Background

What are the sources of revenue for the federal government?

Q. What are the sources of revenue for the federal government?

A. About 48 percent of federal revenue comes from individual income taxes, 9 percent from corporate income taxes, and another 35 percent from payroll taxes that fund social insurance programs (figure 1). The rest comes from a mix of sources.

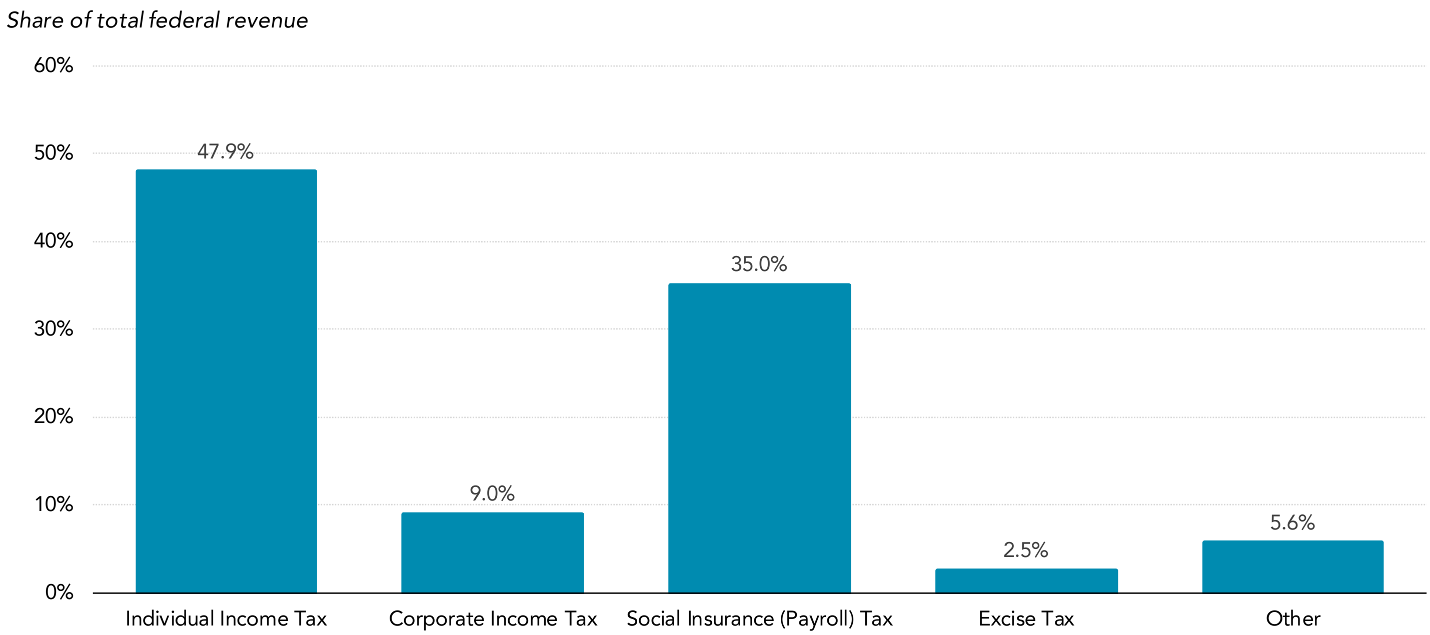
TOTAL REVENUES

The federal government collected revenues of $3.3 trillion in 2017—equal to about 17.3 percent of gross domestic product (GDP) (figure 2). Over the past 50 years, federal revenue has averaged 17.3 percent of GDP, ranging from 20.0 percent (in 2000) to 14.6 percent (most recently in 2009 and 2010).

FIGURE 1

Sources of Federal Revenue

Fiscal year 2017



Source: Office of Management and Budget. Historical Tables. Table 2.1, "Receipts by Source: 1934–2023."

Background

What are the sources of revenue for the federal government?

