

Arkansas Taxes Hit Poor & Middle Class Much Harder than the Wealthy

Low- and middle-income families in Arkansas pay a much higher share of their income in state and local taxes than do the richest families in Arkansas, 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, Arkansas has an unfair tax system.”

Arkansas’s Tax Code: Tax the Poor & Middle Class More Than the Wealthy

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

- The state and local tax rate on the best off one percent of Arkansas families—with average incomes of \$498,000—is 7.8% before accounting for the tax savings from federal itemized deductions. After the federal offset, the effective tax rate is only 5.8%.
- The average tax rate on families in the middle of the income distribution—those earning between \$20,000 and \$33,000—is 10.5% both before and the federal offset, nearly twice the effective rate on the very richest families in Arkansas.
- But the tax rate on the poorest Arkansas families—those earning less than \$12,000—is one of the highest of all. At 10.7%, it is almost double the effective rate on the most well-off.

“Arkansas’s income tax fails to offset the regressivity of its sales and excise taxes, giving the state a regressive tax system,” McIntyre said. “Taxes ought to be based on people’s ability to pay them, which means that the share of income paid in taxes should rise as income grows, not falls as is the case in Arkansas.”

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Tax Regressivity Has Worsened Since 1989

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

- Tax burdens rose noticeably across the board, except at the very top of the income scale, where the tax hikes was tiny.
- Large increases in sales and excise taxes swamped progressive income tax changes.

"Low- and middle-income taxpayers in Arkansas saw their high tax burden increase significantly," 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 Arkansas 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.

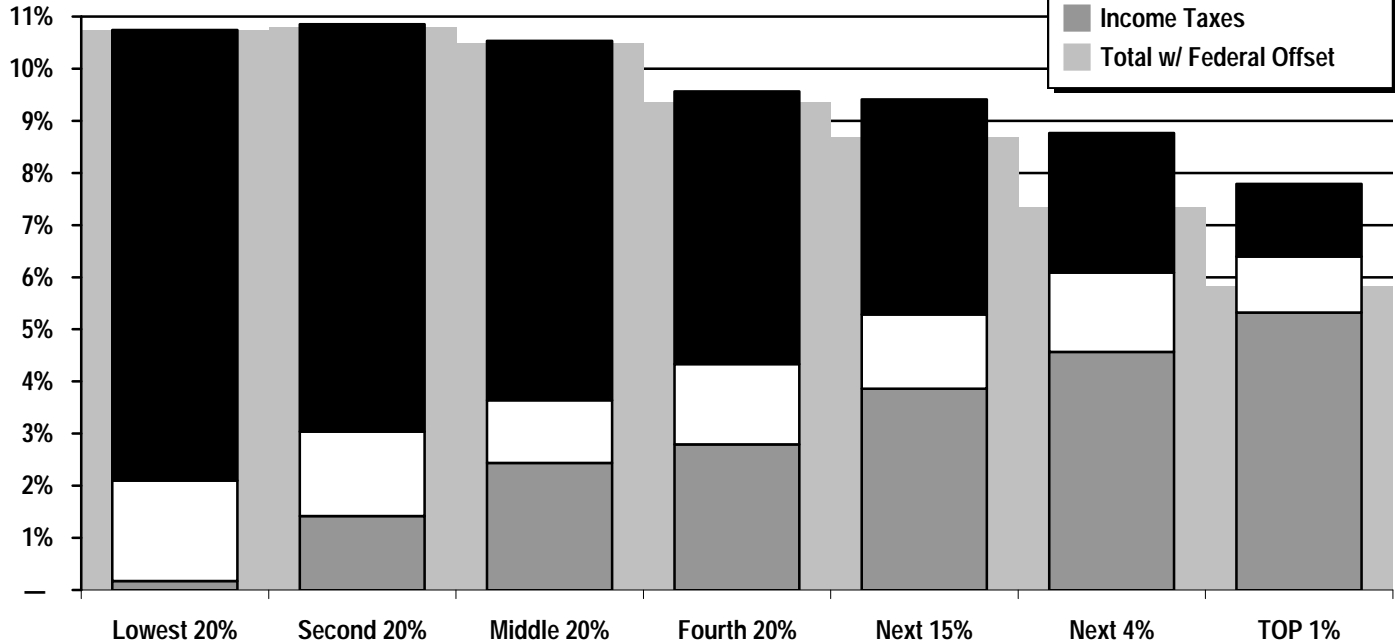
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

