

Alabama Taxes Hit Poor & Middle Class Far Harder than the Wealthy

Low- and middle-income families in Alabama pay a far higher share of their income in state and local taxes than do the richest families in Alabama, according to a new study by the Institute on Taxation & Economic Policy.

“State and local governments are being called upon to take on more and more responsibilities,” said Robert S. McIntyre, ITEP’s tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “Unfortunately, when it comes to paying for services, Alabama has a very unfair tax system.”

Alabama’s Tax Code: Soak the Poor and Middle Class, Spare the Wealthy

When all Alabama taxes are totaled up, the study found that:

- Alabama families earning less than \$13,000—the poorest fifth of Alabama non-elderly taxpayers—pay 10.6% of their income in Alabama state and local taxes.
- Middle-income Alabama taxpayers—those earning between \$21,000 and \$36,000—pay 9.8% of their income in Alabama state and local taxes.
- But the richest Alabama taxpayers—with average incomes of \$682,000—pay only 4.9% of their income in Alabama state and local taxes before taking account of tax savings from federal itemized deductions, and only 3.8% after the federal offset.

The study found that Alabama taxes are particularly regressive because the state’s personal income tax actually levies a lower rate on wealthy taxpayers than middle income taxpayers—and therefore only compounds the regressivity of the state’s sales and excise taxes.

Alabama Taxes Among Nation’s Most Regressive

Alabama’s tax system earns it the dubious distinction of placing on the list of the “Terrible Ten” most regressive states in the nation. Even before accounting for tax savings from federal itemized deductions, Alabama asks poor families—those in the bottom 20% of the income scale—to pay more than twice as great a share of their earnings in taxes as do the wealthy. By the same measure, middle-income families in Alabama also pay twice as high a share of their income in taxes as the wealthiest families.

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“Alabama is one of the only states nationwide with a regressive personal income tax,” McIntyre said. “The lack of a progressive income tax to offset regressive sales and property taxes is the most important factor in making the Alabama tax system so regressive. Taxes ought to be based on people’s ability to pay them, which means that the share of income paid in tax should rise as income grows, not fall sharply as is the case in Alabama.”

Tax Regressivity Has Grown Since 1989

The study also examined the impact of changes in the regressivity of Alabama taxes since 1989, when the last cycle of state government shortfalls began. The study’s findings include:

- The value of Alabama’s exemptions and deductions has continued to decrease with inflation, while “graduated” rate brackets are so low they are nearly meaningless.
- Overall tax burdens have increased for everyone but the richest 20 percent, whose burden has declined.

“More than 70 percent of Alabama families pay income tax at the highest rate, making a mockery of a graduated rate structure,” said McIntyre. “As lawmakers consider budget-balancing strategies in 2003, they should remember that their past actions have served to shift a greater share of the tax burden onto low-income taxpayers.”

Two pages of tables detailing the Alabama findings of the study follow

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at www.itepnet.org. Printed copies can be ordered by calling ITEP at 202-737-4315.

