

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

Low- and middle-income families in Indiana pay a far higher share of their income in state and local taxes than do the richest Hoosiers, 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, Indiana has a very unfair tax system.”

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

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

- The state and local tax rate on the best off one percent of Indiana families—with average incomes of \$733,000—is 6.3% before accounting for the tax savings from federal itemized deductions. After the federal offset, the effective tax rate is only 4.7%.
- The average tax rate on families in the middle of the income distribution—those earning between \$28,000 and \$45,000—is 9.9% before the federal offset and 9.7% after, double the effective rate the richest pay.
- But the tax rate on the poorest Indiana families—those earning less than \$16,000—is the highest of all. At 11.7% it is two and a half times the effective rate on the very wealthy.

“Indiana’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 fall as is the case in Indiana.”

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Tax Regressivity Worsened Since 1989

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

- Overall, taxes rose on the bottom four-fifths of Indiana families, but fell on the top fifth.
- Inflation eroded the value of income tax exemptions, but low-income Indianians benefitted from an earned-income tax credit.
- Higher sales and excise taxes caused a regressive rise in consumption taxes.

"Low- and middle-income taxpayers in Indiana saw their high tax burden rise even further," 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 Indiana 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.

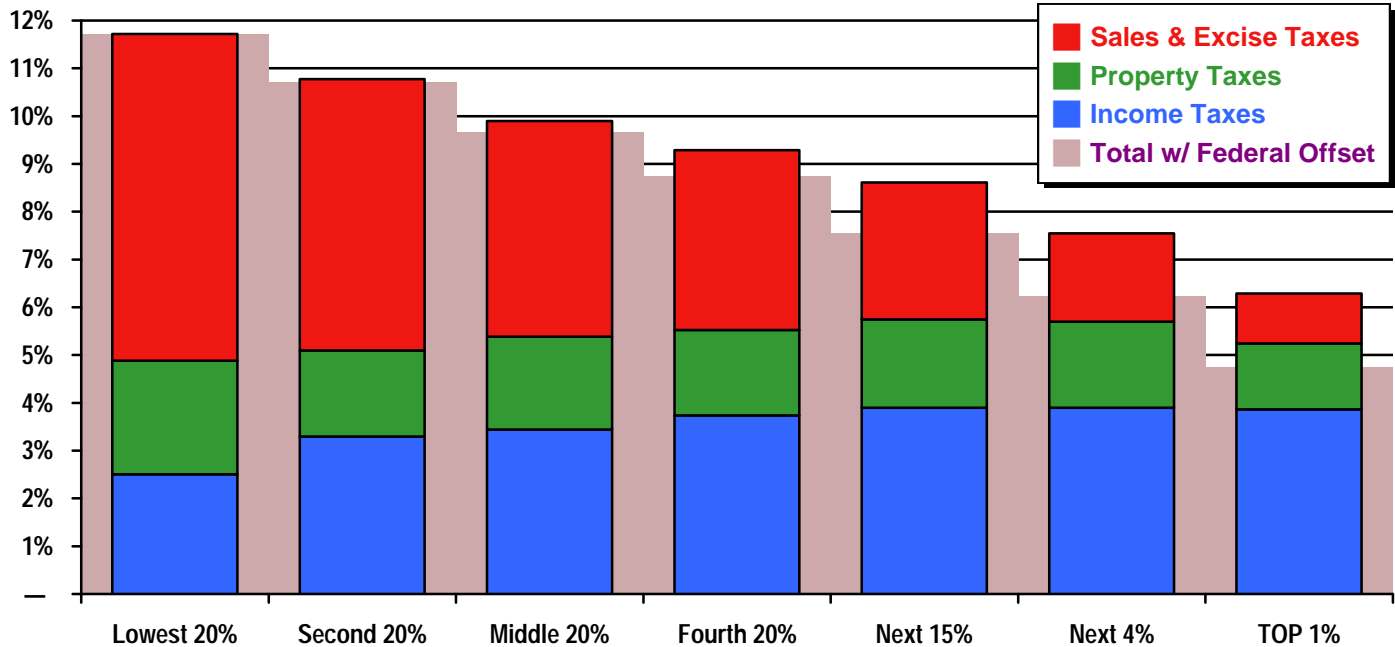
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

