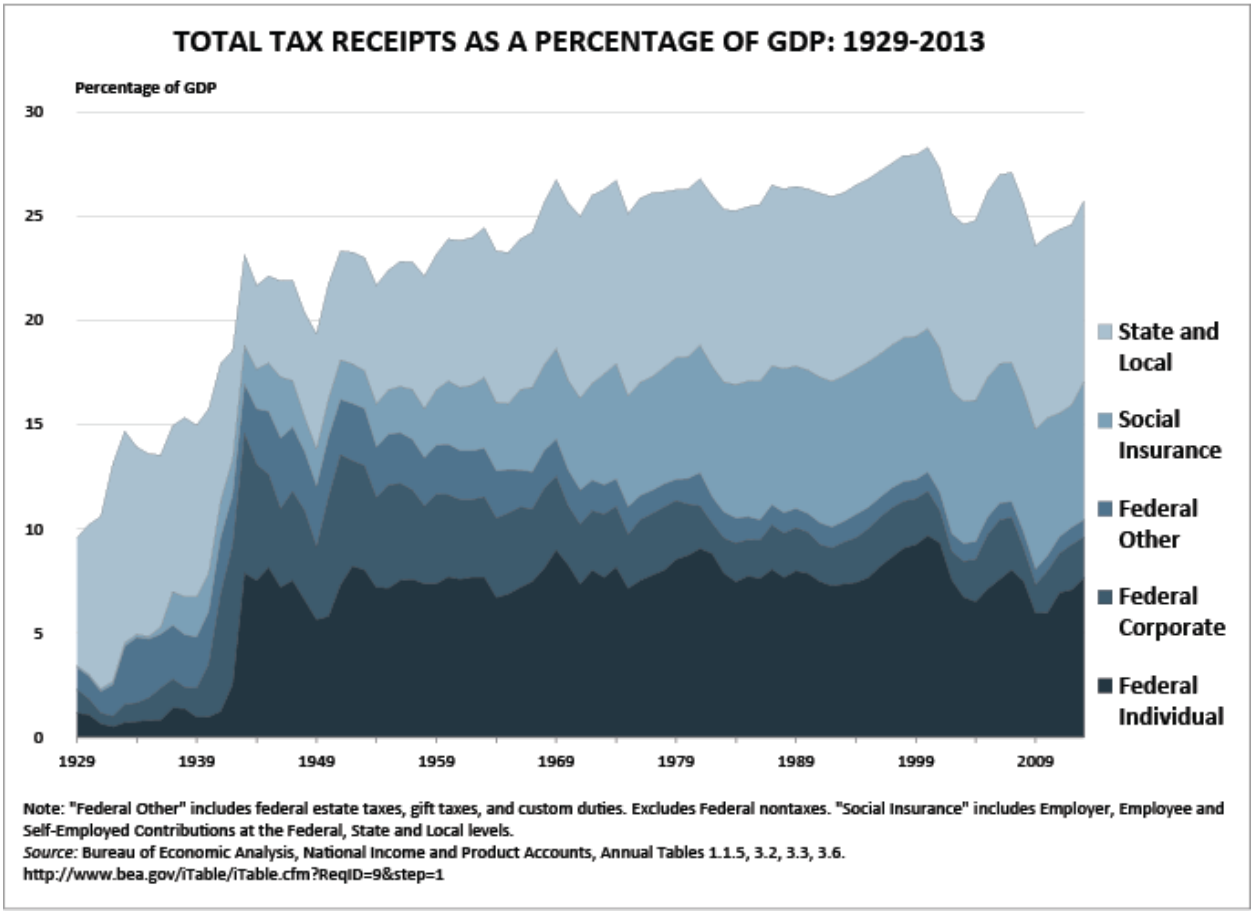
them. Medicare, on the other hand, has never had any formal relationship to past income (whether labor or investment income), but the payroll tax system was easy to "piggyback" on in 1966 when the Medicare Tax was first enacted.

Thus, labor income is often taxed twice to the same person at the Federal level—once under the Federal income tax and once under the payroll taxes. Capital income (interest, dividends, royalties, rents, and capital gains) are generally taxed only once (under the income tax), though some investment income in households with Taxable Income exceeding $200,000 is now taxed under both the Federal income tax and the Medicare Tax.

As you can see from the chart below,[17] the aggregate amount collected under the individual Federal income tax has remained virtually constant as a percentage of gross domestic product (GDP—which you can think of as roughly "national income") ever since the income tax was transformed from a class tax to a mass tax with WWII, but the amount collected in the payroll taxes (on labor income only) has substantially increased over that time period.



The bottom tranche is the amount collected in individual Federal income tax. The tranche that is second from the top represents the amount of national income collected in payroll taxes. While it started out as a relatively small portion of Federal revenue, it has notably increased over time so that today it collects almost as much as the individual income tax.

[17] www.taxpolicycenter.org/taxfacts/displayafact.cfm?Docid=14. Reprinted with permission.