already had appeared before World War II.

B. Demographic Trends

While the federal income tax grew from a minor into a major source of government revenue, the economy went from post-World War I growth to the Great Depression. Unemployment peaked, but before "and after the Great Depression, unemployment was largely a blue-collar affliction."[64] Meanwhile, the income tax affected a high-income population composed largely of white businessmen and professionals.[65]

In 1916, married women filing separately and single women filed less than eight percent of income tax returns reflecting less than ten percent of income or of tax.[66] Merchants, manufacturers, lawyers, and doctors filed more than 27 percent of returns.[67] In 1938, married and single women filed on their own (not counting community property filings) almost 21 percent of returns reflecting more than 15 percent of income.[68]

Despite the boom and bust of economic cycles, attitudinal trends established in the first quarter of the century stabilized, as measured by the following items within

60 Pub. L. No. 74-271, 49 Stat. 620; *see also* Pub. 1694 at 127.

61 *Bull v. U.S.*, 295 U.S. 247, 259 (1935).

62 Paul, Taxation in the U.S. at 207.

63 Pub. L. No. 75-554 (1938), § 801, 52 Stat. 447, amending Pub. L. No. 70-562 (1928), § 606.

64 Theo. Caplow, Louis Hicks & Ben J. Wattenberg, The First Measured Century: An Illustrated Guide to Trends in America, 1900-2000 (Amer. Enterprise Inst. 2001) 46.

65 Although taxpayer statistics were not reported by race, between 1910 and 1920, 31 to 23 percent of the population identified as "Negro and other" was illiterate, compared to five to four percent of the Native and Foreign-born White population. U.S. Bur. of the Census, Historical Statistics of the U.S.: Colonial Times to 1970 (1975) H664-668 at 382. At least in the early years, a significant proportion of people subject to income tax were in occupations requiring literacy. By 1938, the scope of the income tax had expanded, yet there was still a $1,000 exemption (comparable to more than $15,000 in 2011). *See supra* Table 2, Personal Exemptions and Lowest and Highest Bracket Tax Rates, and Tax Base for Regular Tax, 1913-2011; Pub. 1694 at 252.

66 CIR, Statistics of Income, 1916 (Washington: GPO, 1918) 6-7.

67 Statistics of Income, 1916 at 5 & 7.

68 Statistics of Income, 1938, Pt. I at 20.

a questionnaire administered in a famous long-term study of the pseudonymous Middletown, which has become a bellwether in American sociology:[69]

- It is entirely the fault of a man himself if he does not succeed.
- The fact that some people have so much more money than others shows that there is an unjust condition in this country that ought to be changed.

In 1924, 47 percent of respondents agreed with the first statement, and 30 percent, the second; 1977, 47 and 38 percent, respectively; and 1999, 65 and 44 percent, respectively.[70] According to the pollsters, rates of agreement or disagreement with these statements "did not vary dramatically" over these years in general.[71] To the extent that an individualist ethic has prevailed in the U.S., it has not wavered greatly. While some were to argue that the federal income tax was a shared responsibility, this evidently did not alter social attitudes as surveyed in Middletown.

C. Implications for Service

In 1913, the BIR added to its organizational design a Personal Income Tax Division, a Correspondence Unit to answer questions about the new tax, and a legal counsel function to prepare opinions interpreting the legislation, totaling 277 employees in Washington, D.C. and 3,723 around the country.[72] In 1914, field personnel included 63 Collectors (who were political appointees), 1,568 deputy collectors, 40 Internal Revenue Agents, 34 income tax agents, 13 corporate agents, and two corporate inspectors.[73] Even then

> a steady stream of employees with valuable training and experience flowed out of the Bureau to more lucrative jobs in private offices. In the nine months between October 1, 1919, and June 31, 1920, nearly one thousand employees left the revenue service.[74]

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69 Caplow, First Measured Century at 188. Since 1923, Middletown (Muncie, Indiana) has been the subject of landmark research on American social institutions, where replication of surveys over time permits inferences about evolution of values. *See* Rob't & Helen Lynd, Middletown: A Study in Modern American Culture (NY: Harcourt Brace, 1929), Middletown in Transition: A Study in Cultural Conflicts (NY: Harcourt Brace, 1937); Caplow, *et al*., Middletown Families: Fifty Years of Change and Continuity (Minneapolis: Univ. of Minn. Press, 1982), All Faithful People: Change and Continuity in Middletown's Religion (Minneapolis: Univ. of Minn. Press, 1983).

70 Caplow, First Measured Century at 189.

71 *Id.* at 188 ("the percentage of Middletown adolescents agreeing with the Protestant Ethic remained level from 1924 to 1977 but increased from 1977 to 1999, while the proportion agreeing with action against economic inequality increased in each of the three surveys from 1924 to 1999").

72 Pub. 1694 at 87.

73 CIR, The Work and Jurisdiction of the Bureau of Internal Revenue (Washington: GPO, 1948) 95. From the Civil War through codification in 1939, Collectors (or their predecessors) were appointees of the President upon the advice and consent of the Senate. *See* Rev. Act of 1862, ch. 119, § 5, 12 Stat. 422, 423 (June 7, 1862); Rev. Act of 1872, ch. 13, 17 Stat. 401 (Dec. 24, 1872); Int. Rev. Code of 1939, § 3941. In 1862, their salary was $3,000 per year (comparable to more than $65,000 in 2011). *See* 12 Stat. 423. In 1914, 53 Collectors received $4,500 (comparable to $100,000 in 2011) in salary while the other 10 received between $3,442 and $4,329. *See* CIR Ann'l Rep't FYE June 30, 1914, at 8. In addition to salary, the '39 Code memorializes the authority of the Treasury Secretary "to make such further allowances, from time to time, as may be reasonable, in cases in which, from the territorial extent of the district, or from the amount of internal revenue taxes collected, it may seem just to make such allowances" to Collectors or Deputy Collectors. Int. Rev. Code of 1939, §§ 3944, 3990. The Commissioner could suspend for cause but not dismiss a Collector. *See* Int. Rev. Code of 1939, § 3944. As of mid-century, the position of Collector was "not, strictly speaking, subordinate to that of the Commissioner of Internal Revenue, although he is bound by the rules and regulations of the Bureau. Until recent years the deputy collectors had no civil service status and were appointed and discharged at the will of the collectors," although internal revenue agents were civil servants. Work and Jurisdiction of BIR at 85-86.

74 Paul, *Taxation in the U.S.* at 127.

In 1930, the Treasury devoted some $10 million to erect a Constitution Avenue building, which still contains the IRS National Office, originally housing 3,391 Internal Revenue employees, 147 from the BTA, 22 from the Customs Court and Patent Appeals, and 252 from the Public Buildings and Public Parks Commission.[75]

Initially, individual income tax returns came before Collectors for audit, which then meant detection of errors on the face of the return.[76] Taxpayers could appeal to the Commissioner.[77] Soon this process was to be formalized, with the 1918 organization of the BIR Solicitor's office, followed the next year by the empanelment of an Advisory Tax Board to advise the Commissioner on appeals.[78] In 1924, the Solicitor created a Reviews Division to hear and determine all protests against the determination of a deficiency by the Income Tax Unit.[79] As discussed above, taxpayers also now had judicial recourse to the BTA.

Thus, the first quarter century of the federal income tax introduced a workplace that was burgeoning yet not without contestation from outside the government, both in terms of competition from private employers as well as substantive challenges from taxpayers. A celebrated legal scholar who visited America from Germany around this period developed a number of relevant observations about bureaucracy that were to form part of the foundation of the discipline of sociology. In pertinent part, he observed that formal standardization allowed government offices to administer a large volume of cases efficiently and dispassionately but at a cost of substantive discretion, *i.e.*, "without regard for persons" in a "dehumanized" manner.[80] This trade-off may be observed in the history of the BIR.

III. Transformation into a "Mass" Tax, 1939-1953

The second period in the past century of federal income taxation witnessed a monumental expansion of the application of the tax from less than five to approximately 36 percent of the U.S. population, who generally saw the tax as helping to lift the country out of the Great Depression, finance World War II, and ultimately reestablish the economy.[81] The BIR floated through this sea change with navigation by wartime administration helmsmen.

A. Significant Tax Laws

1. Internal Revenue Code of 1939

In 1939, a highly successful businessman netting $16,000 paid income tax of some $1,000, and an average lawyer or doctor paid about $25, but an average blue-collar worker paid

75 Pub. 1694 at 117.

76 Work and Jurisdiction of BIR at 101.

77 *Id.* at 90.

78 Work and Jurisdiction of BIR at 96, 105.

79 Pub. 1694 at 107.

80 Max Weber, *Bureaucracy* [1913], From Max Weber: Essays in Sociology, trans. H.H. Gerth & C. Wright Mills (Oxford Univ. Press, 1946) 215-16.

81 *See supra* Table 1, Income Tax Demographic History.

nothing.[82] By the end of the Great Depression, while the economics of John Maynard Keynes had influenced policymakers, the "conscious purpose of public spending was more to provide help to distressed citizens than it was to stimulate recovery."[83] That year, Congress codified the various revenue acts into the Internal Revenue Code, simplifying the tax law.[84]

2. Revenue Act of 1942

In 1942, America was at war. President Roosevelt told Congress: "In this time of grave national danger, when all excess income should go to win the war, no American citizen ought to have a net income, after he has paid his taxes, of more than $25,000."[85] On October 21, 1942, Congress enacted the "greatest tax bill in American history."[86]

The Revenue Act of 1942 sharply increased income tax by lowering the top bracket from $5 million to $200,000 while raising the top marginal rate to 88 from 81 percent, introduced the Victory Tax (a five percent surcharge on income over $624), and lowered exemptions to $500 from $750 ($1,200 from $1,500 for married couples), but allowed deductions for medical expenses.[87] More than 27 percent of the population would now have to file returns.[88] Treasury General Counsel Randolph Paul observed: "The income tax was now a mass tax."[89]

To herd this new mass into the fold of taxpayers, the Administration conducted a mass media campaign. On June 13, 1942, President Roosevelt established an Office of War Information (OWI).[90] That year, listeners could hear songs from Irving Berlin and Danny Kaye advertising tax payment as part of the war effort.[91] Furthermore, over 32 million viewers in 12,000 theaters saw Donald Duck announce that taxes "will keep democracy on the march" in a cartoon scripted by the Treasury.[92] Some in Congress took umbrage at the $80,000 cost of this animation, and Walt Disney suffered characterization as a "propagandist."[93] Yet he would be in good company within a few years when popular and

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82 Pub. 1694 at 132.

83 Paul, Taxation in the U.S. at 225. "The Keynesian remedy for depression was . . . an increase in public expenditures which would compensate for an excess of savings or a deficiency of investment." *Id*. at 229.

84 Pub. L. No. 76-1, 53 Stat. pt. 1.

85 Seven-Point Economic Stabilization Program (Apr. 27, 1942), Public Papers and Addresses of Franklin Delano Roosevelt 1942, ed. Sam'l I. Rosenman (NY: Harper & Bros. 1950) ch. 47 at 221. The value of $25,000 in 1942 would be comparable to a little less than $340,000 in 2011.

86 Pub. 1694 at 136.

87 Pub. L. No. 77-753, 56 Stat. 798; *see also* Pub. 1694 at 252. The Rev. Act of 1942, § 504, also changed the name of the BTA to the Tax Court.

88 Table 1, Income Tax Demographic History.

89 Paul, Taxation in the U.S. at 318.

90 Exec. Ord. cited in 37 Buff. L. Rev. at 701 (1989).

91 37 Buff. L. Rev. at 714.

92 Brownlee, Fed. Taxation at 118.

93 37 Buff. L. Rev. at 717.

classical stars Roy Rogers, the Andrews Sisters, George Burns and Gracie Allen, and Yehudi Menuhin joined the cast of wartime Treasury promoters.[94]

In an early exercise of targeted marketing, the Treasury promoted tax compliance among the rich, the poor, women, and minorities. Foreshadowing product placement, an OWI manual suggested characters for motion pictures, one of whom emerged in a Hollywood movie as a wealthy man saying that it "suits me if they tax me 100 percent!"[95] A 1944 OWI magazine advertisement for "plain folks" stated: "We'll pay our taxes willingly" because "these sacrifices are chicken feed, compared to the ones our sons are making."[96] That year an OWI guide for women advised: "Tell homemakers that even if they personally are not going to fill out their tax return this year, they should urge their husbands to do so early."[97] In 1945, Commissioner Joseph Nunan announced tax requirements in newsreels, at least one of which was tailored "to some 400 theatres catering to Negroes."[98]

3. Current Payment Tax Act of 1943

This media blitz was only the surface of mass income tax implementation. Treasury officials realized that collection at the source would "achieve a more convenient method for the payment of income taxes," waging a political campaign against concerns articulated by Commissioner Guy Helvering, who cautioned against forcing "upon industry the payment of large sums for the administrative cost of the withholding tax."[99] A compromise plan emerged, named for Beardsley Ruml, an official of the New York Federal Reserve Bank and of Macy's department store, who would agree to start withholding if the Treasury would forgive taxes otherwise due that year (*i.e.*, for the last year before there was withholding).[100] Ultimately, legislation

> provided for current payment of all individual income tax liabilities and the cancellation of 75 percent of one year's existing taxes (the lower of either the 1942 or 1943 tax liability). Unforgiven liabilities were payable in two installments, one on March 15, 1944, and the other on March 15, 1945.[101]

On June 9, 1943, Congress enacted and President Roosevelt signed the Current Tax Payment Act, imposing a 20-percent withholding tax and establishing a system of withholding and quarterly estimated tax payment still recognized today.[102] The withholding

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94 37 Buff. L. Rev. at 710-14.

95 *Id*. at 718. The cited motion picture was David O. Selznick's *Since You Went Away*, "a film of wartime domestic life," portraying a "radiant ideal" of the American family, despite "anxiety about the family's financial plight" since "Papa is only a captain and they must presumably subsist on his pay." Bosley Crowther, Movie Rev., New York Times (July 21, 1944).

96 37 *Buff. L. Rev*. at 727.

97 *Id*. at 715.

98 *Id*. at 718.

99 Quoted in Paul, Taxation in the U.S. at 330-31.

100 *See* Dennis J. Ventry, Jr. & Jos. J. Thorndike, *The Plan that Slogans Built: The Revenue Act of 1943*, Tax Analysts (Sept. 1, 1997).

101 Ventry & Thorndike, *The Plan that Slogans Built* ¶ 26.

102 Pub. L. No. 78-68, 57 Stat. 126; *see also* Pub. 1694 at 137.

system under this Act became effective on July 1, 1943.[103] Then-Treasury economist Milton Friedman, not now known as a champion of the welfare state, has reminisced that withholding was an inevitability in the quest for war revenue.[104]

4. Individual Income Tax Act of 1944

Despite the convenience of withholding, the mass population of taxpayers still had to file tax returns.[105] Observing an hour and a half of administrative burden to fill out a return in 1943, Treasury Secretary Henry Morgenthau asked his aides to "think of some way of bending the law to make this thing more palatable."[106] Even after the BIR rolled out the 1944 Form 1040 with "its junior sister Form 1040A," journalists criticized the tax returns as "so complicated as to defy description in a newspaper during a paper shortage."[107] On January 10, 1944, President Roosevelt recommended, beyond form design, legislative "simplification to reduce the burdens of compliance of the many million taxpayers by elimination of returns where feasible."[108]

On May 29, 1944, Congress enacted the Individual Income Tax Act, introducing a ten-percent standard deduction and replacing the Victory Tax with a three-percent tax.[109] The standard deduction relieved taxpayers with adjusted gross income of at least $5,000 (comparable to $62,500 in 2011) of the burden of itemizing deductions generally relating to business.[110] Although the income tax now affected the masses, in 1945 the richest one percent of households paid 32 percent of the revenue.[111]

5. Revenue Act of 1948

On April 2, 1948, over the veto of President Harry Truman, for whose administration tax reduction was unacceptable in an inflationary economy, Congress enacted legislation that among other relief measures allowed married couples the option of filing joint returns, with an increased standard deduction.[112] Whereas joint returns — optional since 1918 — had merely aggregated spousal income (producing a marriage penalty in some cases), the 1948 Act resulted in a tax double what a single person would pay on half the aggregate

103 Paul, Taxation in the U.S. at 348. Under the Int. Rev. Code of 1939, § 53, returns were due for the calendar year on March 15, while returns for the fiscal year were due on the fifteenth day of the third month thereafter.

104 Milton & Rose D. Friedman, Two Lucky People: Memoirs (Univ. of Chicago Press, 1998) 120-23.

105 As of 1942, the BIR had offered as an alternative to the four-page Form 1040 a two-page Form 1040A, *Optional Individual Income Tax Return*, to "be filed instead of Form 1040 by citizens (or resident aliens) reporting on the cash basis if gross income is not more than $3,000 [comparable to more than $40,500 in 2011] and is only from salary, wages, dividends, interest, and annuities." *See infra* Apps. 3 & 4.

106 Quoted in 37 Buff. L. Rev. at 731.

107 Quoted in Paul, Taxation in the U.S. at 383.

108 Ann'l Budget Message (Jan. 10, 1944), Public Papers and Addresses of FDR 1944-45, ch. 3 at 28.

109 Pub. L. No. 78-315, §§ 9(a) & 106(a), 58 Stat. 231; *see also* Pub. 1694 at 138.

110 *See* S. Rept. 78-885, 78th Cong. 2nd Sess. (May 16, 1944) 2.

111 Brownlee, Fed. Taxation at 116 citing Statistics of Income, 1945; *see also supra* Table 3, Tax Share by Income Level.

112 Pub. L. No. 80-471, 63 Stat. 110. Prof. Surrey, who had served as Tax Legislative Counsel in the Truman Administration, argued that "a strong tax structure would at this time be our most effective anti-inflationary weapon," in *Federal Taxation of the Family – The Revenue Act of 1948*, 61 Harv. L. Rev. 1097, 1098 (1948).

income.[113] Thus, the Act leveled the field for couples who did not reside in states with European-style community property regimes (Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, and Washington).[114] As discussed above, in 1930 the Supreme Court had confirmed that couples could split community income equally, avoiding a marriage penalty, but common law states did not so split property.[115] A federal joint income tax bracket resolved this problem. Professor Stanley Surrey, who had served as Tax Legislative Counsel in the Truman and Roosevelt administrations, explained that now the "married couple is thus viewed as a unit" (instead of two individual taxpayers) for federal tax purposes.[116]

B. Demographic and Governmental Trends

Emergence from the depths of the Great Depression and the demands of World War II was a turning point for the U.S. economy and population. Business as well as Social Security and other government programs begin to expand.[117] Nevertheless, the "corporate share of business activity increased at the expense of proprietorships and partnerships."[118]

The number of high-school and college graduates continued to increase in the re-established economy,[119] while homeownership grew, especially among middle-aged whites.[120] In the postwar period, the effect of the home mortgage interest deduction cannot be overlooked.

> After World War II, and the ebbing of patriotism as a factor in income-tax compliance, Congress relied increasingly on tax expenditures and other measures — including the introduction of the income-splitting joint return for husbands and wives and the acceptance of community-property status – to enhance the popularity of the new tax regime. However, a deduction that had been in the tax code since 1913 — that for home mortgage interest — also favored the middle class and was one of the most expensive tax expenditures.[121]

As the position of the traditional middle class solidified, the place of minorities and women also began to expand. In the general population, the proportion of minorities began to

113 Patricia A. Cain, *Taxing Families Fairly*, 48 Sta. Clara L. Rev. 805, 808-17 (2008).

114 Randolph E. Paul, Taxation for Prosperity (Indianapolis: Bobbs-Merrill, 1947) 290.

115 *Poe v. Seaborn*, 282 U.S. 101 (1930).

116 Stanley S. Surrey, 61 Harv. L. Rev. at 1114.

117 *See* Caplow, First Measured Century at 196.

118 *Id*. at 246.

119 *Id*. at 52.

