

# The State of State (and Local) Tax Policy

STATE AND LOCAL REVENUES

What are the sources of revenue for state governments?

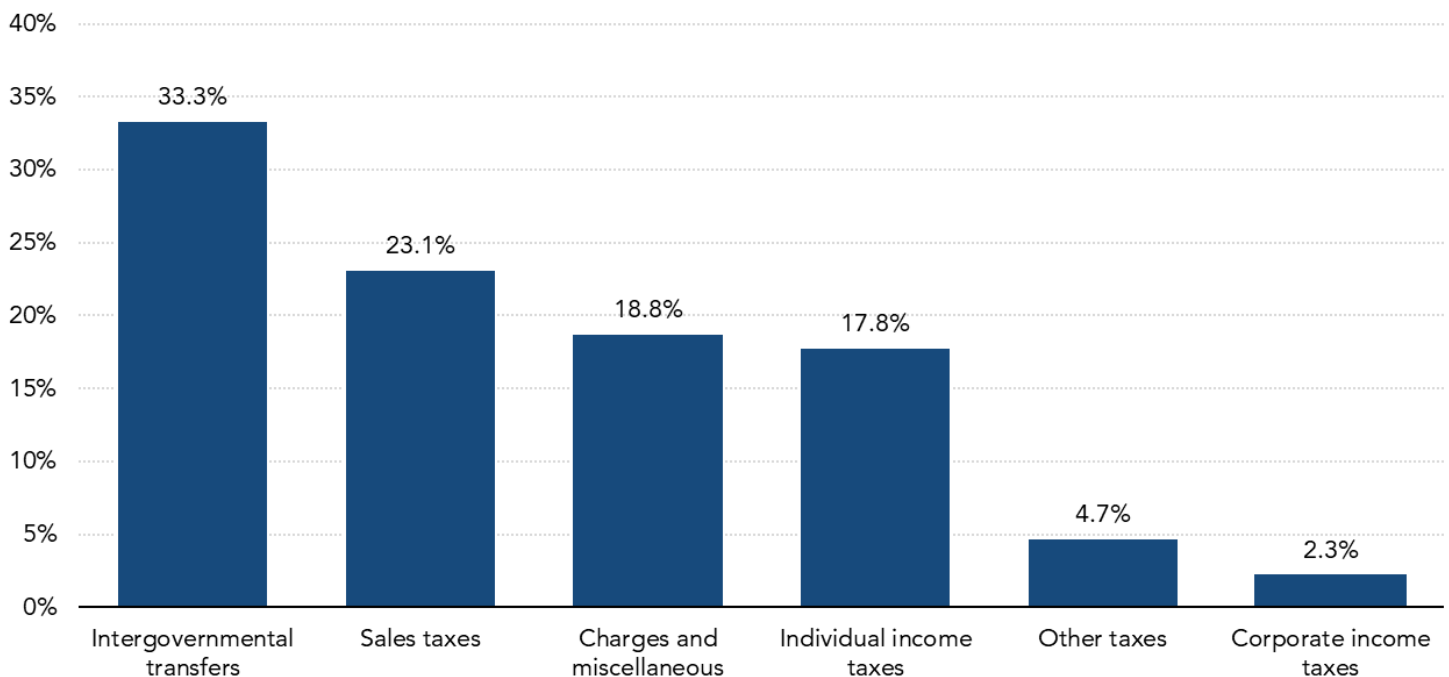
**Q.** What are the sources of revenue for state governments?

**A.** State government revenue comes from income, sales, and other taxes; charges and fees; and transfers from the federal government. Taxes accounted for about half of all general revenue in 2017.

State governments collected \$2.0 trillion of general revenue in 2017. General revenue from income, sales, and other taxes totaled \$946 billion—nearly half of all general revenue (figure 1). About one-third came from intergovernmental transfers.

**FIGURE 1**

## Breakdown of State Government General Revenue By category, fiscal year 2017



**Source:** Urban-Brookings Tax Policy Center. "State and Local Finance Initiative Data Query System"; US Census Bureau, *Annual Survey of State and Local Government Finances* and *Census of Governments*, vol. 4, *Government Finances*.

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### INTERGOVERNMENTAL TRANSFERS

Intergovernmental transfers to state governments—primarily from the federal government—totaled \$659 billion in 2017. The largest were federal grants for public welfare programs, predominately Medicaid.

