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WAR AND TAXES

Budgeting for War: A History of New Taxes, Higher Rates

Congress generally has increased revenue — sometimes substantially — during wartime to help meet the increased expenses.

War of 1812 (1812-1815)

Congress approved a set of war-related revenue measures in 1813, including excise duties on carriages, sugar refining and distilled spirits. It also required states to raise property taxes and forward the money to the federal government. Congress provided for the automatic repeal of the taxes within a year of the war's termination.

Civil War (1861-1865)

In 1861, Congress enacted a 3 percent tax on individual income above $800, the first income tax in U.S. history. The following year, President Abraham Lincoln made the income tax more progressive by signing a law creating a 5 percent rate on income over $10,000. Taxes were withheld from the salaries of government employees, a move that would be expanded to other taxpayers during World War II. Other war-related revenue boosts included inheritance taxes and a gross receipts business tax. The income tax was increased again in 1864, then repealed in 1872 during the administration of President Ulysses S. Grant. Other taxes increased during the war included inheritance, excise, license, manufacturing and gross receipts business taxes.

Spanish-American War (1898)

Congress passed a telephone excise tax law on Feb. 16, 1898, just before the war's outbreak. It was never repealed, and it now amounts to 3 percent of a monthly telephone bill. Congress also raised the inheritance tax again. A maximum rate of 15 percent was applied to bequests from estates valued over $1 million to distant relatives, non-relatives or "bodies politic or corporate." Surviving spouses were exempt from the tax, which was repealed in 1902. Congress also imposed an excise tax on receipts in excess of $200,000 for petroleum and sugar refining industries.

World War I (1914-1918)

The Revenue Act of 1916 increased income taxes and levied an estate tax, a tax on munitions manufacturers and an excise tax on corporations. In 1917, Congress again raised income and inheritance taxes. It also boosted corporate taxes and enacted excise taxes on certain consumer goods. The War Revenue Act of 1918 increased the income tax on lower incomes.

World War II (1939-1945)

In 1942, Congress expanded the individual income tax, and increased corporate taxes and excise taxes. It also created a 5 percent "victory tax," which was to be repaid through a postwar tax credit. In 1943, Congress passed a law to broadly impose individual income tax withholding, which enhanced the Treasury's ability to finance day-to-day expenditures. A 1944 law, intended to simplify the income tax system and abolish the victory tax, lowered revenue by an estimated 0.2 percent of the gross domestic product. Tax rates were greatly reduced after the war ended.

Korean War (1950-1953)

Congress in 1950 resurrected the income tax rates of World War II and increased taxes on corporate profits. In 1951, Congress again raised individual income and corporate taxes. Congress also raised the beer tax from $8 to $9 a barrel and indexed it for inflation. The beer industry has been pushing to reduce the tax, which is now $18 a barrel, to its 1951 level.

Vietnam War (1954-1975)

A 1964 law aimed at reversing a perceived economic slowdown included a reduction in individual income and corporate tax rates, and an expansion of the standard deduction. But the conflict strained the budget, and in 1968 and 1969 individual income and corporate taxes were increased. Congress repealed the investment tax credit and placed new restrictions on the tax exempt status of foundations. The income tax's standard deduction and personal exemption were increased, but those actions were more than offset by the tax increases. The tax hikes helped create a budget surplus in 1969 — the last the nation would see until 1998. In 1971, taxes were cut again. The investment tax credit was restored and the standard deduction was increased.

Persian Gulf War (1991)

Not long before the outbreak of hostilities, Congress passed a major deficit-reduction package in 1990 (PL 101-508) that included tax increases and spending cuts. No major tax legislation was enacted during or immediately after the Gulf War, although the tax increases enacted the previous year took effect.

Sources: Tax analysts, Congressional Research Service