Who Pays? examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

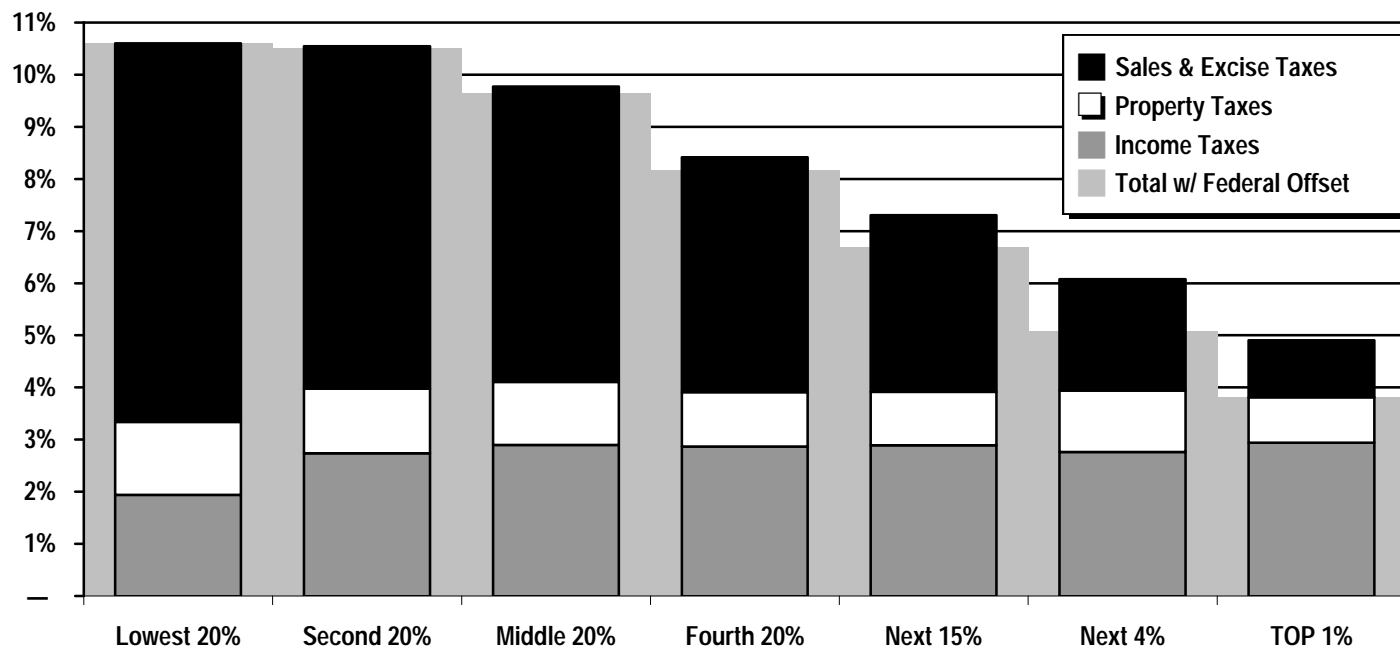
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

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Alabama

State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$13,000	\$13,000 – \$21,000	\$21,000 – \$36,000	\$36,000 – \$58,000	\$58,000 – \$108,000	\$108,000 – \$229,000	\$229,000 or more
Average Income in Group	\$8,300	\$16,800	\$27,600	\$46,000	\$76,400	\$146,000	\$682,000
Sales & Excise Taxes	7.3%	6.6%	5.7%	4.5%	3.4%	2.1%	1.1%
General Sales—Individuals	4.2%	3.8%	3.4%	2.8%	2.1%	1.4%	0.7%
Other Sales & Excise—Ind.	1.7%	1.4%	1.2%	0.9%	0.6%	0.4%	0.2%
Sales & Excise on Business	1.4%	1.3%	1.1%	0.8%	0.6%	0.4%	0.2%
Property Taxes	1.4%	1.2%	1.2%	1.0%	1.0%	1.2%	0.9%
Property Taxes on Families	1.4%	1.2%	1.2%	1.0%	0.9%	1.0%	0.4%
Other Property Taxes	0.0%	0.0%	0.0%	0.1%	0.1%	0.2%	0.4%
Income Taxes	1.9%	2.7%	2.9%	2.9%	2.9%	2.8%	2.9%
Personal Income Tax	1.9%	2.7%	2.9%	2.8%	2.9%	2.7%	2.7%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	10.6%	10.5%	9.8%	8.4%	7.3%	6.1%	4.9%
Federal Deduction Offset	-0.0%	-0.0%	-0.1%	-0.3%	-0.6%	-1.0%	-1.1%
TOTAL AFTER OFFSET	10.6%	10.5%	9.6%	8.2%	6.7%	5.1%	3.8%

Note: Table shows 2002 tax law at 2000 income levels.

