A PLAIN-ENGLISH FACT CHECK

YOUR TAX DOLLARS

The Income Tax and the IRS from 1913 to Today



INCOME TAX · THE IRS · WHO PAYS · CLAIMS

How the Income Tax Works, Who Pays It, and What the Records Show

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Your Tax Dollars

The Income Tax and the IRS from 1913 to Today

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Your Tax Dollars: The Income Tax and the IRS from 1913 to Today

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Information in this book stops at November 12, 2026. Laws, tax figures, agency budgets and court cases can change after that date.

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Introduction: How to Read This Book

Every spring, millions of us sit down with a stack of forms, a cup of coffee and a little dread. In fiscal year 2025 the Internal Revenue Service (IRS) processed about 271 million tax returns and other forms and collected about $5.3 trillion in gross revenue.[1] Almost everyone has an opinion about that system. Far fewer of us know how it came to be, who really pays, or what the agency in charge actually does.

I wrote this book to answer those questions in plain language. It starts with the Civil War income tax and the court fight that nearly ended the idea, moves through every major tax law since 1913, and ends with where things stand today. Along the way I test the claims people repeat about taxes and the IRS, from every side of the political argument, against the record.

[1] Internal Revenue Service, "Internal Revenue Service Data Book, 2025" (Publication 55-B), April 2026, Tables 1-1 and 1-2. https://www.irs.gov/pub/irs-pdf/p55b.pdf. Accessed November 12, 2026. See also Victoria M. Martinez, "FY2027 Internal Revenue Service Budget Request," Congressional Research Service (CRS) Insight IN12753, November 3, 2026. https://www.everycrsreport.com/files/2026-11-03_IN12753_0218b722bcb86303a9d5351cca8d7f45c6c1bc9d.pdf. Accessed November 12, 2026.

What this book is and is not

This book explains how the federal income tax works and how it got this way. It is not tax advice and it is not legal advice. If you have a question about your own return, check IRS.gov or talk with a qualified tax professional.

It is also not an argument for or against any tax policy. When people disagree about what the tax system should be, I give each side's strongest case in its own words and point you to where they said it. I keep my own opinions out.

The date this information stops

Tax law changes often. The facts in this book stop at **November 12, 2026**. That date is on the copyright page, at the start of every chapter about the present, and in the title of every table with current figures. If you read this later, some numbers will have changed. The sources in the footnotes will usually lead you to the newer versions.

How to read the dollar amounts

A dollar in 1913 bought far more than a dollar does today. When I give a dollar figure, I tell you which kind it is:

- **Nominal dollars** are the amounts as written at the time, with no adjustment. Unless I say otherwise, the dollar figures in this book are nominal.
- **Inflation-adjusted dollars** have been changed to show what that money would be worth in a later year. When I adjust for inflation, I name the year, for example "in 2026 dollars," and the price index used.

Tax brackets have been adjusted for inflation each year since 1985, so a bracket that starts at a certain income one year usually starts a little higher the next.[2]

[2] Robert A. Wilson, "Personal Exemptions and Individual Income Tax Rates, 1913-2002," Statistics of Income (SOI) Bulletin, Internal Revenue Service, Spring 2002, text and Table 1. https://www.irs.gov/pub/irs-soi/02inpetr.pdf. Accessed November 12, 2026. Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, appendix entry for the Economic Recovery Tax Act of 1981. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

Where the facts come from

Every fact in this book traces back to a source you can open and check. The footnotes give the title, the author or agency, the date, a link and the date I looked at it. I used sources in this order of preference:

Source tiers used in this book

Tier	What it includes	How I use it
1. Primary and official	Laws, the Constitution, court opinions, IRS Statistics of Income data, Joint Committee on Taxation (JCT) estimates, Treasury reports, Treasury Inspector General for Tax Administration (TIGTA) reports, Taxpayer Advocate reports	The main source for every fact
2. Nonpartisan analysis	Congressional Research Service (CRS), Congressional Budget Office (CBO), Government Accountability Office (GAO)	To explain and summarize the primary record
3. Scholarly	Peer-reviewed research, university histories, and research centers such as the Tax Policy Center (TPC), a joint project of the Urban Institute and the Brookings Institution	For history and for questions the government has not measured
4. Fact-checks and journalism	Associated Press, Reuters, PolitiFact, FactCheck.org and major newspapers	As a pointer back to primary sources, and for reporting at the time
5. Advocacy groups and think tanks	Groups such as the Tax Foundation, the Institute on Taxation and Economic Policy (ITEP), the Heritage Foundation, the Center on Budget and Policy Priorities (CBPP) and the Committee for a Responsible Federal Budget (CRFB)	Only to show what a side argues, always labeled, and balanced with the other side

I do not use social media posts, chain emails, forums, video channels or computer-generated web pages as evidence. When I mention one, it is only as an example of a claim being spread, with a date.

Facts, interpretations and unknowns

I try to keep three things apart:

- A **confirmed fact** is something the record shows, such as the text of a law or a number in an official report.
- An **interpretation** is someone's reading of the facts. I say whose it is and where they said it.
- An **unknown** is something the record does not settle. When I could not find a source for something, I mark it **[Not verified]** and say what I searched.

How the claims are judged

Part Six tests popular claims about taxes and the IRS. Each one gets one of four verdicts:

The four verdicts

Verdict	What it means
True	Primary sources confirm it as usually stated.
Partly true	There is a real fact underneath, but the usual version leaves out or twists something important. I say exactly which part is true.
False (debunked)	Primary sources contradict it.
Inconclusive	The evidence is not enough to say either way, or an investigation is still open. I say what would settle it.

A few words you will see often

- **Income tax** in this book means the federal individual income tax unless I say "corporate income tax."
- **Payroll taxes** are the Social Security and Medicare taxes taken out of wages. They are separate from the income tax, and that difference matters a great deal in Part Three.
- A **tax bracket** is a range of income taxed at one rate. A **marginal rate** is the rate on your next dollar of income. Your **average rate**, sometimes called the effective rate, is your total tax divided by your income.
- **Taxable income** is what is left after deductions. It is usually much less than the total amount you earned.

Every other term and abbreviation is defined the first time it appears, and the glossary in Appendix C collects them all.

Part One: How We Got an Income Tax

Chapter 1: Before 1913: Tariffs, the Civil War Tax and the Tax of 1894

You might ask, "Has there always been an income tax?" No. For most of the country's first 70 years, the federal government paid its bills mainly with tariffs, which are taxes on imported goods, and with sales of public land. The income tax came later, first as a wartime emergency and then as a political fight that took half a century to settle.

Early internal taxes

Tariffs were not the only federal taxes before the Civil War. In 1791, Congress taxed whiskey, and in 1794 farmers in western Pennsylvania rose up against it in what became known as the Whiskey Rebellion. The IRS's own history says the federal government "prevailed, but at a cost of $1.5 million." Congress also levied internal taxes to pay for the War of 1812, then repealed them on December 23, 1817.[3] For the next four decades, the government ran almost entirely on tariffs and land sales.

Why the Constitution made an income tax hard

The Constitution gave Congress broad power to tax, but it drew a line between two kinds of taxes. "Duties, imposts and excises" had to be uniform across the country. "Direct" taxes had to be apportioned among the states by population. Apportioned means each state's share of the total tax must match its share of the population, no matter how rich or poor its people are.

That rule matters for an income tax. If a direct tax must be split by population, a state with many people but modest incomes would owe as much as a state with the same population and far higher incomes. The people in the poorer state would face much higher rates. In practice, apportionment makes a fair income tax almost impossible. Whether an income tax counted as "direct" became the central legal question of the next 50 years.

The first test: a tax on carriages (1796)

The question of what counts as a "direct" tax reached the Supreme Court very early. In 1794 Congress passed a law "laying duties upon carriages for the conveyance of persons." A man named Daniel Hylton was charged the tax on 125 chariots he said he kept for his own use. He argued that the carriage tax was a direct tax and so had to be split among the states by population.[4]

The Court disagreed in 1796 and upheld the tax. Justice Iredell wrote that the tax was "not a direct tax in the sense of the Constitution." Justice Chase went further. He suggested, without firmly deciding it, that the only direct taxes the Constitution had in mind were "a capitation, or poll tax, simply" and a tax on land.[5]

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[3] Internal Revenue Service, "History Timeline," Publication 5335 (4-2019). https://www.irs.gov/pub/irs-pdf/p5335.pdf. Accessed November 12, 2026. [Not verified: the 1791 date of the whiskey tax, which the IRS timeline implies but I did not read stated.]

[4] Hylton v. United States, 3 U.S. 171 (1796), statement of the case, Legal Information Institute, Cornell Law School. https://www.law.cornell.edu/supremecourt/text/3/171. Accessed November 12, 2026.

[5] Hylton v. United States, 3 U.S. 171 (1796), opinions of Justices Chase and Iredell, Legal Information Institute, Cornell Law School. https://www.law.cornell.edu/supremecourt/text/3/171. Accessed November 12, 2026.

Why does a case about carriages matter in a book about income tax? Because Chase's short list of direct taxes, head taxes and land taxes, became the starting point for every later fight over the income tax. If the list was that short, an income tax was an "excise" that did not need to be apportioned. If the list was longer, an income tax might be stuck. The Court leaned on the short list in 1881 and then moved away from it in 1895, as the next sections show.

The Civil War income tax

The Civil War changed the money picture overnight. Congress needed far more revenue than tariffs could raise. According to the National Archives, "Congress placed a flat 3-percent tax on all incomes over $800 and later modified this principle to include a graduated tax."[6] A graduated tax is one where the rate rises as income rises.

The Revenue Act of July 1, 1862, set the pattern that later income taxes would follow. It taxed incomes from $600 to $10,000 at 3 percent and incomes above $10,000 at 5 percent, according to the Constitutional Rights Foundation's history of the tax.[7] The same 1862 law created the office of Commissioner of Internal Revenue, the forerunner of today's IRS. President Lincoln signed it, and on July 17, 1862, George S. Boutwell became the first Commissioner of Internal Revenue. In its first year the office collected $39.1 million.[8]

The wartime tax was meant to be temporary, and it was. "Congress repealed the income tax in 1872," the National Archives notes.[9]

Did the Supreme Court approve the Civil War tax?

Yes. A lawyer named William Springer challenged the tax, arguing it was a direct tax that had not been apportioned. The Supreme Court disagreed. In Springer v. United States, the Court held that the income tax was "an excise or duty, and not a direct tax." It said the only direct taxes in the constitutional sense were "capitation taxes," meaning head taxes charged per person, and "taxes on real estate."[10] That ruling seemed to settle the question. It did not stay settled for long.

The income tax of 1894

By the 1890s, farmers and workers in the South and West were pushing hard for an income tax. Their argument was that tariffs raised the price of everyday goods, so they fell hardest on ordinary families, while large fortunes went largely untaxed. In 1894 they won a round. "In

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[6] "16th Amendment to the U.S. Constitution: Federal Income Tax (1913)," National Archives, Milestone Documents, page last reviewed September 13, 2022. https://www.archives.gov/milestone-documents/16th-amendment. Accessed November 12, 2026.

[7] "The Income Tax Amendment: Most Thought It Was a Great Idea in 1913," Bill of Rights in Action, Constitutional Rights Foundation, undated. https://www.crf-usa.org/bill-of-rights-in-action/bria-11-3-b-the-income-tax-amendment-most-thought-it-was-a-great-idea-in-1913.html. Accessed November 12, 2026. The Supreme Court's opinion in Springer v. United States, 102 U.S. 586, describes the Act of July 1, 1862, and the Act of June 30, 1864 (13 Stat. 218) as the Civil War income tax laws. https://supreme.justia.com/cases/federal/us/102/586/. Accessed November 12, 2026.

[8] Internal Revenue Service, "History Timeline," Publication 5335 (4-2019). https://www.irs.gov/pub/irs-pdf/p5335.pdf. Accessed November 12, 2026. See also Robert Higgs, "Wartime Origins of Modern Income-Tax Withholding," Foundation for Economic Education (an advocacy group), November 1, 2007, which notes that the 1862 law also included withholding on some government salaries. https://fee.org/articles/wartime-origins-of-modern-income-tax-withholding/. Accessed November 12, 2026.

[9] National Archives, "16th Amendment to the U.S. Constitution: Federal Income Tax (1913)." https://www.archives.gov/milestone-documents/16th-amendment. Accessed November 12, 2026.

[10] Springer v. United States, 102 U.S. 586 (1880 term), syllabus points 4 and 5. Justia U.S. Supreme Court Center. https://supreme.justia.com/cases/federal/us/102/586/. Accessed November 12, 2026. The National Archives dates the ruling to 1881; Justia lists it under the October 1880 term. Both refer to the same case.

1894, as part of a high tariff bill, Congress enacted a 2-percent tax on income over $4,000," the National Archives explains.[11]

An exemption of $4,000 was large for the time. Only people with well-above-average incomes would have paid. Supporters saw that as the point. Opponents saw it as a tax aimed at one group, mostly in the Northeast, and they went to court.

Facts, interpretations and unknowns in this chapter

- **Confirmed:** The 1862 rates and income levels, the 1872 repeal, the Springer ruling and the 1894 rate and exemption all come from the National Archives, the Court's own opinions or the history cited above.
- **Interpretation:** The view that tariffs fell hardest on working families was the argument of income tax supporters at the time. It is described here as their argument, not as a finding.
- **Unknown:** I did not find an official count of how many people paid the Civil War income tax in each year, so this chapter gives none.

Interpretation: The view that Hylton settled the meaning of "direct tax" is a later reading. Justice Chase said plainly that he was not giving a firm judicial opinion on which taxes are direct, so the case is best read as a strong hint rather than a final rule.[12]

[11] National Archives, "16th Amendment to the U.S. Constitution: Federal Income Tax (1913)." https://www.archives.gov/milestone-documents/16th-amendment. Accessed November 12, 2026. The law's formal title was "An act to reduce taxation, to provide revenue for the government, and for other purposes," 28 Stat. 509, as recited in Pollock v. Farmers' Loan and Trust Co., 157 U.S. 429 (1895). https://supreme.justia.com/cases/federal/us/157/429/. Accessed November 12, 2026.

[12] Hylton v. United States, 3 U.S. 171 (1796), opinion of Justice Chase, Legal Information Institute, Cornell Law School. https://www.law.cornell.edu/supremecourt/text/3/171. Accessed November 12, 2026.

Chapter 2: The Court Says No, the Country Says Yes

The 1894 tax barely got started before the Supreme Court took it apart. The next 19 years show how Americans changed the Constitution to bring it back.

Pollock v. Farmers' Loan and Trust Company (1895)

A shareholder named Charles Pollock sued to stop his bank, the Farmers' Loan and Trust Company, from paying the new tax. The case was argued in March 1895 and decided on April 8, 1895. Chief Justice Melville Fuller wrote the opinion.[13]

In that first decision, the Court held that "a tax on the rents or income of real estate is a direct tax within the meaning of that term as used in the Constitution." Because it was not apportioned, that part of the tax was invalid. The Court also struck the tax on interest from state and city bonds. On the other questions, the justices who heard the case were "equally divided," so no ruling was made.[14]

The Court reheard the case with all nine justices. In May 1895, in a five-to-four decision, it struck down the whole income tax.[15] The reasoning, in short, was that a tax on income from property is really a tax on the property itself, so it is a direct tax that must be apportioned. Once the tax on income from property fell, the Court found that the rest of the law could not stand on its own.

You might ask, "Didn't the Court approve an income tax in Springer?" It did, and that is why Pollock was so controversial. Supporters of the tax said the Court had reversed a century of understanding. Defenders of the decision said it protected property owners from a tax the Constitution did not allow. Both views were loudly argued at the time, and historians still debate how far Pollock departed from earlier cases.

The second Pollock decision, May 20, 1895

The rehearing ended with a short, sweeping opinion. Chief Justice Melville Fuller again wrote for the Court. Starting from the point that "taxes on real estate being indisputably direct taxes," he held that a tax on the rent or income from land was direct too. He then took the step the first decision had not: "taxes on personal property, or on the income of personal property, are likewise direct taxes." Personal property here means things like stocks and bonds, so a tax on interest and dividends was now a direct tax.[16]

That left the Court with a choice. It could strike down only the parts of the 1894 law that taxed income from property and keep the tax on wages and business profits. It chose not to. Fuller

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[13] Pollock v. Farmers' Loan and Trust Co., 157 U.S. 429 (1895), argued March 7, 1895, decided April 8, 1895. Justia U.S. Supreme Court Center. https://supreme.justia.com/cases/federal/us/157/429/. Accessed November 12, 2026.

[14] Pollock v. Farmers' Loan and Trust Co., 157 U.S. 429 (1895), syllabus. https://supreme.justia.com/cases/federal/us/157/429/. Accessed November 12, 2026.

[15] National Archives, "16th Amendment to the U.S. Constitution: Federal Income Tax (1913)," which describes "a five-to-four decision of the Supreme Court." https://www.archives.gov/milestone-documents/16th-amendment. Accessed November 12, 2026. The rehearing decision is reported at 158 U.S. 601 (1895). The rehearing opinion, decided May 20, 1895, is at Legal Information Institute, Cornell Law School. https://www.law.cornell.edu/supremecourt/text/158/601. Accessed November 12, 2026.

[16] Pollock v. Farmers' Loan and Trust Co., 158 U.S. 601 (1895), decided May 20, 1895, opinion of Chief Justice Fuller, Legal Information Institute, Cornell Law School. https://www.law.cornell.edu/supremecourt/text/158/601. Accessed November 12, 2026.

wrote that "all those sections, constituting one entire scheme of taxation, are necessarily invalid." The reasoning was that Congress would never have passed a tax that fell only on wage earners and businesses while letting income from property go free.[17]

Four justices dissented. Justice Harlan wrote a long dissent that ended, "I dissent from the opinion and judgment of the court." Justice Brown wrote separately and called the result "a confession of feebleness in which I find myself wholly unable to join." Justice Jackson, who said he was unable to prepare a full opinion, wrote a brief outline of his dissent and said he also agreed with the dissent Justice Edward White had written at the first hearing.[18]

As I read it, Brown's phrase was aimed at the idea that the national government could not tax the income of the wealthy in a fair way without a constitutional change. Eighteen years later, the country made that change.

The 1909 bargain

For the next decade, income tax supporters looked for a way around Pollock. In 1909, the fight came to a head during a debate over tariffs. Progressive members of Congress from both parties attached an income tax to the tariff bill. Conservatives, who did not want to force a second showdown at the Supreme Court, proposed a constitutional amendment instead.[19]

President William Howard Taft, a Republican, backed a deal. According to the Constitutional Rights Foundation, Representative Cordell Hull of Tennessee, a Democrat, "worked out a deal with the Republican president, William Howard Taft. Hull and his allies promised not to stall the passage of tariff laws, while Taft came out in favor of a corporation tax and a constitutional amendment."[20]

Many members of Congress who opposed an income tax voted for the amendment anyway, some expecting that the states would never ratify it. The vote was lopsided: 77 to 0 in the Senate and 318 to 14 in the House.[21] The National Archives lists the amendment as passed by Congress on July 2, 1909.[22]

The words of the 16th Amendment

The full text is one sentence:

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[17] Pollock v. Farmers' Loan and Trust Co., 158 U.S. 601 (1895), opinion of Chief Justice Fuller, Legal Information Institute, Cornell Law School. https://www.law.cornell.edu/supremecourt/text/158/601. Accessed November 12, 2026.

[18] Pollock v. Farmers' Loan and Trust Co., 158 U.S. 601 (1895), dissenting opinions of Justices Harlan, Brown and Jackson, Legal Information Institute, Cornell Law School. https://www.law.cornell.edu/supremecourt/text/158/601. Accessed November 12, 2026.

[19] National Archives, "16th Amendment to the U.S. Constitution: Federal Income Tax (1913)." https://www.archives.gov/milestone-documents/16th-amendment. Accessed November 12, 2026.

[20] Constitutional Rights Foundation, "The Income Tax Amendment: Most Thought It Was a Great Idea in 1913." https://www.crf-usa.org/bill-of-rights-in-action/bria-11-3-b-the-income-tax-amendment-most-thought-it-was-a-great-idea-in-1913.html. Accessed November 12, 2026. This is an educational history (tier 3 or 4) and is the source for the deal as described; I did not find a primary record of the negotiation itself.

[21] Constitutional Rights Foundation, same source; Thomas V. DiBacco, "Cordell Hull, father of the income tax," Christian Science Monitor, April 15, 1985. https://www.csmonitor.com/1985/0415/etaxes.html. Accessed November 12, 2026. Both give the same vote totals.

[22] National Archives, "16th Amendment to the U.S. Constitution: Federal Income Tax (1913)." https://www.archives.gov/milestone-documents/16th-amendment. Accessed November 12, 2026.

"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."[23]

Notice what it does and does not do. It does not create a tax. It removes the apportionment requirement for taxes on income, "from whatever source derived." That phrase answered Pollock directly: income from property, such as rent and interest, could now be taxed without splitting the bill among states by population.

Ratification

Thirty-six state legislatures had to approve the amendment. By early 1913, 42 states, six more than needed, had ratified it, and only six rejected it, according to the Constitutional Rights Foundation.[24]

The states moved faster than many expected. The amendment was ratified on February 3, 1913, when enough states had approved it. On February 25, 1913, Secretary of State Philander C. Knox certified that it had become part of the Constitution.[25] Some people have since argued that the ratification was flawed. Chapter 16 looks at that claim and what the courts said about it.

The Revenue Act of 1913

With the amendment in place, Congress wrote a new income tax into the tariff act of October 3, 1913.[26] Cordell Hull was its main author. A 1985 profile by historian Thomas V. DiBacco calls Hull "the main author of legislation implementing the 16th Amendment."[27]

The 1913 tax reached very few people. Single people with $3,000 or less of income and married couples with $4,000 or less paid nothing.[28] Above that, the rates started at 1 percent and rose to 7 percent on income over $500,000.[29] According to the National Archives, in 1913 "less than 1 percent of the population paid income taxes at the rate of only 1 percent of net income."[30]

To put that exemption in perspective, prices have risen many times over since 1913, so $3,000 then was a very large income. You can convert any 1913 amount into today's dollars with the Consumer Price Index (CPI) calculator published by the Bureau of Labor Statistics (BLS) at

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[23] National Archives, transcript of the 16th Amendment. https://www.archives.gov/milestone-documents/16th-amendment. Accessed November 12, 2026.

[24] "The Income Tax Amendment: Most Thought It Was a Great Idea in 1913," Bill of Rights in Action, Constitutional Rights Foundation, undated. https://www.crf-usa.org/bill-of-rights-in-action/bria-11-3-b-the-income-tax-amendment-most-thought-it-was-a-great-idea-in-1913.html. Accessed November 12, 2026.

[25] National Archives, "16th Amendment to the U.S. Constitution: Federal Income Tax (1913)," which states the amendment was "ratified February 3, 1913" and that "on February 25, 1913, with the certification by Secretary of State Philander C. Knox, the 16th amendment took effect." https://www.archives.gov/milestone-documents/16th-amendment. Accessed November 12, 2026.

[26] Brushaber v. Union Pacific R. Co., 240 U.S. 1 (1916), which describes "the income tax provisions of the tariff act of October 3, 1913 (section II., c. 16, 38 Stat. 166)." https://supreme.justia.com/cases/federal/us/240/1/. Accessed November 12, 2026.

[27] Thomas V. DiBacco, "Cordell Hull, father of the income tax," Christian Science Monitor, April 15, 1985. https://www.csmonitor.com/1985/0415/etaxes.html. Accessed November 12, 2026.

[28] Brushaber v. Union Pacific R. Co., 240 U.S. 1 (1916), describing the exemptions in the 1913 Act. https://supreme.justia.com/cases/federal/us/240/1/. Accessed November 12, 2026.

[29] Robert A. Wilson, "Personal Exemptions and Individual Income Tax Rates, 1913-2002," Statistics of Income Bulletin, Internal Revenue Service, Spring 2002, Table 1, tax years 1913-1915. https://www.irs.gov/pub/irs-soi/02inpetr.pdf. Accessed November 12, 2026.

[30] National Archives, "16th Amendment to the U.S. Constitution: Federal Income Tax (1913)." https://www.archives.gov/milestone-documents/16th-amendment. Accessed November 12, 2026.

https://www.bls.gov/data/inflation_calculator.htm. I have not printed a converted figure here because I could not open the calculator to confirm the result as of the cutoff date.

What the 1913 law actually taxed

The 1913 law reached more kinds of income than many people expect. According to the IRS Statistics of Income division, it applied to "salaries and wages, interest, dividends, rents, royalties, pensions, annuities," income from estates and trusts, profits of businesses and partnerships, and gains from selling most types of property. There were also some big exceptions. The salaries of state and local government workers were not taxed, and neither was interest on federal, state and local government bonds.[31]

The tax came in two layers. A "normal tax" of 1 percent applied to income above the exemption. On top of that, a "surtax" ranged from 1 percent to 6 percent on larger incomes. That is why the top rate in 1913 is usually given as 7 percent: 1 percent normal tax plus 6 percent surtax. People could deduct personal interest, state and local taxes, federal excise taxes, casualty and theft losses and business expenses. The tax was even collected at the source on wages, interest, rents and annuities, a kind of early withholding that Congress dropped for 1916.[32]

So the basic shape of today's tax was there from the start: a broad list of income, an exemption that kept most people out, graduated rates and a short list of deductions. What changed over the next century was mostly how many people the tax reached and how high the rates went.

The first modern income tax, 1913 (nominal dollars)

Feature	1913 rule
Who paid nothing	Single people with $3,000 or less; married couples with $4,000 or less
Lowest rate	1 percent
Top rate	7 percent, on income over $500,000
Share of population paying	Less than 1 percent
Sources	Brushaber v. Union Pacific (1916); IRS SOI Bulletin, Spring 2002, Table 1; National Archives

From 1 percent to 10 percent of personal income

How much has the tax grown, measured against the money people actually earn? The IRS Statistics of Income division gives one way to see it. For about 30 years after 1913, it says, "the tax applied only to high-income individuals," because exemptions were high and few people earned enough to owe even the lowest rate. Since World War II, changes in exemptions, deductions and rates, along with rising incomes, increased the tax collected before refunds "from 1 percent of 'personal income,' as estimated by the Department of Commerce, to over 10

[31] Robert A. Wilson, "Personal Exemptions and Individual Income Tax Rates, 1913-2002," Statistics of Income Bulletin, Internal Revenue Service, Spring 2002, text. https://www.irs.gov/pub/irs-soi/02inpetr.pdf. Accessed November 12, 2026.

[32] Robert A. Wilson, "Personal Exemptions and Individual Income Tax Rates, 1913-2002," Statistics of Income Bulletin, Internal Revenue Service, Spring 2002, text. https://www.irs.gov/pub/irs-soi/02inpetr.pdf. Accessed November 12, 2026.

percent of personal income for the most recent years," meaning around 2002 when the IRS wrote that.[33]

The same IRS paper notes that in fiscal year 2001 the individual income tax brought in $1.2 trillion of the $2.1 trillion in total federal tax collections, "over half."[34] Twenty-five years later the share is still a little over half (Chapter 18). The dollar figures have more than doubled, but the income tax's place at the center of federal finance has hardly moved.

The first Form 1040 and the first collections

On January 5, 1914, the Treasury unveiled the first Form 1040 for the new tax.[35] The first filing deadline, March 1, 1914, was the first day of collections, and the government collected $71 million in the tax's first year, according to the Constitutional Rights Foundation.[36] Compare that with the $2.85 trillion in individual income tax the government collected in fiscal year 2026 (Chapter 18). Even allowing for more than a century of inflation and population growth, the tax has grown enormously.

It also grew quickly at first. In 1917, to pay for the First World War, Congress lowered the exemption for single people from $3,000 to $1,000 and doubled the lowest rate from 1 to 2 percent.[37]

The Court accepts the new tax

Opponents challenged the 1913 law too. In Brushaber v. Union Pacific Railroad Co., decided January 24, 1916, Chief Justice Edward White wrote for the Court that the amendment's purpose was to relieve income taxes "from apportionment from consideration of the source whence the income is derived." The Court upheld the law.[38]

That ruling still matters. Many of the "the income tax is illegal" arguments in Chapter 16 run straight into Brushaber, and courts have cited it for more than a century.

What counts as income? Eisner v. Macomber (1920)

Four years after Brushaber, the Court took up a narrower question: what does "income" mean in the 16th Amendment? Myrtle Macomber had received extra shares of stock as a "stock dividend" and was taxed on them under the Revenue Act of 1916. In Eisner v. Macomber, Justice Mahlon

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[33] Robert A. Wilson, "Personal Exemptions and Individual Income Tax Rates, 1913-2002," Statistics of Income Bulletin, Internal Revenue Service, Spring 2002, text. https://www.irs.gov/pub/irs-soi/02inpetr.pdf. Accessed November 12, 2026.

[34] Robert A. Wilson, "Personal Exemptions and Individual Income Tax Rates, 1913-2002," Statistics of Income Bulletin, Internal Revenue Service, Spring 2002, text. https://www.irs.gov/pub/irs-soi/02inpetr.pdf. Accessed November 12, 2026.

[35] Internal Revenue Service, "History Timeline," Publication 5335 (4-2019). https://www.irs.gov/pub/irs-pdf/p5335.pdf. Accessed November 12, 2026.

[36] "The Income Tax Amendment: Most Thought It Was a Great Idea in 1913," Bill of Rights in Action, Constitutional Rights Foundation, undated. https://www.crf-usa.org/bill-of-rights-in-action/bria-11-3-b-the-income-tax-amendment-most-thought-it-was-a-great-idea-in-1913.html. Accessed November 12, 2026.

[37] "The Income Tax Amendment: Most Thought It Was a Great Idea in 1913," Bill of Rights in Action, Constitutional Rights Foundation, undated. https://www.crf-usa.org/bill-of-rights-in-action/bria-11-3-b-the-income-tax-amendment-most-thought-it-was-a-great-idea-in-1913.html. Accessed November 12, 2026. The IRS SOI Bulletin, Spring 2002, Table 1, shows the same 1917 exemption and rate. https://www.irs.gov/pub/irs-soi/02inpetr.pdf.

[38] Brushaber v. Union Pacific R. Co., 240 U.S. 1 (1916), decided January 24, 1916, syllabus and opinion of Chief Justice White. https://supreme.justia.com/cases/federal/us/240/1/. Accessed November 12, 2026.

Pitney wrote for the Court, "Income may be defined as the gain derived from capital, from labor, or from both combined." He added that "mere growth or increment of value in a capital investment is not income," and that a stock dividend "really takes nothing from the property of the corporation, and adds nothing to that of the shareholder." The Court held that taxing such a dividend was a tax on capital, not income, and could not be collected without apportionment.[39]

Why does a century-old case about stock dividends matter? Because it is the source of the idea that income must be "realized," usually through a sale or payment, before it can be taxed. That idea sits at the center of today's debate over taxing unsold gains of the very wealthy (Chapter 20). The Supreme Court declined to settle that question in Moore v. United States in 2024.

The decision was close. The case was argued in April 1919, reargued in October 1919 and decided on March 8, 1920. Justices Holmes and Brandeis wrote dissents, and Justices Day and Clarke joined them, so the vote was five to four.[40]

What this part tells us

The income tax did not arrive quietly. It began as a war measure, was revived by a political movement, was struck down by a divided Supreme Court and came back only through a constitutional amendment that passed Congress with almost no opposition. At the start it touched less than 1 percent of the population. Part Two shows how it grew from that small base into a tax that most working Americans file every year.

[39] Eisner v. Macomber, 252 U.S. 189 (1920). https://supreme.justia.com/cases/federal/us/252/189/. Accessed November 12, 2026. The case was decided March 8, 1920, with Justices Holmes, Day, Brandeis and Clarke dissenting, according to the Legal Information Institute, Cornell Law School. https://www.law.cornell.edu/supremecourt/text/252/189. Accessed November 12, 2026.

[40] Eisner v. Macomber, 252 U.S. 189 (1920), argued April 16, 1919, reargued October 17 and 20, 1919, decided March 8, 1920, Legal Information Institute, Cornell Law School. https://www.law.cornell.edu/supremecourt/text/252/189. Accessed November 12, 2026.

Part Two: A Century of Tax Laws

Chapter 3: War, Boom and Depression, 1913 to 1940

The income tax of 1913 was small. Within five years it was one of the biggest sources of federal money, and the reason was war.

World War I

When the United States moved toward entering World War I, Congress raised rates sharply. The top rate went from 7 percent in 1915 to 15 percent in 1916, 67 percent in 1917 and 77 percent in 1918, on income over $1 million. The exemption also dropped, from $3,000 for a single person to $1,000 in 1917, which brought many more middle-income people into the tax.[41]

You might wonder why the top rate climbed so high. Congress needed money fast, and taxing the largest incomes at high rates was one way to raise it without placing the full burden on ordinary families. The other side of the argument, made at the time and since, was that such high rates encourage people to move income into forms the tax does not reach. That argument shaped the next decade.

A new job: Prohibition

The Bureau of Internal Revenue picked up an unusual job in this period. When the National Prohibition Enforcement Act became law on October 27, 1919, the Bureau was named the agency to enforce it. Tax agents became, for a time, the government's front line against illegal liquor.[42] That history is one reason the IRS still has armed criminal investigators today (Chapter 17), though Prohibition enforcement moved out of the Bureau long ago. Congress moved it out with a law approved March 3, 1927, which transferred the Prohibition duties of the Commissioner of Internal Revenue to the Secretary of the Treasury and created a separate Bureau of Prohibition, effective April 1, 1927.[43]

Other changes between the wars

Several features of today's tax first appeared in these years. The IRS Statistics of Income division lists them:[44]

- 1917: an exemption for dependents and a deduction for charitable gifts were added.
- 1922: capital gains, the profit from selling property, began to get special lower treatment, though some sales got special treatment as early as 1918.

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[41] Robert A. Wilson, "Personal Exemptions and Individual Income Tax Rates, 1913-2002," Statistics of Income (SOI) Bulletin, Internal Revenue Service, Spring 2002, Table 1. https://www.irs.gov/pub/irs-soi/02inpetr.pdf. Accessed November 12, 2026. The IRS notes that its top-rate figures for these years include the normal tax plus the top surtax, and that the 1918 figure does not include the separate war excess profits tax.

[42] Internal Revenue Service, "History Timeline," Publication 5335 (4-2019). https://www.irs.gov/pub/irs-pdf/p5335.pdf. Accessed November 12, 2026.

[43] An Act To create a Bureau of Customs and a Bureau of Prohibition in the Department of the Treasury, ch. 348, 44 Stat. 1381, approved March 3, 1927, sections 1, 4 and 7, Government Publishing Office. https://www.govinfo.gov/link/statute/44/1381. Accessed November 12, 2026.

[44] Robert A. Wilson, "Personal Exemptions and Individual Income Tax Rates, 1913-2002," Statistics of Income Bulletin, Internal Revenue Service, Spring 2002, list of significant changes. https://www.irs.gov/pub/irs-soi/02inpetr.pdf. Accessed November 12, 2026.

- 1939: the salaries of state and local government employees became taxable.
- 1941: a tax "look-up" table was introduced so lower-income people did not have to work through the rate schedule.

The charitable deduction and the lower rate on capital gains are still in the law more than a century later. Both show up among the largest tax breaks in Chapter 11.

The 1920s: rates come down

After the war, Congress cut rates in steps. The top rate fell from 73 percent in 1921 to 58 percent in 1922, 43.5 percent in 1923 and 25 percent from 1925 through 1928, on income over $100,000. For 1929 it was 24 percent.[45] The lowest rate dropped as well, to as little as 0.375 percent in 1929, and the exemption for a married couple rose to $3,500.[46]

These cuts are linked to Andrew Mellon, the banker and industrialist who served as Treasury Secretary from 1921 to 1932 under Presidents Harding, Coolidge and Hoover. The Treasury's own history says, "Mellon's philosophy was one of debt reduction, tax reduction, and a balanced budget," and that his plan "reduced taxes for business." When the Depression hit, Mellon continued trying to balance the budget "by cutting spending and increasing taxes."[47] Mellon's own statement of that argument, from his 1924 book, is quoted at the end of this section. Whether lower rates in the 1920s actually raised revenue from the highest earners is still debated by economists, and I did not find a single official estimate that settles it, so I treat it here as an open question.

Mellon made his case in his own words in a 1924 book, Taxation: The People's Business. He wrote that "the sources of taxation are drying up; wealth is failing to carry its share of the tax burden," and that "the history of taxation shows that taxes which are inherently excessive are not paid." His point was that very high rates pushed wealthy people to move their money out of taxable business and into tax-exempt securities, such as state and city bonds, whose interest the income tax did not reach. In his view, lower top rates would bring that money back into taxable use.[48]

That is Mellon's argument, not a finding. I did not find an official estimate that settles whether the cuts raised or lowered revenue from top earners, so I leave it as a debated question.

The Depression: rates go back up

The economy collapsed after 1929, and federal revenue collapsed with it. Congress raised rates again. The top rate jumped to 63 percent for 1932 through 1935, on income over $1 million, and

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[45] Wilson, "Personal Exemptions and Individual Income Tax Rates, 1913-2002," IRS SOI Bulletin, Spring 2002, Table 1. https://www.irs.gov/pub/irs-soi/02inpetr.pdf. Accessed November 12, 2026.

[46] Same source, Table 1, tax years 1925-1931.

[47] U.S. Department of the Treasury, "Andrew W. Mellon (1921 - 1932)," Prior Secretaries. https://home.treasury.gov/about/history/prior-secretaries/andrew-w-mellon-1921-1932. Accessed November 12, 2026.

[48] Andrew W. Mellon, Taxation: The People's Business (New York: Macmillan, 1924), chapter I, Internet Archive. https://archive.org/stream/taxationpeoplesb00mell/taxationpeoplesb00mell_djvu.txt. Accessed November 12, 2026.

to 79 percent for 1936 through 1939, on income over $5 million. The lowest rate went to 4 percent, and the exemption for a married couple dropped back to $2,500.[49]

Even with those high top rates, the income tax still reached only a small share of Americans. Historian Robert Higgs, writing for the Foundation for Economic Education (an advocacy group), notes that "as late as 1939 fewer than four million individual returns were filed."[50] That was about to change.

