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## Where Does Federal Revenue Come From?

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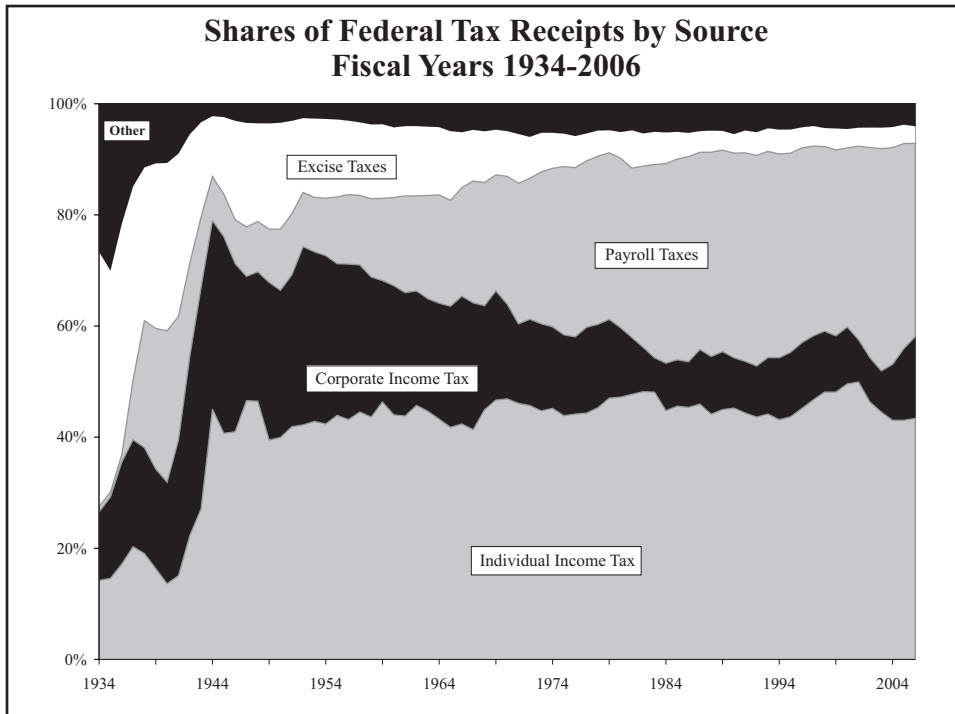
The past 75 years have seen marked changes in the sources of federal revenue. In 1934 excise taxes accounted for almost half of all revenue, and income taxes were about one-fourth; payroll taxes barely registered on the scale. Social Security began collecting taxes in 1937 and quickly grew to one-fourth of revenue in three years. By 1940, income taxes and excise taxes each accounted for about one-third of tax receipts. The individual income tax's share of revenue more than tripled during World

War II, and the corporate income tax's share doubled. In 1945 the two combined to bring in three-fourths of all federal revenue; excise taxes had fallen to 14 percent of revenue, and payroll taxes were half that.

The share of revenue from individual income taxes has changed little since then, fluctuating between 40 percent and 50 percent. Meanwhile payroll taxes soared, while excise taxes plummeted and corporate taxes became less important. The share of taxes coming from payroll taxes more than quadrupled to between 35 percent and 40 percent, in large part because of periodic increases in Social Security taxes and the 1965 creation of Medicare. After a brief resurgence in the 1950s, excise taxes steadily waned, dropping to just 3 percent of all federal tax receipts in 2006. Corporate in-

come taxes followed a more erratic course, drifting downward from roughly one-third of revenue in the late 1940s and early 1950s to less than half that in the 1970s. Since then corporate taxes have hovered around 10 percent of federal tax receipts, with marked dips during recessions in 1983, 1990, and 2001. Other than those temporary fluctuations, however, the shares of taxes have been stable for two decades.

Individual income taxes and payroll taxes now account for nearly 80 percent of federal revenue and corporate income tax revenue makes up about two-thirds of the rest. Excise taxes, estate and gift taxes, customs duties, and miscellaneous receipts bring in just 7 percent of federal revenue.



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