

CRS Report for Congress

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The Level of Taxes in the United States, 1941-1999

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Summary

In Fiscal Year (FY) 1999, federal receipts as a percent of Gross Domestic Product (GDP) reached their highest level since World War II for the second year in a row. However, the peak is not dramatic; compared to the size of the U.S. economy, the overall level of federal taxes has remained relatively stable over the past 45 years. In addition, average tax burdens within each income group have declined in recent years — an apparent paradox explained by a rapid growth in incomes at the upper end of the income spectrum, where marginal tax rates are relatively high. The composition of federal taxes has changed somewhat, generally shifting away from corporate income taxes and excise taxes towards Social Security taxes.

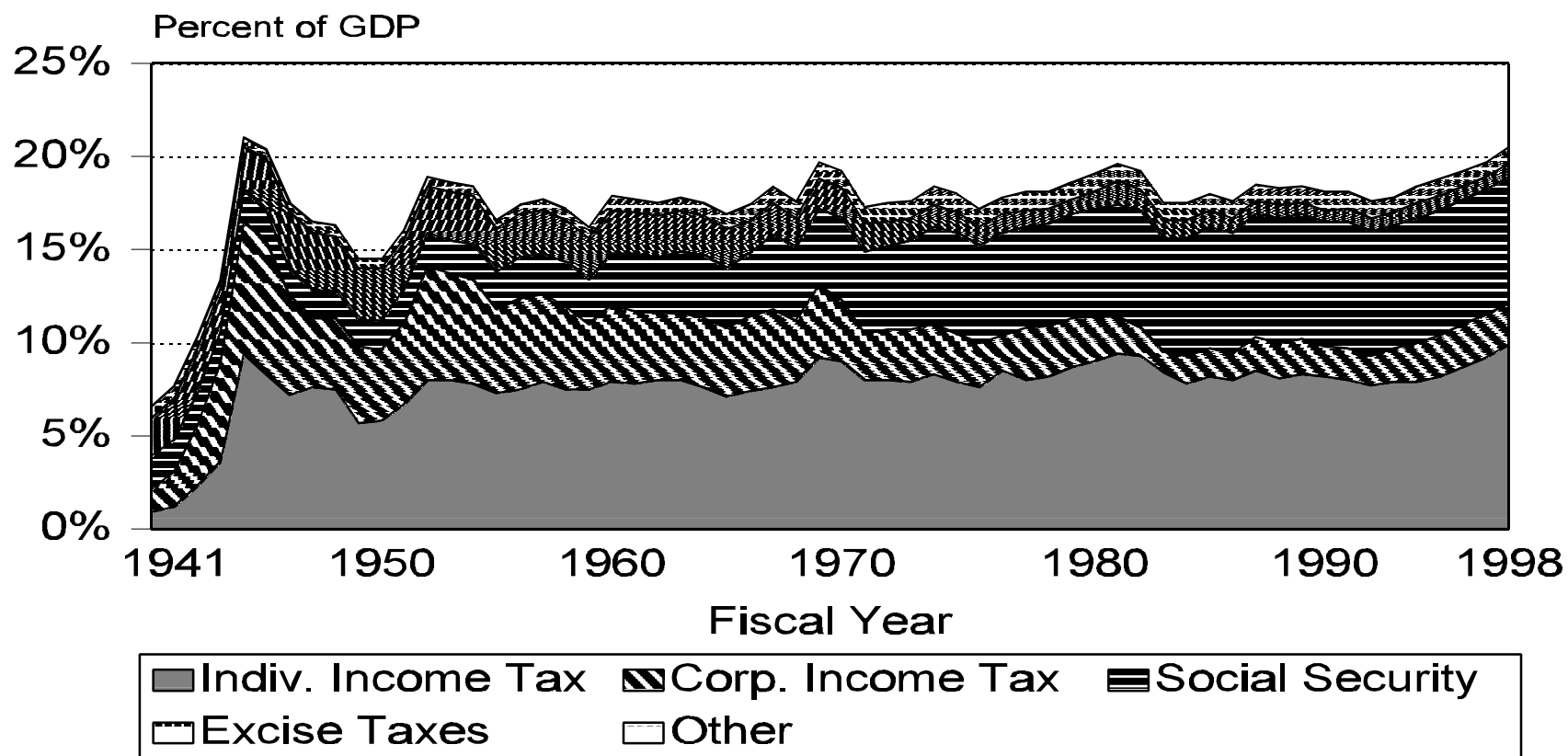
This report will be updated as additional data become available. For additional information on the level of taxes, see CRS Report RS20059, *The Federal Tax Burden*, by Gregg A. Esenwein. For more information on taxes in general, see CRS Issue Brief IB10013, *Major Tax Issues in the 106th Congress*, by the Government Finance and Taxation Section, Government and Finance Division.

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 45 years. Figure 1, below, shows federal receipts as a percent of Gross Domestic Product (GDP) over the period 1941-1999; table 1 presents the corresponding data.¹ The numbers indicate that during World War II, taxes increased from a pre-war level of about 7% of GDP to 20% in 1999. Taxes fell immediately after the war, but remained substantially above their pre-war level.

