

6.1: Introduction

All developed and most less-developed economies have a tax system that finances their governments, at least in part. The design of that tax system reflects the society's view of the responsibilities of government and of its citizens for their government.

In the United States there has always been disagreement about the role of government as a producer for and a protector of the economy and its citizens. Even before the United States was a nation, “taxation without representation” was a rallying cry for rebellion against the British colonial authority, and the colonists protested taxes on everything from stamps to tea. The American Revolution was as much about economic democracy—the fundamental right of every individual to participate in the economy and to own the fruits of labor—as it was about political democracy.

It is perhaps no coincidence that Scottish Economist Adam Smith's *Wealth of Nations* was published in 1776, the same year that independence was declared in the thirteen colonies. Smith recognized a role for government in a market-based economy, but societies have argued about what that role should be and how it should be paid for ever since. The U.S. tax code (Internal Revenue Code) is based on the idea that everyone should help finance their government according to one's ability to pay. Changes in how “everyone” is defined and how “ability to pay” is measured have led to tax law changes that keep the system evolving.

In the United States, tax laws are written by Congress and therefore through compromise. As views on government financing have changed, tax laws have been amended and refined, enacted and repealed. The result is a tax code that can seem overly complex and even unreasonable or illogical. However, the system is based on logic and has a purpose. The better you understand the elements of the tax system, the better you will understand how to live with it—and plan for it—to your best advantage.

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