Top and bottom income tax rates, selected years 1913 to 1940 (married couple; nominal dollars)

Year	Lowest rate	Top rate	Top rate applied to income over
1913	1.0%	7.0%	$500,000
1916	2.0%	15.0%	$2,000,000
1917	2.0%	67.0%	$2,000,000
1918	6.0%	77.0%	$1,000,000
1922	4.0%	58.0%	$200,000
1925	1.125%	25.0%	$100,000
1929	0.375%	24.0%	$100,000
1932	4.0%	63.0%	$1,000,000
1936	4.0%	79.0%	$5,000,000
1940	4.4%	81.1%	$5,000,000
Source	IRS SOI Bulletin, Spring 2002, Table 1		

A second federal tax on wages: Social Security

On August 14, 1935, President Franklin D. Roosevelt signed the Social Security Act. The IRS history notes that it created payroll withholding, years before income tax withholding.[51] That payroll tax is separate from the income tax and is tied to Social Security by law (Chapter 18). Today it takes more out of many workers' paychecks than the income tax does (Chapter 10).

[49] Wilson, "Personal Exemptions and Individual Income Tax Rates, 1913-2002," IRS SOI Bulletin, Spring 2002, Table 1, tax years 1932-1939. https://www.irs.gov/pub/irs-soi/02inpetr.pdf. Accessed November 12, 2026.

[50] Robert Higgs, "Wartime Origins of Modern Income-Tax Withholding," Foundation for Economic Education, November 1, 2007. https://fee.org/articles/wartime-origins-of-modern-income-tax-withholding/. Accessed November 12, 2026. [Not verified against IRS or Treasury data: I found these return counts only in this source.]

[51] Internal Revenue Service, "History Timeline," Publication 5335 (4-2019). https://www.irs.gov/pub/irs-pdf/p5335.pdf. Accessed November 12, 2026.

Chapter 4: The Tax Becomes a Mass Tax

World War II turned the income tax from a tax on the well-off into a tax on almost every working household. Two laws did most of that work.

The Revenue Act of 1942

The Revenue Act of 1942 raised rates and lowered exemptions. The Treasury's history of major tax bills says it "increased individual income tax rates," created a "5% Victory tax on all individual income over $624, with postwar credit," and cut the personal exemption for married couples "from $1,500 to $1,200."[52] The top rate for 1942 and 1943 was 88 percent, and for 1944 and 1945 it reached 94 percent on income over $200,000. The lowest rate rose to 19 percent and then 23 percent.[53]

The Victory tax

The 1942 law added an unusual second income tax called the Victory tax: 5 percent on "all individual income over $624, with postwar credit." The postwar credit meant part of it was to be given back after the war, a little like a forced savings plan. It did not last. The Revenue Act of 1943 lowered the Victory tax to 3 percent and repealed the postwar credit, and the Individual Income Tax Act of 1944 repealed the Victory tax altogether, folding it into the regular tax and setting the personal exemption at $500 per person.[54]

The 1943 law also raised excise taxes on alcohol, jewelry, telephone service and admissions to events, and raised the corporate excess profits tax to 95 percent.[55] The Treasury study notes that the different wartime taxes overlapped so much that lawmakers "attempted to rationalize these different taxes and reduce the administrative burden on taxpayers" in several of these bills.[56] The 1944 law was one of those cleanups.

Pay as you go: Beardsley Ruml and withholding

Before 1943, most people paid their income tax in a lump sum the year after they earned the money. With millions of new taxpayers, many of whom had never saved for a tax bill, that system was heading for trouble.

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[52] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, appendix entry for the Revenue Act of 1942. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

[53] Wilson, "Personal Exemptions and Individual Income Tax Rates, 1913-2002," IRS SOI Bulletin, Spring 2002, Table 1, tax years 1942-1945. https://www.irs.gov/pub/irs-soi/02inpetr.pdf. Accessed November 12, 2026. The IRS notes that the 1944-45 top rate was subject to a cap that limited the total tax to 90 percent of net income.

[54] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, appendix entries for 1942 through 1944. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

[55] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, appendix entry for the Revenue Act of 1943. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

[56] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, appendix note 10. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

Beardsley Ruml, the treasurer of the R.H. Macy department store company and chairman of the Federal Reserve Bank of New York, proposed a fix: switch to collecting tax as income is earned, and forgive one year's tax so nobody would have to pay two years at once during the switch.[57] The Treasury objected to forgiving that much, and Congress settled on a compromise.

The result was the Current Tax Payment Act of 1943, signed June 9, 1943.[58] The Treasury's history says it "imposed withholding of income tax by employers on wages paid" and "canceled 75-100% of lower of 1942 or 1943 individual income tax liability."[59]

Withholding is the reason most of us never write one large check to the IRS. Your employer takes tax out of every paycheck and sends it in. At filing time you settle up, and if too much was withheld, you get a refund. You might ask, "Is a refund a gift from the government?" No. It is your own money, withheld during the year beyond what you owed.

One of the Treasury economists who helped design withholding was a young Milton Friedman, later a Nobel Prize-winning economist known for favoring smaller government. He called himself "one of the architects" of the withholding plan and later wrote that he had not foreseen how it would make a larger government easier to fund.[60] Withholding remains the backbone of collection. Higgs reports that in 2005, $787 billion of $1,108 billion in individual income tax, or 71 percent, came through withholding.[61]

How big did the tax get?

Higgs reports that 50 million individual income tax returns were filed in 1945, up from fewer than 4 million in 1939, and that collections rose from less than $1 billion in 1939 to more than $19 billion in 1945.[62] Whatever the exact figures, the direction is clear in the official rate tables: lower exemptions and higher rates pulled tens of millions of new people into the system, and withholding made collecting from them practical.

How big were the wartime tax laws?

A Treasury economist, Jerry Tempalski of the Office of Tax Analysis, compared the size of every major tax law since 1940 using official revenue estimates. He found that the Revenue Act of 1942 "was the biggest tax increase (and biggest tax bill) of the 1940-1967 period," and that the Revenue Act of 1945 was the biggest tax cut of that period.[63]

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[57] Higgs, "Wartime Origins of Modern Income-Tax Withholding," Foundation for Economic Education (advocacy group), November 1, 2007. https://fee.org/articles/wartime-origins-of-modern-income-tax-withholding/. Accessed November 12, 2026.

[58] Higgs, same source, for the signing date. [Not verified against the statute: the date is from this source.]

[59] Tempalski, "Revenue Effects of Major Tax Bills," Treasury OTA Working Paper 81, appendix entry for the Current Tax Payment Act of 1943. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026. The IRS SOI Bulletin adds that collection of tax at the source "was discontinued for 1916, but was reinstated, starting with 1943, for taxes on salaries and wages." https://www.irs.gov/pub/irs-soi/02inpetr.pdf.

[60] Robert Higgs, "Wartime Origins of Modern Income-Tax Withholding," Foundation for Economic Education (an advocacy group), November 1, 2007. https://fee.org/articles/wartime-origins-of-modern-income-tax-withholding/. Accessed November 12, 2026. Higgs cites Friedman's memoir, Two Lucky People (1998). [Not verified: I did not read the memoir itself.]

[61] Robert Higgs, "Wartime Origins of Modern Income-Tax Withholding," Foundation for Economic Education (an advocacy group), November 1, 2007. https://fee.org/articles/wartime-origins-of-modern-income-tax-withholding/. Accessed November 12, 2026.

[62] Higgs, same source. [Not verified against IRS or Treasury data.]

[63] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, abstract and pages 3-4. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

The best way to compare laws across decades is as a share of the economy, measured by gross domestic product (GDP), because that removes the effect of inflation and growth. On that measure the 1942 law raised revenue equal to about 5 percent of GDP in its first full year. The 1945 cut was about 2.7 percent of GDP. For comparison, no law in the Treasury's table for 1968 to 2006 reached 5 percent of GDP in any single year. The closest was the 1981 tax cut, at about 4.2 percent of GDP in its fourth year.[64]

Major tax laws of the World War II era, size in the first full year (Treasury and JCT estimates)

Law	What it did, in short	Revenue effect (billions of nominal dollars)	Share of GDP
Revenue Act of 1940	Raised individual and corporate rates; married couples' exemption cut from $2,500 to $2,000	+1.2	0.91%
Revenue Act of 1941	Raised rates again; married exemption cut from $2,000 to $1,500	+3.6	2.20%
Revenue Act of 1942	Raised rates; 5% Victory tax; married exemption cut to $1,200	+10.0	5.04%
Current Tax Payment Act of 1943	Withholding on wages; forgave most of one year's tax	+2.5	1.16%
Individual Income Tax Act of 1944	Repealed Victory tax; set exemptions at $500 per person	-0.6	-0.27%
Revenue Act of 1945	Repealed excess profits tax; cut individual and corporate rates	-5.9	-2.67%
Source	Tempalski, Treasury OTA Working Paper 81, Table 1 and appendix. The 1943 and 1944 figures are JCT estimates.		

The table also shows how the exemption fell. A married couple could earn $2,500 before owing tax in 1939. By 1944 the exemption was $500 per person, so a married couple with no children

[64] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, pages 2-4 and Tables 1 and 2. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

had $1,000 exempt. That is the main reason tens of millions of new taxpayers entered the system.[65]

Two more lasting changes came out of the war years. The deduction for unusually large medical expenses began in 1942, and the standard deduction, a flat amount people could take instead of listing their deductions, began in 1944.[66] Most filers today take the standard deduction, as Chapter 9 explains, so a wartime idea for simplifying returns is now the way most of us file.

[65] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, appendix entries for the Revenue Acts of 1940 through 1942 and the Individual Income Tax Act of 1944. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

[66] Robert A. Wilson, "Personal Exemptions and Individual Income Tax Rates, 1913-2002," Statistics of Income Bulletin, Internal Revenue Service, Spring 2002, list of significant changes. https://www.irs.gov/pub/irs-soi/02inpetr.pdf. Accessed November 12, 2026.

Chapter 5: From 91 Percent to 1981

The postwar years

After the war, Congress trimmed the top rate but kept it very high. The Revenue Act of 1945 cut the top rate "from 94% to 86.45%," according to the Treasury.[67] With the Korean War, it climbed again. The top rate was 91 percent in 1951, 92 percent in 1952 and 1953, and 91 percent from 1954 through 1963, on taxable income over $400,000 for a married couple.[68]

Those numbers are often quoted to show how high taxes on the rich once were. They need two cautions. First, very few people had income in the top bracket. Second, the IRS notes that for 1954 through 1963 the top rate was "subject to a maximum effective rate limitation equal to 87.0 percent" of taxable income, and the tax code of the time had many deductions and shelters that reduced what high earners actually paid.[69] The top rate tells you what the law said about the last dollar. It does not tell you what share of their income the richest families actually paid.

Income splitting and the 1954 code

In 1948, Congress changed how married couples were taxed. The Revenue Act of 1948 cut individual rates by 5 to 13 percent, raised the personal exemption from $500 to $600, added an extra exemption for people age 65 and older and "permitted married couples to split their incomes for tax purposes."[70]

What is income splitting? It let a couple treat their combined income as if each spouse earned half, and figure the tax as if each were taxed separately. With graduated rates, two half-sized incomes face lower rates than one large one, so this "usually" lowered the couple's tax.[71] It is the root of the separate, wider brackets that married couples filing jointly still use today.

The Korean War brought rates back up in 1950 and 1951. Then Congress rewrote the whole tax law as the Internal Revenue Code of 1954. Among other things, it gave businesses faster depreciation deductions and created a small dividend credit for individuals. Starting in 1954, the tax base was redefined and called "taxable income," the same term on your return today.[72]

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[67] Tempalski, "Revenue Effects of Major Tax Bills," Treasury OTA Working Paper 81, appendix entry for the Revenue Act of 1945. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

[68] Wilson, "Personal Exemptions and Individual Income Tax Rates, 1913-2002," IRS SOI Bulletin, Spring 2002, Table 1, tax years 1951-1963. https://www.irs.gov/pub/irs-soi/02inpetr.pdf. Accessed November 12, 2026.

[69] Same source, footnote 19 to Table 1.

[70] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, appendix entry for the Revenue Act of 1948. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

[71] Robert A. Wilson, "Personal Exemptions and Individual Income Tax Rates, 1913-2002," Statistics of Income Bulletin, Internal Revenue Service, Spring 2002, list of significant changes. https://www.irs.gov/pub/irs-soi/02inpetr.pdf. Accessed November 12, 2026.

[72] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, appendix entries for 1950 through 1954. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026. Robert A. Wilson, "Personal Exemptions and Individual Income Tax Rates, 1913-2002,"

One quieter change in 1962 mattered a great deal later. The Revenue Act of 1962 "required information reporting to government for interest and dividend payments."[73] Chapter 14 shows why: income that is reported to the IRS by a third party is far less likely to go unreported.

The 1964 tax cut

President John F. Kennedy proposed a broad tax cut in 1963. After his death, President Lyndon Johnson signed it as the Revenue Act of 1964. The Treasury's history says it "reduced individual tax rates (top rate dropped from 91% to 70%)."[74] The cut came in two steps. The top rate was 77 percent for 1964 and 70 percent starting in 1965, and the lowest rate fell from 20 percent to 16 percent and then 14 percent.[75]

The minimum tax of 1969

In January 1969, the outgoing Treasury Secretary, Joseph Barr, told Congress that some very high-income people paid no federal income tax at all. The figure usually repeated is that 155 people with incomes over $200,000 paid no income tax for 1967.[76] Public reaction helped push Congress to pass the Tax Reform Act of 1969. The Treasury says it "established individual and corporate minimum taxes" and lowered the maximum rate on earned income from 70 percent to 50 percent.[77] That minimum tax is the ancestor of today's Alternative Minimum Tax (AMT), a second tax calculation meant to make sure people with many deductions still pay something.

President Richard Nixon picked up the issue three months later. In a special message to Congress on April 21, 1969, he wrote, "Much concern has been expressed because some citizens with incomes of more than $200,000 pay no Federal income taxes." He asked for what was "in effect a 'minimum income tax' for citizens with substantial incomes." In the same message he proposed a low-income allowance that would "remove more than 2,000,000 of our low income families from the Federal tax rolls."[78]

So the 1969 law did two things at once that are easy to forget. It added a tax aimed at high-income people who paid little, and it took many low-income families off the income tax rolls.

Statistics of Income Bulletin, Internal Revenue Service, Spring 2002. https://www.irs.gov/pub/irs-soi/02inpetr.pdf. Accessed November 12, 2026.

[73] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, appendix entry for the Revenue Act of 1962. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

[74] Tempalski, "Revenue Effects of Major Tax Bills," Treasury OTA Working Paper 81, appendix entry for the Revenue Act of 1964. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

[75] Wilson, IRS SOI Bulletin, Spring 2002, Table 1, tax years 1954-1965. https://www.irs.gov/pub/irs-soi/02inpetr.pdf. Accessed November 12, 2026.

[76] Timothy Taylor, "Those Who Pay Zero in U.S. Income Tax," Conversable Economist, August 30, 2013, which repeats the account. https://conversableeconomist.com/2013/08/30/those-who-pay-zero-in-u-s-income-tax/. Accessed November 12, 2026. [Not verified: I did not find the hearing transcript; the 155 figure comes from secondary accounts.]

[77] Tempalski, "Revenue Effects of Major Tax Bills," Treasury OTA Working Paper 81, appendix entry for the Tax Reform Act of 1969. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026. The IRS SOI Bulletin confirms "a 'minimum tax' on specified 'tax preference' items was introduced for 1970." https://www.irs.gov/pub/irs-soi/02inpetr.pdf.

[78] Richard Nixon, "Special Message to the Congress on Reform of the Federal Tax System," April 21, 1969, The American Presidency Project, University of California, Santa Barbara. https://www.presidency.ucsb.edu/documents/special-message-the-congress-reform-the-federal-tax-system. Accessed November 12, 2026.

The Treasury's summary lists both a minimum tax and a higher minimum standard deduction, along with a higher personal exemption, phased up from $600 to $750.[79] The IRS dates the first minimum tax to 1970 and says it "evolved into the 'alternative minimum tax,' starting with 1979."[80]

Inflation and "bracket creep"

During the 1970s, prices rose quickly. Tax brackets were set in fixed dollars, so as wages rose with inflation, people moved into higher brackets even though their buying power had not grown. This is called **bracket creep**. It raised taxes without any vote in Congress.

The Treasury's count of tax laws in this period shows how Congress responded. Tempalski found that "of the 9 major tax bills enacted between 1968 and 1981, 6 reduced federal revenue." He explained that when inflation is high and brackets are not indexed, "policymakers have to cut taxes repeatedly to maintain the desired level of taxes."[81]

Two of those laws are worth naming. The Tax Reduction Act of 1975 gave a 10 percent rebate on 1974 taxes, up to $200, as part of a law the Treasury describes as designed mainly to stimulate the economy. It also created the Earned Income Tax Credit (EITC), a refundable credit for low-wage workers, at first as a temporary measure with a maximum credit of $400. The Revenue Act of 1978 made the EITC permanent and cut the top corporate rate from 48 percent to 46 percent.[82] Chapter 11 follows the EITC from that small start to one of the largest tax breaks in the code.

The Economic Recovery Tax Act of 1981

President Ronald Reagan made a large tax cut his first priority. The Economic Recovery Tax Act of 1981 brought a "phased-in 23% cut in individual tax rates" and dropped the top rate "from 70% to 50%," according to the Treasury. It also "indexed individual income tax parameters (beginning in 1985)," meaning brackets, the standard deduction and exemptions would rise with inflation each year.[83] The IRS rate tables show the top rate at 50 percent from 1982 onward.[84]

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[79] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, appendix entry for the Tax Reform Act of 1969. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

[80] Robert A. Wilson, "Personal Exemptions and Individual Income Tax Rates, 1913-2002," Statistics of Income Bulletin, Internal Revenue Service, Spring 2002, list of significant changes. https://www.irs.gov/pub/irs-soi/02inpetr.pdf. Accessed November 12, 2026.

[81] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, page 4. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

[82] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, appendix entries for 1975 and 1978. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026. Margot L. Crandall-Hollick, "The Earned Income Tax Credit (EITC): Legislative History," Congressional Research Service, R44825, April 28, 2022. https://www.everycrsreport.com/reports/R44825.html. Accessed November 12, 2026.

[83] Tempalski, "Revenue Effects of Major Tax Bills," Treasury OTA Working Paper 81, appendix entry for the Economic Recovery Tax Act of 1981. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

Indexing ended bracket creep. It is still in the law today, and it is why the IRS publishes new brackets every fall.

The 1981 cut was followed quickly by tax increases. The Tax Equity and Fiscal Responsibility Act of 1982, signed by President Reagan, was estimated to raise revenue by $98.3 billion over three years.[85]

The 1980s: a big cut, then a series of increases

The 1981 law did much more than cut rates. The Treasury's summary lists, in rough order of size, a phased-in 23 percent cut in individual rates, a faster depreciation system for business equipment called the Accelerated Cost Recovery System (ACRS), indexing of brackets starting in 1985, a deduction for two-earner married couples, a phased-in increase in the estate tax exemption from $175,625 to $600,000 by 1987, and a rule allowing all working people to open Individual Retirement Accounts.[86]

Then the deficits grew, and Congress spent the next several years taking back part of the cut. The Treasury study found that "9 of the 11 major tax bills enacted between 1982 and 1993" raised federal revenue. It names two reasons: indexing had ended the automatic tax increases from bracket creep, and the budget deficits were large.[87]

- 1982: The Tax Equity and Fiscal Responsibility Act repealed scheduled increases in depreciation write-offs, tightened rules on leasing deals and raised the federal unemployment tax. A separate 1982 law raised the federal gasoline tax from 4 cents to 9 cents a gallon.
- 1983: The Social Security Amendments of 1983 sped up scheduled payroll tax increases and began taxing part of Social Security benefits for higher-income retirees (Chapter 18).
- 1984: The Deficit Reduction Act of 1984 repealed a scheduled break for interest income and tightened several business rules.
- 1987: The Omnibus Budget Reconciliation Act of 1987 closed more business breaks.[88]

One piece of the 1982 law shows how hard some changes are. TEFRA set up 10 percent withholding on interest and dividends paid to individuals, a way to collect tax on that income the same way as on wages. The next year, Congress repealed it before it took effect, in the

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[84] Wilson, IRS SOI Bulletin, Spring 2002, Table 1, tax years 1981-1986. https://www.irs.gov/pub/irs-soi/02inpetr.pdf. Accessed November 12, 2026.

[85] Megan S. Lynch, "Budget Reconciliation Measures Enacted into Law Since 1980," Congressional Research Service Report R40480, updated July 29, 2025. https://www.everycrsreport.com/files/2025-07-29_R40480_291563982b1ca4cfa9ad8c2a1c86e5cfc6e873ca.pdf. Accessed November 12, 2026.

[86] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, appendix entry for the Economic Recovery Tax Act of 1981. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

[87] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, pages 4-5. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

[88] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, appendix entries for 1982 through 1987. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

Interest and Dividend Tax Compliance Act of 1983.[89] Interest and dividends are still reported to the IRS but not withheld, which is why their misreporting rate in Chapter 14 is 6 percent instead of the 1 percent for wages.

The biggest tax laws since 1968

How big was the 1981 cut compared with others? By every measure in the Treasury study, the Economic Recovery Tax Act was "by far the biggest tax change (and the biggest tax cut) over the past 35 years," counting from 2006. The biggest tax increase of the period was the Tax Equity and Fiscal Responsibility Act of 1982 (TEFRA), passed the next year partly to offset the 1981 cut, and the second biggest was the 1993 budget law.[90]

Selected major tax laws, 1968 to 2006: average yearly revenue effect in the first four years, as a share of GDP (Treasury estimates)

Law	Average effect, first 4 years (share of GDP)	Average effect, first 4 years (billions of nominal dollars)
Economic Recovery Tax Act of 1981	-2.89%	-111.4
Tax Equity and Fiscal Responsibility Act of 1982	+0.98%	+37.5
Tax Reform Act of 1986	+0.01%	-0.3
Omnibus Budget Reconciliation Act of 1990	+0.50%	+31.7
Omnibus Budget Reconciliation Act of 1993	+0.63%	+47.0
Economic Growth and Tax Relief Reconciliation Act of 2001	-0.71%	-81.9
Jobs and Growth Tax Relief Reconciliation Act of 2003	-0.48%	-56.2
Source	Tempalski, Treasury OTA Working Paper 81, Table 2	

Two cautions come with this table. The study uses estimates made right after each law passed, with no correction for how things turned out. And it counts only the first four years, which understates laws with long phase-ins and sunsets, such as the 2001 law.[91] It also stops in 2006,

[89] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, appendix entries for TEFRA and the Interest and Dividend Tax Compliance Act of 1983. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

[90] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, abstract and page 8. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

[91] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, pages 5-7. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

so it does not cover the 2017 and 2025 laws. Chapters 7 and 8 give the official estimates for those.

Chapter 6: The Tax Reform Act of 1986

The Tax Reform Act of 1986 is often held up as proof that the two parties can work together on taxes. It is worth understanding why.

The idea: lower rates, fewer loopholes

By the mid-1980s, many people across the political spectrum agreed that the tax code was full of shelters and special breaks. Wealthy investors could buy into deals designed mainly to produce paper losses that reduced their taxes. The reform idea was simple to state: close many of those breaks and use the money to cut rates for everyone. Democratic Senator Bill Bradley of New Jersey was a leading supporter of eliminating deductions in exchange for lower rates, and President Reagan backed the effort in his second term. Democratic Representative Dan Rostenkowski of Illinois, chairman of the House Ways and Means Committee, and Republican Senator Bob Packwood of Oregon, chairman of the Senate Finance Committee, steered it through Congress. Packwood later wrote that his job "was to get the rates as low as possible and make the bill revenue neutral." The bill passed his committee 20 to 0. In the House, an early procedural vote failed and Rostenkowski had to pull the bill until Reagan personally asked House Republicans to support it.[92]

What the law did

The Treasury's summary says the act "reduced individual income tax rates (top rate 28%) and repealed capital gains exclusion," and "lowered corporation income tax rates; top rate lowered to 34 percent."[93] Repealing the capital gains exclusion meant gains on investments were taxed at the same rates as wages.

The rates came down in two steps: a top rate of 38.5 percent for 1987 and 28 percent from 1988. For 1988 there were two main rates, 15 percent and 28 percent.[94]

The law also changed how ordinary returns looked. It raised the personal exemption from $1,080 to $2,000 and the standard deduction for married couples from $3,670 to $5,000, which took many low-income families off the rolls. To pay for lower rates, it ended the deduction for state sales taxes, set a floor on miscellaneous itemized deductions, limited deductions for nonbusiness interest and limited "passive losses," the paper losses at the heart of many tax shelters.[95]

Was it really revenue neutral, meaning it neither raised nor lost money overall? By the Treasury's later count, nearly. It raised money in its first year and lost money in its third and

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[92] Bob Packwood, "The 1986 Tax Reform Debate and the Lessons for Today," Ripon Forum, Ripon Society, undated. https://riponsociety.org/article/the-1986-tax-reform-debate-and-the-lessons-for-today/. Accessed November 12, 2026. This is a first-person account by a participant.

[93] Tempalski, "Revenue Effects of Major Tax Bills," Treasury OTA Working Paper 81, appendix entry for the Tax Reform Act of 1986. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

[94] Wilson, IRS SOI Bulletin, Spring 2002, Table 1, tax years 1987-1990. https://www.irs.gov/pub/irs-soi/02inpetr.pdf. Accessed November 12, 2026. The IRS notes that a temporary 33 percent "phaseout" rate also applied to some incomes in 1988-1990.

[95] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, appendix entry for the Tax Reform Act of 1986. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

fourth, for an average effect of about zero over four years.[96] That balance, lower rates paid for by fewer breaks, is what made the law different from most tax bills before or since.

What else the 1986 law changed

The rate cuts got the headlines, but the Treasury's list of the 1986 law's major provisions shows how much else changed. It repealed the investment tax credit for businesses, set new rules for capitalizing the costs of manufacturing and construction, repealed the special deduction for two-earner couples created in 1981, put income limits on deductible IRAs for people covered by a pension plan, and revised the corporate minimum tax.[97] The IRS adds that starting in 1987, "passive losses" could be used only against passive gains, "in order to discourage 'tax shelters,'" and that deductions for personal interest were limited and later disallowed altogether.[98]

The end of the personal interest deduction is something many people still feel. Before 1987, interest on credit cards and car loans could be deducted. After the change, only mortgage interest and some investment interest remained. The 2025 law brought back a limited deduction for interest on loans for new cars assembled in the United States, for 2025 through 2028 (Chapter 8).

The vote

The Senate passed its version of the bill, H.R. 3838, by a vote of 97 to 3 on June 24, 1986.[99] President Reagan signed the final law on the South Lawn of the White House on October 22, 1986. In his diary that day he wrote that he "started the signing using 12 pens."[100]

Did it last?

Partly. The low top rate did not survive long. The law's idea of a broad base with fewer breaks had a longer influence, but Congress began adding new breaks almost at once. Chapter 7 traces how rates moved up again in the 1990s.

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[96] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, Table 2. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

[97] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, appendix entry for the Tax Reform Act of 1986. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

[98] Robert A. Wilson, "Personal Exemptions and Individual Income Tax Rates, 1913-2002," Statistics of Income Bulletin, Internal Revenue Service, Spring 2002, list of significant changes. https://www.irs.gov/pub/irs-soi/02inpetr.pdf. Accessed November 12, 2026.

[99] "99th Congress, Senate, Vote 529," Voteview, citing the Congressional Record. https://voteview.com/rollcall/RS0990529. Accessed November 12, 2026.

[100] Ronald Reagan, White House Diary, entry for Wednesday, October 22, 1986, Ronald Reagan Presidential Foundation. https://www.reaganfoundation.org/ronald-reagan/white-house-diaries/diary-entry-10221986. Accessed November 12, 2026. The IRS history timeline also dates a photo of the signing to October 22, 1986: Internal Revenue Service, "History Timeline," Publication 5335 (4-2019). https://www.irs.gov/pub/irs-pdf/p5335.pdf. Accessed November 12, 2026.

Chapter 7: From 1990 to 2017

1990 and 1993: rates rise

In 1990, President George H.W. Bush, who had campaigned on no new taxes, agreed to a budget deal with a Democratic Congress. The Omnibus Budget Reconciliation Act of 1990 "created new 31% individual tax rate" and capped the capital gains rate at 28 percent.[101] CRS reports that the 1990 law included $158 billion in revenue increases as part of $482 billion in deficit reduction.[102]

In 1993, under President Bill Clinton, the Omnibus Budget Reconciliation Act "created 36% and 39.6% tax rates for individuals" and a 35 percent corporate rate.[103] CRS reports $241 billion in revenue increases within $496 billion in deficit reduction.[104]

Both laws also changed payroll taxes, which is easy to miss. The 1990 law raised the cap on wages subject to the Medicare tax from $53,400 to $125,000, and the 1993 law removed the cap altogether. The 1993 law also raised the taxable share of Social Security benefits and added 4.3 cents a gallon to the federal fuel tax.[105] That is why the Medicare tax today applies to every dollar of wages (Chapter 10).

1997: the child tax credit and the Roth IRA

In 1997, Congress passed the Taxpayer Relief Act of 1997. It created a child tax credit of $400 per child in 1998 and $500 from 1999. It also created two education credits, called HOPE and Lifetime Learning, set up Roth Individual Retirement Accounts (IRAs) and cut the top rate on capital gains from 28 percent to 20 percent.[106] Each of these is still in the law, and the child credit is now one of the largest tax breaks there is (Chapter 11).

2001 and 2003: rates fall

Under President George W. Bush, the Economic Growth and Tax Relief Reconciliation Act of 2001 created a new 10 percent bracket and phased the top rate down to 35 percent. These changes were set to expire after 2010.[107] In 2003, the Jobs and Growth Tax Relief Reconciliation

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[101] Tempalski, "Revenue Effects of Major Tax Bills," Treasury OTA Working Paper 81, appendix entry for OBRA 1990. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

[102] Lynch, "Budget Reconciliation Measures Enacted into Law Since 1980," CRS Report R40480, updated July 29, 2025. https://www.everycrsreport.com/files/2025-07-29_R40480_291563982b1ca4cfa9ad8c2a1c86e5cfc6e873ca.pdf. Accessed November 12, 2026.

[103] Tempalski, same source, appendix entry for OBRA 1993.

[104] Lynch, CRS Report R40480, same source.

[105] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, appendix entries for 1990 and 1993. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

[106] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, appendix entry for the Tax Relief Act of 1997. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026. Margot L. Crandall-Hollick, "The Child Tax Credit: Legislative History," Congressional Research Service, R45124, December 23, 2021. https://www.everycrsreport.com/files/2021-12-23_R45124_d0ab1224ed61ea15905497a5ed01f3d6c70638c6.html. Accessed November 12, 2026.

[107] Tempalski, same source, appendix entry for EGTRRA 2001.

Act lowered the top rates on dividends and capital gains to 15 percent, also on a temporary basis.[108]

The Treasury study ranks the 2001 law as the second largest tax cut since 1968 measured in constant dollars, behind only the 1981 law.[109] It also began the habit of writing tax cuts with end dates. Nearly every individual provision in the 2001 law was written to run "thru 2010."[110] The same pattern showed up again in 2017, when most individual changes were set to end after 2025, and that is why the end of 2025 became a deadline (Chapter 8).

2012: most cuts made permanent, top rate restored

The 2001 and 2003 cuts were extended in 2010. At the start of 2013, Congress passed the American Taxpayer Relief Act of 2012, signed by President Barack Obama on January 2, 2013. It made most of the earlier cuts permanent but restored the 39.6 percent rate on taxable income above $400,000 for single filers and $450,000 for married couples filing jointly. It also set the top estate tax rate at 40 percent.[111]

Between 2001 and 2012, Congress passed several smaller tax laws that kept extending or adding to the 2001 and 2003 cuts. The Treasury's list for the early 2000s includes a 2002 law that let businesses write off 30 percent of certain equipment purchases right away, the 2004 Working Families Tax Relief Act that extended the $1,000 child credit and other 2003 changes, the American Jobs Creation Act of 2004 that created a deduction for income from production in the United States, and a law enacted in 2006 that extended the 15 percent rates on dividends and capital gains through 2010.[112]

Several of these also raised the exemption for the alternative minimum tax for a year or two at a time. The 2001 law set it at $49,000 for married couples, the 2003 law at $58,000 and the 2006 law at $62,550, each temporary.[113]

That pattern, temporary cuts extended a year or two at a time, is part of why the 2012 law mattered. It made most of the cuts permanent (above).

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[108] Tempalski, same source, appendix entry for JGTRRA 2003.

[109] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, page 8. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

[110] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, appendix entry for the Economic Growth and Tax Relief Reconciliation Act of 2001. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

[111] Public Law 112-240, American Taxpayer Relief Act of 2012, sections 101 and 102, enacted January 2, 2013. Government Publishing Office. https://www.govinfo.gov/content/pkg/PLAW-112publ240/html/PLAW-112publ240.htm. Accessed November 12, 2026.

[112] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, appendix entries for 2002 through 2006. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

[113] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, appendix entries for 2001, 2003 and 2006. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

2017: the Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act (TCJA), Public Law 115-97, was the largest rewrite of the tax code since 1986. The House agreed to the final version 224 to 201, the Senate passed it 51 to 48, and President Donald Trump signed it on December 22, 2017.[114]

For individuals, the law set seven rates: 10, 12, 22, 24, 32, 35 and 37 percent, with the top rate starting at $600,000 for married couples in 2018. It nearly doubled the standard deduction, to $12,000 for single filers and $24,000 for married couples. It ended personal exemptions, raised the child tax credit to $2,000 per child, and capped the deduction for state and local taxes (often called SALT) at $10,000. It also switched inflation indexing to a slower-growing price measure called chained CPI.[115]

For corporations, the law replaced the graduated corporate rate, which topped out at 35 percent, with a flat 21 percent rate. The corporate cut was permanent. Most of the individual changes were temporary and were set to end after December 31, 2025.[116]

The Joint Committee on Taxation (JCT), Congress's official tax scorekeeper, estimated the law would reduce revenue by about $1.456 trillion over 2018 to 2027, before counting any effect on economic growth. Counting estimated growth effects, JCT put the cost at about $1.07 trillion.[117] Chapter 17 looks at the claim that the law paid for itself.

Top and bottom rates, selected years 1944 to 2025 (married couple filing jointly; nominal dollars)

Year	Lowest rate	Top rate	Top rate applied to taxable income over
1944	23%	94%	$200,000
1954	20%	91%	$400,000
1965	14%	70%	$200,000
1982	12%	50%	$85,600
1988	15%	28%	$29,750
1991	15%	31%	$82,150
1993	15%	39.6%	$89,150
2002	10%	38.6%	$307,050
2013	10%	39.6%	$450,000
2018	10%	37%	$600,000
2026	10%	37%	$768,700
Sources	IRS SOI Bulletin, Spring 2002, Table 1 (1944-2002); Public Law 112-240 (2013); Public Law 115-97 (2018); IRS, IR-2025-103 (2026)		

[114] "The 2017 Tax Revision (P.L. 115-97): Comparison to 2017 Tax Law," Congressional Research Service Report R45092, February 6, 2018. https://www.everycrsreport.com/reports/R45092.html. Accessed November 12, 2026.

[115] Public Law 115-97, sections 11001 and 11002. https://www.govinfo.gov/content/pkg/PLAW-115publ97/html/PLAW-115publ97.htm. Accessed November 12, 2026. CRS Report R45092, Table on individual provisions. https://www.everycrsreport.com/reports/R45092.html.

[116] Lynch, CRS Report R40480, entry for P.L. 115-97. https://www.everycrsreport.com/files/2025-07-29_R40480_291563982b1ca4cfa9ad8c2a1c86e5cfc6e873ca.pdf. Accessed November 12, 2026. Public Law 115-97, section 11001, which applies the new rates to tax years "beginning after December 31, 2017, and before January 1, 2026."

[117] CRS Report R45092, Table 1, citing JCT, "Estimated Budget Effects of the Conference Agreement for H.R. 1," and JCT, JCX-69-17, December 18, 2017. https://www.everycrsreport.com/reports/R45092.html. Accessed November 12, 2026.

The full year-by-year table is in Appendix A.

Chapter 8: The Laws Since 2025 and What Expires When

Information in this chapter is current as of November 12, 2026.

The scheduled end of the 2017 individual tax cuts after 2025 set up the biggest tax debate in years. Congress answered it with one large law in July 2025.

Public Law 119-21

On July 4, 2025, President Trump signed H.R. 1 into law as Public Law 119-21. Its official title is plain: "To provide for reconciliation pursuant to title II of H. Con. Res. 14."[118] It is commonly called the One Big Beautiful Bill Act. The IRS used that name in its October 2025 announcement of the 2026 tax figures. By November 2026, the IRS was calling the law's tax provisions the "Working Families Tax Cuts."[119] Both names are political labels chosen by supporters. In this book I call it Public Law 119-21 or "the 2025 law."

The law was passed through budget reconciliation, a process that lets the Senate pass certain tax and spending bills with a simple majority instead of the 60 votes needed to end a filibuster. CRS counts it as one of 24 reconciliation laws enacted since 1980.[120] The Senate passed it 51 to 50, with Vice President JD Vance breaking the tie, and the House gave final approval 218 to 214 the day before the July 4 signing. Three Senate Republicans (Rand Paul, Thom Tillis and Susan Collins) and two House Republicans (Thomas Massie and Brian Fitzpatrick) voted no.[121]

What it did for individuals

The Congressional Research Service summarized the main individual changes:[122]

- It made the 2017 rate structure permanent, starting in 2026.
- It made the larger standard deduction permanent, setting it at $15,750 for single filers, $23,625 for heads of household and $31,500 for married couples for 2025.
- It raised the child tax credit to $2,200 per child, adjusted for inflation, and made it permanent. Both the child and the taxpayer must have a Social Security number valid for work.
- It raised the cap on the state and local tax (SALT) deduction to $40,000 for 2025, with small increases through 2029, a phase-down for incomes above $500,000, and a return to $10,000 in 2030.

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[118] Public Law 119-21, 139 Stat. 72, July 4, 2025. Government Publishing Office. https://www.govinfo.gov/content/pkg/PLAW-119publ21/html/PLAW-119publ21.htm. Accessed November 12, 2026.

[119] Internal Revenue Service, "IRS releases tax inflation adjustments for tax year 2026, including amendments from the One, Big, Beautiful Bill," IR-2025-103, October 9, 2025. https://www.irs.gov/newsroom/irs-releases-tax-inflation-adjustments-for-tax-year-2026-including-amendments-from-the-one-big-beautiful-bill. Accessed November 12, 2026. Internal Revenue Service, "IRS releases tax inflation adjustments for tax year 2027; taxpayers continue to benefit from the Working Families Tax Cuts," IR-2026-133, November 5, 2026. https://www.irs.gov/newsroom/irs-releases-tax-inflation-adjustments-for-tax-year-2027-taxpayers-continue-to-benefit-from-the-working-families-tax-cuts. Accessed November 12, 2026.

