

The tax man cometh, and California rich – getting richer – pay most

By Jim Miller jmiller@sacbee.com

Data Tracker, The Sacramento Bee's weekly feature offering a deeper look at the numbers behind today's news, now appears on Fridays.

Friday is Tax Day, or would be but for the observance of Emancipation Day in Washington, D.C., meaning that Californians who file returns have until Monday to get their forms in.

Whenever it arrives, the filing deadline is a closely watched benchmark of California state government's fiscal well-being. A deeper look at the data has plenty to offer on the topic of income inequality, a major theme in both parties' presidential primary races this year.

Income taxes make up more than two-thirds of state revenue in the current budget year.

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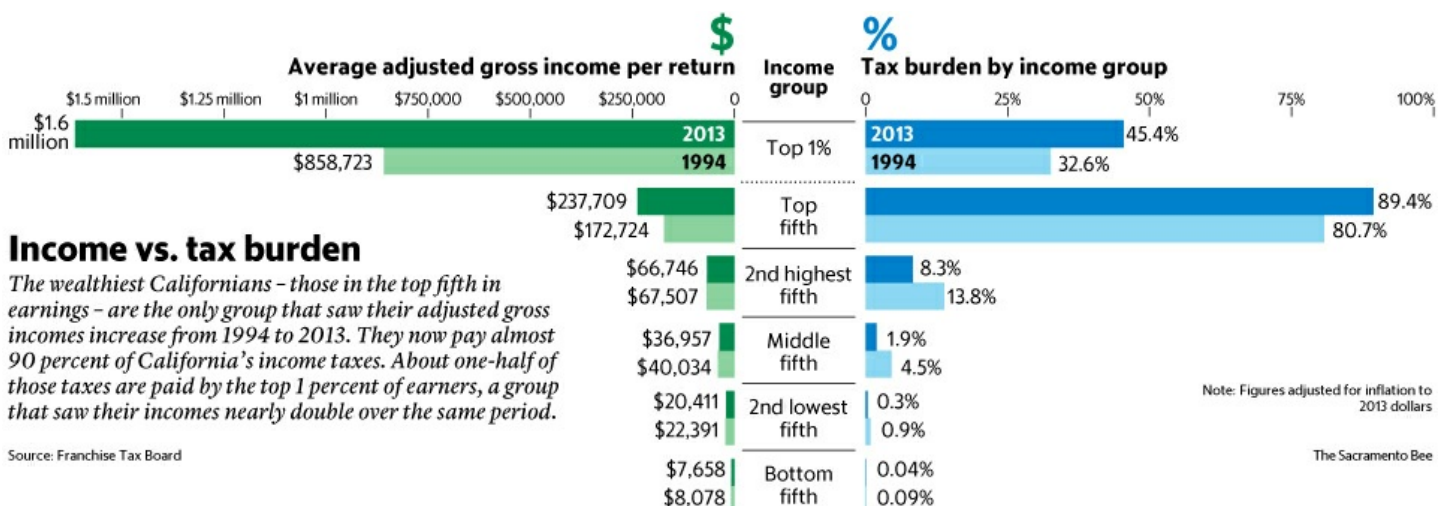
And the most recent numbers from the Franchise Tax Board show nearly 90 percent of the money comes from one-fifth of the taxpayers – those making \$91,000 and up. They belong to the only income range whose average income increased in the last two decades.

From an average of almost \$173,000 per return in 1994, the average adjusted gross income for the top fifth of taxpayers reached nearly \$238,000 by 2013, a 38 percent increase.

Forty-five percent of the state's income tax money comes from the top 1 percent of filers – those with adjusted gross income of at least \$501,000. Those taxpayers recorded an average adjusted gross income of \$1.6 million in 2013, almost double what it was in 1994.

For other taxpayers, real income has stagnated or declined.

Average adjusted gross income for filers in the second-highest fifth dropped by about 1 percent, from \$67,507 to \$66,746. Adjusted gross income in the second-lowest fifth declined the most, 9 percent, from an average of \$22,391 to \$20,411.



The data underscore the state's uneven recovery from the last recession, as well as some people's income struggles amid rapid globalization and technological change, said professor Ann Huff Stevens, who teaches economics at UC Davis and is the interim dean of the Graduate School of Management.

"The story has been very consistent since the mid-1980s – there are much bigger gains in earned income at the top," she said. "Below that, it's been stagnant. At the bottom, there's been a decline.

"It's not as if we have incredibly low tax rates on the very top – they're paying a lot," Stevens said of higher-income filers' tax liability. Yet it's still a problem that many taxpayers' income seems to have stalled or declined, she said.

How does this trend affect the state budget? Gov. Jerry Brown's January spending plan anticipates that income tax revenue in the current budget year will turn out to be "significantly higher" than what lawmakers expected when they passed it last June.

But that's not because officials expect overall income growth. Rather, the plan says, "increases in wages are likely more concentrated among high-income taxpayers who pay higher marginal tax rates."

Gavin Newsom talks about taxes

Lt. Gov. Gavin Newsom told The Sacramento Bee editorial board in February that he's in favor of extending a temporary tax increase.

Hector Amezcua The Sacramento Bee

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Number of returns

1995: 12.1 million

2013: 15.5 million

Returns with itemized deductions:

1995: 4.4 million

2013: 5.6 million

Returns with standard deductions

1995: 7.7 million

2013: 9.9 million

Returns with moving expenses:

1995: 61,723 (average of \$2,029 per return)

2013: 78,889 (average of \$2,448 per return)

Returns with alimony paid

1995: 100,724 (average of \$10,261 per return)

2013: 94,717 (average of \$21,616 per return)

Returns with medical expenses

1995: 792,754 (average of \$4,173 per return)

2013: 1,024,439 (average of \$9,710 per return)

Returns with mortgage interest

1995: 3.75 million (average of \$10,750 per return)

2013: 4.2 million (average of \$12,668 per return)

Number of millionaires paying mental health tax

49,148