THE TAX POLICY

BRIEFING BOOK

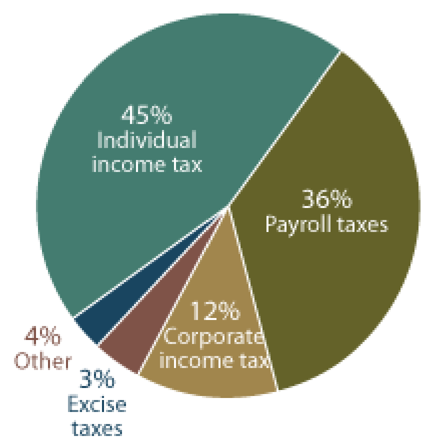
A Citizens' Guide for the 2008 Election and Beyond

THE NUMBERS

The Numbers: **What are the federal government's sources of revenue?**

Individual income taxes and payroll taxes now account for four out of every five federal revenue dollars. Corporate income taxes contribute another 12 percent. Excise taxes, estate and gift taxes, customs duties, and miscellaneous receipts (earnings of the Federal Reserve System and various fees and charges) make up the balance. The composition of tax revenue has changed markedly over the past half century, with payroll taxes contributing an increasing, and corporate income and excise taxes a decreasing, share of the total, but the share provided by individual income taxes has remained roughly constant.

Figure 1. Sources of Federal Tax Revenue, Fiscal Year 2008



Source: Congresional Budget Office, A Preliminary Analysis of the President's Budget and an Update of CBO's Budget and Economic Outlook, March 2009, Table F-3, available at http://www.cbo.gov/ftpdocs/100xx/doc10014/HistoricalMar09.pdf

- In 2008 the federal government collected $2.5 trillion, an amount equal to 17.7 percent of GDP. Federal revenue has ranged from 14.4 to 20.9 percent of GDP over the past five decades, averaging 18.2 percent.

- The individual income tax has been the largest single source of federal revenue since 1950, averaging just over 8 percent of GDP.

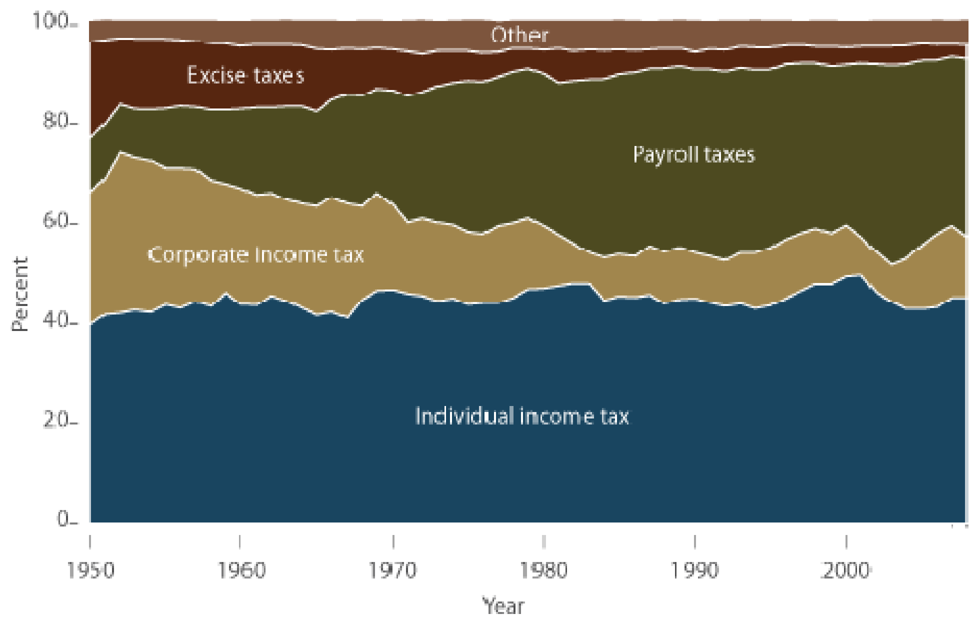
- Payroll taxes swelled following the creation of Medicare in 1965. Taxes for Medicare, combined with periodic increases in Social Security taxes, caused payroll tax revenue to grow from 1.6 percent of GDP in 1950 to more than 6 percent since 1990. Payroll taxes also include railroad retirement, unemployment insurance, and federal workers' pension contributions.

- Revenue from the corporate income tax fell from between 5 and 6 percent of GDP in the early 1950s to 2.1 percent of GDP in 2008.

- Excise taxes fell steadily throughout the same period, from nearly 3 percent of GDP in 1950 to 0.5 percent in recent years.