### OWN-SOURCE REVENUE

Revenue from state sales and gross receipts taxes—including both general sales taxes and selective taxes on products such as alcohol, cigarettes, and motor fuels—was \$457 billion in 2017, or 23 percent of state general revenue. Individual income taxes provided \$352 billion (18 percent of state general revenue) and corporate income taxes accounted for \$45 billion (2 percent of state general revenue). Revenue from all other taxes (including license fees, estate taxes, and severance taxes) was roughly \$93 billion—5 percent of state general revenue. Charges and fees—notably tuition paid to state universities, payments to public hospitals, and tolls on highways or bridges—and other miscellaneous revenue provided \$371 billion, or 19 percent of state general revenue in 2017.

General revenue does not include revenue collected by states from “business-like” enterprises, such as state-run liquor stores, utilities, and pension funds.

### CHANGING SOURCES

Since 1977, the share of state general revenue from intergovernmental transfers, as well as charges and user fees, has increased, while the share from taxes has declined (figure 2). Revenue from charges, user fees, and miscellaneous sources increased significantly from 11 percent in 1977 to 18 percent in 2002, as states sought to increase revenue from non-tax sources, including [large increases in public university tuition](#). Charges as a percentage of revenue has been fairly flat since 2002, however.

Over roughly the same period, the share of state general revenue from taxes declined from 60 percent to 50 percent. Revenue from taxes as a percentage of state general revenue has also been roughly flat since 2002. Among specific taxes, the portion from individual income taxes rose slightly from 1977 to 2017, but the share from sales (general and selective) and corporate taxes declined.

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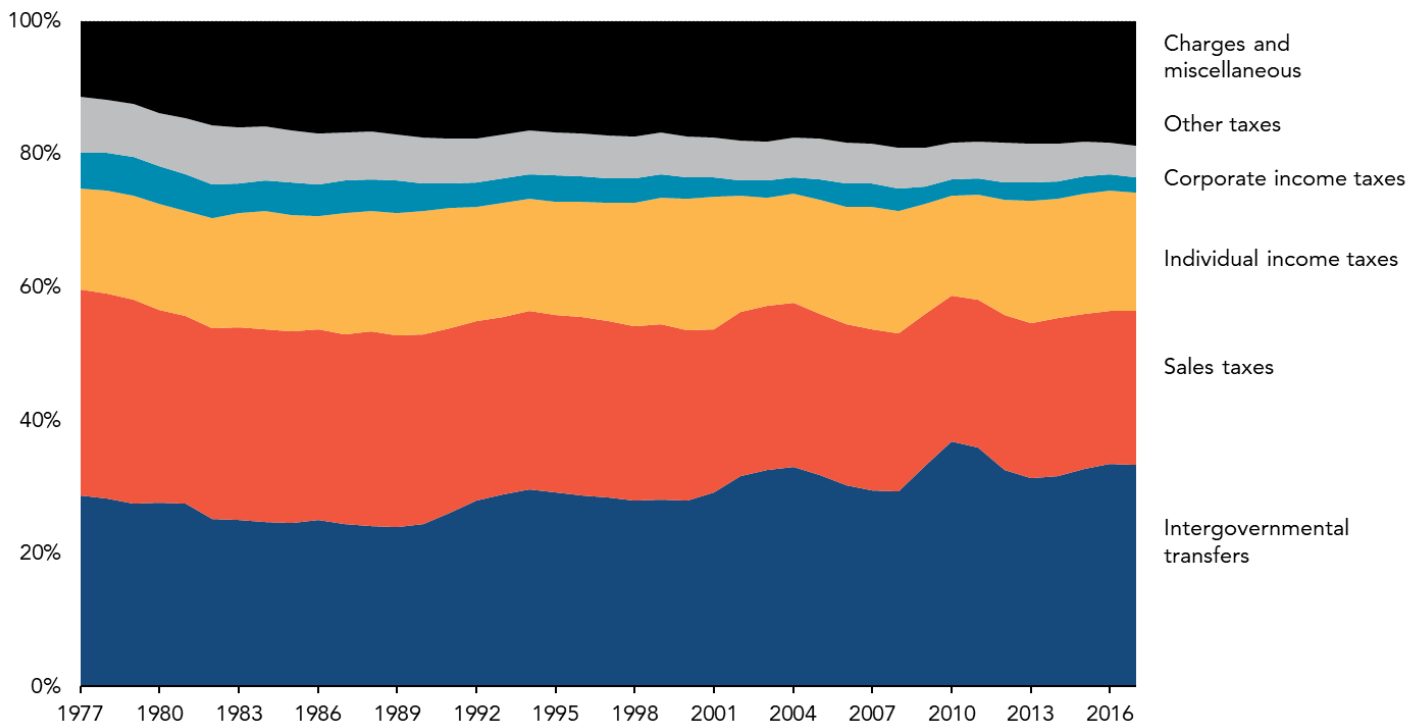
STATE AND LOCAL REVENUES

