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"Our new Constitution is now established, and has an appearance that promises permanency; but in this world nothing can be said to be certain, except death and taxes."

Benjamin Franklin, in a 1789 letter

While taxes are permanent, the amount we pay in taxes has changed over the years. Tax rates have been raised (and lowered) many times over the years as the needs of the country have changed, and as our politics have changed. In 1861, a federal income tax became law, though it expired among constitutional challenges in 1872. The income tax matter was finally settled in 1913 with the ratification of the 16th Amendment, allowing Congress to levy a direct tax on income. This change superseded provisions in Article I of the Constitution requiring a direct tax to be apportioned among the states or by the census. Taxes on corporate income became law at the same time as the tax on individual income.

The income tax eventually replaced America's earlier primary source of revenue – tariffs on the trade of goods, and excise taxes on items like liquor and tobacco. Tariffs and excise taxes ranged from 1% of gross domestic product (GDP) to as high as 5% during wartime in the 1800s. With the introduction of the income tax in 1913, tariffs and other related taxes declined as a total percentage of U.S. revenue, and now represent about 9% of federal tax revenue (as of 2015). Today, personal income and payroll taxes are 80% of federal tax revenue, with the remaining 11% paid by corporations. As a percentage of GDP, total annual federal tax revenue has averaged about 18% of GDP since the end of World War II.

Prior to the Great Depression, federal tax revenue was consistently no higher than 5% of GDP. It rose slowly during the Depression as poverty relief and social programs were put in place. The payroll tax to fund Social Security was enacted in 1935. It was not until America's entry into World War II that federal tax revenue rose sharply. In order to pay for the war, top income tax rates were raised to as high as 91%, and revenue rose to about 15% of GDP. Income taxes, previously paid only by the wealthiest Americans were extended to ordinary workers and a system of withholding taxes from pay was put in place. After the war, the top rates stayed high as Americans paid off the war bonds.

Tax rates have been lowered since the early 60s, as John Kennedy pushed for a top rate of only 65% (we got 70% as a compromise), and this was in place until Ronald Reagan arrived in 1981. Reagan accomplished several tax reductions (plus some hikes in non-income taxes), with the capstone being the 1986 reduction of the top rate to a modern low of 28%. The reduction was combined with the elimination of many tax loopholes. Top tax rates have crept up since then to 39.6%, with more loopholes added. Our nation has debated tax reform combined with lower overall taxes for years.

One aspect of taxation worth discussing in the light of possible reforms is the U.S. corporate income tax, currently set at a top rate of 35%. Since the U.S. taxes all worldwide income, the 35% rate is supposed to apply to income earned in every country where a corporation operates. Among the 35 countries in the Organization of Economic Cooperation and Development (OECD), the U.S. is the only one that taxes worldwide income. The 35% tax rate levied by the U.S. is also the highest rate among all OECD countries.

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The problem with taxing worldwide income is that the money has to be in the U.S. in order for the tax to be paid. Corporations operate in most countries via a separate subsidiary company under local law, so money earned by that subsidiary stays in the host country unless it is transferred to the U.S. Many corporations with operations all over the world have created complex means of distributing and holding money among their subsidiary companies. Some transfer valuable property, such as patents to subsidiaries in low tax rate nations and then use patent royalties paid by other subsidiaries as a means of sending revenue and profits to the low tax rate country.

As a result, many U.S.-based corporations do not pay U.S. taxes on all of their global income, despite the U.S. law requiring it, and now hold about $2 trillion in profits overseas. This is legal, but it distorts the investment decisions of a company. Offshore profits can't be spent on U.S. engineering, operations and even dividends. Corporations can borrow money to pay for these things here, and under current law can deduct the interest payments as an expense before taxes. This turns out to be much cheaper than paying a 35% tax by bringing in the profits held overseas. The added debt adds risk if a company hits bad times, and has to be paid back out of U.S. profits before dividends can be paid to shareholders. Overseas profits are also used to make overseas investments, reducing investment in the U.S. economy even though U.S investments might produce better returns (not to mention U.S. jobs and GDP growth).

A key element of the tax reform discussion is how to reduce corporate taxes while eliminating various loopholes created for specific industries. These loopholes range from low tariffs, which favor importers, to direct subsidies for green energy companies, and many in between. Investors consider the impact of those loopholes when making investment decisions, and otherwise unprofitable investments can look attractive after tax benefits are figured in. We often say that the tax "tail" should not wag the investment "dog", but these loopholes end up distorting that thinking.

Tax rates of 20% or even 15% have been floated, and while most observers think lower rates are a good idea, the details on loopholes are proving to be stubborn. One idea is to have companies who import goods pay a fee, called a border adjustment, while exporters get a similar credit. This would help offset lower overall rates, but large importers (such as big retailers) would pay more and are objecting.

Regardless of the details, it is clear that lower corporate taxes would be beneficial to the economy. Studies have shown that workers may benefit through more jobs and higher pay, while shareholders could see higher dividends. A fund manager who holds both U.S. and United Kingdom companies in his portfolio explained to me that the higher dividends paid by U.K. companies is solely due to the lower corporate tax rate (15%) in the U.K. These companies are investing similar amounts to grow with new products and factories as compared to U.S. companies.

Tax reform is already being discussed and may be worked on in Congress this fall, and a natural question might be "what's in it for me?" The current proposals being floated don't contain many provisions that affect moderate income individual taxpayers. We define moderate as those not paying taxes at the top rate, which is most of us. However, most of us are investors owning stocks of corporations in some form, whether they be directly purchased or held in a wide variety of funds. Many of us are employed by corporations that stand to benefit from tax reform. If the reforms can change the way corporate managers look at investment decisions, we might all benefit from better long-term growth.

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