- The remaining sources of revenue have fluctuated less, together claiming between 0.5 and 1.0 percent of GDP since 1950 and standing near the bottom of that range in 2008.

Figure 2. Sources of Federal Revenue, Fiscal 1950-2008



Source: 1950-2006:Budget of the United States Government, Fiscal Year 2008, HISTORICAL TABLES, Table 2.1 Receipts by Source: 1934-2012, available at http://www.whitehouse.gov/omb/budget/fy2008/sheets/hist02z3.xls 2007-2008: Congressional Budget Office, A Preliminary Analysis of the President's Budget and an Update of CBO's Budget and Economic Outlook, March 2009, Table F-3, available at http://www.cbo.gov/ftpdocs/100xx/doc10014/HistoricalMar09.pdf

- Changes in the shares of the various taxes in total federal revenue reflect these historical shifts. The individual income tax has consistently provided nearly half of total federal revenue since 1950, while other revenue sources have waxed and waned. 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 in the early 1950s to less than one-sixth in 2008. In contrast, payroll taxes provided more than one-third of revenue in 2008, compared with just one-tenth in the early 1950s.

See Also

The Numbers: How does the federal government spend its money?

The Numbers: What is the breakdown of tax revenues between federal, state, and local governments?

The Numbers: How do U.S. taxes compare internationally?

Data Sources

Budget of the United States Government, Fiscal Year 2008, Historical Tables, Table 2.1 Receipts by Source: 1934-2012

Congressional Budget Office, A Preliminary Analysis of the President's Budget and an Update of CBO's Budget and Economic Outlook, March 2009, Table F-3 and F-4

Historical Amount of Revenue by Source, 1934-2012

Historical Percentage of Revenue by Source, 1934-2013

Historical Source of Revenue as Share of GDP, 1934-2013

Author: Roberton Williams
Last Updated: April 22, 2009

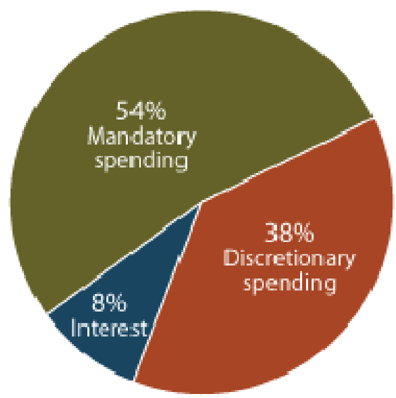
Further Reading

U.S. Congress Joint Committee on Taxation, "Selected Data Related to the Federal Tax System," JCX-11-07, March 14, 2007.

The Numbers: **How does the federal government spend its money?**

Just over half of federal government spending in fiscal 2008 was mandatory, covering all expenditures that are controlled by laws other than appropriations acts (see figure 1). Almost all such spending is for entitlements, expenditures for which depend on individual eligibility and participation, and which are funded at whatever level is needed to cover the resulting costs. Less than 40 percent of spending in fiscal 2007 was discretionary, covering activities that Congress must reauthorize each year. The remainder went to pay interest on the national debt.

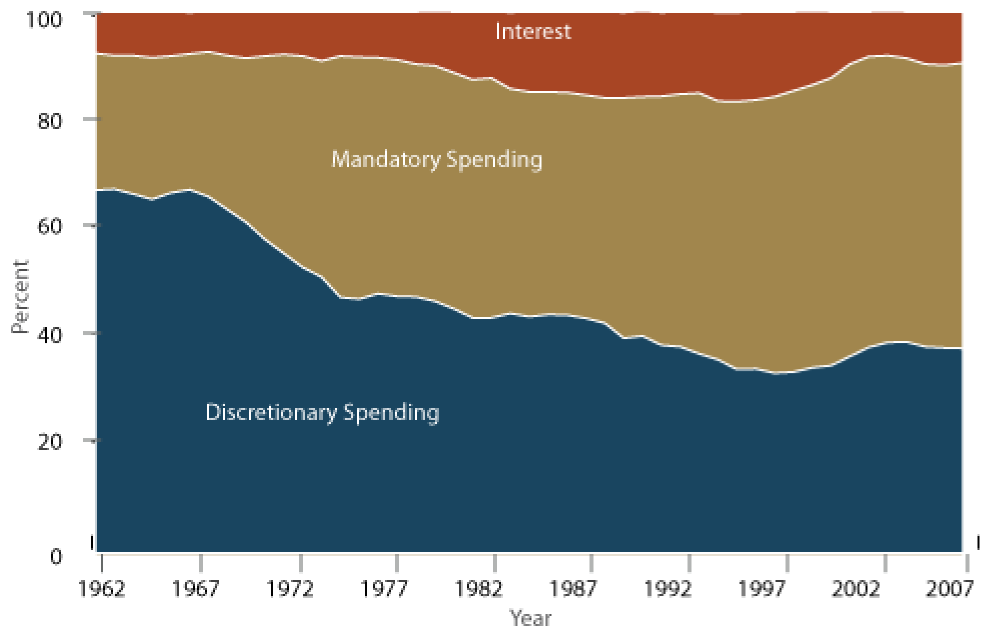
Figure 1. Composition of Federal Spending, Fiscal 2008



