December 15, 2016

How State Tax Policies Can Stop Increasing Inequality and Start Reducing It

By Elizabeth McNichol

Over the last three and one-half decades, income gains in the American economy have accrued largely to the richest households, while many middle- and lower-income Americans haven't shared in the nation's growing prosperity. This has reduced opportunities for working people striving to get ahead and weakened our overall economy. Though the growth in inequality reflects a host of long-standing national and global economic trends that are largely outside state policymakers' control (see box below), state policy choices can make matters worse or improve them.

For example, virtually all states collect more taxes from moderate- and lower-income families, as a share of their income, than high-income families (see Figure 1). This increases inequality by reducing after-tax incomes more deeply among low- and middle-income families than high-income families.

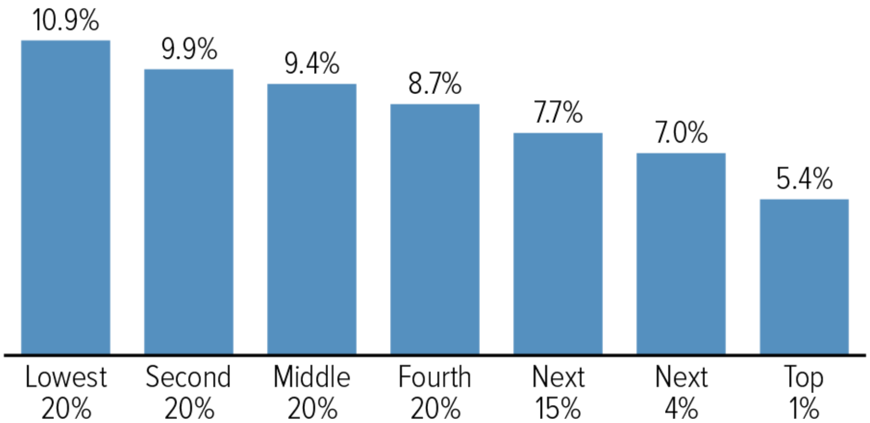
The mechanisms by which state tax systems ask less of the wealthy than of poor and middle-income families have developed over time, often through closed-door negotiations resulting in special tax breaks that benefit a relative few. To reverse these trends, states should avoid actions — such as cutting income taxes or raising sales taxes — that worsen inequality by shifting taxes further to lower-income residents. Instead, they should ensure that high-income earners pay their share and lower-income earners don't face increased tax responsibility. For example, states could:

- Make their income taxes more effective at reducing inequality through steps such as levying higher rates on high-income taxpayers or capping itemized deductions.
- Establish or expand taxes on inherited wealth, such as estate taxes.
- Strengthen taxes on corporations, such as by eliminating costly tax breaks — which enable many profitable corporations to pay zero state income taxes in some states where they do business — and establishing strong minimum taxes or adopting "combined reporting" (a reform that nullifies three of the most common state corporate tax shelters).
- Broaden the sales tax base to include more services purchased by wealthy individuals.
- Boost incomes among low- and moderate-wage working families by enacting state earned income tax credits.
- 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.

FIGURE 1

Lowest-Income Households Pay Highest State and Local Taxes

Total state and local taxes that non-elderly residents pay as a share of their income in 2015



Income ceilings: $19,000 for bottom 20%; $35,000 for second 20%; $56,000 for middle 20%; $93,000 for fourth 20%; $190,000 for next 15%; $471,000 for next 4%.

Source: Institute on Taxation and Economic Policy

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Across the country, the wealthiest residents have been the overwhelming beneficiaries of the uneven growth in incomes. The average income of the top 5 percent of households is now at least ten times that of the bottom 20 percent in every state, according to 2015 American Community Survey data. In the typical state, the average income of the top 5 percent was $325,928 compared to just $22,014 for the bottom 20 percent and $66,165 for the middle 20 percent. Moreover, these figures understate income disparities because they omit capital gains income, which is heavily concentrated among the richest households.[1] (Tables 1-4 provide comparative income data by state.)

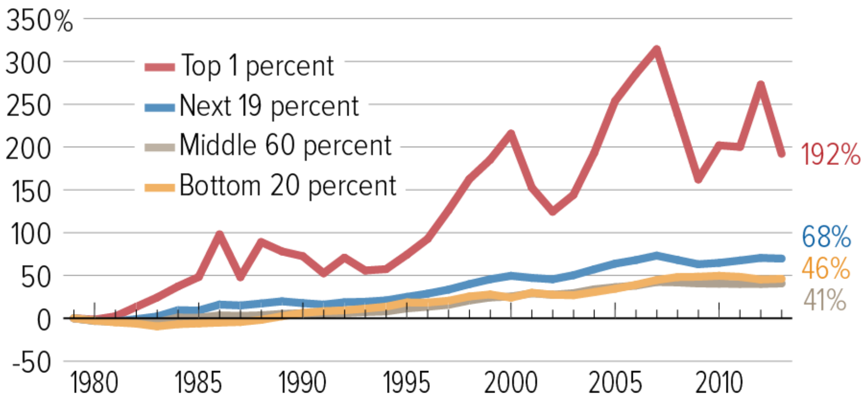
The fact that the lion's share of income gains has gone to the wealthiest residents contradicts the basic American belief that hard work should pay off — that the people who contribute to the nation's economic growth should reap their share of the benefits of that growth. It also harms the health of those falling behind and diminishes educational opportunities for children growing up in less affluent areas. In short, such inequality is both a barrier to Americans striving to provide for themselves and their families and a drag on future economic growth. Reducing it should be a high priority for state policymakers.

