

from the Tax Policy Center

State Individual Income Tax Progressivity

By Carol Rosenberg

Personal income tax systems vary widely across states, leading to different levels of progressivity. Forty-three states and the District of Columbia have an individual income tax. Arkansas, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming do not tax personal income, while New Hampshire and Tennessee only tax dividends and interest. Eight states (Colorado, Illinois, Indiana, Massachusetts, Michigan, New Hampshire, Pennsylvania, and Tennessee) apply a single tax rate to all taxable income. The remaining states mimic the federal income tax and have multiple tax brackets and rates. Although the definition of taxable income varies by state, it largely follows the federal definition, with the exception that taxpayers are not allowed to deduct state income taxes. In 2006 the top marginal tax rate ranged from 3 percent in Illinois to 9.9 percent in Rhode Island (see figure).

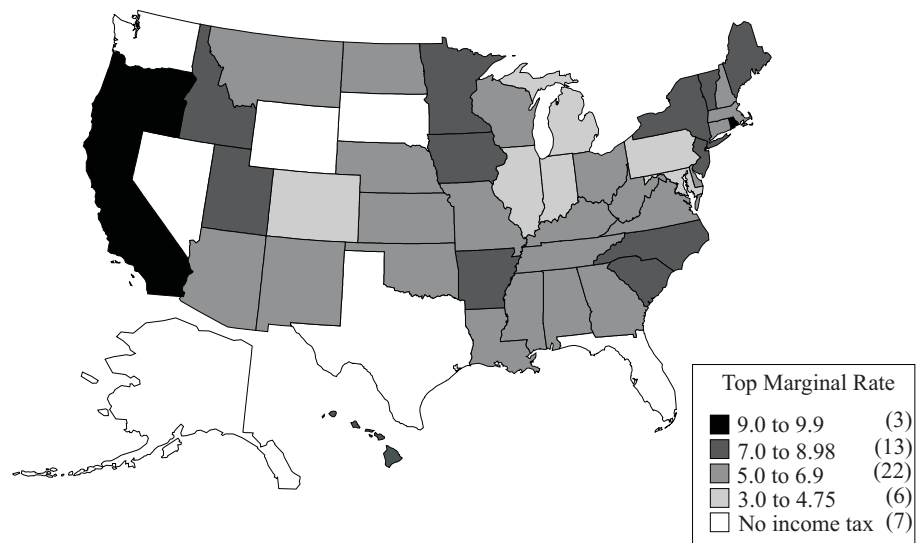
Even among states with graduated tax rates, most systems are fairly flat. In several states, the top tax bracket begins at a very low level of taxable income (\$3,000 in Alabama and Maryland). Other states have only a small difference between the lowest and highest tax rates (just 2 percentage points in Connecticut and Mississippi). In most states, however, credits and deductions lead to some progressivity in the income tax system. In Colorado and Michigan, two states with a flat tax, the top 10 percent of taxpayers still paid about half of all personal income taxes in

2003.¹ High-income taxpayers pay an even greater share of income taxes in states with more progressive systems, including California, Delaware, Idaho, Maine, Rhode Island, South Carolina, and Vermont. For example, the top 10 percent of California taxpayers paid 73 percent of income taxes in 2003.² The progressivity of a state's overall tax system depends, however, on both the characteristics of specific taxes and the mix of tax sources between relatively more progressive tax bases (for example, income and inheritance taxes) and relatively less progressive tax bases (such as sales taxes).

¹Colorado Statistics of Income, Individual Income Tax Returns, Income Tax Year 2003; and "Michigan's Individual Income Tax 2003," Michigan Department of the Treasury, Aug. 2005.

²"Annual Report 2004," California Franchise Tax Board, Jan. 2006.

Top Marginal Personal Income Tax Rate, 2006



Source: CCH Tax Research NetWork. For underlying data, see <http://www.taxpolicycenter.org/TaxFacts/Tfdb/TFTemplate.cfm?DocID=406&Topic2id=90&Topic3id=91>.



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