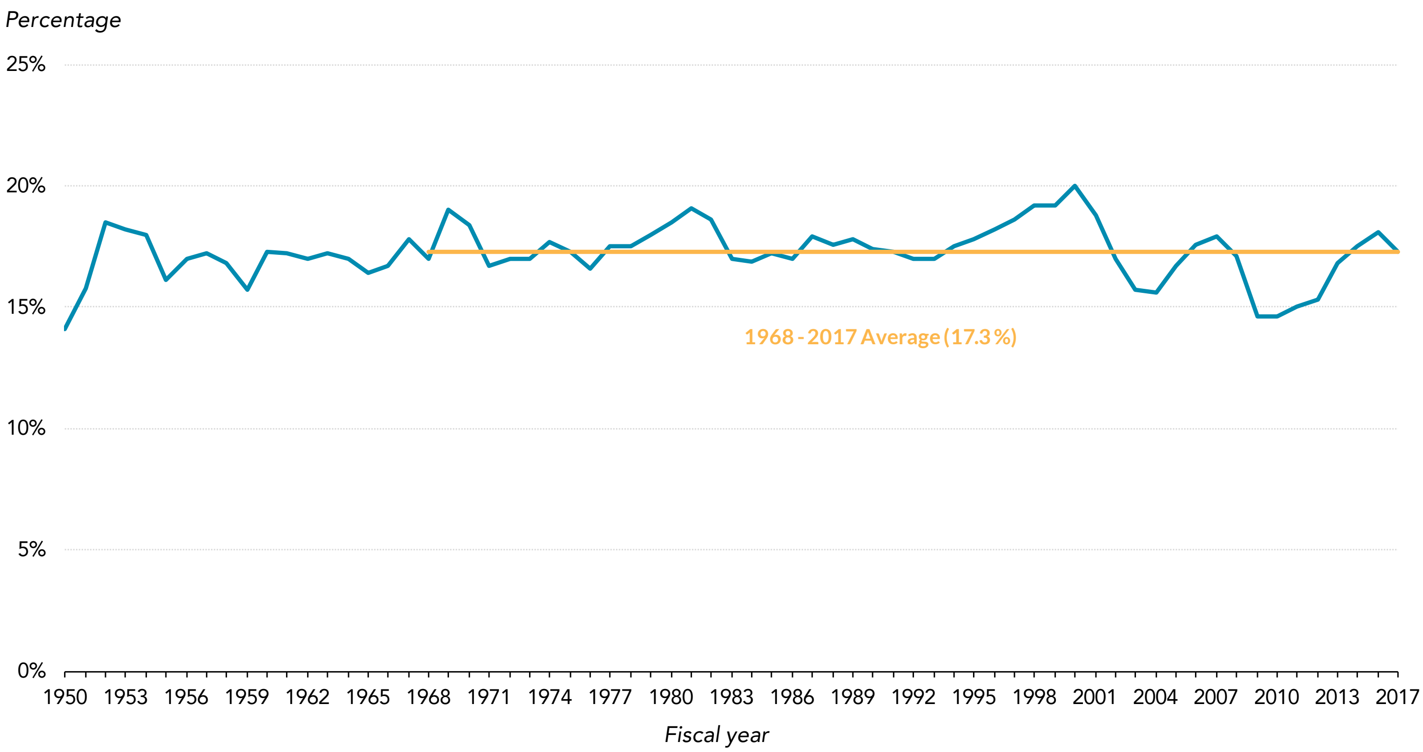
INDIVIDUAL INCOME TAX

The individual income tax has been the largest single source of federal revenue since 1950, amounting to about 48 percent of the total and 8.3 percent of GDP in 2017 (figure 3). In recent years, individual income tax revenue has climbed as high as 9.9 percent of GDP (in 2000) at the peak of the 1990s economic boom and dropped as low as 6.1 percent (in 2010) following the 2007–09 Great Recession.

FIGURE 2

Federal Revenue as a Percentage of GDP

Fiscal years 1950–2017



Source: Office of Management and Budget. Historical Tables.Table 2.3, "Receipts by Source as Percentages of GDP: 1934–2023."

SOCIAL INSURANCE (PAYROLL) TAXES

The payroll taxes on wages and earnings that fund Social Security and the hospital insurance portion of Medicare make up the largest portion of social insurance receipts. Other sources include payroll taxes for the railroad retirement system and the unemployment insurance program, and federal workers' pension contributions. In total, social insurance levies were 35 percent of federal revenue in 2017.

The creation of the Medicare program in 1965, combined with periodic increases in Social Security payroll taxes, caused social insurance receipts to grow from 1.6 percent of GDP in 1950 to 6.2 percent in 2009 (figure 3). A temporary reduction in employees' share of Social Security taxes—part of the stimulus program following the financial meltdown—reduced social insurance receipts to 5.3 percent of GDP in 2011 and 2012. Employees' share has since climbed back to 6.1 percent of GDP in 2017.

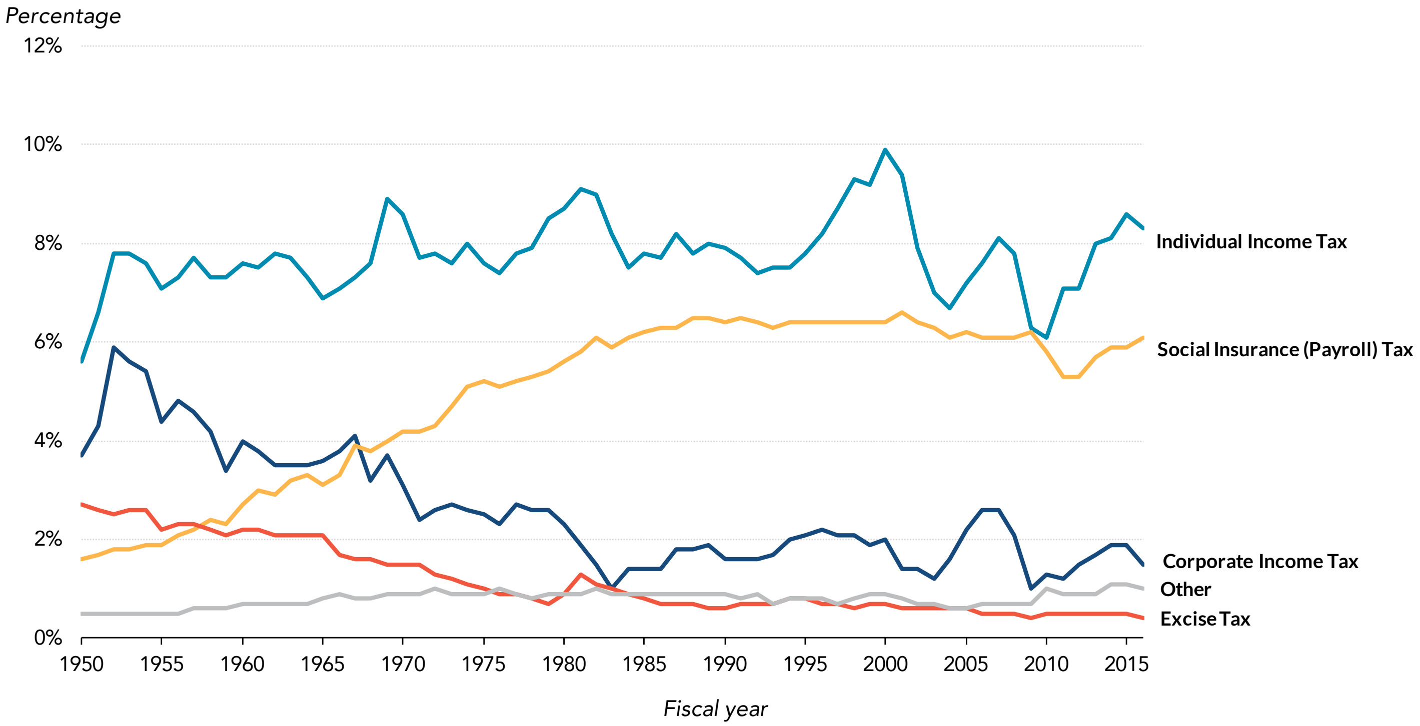
Background

What are the sources of revenue for the federal government?

FIGURE 3

Federal Revenue as a Percentage of GDP

Fiscal years 1950–2017



Source: Office of Management and Budget. Historical Tables.Table 2.3, "Receipts by Source as Percentages of GDP: 1934–2023."

CORPORATE INCOME TAX

The tax on corporate profits yielded 9 percent of government revenue in 2017, a revenue source that has been trending downward. Revenue from the tax has fallen from an average of 3.7 percent of GDP in the late 1960s to an average of just 1.7 percent of GDP over the past five years, despite ticking up to 1.9 percent of GDP in 2014 and 2015 (figure 3).