## What are the sources of revenue for state governments?

FIGURE 2

### Breakdown of State Government General Revenue

By category, fiscal years 1977–2017



Source: Urban-Brookings Tax Policy Center. "State and Local Finance Initiative Data Query System"; US Census Bureau, *Annual Survey of State and Local Government Finances and Census of Governments*, vol. 4, *Government Finances*.

### LONG-TERM REVENUE GROWTH

State revenue grew slightly faster than the national economy between 1977 and 2001, rising from 8 percent of gross domestic product (GDP) to 10 percent. However, state revenue as a percentage of GDP has stayed at roughly 10 percent since then (figure 3). State revenues grew above that level during the 2008 Great Recession and its aftermath because of an increase in federal transfer payments, peaking at nearly 11 percent of GDP in 2011 before falling back to 10 percent in 2012 as federal transfers abated in the wake of the economic recovery. In 2017 state revenue were just above 10 percent of GDP.

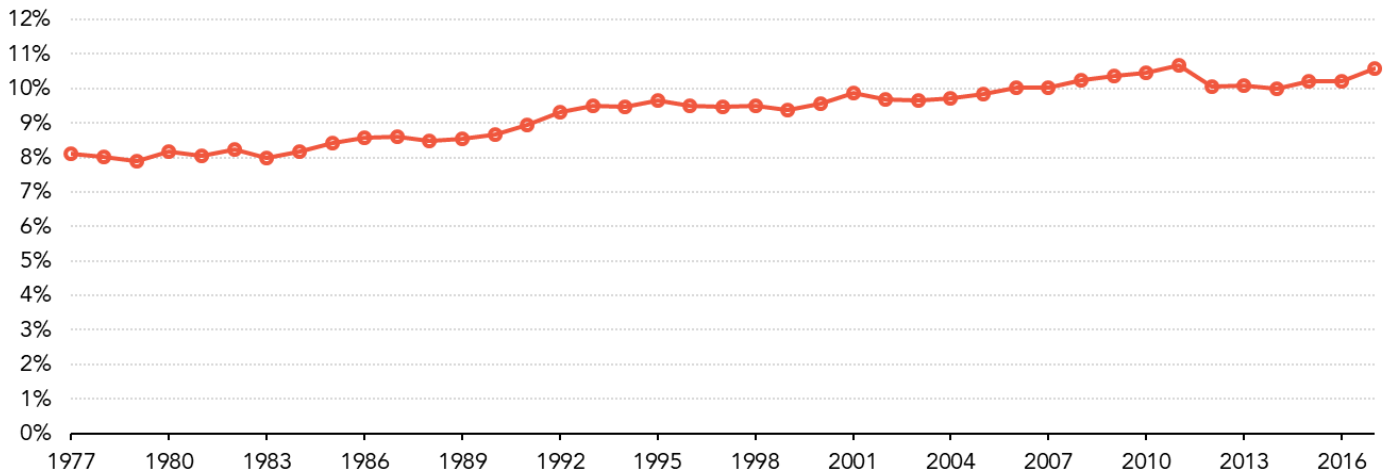
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## What are the sources of revenue for state governments?

FIGURE 3

### Total State Government General Revenue Share of GDP, fiscal years 1977–2017



Source: Urban-Brookings Tax Policy Center. "State and Local Finance Initiative Data Query System"; US Census Bureau, *Annual Survey of State and Local Government Finances* and *Census of Governments*, vol. 4, *Government Finances*; US Department of Commerce, Bureau of Economic Analysis, "Gross Domestic Product, Third Quarter 2018 (Second Estimate); Corporate Profits, Third Quarter 2018 (Preliminary Estimate)."

