



Delaware Tax Structure Basically Flat

Poor, middle-income and rich families in Delaware all pay about the same share of their incomes in state and local taxes, 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*. “Fortunately, when it comes to paying for services, Delaware at least has a flat tax system, compared to the regressive systems in almost all other states.”

Delaware’s Tax Code: Flat across the board

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

- The richest Delaware taxpayers—with average incomes of \$924,000—pay 6.9% of their income in Delaware state and local taxes before accounting for the tax savings from federal itemized deductions. After the federal offset, they pay 4.8%.
- Middle-income Delaware taxpayers—those earning between \$26,000 and \$45,000—pay 5.4% of their income in state and local taxes before the federal deduction offset, 5.2% after the offset.
- Delaware families earning less than \$15,000—the poorest fifth of Delaware non-elderly taxpayers—pay 4.7% of their income in Delaware state and local taxes.

“Delaware’s progressive income tax offsets the regressivity of its gross receipts and excise taxes, giving the state an essentially flat system,” McIntyre said. “But taxes really 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, which is not the case in Delaware.”

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All Income Groups Shared in Tax Cuts Since 1989

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

- Low-income taxpayers benefitted from larger standard deductions and a personal exemption credit, while high-income taxpayers reaped the rewards of lower tax rates.
- Consumption tax burdens fell slightly due to inflation and economic growth.

"Delaware lawmakers did well to ensure all taxpayers saw some of the benefits of tax reduction," said McIntyre. "As lawmakers consider budget-balancing strategies in 2003, they should try to make their flat tax system actually progressive."

Two pages of tables detailing the Delaware 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.

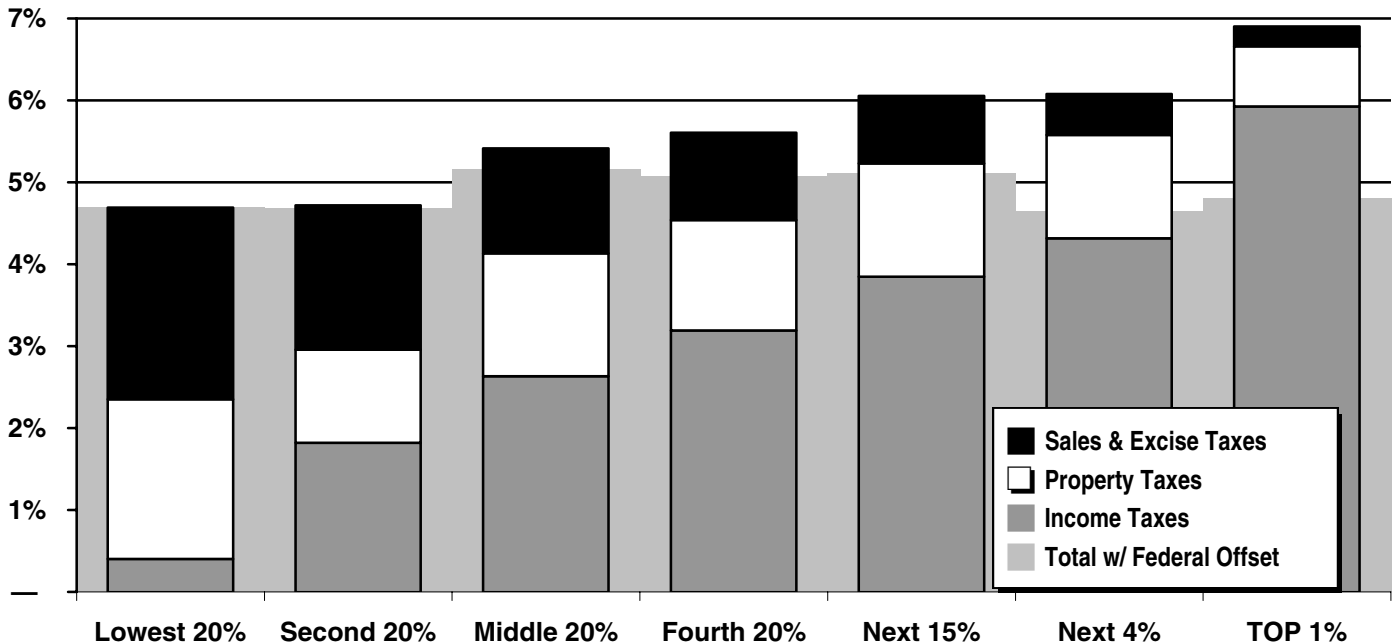
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