¹ 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 Percent of GDP, Fiscal Years 1941 - 1998



Source: Historical Tables. Budget of the United States Government, FY2000.

Table 1. Federal Receipts as a Percent of GDP, Fiscal Years 1941 - 1999

Fiscal Year	Individual Income Taxes	Corporate Income Taxes	Social Security Taxes	Excise Taxes	Other	Total Receipts
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	8.5	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	18.7
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	17.8
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	7.8	4.1	2.8	2.2	0.8	17.8
1961	7.8	3.9	3.1	2.2	0.7	17.8
1962	8.0	3.6	3.0	2.2	0.7	17.5
1963	7.9	3.6	3.3	2.2	0.7	17.8
1964	7.6	3.7	3.4	2.1	0.7	17.5
1965	7.1	3.7	3.2	2.1	0.8	17.0
1966	7.3	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	1.5	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	17.6
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	8.4	1.8	5.5	1.0	0.9	17.7
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	17.4
1984	7.8	1.5	6.2	1.0	0.9	17.3
1985	8.1	1.5	6.4	0.9	0.9	17.7
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	6.6	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	19.9
1999	9.6	2.0	6.7	0.8	0.9	20.0

Source: Office of Management and Budget. *Budget of the United States Government, FY1998. Historical Tables*; U.S. Congressional Budget Office. *Economic and Budget Outlook: Fiscal Years 2000 - 2008*.

For the next 5 decades, the level of taxes remained quite stable. The average for the post-World War II period has been 18.5% of GDP. The lowest level was in 1950, at 14.5%; the highest was in 1998, at 20.5%. These are small departures from the average, and most years remained quite close to the norm. On average, each year's level of revenues has varied from the post-war mean by less than 1% of GDP. The narrow range of variation has been a consequence of both economic factors and conscious policy decisions. For example, inflation helped push revenues to a peak in 1981, while the Economic Recovery Tax Act of 1981 subsequently reduced them.

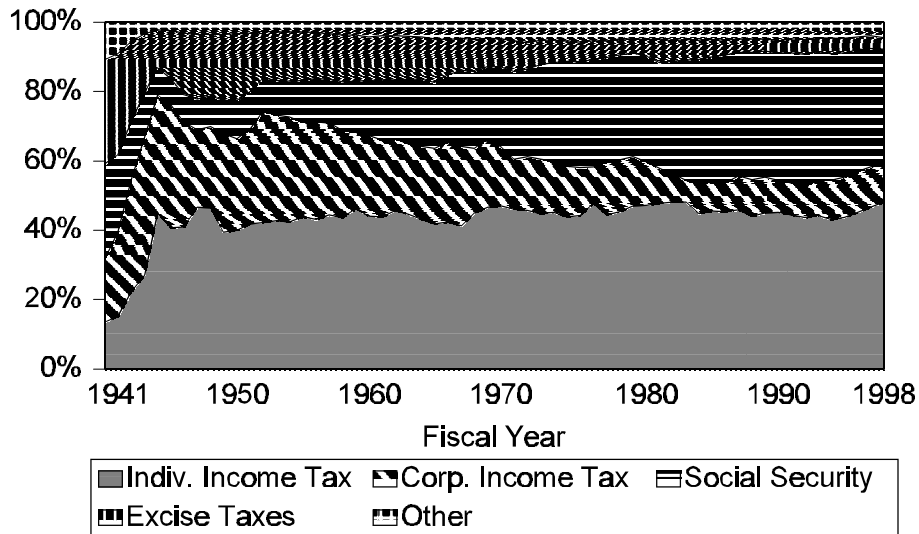
Recent data also show that average federal tax rates have fallen in recent years within each income group. The seeming paradox of these falling tax burdens and the increased aggregate level of taxes is explained principally by income growth at the high end of the income spectrum and tax cuts enacted with the Taxpayer Relief Act of 1997.²

Composition of Federal Receipts

Figure 2, below, shows how the composition of federal receipts has changed since World War II; it presents the percent of federal receipts contributed by each major category of taxes. Over the past 50 years, 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 FY2000 budget documents released by the Executive Office of the President in February, 1999.

² See two Congressional Budget Office reports: *Estimates of Federal Tax Liabilities*. May, 1998; and *The Economic and Budget Outlook: Fiscal Years 2000-2009*, January, 1999. See also: *The Federal Tax Burden*. CRS Report RS20059, by Gregg Esenwein. February 11, 1999.

Figure 2. Composition of Federal Receipts, Fiscal Years 1941 - 1998

Source: Historical Tables. Budget of the United States Government.

State and Local Taxes

Figure 3 (on the following page) shows that state and local taxes have doubled, rising from 5.3% of GDP in 1947 to 10.7% in 1998. As a result, total taxes — federal, and state and local taxes combined — have grown by 9.5 percentage points, or by well over a third of the 1947 level. (As with figure 2, the supporting data for figure 3 can be found in the *Historical Tables* of the receipts shown in the figure do not include federal grants FY2000 budget — in this case, table 15.1 on page 269.) 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 Percent of GDP,
Fiscal Years 1947 - 1998**

