Income Inequality in Kentucky: A Snapshot

Richest households capture largest share of Kentucky income

The top 5 percent of households receive 20 percent of the income, even without counting capital gains.

Income inequality has grown in recent decades

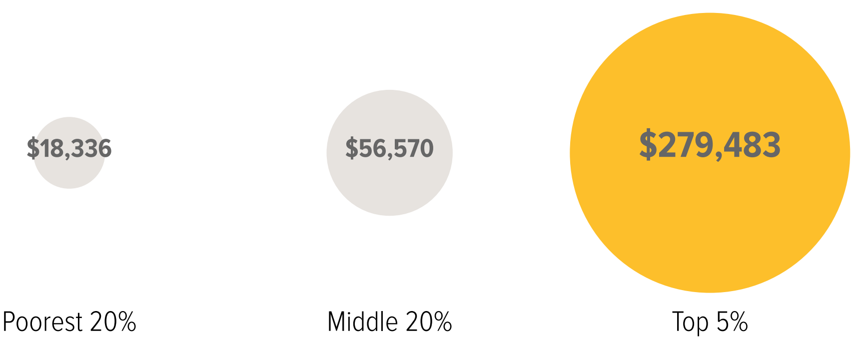
+60% Income change for **top 1 percent of households** since 1979

-3% Income change for **all other households**

Incomes of richest households dwarf those of poorest

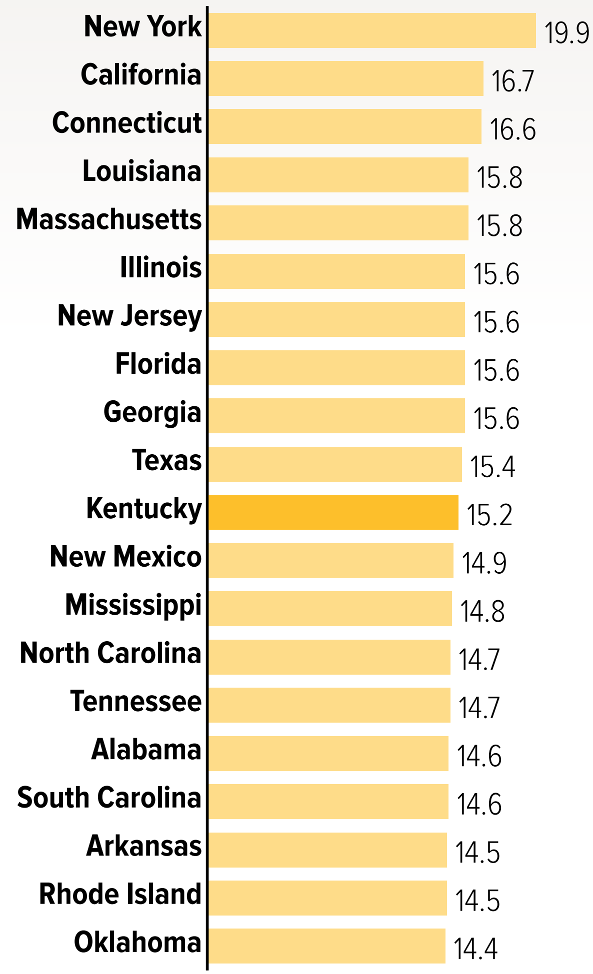
After decades of growing inequality, Kentucky's richest households have dramatically bigger incomes than its poorest households.

The top 5 percent of households have average incomes 15 times as large as the bottom 20 percent of households and 5 times as large as the middle 20 percent of households.



Kentucky Among States with Highest Income Inequality

Ratio of average household income for the richest 5 percent of households to the poorest 20 percent of households, 2015

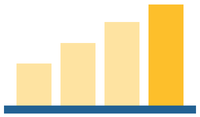


Source: CBPP analysis of 2015 American Community Survey household income data. Income includes estimated SNAP payments, payroll taxes, and federal income taxes (including Child Tax Credit and Earned Income Tax Credit) but omits capital gains income. Incomes are for family of four in 2015 dollars. Top 1 percent comparison extends through 2013 and uses IRS data from EPI, "Income Inequality in the U.S. by state, metropolitan area, and county," June 16, 2016. For more details see CBPP, "How State Tax Policies Can Stop Increasing Inequality and Start Reducing It."

Center on Budget and Policy Priorities | POLICY FUTURES | Economic Policy Institute

This is the first in a series of products produced jointly by CBPP and EPI to explore inequality across the states and policies to reduce it.

How States Can Use Tax Policy to Reduce Income Inequality



Make taxes more equal across income groups

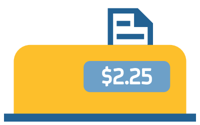
Nearly all states collect more taxes, as a share of income, from lower-income families than high-income families. States can increase the tax responsibility of wealthy residents by relying more on income taxes and by raising rates on high incomes or capping itemized deductions, for example. Several states have raised rates on incomes over $500,000 or $1 million in recent years.

Retain or expand taxes on inherited wealth, such as the estate tax

Only the very wealthiest taxpayers pay estate taxes – just 2.56 percent of estates, on average, in the states with the tax. Some 18 states plus Washington, D.C. have an estate or inheritance tax. These states should resist calls to reduce or even eliminate the estate tax and states without this tax can enact one.

Eliminate costly and ineffective tax breaks for corporations

States can eliminate these breaks, which enable many profitable corporations to pay zero state income tax in some states where they do business. States can also establish strong minimum taxes (a floor on the amount of tax owed each year) and adopt a corporate tax reform known as “combined reporting,” which nullifies several common state corporate tax shelters.



Broaden the sales tax base

States can make their tax systems fairer by broadening the sales tax base to include more services consumed by wealthy individuals — such as investment counseling or country club memberships.

Enact or expand earned income tax credits

Twenty-six states plus Washington, D.C. have created state earned income tax credits (EITCs), which help working families earning low wages meet basic needs. These credits build on the strengths of the federal EITC by keeping working parents on the job and families and children out of poverty. Other tax credits for low-income families, such as property tax credits or sales tax credits based on income, can also make state taxes more equal.

Maintain an overall tax system that raises sufficient revenue to pay for the building blocks of shared prosperity, such as education and access to health care

States can make sure they will be able to equitably provide these services now and in the future by regularly examining their tax systems and eliminating tax breaks, broadening tax bases, or raising rates in the ways outlined above when needed.