

CRS Report for Congress

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The Level of Taxes in the United States, 1940-2005

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Summary

The overall level of federal tax receipts has varied in recent years. After reaching a post-World War II peak of 20.9% in fiscal year (FY) 2000, federal receipts as a percentage of gross domestic product (GDP) fell for three consecutive years, declining in 2004 to its lowest level since 1959 (16.3%) before rising again to 17.5% in 2005 — a level close to its post-war average of 18.3%. The decline in receipts was attributed to a variety of factors: slower economic growth, changes in the makeup of aggregate income, and enacted tax-cut legislation. At the same time, the composition of federal taxes has changed somewhat, generally shifting away from corporate income taxes and excise taxes towards Social Security taxes, but with individual income taxes remaining the largest category over the post-World War II period. This report will be updated as additional data become available.

The Level of Taxes Compared to the Size of the Economy

Although tax receipts have varied over the past few years, they have remained relatively stable over the longer term. **Figure 1** shows federal receipts as a percentage of Gross Domestic Product (GDP) over the period 1940-2005; **Table 1** presents the corresponding data. The numbers indicate that during World War II, taxes increased from a pre-war level of about 7% of GDP to 20.9% in 1944. Although tax receipts declined immediately after the war, they remained substantially above their pre-war level.

For the next five decades, the level of taxes remained quite stable. The average for the post-World War II period has been 18.3% of GDP. The lowest level was in 1950, at 14.4%; receipts reached their highest level as a percentage of GDP in 2000 at 20.9%. After reaching their peak in 2000, receipts declined for several years, reaching 16.3% in 2004, but then rose to 17.5% in 2005. These high and low points are relatively small departures from the average, and most years remained quite close to the norm, within 3.0% of GDP from the long-term average. The narrow range of variation has been a consequence of both economic factors and conscious policy decisions. For example,

inflation helped push revenues, as a percentage of the economy, to a relative peak in 1981, whereas the Economic Recovery Tax Act of 1981 subsequently reduced them. Similarly, robust economic growth helped boost receipts to their record level in 2000, whereas the subsequent tax cut bills and decline in economic growth reduced receipts in the next four years.

Figure 1. Federal Taxes as a Percentage of Gross Domestic Product, Fiscal Years 1940 - 2005

