

Government Revenue

If you have ever ridden a city bus, driven on a public road, attended school, or received some kind of welfare assistance, then you have benefited from government spending. Have you ever wondered where the government gets all that money? In this article, we will explain what government revenue is and where it comes from. If you are ready to learn how governments generate revenue, continue reading!

Meaning of Government Revenue

Government revenue is the money the government raises from taxes, asset income, and transfer receipts at the federal, state, and local levels. Although the government can also raise funds by borrowing (selling bonds), the funds raised are not considered revenue.

Definition

Government revenue is the money the government raises from taxes, asset income, and transfer receipts at the federal, state, and local levels.

Sources of Government Revenue

The government account consists of both inflows and outflows. Fund inflows come from taxes and borrowing. Taxes, which are required payments to the government, come from several sources. At the national level, the government collects personal income taxes, corporate profit taxes, and social insurance taxes.



Federal government revenue sources

Refer to Figure 1 below which shows the Federal government revenue sources. Personal income taxes and corporate profit taxes account for about half of all tax revenue. In 2020, they accounted for approximately 53% of all tax revenue. Payroll taxes, or social insurance taxes - taxes for programs to protect families in case of hardship (e.g. Social Security) - accounted for 38% of tax revenue. There are also taxes at the state and local levels on sales, property, and income, in addition to various types of fees collected.

U.S Federal Government Tax Revenue 2020

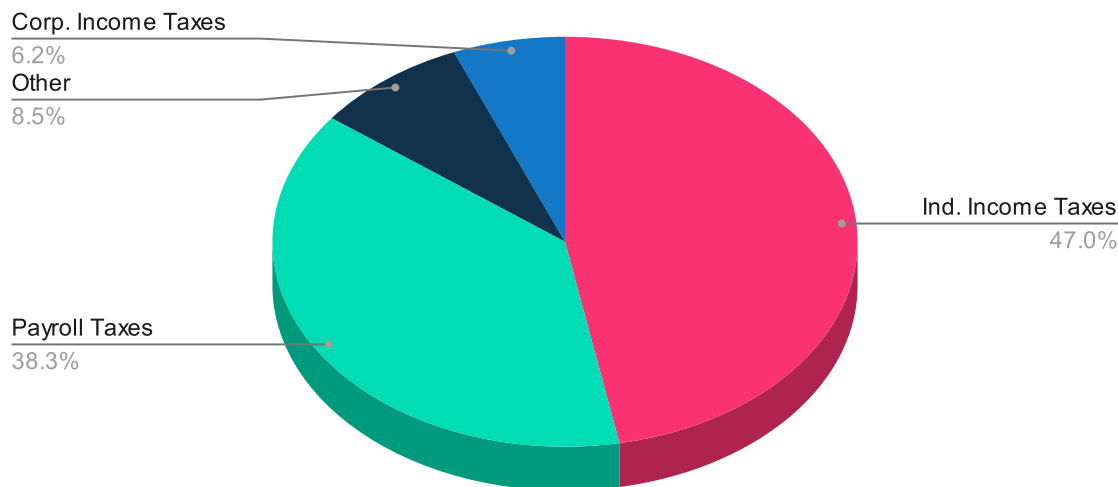


Figure 1. U.S. Federal Government Tax Revenue - StudySmarter. Source: Congressional Budget Office¹



In 2020, the U.S. government collected \$3.4 trillion in tax revenue. However, it spent \$6.6 trillion. The difference of \$3.2 trillion was financed by borrowing and was added to the total outstanding **national debt**.¹ Thus, almost half of what was spent was borrowed. Put another way, the government spent almost twice as much as it collected in revenue. Furthermore, current budget projections from the Congressional Budget Office show continuing deficits for at least the next decade, which will push the debt held by the public (which does not include intragovernmental trust accounts) up to \$35.8 trillion, or 106% of GDP, by 2031 (Figure 2). That would be the highest since 1946, which was right after World War II ended.

