

# CRS Report for Congress

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## The Level of Taxes in the United States, 1940-2003

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### Summary

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) have fallen for three consecutive years, declining to 19.8% of GDP in FY2001, 17.9% in FY2002, and 16.5% in FY2003. The decline in receipts has been attributed to a variety of factors: slower economic growth; changes in the make-up of aggregate income; and enacted tax-cut legislation. However, compared to the size of the U.S. economy, the overall level of federal taxes has remained relatively stable, remaining within 3.5 percentage points of GDP from post-war average. 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. This report will be updated as additional data become available. For more information on the level of taxes, see CRS Issue Brief IB10110, *Major Tax Issues in the 108<sup>th</sup> Congress*.

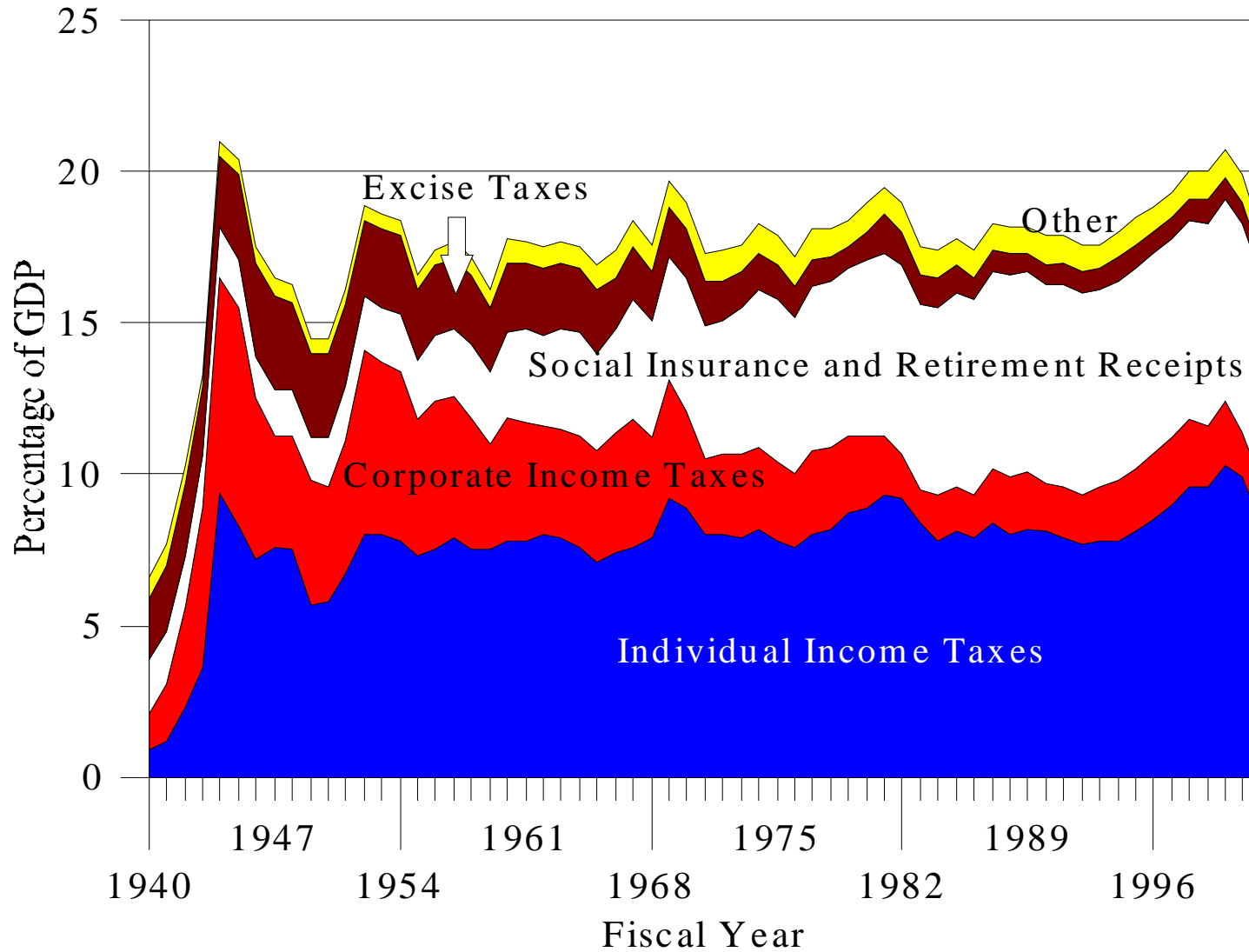
### The Level of Taxes Compared to the Size of the Economy

