Some Background

What are the sources of revenue for the federal government?

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

A. About 50 percent of federal revenue comes from individual income taxes, 7 percent from corporate income taxes, and another 36 percent from payroll taxes that fund social insurance programs (figure 1). The rest comes from a mix of sources.

FIGURE 1
Sources of Federal Revenue
Fiscal year 2019

Share of total

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Share of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Income Tax</td>
<td>50%</td>
</tr>
<tr>
<td>Corporate Income Tax</td>
<td>7%</td>
</tr>
<tr>
<td>Social Insurance (Payroll) Tax</td>
<td>36%</td>
</tr>
<tr>
<td>Excise Tax</td>
<td>3%</td>
</tr>
<tr>
<td>Other</td>
<td>5%</td>
</tr>
</tbody>
</table>

Source: Office of Management and Budget, Historical Tables, Table 2.1, “Receipts by Source: 1934–2025.”
What are the sources of revenue for the federal government?

TOTAL REVENUES

The federal government collected revenues of $3.5 trillion in 2019—equal to about 16.3 percent of gross domestic product (GDP) (figure 2). Over the past 50 years, federal revenue has averaged 17.4 percent of GDP, ranging from 20.0 percent (in 2000) to 14.6 percent (most recently in 2009 and 2010).

INDIVIDUAL INCOME TAX

The individual income tax has been the largest single source of federal revenue since 1950, amounting to about 50 percent of the total and 8.1 percent of GDP in 2019 (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 2007–2009 Great Recession.
CORPORATE INCOME TAX

The tax on corporate profits yielded 7 percent of government revenue in 2019, 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 1.4 percent of GDP over the past five years, and 1.1 percent of GDP most recently in 2019 (figure 3).

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 36 percent of federal revenue in 2019.

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. Social Insurance tax receipts have since climbed back to 5.9 percent of GDP in 2019.
What are the sources of revenue for the federal government?

FEDERAL EXCISE TAXES

Taxes on purchases of goods and services, including gasoline, cigarettes, alcoholic beverages, and airline travel, generated 2.9 percent of federal revenue in 2019. 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 2015 to 2019 (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 5.0 percent of federal revenue in 2019. They have ranged between 0.6 and 1.0 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.

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 7 percent in 2019. In contrast, payroll taxes provided more than one-third of revenue in 2019, more than three times the share in the early 1950s.
Some Background

What are the sources of revenue for the federal government?

**FIGURE 4**

Sources of Federal Revenue
Fiscal years 1950 – 2019

Share of total

<table>
<thead>
<tr>
<th>Year</th>
<th>Excise Tax</th>
<th>Social Insurance (Payroll) Tax</th>
<th>Corporate Income Tax</th>
<th>Individual Income Tax</th>
</tr>
</thead>
<tbody>
<tr>
<td>1950</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2020</td>
<td></td>
<td></td>
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<tr>
<td>2025</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Office of Management and Budget. Historical Tables. Table 2.1, “Receipts by Source: 1934–2025.”

**Updated May 2020**

**Data Sources**


**Further Reading**


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Q. How does the federal government spend its money?

A. Federal spending totaled $4.4 trillion in 2019. About 62 percent of the total was for programs not subject to regular budget review, while nearly 30 percent covered discretionary programs for which Congress must regularly appropriate funds. Eight percent went for interest on government debt (figure 1).

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 61 percent in 2019 (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.

**FIGURE 2**
Composition of Federal Spending
Fiscal years 1962–2019

Nearly 60 percent of mandatory spending in 2019 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.

**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 30 percent now.
How does the federal government spend its money?

More than half of FY 2019 discretionary spending went for national defense, and most of the rest went 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.

**FIGURE 3**

Composition of Federal Mandatory Spending
Fiscal year 2019

*Share of total*

<table>
<thead>
<tr>
<th>Category</th>
<th>Share of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security</td>
<td>38.0%</td>
</tr>
<tr>
<td>Medicare</td>
<td>23.5%</td>
</tr>
<tr>
<td>Income Security</td>
<td>16.2%</td>
</tr>
<tr>
<td>Medicaid</td>
<td>15.0%</td>
</tr>
<tr>
<td>Veteran Benefits and Services</td>
<td>4.2%</td>
</tr>
<tr>
<td>Other</td>
<td>3.2%</td>
</tr>
</tbody>
</table>

How does the federal government spend its money?

**Some Background**

**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 8.4 percent by 2019 (figure 2). Since 2016, historically low interest rates have held down interest payments despite the national debt reaching a peacetime high of nearly 80 percent of GDP in 2019. But interest payments as a share of outlays are projected to rise because of projected increases in both the national debt and interest rates.