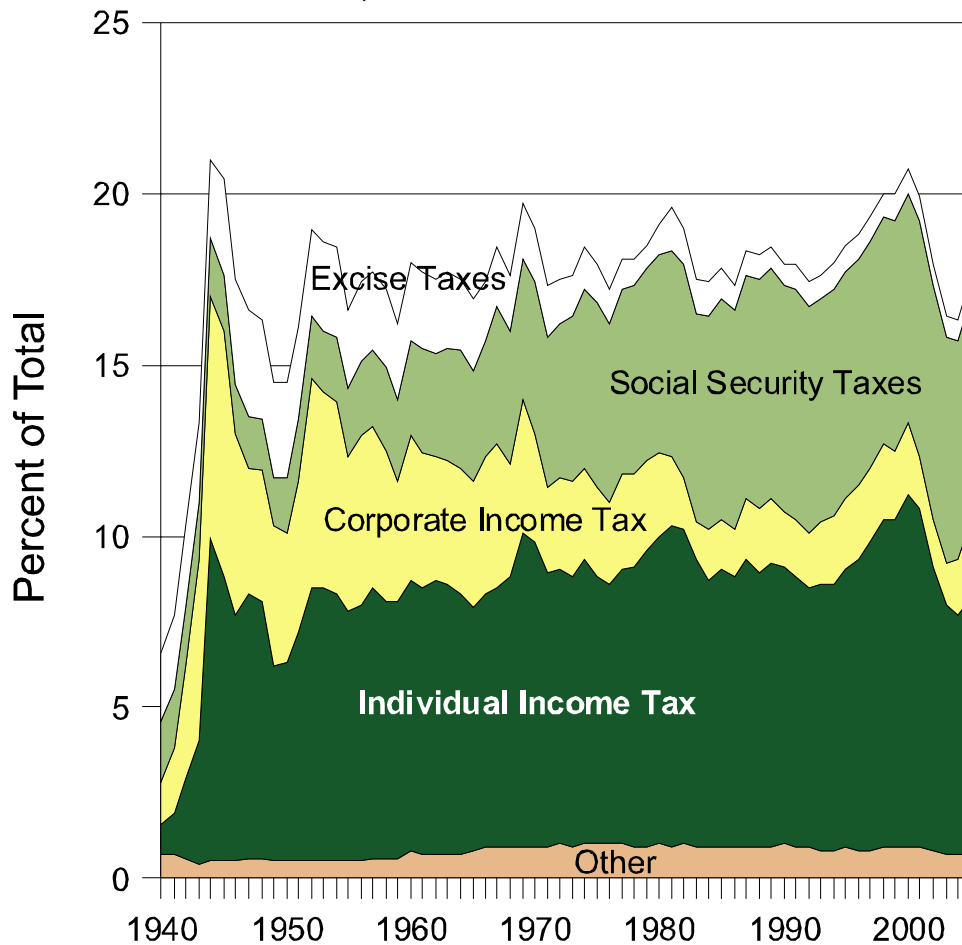


Table 1. Federal Receipts as a Percentage of GDP, FY1940-FY2005

Fiscal Year	Individual Income Taxes	Corporate Income Taxes	Social Security Taxes	Excise Taxes	Other	Total Receipts
1940	0.9	1.2	1.8	2.0	0.7	6.8
1941	1.2	1.9	1.7	2.2	0.7	7.6
1942	2.3	3.3	1.7	2.4	0.6	10.1
1943	3.6	5.3	1.7	2.3	0.4	13.3
1944	9.4	7.1	1.7	2.3	0.5	20.9
1945	8.3	7.2	1.6	2.8	0.5	20.4
1946	7.2	5.3	1.4	3.1	0.5	17.6
1947	7.7	3.7	1.5	3.1	0.6	16.5
1948	7.5	3.8	1.5	2.9	0.6	16.2
1949	5.7	4.1	1.4	2.8	0.5	14.5
1950	5.8	3.8	1.6	2.8	0.5	14.4
1951	6.7	4.4	1.8	2.7	0.5	16.1
1952	8.0	6.1	1.8	2.5	0.5	19.0
1953	8.0	5.7	1.8	2.6	0.5	18.7
1954	7.8	5.6	1.9	2.6	0.5	18.5
1955	7.3	4.5	2.0	2.3	0.5	16.6
1956	7.5	4.9	2.2	2.3	0.5	17.5
1957	7.9	4.7	2.2	2.3	0.6	17.8
1958	7.5	4.4	2.4	2.3	0.6	17.3
1959	7.5	3.5	2.4	2.2	0.6	16.1
1960	7.9	4.2	2.8	2.3	0.8	17.9
1961	7.8	3.9	3.1	2.2	0.7	17.8
1962	8.0	3.6	3.0	2.2	0.7	17.6
1963	7.9	3.6	3.3	2.2	0.7	17.8
1964	7.6	3.7	3.4	2.1	0.7	17.6
1965	7.1	3.7	3.2	2.1	0.8	17.0
1966	7.4	4.0	3.4	1.7	0.9	17.4
1967	7.6	4.2	4.0	1.7	0.9	18.3
1968	7.9	3.3	3.9	1.6	0.9	17.7
1969	9.2	3.9	4.1	1.6	0.9	19.7
1970	8.9	3.2	4.4	1.6	0.9	19.0
1971	8.0	2.5	4.4	1.5	0.9	17.3
1972	8.0	2.7	4.5	1.3	1.0	17.6
1973	7.9	2.8	4.8	1.2	0.9	17.7
1974	8.3	2.7	5.2	1.2	1.0	18.3
1975	7.8	2.6	5.4	1.1	1.0	17.9
1976	7.6	2.4	5.2	1.0	1.0	17.2
TQ	8.5	1.9	5.5	1.0	0.9	17.8
1977	8.0	2.8	5.4	0.9	1.0	18.0
1978	8.2	2.7	5.5	0.8	0.9	18.0
1979	8.7	2.6	5.6	0.7	0.9	18.5
1980	9.0	2.4	5.8	0.9	1.0	19.0

Fiscal Year	Individual Income Taxes	Corporate Income Taxes	Social Security Taxes	Excise Taxes	Other	Total Receipts
1981	9.4	2.0	6.0	1.3	0.9	19.6
1982	9.2	1.5	6.2	1.1	1.0	19.1
1983	8.4	1.1	6.1	1.0	0.9	17.5
1984	7.8	1.5	6.2	1.0	0.9	17.4
1985	8.1	1.5	6.4	0.9	0.9	17.7
1986	7.9	1.4	6.4	0.7	0.9	17.4
1987	8.4	1.8	6.5	0.7	0.9	18.4
1988	8.0	1.9	6.7	0.7	0.9	18.2
1989	8.3	1.9	6.7	0.6	0.9	18.4
1990	8.1	1.6	6.6	0.6	1.0	18.0
1991	7.9	1.7	6.7	0.7	0.9	17.8
1992	7.6	1.6	6.6	0.7	0.9	17.5
1993	7.8	1.8	6.5	0.7	0.8	17.6
1994	7.8	2.0	6.6	0.8	0.8	18.1
1995	8.1	2.1	6.6	0.8	0.9	18.5
1996	8.5	2.2	6.6	0.7	0.8	18.9
1997	9.0	2.2	6.6	0.7	0.8	19.3
1998	9.6	2.2	6.6	0.7	0.9	20.0
1999	9.6	2.0	6.7	0.8	0.9	20.0
2000	10.3	2.1	6.7	0.7	0.9	20.9
2001	9.9	1.5	6.9	0.7	0.9	19.8
2002	8.3	1.4	6.8	0.6	0.8	17.9
2003	7.3	1.2	6.6	0.6	0.7	16.5
2004	7.0	1.6	6.4	0.6	0.7	16.3
2005	7.5	2.3	6.5	0.6	0.7	17.5