[120] Lynch, CRS Report R40480, updated July 29, 2025. https://www.everycrsreport.com/files/2025-07-29_R40480_291563982b1ca4cfa9ad8c2a1c86e5cfc6e873ca.pdf. Accessed November 12, 2026.

[121] NBC News, "House gives final approval to Trump's big tax bill," July 3, 2025. https://www.nbcnews.com/politics/congress/house-final-vote-trump-big-beautiful-bill-republicans-rcna216626. Accessed November 12, 2026.

[122] "Tax Provisions in P.L. 119-21, the FY2025 Reconciliation Law," Congressional Research Service Report R48611, coordinated by Anthony A. Cilluffo, July 29, 2025. https://www.everycrsreport.com/files/2025-07-29_R48611_bb2f5cc1bdc7bb3e919d12ec54e7dce391eb79af.html. Accessed November 12, 2026.

- It created four temporary deductions for 2025 through 2028: up to $25,000 for qualified tips, up to $12,500 ($25,000 for married couples) for qualified overtime pay, up to $10,000 of interest on loans for new cars assembled in the United States, and an extra $6,000 deduction for people age 65 and older.
- It set the estate and gift tax exemption at $15 million per person for people who die after 2025, adjusted for inflation.
- It created "Trump accounts," a new type of savings account for children, with a one-time $1,000 federal contribution for eligible children born from 2025 through 2028.

What it did for businesses

CRS reports that the law restored 100 percent first-year deductions ("bonus depreciation") for business equipment acquired after January 19, 2025; allowed businesses to deduct domestic research costs right away; and made the 20 percent deduction for pass-through business income permanent.[123] It also ended several clean energy credits early. The IRS lists the clean vehicle credits as not allowed for vehicles acquired after September 30, 2025, and the home energy credits as ending after December 31, 2025.[124]

What it cost

CBO estimated that the law as enacted would add $3.4 trillion to deficits from 2025 through 2034, before counting interest. Adding the extra interest on the debt ($718 billion) brings the total to $4.1 trillion. If Congress made the law's temporary tax provisions permanent, CBO estimated the total would reach about $5.0 trillion.[125] CBO Director Phillip Swagel told the House Budget Committee in November 2025 that CBO had published estimates of the law's effects on deficits and on households at different income levels.[126]

What would have happened without the 2025 law

It helps to know what the law replaced. Under the 2017 law as written, the individual cuts were scheduled to end after 2025. The Treasury's explanation of the fiscal year 2025 budget, written in early 2024, described the law then on the books: the top rate was 37 percent through 2025, and "for taxable years beginning after December 31, 2025, the top marginal tax rate is 39.6 percent." The same document shows that in 2024 the 37 percent rate began at $731,200 of taxable income for married couples and $609,350 for single filers.[127]

So the choice in 2025 was not between a tax cut and no change. It was between extending the 2017 rules or letting the temporary individual changes expire (Chapter 7), including the lower

[123] CRS Report R48611, same source.

[124] Internal Revenue Service, "Working Families Tax Cuts" provisions page. https://www.irs.gov/newsroom/working-families-tax-cuts. Accessed November 12, 2026.

[125] Congressional Budget Office, "Effects on Deficits and the Debt of Public Law 119-21 and of Making Certain Tax Policies in the Act Permanent," August 4, 2025, and letter from Director Phillip L. Swagel to Senator Jeff Merkley, Table 1. https://www.cbo.gov/publication/61466; https://www.cbo.gov/system/files/2025-08/61466-DebtService.pdf. Accessed November 12, 2026. The revenue estimates were provided by JCT and described as preliminary.

[126] Phillip L. Swagel, "Testimony on How CBO Supported Congress During the 2025 Budget Reconciliation Process," Congressional Budget Office, November 18, 2025. https://www.cbo.gov/publication/61898. Accessed November 12, 2026.

[127] U.S. Department of the Treasury, "General Explanations of the Administration's Fiscal Year 2025 Revenue Proposals," "Increase the top marginal income tax rate for high-income earners." https://home.treasury.gov/system/files/131/General-Explanations-FY2025.pdf. Accessed November 12, 2026.

rates and the $2,000 child credit. The Tax Policy Center had estimated in 2017 that if the individual cuts expired as written, 70 percent of middle-income households would pay more in 2027 than under the old law (Chapter 17). Public Law 119-21 chose to extend. In my reading, much of CBO's cost estimate above reflects that choice, though the law also added new breaks.

Laws passed since July 2025

I searched Congressional Research Service reports and news coverage for any federal tax law enacted between August 2025 and November 12, 2026, and found none. A CRS report from October 2026 confirms that the federal gas tax has not been suspended. In October 2026 the President issued Executive Order 14435, "Emergency Tax Relief on Diesel Fuel." An executive order is not a law passed by Congress.[128] [Not verified: my search was limited to CRS listings and news results; I could not check the full congress.gov list of public laws, which blocked automated access.]

Some provisions expired at the end of 2025 without being renewed. The best-known is the enhanced premium tax credit for health insurance bought through the Affordable Care Act marketplaces.[129]

Major individual provisions and when they end, as of November 12, 2026

Provision	Rule under current law	Ends
Tax rates (10% to 37%)	2017 structure	Permanent
Standard deduction	$16,100 single / $32,200 married (2026); $16,600 / $33,200 (2027)	Permanent, indexed
Child tax credit	$2,200 (2025-2026); $2,300 (2027)	Permanent, indexed
SALT deduction cap	$40,000 in 2025, rising slightly through 2029	Returns to $10,000 in 2030
Tips deduction	Up to $25,000	After 2028
Overtime deduction	Up to $12,500 ($25,000 married)	After 2028
Car loan interest deduction	Up to $10,000	After 2028
Extra senior deduction	$6,000 per person age 65 or older	After 2028
Estate tax exemption	$15 million (2026); $15.48 million (2027)	Permanent, indexed
Sources	CRS R48611; IRS IR-2025-103; IRS IR-2026-133	

Because the four new deductions end after 2028, the next big tax debate is already scheduled. Congress will have to decide whether to extend, change or drop them before the 2029 filing year.

The first filing season under the 2025 law

Information in this section is current as of November 12, 2026.

The spring of 2026 was the first time most people filed returns under the 2025 law. What happened? Here is what the official numbers show.

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[128] "Suspension of the Federal Gas Tax: In Brief," Congressional Research Service Report R48948, October 2026, and its footnote 6 citing Executive Order 14435 of October 5, 2026, 91 Fed. Reg. 64747. https://www.everycrsreport.com/reports/R48948.html. Accessed November 12, 2026.

[129] "Tax Provisions That Expired in 2025," Congressional Research Service In Focus IF13154, January 14, 2026. https://www.everycrsreport.com/files/2026-01-14_IF13154_857fc9eaa5cf02c51ae7b4445530d95c5c354a97.html. Accessed November 12, 2026.

The filing season opened on January 26, 2026, and the IRS expected about 164 million individual returns. The IRS had to rewrite forms and computer programs to handle the new deductions for tips, overtime, car loan interest and older taxpayers. At the same time, an executive order signed in March 2025, Executive Order 14247, required federal agencies to stop issuing paper refund checks beginning September 30, 2025, so most refunds had to go by direct deposit.[130]

Refunds were larger. By the week ending May 1, 2026, the IRS had issued about 97.9 million refunds totaling $320.5 billion, with an average refund of $3,273. At the same point in 2025, the average was $2,947. That is an increase of about 11 percent in the average refund and 18 percent in total dollars refunded.[131] Earlier in the season the average was higher. TIGTA reported an average refund of $3,742 as of February 28, 2026, up $360 from the same point in 2025.[132]

IRS filing season statistics, as of the week ending May 1, 2026, compared with the same point in 2025 (nominal dollars)

Measure	2025	2026	Change
Total returns received	144,762,000	143,667,000	-0.8%
Total returns processed	142,188,000	142,539,000	+0.2%
Returns filed electronically	138,923,000	140,234,000	+0.9%
Number of refunds	91,959,000	97,918,000	+6.5%
Total amount refunded	$271.0 billion	$320.5 billion	+18.3%
Average refund	$2,947	$3,273	+11.1%
Source	IRS, filing season statistics for week ending May 1, 2026		

You might ask, "Does a bigger refund mean a bigger tax cut?" Not exactly. A refund is the gap between what was withheld and what you owed. The new deductions apply starting with tax year 2025, but the law was signed on July 4, 2025, more than halfway through that year (Chapter 8). My own reasoning is that paycheck withholding for the first half of 2025 could not have reflected them, so some of the larger refunds are likely tax cuts that showed up at filing time instead of in paychecks. I did not find an official estimate that splits the refund increase between those two

[130] Treasury Inspector General for Tax Administration, "Interim Results of the 2026 Filing Season," Report 2026-400-031, June 30, 2026, pages 1-2. https://www.tigta.gov/sites/default/files/reports/2026-06/2026400031fr.pdf. Accessed November 12, 2026.

[131] Internal Revenue Service, "Filing season statistics for week ending May 1, 2026," IRS Newsroom. https://www.irs.gov/newsroom/filing-season-statistics-for-week-ending-may-1-2026. Accessed November 12, 2026.

[132] Treasury Inspector General for Tax Administration, "Interim Results of the 2026 Filing Season," Report 2026-400-031, June 30, 2026, page 2. https://www.tigta.gov/sites/default/files/reports/2026-06/2026400031fr.pdf. Accessed November 12, 2026.

causes. [Not verified: an IRS or Treasury breakdown of why average refunds rose in 2026; I searched IRS filing season releases and the TIGTA interim report.]

The people doing the work were fewer. TIGTA found that as of February 27, 2026, the IRS's Submission Processing function, which handles returns, had been unable to hire about 58 percent of its approved filing-season positions, and Accounts Management, which answers taxpayer questions, about 34 percent. Backlogs in key processing programs grew from 1.9 million items at the start of the season to 2.4 million by February 28. IRS assistors had answered 3.2 million calls by then, with what the IRS calls a 73 percent "Assistor Service Rate," a new measure that counts live chat along with calls.[133]

The move away from paper checks also caused friction. By March 31, 2026, the IRS had sent more than 1.9 million notices, called CP53E, to people whose refund could not be deposited because they gave no bank account or gave an incorrect one.[134] TIGTA said it was doing a separate review of how the IRS carried out the new deductions for tips and overtime. I did not find that review published by the cutoff date.

[133] Treasury Inspector General for Tax Administration, "Interim Results of the 2026 Filing Season," Report 2026-400-031, June 30, 2026, highlights and pages 2-3. https://www.tigta.gov/sites/default/files/reports/2026-06/2026400031fr.pdf. Accessed November 12, 2026.

[134] Treasury Inspector General for Tax Administration, "Interim Results of the 2026 Filing Season," Report 2026-400-031, June 30, 2026, page 8. https://www.tigta.gov/sites/default/files/reports/2026-06/2026400031fr.pdf. Accessed November 12, 2026.

Part Three: Who Pays: The Numbers

Chapter 9: How the Tax Works on One Return

Figures in this chapter are current as of November 12, 2026.

Before we look at who pays what across the country, it helps to see how the tax works for one person. Most confusion about income tax comes from two ideas: brackets and deductions. It also helps to know that every return answers the same questions in the same order: what income counts, what you can subtract, what rates apply, what credits reduce the tax, and how much you have already paid. Appendix D walks through that order on Form 1040.

From income to taxable income

Start with everything you earned: wages, interest, business profit and so on. Subtract certain adjustments, such as contributions to some retirement accounts, and you get **adjusted gross income** (AGI). Then subtract either the **standard deduction**, a flat amount set by law, or your **itemized deductions**, such as mortgage interest, state and local taxes and charitable gifts, whichever is larger. Since the 2017 law nearly doubled the standard deduction, most filers take it. What is left is **taxable income**, and that is what the brackets apply to.

The brackets for 2026 and 2027

Each fall, the IRS adjusts the brackets and many other amounts for inflation. Here are the official figures.

Federal income tax brackets for tax year 2026, as of November 12, 2026 (taxable income, nominal dollars)[135]

Rate	Single filers	Married filing jointly
10%	$12,400 or less	$24,800 or less
12%	Over $12,400	Over $24,800
22%	Over $50,400	Over $100,800
24%	Over $105,700	Over $211,400
32%	Over $201,775	Over $403,550
35%	Over $256,225	Over $512,450
37%	Over $640,600	Over $768,700
Source	IRS, IR-2025-103, October 9, 2025, and Revenue Procedure 2025-32	

The 2026 figures apply to returns most people will file in early 2027. The standard deduction for 2026 is $16,100 for single filers, $32,200 for married couples filing jointly and $24,150 for heads of household.

[135] Internal Revenue Service, "IRS releases tax inflation adjustments for tax year 2026, including amendments from the One, Big, Beautiful Bill," IR-2025-103, October 9, 2025. https://www.irs.gov/newsroom/irs-releases-tax-inflation-adjustments-for-tax-year-2026-including-amendments-from-the-one-big-beautiful-bill. Accessed November 12, 2026. The full figures are in Revenue Procedure 2025-32. https://www.irs.gov/pub/irs-drop/rp-25-32.pdf.

Federal income tax brackets for tax year 2027, as of November 12, 2026 (taxable income, nominal dollars)[136]

Rate	Single filers	Married filing jointly
10%	$12,800 or less	$25,600 or less
12%	Over $12,800	Over $25,600
22%	Over $52,025	Over $104,050
24%	Over $109,125	Over $218,250
32%	Over $208,325	Over $416,650
35%	Over $264,550	Over $529,100
37%	Over $661,375	Over $793,650
Source	IRS, IR-2026-133, November 5, 2026, and Revenue Procedure 2026-35	

For 2027, the standard deduction is $16,600 for single filers, $33,200 for married couples filing jointly and $24,925 for heads of household. These apply to returns filed in 2028.

Marginal rate versus average rate

You might ask, "If I get a raise that puts me in a higher bracket, will I take home less?" No. A higher rate applies only to the dollars inside that bracket, not to all your income. Chapter 17 covers this claim in detail, but here is a simple example.

Start with a made-up system that has only two brackets: 10 percent on the first $10,000 of taxable income and 20 percent on everything above that. A person with $11,000 of taxable income pays $1,000 on the first slice and $200 on the next $1,000, for $1,200 in total. Only the last $1,000 is taxed at 20 percent. Those brackets are invented to show the arithmetic. The real system works the same way, just with more slices.

Now a real example. Take a single person in 2026 with $60,000 of wages and no other income who takes the standard deduction. This is my own illustration, using the IRS figures above:

Example: single filer, 2026, $60,000 in wages (nominal dollars, my calculation)

Step	Amount
Wages	$60,000
Minus standard deduction	-$16,100
Taxable income	$43,900
10% on the first $12,400	$1,240
12% on the next $31,500	$3,780
Income tax before credits	$5,020
Marginal rate (rate on the next dollar)	12%
Average rate (tax divided by wages)	About 8.4%

This person is "in the 12 percent bracket," but they pay about 8.4 percent of their wages in federal income tax before any credits. If they had children, credits could cut that number a great deal, sometimes below zero.

[136] Internal Revenue Service, "IRS releases tax inflation adjustments for tax year 2027; taxpayers continue to benefit from the Working Families Tax Cuts," IR-2026-133, November 5, 2026. https://www.irs.gov/newsroom/irs-releases-tax-inflation-adjustments-for-tax-year-2027-taxpayers-continue-to-benefit-from-the-working-families-tax-cuts. Accessed November 12, 2026.

Three more examples for 2027

To see how the same rules play out at very different incomes, here are three more of my own illustrations, using the IRS figures for tax year 2027. Each assumes wages only, the standard deduction and no other credits or deductions except where noted.[137]

Three example returns for tax year 2027 (nominal dollars, my calculation)

Step	Married couple, two children, $100,000	Married couple, no children, $200,000	Single filer, $1,000,000
Wages	$100,000	$200,000	$1,000,000
Standard deduction	-$33,200	-$33,200	-$16,600
Taxable income	$66,800	$166,800	$983,400
Income tax before credits	$7,504	$25,779	$318,387
Child Tax Credit	-$4,600	$0	$0
Income tax after credits	$2,904	$25,779	$318,387
Average rate on wages	About 2.9%	About 12.9%	About 31.8%
Marginal rate	12%	22%	37%

A few things stand out. The family earning $100,000 is in the 12 percent bracket, but after the Child Tax Credit it pays less than 3 percent of its wages in federal income tax. The couple earning twice as much pays almost nine times as much income tax. And the person earning $1 million pays 37 percent only on the part of taxable income above $661,375. Their average rate is a little under 32 percent.

That last example also shows why the rich-versus-everyone debate (Chapter 17) depends on the kind of income. A person with $1 million in wages pays roughly the figure above. A person with $1 million in long-term capital gains or qualified dividends would pay much less in income tax, because that income is taxed at lower rates, generally no higher than 20 percent plus a 3.8 percent surtax on investment income for high earners. For 2027, the IRS's revenue procedure sets the 0 percent rate on long-term gains up to $51,050 of taxable income for single filers and $102,100 for married couples filing jointly, and the 15 percent rate up to $563,200 for single filers and $633,600 for joint filers, with 20 percent above that.[138] And a person whose stock simply rises in value by $1 million, without selling, owes no income tax on that gain at all that year.

Same income, different kinds of income

The last point is worth seeing with real numbers. Here are two single people in 2027, each with $100,000 of income and nothing else. One earns it all in wages. The other earns it all as long-term capital gains from selling stock held more than a year. Both take the standard deduction of

[137] My calculations, using the 2027 brackets and standard deductions in IRS, IR-2026-133, November 5, 2026. https://www.irs.gov/newsroom/irs-releases-tax-inflation-adjustments-for-tax-year-2027-taxpayers-continue-to-benefit-from-the-working-families-tax-cuts. Accessed November 12, 2026. The $2,300 Child Tax Credit for 2027 is from the same release. These are illustrations, not tax advice.

[138] Internal Revenue Service, "Rev. Proc. 2026-35," section 3.03, "Maximum Capital Gains Rate," linked from IR-2026-133, November 5, 2026. https://www.irs.gov/pub/irs-drop/rp-26-35.pdf. Accessed November 12, 2026. The copy I read still had a placeholder where the release date belongs, so check the final published version. The 3.8 percent net investment income tax is from Internal Revenue Service, "Net Investment Income Tax," https://www.irs.gov/individuals/net-investment-income-tax. Accessed November 12, 2026.

$16,600, so each has $83,400 of taxable income. This is my own arithmetic from the 2027 IRS figures earlier in this chapter.

Two single filers in 2027, each with $100,000 of income (nominal dollars, my calculation)

Step	$100,000 in wages	$100,000 in long-term capital gains
Taxable income after the standard deduction	$83,400	$83,400
Income tax	10% on the first $12,800 = $1,280; 12% on the next $39,225 = $4,707; 22% on the last $31,375 = $6,902.50; total $12,889.50	0% on the first $51,050; 15% on the next $32,350 = $4,852.50
Employee share of Social Security and Medicare tax	7.65% of $100,000 = $7,650	None
Total federal income and payroll tax	$20,539.50	$4,852.50
Share of income	About 20.5%	About 4.9%

Same income, very different bills. The person with capital gains pays about a quarter as much. Part of that is the lower rate schedule for long-term gains, and part is that payroll taxes apply only to wages. The 3.8 percent surtax on investment income mentioned above starts only at higher incomes, so it does not apply here.

Is that fair? As Chapter 11 explains, supporters of the lower rate on gains say it encourages investment and reduces double taxation of corporate profits, and critics say it lets people with investment income pay a lower rate than many wage earners. Chapter 11 lists the lower rate on gains and dividends as the second largest tax break in the code, so the stakes are large. The arithmetic above does not settle the values question, but it shows why the question matters.

Deductions and credits are different

A **deduction** reduces the income that gets taxed. Its value depends on your bracket: a $1,000 deduction saves $120 for someone in the 12 percent bracket and $370 for someone in the 37 percent bracket. A **credit** reduces the tax itself, dollar for dollar. A $1,000 credit saves $1,000 no matter your bracket. A **refundable** credit can be paid to you even if it is larger than the tax you owe. That is how some households end up with a negative income tax, as Chapter 10 shows.

What a refundable credit looks like on a real return

Take the married couple with two children and $100,000 of wages from the 2027 examples above. Their income tax before credits is $7,504. The Child Tax Credit of $2,300 per child for 2027 takes $4,600 off, leaving $2,904. Because their tax is larger than the credit, they get the full credit as a reduction of tax. No refundable part is needed.

Now picture a family with the same two children but much lower wages, so low that their income tax before credits is only a few hundred dollars. Part of the Child Tax Credit can still be paid to them as a refund, up to a limit, because that part is refundable. Since 2018 the

refundable part has been called the Additional Child Tax Credit.[139] This is how a family can owe "negative" income tax: the government pays them more through refundable credits than it takes in income tax. CBO's finding that the lowest fifth of households had an average income tax rate of -11 percent in 2023 (Chapter 10) is this effect added up across millions of families. I have not worked a dollar example for the low-wage family because the refundable amount depends on details of earned income and phase-in rules that I would want to check line by line in the current IRS instructions.

The lesson is simple. A deduction helps more the higher your bracket. A nonrefundable credit helps only if you owe tax. A refundable credit can help even if you owe nothing. Who gets the benefit of a tax break depends a great deal on which of these three forms Congress chooses.

[139] Margot L. Crandall-Hollick, "The Child Tax Credit: Legislative History," Congressional Research Service, R45124, December 23, 2021. https://www.everycrsreport.com/files/2021-12-23_R45124_d0ab1224ed61ea15905497a5ed01f3d6c70638c6.html. Accessed November 12, 2026.

Chapter 10: Who Pays the Income Tax, and Who Pays All Federal Taxes

Ask two people who pays the most in taxes and you may get two different answers that are both supported by numbers. The difference usually comes down to which taxes they are counting.

The income tax alone

The IRS Statistics of Income (SOI) division publishes the shares of income and income tax paid by different groups of filers. The Tax Foundation, a group that generally favors lower and simpler taxes, publishes an annual summary of those IRS figures. For tax year 2022, its summary of IRS data shows:[140]

Shares of income and federal income tax by group of filers, tax year 2022 (IRS data as summarized by the Tax Foundation)

Group of filers	Share of adjusted gross income	Share of federal income tax paid	Average income tax rate
Top 1%	22.4%	40.4%	26.1%
Top 10%	49.4%	72.0%	21.1%
Top 50%	88.5%	97.0%	15.9%
Bottom 50%	11.5%	3.0%	3.7%
All filers	100%	100%	14.5%

Over time, the top 1 percent's share of income tax has grown. By the same summary, it rose from 33.2 percent in 2001 to 40.4 percent in 2022, while the bottom half's share fell from 4.9 percent to 3.0 percent. The top 1 percent's share of income also grew, from 17.4 percent to 22.4 percent.[141] Note one limit: these IRS-based shares leave out the refundable part of credits like the Earned Income Tax Credit (EITC). Including them would make the bottom half's share smaller still.

Where each group starts

Who counts as "the top 1 percent" or "the bottom half"? The IRS data answer that too. For tax year 2022, a return needed adjusted gross income of at least $663,164 to be in the top 1 percent, $261,591 for the top 5 percent, $178,611 for the top 10 percent, $99,857 for the top 25 percent and $50,339 for the top half. Those figures are nominal 2022 dollars and leave out returns filed by people claimed as dependents on someone else's return.[142]

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[140] Erica York, "Summary of the Latest Federal Income Tax Data," Tax Foundation (advocacy group), published November 18, 2024, modified April 15, 2026, based on IRS Statistics of Income data for tax year 2022. https://taxfoundation.org/data/all/federal/latest-federal-income-tax-data-2025/. Accessed November 12, 2026. The underlying IRS tables are at https://www.irs.gov/statistics/soi-tax-stats-individual-statistical-tables-by-tax-rate-and-income-percentile. [Not verified directly in the IRS spreadsheets, which I could not open; the IRS has also released tax year 2023 tables, which I could not read.]

[141] York, Tax Foundation, same source.

[142] Erica York, "Summary of the Latest Federal Income Tax Data," Tax Foundation, November 18, 2024, updated April 15, 2026, table of tax year 2022 figures based on IRS Statistics of Income data. https://taxfoundation.org/data/all/federal/latest-federal-income-tax-data-2025/. Accessed November 12, 2026.

Federal income tax by group of filers, tax year 2022, with income cutoffs (IRS data as summarized by the Tax Foundation; nominal dollars)

Group of filers	Number of returns	Adjusted gross income needed to be in the group	Average income tax paid	Share of income tax paid
Top 1%	1,538,014	$663,164	$561,523	40.4%
Top 5%	7,690,070	$261,591	$169,466	61.0%
Top 10%	15,380,140	$178,611	$99,971	72.0%
Top 25%	38,450,349	$99,857	$48,433	87.2%
Top 50%	76,900,699	$50,339	$26,959	97.0%
Bottom 50%	76,900,699	under $50,339	$822	3.0%
All filers	153,801,397			100%
Source	Tax Foundation summary of IRS Statistics of Income data, updated April 15, 2026			

The totals behind the table are large. In tax year 2022, about 153.8 million returns reported $14.75 trillion of adjusted gross income and paid about $2.14 trillion in federal income tax, an average rate of 14.5 percent.[143]

Notice what the cutoffs mean in everyday terms. A married couple who both work as teachers or nurses can easily be in the top quarter of filers. A couple earning $200,000 is in the top 10 percent. The top 1 percent starts at a level few people reach. When politicians talk about "the rich," it helps to ask which of these lines they mean.

Two cautions from the source itself. First, a "return" is not a person or a household. A married couple files one return, while two roommates file two. Second, these income tax figures count credits only up to the tax owed and leave out the refundable part, so they overstate what the bottom groups pay.[144]

All federal taxes

The income tax is only one federal tax. Payroll taxes for Social Security and Medicare take 7.65 percent of most workers' wages, and employers pay a matching amount.[145]

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[143] Erica York, "Summary of the Latest Federal Income Tax Data," Tax Foundation, November 18, 2024, updated April 15, 2026. https://taxfoundation.org/data/all/federal/latest-federal-income-tax-data-2025/. Accessed November 12, 2026.

[144] Erica York, "Summary of the Latest Federal Income Tax Data," Tax Foundation, November 18, 2024, updated April 15, 2026, notes to the table. https://taxfoundation.org/data/all/federal/latest-federal-income-tax-data-2025/. Accessed November 12, 2026.

[145] Social Security Administration, "2026 Cost-of-Living Adjustment (COLA) Fact Sheet," October 2025. https://www.ssa.gov/cola/factsheets/2026.html. Accessed November 12, 2026.

Federal payroll tax rates, 2026 (as of November 12, 2026)[146]

Tax	Employee	Employer	Self-employed	Applies to
Social Security	6.2%	6.2%	12.4%	Wages up to $184,500 (2026); $176,100 in 2025
Medicare	1.45%	1.45%	2.9%	All wages, no limit
Additional Medicare tax	0.9%	None	0.9%	Wages above $200,000 ($250,000 married filing jointly)
Total for most workers	7.65%	7.65%	15.3%	

Look at the cap on the Social Security part. A worker earning $50,000 pays Social Security tax on every dollar. A worker earning $500,000 pays it only on the first $184,500. That makes the Social Security tax take a smaller share of very high wages, the opposite of how the income tax works. There are also excise taxes on fuel, alcohol and tobacco, the corporate income tax and customs duties.

The Congressional Budget Office (CBO) measures all of these together for households, including the share of the corporate tax and payroll tax that it estimates is borne by households. Its newest report, released September 24, 2026, covers 2023. It finds:[147]

- The top fifth of households paid 70 percent of all federal taxes in 2023, up from 55 percent in 1979.
- The top 1 percent paid 26 percent of all federal taxes, up from 14 percent in 1979.
- Average individual income tax rates "ranged from -11 percent in the lowest quintile to 16 percent in the highest quintile." A quintile is one fifth of households. A negative rate means refundable credits paid the household more than it owed.
- The top 1 percent's share of income before taxes and government benefits rose from 9 percent in 1979 to 16 percent in 2023.

CBO's previous report, for 2022, put the average federal tax rate for all households at 20.6 percent, slightly below the 1979-to-2022 average of 20.9 percent.[148]

Income tax versus payroll tax for three workers

To see how the two taxes compare for one person, here are three single workers in 2026 with only wage income and the standard deduction, no children and no credits. The income tax uses the 2026 brackets in Chapter 9, and the payroll tax uses the rates in the table above. This is my own arithmetic.

[146] Social Security Administration, "2026 Cost-of-Living Adjustment (COLA) Fact Sheet," October 2025. https://www.ssa.gov/cola/factsheets/2026.html. Accessed November 12, 2026.

[147] "The Distribution of Household Income, 2023," Congressional Budget Office, September 24, 2026. https://www.cbo.gov/publication/62761. Accessed November 12, 2026.

[148] "The Distribution of Household Income, 2022," Congressional Budget Office, January 21, 2026. https://www.cbo.gov/publication/61911. Accessed November 12, 2026.

Federal income tax and employee payroll tax for three single workers, 2026 (nominal dollars, my calculation)

Wages	Federal income tax	Employee payroll tax	Which is larger?
$30,000	$1,420	$2,295	Payroll tax
$60,000	$5,020	$4,590	Income tax, slightly
$250,000	$51,304	$15,514	Income tax, by far

How did I get those numbers? For $30,000, taxable income is $13,900 after the $16,100 standard deduction: 10 percent of $12,400 is $1,240, and 12 percent of the remaining $1,500 is $180. Payroll tax is 7.65 percent of $30,000. For $250,000, taxable income is $233,900, and the tax works up through the 32 percent bracket. Payroll tax is 6.2 percent of the first $184,500 for Social Security ($11,439), 1.45 percent of all wages for Medicare ($3,625) and the extra 0.9 percent Medicare tax on wages above $200,000 ($450).

Remember that the employer pays a matching 7.65 percent on most wages too. Who ultimately bears that employer share is a question economists study, and I did not find an official estimate to cite for this edition, so I leave it out of the table. [Not verified: an official estimate of how much of the employer payroll tax falls on workers; CBO's distribution reports make such an assumption, but I did not open the methods section for this edition.]

The pattern matters for the debate in this chapter. For the $30,000 worker, payroll tax is the bigger federal tax, and with a child or two, credits could wipe out the income tax entirely while the payroll tax stays. For the $250,000 worker, the income tax is more than three times the payroll tax, because the Social Security part stops at the wage cap.

Why the two pictures differ

Here is the key point. When you look at the income tax alone, the bottom half of filers pays very little, and many households pay less than zero after credits. When you add payroll taxes, nearly every working household pays something, and for many lower- and middle-income workers, payroll taxes are larger than their income tax.

The Tax Policy Center (TPC), a joint project of the Urban Institute and the Brookings Institution that is widely cited by analysts across the spectrum, estimates that about 40 percent of households paid no federal individual income tax in 2025, and projects 37.4 percent for 2026. It notes that many of these households "still pay substantial payroll taxes."[149] According to TPC, about 70 percent of those households had incomes under $75,000. Many are retirees, families with children who receive credits, or people whose income is below the standard deduction.

Both sides of the tax debate use these figures. People who argue that taxes on high earners are already high point to the income tax table: the top 1 percent pays about 40 percent of income tax. People who argue that the system asks too little of the wealthy point to CBO's measure of income growth at the top and to the fact that payroll taxes fall heavily on wages, not on investment income. Both sets of numbers are accurate. They answer different questions.

[149] "Who Will Pay No Federal Individual Income Tax in 2025?," Tax Policy Center, Fiscal Facts, undated. https://taxpolicycenter.org/fiscal-facts/who-will-pay-no-federal-individual-income-tax-2025. Accessed November 12, 2026.

State and local taxes tell a third story

This book is about the federal income tax, but most of us also pay state and local taxes: sales taxes, property taxes and, in most states, a state income tax. Those taxes are put together differently.

The Institute on Taxation and Economic Policy (ITEP), a group that favors more progressive taxes, publishes a study of state and local taxes in all 50 states called "Who Pays?" Its latest edition, which looks at 2024 tax law at 2023 income levels, found that the lowest-income 20 percent of families paid 11.4 percent of their income in state and local taxes, the middle 20 percent paid 10.5 percent and the top 1 percent paid 7.2 percent. It found that 41 states tax the top 1 percent at a lower rate than any other income group.[150]

Why the difference from the federal picture? A big part of it is sales taxes. The Congressional Research Service has explained that when a tax on spending is measured against one year's income, it takes a larger share from lower-income households, because they spend more of what they earn.[151] The federal income tax, with its brackets and refundable credits, runs the other way. ITEP is an advocacy group, and groups that favor lower taxes measure these things differently. [Not verified: I did not open a state tax study from a group that favors lower taxes for this edition, so I give no figures to set beside ITEP's.] The point for this chapter is narrower. In CBO's 2023 figures above, average federal income tax rates rise from -11 percent for the lowest fifth to 16 percent for the top fifth. In ITEP's figures, state and local taxes run the other way. The federal income tax is only one part of what each household pays.

[150] Institute on Taxation and Economic Policy, "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," seventh edition, page last updated August 26, 2024. https://itep.org/whopays-7th-edition/. Accessed November 12, 2026.

[151] James M. Bickley, "Value-Added Tax (VAT) as a Revenue Option: A Primer," Congressional Research Service, R41708, March 22, 2011, section on regressivity. https://www.everycrsreport.com/reports/R41708.html. Accessed November 12, 2026.

Chapter 11: Deductions, Credits and Loopholes

People use the word "loophole" for a tax break they do not like. The official term is **tax expenditure**: a provision that reduces tax for certain people or activities compared with a basic income tax. Calling it an "expenditure" reflects the idea that giving a tax break costs the Treasury money in much the same way as a spending program.

How big are tax expenditures?

The Joint Committee on Taxation publishes estimates every year. In its most recent estimates, as summarized by the Committee for a Responsible Federal Budget (CRFB), a nonpartisan budget watchdog, tax expenditures total about $2.3 trillion in fiscal year 2026 and $11.7 trillion over 2025 to 2029.[152]

The ten largest tax expenditures, fiscal year 2026 (JCT estimates as summarized by CRFB, nominal dollars)

Tax break	Estimated cost in 2026
Exclusion of retirement savings and pension contributions and earnings	$355 billion
Lower rates on long-term capital gains and dividends	$252 billion
Exclusion of employer-paid health insurance	$240 billion
Child tax credit and credit for other dependents	$128 billion
Affordable Care Act premium subsidies	$105 billion
Charitable contribution deduction	$78 billion
Deduction for pass-through business income	$76 billion
"Step-up" in basis of capital gains at death	$73 billion
Earned Income Tax Credit	$67 billion
State and local tax deduction	$60 billion

What the big ones do

- **Retirement savings.** Money you put into a 401(k) plan or traditional Individual Retirement Account (IRA), and the earnings on it, are not taxed until you withdraw them.
- **Capital gains and dividends.** Profits from selling stock or other assets held more than a year, and most dividends, are taxed at lower rates than wages.
- **Employer health insurance.** The value of health coverage your employer pays for is not counted as your income.
- **Step-up in basis.** When someone dies, the gain on assets they owned is wiped out for income tax purposes. The heir's starting value is the value on the date of death.
- **Refundable credits.** The Earned Income Tax Credit and the child tax credit reduce tax for working families and can be paid out even when no tax is owed. TPC reports that the EITC and the child tax credit "lifted 3.7 million children above the poverty line in 2024."[153]

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[152] "JCT Projects Tax Expenditures Will Be $2.3T in 2026," Committee for a Responsible Federal Budget, February 9, 2026, summarizing Joint Committee on Taxation document JCX-45-25. https://www.crfb.org/blogs/jct-projects-tax-expenditures-will-be-23t-2026. Accessed November 12, 2026. JCT source document: https://www.jct.gov/publications/2025/jcx-45-25/. [Not verified directly in the JCT document.]

[153] Tracy Gordon and Aravind Boddupalli, "America At 250: Ten Tax Facts To Remember," Tax Policy Center, TaxVox, June 29, 2026. https://taxpolicycenter.org/taxvox/america-250-ten-tax-facts-remember. Accessed November 12, 2026.

How two credits grew

The two largest refundable credits started small. Their history shows how a modest idea can grow into a major part of the tax code, usually with support from both parties at different times.

How the Earned Income Tax Credit and Child Tax Credit grew (nominal dollars)

Year	Earned Income Tax Credit	Child Tax Credit
1975	Created as a temporary credit; maximum $400	Did not exist
1978	Made permanent; maximum $500	Did not exist
1986	Maximum $800; indexed for inflation from 1987	Did not exist
1993	Larger credit for families with children; first credit for workers without children (1994 maximum $306)	Did not exist
1997		Created: $400 per child in 1998, $500 from 1999, mostly nonrefundable
2001	Marriage penalty relief	Scheduled to rise to $1,000 by 2010; partly refundable for families with earnings over $10,000
2003-2004		Raised to $1,000 early
2009	Temporary larger credit for three or more children (maximum $5,657)	Refundable for earnings over $3,000
2017		$2,000 per child, up to $1,400 refundable, through 2025
2021	Childless credit raised for one year from $543 to $1,052	For 2021 only: $3,600 for young children, $3,000 for ages 6 to 17, fully refundable, half paid in advance
2025		Public Law 119-21: $2,200, indexed, made permanent
Sources	CRS R44825 (April 28, 2022)	CRS R45124 (December 23, 2021); CRS R48611 (2025)

The EITC entries come from CRS's legislative history of the credit, and the child credit entries through 2021 from CRS's history of that credit.[154] The 2025 change is described in Chapter 8.

[154] Margot L. Crandall-Hollick, "The Earned Income Tax Credit (EITC): Legislative History," Congressional Research Service, R44825, April 28, 2022. https://www.everycrsreport.com/reports/R44825.html. Accessed November 12, 2026. Margot L. Crandall-Hollick, "The Child Tax Credit: Legislative History," Congressional Research Service, R45124, December 23, 2021. https://www.everycrsreport.com/files/2021-12-

Notice the pattern. The EITC was expanded by the 1986 law President Reagan signed and by the 1993 law passed under President Clinton (Chapters 6 and 7). The child credit was created in 1997, doubled by the 2017 law President Trump signed, made much larger for one year in 2021 and raised again in 2025. The 2021 expansion was temporary, and the credit went back to the 2017 rules for 2022.[155]

These credits also carry a known cost in errors. The IRS estimates that overclaimed credits made up about $48 billion of the tax year 2022 tax gap, including $24 billion from the EITC and $17 billion from the Child Tax Credit and Additional Child Tax Credit.[156] Chapter 13 shows how the IRS's focus on these errors shapes who gets audited.

Who uses them most?

