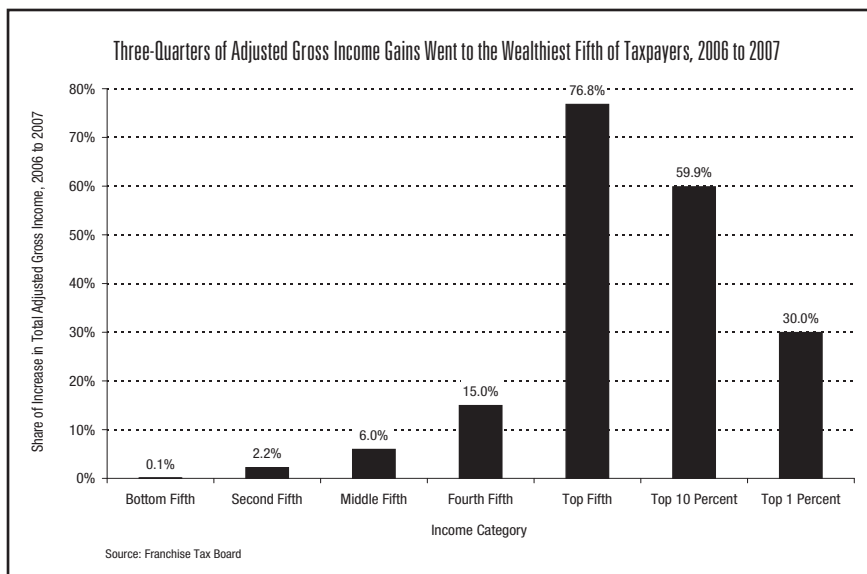


NEW DATA SHOW THAT CALIFORNIA'S INCOME GAPS CONTINUE TO WIDEN

New data from the Franchise Tax Board show that California's income gaps continue to widen as the share of adjusted gross income (AGI) going to the wealthiest personal income taxpayers rises and the share going to middle-income taxpayers falls.¹ The latest data, which predate the current recession, show that the gap between the wealthiest 1 percent of taxpayers and those with incomes in the middle of the distribution increased between 2006 and 2007, reflecting a longer-term pattern of widening inequality. The new data also provide further evidence that the economic expansion of this decade failed to benefit most Californians. While economic growth helped to more than triple total corporate profits between 2000 and 2007, total AGI rose only modestly, and the increase in AGI was concentrated among the wealthiest California taxpayers.

- **Recent income gains were not broadly shared.**

The total AGI of California's personal income taxpayers rose by nearly \$64 billion between 2006 and 2007, after adjusting for inflation. Approximately three-quarters (76.8 percent) of this increase went to the wealthiest fifth of taxpayers. A full 30.0 percent of AGI gains went to the top 1 percent of taxpayers, amounting to an additional \$19.0 billion for fewer than



- **The gap between the wealthiest 1 percent of taxpayers and those with incomes in the middle of the distribution continues to widen.**

150,000 taxpayers. In contrast, 6.0 percent of the increase in AGI – \$3.8 billion – went to the 3 million taxpayers with incomes in the middle fifth of the distribution. To put these uneven gains in context, the average taxpayer in the top 1 percent experienced a \$128,261 *increase* in AGI between 2006 and 2007, which was more than three times the *total* AGI of the average middle-income taxpayer in 2007 (\$36,115).

The income gains of the wealthy outpaced those of middle-income taxpayers in recent years, continuing a longer-term trend. Between 2006 and 2007, the AGI of the average California taxpayer in the top 1 percent increased by 4.3 percent, from \$1,757,052 to \$1,832,123, after adjusting for inflation. This percentage increase was more than eight times the gain of the average middle-income taxpayer, whose inflation-adjusted AGI rose by just 0.5 percent, from \$35,927 to \$36,115, during the same period. Income gains were even more uneven between 1995 and 2007; during this period, the inflation-adjusted AGI of the average taxpayer in the top 1 percent rose by 117.3 percent – nearly 13 times the gain of middle-income taxpayers (9.1 percent).