Compared to the size of the U.S. economy, the overall level of federal taxes has remained relatively stable for the past five and one-half decades. **Figure 1** shows federal receipts as a percentage of Gross Domestic Product (GDP) over the period 1940-2003; **Table 1** presents the corresponding data.<sup>1</sup> The numbers indicate that during World War II, taxes increased from a pre-war level of about 7% of GDP to 20.4% in 1945. While tax receipts declined immediately after the war, they remained substantially above their pre-war level.

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<sup>1</sup> The receipts reported in **Figure 1** and **Table 1** include a small quantity of non-tax items in the “other” category. However, non-tax items comprise such a small portion of the total that given this report’s level of generality, we use the terms “taxes” and “receipts” interchangeably.

Figure 1. Federal Receipts as a Percentage of GDP, Fiscal Years 1940 - 2003



**Table 1. Federal Receipts as a Percentage of GDP, FY1940-FY2003**

<b>Fiscal Year</b>	<b>Individual Income Taxes</b>	<b>Corporate Income Taxes</b>	<b>Social Security Taxes</b>	<b>Excise Taxes</b>	<b>Other</b>	<b>Total Receipts</b>
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	7.6	3.7	1.5	3.1	0.6	16.4
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	18.6
1954	7.8	5.6	1.9	2.6	0.5	18.4
1955	7.3	4.5	2.0	2.3	0.5	16.6
1956	7.5	4.9	2.2	2.3	0.5	17.4
1957	7.9	4.7	2.2	2.3	0.6	17.7
1958	7.5	4.4	2.4	2.3	0.6	17.3
1959	7.5	3.5	2.4	2.1	0.6	16.1
1960	7.8	4.1	2.8	2.3	0.8	17.8
1961	7.8	3.9	3.1	2.2	0.7	17.7
1962	8.0	3.6	3.0	2.2	0.7	17.5
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	17.3
1967	7.6	4.2	4.0	1.7	0.9	18.3
1968	7.9	3.3	3.9	1.6	0.9	17.6
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	4.4	1.3	1.0	17.5
1973	7.9	2.8	4.8	1.2	0.9	17.6
1974	8.2	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	17.9
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	5.5	0.7	0.9	18.5
1980	8.9	2.4	5.8	0.9	1.0	18.9
1981	9.3	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

Fiscal Year	Individual Income Taxes	Corporate Income Taxes	Social Security Taxes	Excise Taxes	Other	Total Receipts
1986	7.9	1.4	6.5	0.7	0.9	17.5
1987	8.4	1.8	6.5	0.7	0.9	18.4
1988	8.0	1.9	6.7	0.7	0.9	18.1
1989	8.2	1.9	6.6	0.6	0.9	18.3
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	7.7	1.6	6.7	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

