CALIFORNIA BUDGET PROJECT

policy points

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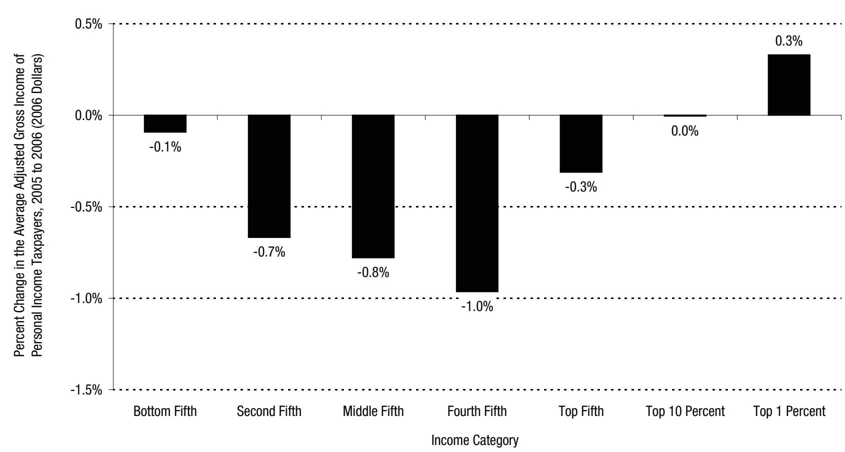
NEW DATA SHOW THAT CALIFORNIA'S INCOME GAPS CONTINUE TO WIDEN

New Franchise Tax Board data show that California's income gaps continue to widen. The gap between the wealthiest 1 percent of the state's taxpayers and those with incomes in the middle of the distribution increased between 2005 and 2006 – the most recent period for which data are available – reflecting a longer-term pattern of widening inequality. The new data also provide further evidence that the economic recovery of the early 2000s failed to benefit most Californians. While economic growth during the first few years of this decade helped boost corporate profits eight-fold, the total adjusted gross income (AGI) of California's personal income taxpayers rose only modestly. Moreover, the increase in total AGI during this period was driven by gains among the wealthiest California taxpayers, while middle-income taxpayers lost ground.

- **New data show that the gap between the wealthiest 1 percent of California taxpayers and middle-income taxpayers continues to widen.**

The average AGI of the top 1 percent of California taxpayers increased by 0.3 percent between 2005 and 2006, after adjusting for inflation, while that of the middle fifth of taxpayers declined by 0.8 percent.[1] As a result of this trend, the gap between the

The Incomes of the Wealthiest 1 Percent of California Taxpayers Gained Purchasing Power, While Those of Other Taxpayers Lost Purchasing Power, 2005 to 2006

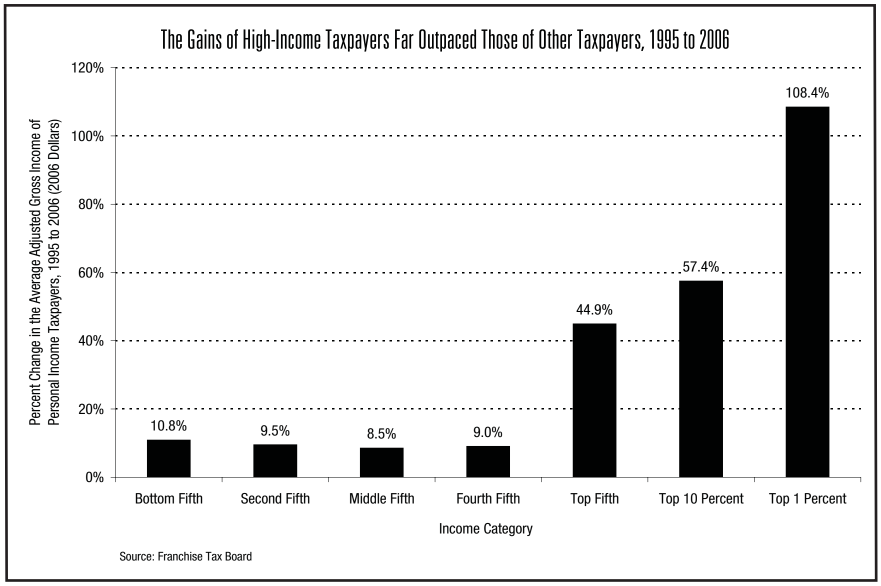


Source: Franchise Tax Board

wealthiest California taxpayers and those with incomes in the middle of the distribution widened. In 2006, the average AGI of the top 1 percent of taxpayers was 48.9 times that of the middle fifth of taxpayers, up from 48.4 times the average AGI of middle-income taxpayers one year earlier.