Revenue from individual income taxes grew from about 1 percent to 2 percent of GDP from 1977 to 2017, while sales tax revenue remained fairly constant at about 2.4 percent (figure 4). Revenue from charges and miscellaneous fees also grew from about 1 percent to 2 percent of GDP, while intergovernmental transfers grew from about 2 percent to more than 3 percent of GDP over the period.

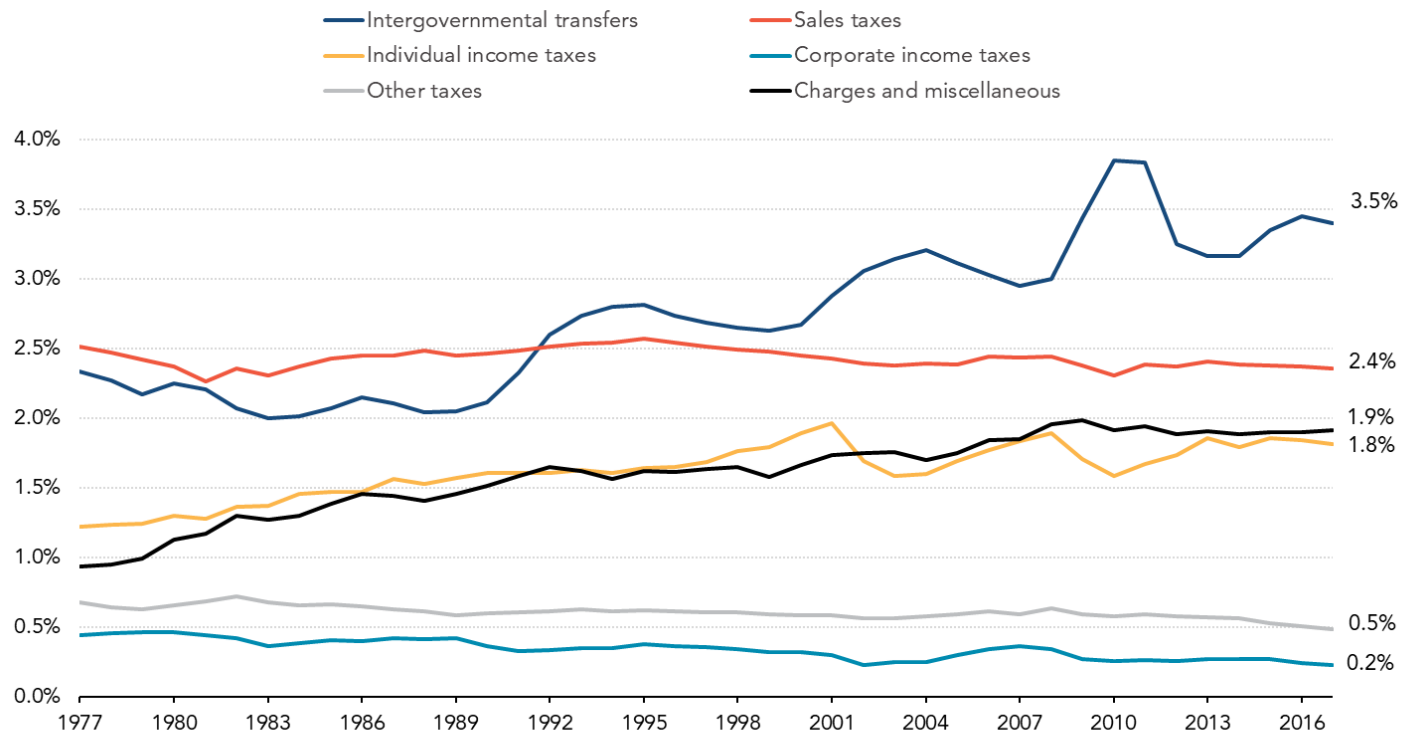
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## What are the sources of revenue for state governments?

FIGURE 4

### State Government General Revenue By category's share of GDP, fiscal years 1977–2017



Source: Urban-Brookings Tax Policy Center. "State and Local Finance Initiative Data Query System"; US Census Bureau, *Annual Survey of State and Local Government Finances and Census of Governments*, vol. 4, *Government Finances*; US Department of Commerce, Bureau of Economic Analysis, "Gross Domestic Product, Third Quarter 2018 (Second Estimate); Corporate Profits, Third Quarter 2018 (Preliminary Estimate)."

