

The State of State (and Local) Tax Policy

STATE AND LOCAL REVENUES

What are the sources of revenue for local governments?

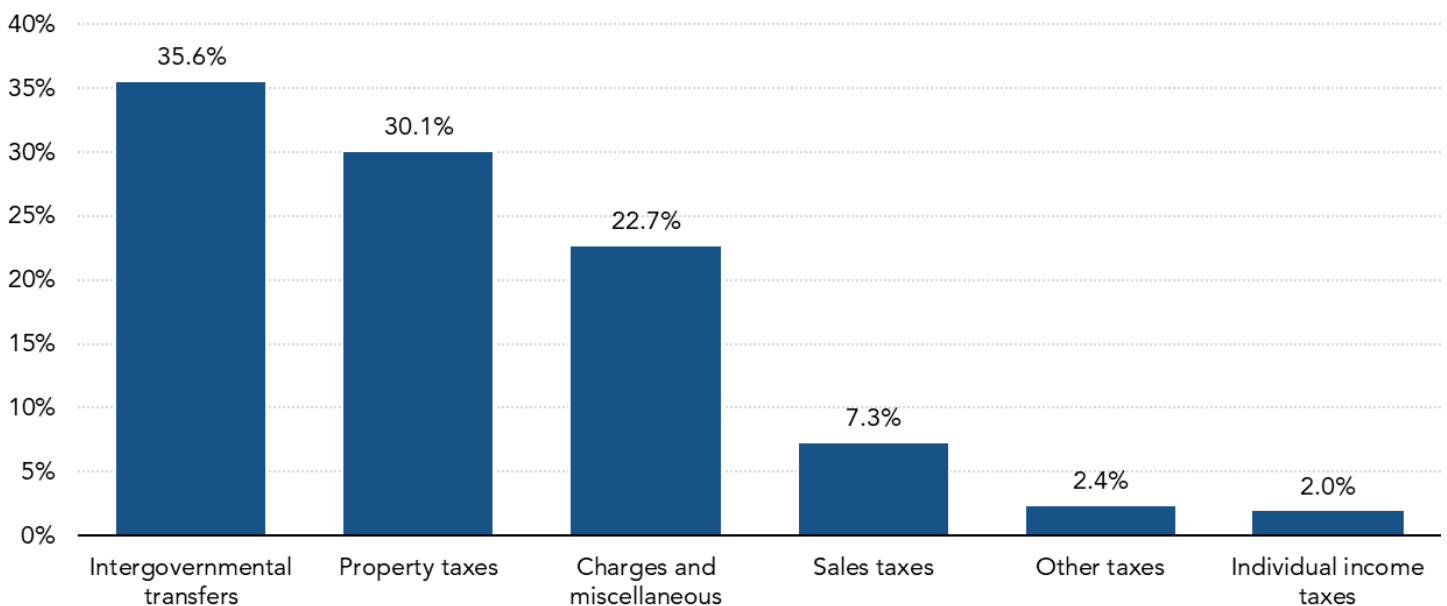
Q. What are the sources of revenue for local governments?

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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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).

