

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

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

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

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

- The state and local tax rate on the best off one percent of Texas taxpayers—with average incomes of over \$1 million—is 3.5% before accounting for the tax savings from federal itemized deductions. After the federal offset, the effective tax rate is a mere 3.2%.
- The average tax rate on families in the middle of the income distribution—those earning between \$25,000 and \$40,000—is 8.3% before the federal offset and 8.2% after, more than double the effective rate the richest pay.
- But the tax rate on the poorest Texas families—those earning less than \$15,000—is the highest of all. At 11.4% it is over three times the rate on the very wealthy.

“Texas’s lack of a personal income tax means there is little to offset the regressivity of its sales and excise taxes, giving the state an unfair, regressive tax system,” McIntyre said. “Taxes ought to be based on people’s ability to pay them, which means that the poorest should pay a smaller share of their earnings in tax, not the most, as is the case in Texas.”

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Texas Taxes Among Nation's Most Regressive

Texas's tax system earns it the dubious distinction of placing on the list of the "Terrible Ten" most regressive states in the nation. Even not counting the upper-income tax savings from federal itemized deductions, Texas asks poor families—those in the bottom 20% of the income scale—to pay more three times as great a share of their earnings in taxes as do the wealthy. Middle-income families in Texas pay more than twice as high a share of their income in taxes as the wealthiest families.

"Texas is one of only seven states nationwide that has no income tax," McIntyre said. "The lack of a progressive income tax to offset high sales and excise taxes is the most important factor in making the Texas tax system so regressive."

Tax Regressivity Has Worsened Since 1989

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

- Texas increased its already regressive sales tax by a quarter point adding to the already high tax burden on the poor.
- Overall, low- and middle-income taxpayers saw their burden grow, while the top fifth of Texans mostly got tax reductions.

"Texas's tax burden was already one of the most regressive in the nation before it increased taxes again for low- and middle-income taxpayers," 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 Texas 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.

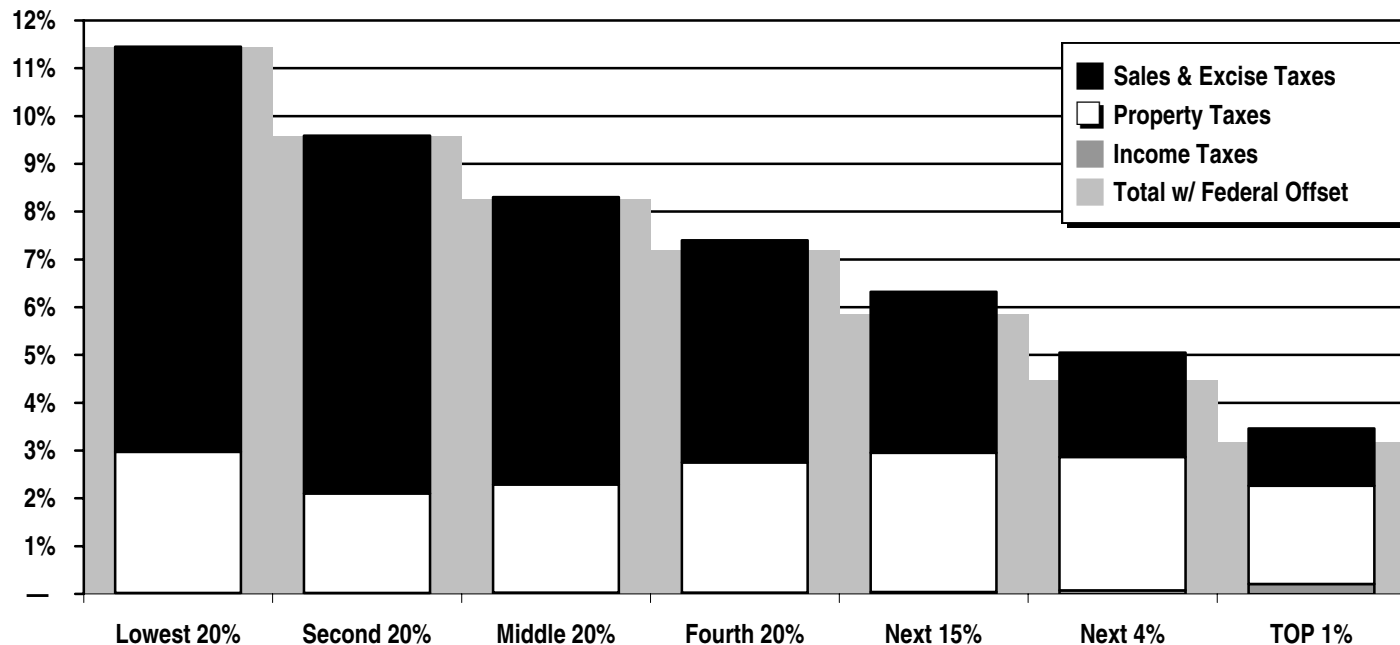
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