[1] The 4 percent of taxpayers with the highest incomes — those with federal adjusted gross incomes over $200,000 — accounted for 80 percent of all taxable capital gains in 2013, according to IRS data analyzed by the Institute on Taxation and Economic Policy (http://itep.org/itep_reports/2016/08/the-folly-of-state-capital-gains-tax-cuts-1.php#.WC3I9mczVD8).

FIGURE 2

Income Gains at the Top Dwarf Those of Low- and Middle-Income Households

Percent change in real after-tax income since 1979



Source: Congressional Budget Office

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Income Inequality Has Increased Dramatically Since 1970s

Today's level of income inequality reflects three and a half decades of unequal income growth. The main facts of this story are well known.[2] The years from the end of World War II into the 1970s saw substantial economic growth and broadly shared prosperity. Incomes grew rapidly and at roughly the same rate up and down the income ladder, roughly doubling in inflation-adjusted terms between the late 1940s and early 1970s. The income disparity between the richest Americans and everyone else — while substantial — did not change much during this period.

Beginning in the 1970s, this pattern changed. Economic growth slowed and the income gap widened. Today, inequality between low- and high-income households — and between middle- and high-income households — is significantly greater than in the late 1970s. The concentration of income at the very top of the distribution has risen to levels last seen nearly a century ago, during the "Roaring Twenties."

The income gains since the 1970s have gone disproportionately to the wealthiest households not only nationally, but in each state as well. (See Table 5.) The top 1 percent's share of overall income rose in every state and the District of Columbia (and doubled nationally, from 10 percent to 20

[2] See Chad Stone *et al.,* "A Guide to Statistics on Historical Trends in Income Inequality," Center on Budget and Policy Priorities, updated November 7, 2016, http://www.cbpp.org/research/poverty-and-inequality/a-guide-to-statistics-on-historical-trends-in-income-inequality.

percent) between 1979 and 2013, according to a recent analysis of IRS data.[3] Income inequality abated somewhat due to the Great Recession, but then resumed growing during the recovery. In 24 states, the top 1 percent captured at least half of all income growth between 2009 (when the recession officially ended) and 2013 (the most recent year for which state data on the top 1 percent are available).[4]

Why Is Inequality Worsening?

There are three broad reasons:

- **Wages have become more unequal.** This is by far the largest factor, since wages compose about three-quarters of total family income. Over the past four decades, wages have grown substantially at the top but only slowly if at all at the bottom and in the middle. Longer periods of high unemployment have left workers with less leverage when asking for higher pay. More intense competition from foreign firms and a decline in higher-paying manufacturing jobs have also slowed wage growth at the bottom and middle of the wage scale. Falling union membership has weakened the position of working households, as well. At the same time, the typical worker is more skilled and experienced and thus contributes more to the economy's productivity growth but has less to show for it.[a]
- **Investment income has become a bigger slice of the economic pie.** Income from investments, such as capital gains, dividends, interest, and rent, goes primarily to high-income households, so the growth in investment income as a share of overall income has widened the gap between the wealthy and everyone else. (Our measure of household income doesn't include capital gains because of data limitations, so our report almost certainly underestimates the rise in inequality in recent decades.)
- **Government actions — and in some cases inaction — have also played a role.** The federal minimum wage provides an important backstop to declining wages, but policymakers have failed to maintain its purchasing power over time; it has shrunk by 25 percent since 1968 due to inflation. Also, the safety net has weakened — most notably, Temporary Assistance for Needy Families (TANF) helps many fewer needy families than it used to — and the federal and state governments have provided insufficient support for workers' collective bargaining rights. Changes in federal, state, and local tax policy have, in many cases, made things worse.

For more details, see Chad Stone *et al., A Guide to Statistics on Historical Trends in Income Inequality*, Center on Budget and Policy Priorities, November 7, 2016; Josh Bivens *et al.,* "Raising America's Pay: Why It's Our Central Economic Policy Challenge," Economic Policy Institute, June 4, 2014; Elizabeth McNichol *et al.,* "Pulling Apart: A State-by-State Analysis of Income Trends," Center on Budget and Policy Priorities, November 15, 2012; Larry Mishel *et al.,* "State of Working America," Economic Policy Institute, 2012.

[a] Since the 1970s, the Labor Quality Index, a measure of workers' aggregate contribution to productivity growth based on their skills, experience, and education, has grown steadily but median pay has stagnated.

Worsening inequality is not inevitable. In the later part of the 1990s, for example, this picture improved modestly, as persistent low unemployment, an increase in the minimum wage, and rapid productivity growth fueled real wage gains at the bottom and middle of the income scale. Those few years of more broadly shared growth were insufficient to counteract the decades-long pattern of growing inequality. Low- and moderate- income families are once again seeing income growth.

[3] Estelle Sommeiller, Mark Price, and Ellis Wazeter, "Income Inequality in the U.S. by state, metropolitan area, and county," Economic Policy Institute, June 16, 2016, http://www.epi.org/publication/income-inequality-in-the-us/.

[4] *Ibid.*

With the continued drop in unemployment, incomes grew dramatically across the board in 2015, and the incomes of low- and moderate-income households have finally returned close to pre-recession levels.[5] If this more broadly shared income growth continues — *and* if federal and state policies provide an added boost — the growth in income inequality will likely slow and could reverse.

A Snapshot of Inequality in the States

The concentration of incomes among the wealthiest residents is striking in every state, even without taking capital gains income — which is heavily concentrated among the richest households — into account:[6]

- In every state, the average income of the top 5 percent of households is at least ten times that of the bottom 20 percent, according to 2015 American Community Survey data. The ten states with the largest disparities are New York, California, Connecticut, Louisiana, Massachusetts, Illinois, New Jersey, Florida, Georgia, and Texas.
- In the nation, the average income of the richest 5 percent of families ($325,928) dwarfs that of the poorest 20 percent ($22,014) and middle-income families ($66,165).
- In the typical (median) state, the richest 5 percent of households receive 19 percent of income in the state.
- In 19 states, the top 20 percent of households receive more than 45 percent of all income in the state.