FEDERAL EXCISE TAXES

Taxes on purchases of goods and services, including gasoline, cigarettes, alcoholic beverages, and airline travel, generated 2.5 percent of federal revenue in 2017. But these taxes, too, are on the wane: excise tax revenues have fallen steadily from an average of 1.7 percent of GDP in the late 1960s to an average of 0.5 percent over 2012–17 (figure 3).

OTHER REVENUES

The federal government also collects revenue from estate and gift taxes, customs duties, earnings from the Federal Reserve System, and various fees and charges. In total, these sources generated 5.6 percent of federal revenue in 2017. They have averaged between 0.6 and 1.1 percent of GDP since 1965 (figure 3). In recent years, the figure has been on the high end of that range because of unusually high profits of the Federal Reserve Board related to its efforts to stimulate the economy since 2008.

Background

What are the sources of revenue for the federal government?

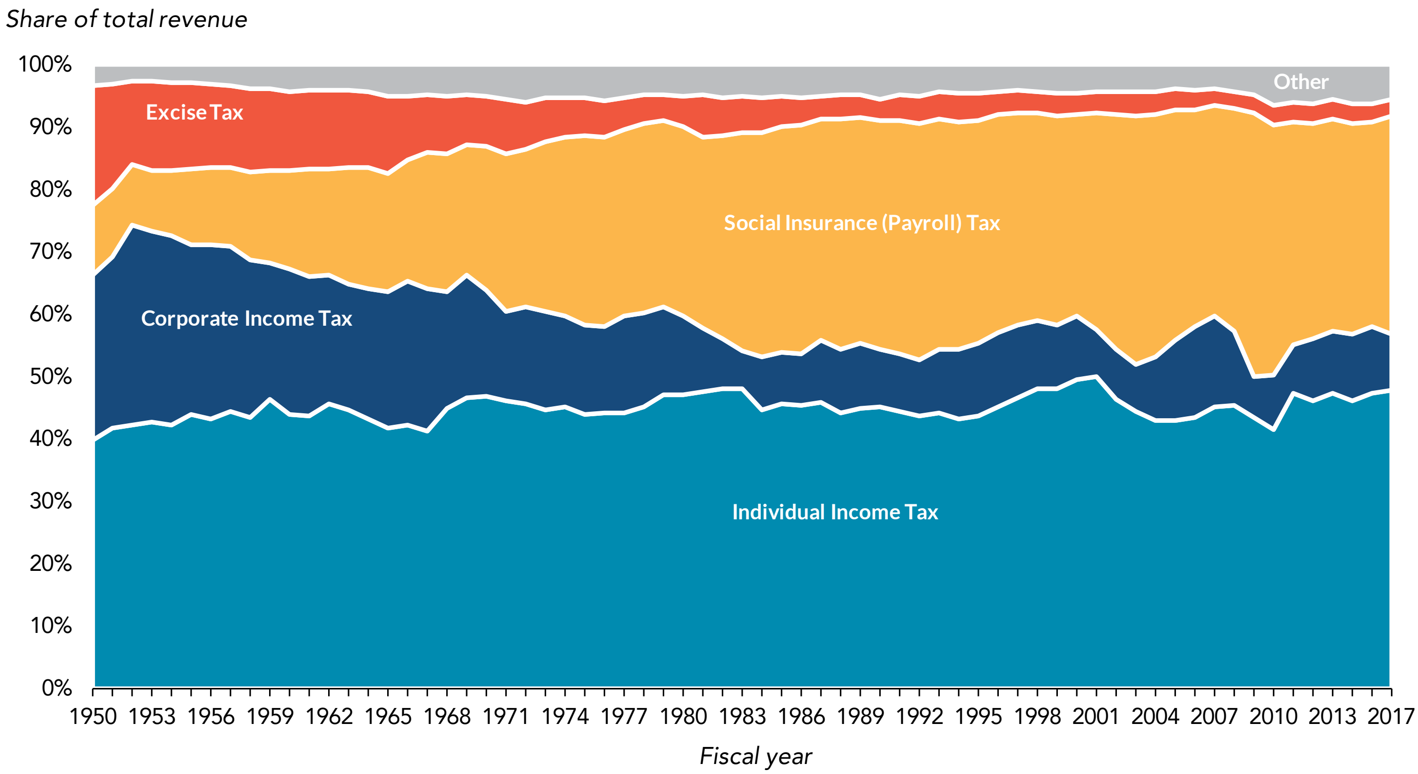
SHARES OF TOTAL REVENUE

The individual income tax has provided nearly half of total federal revenue since 1950, while other revenue sources have waxed and waned (figure 4). 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 of the total in the early 1950s to less than one-tenth in 2017. In contrast, payroll taxes provided one-third of revenue in 2017, more than three times the share in the early 1950s.

FIGURE 4

Sources of Federal Revenue

Fiscal years 1950–2017



Source: Office of Management and Budget. Historical Tables. Table 2.1, "Receipts by Source: 1934–2023."

Data Source

Office of Management and Budget. *Historical Tables*. Table 2.1, "Receipts by Source: 1934–2023," and Table 2.3, "Receipts by Source as Percentages of GDP: 1934–2023."

Further Reading

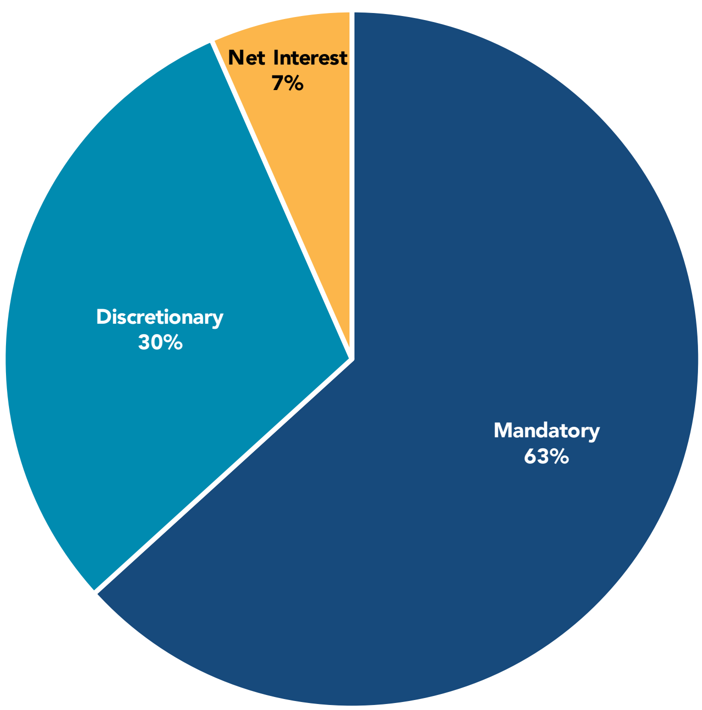
Joint Committee on Taxation. 2018. "Overview of the Federal Tax System as in Effect for 2018." JCX-3-18. Washington, DC: Joint Committee on Taxation.