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Delaware

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 \$15,000	\$15,000 – \$26,000	\$26,000 – \$45,000	\$45,000 – \$74,000	\$74,000 – \$136,000	\$136,000 – \$358,000	\$358,000 or more
Average Income in Group	\$8,300	\$20,600	\$35,400	\$57,200	\$97,100	\$183,000	\$924,000
Sales & Excise Taxes	2.3%	1.8%	1.3%	1.1%	0.8%	0.5%	0.2%
General Sales—Individuals	—	—	—	—	—	—	—
Other Sales & Excise—Ind.	1.6%	1.2%	0.8%	0.7%	0.5%	0.3%	0.1%
Sales & Excise on Business	0.7%	0.6%	0.4%	0.4%	0.3%	0.2%	0.1%
Property Taxes	1.9%	1.1%	1.5%	1.3%	1.4%	1.3%	0.7%
Property Taxes on Families	1.9%	1.1%	1.5%	1.3%	1.3%	1.2%	0.6%
Other Property Taxes	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
Income Taxes	0.4%	1.8%	2.6%	3.2%	3.8%	4.3%	5.9%
Personal Income Tax	0.3%	1.7%	2.4%	3.0%	3.6%	3.9%	4.8%
Corporate Income Tax	0.1%	0.1%	0.3%	0.2%	0.3%	0.4%	1.1%
TOTAL TAXES	4.7%	4.7%	5.4%	5.6%	6.1%	6.1%	6.9%
Federal Deduction Offset	—	-0.0%	-0.3%	-0.5%	-0.9%	-1.4%	-2.1%
TOTAL AFTER OFFSET	4.7%	4.7%	5.2%	5.1%	5.1%	4.6%	4.8%

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

Delaware Tax Trends

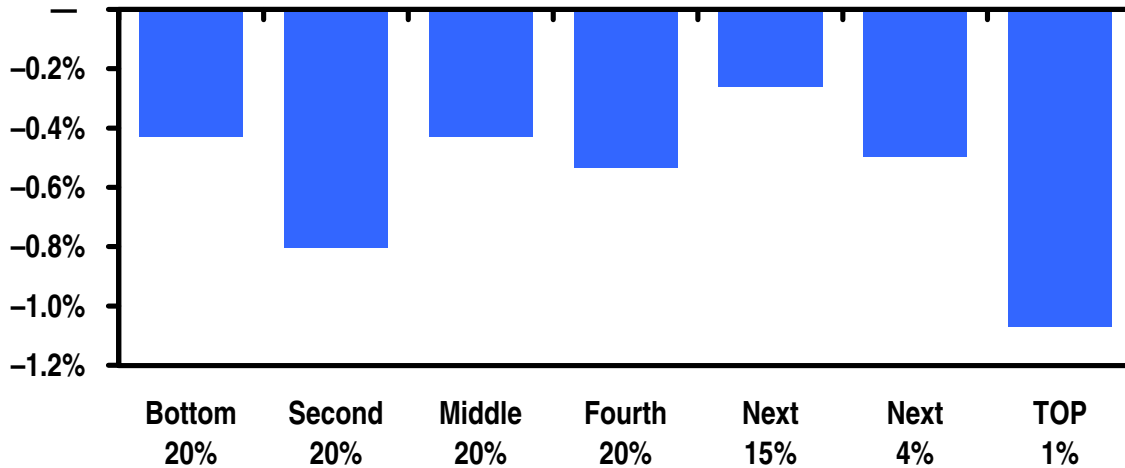
Progressive Features

- ✓ No general sales tax
- ✓ Large standard deduction
- ✓ Graduated income tax rates
- ✓ Progressive exemption credit

Regressive Features

- ✗ Gross Receipts Tax functions as sales tax
- ✗ Credits are non refundable

Changes in Taxes as Shares of Income, 1989 – 2002

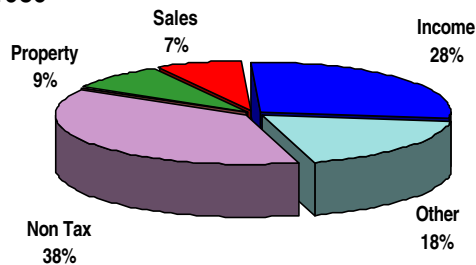


	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Sales & Excise	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.1%	-0.0%
Property	+0.4%	+0.3%	+0.3%	+0.2%	-0.0%	-0.1%	-0.1%
Income	-0.8%	-0.9%	-0.5%	-0.5%	-0.4%	-0.6%	-0.6%
Federal Offset	+0.0%	-0.0%	-0.1%	-0.1%	+0.2%	+0.2%	-0.3%
Overall Change	-0.4%	-0.8%	-0.4%	-0.5%	-0.3%	-0.5%	-1.1%

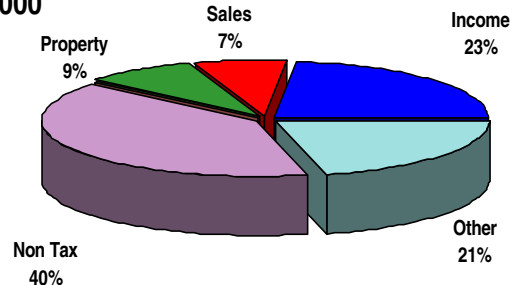
Delaware enacted major income tax cuts between 1995 and 1999, cutting tax rates while expanding the top bracket. Lawmakers also increased the standard deduction and replaced the personal exemption with an exemption credit, both progressive changes.

Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census