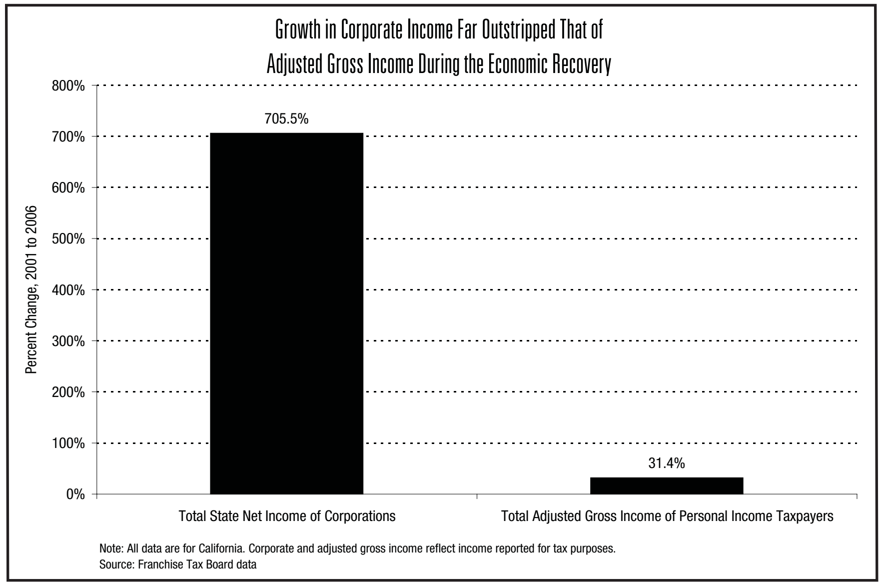
- **Widening income gaps in recent years reflect a longer-term trend.**

The average AGI of the top 1 percent of California taxpayers doubled between 1995 and 2006, increasing by 108.4 percent, after adjusting for inflation, while that of the middle fifth of taxpayers rose by 8.5 percent.[2] As a result of these uneven gains, the gap between the top 1 percent of taxpayers and those with incomes in the middle of the distribution nearly doubled. The average AGI of the top 1 percent of taxpayers increased from 25.5 times that of middle-income taxpayers in 1995 to 48.9 times that of the middle fifth in 2006.



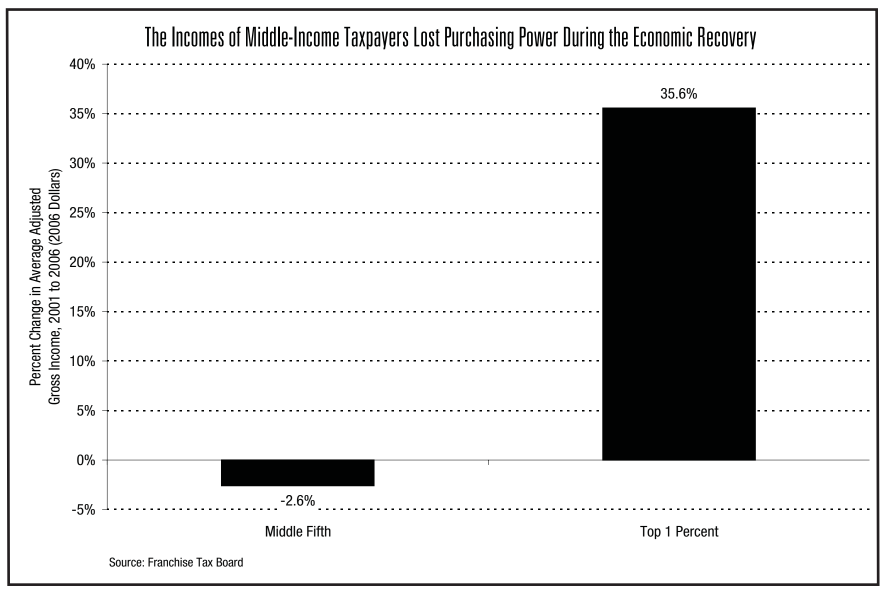
- **The benefits of economic growth during the recovery of the early 2000s failed to trickle down to many Californians.**

National productivity growth – the increase in the amount of goods and services produced per hour worked – increased by 2.8 percent per year between 2001 and 2006, comparable to the annual growth rate during the economic boom years of the late 1990s.[3] Historically, productivity growth has produced widespread increases in living standards.[4] However, productivity growth during the first six years of this decade led to skyrocketing corporate profits, coupled with a comparatively modest increase in the incomes of many Californians. State net corporate income – profits reported for tax purposes – increased eight-fold (705.5 percent) between 2001 and 2006, while the AGI of personal income taxpayers rose by 31.4 percent.[5] Moreover, the increase in total AGI during the economic recovery was driven by gains among the wealthiest California taxpayers. Approximately half (49.5 percent) of the growth in total AGI between 2001 and 2006 was concentrated among taxpayers with AGIs of $500,000 or more, who constitute fewer than 1 percent of taxpayers; a full 40.0 percent of the growth in AGI occurred among taxpayers with AGIs of $1 million or more, who make up less than half of 1 percent of taxpayers.[6]