Source: Congressional Budget Office, A Preliminary Analysis of the President's Budget and an Update of CBO's Budget and Economic Outlook, March 2009, Table F-5, available at http://www.cbo.gov/ftpdocs/100xx/doc10014/HistoricalMar09.pdf.

- Mandatory spending has claimed a much larger share of the federal budget over the past four decades, more than doubling from about one-fourth of federal spending in 1962 to just over half today (see figure 2). In contrast, the share of the budget going for discretionary spending has fallen from two-thirds in 1962 to about two-fifths now. Interest on the national debt has fluctuated over the period: it climbed from 6 percent in 1962 to more than 15 percent in the mid-1990s, fell to about 7 percent in the early 2000s, and then rose again in recent years.

Figure 2. Federal Spending by Type, Fiscal 1962-2008



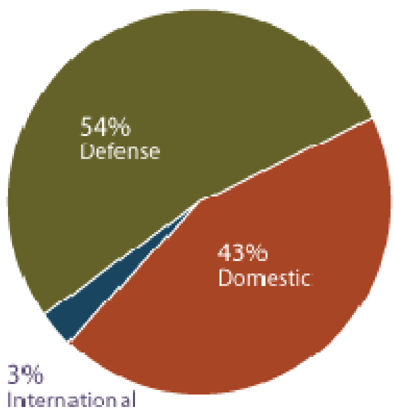
Source: Congressional Budget Office, The Budget and the Economic Outlook: Fiscal Years 2008 to 2017, January 2007, Table E-5 for 1962-1968, http://www.cbo.gov/ftpdocs/77xx/doc7731/01-24-BudgetOutlook.pdf.

Congressional Budget Office, A Preliminary Analysis of the President's Budget and an Update of CBO's Budget and Economic Outlook, March 2009, Table F-5, for 1969-2008 available at http://www.cbo.gov/ftpdocs/100xx/doc10014/HistoricalMar09.pdf

- About half of fiscal 2008 discretionary spending paid for defense, and most of the rest went for domestic programs such as agricultural subsidies, highway construction, and the federal courts (see figure 3). Only 3 percent of discretionary spending funded international activities, such as foreign aid.

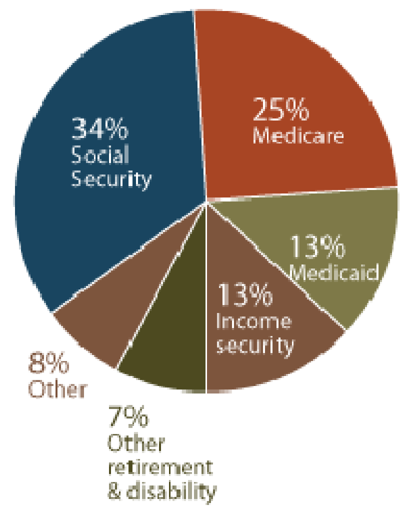
- Social Security claimed just over one-third of mandatory spending in fiscal 2008 (see figure 4). Medicare and Medicaid took up 25 percent and 13 percent, respectively. The remaining 28 percent covered income security programs (such as food stamps), retirement and disability programs (including pensions for federal retireees), and other programs.

Figure 3. Composition of Discretionary Spending, Fiscal 2008



Source: Congressional Budget Office, A Preliminary Analysis of the President's Budget and an Update of CBO's Budget and Economic Outlook, March 2009, Table F-7, available at http://www.cbo.gov/ftpdocs/100xx/doc10014/HistoricalMar09.pdf

Figure 4. Composition of Mandatory Spending, Fiscal 2008



Source: Congressional Budget Office, A Preliminary Analysis of the President's Budget and an Update of CBO's Budget and Economic Outlook, March 2009, Table F-9, available at http://www.cbo.gov/ftpdocs/100xx/doc10014/HistoricalMar09.pdf

See Also

The Numbers: What are the federal government's sources of revenue?

