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New 50-State Analysis: Working Poor Families Pay Double the State Tax Rate Paid by Top 1 Percent

State Tax Systems Contribute to Worsening Income Inequality

A [new study](#) by the Institute on Taxation and Economic Policy (ITEP) reveals that state tax systems are indirectly contributing to growing income inequality by taxing low- and middle-income households at significantly higher rates than wealthy taxpayers.

The 5th edition of [ITEP's Who Pays](#) finds that middle- and low-income people in all 50 states pay substantially more of their income in state and local taxes than wealthy individuals and families. The disparity is most stark between the lowest-income households and the top 1 percent of households. On average, the poorest 20 percent of taxpayers nationwide pay more than double the effective tax rate paid by the richest 1 percent of households (10.9 percent v. 5.4 percent). ITEP's analysis factors in all major state and local taxes, including personal and corporate income taxes, property taxes, sales and other excise taxes.

“In recent years, multiple studies have revealed the growing chasm between the wealthy and everyone else,” said Matt Gardner, executive director of ITEP. “Upside down state tax systems didn't cause the growing income divide, but they certainly exacerbate the problem. State policymakers shouldn't wring their hands or ignore the problem. They should thoroughly explore and enact tax reform policies that will make their tax systems fairer.”

State and local tax systems are unfair, or regressive, because the lower one's income, the higher one's tax rate. This is due in part because states tend to more heavily on sales taxes to raise revenue and not as much on personal income taxes, which tend to be more progressive (meaning the higher one's income, the higher one's effective personal income tax rate).

To view a 50-state ranking of state tax systems based on ITEP's inequality index, go to: http://www.itep.org/whopays/inequality_index.php

The Terrible 10: There's Regressive and There's Even More Regressive

While all states have room to improve their state tax codes, some states stand out because the disparity between tax rates for low- and upper-income households is worse than abysmal national averages. **Washington state** has, by far, the U.S.'s most regressive state tax system, taxing the poorest residents at 16.8 percent while taxing the top 1 percent at only 2.4 percent. **Florida, Texas, South Dakota, Illinois, Pennsylvania, Tennessee, Arizona, Kansas and Indiana** are also included in Who Pays' **Terrible 10**. Four of these states do not assess any personal income tax and six derive the lion's share of their revenue (two-thirds v. the one-third national average) from the sales tax.

States that have the **least regressive** tax structures include **California, Delaware, the District of Columbia, Minnesota, Montana, Oregon** and **Vermont**. These states either have more graduated personal income taxes, rely less on sales taxes for revenue or have generous, refundable Earned Income Tax Credits. It should be noted, though, that each of these states fails to meet a minimal level of fairness because some low- or middle-income groups still pay higher taxes than the wealthy.

How states tax their residents matters for myriad reasons. In recent years, anti-tax advocates have pushed for tax policies that would reduce tax rates for the wealthy and businesses. There are clear problems with this agenda. Foremost, many anti-tax proposals would make regressive tax structures even worse in part because they often rely on hiking taxes that fall more heavily on poor and middle-income families to pay for tax cuts at the top. Second, as the Kansas experience shows, aggressive tax cuts can result in states having difficulty adequately funding basic public obligations such as education.

There's also a more practical reason for states to be concerned about regressive tax structures. If the nation fails to address its growing income inequality problem, states will have difficulty raising the revenue they need over time. The more income that goes to the wealthy (and the lower a state's tax rate on the wealthy), the slower a state's revenue grows over time.

“Americans generally have a visceral reaction to taxes, but the truth is we need them to make state governments work for all citizens. The problem with our state tax systems is that we are asking far more of those who can afford the least,” said Meg Wiehe, ITEP state policy director.

The report concludes that states considering reform should look at more progressive personal income tax structures and ask the wealthy to pay tax rates more commensurate with their incomes.

To read the entire report or to view a summary of state-specific data: www.whopays.org

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