120 Caplow, First Measured Century at 96.

121 Brownlee, Fed. Taxation at 129. Nevertheless, the "income tax code instituted in 1913 contained a deduction for all interest paid, with no distinction between interest payments made for business, personal, living, or family expenses. There is no evidence in the legislative history that the interest deduction was intended to encourage home ownership or to stimulate the housing industry at that time. In 1913 most interest payments represented business expenses. Home mortgages and other consumer borrowing were much less prevalent than in later years." Cong. Res. Serv., Tax Expenditures: Compendium of Background Material on Individual Provisions, S. Print 110-667, 110th Cong. 2nd Sess., Comm. on the Budget (Dec. 2008) 330-31.

increase dramatically.[122] In the workforce, demographic diversification proceeded as the proportion of adult and older men declined.[123] In 1939, women, either separately from their husbands, as family heads in their own right, or singly, filed 1.8 million or 23.4 percent of individual income tax returns.[124] In 1951, the tax law officially recognized head of household filing status.[125] In 1953, women filed 10.8 million or 18.7 percent of returns.[126] From 1939 to 1953, the U.S. population increased from 131 million to 160 million; for those same years, the proportion of return filers within the population multiplied from five to 36 percent.[127]

Additional recognitions of population segments were enacted, such as the 1943 $500 deduction for the blind,[128] later converted into a 1948 $600 exemption along with an equal one for the elderly.[129] Expansions of the tax law, economy, and population segments all portended diversification of the taxpayer pool.

C. Implications for Service

From 1939 to 1953, the BIR workforce more than doubled from 22,623 to 53,463.[130] At the same time, individual income tax became a major federal revenue source, rising from approximately $1 to $33 billion.[131] These amounts lifted the individual income tax from 20 to 47 percent of total BIR collections of $5.2 and $69.7 billion in fiscal year (FY) 1939 and 1953 respectively.[132] In addition to sheer manpower, streamlined processing methods enabled the BIR to handle a large increase in the volume of returns.[133] Inside the BIR, a major reorganization confirmed its transformation into a modern bureaucracy, cleaning house of old-fashioned political appointments.

On November 1, 1943, the BIR established a Processing Division in New York City as a central location, equipped with electronic typewriters, to receive the first wave of increased volume of income tax returns.[134] Four years later, the Processing Division moved to Kansas City, where within a couple of years the BIR employed mass mailing to send forms and instructions to every corner of the growing country.[135] In 1948, the BIR introduced punch

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122 Caplow, First Measured Century at 18.

123 "The labor force participation rate of adult men gradually decreased from 86 percent in 1900 to 75 percent in 1998. * * * The decline in labor force participation was most conspicuous for men aged sixty-five and older." *Id*. at 32.

124 Statistics of Income, 1939, Pt. I at 18.

125 Rev. Act of 1951, Pub. L. No. 82-183, § 301.

126 IRS Pub. 79, Statistics of Income, 1953, Pt. I at 10.

127 Table 1, Income Tax Demographic History.

128 Rev. Act of 1943, Pub. L. 78-235, § 115, 58 Stat. 21.

129 Pub. L. No. 80-471, § 201; *see also* Pub. 1694 at 142.

130 Pub. 1694 at 249.

131 CIR Ann'l Rep't FYE June 30, 1939, at 2; 1953, at 5.

132 Pub. 447 at 39.

133 Table 1, Income Tax Demographic History.

134 Pub. 1694 at 137.

135 *Id*. at 142 & 145.

card equipment in Cleveland, and the following year deployed the technology in seven more Collectors' districts.[136] By the filing season in the first quarter of 1950, the BIR added computers to its complement of equipment for calculating liability on returns.[137]

While methods and technology advanced, the BIR still had to modernize its political organization, a system of appointments that already was entrenched by mid-century. On February 27, 1951, Commissioner George Schoeneman testified that the BIR fired more than 50 employees each year for taking bribes.[138] On September 14 and October 11, 1951, two BIR Collectors in Boston and St. Louis, Dennis Delaney and James Finnegan, were indicted for bribery.[139] In 1953, the House Ways and Means Committee, chaired by Rep. Cecil King (D-Cal.) and later by Rep. Robert W. Kean (R-N.J.), reported on an investigation of the BIR, revealing more improprieties.[140] Ultimately, seven more Collectors, an Assistant Commissioner, the Chief Counsel, and the Assistant Attorney General of the Tax Division of the Justice Department left office in disgrace.[141]

Evidently, the patronage position of Collector in place at the inception of the federal income tax had proven unworthy to a mass tax. Originally, locally recognized Collectors may have achieved better tax compliance in their own communities.[142] Yet by 1924, corruption had warranted a Senate investigation of the BIR,[143] and apparently the temptation created by the massive 1942 expansion of the tax was too great for appointees of the prevailing President to withstand. President Truman made the following observation:

> Since the collectors are not appointed and cannot be removed by the Commissioner of Internal Revenue or the Secretary of the Treasury, and since the collectors must accommodate themselves to local political situations, they are not fully responsive to the control of their superiors in the Treasury Department.[144]

On January 14, 1952, President Truman proposed Reorganization Plan No. 1 in part to clean out the corruption by replacing patronage appointments with a career civil service.[145] On March 15, 1952, the plan took effect upon congressional review.[146] The Commissioner and

136 Pub. 1694 at 145.

137 *Id*. at 148.

138 *Id*. at 150.

139 *Id*. at 151-52.

140 H.R. Rep. No. 82-2518, 82nd Cong. (1953).

141 Improprieties extended to conspiracy with organized crime, false certification of tax payments, and similar corruption. *See* Jos. J. Thorndike, *Reforming the Internal Revenue Service: A Comparative History*, 53 Admin L. Rev. 717, 755-59 (2001); Bryan T. Camp, *Theory and Practice in Tax Administration*, 29 Va. Tax Rev. 227, 241 (2009).

142 53 Admin L. Rev. at 756.

143 Pub. 1694 at 108.

144 *Special Message to the Congress Transmitting Plan I of 1952* quoted in 53 Admin L. Rev. at 761.

145 Pub. 1694 at 154.

146 *Id*.

Chief Counsel were the only remaining political appointees.[147] The reorganization integrated most field revenue programs under district directors, instituted regional commissioners, and consolidated inspection functions under a separate Inspection Service. The reorganization established the basis for a three-tiered geographical structure comprising the National Office, regional offices, and district offices. Cross-cutting this structure were functions (*e.g.*, assessment, collection) in place of offices organized by type of tax (*e.g.*, income, excise).[148] On July 9, 1953, the reorganized agency got a fresh start under the new name of Internal Revenue Service.[149]

Overall, this 14-year period showed that an agency administering a law applicable to little more than a twentieth of the population could be massively reorganized by an administration determined to reach every third person.[150] What began as recruitment of nationally recognized show business personalities ended in the streamlining of a bureaucratic machine reaching into every district of the country through regional directorates reporting to the National Office, already ensconced on Constitution Avenue in Washington, DC. No more was the face of the IRS that of a local partisan Collector.

The question will arise whether tax compliance popularized by heroic government intervention can be matched in periods when less than world-historical imperatives prevail. In any case, mid-century wartime revenue imperatives successfully popularized the income tax in what the IRS Historian aptly called "a marriage of convenience that survived."[151] Since then, federal income tax has been embedded with the American people.

IV. Automation and Meltdown, 1954-1985

During the three decades of the third period under study, the U.S. underwent post-World War II modernization, experienced in the IRS as automation. Substantively, the federal income tax system became a source of fiscal stability. Demographically, the volume of individual taxpayers slightly outpaced national population growth.[152] Administratively, the IRS tried to do more with machines, gradually leading to a meltdown.

A. Significant Tax Laws

If the federal income tax and World War II had "a marriage of convenience that survived," the implication would seem to be that mass revenue thereafter was sufficient to fund government expenditures as they arose in wartime or peacetime. Whereas specific tax legislation had raised revenue for World Wars I and II, U.S. military expenditures in Korea

147 Pub. L. No. 76-1 (Int. Rev. Code '39), §§ 3900, 3931; Pub. L. No. 83-591 (Int. Rev. Code '54), §§ 7801, 7803.

148 53 Admin L. Rev. at 762.

149 Treas. Ord. 150-29 cited in Pub. 1694 at 158.

150 Table 1, Income Tax Demographic History.

151 Pub. 1694 at 135.

152 *See infra* Table 1, Income Tax Demographic History.

and Vietnam during this ensuing period arose from existing, if high, taxes.[153] Additionally, the tax structure lent itself to social spending through tax expenditures forming a "hidden welfare state."[154] In particular, tax policy commentators have focused on research to "show that the benefits of tax expenditures accrue disproportionately to more affluent citizens and powerful corporations."[155]

Whatever may have been the political and social turmoil from 1954 to 1985 — encompassing the Cold War, civil rights movements, and ultimately a conservative shift associated with the "Reagan revolution"[156] — to some extent the tax system may have acted as a foil to prevent them from becoming fiscal upheavals of a magnitude seen earlier in the century. Significant rules and policies of the tax system during this period included codification of social tax expenditures as well as an alternative minimum tax, and administrative provisions to streamline and professionalize the tax system.

1. Substantive Provisions

On August 16, 1954, Congress with President Dwight D. Eisenhower's signature recodified the Internal Revenue Code, making some 3,000 income tax rule changes.[157] In a provision that ultimately was to grow into "the largest source of federal financial support for child care," child-care expenses became deductible for widows, single parents, and certain other taxpayers.[158]

On December 30, 1969, Congress enacted with President Richard Nixon's signature a Tax Reform Act (TRA 69) lowering tax rates and increasing the personal exemption but imposing an alternative minimum tax.[159] TRA 69 included tax relief for single taxpayers through a modification to the rate schedules that collaterally "had the consequence of generating a marriage penalty" for the first time since 1948.[160] This reflected a congressional response to complaints of "a new class of taxpayers — singles and unmarried couples."[161]

On March 29, 1975, Congress enacted with President Gerald Ford's signature a Tax Reduction Act (TRA 75) which inter alia created a new Earned Income Tax Credit (EITC), supplementing the wages of low income working married couples or heads of household

153 Brownlee, Fed. Taxation at 128 ("The highly elastic revenue system paid for the strategic defense programs of the Cold War and, without any general or permanent increases in income taxation, for the mobilizations for the Korean and Vietnam Wars as well. . . . the post-World War II increases in federal revenues went largely for the expansion of domestic programs").

154 Christopher Howard, The Hidden Welfare State: Tax Expenditures and Social Policy in the United States (Princeton Univ. Press, 1997).

155 Howard, Hidden Welfare State at 6; *see also* National Taxpayer Advocate 2010 Annual Report to Congress, vol. 2 at 101 (Research Study: *Evaluate the Administration of Tax Expenditures*).

156 Brownlee, Fed. Taxation at 147.

157 Pub. L. No. 83-591; *see also* Pub. 1694 at 160.

158 Mary Louise Fellows, *Rocking the Code: A Case Study of Employment-Related Child-Care Expenditures*, 10 Yale J. L. & Feminism 307, 310 n. 11 (1998).

159 Pub. L. No. 91-172, 83 Stat. 287; *see also* Pub. 1694 at 191. TRA 69, § 951, Int. Rev. Code § 7441, also moved the Tax Court from the Executive to the Judicial Branch under Art. I, § 8, U.S. Const.

160 Edw. McCaffery, Taxing Women (Univ. of Chicago Press, 1997) 34.

161 *Id*.

with children.[162] The EITC's historic innovation was refundability, or the use of a tax provision to effectuate a net payment from the government, rather than a collection. A "negative tax" for purposes of maintaining income security among the populace had been anticipated (if not welcomed) at least as early as the Kennedy administration by then Treasury Assistant Secretary for Tax Policy Stanley Surrey.[163] Another innovation of TRA 75 was advance rebate of tax reductions by check disbursement.[164] In other words, TRA 75 enacted tax reductions that were monetized and delivered to taxpayers "approximately six weeks after the date of enactment of this bill" rather than implemented as decreases in withholding over the course of a year.[165] In these two key provisions, TRA 75 marked a reversal of the traditional IRS role by turning the revenue collection agency into one of fiscal disbursement.

The administration of President Ronald Reagan set the stage for the next major tax reform that was to surpass the 1954 recodification that started this period. On September 3, 1982, Congress had enacted with President Reagan's signature the Tax Equity and Fiscal Responsibility Act (TEFRA 82) imposing "the first major tax increase during an election year in peacetime since 1932," closing loopholes, expanding information reporting, and enhancing penalties.[166] Yet it was a conservative "revolution" that was to reform the tax law.[167]

In January 25, 1984, President Reagan's State of the Union speech announced "an historic reform for fairness, simplicity, and incentives for growth. I am asking Secretary Don Regan for a plan for action to simplify the entire tax code so all taxpayers, big and small, are treated more fairly."[168] On November 27, 1984, Treasury Secretary Regan presented to the President a report that would become known as Treasury I, drafted by the Office of Tax Policy (OTP), recommending reduced rates on income and capital gain, increased personal exemptions, and base broadening through repeal of many deductions.[169]

2. Administrative Provisions

On February 7, 1956, the Treasury Department confirmed representation of taxpayers before the IRS by enrolled agents, who "must observe the ethical standards of the accounting profession," in addition to attorneys, under Circular 230.[170] In October of 1958, the

162 Pub. L. No. 94-12. For 2010, the EITC "may be described as a wage supplement, with a $5,666 maximum, administered by the IRS to low income workers." *Hearing on Improper Payments in the Administration of Refundable Tax Credits, Before Subcomm. on Oversight, Comm. on Ways & Means* 4, 112th Cong. (May 25, 2011) (statement of Nina E. Olson, National Taxpayer Advocate).

163 Stanley S. Surrey, *The Federal Tax System – Current Activities and Future Possibilities*, Speech to Boston Econ. Club, May 15, 1968, Tax Pol'y & Tax Reform, 1961-1969: Selected Speeches & Testimony, ed. Wm. Hellmuth & Oliver Oldman (Chicago: Commerce Clearing House, 1973) 158.

164 IRC § 6428 added by Pub. L. No. 94-12, § 101.

165 H. Rep. 94-19, 94th Cong. 1st Sess. (Feb. 25, 1975) 9.

166 Brownlee, Fed. Taxation at 154.

167 *Id*. at 147.

168 20 Wkly. Comp. Pres. Docs. (Fed. Reg.) 90 (Jan. 30, 1984).

169 Dep't of the Treas., Tax Reform for Fairness, Simplicity, and Economic Growth: Rep't to the Pres. (1984); *see also* Pub. 1694 at 221.

170 21 Fed. Reg. 833; *cf.* Circ. 230 (Dec. 7, 1951), 31 Code Fed. Regs. § 10.3(a)(1) (allowing enrollment of attorneys and CPAs), (j) (allowing special enrollment by examination).

Treasury proposed rules,[171] finalized the following Valentine's Day, effective on March 15, 1959, expanding enrollment beyond attorneys and certified public accountants to applicants who passed a written examination as well as to former IRS employees, and permitting unenrolled agents to represent taxpayers in District Directors' offices with respect to examination of returns they prepared.[172] In a decade, Congress was to impose by law penalties on paid tax return preparers for certain infractions.[173]

On October 16, 1962, Congress enacted with President John F. Kennedy's signature a Revenue Act adding to the tax Code third-party information reporting, effectively recruiting payers of interest and dividends into the tax compliance system.[174] The legislation required the IRS to develop an Income Information Document Matching Program to find unreported income and to identify individuals who failed to file a tax return.[175]

On November 2, 1966, Congress enacted with President Lyndon Johnson's signature a law allowing the IRS to designate a so-called Service Center, instead of a District Director's office, as an official place for filing tax returns.[176] The IRS had piloted the first Service Center in Kansas City 11 years earlier.[177] Service Centers were to play an important role in the expansion of automation and de-personalizing tax administration.

On October 4, 1976, Congress enacted with President Ford's signature a Tax Reform Act (TRA 76) that, as mentioned above, imposed negligence or fraud penalties on paid tax return preparers. Moreover, TRA 76 wholly amended the taxpayer privacy law.[178] As previously noted, tax return information historically had been publicly accessible subject only to Executive Branch rules. In 1970, White House officials had obtained IRS information on political enemies of then President Nixon, who later left office in disgrace after the Watergate burglary scandal.[179] Thereafter, the 1976 statute essentially restricted the use of return information to tax administration purposes.[180]

3. Summary

Between the Internal Revenue Codes of 1954 and 1986, tax law complexity increased, especially in the form of social tax expenditures. At the same time, tax procedure and

171 Notice of Proposed Rule-making (NPRM), 23 Fed. Reg. 8427 (Oct. 31, 1958); NPRM, 23 Fed. Reg. 7702 (Oct. 4, 1958).

172 24 Fed. Reg. 1157 (Feb. 14, 1959); 31 Code Fed. Regs. § 10.7(a), (e); 1959-1 C.B. 745.

173 TRA 69, H. Conf. Rep't 91-782, 91st Cong. 1st Sess. 229-30 (Dec. 21, 1969).

174 Pub. L. No. 87-834, 76 Stat. 960.

175 Pub. 1694 at 177.

176 Pub. L. No. 89-713.

177 Pub. 1694 at 161.

178 Pub. L. No. 94-455.

179 Dep't of the Treas. (OTP), *Rep't to the Congress on Scope and Use of Taxpayer Confidentiality and Disclosure Provisions* at 21; *see also* JCT, *Study of Present-Law Taxpayer Confidentiality and Disclosure Provisions*, vol. 1 at 255 (relating to Pres. Nixon's authorization of the U.S. Dep't of Agriculture to inspect tax returns of all farmers for statistical purposes).

180 IRC § 6103.

administration became more regimented. This regimentation was to facilitate standardization and thus automation.

B. Demographic and Filing Trends

From 1954 to 1985, the U.S. population increased from 163 million to 238 million, or about 46 percent.[181] The volume of individual income tax returns increased from 56.7 to 102 million or almost 80 percent.[182] In FY 1954, the IRS collected $69.9 billion, of which individual income taxes were almost 47 percent or $32.8 billion.[183] In FY 1985, the IRS collected $742.9 billion, of which individual income taxes were more than 53 percent or $396.7 billion, which in turn was twelve times the number of dollars collected in FY 1954.[184]

The post-World War II decades were prosperous, especially for middle-class families whose real income continued to rise.[185] Although people began to pay more taxes, their benefits, such as health insurance, expanded.[186] At the same time, poverty decreased significantly, from 22 percent in 1959 to 12 percent in 1999.[187]

During this period, women continued to enter the workforce in greater numbers.[188] The marriage rate decreased as the average age at marriage and the divorce rate increased.[189] Cohabitation increased, especially among young, white, adults without high school diplomas.[190] Tax filing appears to reflect this trend. In 1954, heads of household filed a million returns, less than two percent of the total.[191] In 1985, heads of household filed ten million returns, almost ten percent of the total.[192]

In Middletown, the bellwether for social surveys, patriotic attitudes continued to decline.[193] In sum, demographic trends during the third period under study reflect economic security and social independence for segments of the population.[194]

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181 Census, Statistical Abstract of the U.S. (2003), Table No. HS-1, *Population*: 1900-2002.

182 IRS Pub. 79, Statistics of Income, 1954, Pt. I, Table 1 at 3; IRS Pub. 1304, *Individual Income Tax Returns*, 1985 (SoI) Table B at 6.

183 CIR Ann'l Rep't FYE June 30, 1954, at 4.

184 *Id*. at 2. For 2011, $32.8 billion in 1954 would be comparable to $269 billion; $396.7 billion in 1985, $816 billion, or three times $269 billion.

185 Caplow, First Measured Century at 164.

186 *Id*. at 152 & 164 (indicating "fringe benefits . . . were far more extensive and valuable than they had been in the past").

187 *Id*. at 174-75.

188 *Id*. at 38.

189 *Id*. at 68, 78.

190 *Id*. at 72 (stating "Those most likely to cohabit were young adults, non-Hispanic whites, and people who never graduated from high school.").