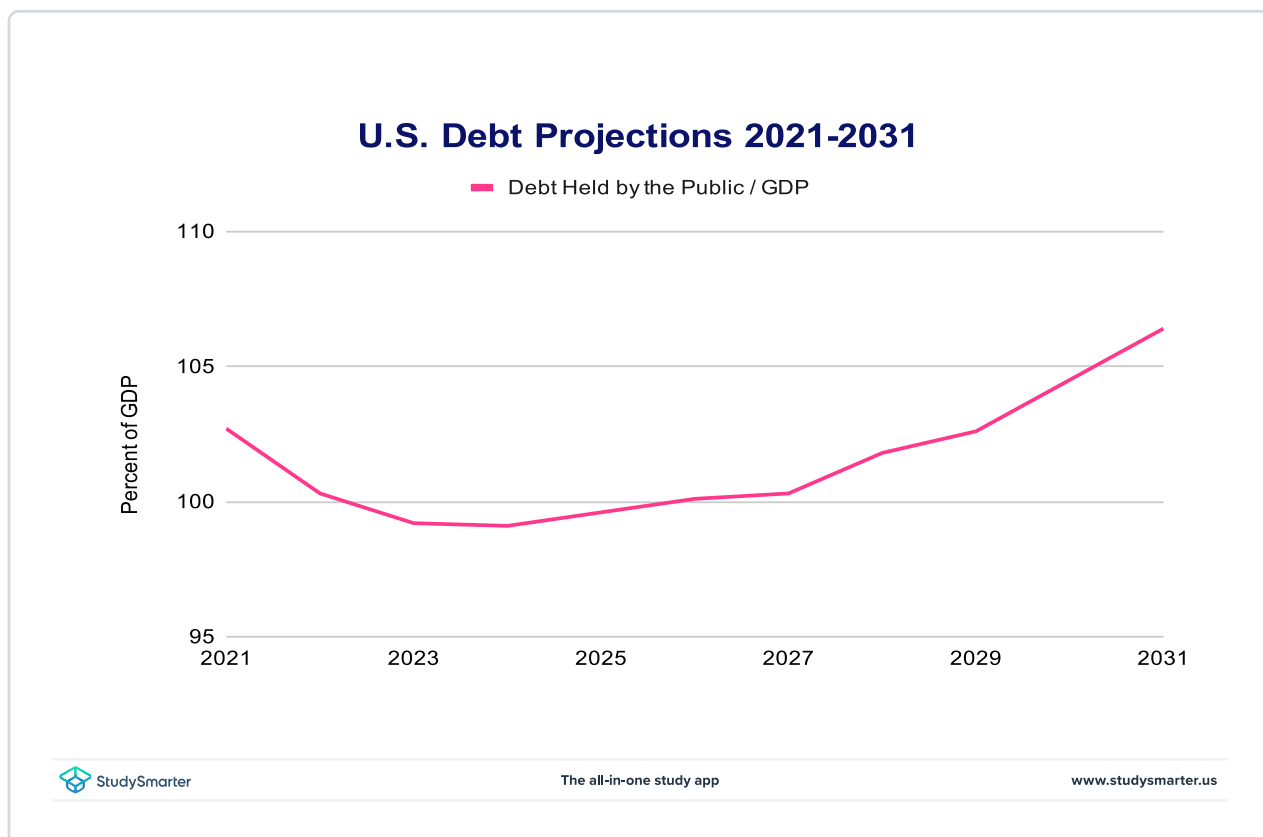


Figure 2. U.S. Debt-to-GDP Ratio - StudySmarter. Source: Congressional Budget Office¹

Fund outflows go toward government purchases of goods and services and transfer payments. Purchases include things like defense, education, and the military. Transfer



payments - payments by the government to households with no good or service in return - are for programs such as Social Security, Medicare, Medicaid, Unemployment Insurance, and food subsidies. Social Security is for the elderly, disabled, and relatives of deceased people. Medicare is for healthcare for the elderly, while Medicaid is for healthcare for people with low income. State and local governments spend money on things like police, firefighters, highway construction, and infrastructure.

[Learn more about government expenditure in our article - Government Spending](#)

Types of Government Revenue

In addition to taxes, another type of government revenue is receipts on assets. This includes interest and dividends on investments, as well as rents and royalties, which are receipts from the leasing of federally owned lands. Transfer receipts from businesses and individuals are yet another type of government revenue, although it is a very small amount. As you can see in Figure 3 below, these other types of revenue account for a very small portion of overall government revenue.



U.S Federal Government Total Revenue 2020

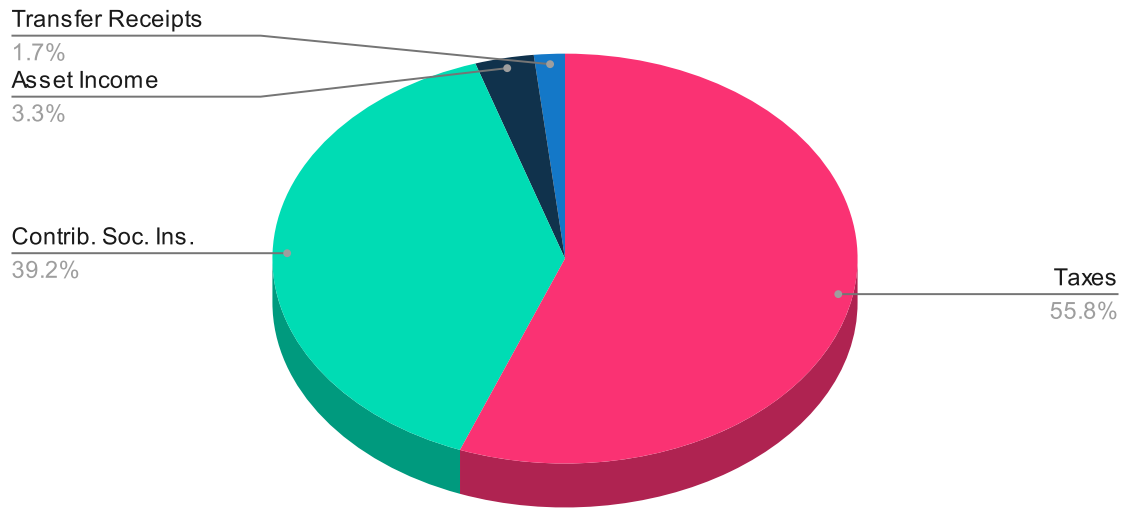


Figure 3. U.S. Federal Government Total Revenue - StudySmarter. Source: Bureau of Economic Analysis²

Classification of Government Revenue

What we've seen so far is a breakdown of the sources and types of government revenue classified as federal government revenue. There is also another classification of government revenue at the state and local levels.

