



**Tax Policy Center**  
Urban Institute and Brookings Institution

## THE TAX POLICY

## BRIEFING BOOK

### *A Citizens' Guide for the 2012 Election and Beyond*

#### THE NUMBERS

What are the federal government's sources of revenue? ..... I-1-1

How does the federal government spend its money? ..... I-1-4

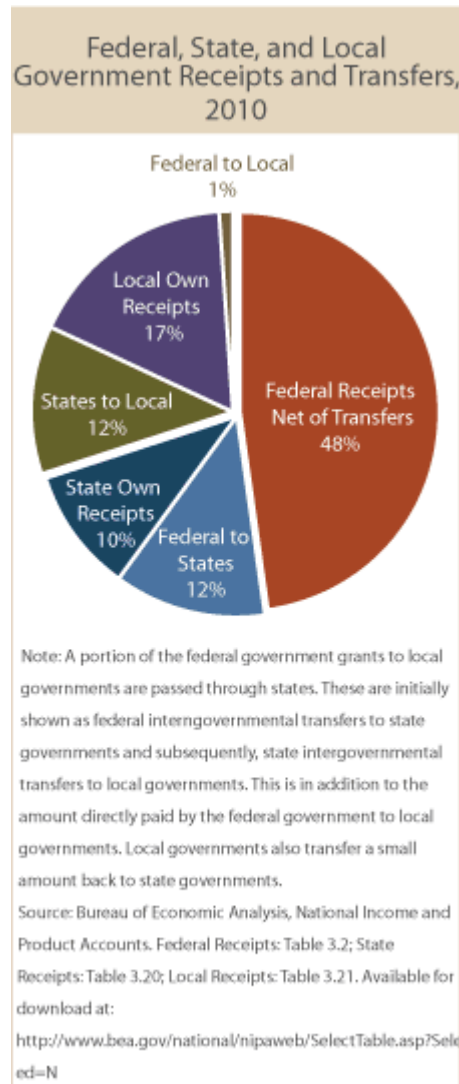
What is the breakdown of revenue among federal, state, and local governments? ..... I-1-6

How do U.S. taxes compare internationally? ..... I-1-7



## The Numbers: What are the federal government's sources of revenue?

Individual income taxes and payroll taxes accounted for 82 percent of all federal revenues in fiscal year 2010. Corporate income taxes contributed another 9 percent. Excise taxes, estate and gift taxes, customs duties, and miscellaneous receipts (earnings of the Federal Reserve System and various fees and charges) made up the balance. The composition of tax revenue has changed markedly over the past half century. The share coming from individual income taxes has remained roughly constant, while payroll taxes have accounted for a larger share and corporate income and excise taxes smaller shares.