Alabama Tax Trends

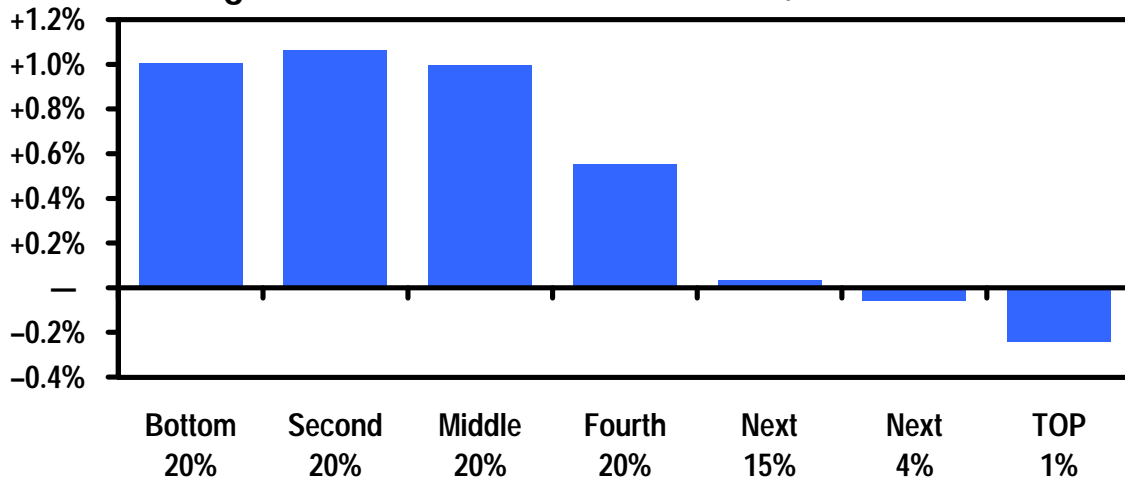
Progressive Features

- ✓ Property tax homestead exemption

Regressive Features

- ✗ Virtually flat-rate income tax
- ✗ Income tax not indexed for inflation
- ✗ Sales tax base includes groceries
- ✗ Income tax deduction for federal taxes paid

Changes in Taxes as Shares of Income, 1989 – 2002

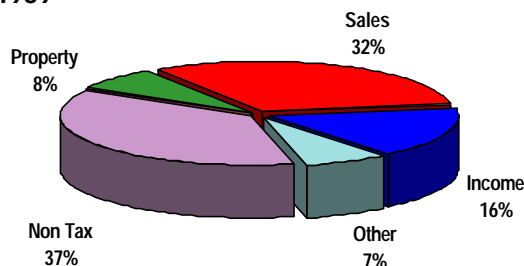


	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Sales & Excise	+0.1%	+0.2%	+0.2%	+0.2%	+0.2%	+0.1%	+0.0%
Property	+0.2%	+0.3%	+0.3%	+0.3%	+0.1%	+0.1%	-0.0%
Income	+0.7%	+0.6%	+0.5%	+0.1%	-0.1%	-0.2%	-0.1%
Federal Offset	-0.0%	-0.0%	-0.1%	-0.1%	-0.1%	-0.1%	-0.2%
Overall Change	+1.0%	+1.1%	+1.0%	+0.6%	+0.0%	-0.1%	-0.2%

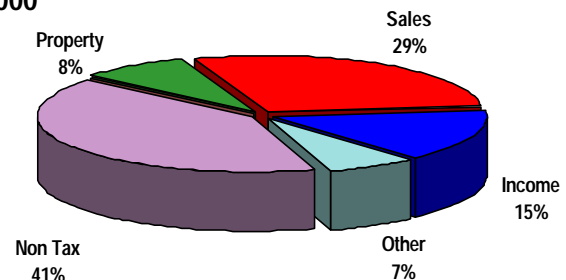
Alabama lawmakers have enacted very few tax changes since 1989. However, this inaction has resulted in substantial and regressive income tax hikes due to the lack of indexation of income tax parameters. Alabama's income tax, already one of the least progressive in the nation in 1989, is now one of the few personal income taxes that is actually regressive in its treatment of wealthier taxpayers. A steady increase in local sales tax rates since 1989 was offset by inflationary reductions in excise tax burdens.

Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census