191 Pub. 79, SoI, 1954, Pt. I, Table C at 11.

192 Pub. 1304 (1985) Table 1.3, cols. (1) & (7) at 19.

193 Researchers asked survey respondents in Middletown High School to agree or disagree with statements including the following: the U.S. is unquestionably the best country in the world; and every good citizen should act according to the following statement, "My country – right or wrong!" In 1924, more than nine of ten students agreed that the U.S. was the best; in 1977, more than seven of ten agreed; and in 1999, about six of ten. Similarly, the proportions favoring the slogan in the second statement declined in successive replications of the survey. Caplow, First Measured Century at 210.

194 Commentators may associate government-supported socio-economic security with a "welfare state," variously defined as "an instrument of social control or social betterment; as a part of the state or a particular stage in the development of capitalist states; as a minimal safety net for those in need; social insurance for the middle classes; or everything the government does to improve the well-being of individuals and families." Howard, Hidden Welfare State at 5.

C. Implications for Service

To match the increased return volume from 1954 to 1985, the number of IRS employees rose from 51,411 to 92,792.[195] Managing the work involved both equipment and organization.

1. Automation and Meltdown

In FY 1955, the Midwest Service Center used IBM computers to process all 1.1 million Forms 1040A from the ten districts of the IRS Omaha Region, ushering in central processing.[196] The next step in computerization on June 1, 1961, was to break ground in Martinsburg, West Virginia (beyond the 20-mile national security perimeter around Washington, D.C.) for an IRS National Computer Center.[197] The same year, an Automated Data Processing Division, with responsibility for return processing, revenue accounting, and Service Centers, split off from the Collection Division.[198] In August 1961, the IRS created a position of Assistant Regional Commissioner (Data Processing) in its Atlanta Region, to be the site of a new Service Center equipped with computers.[199]

These IRS actions reflected what Professor Surrey explained in 1961:

> With population growth and a broadened tax base, paperwork threatened to engulf tax administration. In self-defense, more and more attention had to be given to the development of means and methods for improving the processing of the paperwork. Invariably, a key element in this effort was the substitution of mechanical for manual methods of processing data.[200]

In 1964, Commissioner Mortimer Caplin cautioned

> There may be a tendency to overcentralize operations, to overextend capabilities and, yes, to capitulate to overmechanization and underhumanization of tax administration. In brief IRS must constantly weigh machine capability against the actual and psychic costs to the nation.[201]

195 Pub. 1694 at 249-50.

196 *Id.* at 161.

197 *Id.* at 170, 173.

198 *Id.* at 172.

199 *Id.* at 174.

200 Stanley S. Surrey, *Automatic Data Processing and Tax Administration: The Potentialities of ADP & Factors Involved in its Adoption*, Buenos Aires Conf. on Tax Admin., Oct. 1961, Tax Pol'y & Tax Reform 497-98.

201 Mortimer M. Caplin, *Commissioner Caplin Reviews his Record as IRS Chief* [1964], 29 Va. Tax Rev. 177, 180 (2009).

Nevertheless, the IRS forged ahead.

In 1966, the IRS opened an Individual Master File with a mainframe account for every individual taxpayer to process returns nationwide the following year.[202] In 1969, the IRS deployed the so-called Discriminant Income Function (DIF) to statistically select individual returns for audit.[203] The same year, the IRS piloted an Integrated Data Retrieval System (IDRS) and implemented it nationally by 1973.[204]

In 1977, the Carter administration approved IRS plans for a $1.8 billion computerized Tax Administration System, but Congress did not fund this initiative due in part to concern that increased computer accessibility could degrade taxpayer privacy in the post-Watergate era.[205] In 1979, the IRS embarked on a long-range plan to replace obsolete computer equipment used for return processing. In March 1982, a pilot Service Center in Memphis installed new equipment, and the other nine Service Centers followed the next year.[206] Additional applications were scheduled for "complete conversion" by January 1985.[207]

Despite optimistic projections, IRS managers in the field attempted to notify National Office executives that the new computers had insufficient capacity, exacerbated by inefficient software, a lack of digitally proficient employees, and a need for equipment such as tape drives.[208] Evidently, warnings went unheeded. As tax returns poured in, IRS employees were unable to process them. To paraphrase Professor Surrey, mechanical failure left employees to defend themselves from paperwork that threatened to engulf them. News reports told of IRS staff around the country taking matters into their own hands.

In an investigation ordered by House Ways and Means Oversight Subcommittee Chairman J.J. Pickle (D-Tex.), the General Accounting Office (GAO, now the Government Accountability Office) confirmed:

> Newspaper accounts alleged that between 4,000 and 6,000 requests from businesses that IRS adjust their accounts were inappropriately destroyed at the Austin Service Center.

202 Pub. 1694 at 184-85. Recently, the IRS explained that it "maintains records of individual taxpayers' accounts on the Individual Master File (IMF). Each module on the IMF represents a specific tax return of a specific taxpayer for a specific tax period. IMF modules are further classified by type of return, known as the MFT Code. The IRS uses MFT Code 30 for Form 1040 returns." National Taxpayer Advocate 2009 Annual Report to Congress 279 (IRS Response to Most Serious Problem: *The IRS Mismanages Joint Filers' Separate Accounts*).

203 Pub. 1694 at 191. Recently, the DIF has been described as a computer algorithm that estimates the likelihood that an audit of a particular return would produce an adjustment, forming a criterion for exam selection. The DIF is based on data obtained and periodically updated from IRS National Research Program examinations. *See* National Taxpayer Advocate 2010 Annual Report to Congress, vol. 2 at 86 n. 49 (Research Study: *Researching the Causes of Noncompliance*) (citing Internal Revenue Manual (IRM) 4.1.1.2.6 (Oct. 24, 2006), 4.1.24.1 (Mar. 23, 2010), Exhibit 4.1.7-1(12) (May 19, 1999)).

204 Pub. 1694 at 191, 201. Today, the "IDRS consists of databases and operating programs that support IRS employees working active tax cases within each business unit. This system manages data retrieved from the Master Files, allowing employees to take actions on account issues, track status, and post updates back to the Master Files." National Taxpayer Advocate 2009 Annual Report to Congress 258 n. 12 (Most Serious Problem: *IRS Power of Attorney Procedures Often Adversely Affect the Representation Many Taxpayers Need*).

205 Pub. 1694 at 210.

206 CIR Ann'l Rep't FYE Sept. 30, 1982, at 22.

207 CIR Ann'l Rep't FYE Sept. 30, 1983, at 26.

208 *See* Shelley L. Davis, Unbridled Power: Inside the Secret Culture of the IRS (NY: HarperCollins, 1997) 53.

> Service center officials told us that taxpayer correspondence was destroyed over a 3 day period in December 1984, without the knowledge and approval of service center management. A unit manager in the Adjustments/Correspondence Branch allegedly instructed one tax examiner to destroy the correspondence without having the cases quality reviewed. Service center officials said the unit manager, who has since resigned from IRS, denied that she instructed the tax examiner to destroy the correspondence.[209]

A parallel GAO investigation authorized by Senate Finance Committee Chairman Bob Packwood (R-Ore.) revealed that on July 26, 1984, a Philadelphia Service Center (PSC) custodian emptying a trash can in the women's restroom found thirty-five Form 1040s.[210] On April 26, 1985, a PSC janitor

> found envelopes containing unprocessed documents and remittances in a trash barrel on the loading dock. Service center management and Inspection determined that several trash barrels contained 109 discarded envelopes from which all information had not been extracted. The 109 envelopes included: 94 remittances for $333,440; 36 individual income tax returns; 24 Forms 1040 ES (Estimated Tax for Individuals); and 49 miscellaneous documents. Of the 94 remittances, 47 were not associated with documents. The remittances ranged from $1 to $68,000.[211]

When the infrastructure failed, one can only imagine hard-pressed frontline managers telling employees, "I want these files gone by morning." Ironically, reliance on machine processing had led to a meltdown. Ultimately, GAO reported, the IRS National Office scheduled delivery of the necessary hardware and software to the affected Service Centers in time for the 1986 processing season.[212]

It is unclear if any IRS official was ever held accountable for the meltdown of 1985.[213] Perhaps they escaped through a thicket of bureaucracy, or perhaps there is another explanation. Around the same time, an actual nuclear meltdown had almost occurred in March 1979 at Three Mile Island, a power plant near Harrisburg, Pennsylvania. There, analysts identified a series of discrete events leading to the disaster, without pinning blame on any one.[214] In modern systems in which complex technological and organizational components are concentrated, disaster as an aggregate of numerous minor failures may be so inevitable as to be called "normal."[215] Here the question arises whether the post-World War II tax

209 GAO, *Information on IRS Service Centers in Austin, Texas and Fresno, California*, GGD-85-89 (Sept. 30, 1986) 59.

210 GAO, *Information on IRS Philadelphia Service Center*, GD-86-25FS (Nov. 1985) 36.

211 *Id*. at 33 (quoting May 30, 1985, memo from IRS Int. Audit Div. to PSC Dir.).

212 GAO, *Info. on IRS Service Ctrs. in Austin and Fresno* 3.

213 Davis, Unbridled Power at 52 (asserting that "none of these culprits was ever held accountable for the massive IRS mishap of 1985").

214 Chas. Perrow, Normal Accidents: Living With High Risk Technologies rev. ed. (Princeton Univ. Press, 1999).

215 *See Id*.; *see also* Chas. Perrow, *The Meltdown Was Not an Accident*, Markets on Trial: The Economic Sociology of the U.S. Financial Crisis, ed. Michael Lounsbury & Paul M. Hirsch, 30 Res. in the Sociol. of Org'ns 309 (2010).

system had grown into a complex "unto itself" beyond controls that could eliminate the risk of meltdown.[216]

2. Targeting Needs and Appointing an Ombudsman

In the face of automation gone haywire, distinct populations presented needs for taxpayer service. In 1956, the IRS responded to rural America by collaborating with the U.S. Department of Agriculture to publish a 64-page *Farmers' Tax Guide* and distribute a million copies.[217] Targeting continued, this time launched from the metropolitan centers of New York, Miami, and Los Angeles, with the 1972 publication for readers of Spanish.[218] In 1970, the IRS sponsored Volunteer Income Tax Assistance (VITA) to prepare returns for low income taxpayers,[219] followed eight years later by Tax Counseling for the Elderly (TCE), a volunteer program to assist taxpayers 60 and over.[220] To simplify returns for individuals with limited types of income, the IRS issued Form 1040EZ in 1982.[221]

Meanwhile, the infrastructure to support taxpayer service and problem solving evolved from ad hoc responses by revenue agents and officers into an ombudsman in the National Office. In 1959, the IRS created a Taxpayer Service function within the Collection Division, relieving revenue agents and officers of responsibility for taxpayer inquiries.[222] In 1971, the Taxpayer Service function received an upgrade to the status of a Division under an Assistant Commissioner for Accounts, Collection, and Taxpayer Service.[223] In 1971, the IRS established a Problem Resolution Program, protecting taxpayer rights on a case-by-case basis.[224] On January 4, 1980, Commissioner Jerome Kurtz appointed within his office, to supervise all Problem Resolution functions and represent taxpayer interests, a Taxpayer Ombudsman, predecessor to the National Taxpayer Advocate.[225]

3. Summary

The third period under study began with groundbreaking work at Service Centers and similar new sites that allowed central processing to soar so high as to induce a meltdown at the end of this period. Between 1954 and 1985, automation became both an inevitability and a cautionary tale. As this course of events played out, the IRS was insulated from outside influence by stable fiscal policy sealed with the stringent amendment of the taxpayer privacy

216 For other reasons, commentators have characterized the IRS as a "law unto itself." David Burnham, A Law unto Itself: Power, Politics, and the IRS (NY: Random House, 1989).

217 Pub. 1694 at 162.

218 *Id*. 199.

219 *Id*. at 196.

220 *Id*. at 213.

221 *See infra* Appdx. 5, Form 1040EZ, *Income Tax Return for Single Filers with no Dependents* (1982).

222 Pub. 1694 at 167.

223 *Id*. at 197.

224 IRM 13.2.1.1.1 (July 16, 2009) (recounting history of Problem Resolution Program, which "limited its advocacy role, protecting taxpayers' rights only on a case-by-case basis").

225 Pub. 1694 at 216.

law. At the same time, taxpayer service and problem resolution continued to present needs to be met in small but significant ways.

V. Restructuring and an Emerging New Mission, 1986-2011

The last quarter-century of federal income taxation reflected a maturation of a mass tax that was broadly administered using electronic media, yet was imbued with taxpayer rights. The sobering experience of the meltdown of 1985 gave way to legislative iterations of taxpayer rights, IRS restructuring, and refundable credits. Cumulatively, these provisions were to change the nature of tax administration. The persistence of taxpayer service needs was to become more poignant as Congress charged the IRS with the delivery of more socio-economic benefits.

A. Significant Tax Legislation

1. Internal Revenue Code of 1986

On October 22, 1986, President Reagan signed a Tax Reform Act (TRA 86) that was the culmination of the Treasury proposals discussed above, as revised after public comment, and historic congressional effort, led in large part by House Ways and Means Committee Chairman Dan Rostenkowski (D-Ill.).[226] TRA 86 not only recodified the tax law but simplified it by broadening the base, affording a reduction in rates from 50 to under 40 percent that garnered political support.[227] Base broadening came through repeal of tax expenditures, especially for business, notably the investment tax credit.

While the story of TRA 86 has been amply told,[228] two provisions are relevant here. TRA 86 eliminated filing requirements for some six million low income people through increased personal exemptions and standard deductions.[229] For low income workers who remained on the tax rolls, the legislation significantly expanded the EITC, raising the maximum credit from $550 to $800 and the phase-out ceiling from $11,000 to $13,500, while indexing the EITC for inflation.[230]

2. Rights, Reconciliation, Responsibility, and Refundability

As the IRS added benefit disbursement to the traditional role of tax collector, it could not ignore those who were more like "customers" than taxpayers *per se*. On November 1, 1988, the IRS seemed to recognize these developing roles when it issued a leaflet as Publication 1, *Your Rights as a Taxpayer*.[231]

226 Pub. L. No. 99-514, 100 Stat. 2085.

227 Pub. 1694 at 254.

228 *See, e.g.*, Jeffrey H. Birnbaum & Alan S. Murray, Showdown at Gucci Gulch: Lawmakers, Lobbyists, and the Unlikely Triumph of Tax Reform (NY: Random House, 1987).

229 Brownlee, Fed. Taxation at 174.

230 Pub. L. No. 99-514, § 111, 100 Stat. 2085, 2107; Jt. Comm. on Tax'n, General Explanation of TRA 86, JCS-10-87 (May 4, 1987) 28.

231 Pub. 1694 at 230.

Nine days later, Congress enacted with President Reagan's signature the Technical and Miscellaneous Revenue Act of 1988 (TAMRA 88) containing a Taxpayer Bill of Rights (TBOR) that codified dissemination of taxpayer rights information.[232] Additionally, TAMRA 88 authorized the IRS Ombudsman to issue a Taxpayer Assistance Order on behalf of a taxpayer suffering significant hardship as a result of the IRS' manner of tax administration.[233] Further, TAMRA 88 mandated the delivery of an annual report to Congress on taxpayer service by the Ombudsman in conjunction with an Assistant Commissioner (Taxpayer Service), whose portfolio had been created by Commissioner Lawrence Gibbs on July 2, 1987.[234]

This legislation was succeeded by the Taxpayer Bill of Rights (TBOR) II, enacted by Congress and signed by President Bill Clinton in 1996. TBOR II created a statutory Office of the Taxpayer Advocate to supersede the Ombudsman and take over annual reporting to Congress, with coverage of objectives, problems, and recommendations.[235]

Meanwhile, Congress enacted and President George H.W. Bush signed the Omnibus Budget Reconciliation Act of 1990 (OBRA 90). OBRA 90 historically expanded the EITC by increasing the credit rate above that of the aggregate employer and employee Social Security tax, the payroll tax that the EITC had been enacted to offset.[236]

Further EITC amendment came in the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA 96), which substantially reformed traditional welfare programs.[237] As a central component of welfare reform, PRWORA 96 expanded the EITC with respect to the amount of work incentive while curtailing it with respect to immigration and work status in the U.S., essentially to limit access by undocumented workers.[238]

In 1997, Congress enacted and President Clinton signed a Taxpayer Relief Act including a child tax credit, giving taxpayers who were parents up to $500 per qualifying child.[239] Like the EITC, a portion of the child tax credit was to be refunded even in excess of liability.[240]

3. IRS Restructuring and Reform Act of 1998

On September 23, 1997, Senate Finance Committee Chairman William Roth (R-Del.), opened hearings on IRS practices, procedures, oversight, and ultimately restructuring, that were to stretch well into the following year. In confronting the IRS, Senator Roth intoned:

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232 Pub. L. No. 100-647, 102 Stat. 3342; H. Conf. Rep't 100-212, 100th Cong. 2nd Sess. vol. 2 at 1104 (Oct. 21, 1988) (requiring future editions of Pub. 1 to conform to TBoR).

233 IRC § 7811.

234 Pub. 1694 at 228.

235 Pub. L. No. 104-168, § 101, 110 Stat. 1452, 1453-54 (July 30, 1996).

236 Pub. L. No. 101-508, § 11111.

237 Pub. L. No. 104-193, § 451, 110 Stat. 2105, 2276 (1996).

238 IRC § 32(m).

239 Pub. L. No. 105-34, § 101, 111 Stat. 796.

240 IRC § 24(d), amended by Pub. L. No. 107-16, § 201 (expanding refundability).

"There is no other agency in this country that directly touches the lives of more Americans, nor is there any agency which strikes more fear into their hearts."[241]

Scores of witnesses included the former IRS Historian, who had left the job frustrated with officials' unwillingness to preserve and release historical documents;[242] a journalist who had authored a book-long exposé of the IRS;[243] four witnesses who testified on their troubles as innocent spouses wrongfully saddled with the liabilities of their husbands (or ex-husbands); former Commissioners Sheldon Cohen (1965-69), Donald Alexander (1973-77), Fred Goldberg (1989-92), and Margaret Richardson (1993-97), as well as sitting Commissioner Charles Rossotti and Treasury Secretary Robert Rubin.

Early in the hearings, a half-dozen anonymous IRS employees revealed internal excesses. For example, one such witness testified that in the context of negotiating payments supposed to be affordable to taxpayers, "I have seen the IRS punish a taxpayer by not allowing reasonable, necessary living expenses."[244] Nina Olson, a public-interest tax lawyer who ultimately was to become National Taxpayer Advocate, confirmed that among IRS collection employees, "from managers down to ACS phone technicians, they adopt an adversarial attitude toward the taxpayer."[245] Promising "fundamental change," Commissioner Rossotti acknowledged the seemingly arbitrary audit selection mechanism by saying that, "I will personally not believe that we are doing the right thing with respect to audits until I feel I can explain the process to the average American taxpayer."[246]

Meanwhile, on the other side of Congress, Speaker of the House Newt Gingrich (R-Ga.) had primed his caucus for reform through a Contract with America calling for both tax cuts and a balanced budget. According to a senior academic tax historian, the 1998 tax legislation was "the only direct accomplishment of Gingrich's Contract for America and its attacks on the IRS."[247]

In 1998, Congress enacted and President Clinton signed the IRS Restructuring and Reform Act (RRA 98) that among other provisions:[248]

- Created an Oversight Board to stay on top of the IRS;
- Granted the Commissioner the certainty of a five-year term;
- Split the Chief Counsel's reporting duties, leaving him to report to the Treasury General Counsel on tax policy but to the Commissioner on tax administration and litigation;

241 *Practices & Procs. of the IRS*, Hrgs. Before the Comm. on Finance, U.S. Sen., S. Hrg. 105-190, 105th Cong. 1st Sess. (Sept. 23-25, 1997) 1.

242 Davis, Unbridled Power.

243 Burnham, A Law unto Itself.

244 S. Hrg. 105-190 at 145.

245 *IRS Restructuring, Hrgs. Before the Comm. on Finance, U.S. Sen.* 125, S. Hrg. 105-529, 105th Cong. 2nd Sess. (Jan. 28, 29; Feb. 5, 11 & 25, 1998).