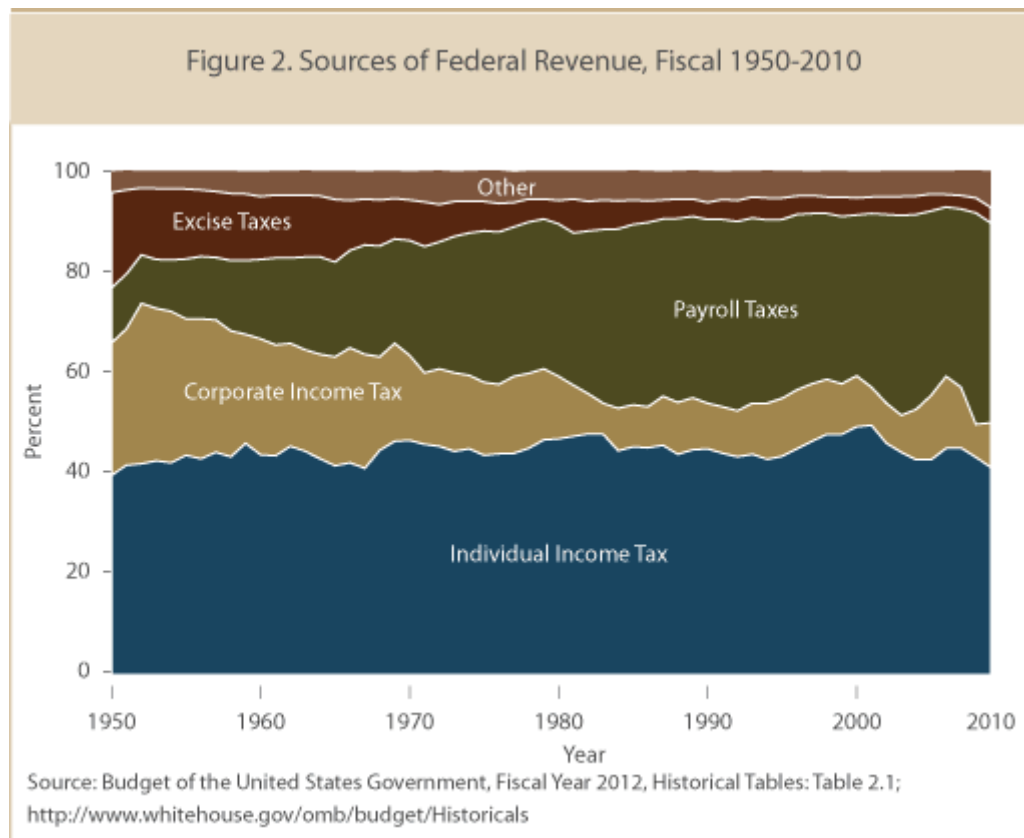


- In 2010 the federal government collected \$2.2 trillion, an amount equal to 14.9 percent of GDP. Federal revenue has ranged from 14.4 of GDP in 1950 to 20.6 percent in 2000 over the past five decades, averaging 17.9 percent.
- The individual income tax has been the largest single source of federal revenue since 1950, averaging 8 percent of GDP.
- Payroll taxes swelled following the creation of Medicare in 1965. Taxes for Medicare, combined with periodic increases in Social Security taxes, caused payroll tax revenue to grow from

## I-1-2 – THE TAX POLICY BRIEFING BOOK

1.6 percent of GDP in 1950 to 6 percent or more since 1980. Payroll taxes also include railroad retirement, unemployment insurance, and federal workers' pension contributions.

- Revenue from the corporate income tax fell from between 5 and 6 percent of GDP in the early 1950s to 1.3 percent of GDP in 2010.
- Excise taxes fell steadily throughout the same period, from nearly 3 percent of GDP in 1950 to 0.5 percent in recent years.
- The remaining sources of revenue have fluctuated less, together claiming between 0.5 and 1.0 percent of GDP since 1950 and standing near the bottom of that range in 2010.



- Changes in the shares of the various taxes in total federal revenue reflect these historical shifts. The individual income tax has consistently provided nearly half of total federal revenue since 1950, while other revenue sources have waxed and waned. Excise taxes brought in 19 percent of total revenue in 1950 but only about 3 percent in recent years. The share of revenue coming from the corporate income tax dropped from about one-third in the early 1950s to less than a tenth in 2010. In contrast, payroll taxes provided two-fifths of revenue in 2010, four times its one-tenth share in the early 1950s.

**See Also**

[The Numbers: How does the federal government spend its money?](#)

[The Numbers: What is the breakdown of tax revenues between federal, state, and local governments?](#)

[The Numbers: How do U.S. taxes compare internationally?](#)

**Data Sources**

[Budget of the United States Government, Fiscal Year 2012, Historical Tables, Table 2.1, Receipts by Source: 1934-2016](#)

[Budget of the United States Government, Fiscal Year 2012, Historical Tables, Table 10.1, Gross Domestic Product and Deflators Used in the Historical Tables: 1940-2016](#)

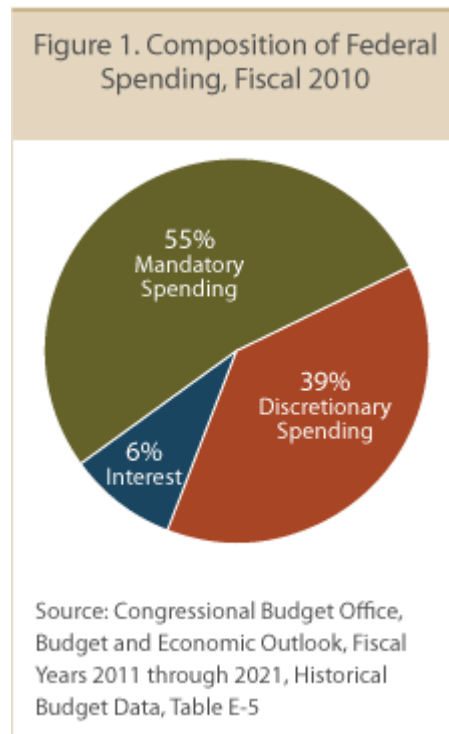
Author: Robertson Williams  
Last Updated: September 13, 2011

