

Comp-Consulting Business Solutions

Financial Newsletter

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FALL EDITION

Can you see your destination according to your financial plan?



Cover Story

Historic view of the US Income Tax System



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Taxes, taxes, taxes... and the episode

continues. The subject of income taxes remains among the few things in life one cannot change. In essence, taxes is a way of American life. There are many reasons for this phenomenon. Firstly, the topic of taxes dates many years back. The Boston Tea Party for starter dates to 1773 where a tax on tea was institute by the British government. Three years prior to the inauguration of 13 colonies' claim to independence in 1776, the Boston Tea Party remains the provocative reason this event is believed to be the catalyst for the American Revolution. Nevertheless, the incentive for the revolt is clearly stated by the infamous cause for the revolution: "...taxation without representation". This is historic language settled deep in American history. While the protest holds certain concerning the tax imposed on the citizens of the colonies, emphasis from the revolt clearly underscores that representation should

inherently attach to the tax imposed.

Early America saw the Revenue Act in 1861 imposed during the Civil War. The tax served as finance to fund the war efforts. However, more contemporary was the Act of 1913 signed by Woodrow Wilson. The act institutes a tax on three levels of income source:

- 1% tax on personal incomes over \$3,000
- 7% progression rate on incomes over \$500,000
- 1% rate on corporate net profits

(Figures per Copilot)

Thus, the concept of legislative power to tax in the US has been around for more than a century. Secondly, the use of taxing power is critical as a government tool for participating in economic growth and development. Lastly and from a personal perspective, the concept of taxes and spending is a concept practiced by many in daily life. For example, personal budgeting verses government taxing and spending policies are conceptually related to individuals and families. This rule holds true even to children taught to earn allowance for chores given by parents; as college students, whether government aid or financing paid by parents for higher education, or married couples interested in saving for a house. Therefore, concept that one cannot spend more than available is quite a familiar practice. Yet, from the standpoint of our democracy and operations of our government, this fundamentally simple concept, apparently became increasingly complicated. Since 1913, the concept has certainly expanded. The tax laws currently involve the political, economics, and social landscapes throughout the United States.

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Politically, the methodology concerning how taxes are collected and spent defines the fundamentals of our political system. From a political perspective for example, we have the democrats and republican parties. Both parties endorse taxes and spending policies as tools for government and related operations. What is the problem then if both (1) issue tax and spending policies (2) declare these tax policies are favorable to American people, and (3) sit only “across the aisle” from one another throughout the legislative process. Nonetheless, analyzing this as “a problem” may not be a helpful diagnosis either. Variances in fiscal policy are not necessarily a problem standard according to government operations framework. Similarly, to variances with an individual or a family budget, so it is with variances in policy methodology.

Challenges arise when one party controls the congress and thus taxes and spending policies are reflective of their ideologies. Although there are generally compromises of methodology of one party versus the other throughout, invariably there will be shortfalls and surpluses when fiscal budgets are compared. On one hand, spending of taxes collected follows one party's ideology and on the other, there are gaps in spending policy with the other. These variances require tax dollars to fill (subsidize). This is just one

perspective where in the US Tax Code the tax rates and spending policy gets complicated from a political standpoint.

Economics, especially within the technological industry, business environments are driven by disruptive entrance by startup companies. Disruptive entrance, however, helps startup companies with piloting for a position in the market. Contrast to name, disruptive strategy is an effective economic and investment tool and especially effective tool applied in the global markets. This market activity creates another level of competition when employed strategically. On the other hand, this strategy creates pressure for existing businesses and industry leaders to create and further innovate, to sustain their dominant position. Excessive innovation potentially could be a detriment to domestic economy and markets. Through the theory of capitalism, a balance between supply and demand, competition is said to be more objectively established. Other stabilizing components of capitalism include the elimination of barriers of entrance, and information readily available to all, drives more stable market growth.

Government participation in economic and development growth is reflected in the US tax code. Legislative efforts to manage domestic markets from some of the significant events are documented over the past 5 – 10 years. For example, COVID19's impact on supply / distribution efforts among US supply chains; tax incentives to help existing business with payroll cost (federal PPP program), and most recently rates (tariffs) implemented by the government to bring balance to the market, are policy specially imposed to bring economic stability to the US.

