BEACON WEALTH MANAGEMENT

John Halterman

War is Hell. Taxes, Too.

Moviegoers the past few years could be forgiven for thinking comic books had taken over Hollywood. So much of the "sophisticated adult drama" that grownups used to see in theaters has migrated to streaming video, that it seems suburban multiplexes are reserved for Batman, Superman, and their cape-wearing cronies. (Or are you more of a Marvel Cinematic Universe fan?)

Last month, director Sam Mendes released a welcome tale of actual *human* heroes based on his grandfather's service in World War I. *1917* follows two British soldiers with impossible orders to cross into enemy territory and deliver a message to save 1,600 of their comrades — including one's own brother — from walking into a deadly trap. The film is presented as being shot in a single unbroken take, which some reviewers have said comes across as gimmicky and grandstanding. Still, it's a visual feast, and it's already grabbed the Golden Globe for Best Drama.

Most viewers aren't going to be thinking about taxes when they see *1917*. But we don't review movies here, we review taxes. And there *is* a connection. Before World War I, the income tax was just an experiment, but after the war, it had become the significant revenue source we've all come to know and love.

The Revenue Act of 1913 had dramatically cut average tariffs on imported goods, from 40% to 26% and replaced that lost revenue with a new income tax. Rates started at just one percent on incomes over $3,000 (about $78,000 in today's dollars) and climbed to 7% on incomes over $500,000 ($13 million today, or almost as much as Cincinnati Bengals quarterback Andy Dalton earned leading his team to a 2-14 season).

Those rates may have worked in peacetime. But World War I torpedoed international trade and tariff collections, and joining the war meant Uncle Sam needed cash, pronto. The Revenue Act of 1916 doubled the bottom rate to a whopping 2% and added a new top rate of 15% on incomes above $2 million ($47 million today, or as much as Robert Downey Jr. makes for putting on his Iron Man suit). The 1916 act added an estate tax of 10% on amounts over $5 million. The Revenue Act of 1917 went even further, quadrupling the top rate to 67% and bumping the estate tax rate to 15%.

In fairness, there weren't a lot of people not named Rockefeller making that kind of money. The hedge funds and stock options that create so much of today's eight-figure incomes hadn't been invented. "Motion pictures" were still silent. The NFL didn't even exist, and baseball's highest-paid player, Ty Cobb, made just $20,000 in salary. (Like many athletes, the Georgia Peach made *far* more on endorsements and investments — in Cobb's case, his early stakes in Coca Cola and General Motors grew to north of $12 million.)

After the war, Washington dropped rates to "just" 25% on incomes over $100,000. At one point, tax filings were even public — you could show up at the local IRS office and check out your boss's return. The result, of course, was the Roaring 20s, an era characterized by jazz, flappers, and bathtub gin. (OK, Prohibition might have had *something* to do with the quality of the booze.) Then the market crashed, and rates went back *up* because of the Depression.

Today, it's hard to imagine Congress and the White House mobilizing to *quadruple* tax rates in a single year. Fortunately, we're not facing a World War forcing us to do it!

So if you make it to the theater, enjoy *1917* as an action movie, not a financial planning exercise, and leave the taxes to us!