**Further Reading**

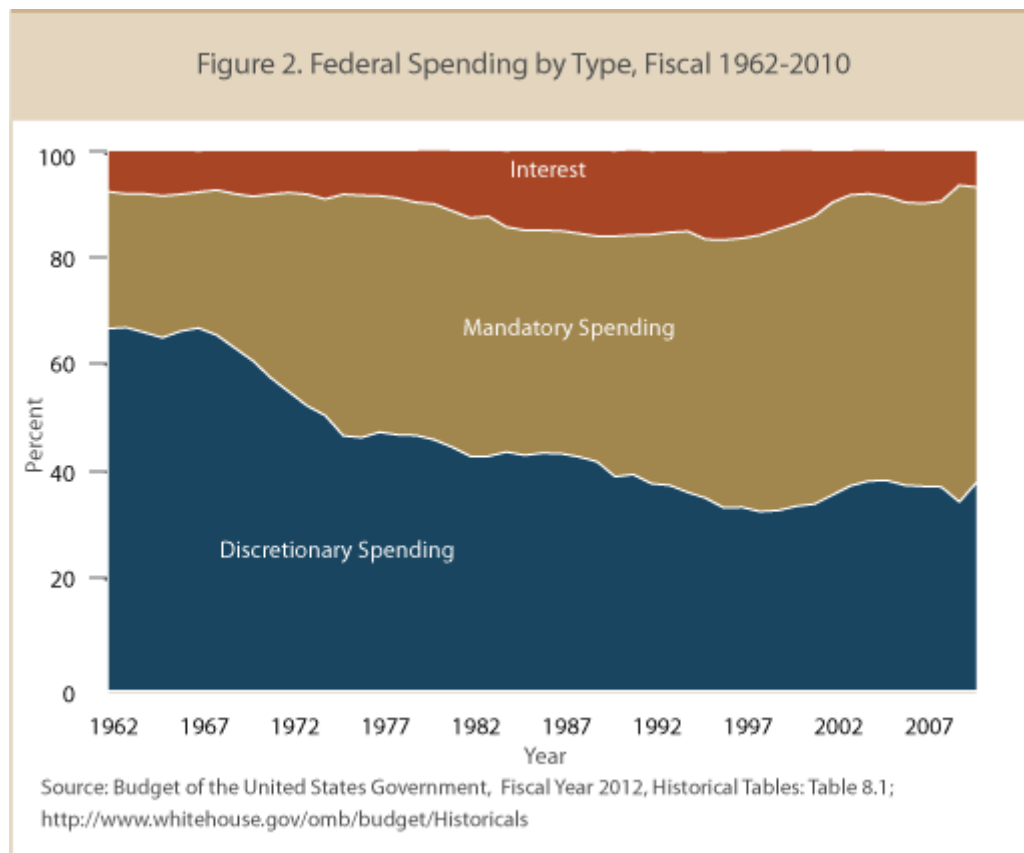
[U.S. Congress Joint Committee on Taxation, "Present Law and Historical Overview of the Federal Tax System,"](#) JCX-1-11, January 18, 2011.

### The Numbers: How does the federal government spend its money?

About 55 percent of federal government spending in fiscal 2010 was mandatory, covering all expenditures that are controlled by laws other than appropriations acts (see figure 1). Almost all such spending is for entitlements, expenditures for which depend on individual eligibility and participation, and which are funded at whatever level is needed to cover the resulting costs. Just under 40 percent of spending in fiscal 2010 was discretionary, covering activities that Congress must reauthorize each year. The remainder went to pay interest on the national debt.