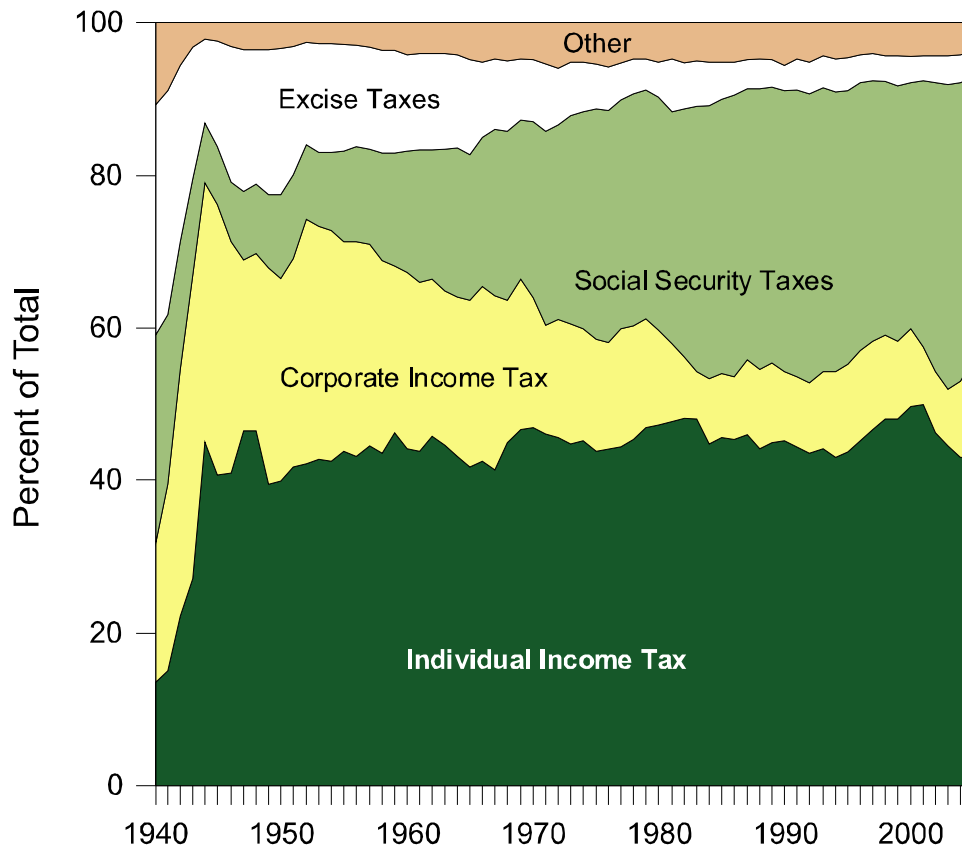
Source: Office of Management and Budget, *Budget of the United States Government, FY2005. Historical Tables.*

Composition of Federal Receipts

Figure 2 shows how the composition of federal receipts has changed since World War II; it presents the percentage of federal receipts contributed by each major category of taxes. Over the past five and one-half decades, corporate taxes and excise taxes have declined in importance, while social insurance taxes (chiefly Social Security) have grown substantially. Currently, the individual income tax still produces the most revenue and is followed in size by social insurance taxes.

The supporting data for **Figure 2** are not provided here, but can be found in table 2.2 of the *Historical Tables* volume of the set of FY2007 budget documents released by the Executive Office of the President.

Figure 2. Percentage Composition of Federal Receipts, Fiscal Years 1940-2005



State and Local Taxes

Figure 3 shows that state and local taxes have almost doubled, rising from 5.5% of GDP in 1948 to 10.1% in 2005. As a result, total taxes — federal, and state and local taxes combined as a percentage of GDP — have grown by 6.0 percentage points, or by over a quarter of the 1948 level. (As with **Figure 2**, the supporting data for **Figure 3** can be found in the *Historical Tables* of the FY2007 budget — in this case, table 15.1 on page 308.) Note that the state and local receipts shown in the figure do not include federal grants.