Updated May 2020

### Data Sources

Urban-Brookings Tax Policy Center. [State and Local Finance Data: Exploring the Census of Governments](#).

US Census Bureau. *Annual Survey of State and Local Government Finances*.

———. *Census of Governments*, vol. 4, *Government Finances*.

US Department of Commerce, Bureau of Economic Analysis. "[Gross Domestic Product, Third Quarter 2018 \(Second Estimate\); Corporate Profits, Third Quarter 2018 \(Preliminary Estimate\)](#)."

### Further Reading

Urban Institute. [State Tax and Economic Review](#). State and Local Finance Initiative.

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## What are the sources of revenue for state governments?

Gordon, Tracy, Richard Auxier, and John Iselin. 2016. "[Assessing Fiscal Capacities of States: A Representative Revenue System—Representative Expenditure System Approach, Fiscal Year 2012.](#)" Washington DC: Urban Institute.

Francis, Norton, and Frank Sammartino. 2015. "[Governing with Tight Budgets.](#)" Washington DC: Urban Institute.

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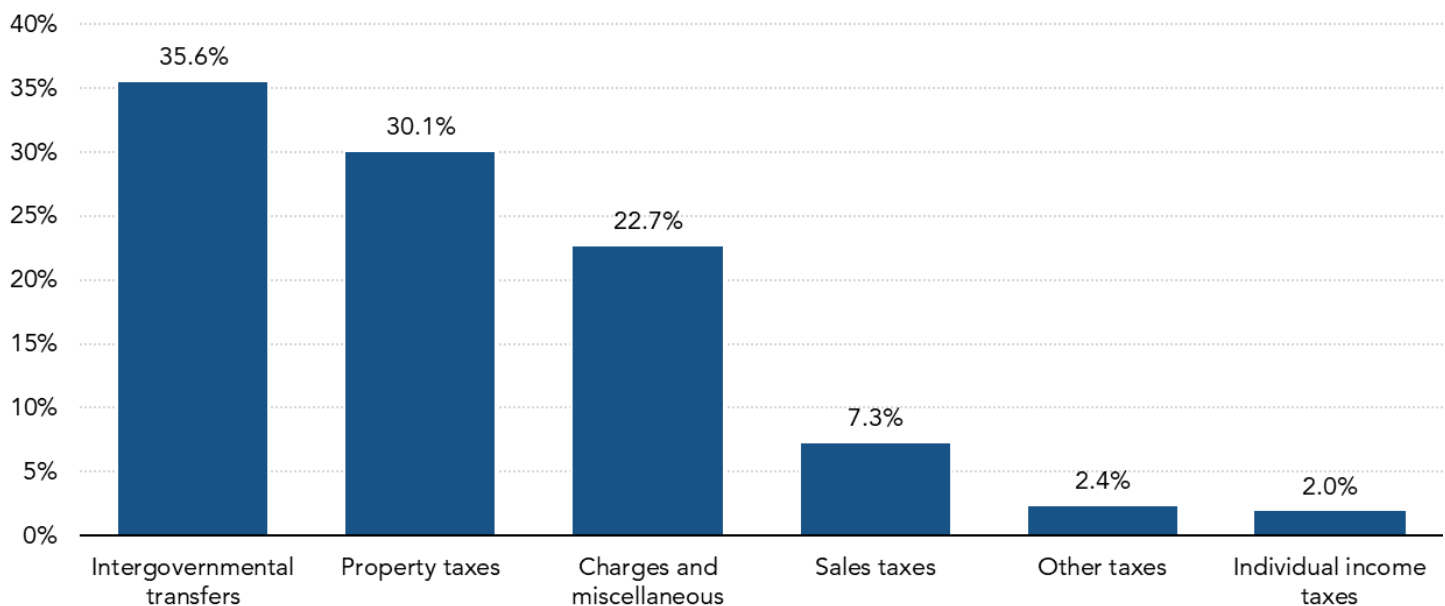
Q. What are the sources of revenue for local governments?

A. Local government revenue comes from property, sales, and other taxes; charges and fees; and transfers from federal and state governments. Taxes accounted for 42 percent of local general revenue in 2017.

Local governments collected \$1.7 trillion of general revenue in 2017. Revenue from property, sales, and other taxes totaled \$707 billion, or 42 percent of general revenue. Intergovernmental transfers accounted for 36 percent of local general revenue in 2017 (figure 1).