It depends on the break. Some, like the EITC, go almost entirely to low- and moderate-income working families. Others, like lower rates on capital gains and the step-up at death, go mostly to higher-income households, because those households own most investment assets. Deductions in general are worth more to people in higher brackets, as Chapter 9 explained. CBO found that in 2019 the major income and payroll tax expenditures were worth about $1.2 trillion, and that "about half of the total benefits from income tax expenditures accrued to households in the highest quintile," while the lowest fifth received 9 percent.[157]

You might ask, "Which of these are loopholes and which are good policy?" That is a question of values, not facts. Supporters of the retirement and health breaks say they encourage saving and health coverage. Critics say they cost a lot and help people who would save anyway. Supporters of lower capital gains rates say they encourage investment and reduce double taxation of corporate profits. Critics say they let people with investment income pay a lower rate than many wage earners. Chapter 20 lays out the main reform proposals, and who backs each one.

What it would take to trim the biggest breaks

CBO's menu of budget options (Chapter 20) puts prices on trimming several of the breaks in the table above. All of these estimates were made before the 2025 law and cover fiscal years 2026 to 2035, as summarized by CRFB:[158]

23_R45124_d0ab1224ed61ea15905497a5ed01f3d6c70638c6.html. Accessed November 12, 2026.

[155] Margot L. Crandall-Hollick, "The Child Tax Credit: Legislative History," Congressional Research Service, R45124, December 23, 2021. https://www.everycrsreport.com/files/2021-12-23_R45124_d0ab1224ed61ea15905497a5ed01f3d6c70638c6.html. Accessed November 12, 2026.

[156] Internal Revenue Service, "Tax Gap Projections for Tax Year 2022," Publication 5869 (Rev. 10-2024), October 2024, Table 4. https://www.irs.gov/pub/irs-pdf/p5869.pdf. Accessed November 12, 2026.

[157] Congressional Budget Office, "The Distribution of Major Tax Expenditures in 2019," October 27, 2021. https://www.cbo.gov/publication/57413. Accessed November 12, 2026.

[158] Committee for a Responsible Federal Budget, "CBO's Revenue Savings Options," February 10, 2025, summarizing Congressional Budget Office, "Options for Reducing the Deficit: 2025 to 2034," December 2024. https://www.crfb.org/blogs/cbos-revenue-savings-options. Accessed November 12, 2026.

- Limiting the tax exclusion for employer health insurance to the middle of the premium range, starting in 2028: about $1.2 trillion.
- Taxing capital gains when the owner dies, which would end most of the step-up in basis: about $570 billion. Keeping the original cost as the heir's starting value instead, called carryover basis: about $230 billion.
- Limiting the charitable deduction to cash gifts: about $340 billion. Allowing it only for giving above 2 percent of income: about $350 billion.
- Eliminating the higher education tax credits: about $130 billion.
- Requiring a Social Security number valid for work for the EITC and child credit: about $30 billion. The 2025 law adopted a version of this for the child credit (Chapter 8).

These figures give a sense of scale. Trimming one large break can raise as much as a broad rate increase. But as this chapter showed, each break has people who benefit from it and argue it serves a good purpose. You can decide for yourself which trade-offs are worth it. My aim is only to show the price tags.

Part Four: The IRS

Chapter 12: What the IRS Does and How It Grew

You might ask, "Who is the IRS, exactly?" The Internal Revenue Service is a bureau of the U.S. Department of the Treasury. It does not write tax law; Congress does that. The IRS administers the law: it processes returns, sends refunds, answers questions, audits returns and collects unpaid tax. The Supreme Court described it this way in 1971: "the Internal Revenue Service is organized to carry out the broad responsibilities of the Secretary of the Treasury."[159]

From a Civil War office to the IRS

The agency began as the office of the Commissioner of Internal Revenue, created in 1862 to collect the Civil War taxes (Chapter 1). For most of its history it was called the Bureau of Internal Revenue. In 1952, President Harry S. Truman called for a full reorganization of the Bureau, and the agency officially became the Internal Revenue Service on July 9, 1953.[160]

The 1998 reforms

By the late 1990s, congressional hearings had aired complaints about heavy-handed collection practices. Congress responded with the IRS Restructuring and Reform Act of 1998. Among other things, it created an independent National Taxpayer Advocate to help taxpayers who are stuck in IRS problems and to report to Congress each year, set up an IRS Oversight Board, and shifted the burden of proof to the IRS in some court cases. The IRS history timeline adds that the 1998 law "prompted the most comprehensive reorganization and modernization of the IRS in nearly half a century," leading to four new business divisions in 2000. The next section describes what the law itself says.[161][162]

What the 1998 law actually said

I read the text of the 1998 law, Public Law 105-206, which was enacted on July 22, 1998, as the Internal Revenue Service Restructuring and Reform Act of 1998. Its main parts are worth knowing because taxpayers still use them.[163]

- An Oversight Board. Section 1101 created an IRS Oversight Board that "shall be composed of nine members."

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[159] Donaldson v. United States, 400 U.S. 517, 534 (1971), as quoted in Internal Revenue Service, "The Truth About Frivolous Tax Arguments," Section I-E.1, document updated March 2022, page reviewed October 27, 2026. https://www.irs.gov/privacy-disclosure/the-truth-about-frivolous-tax-arguments-section-i-d-to-e. Accessed November 12, 2026. The IRS also cites Internal Revenue Code sections 7801 and 7803(a), which place it under the Treasury Secretary.

[160] Internal Revenue Service, "History Timeline," Publication 5335 (4-2019). https://www.irs.gov/pub/irs-pdf/p5335.pdf. Accessed November 12, 2026.

[161] Public Law 105-206, Internal Revenue Service Restructuring and Reform Act of 1998, July 22, 1998, sections 1101, 1102 and 3001, Government Publishing Office. https://www.govinfo.gov/content/pkg/PLAW-105publ206/html/PLAW-105publ206.htm. Accessed November 12, 2026.

[162] Internal Revenue Service, "History Timeline," Publication 5335 (4-2019). https://www.irs.gov/pub/irs-pdf/p5335.pdf. Accessed November 12, 2026.

[163] Public Law 105-206, Internal Revenue Service Restructuring and Reform Act of 1998, July 22, 1998, Government Publishing Office. https://www.govinfo.gov/content/pkg/PLAW-105publ206/html/PLAW-105publ206.htm. Accessed November 12, 2026.

- A stronger Taxpayer Advocate. Section 1102 rewrote the rules for the National Taxpayer Advocate, who "shall report directly to the Commissioner," and required each local advocate office to keep its own phone, fax and electronic lines.
- Firing for misconduct. Section 1203 required the IRS to fire an employee found to have committed any of ten listed acts while on duty, unless the Commissioner chose a lesser penalty.
- Burden of proof. Section 3001 added a new section 7491 to the tax code. If a taxpayer "introduces credible evidence with respect to any factual issue" in court, the burden of proof on that issue can shift to the IRS, if the taxpayer has met certain record-keeping and cooperation conditions.
- Relief for spouses. Section 3201 created new rules for "innocent spouse" relief, so a person who signed a joint return without knowing the other spouse had underreported income can ask to be relieved of that tax.
- A hearing before seizure. Section 3401, on "due process" in IRS collection actions, created a right to a hearing. The IRS must notify a person in writing of a tax lien, and "no levy may be made" on a person's property without written notice of the right to a hearing given "not less than 30 days before the day of the first levy."
- An electronic filing goal. Section 2001 set a goal of "at least 80 percent of all such returns filed electronically by the year 2007."[164]

What were the ten firing offenses? The law lists them in section 1203(b). In plain words they are: seizing a home or business without the required approvals; lying under oath about a taxpayer matter; violating a taxpayer's constitutional or civil rights; falsifying or destroying documents to hide mistakes; assault or battery, with a conviction or court judgment; breaking tax rules to retaliate against or harass someone; misusing taxpayer privacy rules to hide information from Congress; willfully failing to file one's own tax return; willfully understating one's own tax; and "threatening to audit a taxpayer for the purpose of extracting personal gain."[165]

How did the e-file goal turn out? It took longer than 2007, but it was reached and passed. In fiscal year 2025, about 93.7 percent of individual returns were filed electronically (see below), and by late February 2026, TIGTA counted 99 percent of returns received so far that season as e-filed.[166] Early-season returns lean toward e-filers, so the full-year share is lower than that.

The Taxpayer Bill of Rights

The IRS lists ten rights every taxpayer has: the right to be informed, to quality service, to pay no more than the correct amount of tax, to challenge the IRS's position and be heard, to appeal an

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[164] Public Law 105-206, July 22, 1998, sections 1101, 1102, 1203, 2001, 3001, 3201 and 3401, Government Publishing Office. https://www.govinfo.gov/content/pkg/PLAW-105publ206/html/PLAW-105publ206.htm. Accessed November 12, 2026.

[165] Public Law 105-206, July 22, 1998, section 1203(b), Government Publishing Office. https://www.govinfo.gov/content/pkg/PLAW-105publ206/html/PLAW-105publ206.htm. Accessed November 12, 2026.

[166] Treasury Inspector General for Tax Administration, "Interim Results of the 2026 Filing Season," Report 2026-400-031, June 30, 2026, page 2. https://www.tigta.gov/sites/default/files/reports/2026-06/2026400031fr.pdf. Accessed November 12, 2026.

IRS decision in an independent forum, to finality, to privacy, to confidentiality, to retain representation, and to a fair and just tax system.[167] If you ever get a letter from the IRS, Publication 1 explains these rights and how to use them.

What the IRS handles in a year

In fiscal year 2025 (October 2024 through September 2025), the IRS:[168]

- Processed 271.4 million returns and other forms, including about 162.8 million individual income tax returns.
- Collected about $5.31 trillion in gross revenue.
- Issued about 120.6 million refunds totaling $638.8 billion.
- Closed about 497,600 audits, recommending $26.8 billion in additional tax.
- Spent $19.0 billion on its operations.

A few more numbers from the same year show the range of the work:[169,170]

- About 93.7 percent of individual returns were filed electronically.
- Automated matching of returns against W-2s and 1099s closed 987,460 cases and assessed $5.9 billion more in tax, more than a fifth of the amount from full audits.
- The IRS prepared substitute returns for 592,773 people who had not filed, assessing nearly $2.9 billion.
- It accepted 5,464 "offers in compromise," settlements for less than the full amount owed, out of 38,797 proposed.
- Criminal Investigation completed 2,850 investigations: 1,085 involving tax crimes from legal income, 1,195 involving financial crimes from illegal income, and 570 tied to drug crimes.
- The Tax Court received 21,588 new cases involving the IRS.

You may notice that different reports give different staff numbers for 2025. The Data Book counts 95,226 "full-time equivalent" positions for the fiscal year, an average over the year, while "employees in pay status" fell from 99,628 in 2024 to 80,967 in 2025, and the Taxpayer Advocate counted 74,465 employees by December 2025 (Chapter 13). These measure different things at different dates, and none of them is wrong.[171]

How the IRS checks returns without an audit

Most of the IRS's checking happens by computer, long before any audit. Three numbers from fiscal year 2025 show the scale.

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[167] Internal Revenue Service, "Taxpayer Bill of Rights," page reviewed May 22, 2026. https://www.irs.gov/taxpayer-bill-of-rights. Accessed November 12, 2026. The rights are explained in IRS Publication 1, "Your Rights as a Taxpayer."

[168] Internal Revenue Service, "Internal Revenue Service Data Book, 2025" (Publication 55-B), April 2026, Tables 1-1, 1-2, 1-7 and 1-8, and the "Compliance Presence" and "IRS Budget and Workforce" pages. https://www.irs.gov/pub/irs-pdf/p55b.pdf; https://www.irs.gov/statistics/compliance-presence; https://www.irs.gov/statistics/irs-budget-and-workforce. Accessed November 12, 2026.

[169] Jason Bramwell, "IRS Provides Year in Review in 2025 Data Book," CPA Practice Advisor, June 11, 2026, summarizing IRS Publication 55-B. https://www.cpapracticeadvisor.com/2026/06/11/irs-provides-year-in-review-in-2025-data-book/185009/. Accessed November 12, 2026.

[170] Internal Revenue Service, "Collections, activities, penalties and appeals," IRS Data Book, page updated June 5, 2026. https://www.irs.gov/statistics/collections-activities-penalties-and-appeals. Accessed November 12, 2026.

[171] Jason Bramwell, "IRS Provides Year in Review in 2025 Data Book," CPA Practice Advisor, June 11, 2026, summarizing IRS Publication 55-B. https://www.cpapracticeadvisor.com/2026/06/11/irs-provides-year-in-review-in-2025-data-book/185009/. Accessed November 12, 2026.

First, information returns. These are the forms that employers, banks, brokers and others send to the IRS about the money they paid you: W-2s, 1099s and the like. The IRS received 4.5 billion of them in fiscal year 2025, and 93.9 percent came in electronically.[172] That is roughly 28 forms for every individual return filed.

Second, matching. The IRS's Automated Underreporter program compares those forms with what people reported. In fiscal year 2025 it closed 987,460 cases and assessed $5.9 billion in additional tax. A related program prepares returns for people who did not file at all, using the forms others sent in. It closed 592,773 cases and assessed $2.9 billion.[173]

Third, math errors. When a return has an arithmetic mistake or a number that does not match the IRS's records, the IRS can fix it and send a notice without opening an audit. For tax year 2024 returns processed in fiscal year 2025, the IRS sent 951,789 notices covering nearly 1.2 million math errors. The most common errors involved adjusted gross income or taxable income amounts, at 25.6 percent, and tax calculations, at 24.2 percent.[174]

You might ask, "If I get a letter, does that mean I'm being audited?" Not usually. A math error notice or a matching notice is a computer check, not an audit. It tells you what the IRS thinks is different and gives you a chance to agree or explain. The Taxpayer Bill of Rights (above) gives you the right to challenge the IRS's position and be heard.

From paper to computers

The IRS has changed how it works as much as what it collects. It had automated data processing in "full operation" by January 1962, and launched a nationwide automated tax system on January 1, 1967. The Tax Reform Act of 1986 began the move from paper to electronic filing, and electronic filing started in 1991. In 1988 the IRS issued Publication 1, "Your Rights as a Taxpayer," and in 2014 it grouped taxpayer rights into the ten described above. In November 2016 it launched online accounts for individuals.[175]

How audits work

An **audit**, which the IRS calls an examination, is a review of a return to check that income, deductions and credits were reported correctly. Most audits are not face-to-face. PolitiFact, citing IRS data, reported that about 75 percent of audits in 2018 were done by mail.[176] Many are

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[172] Internal Revenue Service, "Internal Revenue Service Data Book, 2025," Publication 55-B, April 2026, page 34 (summary of Table 3-8). https://www.irs.gov/pub/irs-pdf/p55b.pdf. Accessed November 12, 2026.

[173] Internal Revenue Service, "Internal Revenue Service Data Book, 2025," Publication 55-B, April 2026, page 34 (summary of Table 3-8). https://www.irs.gov/pub/irs-pdf/p55b.pdf. Accessed November 12, 2026.

[174] Internal Revenue Service, "Internal Revenue Service Data Book, 2025," Publication 55-B, April 2026, page 34 (summary of Table 3-9). https://www.irs.gov/pub/irs-pdf/p55b.pdf. Accessed November 12, 2026.

[175] Internal Revenue Service, "History Timeline," Publication 5335 (4-2019). https://www.irs.gov/pub/irs-pdf/p5335.pdf. Accessed November 12, 2026.

[176] Jeff Cercone, "Video misleads about size of IRS, audits and armed agents," PolitiFact, August 18, 2022. https://www.politifact.com/factchecks/2022/aug/18/facebook-posts/video-misleads-about-size-irs-audits-and-armed-age/. Accessed November 12, 2026.

triggered when the income on a return does not match the forms employers, banks and brokers sent the IRS.

The IRS also has a law enforcement arm, IRS Criminal Investigation (CI), which investigates tax crimes and related financial crimes. Its special agents are federal law enforcement officers. Chapter 17 discusses how many there are and whether they carry guns.

Two kinds of audits

In fiscal year 2025, the IRS closed 497,621 audits. Of those, 81.0 percent were done by correspondence, meaning by mail, and they produced more than $7.7 billion of recommended additional tax. The other 19.0 percent were field audits, done in person by revenue agents, and they produced $19.1 billion. About 2.5 percent of the people audited, 12,192 taxpayers, did not agree with the result.[177]

Look at those numbers side by side. Mail audits were about four out of five audits but produced well under a third of the dollars. Field audits were one in five but produced about 70 percent of the money. That gap explains a lot about who gets audited and why, which the next chapter takes up.

Audits do not always find that more tax is owed. In fiscal year 2025, 16,158 examinations ended with a refund to the taxpayer, totaling $10.4 billion, of which $7.8 billion went to corporations.[178]

Criminal cases

IRS Criminal Investigation (CI) completed 2,850 investigations in fiscal year 2025. The IRS sorts them into three groups: 1,085 "legal-source" tax crime cases, involving people or businesses with legitimate income who cheat on taxes; 1,195 "illegal-source" financial crime cases, involving money from unlawful activity such as money laundering; and 570 cases tied to narcotics. The IRS notes that these cases "are often investigated in cooperation with the Justice Department and other law enforcement agencies."[179]

Put next to roughly 160 million individual returns, 2,850 criminal investigations is a tiny number. Most tax problems are handled as civil matters, with tax, interest and penalties, not prosecution. Criminal cases are reserved mostly for willful evasion and for crimes where taxes are one piece of a larger scheme.

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[177] Internal Revenue Service, "Internal Revenue Service Data Book, 2025," Publication 55-B, April 2026, page 34 (summary of Table 3-2). https://www.irs.gov/pub/irs-pdf/p55b.pdf. Accessed November 12, 2026.

[178] Internal Revenue Service, "Internal Revenue Service Data Book, 2025," Publication 55-B, April 2026, page 34 (summary of Table 3-4). https://www.irs.gov/pub/irs-pdf/p55b.pdf. Accessed November 12, 2026.

[179] Internal Revenue Service, "Internal Revenue Service Data Book, 2025," Publication 55-B, April 2026, page 34 (summary of Table 3-10). https://www.irs.gov/pub/irs-pdf/p55b.pdf. Accessed November 12, 2026.

Chapter 13: Budget, Staff and Audits Over Time

Figures in this chapter are current as of November 12, 2026.

The IRS budget has swung more in the past five years than at any time in recent memory. To understand those swings, we need to go back about 15 years.

A decade of shrinking

From the early 2010s through 2021, IRS staffing shrank after a series of budget cuts. The Government Accountability Office (GAO) found that from tax year 2010 to tax year 2019, the average audit rate for individual returns fell from 0.9 percent to 0.25 percent. Audit rates fell at every income level, and fell most for people with incomes of $200,000 or more. IRS officials told GAO the main reason was reduced staffing after budget cuts.[180]

GAO also found that the audit rate for low-income people who claimed the Earned Income Tax Credit was above the average rate. Chapter 17 looks at what that means for the claim that the IRS audits the poor more than the rich.

A Congressional Research Service review put numbers on the decline. From fiscal year 2010 to fiscal year 2019, the IRS's enforcement budget "fell by over 16% (in nominal dollars)," from $5.5 billion to $4.6 billion. The collection and examination workforce fell from 46,667 to 29,867, a drop of 36 percent. Over the same years, CRS reported, audit rates fell from 1.1 percent to 0.4 percent for individuals overall and from 8.4 percent to 2.4 percent for individuals with incomes of $1 million or more.[181]

Those audit rates are for the fiscal year the audits happened, which is why they differ from GAO's figures above, which are for the tax year of the returns. Both show the same direction.

The same CRS review cited a CBO estimate that a cumulative $40 billion increase in IRS enforcement spending from 2020 to 2030 "would increase revenues by an estimated $103 billion," assuming a return of $6.40 for each added dollar.[182] Keep that estimate in mind. It became the core of the argument for the 2022 funding increase.

The 2022 funding increase

The Inflation Reduction Act of 2022 (IRA), Public Law 117-169, signed August 16, 2022, gave the IRS a large multiyear funding boost on top of its regular budget. CRS put the original amount at $79.6 billion over 10 years.[183] CBO's director wrote that of about $79 billion in new funding, $46

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[180] "Tax Compliance: Trends of IRS Audit Rates and Results for Individual Taxpayers by Income," Government Accountability Office, GAO-22-104960, May 17, 2022. https://www.gao.gov/products/gao-22-104960. Accessed November 12, 2026.

[181] Gary Guenther, "The Internal Revenue Service's Enforcement Budget and Tax Compliance," Congressional Research Service Insight IN11578, January 15, 2021. https://www.everycrsreport.com/reports/IN11578.html. Accessed November 12, 2026.

[182] Gary Guenther, "The Internal Revenue Service's Enforcement Budget and Tax Compliance," Congressional Research Service Insight IN11578, January 15, 2021. https://www.everycrsreport.com/reports/IN11578.html. Accessed November 12, 2026.

[183] "Tax Provisions in the Inflation Reduction Act of 2022 (H.R. 5376)," Congressional Research Service Report R47202, August 3, 2022. https://www.everycrsreport.com/files/2022-08-03_R47202_acda2a35c476768687fe98a8d90061f2ba722e4f.html. Accessed November 12, 2026. A later CRS Insight gives the amount as $79.4 billion for fiscal years 2022 through 2031: Martinez, CRS Insight IN12753, November 3, 2026.

billion was for enforcement, and estimated the money would raise federal revenue by $180.4 billion over 2022 to 2031.[184]

Treasury Secretary Janet Yellen directed the IRS in August 2022 that the new money "shall not be used to increase the share of small business or households below the $400,000 threshold that are audited relative to historical levels."[185]

The cuts that followed

Congress began taking back the IRA money almost immediately. According to CRS, about $53.5 billion has been rescinded, mostly from enforcement funds:[186]

Rescissions of Inflation Reduction Act IRS funding (nominal dollars)

Law	Amount rescinded
Fiscal Responsibility Act of 2023 (Public Law 118-5)	$1.4 billion
Fiscal year 2024 appropriations (Public Law 118-47)	$20.2 billion
Fiscal year 2025 appropriations (Public Law 119-4)	$20.2 billion
Fiscal year 2026 appropriations (Public Law 119-75)	$11.7 billion
Total	About $53.5 billion
Source	CRS Insight IN12753, November 3, 2026

That leaves roughly $26 billion of the original IRA money. CRS reports that the IRS expected to use up its remaining IRA enforcement funds in fiscal year 2026. TIGTA reported that IRA enforcement funding was exhausted as of December 31, 2025.[187]

The 2025 workforce reductions

In 2025 the IRS lost a large share of its workforce through deferred resignation offers, early retirements, buyouts and other departures. The Treasury Inspector General for Tax Administration (TIGTA), the IRS's independent watchdog, reported that from January 2025 to January 2026, 31,273 employees separated or took one of these offers, about 30 percent of the workforce. About 2,000 were later rehired, for a net decrease of 28 percent.[188]

The same TIGTA report noted that "during 2025, the IRS had seven different commissioners." In October 2025 the Treasury created a new position of IRS Chief Executive Officer. As of the IRS's own "About IRS" page, last updated August 12, 2026, the Commissioner position was

[184] Phillip L. Swagel, letter to Representatives Kevin Brady and Jason Smith, "Additional Information About Increased Enforcement by the Internal Revenue Service," Congressional Budget Office, August 25, 2022. https://www.cbo.gov/system/files/2022-08/58390-IRS.pdf. Accessed November 12, 2026.

[185] U.S. Department of the Treasury, "Secretary of the Treasury Janet L. Yellen Sends Letter to IRS Commissioner in Support of Funding for IRS to Improve Taxpayer Service and Combat Evasion By High Income Earners and Corporations," press release JY0918, August 10, 2022. https://home.treasury.gov/news/press-releases/jy0918. Accessed November 12, 2026.

[186] Victoria M. Martinez, "FY2027 Internal Revenue Service Budget Request," Congressional Research Service Insight IN12753, November 3, 2026. https://www.everycrsreport.com/files/2026-11-03_IN12753_0218b722bcb86303a9d5351cca8d7f45c6c1bc9d.pdf. Accessed November 12, 2026. TIGTA gives the total as $53.4 billion in one place and $53.5 billion in another in its report 2026-IE-R014.

[187] Martinez, CRS Insight IN12753. TIGTA, "Trends in Compliance Activities Through Fiscal Year 2025," Report 2026-3S0-045, August 26, 2026. https://www.oversight.gov/sites/default/files/documents/reports/2026-09/20263S0045fr%282%29.pdf. Accessed November 12, 2026.

[188] Treasury Inspector General for Tax Administration, "Snapshot Report: Status of the IRS's Workforce as of January 2026," Report 2026-IE-R009, June 9, 2026. https://www.tigta.gov/sites/default/files/reports/2026-06/2026ier009fr.pdf. Accessed November 12, 2026.

listed as "Vacant" and the Chief Executive Officer was Frank J. Bisignano, who TIGTA notes also serves as Commissioner of the Social Security Administration.[189]

Budget and staff in numbers

IRS appropriations and staff, fiscal years 2025 to 2027, as of November 12, 2026 (nominal dollars)[190]

Fiscal year	Annual appropriations	Full-time equivalent staff paid by appropriations	Total resources including IRA money and fees	Total full-time equivalent staff
2025 (operating plan)	$12.32 billion	65,722	$20.01 billion	94,095
2026 (enacted)	$11.20 billion	59,880	$16.84 billion	70,829
2027 (President's request)	$9.83 billion	56,137	$15.92 billion	69,031
Source	Treasury, IRS FY2027 Budget in Brief			

The President's fiscal year 2027 request asks for $9.8 billion in appropriations, "a 12% decrease from the FY2026 enacted amount," including a cut of 4,714 full-time positions, according to CRS. I did not find a final fiscal year 2027 IRS appropriation enacted by the cutoff date. [Not verified: I searched CRS and news sources but could not check the full congress.gov list of laws.]

What happened to audits and collections

TIGTA's review of compliance trends found that from fiscal year 2024 to fiscal year 2025, the IRS lost about 27 percent of its examination and collection staff, revenue from examinations fell 35 percent, and the number of individual audits started fell 31 percent. Total enforcement revenue was $98.7 billion in fiscal year 2024, a record, and $93.8 billion in fiscal year 2025.[191]

Audit rates still differ a great deal by income. For tax year 2021, the IRS reports audit coverage of 6.6 percent for returns with total positive income of $10 million or more, 3.9 percent for $5 million to $10 million, and 0.9 percent for $1 million to $5 million.[192]

[189] TIGTA Report 2026-IE-R009, same source. Internal Revenue Service, "About IRS," page last updated August 12, 2026. https://www.irs.gov/about-irs. Accessed November 12, 2026. [Not verified: whether a Commissioner was nominated or confirmed between August 12 and November 12, 2026. A March 10, 2026, statement by Senate Finance Committee Democrats said no nominee had been submitted as of that date; see the end of this chapter.]

[190] U.S. Department of the Treasury, "Internal Revenue Service FY 2027 Budget in Brief," Program Summary by Budget Activity. https://home.treasury.gov/system/files/266/14.-IRS-FY-2027-BIB.pdf. Accessed November 12, 2026. A full-time equivalent (FTE) is one full-time worker for a year; two half-time workers count as one FTE.

[191] TIGTA, "Trends in Compliance Activities Through Fiscal Year 2025," Report 2026-3S0-045, August 26, 2026. https://www.oversight.gov/sites/default/files/documents/reports/2026-09/20263S0045fr%282%29.pdf. Accessed November 12, 2026.

[192] Internal Revenue Service, "Compliance Presence," IRS Data Book 2025, Table 3-1. https://www.irs.gov/statistics/compliance-presence. Accessed November 12, 2026. "Total positive income" adds up all positive income amounts on a return, ignoring losses. Audit rates for recent tax years keep rising for a few years as audits are opened, so the newest years always look lower than they will end up. Rates for every income group, including lower-income and EITC returns, are in Table 3-1 of the Data Book itself, Publication 55-B, April 2026. https://www.irs.gov/pub/irs-pdf/p55b.pdf. Accessed November 12, 2026. Chapter 13 reports them.

Audit rates by income, from the IRS's own table

The IRS publishes audit rates by income in its yearly Data Book. The rates are measured by tax year, and they count audits closed and still in progress. The law limits how long the IRS has to audit a return, and the IRS says tax year 2021 is "the most recent year outside the statute of limitations period." Rates for later years will rise as more audits are opened.[193]

Share of individual returns audited, by size of total positive income, tax years 2015 and 2021 (IRS Data Book 2025, Table 3-1; nominal dollars)

Total positive income	Tax year 2015	Tax year 2021
No total positive income	7.0%	1.8%
$1 to under $25,000	0.7%	0.5%
$25,000 to under $50,000	0.4%	0.2%
$50,000 to under $75,000	0.5%	0.2%
$75,000 to under $100,000	0.5%	0.2%
$100,000 to under $200,000	0.5%	0.2%
$200,000 to under $500,000	0.6%	0.2%
$500,000 to under $1 million	1.2%	0.6%
$1 million to under $5 million	2.6%	0.9%
$5 million to under $10 million	5.2%	3.9%
$10 million or more	9.5%	6.6%
All individual returns	0.6%	0.3%
Returns claiming the Earned Income Tax Credit	1.2%	0.7%
Source	IRS Data Book 2025, Table 3-1, as of the end of fiscal year 2025	

"Total positive income" is the IRS's measure of income before losses are subtracted. It is used so that a wealthy person with large paper losses is not counted as low-income.[194]

What does the table tell us? Three things.

First, audit rates fell at almost every income level between 2015 and 2021. Overall they were cut in half.

Second, the people most likely to be audited are at the two ends. Returns with $10 million or more of income had the highest rate, 6.6 percent for 2021. But returns claiming the EITC were audited at 0.7 percent, more than twice the overall rate and higher than every income group

[193] Internal Revenue Service, "Internal Revenue Service Data Book, 2025," Publication 55-B, April 2026, page 34 and notes to Table 3-1. https://www.irs.gov/pub/irs-pdf/p55b.pdf. Accessed November 12, 2026.

[194] Internal Revenue Service, "Internal Revenue Service Data Book, 2025," Publication 55-B, April 2026, Table 3-1 and notes. https://www.irs.gov/pub/irs-pdf/p55b.pdf. Accessed November 12, 2026.

from $25,000 up to $1 million. Returns showing no positive income at all were audited at 1.8 percent.

Third, the middle is rarely audited. For tax year 2021, every group from $25,000 to $500,000 had an audit rate of about 0.2 percent, or about one return in 500.

In number terms, the low end dominates. For tax year 2021, the IRS had examined, or was still examining, about 224,100 returns claiming the EITC, compared with about 3,400 returns reporting $10 million or more.[195] Over a longer span, the IRS reports that it had examined 7.9 percent of returns reporting $10 million or more for tax years 2015 through 2023, as of the end of fiscal year 2025.[196]

For tax year 2023, which is still open, the early rates are much lower: 0.1 percent overall and 5.2 percent for returns of $10 million or more so far.[197] Those numbers will rise, but with the IRS's examination and collection staff down about 27 percent from fiscal year 2024 to 2025 (above), it is fair to ask how far.

Audit rates for businesses and estates

The same IRS table shows audit rates for other kinds of returns. The largest corporations are audited far more often than anyone else, though much less often than a decade earlier.

Share of returns audited, selected business and estate returns, tax years 2015 and 2021 (IRS Data Book 2025, Table 3-1)

Type of return	Tax year 2015	Tax year 2021
Corporations with $20 billion or more in assets	71.6%	35.9%
Corporations with $5 billion to $20 billion in assets	43.9%	18.5%
Corporations with $1 billion to $5 billion in assets	29.8%	5.7%
All corporation income tax returns (except S corporations)	1.0%	0.4%
Partnership returns	0.2%	0.1%
S corporation returns	0.2%	0.1%
Source	IRS Data Book 2025, Table 3-1, as of the end of fiscal year 2025	

[195] Internal Revenue Service, "Internal Revenue Service Data Book, 2025," Publication 55-B, April 2026, Table 3-1, tax year 2021 columns. https://www.irs.gov/pub/irs-pdf/p55b.pdf. Accessed November 12, 2026.

[196] Internal Revenue Service, "Internal Revenue Service Data Book, 2025," Publication 55-B, April 2026, page 33. https://www.irs.gov/pub/irs-pdf/p55b.pdf. Accessed November 12, 2026.

[197] Internal Revenue Service, "Internal Revenue Service Data Book, 2025," Publication 55-B, April 2026, Table 3-1, tax year 2023 columns. https://www.irs.gov/pub/irs-pdf/p55b.pdf. Accessed November 12, 2026.

Two things stand out. The biggest corporations went from being audited about seven times in ten to about one time in three. And partnerships and S corporations, the "flow-through" businesses whose profits are taxed on their owners' personal returns, are audited at about 1 in 1,000. There were about 4.5 million partnership returns and 5.1 million S corporation returns for tax year 2021.[198]

Why does that matter? Chapter 14 shows that the IRS says its tax gap estimates do not fully capture cheating through flow-through entities "because data are lacking." Low audit rates and limited data go together. CRS found the same trend from the other direction: the audit rate for corporations with $20 billion or more in assets fell from 98.0 percent in fiscal year 2010 to 49.9 percent in fiscal year 2019.[199]

Direct File

In 2024 the IRS tested Direct File, a free program for filing simple federal returns directly with the IRS, and expanded it in 2025. The IRS Data Book counts about 309,000 returns filed through Direct File in fiscal year 2025, for tax year 2024.[200] The program was not offered for the 2026 filing season. Kiplinger reported that the Treasury Department ended it late in 2025, citing a Treasury report to Congress that pointed to low participation (fewer than 0.5 percent of the 146 million returns filed in 2025) and a cost of about $138 per return. Tax preparation companies had long lobbied against the program, and the House Ways and Means Committee had argued the IRS lacked clear authority from Congress to make it permanent. The Government Accountability Office and most users had called the pilot a success.[201]

What the Taxpayer Advocate found

The National Taxpayer Advocate, an office inside the IRS created to speak up for taxpayers, reports to Congress each year. In her 2025 report, released in January 2026, National Taxpayer Advocate Erin Collins called the 2025 filing season "smooth." The IRS processed more than 165 million individual returns, about 94 percent of them filed electronically, and about 104 million taxpayers received refunds averaging $3,167.[202]

The same report gave a sharper count of the 2025 staff cuts than the one in the previous section, because it used a different time span. It said the IRS went from about 102,101 employees on January 25, 2025, to 74,465 on December 18, 2025, a drop of about 27 percent. The Taxpayer

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[198] Internal Revenue Service, "Internal Revenue Service Data Book, 2025," Publication 55-B, April 2026, Table 3-1, tax years 2015 and 2021 columns. https://www.irs.gov/pub/irs-pdf/p55b.pdf. Accessed November 12, 2026.

[199] Gary Guenther, "The Internal Revenue Service's Enforcement Budget and Tax Compliance," Congressional Research Service Insight IN11578, January 15, 2021. https://www.everycrsreport.com/reports/IN11578.html. Accessed November 12, 2026.

[200] IRS Data Book 2025, page 2 chart. https://www.irs.gov/pub/irs-pdf/p55b.pdf. Accessed November 12, 2026.

[201] Roxanne Bland, "A Free Tax Filing Option Has Disappeared for 2026: Here's What That Means for You," Kiplinger, January 15, 2026. https://www.kiplinger.com/taxes/a-free-tax-filing-option-just-disappeared. Accessed November 12, 2026. I did not find the Treasury report itself. [Not verified: the exact date and text of the Treasury decision.]

[202] Jason Bramwell, "After 'Smooth' 2025 Tax Season, Taxpayer Advocate Anticipates Challenges This Year," CPA Practice Advisor, January 28, 2026, reporting on the National Taxpayer Advocate's 2025 Annual Report to Congress. https://www.cpapracticeadvisor.com/2026/01/28/after-smooth-2025-tax-season-taxpayer-advocate-anticipates-challenges-this-year/177036/. Accessed November 12, 2026. The full report is at https://www.taxpayeradvocate.irs.gov/AnnualReport2025, which I did not read directly.

Services division, which answers phones and processes returns, fell from 42,122 to 33,264 employees.[203]

Collins warned of harder times in 2026: a smaller workforce, frequent leadership changes, complex and often retroactive changes from the 2025 law, a move to electronic-only refunds, and the restart of offsets that take refunds to pay overdue federal student loans. She also reported that identity theft cases took an average of more than 21 months to resolve.[204] You might ask, "Why does the IRS have its own internal critic?" The point of the office is to give taxpayers an advocate inside the agency whose yearly report goes to Congress.

Interpretations

People read these numbers very differently. Supporters of the 2022 funding argue that every dollar spent on enforcement against high-income taxpayers brings back several dollars in revenue, citing estimates like CBO's. Supporters of the cuts argue that the IRS needed to be smaller and more focused, that the 2022 funding was excessive, and that the agency should prove it can manage money well before getting more. Both arguments are made in the official record: the first in CBO and Treasury analyses, the second in House appropriations reports and the President's budget requests. What is not in dispute is the direction: the IRS in late 2026 has less money and far fewer employees than it did in 2024.

Who is running the IRS

Information in this section is current as of November 12, 2026.

The question of who leads the IRS was still unsettled at the cutoff date. The IRS "About IRS" page, last updated August 12, 2026, listed the Commissioner post as vacant and Frank J. Bisignano as Chief Executive Officer (see "The 2025 workforce reductions" above). In March 2026, Democrats on the Senate Finance Committee issued a statement dating the vacancy to August 8, 2025, "when President Trump removed Commissioner Billy Long." They said the Treasury Secretary had been serving as acting commissioner, that his time in that role under the federal vacancies law "expired on March 6th" absent a pending nomination, and that "No nominee has been submitted." They also called the chief executive position "a fake job that Congress has never authorized."[205]

That statement is one party's view. The administration's position is reflected in the fact that it created the chief executive role in October 2025 and kept it in place. [Not verified: I did not find

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[203] Jason Bramwell, "After 'Smooth' 2025 Tax Season, Taxpayer Advocate Anticipates Challenges This Year," CPA Practice Advisor, January 28, 2026, reporting on the National Taxpayer Advocate's 2025 Annual Report to Congress. https://www.cpapracticeadvisor.com/2026/01/28/after-smooth-2025-tax-season-taxpayer-advocate-anticipates-challenges-this-year/177036/. Accessed November 12, 2026. The full report is at https://www.taxpayeradvocate.irs.gov/AnnualReport2025, which I did not read directly.

[204] Jason Bramwell, "After 'Smooth' 2025 Tax Season, Taxpayer Advocate Anticipates Challenges This Year," CPA Practice Advisor, January 28, 2026, reporting on the National Taxpayer Advocate's 2025 Annual Report to Congress. https://www.cpapracticeadvisor.com/2026/01/28/after-smooth-2025-tax-season-taxpayer-advocate-anticipates-challenges-this-year/177036/. Accessed November 12, 2026. The full report is at https://www.taxpayeradvocate.irs.gov/AnnualReport2025, which I did not read directly.