Table 1 and Figure 3 compare the average incomes of the top 5 percent and bottom 20 percent of families in each state. Table 2 compares the average incomes of the top 20 percent and bottom 20 percent of families. Table 3 shows the share of income received by each fifth of families. Table 4 shows the average income by fifth for each state.

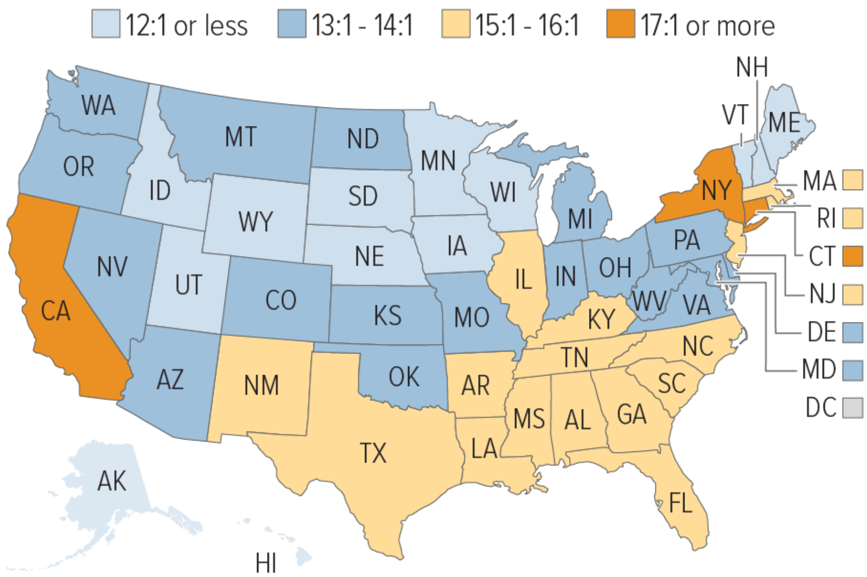
[5] Isaac Shapiro and Arloc Sherman, "States' Income and Poverty Gains Even More Widespread in 2015 Than Initially Reported," Center on Budget and Policy Priorities, October 25, 2016, http://www.cbpp.org/research/poverty-and-inequality/states-income-and-poverty-gains-even-more-widespread-in-2015-than.

[6] As footnote 1 above explains, the 4 percent of taxpayers with the highest incomes — those with federal adjusted gross incomes over $200,000 — accounted for 80 percent of all taxable capital gains in 2013, according to IRS data analyzed by the Institute on Taxation and Economic Policy (http://itep.org/itep_reports/2016/08/the-folly-of-state-capital-gains-tax-cuts-1.php#.WC3I9mczVD8).

FIGURE 3

Richest 5 Percent of Households Have Dramatically Bigger Average Incomes Than Poorest 20 Percent

Ratio of average top to bottom incomes, excludes capital gains income



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 does not include capital gains income. Incomes are for a family of four in 2015 dollars.

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Methodology

This analysis uses the latest (2015) *household* income data from the Census Bureau's American Community Survey (ACS) to measure the post-federal-tax incomes of high-, middle- and low-income households. Estimated Supplemental Nutrition Assistance Program payments were added to household income, which is adjusted for payroll taxes and federal income taxes (including the Child Tax Credit and Earned Income Tax Credit). Note that ACS income data do *not* include capital gains. Average incomes were adjusted for household size before being sorted into quintiles; average incomes shown are for a family of four in 2015 dollars. See the appendix for more details.

State Tax Policy Can Push Back Against Growing Inequality

Nearly every state collects more taxes from poor families than high-income families, relative to their incomes. States (including their local governments) also generally collect more taxes from middle-income families than high-income families.[7] These disparities increase income inequality by reducing the after-tax incomes of low- and middle-income families more deeply than those of high-income families.

No single decision resulted in this inequitable treatment. Rather, in a series of policy decisions reaching back more than a century, state policymakers have tended to choose tax policies that favor the wealthy over the poor and favor corporations over workers.

Many major state taxes were first put in place in the first half of the 20th Century, a period in which many Americans (especially African Americans in the South) were barred from voting, and in which urban areas in many states were underrepresented in state legislatures. Moreover, right up to the present, a small number of legislators and staff typically construct tax policy in most state legislatures, often with the input of corporate lobbyists. And state tax policy is sufficiently arcane that many policy decisions do not receive the broad attention they deserve, particularly when their immediate revenue effects are modest.

As a result, state tax codes are regressive, meaning low- and middle-income families pay a bigger share of their income in taxes than wealthy families. In 2015, the poorest fifth of married, non-elderly families paid *twice* as large a share of their incomes in state and local taxes as the wealthiest 1 percent of such families, on average (10.9 percent versus 5.4 percent).[8]

One major reason is that most states rely heavily on sales taxes. Sales taxes disproportionately affect low-income families, largely because they spend (rather than save or invest) a larger share of their income than higher-income families do. Property taxes also generally hit low- and middle-income families more heavily than high-income families.

The income tax is the one major state revenue source that typically *reduces* inequality, but many states have weak income tax systems that do too little in this regard. A graduated-rate income tax, which taxes higher incomes at higher rates, affects high-income families more than low-income families, and in a few states this balances out the effects of sales and property taxes. But many state income taxes are flat (meaning all income is taxed at the same rate) or nearly flat, and a few states don't have an income tax. As a result, some states do much more than others to reduce inequality through their tax codes.

Many states have made their tax systems even more out of balance since the late 1970s, even as inequality has risen, by increasing their reliance on sales taxes rather than income taxes. For

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[7] "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," Institute on Taxation and Economic Policy, January 2015, http://www.itepnet.org/whopays.htm.