246 *IRS Oversight, Hrgs. Before the Comm. on Finance, U.S. Sen.* 201, S. Hrg. 105-598, 105th Cong. 2nd Sess. (Apr. 28-30 & May 1, 1998).

247 Brownlee, Fed. Taxation at 214.

248 Pub. L. No. 105-206. The underlying bill, H.R. 2676, was passed by votes in the House of Reps. of 426 to 4, and Sen. of 97 to 0. H.R. Roll Call 577 (Nov. 5, 1997); Sen. Vote No. 126 (May 7, 1998).

- Named the National Taxpayer Advocate as a Secretarial appointee not subject to removal by the Commissioner;
- Elevated the IRS Chief Inspector into a Senate-confirmed appointee to be known as the Treasury Inspector General for Tax Administration, who would report over the Commissioner's head to the Secretary;
- Reorganized the IRS from the 1952 geographic scheme into divisions serving taxpayer groups which, after consultation with management professionals, were identified as Wage & Investment, Small Business/Self-Employed, Tax-Exempt/Government Entities, and Large & Mid-Size Business (on October 1, 2010, renamed Large Business & International);[249]
- Funded Low Income Taxpayer Clinics;
- Expanded innocent spouse relief and made numerous reforms to procedural, collection, interest and penalty provisions, including the requirement for Collection Due Process hearings triggered by the first lien or levy action with respect to a tax liability; and
- Set goals for electronic filing.[250]

RRA 98 effectively laid the foundation for taxpayer service in the current era. By restructuring into functional divisions, each of which had nationwide scope, RRA 98 took the IRS another step away from local service, furthering a trend initiated by national centralization in 1952.

4. Economic Growth and Recession

In 2001, Congress enacted the Economic Growth and Tax Relief Reconciliation Act (EGTRRA 01), inaugurating President George W. Bush's tax cuts at the height of an economy that had boomed in the previous decade. Generally, EGTRRA 01 reduced income tax rates, in part by creating a ten-percent bracket for low income taxpayers, reduced marriage penalties, and expanded favorable provisions for education and retirement savings.[251] Tax cuts were immediately delivered through advance rebate checks.[252] In a sign of congressional rules permitting tax cuts only to a budgeted extent, the tax cuts generally were scheduled to expire in 2010.

In 2002, Congress enacted and President Bush signed a Trade Act that was not primarily a tax bill. Nevertheless, this Trade Act codified in the tax law a refundable credit to help pay for the health-insurance premiums of families of American workers laid off by employers who moved to a country that had a free trade agreement with the U.S.[253]

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249 IRS News Release, *IRS Realigns and Renames Large Business Division, Enhances Focus on International Tax Administration*, IR-2010-88 (Aug. 4, 2010).

250 H. Conf. Rep't 105-599, 105th Cong. 2nd Sess. (June 24, 1998).

251 Pub. L. No. 107-16, 115 Stat. 38.

252 IRC § 6428 as amended by Pub. L. No. 107-16, § 101.

253 IRC § 35 added by Pub. L. No. 107-210, § 201; *see also* H. Conf. Rep't 107-624, 107th Cong. 2nd Sess. (July 26, 2002) 122.

In 2004, Congress enacted and President Bush signed the Working Families Tax Relief Act (WFTRA 04) containing a Uniform Definition of Child.[254] Acting on proposals from the National Taxpayer Advocate, Treasury, American Bar Association, American Institute of Certified Public Accountants, and Tax Executives Institute, Congress simplified the requirements for purposes of head of household filing status, child-care credit, child tax credit, EITC, and dependency deduction.[255] Generally, WFTRA 04 eliminated the need to document expenses for supporting a child of a prescribed age, relationship, and residence.

In response to a serious market downturn in 2008, Congress enacted and President Bush signed the Housing and Economic Recovery Act (HERA 08).[256] Under the leadership of House Ways and Means Committee Chairman Charles Rangel (D-N.Y.), HERA 08 enacted a First-Time Homebuyer Tax Credit for a portion of the purchase price. In another nod to congressional budgetary rules, the revenue cost of the legislative provision was offset by recapture over 15 years, effectively transforming the refundable credit into an interest-free loan to the taxpayer.[257] The following year, amendment would repeal recapture for later purchases.[258]

Another piece of recovery legislation was the Economic Stimulus Act of 2008 (ESA 08), which generated tax rebate checks to low and moderate-income individuals.[259] This was the fifth time that the IRS had become a disbursing agent for rebates.[260]

Weeks after his inauguration, President Barack Obama signed the American Recovery and Reinvestment Act of 2009 (ARRA 09), containing a signature Making Work Pay provision intended to support economic recovery through a refundable credit for low income workers in the amount of the payroll tax, expeditiously implemented by reductions in the withholding tables.[261] Parallel in some respects to the EITC, Making Work Pay was not, however, calibrated to increase with respect to any qualifying children.[262] Additionally, ARRA 09 temporarily modified and renamed the Hope Scholarship Credit, which Congress had enacted under President Clinton, as the refundable American Opportunity Tax Credit.[263]

Demographic History

254 Pub. L. No. 108-311, § 201 *ff.*, 118 Stat. 1166, 1169.

255 National Taxpayer Advocate 2001 Annual Report to Congress 76 (Legislative Recommendation: *Family Status Issues*); Dept. of the Treasury, *Proposal for Uniform Definition of a Qualifying Child* (Apr. 2002); ABA/AICPA/TEI *Tax Simplification Recommendations* (Sept. 13, 2002).

256 Pub. L. No. 110-289, 122 Stat. 2654.

257 IRC § 36.

258 Worker, Homeownership, and Business Assistance Act of 2009, Pub. L. No. 111-92, § 11.

259 IRC § 6428 as amended by Pub. L. No. 110-185. For business taxpayers, 2008 economic emergency legislation, in a provision that would be expanded by the Amer. Recovery & Reinvestment Act of 2009 as well as 2010 extender legislation, created an election to accelerate alternative minimum tax (AMT) or research credits in lieu of that year's bonus depreciation and made the amount refundable. *See* IRC § 168(k)(4) as amended by Pub. L. Nos. 110-289, § 3081, 122 Stat. 2654, 2903 (2008), 111-5, Div. B, § 1201, 123 Stat. 115, 333 (2009) & 111-240, § 2022, 124 Stat. 2504, 2558 (2010).

260 IRC § 6428 enacted by TRA 75, and amended by the Economic Recovery Tax Act of 1981, Pub L. No. 97-34, § 101, EGTRRA 01, and ESA 08; IRC § 6429 amended by Jobs & Growth Tax Relief Reconciliation Act of 2003, Pub. L. No. 108-27, § 101.

261 Pub. L. No. 111-5, 123 Stat. 115; H.R. Conf. Rep't 111-16, 111th Cong. 1st Sess. (Feb. 12, 2009) at 517-18.

262 IRC § 36A.

263 IRC § 25A.

In 2010, Congress enacted the Patient Protection and Affordable Care Act (PPACA), reflecting a major goal of the Obama Administration to extend health coverage to millions of uninsured Americans.[264] PPACA contained four health-care provisions of significance to income tax administration: a temporary credit for employers who pay for health insurance for a small number of employees;[265] a refundable credit for low and moderate-income individuals to subsidize the purchase of health insurance;[266] a penalty for individuals who fail to obtain health coverage;[267] and an excise tax on large employers who fail to offer health coverage.[268] In another reinvigoration of a Clinton-era social tax expenditure, PPACA temporarily made refundable the credit for parents who incur expenses of adopting children.[269]

B. Economic and Demographic Trends

In 2011, research by economists associated with the Treasury Office of Tax Analysis showed that income inequality had reached levels not seen since the Great Depression.[270] In 2008, the top one percent of earners received approximately 20 percent of personal income in the U.S.[271] Of the top 0.1 percent who earned $1.7 million or more, 60 percent were corporate executives or other managers.[272]

Meanwhile, income was only a part of compensation, which was increasingly supplemented by fringe benefits in the last quarter of the 20th century.[273] This trend would not have been unaffected by generous tax expenditures for retirement benefits and other non-wage compensation.[274]

The data above are consistent with class trends toward inequality through the end of the twentieth century. College tuition rose sharply in the last couple of decades.[275] While a plethora of special tax breaks subsidized college tuition (Hope Scholarship, Lifetime Learning, and American Opportunity Tax Credits; tuition and student loan interest deductions; exclusion of interest on U.S. saving bonds; deferral under Qualified Tuition Plans and Coverdell Education Savings Accounts),[276] some economists argued that college tuition

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264 Pub. L. No. 111-148.

265 IRC § 45R (allowing credit that is partially refundable to small tax-exempt employers).

266 IRC § 36B.

267 IRC § 5000A.

268 IRC § 4980H.

269 IRC § 36C.

270 See Jon Bakija, Adam Cole & Bradley T. Heim, *Jobs and Income Growth of Top Earners and the Causes of Changing Income Inequality: Evidence from U.S. Tax Return Data* (Nov. 2010) *available at* http://www.indiana.edu/~spea/faculty/pdf/heim_JobsIncomeGrowthTopEarners.pdf.

271 Peter Whoriskey, *With Executive Pay, Rich Pull Away From Rest of America*, Wash. Post (June 18, 2011) A-1; *see also* Bakija, Cole & Heim, *Jobs and Income Growth*; IRS (Sol), *Individual Income Tax Rates & Shares*, 2008.

272 Wash. Post (June 18, 2011) A-1; *see also* Bakija, Cole & Heim, *Jobs and Income Growth*.

273 Caplow, First Measured Century at 160 (adding that: "Benefits such as employer-provided health insurance, bonuses, stock options, child care, tuition assistance, and vision and dental benefits expanded dramatically.").

274 *See* National Taxpayer Advocate 2010 Annual Report to Congress, vol. 2, 112 (Research Study: *Evaluate the Administration of Tax Expenditures*).

275 Caplow, First Measured Century at 62.

276 *See* National Taxpayer Advocate 2004 Annual Report to Congress 403 (Legislative Recommendation: *Simplification of Provisions to Encourage Education*).

rose to absorb certain federal subsidies.[277] In any case, rising cost formed another barrier between educated and uneducated.

An indicator of a major increase in private fortunes after 1980 was private philanthropy on an unprecedented scale.[278] Around the same time, personal debt, composed primarily of home mortgages, soared to new heights.[279] Previously mentioned tax expenditures loom large in both the formation of and response to this trend (home mortgage interest deduction, first-time home buyer credit). The combination of personal fortunes and personal debt portray a population divided by economic inequality.

This portrait of inequality was refracted diversely, even as refundable credits proliferated for low income taxpayers, statistically associated with particular populations.[280] In 2011, researchers reported that wealth gaps between whites and minorities had grown to their widest levels in a quarter-century.[281] In 2009, typical household wealth was $5,677, $6,325, and $113,149 for blacks, Hispanics, and whites, respectively.[282] Analyzing Census data, researchers attributed the statistics to plummeting house values.[283]

At the end of the twentieth century, Asian and Hispanic immigrants had joined African-Americans in large cities.[284] Distinct populations took on certain socio-economic characteristics with attendant tax consequences. For example, an academic analysis of Census data showed that "African-American households are more likely to pay a marriage penalty and White households are more likely to receive a marriage bonus."[285] This is because of "the significantly high percentage of African-American wives who contribute between 40 and 60% to total household income."[286]

Finally, the proportion of young to old continued to decline, reflecting both a decline in birth rate and increased longevity.[287] Not only did the end of the century confront growing inequality, but also a question of how many people of working age ultimately would remain to support a retiring generation.

277 *See* Bridget Terry Long, *The Impact of Federal Tax Credits for Higher Education Expenses,* College Choices: The Economics of Which College, When College, and How to Pay for it. ed. Caroline M. Hoxby (Univ. of Chicago Press, 2004), Nat'l Bur. of Econ. Res. Working Paper No. 9553; Jt. Econ. Comm., U.S. Cong., *College Affordability: Tuition Tax Credits vs. Saving Incentives* (Oct. 1997).

278 Caplow, First Measured Century at 168.

279 *Id*. at 170 (stating "Approximately three-quarters of this personal debt represented residential mortgages").

280 In 2008, 24.7 and 23.2 percent of blacks and Hispanics, respectively, but only 13.2 percent of the whole population, were below poverty. *See* Census, Statistical Abstract of the U.S. (2011), Table 710 at 464, *People Below Poverty Level & Below 125 Percent of Poverty Level by Race & Hispanic Origin: 1980 to 2008*.

281 *Census Data Show Wealth of Whites Is 20 Times that of Blacks, Widest U.S. Gap in Quarter-Century*, Wash. Post (July 26, 2011).

282 Rakesh Kochhar, Richard Fry & Paul Taylor, *Wealth Gaps Rise to Record Highs Between Whites, Blacks and Hispanics* 1, Pew Research Ctr. (July 26, 2011).

283 Kochhar, *Wealth Gaps* at 2.

284 Caplow, First Measured Century at 20.

285 *See* Dorothy A. Brown, *The Marriage Penalty/Bonus Debate: Legislative Issues in Black & White*, 16 N.Y.L. Sch. J. Human Rights 287 (1999).

286 16 N.Y.L. Sch. J. Human Rights at 294.

287 Caplow, First Measured Century at 6.

Another feature of this last period under study is that economic trends in part reflected prior tax policy. In particular, tax rates declined from a post-World War II high of 92 percent (in 1952 and 1953) to below 40 percent after 1986 (along with favorable rates for dividends and capital gains).[288] According to a commentator, the "dramatic increase in U.S. economic inequality over the past four decades is probably attributable to several causes, including changes in U.S. tax law . . ."[289] In sum, postwar prosperity turned into turn-of-the-century inequality.

C. Implications for Service

1. Electronic Administration

In 1986, the IRS collected $782.3 billion, of which more than half, $416.6 billion, was individual income taxes.[290] In 2010, the IRS collected $2.3 trillion, of which more than half, $1.2 trillion, was individual income taxes.[291] While the U.S. population and number of individual income tax returns increased, IRS staffing remained relatively level.[292] Automation continued even as new provisions would warrant face-to-face service.

Overcoming the meltdown of 1985, automation continued through the last quarter-century in the form of electronic filing and matching of information. On January 24, 1986, a tax return preparer filed a return electronically for the first time; [293] four years later, electronic filing was possible nationwide.[294] In the summer of 1986, the IRS deployed optical disk equipment with laser technology (a forerunner of CDs) to store and retrieve tax return information at the Fresno Service Center.[295] Incidentally, this deployment underscores the continued crucial role of Service Center campuses since their establishment three decades previously. In 1990, the Automated Underreporter (AUR) Control System came online with capacity for some nine million cases annually, modernizing the process by which the IRS tracked whether taxpayers declared income reported by third parties, such as banks that paid interest.[296]

2. Behavioral Analysis

Nevertheless, tax administration could not go on autopilot. This last quarter-century of tax administration would begin with a tax gap of $100 billion (according to a prediction

288 See Sol Bull. Hist. Data Table 23 (1913-2008).

289 Stephen B. Cohen, *Inequality and the Deficit*, 132 Tax Notes 273, 280, 2011 T.N.T. 139-6, Tax Analysts Doc. No. 2011-13967 (July 18, 2011), similar version released as Geo'town Business, Econ. & Reg. L. Res. Paper No. 11-13.

290 CIR Ann'l Rep't FYE Sept. 30, 1986, at 8. The value of $782.3 billion in 1986 would be comparable to $1.58 trillion in 2011.

291 IRS Pub. 55B, *Data Book* (2010), Table 1 at 3.

292 Table 1, Income Tax Demographic History (reflecting income tax returns but not, in the first half-century, excise tax workload, which would have been measured more accurately by gallons, pounds, or warehouses, as the case may be, rather than returns).

293 Pub. 1694 at 223.

294 *Id*. at 234.

295 *Id*. at 224.

296 *Id*. at 235.

Commissioner Roscoe Egger had made in 1982).[297] In 1985, IRS receipts totaled $742.9 billion.[298] On November 15, 1991, the IRS sponsored a Research Conference entitled "Closing the Tax Gap: Alternatives to Enforcement."[299] On April 27, 1992, the IRS issued a policy statement that penalties supported the IRS mission only if they enhanced voluntary compliance.[300] While internal researchers analyzed how to affect taxpayer decision-making, for 2001, the IRS estimated that the tax gap, the difference between what taxpayers should have paid and what they actually paid on a timely basis, grew over $300 billion (when IRS receipts totaled $2.1 trillion).[301]

Meanwhile, academicians pushed the study of economics, including public finance, beyond a neo-classical paradigm into the territory of behavioral and other social sciences.[302] In 2008, Professor Cass Sunstein, who soon would be appointed to lead the Office of Information and Regulatory Affairs within the Obama administration, co-authored a behavioral economic best-seller, including passages on tax incentives and compliance, entitled *Nudge: Improving Decisions About Health, Wealth, and Happiness.*[303] New approaches to the perennial problem of tax compliance were emerging.[304]

In the face of electronic efficiency, in 2009 the National Taxpayer Advocate observed a "taxpayer preference for personal interaction with the IRS" which "is good news for tax administration because it affords the tax administrator the opportunity to engage and educate the taxpayer."[305] This observation brought tax compliance back to human behavior.

3. Refunds and Rebates

Despite the reform of 1986, special tax breaks were accumulating in such a quantity as to change the quality of tax administration. While tax expenditures had been born with the income tax, the last quarter-century witnessed a proliferation of social tax benefits. Previously, Assistant Secretary Surrey had announced the advent of negative taxes, and the Excise Tax Reduction Act of 1965 had made a fuel tax credit refundable, when the purchaser may have been a farmer fueling a tractor.[306]

297 Richard B. Malamud & Richard O. Parry, *It's Time to Do Something About the Tax Gap*, 9 Houston Bus. & Tax L.J. 2 (2008).

298 CIR Ann'l Rep't FYE Sept. 30, 1985, at 2.

299 Pub. 1694 at 236.

300 IRS Policy Statement P-1-18 (as of Aug. 20, 1998).

301 IRS News Release, New IRS Study Provides Preliminary Tax Gap Estimate, IR-2005-38 (Mar. 29, 2005); IRS Pub. 55B, Data Book (2001), Table 1 at 6; *see also* Berdj Kenadjian, *Gross Tax Gap Trends According to New IRS Estimates, Income Years 1973-1992*, 8 Statistics of Income Bull. 23, 26 (1988) Fig. C (reporting that tax compliance historically remained between 81 and 84 percent).

302 Isaac Wm. Martin, Ajay K. Mehrotra & Monica Prasad, *The Thunder of History: The Origins and Development of the New Fiscal Sociology*, The New Fiscal Sociology: Taxation in Comparative and Historical Perspective (Cambridge Univ. Press, 2009).

303 Richard H. Thaler & Cass R. Sunstein, Nudge (New Haven, Conn.: Yale Univ. Press, 2008).

304 *See* National Taxpayer Advocate 2007 Annual Report to Congress 156 (Most Serious Problem: *Taxpayer Service and Behavioral Research*); vol. 2, 138-50 (Research Study: Marjorie E. Kornhauser, *Normative and Cognitive Aspects of Tax Compliance*).

305 Nina E. Olson, *Minding the Gap: A Ten-Step Program for Better Tax Compliance*, 20 Stan. L. & Pol'y Rev. 7, 30 (2009).

306 Pub. L. No. 89-44, § 809; H. Con'f Rep't 89-525, 89th Cong. 1st Sess. 11 (June 16, 1965).

After the 1975 enactment of the EITC, a latter-day parade of refundable credits, in response to both good and bad economic conditions, brought in the additional child tax credit, trade adjustment health credit, first-time homebuyer credit, Making Work Pay credit, American Opportunity Tax Credit, PPACA individual credit, and adoption credit. Most of these refundable credits were targeted at low income taxpayers, a diverse population not particularly well served by electronic mass media.[307] Starting in 1975, the IRS similarly had to apply reverse engineering to the revenue collection apparatus to issue tax rebate checks under legislation again in 1981, 2001, 2003, and 2008.