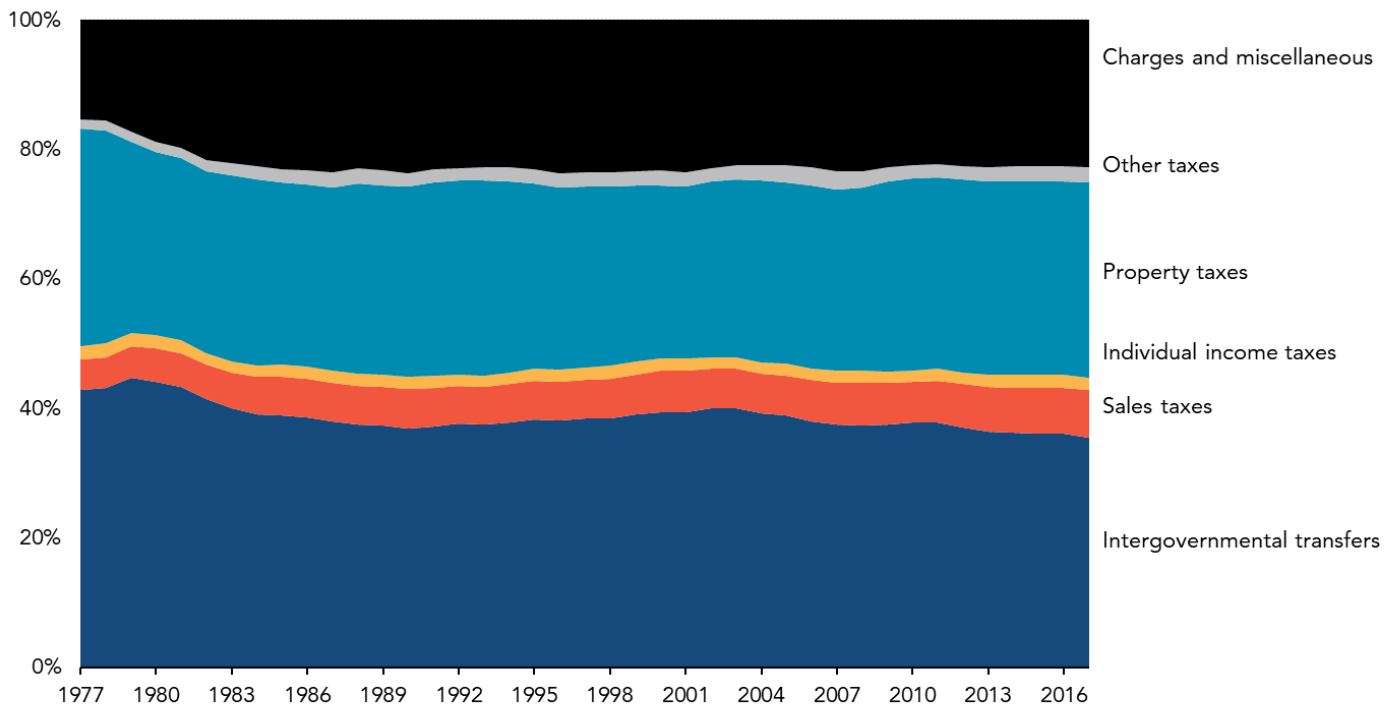
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FIGURE 2

Breakdown of Local Government General Revenue by category, fiscal years 1977–2017



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.

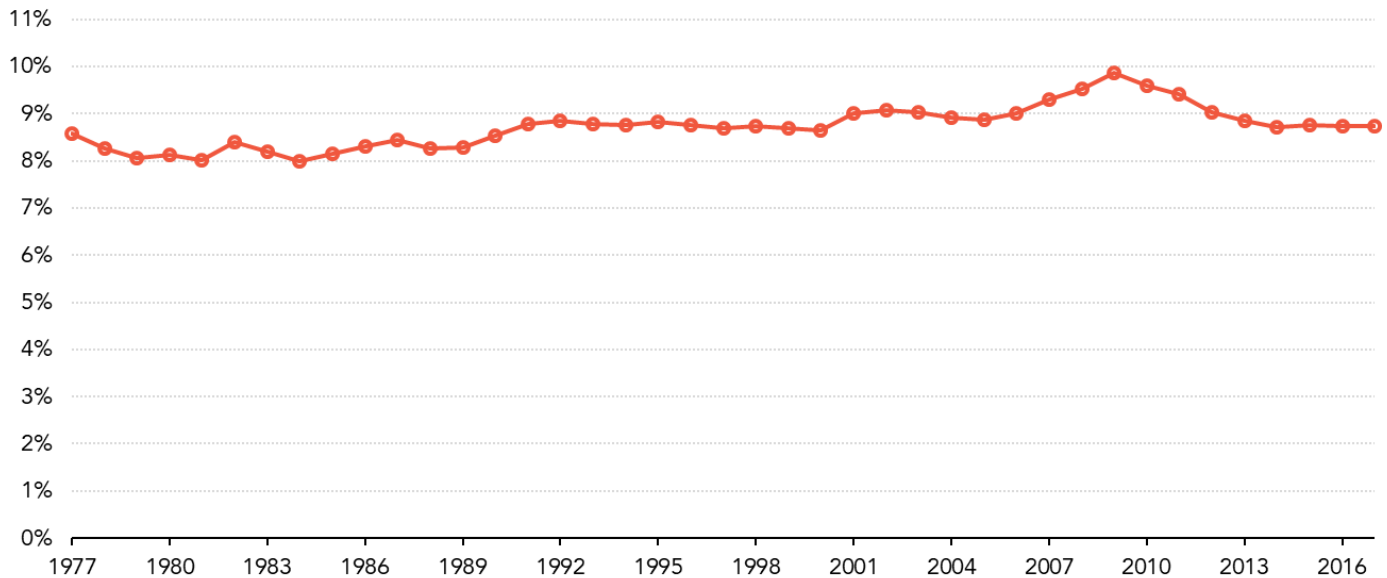
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FIGURE 3