[8] *Ibid.*

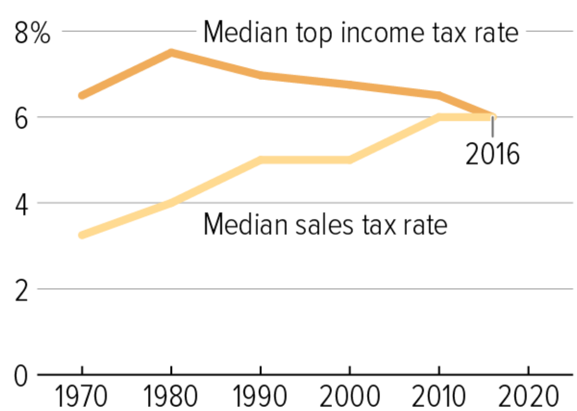
example, the sales tax rate in the typical state has doubled since 1970 while the top income tax rate has remained unchanged.[9] (See Figure 4.)

The shift away from states taxing the wealthy has continued since the Great Recession hit. In the depths of the downturn in 2009 and 2010, for example, a number of states raised taxes as part of their response to recession-induced revenue declines, but while they raised both income taxes and sales taxes, the income tax increases were almost uniformly temporary while half of the sales tax-rate increases were permanent. Some states have cut income taxes as the economy recovers.

States can reverse these trends and use tax policy to reduce income inequality by taking the following actions.

FIGURE 4

States Have Raised Sales Taxes, Cut Income Taxes



Source: Advisory Commission on Intergovernmental Relations, "Significant Features of Fiscal Federalism"; Council of State Governments, "Book of the States"; Tax Foundation; Bruce and Fox, "State and Local Revenue Losses From E-Commerce: Updated Estimates"

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- **Strengthen their income tax's inequality-reducing impact.** Tax increases on high-income individuals — who are best able to afford the higher tax and least likely to spend substantially less as a result of the increase — can reduce inequality directly while raising revenue to invest in a more broadly prosperous future. Policymakers can raise taxes on high-income households by raising income tax rates at the top end and by capping itemized deductions and other tax breaks for high-income taxpayers.
- **Establish 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. States with an estate tax can avoid increasing inequality by resisting calls to reduce or eliminate the tax. States without an estate tax can reduce inequality by adopting one.
- **Eliminate costly and ineffective tax breaks for corporations.** State corporate income taxes are declining; the share of tax revenue supplied by this tax in the 45 states that levy it fell from nearly 10 percent in the late 1970s, to only a little more than 5 percent today. Many profitable corporations pay nothing in state income taxes in some states where they do business. States can strengthen taxes on corporations by carefully examining and eliminating costly tax breaks. They can also establish strong minimum taxes — a floor on the amount of tax owed each year. In addition, states that have not already done so can adopt a reform known as combined reporting, which nullifies three of the most common state corporate tax

[9] Elizabeth C. McNichol, "Strategies to Address the State Tax Volatility Problem," Center on Budget and Policy Priorities, April 18, 2013, http://www.cbpp.org/research/strategies-to-address-the-state-tax-volatility-problem.

shelters.[10] Evidence does not support the claim that these kinds of changes will drive large numbers of affluent people and businesses to other states.[11]

- **Broaden the sales tax base.** States can make their tax systems fairer by broadening the sales tax base to include more services that high-income families consume, such as investment counseling or country club memberships. While this would shift more of the responsibility for paying the sales tax to wealthier families, the effect would be relatively small; states should accompany such changes by other measures that go further to reduce inequality.

- **Enact state earned income tax credits.** States can boost the incomes of low- and moderate-wage working families or offset the impact on these families of other tax changes by enacting or expanding a state earned income tax credit (EITC). Many states have created EITCs to build on the strengths of the federal EITC, which offsets low-wage workers' payroll taxes, supplements the earnings of low- and moderate-income families, and helps families move from welfare to work. [12]

  Over half of the states with an income tax and one state without an income tax — in all, 26 states plus the District of Columbia — have established EITCs.[13]

- **Avoid costly tax shifts and tax cuts aimed at the wealthy.** Public discussions about strengthening the economy often center on tax cuts, despite growing evidence that they don't create many jobs or promote broad prosperity.[14] Maintaining and improving schools, transportation networks, and other public services shown to generate growth will require resources, both now and in the future.

  As state revenues slowly recover from the Great Recession, some states, such as Louisiana and North Carolina, have considered extreme tax changes such as replacing the income tax with a higher, broader sales tax. That would sharply raise taxes for low- and middle-income households and threaten the state's ability to maintain many of the services necessary to assist families left behind in the current economy. Other states, such as Kansas, Mississippi, and North Carolina, have deeply cut income taxes for individuals and businesses without replacing the lost revenues, which over time will force drastic cuts in services like schools, transportation, and public safety.

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[10] Michael Mazerov, "State Corporate Tax Shelters and the Need for Combined Reporting," Center on Budget and Policy Priorities, October 26, 2007, http://www.cbpp.org/research/state-corporate-tax-shelters-and-the-need-for-combined-reporting.

[11] Michael Mazerov, "State Job Creation Strategies Often Off Base," Center on Budget and Policy Priorities, February 3, 2016, http://www.cbpp.org/research/state-budget-and-tax/state-job-creation-strategies-often-off-base.

[12] For more information on state EITCs, see Policy Basics: State Earned Income Tax Credits, Center on Budget and Policy Priorities, updated June 17, 2016, http://www.cbpp.org/research/state-budget-and-tax/policy-basics-state-earned-income-tax-credits.