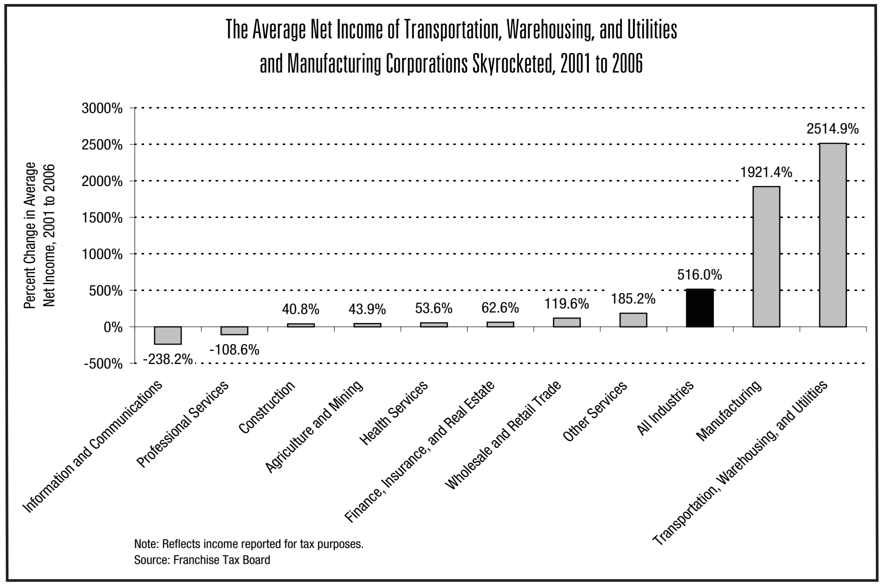
- **Middle-income taxpayers lost ground during the economic recovery of the early 2000s.**

In spite of the recovery, the average AGI of the middle fifth of California taxpayers declined by 2.6 percent between 2001 and 2006, after adjusting for inflation. In contrast, the inflation-adjusted average AGI of the wealthiest 1 percent of the state's taxpayers rose by 35.6 percent.



- **Average corporate profits increased more than six-fold during the recovery.**

Between 2001 and 2006, average net corporate income rose by 516.0 percent. Corporations in two major sectors of the economy – transportation, warehousing, and utilities, as well as manufacturing – experienced the greatest growth in profits during this period. The average net income of corporations in the transportation, warehousing, and utilities sector increased more than 26-fold (2,514.9 percent) between 2001 and 2006, while that of manufacturing corporations rose more than 20-fold (1,921.4 percent) during the same period.[7] In contrast, the average net income of corporations in the information and communications sector declined by 238.2 percent during this period. More recently, however, information and communications corporations experienced the greatest income gains of any sector. Between 2005 and 2006, the average net income of information and communications corporations nearly tripled, increasing by 179.5 percent.[8]



Alissa Anderson prepared this Policy Points. The California Budget Project (CBP) was founded in 1994 to provide Californians with a source of timely, objective, and accessible expertise on state fiscal and economic policy issues. The CBP engages in independent fiscal and policy analysis and public education with the goal of improving public policies affecting the economic and social well-being of low- and middle-income Californians. General operating support for the CBP is provided by foundation grants, individual donations, and subscriptions. Please visit the CBP's website at www.cbp.org.

ENDNOTES

1 Franchise Tax Board.

2 Franchise Tax Board.

3 US Bureau of Labor Statistics. National productivity increased by 2.7 percent per year between 1995 and 2000.

4 See Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2006/2007* (Cornell University Press: 2007), p. 17.

5 Franchise Tax Board. Figures are not adjusted for inflation.

6 Franchise Tax Board. A full 91.7 percent of the growth in AGI during this period occurred among taxpayers with AGIs of $100,000 or more. Figures are not adjusted for inflation. A small portion of the growth in AGI reflects an increase in the share of taxpayers in high-income groups. For example, 0.4 percent of taxpayers had AGIs of $1 million or more in 2006, up from 0.2 percent in 2001. In addition, 0.9 percent of taxpayers had AGIs of half a million dollars or more in 2006, up from 0.6 percent in 2001.

7 Franchise Tax Board.

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