Background

Q. How does the federal government spend its money?

A. About 63 percent of federal spending in 2017 was for programs not subject to regular budget re-view, while nearly 30 percent covered discretionary programs for which Congress must regularly appropriate funds. Seven percent went for interest on government debt (figure 1).

FIGURE 1
Composition of Total Federal Spending
Fiscal year 2017



Source: Congressional Budget Office (2018).

Background

How does the federal government spend its money?

MANDATORY SPENDING

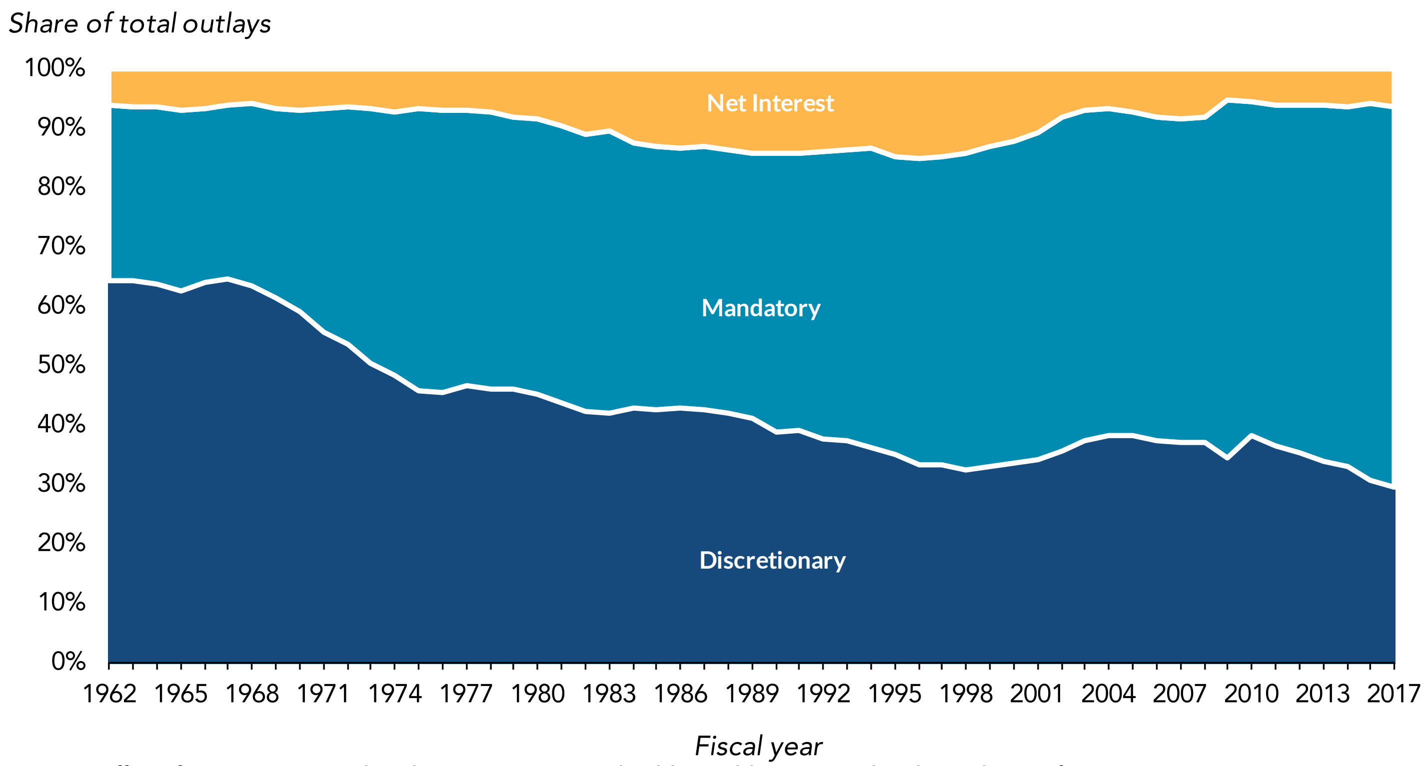
Mandatory spending covers outlays controlled by laws other than appropriations acts. Almost all such spending is for "entitlements," for which expenditures depend on individual eligibility and participation; they are funded at whatever level needed to cover the resulting costs. Mandatory spending has grown from about 31 percent of the budget in 1962 to nearly 66 percent in 2017 (figure 2). This is largely because of new entitlements, including Medicare and Medicaid (both of which started in 1965), the earned income tax credit (1975), and the child tax credit (1997). In addition, rapid growth of both the elderly and the disabled populations has contributed to increased Social Security and Medicare spending.

Nearly 60 percent of mandatory spending in 2017 was for Social Security and other income support programs (figure 3). Most of the remainder paid for the two major government health programs, Medicare and Medicaid.

FIGURE 2

Federal Spending by Type

Fiscal years 1962–2017



Source: Office of Management and Budget. 2018. Historical Tables. Table 8.1, "Outlays by Budget Enforcement Act Category: 1962–2023."