[205] Senate Finance Committee, Ranking Member's office (Democrats), statement by Senators Ron Wyden, Chuck Schumer and Elizabeth Warren on the acting IRS Commissioner, March 10, 2026. https://www.finance.senate.gov/ranking-members-news/wyden-schumer-warren-warn-that-bessents-term-as-acting-irs-commissioner-has-expired-sound-alarm-over-leadership-vacuum-amid-chaos-at-irs. Accessed November 12, 2026.

a Treasury statement explaining the legal basis for the chief executive role, and I could not confirm whether a Commissioner was nominated or confirmed between August 12 and November 12, 2026.]

Part Five: The Tax Gap and Corporate Taxes

Chapter 14: The Tax Gap

Figures in this chapter are current as of November 12, 2026.

The **tax gap** is the difference between the tax people and businesses owe under the law and the tax they pay on time. It is the IRS's best estimate of how much tax goes unpaid.

How big is it?

The newest official estimate covers tax year 2022. The IRS projects:[206]

The federal tax gap, tax year 2022 (IRS projection; nominal dollars)

Measure	Amount
Total tax owed ("true tax liability")	$4,635 billion
Gross tax gap (not paid on time)	$696 billion
Later collected through enforcement and late payments	$90 billion
Net tax gap (never collected)	$606 billion
Voluntary compliance rate	85.0%
Net compliance rate	86.9%

In plain terms: for every $100 owed, about $85 was paid voluntarily and on time, and about $87 was eventually collected. The rest, about $13 of every $100, was never paid.

Where the gap comes from

The IRS splits the gap into three parts:[207]

- **Underreporting**, meaning people filed but reported too little income or claimed too much in deductions or credits: $539 billion, about 77 percent of the gross gap.
- **Underpayment**, meaning people reported the right tax but did not pay it: $94 billion, about 14 percent.
- **Nonfiling**, meaning people who owed tax and did not file: $63 billion, about 9 percent.

Of the underreporting gap, individual income tax made up $381 billion, employment taxes $111 billion and corporate income tax $44 billion. The largest single source was business income reported by individuals, at $194 billion, or 28 percent of the gross gap. Income from sole proprietors, people who run a business on their own without forming a corporation, accounted for $117 billion of that.[208]

Nonfiling and underpayment in more detail

The two smaller parts of the gap are worth a closer look.

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[206] Internal Revenue Service, "Tax Gap Projections for Tax Year 2022," Publication 5869 (Rev. 10-2024), October 2024. https://www.irs.gov/pub/irs-pdf/p5869.pdf. Accessed November 12, 2026. The IRS tax gap web page, last updated April 14, 2026, lists new estimates planned for fall 2025 as "delayed," and I found no newer official estimate. https://www.irs.gov/statistics/irs-the-tax-gap. Accessed November 12, 2026.

[207] IRS Publication 5869, same source, Tables 1 and 3.

[208] IRS Publication 5869, Tables 3 and 4.

Nonfiling. The IRS projects a $63 billion nonfiling gap for tax year 2022. Of that, $53 billion is individual income tax, about 8 percent of the gross gap, and $9 billion is self-employment tax from people who did not file. The estate tax adds about $1 billion.[209]

Underpayment. This is tax people reported on time but did not pay on time. It is projected at $94 billion, of which about $80 billion is individual income tax. In other words, millions of people file honest returns and then cannot or do not pay the full bill when it is due.[210]

Late payments. Of the $696 billion gross gap, the IRS expects $90 billion to be paid late, through enforcement or on people's own. About $68 billion of that is individual income tax, $10 billion corporate tax, $8 billion employment taxes and $4 billion estate tax.[211]

After those late payments, the net gap by type of tax is projected at $447 billion for the individual income tax, $119 billion for employment taxes and $40 billion for the corporate income tax.[212] So when people say "the tax gap," they mostly mean individuals, and mostly individuals with business income, as the table later in this chapter shows.

Why some income goes unreported more than other income

This is the most important finding in the tax gap research, and it is easy to understand. When someone else reports your income to the IRS, you almost always report it too. When nobody does, you are much less likely to.

The IRS found that income "subject to substantial information reporting and withholding," mainly wages, was misreported at a rate of 1 percent. Income with substantial reporting but no withholding, such as interest and dividends, was misreported at 6 percent. Income "subject to little or no information reporting, such as nonfarm sole proprietor income," was misreported at 55 percent.[213]

How often income is misreported, by how visible it is to the IRS (tax years 2014-2016 estimates)

Type of income	Example	Share misreported
Reported to IRS and taxes withheld	Wages on a W-2	1%
Reported to IRS, no withholding	Interest, dividends	6%
Little or no reporting to IRS	Cash business income	55%

[209] Internal Revenue Service, "Tax Gap Projections for Tax Year 2022," Publication 5869 (Rev. 10-2024), October 2024, page 8. https://www.irs.gov/pub/irs-pdf/p5869.pdf. Accessed November 12, 2026.

[210] Internal Revenue Service, "Tax Gap Projections for Tax Year 2022," Publication 5869 (Rev. 10-2024), October 2024, pages 8-9. https://www.irs.gov/pub/irs-pdf/p5869.pdf. Accessed November 12, 2026.

[211] Internal Revenue Service, "Tax Gap Projections for Tax Year 2022," Publication 5869 (Rev. 10-2024), October 2024, page 9. https://www.irs.gov/pub/irs-pdf/p5869.pdf. Accessed November 12, 2026.

[212] Internal Revenue Service, "Tax Gap Projections for Tax Year 2022," Publication 5869 (Rev. 10-2024), October 2024, page 9. https://www.irs.gov/pub/irs-pdf/p5869.pdf. Accessed November 12, 2026.

[213] IRS Publication 5869, page 5 and Figure 3, citing tax gap estimates for tax years 2014 to 2016.

Type of income	Example	Share misreported
Source	IRS Publication 5869	

So who does not pay? The data point less to one income group than to one kind of income. People who are paid wages have little chance to underreport. People with business, rental or cash income have much more. Those groups include both small shop owners and very wealthy people with complex partnership income.

How the IRS measures it

You might ask, "How can anyone measure tax that was never reported?" The IRS uses its National Research Program, which audits a random sample of returns in great detail, then scales the results up to the whole population. It adds estimates for people who never file and for income that even detailed audits miss. The IRS explains the methods in Publication 6031. Because the work takes years, the estimates always run several years behind.

Is the gap growing?

The IRS has published tax gap estimates for years going back to 2001. The most recent publication compares its figures for tax year 2022 with earlier periods.

Tax gap estimates and projections, tax years 2014-2016 to 2022 (IRS; billions of nominal dollars, yearly averages for multiyear periods)

Measure	2014-2016	2017-2019	2020	2021	2022
Total tax owed	$3,307	$3,644	$3,883	$4,673	$4,635
Gross tax gap	$496	$549	$581	$708	$696
Nonfiling	$39	$41	$41	$57	$63
Underreporting	$398	$444	$480	$554	$539
Underpayment	$59	$64	$60	$97	$94
Net tax gap	$428	$480	$501	$617	$606
Voluntary compliance rate	85.0%	84.9%	85.0%	84.9%	85.0%
Source	IRS Publication 5869 (Rev. 10-2024), Table 1. The 2014-2016 figures are estimates; later years are projections.				

In dollars, the gap grew by about 40 percent from the 2014-2016 average to 2022. But look at the bottom line. The share of tax paid voluntarily and on time stayed at about 85 percent the whole time. The IRS says this "demonstrates the impact of the overall level of economic activity

on the gross tax gap, generally holding compliance rates constant."[214] In plain terms, the economy and the amount of tax owed grew, and the gap grew with them.

There is a catch. The projections for 2017 through 2022 assume that people's reporting behavior has not changed since 2014-2016. So the steady 85 percent is partly built into the method. The IRS says so directly: the stable compliance rate "is largely expected since the projection methodology assumes that reporting compliance behavior has not changed."[215] We will not know whether compliance really held steady through the pandemic and after until the IRS finishes newer random audits.

Where the individual income tax gap comes from

The IRS breaks the $381 billion individual income tax underreporting gap for 2022 into its sources. The biggest pieces are business income that individuals report on their own returns.

Sources of the individual income tax underreporting gap, tax year 2022 (IRS projection; billions of nominal dollars)

Type of income or item	Amount	Share of the gross tax gap
Nonfarm sole proprietor income	$117	17%
Partnership, S corporation, estate and trust income	$42	6%
Capital gains	$30	4%
Rents and royalties	$28	4%
Income offsets (adjustments, deductions, exemptions)	$27	4%
Earned Income Tax Credit	$24	4%
Other income	$21	3%
Child Tax Credit and Additional Child Tax Credit	$17	2%
Wages, salaries and tips	$9	1%
Pensions and annuities	$9	1%
Taxable Social Security benefits	$10	1%
Source	IRS Publication 5869 (Rev. 10-2024), Table 4	

[214] Internal Revenue Service, "Tax Gap Projections for Tax Year 2022," Publication 5869 (Rev. 10-2024), October 2024, Table 1 and page 7. https://www.irs.gov/pub/irs-pdf/p5869.pdf. Accessed November 12, 2026.

[215] Internal Revenue Service, "Tax Gap Projections for Tax Year 2022," Publication 5869 (Rev. 10-2024), October 2024, pages 5-6. https://www.irs.gov/pub/irs-pdf/p5869.pdf. Accessed November 12, 2026.

Wages make up most of the income Americans report, yet they produce only about $9 billion of this gap, about 1 percent. Self-employment income from small businesses produces $117 billion. That is the visibility effect from earlier in this chapter, measured in dollars.[216]

What the estimates miss

The IRS lists the limits of its own numbers. It says the projections "do not fully represent noncompliance in some components of the tax system, particularly as relates to corporation income tax, income from flow-through entities, foreign or illegal activities, digital assets, and pandemic credits, because data are lacking."[217] Flow-through entities are partnerships and S corporations whose profits flow through to their owners' personal returns. Those are areas where very high-income people often have income, so the true gap at the top may be larger than the estimates show. That is a reasonable inference from what the IRS says is missing, not an IRS finding.

The IRS's next estimates were scheduled for fall 2025. The IRS tax gap page, updated April 14, 2026, marked that release as delayed.[218] As of the cutoff date, the tax year 2022 projections are the newest official figures.

Fraud

In September 2026, the Government Accountability Office estimated that the government loses between $116 billion and $304 billion a year to tax fraud, based on 2018 to 2024 data. That is about 2 to 6 percent of the tax owed. GAO found that the IRS "does not have an antifraud strategy" or a designated antifraud office, and recommended it create both. The IRS partly agreed.[219]

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[216] Internal Revenue Service, "Tax Gap Projections for Tax Year 2022," Publication 5869 (Rev. 10-2024), October 2024, Table 4. https://www.irs.gov/pub/irs-pdf/p5869.pdf. Accessed November 12, 2026.

[217] Internal Revenue Service, "Tax Gap Projections for Tax Year 2022," Publication 5869 (Rev. 10-2024), October 2024, page 6. https://www.irs.gov/pub/irs-pdf/p5869.pdf. Accessed November 12, 2026.

[218] Internal Revenue Service, "The Tax Gap," updated April 14, 2026. https://www.irs.gov/statistics/irs-the-tax-gap. Accessed November 12, 2026.

[219] "Tax Fraud: The Federal Government Loses an Estimated $116 Billion to $304 Billion Annually," Government Accountability Office, GAO-26-107810, September 25, 2026. https://files.gao.gov/reports/GAO-26-107810/index.html. Accessed November 12, 2026. Fraud is a part of the tax gap, but the IRS does not estimate it separately, so the two figures cannot simply be compared.

Chapter 15: Corporate Taxes

Figures in this chapter are current as of November 12, 2026.

Rates over time

The federal corporate income tax is older than the individual income tax. It began as the corporation excise tax of 1909, part of the deal described in Chapter 2. [Not verified: I did not find a primary source for the 1909 rate in the sources I read.] Here are some key points on the top corporate rate since then:

Top federal corporate income tax rate, selected changes[220]

Year of change	Top rate	Source
1942	Raised from 31% to 40%	Treasury OTA Working Paper 81
1987 (Tax Reform Act of 1986)	34%	Treasury OTA Working Paper 81
1993	35%	Treasury OTA Working Paper 81
2018 (Tax Cuts and Jobs Act)	21% flat rate	GAO-23-105384; Public Law 115-97

The 2017 law cut the top rate "from 35 percent to 21 percent," as GAO put it, and made the cut permanent.

The Treasury's record of major tax laws lets me fill in the corporate rate between 1940 and 1993, which the table above only samples. The top corporate rate rose from 19 percent to 22.1 percent and then 24 percent in 1940, to 31 percent in 1941 and to 40 percent in 1942. It fell to 38 percent in 1945, rose to 45 percent and then 47 percent in 1950, and stood at 52 percent after a temporary Korean War increase in 1951 until the Revenue Act of 1964 cut it to 48 percent. The Revenue Act of 1978 lowered it to 46 percent, the Tax Reform Act of 1986 to 34 percent, and the 1993 budget law set a 35 percent rate.[221]

The war years also brought a separate "excess profits tax" on corporations. Created in 1940 with a top rate of 50 percent, it was raised to a flat 90 percent in 1942 and 95 percent in 1943, then repealed in 1945. A temporary 30 percent excess profits tax came back during the Korean War.[222] So for a few years, large wartime profits faced rates far above anything in the regular corporate tax.

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[220] Tempalski, "Revenue Effects of Major Tax Bills," Treasury OTA Working Paper 81, revised September 2006, appendix entries for 1942, 1986 and 1993. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026. "Corporate Income Tax: Effective Rates Before and After 2017 Law Change," Government Accountability Office, GAO-23-105384, published December 14, 2022, released January 13, 2023. https://www.gao.gov/products/gao-23-105384. Accessed November 12, 2026.

[221] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, appendix entries for 1940 through 1993. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

[222] Jerry Tempalski, "Revenue Effects of Major Tax Bills," Office of Tax Analysis Working Paper 81, U.S. Department of the Treasury, revised September 2006, appendix entries for 1940 through 1950. https://home.treasury.gov/system/files/131/WP-81.pdf. Accessed November 12, 2026.

How much companies pay now

In fiscal year 2026, which ended September 30, 2026, corporate income taxes brought in $381 billion, down from $452 billion in 2025 and $530 billion in 2024, according to CBO. That was 1.2 percent of the economy, below the 50-year average of 1.7 percent. CBO said the drop came from a "scheduled decrease in payments of the onetime tax on previously untaxed foreign profits" and from the 2025 law, which allows "larger deductions for certain investments."[223]

By comparison, individual income taxes brought in $2,846 billion in fiscal year 2026, and payroll taxes $1,812 billion.[224]

Statutory rate versus what companies actually pay

The **statutory rate** is the rate in the law: 21 percent. The **effective rate** is what a company actually pays as a share of its profits. They can be far apart.

GAO studied large corporations before and after the 2017 law. It found that the average effective tax rate for profitable large corporations was "as high as 16 percent in 2014 and as low as 9 percent in 2018." It also found that about half of all large corporations had no federal income tax liability in each year from 2014 to 2018, and that among profitable large corporations, an average of 25 percent paid no federal income tax in a given year.[225]

Why the gap?

Most of the difference comes from provisions Congress wrote into the law on purpose. The Institute on Taxation and Economic Policy (ITEP), a group that favors higher taxes on corporations and high earners, studied the largest public companies' 2025 annual reports. It found at least 88 profitable companies that paid no federal corporate income tax on more than $105 billion of U.S. pretax income. ITEP identified the main reasons as:[226]

- **Accelerated depreciation**, which lets companies deduct the cost of equipment much faster than it wears out. ITEP counted $11.4 billion in tax savings from this alone.
- **Research deductions and credits**, including the newly restored ability to deduct domestic research costs right away.
- **A deduction for income from exports**, known as the foreign-derived deduction.
- **Stock options** given to executives, which companies can deduct when exercised.

Critics of ITEP's method make two main points. Adam Michel, a tax policy analyst, wrote that ITEP compares "book" profits reported to investors with current-year tax, two measures that "define income, deductions, and timing differently," so some of the zero-tax years are timing

[223] "Monthly Budget Review: Summary for Fiscal Year 2026," Congressional Budget Office, November 9, 2026, Table 2. https://www.cbo.gov/publication/61986. Accessed November 12, 2026.

[224] Same source.

[225] GAO-23-105384, same source.

[226] Matthew Gardner and Spandan Marasini, "At Least 88 Profitable U.S. Corporations Paid Zero Federal Income Tax in 2025," Institute on Taxation and Economic Policy (advocacy group), April 14, 2026. https://itep.org/88-profitable-corporations-paid-zero-income-tax-in-2025/. Accessed November 12, 2026.

differences that reverse later. He also argued that the breaks ITEP lists are "popular, bipartisan policies" passed to encourage investment and research, not evasion.[227]

Both points can be true at once: many profitable companies pay little or no current federal income tax in a given year, and they do so mostly by using deductions and credits that Congress created on purpose.

The 2022 corporate minimum tax

The Inflation Reduction Act added a corporate alternative minimum tax: a "new alternative minimum tax of 15% on corporations based on financial income" for companies with "$1 billion or more in average annual earnings in the previous three years," starting with tax years after 2022.[228] It uses the profits companies report to investors, called book income, as its base, to catch the largest companies that report big profits but pay little tax. The Joint Committee on Taxation estimated it would raise $222.2 billion from fiscal years 2023 through 2031, and studies cited by CRS estimated that only about 80 to 150 companies would owe it.[229]

How has the minimum tax worked in practice? I did not find an official count of how many companies paid it or how much it raised by the cutoff date. [Not verified: IRS or Treasury data on corporate alternative minimum tax collections; I searched IRS statistics pages and CRS reports.] It is also one of the proposals on the table in both directions. The Biden administration's fiscal year 2025 budget proposed raising its rate from 15 percent to 21 percent, along with raising the regular corporate rate from 21 percent to 28 percent.[230] Neither change was enacted.

The global minimum tax

On October 8, 2021, 136 countries working through the OECD/G20 Inclusive Framework, a group led by the Organisation for Economic Co-operation and Development (OECD), agreed on a two-part plan for taxing large multinational companies. The second part, known as Pillar Two, is a 15 percent global minimum tax.[231] The United States did not adopt the main Pillar Two rules. In June 2025 the Group of Seven (G7) countries reached a political agreement to exempt U.S.-based companies from key parts of the system. On January 5, 2026, the OECD's Inclusive Framework announced a package that lets companies with a U.S. parent elect to be treated as

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[227] Adam Michel, "Did 88 Corporations Really Pay No Income Tax on Billions of Profits?," Liberty Taxed (blog), April 21, 2026. https://adamnmichel.substack.com/p/did-88-corporations-really-pay-no. Accessed November 12, 2026. Michel is director of tax policy studies at the Cato Institute, a libertarian think tank. https://www.cato.org/people/adam-n-michel.

[228] CRS Report R47202, "Tax Provisions in the Inflation Reduction Act of 2022 (H.R. 5376)," August 3, 2022, Table 1. https://www.everycrsreport.com/files/2022-08-03_R47202_acda2a35c476768687fe98a8d90061f2ba722e4f.html. Accessed November 12, 2026.

[229] Jane G. Gravelle, "The 15% Corporate Alternative Minimum Tax," Congressional Research Service, R47328, January 19, 2023. https://www.everycrsreport.com/reports/R47328.html. Accessed November 12, 2026.

[230] U.S. Department of the Treasury, "General Explanations of the Administration's Fiscal Year 2025 Revenue Proposals," table of contents and pages 2-3. https://home.treasury.gov/system/files/131/General-Explanations-FY2025.pdf. Accessed November 12, 2026.

[231] Patrick Marley and others, "136 countries agree to OECD/G20 Inclusive Framework's two-pillar solution to international tax reform," Osler (law firm), October 12, 2021. https://www.osler.com/en/insights/updates/136-countries-agree-to-oecd-g20-inclusive-framework-s-two-pillar-solution-to-international-tax-refor/. Accessed November 12, 2026. [Not verified on the page I read: the 15 percent rate, which appears in the Mayer Brown source cited below.]

owing no extra "top-up" tax under two of the main Pillar Two rules, for fiscal years starting on or after January 1, 2026.[232]

[232] Mayer Brown (law firm), "OECD Pillar Two Side-by-Side System and New Safe Harbors," January 15, 2026. https://www.mayerbrown.com/en/insights/publications/2026/01/oecd-pillar-two-side-by-side-system-and-new-safe-harbors. Accessed November 12, 2026. This is a law firm's summary, used here as a pointer to the OECD's own announcement, which I could not open. [Not verified directly in OECD or G7 documents.]

Part Six: Claims and Theories

This part tests popular claims about taxes and the IRS. For each one I give the claim the way people actually say it, show where and when it spread, explain what the records show and give a verdict. The verdicts are the four described in the Introduction: True, Partly true, False (debunked) and Inconclusive.

I tested claims from every side of the political spectrum with the same method. Some are favorites of people who want lower taxes or a smaller IRS. Others are favorites of people who want higher taxes on the wealthy or a larger IRS. A claim's popularity with one side tells you nothing about whether it is true.

Chapter 16: Tax Protester Arguments and the Courts

A **tax protester** is someone who argues that the income tax is illegal, does not apply to them, or can be legally ignored. These arguments have circulated for decades in books, seminars and, more recently, online videos. Some people who believed them have lost their savings, paid large penalties or gone to prison.

The IRS publishes a long document called "The Truth About Frivolous Tax Arguments," which lists these arguments and the court decisions rejecting them.[233] You may reasonably ask whether the IRS is a fair judge of arguments against itself. That is why, for each claim below, I point to the court decisions, which are the primary sources. The IRS document is useful mainly as an index to those cases.

Claim 1: "The income tax is voluntary."

How it is said: "Paying income tax is voluntary. Even the Supreme Court and the IRS say so."

Where it comes from: The claim usually quotes the word "voluntary" from official sources. The best-known is the Supreme Court's 1960 statement in Flora v. United States: "Our system of taxation is based upon voluntary assessment and payment, not upon distraint."[234] The IRS itself uses the phrase "voluntary compliance rate" in its tax gap reports (Chapter 14).

What the records show: In this context, "voluntary" means that taxpayers figure their own tax and report it themselves, instead of the government calculating it and seizing it. "Distraint" means seizing property. The Court was describing self-assessment, not saying the tax is optional. The law requires people with income above certain levels to file. The IRS cites sections 6011, 6012 and 6072 of the Internal Revenue Code, which set the filing requirement and due date.[235]

Federal appeals courts have rejected the "voluntary" argument many times, including in United States v. Tedder (10th Circuit, 1986) and United States v. Richards (8th Circuit, 1983).[236] One of the best-known promoters of this argument, Irwin Schiff, was sentenced to more than 12 years in prison for tax evasion and ordered to pay more than $4.2 million in restitution.[237]

Verdict: False (debunked). The word "voluntary" refers to self-assessment. Filing and paying are required by law, and courts have uniformly said so.

Claim 2: "The 16th Amendment was never properly ratified."

How it is said: "The 16th Amendment was never legally ratified, so the income tax is unconstitutional."

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[233] Internal Revenue Service, "The Truth About Frivolous Tax Arguments," document updated March 2022, introduction page reviewed October 27, 2026. https://www.irs.gov/privacy-disclosure/the-truth-about-frivolous-tax-arguments-introduction. Accessed November 12, 2026.

[234] Flora v. United States, 362 U.S. 145, 176 (1960), as quoted in IRS, "The Truth About Frivolous Tax Arguments," Section I-A.1. https://www.irs.gov/privacy-disclosure/the-truth-about-frivolous-arguments-section-i-a-to-c. Accessed November 12, 2026.

[235] IRS, "The Truth About Frivolous Tax Arguments," Section I-A.1, citing Internal Revenue Code sections 6011(a), 6012(a) and 6072(a). https://www.irs.gov/privacy-disclosure/the-truth-about-frivolous-arguments-section-i-a-to-c. Accessed November 12, 2026.

[236] United States v. Tedder, 787 F.2d 540, 542 (10th Cir. 1986); United States v. Richards, 723 F.2d 646, 648 (8th Cir. 1983); both cited in IRS, "The Truth About Frivolous Tax Arguments," Section I-A.1. https://www.irs.gov/privacy-disclosure/the-truth-about-frivolous-arguments-section-i-a-to-c. Accessed November 12, 2026.

[237] IRS, "The Truth About Frivolous Tax Arguments," Section I-A.2, citing United States v. Schiff, 379 F.3d 621 (9th Cir. 2004), and a 2006 Department of Justice press release. https://www.irs.gov/privacy-disclosure/the-truth-about-frivolous-arguments-section-i-a-to-c; https://www.justice.gov/archive/opa/pr/2006/February/06_tax_098.html. Accessed November 12, 2026.

Where it comes from: This argument became widely known in the 1980s through the work of Bill Benson, who reviewed state ratification records and argued in a book called "The Law That Never Was" that errors in wording, spelling and procedure meant some states had not validly ratified. A version of the argument the IRS quotes runs: "The Sixteenth Amendment was ratified by forty states, including Ohio (which became a state in 1803)." [Not verified: the book's publication year.][238]

What the records show: It is true that some state documents contained differences in punctuation, capitalization or wording from the text Congress sent. But Secretary of State Philander Knox reviewed the returns in 1913 and certified the amendment on February 25, 1913.[239] Courts have since rejected Benson's argument directly. In Miller v. United States (7th Circuit, 1989), United States v. Stahl (9th Circuit, 1986), United States v. Foster (7th Circuit, 1986) and Knoblauch v. Commissioner (5th Circuit, 1984), federal appeals courts held that the Secretary of State's certification was conclusive and that the amendment is valid. A federal court in Illinois ruled against Benson again in 2008.[240] The Supreme Court had already treated the amendment as valid in Brushaber in 1916 (Chapter 2).

Verdict: False (debunked). Small clerical differences in state records did not invalidate ratification, and every court to consider the argument has rejected it.

Claim 3: "Wages are not income."

How it is said: "Your wages are an even exchange of your labor for money, so they are not 'income' and cannot be taxed."

Where it comes from: This argument draws on old court cases that described income as "gain" and argues that trading work for pay produces no gain. It has appeared in many protester books and websites over the decades. A related version, in Peter Hendrickson's book "Cracking the Code," claims that only government workers owe the tax. In 2007, a federal court in Michigan permanently barred Hendrickson and his wife from filing returns based on the book's claims, and in 2014 the Tax Court fined another taxpayer $2,500 for using its arguments.[241]

What the records show: The tax code defines gross income as "all income from whatever source derived, including compensation for services."[242] Compensation for services means wages, salaries and fees. In Commissioner v. Glenshaw Glass Co. (1955), the Supreme Court gave income a broad meaning, covering any clear gain over which a person has complete

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[238] IRS, "The Truth About Frivolous Tax Arguments," Section I-D.6, quoting Miller v. United States, 868 F.2d 236, 241-42 (7th Cir. 1989), on "the argument advanced in The Law That Never Was." https://www.irs.gov/privacy-disclosure/the-truth-about-frivolous-tax-arguments-section-i-d-to-e. Accessed November 12, 2026.

[239] National Archives, "16th Amendment to the U.S. Constitution: Federal Income Tax (1913)." https://www.archives.gov/milestone-documents/16th-amendment. Accessed November 12, 2026.

[240] Miller v. United States, 868 F.2d 236, 241-42 (7th Cir. 1989); United States v. Stahl, 792 F.2d 1438, 1441 (9th Cir. 1986); United States v. Foster, 789 F.2d 457 (7th Cir. 1986); Knoblauch v. Commissioner, 749 F.2d 200 (5th Cir. 1984); United States v. Benson, 2008 WL 267055 (N.D. Ill. January 10, 2008); all cited in IRS, "The Truth About Frivolous Tax Arguments," Section I-D. https://www.irs.gov/privacy-disclosure/the-truth-about-frivolous-tax-arguments-section-i-d-to-e. Accessed November 12, 2026. The IRS lists the 2008 Benson case without describing it, and I did not read the ruling.

[241] IRS, "The Truth About Frivolous Tax Arguments," Section I-C.4, citing United States v. Hendrickson, 100 A.F.T.R.2d (RIA) 2007-5395 (E.D. Mich. 2007), and Waltner v. Commissioner, T.C. Memo. 2014-35. https://www.irs.gov/privacy-disclosure/the-truth-about-frivolous-arguments-section-i-a-to-c. Accessed November 12, 2026.

[242] Internal Revenue Code section 61(a), as quoted in IRS, "The Truth About Frivolous Tax Arguments," Section I-A.3. https://www.irs.gov/privacy-disclosure/the-truth-about-frivolous-arguments-section-i-a-to-c. Accessed November 12, 2026. The full statute is at 26 U.S.C. 61.

control.[243] The Third Circuit Court of Appeals put it bluntly in 1990: "Every court which has ever considered the issue has unequivocally rejected the argument that wages are not income."[244]

Verdict: False (debunked). The law names compensation for services as income, and courts have rejected this argument without exception.

Claim 4: "The IRS is a private company."

How it is said: "The IRS is not a government agency. It is a private corporation, like the Federal Reserve, and has no authority over you."

Where it comes from: Versions of this claim point to the fact that the IRS was not created by a single statute with its current name, or confuse it with private companies that once had similar names. [Not verified: I did not find a reliable dated source for the first appearance of this claim.]

What the records show: The IRS is part of the Treasury Department. The Internal Revenue Code gives the Treasury Secretary authority to administer the tax laws (section 7801) and establishes the office of the Commissioner of Internal Revenue within the Treasury (section 7803). The Supreme Court described the IRS as "organized to carry out the broad responsibilities of the Secretary of the Treasury."[245] The Tax Court has called the private-company argument "tax protester gibberish."[246] Its budget is set by Congress in annual appropriations laws (Chapter 13), and its employees are federal employees whose numbers are reported by the Treasury and its Inspector General.

Verdict: False (debunked).

Related arguments: "I'm not a person" and "I'm not a citizen of the United States"

Some protesters argue that they are not a "person" under the tax code, or that they are citizens of their state but not of the United States, so the tax does not apply to them. Courts have "uniformly rejected" these arguments too, in cases such as United States v. Karlin (3rd Circuit, 1986), United States v. Studley (9th Circuit, 1986), United States v. Hilgeford (7th Circuit, 1993) and United States v. Sileven (8th Circuit, 1993).[247]

Other arguments the courts have rejected

The list goes on. Here are a few more that circulate, with how the courts answered.

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[243] Commissioner v. Glenshaw Glass Co., 348 U.S. 426, 429-30 (1955). https://supreme.justia.com/cases/federal/us/348/426/. Cited in IRS, "The Truth About Frivolous Tax Arguments," Section I-B.1. Accessed November 12, 2026.

[244] United States v. Connor, 898 F.2d 942, 943-44 (3d Cir. 1990), as quoted in IRS, "The Truth About Frivolous Tax Arguments," Section I-B.1. https://www.irs.gov/privacy-disclosure/the-truth-about-frivolous-arguments-section-i-a-to-c. Accessed November 12, 2026.

[245] Donaldson v. United States, 400 U.S. 517, 534 (1971); Internal Revenue Code sections 7801 and 7803(a); both cited in IRS, "The Truth About Frivolous Tax Arguments," Section I-E.1. https://www.irs.gov/privacy-disclosure/the-truth-about-frivolous-tax-arguments-section-i-d-to-e. Accessed November 12, 2026.

[246] Edwards v. Commissioner, T.C. Memo. 2002-169, as quoted in IRS, "The Truth About Frivolous Tax Arguments," Section I-E.1. Same URL.

[247] IRS, "The Truth About Frivolous Tax Arguments," Sections I-C.1 and I-C.3, citing United States v. Karlin, 785 F.2d 90 (3d Cir. 1986); United States v. Studley, 783 F.2d 934 (9th Cir. 1986); United States v. Hilgeford, 7 F.3d 1340 (7th Cir. 1993); United States v. Sileven, 985 F.2d 962 (8th Cir. 1993). https://www.irs.gov/privacy-disclosure/the-truth-about-frivolous-arguments-section-i-a-to-c. Accessed November 12, 2026.

- **"Federal Reserve notes are not real money, so I have no income."** The Eighth Circuit Court of Appeals answered in 1978 that "federal reserve notes are taxable dollars," and other courts have called the argument frivolous.[248]
- **"The Fifth Amendment lets me refuse to file."** The Supreme Court held in 1927 that a taxpayer cannot "draw a conjurer's circle around the whole matter" by refusing to file a return at all. A person may raise the privilege against specific questions in rare cases, but not refuse to report income.[249]
- **"Paying taxes is involuntary servitude under the 13th Amendment."** A federal appeals court called this kind of claim "far-fetched and frivolous" in 1954.[250]
- **"My religion forbids paying taxes for war."** The Supreme Court held in 1982 that religious objections do not excuse a person from a broadly applied tax.[251]
- **"The Paperwork Reduction Act means I don't have to file."** One appeals court wrote that the law "was not meant to provide criminals with an all-purpose escape hatch."[252]
- **"I can pay my taxes with a Form 1099-OID" or "Treasury holds a secret account in my name."** The IRS says plainly, "The Form 1099-OID is in no way a financial instrument," and courts agree that no such accounts exist.[253]
- **"Put your assets in a special trust and they become untaxable."** Courts have rejected these "untaxing" trusts, and one promoter was sentenced to 121 months in prison.[254]

Why do these arguments keep coming back? I think part of the answer is that the tax code really is long and hard to read, so a confident claim that a hidden loophole exists can sound plausible. But in more than a century of cases, I did not find a single one where a court accepted any of these arguments.

What can happen to people who rely on these arguments

You might ask, "If I sincerely believe one of these arguments, am I protected?" The Supreme Court addressed this in Cheek v. United States, decided January 8, 1991. John Cheek had stopped filing returns, arguing that wages are not income and that the tax laws are unconstitutional. The Court held that "a good-faith misunderstanding of the law or a good-faith belief that one is not violating the law negates willfulness," even if the belief is unreasonable. But it also held that "a defendant's views about the validity of the tax statutes are irrelevant to the issue of willfulness," because such claims "reveal full knowledge of the provisions at issue and a studied conclusion, however wrong."[255] In plain terms, a jury may consider whether you

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[248] IRS, "The Truth About Frivolous Tax Arguments," Section I-B.3, quoting United States v. Rifen, 577 F.2d 1111, 1112 (8th Cir. 1978), and citing United States v. Condo, 741 F.2d 238 (9th Cir. 1984). https://www.irs.gov/privacy-disclosure/the-truth-about-frivolous-arguments-section-i-a-to-c. Accessed November 12, 2026.

[249] IRS, "The Truth About Frivolous Tax Arguments," Section I-D.4, quoting United States v. Sullivan, 274 U.S. 259, 264 (1927). https://www.irs.gov/privacy-disclosure/the-truth-about-frivolous-tax-arguments-section-i-d-to-e. Accessed November 12, 2026.

[250] IRS, "The Truth About Frivolous Tax Arguments," Section I-D.5, citing Porth v. Brodrick, 214 F.2d 925 (10th Cir. 1954). Same URL.

[251] IRS, "The Truth About Frivolous Tax Arguments," Section I-D.1, citing United States v. Lee, 455 U.S. 252, 260 (1982). Same URL.

[252] IRS, "The Truth About Frivolous Tax Arguments," Section I-E.2, quoting United States v. Hicks, 947 F.2d 1356, 1359 (9th Cir. 1991). Same URL.

[253] IRS, "The Truth About Frivolous Tax Arguments," Section I-E.8, citing United States v. Anderson, 353 F.3d 490, 500 (6th Cir. 2003). Same URL.

[254] IRS, "The Truth About Frivolous Tax Arguments," Section I-E.5, citing United States v. Meredith, 685 F.3d 814 (9th Cir. 2012). Same URL.

[255] Cheek v. United States, 498 U.S. 192 (1991). https://supreme.justia.com/cases/federal/us/498/192/. Accessed November 12, 2026.

honestly misunderstood the law, but not whether you think the law is unconstitutional. Cheek himself did not escape. When his case was retried, he was convicted on all counts and sentenced to a year and a day in prison.[256] And even when a court accepts that someone believed in good faith, the tax, interest and civil penalties are still owed.

The penalties are real:[257]

- A **$5,000 penalty** under section 6702 for filing a frivolous return or submission.
- A penalty of **up to $25,000** that the Tax Court can impose under section 6673 for bringing frivolous arguments. In one 2016 case, a federal appeals court upheld the full $25,000.
- For tax evasion under section 7201, up to **5 years in prison** and a $100,000 fine. For filing a false return under section 7206(1), up to **3 years** and a $100,000 fine.

Verdicts on tax protester claims

Claim	Verdict	Main sources
"The income tax is voluntary."	False (debunked)	Internal Revenue Code sections 6011, 6012, 6072; Flora (1960); Tedder (1986)
"The 16th Amendment was never properly ratified."	False (debunked)	National Archives; Miller (1989); Stahl (1986); Brushaber (1916)
"Wages are not income."	False (debunked)	Internal Revenue Code section 61; Glenshaw Glass (1955); Connor (1990)
"The IRS is a private company."	False (debunked)	Internal Revenue Code sections 7801 and 7803; Donaldson (1971)
"I'm not a person or not a U.S. citizen for tax purposes."	False (debunked)	Karlin (1986); Studley (1986); Hilgeford (1993)

[256] IRS, "The Truth About Frivolous Tax Arguments," Section I-B.1, citing United States v. Cheek, 3 F.3d 1057, 1059 (7th Cir. 1993). https://www.irs.gov/privacy-disclosure/the-truth-about-frivolous-arguments-section-i-a-to-c. Accessed November 12, 2026.

[257] IRS, "The Truth About Frivolous Tax Arguments," Section III. https://www.irs.gov/privacy-disclosure/the-truth-about-frivolous-tax-arguments-section-iii. Accessed November 12, 2026.

Chapter 17: Claims About Who Pays and What the IRS Does

The claims in Chapter 16 are about whether the tax is legal at all. The claims in this chapter are different. They are about who pays, how much, and what the IRS does with its power. These claims come from people across the political spectrum, and many of them hold a piece of the truth. That is why so many of them get a "Partly true" verdict. The useful work is in sorting out which piece is true and which piece is stretched.

Information in this chapter stops at November 12, 2026. I use the same format as before. For each claim I show how it is usually said, where it comes from, what the records show, and my verdict.

Claim 5: "The rich pay little or nothing in income tax."

How it is said: "Billionaires pay less than you do," or "The rich don't pay their fair share."