FIGURE 1

Breakdown of Local Government General Revenue  
by category, fiscal year 2017



Source: Urban-Brookings Tax Policy Center. "State and Local Finance Initiative Data Query System"

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## What are the sources of revenue for local governments?

### INTERGOVERNMENTAL TRANSFERS

Local governments received about 32 percent of their general revenue from state government transfers (including indirect federal funds) and 4 percent directly from the federal government. Local governments include county governments, municipalities, townships, special districts (such as water and sewage authorities), and school districts. Transfers for education programs account for over two-thirds of state government transfers to localities. Meanwhile, housing-program transfers are about 40 percent of federal transfers to local governments.

### OWN-SOURCE REVENUE

Local governments collected \$509 billion from property taxes in 2017, or 30 percent of local government general revenue. This was localities' largest single source of tax revenue. Sales taxes (general and selective) provided local governments \$124 billion (7 percent of general revenue) and individual income taxes accounted for \$33 billion (2 percent). All other taxes—including corporate income taxes, hotel taxes, and business license taxes—provided \$40 billion in revenue (2 percent). Charges and miscellaneous fees, such as water, sewerage, and parking meter fees collected by municipal or county governments, provided \$385 billion (23 percent of local general revenue).

### CHANGING SOURCES

Since 1977, the share of local general revenue from taxes has remained steady at about 40 percent. However, the composition of tax revenue has changed somewhat. The contribution of property taxes to general revenue declined from 34 percent in 1977 to 30 percent in 1979, fell to a low of 27 percent in 2000, then returned to 30 percent in recent years. Meanwhile, revenue from sales taxes steadily increased from 5 percent to 7 percent between 1977 to 2017 (figure 2).

The share from intergovernmental transfers also fluctuated somewhat over time, falling from 43 percent of general revenue in 1977 to 36 percent in 2017. Revenue from charges, fees, and miscellaneous sources increased from 15 percent to 23 percent in 1985 and has remained roughly at that level since then (figure 2).



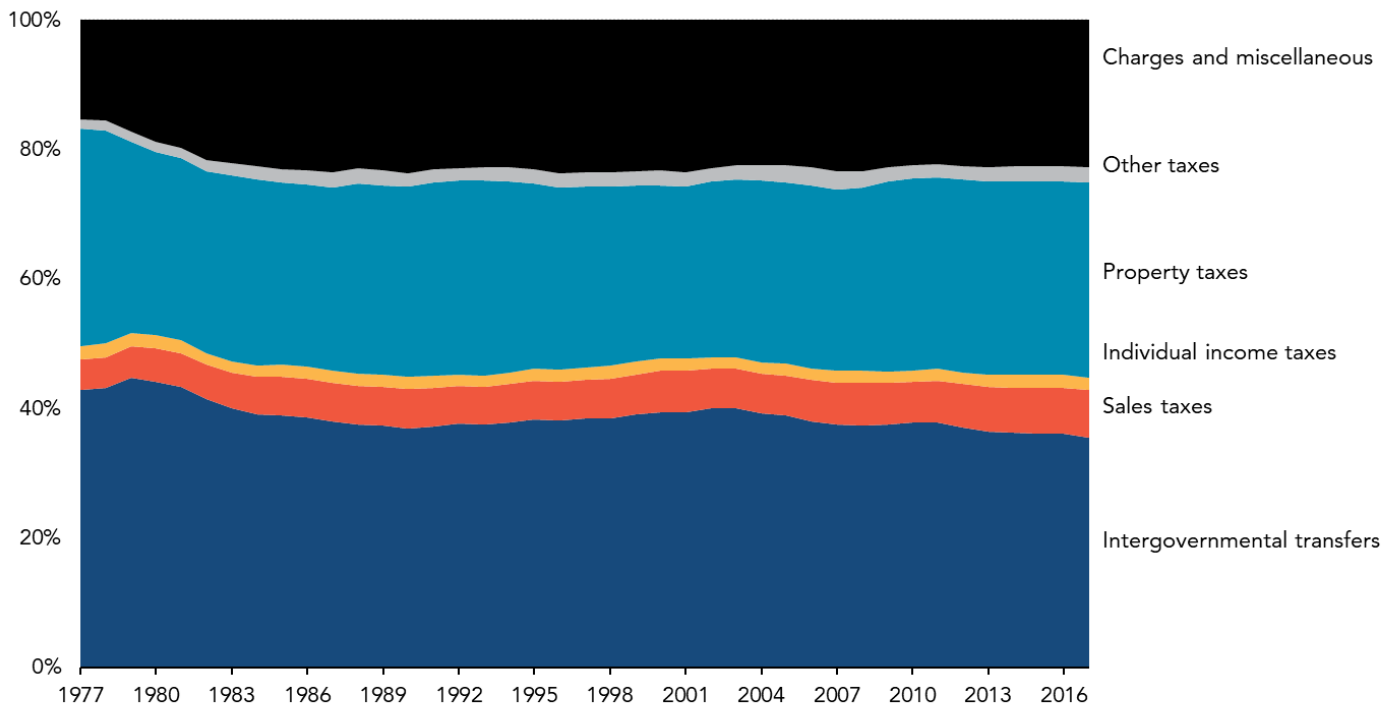
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Source: Urban-Brookings Tax Policy Center. "State and Local Finance Initiative Data Query System"