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Arkansas

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 \$12,000	\$12,000 – \$20,000	\$20,000 – \$33,000	\$33,000 – \$55,000	\$55,000 – \$100,000	\$100,000 – \$242,000	\$242,000 or more
Average Income in Group	\$7,000	\$16,200	\$26,800	\$43,400	\$71,700	\$138,000	\$498,000
Sales & Excise Taxes	8.6%	7.8%	6.9%	5.2%	4.1%	2.7%	1.4%
General Sales—Individuals	5.3%	5.0%	4.6%	3.5%	2.9%	1.9%	1.0%
Other Sales & Excise—Ind.	1.5%	1.2%	0.9%	0.6%	0.4%	0.3%	0.1%
Sales & Excise on Business	1.9%	1.7%	1.4%	1.1%	0.8%	0.5%	0.3%
Property Taxes	1.9%	1.6%	1.2%	1.5%	1.4%	1.5%	1.1%
Property Taxes on Families	1.9%	1.6%	1.2%	1.4%	1.2%	1.2%	0.6%
Other Property Taxes	0.0%	0.1%	0.0%	0.1%	0.2%	0.3%	0.5%
Income Taxes	0.2%	1.4%	2.4%	2.8%	3.9%	4.6%	5.3%
Personal Income Tax	0.1%	1.4%	2.4%	2.7%	3.8%	4.5%	5.2%
Corporate Income Tax	0.0%	0.1%	0.0%	0.1%	0.0%	0.1%	0.2%
TOTAL TAXES	10.7%	10.9%	10.5%	9.6%	9.4%	8.8%	7.8%
Federal Deduction Offset	—	-0.1%	-0.0%	-0.2%	-0.7%	-1.4%	-2.0%
TOTAL AFTER OFFSET	10.7%	10.8%	10.5%	9.3%	8.7%	7.3%	5.8%

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

Arkansas Tax Trends

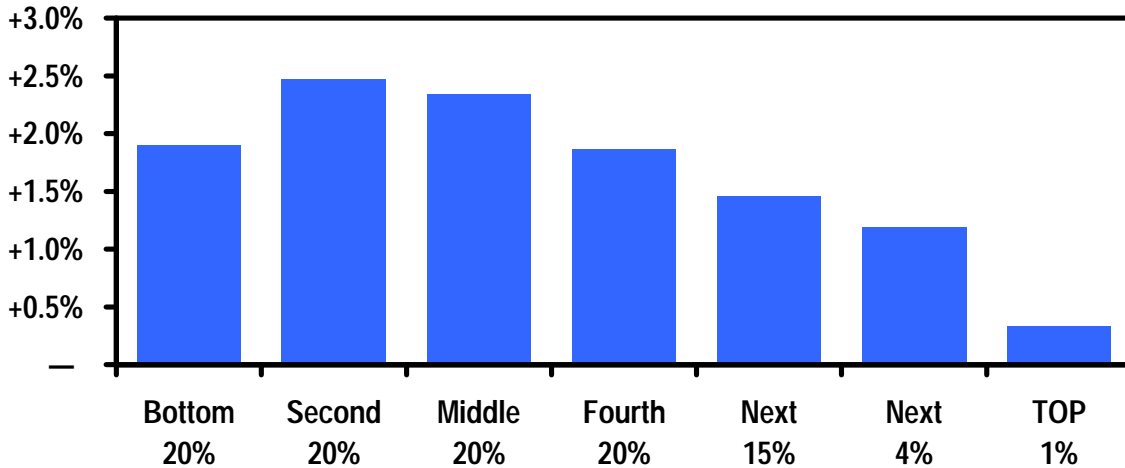
Progressive Features

- ✓ Graduated income tax rates
- ✓ Working taxpayer credit lowers burden on poor

Regressive Features

- ✗ Income tax credits are not refundable
- ✗ 30% of capital gains is excluded from income tax
- ✗ Sales tax applies to groceries

Changes in Taxes as Shares of Income, 1989 – 2002

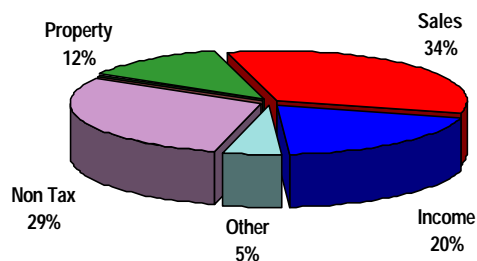


	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Sales & Excise	+2.0%	+2.1%	+1.9%	+1.5%	+1.2%	+0.8%	+0.4%
Property	+0.3%	+0.4%	+0.2%	+0.3%	-0.1%	+0.2%	+0.2%
Income	-0.4%	-0.0%	+0.3%	+0.2%	+0.6%	+0.6%	+0.2%
Federal Offset	+0.0%	-0.0%	-0.0%	-0.1%	-0.2%	-0.4%	-0.4%
Overall Change	+1.9%	+2.5%	+2.3%	+1.9%	+1.5%	+1.2%	+0.3%

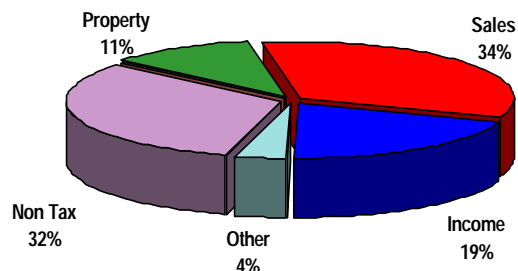
There were several major changes to the Arkansas personal income tax over the decade. Capital gains were first treated with a preferential rate in the mid-90s before a 30% exclusion was enacted in 1999, a boon to the most affluent taxpayers. Despite the lack of bracket indexing until 1999, the less well off got some relief with a larger standard deduction and an expansion in credits. But middle and low income taxpayers were hit by significant increases in the general sales tax--1.125% over the course of the decade--and excise taxes. These tax increases offset any gain for the lowest income quintiles from expanded credits.

Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census