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 account for about half of all general revenue.

State governments collected more than $1.9 trillion of general revenue in 2016. General revenue from income, sales, and other taxes totaled $923 billion—nearly half of all general revenue (figure 1). About one-third came from intergovernmental transfers.

**FIGURE 1**
Breakdown of State Government General Revenue

The State of State (and Local) Tax Policy

What are the sources of revenue for state governments?

INTERGOVERNMENTAL TRANSFERS

Intergovernmental transfers to state governments—primarily from the federal government—totaled $637 billion in 2016. 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 $441 billion in 2016, or 23 percent of state general revenue. Individual income taxes provided $344 billion (18 percent of state general revenue) and corporate income taxes accounted for $46 billion (2 percent of state general revenue). Revenue from all other taxes (including license fees, estate taxes, and severance taxes) was $92 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 $349 billion, or 18 percent of state general revenue in 2016.

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 and user fees increased significantly from 11 percent in 1977 to 18 percent in 2002, as states sought to broaden their revenue bases, 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 2016, but the share from sales and corporate taxes declined.

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 over the past 15 years (figure 3). State revenues grew above that 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 2016 state revenue remained just above 10 percent of GDP.

Revenue from charges and miscellaneous fees as well as individual income taxes grew from about 1 percent to 2 percent of GDP from 1977 to 2016, while sales tax revenue remained fairly constant at about 2.5 percent (figure 4). Intergovernmental transfers grew from about 2 percent to more than 3 percent of GDP over the period.
What are the sources of revenue for state governments?

**FIGURE 2**
Breakdown of State Government General Revenue

- Charges and miscellaneous
- Other taxes
- Corporate income taxes
- Individual income taxes
- Sales taxes
- Intergovernmental transfers


**FIGURE 3**
Total State Government General Revenue
Share of GDP, fiscal years 1977–2016

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What are the sources of revenue for state governments?

**FIGURE 4**


**Data Sources**


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

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**Further Reading**