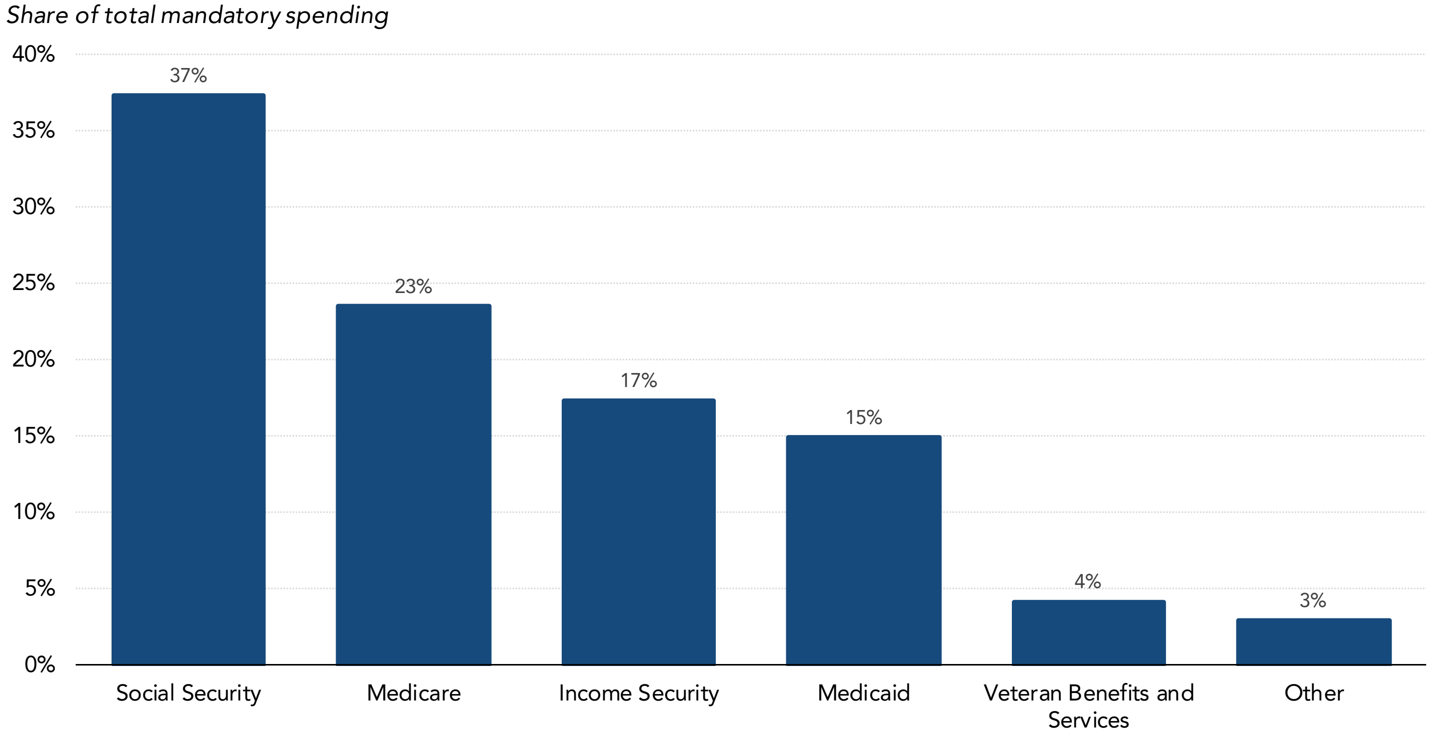
Background

How does the federal government spend its money?

FIGURE 3

Composition of Federal Mandatory Spending

Fiscal year 2017



Source: Office of Management and Budget. 2018. Historical Tables. Table 8.5, "Outlays for Mandatory and Related Programs: 1962–2023."

DISCRETIONARY SPENDING

Discretionary spending covers programs that require appropriations by Congress. Unlike mandatory spending, both the programs and the authorized levels of spending require regular renewal by Congress. The share of the budget going for discretionary spending has fallen from two-thirds in 1962 to about one-third now.

About half of FY 2017 discretionary spending went for national defense, and most of the rest for domestic programs, including transportation, education and training, veterans benefits, income security, and health care (figure 4). About 4 percent of discretionary spending funded international activities, such as foreign aid.

DEBT SERVICE

Interest on the national debt has fluctuated over the past half century along with the size of the debt and interest rates. It climbed from 6.5 percent of total outlays in 1962 to more than 15 percent in the mid-1990s, fell to 6.1 percent in 2015, but climbed back to 6.6 percent by 2017 (figure 2). In 2016 and 2017, historically low interest rates have held down interest payments despite the national debt reaching a peacetime high of nearly 77 percent of GDP, but interest payments as a share of outlays are projected to rise because of projected increases in both the national debt and interest rates.