In 2010, the National Taxpayer Advocate observed that the IRS mission *de facto* had expanded beyond collecting taxes to administering social and economic benefit programs, justifying a recommendation for formal revision of the mission statement with concomitant staffing and appropriations.[308] Tax administration had moved beyond enforcement not only as a practical matter but as a matter of a new fiscal mandate codified in special tax breaks.

4. Service and Diversity

In terms of taxpayer service, the number of returns per employee essentially leveled off after the mid-century shift to a mass population of income taxpayers, even as return volume increased steadily.[309] As recounted above, information technology and audit techniques facilitated staff efforts to tackle an increasingly complex workload.[310]

Automation and audit techniques call to mind the "technique of power"[311] observed by postmodern historians after the British philosopher Jeremy Bentham of the eighteenth-century Enlightenment period, when many principles of Anglo-American law were enunciated. To assure "the automatic functioning of power . . . Bentham laid down the principle that power should be visible and unverifiable."[312] Foreshadowing deterrence by apparently arbitrary audit selection techniques (of the sort bemoaned by Commissioner Rossotti above), Bentham suggested that a subject "must never know whether he is being looked at at any one moment; but he must be sure that he may always be so."[313]

307 *See infra* vol. 1, Most Serious Problem: *The IRS Needs to Accommodate Changing Taxpayer Demographics*.

308 National Taxpayer Advocate 2010 Annual Report to Congress 15 (Most Serious Problem: *The IRS Mission Statement Does Not Reflect the Agency's Increasing Responsibilities for Administering Social Benefits Programs*).

309 Table 1, Income Tax Demographic History (reflecting income tax returns but not, in the first half-century, excise tax workload, which would have been measured more accurately by gallons, pounds, or warehouses, as the case may be, rather than returns).

310 Tax complexity deserves its own history, yet suffice it to say that simplification has been a concern at least since mid-century, an impetus behind TRA 86, and an imperative in the last decade. *See* Paul, Taxation in the U.S. at 379-92; Dep't of the Treas., Tax Reform for Fairness, Simplicity, and Economic Growth (1984); Pres. Advisory Panel on Fed. Tax Reform, *Simple, Fair, and Pro-Growth: Proposals to Fix America's Tax System* (Nov. 2005); *The Moment of Truth: Rep't of the Nat'l Comm. on Fiscal Responsibility & Reform* (Dec. 2010); National Taxpayer Advocate 2004 Annual Report to Congress 2 (Most Serious Problem: *The Confounding Complexity of the Tax Code*); National Taxpayer Advocate 2008 Annual Report to Congress 3 (Most Serious Problem: *The Complexity of the Tax Code*); National Taxpayer Advocate 2010 Annual Report to Congress 3 (Most Serious Problem: *The Time for Tax Reform Is Now*).

311 Michel Foucault, Discipline & Punish (NY: Vintage Books, 1979) 199.

312 Foucault, Discipline & Punish 201.

313 *Id*.

On the contrary, Commissioner Rossotti had welcomed the enactment of RRA 98 with an insistence "on fairness and accountability throughout the agency."[314] To achieve this, he had offered "a flatter management structure that will foster better communication."[315] For Commissioner Rossotti, the promise of modernized technology and management was to "de-mystify the audit process."[316]

Nevertheless, a sort of "automatic functioning of power" pervaded tax administration. In particular, "tax policies and procedures applied using automated systems and software applications" escaped not only publication but internal verification.[317] Unlike rules and regulations subject to a promulgation protocol for application on a case-by-base basis, IRS guidance programmed into computer systems generated results like an automaton, without the intervention of human judgment.[318]

Human judgment would become all the more important in the face of the demographic diversity of today's taxpayer population.[319] History poses a question whether steadily increasing volume can be addressed simply by mass production, which presumably would work if taxpayers were uniform, or if increased diversity along with increased volume raises qualitatively different challenges.

VI. Conclusion

Legislatively, the last 98 years of federal income taxation fell into four periods from enactment in 1913, to codification in 1939, recodification in 1954, and recodification with reform in 1986. In the first quarter-century, income tax was a concern largely to wealthy, white businessmen, doctors, and lawyers, who dealt with their Collectors, who in turn were locally prominent political appointees. All this changed during the second phase, when the exigency of World War II transformed the income tax into a mass revenue generator, popularized by a forward-leaning Treasury. The old-fashioned infrastructure of the BIR proved too quaint and prone to corruption for the modern regime, which reorganized the IRS into a machine controlled from Washington, D.C. The 1952 reorganization marked a shift from local to centralized tax administration, embodied in Service Centers. Automation carried out in Service Centers across the country continued apace through the third period until burning out in a tragic failure of technology and management in 1985. Thus sobered, the last quarter century brought increased oversight to the IRS, personified by the National Taxpayer Advocate, Treasury Inspector General for Tax Administration, and IRS Oversight Board. Nevertheless, an inevitable modernization of computers with their promise of

314 *IRS Oversight* at 197.

315 *Id*. at 200-201.

316 *Id*. at 201.

317 National Taxpayer Advocate 2010 Annual Report to Congress 71 (Most Serious Problem: *IRS Policy Implementation Through Systems Programming Lacks Transparency and Precludes Adequate Review*).

318 National Taxpayer Advocate 2010 Annual Report to Congress 75 (contending "Automation is not a substitute for an employee's independent judgment and discretion.")

319 *See infra* vol. 1, *Introduction to Diversity Issues: The IRS Should Do More to Accommodate Changing Taxpayer Demographics*.

efficiency overshadowed old-fashioned staff with human judgment. Meanwhile, the tax system was increasingly characterized by complexity, especially after the Second World War. At the same time, the perennial temptation of tax expenditures effectively charged the tax collector, who since mid-century had been the face of government to the populace, with socio-economic benefit administration. Assuming the duties on both sides of the fisc of disbursement, in effect, through tax rebates and refundable credits, as well as revenue collection, the IRS in the electronic age had become a fiscal automaton.

Appendix 1. Form 1040, *Return of Annual Net Income of Individuals* (1913)

TO BE FILLED IN BY COLLECTOR.

List. No. ....

.... *District of* ....

Date received ....

Form 1040.

INCOME TAX.

THE PENALTY
FOR FAILURE TO HAVE THIS RETURN IN THE HANDS OF THE COLLECTOR OF INTERNAL REVENUE ON OR BEFORE MARCH 1 IS $20 TO $1,000.
(SEE INSTRUCTIONS ON PAGE 4.)

TO BE FILLED IN BY INTERNAL REVENUE BUREAU.

File No. ....

Assessment List ....

Page .... *Line* ....

UNITED STATES INTERNAL REVENUE.

RETURN OF ANNUAL NET INCOME OF INDIVIDUALS.

(As provided by Act of Congress, approved October 3, 1913.)

RETURN OF NET INCOME RECEIVED OR ACCRUED DURING THE YEAR ENDED DECEMBER 31, 191 ....
(FOR THE YEAR 1913, FROM MARCH 1, TO DECEMBER 31.)

Filed by (or for) .... *of* ....
(Full name of individual.) (Street and No.)

in the City, Town, or Post Office of .... *State of* ....
(Fill in pages 2 and 3 before making entries below.)

1. Gross Income (see page 2, line 12)	$
2. General Deductions (see page 3, line 7)	$
3. Net Income	$

Deductions and exemptions allowed in computing income subject to the normal tax of 1 per cent.

4. Dividends and net earnings received or accrued, of corporations, etc., subject to like tax. (See page 2, line 11) . . .	$	
5. Amount of income on which the normal tax has been deducted and withheld at the source. (See page 2, line 9, column A)		
6. Specific exemption of $3,000 or $4,000, as the case may be. (See Instructions 3 and 19)		
Total deductions and exemptions. (Items 4, 5, and 6)		$
7. Taxable Income on which the normal tax of 1 per cent is to be calculated. (See Instruction 3) .		$

8. When the net income shown above on line 3 exceeds $20,000, the additional tax thereon must be calculated as per schedule below:

	INCOME.	TAX.
1 per cent on amount over $20,000 and not exceeding $50,000 . .	$	$
2 " " 50,000 " " 75,000 . .		
3 " " 75,000 " " 100,000 . .		
4 " " 100,000 " " 250,000 . .		
5 " " 250,000 " " 500,000 . .		
6 " " 500,000		
Total additional or super tax		$
Total normal tax (1 per cent of amount entered on line 7) . .		$
Total tax liability		$

2

GROSS INCOME.

This statement must show in the proper spaces the entire amount of gains, profits, and income received by or accrued to the individual from all sources during the year specified on page 1.

DESCRIPTION OF INCOME.	A. Amount of income on which tax has been deducted and withheld at the source.	B. Amount of income on which tax has NOT been deducted and withheld at the source.
1. Total amount derived from salaries, wages, or compensation for personal service of whatever kind and in whatever form paid	$	$
2. Total amount derived from professions, vocations, businesses, trade, commerce, or sales or dealings in property, whether real or personal, growing out of the ownership or use of interest in real or personal property, including bonds, stocks, etc.		
3. Total amount derived from rents and from interest on notes, mortgages, and securities (other than reported on lines 5 and 6)		
4. Total amount of gains and profits derived from partnership business, whether the same be divided and distributed or not		
5. Total amount of fixed and determinable annual gains, profits, and income derived from interest upon bonds and mortgages or deeds of trust, or other similar obligations of corporations, joint-stock companies or associations, and insurance companies, whether payable annually or at shorter or longer periods		
6. Total amount of income derived from coupons, checks, or bills of exchange for or in payment of interest upon bonds issued in *foreign countries* and upon *foreign mortgages* or like obligations (not payable in the United States), and also from coupons, checks, or bills of exchange for or in payment of any dividends upon the stock or interest upon the obligations of foreign corporations, associations, and insurance companies engaged in business in foreign countries		
7. Total amount of income received from fiduciaries		
8. Total amount of income derived from any source whatever, not specified or entered elsewhere on this page		
9. TOTALS		

NOTES.—Enter total of Column A on line 5 of first page.

10. AGGREGATE TOTALS OF COLUMNS A AND B	$
11. Total amount of income derived from dividends on the stock or from the net earnings of corporations, joint-stock companies, associations, or insurance companies subject to like tax (To be entered on line 4 of first page.)	$
12. TOTAL **"Gross Income"** (to be entered on line 1 of first page)	$

3

GENERAL DEDUCTIONS.

1. The amount of necessary expenses actually paid in carrying on business, but not including business expenses of partnerships, and not including personal, living, or family expenses .	$			
2. All interest paid within the year on personal indebtedness of taxpayer				
3. All national, State, county, school, and municipal taxes paid within the year (not including those assessed against local benefits)				
4. Losses actually sustained during the year incurred in trade or arising from fires, storms, or shipwreck, and not compensated for by insurance or otherwise				
5. Debts due which have been actually ascertained to be worthless and which have been charged off within the year				
6. Amount representing a reasonable allowance for the exhaustion, wear, and tear of property arising out of its use or employment in the business, not to exceed, in the case of mines, 5 per cent of the gross value at the mine of the output for the year for which the computation is made, but no deduction shall be made for any amount of expense of restoring property or making good the exhaustion thereof, for which an allowance is or has been made . . .				
7. Total "GENERAL DEDUCTIONS" (to be entered on line 2 of first page)				

AFFIDAVIT TO BE EXECUTED BY INDIVIDUAL MAKING HIS OWN RETURN.

I solemnly swear (or affirm) that the foregoing return, to the best of my knowledge and belief, contains a true and complete statement of all gains, profits, and income received by or accrued to me during the year for which the return is made, and that I am entitled to all the deductions and exemptions entered or claimed therein, under the Federal Income-tax Law of October 3, 1913.

Sworn to and subscribed before me this ....

day of ...., 191

....
(Signature of individual.)

SEAL OF OFFICER TAKING AFFIDAVIT.

....

....
(Official capacity.)

AFFIDAVIT TO BE EXECUTED BY DULY AUTHORIZED AGENT MAKING RETURN FOR INDIVIDUAL.

I solemnly swear (or affirm) that I have sufficient knowledge of the affairs and property of .... to enable me to make a full and complete return thereof, and that the foregoing return, to the best of my knowledge and belief, contains a true and complete statement of all gains, profits, and income received by or accrued to said individual during the year for which the return is made, and that the said individual is entitled, under the Federal Income-tax Law of October 3, 1913, to all the deductions and exemptions entered or claimed therein.

Sworn to and subscribed before me this ....

....
(Signature of agent.)

day of ...., 191

ADDRESS IN FULL { ....
....

SEAL OF OFFICER TAKING AFFIDAVIT.

....

....
(Official capacity.)

[SEE INSTRUCTIONS ON BACK OF THIS PAGE.]

Demographic History

4

INSTRUCTIONS.

1. This return shall be made by every citizen of the United States, whether residing at home or abroad, and by every person residing in the United States, though not a citizen thereof, having a *net income* of $3,000 or over for the taxable year, and *also* by every *nonresident alien* deriving income from property owned and business, trade, or profession carried on *in the United States* by him.

2. When an individual by reason of minority, sickness or other disability, or absence from the United States, is unable to make his own return, it may be made for him by his *duly authorized* representative.

3. The *normal tax* of 1 per cent shall be assessed on the total net income less the specific exemption of $3,000 or $4,000 as the case may be. (For the year 1913, the specific exemption allowable is $2,500 or $3,333.33, as the case may be.) If, however, the normal tax has been deducted and withheld on any part of the income at the source, or if any part of the income is received as dividends upon the stock or from the net earnings of any corporation, etc., which is taxable upon its net income, such income shall be deducted from the individual's total *net income* for the purpose of calculating the amount of income on which the individual is liable for the normal tax of 1 per cent by virtue of this return. (See page 1, line 7.)

4. The *additional or super tax* shall be calculated as stated on page 1.

5. This return shall be filed with the Collector of Internal Revenue for the district in which the individual resides if he has no other place of business, otherwise in the district in which he has his *principal place of business;* or in case the person resides in a foreign country, then with the collector for the district in which his principal business is carried on in the United States.

6. This return must be filed on or before the first day of March succeeding the close of the calendar year for which return is made.

7. The *penalty for failure to file the return within the time specified by law* is $20 to $1,000. In case of refusal or neglect to render the return within the required time (except in cases of sickness or absence), 50 per cent shall be added to amount of tax assessed. In case of *false or fraudulent return,* 100 per cent shall be added to such tax, and any person required by law to make, render, sign, or verify any return who makes any false or fraudulent return or statement with intent to defeat or evade the assessment required by this section to be made shall be guilty of a misdemeanor, and shall be fined not exceeding $2,000 or be imprisoned not exceeding one year, or both, at the discretion of the court, with the costs of prosecution.

8. When the return is not filed within the required time by reason of sickness or absence of the individual, an extension of time, not exceeding 30 days from March 1, within which to file such return, *may be* granted by the collector, *provided* an application therefor is made by the individual within the period for which such extension is desired.

9. This return properly filled out must be made under oath or affirmation. Affidavits may be made before any officer *authorized by law* to administer oaths. If before a justice of the peace or magistrate; not using a seal, a *certificate of the clerk of the court as to the authority* of such officer to administer oaths should be *attached to the return.*

10. Expense for medical attendance, store accounts, family supplies, wages of domestic servants, cost of board, room, or house rent for family or personal use, *are not expenses that can be deducted from gross income.* In case an individual owns his own residence he can not deduct the estimated value of his rent, neither shall he be required to include such estimated rental of his home as income.

11. The farmer, in computing the net income from his farm for his annual return, shall include all moneys received for produce and animals sold, and for the wool and hides of animals slaughtered, provided such wool and hides are sold, and he shall deduct therefrom the sums actually paid as purchase money for the animals sold or slaughtered during the year.

When animals were raised by the owner and are sold or slaughtered he shall not deduct their value as expenses or loss. He may deduct the amount of money actually paid as expense for producing any farm products, live stock, etc. In deducting expenses for repairs on farm property the amount deducted must not exceed the amount actually expended for such repairs during the year for which the return is made. (See page 3, item 6.) The cost of replacing tools or machinery is a deductible expense to the extent that the cost of the new articles does not exceed the value of the old.

12. In calculating losses, only such losses as shall have been actually sustained and the amount of which has been definitely ascertained during the year covered by the return can be deducted.

13. Persons receiving fees or emoluments for professional or other services, as in the case of physicians or lawyers, should include all actual receipts for services rendered in the year for which return is made, together with all unpaid accounts, charges for services, or contingent income due for that year, if good and collectible.

14. Debts which were contracted during the year for which return is made, but found in said year to be worthless, may be deducted from gross income for said year, but such debts can not be regarded as worthless until after legal proceedings to recover the same have proved fruitless, or it clearly appears that the debtor is insolvent. If debts contracted prior to the year for which return is made were included as income in return for year in which said debts were contracted, and such debts shall subsequently prove to be worthless, they may be deducted under the head of losses in the return for the year in which such debts were charged off as worthless.

15. Amounts due or accrued to the individual members of a partnership from the net earnings of the partnership, whether apportioned and distributed or not, shall be included in the annual return of the individual.

16. United States pensions shall be included as income.

17. Estimated advance in value of real estate is not required to be reported as income, unless the increased value is taken up on the books of the individual as an increase of assets.

18. Costs of suits and other legal proceedings arising from ordinary business may be treated as an expense of such business, and may be deducted from gross income for the year in which such costs were paid.

19. An unmarried individual or a married individual not living with wife or husband shall be allowed an exemption of $3,000. When husband and wife live together they shall be allowed jointly a total exemption of only $4,000 on their aggregate income. They may make a joint return, both subscribing thereto, or if they have separate incomes, they may make separate returns; but in no case shall they jointly claim more than $4,000 exemption on their aggregate income.

20. In computing net income there shall be excluded the compensation of all officers and employees of a State or any political subdivision thereof, except when such compensation is paid by the United States Government.

Appendix 2. Form 1040, *Individual Income Tax Return* (1917)

Form 1040 (Revised January, 1918)—United States Internal Revenue

Page 1

INDIVIDUAL INCOME TAX RETURN FOR CALENDAR YEAR 1917

INSTRUCTIONS

1. Persons Required to Make a Return of Net Income.

Every citizen of the United States, whether residing at home or abroad, and every person residing in the United States, though not a citizen thereof, whose net income for the calendar year 1917 (see Item O, page 4) amounted to $1,000 if the individual is single or does not live with wife (or husband) or $2,000 if he is married and lives with wife (or husband), is required to make a return.

If the combined income of husband and wife, living together, and dependent children equaled or exceed $2,000, all such income must be reported, either on one return or on separate returns. Husband and wife should make separate returns if either is subject to surtax (see instruction 6).

Executors and administrators of the estates of deceased persons must make returns covering the part of the taxable year during which such persons were alive, and also returns for the estates during the period of settlement. If the income of a trust estate was distributed, the fiduciary should get a copy of Form 1041 and comply with the instructions thereon. If the income from a trust estate was not distributed, the fiduciary must make a return for the estate on this form.

Guardians must make returns for their wards. Duly authorized agents may make returns for persons who by reason of sickness or other disability or absence from the United States are unable to make their own returns.

2. Income Exempt from Tax.

The following kinds of income need not be reported on this return:

(a) Proceeds of life-insurance policies paid to individual beneficiaries upon death of the insured.

(b) The amount received by the insured as a return of premium or premiums paid by him under life insurance, endowment, or annuity contracts, either during the term or at the maturity of the term mentioned in the contract, or upon the surrender of the contract.

(c) The value of property acquired by gift, bequest, devise, or descent (but the income from such property should be included as income).

(d) Interest upon the obligations of a State or any political subdivision thereof.

(e) Interest upon the obligations of the United States, except, in the case of such obligations issued since September 1, 1917, upon the amount by which an individual's holdings exceed $5,000 par value.

(f) Interest upon obligations of the possessions of the United States.

(g) Interest upon securities issued under the provisions of the Federal Farm Loan Act of July 17, 1916.