*Updated May 2020*
Some Background

How does the federal government spend its money?

Data Sources


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

A. Federal, state, and local government receipts totaled $5.4 trillion in 2018. Federal receipts were 64 percent of the total, while state and local receipts (excluding intergovernmental transfers) were 21 percent and 15 percent, respectively.

As shown in figure 1, federal government current receipts were just under $3.5 trillion in 2018. Tax receipts were 56 percent of the total, contributions to government social insurance programs were another 38 percent, and receipts from other sources accounted for the remainder.

State government current receipts were just under $1.8 trillion in 2018. Tax receipts were 58 percent of the total, contributions to social insurance programs were 1 percent, and other receipts were 4 percent. Thirty-six percent of state government revenues ($644 billion) came from intergovernmental transfers, most of which ($533 billion) were from the federal government.

Local government current receipts were just over $1.4 trillion in 2018. Taxes were 53 percent of the total and other receipts were another 3 percent. Forty-four percent of local government revenues ($641 billion) came from intergovernmental transfers, most of which ($554 billion) were from state governments.
What is the breakdown of revenues among federal, state, and local governments?

**FIGURE 1.**
Sources of Federal, State, and Local Government Current Receipts
Fiscal year 2018

<table>
<thead>
<tr>
<th>Billions of dollars</th>
<th>Federal</th>
<th>State</th>
<th>Local</th>
</tr>
</thead>
<tbody>
<tr>
<td>$202 (6%)</td>
<td>$1,339 (38%)</td>
<td>$644 (36%)</td>
<td>$641 (44%)</td>
</tr>
<tr>
<td>$1,956 (56%)</td>
<td>$1,031 (58%)</td>
<td>$71 (4%)</td>
<td>$765 (53%)</td>
</tr>
</tbody>
</table>

Q. How do US taxes compare internationally?

A. Total US tax revenue equaled 24 percent of gross domestic product, well below the 34 percent weighted average for other OECD countries.

TOTAL TAX REVENUE

US taxes are low relative to those in other high-income countries (figure 1). In 2018, taxes at all levels of US government represented 24 percent of gross domestic product (GDP), compared with an average of 34 percent for the other 35 member countries of the Organisation for Economic Co-operation and Development (OECD).

Among OECD countries, only Chile, Ireland, and Mexico collected less tax revenue than the United States as a percentage of GDP. Taxes exceeded 40 percent of GDP in seven European countries, including France, where taxes were 46 percent of GDP. But those countries generally provide more extensive government services than the United States does.
Some Background

How do US taxes compare internationally?

**FIGURE 1**

**Total Tax Revenue as a Share of GDP**

Organisation for Economic Co-operation and Development (OECD) countries, 2018

Source: OECD Revenue Statistics, Comparative Tables (retrieved 12.05.2019).

Notes: (a) Includes tax revenues from both federal and sub-national governments; b) The "OECD - Average" is weighted by GDP for all countries excluding the United States; (c) Data for Australia and Japan are for 2017.
Some Background

How do US taxes compare internationally?

COMPOSITION OF TAX REVENUE

*Income and Profits Taxes:* Taxes on personal income and business profits made up 45 percent of total US tax revenue in 2018, a higher share 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 41 percent of total tax revenue, compared with 24 percent on average within the OECD.

*Social Security Contributions:* The United States collected slightly less revenue from retirement, disability, and other social security programs—25 percent of total tax revenue—than the 26 percent OECD average. Some countries were well above that average: the Czech Republic, Japan, Slovak Republic, and Slovenia each collected 40 percent or more of their revenue from social security contributions.

*Property Taxes:* Property taxes provided almost twice as large a share of US tax revenue—12 percent in 2018—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.

*Goods and Services Taxes:* The 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 18 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 within the OECD. The VAT is employed worldwide in 160 countries, including in all 35 OECD member countries except the United States. Most consumption tax revenue in the United States is collected by state and local governments.
How do US taxes compare internationally?

**FIGURE 2**

Tax Sources as a Share of Total Tax Revenue
Organisation for Economic Co-operation and Development (OECD) countries, 2018

Notes: (a) Includes tax revenues from both federal and sub-national governments; (b) The “OECD - Average” is an unweighted average for all OECD countries; (c) Data for Australia, Japan, and Mexico are for 2017.
Some Background

How do US taxes compare internationally?

Updated May 2020

Data Sources


Further Reading


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