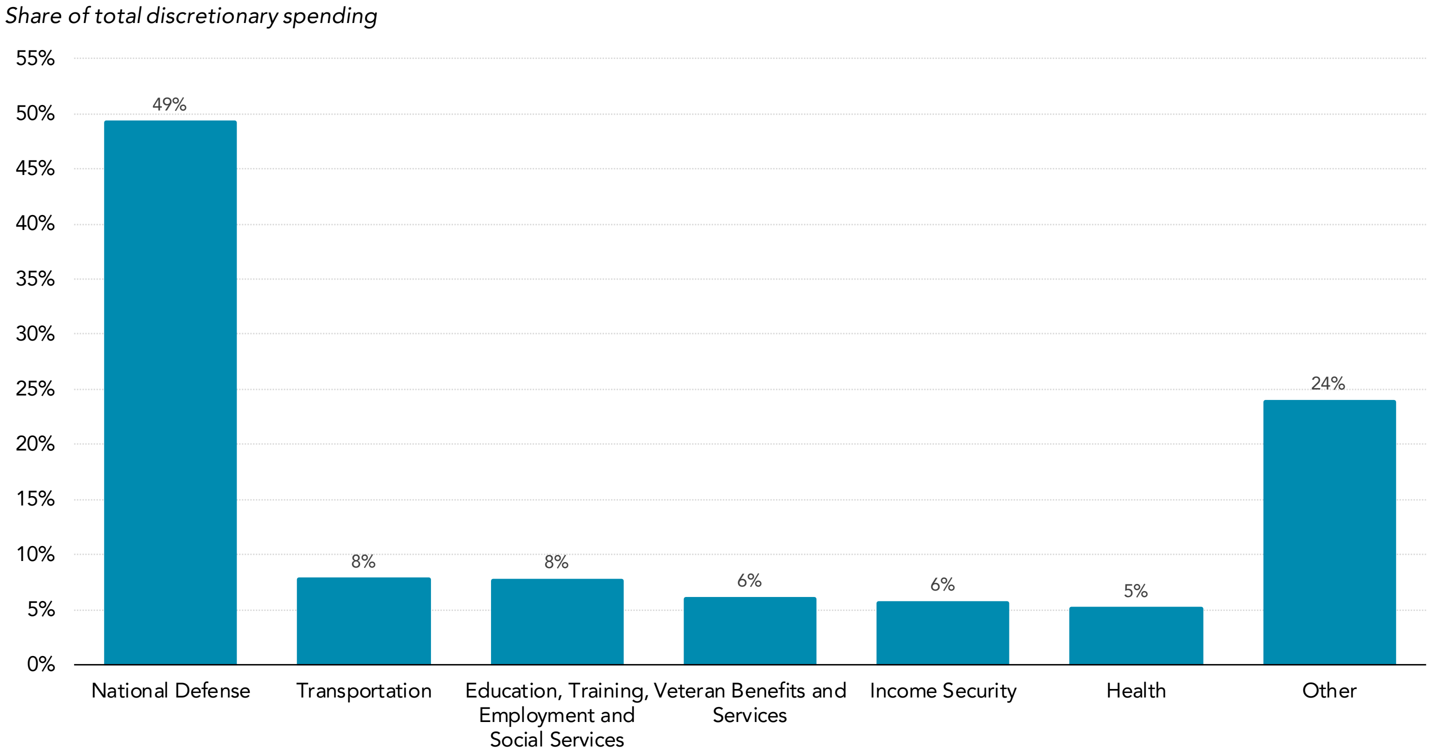
Background

How does the federal government spend its money?

FIGURE 4

Composition of Federal Discretionary Spending

Fiscal year 2017



Source: Office of Management and Budget. 2018. Historical Tables. Table 8.7, "Outlays for Discretionary Programs: 1962–2023."

Data Sources

Congressional Budget Office. 2018. "Budget and Economic Outlook: Fiscal Years 2018 to 2028," Appendix E: Historical Budget Data. Washington, DC: Congressional Budget Office.

Office of Management and Budget. 2018. *Historical Tables*. Table 8.1, "Outlays by Budget Enforcement Act Category: 1962–2023," Table 8.5, "Outlays for Mandatory and Related Programs: 1962–2023," and Table 8.7, "Outlays for Discretionary Programs: 1962–2023."

Background

What is the breakdown of revenues among federal, state, and local governments?

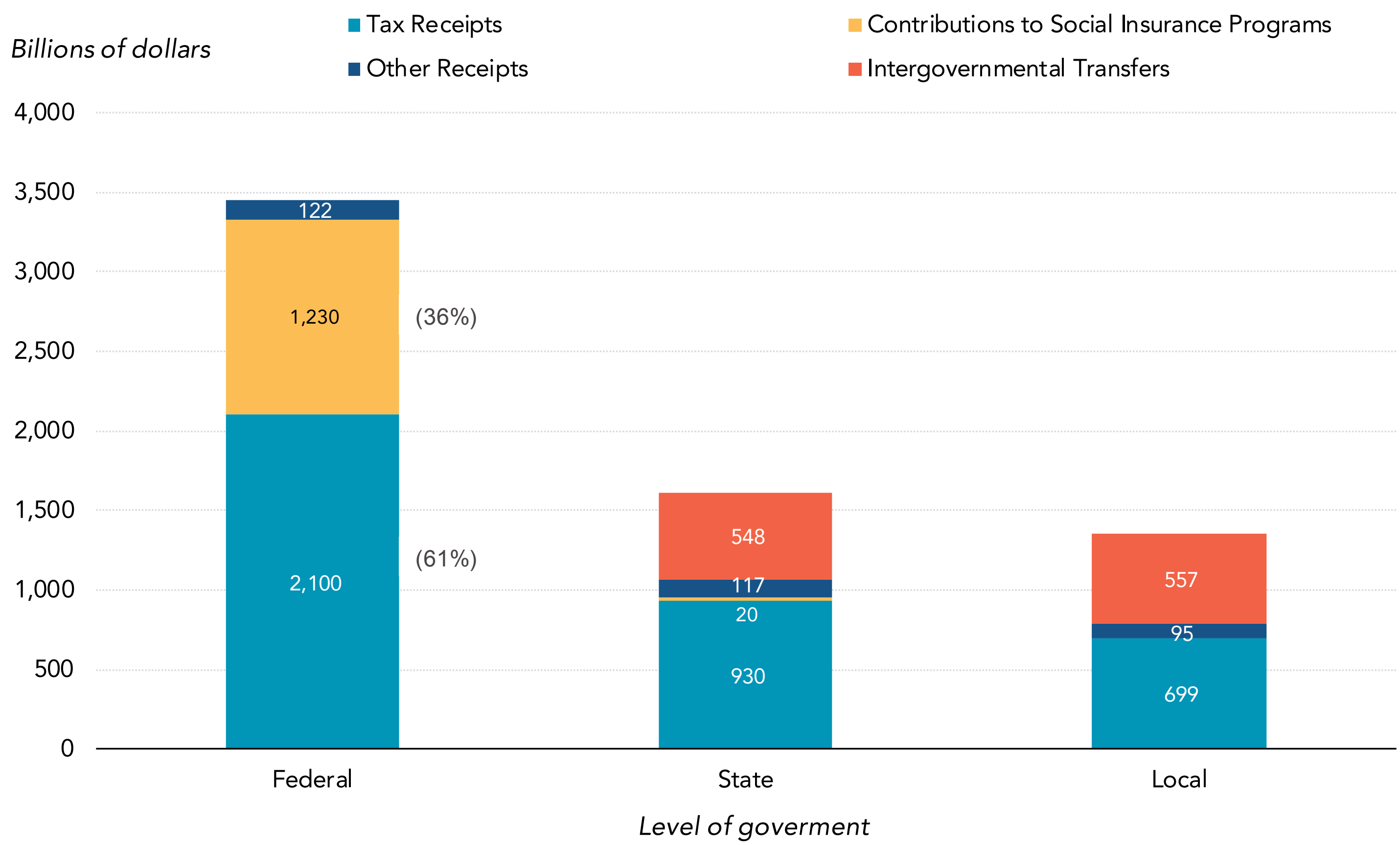
Q. What is the breakdown of revenues among federal, state, and local governments?