(h) The compensation of all officers and employees of a State, or any political subdivision thereof, except when such compensation is paid by the United States Government.

3. Personal Exemption.

A single person or a married person not living with wife or husband and having no dependents is entitled to a personal exemption of $1,000.

A married person living with wife or husband, or a head of family, is entitled to a personal exemption of $2,000, plus $200 for each child dependent upon him or her, if under 18 years of age or incapable of self-support because mentally or physically defective.

A "head of family" is a person who in accordance with some moral or legal obligation actually supports and maintains one or more individuals closely related to him or her by blood, marriage, or adoption.

The amount by which the net income exceeds the foregoing exemption is subject to a normal tax of 2 per cent under the act of October 3, 1917. further exemption of $2,000 is allowed before computing the normal tax of 2 per cent imposed by the act of September 8, 1916.

If a husband and wife make separate returns, their total exemption may be claimed by either (but not by both), or it may be divided between them.

The exemption is determined by the individual's status on December 31, 1917. A deceased individual's exemption is determined by his status at the time of his death.

An estate or trust paying income tax is entitled to an exemption of $1,000.

4. Tax Withheld at Source.

No credit should be claimed in this return for tax withheld on any income except 2 per cent of the interest on tax-free-covenant bonds (see Item 31, page 4). If tax on any other income has been withheld (except from nonresident aliens), the law provides that it shall be paid over by the withholding agent to the person from whom it was withheld.

5. Basis of Return of Income.

This return must show the income actually received and expenses actually paid during the year, unless the taxpayer keeps accounts (available for examination by internal revenue officers) showing income accrued and expenses incurred.

6. Surtax.

If your total net income (Item O, page 4) exceeds $5,000 you are subject to a surtax on the amount of net income in excess of $5,000 at a rate dependent on the amount of your total net income. To compute the amount of surtax, use the table and instructions at the bottom of this page.

7. Excess Profits Taxes.

If your net income reported under A on page 3 exceeded $6,000, you are subject to an excess profits tax at the rate of 8 per cent on the amount by which the net total under A exceeds $6,000.

If your total net income from all sources exceeded $6,000 and you received any income from a trade or business with invested capital, you should get a copy of the excess profits tax return (Form 1101), and calculate the amount of your tax, if any, as directed therein.

Enter the amounts of your excess profits taxes, if any, as Items 34 and 35, page 4, and their total as Item L, page 4.

For further instructions, see the Excess Profits Tax Regulations.

8. Affidavit.

The affidavit must be executed by the person whose income is reported unless he is a minor or unless he is ill, absent from the country, or otherwise incapacitated, in which case an agent may execute the affidavit.

The oath will be administered without charge by any collector or deputy collector of internal revenue or (if you are in the military or naval service of the United States) by any military or naval officer who is authorized to administer oaths for purposes of military or naval justice and administration. If you are not in the military or naval service and an internal revenue officer is not available, the return should be sworn to before a notary public, justice of the peace, or other person authorized to administer oaths.

It is not necessary to show the statement of net income or of tax due to the officer who administers the oath.

9. What Form Should be Used.

An individual whose net income for 1917 did not exceed his personal exemption by more than $2,000, and also did not exceed $5,000, may use the smaller return form (1040-A) instead of this form (1040). For copies of Form 1040-A or additional copies of Form 1040, inquire of your collector of internal revenue or at your post office or bank.

10. When the Return Must be Made.

This return must reach the collector's office on or before March 1, 1918.

The collector of internal revenue may, in case of sickness or absence of the individual, grant an extension of time not exceeding 30 days from March 1, 1918, provided a written application therefor is made within the period for which such extension may be granted.

The Commissioner of Internal Revenue is authorized to grant a reasonable extension of time for any reason he considers adequate.

11. Where the Return Should be Sent.

The return should be delivered or mailed to the collector of internal revenue for the district in which the individual resides.

If the individual has no residence in the United States the return should be sent to the collector for the district in which his principal business is carried on in the United States.

If the individual has neither residence nor place of business in the United States, the return should be sent to the collector of internal revenue at Baltimore, Md.

It is suggested that a copy of the return be retained.

12. When and to Whom Tax Must be Paid.

You may pay your tax by sending cash, check, or money order with this return to the collector of internal revenue.

You must pay it on or before June 15, 1918, to the collector to whom the return is sent.

13. Information at Source.

Every individual, firm, or corporation who during 1917 paid to another person salary, wages, interest, commissions, rentals, etc., of $800 or more, is required to make a true and accurate return to the Commissioner of Internal Revenue showing the nature and source of such payments and the name and address of the person receiving them. Forms for reporting such information will be furnished by any collector of internal revenue.

TABLE FOR COMPUTATION OF SURTAX ON NET INCOME (Item O, Page 4) IN EXCESS OF $5,000.

INSTRUCTIONS.

To compute amount of surtax due on any amount of net income in excess of $5,000: First, find in Column A the largest sum which is less than the amount of the total net income reported on the return; then find in Column E the corresponding amount of total surtax. To this amount add an amount computed as follows:

Subtract from the net income the sum found in Column A and multiply the remainder by the rate shown on the next line below in Column C.

The sum of these two amounts is the total surtax due.

For example, the surtax on a net income of $22,500 is computed below:

1. Largest sum in Column A which is less than the amount of the total net income	*$20,000*
2. Total surtax thereon shown in Column E	*500*
3. Remainder of net income after subtracting Item 1, above . .	*2,500*
4. Surtax on this remainder at rate (8%) shown in Column C on line below that from which Item 1 was taken	*200*
5. Total surtax due (sum of Items 2 and 4)	*700*

Amount of net income.	Amount subject to surtax at rate shown in Column C.	Rate.	Amount of surtax at each rate.	Total surtax on each amount.
A	B	C	D	E
$5,000	$ 000	0%	$00	$00
7,500	2,500	1%	25	25
10,000	2,500	2%	50	75
12,500	2,500	3%	75	150
15,000	2,500	4%	100	250
20,000	5,000	5%	250	500
40,000	20,000	8%	1,600	2,100
60,000	20,000	12%	2,400	4,500
80,000	20,000	17%	3,400	7,900
100,000	20,000	22%	4,400	12,300
150,000	50,000	27%	13,500	25,800
200,000	50,000	31%	15,500	41,300
250,000	50,000	37%	18,500	59,800
300,000	50,000	42%	21,000	80,800
500,000	200,000	46%	92,000	172,800
750,000	250,000	50%	125,000	297,800
1,000,000	250,000	55%	137,500	435,300
1,500,000	500,000	61%	305,000	740,300
2,000,000	500,000	62%	310,000	1,050,300
Over 2,000,000	....	63%	....	....

COMPUTATION.

1. Largest sum in Column A which is less than the amount of the total net income . . $ ....
2. Total surtax thereon shown in Column E . $ ....
3. Remainder of net income after subtracting Item 1, above . . . . $ ....
4. Surtax on this remainder at rate (8%) shown in Column C on line below that from which Item 1 was taken . . . . $ ....
5. Total surtax due (sum of Items 2 and 4). . $ ....

This total (Item 5) should be entered as Item 33, page 4.

PENALTIES.

For failing to make return on time.—Not less than $20 nor more than $1,000, and, in addition, 50 per cent of the amount of tax due.

For making false or fraudulent return.—Not exceeding $2,000 or not exceeding one year's imprisonment, or both, in the discretion of the court, and 100 per cent of the tax due.

For failing to pay tax on time.—Five per cent of the amount of tax due and 1 per cent interest for each full month during which the tax remains unpaid.

This return must reach the Collector of Internal Revenue at .... , or his deputy, on or before MARCH 1, 1918.

Page 2

DETAILS OF TAXABLE INCOME

All income must be reported gross, except income received from partnerships or through fiduciaries, which should be reported net.

Income of any kind amounting to $800 or more received from any one source, or any income regardless of amount received from a partnership or through a fiduciary, should be reported separately, together with the name and address of the person, association, corporation, partnership, or fiduciary from whom received.

Your share of partnership profits should be reported under H, page 4, except the part of such profits which was originally derived (1) from interest on obligations of the United States issued since September 1, 1917, held by the partnership in excess of $5,000 par value (to be entered under E); (2) from dividends on stock of domestic and resident corporations (to be entered under F); and (3) from interest on securities not subject to Federal income tax.

If the partnership's fiscal year differs from the calendar year so that a part of the fiscal year fell within the calendar year 1916, a proportionate part of your share of the partnership profits for the fiscal year (with the exceptions noted), assignable to the calendar year 1916 should be entered under H in the column for deductions, and the balance in the final column. The total of these two amounts should be entered in the column for "Gross income." For normal tax, partnership profits assignable to 1916 but received in 1917 should be added to Item 27, page 4. For surtax, they should be added to dividends (if any) accumulated in 1916, and treated as directed for such dividends under F, below. Dividends received through a partnership should be reported (like other dividends) under F for the year in which accumulated, regardless of the fiscal year of the partnership.

If income reported on this return was received by wife (or husband), or child, enter it in the same manner as your own income and write the word "wife," "husband," or "child," on the line on which the income is reported.

If this form has not space enough for all entries, make additional entries on a separate sheet of paper and attach it securely to page 3 or 4.

A. INCOME FROM SALARIES, WAGES, COMMISSIONS, BONUSES, DIRECTORS' FEES, AND PENSIONS, AND FROM PROFESSIONS.

Salaries, wages, etc., paid by States or political subdivisions thereof and gifts not forming part of your compensation for services rendered should not be reported.

Expenses charged against your compensation or professional income should be explained on the blank lines marked "Explanation of deductions."

State whether the salaries, etc., were received by yourself, wife (or husband), or child.

Brokers and commission merchants should report their income under B if they buy and sell on their own account, advance money to their customers, or in any way use more than a nominal capital in their business.

B. INCOME FROM BUSINESS (INCLUDING FARMING).

Report income under B only if you are engaged in farming or in business for yourself. Do not report here your share of partnership profits.

Report under C sales of land, buildings, equipment, stocks, bonds, and other property not connected with your regular business, and sales of your business plant and equipment.

If you have a complete profit and loss statement, showing all the information called for under "Cost of goods sold" and "Other business deductions," you may attach it to page 3 of this return and enter the amount of net income under B, page 3.

Gross sales and income from business services.—Individuals deriving income from the sale of merchandise or of products of farming, manufacturing, mining, or construction should report the total amount of such sales less any discounts or allowances from the sale price. Income from business services such as transportation, storage, etc., carried on with invested capital, should also be reported here.

Cost of goods sold.—If you make inventories of merchandise or securities, state under "Explanations" the basis on which such inventories are made; that is, whether (a) at cost or (b) at cost or market value, whichever is lower.

If in your books of account you do not regularly inventory unsold goods or securities on hand, make no entries referring to inventories, but use one of the following methods:

(1) Report as cost of goods sold the total cost of goods purchased or produced during the year. This method may be used by manufacturers and dealers in merchandise, but not by dealers in real estate or securities.

(2) Report the cost of the particular articles sold during the year, in accordance with the instructions under C. This method may be used by dealers in real estate and securities.

Taxes.—See instructions under J, below.

Repairs.—Ordinary repairs, required to keep property in usable condition, are deductible. Replacements, on the other hand, may not be deducted, unless no deduction for wear and tear or depreciation has been claimed. Expenditures for permanent improvements are not deductible under this or any other heading.

This item should be explained in the table at the bottom of page 3.

Wear and tear.—A deduction may be claimed on account of wear and tear or depreciation during the year of property used exclusively in business or trade, only to the extent that such wear and tear or depreciation is not covered by deductions claimed in this return or in previous returns for repairs, replacements, and losses. The amount claimed for wear and tear or depreciation should not exceed the original cost of the property divided by its total estimated life in years. When the amount of depreciation allowed equals the cost of the property, no further claim should be made.

Do not claim any deduction for depreciation in the value of a building occupied by the owner as his dwelling, or of other property held for personal use. Do not claim any deduction for depreciation of real estate (exclusive of improvements thereon), nor for depreciation of stocks, bonds, and other securities.

This item should be explained in the table at the bottom of page 3.

Depreciation of patents, copyrights, etc., and depletion of mines, etc.—If you wish to claim a deduction on account of depreciation in the value of patents, copyrights, franchises, and other legal privileges, or on account of depletion of mines and oil and gas wells, see paragraphs 7 and 8, section 5a, of the act of September 8, 1916, and the regulations thereunder, or communicate with your collector of internal revenue.

Property losses.—Report only losses of property used in your business or trade from fire, storm, shipwreck, or other casualty, or theft, not covered by issuance and not offset by repairs or replacements reported. The property lost should be valued at cost less depreciation to date of loss.

Any such losses of property not used in your business, such as your dwelling or household furniture, should be reported under J, "Other deductions," on page 4.

Do not report any losses for which a claim against an insurance company is pending. Wait until the claim is settled and deduct from the cost of the property, less depreciation, the amount of insurance collected. Report the net loss, if any, in the return of income for the year in which the settlement by the insurance company is made.

This item should be explained in the table at the bottom of page 3.

Bad debts.—Report only debts which you have ascertained to be worthless and have charged off during the year.

A bad debt offsetting income accrued since March 1, 1913, will not be allowed as a deduction unless the amount was reported as income for the year in which the debt was created.

State under "Explanations" how the debts were ascertained to be worthless. Insolvency of the debtor, inability to collect by legal proceedings, or inability of debtor to pay, ascertained by a mercantile agency, would be a sufficient indication of worthlessness.

If at any future time a debt charged off as worthless and allowed as a deduction is collected the amount collected must be returned as income for the year in which received.

Unpaid debts are not deductible if made good by recovery of property sold or retention of property pledged.

Bad debts arising out of personal loans should be reported under J, "Other deductions."

Other expenses.—Do not include any personal, living, or family expenses.

Do not deduct interest on your own investment in your business or farm, or salary for your own services or services of your family, unless these items are entered as income elsewhere on this return or in other returns.

C. PROFITS FROM SALE OF REAL ESTATE, STOCKS, BONDS, AND OTHER PROPERTY.

Sales connected with your regular business should be reported under B, unless they would thereby become confused with sales of merchandise whose cost is computed by a different method (see "Cost of goods sold," under B, above).

If the profits or losses on sales made through any one broker aggregated $800 or more, report the transactions on a separate line with the name and address of the broker.

Kind of property.—Describe the property as definitely as you can in a word or two, as "farm," "dwelling," "stocks," "bonds," etc.

Cost.—If the property was acquired before March 1, 1913, report the estimated market value on that date instead of the cost and explain the basis of your estimate.

Expenses incidental to the purchase of property may be included in the cost if never claimed in income-tax returns as a deduction from income.

Losses.—If total cost of all property sold exceeded total sale price, the loss will not be allowed as a deduction unless the sales out of which the loss arose were connected with your regular business. If a deduction is claimed on account of losses reported under C, explain what connection the sales had with your regular business and enter the amount of the loss under J, "Other deductions."

D. INCOME FROM RENTS AND ROYALTIES.

Kind of property.—Describe briefly, as "farm," "dwelling," "mine," and also state kind of material of which buildings (if any) are constructed as "brick" or "wood."

Amount of rent.—If tenant rents your farm on a cash rental basis, state the amount of the rent, whether paid in cash or in crops. If he works it on shares, report your share as income in your return for the year in which it is sold.

Repairs, wear and tear, and property losses.—See instructions relating to repairs, wear and tear, depreciation of patents, copyrights, etc., depletion of mines, etc., and property losses under B above.

E. INTEREST ON BONDS AND OTHER OBLIGATIONS OF THE UNITED STATES ISSUED SINCE SEPTEMBER 1, 1917.

Exemption.—No return should be made of interest on any amount of such obligations up to and including $5,000, par value, owned by one individual. The benefit of this exemption may be claimed in this return not only on behalf of the individual making this return, but also on behalf of wife, husband, or any member of the family owning such obligations whose income has been included in this return.

Interest paid.—If indebtedness has been incurred for the purchase of such obligations, find what percentage the amount of such obligations held in excess of $5,000 is of the total amount of such obligations held, and enter in column 5 the same percentage of the interest paid on the indebtedness.

F. DIVIDENDS ON STOCK OF CORPORATIONS ORGANIZED OR OPERATING IN THE UNITED STATES AND SUBJECT TO INCOME TAX.

Dividends which were paid out of profits or surplus accumulated by the distributing corporation prior to the year for which this return is made but not prior to March 1, 1913, should be reported under the year in which the profits or surplus was accumulated.

The amount of dividends paid out of profits or surplus accumulated in 1916 is subject to surtax at the rate or rates imposed by the act of September 8, 1916, on a corresponding amount of income in excess of the amount on Item O, page 4.

The sum of the amounts accumulated from March 1, 1913, to December 31, 1915, is subject to surtax at the rate or rates imposed by the act of October 3, 1913, on a corresponding amount of income in excess of the sum of Item O and the amount accumulated in 1916.

The amount of these surtaxes should be computed and entered on line 37, page 4. Otherwise an additional assessment will be made by the Commissioner of Internal Revenue.

G. INTEREST ON TAX-FREE-COVENANT BONDS ON WHICH ONE NORMAL TAX OF 2 PER CENT WAS WITHHELD AT SOURCE.

Report under G interest received on bonds of corporations organized or doing business in the United States, containing a clause by which the debtor corporation agrees to pay the interest without any deduction for taxes, provided exemption from withholding of the tax and payment thereof at the source was not claimed with respect to such interest. If exemption was claimed, the interest received must be reported under H, "Other income," on page 4.

H. OTHER INCOME.

Report under H interest received on bank deposits, notes, mortgages, etc., and all other income that is not reported elsewhere on this return, with the exceptions stated in instruction 2, page 1.

State each kind of income separately. (See also instructions at top of page.)

Income received from partnerships or through fiduciaries.—If taxable income other than that falling under E and F was received from a partnership or if taxable income other than that falling under E, F, and G was received through a fiduciary, enter the name of the partnership or fiduciary and the amount received on a separate line.

Deductions, if any.—Explain expenses claimed as deductions on any vacant lines or on a separate sheet of paper (to be attached securely to page 3 or 4 of the return).

J. GENERAL DEDUCTIONS.

Interest.—Interest on personal indebtedness is deductible except on indebtedness incurred for the purchase of obligations or securities the interest on which is exempt from taxation as income.

Taxes.—Do not report inheritance taxes, Federal income taxes, or taxes specially assessed for local improvements or betterments, such as roads, streets, sidewalks, sewers, etc.

Excess profits taxes, if any, should not be included under J, but should be reported as Item L, and also as Items 34 and 35, page 4.

Other deductions.—Do not include your personal exemption, which should be entered on line 21, page 4, or any personal, living, or family expenses.

If you wish to claim a deduction on account of losses of personal property or bad debts arising out of personal loans, see instructions under B, "Property losses," and "Bad debts."

If a net loss is reported under B, D, or H, or if an excess of interest paid is reported under E (in column 6), it may be claimed as a deduction. If a net loss reported under C is claimed as a deduction, explain how the transactions were connected with your business.

N. CONTRIBUTIONS.

The following are deductible: Contributions or gifts actually made within the year to corporations or associations organized and operated exclusively for religious, charitable, scientific, or educational purposes, or to societies for the prevention of cruelty to children or animals, no part of the net income of which inures to the benefit of any private stockholder or individual, to an amount not in excess of 15 per cent of your taxable net income as computed without deducting such contributions. Contributions to individuals are not deductible.

(SEE INSTRUCTIONS ON PAGE 2 UNDER CORRESPONDING HEADINGS)

DETAILS OF TAXABLE INCOME (INCLUDING INCOME OF WIFE (OR HUSBAND) AND DEPENDENT CHILDREN, IF NOT REPORTED ON SEPARTE RETURNS)

Page 3

WRITE "NONE" IN EACH BLOCK IN WHICH YOU HAVE NO INCOME TO REPORT

A. INCOME FROM SALARIES, WAGES, COMMISSIONS, BONUSES, DIRECTORS' FEES, AND PENSIONS, AND FROM PROFESSIONS.

1. By whom received.	2. Occupation or profession.	3. Name and address of employer or (if practicing a profession) office address.	4. Gross income.	5. Deductions, if any.	
			$	$	
NET INCOME FROM SALARIES, ETC. (total column 4 minus total column 5)			$	$	$

Explanation of deductions: ....