The Gains of the Wealthiest Taxpayers Far Outpaced Those of Middle-Income Taxpayers		
	Percent Change in Average Adjusted Gross Income	
Income Category	1995 to 2007	2006 to 2007
Bottom Fifth	7.7%	-2.8%
Second Fifth	8.7%	-0.7%
Middle Fifth	9.1%	0.5%
Fourth Fifth	11.3%	2.2%
Top Fifth	51.0%	4.2%
Top 10 Percent	64.1%	4.2%
Top 1 Percent	117.3%	4.3%

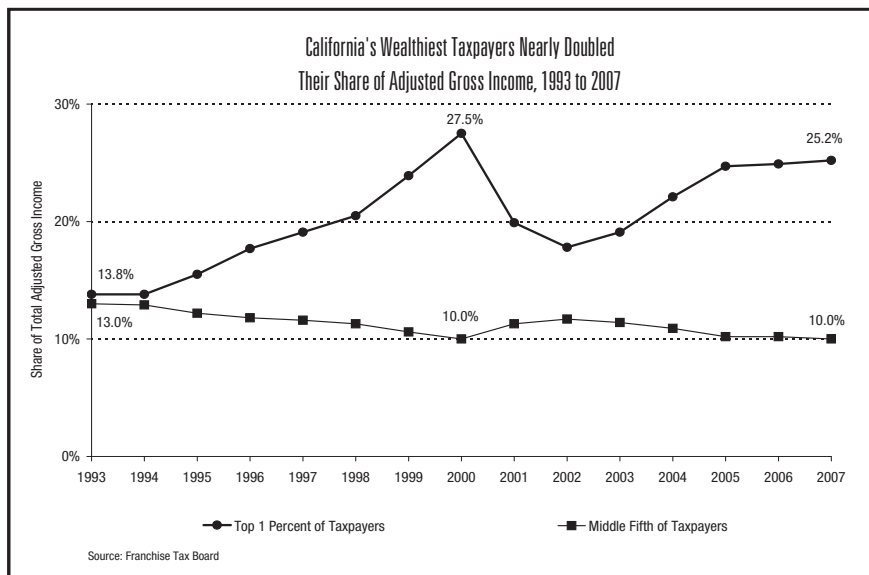
Source: Franchise Tax Board

Uneven income gains have further widened the gap between wealthy and middle-income taxpayers. In 2007, California taxpayers in the middle fifth of the income distribution had AGIs of between \$27,323 and \$46,549.² In contrast, the wealthiest 1 percent of taxpayers had AGIs of approximately half a million dollars (\$494,803) or more. In fact, the average taxpayer in the top 1 percent had an AGI of \$1,832,123 in 2007 – 50.7 times that of the average middle-income taxpayer (\$36,115). This substantial gap was up from 25.5 times the AGI of the average middle-income taxpayer in 1995.

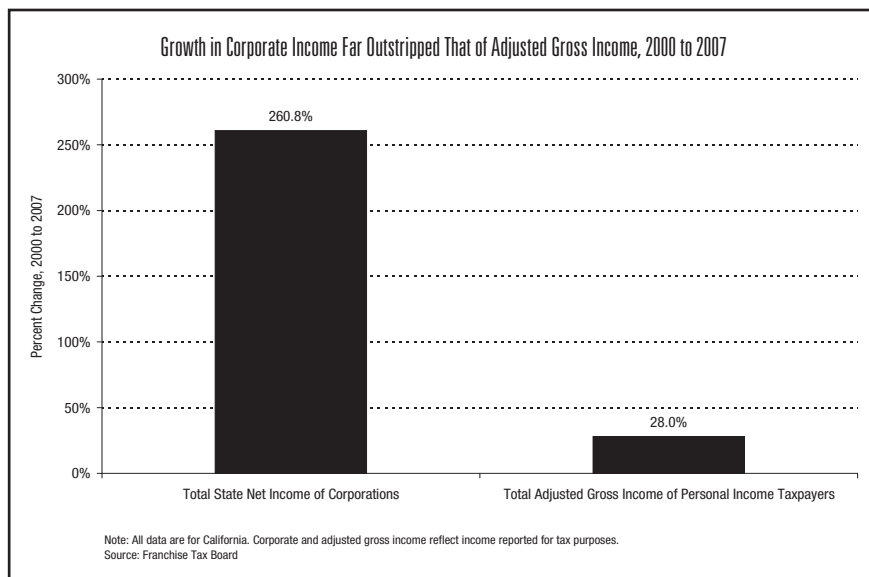
- **The top 1 percent of taxpayers has nearly doubled its share of AGI since the early 1990s.**

One-quarter (25.2 percent) of total AGI went to the wealthiest 1 percent of taxpayers in 2007, nearly twice their share (13.8 percent) in 1993, the earliest year for which data are available. In contrast, taxpayers with incomes in the middle of the distribution had just 10.0 percent of total AGI in 2007, down from 13.0 percent in 1993.³ This means that the top 1 percent of taxpayers received 25 times their proportionate share of AGI in 2007, while middle-income taxpayers received half of their proportionate share of income. If the share of income going to the wealthiest 1 percent of taxpayers had remained the same since 1993, the bottom 99 percent of taxpayers would have had an additional \$123 billion in income in 2007 – equal to \$8,388 each.