Where it comes from: This claim gained force in June 2021, when the news site ProPublica published a series called "The Secret IRS Files." It was based on leaked IRS records for thousands of wealthy Americans. ProPublica reported that the 25 richest Americans saw their wealth grow by $401 billion from 2014 to 2018 and paid $13.6 billion in federal income taxes over those years. It called this a "true tax rate" of 3.4 percent.[258]

What the records show: The answer depends on what you divide by. There are two very different ways to measure a tax rate here.

The first way is the official way. It divides the tax paid by the income reported on a tax return. On that measure, people at the top pay higher average rates than everyone else. IRS data for tax year 2022 show that the top 1 percent of taxpayers paid an average income tax rate of 26.1 percent on their adjusted gross income, while the bottom half paid 3.7 percent. The top 1 percent reported 22.4 percent of all income and paid 40.4 percent of all federal income taxes.[259] The Congressional Budget Office (CBO), which is nonpartisan, found that the top fifth of households paid about 70 percent of all federal taxes in 2023, up from 55 percent in 1979.[260]

The second way divides the tax paid by the growth in a person's wealth, including gains on stock and property that have not been sold. That is what ProPublica did. On that measure, the very richest pay much lower rates. Under current law, a gain is not taxed until the asset is sold, and gains held until death can escape income tax completely through a rule called "step-up in basis" (Chapter 11). The very wealthiest people often hold most of their wealth in stock they rarely sell. So their taxable income can be small compared with how fast their wealth grows.

Both measures are real. They answer different questions. The first asks, "How much tax do the rich pay on the income the law taxes?" The second asks, "How much tax do the rich pay

[258] Jesse Eisinger, Jeff Ernsthausen and Paul Kiel, "The Secret IRS Files: Trove of Never-Before-Seen Records Reveal How the Wealthiest Avoid Income Tax," ProPublica, June 8, 2021. https://www.propublica.org/article/the-secret-irs-files-trove-of-never-before-seen-records-reveal-how-the-wealthiest-avoid-income-tax. Accessed November 12, 2026.

[259] Erica York, "Summary of the Latest Federal Income Tax Data," Tax Foundation (a market-oriented research group), published November 18, 2024, updated April 15, 2026, using IRS Statistics of Income data for tax year 2022. https://taxfoundation.org/data/all/federal/latest-federal-income-tax-data-2025/. Accessed November 12, 2026.

[260] Congressional Budget Office, "The Distribution of Household Income, 2023," September 24, 2026. https://www.cbo.gov/publication/62761. Accessed November 12, 2026.

compared with how much richer they got?" ProPublica's 3.4 percent is its own measure, not an IRS figure, and it counts gains that the law has never treated as income.

The claim also ignores that some high-income people do pay little. Each year a small number of high-income returns show no income tax, usually because of large deductions, losses or credits. [Not verified: I did not find a current IRS count of high-income nontaxable returns.]

Verdict: Partly true. On income the law taxes, the rich pay the highest average rates and most of the total. Measured against total wealth growth, the very richest pay low rates, because unsold gains are not taxed. The word "nothing" is false for the group as a whole.

Claim 6: "Half of Americans pay no taxes."

How it is said: "Almost half of Americans don't pay any taxes," or "47 percent pay nothing." The "47 percent" phrase became famous in the 2012 presidential campaign. At a private fundraiser in Boca Raton, Florida, on May 17, 2012, Republican nominee Mitt Romney said, "Forty-seven percent of Americans pay no income tax." A video of the remarks became public in September 2012. PolitiFact rated the statement True, noting that the figure matched Tax Policy Center estimates for federal income tax and that Romney "didn't specify federal income tax."[261]

Where it comes from: It comes from real data about the federal income tax. The Tax Policy Center (TPC), a research center run jointly by the Urban Institute and the Brookings Institution, estimates how many households owe no federal income tax each year. For 2025 it estimated 39.6 percent of households, about 76 million, and it projected 37.4 percent for 2026.[262]

What the records show: The claim takes a true number about one tax and applies it to all taxes. Many households that owe no federal income tax still pay federal payroll taxes for Social Security and Medicare, which come out of every paycheck. TPC notes that many of these households "still pay substantial payroll taxes."[263] They also pay federal excise taxes on gasoline, alcohol and tobacco, plus state and local sales and property taxes.

Who are the people who owe no federal income tax? TPC found that about 70 percent of them have incomes under $75,000. Most are retirees with low taxable income, working families whose income is low enough that the standard deduction and credits for children wipe out their income tax, students, and people out of work. The share swings with the economy and with the law. It jumped during the pandemic, when temporary credits were larger, and has come down since.

CBO's measure of all federal taxes tells the same story from the other side. Even the lowest-income fifth of households pays some federal tax when you count payroll and excise taxes, though their average income tax rate is negative because of refundable credits.[264]

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[261] Molly Moorhead, "Mitt Romney says 47 percent of Americans pay no income tax," PolitiFact, September 18, 2012. https://politifact.com/factchecks/2012/sep/18/mitt-romney/romney-says-47-percent-americans-pay-no-income-tax/. Accessed November 12, 2026.

[262] Tax Policy Center, "Who Will Pay No Federal Individual Income Tax in 2025?" Fiscal Facts. https://taxpolicycenter.org/fiscal-facts/who-will-pay-no-federal-individual-income-tax-2025. Accessed November 12, 2026.

[263] Tax Policy Center, "Who Will Pay No Federal Individual Income Tax in 2025?" Same URL.

[264] Congressional Budget Office, "The Distribution of Household Income, 2023," September 24, 2026. https://www.cbo.gov/publication/62761. Accessed November 12, 2026.

Verdict: Partly true. About 4 in 10 households owe no federal income tax in a given year. Very few pay no federal taxes at all, because payroll and excise taxes still apply.

Claim 7: "The IRS is hiring 87,000 armed agents."

How it is said: "The IRS is hiring 87,000 new agents, and they will be armed and coming after the middle class."

Where it comes from: It spread in August 2022, during the debate over the Inflation Reduction Act, which gave the IRS about $80 billion over 10 years (Chapter 12). The 87,000 figure came from a May 2021 Treasury report on an earlier, similar proposal. That report estimated the IRS could hire about 86,852 full-time employees over a decade. The armed-agent part grew from an IRS job posting for its Criminal Investigation division.[265]

What the records show: Three parts of the claim do not hold up.

First, the 87,000 were not all new agents. They were employees of all kinds over 10 years, including customer service staff and technology workers. Treasury said "the majority of new employees will replace the standard level of staff departures," because the IRS expected to lose up to 52,000 workers to retirement and turnover in five years.[266]

Second, the IRS has had armed special agents for a long time. They work in Criminal Investigation, which handles tax fraud and money laundering cases. In 2021 there were about 2,046 of them, out of about 79,000 IRS employees. PolitiFact rated a popular video making the claim "Mostly False" and wrote that "the agency is not doubling in size nor is it newly arming its agents."[267]

Third, the hiring never reached anything like 87,000. Congress rescinded about $53.5 billion of the $79.4 billion between 2023 and 2026.[268] Then, in 2025, the IRS workforce fell by about 28 percent on net, from layoffs, buyouts and retirements.[269] The IRS ended up much smaller than it was before the 2022 law, not bigger (Chapter 13).

Was the middle class a target? Treasury Secretary Janet Yellen directed in August 2022 that the new money "shall not be used to increase the share of small business or households below the $400,000 threshold that are audited relative to historical levels."[270] That was a policy directive, not a law, and a later administration could change it.

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[265] Brea Jones, "IRS Will Target 'High-Income' Tax Evaders with New Funding, Contrary to Social Media Posts," FactCheck.org, August 18, 2022 (updated August 25 and corrected August 31, 2022). https://www.factcheck.org/2022/08/irs-will-target-high-income-tax-evaders-with-new-funding-contrary-to-social-media-posts/. Accessed November 12, 2026.

[266] FactCheck.org, same article, quoting the Treasury Department.

[267] Jeff Cercone, "Video misleads about size of IRS, audits and armed agents," PolitiFact, August 18, 2022. https://www.politifact.com/factchecks/2022/aug/18/facebook-posts/video-misleads-about-size-irs-audits-and-armed-age/. Accessed November 12, 2026.

[268] Victoria M. Martinez, "FY2027 Internal Revenue Service Budget Request," Congressional Research Service, IN12753, version 2, November 3, 2026. https://www.everycrsreport.com/files/2026-11-03_IN12753_0218b722bcb86303a9d5351cca8d7f45c6c1bc9d.pdf. Accessed November 12, 2026.

[269] Treasury Inspector General for Tax Administration, "Snapshot Report: Status of the IRS's Workforce as of January 2026," Report 2026-IE-R009, June 9, 2026. https://www.tigta.gov/sites/default/files/reports/2026-06/2026ier009fr.pdf. Accessed November 12, 2026.

[270] U.S. Department of the Treasury, "Secretary Yellen Letter to IRS Commissioner Rettig," press release jy0918, August 10, 2022. https://home.treasury.gov/news/press-releases/jy0918. Accessed November 12, 2026.

Verdict: False (debunked). The number counted all kinds of workers over 10 years, most replacing people who were leaving. Armed agents were not new and were a small part of the workforce. And the IRS shrank instead of growing.

Claim 8: "The IRS targets people on one side of politics."

How it is said: People on the right point to the 2013 scandal over conservative groups. People on the left point to more recent concerns about the IRS being used against political opponents or immigrants. Both say, "The IRS is a political weapon."

Where it comes from: It comes from real events.

In May 2013, the Treasury Inspector General for Tax Administration (TIGTA), the IRS's independent watchdog, reported that IRS staff reviewing applications for tax-exempt status had used "inappropriate criteria" to pick groups for extra scrutiny. The criteria included names such as "Tea Party," "Patriots" and "9/12."[271] Those groups faced long delays and requests for information TIGTA called unnecessary.

In September 2017, a follow-up TIGTA report found that from August 2004 through June 2013 the IRS had potentially used 259 different criteria to flag applications. Among the 17 it reviewed in detail were "Progressive," used on 61 cases, and "Occupy," used on 5. The report quoted a 2015 Senate Finance Committee finding that "the IRS also flagged some left-leaning tax-exempt applicants for processing." TIGTA said it did not judge the groups' political leanings itself.[272]

In 2022, after news reports that former FBI Director James Comey and former Deputy Director Andrew McCabe had both received rare intensive audits, TIGTA reviewed the cases. It found both had been chosen at random for the IRS's National Research Program, which is used to measure the tax gap, and found no evidence of targeting.[273]

In April 2025, the IRS and Immigration and Customs Enforcement (ICE) signed an agreement to share taxpayer address data on certain immigrants. Courts have split on parts of it. In November 2025, a federal judge blocked the agreement. In February 2026, the same judge wrote that the IRS had broken the law about 42,695 times by sharing records. In September 2026, the D.C. Circuit Court of Appeals upheld the block.[274] A different panel of the same court had earlier declined to block the sharing in a separate case brought by other plaintiffs.[275] This is a dispute about privacy law and immigration enforcement, not about audits of one party, but people on the left often cite it as political use of the IRS.

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[271] Treasury Inspector General for Tax Administration, "Inappropriate Criteria Were Used to Identify Tax-Exempt Applications for Review," Report 2013-10-053, May 14, 2013. http://www.treasury.gov/tigta/auditreports/2013reports/201310053fr.pdf. [Not verified: the report link did not open for me (it now redirects), so the names "Tea Party," "Patriots" and "9/12" are as widely reported at the time, not from my own reading of the report.]

[272] Treasury Inspector General for Tax Administration, "Review of Selected Criteria Used to Identify Tax-Exempt Applications for Review," Report 2017-10-054, September 28, 2017. https://www.oversight.gov/sites/default/files/oig-reports/201710054fr.pdf. Accessed November 12, 2026.

[273] Daniel Hood, "Comey and McCabe weren't targeted for tax audits, TIGTA finds," Accounting Today, December 1, 2022. https://www.accountingtoday.com/news/comey-and-mccabe-werent-targeted-for-tax-audits-tigta-finds. Accessed November 12, 2026.

[274] Jason Bramwell, "Appeals Court Upholds Block on IRS-ICE Taxpayer Data-Sharing Deal," CPA Practice Advisor, September 9, 2026. https://www.cpapracticeadvisor.com/2026/09/09/appeals-court-upholds-block-on-irs-ice-taxpayer-data-sharing-deal/189889/. Accessed November 12, 2026.

[275] Fatima Hussein, Associated Press, "Court says IRS can continue to share immigrants' taxpayer data with ICE," February 25, 2026, as published by ABC7. https://abc7.com/post/court-says-irs-can-continue-share-immigrants-taxpayer-data-ice/18646151/. Accessed November 12, 2026.

What the records show: There is documented evidence that IRS staff used politically loaded screening terms in the tax-exempt process from about 2010 to 2013, and that conservative groups were hit hardest and longest. There is also evidence that progressive terms were used in the same process. The Comey and McCabe case, which looked like targeting, was found to be random. I did not find a TIGTA or court finding of a broad, ongoing pattern of audits aimed at one party's voters.

Verdict: Partly true. Specific, documented episodes are real, and the 2013 one fell mostly on conservative groups. The broader claim that the IRS as a whole systematically targets one side is not supported by the investigations I found.

Claim 9: "Big corporations pay zero in taxes."

How it is said: "Amazon (or another big name) paid zero federal taxes," or "Big corporations pay nothing."

Where it comes from: The Institute on Taxation and Economic Policy (ITEP), a progressive research group, publishes yearly lists. In April 2026 it reported that at least 88 profitable U.S. corporations paid zero federal income tax in 2025, on more than $105 billion of U.S. pretax profits. At the 21 percent rate, ITEP said, they would have owed about $22.1 billion. Instead, they received $4.7 billion in net rebates. ITEP named accelerated depreciation, immediate deduction of research costs, the research credit, and deductions for stock options as the main reasons.[276]

What the records show: ITEP's figures come from company financial reports, not tax returns, which are private. Critics argue that this method can mislead. Adam Michel, a tax analyst who writes from a free-market view, argued that the profit companies report to shareholders and the profit the tax law measures are calculated differently on purpose. Many of the breaks ITEP named, such as faster write-offs for equipment, were passed by Congress with support from both parties to encourage investment. A company that pays zero one year may pay more later as timing differences reverse.[277]

The Government Accountability Office (GAO), the nonpartisan auditing arm of Congress, used actual tax data. It found that about half of all large corporations had no federal income tax liability in each year from 2014 through 2018. But many of those were not profitable. Among profitable large corporations, an average of about 25 percent paid none. The average effective rate for profitable large corporations was as high as 16 percent in 2014 and as low as 9 percent in 2018, after the 2017 law cut the top rate from 35 to 21 percent.[278]

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[276] Matthew Gardner and Spandan Marasini, "At Least 88 Profitable U.S. Corporations Paid Zero Federal Income Tax in 2025," Institute on Taxation and Economic Policy (a progressive research group), April 14, 2026. https://itep.org/88-profitable-corporations-paid-zero-income-tax-in-2025/. Accessed November 12, 2026.

[277] Adam Michel, "Did 88 Corporations Really Pay No Tax?" Liberty Taxed (newsletter), April 21, 2026. https://adamnmichel.substack.com/p/did-88-corporations-really-pay-no. Accessed November 12, 2026. Michel is director of tax policy studies at the Cato Institute, a libertarian think tank. https://www.cato.org/people/adam-n-michel.

[278] U.S. Government Accountability Office, "Corporate Income Tax: Effective Rates Before and After 2017 Law Change," GAO-23-105384, published December 14, 2022, publicly released January 13, 2023. https://www.gao.gov/products/gao-23-105384. Accessed November 12, 2026.

Corporations as a group still paid $381 billion in federal income tax in fiscal year 2026, though that was down 15.6 percent from the year before.[279]

Verdict: Partly true. Some large, profitable corporations do pay zero federal income tax in a given year, mostly through breaks Congress created on purpose. Most large profitable corporations pay something, and corporations as a group pay hundreds of billions of dollars a year.

Claim 10: "A flat tax would be fairer."

How it is said: "Everyone should pay the same rate. A flat tax is the fairest system."

Where it comes from: Flat tax plans have been proposed in Congress for decades. The best-known model was designed by economists Robert Hall and Alvin Rabushka at Stanford's Hoover Institution. Versions were introduced by Representative Dick Armey and Senator Richard Shelby, among others.[280] Chapter 20 covers how these plans would work.

What the records show: "Fairer" is a value judgment, not a fact that records can settle. Supporters say one rate treats everyone the same, is simpler, and reduces the incentive to hunt for loopholes. Critics say a flat rate would shift the tax burden from higher-income households toward middle- and lower-income households, unless it kept a large exemption, and that the move from the current system would be costly and disruptive. The Congressional Research Service summarized both sides without picking one.[281]

Here is what records can tell you. Most flat tax plans include a large personal exemption, so a family's first several thousand dollars of income is taxed at zero. That means they are not truly "flat" for everyone; the average rate still rises with income. Most plans also stop taxing interest, dividends and capital gains at the individual level, which would help households with a lot of investment income. Whether that is fair depends on what you think is fair.

Verdict: Inconclusive. This is a question of values, not a factual claim. Records can show who would pay more or less under a specific plan, and Chapter 20 gives those estimates where they exist.

Claim 11: "A raise can push you into a higher bracket and lower your take-home pay."

How it is said: "Don't take that raise. It will push you into a higher bracket, and you'll take home less."

Where it comes from: This is a very common misunderstanding of how brackets work. I could not trace it to a single source. [Not verified: no reliable dated first use found.]

What the records show: The federal income tax uses "marginal" rates. A higher rate applies only to the dollars above each bracket line, not to all your income. If you are a single filer in 2026 and your taxable income rises from $50,000 to $51,000, only the $600 above the $50,400

[279] Congressional Budget Office, "Monthly Budget Review: Summary for Fiscal Year 2026," November 9, 2026. https://www.cbo.gov/publication/61986. Accessed November 12, 2026.

[280] James M. Bickley, "Flat Tax Proposals and Fundamental Tax Reform: An Overview," Congressional Research Service, RL33443, May 31, 2006. https://www.everycrsreport.com/reports/RL33443.html. Accessed November 12, 2026.

[281] Bickley, CRS RL33443, same report.

line is taxed at 22 percent instead of 12 percent.[282] The extra tax on that $600 is $60. Your other dollars are taxed exactly as before. Chapter 9 walks through a full example.

There is a real issue hiding inside this myth. Some benefits phase out as income rises. The Earned Income Tax Credit, some health insurance subsidies, and several of the new deductions in the 2025 law shrink as income goes up. In rare cases, losing a benefit can cost a family more than a small raise brings in. Economists call this a "benefit cliff" or a high "effective marginal rate." That comes from benefit rules, not from moving into a higher tax bracket.

Verdict: False (debunked). Moving into a higher bracket never lowers your take-home pay under the federal income tax brackets alone. Benefit phaseouts are a separate issue that can, in rare cases, reduce the gain from a raise.

Claim 12: "The 2017 tax cuts paid for themselves."

How it is said: "The tax cuts paid for themselves through economic growth."

Where it comes from: Supporters of the Tax Cuts and Jobs Act of 2017 (TCJA) argued that lower rates, especially the cut in the corporate rate from 35 to 21 percent, would grow the economy enough to make up for the lost revenue. At a White House briefing on April 24, 2017, Treasury Secretary Steven Mnuchin said the plan would "pay for itself" through economic growth.[283]

What the records show: Every official estimate I found shows the law lost revenue, even after counting economic growth. The Joint Committee on Taxation (JCT), Congress's official scorekeeper for tax bills, estimated the law would cost about $1.46 trillion over 10 years using standard methods, and about $1.07 trillion after counting its effects on growth.[284] The Tax Policy Center summarized the later estimates from CBO and JCT this way: "These estimates all show TCJA substantially reducing revenues and increasing deficits over its first decade."[285]

Some supporters point out that federal revenue rose to record levels in 2021 and 2022. That is true in dollars, but revenue also rose because of inflation, a strong recovery from the pandemic, and stock market gains. A rise in total revenue does not show that the tax cut caused it, or that revenue was higher than it would have been without the cut. The official estimates try to answer exactly that question, and they say no.

Verdict: False (debunked). Official estimates, including those that count economic growth, found the law added more than $1 trillion to deficits over 10 years.

Claim 13: "The 2017 tax law raised taxes on the middle class."

How it is said: "The Trump tax cuts were a tax hike on the middle class."

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[282] IRS, "IRS releases tax inflation adjustments for tax year 2026, including amendments from the One, Big, Beautiful Bill," IR-2025-103, October 9, 2025. https://www.irs.gov/newsroom/irs-releases-tax-inflation-adjustments-for-tax-year-2026-including-amendments-from-the-one-big-beautiful-bill. Accessed November 12, 2026.

[283] Robert Schroeder, "Mnuchin Says Tax Plan Will 'pay For Itself' With Economic Growth," MarketWatch, as published by Fox Business, April 24, 2017. https://www.foxbusiness.com/markets/mnuchin-says-tax-plan-will-pay-for-itself-with-economic-growth. Accessed November 12, 2026.

[284] Congressional Research Service, "The 2017 Tax Revision (P.L. 115-97): Comparison to 2017 Tax Law," R45092, February 6, 2018, citing Joint Committee on Taxation reports JCX-67-17 and JCX-69-17 (December 18, 2017). https://www.everycrsreport.com/reports/R45092.html. Accessed November 12, 2026.

[285] Tax Policy Center, "How did the TCJA affect the federal budget outlook?" Briefing Book, updated January 2024. https://taxpolicycenter.org/briefing-book/how-did-tcja-affect-federal-budget-outlook. Accessed November 12, 2026.

Where it comes from: Critics of the 2017 law made this argument when it passed and since. It draws on two real features. First, the law's individual tax cuts were scheduled to expire after 2025, while the corporate rate cut was permanent. Second, the law capped the deduction for state and local taxes (SALT) at $10,000, which raised taxes for some households in high-tax states.[286]

What the records show: In 2018, most middle-income households got a tax cut. The Tax Policy Center estimated, for the final law, that 91 percent of middle-income households (the middle fifth) would get a tax cut in 2018 and 7 percent would pay more. The average cut for the middle fifth was about $930, or 1.6 percent of after-tax income. A smaller share paid more, often because of the SALT cap or the loss of personal exemptions for large families.[287]

Tax Policy Center estimates for the 2017 law, middle-income households (middle fifth), as written in 2017

Year	Share with a tax cut	Share with a tax increase	Average change in tax
2018	91%	7%	$930 cut
2025	87%	11%	$910 cut
2027 (after scheduled expirations)	24%	70%	About $20 increase

Analysts also projected that if the individual cuts expired as written after 2025, many middle-income households would pay more in later years than under the old law, partly because the law switched to a slower-growing inflation measure (called "chained CPI") for adjusting brackets.

That expiration never happened. In July 2025, Public Law 119-21 made the 2017 individual rates and the larger standard deduction permanent.[288] So the scheduled increase on the middle class did not take effect.

Verdict: Partly true. Most middle-income households got a tax cut in the early years, but some paid more, and the law as written would have raised taxes on many later. Congress removed that scheduled increase in 2025.

Claim 14: "The 2025 law ended taxes on Social Security."

How it is said: In July 2025, President Trump said, "We've delivered no tax on tips, no tax on overtime and no tax on Social Security for our great seniors." The White House later said "No Tax on Social Security" was "now the law of the land."[289]

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[286] Public Law 115-97, 131 Stat. 2054, December 22, 2017. https://www.govinfo.gov/content/pkg/PLAW-115publ97/html/PLAW-115publ97.htm. Accessed November 12, 2026.

[287] Tax Policy Center staff, "Distributional Analysis of the Conference Agreement for the Tax Cuts and Jobs Act," Tax Policy Center (Urban Institute and Brookings Institution), December 18, 2017, Tables 1, 3, 4 and 6, as posted by the office of Senator Bernie Sanders. https://sanders.senate.gov/wp-content/uploads/2001641_distributional_analysis_of_the_conference_agreement_for_the_tax_cuts_and_jobs_act_0.pdf. Accessed November 12, 2026. TPC's own web page for this report did not load for me.

[288] Anthony A. Cilluffo (coordinator) and others, "Tax Provisions in P.L. 119-21, the FY2025 Reconciliation Law," Congressional Research Service, R48611, July 29, 2025. https://www.everycrsreport.com/files/2025-07-29_R48611_bb2f5cc1bdc7bb3e919d12ec54e7dce391eb79af.html. Accessed November 12, 2026.

[289] Louis Jacobson, "Older Americans get a tax deduction, but no elimination of Social Security taxation," PolitiFact, July 7, 2025. https://politifact.com/?p=387439; Matthew Gardner, "President Trump is Still Lying About Ending Taxes on Social Security," Institute on Taxation and Economic Policy (a progressive research group), September 11, 2025. https://itep.org/trump-lying-ending-taxes-social-security/. Both accessed November 12, 2026.

Where it comes from: It comes from a new deduction in Public Law 119-21. For tax years 2025 through 2028, people age 65 and older can deduct an extra $6,000 each ($12,000 for a married couple who both qualify). The deduction shrinks by 6 percent of income above $75,000 for single filers and $150,000 for joint filers, so it is gone at $175,000 and $250,000.[290]

What the records show: The law did not change how Social Security benefits are taxed. Up to 85 percent of benefits can still be taxable for people above the income lines set in 1983 and 1993. The new deduction is tied to age, not to Social Security, so it also helps older people who have not claimed benefits, and it does not help people under 65 who receive Social Security disability benefits. It also expires after 2028. For many lower-income retirees, benefits were already untaxed, so the deduction gave them nothing extra. PolitiFact rated the promise "Compromise" on its promise tracker.[291]

Verdict: False (debunked). Taxes on Social Security benefits were not ended. Older taxpayers got a temporary, income-limited extra deduction that reduces their tax, in some cases to zero.

Claim 15: "There's no more tax on tips or overtime."

How it is said: "No tax on tips. No tax on overtime."

Where it comes from: Public Law 119-21 created two new deductions for 2025 through 2028.[292]

What the records show: The details narrow the claim in four ways.

- **Caps.** Workers can deduct up to $25,000 of qualified tips a year. For overtime, they can deduct the extra "half" of time-and-a-half pay, up to $12,500 a year ($25,000 for a joint return).
- **Income limits.** Both deductions shrink for incomes above $150,000 for single filers and $300,000 for joint filers.
- **Time limit.** Both expire after 2028 unless Congress extends them.
- **Income tax only.** Both reduce federal income tax only. Social Security and Medicare payroll taxes still apply to tips and overtime pay, and so do most state income taxes.

Also, many tipped workers earn too little to owe much federal income tax in the first place, so the deduction does less for them than the slogan suggests. The Budget Lab at Yale, a nonpartisan research group, found that about 4 million people worked in tipped jobs in 2023, about 2.5 percent of all workers, and that 37 percent of tipped workers had incomes low enough that they owed no federal income tax in 2022, even before credits.[293]

Verdict: Partly true. Many workers do pay less federal income tax on tips and overtime for 2025 through 2028. But the tax is not gone: the deductions are capped, phase out at higher incomes, expire, and leave payroll taxes in place.

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[290] CRS R48611, same report.

[291] PolitiFact, same article.

[292] CRS R48611, same report; IRS, "Working Families Tax Cuts." https://www.irs.gov/newsroom/working-families-tax-cuts. Accessed November 12, 2026.

[293] The Budget Lab at Yale, "The 'No Tax on Tips Act': Background on Tipped Workers," 2024. https://budgetlab.yale.edu/news/240624/no-tax-tips-act-background-tipped-workers. Accessed November 12, 2026.

Claim 16: "The IRS audits the poor more than the rich."

How it is said: "The IRS goes after working people and leaves the rich alone."

Where it comes from: In 2019, ProPublica reported that the most-audited county in the country was Humphreys County, Mississippi, a mostly Black, low-income county, based on a study by an IRS researcher. The reason was the heavy focus on returns claiming the Earned Income Tax Credit (EITC).[294]

What the records show: By percentage, the highest-income taxpayers are audited much more often than average. IRS data for tax year 2021 returns show an audit rate of 6.6 percent for people with total positive income of $10 million or more, compared with 0.9 percent for those between $1 million and $5 million.[295] The same IRS table shows that for tax year 2021, returns claiming the EITC were audited at 0.7 percent, more than twice the 0.3 percent rate for all individual returns, while every income group from $25,000 to $500,000 was audited at about 0.2 percent (Chapter 13).[296]

But the gap between the very top and the bottom narrowed sharply for years. GAO found that from tax year 2010 to 2019, the average individual audit rate fell from 0.9 percent to 0.25 percent, and it fell most for people earning $200,000 or more. Throughout, low-income taxpayers claiming the EITC were audited at rates above the overall average.[297] The reason is cost: EITC audits are usually simple letters handled by mail, while auditing a wealthy person with business income takes skilled staff and years.

A 2023 Stanford study using IRS data found that Black taxpayers were audited 2.9 to 4.7 times as often as non-Black taxpayers, driven by how the IRS chose which EITC claims to audit, not by race being used directly.[298]

Verdict: Partly true. People with the very highest incomes are audited at higher rates than anyone else. But low-income EITC claimants are audited more often than the average taxpayer and more often than many upper-middle and high-income groups, and that gap grew in the 2010s as audits of higher earners fell.

Claim 17: "Billionaires pay a lower tax rate than teachers and firefighters."

How it is said: "Billionaires pay a lower tax rate than a schoolteacher or a firefighter." Investor Warren Buffett made a related point in an August 2011 New York Times op-ed, "Stop Coddling the Super-Rich." He wrote that his federal tax bill came to 17.4 percent of his taxable income, while the people in his office paid between 33 and 41 percent, averaging 36 percent. PolitiFact

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[294] Paul Kiel and Hannah Fresques, "Where in the U.S. Are You Most Likely to Be Audited by the IRS?" ProPublica, April 1, 2019. https://projects.propublica.org/graphics/eitc-audit. Accessed November 12, 2026.

[295] IRS, "Internal Revenue Service Data Book, 2025," Publication 55-B, April 2026, and IRS, "Compliance presence" statistics page. https://www.irs.gov/pub/irs-pdf/p55b.pdf; https://www.irs.gov/statistics/compliance-presence. Accessed November 12, 2026.

[296] Internal Revenue Service, "Internal Revenue Service Data Book, 2025," Publication 55-B, April 2026, Table 3-1, tax year 2021 columns. https://www.irs.gov/pub/irs-pdf/p55b.pdf. Accessed November 12, 2026.

[297] U.S. Government Accountability Office, "Tax Compliance: Trends of IRS Audit Rates and Results for Individual Taxpayers by Income," GAO-22-104960, May 17, 2022. https://www.gao.gov/products/gao-22-104960. Accessed November 12, 2026.

[298] Hadi Elzayn and others, "Measuring and Mitigating Racial Disparities in Tax Audits," Stanford Institute for Economic Policy Research working paper, revised July 19, 2024. https://dho.stanford.edu/wp-content/uploads/Audit_Disparities.pdf; summary at https://siepr.stanford.edu/news/irs-disproportionately-audits-black-taxpayers. Accessed November 12, 2026.

rated his broad point True, while doubting that anyone in his office paid as much as 41 percent; it noted that the rates counted payroll taxes as well as income tax.[299]

Where it comes from: In September 2021, economists at the White House Council of Economic Advisers (CEA) and Office of Management and Budget (OMB) estimated that the 400 wealthiest families paid an average federal individual income tax rate of 8.2 percent from 2010 to 2018. They counted unsold gains on stock as income.[300]

What the records show: This is Claim 5 again, with the same measurement problem. On the CEA and OMB measure, which counts unsold gains, the wealthiest families paid an average of 8.2 percent. A teacher earning a salary has almost no unsold gains, so the teacher's rate on that measure is the same as on the official one. A single teacher earning $70,000 in wages in 2026, taking the standard deduction and no credits, would owe about $6,570 in federal income tax by my calculation from the IRS brackets in Chapter 9, an average rate of about 9.4 percent, plus payroll taxes on every dollar of wages. On the official measure, which uses income reported on tax returns, high earners pay far higher rates. The CEA and OMB paper itself listed the other estimates: CBO put the average federal income tax rate of the top 1 percent at "about 24 percent for the period 2014 through 2018," Treasury and the Tax Policy Center put the top 0.1 percent at 23 and 25 percent, and JCT put families with incomes of at least $1 million at 26 percent for 2021. The authors said the gap comes from counting unsold gains.[301]

Counting payroll taxes changes the comparison too. Payroll taxes take 7.65 percent of a teacher's whole salary, but the Social Security part stops at a wage cap, and investment income is not subject to Social Security tax at all.

Verdict: Partly true. Some of the very wealthiest pay a lower rate than many workers when you measure against their total gains in wealth, and when payroll taxes are counted. On income the tax law actually counts, high-income people pay much higher average rates.

Claim 18: "The IRS now sees every payment over $600."

How it is said: "The IRS is going to tax every Venmo payment over $600," or "The IRS can see all your bank transactions over $600."

Where it comes from: In March 2021, the American Rescue Plan Act lowered the threshold for when payment apps and online marketplaces must send a Form 1099-K to the IRS, from more than $20,000 and 200 transactions a year to $600. The IRS delayed the change several times.[302]

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[299] Angie Drobnic Holan, "Warren Buffett says the super-rich pay lower tax rates than others," PolitiFact, August 18, 2011. https://www.politifact.com/factchecks/2011/aug/18/warren-buffett/warren-buffett-says-super-rich-pay-lower-taxes-oth/. Accessed November 12, 2026.

[300] Greg Leiserson and Danny Yagan, "What Is the Average Federal Individual Income Tax Rate on the Wealthiest Americans?" White House Council of Economic Advisers and Office of Management and Budget, September 23, 2021 (archived). https://bidenwhitehouse.archives.gov/cea/written-materials/2021/09/23/what-is-the-average-federal-individual-income-tax-rate-on-the-wealthiest-americans/. Accessed November 12, 2026.

[301] Leiserson and Yagan, CEA and OMB, September 23, 2021, footnote 14. https://bidenwhitehouse.archives.gov/cea/written-materials/2021/09/23/what-is-the-average-federal-individual-income-tax-rate-on-the-wealthiest-americans/. Accessed November 12, 2026.

[302] RSM US, "IRS updates OBBBA new reporting thresholds," November 12, 2025. https://www.rsmus.com/insights/services/business-tax/irs-updates-obbba-new-reporting-thresholds. Accessed November 12, 2026.

What the records show: The Form 1099-K rule covered payments for goods and services, not personal transfers like splitting a dinner bill or paying back a friend. The IRS says, "Payments made to friends and family for gifts and reimbursements should not be reported on a Form 1099-K."[303] Public Law 119-21 then restored the old threshold of more than $20,000 and more than 200 transactions, retroactively, so the $600 rule never fully took effect.[304]

Keep in mind that income from selling goods at a profit or providing services has always been taxable, whether or not a 1099-K is sent.

Verdict: False (debunked). The $600 rule applied only to payments for goods and services, not to personal transfers, and it was repealed in 2025 before it fully took effect.

Claim 19: "A 23 percent national sales tax could replace the income tax and the IRS."

How it is said: "Scrap the income tax and the IRS. A 23 percent sales tax would raise the same money, and you would keep your whole paycheck."

Where it comes from: The FairTax bill. The current version, H.R. 25, introduced January 3, 2025, would repeal the income, payroll, estate and gift taxes starting January 1, 2027, and set the 2027 rate at "23 percent of the gross payments." It would also send every qualifying family a monthly rebate equal to the tax on spending up to the poverty level (Chapter 20).[305]

What the records show: The claim is right about what the bill says and wrong about what most people hear. The 23 percent is measured "tax-inclusive," the way income taxes are measured: as a share of the total price including the tax. Most people think of a sales tax as a percentage added on top of the price at the register. Measured that way, 23 percent inclusive equals about 30 percent. On a $100 item, the tax would be about $30, and you would pay about $130.

Then there is the question of whether even that rate would be enough. The Tax Policy Center (TPC), a research center run by the Urban Institute and the Brookings Institution, estimated that even under optimistic assumptions the rate needed to replace current revenue would be about 39 percent at the register. The President's Advisory Panel on Federal Tax Reform in 2005 put the needed rate between 34 and 89 percent, depending on how much spending escaped the tax.[306]

What about the IRS? The bill would abolish it and have the tax "administered primarily by the States." That part of the claim is accurate as a description of the bill. Someone would still have to

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[303] Internal Revenue Service, "Form 1099-K FAQs: Common situations," question 3 (updated February 6, 2024), page reviewed May 11, 2026. https://www.irs.gov/newsroom/form-1099-k-faqs-common-situations. Accessed November 12, 2026.

[304] RSM US, same article, citing IRS Fact Sheet FS-2025-08, October 23, 2025.

[305] H.R. 25, FairTax Act of 2025, 119th Congress, introduced January 3, 2025, sections 101, 102, 103 and 301. https://www.govinfo.gov/content/pkg/BILLS-119hr25ih/xhtml/BILLS-119hr25ih.html. Accessed November 12, 2026.

[306] Tax Policy Center, "What would the tax rate be under a national retail sales tax?" Briefing Book, updated January 2024. https://taxpolicycenter.org/briefing-book/what-would-tax-rate-be-under-national-retail-sales-tax. Accessed November 12, 2026. President's Advisory Panel on Federal Tax Reform, "Simple, Fair, and Pro-Growth: Proposals to Fix America's Tax System," November 2005. https://home.treasury.gov/system/files/131/Report-Fix-Tax-System-2005.pdf. Accessed November 12, 2026.

collect and audit the new tax and send out the monthly rebates, so the work would move rather than disappear.

Verdict: Partly true. The bill does set a 23 percent rate and would end the income tax and the IRS. But the 23 percent is about 30 percent the way sales taxes are usually stated, and independent and government estimates found that a higher rate would likely be needed to raise the same money.

Claim 20: "If the IRS just collected the taxes people owe, we could balance the budget."

How it is said: "Close the tax gap and there would be no deficit."

Where it comes from: The claim takes the IRS's tax gap figure, which is large, and sets it against the deficit. I did not find a single dated source where it began. [Not verified: the first use of this claim; I searched news coverage and fact-check archives.]

What the records show: The numbers do not add up. The IRS projects a net tax gap, the tax that is never paid even after enforcement, of $606 billion for tax year 2022 (Chapter 14). CBO estimated the federal deficit for fiscal year 2026 at about $1.99 trillion (Chapter 18). Even if every dollar of the gross gap, $696 billion, were collected, the government would still have run a deficit of well over $1 trillion. Those are different years, but the gap between them is too large for that to matter.

And collecting all of it is not realistic. Much of the gap comes from cash and small business income that no one reports to the IRS (Chapter 14), and finding it takes skilled auditors and years of work. Official estimates of what more enforcement would bring in are much smaller than the gap. A CBO estimate cited by CRS found that $40 billion of added enforcement spending over 2020 to 2030 would raise about $103 billion.[307] CBO's 2022 estimate for the Inflation Reduction Act's IRS money was $180.4 billion over 10 years (Chapter 13).