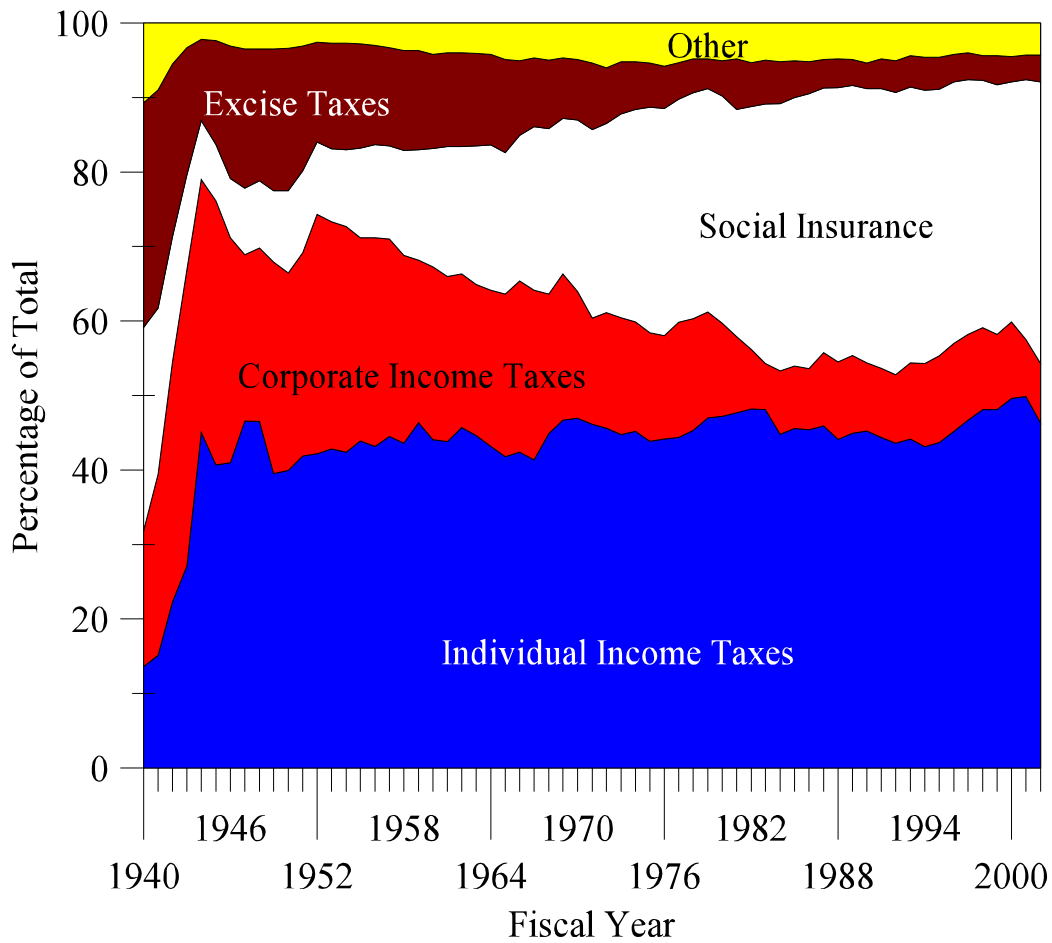
**Source:** Office of Management and Budget., *Budget of the United States Government, FY2005. Historical Tables.*

For the next 5 decades, the level of taxes remained quite stable. The average for the post-World War II period has been 17.9% 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% before falling to 19.8% in 2001, 17.9% in 2002, and 16.5% in 2003. These high and low points are relatively small departures from the average, and most years remained quite close to the norm, within 3.5% 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, while the Economic Recovery Tax Act of 1981 subsequently reduced them. Similarly, robust economic growth helped boost receipts to their record level in 2000, while the subsequent tax cut bills and decline in economic growth reduced receipts in the next 3 years.

## 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 FY2005 budget documents released by the Executive Office of the President.

**Figure 2. Composition of Federal Receipts, Fiscal Years 1940-2003**

## State and Local Taxes

**Figure 3** shows that state and local taxes have almost doubled, rising from 5.3% of GDP in 1947 to 10.6% in 2003. As a result, total taxes — federal, and state and local taxes combined — have grown by 5.1 percentage points, or by over a quarter of the 1947 level. (As with **Figure 2**, the supporting data for **Figure 3** can be found in the *Historical Tables* of the FY2005 budget — in this case, table 15.1 on page 288.) Note that the state and local receipts shown in the figure do not include federal grants.

**Figure 3. Federal and State and Local Taxes as a Percentage of GDP, Fiscal Years 1947-2003**

