Federal, State, and Local Government Revenues

By Roberton Williams

The federal, state, and local governments collected nearly $3.9 trillion in revenue in 2004, roughly one-third of GDP. Almost half that amount went to the federal government, which turned around and passed more than $400 billion on to state and local governments (90 percent to the states). For their part, the states brought in almost $1.2 trillion of their own revenue, 30 percent of which they passed on to local governments to help finance education and other activities. Finally, local governments used property taxes and other sources to collect nearly $800 billion. Net of intergovernmental transfers, the federal government kept 38 percent of all revenue, with states and local governments each getting 31 percent.

Over the past quarter century, total revenue collections roughly doubled in real terms (but claimed roughly one-third of GDP throughout that period). At the same time, the division of that revenue across the three levels of government shifted. Between 1977 and 2002, the federal government’s net share of revenue ranged between 43 percent and 50 percent of total revenue, averaging 47 percent. That share plunged sharply to 38 percent in 2004, a result of revenue falling at the federal level and rising for state and local governments. Federal revenue in 2004 was 15 percent below its 2000 peak after adjusting for inflation. In contrast, state revenue collections, after dropping more than 25 percent in real terms between 2000 and 2002, jumped by half to a 2004 level 10 percent above that in 2000. Local revenue followed a smoother upward path on the strength of rising property values, falling barely 1 percent in 2002 in the middle of a 12 percent real rise over the 2000-2004 period.

Intergovernmental transfers roughly doubled in real terms between 1977 and 2004 but changed only marginally as a share of total revenue. Federal transfers fell from about 10 percent of total revenue in the late 1970s to about 7 percent in the late 1980s, before climbing to 11 percent since 2002. The division of those transfers between state and local governments shifted in favor of states: Their share of federal transfers rose from less than three-fourths in the 1970s to nearly 90 percent in more recent years. States compensated only a little for that shift by sending about 1 percent more revenue to local governments by the end of that period.

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