Income Inequality And State Tax Revenue Trends

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Income Inequality And State Tax Revenue Trends—Some Background

S&P credit analysts conduct ongoing research related macro-and-micro trends that have potential to affect credit quality;

Example: It’s been widely discussed—and we’ve observed—that state tax revenues have exhibited sluggish but volatile growth rates in recent years;

Research by S&P Chief U.S. Economist posited that rising income inequality may be a negative factor in longer-term economic growth potential;

U.S. States’ Group endeavored to explore whether there is a systematic relationship between broader trends of slower economic growth and rising income inequality and state tax revenue trends.
Income Concentration And Annual Percentage Personal Income Growth

Source: Standard & Poor's Ratings Services.
State Tax Revenue, Economic Growth, And Income Inequality

Relative to Local Governments, States rely more on personal income and sales taxes, both of which reflect current economic activity;

Thesis: Insofar as income inequality is one contributor to slower economic growth, it may also negatively correlate with state tax revenue growth rates;

Plotting the data appears to show rising inequality corresponds with slower tax revenue growth rates and increased tax revenue volatility

Caveats are warranted, however:

• Tax structures may not have kept pace with changes in economic structure;

• Lower tax revenue growth rates partly reflect low inflation in recent years
Income Concentration And Annual Percentage Change In State Tax Revenues

Source: Standard & Poor's Ratings Services.
Thank You

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