Taxing the Poor: The Regressive

By Fred Kammer, S.J.

In the news lately are calls by Governor Bobby Jindal of Louisiana and other governors to eliminate their state personal and corporate income taxes and to substitute higher sales taxes in plans that will remain “revenue neutral” (namely, no additional income, just shifting tax burdens). To assess such plans morally, one needs to look first at the current state-local tax burdens of state populations. Then we can assess the impact and morality of proposed changes.

Current State-Local Tax Systems

First, a new report from the non-partisan Institute on Taxation and Economic Policy (ITEP) entitled Who Pays? provides the baseline for the analysis of current state-local tax impacts on families of various income groups. The national average of the respective tax burden on non-elderly residents for the 50 states and the District of Columbia is reflected in Chart 1, below:

As the study notes in its introduction, “The study’s main finding is that nearly every state and local tax system takes a much greater share of income from middle- and low-income families than from the wealthy. That is, when all state and local income, sales, excise and property taxes are added up, most state tax systems are regressive.”

In regressive tax systems, the burden of taxation falls heaviest on those with the least ability to pay. Progressive systems do the opposite, requiring higher tax contributions from those with more ability to pay. Fifty years ago, Pope John XXIII stated the traditional moral principle very simply: “As regards taxation, assessment according to the ability to pay is fundamental to a just and equitable system.” In other words, the more progressive the system, the more just and equitable. The more regressive, the more unjust and inequitable—the more immoral. The U.S. Catholic Bishops put it this way:

…the tax system should be structured according to the principle of progressivity, so that those with relatively greater financial resources pay a higher rate of taxation. The inclusion of such a principle in tax policies is an important means of reducing the severe inequalities of income and wealth in the nation.

As the 2013 ITEP report continues, “Virtually every state fails this basic test of tax fairness: as this study documents, no state requires their best-off citizens to pay as much of their incomes in taxes as their very poorest taxpayers must pay, and only one state taxes its wealthiest individuals at a higher effective rate than middle-income families have to pay.”

Chart 1 Average U.S. State-Local Taxes Per Income Group (2010)

<table>
<thead>
<tr>
<th>Income Levels</th>
<th>Lowest 20%</th>
<th>Second 20%</th>
<th>Middle 20%</th>
<th>Fourth 20%</th>
<th>Next 15%</th>
<th>Next 4%</th>
<th>Top 1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alabama</td>
<td>10.2%</td>
<td>10.4%</td>
<td>9.6%</td>
<td>8.3%</td>
<td>6.7%</td>
<td>5.1%</td>
<td>3.8%</td>
</tr>
<tr>
<td>Florida</td>
<td>13.2%</td>
<td>9.7%</td>
<td>8.5%</td>
<td>6.8%</td>
<td>5.5%</td>
<td>4.3%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Louisiana</td>
<td>10.6%</td>
<td>10.5%</td>
<td>10.1%</td>
<td>9.2%</td>
<td>7.3%</td>
<td>5.7%</td>
<td>4.6%</td>
</tr>
<tr>
<td>Mississippi</td>
<td>10.4%</td>
<td>10.4%</td>
<td>10.5%</td>
<td>9.0%</td>
<td>7.5%</td>
<td>6.0%</td>
<td>5.4%</td>
</tr>
<tr>
<td>Texas</td>
<td>12.6%</td>
<td>10.4%</td>
<td>8.6%</td>
<td>7.4%</td>
<td>6.1%</td>
<td>4.8%</td>
<td>3.2%</td>
</tr>
<tr>
<td>U.S. Average</td>
<td>11.1%</td>
<td>10.0%</td>
<td>9.4%</td>
<td>8.7%</td>
<td>7.7%</td>
<td>7.2%</td>
<td>5.6%</td>
</tr>
</tbody>
</table>
The states of the Gulf South are no exception. In fact, three Gulf South states score in the “Terrible Ten” of state taxation systems—Florida (No. 2), Texas (No. 5), and Alabama (No. 10). Chart 2, below, sets out the comparative tax burdens upon families of different income groups (2010) in the five Gulf South states in light of U.S. averages, as seen in chart 2.

The primary reasons for the regressiveness in the state tax systems is that states rely primarily on taxes that by their nature are largely regressive. Sales taxes and excise taxes (e.g. on cigarettes, gasoline, and beer) are the most regressive because they take a larger share of the income from low and moderate income families than they do from wealthy families. States relying heavily on sales taxes, as Florida, Texas, and Alabama do, will have very regressive systems. One moderating factor in sales taxes is the exclusion of necessary items such as groceries (Florida, Louisiana, and Texas).

The most progressive tax is the income tax, but the amount of progressivity depends on whether the rates are structured progressively. A flat tax is much less progressive since, by definition, it taxes the income of the wealthiest family at the same rate as that of the poorest family. Even income tax systems with nominally graduated income tax rates may be regressive where, for instance, the percentage of those paying the highest rate is very large (66 percent of Alabama families pay the highest rate, which kicks in at $6,000 of taxable income for married couples). This is especially true if the taxing authority also provides special tax breaks targeted to upper-income families.

Property taxes typically are “somewhat regressive” because poor homeowners and renters pay more of their income than other groups and the wealthiest property owners pay the least.

### Proposed Income Tax Conversion to Sales Taxes

Governor Jindal has proposed elimination of the state’s personal and corporate income taxes. According to ITEP, in 2012, Louisiana revenues from personal and corporate income taxes were $3 billion. This amount of income in the future would have to be raised in increased sales taxes in order for the proposal to be “revenue neutral.” ITEP has used its Microsimulation Tax Model to show the impact of switching from income to additional sales taxes on residents of various income levels in Louisiana. The results in summary are:

- **Total state-local taxes would increase for the bottom 80 percent of Louisianans.**
- **The poorest 20 percent of taxpayers, with an average income of $12,000, would average an increase of $395 (3.4 percent of their income).**
- **Taxes for the middle 20 percent, with average incomes of $43,000, would increase $534 (1.2 percent of their income).**
- **Only the top 20 percent of taxpayers would have a decrease in taxes, with the top 1 percent being the biggest beneficiaries of the change. The top 1 percent in Louisiana have an average income well over $1 million. They would see a tax cut average of $25,423 (2.3 percent of their income).**

In short, the Governor’s proposal (even if he were to create some low income tax relief, as may occur), will make the Louisiana system even more regressive than it now is. Similar tax proposals, sometimes called “Fair Tax” proposals, have been rejected in other states in recent years. The reasons for such rejections, as outlined by the Center for Budget and Policy Priorities, are numerous:

- Raises taxes on the middle class.
- Requires huge sales tax hikes.
- Extends sales taxes to many more goods and services, even those presently exempted.
- Creates an unsustainable spiral of rising rates and widening exemptions to avoid higher rates.
- Fails to boost state economies.
- Makes state revenues much less stable.

On top of these reasons is the fundamental moral argument that such a system is more unjust and inequitable, more regressive, more immoral.

### ENDNOTES


3 Pope John XXIII, Mater et Magistra, 1961, no. 102.