The Numbers: What is the breakdown of tax revenues between federal, state, and local governments

The Numbers: How do U.S. taxes compare internationally?

Author: Roberton Williams
Last Updated: April 22, 2009

Data Sources

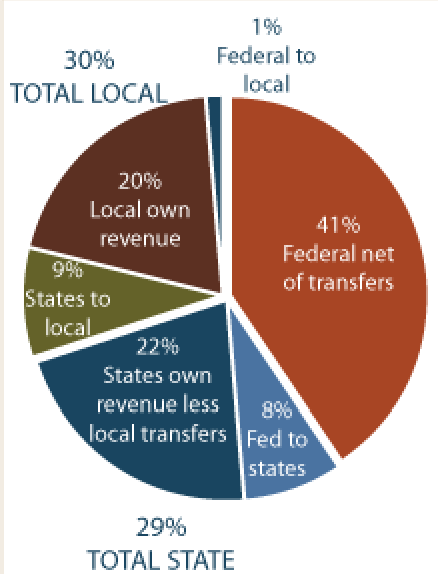
Congressional Budget Office, "The Budget and Economic Outlook: Fiscal Years 2008 to 2017" (Washington, January 2007), Tables E-5, E-7, and E-9.

Congressional Budget Office, "A Preliminary Analysis of the President's Budget and an Update of CBO's Budget and Economic Outlook, March 2009, Tables F-5, F-7 and F-9.

The Numbers: What is the breakdown of revenue among federal, state, and local governments?

Federal, state, and local revenues totaled nearly $5.2 trillion in 2007. Federal revenue made up almost half of that total, states collected about 30 percent, and local governments brought in 20 percent. Transfers from the federal government to state and local governments and from state governments to local governments shifted the balance of resources among the three groups.

Federal, State, and Local Revenues Before and After Transfers, 2007



Sources:

State and local data: Tax Policy Center, State and Local Government Finance Data Query System. http://www.taxpolicycenter.org/slf-dqs/pages.cfm.

Federal data: OMB. The Budget of US Government for Fiscal Year 2010, Historical Tables, Table 1.1. http://www.gpoaccess.gov/usbudget/fy10/hist.html

- The federal government transferred nearly one-fifth of its revenue (one-tenth of total government revenue) to state and local governments, leaving it with 41 percent of total revenue, about $2.1 trillion.

- Almost all of the federal transfer went to the states, which in turn passed the equivalent of about 110 percent of this revenue to local governments.

- States retained 29 percent of total revenue, about $1.52 trillion.

- Local governments received transfers from both the federal and state governments equal to about one-tenth of total revenue, giving them a total of just under 30 percent of all government revenue, about $1.54 trillion, slightly more than state governments.

See Also

The Numbers: What are the federal government's sources of revenue?

The Numbers: How does the federal government spend its money?

The Numbers: How do U.S. taxes compare internationally?

Data Sources

Office of Management and Budget, Budget of the U.S. Government, Fiscal Year 2010

Office of Management and Budget, Budget of the U.S. Government, Fiscal Year 2010, Historical Tables