Socially, tax incentives for families such as the itemized deduction lends itself as an opportunity to save on taxes,

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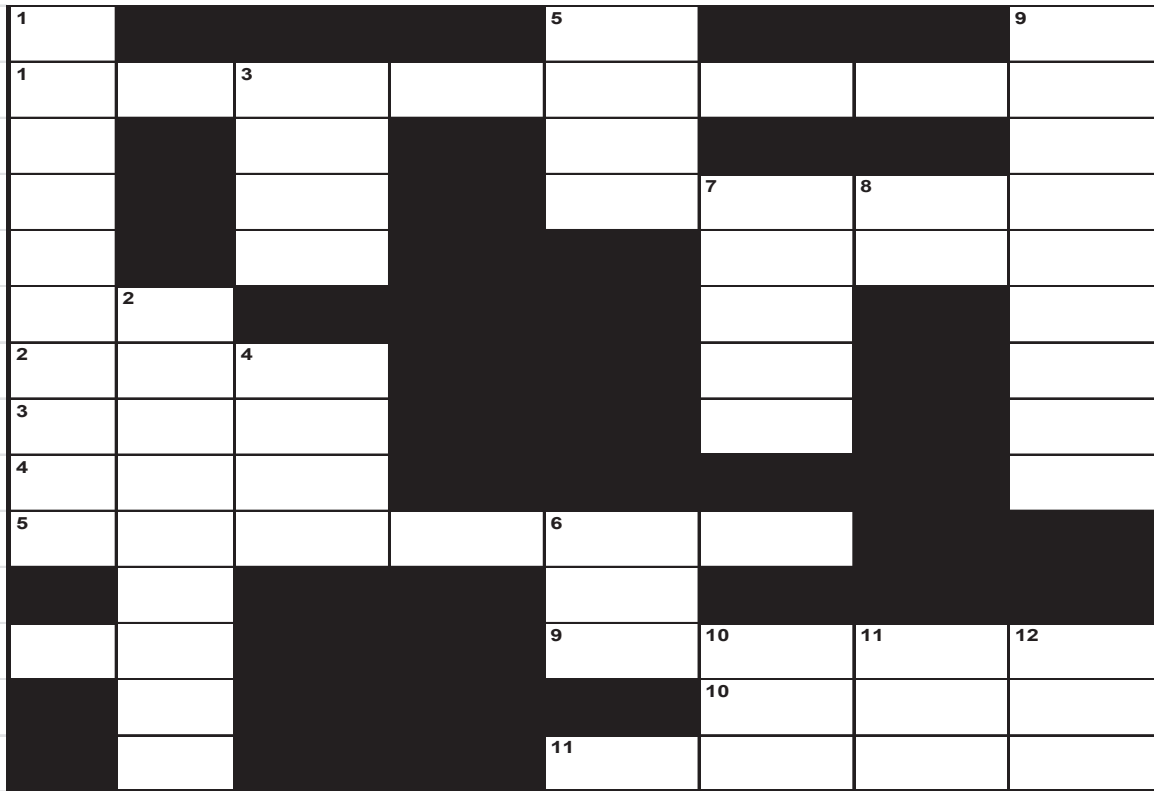
and could be a government incentive to encourage homeownership. For the working-class individuals with children, there are certain tax incentives and privileges. The infamous Earned Income Tax Credit, Child Tax Credit, Child-Care Credit. Government taxing and spending is used to enhance society. These inherent goals and objectives through use of taxes and spending are intricate to the government's on-going determination where spending should be targeted. (End of Historic View of US Tax System)



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Down

Across

- | | | | | |
|-----------|---|--|--|--|
| 1 | Acct term that means systematic write off | | | |
| 2 | Biblical reference for the Oil of God | | | |
| 3 | Tranquil | | | |
| 4 | | | | |
| 5 | To leave out | | | |
| 6 | Another word for job | | | |
| 7 | To put in a bid | | | |
| 8 | The first initials of Saints football team | | | |
| 9' | Franchise that sold boxing gear during '70s | | | |
| 10 | Another word to describe a mediocre day | | | |
| 11 | A type of beer | | | |
| 12 | Ha! Ha! Ha! meaning | | | |

- | | | |
|----|---------------------------------|--|
| 1 | An educated guess | |
| 2 | Needed for writing | |
| 3 | An email browser | |
| 4 | An assessor for dressing | |
| 5 | Converts into fuel for the body | |
| 6 | To speak | |
| 7 | To make better | |
| 8 | Pronounced the same as the #4 | |
| 9 | Plan | |
| 10 | To move along with | |
| 11 | The purpose for touching | |

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