B. INCOME FROM BUSINESS (INCLUDING FARMING).

Kind of business .... Business address ....

GROSS SALES and income from business services . . . . . $

COST OF GOODS SOLD:		OTHER BUSINESS DEDUCTIONS:	
Labor	$	Salaries and wages not reported as "Labor" under "Cost of Goods Sold"	$
Materials and supplies		Rent	
Merchandise bought for sale		Interest on business indebtedness	
Other costs		Taxes on business and business property	
....		Repairs, wear and tear, and property losses (To be explained in table at bottom of page.)	
....		Bad debts arising from sales (see instructions)	
PLUS inventories at beginning of year		Other expenses (specify)	
TOTAL	$	....	
LESS inventories at end of year		....	
NET COST OF GOODS SOLD	$	TOTAL OTHER BUSINESS DEDUCTIONS	$

NET COST OF GOODS SOLD PLUS TOTAL OTHER BUSINESS DEDUCTIONS . . . . . $

NET INCOME FROM BUSINESS (INCLUDING FARMING) . . . . . $

Explanations: ....

C. PROFITS FROM SALE OF REAL ESTATE, STOCKS, BONDS, AND OTHER PROPERTY.

1. Kind of property.	2. Year acquired.	3. Name and address of purchaser or broker.	4. Sale price.	5. Original cost or market value March 1, 1913.	6. Cost of subsequent improvements, if any.	7. Depreciation previously allowed.
			$	$	$	$
TOTALS			$	$	$	$

NET PROFIT FROM SALES (total of columns 4 and 7 minus total of columns 5 and 6) . . . . . $ ....

Explanations: ....

D. INCOME FROM RENTS AND ROYALTIES.

1. Kind of property.	2. Name and address of tenant or lessee.	3. Amount of rent and royalties.	4. Repairs, wear and tear, and property losses.	5. Interest.	6. Taxes.	7. Other expenses.
		$	$	$	$	$
TOTALS		$	$	$	$	$

NET INCOME FROM RENTS AND ROYALTIES (total of column 3 minus total of columns 4, 5, 6, and 7) . . . . . $ ....

Explanations: ....

E. INTEREST ON BONDS AND OTHER OBLIGATIONS OF THE UNITED STATES ISSUED SINCE SEPTEMBER 1, 1917.

1. If not received directly, state name and address of partnership or fiduciary through whom received.	2. Amount of bonds or certificates.	3. Interest received on amount in excess of $5,000.	4. Indebtedness incurred for purchase of bonds or certificates.	5. Interest paid on proportionate part of such indebtedness.	6. Excess of interest paid, if any.	7. Excess of interest received, if any.
	$	$	$	$	$	$
TOTALS (Include total of column 7 (if any) in total net income on page 4. Enter total of column 6 (if any) under J, "Other deductions," on page 4.)		$		$	$	$

F. DIVIDENDS ON STOCK OF CORPORATIONS ORGANIZED OR OPERATING IN THE UNITED STATES AND SUBJECT TO INCOME TAX.

1. If not received directly state name of partnership or fiduciary through whom received.	2. Accumulated in 1913.	3. Accumulated in 1914.	4. Accumulated in 1915.	5. Accumulated in 1916.	6. Accumulated in 1917.
	$	$	$	$	$
TOTALS (include total of column 6 only in total net income on page 4)	$	$	$	$	$

EXPLANATION OF REPAIRS, WEAR AND TEAR (DEPRECIATION), AND LOSSES OF BUSINESS OR RENTAL PROPERTY, AND DEPLETION OF MINES, ETC.

1. Refer to "A," "B," or "D" above.	2. Kind of property. (If buildings, state also material of which constructed.)	3. Year acquired.	4. Cost of buildings or other property.	5. Repairs not covered by claims for wear and tear or losses.	Wear and tear (depreciation) and depletion charged off.			Losses not covered by insurance.	
					6. Rate.	7. Amount previous years.	8. Amount this year.	9. Cause of loss.	10. Amount of loss.
			$	$		$	$		$

Page 4

DETAILS OF TAXABLE INCOME (Concluded)

(SEE INSTRUCTIONS ON PAGE 2 UNDER CORRESPONDING HEADINGS)

TOTAL NET INCOME FROM SOURCES A, B, C, D, E, AND F, REPORTED ON PAGE 3 . . . $

G. INTEREST ON TAX-FREE-COVENANT BONDS (on which one normal tax of 2 per cent was withheld at source). 1. Gross income. 2. Deductions, if any.

NET INTEREST ON TAX-FREE-COVENANT BONDS (total column 1 minus total column 2) . . . $ $ $

H. OTHER INCOME (including income from partnerships and fiduciaries, except that reported under E, F, and G). 1. Gross income. 2. Deductions, if any.

Interest on bonds and other obligations of domestic and resident corporations (except as entered under G) . . . $ $ $

Interest on bonds of foreign countries and corporations and dividends on stock of foreign corporations . . .

Interest on notes, bank deposits, mortgages (except of corporations), and all other interest . . .

I. TOTAL NET INCOME FROM ALL SOURCES . . . $

J. GENERAL DEDUCTIONS NOT REPORTED ON PAGE 3 OR ABOVE (EXCEPT CONTRIBUTIONS—SEE N BELOW).

Interest on personal indebtedness . . . $

Taxes on dwelling and personal property, and other taxes not reported above (see instructions on page 2) . . .

Other deductions, except contributions (explain) . . .

TOTAL GENERAL DEDUCTIONS, EXCEPT CONTRIBUTIONS . . . $

K. TOTAL NET INCOME (WITHOUT DEDUCTING EXCESS PROFITS TAXES OR CONTRIBUTIONS) . . . $

L. LESS EXCESS PROFITS TAXES, IF ANY, FOR 1917 (see instructions on page 1 under "Excess profits taxes") . . .

M. TOTAL NET INCOME (WITHOUT DEDUCTING CONTRIBUTIONS) (K minus L) . . . $

N. CONTRIBUTIONS TO CHARITABLE ORGANIZATIONS, ETC. (Enter below name and address of each organization and amount paid to each.) $ $

TOTAL (not over 15 per cent of item M) . . . $

O. TOTAL NET INCOME ON WHICH INCOME TAX IS TO BE COMPUTED (M minus N) . . . $

CAUTION

Read all instructions.

Answer all questions.

If necessary, ask your Collector of Internal Revenue for assistance.

Form 1040 (Revised January, 1918)—UNITED STATES INTERNAL REVENUE

INDIVIDUAL INCOME TAX RETURN FOR CALENDAR YEAR 1917

(Write plainly. Give name in full.)

Made by (or for) ....

Home address ....

(Street and number or rural route.) (Post office and State.)

(IF NAME AND ADDRESS ARE FILLED IN AND EITHER IS INCORRECT, PLEASE CORRECT IT.)

(Do not write in this space.)
RECEIVED

LIST

Month	Page	Line

Audited by ....

1. Did you make a return for 1916? ....
2. If so, what address did you give on the return? ....
3. To what Collector's office was it sent? .... (Give district or city and State.)
4. Were you on December 31, 1917, married and living with wife (or husband)? ....
5. If not, were you head of a family as defined in instructions on page 1 under "Personal Exemption"? ....
6. How many dependent children under 18 (or mentally or physically incapacitated for self-support) had you on December 31, 1917? ....
7. If head of a family without dependent children, what was the relationship of those dependent upon you? ....
8. Did your wife (or husband) or dependent children derive income from sources independent of your own? ....
9. If so, is such income included in this return? ....
10. If not, was such income from a separate estate? ....
11. If a separate return has been made by (or for) wife (or husband) or dependent child, give full name and address entered at head of that return ....
12. If income of $800 or more received by wife (or husband) or dependent child is included in this return, give full name of each such person, and also address if different from that given at the head of this return ....
13. What address other than those already entered on this return did you give to employers or other persons, firms, or corporations who paid you $800 or more income during 1917? ....
14. Is this return made from books kept on other than a cash basis? ....
15. If so, were such books audited by a public accountant? ....
16. By whom? ....
17. Is this return based on that accountant's report? ....

18 Total net income on which income tax is to be computed (item O)	$	28 Normal tax of 2 per cent on amount of item 25 . . .	$
19 Less: Excess of interest received on obligations of United States issued since Sept. 1, 1917 (item E, total of column 7).		29 Additional normal tax of 2 per cent on amount of item 27 . .	
20 Dividends (item F, total of column 6) . . .		30 Total normal tax . . .	
21 Personal exemption (see instruction 3, page 1) . . .		31 Less tax withheld on tax-free-covenant bonds (2 per cent of net total of item G).	
22 Total of items 19, 20, and 21 . . .	$	32 Balance of normal tax due . . .	$
23 Balance (item 18 minus item 22) . . .	$	33 Surtax (see table on page 1) . . .	
24 Add excess of interest paid on indebtedness incurred for purchase of obligations of United States issued since Sept. 1, 1917 (item E, total of column 6)		34 Excess profits tax at rate of 8 per cent (see instruction 7, page 1)	
25 Amount subject to normal tax of 2 per cent under act Oct. 3, 1917	$	35 Excess profits tax on income from business with invested capital, as computed on excess profits tax return (Form 1101).	
26 Less additional exemption . . .	2 000 00	36 Total of items 32, 33, 34, and 35 . . .	$
27 Amount subject to normal tax of 2 per cent under act Sept. 8, 1916	$	37 Additional assessments and penalties (if any) . . .	$

I swear (or affirm) that this return, including the accompanying schedules (if any), to the best of my knowledge and belief, is a true and complete statement of all taxable gains, profits, and income received by .... (Enter "me" or name of person for whom return is made.) during the year 1917, and that .... (Enter "I am," "he is," or "she is.") entitled to all deductions and exemptions entered or claimed herein.

.... (If return is made by an agent, the reason therefor must be stated on this line.)

Sworn to and subscribed before me this .... day of ...., 1918.

.... (Signature of individual or agent.)

.... (Signature.) .... (Title.) .... (Address of agent.)

Appendix 3. Form 1040, *Individual Income Tax Return* (1942)

FORM 1040
Treasury Department
Internal Revenue Service

UNITED STATES
INDIVIDUAL INCOME TAX RETURN

Page 1
1942

OPTIONAL FORM 1040A MAY BE FILED INSTEAD OF THIS FORM IF GROSS INCOME IS REPORTED ON THE CASH BASIS FOR THE CALENDAR YEAR, IS NOT MORE THAN $3,000, AND CONSISTS *WHOLLY* OF SALARY, WAGES, OTHER COMPENSATION FOR PERSONAL SERVICES, DIVIDENDS, INTEREST OR ANNUITIES.

FOR CALENDAR YEAR 1942

or fiscal year beginning ...., 1942, and ending ...., 1943

PRINT NAME AND ADDRESS PLAINLY. (See Instruction C)

(Name) (Use given names of both husband and wife, if this is a joint return)

(Street and number, or rural route)

(Post office) (County) (State)

(Occupation) (Social Security number, if any)

(Name and address of employer)

(If more than one employer, attach statement showing name and address and amount received from each)

(Do not use these spaces)

File Code

Serial No.

District

(Cashier's Stamp)

Cash—Check—M. O.

First Payment

$

Item and Instruction No.

INCOME — Amount — *Deductible Expenses* (Attach itemized statement)

1. Salaries and other compensation for personal services, $........ $........ $
2. Dividends
3. Interest on bank deposits, notes, etc.
4. Interest on corporation bonds, etc. $........ *Less amortizable bond premium* $........
5. Interest on Government obligations, etc.:
   (*a*) From line (*h*), Schedule A $........ $........
   (*b*) From line (*i*), Schedule A $........ $........
6. Rents and royalties. (From Schedule B)
7. Annuities

ITEMS 8, 9, AND 10, BELOW (AND PAGES 3 AND 4) NEED NOT BE CONSIDERED UNLESS YOU HAVE INCOME (OR LOSSES) IN ADDITION TO ITEMS ABOVE.

8. (*a*) Net gain (or loss) from sale or exchange of capital assets. (From Schedule F)
   (*b*) Net gain (or loss) from sale or exchange of property other than capital assets. (From Schedule G)
9. Net profit (or loss) from business or profession. (From Schedule H)
   (State total receipts, from line 1, Schedule H, $................)
10. Income (or loss) from partnerships; fiduciary income; and other income. (From Schedule I)
11. Total income in items 1 to 10 $

DEDUCTIONS

12. Contributions paid. (Explain in Schedule C) $
13. Interest. (Explain in Schedule C)
14. Taxes. (Explain in Schedule C)
15. Losses from fire, storm, shipwreck, or other casualty, or theft. (Explain in Schedule C)
16. Bad debts. (Explain in Schedule C)
17. Other deductions authorized by law. (Explain in Schedule C)
18. Total deductions in items 12 to 17
19. Net income (item 11 minus item 18) $

COMPUTATION OF TAX

20. Net income (item 19 above) $
21. Less: Personal exemption. (From Schedule D–1) $
22. Credit for dependents. (From Schedule D–2)
23. Balance (surtax net income) $
24. Less: Item 5 (*a*) above $
25. Earned income credit. (From Schedule E–1 or E–2)
26. Balance subject to normal tax $
27. Normal tax (6% of item 26) $
28. Surtax on item 23. (See Instruction 28)
29. Total (item 27 plus item 28) $
30. Total tax (Item 29 or line 16, Schedule F) $
31. Less: Income tax paid at source $
32. Income tax paid to a foreign country or U. S. possession. (Attach Form 1116)
33. Balance of tax (Item 30 minus items 31 and 32) $

I/we declare, under the penalties of perjury, that this return (including any accompanying schedules and statements) has been examined by me/us, and to the best of my/our knowledge and belief is a true, correct, and complete return, made in good faith, for the taxable year stated, pursuant to the Internal Revenue Code and the regulations issued under authority thereof.

(Signature of person (other than taxpayer or agent) preparing return) (Date)

(Name of firm or employer, if any)

(Signature of taxpayer) (Date)

(If this is a joint return (not made by agent), it must be signed by both husband and wife) A return made by an agent must be accompanied by power of attorney. (See Instruction F)

16—24246-1

Page 2

Schedule A.—INTEREST ON GOVERNMENT OBLIGATIONS, ETC. (See Instruction 5)

1. Obligations or securities	2. Amount owned at end of year including your proportionate share of such obligations held by estates, trusts, partnerships, or common trust funds	3. Interest received or accrued during the year	4. Amount of principal, interest on which is exempt from taxation	5. Interest on amount in excess of exemption, and dividends subject to surtax only
(a) Obligations of a State, Territory, or political subdivision thereof, or the District of Columbia, or United States possessions	$	$	All	x x x x x x x x x x
(b) Obligations issued prior to March 1, 1941, under Federal Farm Loan Act, or under such Act as amended			All	x x x x x x x x x x
(c) Obligations of United States issued on or before September 1, 1917			All	x x x x x x x x x x
(d) Treasury Notes issued prior to December 1, 1940, Treasury Bills and Treasury Certificates of Indebtedness issued prior to March 1, 1941			All	x x x x x x x x x x
(e) United States Savings Bonds and Treasury Bonds issued prior to March 1, 1941			$5,000	$
(f) Obligations of instrumentalities of the United States (other than obligations to be reported in (b) above) issued prior to March 1, 1941			None	
(g) Dividends on share accounts in Federal savings and loan associations in case of shares issued prior to March 28, 1942	x x x x x x x x x x x x x x x	x x x x x x x x x x	x x x	
(h) Total (enter as item 5 (a), page 1)				$

	Amount owned at end of year	Interest received or accrued during the year (subject to normal tax and surtax)
(i) Treasury Notes issued on or after December 1, 1940, and obligations issued on or after March 1, 1941, by the United States or any agency or instrumentality thereof (enter amount of interest as item 5 (b), page 1)	$	$

Schedule B.—INCOME FROM RENTS AND ROYALTIES. (See Instruction 6)

1. Kind of property	2. Amount	3. Depreciation or depletion (attach schedule)	4. Repairs (explain below)	5. Other expenses (itemize below)	6. Net profit (column 2 minus sum of columns 3, 4, and 5) (enter as item 6, page 1)
	$	$	$	$	$

Explanation of deductions claimed in columns 4 and 5

Schedule C.—EXPLANATION OF DEDUCTIONS CLAIMED IN ITEMS 12, 13, 14, 15, 16, AND 17

1. Item No.	2. Explanation	3. Amount	1. Item No. (Continued)	2. Explanation (Continued)	3. Amount (Continued)
		$			$

Schedule D.—EXPLANATION OF CREDITS CLAIMED IN ITEMS 21 AND 22. (See Instructions 21 and 22)

(1) Personal Exemption

Status	Number of months during the year in each status	Credit claimed
Single, or married and not living with husband or wife, and not head of family		$
Married and living with husband or wife		
Head of family (explain below)		

(2) Credit for Dependents

Name of dependent and relationship	Number of months during the year: Under 18 years old	Number of months during the year: 18 years or over	Credit claimed
			$

Reason for support if 18 years or over

Schedule E.—COMPUTATION OF EARNED INCOME CREDIT. (See Instruction 25)

(1) If your net income is $3,000 or less, use only this part of schedule

Net income (item 19, page 1)	$
Earned income credit (10% of net income, above)	

(2) If your net income is more than $3,000, use only this part of schedule

Earned net income (not more than $14,000)	$
Net income (item 19, page 1)	
Earned income credit (10% of earned net income or 10% of net income, above, whichever amount is smaller, but do not enter less than $300)	

QUESTIONS

1. Did you file a return for any prior year? ________ If so, what was the latest year? ________ To which Collector's office was it sent? ________
2. If separate return was made for the current year, state:
   (a) Name of husband or wife ________
   (b) Personal exemption, if any, claimed thereon ________
   (c) Collector's office to which it was sent ________
3. Check whether this return was prepared on the cash ☐ or accrual ☐ basis.
4. Was the rate of your salary or wages increased or decreased after October 3, 1942, and before the end of your taxable year? ________ (Yes or no)
5. Did you receive during your taxable year any amount claimed to be nontaxable other than interest reported in Schedule A (see Instruction H)? ________ If so, attach schedule showing source, nature, and amount of such income.
6. Did you at any time during your taxable year own directly or indirectly any stock of a foreign corporation or a personal holding company as defined by section 501 of the Internal Revenue Code? ________ If so, attach statement required by Instruction K.