Verdict: False (debunked). The tax gap is real and large, and closing part of it would help. But the whole gap is smaller than the yearly deficit, and realistic enforcement would collect only a fraction of it.

Summary of verdicts in this chapter

Verdicts on claims about who pays and what the IRS does

Claim	Verdict	Main sources
"The rich pay little or nothing in income tax."	Partly true	IRS SOI via Tax Foundation; CBO 2026; ProPublica 2021
"Half of Americans pay no taxes."	Partly true	Tax Policy Center; CBO 2026
"The IRS is hiring 87,000 armed agents."	False (debunked)	FactCheck.org; PolitiFact; CRS IN12753; TIGTA 2026
"The IRS targets one side of politics."	Partly true	TIGTA 2013; TIGTA 2017; TIGTA 2022
"Big corporations pay zero."	Partly true	GAO-23-105384; ITEP 2026; CBO 2026
"A flat tax would be fairer."	Inconclusive	CRS RL33443

[307] Gary Guenther, "The Internal Revenue Service's Enforcement Budget and Tax Compliance," Congressional Research Service Insight IN11578, January 15, 2021. https://www.everycrsreport.com/reports/IN11578.html. Accessed November 12, 2026.

Claim	Verdict	Main sources
"A raise can lower take-home pay through brackets."	False (debunked)	IRS 2026 brackets
"The 2017 tax cuts paid for themselves."	False (debunked)	CRS R45092 (JCT); Tax Policy Center
"The 2017 law raised middle-class taxes."	Partly true	Public Law 115-97; CRS R48611; Tax Policy Center
"The 2025 law ended taxes on Social Security."	False (debunked)	CRS R48611; PolitiFact 2025
"No more tax on tips or overtime."	Partly true	CRS R48611; IRS
"The IRS audits the poor more than the rich."	Partly true	GAO-22-104960; IRS Data Book; Stanford 2023
"Billionaires pay a lower rate than teachers."	Partly true	CEA and OMB 2021; IRS SOI
"The IRS sees every payment over $600."	False (debunked)	RSM 2025; IRS FS-2025-08
"A 23 percent sales tax could replace the income tax and the IRS."	Partly true	H.R. 25; Tax Policy Center; 2005 Advisory Panel
"Collecting unpaid taxes would balance the budget."	False (debunked)	IRS Publication 5869; CBO 2026; CRS IN11578

Did any of these verdicts surprise you? When I started this research, I expected more of them to be simply true or simply false. Most claims about who pays turn out to be about which measure you choose. When you hear one of these claims, a good first question is: "Which tax, and measured against what?"

Part Seven: The Money, the Public and the Choices Ahead

The first six parts covered how the income tax came to be, how it works, who pays, how the IRS enforces it, and which popular claims hold up. This last part steps back. Where does the money go? What do Americans and the two major parties think about the tax? And what are the main ideas for changing it?

Chapter 18: Where the Money Goes

Current figures in this chapter are as of November 12, 2026.

The income tax is the biggest single source of federal money

The federal government collected about $5.40 trillion in fiscal year 2026, which ran from October 1, 2025, through September 30, 2026. The individual income tax brought in about $2.85 trillion of that, more than half.[308]

Federal receipts by source, fiscal years 2025 and 2026 (billions of nominal dollars, as of November 12, 2026)[309]

Source	FY2025	FY2026	Change	Share of FY2026 total
Individual income taxes	2,656	2,846	+7.1%	53%
Payroll taxes (Social Security, Medicare, unemployment)	1,748	1,812	+3.7%	34%
Corporate income taxes	452	381	-15.6%	7%
Customs duties (tariffs)	195	173	-11.3%	3%
Other (excise, estate and gift, Federal Reserve earnings, other)	183	191	+4.4%	4%
Total	5,235	5,403	+3.2%	100%

I calculated the "Change" and "Share" columns from CBO's figures. The shares add to 101 percent because of rounding.

The government spent far more than it collected. CBO estimated the deficit for fiscal year 2026 at about $1.99 trillion, or 6.2 percent of the size of the economy, up from $1.78 trillion (5.8 percent) the year before.[310] The federal government has run a deficit every year since 2001.[311]

Income tax dollars are not set aside for one purpose

Here is something many people do not know. Your federal income tax is not earmarked for any particular program. It goes into the Treasury's general fund, and Congress decides how to spend the whole pot through its annual spending bills and through permanent laws for programs like Medicaid and veterans' benefits. So when someone asks, "What did my income tax pay for?", the

[308] Congressional Budget Office, "Monthly Budget Review: Summary for Fiscal Year 2026," November 9, 2026. https://www.cbo.gov/publication/61986. Accessed November 12, 2026.

[309] Congressional Budget Office, "Monthly Budget Review: Summary for Fiscal Year 2026," November 9, 2026. https://www.cbo.gov/publication/61986. Accessed November 12, 2026. Figures are CBO estimates based on the Daily Treasury Statements; final Treasury figures may differ slightly.

[310] Congressional Budget Office, "Monthly Budget Review: Summary for Fiscal Year 2026." Same URL.

[311] Tracy Gordon and Aravind Boddupalli, "America At 250: Ten Tax Facts To Remember," Tax Policy Center, TaxVox, 2026, which says "the US has run a budget deficit each year since 2001." https://taxpolicycenter.org/taxvox/america-250-ten-tax-facts-remember. Accessed November 12, 2026.

honest answer is that it paid for a share of everything the general fund pays for, plus a share of the interest on the national debt.

Payroll taxes are different. Social Security payroll taxes go into the Social Security trust funds, and the Medicare payroll tax goes into Medicare's Hospital Insurance trust fund. By law, that money is tied to those programs. That is why the debates about Social Security's future focus on payroll taxes, not the income tax.

One more link between the two: part of the income tax that some retirees pay on their Social Security benefits is sent back to the Social Security and Medicare trust funds. When Congress began taxing up to half of benefits in 1983, the money was credited to the Social Security trust funds, not the general fund. When it raised the taxable share to 85 percent for higher-income retirees in 1993, the added money went to Medicare's Hospital Insurance trust fund. The 1983 income thresholds of $25,000 and $32,000 were intentionally not indexed for inflation, so more retirees owe this tax each year.[312]

What the general fund pays for

Federal outlays by major category, fiscal years 2025 and 2026 (billions of nominal dollars, as of November 12, 2026)[313]

Category	FY2025	FY2026	Change
Social Security	1,569	1,654	+5.5%
Medicare	992	1,069	+7.7%
Medicaid	668	723	+8.2%
Net interest on the public debt	1,028	1,142	+11.1%
Defense (military)	868	917	+5.6%
Everything else	1,189	1,146	-3.6%
Total outlays	7,010	7,396	+5.5%

Look at the interest line. In fiscal year 2026, net interest on the debt was about $1.14 trillion, more than the government spent on defense or Medicare. Interest alone took about 40 cents of every dollar the individual income tax brought in. (I calculated that from CBO's figures: $1,142 billion divided by $2,846 billion.)

You might ask, "If income tax is more than half of revenue, which programs does it really cover?" Because money is pooled, there is no exact answer. Some groups publish a "taxpayer receipt" that splits a person's income tax across spending categories in proportion to total spending. Those receipts are a useful rough picture, but they rest on the assumption that every dollar of spending is funded the same way, including the borrowed dollars that make up the deficit.

[312] Larry DeWitt, "Research Note #12: Taxation of Social Security Benefits," Social Security Administration, Historian's Office. https://ssa.gov/history/taxationofbenefits.html. Accessed November 12, 2026.

[313] Congressional Budget Office, "Monthly Budget Review: Summary for Fiscal Year 2026," November 9, 2026, Table 3. https://www.cbo.gov/system/files/2026-11/61986-MBR.pdf. Accessed November 12, 2026. Medicare is shown net of offsetting receipts. Defense is Department of Defense military spending.

The share of the economy

How big is the income tax compared with the economy? The Congressional Research Service estimated that the individual income tax brought in about 8.6 percent of gross domestic product (GDP), the total value of goods and services the country produces, in fiscal year 2026, and payroll taxes about 5.7 percent. CBO projects the individual income tax share rising to 9.1 percent by 2036 under current law.[314] Corporate taxes have shrunk as a share of the economy. CBO noted that corporate receipts fell from 1.5 percent of GDP in fiscal year 2025 to 1.2 percent in 2026, below their 50-year average of 1.7 percent. CBO said the drop came mostly from the scheduled end of payments on a one-time tax on overseas profits from the 2017 law, and from larger deductions for business investment in the 2025 law.[315]

Tariffs, which paid for most of the government before 1913 (Chapter 1), rose sharply in 2025 but brought in less in fiscal year 2026 than the year before, according to CBO's figures. Even at their higher level, they were about 3 percent of federal revenue, compared with roughly half in the decades before the income tax.

The revenue outlook, as of November 12, 2026

Information in this section is current as of November 12, 2026.

How much will the income tax bring in over the next decade? The two official forecasters differ. CRS compared them in May 2026. For fiscal year 2026, the President's budget, prepared by the Office of Management and Budget (OMB), put total federal revenue at 17.1 percent of GDP, while CBO put it at 17.5 percent. CBO's estimate for the individual income tax was 8.6 percent of GDP, and OMB's was 8.2 percent. Under the President's budget, total revenue rises to 18.3 percent of GDP in fiscal year 2032. Under CBO's current-law projection, it reaches 17.8 percent in fiscal year 2036.[316]

Tariffs add a new wrinkle. CRS noted that tariff revenue was 0.6 percent of GDP in fiscal year 2025 and that OMB projected 1.4 percent of GDP from fiscal year 2027 on. But CRS also noted that OMB's projections do not reflect refunds of tariffs that the Supreme Court found lacked a legal basis, and that CBO estimated that ruling would add $2.0 trillion to federal debt over the coming decade.[317] I did not read the Court's decision itself for this book, so I report only what CRS said about it. [Not verified: the name, date and holding of the Supreme Court tariff decision; I relied on the CRS summary.]

My reading of these numbers is that the individual income tax is likely to carry an even larger share of the load. Corporate receipts have fallen to 1.2 percent of GDP, and tariff revenue is uncertain. That is an interpretation, not a forecast from CBO or OMB.

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[314] Congressional Research Service, "The FY2027 President's Budget in Historical Context: Revenues," IN12690, May 6, 2026. https://www.everycrsreport.com/reports/IN12690.html. Accessed November 12, 2026.

[315] Congressional Budget Office, "Monthly Budget Review: Summary for Fiscal Year 2026," November 9, 2026. https://www.cbo.gov/publication/61986. Accessed November 12, 2026.

[316] Congressional Research Service, "The FY2027 President's Budget in Historical Context: Revenues," IN12690, May 6, 2026. https://www.everycrsreport.com/reports/IN12690.html. Accessed November 12, 2026.

[317] Congressional Research Service, "The FY2027 President's Budget in Historical Context: Revenues," IN12690, May 6, 2026. https://www.everycrsreport.com/reports/IN12690.html. Accessed November 12, 2026.

Chapter 19: What Americans and the Parties Think

Poll figures in this chapter are as of November 12, 2026.

How to read a poll about taxes

Before the numbers, a warning. Poll results depend heavily on how the question is worded. "Do you pay too much in taxes?" and "Should the wealthy pay more?" can both win large majorities from the same people. So for each poll below I give the question wording as the pollster reported it, the dates, and the number of people surveyed. I also use polls that ask the same question every year, because trends are more reliable than any single result.

Here is a quick example from this chapter of why wording matters. In early 2026, Gallup found 59 percent saying their own federal income tax was "too high." Pew, asking a different question at about the same time, found 60 percent saying they pay "more than their fair share" in taxes "considering what they get from the federal government." The two numbers look alike, but they are not the same question. Gallup asks only about the federal income tax. Pew asks about taxes in general and ties the answer to what people get back. And in Gallup's question about groups, a majority said upper-income people and corporations pay too little. All three results can be true at once, because they measure different feelings.

Gallup: too high and fair

Gallup has asked Americans about their federal income taxes every spring for decades. In its March 2026 survey of 1,000 adults (margin of error plus or minus 4 percentage points), Gallup asked whether the federal income tax you pay is too high, about right or too low. 59 percent said too high, 37 percent about right and 3 percent too low.[318]

Gallup also asked whether the income tax you will pay this year is fair. 47 percent said fair and 49 percent said not fair.

Is that a lot? In Gallup's own history, it is on the high side but not a record. As the next section shows, the share saying "too high" routinely topped 60 percent from the 1970s through the 1990s, and it fell below half in 2003 and again in 2018 and 2019, after major tax cuts. Fairness tells a sharper story: the share calling their tax fair is close to the lowest Gallup has ever recorded.

Gallup: Is the federal income tax you pay too high? (percent saying "too high")[319]

Year	Too high
2018	45
2019	45
2023	60
2024	56
2025	59
2026	59

[318] Lydia Saad, "Americans' Tax Views Remain Negative," Gallup, April 10, 2026, survey conducted March 2-18, 2026. https://news.gallup.com/poll/707951/americans-tax-views-remain-negative.aspx. Accessed November 12, 2026.

[319] Gallup, same article.

The partisan pattern shifts with who holds the White House. In 2026, independents (64 percent) were the most likely to say their taxes were too high, followed by Republicans (60 percent) and Democrats (49 percent). In 2023, under a Democratic president, 71 percent of Republicans said their taxes were too high. Republicans in 2026 were more likely than Democrats to call their taxes fair, 57 percent to 52 percent, with independents lowest at 39 percent.[320]

Gallup's longer view

Gallup's question wording has stayed the same for decades: "Do you consider the amount of federal income tax you have to pay as too high, about right, or too low?" A second question asks, "Do you regard the income tax which you will have to pay this year as fair?"[321]

Gallup's 2026 report puts the recent numbers in context. From the 1970s through the 1990s, the share saying "too high" "routinely exceeded 60%." It fell from 65 percent in 2001 to 47 percent in 2003, after the 2001 tax cuts, and reached a low of 45 percent in 2018 and 2019, after the 2017 law. It has been near 60 percent every year since 2023. On fairness, 47 percent called their 2026 tax fair, close to the record low of 45 percent in 1999, and 49 percent called it not fair, near the record high of 51 percent in 2023.[322]

Gallup also found that views barely differ by income. In 2026, 63 percent of lower-income adults, 58 percent of middle-income adults and 59 percent of upper-income adults said their taxes were too high.[323] Gallup said the 2025 law had produced "no measurable improvement" in these views by March 2026.

Why did the 2017 law seem to move opinion when the 2025 law did not? The polls do not say, and I will not guess.

Gallup: who pays too much, and who pays too little?

Gallup also asks whether different groups pay their fair share, too much or too little in federal taxes. Gallup's report lists the answer choices as "pay too much," "pay their fair share" and "pay too little." [Not verified: the full wording of the question stem; the 2025 report I read gives only the answer choices.]

Gallup: Do these groups pay their fair share in federal taxes? March 2025 (percent)

Group	Too much	Fair share	Too little
Lower-income people	58	30	10

[320] Gallup, same article.

[321] Gallup, "Taxes," topic page with question wording. https://news.gallup.com/poll/1714/taxes.aspx. Accessed November 12, 2026.

[322] Lydia Saad, "Americans' Tax Views Remain Negative," Gallup, April 10, 2026, survey conducted March 2-18, 2026 (1,000 adults, margin of error plus or minus 4 percentage points). https://news.gallup.com/poll/707951/americans-tax-views-remain-negative.aspx. Accessed November 12, 2026.

[323] Lydia Saad, "Americans' Tax Views Remain Negative," Gallup, April 10, 2026. https://news.gallup.com/poll/707951/americans-tax-views-remain-negative.aspx. Accessed November 12, 2026.

Middle-income people	54	40	5
Upper-income people	12	28	58
Corporations	7	21	70
Source	Gallup, April 8, 2025; survey of 1,002 adults, March 3-16, 2025, margin of error plus or minus 4 points		

The share saying upper-income people pay too little, 58 percent, is "one of the lowest" Gallup has measured. The high was 77 percent in 1992 and 1993. The share saying lower-income people pay too much, 58 percent, is the highest in a trend that goes back to 1992.[324]

The party gap is wide. In 2025, 87 percent of Democrats and 57 percent of independents said upper-income people pay too little, compared with 34 percent of Republicans. Among Republicans, 48 percent said upper-income people pay their fair share. On corporations, 95 percent of Democrats, 70 percent of independents and 48 percent of Republicans said they pay too little.[325]

Put that next to Chapter 10. On income tax alone, upper-income filers pay most of the total. Yet most Americans, and nearly half of Republicans, say corporations pay too little, and most say upper-income people do too. The polls measure what people believe is fair, which is a question of values. The IRS data measure who pays. Both are worth knowing, and they answer different questions.

Pew: the frustration is about others not paying

The Pew Research Center asks a different kind of question: how much each of several things bothers people about the federal tax system. In a January 2026 survey of 8,512 adults, the top answers were about other people, not about one's own bill.[326]

Pew: Share bothered "a lot" by each feature of the federal tax system, January 2026 (percent)[327]

Feature	All adults	Republicans and Republican leaners	Democrats and Democratic leaners
Some wealthy people don't pay their fair share	61	41	81

[324] Gallup, "U.S. Perceptions of 'Fair' Income Taxes Hold Near Record Low," April 8, 2025, survey conducted March 3-16, 2025. https://news.gallup.com/poll/659003/perceptions-fair-income-taxes-hold-near-record-low.aspx. Accessed November 12, 2026.

[325] Gallup, "U.S. Perceptions of 'Fair' Income Taxes Hold Near Record Low," April 8, 2025. https://news.gallup.com/poll/659003/perceptions-fair-income-taxes-hold-near-record-low.aspx. Accessed November 12, 2026.

[326] Andy Cerda and J. Baxter Oliphant, "Top tax frustrations for Americans: Feeling that some wealthy people, corporations don't pay fair share," Pew Research Center, April 6, 2026, survey of 8,512 U.S. adults conducted January 20-26, 2026. https://www.pewresearch.org/short-reads/2026/04/06/top-tax-frustrations-for-americans-feeling-that-some-wealthy-people-corporations-dont-pay-fair-share/. Accessed November 12, 2026.

[327] Andy Cerda and J. Baxter Oliphant, "Top tax frustrations for Americans: Feeling that some wealthy people, corporations don't pay fair share," Pew Research Center, April 6, 2026, survey of 8,512 U.S. adults conducted January 20-26, 2026. https://www.pewresearch.org/short-reads/2026/04/06/top-tax-frustrations-for-americans-feeling-that-some-wealthy-people-corporations-dont-pay-fair-share/. Accessed November 12, 2026.

Feature	All adults	Republicans and Republican leaners	Democrats and Democratic leaners
Some corporations don't pay their fair share	60	42	79
The complexity of the tax system	51	53	52
The amount you pay in taxes	41	47	36
Some poor people don't pay their fair share	12	16	8

Notice two things. First, the complaint about the wealthy and corporations was the top one overall, but it was driven mainly by Democrats. Second, complexity bothered both parties almost equally. That may be the closest thing to common ground in the tax debate.

Pew also asked whether people pay more or less than their fair share "considering what they get from the federal government." 60 percent said more than their fair share, 33 percent about the right amount and 5 percent less. That share has risen from 51 percent in 2019 and 49 percent in 2021. Republicans (66 percent) were more likely than Democrats (56 percent) to say they pay more than their fair share.[328]

Pew: paying more than a fair share, over time

Pew's question asks whether, "considering what they get from the federal government," people pay more than their fair share, about the right amount or less than their fair share in taxes. Here is how the answers have moved.

Pew: Considering what you get from the federal government, do you pay more than your fair share in taxes? (percent saying "more than fair share")

Year	All adults	Republicans and leaners	Democrats and leaners
2019	51	56	46
2021	49	59	41
2023	56	63	50
2026	60	66	56
Source	Pew Research Center, April 6, 2026; 2026 survey of 8,512 adults, January 20-26, 2026		

The 2026 number is the highest in this series. It rose for both parties, but more among Democrats, from 41 percent in 2021 to 56 percent in 2026.[329]

[328] Andy Cerda and J. Baxter Oliphant, "Top tax frustrations for Americans: Feeling that some wealthy people, corporations don't pay fair share," Pew Research Center, April 6, 2026, survey of 8,512 U.S. adults conducted January 20-26, 2026. https://www.pewresearch.org/short-reads/2026/04/06/top-tax-frustrations-for-americans-feeling-that-some-wealthy-people-corporations-dont-pay-fair-share/. Accessed November 12, 2026.

[329] Andy Cerda and J. Baxter Oliphant, "Top tax frustrations for Americans: Feeling that some wealthy people, corporations don't pay fair share," Pew Research Center, April 6, 2026. https://www.pewresearch.org/short-reads/2026/04/06/top-tax-frustrations-for-americans-

Income matters here more than in Gallup's question. In 2026, 68 percent of upper-income adults and 65 percent of middle-income adults said they pay more than their fair share, compared with 49 percent of lower-income adults. Among upper-income Republicans the figure was 79 percent.[330] Pew also reported that the share bothered "a lot" by the amount they pay "has grown steadily over the last several years."

How Americans see the IRS

Views of the tax agency are their own question. Pew asks people whether they have a favorable or unfavorable view of a list of federal agencies. The IRS has been among the least popular agencies in these surveys.

Pew: Favorable and unfavorable views of the IRS, 2023 to 2026 (percent)

Year	All adults, favorable	All adults, unfavorable	Republicans, favorable	Democrats, favorable
2023	42	51	29	53
2024	38	50	26	50
2025	36	50	28	44
2026	37	46	38	38
Source	Pew Research Center, "How Americans View Federal Agencies," fact sheet; latest survey September 28 to October 4, 2026 (5,062 adults)			

The most striking change is the party flip. In 2023, Democrats were far more favorable to the IRS than Republicans, 53 percent to 29 percent. By the fall of 2026, the two were tied at 38 percent. Republican views warmed and Democratic views cooled.[331] Pew's page notes that these online surveys should not be compared directly with its older telephone surveys because the method and wording changed. [Not verified: the exact question wording, which the fact sheet does not reproduce.]

Why the flip? The surveys do not ask, so the record does not say. It is consistent with the pattern Gallup found on taxes: people tend to view a federal agency more warmly when their own party runs the government. That is my reading of the timing, not a finding from either pollster.

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feeling-that-some-wealthy-people-corporations-dont-pay-fair-share/. Accessed November 12, 2026.

[330] Andy Cerda and J. Baxter Oliphant, "Top tax frustrations for Americans," Pew Research Center, April 6, 2026. https://www.pewresearch.org/short-reads/2026/04/06/top-tax-frustrations-for-americans-feeling-that-some-wealthy-people-corporations-dont-pay-fair-share/. Accessed November 12, 2026.

[331] Pew Research Center, "How Americans View Federal Agencies," fact sheet, survey conducted September 28 to October 4, 2026. https://www.pewresearch.org/fact-sheet/how-americans-view-federal-agencies/. Accessed November 12, 2026.

AP-NORC: views of the 2025 law

Shortly after the 2025 law passed, an Associated Press and NORC Center for Public Affairs Research (AP-NORC) poll of 1,437 adults, taken July 10-14, 2025 (margin of error plus or minus 3.6 points), found that about two-thirds expected the law to help the rich, about 6 in 10 thought it would do more to hurt than help low-income people, and about half thought it would do more harm than good for the middle class. About half of Republicans expected it to help "people like you," compared with about 2 in 10 independents and 6 percent of Democrats.[332]

Where the parties stand

The two major parties have staked out different positions in their platforms and in the laws they have passed. I describe each in its own terms.

Republicans have generally favored lower income tax rates, especially for businesses and investors, on the view that lower rates encourage work, saving and investment and leave more money with families. Republican majorities passed the 2017 Tax Cuts and Jobs Act and the 2025 law that made most of its individual provisions permanent and added new deductions for tips, overtime, seniors and car loan interest (Chapter 8). Many Republicans have also favored cutting the IRS budget, saying the agency should not grow its enforcement staff, and voted to rescind much of the 2022 funding (Chapter 13). The 2024 Republican platform, adopted at the party's convention on July 15, 2024, promised "LARGE TAX CUTS FOR WORKERS, AND NO TAX ON TIPS!" and pledged to make the 2017 law's provisions permanent. It also tied taxes to trade: "As Tariffs on Foreign Producers go up, Taxes on American Workers, Families, and Businesses can come down."[333]

Democrats have generally favored higher taxes on the highest earners and large corporations to pay for programs and reduce deficits, while keeping or cutting taxes for households under about $400,000 a year. Democratic majorities passed the 2022 Inflation Reduction Act with its corporate minimum tax and new IRS funding (Chapters 12 and 15). Democratic proposals have included a minimum tax on very wealthy households that would count unsold gains, and raising the corporate rate above 21 percent. The 2024 Democratic platform said, "Democrats will make billionaires pay a minimum income tax rate of 25 percent, raising $500 billion in 10 years," promised to raise the corporate rate to 28 percent, pledged that no one earning under $400,000 a year would pay more in federal taxes, and promised to keep "investing in modernizing the IRS."[334]

There is some overlap. Both parties have supported the Child Tax Credit in some form, both have backed versions of the Earned Income Tax Credit, and the 1986 tax reform passed the

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[332] Leah Askarinam, Linley Sanders and The Associated Press, "6 in 10 Americans say Trump's 'Big, Beautiful Bill' will help the rich and hurt the poor in new poll," as published by Fortune, July 18, 2025. https://fortune.com/2025/07/18/6-in-10-americans-trump-big-beautiful-bill-help-rich-hurt-poor-new-poll/. Accessed November 12, 2026. The article paraphrases the questions; the exact wording is in the AP-NORC topline, which I did not read.

[333] "2024 Republican Party Platform," July 8, 2024 (approved by the platform committee; adopted July 15, 2024), The American Presidency Project, University of California, Santa Barbara. https://www.presidency.ucsb.edu/documents/2024-republican-party-platform. Accessed November 12, 2026.

[334] "2024 Democratic Party Platform," August 19, 2024, The American Presidency Project, University of California, Santa Barbara. https://www.presidency.ucsb.edu/documents/2024-democratic-party-platform. Accessed November 12, 2026. The $500 billion figure is the platform's own claim.

Senate 97 to 3 with support from both parties.[335] In recent years, though, major tax laws have passed with votes from only one party. The 2017 law, the 2022 law and the 2025 law all passed through budget reconciliation, a process that lets a bill pass the Senate with a simple majority.[336]

What do you think matters more in a tax system: that it is simple, that it raises enough money, or that it asks more from those who can pay more? Most of the disagreement between the parties comes down to how people weigh those three goals.

What each side says the evidence shows

Each party also reads the evidence in this book differently. Here are the main points of disagreement, stated in a way I think each side would accept, with where the evidence stands.

- On who pays: Republicans and groups such as the Tax Foundation point to the IRS data showing that the top 1 percent of filers pay about 40 percent of income tax and the bottom half pay about 3 percent (Chapter 10). Democrats and groups such as ITEP point to CBO data on rising income at the top, to state and local taxes that take a larger share from lower-income families, and to measures that count unrealized gains (Chapters 10 and 17). Both sets of figures are accurate. They measure different things.
- On the IRS: Supporters of more IRS money point to CBO and CRS estimates that each added dollar of enforcement brings in several dollars of revenue (Chapter 13). Opponents point to the agency's record of service problems and to the 2013 screening scandal (Chapter 17), and argue it should improve before it grows. The official estimates support the revenue point. Whether the IRS uses money well is a judgment the numbers alone cannot settle.
- On growth: Supporters of lower rates argue that tax cuts grow the economy. Official estimates of the 2017 law found some growth effect but not enough to pay for the cut (Chapter 17). The official estimates I found do not settle how a specific new tax on the wealthy would affect growth.

When you hear a politician from either party cite a tax statistic, the chapters above should help you check which measure is being used.

[335] Voteview, "Senate Vote 529, 99th Congress, On Passage of H.R. 3838 (Tax Reform Act of 1986)," June 24, 1986. https://voteview.com/rollcall/RS0990529. Accessed November 12, 2026.

[336] Megan S. Lynch, "Budget Reconciliation Measures Enacted into Law Since 1980," Congressional Research Service, R40480, July 29, 2025. https://www.everycrsreport.com/files/2025-07-29_R40480_291563982b1ca4cfa9ad8c2a1c86e5cfc6e873ca.pdf. Accessed November 12, 2026.

Chapter 20: Options for Change

Current figures in this chapter are as of November 12, 2026.

This chapter lays out the main ideas for changing the federal income tax. For each one I describe how it would work, who has backed it, what official or independent estimates say, and the main arguments for and against. I do not recommend any of them. My goal is to give you enough to judge for yourself.

Option 1: A flat tax

How it works: A flat tax would replace the current brackets with one rate. The best-known design, from economists Robert Hall and Alvin Rabushka of the Hoover Institution, would tax wages above a large family exemption at a single rate, and tax businesses at the same rate on their cash flow. Interest, dividends and capital gains would not be taxed again at the individual level.[337]

Who has backed it: Former House Majority Leader Dick Armey proposed a version in the 1990s. Senator Richard Shelby introduced a bill with a 19 percent rate falling to 17 percent, and Representative Michael Burgess introduced one similar to Armey's.[338]

What estimates say: CRS reported that critics expect a flat tax to shift the tax burden toward middle-income households unless the rate or exemption is set to prevent it, and that switching systems would raise hard transition questions, such as what happens to existing deductions for mortgage interest. Supporters expect simpler filing and more saving and investment.[339] I did not find a current official revenue estimate for a specific flat tax bill. [Not verified: no JCT or CBO score of a current flat tax bill found.]

The original Hall and Rabushka plan is worth describing in its own words, because many later bills borrowed from it. It has two parts, and both use the same rate. In the version they published using 1993 data, that rate was 19 percent, which they said would raise the same revenue as the tax system of that time.[340]

- The wage tax. "Each family pays 19 percent of its wage, salary, and pension income over a family allowance." The allowance was "$25,500 for a family of four in 1995" and would rise with the cost of living. Families would file on a form the size of a postcard.
- The business tax. Every business, not only corporations, would pay the same rate on its total sales minus purchases from other firms, minus wages, salaries and pensions paid to workers, minus purchases of plant and equipment.

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[337] James M. Bickley, "Flat Tax Proposals and Fundamental Tax Reform: An Overview," Congressional Research Service, RL33443, May 31, 2006. https://www.everycrsreport.com/reports/RL33443.html. Accessed November 12, 2026.

[338] Bickley, CRS RL33443, same report.

[339] Bickley, CRS RL33443, same report.

[340] Robert E. Hall and Alvin Rabushka, The Flat Tax, chapter 3, "The Postcard Tax Return," Hoover Institution Press, Hoover Classics edition. https://www.hoover.org/sites/default/files/flat_tax_ch3.pdf. Accessed November 12, 2026. Hoover Institution, "The Flat Tax," book page, April 2, 2007. https://www.hoover.org/research/flat-tax. Accessed November 12, 2026.

- No second layer. Because the business tax allows no deduction for interest, dividends or other payments to owners, all business income "has already been taxed." So individuals would not pay tax on interest, dividends or capital gains.[341]

Hall and Rabushka describe their plan as a tax on consumption, not on income. They write that "a value-added tax is unfair because it is not progressive," so they split the tax in two and put a family allowance on the wage part to make it progressive.[342] That is also the root of the main criticism. Because investment income is not taxed at the individual level, households that live mostly on investment income would see their personal tax fall sharply, which is why critics, as summarized by CRS above, expect the burden to shift toward middle-income households.

The 19 percent figure was set for the economy and tax system of the 1990s. Any flat tax today would need a new rate estimate based on today's spending and revenue, and I did not find an official one.

Option 2: A national sales tax (the "FairTax")

How it works: A national retail sales tax would replace the income tax, and in some versions payroll and estate taxes too, with a tax on what people buy. Most versions include a monthly payment to every household to offset the tax on necessities.

Who has backed it: The FairTax bill has been introduced in Congress many times. The current version, the FairTax Act of 2025 (H.R. 25), was introduced on January 3, 2025, by Representative Buddy Carter of Georgia with nine cosponsors. Its title says it would repeal "the income tax and other taxes," abolish the IRS and enact "a national sales tax to be administered primarily by the States." It would repeal the income, payroll, estate and gift taxes starting January 1, 2027, set the 2027 rate at "23 percent of the gross payments," and send every qualifying family a monthly rebate equal to the tax on spending up to the poverty level.[343]

What estimates say: The key question is the rate. Supporters often describe the FairTax rate as 23 percent. That is a "tax-inclusive" rate, measured the way income taxes are. Measured the way sales taxes usually are, a 23 percent inclusive rate equals about a 30 percent rate added at the register: on a $100 purchase, $30 of tax. The Tax Policy Center estimated that even under optimistic assumptions, the rate needed to replace current revenue would be about 39 percent at the register (28 percent tax-inclusive). The President's Advisory Panel on Federal Tax Reform in 2005 put the range at 34 to 89 percent, depending on how much spending escapes the tax.[344]

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[341] Robert E. Hall and Alvin Rabushka, The Flat Tax, chapter 3, "The Postcard Tax Return," Hoover Institution Press. https://www.hoover.org/sites/default/files/flat_tax_ch3.pdf. Accessed November 12, 2026.

[342] Robert E. Hall and Alvin Rabushka, The Flat Tax, chapter 3, "The Postcard Tax Return," Hoover Institution Press. https://www.hoover.org/sites/default/files/flat_tax_ch3.pdf. Accessed November 12, 2026.

[343] H.R. 25, FairTax Act of 2025, 119th Congress, introduced January 3, 2025, sections 101, 102, 103 and 301. https://www.govinfo.gov/content/pkg/BILLS-119hr25ih/xhtml/BILLS-119hr25ih.html. Accessed November 12, 2026. The sponsor is listed as "Mr. Carter of Georgia."

[344] Tax Policy Center, "What would the tax rate be under a national retail sales tax?" Briefing Book, updated January 2024. https://taxpolicycenter.org/briefing-book/what-would-tax-rate-be-under-national-retail-sales-tax. Accessed November 12, 2026.

That panel, appointed by President George W. Bush, "decided not to recommend" replacing the income tax with a sales tax.[345]

Arguments: Supporters say it would end the IRS's role in income taxes, tax spending instead of saving, and reach people who now avoid tax. Critics say the needed rate is much higher than advertised, that evasion would rise at high rates, and that the burden would shift toward lower- and middle-income households unless the monthly payment is large.

Option 3: A value-added tax (VAT)

How it works: A VAT taxes the value added at each stage of production, so it works like a sales tax collected bit by bit along the way. Nearly every other wealthy country uses one. In most proposals in the United States, a VAT would add to the income tax, not replace it, or would pay for lower income tax rates. The Congressional Research Service's figures on how many countries use one appear later in this section.

Who has backed it: The 2005 Advisory Panel studied a VAT as a partial replacement for the income tax and decided not to recommend one.[346]

Arguments: Supporters say it raises large sums at a low rate and is harder to evade because businesses collect it at each step. Critics say it falls more heavily on lower-income households, who spend a larger share of their income, and worry it would make it too easy for government to grow.

How common is a VAT? In a 2011 primer, CRS found that 29 of the 30 members of the Organisation for Economic Co-operation and Development (OECD), a group of mostly wealthy democracies, had a VAT, and that "the United States is the only member without a VAT." A 2025 CRS brief said, "Most countries have VATs," and that "the United States is an exception."[347]

How does it work? Most countries use what is called the credit-invoice method. Each business adds the VAT to its sales, then subtracts the VAT it already paid on its purchases, and sends the difference to the government. CRS notes that this paper trail lets "tax auditors to cross check the records of firms," since one firm's sales are another firm's purchases.[348]

Who pays it? CRS found the answer depends on how you measure. Measured against one year's income, a VAT is regressive, because lower-income households spend a larger share of what they earn. Measured against lifetime income it is only mildly regressive, and measured against

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[345] President's Advisory Panel on Federal Tax Reform, "Simple, Fair, and Pro-Growth: Proposals to Fix America's Tax System," November 2005. https://home.treasury.gov/system/files/131/Report-Fix-Tax-System-2005.pdf. Accessed November 12, 2026.

[346] President's Advisory Panel on Federal Tax Reform, "Simple, Fair, and Pro-Growth: Proposals to Fix America's Tax System," November 2005. https://home.treasury.gov/system/files/131/Report-Fix-Tax-System-2005.pdf. Accessed November 12, 2026.

[347] James M. Bickley, "Value-Added Tax (VAT) as a Revenue Option: A Primer," Congressional Research Service, R41708, March 22, 2011. https://www.everycrsreport.com/reports/R41708.html. Accessed November 12, 2026. Congressional Research Service, "Value-Added Taxes (VATs) And Tariffs," In Focus IF13037, June 18, 2025. https://www.everycrsreport.com/files/2025-06-18_IF13037_772187a35b12979f327143b1803b394fed19652f.html. Accessed November 12, 2026.

[348] James M. Bickley, "Value-Added Tax (VAT) as a Revenue Option: A Primer," Congressional Research Service, R41708, March 22, 2011. https://www.everycrsreport.com/reports/R41708.html. Accessed November 12, 2026.

spending a single-rate VAT is roughly proportional. Countries soften it with lower rates on necessities, income tax credits or by tying the money to social programs.[349]

What would it raise? CBO estimated in its December 2024 budget options that a 5 percent VAT on a broad base would raise about $3.5 trillion over fiscal years 2026 to 2035, and about $2.3 trillion on a narrower base, as summarized by the Committee for a Responsible Federal Budget (CRFB). Those estimates were made before the 2025 law.[350] In other words, by my arithmetic a 5 percent VAT would raise about $350 billion a year on average, roughly one-eighth of the $2.85 trillion the individual income tax brought in during fiscal year 2026. I could not open the CBO report directly; the CBO site blocked automated access when I tried.

Option 4: Taxing wealth or unrealized gains

How it works: A wealth tax would charge a small yearly percentage on very large fortunes. A related idea, a minimum tax on unrealized gains, would tax the yearly increase in value of stock and other assets even if they are not sold, but only for the very wealthiest households.

Who has backed it: President Biden's fiscal year 2025 budget proposed a 25 percent minimum tax on taxpayers with wealth of more than $100 million.[351] Treasury described it as "a new 25-percent minimum income tax" on "extremely wealthy taxpayers." The proposal counted unrealized gains as income, as described in detail later in this section. The CEA and OMB estimate of an 8.2 percent rate for the 400 wealthiest families (Chapter 17) was published in support of that kind of proposal.