A. Federal, state, and local government receipts totaled $5.3 trillion in 2016. Federal receipts were 65 percent of the total, while state and local receipts (excluding inter-governmental transfers) were 20 percent and 15 percent, respectively.

FIGURE 1

Federal, State, and Local Government Current Receipts

Fiscal year 2016



Source: US Bureau of Economic Analysis. 2018. National Income and Product Accounts, Section 3: Government Current Receipts and Expenditures. Table 3.2, "Federal Government Current Receipts and Expenditures."

Background

What is the breakdown of revenues among federal, state, and local governments?

As shown in figure 1, federal government receipts were just under $3.5 trillion in 2016. Tax receipts were 61 percent of the total, contributions to government social insurance programs were another 36 percent, and receipts from other sources accounted for the remainder.

State current receipts were just over $1.6 trillion in 2016. Tax receipts were 58 percent of the total, contributions to social insurance programs were 1 percent, and other receipts were 7 percent. Thirty-four percent of states' current receipts ($548 billion) came from intergovernmental transfers, most of which ($533 billion) were from the federal government.

Local government current receipts were just under $1.4 trillion in 2016. Taxes were 52 percent of the total and other receipts were another 7 percent. A full 41 percent of local government revenues ($557 billion) came from intergovernmental transfers, most of which ($535 billion) were from state governments.

Data Sources

U.S. Bureau of Economic Analysis (BEA), National Income and Product Accounts, Government Current Receipts and Expenditures, Tables 3.1, 3.2, 3.20, and 3.21.

Q. How do US taxes compare internationally?

A. Total US tax revenue equaled 26 percent of gross domestic product, well below the 33 percent weighted average for developed countries.

TOTAL TAX REVENUE

US taxes are low relative to those in other developed countries (figure 1). In 2015, taxes at all levels of US government represented 26 percent of gross domestic product (GDP), compared with an average of 33 percent for the 35 member countries of the Organisation for Economic Co-operation and Development (OECD).

Among OECD countries, only Korea, Turkey, Ireland, Chile, and Mexico collected less than the United States as a percentage of GDP. Taxes exceeded 40 percent of GDP in seven European countries, including Denmark and France, where taxes were greater than 45 percent of GDP. But those countries generally provide more extensive government services than the United States does.

COMPOSITION OF TAX REVENUE

Income and Profits Taxes: Taxes on personal income and business profits made up 49 percent of US tax revenue in 2015, a higher percentage than in most other OECD countries, where such taxes averaged 34 percent of the total (figure 2). Australia, Denmark, and New Zealand topped the United States in this category, generating over half of their total revenue from such taxes. In the United States, taxes on income and profits of individuals alone generated 37 percent of total tax revenue, compared with 25 percent on average within the OECD.

Social Security Contributions: The United States collected slightly less revenue from retirement, disability, and other social security programs—24 percent of total tax revenue—than the 26 percent OECD average. Some countries were well above that average: the Slovak Republic, the Czech Republic, and Slovenia collected 40 percent or more of their revenue from that source.

Goods and Services Taxes: TThe United States relies less on taxes on goods and services (including both general consumption taxes and taxes on specific goods and services) than any other OECD country, collecting 17 percent of tax revenue this way compared with 32 percent for the OECD. The value-added tax (VAT)—a type of general consumption tax collected in stages—is the main source of consumption tax revenue. VAT is employed worldwide in 160 countries, including in all 34 OECD member countries except the United States. Most consumption tax revenue in the United States is collected by state and local governments.

Background

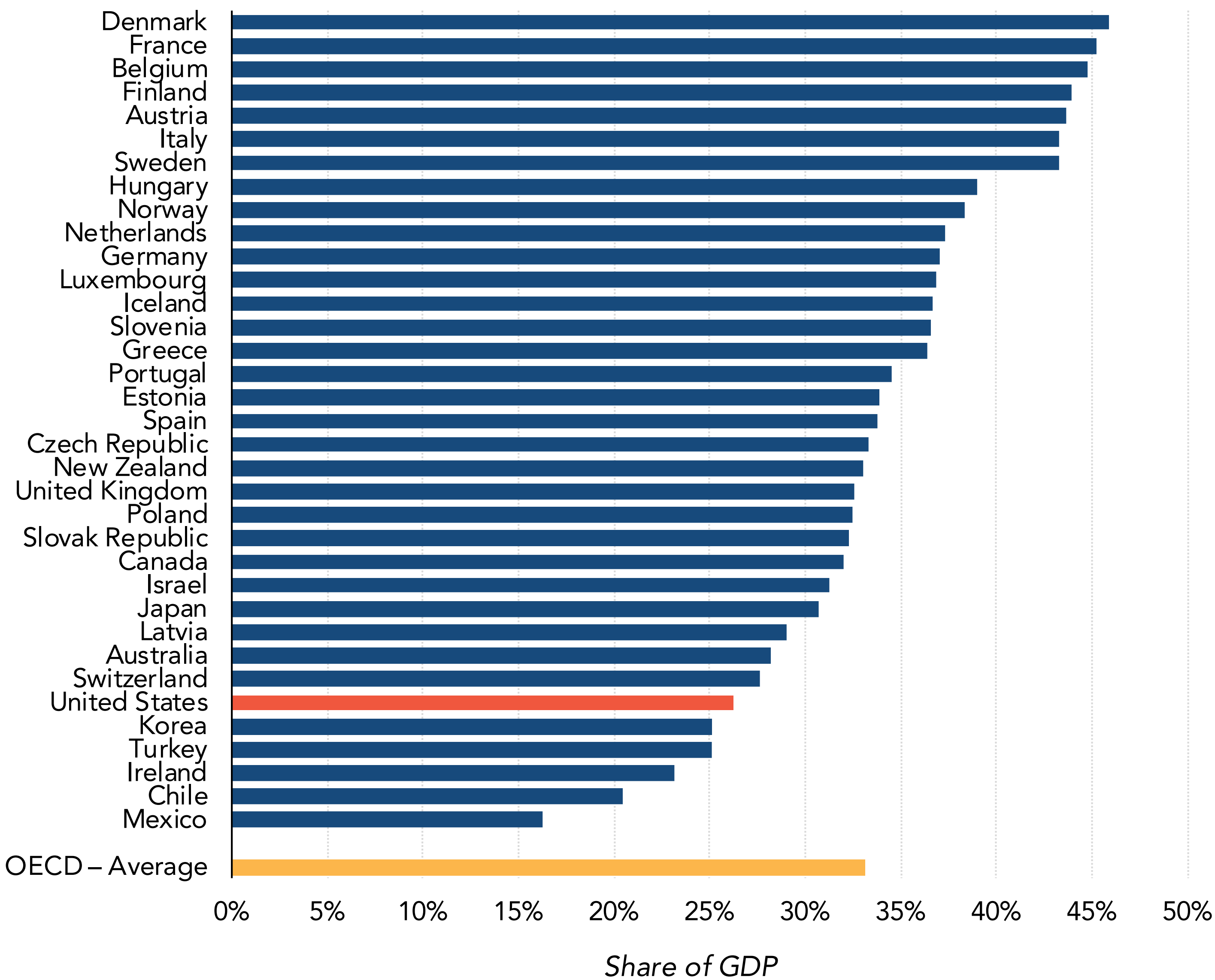
How do US taxes compare internationally?

