



tax facts

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Changes in Total Government Tax Receipts Since 1929

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While federal, state, and local tax receipts have nearly tripled as a percentage of GDP over the last 70 years — rising from 9.5 percent in 1929 to 26.2 percent by 2002 — the magnitude of the decline in total receipts since 2000 is unmatched since World War II. The figure below shows the growth and change in the different sources of total tax receipts. Most of the growth in receipts occurred between 1929 and the nation's entrance into World War II. From the late 1960s through the late 1990s, the level of total government receipts had largely stabilized, remaining between 25 and 27 percent of GDP.

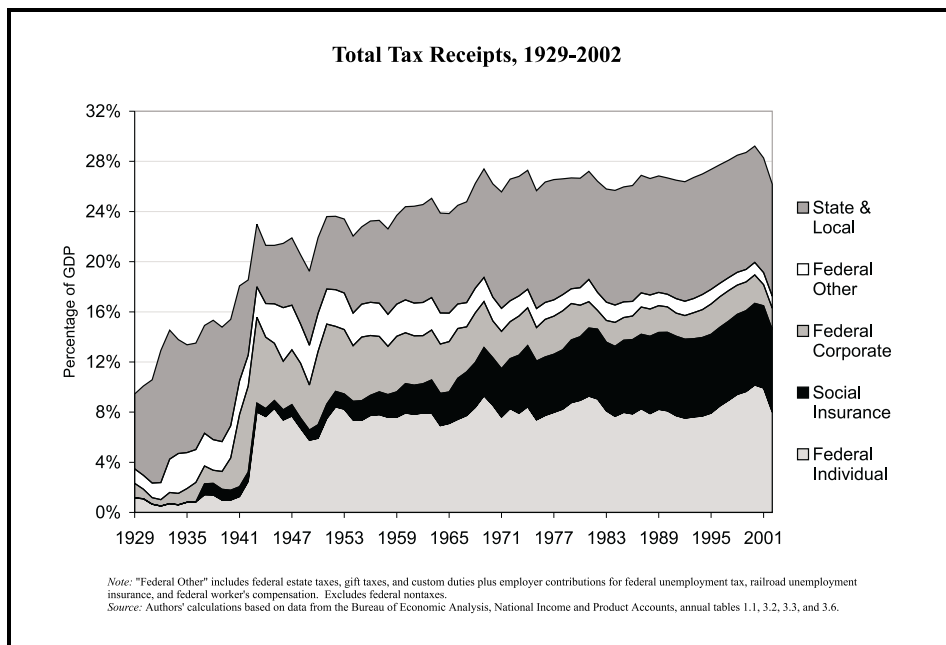
Since 1929, the federal government has significantly increased rates and expanded the base of the individual income tax and created contribution-based entitlement programs in Social Security and Medicare (the receipts of which together measure 6.5 percent of GDP in 2002). Social insurance receipts ballooned after the introduction of Medicare in 1965 and the indexing of Social Security benefits for inflation after 1973. By contrast, the individual income tax, after explosive growth in World War II, grew very slowly in the post-war era until the late 1990s, when it eclipsed state and local taxation in 1998 and peaked at 10.2 percent of GDP in 2002.

Most governmental receipts were collected by state and local governments before World War II. Since then, state and local taxes and federal income taxes have commanded similar portions of GDP (be-

tween 7.5 and 9.5 percent), and moved in the same directions in response to economic and fiscal changes. However, it is important to note that state governments and the taxes they levied grew significantly over this period, displacing local taxation.

Not all sources of taxation grew over the last 70 years. The corporate tax peaked as a fraction of GDP in the 1940s and 50s and has been in gradual decline ever since. Other federal taxes as a percentage of GDP — including federal estate and gift taxes and customs duties — peaked in the mid-1940s and have been in a similar steady decline.

The two largest drops in receipts during the period shown were in 1947-49 and 2000-02 (and possibly beyond). Total tax receipts fell 12.3 percent relative to GDP from 1947-49, from 21.9 percent to 19.2 percent, as taxes were cut as government downsized after World War II and the country entered a mild recession. Since 2000, total receipts have fallen 10.3 percent relative to GDP, from 29.2 percent to 26.2 percent, as the country entered a mild recession, the stock market bubble burst, and taxes were cut.



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