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

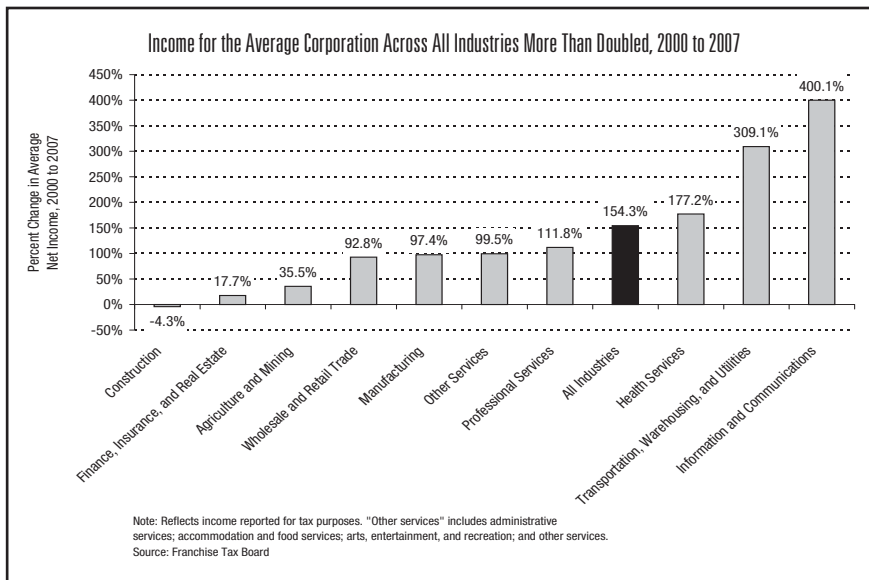


National productivity growth – the increase in the amount of goods and services produced per hour worked – rose by an average of 2.6 percent per year between 2000 and 2007, comparable to the annual growth rate during the economic boom of the late 1990s.⁴ Typically, productivity gains have produced widespread increases in living standards.⁵ However, during the first seven years of this decade, productivity growth led to skyrocketing corporate profits, coupled with comparatively modest increases in the incomes of most Californians. Net corporate income – profits reported for state tax purposes – increased by 260.8 percent between 2000 and 2007, while the total AGI of personal income taxpayers rose by 28.0 percent.⁶ Moreover, a full 58.0 percent of the total increase in AGI between 2000 and 2007 went to taxpayers in the top fifth of the income distribution, while just 9.1 percent went to middle-income taxpayers. This means that the wealthiest fifth of taxpayers received three times their proportionate share of income, while middle-income taxpayers received less than half of their share.



- **Average corporate profits more than doubled during the economic expansion.**

Between 2000 and 2007, income for the average corporation rose by 154.3 percent, while the average AGI of personal income taxpayers increased by 15.0 percent. Corporations in two major sectors experienced the greatest growth in profits during this period. The average net income of corporations in information and communications increased fivefold (400.1 percent), while that of corporations in transportation, warehousing, and utilities rose fourfold (309.1 percent). The net corporate income of two other sectors – health services and professional services – more than doubled, while profits for “other services,” manufacturing, and wholesale and retail trade nearly doubled. Construction was the only sector to experience a net decline (4.3 percent).



Alissa Anderson prepared this Policy Points with assistance from Raúl Macías. 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 AGI is income reported for tax purposes. Taxpayers include both single and joint filers.
- ² The middle 60 percent of taxpayers had AGIs between \$13,779 and \$84,813.
- ³ The wealthiest 1 percent of taxpayers' share of AGI peaked at 27.5 percent in 2000 at the height of the economic boom, then fell to 17.8 percent in 2002, largely as a result of the drop in investment income due to declines in the stock market. As the economy recovered, the wealthiest 1 percent of taxpayers' share of AGI rebounded. In contrast, the share of AGI going to taxpayers with incomes in the middle fifth of the distribution has been relatively flat since 2000. The rising share of income going to the top 1 percent of taxpayers largely reflects growth in investment income and the increased concentration of investment income among the wealthiest Californians. See California Budget Project, *A Generation of Widening Inequality: The State of Working California, 1979 to 2006* (August 2007), p. 35.
- ⁴ US Bureau of Labor Statistics. National productivity increased by 2.7 percent per year between 1995 and 2000.
- ⁵ See Lawrence Mishel, Jared Bernstein, and Sylvia Allegretto, *The State of Working America 2006/2007* (Cornell University Press: 2007), p. 17.
- ⁶ Gains in AGI between 2000 and 2007 were considerably weaker than those of the late 1990s. AGI increased by 4.0 percent per year, on average, between 2000 and 2007, compared to an average of 15.5 percent per year between 1995 and 2000.