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Aim for fairness in state tax policy

The Register's editorial

The political debate over taxes these days ranges from "We will not raise taxes" to "We will cut taxes."

There is little interest, it seems, in raising taxes, but there should at least be interest in the idea that taxes ought to be fair. By fair, that means people on the lowest rungs of the income ladder should pay the same or a smaller portion of their income to support government than people on the upper rungs. That is not the case with state and local tax systems in nearly every state - including Iowa - according to a new report by the Institute on Taxation and Economic Policy.

In fact, nearly every state and local taxing body collects a bigger share of the incomes of middle- and low-income families than of the wealthy, according to the non-partisan research and education organization. Indeed, only two states require their richest residents to pay the same share of income in taxes as the poorest.

Whereas the average state and local tax rate for the top 1 percent of families is 6.4 percent, it is 9.7 percent for the middle 20 percent and 10.9 percent for the poorest 20 percent. In fact, with the added benefit of itemized deductions for state and local taxes that reduce federal tax liability, top earners' effective tax rates are less than half that for the poorest taxpayers.

That is wrong.

Several factors contribute to making taxes fair or unfair, progressive or regressive. The income tax can be the most progressive tax if rates increase with rising incomes and credits are available to taxpayers with the lowest incomes. Property taxes are generally regressive, especially for renters. Flat taxes on retail sales, gasoline, alcohol and tobacco are the most regressive. That's because poor people spend far larger portions of their incomes on taxable merchandise than rich people, who are able to save more income. Some states (such as Iowa) reduce the pain of sales taxes by exempting groceries.

The variations in fairness between forms of taxation expose a major flaw in those states - such as Florida, Illinois and Washington - that are heralded as being "low tax" states: Their taxes are low only if you are financially comfortable. Those states rely heavily on sales and excise taxes that punish low-income families.

"Washington state, which does not have an income tax, is the highest-tax state in the country for poor people," the institute's report said. When all of that state's sales, excise and property taxes are added together, the state's poor families pay 17.3 percent of their total income in state and local taxes.

Iowa is neither among the worst nor the best states on tax fairness. According to the institute's analysis, the poorest fifth of non-elderly Iowa taxpayers pay 11 percent of their income in state and local taxes, and the percentages decline as incomes rise: The top fifth pay as little as 6 percent with the federal deductions included in the calculation.

Iowa tax laws attempt to soften the burden for the poor, such as an Earned Income Tax Credit that can eliminate tax liability or trigger refunds. But the state could do more by adjusting rates, and reducing local governments' reliance on property taxes.

Iowa will never have the lowest taxes in the nation, but it should strive to have the fairest.

