

10-1959

## Deep in the Hurt of Taxes

Ida S. Broo

Follow this and additional works at: <https://egrove.olemiss.edu/wcpa>



Part of the [Accounting Commons](#), [Taxation Commons](#), and the [Women's Studies Commons](#)

---

### Recommended Citation

Broo, Ida S. (1959) "Deep in the Hurt of Taxes," *Woman C.P.A.*: Vol. 21 : Iss. 6 , Article 1.

Available at: <https://egrove.olemiss.edu/wcpa/vol21/iss6/1>

This Article is brought to you for free and open access by the Archival Digital Accounting Collection at eGrove. It has been accepted for inclusion in Woman C.P.A. by an authorized editor of eGrove. For more information, please contact [egrove@olemiss.edu](mailto:egrove@olemiss.edu).

# DEEP IN THE HURT OF TAXES

By IDA S. BROO, C.P.A.,

*Founder of ASWA and Honorary Member of AWSCPA*

Words can come back to haunt you. Recently, an article in *The Woman C.P.A.* quoted from a speech I made in 1939 as follows: "A minor factor has been the increasingly difficult tax situation." Today the tax situation is by all odds the most important factor in our business life. Thirty years ago America was the Land of Free Enterprise, where each individual was responsible for his own future. Today we still refer to America as the Land of Free Enterprise, but our concept of individual responsibility is changing. The government has assumed many responsibilities which formerly pertained to the individual alone. Our values have changed. Fifty years ago, economy meant thrift and saving while today economy is merely a larger package at the supermarket. It is true that money still talks, but what it says nowadays makes less cents.

Taxation is as old as recorded history and methods of taxation have been widely varied. In ancient Rome the privilege of collecting taxes was sold for a fixed sum paid into the treasury. This privilege was often auctioned, and the purchaser had the right to make whatever profit he could on the venture. The Tudor and earlier Stuart sovereigns of England did not hesitate to exact forced loans from people of property on the theory that, if a man lived economically, he could not have failed to save money and was therefore in a position to make his sovereign a handsome contribution. If he lived extravagantly and ostentatiously, he evidently possessed means and was therefore in a position to assist his king.

In those days it was difficult to draw the line between taxation and plunder. The theory prevailed throughout the ancient world that taxation was an injustice or at best a misfortune, to be avoided whenever possible. Today there are two divergent theories as to the best method of taxation: direct or indirect. When a tax is levied on the income or property of an individual, it is direct. When it is imposed on the articles on which such income or property are expended, it is indirect. Economists are divided as to which is the better method: direct taxation educates the taxpayer, while indirect taxation attracts the least attention.

Many of the political habits and institutions of England carried over to the political life of the United States, and undoubtedly tax developments in the mother country had their influence upon taxation in the United States. Taxation of land was an acknowledged failure in England at the end of the 18th century, so that most of the revenue came from customs, stamp taxes and sales taxes. Taxes were levied almost entirely upon expenditures rather than upon possessions. When England was at war with France and needed money in 1793, many new taxes were imposed. William Pitt, the Prime Minister of Great Britain, who was not interested in reform, but in revenue, proposed a tax directly upon income, to become effective in 1799. When peace came, this tax was repealed, but the renewal of war brought its return.

The criticisms which met this act might have been written in the early days of our present income tax. It taxed earned income at the same rate as income derived from capital. A picturesque description of this tax stated: "The law has no passover: the destroying angel visits every door, allows the validity of no mark of blood on the lintel and side posts, to induce him to pause in his destructive course, for the destroyer comes, with ferocious swoop, into our homes, to smite us and our first born; no door is exempt from his dire visitations." In the various debates which continued to rage about this tax, the objection seemed to be not to the economic burden, but to the inquisitorial character of the tax.

In England, Parliament passed the Property and Income Tax Law of 1842. At every expiration date there was a determined effort to discontinue this tax. The debate as to the merits of direct v. indirect taxation continued unabated, but the income tax remained. In no country in which it has become established has the income tax ever been permanently repealed. It has indeed become "The Man Who Came to Dinner." In 1853 Gladstone, the four times Premier of Great Britain, troubled by the size of the national debt, used his immense influence to keep such a "colossal engine of finance" as the income tax. While it was not a popular tax, the principle of the income tax was firmly established. It survived unpopularity

and soon was referred to as one of the most productive parts of the British fiscal machinery. Lloyd George referred to it as the center and anchor of the British financial system.

The American colonies, the government established by the Articles of Confederation, had no independent financial powers. As a result, this early government depended upon requisitioning contributions from the States for its revenue. The Congress could merely recommend and leave it to the States to do as they pleased. Under such circumstances, the government could not meet its obligations, and in 1782, with no money in the treasury, a bankrupt government defaulted on its obligations.