Property Taxes: Property taxes provided almost twice as large a share of US tax revenue—10 percent in 2015—than the OECD average of 6 percent. Almost all revenue from taxes on property in the United States is collected by state and local governments.

FIGURE 1

Total Tax Revenue

Organisation for Economic Co-operation and Development (OECD) countries, 2015



Source: Organisation for Economic Co-operation and Development. 2015. OECD Tax Statistics. "Revenue Statistics: OECD Countries—Comparative Tables."
Note: The "OECD – Average" is a weighted average by GDP for all countries excluding the United States.

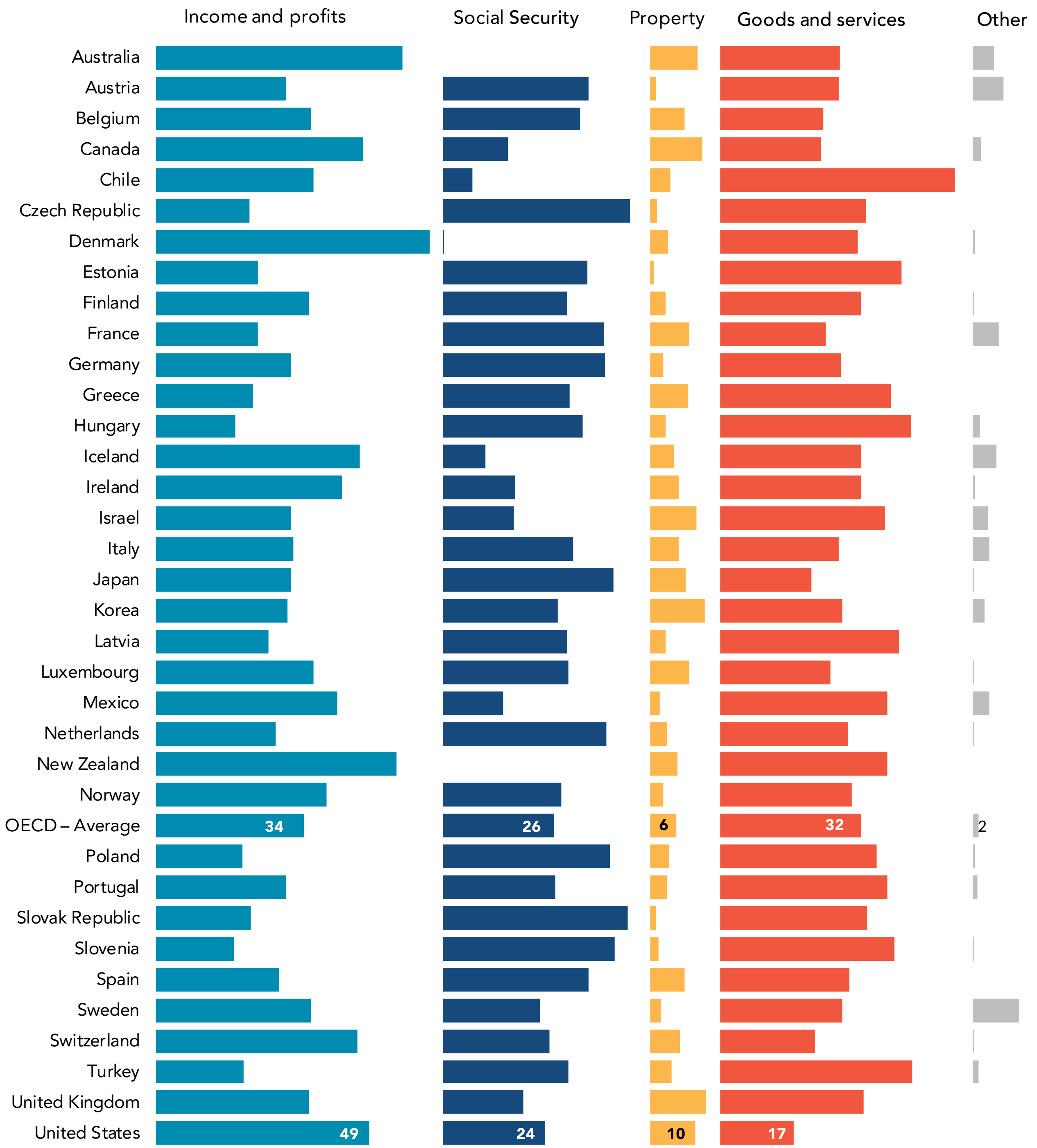
Background

How do US taxes compare internationally?

FIGURE 2

Taxes by Source as a Share of Total Tax Revenues

OECD countries, 2015



Source: Organisation for Economic Co-operation and Development. 2015. OECD Tax Statistics. "Revenue Statistics: OECD Countries—Comparative Tables."

Note: The "OECD – Average" is an unweighted average for all 35 countries; "Other" taxes include payroll taxes not classified as Social Security

Background

How do US taxes compare internationally?

Data Sources

Organisation for Economic Co-operation and Development. 2015. *OECD Tax Statistics*. "Revenue Statistics: OECD Countries—Comparative Tables."

———. 2015. "Consumption Tax Trends 2015."

Further Reading

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Hoo, Sonya, and Eric Toder. 2006. "The US Tax Burden Is Low Relative to Other OECD Countries." *Tax Notes*. May 8.