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Texas

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 – \$25,000	\$25,000 – \$40,000	\$40,000 – \$69,000	\$69,000 – \$147,000	\$147,000 – \$304,000	\$304,000 or more
Average Income in Group	\$9,300	\$19,700	\$31,900	\$52,500	\$95,300	\$202,000	\$1,081,000
Sales & Excise Taxes	8.5%	7.5%	6.0%	4.7%	3.4%	2.2%	1.2%
General Sales—Individuals	4.1%	3.8%	3.1%	2.5%	1.9%	1.3%	0.7%
Other Sales & Excise—Ind.	1.2%	0.9%	0.7%	0.5%	0.3%	0.2%	0.0%
Sales & Excise on Business	3.1%	2.8%	2.2%	1.7%	1.2%	0.8%	0.4%
Property Taxes	3.0%	2.1%	2.3%	2.7%	2.9%	2.8%	2.1%
Property Taxes on Families	2.8%	1.9%	2.1%	2.4%	2.5%	2.2%	0.8%
Other Property Taxes	0.2%	0.2%	0.2%	0.3%	0.4%	0.6%	1.2%
Income Taxes	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
Personal Income Tax	—	—	—	—	—	—	—
Corporate Income Tax	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.2%
TOTAL TAXES	11.4%	9.6%	8.3%	7.4%	6.3%	5.1%	3.5%
Federal Deduction Offset	-0.0%	-0.0%	-0.1%	-0.2%	-0.5%	-0.6%	-0.3%
TOTAL AFTER OFFSET	11.4%	9.6%	8.2%	7.2%	5.8%	4.5%	3.2%

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

Texas Tax Trends

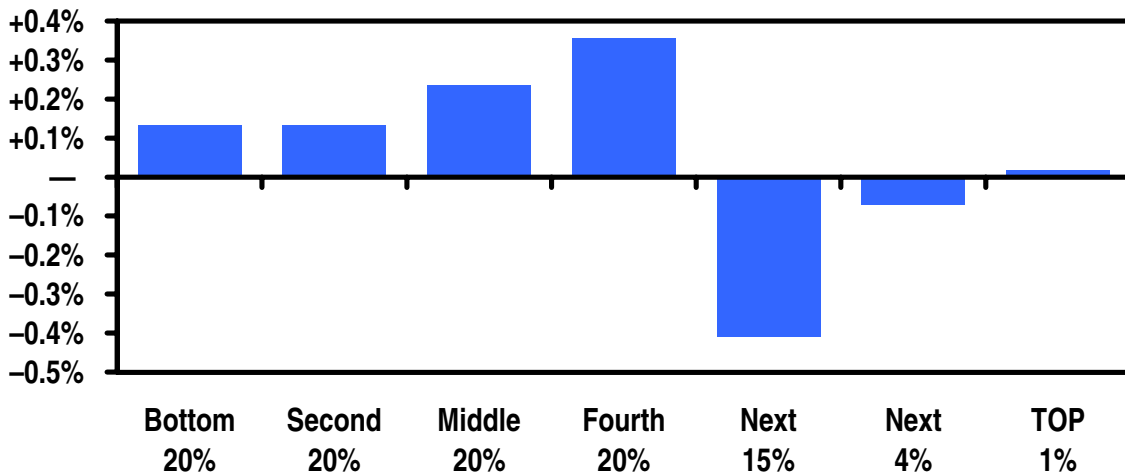
Progressive Features

- ✓ Property tax homestead exemption

Regressive Features

- ✗ No Income tax

Changes in Taxes as Shares of Income, 1989 – 2002

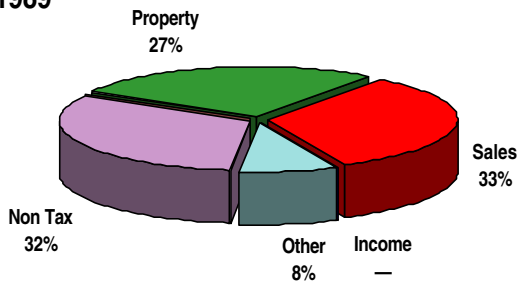


	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Sales & Excise	-0.1%	-0.1%	-0.0%	-0.0%	-0.0%	-0.0%	-0.0%
Property	+0.2%	+0.2%	+0.3%	+0.4%	-0.3%	-0.0%	-0.0%
Income	+0.0%	+0.0%	+0.0%	+0.0%	+0.0%	+0.0%	+0.1%
Federal Offset	+0.0%	+0.0%	+0.0%	-0.0%	-0.1%	-0.0%	-0.0%
Overall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

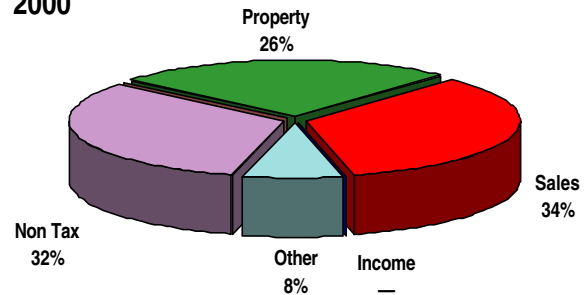
Texas raised the general sales tax rate .25% in the 1990s which was offset by inflationary declines in excise taxes.

Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census