### LONG-TERM REVENUE GROWTH

Although local government revenue was about the same relative to gross domestic product in 1977 (8.6 percent) and 2017 (8.7 percent), it has fluctuated over the period (figure 3). The percentage fell to a low of 8.0 percent in 1984 and peaked at 9.9 percent in 2009.

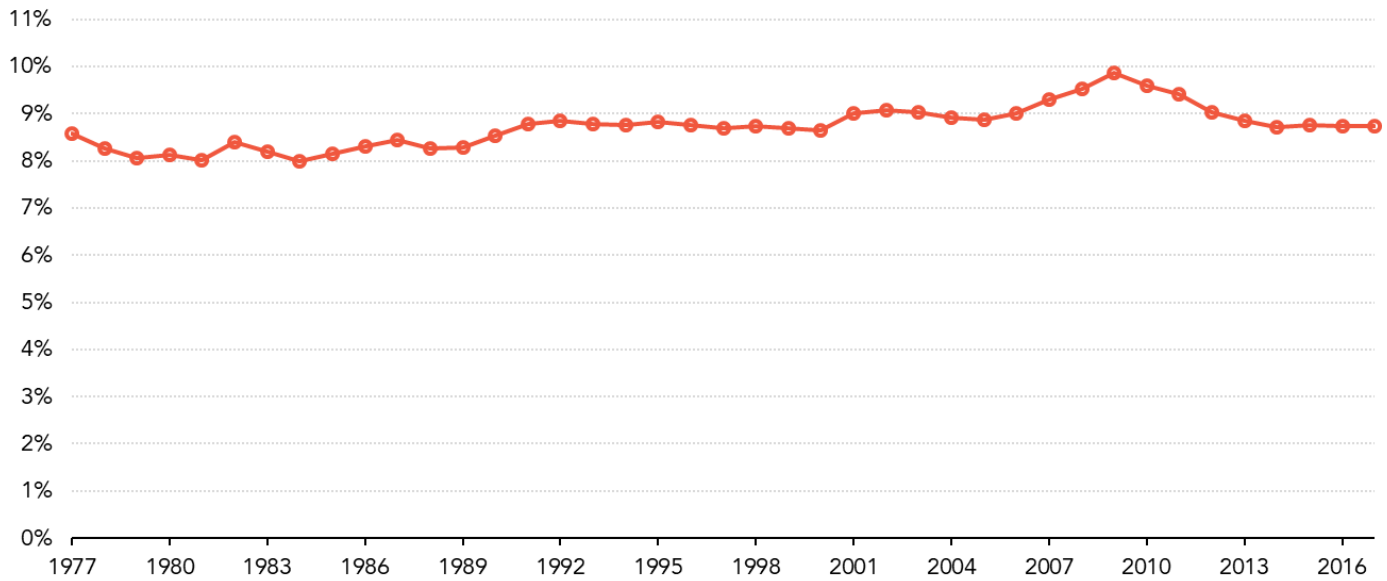
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FIGURE 3

### Total Local Government General Revenue Share of national GDP, fiscal years 1977–2017



Source: Urban-Brookings Tax Policy Center. "State and Local Finance Initiative Data Query System"

Much of the change in local government revenue relative to the economy resulted from increasing and decreasing transfers from federal and state governments. Transfers fell from 1977 through most of the 1980s but increased slowly through the 1990s. This source of revenue is mostly cyclical; it grew sharply during the 2001 and the 2007–09 recessions, receding in both cases as the economy recovered (figure 4).

