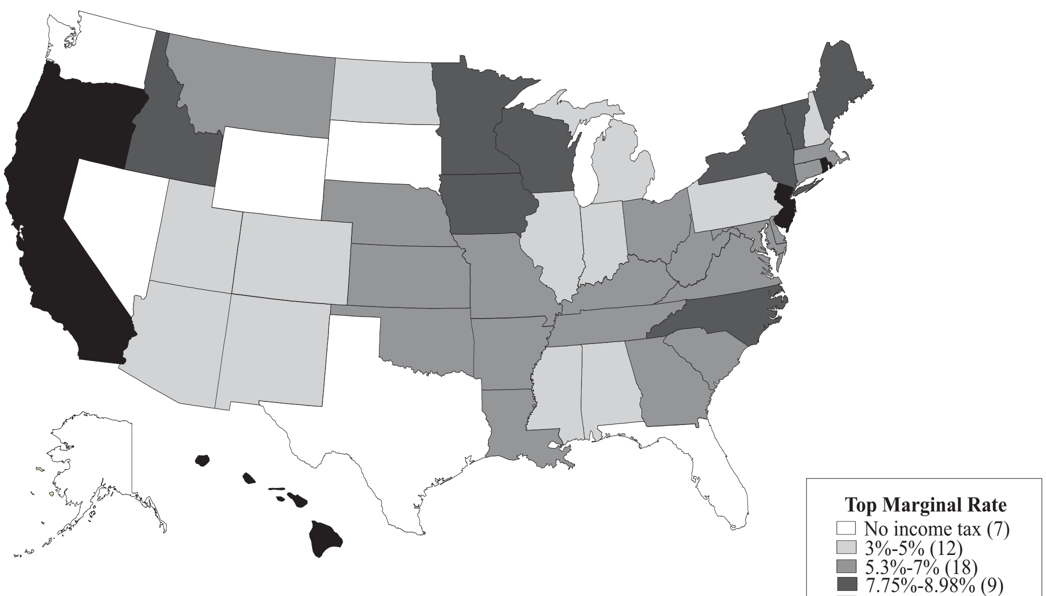
State Individual Income Tax Rates

By Carol Rosenberg and Kim Rueben

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. Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming do not tax personal income, while New Hampshire and Tennessee only tax dividends and interest. Nine states (Colorado, Illinois, Indiana, Massachusetts, Michigan, New Hampshire, Pennsylvania, Tennessee, and Utah) apply a single tax rate to all taxable income. The remaining states mimic the federal income tax and have multiple tax brackets and rates. The definition of taxable income largely follows the federal definition, with the exception that taxpayers are not allowed to deduct state income taxes, although it varies by state. In 2010 the top marginal tax rate ranged from 3 percent in Illinois to 11 percent in Hawaii and Oregon (see figure).

In the middle and late 1980s, most states followed the federal government's lead in reducing the number of income tax brackets: 19 states did so within three years of enactment of the federal Tax Reform Act of 1986. But that trend has reversed more recently, as some states have imposed new brackets for high-income taxpayers. In 2005 California initiated a 1 percent additional tax on income exceeding $1 million. Since then, a ''millionaire's tax'' has been imposed in six additional states, most recently Oregon, which passed an increase in its top rate in January. Other states are considering increases for the future. Top brackets start at $1 million in Maryland and New Jersey; $500,000 in New York; $250,000 in Oregon; $225,000 in Wisconsin; and $200,000 in Hawaii.

Top Marginal Personal Income Tax Rate, 2010



Source: Federation of Tax Administrators. For underlying data, see http://www.taxpolicycenter.org/taxfacts/displayafact.cfm?Docid=406.