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).

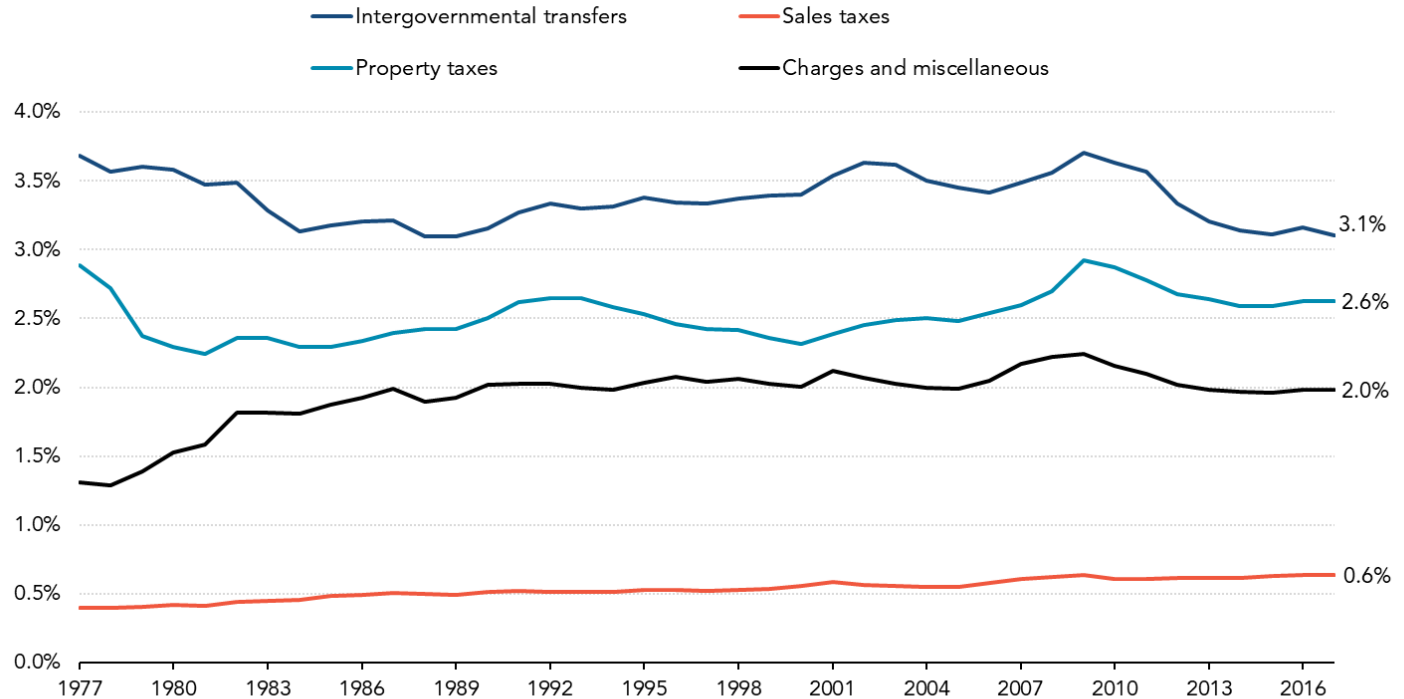
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FIGURE 4

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.

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Data Sources

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

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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. 2018. "[Predicting Municipal Fiscal Distress: Aspiration or Reality?](#)" Cambridge, MA: Lincoln Institute of Land Policy.

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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