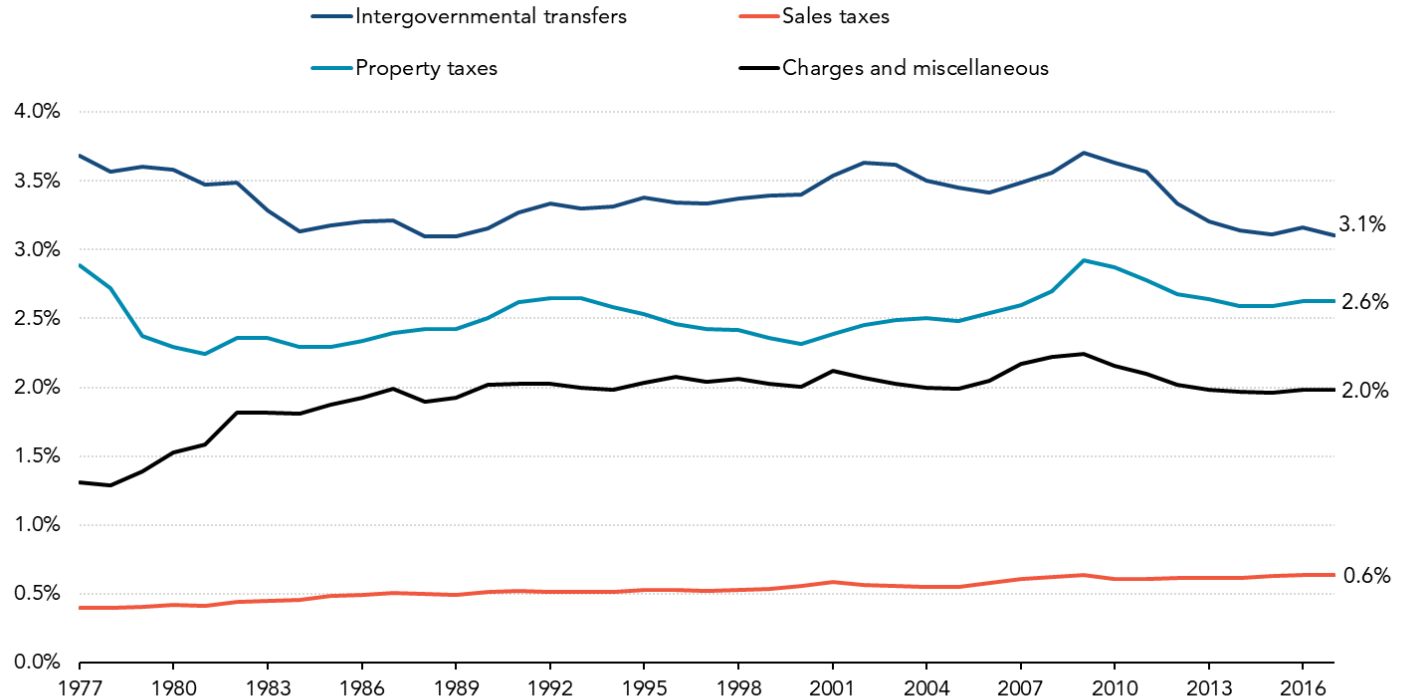
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FIGURE 4

### Local Government General Revenue By category's share of GDP, fiscal years 1977–2017



Source: Bureau of Economic Analysis; State & Local Government Finance Data Query System. <http://slfdqs.taxpolicycenter.org/pages.cfm>. The Urban Institute-Brookings Institution Tax Policy Center.

Updated May 2020

### Data Sources

Urban-Brookings Tax Policy Center. [State and Local Finance Data: Exploring the Census of Governments](#).

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### Further Reading

Randall, Megan, Tracy Gordon, Solomon Greene, and Erin Huffer. 2018. "[Follow the Money: How to Track Federal Funding to Local Governments](#)." Washington DC: Urban Institute.

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Gordon, Tracy, Richard Auxier, and John Iselin. 2016. "[Assessing Fiscal Capacities of States: A Representative Revenue System—Representative Expenditure System Approach, Fiscal Year 2012.](#)" Washington DC: Urban Institute.

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