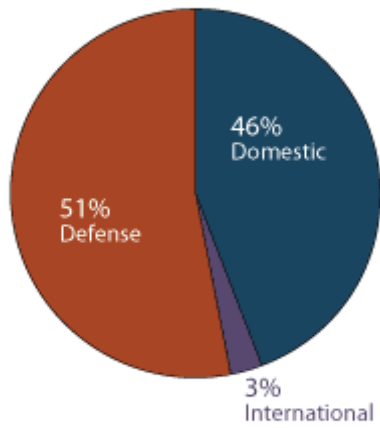


- Mandatory spending has claimed a much larger share of the federal budget over the past four decades, more than doubling from about one-fourth of federal spending in 1962 to just over half today (see figure 2). In contrast, the share of the budget going for discretionary spending has fallen from two-thirds in 1962 to about two-fifths now. Interest on the national debt has fluctuated over the period: it climbed from 6 percent in 1962 to more than 15 percent in the mid-1990s, fell to about 7 percent in the early 2000s, and has fluctuated more recently as interest rates have fallen to historically low levels. Debt service accounted for just 5 percent of federal spending in 2010, the lowest level in nearly 50 years.



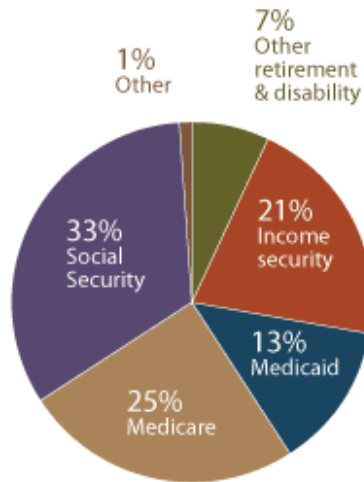
- About half of fiscal 2010 discretionary spending paid for defense, and most of the rest went for domestic programs such as agricultural subsidies, highway construction, and the federal courts (see figure 3). Only 3 percent of discretionary spending funded international activities, such as foreign aid.
- Social Security claimed one-third of mandatory spending in fiscal 2010 (see figure 4). Medicare and Medicaid took up 25 percent and 13 percent, respectively. The remaining 29 percent covered income security programs (such as food stamps), retirement and disability programs (including pensions for federal retirees), and other programs.

Figure 3. Composition of Discretionary Spending, Fiscal 2010



Source: Budget of the United States Government, Fiscal Year 2012, Historical Tables: Table 8.7; <http://www.whitehouse.gov/omb/budget/Historicals>

Figure 4. Composition of Mandatory Spending, Fiscal 2008



Source: Congressional Budget Office, Budget and Economic Outlook, Fiscal Years 2011 through 2021, Historical Budget Data, Table E-9.

**See Also**

[The Numbers: What are the federal government's sources of revenue?](#)

[The Numbers: What is the breakdown of tax revenues between federal, state, and local governments](#)

[The Numbers: How do U.S. taxes compare internationally?](#)