As you can see in Figure 4, while taxes and asset income make up a similar share of state and local government revenue compared to federal government revenue, transfer receipts are a much higher share of state and local government revenue. The majority of these are federal grants-in-aid, which are payments from the federal government for education, transportation, and welfare programs.



Meanwhile, the contribution from social insurance taxes is almost nil, as those are primarily for federal programs like Social Security, Medicare, and Medicaid. In addition, while personal income taxes account for 47% of federal government revenue, they only account for 17% of state and local government revenue. Property taxes are actually a larger source of revenue at the state and local levels, accounting for 20% of all revenue in 2020.

U.S State and Local Government Total Revenue 2020

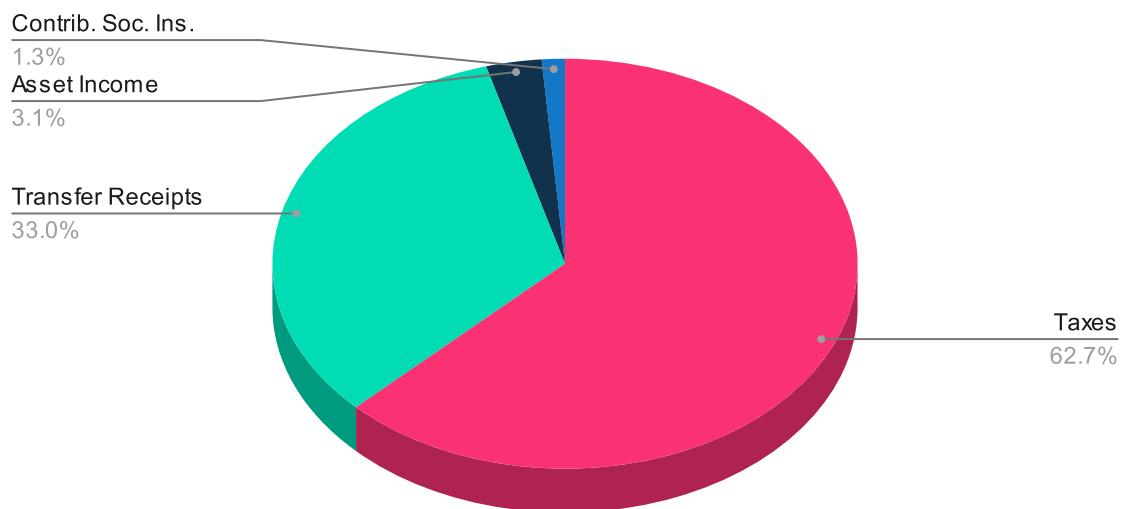


Figure 4. U.S. State and Local Government Total Revenue - StudySmarter. Source: Bureau of Economic Analysis³

Deep dive

Tax rates vs tax base

The government can increase tax revenue in two ways. First, it can cut tax *rates* to increase consumer demand, which will hopefully lead to more jobs and a larger tax

base, meaning there will be more people from which the government can collect taxes. Second, it can raise tax *rates*, but that could ultimately backfire if it leads to a pullback in [consumer spending](#) and jobs, which would reduce the tax *base*.

Government Revenue - Key Takeaways

- Government revenue is the money the government raises from taxes, asset income, and transfer receipts at the federal, state, and local levels.
- Government fund inflows come from taxes and borrowing, while fund outflows go toward purchases of goods and services, and transfer payments.
- At the national level, the largest source of revenue comes from personal income taxes.
- At the state and local level, the largest source of revenue comes from federal grants-in-aid, almost twice as much as personal income taxes.
- Whenever federal government revenue is less than government spending, the resulting deficit means the government must borrow to make up the difference. These accumulated deficits add to the [national debt](#).



References

1. Source: Congressional Budget Office Additional Information About the Updated Budget and Economic Outlook: 2021 to 2031, Table 1-1 <https://www.cbo.gov/publication/57373>
2. Source: Bureau of Economic Analysis National Data-GDP & Personal Income-Section 3: Government Current Receipts and Expenditures-Table 3.2 <https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=2#reqid=19&step=2&isuri=1&1921=survey>
3. Source: Bureau of Economic Analysis National Data-GDP & Personal Income-Section 3: Government Current Receipts and Expenditures-Table 3.3 <https://apps.bea.gov/iTable/iTable.cfm?reqid=19&step=2#reqid=19&step=2&isuri=1&1921=survey>