[13] State EITCs are in effect in California, Colorado, Connecticut, Delaware, Illinois, Indiana, Iowa, Kansas, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Nebraska, New Jersey, New Mexico, New York, Ohio, Oklahoma, Oregon, Rhode Island, Vermont, Virginia, Washington, Wisconsin, and the District of Columbia.

[14] Michael Leachman and Michael Mazerov, "State Personal Income Tax Cuts: Still a Poor Strategy for Economic Growth," Center on Budget and Policy Priorities, May 14, 2015, http://www.cbpp.org/research/state-budget-and-tax/state-personal-income-tax-cuts-still-a-poor-strategy-for-economic.

Many states have enacted less extreme but still costly income tax cuts that benefit individuals at the top and profitable businesses but do little or nothing for low- and middle-income households and damage the state's ability to invest in more effective ways.

If these trends continue, they will tilt state tax systems even more against low- and middle-income households. States choosing to cut taxes as the economy grows can do so while reducing the impact of their taxes on low- and moderate-income families by enacting tax credits targeted to low-income taxpayers or by raising the personal exemption or standard deduction, rather than cutting top income tax rates or capital gains taxes.

TABLE 1

Richest 5 Percent of Households Have Dramatically Bigger Incomes Than Poorest Households (Figures exclude capital gains)

	Ratio of Avg. Income for Richest 5% to Poorest 20% of Households	Rank
New York	19.90	1
California	16.73	2
Connecticut	16.60	3
Louisiana	15.84	4
Massachusetts	15.76	5
Illinois	15.64	6
New Jersey	15.61	7
Florida	15.60	8
Georgia	15.55	9
Texas	15.44	10
Kentucky	15.24	11
New Mexico	14.89	12
Mississippi	14.77	13
North Carolina	14.71	14
Tennessee	14.69	15
Alabama	14.63	16
South Carolina	14.62	17
Arkansas	14.54	18
Rhode Island	14.50	19
Oklahoma	14.40	20
Virginia	14.31	21
Arizona	14.22	22
Pennsylvania	13.84	23
Maryland	13.57	24
Michigan	13.38	25
Ohio	13.25	26
Delaware	13.23	27
Missouri	13.07	28
Kansas	13.06	29
Colorado	13.00	30
Montana	12.98	31
Washington	12.87	32
Oregon	12.87	33
North Dakota	12.81	34
West Virginia	12.76	35
Nevada	12.61	36
Indiana	12.47	37
Minnesota	12.32	38
Vermont	11.95	39

TABLE 1

Richest 5 Percent of Households Have Dramatically Bigger Incomes Than Poorest Households (Figures exclude capital gains)

	Ratio of Avg. Income for Richest 5% to Poorest 20% of Households	Rank
Nebraska	11.81	40
Iowa	11.69	41
Idaho	11.47	42
Maine	11.46	43
South Dakota	11.32	44
Wisconsin	11.20	45
Wyoming	11.16	46
Alaska	11.05	47
New Hampshire	10.61	48
Hawaii	10.42	49
Utah	10.34	50
District of Columbia	28.24	
United States	**14.81**	

Source: CBPP analysis of 2015 American Community Survey (ACS) data
Note: ACS income data do not include capital gains. Households were size-adjusted before being sorted into quintiles.

TABLE 2

Richest 20 Percent of Households Have Dramatically Bigger Incomes Than Poorest Households (Figures exclude capital gains)

	Ratio of Avg. Income for Richest 20% to Poorest 20% of Households	Rank
New York	10.84	1
California	9.83	2
Louisiana	9.61	3
Connecticut	9.51	4
New Jersey	9.42	5
Massachusetts	9.42	6
New Mexico	9.18	7
Georgia	9.14	8
Illinois	9.12	9
Mississippi	8.95	10
Texas	8.95	11
Alabama	8.9	12
Rhode Island	8.83	13
Virginia	8.83	14
Florida	8.82	15
Kentucky	8.78	16
North Carolina	8.64	17
South Carolina	8.63	18
Arizona	8.56	19
Tennessee	8.51	20
Arkansas	8.49	21
Oklahoma	8.31	22
Maryland	8.27	23
Pennsylvania	8.26	24
Michigan	8.1	25
Delaware	8.08	26
West Virginia	8.04	27
Ohio	7.95	28
Washington	7.85	29
Oregon	7.81	30
Colorado	7.81	31
Montana	7.69	32
Missouri	7.67	33
Kansas	7.61	34
Nevada	7.51	35
Indiana	7.41	36
North Dakota	7.35	37
Minnesota	7.23	38
Iowa	7.06	39

TABLE 2

Richest 20 Percent of Households Have Dramatically Bigger Incomes Than Poorest Households (Figures exclude capital gains)

	Ratio of Avg. Income for Richest 20% to Poorest 20% of Households	Rank
Maine	7.05	40
Nebraska	7.01	41
Vermont	6.97	42
Idaho	6.92	43
Alaska	6.88	44
New Hampshire	6.77	45
Wisconsin	6.71	46
South Dakota	6.71	47
Hawaii	6.62	48
Wyoming	6.53	49
Utah	6.37	50
District of Columbia	16.31	
United States	**8.71**	

Source: CBPP analysis of 2015 American Community Survey (ACS) data

Note: ACS income data do not include capital gains. Households were size-adjusted before being sorted into quintiles.