Author: Robertson Williams

Last Updated: September 13, 2011

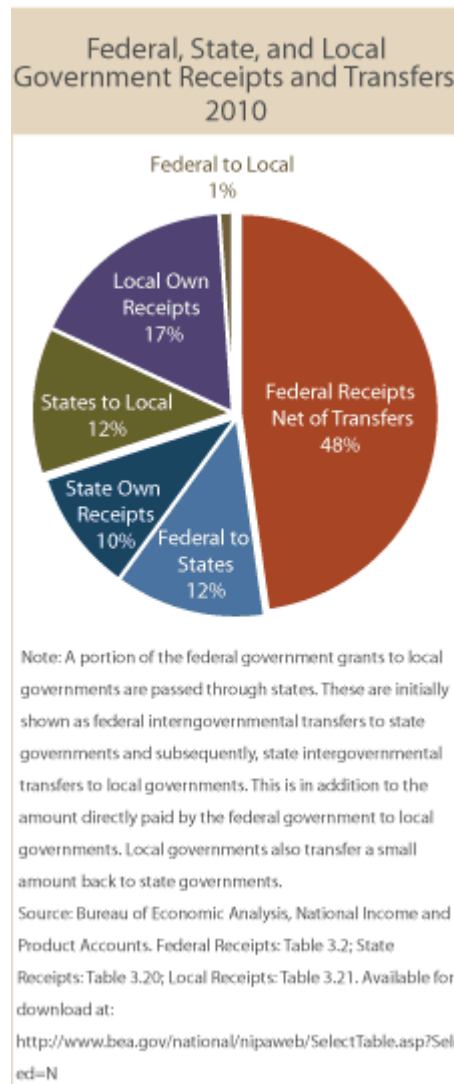
**Data Sources**

[Budget of the United States Government, Fiscal Year 2012, Historical Tables, Table 8.1, Outlays by Budget Enforcement Category: 1962-2016 and Table 8.7, Outlays for Discretionary Programs: 1962-2016.](#)

[Congressional Budget Office, "Budget and Economic Outlook, Fiscal Years 2011 through 2021", Historical Budget Data, January 2011, Table E-9.](#)

## The Numbers: What is the breakdown of revenue among federal, state, and local governments?

Federal, state, and local revenues totaled nearly \$4 trillion in 2009. Federal revenue made up over 60 percent of the total, states collected about 22 percent, and local governments brought in about 17 percent. Transfers from the federal government to state and local governments and from state governments to local governments shifted the balance of resources among the three groups.



- The federal government transferred over one-fifth of its revenue (nearly one-seventh of total government revenue) to state and local governments, leaving it with 48 percent of total revenue, about \$2 trillion.
- Almost all of the federal transfer went to the states, which in turn passed the equivalent of about 100 percent of this revenue to local governments.
- States collected 22 percent of total revenue from their own sources, about \$900 billion.

- Local governments received transfers from both the federal and state governments equal to about one-seventh of total revenue; from their own sources, they collected about \$700 billion, or 17 percent of all government revenue.

**See Also**

[The Numbers: What are the federal government's sources of revenue?](#)

[The Numbers: How does the federal government spend its money?](#)

[The Numbers: How do U.S. taxes compare internationally?](#)