It was apparent that something had to be done, and Section 8, Article I, of the Constitution adopted in 1789 states: "The Congress shall have power to lay and collect taxes, duties, imposts and excises, to pay the debts and provide for the common defense and general welfare of the United States; but all duties, imposts and excises shall be uniform throughout the United States." These words were interpreted as being a requirement that all taxes be levied among the states in direct proportion to the population. In 1798 Congress adopted a direct tax on houses, lands and slaves; and the government also derived income from land sales and postal receipts. All this required administrative personnel, and the office of Commissioner of Revenue was established.

In 1812 the administration of Thomas Jefferson abolished all excises except the salt tax, and relied principally upon the tariff for revenue. Jefferson, who seemed to think the entire burden of taxation through tariff fell upon the rich, was an early advocate of the "Soak the Rich" policy. He thought that the day would come when the farmer would see his government supported, his children educated, and the face of his country made a paradise, by the contributions of the rich alone. When the tariff began to be used as a protector of American industry instead of a revenue producer, it became a bone of contention between the North, who wanted to protect industries, and the South, which was interested in the tariff only as a producer of revenue.

When Abraham Lincoln became President, there was an empty treasury, and resort was had to the income tax. At this time the income tax was not considered a direct tax and so was not subject to apportionment. To finance the war, President

Lincoln in July 1862 signed a measure which extended the income tax and imposed an inheritance tax. Every manufactured article was taxed, as were the gross receipts of railroads, ferryboats, steamships, toll bridges and advertisement. The rates of income tax were set out: 3% on profits between \$600 and \$10,000, and 5% on profits over \$10,000, "whether derived from any kind of property, rents, interest, dividends, salaries, or from any trade, employment or vocation carried on in the United States or elsewhere, or from any other source whatever." It is interesting to note that there was a withholding system in effect at this time for taxes on government salaries, both civil and military, and for taxes on interest and dividends paid by railroads, banks, trust companies, and insurance companies.

At one time the Supreme Court of the United States decided that the Civil War income tax was not a direct tax requiring apportionment, but later took an opposite viewpoint. To settle this question for all time, the Sixteenth Amendment to the Constitution was adopted, which states: "The Congress shall have power to lay and collect taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration." There were varying interpretations of this amendment. Many points were contested and sometimes different groups held temporary advantages. For many years, for example, the salaries of federal judges were not taxable, but the modern Supreme Court holds that the federal government may tax the salaries of state officials, and state governments may tax the salaries of federal officials.

Exactly what is taxation? Is it a proportion of the national income taken by consent from individuals to be spent by the nation for common purposes, economic as well as political? Is it purely for revenue, or is taxation a form of social and economic control? President Coolidge, who presided in what was probably the last of the so called "normal periods" believed in taxation for revenue only. As outlined by Secretary of the Treasury, Roswell Magill, "The primary utility of tax laws is to raise money fairly to meet the expenses of the government. That is the target at which the shotgun of taxes should be aimed. It is a difficult target to hit, even with a shotgun."

Taxation in the United States has not been limited to raising money for the needs of government. The tariff has developed from a method of raising revenue into an

instrument for the protection or encouragement of industry in the United States. This protective tariff was designed to help one segment of industry without destroying others, but it did not always work out. In 1902, for example, Congress taxed oleomargarine at ten cents a pound, but at a much lower rate if it was not colored to look like butter. In 1931, the low rate was restricted to oleomargarine which was free from yellow coloring whether artificial or not. This tax lasted until 1950, when it was repealed because of a strong public demand.

Taxation has also been used to prevent the consumption of harmful commodities. In 1914 Congress imposed a tax of \$300 a pound on the manufacture of opium for smoking purposes. Today there is a question whether prohibitive taxes have the effect of stamping out the drug evil. Liquor taxation is clearly beyond the principal objective of raising revenue. Whether it serves the purpose of controlling the liquor traffic is also open to question.

Is the inheritance tax an instrument for raising revenue, or is it actually a tax on capital, designed for the redistribution of wealth? Its origin in the United States probably came about because of the agitation for the limitation of inheritances. This tax, together with the gift tax, is actually a policeman, as are the various corporation excess profits and undistributed profits taxes. These taxes bring in revenue, but their most important function is to prevent the accumulation of exorbitant profits.

The contest between the two theories of taxation has always been bitter. The proponents of taxation for revenue argue that tariff measures were invalid because they admittedly had the purpose of encouraging and protecting manufacturers, whereas Congress could levy customs for revenue only. The Supreme Court, however, said: "So long as the motive of the Congress and the effect of its legislative actions are to secure the revenue for the benefit of the general government, the existence of other motives in the selection of the subjects of taxes cannot invalidate Congressional Action." (J. W. Hampton, Jr., and Co. V.U.S. 276 394, 412-1928.)

