

Changes in Tax Revenue Since 1929

By Lydia Austin and Roberton Williams

World War II was a watershed for U.S. taxes. Before the war, most government activities took place at the state and local levels, where revenue averaged nearly 9 percent of GDP, roughly twice the 5 percent collected at the federal level (see figures). Nearly two-thirds of subnational revenue came from local property taxes, while federal government was financed primarily by tariffs and excise taxes.

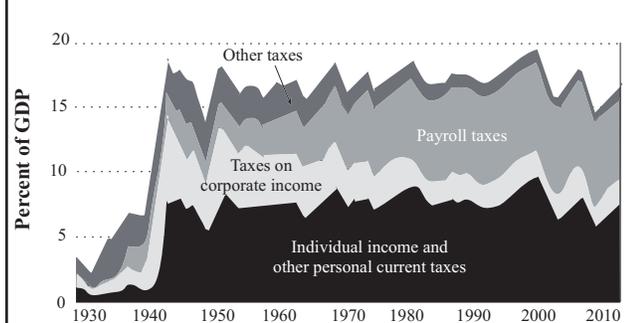
War demands led to a tripling of federal revenue to 15 percent of GDP. The increase was led by individual and corporate income taxes, each of which accounted for about one-third of federal revenue in the 1940s. Federal payroll taxes, having gotten a foothold with the 1935 creation of Social Security, also roughly tripled over the decade. Meanwhile, state and local revenues fell to just over 5 percent of GDP as property tax revenues dropped sharply.

Payroll taxes continued to grow after the war, boosted by the 1965 creation of Medicare and tax increases to strengthen Social Security. Payroll taxes are now nearly as large as the federal individual income tax, while federal excise and corporate taxes have diminished in importance.

After the war, states took responsibility for many local costs, which led to greater reliance on state and local income and sales taxes. Sales and property taxes now each account for about one-third of state and local revenue, while income taxes provide somewhat less.

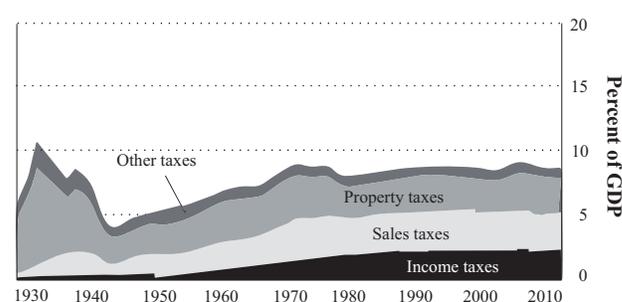
Over the past half century, revenues have been roughly stable except during economic booms and busts. At between 17 and 18 percent of GDP, federal revenue is roughly double that collected by state and local governments. Resources available to the federal and subnational governments are more nearly equal, however, because of federal transfers to states and local governments.

Figure 1. Sources of Federal Tax Revenue, 1929-2013



Source: BEA.

Figure 2. Sources of State and Local Tax Revenue, 1929-2013



Source: BEA.



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