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Indiana

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 \$16,000	\$16,000 – \$28,000	\$28,000 – \$45,000	\$45,000 – \$69,000	\$69,000 – \$122,000	\$122,000 – \$279,000	\$279,000 or more
Average Income in Group	\$9,700	\$21,900	\$36,200	\$55,500	\$87,400	\$159,000	\$734,000
Sales & Excise Taxes	6.8%	5.7%	4.5%	3.8%	2.9%	1.8%	1.0%
General Sales—Individuals	3.8%	3.4%	2.9%	2.4%	1.9%	1.2%	0.7%
Other Sales & Excise—Ind.	1.7%	1.2%	0.8%	0.6%	0.4%	0.2%	0.1%
Sales & Excise on Business	1.3%	1.1%	0.9%	0.7%	0.6%	0.4%	0.3%
Property Taxes	2.4%	1.8%	1.9%	1.8%	1.8%	1.8%	1.4%
Property Taxes on Families	2.2%	1.6%	1.7%	1.6%	1.5%	1.2%	0.5%
Other Property Taxes	0.2%	0.2%	0.2%	0.2%	0.4%	0.6%	0.9%
Income Taxes	2.5%	3.3%	3.4%	3.7%	3.9%	3.9%	3.9%
Personal Income Tax	2.5%	3.3%	3.4%	3.7%	3.9%	3.8%	3.7%
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	11.7%	10.8%	9.9%	9.3%	8.6%	7.5%	6.3%
Federal Deduction Offset	-0.0%	-0.1%	-0.2%	-0.6%	-1.1%	-1.3%	-1.6%
TOTAL AFTER OFFSET	11.7%	10.7%	9.7%	8.7%	7.6%	6.2%	4.7%

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

Indiana Tax Trends

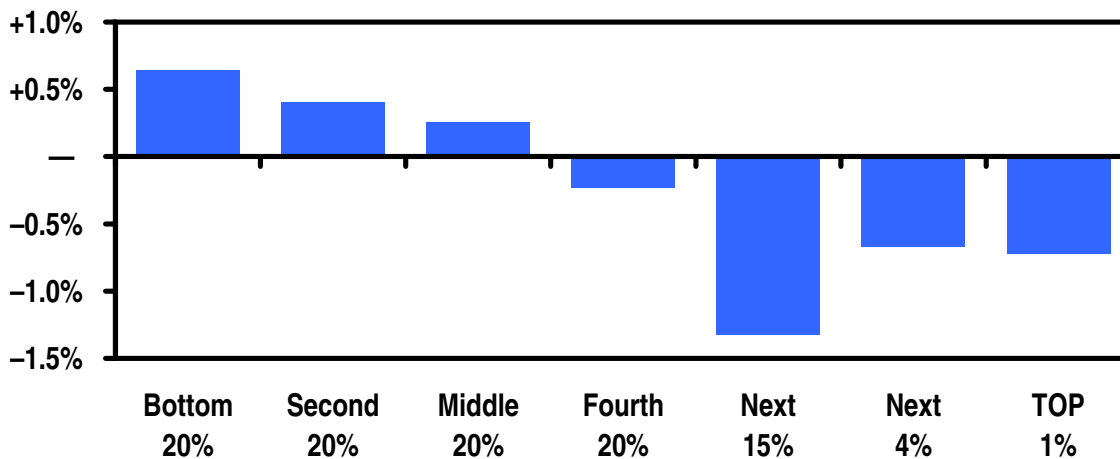
Progressive Features

- ✓ Sales tax exempts groceries
- ✓ Property tax homestead exemption
- ✓ Refundable EITC

Regressive Features

- ✗ Flat-rate income tax
- ✗ Exemptions not indexed

Changes in Taxes as Shares of Income, 1989 – 2002

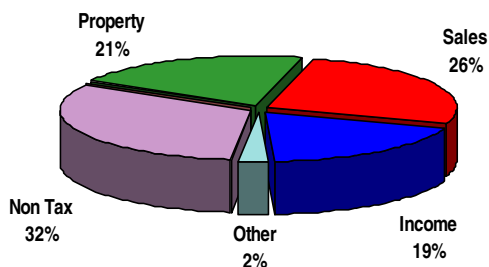


	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Sales & Excise	+0.6%	+0.3%	+0.2%	+0.1%	+0.1%	+0.0%	-0.0%
Property	+0.1%	-0.1%	+0.1%	-0.3%	-1.3%	-0.6%	-0.4%
Income	-0.1%	+0.2%	+0.1%	+0.2%	+0.2%	+0.2%	+0.2%
Federal Offset	-0.0%	-0.0%	-0.1%	-0.2%	-0.3%	-0.3%	-0.5%
Overall Change	+0.6%	+0.4%	+0.3%	-0.2%	-1.3%	-0.7%	-0.7%

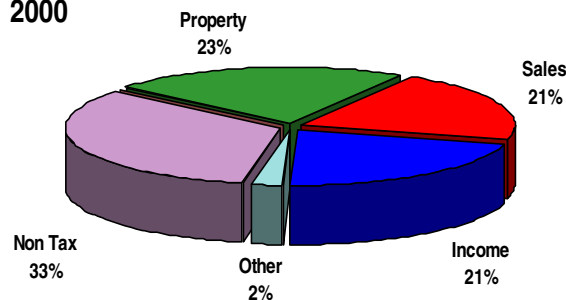
Implicit inflationary tax hikes due to the lack of indexing were offset for the bottom 20% by the adoption of an EITC. But the impact of these changes was small compared to regressive hikes of 1% in the general sales tax and 40 cents in the cigarette tax.

Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census