TABLE 3

Richest Households Capture Largest Share of Income (Figures exclude capital gains)

	Bottom 20%	Lower 20%	Middle 20%	Next 20%	Top 20%	(Next 15%)	(Top 5%)
Alabama	5.0%	10.5%	16.0%	23.5%	44.9%	26.4%	18.5%
Alaska	6.1%	11.5%	16.6%	23.6%	42.2%	25.3%	16.9%
Arizona	5.3%	10.6%	15.8%	22.9%	45.3%	26.5%	18.8%
Arkansas	5.4%	10.7%	15.8%	22.7%	45.5%	26.0%	19.5%
California	4.9%	9.6%	14.9%	22.6%	48.0%	27.6%	20.4%
Colorado	5.7%	11.0%	16.3%	22.7%	44.3%	25.8%	18.4%
Connecticut	4.9%	10.3%	15.8%	22.4%	46.6%	26.2%	20.3%
Delaware	5.4%	11.4%	16.7%	23.1%	43.4%	25.7%	17.8%
Florida	5.3%	10.4%	15.3%	22.3%	46.7%	26.1%	20.7%
Georgia	5.1%	10.3%	15.5%	22.7%	46.4%	26.7%	19.7%
Hawaii	6.2%	12.0%	17.2%	23.3%	41.3%	25.0%	16.2%
Idaho	6.2%	11.6%	16.4%	22.7%	43.0%	25.2%	17.8%
Illinois	5.1%	10.4%	15.7%	22.8%	46.1%	26.3%	19.8%
Indiana	5.9%	11.3%	16.4%	22.9%	43.5%	25.2%	18.3%
Iowa	6.0%	11.8%	16.8%	22.8%	42.6%	25.0%	17.6%
Kansas	5.8%	11.1%	16.2%	22.7%	44.2%	25.2%	19.0%
Kentucky	5.2%	10.7%	15.9%	22.8%	45.4%	25.7%	19.7%
Louisiana	4.8%	10.1%	15.7%	23.5%	46.0%	27.0%	18.9%
Maine	6.1%	11.5%	16.5%	22.9%	43.0%	25.5%	17.5%
Maryland	5.3%	11.1%	16.4%	23.1%	44.0%	26.0%	18.1%
Massachusetts	4.8%	10.6%	16.4%	23.2%	45.0%	26.2%	18.8%
Michigan	5.4%	11.0%	16.3%	23.2%	44.1%	25.9%	18.2%
Minnesota	6.0%	11.4%	16.6%	22.6%	43.4%	24.9%	18.5%
Mississippi	5.0%	10.8%	16.0%	23.5%	44.7%	26.3%	18.4%
Missouri	5.8%	11.2%	16.1%	22.7%	44.2%	25.4%	18.8%
Montana	5.7%	11.3%	16.5%	22.8%	43.8%	25.3%	18.5%
Nebraska	6.1%	11.5%	16.6%	22.8%	43.0%	24.9%	18.1%
Nevada	5.9%	11.2%	16.1%	22.8%	44.0%	25.5%	18.5%
New Hampshire	6.2%	12.0%	16.9%	23.0%	42.0%	25.5%	16.4%
New Jersey	4.9%	10.2%	16.0%	23.1%	45.8%	26.8%	19.0%
New Mexico	5.0%	10.4%	15.5%	23.2%	46.0%	27.3%	18.6%
New York	4.5%	9.5%	15.0%	22.2%	48.8%	26.4%	22.4%
North Carolina	5.3%	10.4%	15.6%	22.8%	45.9%	26.3%	19.5%
North Dakota	5.8%	11.6%	16.9%	22.7%	43.0%	24.2%	18.7%
Ohio	5.5%	11.1%	16.5%	23.1%	43.8%	25.6%	18.3%
Oklahoma	5.5%	10.9%	15.9%	22.4%	45.4%	25.7%	19.7%
Oregon	5.7%	10.8%	16.1%	22.9%	44.5%	26.2%	18.3%
Pennsylvania	5.4%	10.9%	16.2%	22.9%	44.6%	25.9%	18.7%
Rhode Island	5.0%	10.6%	16.5%	23.5%	44.4%	26.2%	18.2%
South Carolina	5.2%	10.8%	16.0%	23.0%	45.0%	26.0%	19.1%

TABLE 3

Richest Households Capture Largest Share of Income (Figures exclude capital gains)

	Bottom 20%	Lower 20%	Middle 20%	Next 20%	Top 20%	(Next 15%)	(Top 5%)
South Dakota	6.3%	12.1%	16.9%	22.6%	42.1%	24.3%	17.8%
Tennessee	5.3%	10.7%	15.8%	22.7%	45.5%	25.9%	19.6%
Texas	5.2%	10.2%	15.3%	22.6%	46.7%	26.6%	20.2%
Utah	6.6%	11.9%	16.6%	22.6%	42.2%	25.1%	17.1%
Vermont	6.2%	11.6%	16.4%	22.4%	43.4%	24.8%	18.6%
Virginia	5.1%	10.5%	15.9%	23.0%	45.4%	27.0%	18.4%
Washington	5.6%	10.9%	16.2%	23.1%	44.2%	26.1%	18.1%
West Virginia	5.4%	11.2%	16.8%	23.6%	43.1%	26.0%	17.1%
Wisconsin	6.3%	11.8%	17.0%	22.9%	42.1%	24.5%	17.6%
Wyoming	6.4%	11.9%	16.7%	22.8%	42.0%	24.1%	18.0%
District of Columbia	3.1%	8.1%	14.3%	23.33%	51.2%	29.0%	22.15%
United States	**5.3%**	**10.5%**	**15.8%**	**22.8%**	**45.7%**	**26.3%**	**19.4%**

Source: CBPP analysis of 2015 American Community Survey (ACS) data

Note: ACS income data do not include capital gains. Households were size-adjusted before being sorted into quintiles. Average incomes shown are for a family of four in 2015 dollars

TABLE 4

Average Household Income in 2015 by Quintile, for Family of Four (Figures exclude capital gains)

