

## Overview

As Congress tackles the burgeoning deficit, among the biggest upcoming debates will be whether to raise taxes and how. To answer this question, it's important to know: Where does government get its money from now?

## How does the government raise money?

When most people think of "taxes," individual and corporate income taxes are what come to mind. But the government raises about 10% of its revenues from other sources, including "excise" taxes on products such as alcohol, tobacco and gasoline; customs duties and taxes on imports of foreign goods ("tariffs"); estate taxes; "user" fees for government services such as issuing a patent or approving a new drug; and proceeds from the sale of federal property or of rights to cut down trees or explore for oil on federally-owned land.

In fiscal 2011, the government raised \$2.303 trillion. Here's where it came from:

revenues	Amount	Share of
• Income taxes paid by individuals:	\$1,091 billion	47.3%
• Payroll taxes (such as for Social Security and Medicare):	\$818.8 billion	35.6%
• Corporate income taxes:	\$181.1 billion	7.9%
• Excise taxes on gas, auto fuels and vehicles:	\$36.9 billion	1.6%
• Customs duties and tariffs:	\$29.5 billion	1.3%
• Excise taxes on alcohol and tobacco:	\$25.9 billion	1.1%
• Estate and gift taxes:	\$7.39 billion	.3%
• All other:	\$102.8 billion	4.5%

A permanent income tax didn't happen until 1913, when the 16<sup>th</sup> Amendment was ratified. Even then, individual income taxes didn't become the biggest source of federal revenues until about 1944. Before then, excise and corporate income taxes provided the bulk of federal funds.

## Does the government really need more revenues?

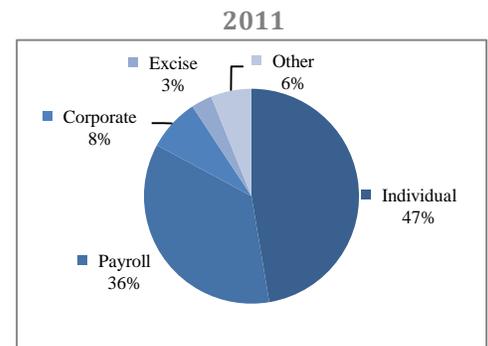
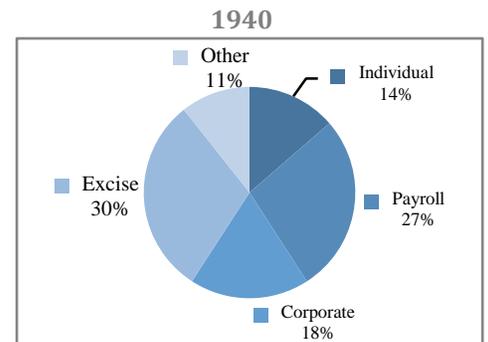
Government is a big part of America's overall economic activity.

On average, government spending made up 20.8% of the nation's annual total economic output (or gross domestic product—"GDP") from 1970 to 2011. Government revenues, on the other hand, have fallen short of those amounts, making up just 18% of GDP on average over the same period. This "fiscal gap" between what government spends and what it raises is why we face such sizeable deficits year after year and such an astronomically high national debt today.

This gap could also worsen because: (1) government is spending more on Social Security and Medicare to support the growing number of aging Baby Boomers and because of spiraling health care costs; (2) recessions mean lower revenues because companies and people are making less money for government to tax; and (3) extending all of the Bush-era tax cuts of 2001 and 2003 could cause the government to forego as much as \$3.1 trillion over the next ten years, according to the Pew Fiscal Analysis Initiative.

## Key Facts

- Total government revenues in fiscal 2011: **\$2.303 trillion**
- Total government spending in fiscal 2011: **\$3.498 trillion**
- Fiscal 2011 deficit: **\$1.296 trillion**
- Sources of federal revenues:



## Other Resources

- Congressional Budget Office – [The Long-Term Outlook for the Federal Budget](#)
- Office of Management and Budget – [Historical Tables: Receipts by Source](#)
- Internal Revenue Service – [Tax Stats at a Glance](#)
- Internal Revenue Service – [Data Book](#)
- Urban Institute and Brookings Institution – Tax Policy Center – [Tax Facts](#)

## Links to Other Resources

- Congressional Budget Office – The Long Term Outlook for the Federal Budget:  
[http://www.cbo.gov/sites/default/files/cbofiles/attachments/06-21-Long-Term\\_Budget\\_Outlook.pdf](http://www.cbo.gov/sites/default/files/cbofiles/attachments/06-21-Long-Term_Budget_Outlook.pdf)
- Office of Management and Budget – Historical Tables: Receipts by Source:  
<http://www.whitehouse.gov/omb/budget/Historicals>
- Internal Revenue Service - Tax Stats at a Glance:  
<http://www.irs.gov/taxstats/article/0,,id=102886,00.html>
- Internal Revenue Service – Data Book  
<http://www.irs.gov/taxstats/article/0,,id=102174,00.html>
- Urban Institute and Brookings Institution - Tax Policy Center – Tax Facts:  
<http://www.taxpolicycenter.org/taxfacts/index.cfm>