Author: Roberton Williams

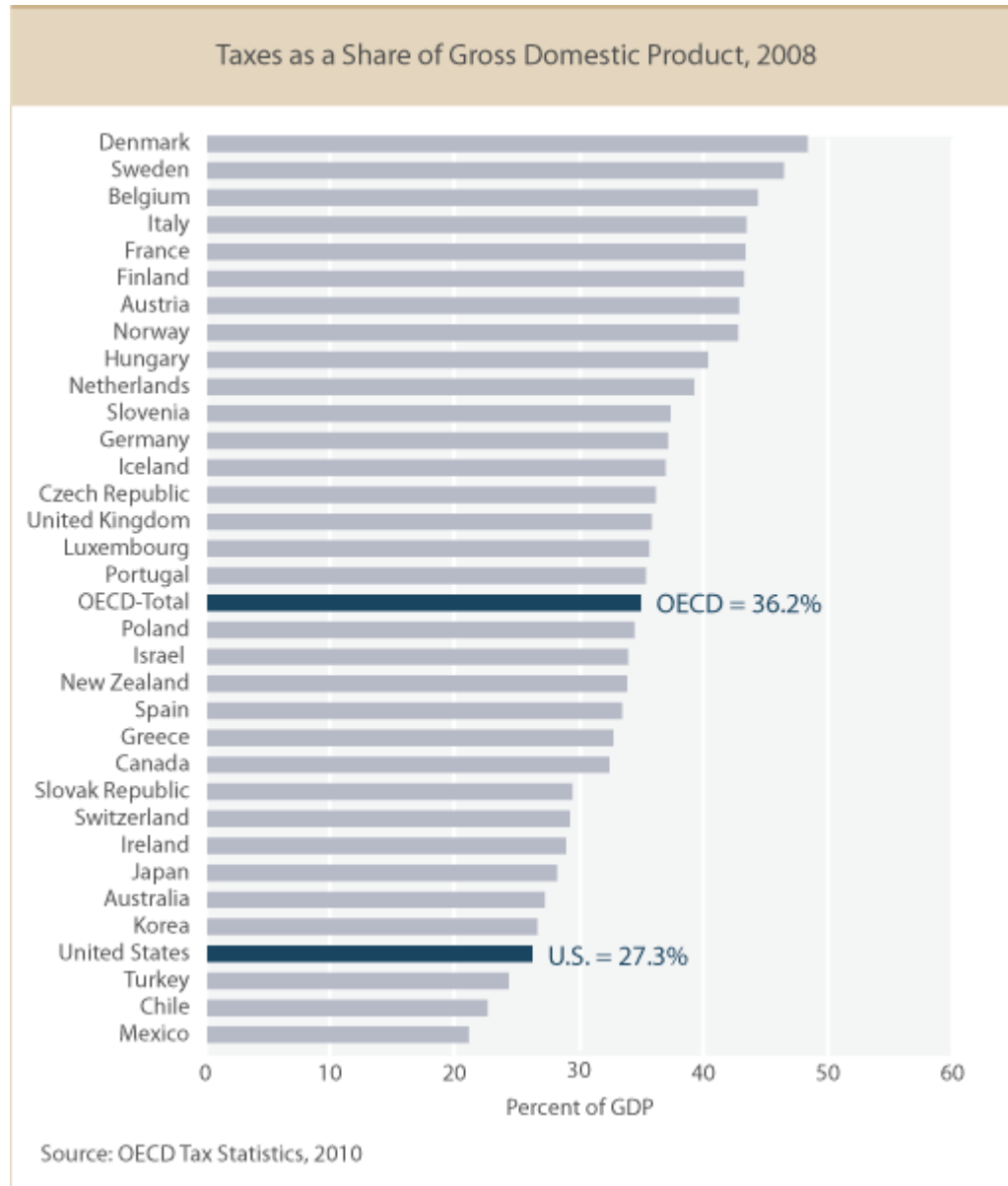
Last Updated: January 24, 2012

**Data Sources**

[Bureau of Economic Analysis, National Income and Product Accounts. Federal Receipts: Table 3.2; State Receipts: Table 3.20; Local Receipts: Table 3.21.](#)

## The Numbers: How do U.S. taxes compare internationally?

U.S. taxes are low relative to those in other developed countries. In 2008 U.S. taxes at all levels of government claimed 26 percent of GDP, compared with an average of 35 percent of GDP for the 33 member countries of the Organization for Economic Co-operation and Development (OECD).



- Among OECD countries only Mexico, Chile and Turkey had lower taxes than the United States as a percentage of GDP. In many European countries taxes exceeded 40 percent of GDP, but those countries generally provide much more extensive government services to their citizens than the United States does.
- The United States relies less on consumption taxes—18 percent of total 2008 tax receipts—than any other OECD country. Revenue from such taxes averaged 32 percent of total taxes among the 33 OECD countries. Mexico, in contrast, collected 60 percent of its 2008 tax revenue from consumption taxes.

- Personal income taxes made up 38 percent of U.S. tax revenue in 2008, more than in most other OECD countries, where such taxes averaged 26 percent of the total. However, individual taxpayers paid a larger share of tax revenue in Denmark (52 percent) and New Zealand (41 percent).
- Corporate income taxes accounted for a slightly larger share of U.S. tax revenue, 7 percent in 2008, than the OECD average of 10 percent.
- U.S. employees, on average, contributed more in taxes for retirement and disability insurance—10 percent of total tax receipts—than many of their OECD counterparts, where such taxes accounted for 9 percent of total receipts on average. U.S. employers, however, contributed less: 12 percent of the total compared with OECD employers' average of 15 percent.

### See Also

[The Numbers: What are the federal government's sources of revenue?](#)

[The Numbers: How does the federal government spend its money?](#)

[The Numbers: What is the breakdown of tax revenues between federal, state, and local governments?](#)

### Data Sources

[Organization for Economic Co-operation and Development, OECD Tax Statistics, 2010.](#)

Author: Robertson Williams

Last Updated: September 13, 2011

### Further Reading

Hoo, Sonya, and Eric Toder, "[The U.S. Tax Burden Is Low Relative to Other OECD Countries,](#)" Tax Notes, May 08, 2006, p. 696.

Urban-Brookings Tax Policy Center, "[OECD Composition of Taxes, 1999-2006,](#)" Tax Facts.