	Bottom 20%	Lower 20%	Middle 20%	Next 20%	Top 20%	(Top 5%)
Alabama	$17,486	$36,385	$55,585	$81,551	$155,646	$255,862
Alaska	28,439	53,159	76,840	109,484	195,687	314,268
Arizona	20,005	40,113	59,852	86,587	171,287	284,503
Arkansas	17,879	35,596	52,674	75,637	151,847	259,930
California	22,110	43,432	67,532	102,451	217,316	369,940
Colorado	25,718	49,944	74,070	103,246	200,851	334,288
Connecticut	26,764	56,555	86,346	122,359	254,404	444,303
Delaware	23,095	48,910	71,805	99,404	186,697	305,638
Florida	20,343	39,821	58,642	85,677	179,505	317,341
Georgia	19,422	39,432	59,154	87,047	177,592	302,015
Hawaii	30,046	57,737	82,948	112,285	198,920	313,108
Idaho	21,997	41,124	58,135	80,443	152,183	252,321
Illinois	22,282	45,800	69,212	100,354	203,217	348,399
Indiana	21,748	41,987	60,951	84,823	161,207	271,248
Iowa	23,881	46,663	66,648	90,175	168,555	279,052
Kansas	23,726	45,529	66,031	92,639	180,459	309,887
Kentucky	18,336	38,049	56,570	81,123	161,070	279,483
Louisiana	17,113	36,087	56,044	83,911	164,431	270,985
Maine	23,883	44,927	64,726	89,609	168,391	273,708
Maryland	27,846	57,853	85,984	120,927	230,248	377,760
Massachusetts	25,163	55,653	86,492	121,866	236,938	396,611
Michigan	20,854	42,173	62,596	88,877	168,920	279,121
Minnesota	27,717	52,887	76,720	104,409	200,443	341,378
Mississippi	15,312	32,978	49,185	72,082	137,105	226,084
Missouri	22,024	42,680	61,731	86,816	169,000	287,907
Montana	21,800	43,145	63,141	87,312	167,545	282,953
Nebraska	24,546	45,846	66,587	91,208	172,014	289,832
Nevada	21,860	41,648	59,962	85,065	164,149	275,723
New Hampshire	30,449	58,827	83,074	112,895	206,285	323,125
New Jersey	25,646	54,049	84,184	121,848	241,673	400,367
New Mexico	17,064	35,379	52,747	78,997	156,728	254,096
New York	21,611	45,473	72,001	106,211	234,199	430,117
North Carolina	19,816	38,870	58,120	84,980	171,126	291,461
North Dakota	25,905	51,630	74,835	100,575	190,473	331,841
Ohio	21,232	42,733	63,457	88,856	168,887	281,267
Oklahoma	19,823	39,453	57,699	81,226	164,722	285,546
Oregon	23,212	44,238	65,588	93,519	181,350	298,683
Pennsylvania	22,638	45,955	68,133	96,112	187,074	313,265
Rhode Island	22,102	46,800	72,714	103,301	195,205	320,433
South Carolina	18,578	38,323	56,969	81,756	160,290	271,525

TABLE 4

Average Household Income in 2015 by Quintile, for Family of Four (Figures exclude capital gains)

	Bottom 20%	Lower 20%	Middle 20%	Next 20%	Top 20%	(Top 5%)
South Dakota	23,766	45,755	64,073	85,546	159,438	269,129
Tennessee	19,430	38,815	57,474	82,649	165,437	285,446
Texas	20,807	40,582	60,865	90,009	186,280	321,326
Utah	26,373	47,492	66,123	89,859	167,921	272,594
Vermont	27,806	51,855	73,514	99,945	193,805	332,271
Virginia	24,647	50,594	76,454	110,564	217,638	352,641
Washington	25,635	49,458	73,808	104,954	201,185	329,925
West Virginia	17,637	36,820	55,182	77,725	141,718	224,972
Wisconsin	25,455	47,917	68,833	92,783	170,893	285,101
Wyoming	27,426	50,847	71,256	97,227	178,985	306,021
District of Columbia	20,110	51,859	91,541	149,555	327,959	567,911
United States	**$22,014**	**$44,043**	**$66,165**	**$95,504**	**$191,704**	**$325,928**

Source: CBPP analysis of 2015 American Community Survey (ACS) data
Note: ACS income data do not include capital gains. Households were size-adjusted before being sorted into quintiles. Average incomes shown are for a family of four in 2015 dollars

TABLE 5

Incomes Grew Much Faster Among Richest 1 Percent of Households Than Rest of Households (Percent Growth Between 1979 and 2013)

	Top 1 Percent	Bottom 99 Percent
Alabama	83%	12%
Alaska	85%	-23%
Arizona	73%	-16%
Arkansas	110%	9%
California	148%	-3%
Colorado	125%	10%
Connecticut	291%	15%
Delaware	45%	3%
Florida	128%	-9%
Georgia	107%	1%
Hawaii	54%	-9%
Idaho	106%	3%
Illinois	137%	1%
Indiana	76%	0%
Iowa	82%	18%
Kansas	110%	16%
Kentucky	60%	-3%
Louisiana	83%	5%
Maine	96%	16%
Maryland	122%	20%
Massachusetts	291%	38%
Michigan	84%	-18%
Minnesota	129%	18%
Mississippi	56%	3%
Missouri	98%	5%
Montana	102%	5%
Nebraska	107%	34%
Nevada	88%	-37%
New Hampshire	145%	30%
New Jersey	190%	20%
New Mexico	55%	-9%
New York	272%	5%
North Carolina	100%	12%
North Dakota	261%	44%
Ohio	74%	-4%

TABLE 5

Incomes Grew Much Faster Among Richest 1 Percent of Households Than Rest of Households (Percent Growth Between 1979 and 2013)