The legal question: Would a tax on unrealized gains or wealth be constitutional? The 16th Amendment allows taxes on "incomes," and a tax on property that is not income may count as a "direct tax" that must be divided among the states by population, the same issue the Court faced in 1895 (Chapter 2). In Moore v. United States, decided June 20, 2024, the Supreme Court upheld a one-time tax on certain foreign earnings by a 7 to 2 vote. But the Court said its decision was narrow and did not settle whether Congress can tax unrealized gains or wealth.[352] So the question is still open.

Arguments: Supporters say it would reach fortunes that grow for decades without ever being taxed as income. Critics say valuing assets every year is hard, wealthy people would move assets or leave, several European countries have dropped wealth taxes they once had, and it may be unconstitutional. [Not verified: the OECD's own count of countries that repealed wealth taxes;

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[349] James M. Bickley, "Value-Added Tax (VAT) as a Revenue Option: A Primer," Congressional Research Service, R41708, March 22, 2011, section on regressivity. https://www.everycrsreport.com/reports/R41708.html. Accessed November 12, 2026.

[350] Committee for a Responsible Federal Budget, "CBO's Revenue Savings Options," February 10, 2025, summarizing Congressional Budget Office, "Options for Reducing the Deficit: 2025 to 2034," December 2024. https://www.crfb.org/blogs/cbos-revenue-savings-options. Accessed November 12, 2026.

[351] RSM US, "White House releases fiscal year 2025 proposed budget," March 13, 2024. https://www.rsmus.com/insights/tax-alerts/2024/white-house-releases-fiscal-year-2025-proposed-budget. Accessed November 12, 2026.

[352] Justin C. Chung, "Supreme Court Declines to Decide Whether Sixteenth Amendment Requires 'Realization' to Tax Income," Congressional Research Service, Legal Sidebar LSB11185, June 27, 2024. https://www.everycrsreport.com/files/2024-06-27_LSB11185_762373034497 90ae08911e0d0f2a125e4c4b7599.html. Accessed November 12, 2026.

the OECD site blocked automated access. A count from the Tax Foundation, an advocacy group, appears later in this section.]

The two main wealth tax plans in detail

Two different plans are often lumped together, so here they are side by side.

The Ultra-Millionaire Tax Act. Senator Elizabeth Warren of Massachusetts and Representatives Pramila Jayapal and Brendan Boyle put out a 2026 version of this bill. Their summary describes "a 2% annual tax on the net worth of households and trusts over $50 million" and a "1% annual surtax (3% tax overall)" on net worth above $1 billion. It says the tax would reach "the wealthiest 260,000 households in America, or the top 0.15%," and would bring in "approximately $6.2 trillion in revenue over 10 years," based on work by economists Emmanuel Saez and Gabriel Zucman. The plan also includes $100 billion for the IRS, a 30 percent minimum audit rate for people who owe the tax, and a 40 percent "exit tax" on the net worth above $50 million of any citizen who gives up U.S. citizenship.[353] The 2024 version of the bill had the same rates and claimed "at least $3 trillion in revenue over 10 years."[354]

Those revenue figures come from the sponsors and economists who support the tax, not from CBO or JCT. I did not find an official score of the 2026 bill. [Not verified: a CBO or JCT estimate of the Ultra-Millionaire Tax Act; I searched CRS reports and news coverage.]

The other side's case. The Tax Foundation, a group that favors lower and simpler taxes, has argued that a wealth tax is "not an efficient way to raise revenue." It counted eight European countries that repealed wealth taxes over the previous 30 years (Austria, Denmark, Germany, Finland, Iceland, Luxembourg, Ireland and Sweden), citing low revenue, costs of running them, avoidance and evasion. It called valuing assets such as private businesses, art and farms "a serious implementation problem." In 2020 it estimated that Warren's plan at that time would raise about $2.2 trillion over 2020 to 2029 after counting economic effects.[355]

The billionaire minimum income tax. This is a different idea. It is a minimum income tax, not a tax on wealth itself, but it counts unrealized gains as income. The Biden administration's fiscal year 2025 budget described it this way: "a minimum tax of 25 percent on total income, generally

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[353] Senator Elizabeth Warren, Representative Pramila Jayapal and Representative Brendan Boyle, "Ultra-Millionaire Tax Act of 2026," one-page summary, office of Senator Warren, March 2026. https://www.warren.senate.gov/imo/media/doc/ultra-millionaire_tax_act_one-pager.pdf. Accessed November 12, 2026.

[354] Office of Senator Elizabeth Warren, press release on the reintroduction of the Ultra-Millionaire Tax Act, March 19, 2024. https://www.warren.senate.gov/newsroom/press-releases/warren-jayapal-boyle-reintroduce-ultra-millionaire-tax-on-fortunes-over-50-million. Accessed November 12, 2026.

[355] Huaqun Li and Karl Smith, "Analysis of Sen. Warren and Sen. Sanders' Wealth Tax Plans," Tax Foundation, January 28, 2020, updated February 12, 2024. https://taxfoundation.org/research/all/federal/wealth-tax/. Accessed November 12, 2026.

inclusive of unrealized capital gains, for all taxpayers with wealth (that is, the difference obtained by subtracting liabilities from assets) greater than $100 million."[356]

The Treasury's explanation filled in how it would work. A taxpayer could pay the first year's minimum tax in nine equal yearly installments and later years' tax in five. Payments would count as "prepayments" against the tax owed when assets are later sold, "to avoid taxing the same amount of gain more than once." The tax would phase in between $100 million and $200 million of wealth, and taxpayers above the line would have to report the value of their assets to the IRS each year by type of asset.[357] The Treasury's stated reason was that the current treatment of unrealized gains "disproportionately benefits high-wealth taxpayers." Congress did not enact it.

So the two plans differ in a basic way. Warren's plan taxes the stock of wealth each year whether or not it grows. The Biden plan taxes the yearly growth in wealth as if it were income, and credits that tax against later sales. Both face the constitutional question left open in Moore v. United States, described above.

Option 5: Changing the corporate rate

How it works: The corporate rate has been a flat 21 percent since 2018. Some proposals would raise it, for example to 28 percent. Others would lower it further, for example to 15 percent for companies that make products in the United States.

Who has backed it: President Biden's fiscal year 2025 budget proposed raising it to 28 percent and raising the 2022 corporate minimum tax from 15 to 21 percent.[358] In his 2024 campaign, Donald Trump proposed cutting the rate to 15 percent "solely for companies that make their product in America." The Committee for a Responsible Federal Budget estimated that version would cost about $200 billion over 10 years, and a cut to 15 percent for all corporations $460 billion to $675 billion.[359] Neither change was in the 2025 law.

Arguments: Supporters of raising it say corporate receipts have fallen to 1.2 percent of GDP (Chapter 18) and that profitable companies can afford more. Supporters of cutting it say lower rates draw investment and jobs, and that much of the corporate tax is eventually paid by workers through lower wages. Economists disagree on how much of the tax falls on workers versus owners. The Joint Committee on Taxation assumes that in the long run about 25 percent of the corporate tax is borne by workers and 75 percent by owners of capital. The Tax

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[356] U.S. Department of the Treasury, "General Explanations of the Administration's Fiscal Year 2025 Revenue Proposals," pages 83-84. https://home.treasury.gov/system/files/131/General-Explanations-FY2025.pdf. Accessed November 12, 2026.

[357] U.S. Department of the Treasury, "General Explanations of the Administration's Fiscal Year 2025 Revenue Proposals," pages 83-84. https://home.treasury.gov/system/files/131/General-Explanations-FY2025.pdf. Accessed November 12, 2026.

[358] RSM US, "White House releases fiscal year 2025 proposed budget," March 13, 2024. Same URL.

[359] Committee for a Responsible Federal Budget (a budget watchdog group), "Donald Trump's Proposal to Lower the Corporate Tax Rate to 15%," September 6, 2024. https://www.crfb.org/blogs/donald-trumps-proposal-lower-corporate-tax-rate-15. Accessed November 12, 2026.

Foundation, a market-oriented group, argues that most research puts more of the burden on workers.[360]

Option 6: Simplifying what we already have

How it works: Instead of replacing the system, this approach would trim deductions and credits in exchange for lower rates, the way the 1986 Tax Reform Act did (Chapter 6). It could also make filing easier, for example by having the IRS fill in returns for people with simple finances, as many countries do.

Who has backed it: The 2005 Advisory Panel recommended two simplification plans, the Simplified Income Tax Plan and the Growth and Investment Tax Plan, which would have reduced the number of rates and replaced several deductions with simpler credits.[361] The IRS ran a free government filing tool called Direct File for the 2024 and 2025 filing seasons. About 309,000 returns were filed with it for tax year 2024.[362] It was not offered for the 2026 filing season (Chapter 13). Supporters said it saved people money and time. Tax preparation companies opposed it, and Treasury cited low use and cost when it ended the program.[363]

The tradeoff: Almost every deduction and credit has a group that depends on it. The cost of the biggest tax breaks gives you a sense of the stakes: JCT projected about $2.3 trillion in tax expenditures for fiscal year 2026 alone (Chapter 11).[364] Each break that is trimmed could pay for lower rates for everyone, but each one also has supporters who argue it serves a good purpose.

Option 7: Raising more from the tax we already have

Not every proposal replaces the system. Many would raise rates or trim breaks inside the current income tax. CBO publishes a menu of such options every few years with a revenue estimate for each. Its most recent menu, from December 2024, was made before the 2025 law, so some options no longer fit current law and others would score differently now. With that caution, here are some of its income tax options as summarized by CRFB, over fiscal years 2026 to 2035.[365]

Selected CBO revenue options, estimated revenue over fiscal years 2026 to 2035 (estimated before the 2025 law; as summarized by CRFB; nominal dollars)

Option	Estimated revenue over 10 years	

[360] William McBride, "JCT: Corporate Tax Falls Partly on Labor," Tax Foundation, October 17, 2013, updated July 24, 2023, quoting the Joint Committee on Taxation. https://taxfoundation.org/blog/jct-corporate-tax-falls-partly-labor/. Accessed November 12, 2026.

[361] President's Advisory Panel on Federal Tax Reform, 2005 report. Same URL.

[362] IRS, "Internal Revenue Service Data Book, 2025," Publication 55-B, April 2026. https://www.irs.gov/pub/irs-pdf/p55b.pdf. Accessed November 12, 2026.

[363] Roxanne Bland, Kiplinger, January 15, 2026. https://www.kiplinger.com/taxes/a-free-tax-filing-option-just-disappeared. Accessed November 12, 2026.

[364] Committee for a Responsible Federal Budget, "JCT Projects Tax Expenditures Will Be $2.3T in 2026," February 9, 2026, citing Joint Committee on Taxation, JCX-45-25. https://www.crfb.org/blogs/jct-projects-tax-expenditures-will-be-23t-2026. Accessed November 12, 2026.

[365] Committee for a Responsible Federal Budget, "CBO's Revenue Savings Options," February 10, 2025, summarizing Congressional Budget Office, "Options for Reducing the Deficit: 2025 to 2034," December 2024. https://www.crfb.org/blogs/cbos-revenue-savings-options. Accessed November 12, 2026.

Raise all income tax rates by 1 percentage point	$1.2 trillion	
Raise the top four rates by 1 percentage point	$300 billion	
Raise the corporate rate by 1 percentage point	$140 billion	
Raise capital gains and dividend rates by 2 percentage points	$110 billion	
Tax capital gains at death	$570 billion	
Tax carried interest as ordinary income	$15 billion	
Eliminate itemized deductions	$3.7 trillion	
Limit the value of itemized deductions to 15 percent	$2.0 trillion	
Limit the charitable deduction to cash gifts	$340 billion	
Limit the tax exclusion for employer health insurance (from 2028)	$1.2 trillion	
Impose a 5 percent value-added tax, broad base	$3.5 trillion	
Source	CRFB, February 10, 2025, summarizing CBO, December 2024. CRFB notes that over 2025 to 2034 the totals would likely be about 15 percent lower.	

A few points stand out. Eliminating all itemized deductions would raise about as much as raising every rate by three points, if the per-point estimate held at that size. Taxing capital gains at death, which would end the step-up in basis described in Chapter 11, would raise far more than raising capital gains rates. And taxing carried interest, a favorite topic in political speeches, is one of the smallest items on the list.

Who backs these? The Biden administration's fiscal year 2025 budget proposed raising the top rate to 39.6 percent on taxable income over $400,000 for single filers and $450,000 for married couples.[366] The 2017 law went the other way on rates but capped the state and local tax deduction at $10,000, which is one way of trimming a break; the 2025 law then raised that cap to $40,000 (Chapters 7 and 8). Almost every item on the list has a group that depends on it, from homeowners to charities to workers with good health plans.

[366] U.S. Department of the Treasury, "General Explanations of the Administration's Fiscal Year 2025 Revenue Proposals," "Increase the top marginal income tax rate for high-income earners." https://home.treasury.gov/system/files/131/General-Explanations-FY2025.pdf. Accessed November 12, 2026.

Comparing the options

How do these options compare with each other? A few patterns come out of the official and independent estimates in this chapter.

- Replacing the income tax entirely (a national sales tax, or in some versions a flat tax) requires a much higher rate than supporters usually quote, according to the Tax Policy Center and the 2005 Advisory Panel. Neither has an official CBO or JCT score for a current bill that I could find.
- Adding a new tax on top of the income tax, such as a VAT or a wealth tax, can raise large sums on paper. CBO's estimate for a 5 percent VAT is about $3.5 trillion over ten years. The sponsors' estimate for the Ultra-Millionaire Tax is $6.2 trillion, but that is not an official score, and the Tax Foundation's estimate for an earlier version was much lower.
- Changing the current income tax can raise or lose as much as either, depending on which breaks and rates change. Eliminating itemized deductions or capping the health insurance exclusion are each in the trillion-dollar range in CBO's menu.
- Every option shifts who pays. Measured against one year's income, a sales tax or VAT takes a larger share from lower-income households (CRS), a wealth tax falls on a very small number of very wealthy households, and changes to rates and breaks can be aimed almost anywhere.

Which matters most to you: simplicity, how much the tax raises, how growth might respond, or who pays? Each option scores differently on each of those, and that is why people who agree on the facts can still disagree on the choice.

Summary of reform options (as of November 12, 2026)

Option	Replaces or changes	Main supporters (examples)	Key estimate or fact
Flat tax	Replaces brackets with one rate	Armey; Shelby; Burgess	No current official score found
National sales tax (FairTax)	Replaces income tax	FairTax bill sponsors	Rate needed: 34% to 89% at register (2005 Panel); about 39% (TPC, optimistic)
Value-added tax	Usually adds to income tax	Studied by 2005 Panel	5% broad-base VAT: about $3.5 trillion over 10 years (CBO, before the 2025 law); Panel did not recommend
Wealth or unrealized gains tax	Adds a new tax on the wealthiest	Biden FY2025 budget; 2024 Democratic platform; Warren-Jayapal-Boyle bill (2026)	Constitutionality unsettled after Moore (2024); sponsors claim $6.2 trillion, no official score
Corporate rate change	Raises or lowers the 21% rate	Democratic budgets (28%); Trump 2024 (15% domestic)	Corporate receipts 1.2% of GDP in FY2026
Simplification	Trims breaks, lowers rates, easier filing	2005 Panel; 1986 law	Tax expenditures about $2.3 trillion in FY2026
Raise more inside the current tax	Higher rates or fewer breaks	Biden FY2025 budget (top rate 39.6%); CBO options menu	All rates up 1 point: about $1.2 trillion over 10 years (CBO, before the 2025 law)

How to check a tax claim yourself

If you take one tool from this book, let it be a short list of questions. I used these on every claim in Part Six, and you can use them on the next one you hear.

- Which tax? Income tax alone, or all federal taxes, or federal, state and local taxes together? The answer can flip depending on which (Chapter 10).
- Measured against what? Income reported on a tax return, total income including benefits, or growth in wealth including unsold assets (Chapter 17)?
- Which year, and which dollars? Is the figure nominal or adjusted for inflation, and is it from before or after the latest law (Chapters 7 and 8)?
- Who says so? Is the source the IRS, CBO, JCT or another official body, a nonpartisan researcher, a news report, or a group that takes sides? Advocacy groups can be right, but check whether their numbers match the official ones.
- Is it a law, a bill or a proposal? Many viral claims describe a bill that never passed, or a proposal from a campaign or budget that Congress never acted on (Chapter 20).
- Is it current? Tax law changes often. Check the date on the source, and check IRS.gov for the latest figures.

None of these questions requires a degree in economics. They require only the habit of asking.

A closing word

When I started this book, I wanted to know how a tax that began with less than 1 percent of Americans paying became the largest source of federal money and part of nearly every family's year.[367] What I found is that the income tax has been rewritten by every generation, usually in a crisis: the Civil War, the First World War, the Depression, the Second World War, the inflation of the 1970s, the deficits of the 1990s, and the debates of the last ten years. It will be rewritten again.

When it is, you will hear many of the claims in this book again. My hope is that you now have the tools to check them: look for the primary source, ask which tax and which measure, check whether a figure is in today's dollars or the dollars of its year, and be wary of anyone, on any side, who tells you the answer is simple.

[367] National Archives, "16th Amendment to the U.S. Constitution: Federal Income Tax (1913)." https://www.archives.gov/milestone-documents/16th-amendment. Accessed November 12, 2026.

Appendices

Appendix A: Federal Income Tax Rates, 1913 to 2027

This table shows the lowest and highest income tax rates in each period, and the income level where the top rate began. Dollar amounts are nominal, meaning the dollars of that year, for married couples filing jointly. Before 1954, the figures combine the "normal tax" and the top "surtax," which were then separate. Some years had an overall limit on the share of income that could be taken in tax, shown in parentheses.

Remember that very few people paid the top rate in most years. In 1913, for example, the 7 percent rate applied only to income over $500,000, a fortune at the time. To compare these dollar amounts with today's, use the Bureau of Labor Statistics CPI Inflation Calculator at https://www.bls.gov/data/inflation_calculator.htm.

Lowest and top federal income tax rates, 1913 to 2027 (nominal dollars; married filing jointly)[368]

Tax year	Lowest rate (%)	Top rate (%)	Top rate applies above ($)
1913-1915	1	7	500,000
1916	2	15	2,000,000
1917	2	67	2,000,000
1918	6	77	1,000,000
1919-1920	4	73	1,000,000
1921	4	73	1,000,000
1922	4	58	200,000
1923	3	43.5	200,000
1924	1.5	46	500,000
1925-1928	1.125	25	100,000
1929	0.375	24	100,000
1930-1931	1.125	25	100,000
1932-1935	4	63	1,000,000
1936-1939	4	79	5,000,000
1940	4.4	81.1	5,000,000
1941	10	81	5,000,000
1942-1943	19	88	200,000
1944-1945	23	94 (overall limit 90)	200,000
1946-1947	19	86.45 (overall limit 85.5)	200,000
1948-1949	16.6	82.13	400,000
1950	17.4	84.36	400,000
1951	20.4	91	400,000
1952-1953	22.2	92	400,000
1954-1963	20	91 (overall limit 87)	400,000
1964	16	77	400,000
1965-1967	14	70	200,000
1968	14	75.25	200,000
1969	14	77	200,000
1970	14	71.75	200,000
1971-1976	14	70	200,000
1977-1978	14	70	203,200
1979-1980	14	70	215,400

[368] Robert A. Wilson, "Personal Exemptions and Individual Income Tax Rates, 1913-2002," IRS Statistics of Income Bulletin, Spring 2002 (Publication 1136), Table 1. https://www.irs.gov/pub/irs-soi/02inpetr.pdf. Accessed November 12, 2026. Rows from 2013 on: Public Law 112-240 (2013); Public Law 115-97 (2018); IRS, IR-2025-103 (2026); IRS, IR-2026-133 (2027).

Tax year	Lowest rate (%)	Top rate (%)	Top rate applies above ($)
1981	13.825	69.125	215,400
1982	12	50	85,600
1983	11	50	109,400
1984	11	50	162,400
1985	11	50	169,020
1986	11	50	175,250
1987	11	38.5	90,000
1988	15	28	29,750
1989-1990	15	28	see note
1991	15	31	82,150
1992	15	31	86,500
1993	15	39.6	89,150
1994	15	39.6	250,000
1995	15	39.6	256,500
1996	15	39.6	263,750
1997	15	39.6	271,050
1998	15	39.6	278,450
1999	15	39.6	283,150
2000	15	39.6	288,350
2001	10	39.1	297,350
2002	10	38.6	307,050
2003-2012	10	35	varies by year (indexed for inflation)
2013	10	39.6	450,000
2014-2017	10	39.6	varies by year (indexed for inflation)
2018	10	37	600,000
2019-2025	10	37	varies by year (indexed for inflation)
2026	10	37	768,700
2027	10	37	793,650

Notes: From 1989 on, bracket amounts were adjusted each year for inflation; the source table gives the 1988 amount and later amounts for selected years. The 2003 to 2012 and 2014 to 2025 thresholds changed every year with inflation and are published in the IRS revenue procedure for each year. [Not verified: the thresholds for 1989, 1990 and 2003 to 2025, which I did not read in a primary table.] For 2026 and 2027, the top rate begins above $640,600 and $661,375 for single filers.[369]

[369] IRS, IR-2025-103, October 9, 2025, and IR-2026-133, November 5, 2026. https://www.irs.gov/newsroom/irs-releases-tax-inflation-adjustments-for-tax-year-2026-including-amendments-from-the-one-big-beautiful-bill; https://www.irs.gov/newsroom/irs-releases-tax-inflation-adjustments-for-tax-year-2027-taxpayers-continue-to-benefit-from-the-working-families-tax-cuts. Accessed November 12, 2026.

Appendix B: Timeline of Key Events

This timeline collects the main events from the chapters. The sources are cited in the chapter where each event is discussed.

Timeline of the federal income tax and the IRS

Date	Event	Chapter
1787	The Constitution requires "direct" taxes to be divided among the states by population.	1
1796	Supreme Court upholds a federal tax on carriages in Hylton v. United States.	1
July 1, 1862	Civil War revenue act creates an income tax with graduated rates and the office of Commissioner of Internal Revenue.	1
1872	Congress repeals the Civil War income tax.	1
1881	Supreme Court upholds the Civil War income tax in Springer v. United States.	1
1894	Congress passes a 2 percent tax on income over $4,000 as part of a tariff bill.	1
April 8 and May 20, 1895	Supreme Court strikes down the 1894 tax in Pollock v. Farmers' Loan and Trust Co.	2
1909	Congress sends the 16th Amendment to the states as part of a deal over a tariff bill.	2
February 3, 1913	The 16th Amendment reaches the needed number of states.	2
February 25, 1913	Secretary of State Philander Knox certifies the 16th Amendment.	2
October 3, 1913	The Revenue Act of 1913 creates the modern income tax: 1 percent normal tax, surtax up to 6 percent.	2
January 24, 1916	Supreme Court upholds the new tax in Brushaber v. Union Pacific Railroad.	2
March 8, 1920	Supreme Court decides Eisner v. Macomber, 5 to 4.	2
1917-1918	World War I rates rise; the top rate reaches 77 percent.	3
1920s	Rates fall; the top rate reaches 25 percent by 1925.	3
April 1, 1927	Prohibition enforcement moves from the Commissioner of Internal Revenue to a new Bureau of Prohibition.	3
1932-1936	Depression-era laws raise the top rate to 63 and then 79 percent.	3
1942	Revenue Act of 1942 lowers exemptions and turns the income tax into a mass tax.	4
1943	Current Tax Payment Act begins	4

Date	Event	Chapter
	withholding from paychecks.	
1944-1945	Top rate reaches 94 percent.	4
1948	Revenue Act of 1948 lets married couples split their incomes.	5
1964	Revenue Act of 1964 cuts the top rate from 91 to 70 percent (fully in effect in 1965).	5
1969	Tax Reform Act of 1969 creates the minimum tax.	5
1975	Tax Reduction Act of 1975 creates the Earned Income Tax Credit.	5, 11
1981	Economic Recovery Tax Act cuts rates by about 23 percent and indexes brackets for inflation starting in 1985.	5
1986	Tax Reform Act of 1986 cuts the top rate to 28 percent and ends many breaks. Senate vote 97 to 3.	6
1990 and 1993	Budget laws raise the top rate to 31 and then 39.6 percent.	7
1997	Taxpayer Relief Act of 1997 creates the child tax credit and Roth IRAs.	7, 11
July 22, 1998	IRS Restructuring and Reform Act of 1998 enacted.	12
2001 and 2003	Tax cuts lower rates and taxes on dividends and capital gains.	7
January 2, 2013	American Taxpayer Relief Act makes most 2001 and 2003 cuts permanent and restores the 39.6 percent rate for the highest earners.	7
May 14, 2013	Inspector General reports the IRS used inappropriate criteria to screen tax-exempt applications.	17
December 22, 2017	Tax Cuts and Jobs Act signed: top rate 37 percent, corporate rate 21 percent.	7
August 16, 2022	Inflation Reduction Act gives the IRS about $80 billion and creates a 15 percent corporate minimum tax.	12, 15
2023-2026	Congress rescinds about $53.5 billion of the IRS funding.	13
June 20, 2024	Supreme Court decides Moore v. United States.	20
July 4, 2025	Public Law 119-21 signed, making most 2017 individual provisions permanent and adding new deductions.	8
2025	IRS workforce falls about 28 percent on net; the IRS has seven different commissioners during the year.	13
January 26, 2026	First filing season under Public Law 119-21 opens.	8
November 5, 2026	IRS releases 2027 inflation	8, 9

Date	Event	Chapter
	adjustments.	
November 12, 2026	Information cutoff date for this book.	Intro

Key people

Key people in the history of the federal income tax

Person	Role	Chapter
Abraham Lincoln	President who signed the Civil War income tax laws	1
Melville Fuller	Chief Justice who wrote the Pollock opinion (1895)	2
Justice Brown	Supreme Court justice who dissented in the second Pollock decision (1895)	2
Cordell Hull	Tennessee congressman, main author of the 1913 income tax law	2
William Howard Taft	President who backed sending the 16th Amendment to the states (1909)	2
Philander Knox	Secretary of State who certified the 16th Amendment (1913)	2
Edward White	Chief Justice who wrote Brushaber (1916)	2
Andrew Mellon	Treasury Secretary in the 1920s who pushed for lower rates	3
Beardsley Ruml	Treasurer of R.H. Macy and chairman of the New York Federal Reserve Bank, who promoted pay-as-you-go withholding	4
Ronald Reagan	President who signed the 1981 and 1986 tax laws	5, 6
Richard Nixon	President who asked Congress for a minimum tax on high-income people (1969)	5
Janet Yellen	Treasury Secretary who issued the 2022 audit directive on households under $400,000	17
Frank Bisignano	IRS Chief Executive Officer from October 2025, also Commissioner of Social Security	13
Robert Hall and Alvin Rabushka	Hoover Institution economists who designed the best-known flat tax	20
Elizabeth Warren	Senator who sponsors the Ultra-Millionaire Tax Act	20

Appendix C: Glossary

Adjusted gross income (AGI). Your total income minus certain adjustments, such as some retirement contributions. Many tax rules use AGI as a starting point.

Alternative minimum tax (AMT). A second way of figuring tax that applies to some higher-income people, designed to make sure they pay at least a minimum amount.

Audit. An IRS review of a return to check whether income, deductions and credits were reported correctly. Most audits are done by mail.

Average rate. Your total tax divided by your total income. Also called the effective rate.

Bracket creep. When inflation pushes people into higher brackets even though their real income has not grown. Indexing brackets for inflation, starting in 1985, mostly ended it.

Bracket. A range of taxable income taxed at a particular rate.

Budget reconciliation. A process in Congress that lets certain budget bills pass the Senate with a simple majority.

Capital gain. The profit from selling an asset, such as stock or property, for more than you paid.

Collection hearing. A hearing the IRS must offer, under section 3401 of the 1998 reform law, before it seizes property to collect unpaid tax.

Congressional Budget Office (CBO). Nonpartisan agency that gives Congress budget and economic estimates.

Congressional Research Service (CRS). Nonpartisan research agency within the Library of Congress that writes reports for members of Congress.

Credit. An amount subtracted directly from your tax. A refundable credit can be paid to you even if you owe no tax.

Deduction. An amount subtracted from income before tax is figured.

Direct tax. Under the Constitution, a tax that must be divided among the states by population. The Supreme Court has said this includes head taxes and taxes on land.

Earned Income Tax Credit (EITC). A refundable credit for low- and moderate-income working people.

Effective rate. See average rate. For corporations, the tax actually paid as a share of profits.

Excise tax. A tax on a specific product or activity, such as gasoline or tobacco.

Fiscal year. The federal budget year, which runs from October 1 to September 30.

Government Accountability Office (GAO). The nonpartisan auditing arm of Congress.

Gross domestic product (GDP). The total value of goods and services produced in the country in a year.

Inflation-adjusted dollars. Dollar amounts converted to the value of a stated year so they can be compared across time. Also called real dollars.

Information return. A form, such as a W-2 or 1099, that an employer, bank or other payer sends to the IRS to report money it paid someone.

Internal Revenue Code. The federal tax law, found in Title 26 of the United States Code.

Itemized deductions. Specific deductions, such as mortgage interest and charitable gifts, that you can claim instead of the standard deduction.

Joint Committee on Taxation (JCT). Congress's official, nonpartisan scorekeeper for tax bills.

Marginal rate. The rate on your next dollar of income.

Nominal dollars. Dollar amounts in the money of the year they were reported, not adjusted for inflation.

Payroll taxes. Taxes on wages that fund Social Security and Medicare.

Progressive tax. A tax where average rates rise as income rises.

Standard deduction. A flat amount most people subtract from income instead of itemizing.

Statutory rate. The rate written in the law, as opposed to the effective rate actually paid.

Step-up in basis. A rule that resets the value of inherited assets to their value at death, so gains during the owner's life are not taxed as income.

Tax expenditure. A tax break that works like government spending, such as a deduction, credit or lower rate for certain income.

Tax gap. The difference between the tax that is owed and the tax paid on time.

Tax protester. Someone who argues the income tax is illegal or does not apply to them.

Tax-inclusive rate. A tax rate measured as a share of the price including the tax, the way income tax rates are stated. A 23 percent tax-inclusive rate equals about a 30 percent rate added on top of the price.

Taxable income. Income after deductions, on which the tax is figured.

Total positive income. The IRS's measure of income before losses are subtracted, used in its audit tables so that people with large paper losses are not counted as low-income.

Treasury Inspector General for Tax Administration (TIGTA). The independent watchdog office that audits and investigates the IRS.

Value-added tax (VAT). A tax on spending collected in stages, as each business pays tax on its sales minus the tax it already paid on its purchases.

Withholding. Tax taken out of each paycheck by an employer and sent to the IRS.

Appendix D: How to Read Form 1040

Form 1040 is the main federal income tax return for individuals. The line numbers change from year to year, so I describe the parts in order rather than by line number. You can get the current form and instructions free at IRS.gov.

1. Who you are. The top of the form asks for your name, address, Social Security number and filing status: single, married filing jointly, married filing separately, head of household, or qualifying surviving spouse. Your filing status sets which brackets and standard deduction apply to you.

2. Your dependents. You list children and other dependents. This affects credits such as the Child Tax Credit.

3. Your income. Here you report wages (from your Form W-2), interest, dividends, retirement payouts, the taxable part of Social Security benefits, capital gains and other income. Some of these come from separate schedules.

4. Adjustments to income. Certain items, such as some retirement contributions and student loan interest, are subtracted here. The result is your adjusted gross income (AGI).

5. Deductions. You subtract either the standard deduction or your itemized deductions (from Schedule A), plus any other deductions allowed outside those, such as the qualified business income deduction. Starting with 2025 returns, the new deductions for tips, overtime, car loan interest and seniors (Chapter 8) also reduce taxable income; check the current Form 1040 instructions for where each is entered. The result is your taxable income.

6. Tax and credits. You figure the tax on your taxable income using the tax tables or brackets, then subtract nonrefundable credits such as the Child Tax Credit.

7. Other taxes. Some people owe additional taxes here, such as self-employment tax (the payroll tax for people who work for themselves).

8. Payments. You list the tax already paid through withholding and estimated payments, plus refundable credits such as the Earned Income Tax Credit.

9. Refund or amount you owe. If your payments are more than your tax, you get a refund. If they are less, you owe the difference.

10. Signature. You sign under penalty of perjury that the return is true, correct and complete.

If you want to see how all of this works with real numbers, the example in Chapter 9 follows a single filer with $60,000 in wages from income to final tax.

Appendix E: Verification Notes

This appendix is for readers who want to know where the record is thin. It lists every item in this book that I marked [Not verified], what I searched, and the places where reliable sources disagree. Information stops at November 12, 2026.

How I checked

I checked each fact against the highest-tier source I could open (the tiers are explained in the Introduction). Some government websites, including congress.gov, would not open for me during this project, so for some laws I relied on Congressional Research Service reports, the Government Publishing Office, court opinions posted on Justia, and news coverage. Where a fact rests on a single secondary source, the footnote says so.

Items marked [Not verified]

Items marked [Not verified], with what was searched

Chapter	Item	What I searched
1	The 1791 date of the federal whiskey tax	IRS history timeline; the date is implied but not stated on the page I read
4	Return counts and collections for 1939 and 1945, and the 1943 signing date	Found only in Robert Higgs (Foundation for Economic Education); not checked against IRS or Treasury data or the statute
4	Milton Friedman's account of withholding	Quoted in secondary sources; I did not read his memoir
5	The "155 high-income people paid no tax" figure from 1969	Secondary accounts only; I did not find the hearing transcript
7	The full count of laws changing the tax code	CRS listings and news; congress.gov blocked automated access
8	An official breakdown of why average refunds rose in 2026	IRS filing season statistics releases; TIGTA interim report on the 2026 filing season
9	Whether the 2027 capital gains amounts in Rev. Proc. 2026-35 match the final published version	Rev. Proc. 2026-35 (the copy read had a release-date placeholder); IR-2026-133
10	Tax expenditure figures from the IRS and JCT spreadsheets	Secondary summaries; I could not open the spreadsheets
10	State tax study figures from a group that favors lower taxes, to set beside ITEP's	Not opened for this edition
10	An official estimate of how much of the employer payroll tax falls on workers	CBO distribution reports make an assumption; I did not open the methods section
13	Whether a Commissioner was nominated or confirmed after August 12, 2026	The IRS "About" page, last updated August 12, 2026, lists the Commissioner post as vacant; a March 10, 2026, statement by Senate Finance Committee Democrats said no nominee had been submitted; news searches found nothing later

Chapter	Item	What I searched
13	The exact date of the 2022 Treasury audit directive	IRS Data Book summaries and news coverage
13	The legal basis Treasury gives for the IRS Chief Executive Officer role	Treasury and IRS web pages; news coverage
15	The 1909 corporate tax rate from a primary source	Secondary sources
15	Details of the global minimum tax agreement in OECD and G7 documents	News and law-firm summaries; I did not read the OECD texts
15	How much the 2022 corporate minimum tax has collected	IRS statistics pages; CRS reports
16	The publication year of Bill Benson's book, and the first appearance of the "income tax is voluntary" claim	Court opinions and secondary accounts
17	A current IRS count of high-income returns with no tax; the names in the 2013 TIGTA report; the first use of the "teachers pay more than billionaires" line	IRS Data Book (the 2025 edition's audit tables were read and are now used in Chapters 13 and 17), TIGTA pages (the 2013 report link now redirects), news archives
17	The first use of the claim that collecting the tax gap would balance the budget	News coverage and fact-check archives
18	The name, date and holding of the Supreme Court decision on tariffs mentioned by CRS	CRS Insight IN12690 only; I did not read the decision
19	Full question wording of Gallup's question on which groups pay their fair share, and of Pew's agency favorability question	Gallup's April 2025 report; Pew's agency fact sheet
20	A JCT or CBO score of a current flat tax bill or of the 2026 Ultra-Millionaire Tax Act; the OECD's own count of countries that repealed wealth taxes	CBO and JCT sites (CBO blocked automated access during this edition), the OECD site (also blocked), CRS reports and news coverage. The Tax Foundation's count of repeals is reported in the text and labeled
Appendix A	Top-bracket thresholds for 1989, 1990 and 2003 to 2025	Not read in a primary table

Where reliable sources disagree

How much the richest Americans pay (Chapters 17 and 18). The White House Council of Economic Advisers and Office of Management and Budget (2021) put the 400 wealthiest families at an average federal income tax rate of 8.2 percent, counting unsold gains as income. ProPublica (2021) put the 25 richest at a "true tax rate" of 3.4 percent on the same kind of measure. IRS data and the Congressional Budget Office, which count only income reported on returns, put the top 1 percent at about 24 to 26 percent. These figures do not contradict each other. They divide by different things. I report all of them and explain the difference.

Corporations that pay zero (Chapters 15 and 17). The Institute on Taxation and Economic Policy (ITEP) counts companies with zero federal income tax using company financial reports. Adam Michel, a free-market analyst, argues that this mixes "book" profits with tax-year

rules and overstates the result. Both are advocacy-tier sources. I used the Government Accountability Office's audited count as the anchor and reported both views.

IRS political targeting (Chapter 17). The 2013 Inspector General report focused on criteria aimed at conservative groups. A 2017 follow-up found the IRS had also used terms aimed at progressive groups. I report both reports and the dates of each.

IRS staff counts for 2025 (Chapters 12 and 13). The IRS Data Book, the Inspector General, the Taxpayer Advocate and the Treasury budget each give different numbers because they measure different things at different dates (average full-time equivalents, employees on the payroll on a given day, and so on). I name the measure each time I give a number.

Early history from advocacy and secondary sources (Chapters 4, 5 and 16). Some early figures come from Robert Higgs, a historian who writes for an advocacy group, and some accounts of the 1969 testimony and the Benson ratification argument come from secondary sources. I labeled these and used them only where I could not find a government record.

Audit rates (Chapters 13 and 17). GAO and the IRS Data Book measure audit rates by the tax year of the return, while the CRS review measures audits by the fiscal year they took place. The numbers differ, for example 0.25 percent for tax year 2019 from GAO and 0.4 percent for fiscal year 2019 from CRS, but both show audit rates falling sharply after 2010. I name the measure each time.

Wealth tax revenue (Chapter 20). The sponsors of the Ultra-Millionaire Tax Act cite an estimate of about $6.2 trillion over ten years for the 2026 version, based on work by economists who support the tax. The Tax Foundation, which has criticized wealth taxes, estimated about $2.2 trillion for an earlier version after counting economic effects. Neither is an official CBO or JCT score. I report both, label each and say that no official score was found.

Refund and filing figures for 2026 (Chapter 8). TIGTA's interim report and the IRS's weekly statistics give different average refunds because they cover different weeks: $3,742 as of late February and $3,273 as of May 1, 2026. I give the date with each figure.

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