Tax Policy Center, State and Local Government Finance Data Query System

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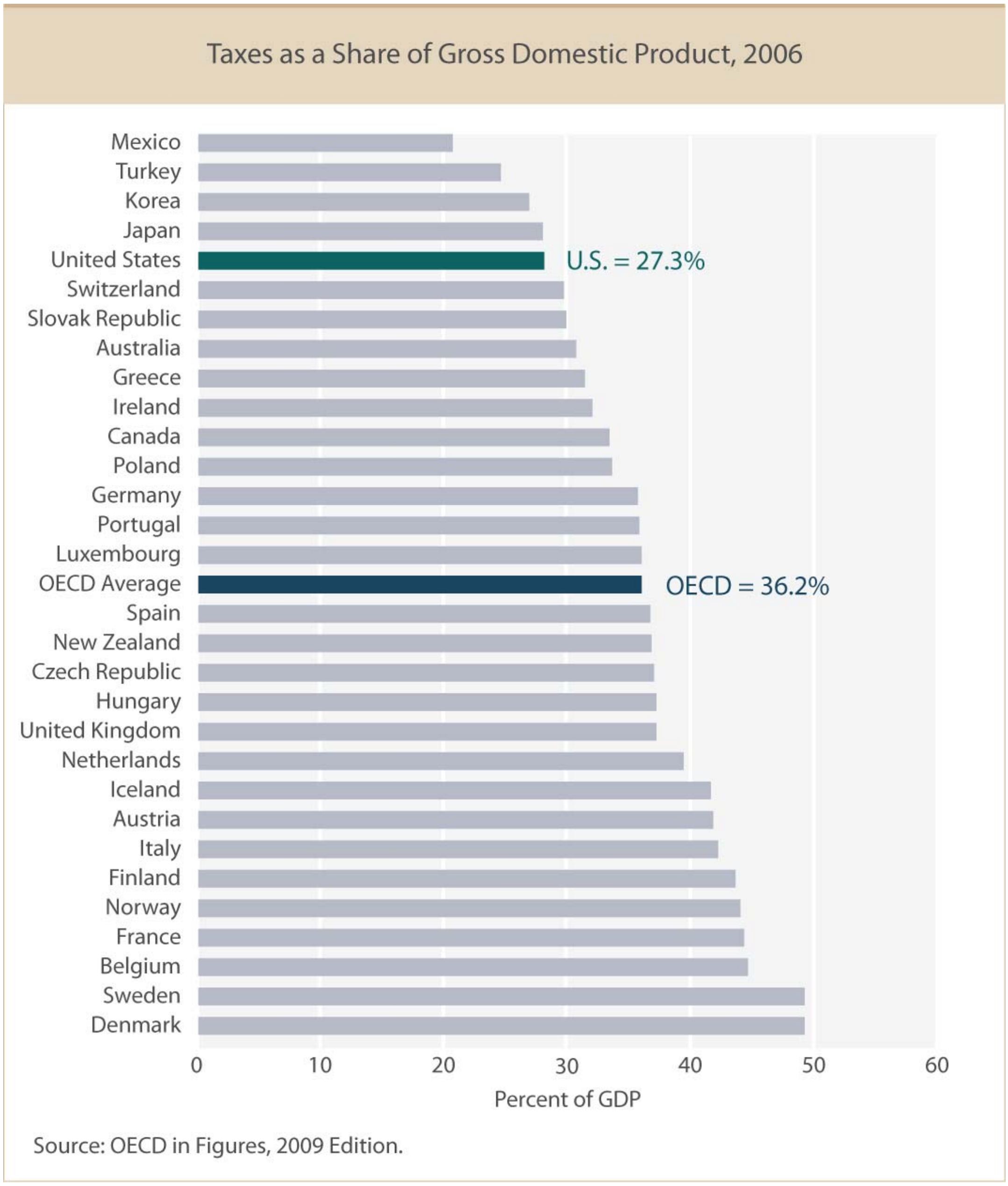
The Numbers: How do U.S. taxes compare internationally?

U.S. taxes are low relative to those in other developed countries. In 2006 U.S. taxes at all levels of government claimed 28 percent of GDP, compared with an average of 36 percent of GDP for the 30 member countries of the Organization for Economic Co-operation and Development (OECD).



- Among OECD countries only Mexico, Turkey, Korea, and Japan had lower taxes than the United States as a percentage of GDP. In many European countries taxes exceeded 40 percent of GDP, but those countries generally provide much more extensive government services to their citizens than the United States does.

- The United States relies less on consumption taxes—17 percent of total 2006 tax receipts—than any other OECD country. Revenue from such taxes averaged 32 percent of total taxes among the 30 OECD countries. Mexico, in contrast, collected 56 percent of its 2006 tax revenue from consumption taxes.

- Personal income taxes made up 36 percent of U.S. tax revenue in 2006, more than in most other OECD countries, where such taxes averaged 25 percent of the total. However, individual taxpayers paid a larger share of tax revenue in Denmark (50 percent), New Zealand (41 percent), and Australia (37 percent).

- Corporate income taxes accounted for a slightly larger share of U.S. tax revenue, 12 percent in 2006, than the OECD average of 11 percent.

- U.S. employees, on average, contributed more in taxes for retirement and disability insurance—10 percent of total tax receipts—than many of their OECD counterparts, where such taxes accounted for 9 percent of total receipts on average. U.S. employers, however, contributed less: 12 percent of the total compared with OECD employers' average of 15 percent.

See Also

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The Numbers: What is the breakdown of tax revenues between federal, state, and local governments?

Data Sources

Organization for Economic Co-operation and Development, OECD in Figures, 2009 Edition

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Last Updated: March 16, 2010

Further Reading

Hoo, Sonya, and Eric Toder, "The U.S. Tax Burden Is Low Relative to Other OECD Countries," Tax Notes, May 08, 2006, p. 696.

Urban-Brookings Tax Policy Center, "OECD Composition of Taxes, 1999-2006," Tax Facts.