History of Taxes

What You’ll Learn

1. Learn where and when taxes originated and how they resemble taxes we have today.

2. Understand how the American tax code developed from the beginning of the colonies.

3. Learn about some of the weirder taxes throughout history, designed not just to raise revenue, but influence behavior too.
Introduction

Taxes can be complicated and understanding them requires going deeper than knowing the current tax code and how it impacts behavior. The history of taxation, why it was used, and how it influenced previous societies can help us to understand the potential benefits and consequences to current and proposed taxes. This history can also help policymakers draft better legislation based on outcomes and patterns from the past.

Taxes: The Origin Story

Today’s tax codes are extensive and ever-changing, but many of the basic tax types governments depend on today, including sales taxes, excise taxes, and property taxes, have been around since early civilization.

About 5,000 years ago, we see the first record of taxation in ancient Egypt, where the Pharaoh collected a tax equivalent to 20 percent of all grain harvests. At the time, Egypt was without coined money, so grain represented a tangible store of value that could easily be collected, traded, and redistributed throughout society.

As with many modern innovations, the Greeks were responsible for taking the idea of taxation and spreading it throughout the developed world, as they expanded their realm and civilization evolved.

Fun Fact: The Rosetta Stone, our key to unlocking the meaning of hieroglyphics, was mostly a tax document that explained new tax laws decreed in 196 BCE.

The Start of Familiar Taxes

Sales Tax

Ancient Rome administered a sales tax. Julius Caesar was the first to implement a sales tax: a 1 percent flat rate that was applied across the entire Empire. Under Caesar Augustus, the sales tax was 4 percent, closer to a rate we see today in many U.S. state sales taxes.

Income Tax

Ancient Roman Emperor Augustus changed the tax system in the late 1st century BCE. The collection had originally been done through “tax farmers” who collected taxes from their respective regions based on the assessment of the region as a whole and turned them over to the government. This system was tough to continue, and Augustus switched to a direct taxation system that resembled an income tax. This began as a direct tax on an individual’s wealth, but when it was clear this too was difficult to execute, the income tax replaced that collection.
Property Tax
In ancient times, property taxes were levied in Egypt, Persia, and China. Originally, these taxes were based on the production value of the land, or how much the plot was expected to yield in goods, and therefore were typically paid by farmers. Property taxes continued in Medieval Europe under William the Conqueror in England. Famously, Lady Godiva rode a horse through the streets naked in protest of the property tax rate her husband was forced to pay.

Inheritance Tax
Inheritance taxes originated in the Roman Empire and funded the pensions of veterans, levied at a rate of 5 percent on inherited property. The inheritance tax as we recognize it evolved from the “relief,” a payment made in the Middle Ages to a feudal lord when a fief was transferred to an heir at death.

Tariffs
Tariffs have been dated to the 3000s BCE on trade of metal and wool between the ancient city of Kanesh in Anatolia (modern-day Turkey) and Assyria (in modern-day Iraq). The Roman Empire also levied tariffs, both on goods traded within the empire and imported from outside. Foreign goods were taxed at five to 25 times the rate of internal trades. Throughout history, tariffs have been levied to control the trade of certain goods like wool, leather, butter, cheese, and more.

The History of the American Tax System
Much of the start of America’s history centered around taxation. Originally, America was without its largest source of modern revenue: the income tax. Additionally, many original colonists and traders in the 17th century were exempt from tax collection from their parent countries for a few years, and some for up to 20 years.

American colonies levied property taxes, excise taxes, poll taxes, and some early forms of income taxes, though tax rates and burdens were far less than their counterparts in Great Britain. While American governments were faring well financially, the British government faced debt from many wars worldwide.

This led to the British government turning to the American colonies for additional revenue, and the beginning of the tax struggle we are familiar with that led to the American Revolution. These included:

• Sugar Act of 1764: tax on molasses, sugar, and wine
• Stamp Act of 1765: taxes on important printed material like legal documents, newspapers, and pamphlets
• Townshend Acts of 1767: taxes on 72 items, including the tax on tea that led to the Boston Tea Party
The issue of “taxation without representation” played a large role in the development of the American legislative system and is seen in Article I, Section 2 of the U.S. Constitution, which granted the elected representatives in Congress the exclusive power to impose taxes on all citizens. While rates in the colonies were still far lower than those in England, the colonies lacked a formal representative body. State and local taxes were developed under the same guidelines.

Tariffs were the original pipeline of tax revenue for the U.S. government, including the “Tariff of Abominations” in 1828, which increased tensions between the North and South leading up to the Civil War. Post-Civil War, and due to rapid industrialization, exports became more common than imports, causing revenues to decline. In 1913, as a result of declining tariff revenues and as part of a political push to shift tax burdens onto the wealthy, the 16th Amendment was ratified, which allows for federal taxes to be levied on individual and business incomes. The World Wars led to the expansion of the federal income tax to boost the national budget and further increase progressivity in the federal tax code. Today, the income tax is the top stream of government revenue.

This period saw the implementation of various new taxes that are familiar today: the estate tax (1916), the gift tax (1924), and Social Security payroll taxes (1937). State sales taxes began in Mississippi in 1930 as a response to lower property tax collections (until then the primary form of state tax revenue) during the Great Depression, and quickly spread to other states nationwide.

Gross receipts taxes also gained popularity in 1930s America; they were first implemented in West Virginia in 1921. Many of these were repealed by court decisions in the 1970s and today, only seven states still levy a gross receipts tax at the state level.

To learn more about some of the weirder taxes throughout history and their unintended consequences, check out our Tax Policy 101 Primer: The Weird Way Taxes Impact Behavior.