16—24246—1

DETACH PAGES 3 AND 4 IF NOT USED

Schedule F.—GAINS AND LOSSES FROM SALES OR EXCHANGES OF CAPITAL ASSETS. (See Instruction 8)

1. Kind of property (if necessary, attach statement of descriptive details not shown below)	2. Date acquired Mo. Day Year	3. Date sold Mo. Day Year	4. Gross sales price (contract price)	5. Cost or other basis	6. Expense of sale and cost of improvements subsequent to acquisition or March 1, 1913	7. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (explain in Schedule J)	8. Gain or loss (column 4 plus column 7 minus the sum of columns 5 and 6)	Gain or loss to be taken into account: 9. Percentage	10. Amount
SHORT-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD NOT MORE THAN 6 MONTHS									
			$	$	$	$	$	100	$
								100	
								100	
								100	
Total net short-term capital gain or loss (enter in line 1, column 3, of summary below)									$
LONG-TERM CAPITAL GAINS AND LOSSES—ASSETS HELD FOR MORE THAN 6 MONTHS									
			$	$	$	$	$	50	
								50	
								50	
								50	
Total net long-term capital gain or loss (enter in line 2, column 3, of summary below)									$

SUMMARY OF CAPITAL GAINS AND LOSSES

1. Classification	2. Net short-term capital loss of preceding taxable year (not in excess of net income for such year), but only to extent of net short-term capital gain of current year	3. Net gain or loss to be taken into account from column 10, above (a) Gain	3. (b) Loss	4. Net gain or loss to be taken into account from partnerships and common trust funds (a) Gain	4. (b) Loss	5. Total net gain or loss taken into account in columns 2, 3, and 4 of this summary (a) Gain	5. (b) Loss
1. Total net short-term capital gain or loss	$	$	$	$	$	$	$
2. Total net long-term capital gain or loss		$	$	$	$	$	$
3. Net gain in column 5, lines 1 and 2. (Enter as item 8 (a), page 1)						$	x x x x x x x x
4. Net loss in column 5, lines 1 and 2. (The amount to be entered as item 8 (a), page 1, is (1) this item or (2) net income, computed without regard to capital gains or losses, or (3) $1,000, whichever is smallest)						x x x x x x x x	$

COMPUTATION OF ALTERNATIVE TAX

Use only if you had an excess of net long-term *capital gain* over net short-term *capital loss*, and item 23, page 1, exceeds $18,000

1. Net income (item 19, page 1)	$	10. Normal tax (6% of line 9)	$
2. Excess of net long-term capital gain over net short-term capital loss (line 2, column 5 (a), minus line 1, column 5(b), of summary above)		11. Surtax on line 6. (See Instruction 28)	
3. Ordinary net income (line 1 minus line 2)	$	12. Partial tax (line 10 plus line 11)	$
4. Less: Personal exemption. (From Schedule D–1) $		13. 50% of line 2	
5. Credit for dependents. (From Schedule D–2)			
6. Balance (surtax net income)	$	14. Alternative tax (line 12 plus line 13)	$
7. Less: Item 5 (a), page 1 $		15. Total normal tax and surtax (item 29, page 1)	$
8. Earned income credit. (From Schedule E–1 or E–2)		16. Tax liability (line 14 or line 15, whichever is the lesser). (Enter as item 30, page 1)	$
9. Balance subject to normal tax	$		

Schedule G.—GAINS AND LOSSES FROM SALES OR EXCHANGES OF PROPERTY OTHER THAN CAPITAL ASSETS (See Instruction 8)

1. Kind of property	2. Date acquired	3. Gross sales price (contract price)	4. Cost or other basis	5. Expense of sale and cost of improvements subsequent to acquisition or March 1, 1913	6. Depreciation allowed (or allowable) since acquisition or March 1, 1913 (explain in Schedule J)	7. Gain or loss (column 3 plus column 6 minus the sum of columns 4 and 5)
		$	$	$	$	$
Total net gain (or loss) (enter as item 8 (b), page 1)						$

State the family, fiduciary, or business relationship to you, if any, of purchaser of any of the items on this page ....

If any of such items were acquired by you other than by purchase, explain fully how acquired ....

16—24240-1

Page 4

Schedule H.—PROFIT (OR LOSS) FROM BUSINESS OR PROFESSION. (See Instruction 9)

(State (1) nature of business ....; (2) number of places of business ....; (3) business name and address if different from name and address on page 1 ....)

1. Total receipts .... $

COST OF GOODS SOLD (To be used where inventories are an income-determining factor)			OTHER BUSINESS DEDUCTIONS		
			11. Salaries and wages not included as "Labor" (do not deduct compensation for yourself)	$	
			12. Interest on business indebtedness		
			13. Taxes on business and business property		
2. Inventory at beginning of year	$		14. Losses (explain below)		
3. Merchandise bought for sale			15. Bad debts arising from sales or services		
4. Labor			16. Depreciation, obsolescence, and depletion (explain in Schedule J)		
5. Material and supplies			17. Rent, repairs, and other expenses (itemize below or on separate sheet)		
6. Other costs (itemize below)					
7. Total of lines 2 to 6	$		18. Amortization of emergency facilities (attach statement)		
8. Less inventory at end of year			19. Total of lines 11 to 18	$	
9. Net cost of goods sold (line 7 minus line 8)	$		20. Total of lines 9 and 19	$	
10. Gross profit (line 1 minus line 9)	$		21. Net profit (or loss) (line 1 minus line 20) (enter as item 9, page 1)	$	

If the production, manufacture, purchase, or sale of merchandise is an income-producing factor, inventories are required. Enter "C," or "C or M," on lines 2 and 8 to indicate whether inventories are valued at cost, or cost or market, whichever is lower.

Explanation of deductions claimed in lines 6, 14, and 17 ....

Did you at any time after October 3, 1942, and before the end of your taxable year have in your employ more than eight individuals? .... (Yes or No) If answer is "Yes," have you in this return taken a deduction for any amount of wages or salaries representing an increase or decrease in rate after October 3, 1942? .... (Yes or No) If answer to second question is "Yes," attach a statement explaining all such increases or decreases. If any of such increases or decreases required the prior approval of the National War Labor Board or the Commissioner of Internal Revenue as stated in Instruction 9, attach also a copy of the authorization for each of such increases or decreases.

Schedule I.—INCOME FROM PARTNERSHIPS, FIDUCIARIES, AND OTHER SOURCES

INCOME (OR LOSS) FROM PARTNERSHIPS, SYNDICATES, ETC. (SEE INSTRUCTION 10 (a)) (FURNISH NAMES AND ADDRESSES)				
	$			
			$	
INCOME FROM FIDUCIARIES (FURNISH NAMES AND ADDRESSES)				
	$			
INCOME FROM OTHER SOURCES (STATE NATURE)				
	$			
Total amounts in Schedule I. (Enter as item 10, page 1)			$	

Schedule J.—EXPLANATION OF DEDUCTION FOR DEPRECIATION CLAIMED IN SCHEDULES F, G, AND H

1. Kind of property (If buildings, state material of which constructed)	2. Date acquired	3. Cost or other basis (Do not include land or other nondepreciable property)		4. Assets fully depreciated in use at end of year		5. Depreciation allowed (or allowable) in prior years		6. Remaining cost or other basis to be recovered		7. Estimated life used in accumulating depreciation	8. Estimated remaining life from beginning of year	9. Depreciation allowable this year	
		$		$		$		$				$	

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Appendix 4. Form 1040A, *Optional Individual Income Tax Return* (1942)

FORM 1040 A
TREASURY DEPARTMENT
INTERNAL REVENUE SERVICE

OPTIONAL
UNITED STATES
INDIVIDUAL INCOME TAX RETURN

THIS RETURN MAY BE FILED INSTEAD OF FORM 1040 BY CITIZENS (OR RESIDENT ALIENS) REPORTING ON THE CASH BASIS IF GROSS INCOME IS NOT MORE THAN $3,000 AND IS ONLY FROM SALARY, WAGES, DIVIDENDS, INTEREST, AND ANNUITIES

CALENDAR YEAR
1942

Do not write in these spaces
Serial No.
Amount Paid, $
(Cashier's Stamp)

Cash—Check—M. O.

PRINT NAME AND HOME OR RESIDENTIAL ADDRESS PLAINLY BELOW

(Name) (Use given names of both husband and wife, if this is a joint return)

(Street and number, or rural route)

(Post office) (County) (State)

Occupation ______ Social Security number, if any ______

Name and address of employer ______

(If you had more than one employer, attach statement showing name and address and amount received from each)

DEPENDENTS ON JULY 1, 1942

List persons (other than husband or wife) *deriving their chief support from you* if they are under 18 years of age or if they are mentally or physically incapable of self-support

NAME OF DEPENDENT	RELATIONSHIP	IF 18 YEARS OF AGE OR OVER, GIVE REASON FOR LISTING

***GROSS INCOME LESS ALLOWANCE FOR DEPENDENTS**

1. Salary, wages, and compensation for personal services ...... $
2. Dividends, interest, and annuities ......
3. Total ...... $
4. Less: $385 for each dependent ......
   (If you are the head of a family (see definition under item 6 on other side) *only because of dependent(s) listed above*, $385 for each listed dependent *except one.*)
5. INCOME SUBJECT TO TAX ...... $

TAX

6. Tax on item 5 (from Column A, B, or C of table on other side) ...... $

I/we declare, under the penalties of perjury, that this return has been examined by me/us, and, to the best of my/our knowledge and belief, is a true, correct, and complete return, made in good faith, for the taxable year stated, pursuant to the Internal Revenue Code and regulations issued under authority thereof; and that I/we had no income from sources other than stated hereon.

______, 1943.
(Date)

(Signature)

(Signature)
(If this return includes gross income of both husband and wife, it must be signed by both.)

Filing requirement.—An income tax return must be filed by single persons having a gross income (item 3 above) of $500 or more and married persons having a gross income either separately or combined of $1,200 or more.

**Military and naval personnel.*—Members of the military or naval forces of the United States below the grade of commissioned officer on December 31, 1942, should not include in gross income the first $250 if single on such date, or the first $300 if married or head of a family on such date, received as compensation for active service.

Returns of husband and wife.—Husband and wife may use this form as a joint return if they were living together on July 1, 1942, and if their combined gross income for the calendar year is not more than $3,000. A separate return may be made on this form if the gross income for the calendar year of the one filing the return is not more than $3,000, except that in the case of a husband and wife living together at any time during the calendar year separate returns may not be made on this form unless each elects to use this form.

Allowance for dependents.—Allowance of $385 for each dependent is applicable when this form is used. Where Form 1040 is used, the allowance for each dependent is $350.

Amended returns.—If a qualified taxpayer elects to use this form, amended return may not be made on Form 1040.

Filing of returns and payment of tax.—The return must be filed with the Collector of Internal Revenue for your district on or before March 15, 1943. The tax may be paid in equal quarterly installments commencing March 15, 1943. Pay tax, if any, to the Collector and if payment is made by check or money order, make payable to "Collector of Internal Revenue."

16—31231-1

INDICATE YOUR STATUS ON JULY 1, 1942, BY PLACING CHECK MARK (✓) IN THE APPLICABLE BLOCK (☐) BELOW

1. Single (and not head of family) on July 1, 1942 ☐

2. Married and not living with husband or wife (and not head of family) on July 1, 1942 ☐

IF YOU CHECKED No. 1 OR No. 2 ABOVE, FIND YOUR TAX IN COLUMN A

3. Married and living with husband or wife on July 1, 1942, but each filing separate returns on this form ☐

IF YOU CHECKED No. 3 ABOVE, FIND YOUR TAX IN COLUMN B

4. Married and living with husband or wife on July 1, 1942, and spouse had no gross income for the entire year ☐

5. Married and living with husband or wife on July 1, 1942, and this return includes gross income of both husband and wife for the entire year ☐

6. Head of family (a single person or married person not living with husband or wife who exercises family control and supports closely connected dependent relative(s) in one household) on July 1, 1942 ☐
(State number of such dependent relatives ....)

IF YOU CHECKED No. 4, 5, OR 6 ABOVE, FIND YOUR TAX IN COLUMN C

IF Income subject to tax (item 5 on other side) is		COLUMN A	COLUMN B	COLUMN C	IF Income subject to tax (item 5 on other side) is		COLUMN A	COLUMN B	COLUMN C	IF Income subject to tax (item 5 on other side) is		COLUMN A	COLUMN B	COLUMN C
Over	But not over	Your tax is	Your tax is	Your tax is	Over	But not over	Your tax is	Your tax is	Your tax is	Over	But not over	Your tax is	Your tax is	Your tax is
$0	$525	$0	$0	$0	$1,350	$1,375	$141	$122	$10	$2,175	$2,200	$283	$264	$150
525	550	1	0	0	1,375	1,400	145	126	14	2,200	2,225	288	269	155
550	575	4	0	0	1,400	1,425	149	130	17	2,225	2,250	292	273	159
575	600	7	0	0	1,425	1,450	154	135	21	2,250	2,275	296	277	163
600	625	11	0	0	1,450	1,475	158	139	25	2,275	2,300	301	282	168
625	650	15	0	0	1,475	1,500	162	143	29	2,300	2,325	305	286	172
650	675	20	3	0	1,500	1,525	167	148	34	2,325	2,350	309	290	176
675	700	24	6	0	1,525	1,550	171	152	38	2,350	2,375	314	295	181
700	725	28	9	0	1,550	1,575	175	156	42	2,375	2,400	318	299	185
725	750	33	14	0	1,575	1,600	180	161	47	2,400	2,425	322	303	189
750	775	37	18	0	1,600	1,625	184	165	51	2,425	2,450	327	308	194
775	800	41	22	0	1,625	1,650	188	169	55	2,450	2,475	331	312	198
800	825	46	27	0	1,650	1,675	193	174	60	2,475	2,500	335	316	202
825	850	50	31	0	1,675	1,700	197	178	64	2,500	2,525	340	321	207
850	875	54	35	0	1,700	1,725	201	182	68	2,525	2,550	344	325	211
875	900	59	40	0	1,725	1,750	206	187	73	2,550	2,575	348	329	215
900	925	63	44	0	1,750	1,775	210	191	77	2,575	2,600	353	334	220
925	950	67	48	0	1,775	1,800	214	195	81	2,600	2,625	357	338	224
950	975	71	52	0	1,800	1,825	218	199	85	2,625	2,650	361	342	228
975	1,000	76	57	0	1,825	1,850	223	204	90	2,650	2,675	366	347	233
1,000	1,025	80	61	0	1,850	1,875	227	208	94	2,675	2,700	371	351	237
1,025	1,050	84	65	0	1,875	1,900	231	212	98	2,700	2,725	376	355	241
1,050	1,075	89	70	0	1,900	1,925	236	217	103	2,725	2,750	381	359	245
1,075	1,100	93	74	0	1,925	1,950	240	221	107	2,750	2,775	386	364	250
1,100	1,125	97	78	0	1,950	1,975	244	225	111	2,775	2,800	391	369	254
1,125	1,150	102	83	0	1,975	2,000	249	230	116	2,800	2,825	396	374	258
1,150	1,175	106	87	0	2,000	2,025	253	234	120	2,825	2,850	401	379	263
1,175	1,200	110	91	0	2,025	2,050	257	238	124	2,850	2,875	406	384	267
1,200	1,225	115	96	0	2,050	2,075	262	243	129	2,875	2,900	411	389	271
1,225	1,250	119	100	0	2,075	2,100	266	247	133	2,900	2,925	416	394	276
1,250	1,275	123	104	0	2,100	2,125	270	251	137	2,925	2,950	421	399	280
1,275	1,300	128	109	1	2,125	2,150	275	256	142	2,950	2,975	426	404	284
1,300	1,325	132	113	4	2,150	2,175	279	260	146	2,975	3,000	431	409	289
1,325	1,350	136	117	7										

The income to be reported in this return is gross income (not including income which is wholly exempt from income tax) without any deductions. The taxes in the above table make allowance for personal exemption, earned income credit, and deductions aggregating 6 percent of gross income.

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Appendix 5. Form 1040EZ, *Income Tax Return for Single Filers with no Dependents* (1982)

Department of the Treasury — Internal Revenue Service

1982 **Form 1040EZ Income Tax Return for Single filers with no dependents** (0)

OMB No. 1545-0675

Instructions are on the back of this form.
Tax Table is in the 1040EZ and 1040A Tax Package.

Name and address

Use the IRS mailing label. If you don't have a label, print or type:

Name (first, initial, last) Social security number

Present home address

City, town or post office, State, and ZIP code

Presidential Election Campaign Fund
Check this box ☐ if you want $1 of your tax to go to this fund.

Figure your tax

Attach Copy B of Forms W-2 here

1	Wages, salaries, and tips. Attach your W-2 form(s).	1	.
2	Interest income of $400 or less. If more than $400, you cannot use Form 1040EZ.	2	.
3	Add line 1 and line 2. This is your **adjusted gross income.**	3	.
4	Allowable part of your charitable contributions. Complete the worksheet on page 18. Do not write more than $25.	4	.
5	Subtract line 4 from line 3.	5	.
6	Amount of your personal exemption.	6	1,000.00
7	Subtract line 6 from line 5. This is your **taxable income.**	7	.
8	Enter your Federal income tax withheld. This is shown on your W-2 form(s).	8	.
9	Use the tax table on pages 26-31 to find the **tax** on your taxable income on line 7.	9	.

Refund or amount you owe

Attach tax payment here

10	If line 8 is larger than line 9, subtract line 9 from line 8. Enter the amount of your **refund.**	10	.
11	If line 9 is larger than line 8, subtract line 8 from line 9. Enter the **amount you owe.** Attach check or money order for the full amount payable to "Internal Revenue Service."	11	.

Sign your return

I have read this return. Under penalties of perjury, I declare that to the best of my knowledge and belief, the return is correct and complete.

Your signature Date

X

For **Privacy Act and Paperwork Reduction Act Notice,** see page 34.

Demographic History

1982 Instructions for Form 1040EZ

You can use this form if:	You cannot use this form if:
• Your filing status is single	• Your filing status is other than single
• You do not claim exemptions for being 65 or over, **OR** for being blind	• You claim exemptions for being 65 or over, **OR** for being blind
• You do not claim any dependents	• You claim any dependents
• Your taxable income is less than $50,000	• Your taxable income is $50,000 or more
• You had only wages, salaries, and tips and you had interest income of $400 or less	• You had income other than wages and interest income, **OR** you had interest of over $400 or any interest from an All-Savers Certificate
• You had no dividend income	• You had dividend income

If you can't use this form, you must use Form 1040A or 1040 instead. See pages 4 through 6.
If you are uncertain about your filing status, dependents, or exemptions, read the step-by-step instructions for Form 1040A that begin on page 6.

Completing your return

Name and address

Use the mailing label from the back cover of the instruction booklet. Correct any errors right on the label. But don't place the label on your return until you have completed it. If you don't have a label, print or type the information in the spaces provided. If you don't have a social security number, see page 7.

Presidential election campaign fund

This fund was established by Congress to help pay campaign costs of candidates running for President. You may have one of your tax dollars go to this fund by checking the box.

Figure your tax

Line 1. Write on line 1 the total amount you received in wages, salaries, and tips from all employers.

Your employer should have reported your income on a 1982 wage statement, Form W-2. If you don't receive your W-2 form by February 15, contact your local IRS office. Attach W-2 form(s) to your return.

Line 2. Write on line 2 the total interest income you received from all sources, such as banks, savings and loans, credit unions, and other institutions with which you deposit money. You should receive an interest statement (usually Form 1099-INT) from each institution that paid you interest.

You cannot use Form 1040EZ if your total interest income is over $400 **or** you received interest income from an All-Savers Certificate.

Line 4. You can deduct 25% of what you gave to qualified charitable organizations in 1982. But if you gave $100 or more, you can't deduct more than $25. Complete the worksheet on page 18 to figure your deduction, and write the amount on line 4.

Line 6. Every taxpayer is entitled to one $1,000 personal exemption. If you are also entitled to additional exemptions for being 65 or over, for blindness, for your spouse, or for your dependent children or other dependents, you cannot use this form. You must use Form 1040A or Form 1040.

Line 8. Write the amount of Federal income tax withheld, as shown on your 1982 W-2 form(s). If you had two or more employers and had total wages of over $32,400, see page 19. If you want IRS to figure your tax for you, complete lines 1 through 8, sign, and date your return. If you want to figure your own tax, continue with these instructions.

Line 9. Use the amount on line 7 to find your tax in the tax table on pages 26-31. Be sure to use the column in the tax table for **single** taxpayers. Write the amount of tax on line 9.

Refund or amount you owe

Line 10. Compare line 8 with line 9. If line 8 is larger than line 9, you are entitled to a refund. Subtract line 9 from line 8, and write the result on line 10.

Line 11. If line 9 is larger than line 8, you owe more tax. Subtract line 8 from line 9, and write the result on line 11. Attach your check or money order for the full amount. Write your social security number and "1982 Form 1040EZ" on your payment.

Sign your return

You must sign and date your return. If you pay someone to prepare your return, that person must also sign it below the space for your signature and supply the other information required by IRS. See page 22.

Mailing your return

Your return is due by **April 15, 1983.** Use the addressed envelope that came with the instruction booklet. If you don't have an addressed envelope, see page 25 for the correct address.

☆ U.S. GOVERNMENT PRINTING OFFICE: 1982—0-353-286 13-2687299