In World War II, taxes rose to unprecedented levels, but still there was insufficient money. Many felt that others were escaping their just share of taxes. Income taxes were payable in the year following the receipt of income, and in many cases this income was spent, leaving nothing with which to

pay the tax. In March, 1942, Mr. Beardsley Ruml, Treasurer of W.H. Macy and Co. Inc., New York City, and Chairman of the Federal Reserve Board of New York, published a pamphlet advocating "Pay as You Go Income Tax Plan." This plan was debated at great length, and Mr. Ruml argued: "If we accept a rising national income as axiomatic, the Treasury could collect more dollars under this system than under the existing system in the twenty-year period January 1, 1943 to December 31, 1962. This could be proved by examining the position of the Treasury on Judgment Day when the books would finally be closed. Under our present system," Mr. Ruml asserted, "the Treasury would have billions owing from the taxpayers. These would be bad debts in any case. Since the government is not concerned about any final loss on Judgment Day, the government is able to turn the tax clock ahead; make all taxpayers current; eliminate income tax debt; and do it with increased revenue and with no additional burden on the taxpayer." Mr. Ruml stated that he had submitted his argument to a group of members of the American Institute of Accountants who had agreed that he was right.

The Current Tax Payment Act of 1943 put salary and wage earners on a withholding basis of tax collection beginning July 1, 1943. Many people, particularly those in the lower wage levels, were greatly alarmed at the prospect of having twenty per cent of their salaries withheld from them. As a means of transition to the current payment system, the act provided for the cancellation of 75% of one year's taxes, the lower of 1942 or 1943, or \$50.00, whichever was lower. The unforgiven taxes were payable in two installments on March 15, 1944, and March 15, 1945. In this way, income tax payments became current, and our system of withholding became a part of our daily life.

Most tax measures have been adopted in response to emergencies. We now realize that tax policy has gone beyond revenue considerations, and taxes are used to achieve social and economic results. The government is more and more our brother's keeper assuming responsibility for emergencies formerly met by the individual or by private charity.

Obtaining the necessities of food, clothing and shelter in the waning years of life has always been a problem facing aged persons. A generation ago people accepted without question the responsibility for their

indigent relatives. Our economy was agricultural and people lived in big houses with room for an aged relative. Today we live in an industrial society, and are housed in modern efficiency apartments where there is no place for an aged parent.

The great depression of the 1930s focused public attention on the problem. In 1929 the President appointed a Committee on Recent Social Trends, composed of leading economists and sociologists, to study and survey social legislation, including old age pensions, unemployment insurance and related matters. The report of this committee in 1933 showed that the decline in opportunities for earning a living and the tremendous losses of savings during the depression had resulted in destitution to the point that private charities, municipal authorities and finally state governments had exhausted their means of meeting this need. In 1935 Congress passed the Social Security Act. Over the years this Act has been amended, chiefly to broaden the opportunities for eligibility and to increase money benefit payments.

The Social Security Act covers the dependency of aged persons, survivors, and children. Assistance programs, including old age assistance and aid to dependent children, were established and financed in part by Federal grants in aid to individual states, territories and certain island possessions. Old age assistance was regarded as a diminishing program, to be replaced by what we now call Federal Old Age Benefits.

Financing of Federal Old Age Benefits has been and is now provided by a special tax on employees, employers and the self employed. The money from these taxes flows into the general funds of the United States, and annual appropriations are made to a trust fund for the payment of benefits. Although the Social Security taxes were not legally earmarked for this specific purpose, nevertheless Congress regarded them as having been levied for the support of this program.

Originally our Social Security Act provided payments of old age assistance to the needy and to those 65 years of age or older. The various states provided limitations, such as the maximum amounts of various kinds of property the applicant could own and still receive assistance. Various government publications have often stated that public assistance is "Paid as a matter of right based on showing of need." From this

idea many people have come to believe that old age assistance is a matter of right regardless of need on reaching age 65. This is definitely not the case, as assistance is based on need.

Title II of the Social Security Act "Federal Old Age Benefits" was designed as a permanent program which would in time benefit all aged workers. To acquire the right to these benefits, conditions of eligibility must be met covering a record of employment, a minimum income, and a minimum period of employment. Many changes have been made in this Act since its origin in 1935. More and more people have become eligible for benefits, and benefits have been changed again and again.