	Top 1 Percent	Bottom 99 Percent
Oklahoma	98%	12%
Oregon	76%	-11%
Pennsylvania	125%	12%
Rhode Island	112%	30%
South Carolina	93%	-3%
South Dakota	201%	29%
Tennessee	111%	9%
Texas	110%	4%
Utah	135%	6%
Vermont	133%	20%
Virginia	147%	20%
Washington	142%	-1%
West Virginia	41%	0%
Wisconsin	120%	4%
Wyoming	272%	-9%
District of Columbia	155%	53%
United States	141%	4%

Source: EPI analysis of IRS data. Estelle Sommeiller, Mark Price, and Ellis Wazeter, "Income Inequality in the U.S. by state, metropolitan area, and county," Economic Policy Institute, June 16, 2016

Methodology

Overview:

This analysis uses the latest (2015) household income data from the Census Bureau's American Community Survey (ACS) to measure the post-federal-tax incomes of high-, middle- and low-income households. Estimated Supplemental Nutrition Assistance Program (SNAP) payments were added to household income, which is adjusted for payroll taxes and federal income taxes (including the Child Tax Credit and Earned Income Tax Credit). Note that ACS income does not include capital gains. Average incomes were adjusted for household size before being sorted into quintiles; average incomes shown are for a family of four in 2015 dollars.

Methods:

Income data source: The analysis used the Center on Budget and Policy Priorities' multiyear ACS tax model using 2015 income data. Tax parameters are for tax year 2015, incomes are in 2015 dollars, and SNAP imputations are for 2015. Group quarters persons are dropped from the sample.

Tax units: The ACS income data is reported for households, or related and unrelated individuals and families who live together. ("Unrelated" here refers to the person's relationship with the householder — the person in whose name the housing unit is owned or rented — not with each other.) A household may include one or more tax units. In order to estimate taxes paid by the household, individuals within households are assigned to tax units using the following rules:

Persons related to the householder:
Subfamily IDs are used to group subfamilies into their own tax units.
All other persons related to the householder are grouped into the householder's tax unit.

Persons unrelated to the householder:
Married unrelated persons are assigned an opposite sex spouse when available.
Unrelated children are assigned to an unrelated parent if available, and, if not, to the householder.
Unrelated couples and parent-child relationships are used to create tax units that consist of unrelated persons.
Unrelated individuals become single person tax units.

Tax filers:
The householder becomes the tax filer for the householder's tax unit.
For other tax units, whichever spouse is listed first becomes the tax filer.
If there is no spouse, the single parent becomes the tax filer.

Adjusted gross income: The adjusted gross income (AGI) for each tax unit is estimated as follows: Total cash income (PINCP) of the tax filer (and spouse if present) is calculated. Cash assistance (PAP), Social Security (SSP), and Supplemental Security (SSIP) income is subtracted. Half of the self-employment tax (calculated) is subtracted. The taxable portion of Social Security is added.

Refinements:

- For all tax units, the AGI of the spouse is added to the AGI of the tax unit head. This is the tax unit's AGI.
- The same is true for all other income measures of the tax unit; that is, the tax filer's incomes, taxes, etc. always include the spouses if present.
- Subfamily tax units with no earnings are reassigned to the householder's tax unit.
- Adult childless workers (not dependents) who are in the householder's tax unit with an AGI greater than the personal exemption are treated as their own individual tax unit.
- If the AGI of the householder is below $3,000 and there are adult childless workers being treated as separate tax units in the household, then the adult childless worker with the largest AGI becomes the tax filer for the householder's tax unit.
- All single unmarried children in a tax unit less than 17 years old are marked as CTC eligible dependents
- All single unmarried children in a tax unit less than 19 years old or less than 24 years old and enrolled in school — or any relative of any age who is disabled and not working (unless that relative is a parent) — are marked as EITC eligible dependents.
- CTC and EITC eligible dependents are summed by tax unit.

Tax liability: The estimated amount of taxes owed is determined based on these tax units:
Filing status: Tax filers are assigned as single, head of household, or married filing jointly, based on tax unit composition.

Itemized deductions: Itemized deductions are estimated for every filer based on the sum of three components:
1. Real estate tax deduction is estimated for those with a mortgage based on reported property tax or is otherwise set to 0.
2. Mortgage interest deduction is estimated for those with a mortgage based on state averages for each of the ten IRS income classes or is otherwise set to 0.
3. All other itemized deductions are estimated based on state averages for each of the ten IRS income classes.

(IRS Statistics of Income data for 2014 by state were used for numbers 2 and 3.)

Standard deduction: The standard deduction is calculated based on tax unit size and composition.

Taxable income is estimated by taking AGI and then subtracting the personal exemption and either the calculated standard deduction or estimated itemized deduction, whichever is larger. Income tax liability is then estimated by applying the income tax brackets to taxable income. Payroll taxes are estimated based on wage and salary earnings. Self-employment payroll taxes are estimated from self-employment earnings. CTC and EITC benefits are calculated based on the number of eligible dependents, AGI, and earnings.

Size-adjusted post-tax, post-transfer (PTPT) household income: The tax units' incomes are then converted back into household units. For each tax filer, income tax and payroll tax liability is subtracted from total cash income and then the CTC and EITC tax credits are added to yield a post-tax, post-credit income at the tax unit level. Tax unit post-tax, post-credit income is then summed at the household level, along with imputed SNAP benefits.

Average incomes: The final step is the calculation of average household income by quintile. The resulting PTPT household income is then adjusted by dividing by the square root of household size. Persons are then sorted by state and within state by their adjusted household PTPT income into fifths (income quintiles). Negative and zero incomes are left in the sample. The average and maximum of adjusted household PTPT income for each quintile is then calculated. Finally, the average and maximum incomes are adjusted back up to a family of four by multiplying 2 (the square root of 4).