The right to benefits under Title II is statutory and conditional. This fact is widely misunderstood, and the general idea seems to be that this is a form of insurance in which the individual has an inalienable right. The original Social Security Act of 1935 at no place contained the word "insurance." In none of the publicity immediately subsequent to its passage was the word "insurance" employed. The reverse of the social security card distributed to millions of workers, referred to the program under Title II as "Federal Old Age Retirement Benefits." On May 24, 1937, the Supreme Court upheld the constitutionality of Title II, and at no place is this program referred to as insurance. The defendant, the United States Government, in its brief stated: "The Act cannot be said to constitute a plan for compulsory insurance within the accepted meaning of the term 'insurance.'" Notwithstanding such statements, the former Chairman of the Social Security Board, in a press conference on the following day, stated: "The decision handed down yesterday by the U.S. Supreme Court completely validates the Unemployment Compensation and the Federal Old Age Insurance provisions of the Social Security Act."

In 1939 the reverse side of the Social Security cards carried by individuals referred to the Title II program as "Federal Old Age Insurance." In 1952 an official pamphlet stated: "Your card is the symbol of your insurance policy under the Federal Social Security Law." In spite of such misleading statements, and a wide misconception of the status of Federal Old Age Benefits, this program is not an insurance program, and Congress has reserved the right

(Continued on page 13)

en, but rather with the methods to be employed.

In addition to organizations that have been in favor of the Equal Rights Amendment and those opposed, many State Governors of both parties have expressed their approval at one time or another. At least two State legislatures, New York and North Dakota, have presented favorable memorials to the Congress. Support in the Congress has been bipartisan. The amendment was originally sponsored by Republicans, but a considerable number of Democrats have supported the measure. The Republican Party gave its endorsement of the amendment in its 1940, 1944, 1948, and 1952 platforms. The Democrats also endorsed the proposal in their 1944, 1948, and 1952 platforms.

"It is strangely unsympathetic for opponents of an equal rights amendment to suggest removing the thousands of inequities and injustices by slow and piecemeal work in the 48 State legislatures while women are born, living their lives, and dying without the justice for which they have been waiting since the time of the cave man."<sup>50</sup>

The foremost thought in the minds of the women who are so urgently seeking this Amendment must be that women assume the obligation of fulfilling their responsibilities, not as subjects of men, but as equally important members of the community of humanity. Women in seeking equal legal rights must ever be ready to share equally in the duties and burdens of society. Yes, women must, as always, go a step further and take the lead in the assumption of the duties of full citizenship.

Enactment of the Equal Rights Amendment is the only way permanently to rectify the multitudinous inequalities existing in the legal status of women. It will eliminate the artificial handicaps placed on women. It will encourage good legislation for the promotion of the welfare of men and women alike—industrial laws written on the only logical basis—the nature of the job, not the sex of the worker. It will wipe out an unbecoming hypocrisy in American life and give to women the full protection of that instrument they defend and cherish, the United States Constitution.<sup>51</sup>

What then is meant by legal equality between the sexes? "MEN THEIR RIGHTS AND NOTHING MORE: WOMEN THEIR RIGHTS AND NOTHING LESS."

50. Thomas, Dr. M. Carey, former President of Bryn Mawr College.

51. "Shadowed By The Girl She Was", *National Business Woman*, July 1957, p. 4.

(Continued from page 6)

to alter, amend, or repeal any provisions of this act.

In 1950 certain rights were terminated when those who had been receiving benefits developed selfemployment occupations after retiring. At the same time, selfemployed persons were placed under social security so that they became eligible for future benefits.

The deeper we go into taxes, the more complicated the subject becomes. Today there is no doubt that our taxes are used to achieve social and economic results. Immediately the question arises: What kind of a social system do we want? What is the American Way of Life about which we hear so much? Is it entirely a system of free enterprise, or have our conceptions changed through the years? What is our responsibility to the rest of the world?

Until the end of the 18th century, mankind accepted the view that poverty and want were no more to be questioned than death. It is assumed that in the pyramid of society, some would be born to wealth and power; a very few might rise to them. But for the mass of mankind, a person's station was fixed by tradition, or divine providence, or both. The vast majority could hope at best for mere subsistence.

Rebellion against this conception came first in the western world with the spread of the industrial revolution. It is now world wide. We experience the urgency of this rebellion against poverty during the depression of the 30s, but our gap between wealth and want was comparatively narrow. The gap is very wide in the newly developing areas of the world, and the demands for diminishing that gap takes on increasingly revolutionary overtones. Americans cannot stand aloof from this revolution in the world any more than we could stand aloof from our own economic dislocations of the 30s. The loom of our foreign policy turns on the fateful question: By what means will the newly developing peoples seek their ends? As accountants we cannot brush aside these questions. It is true that our primary concern is with the problems of our clients and their taxes, but as members of the community, we have further responsibilities.

Acknowledgment: Grateful acknowledgment is made of the help received in the preparation of this article in the publications of Randolph E. Paul, by Bobbs-Merrill Publishing Co.