Everyone seems to be worshiping at the “no new taxes” altar. This continues some 30 years of anti-tax propaganda whose most vociferous current harbinger is the Tea Party movement. The actual results have included a widening of the gap between rich and poor to its current morally grotesque levels and the substantial deterioration of U.S. infrastructure.

Are we overtaxed as a nation? The facts don’t support the rhetoric of the tax cutters. In 2008, total U.S. taxes at the federal, state, and local level were 26.2 percent of our gross domestic product (GDP). The United States ranks 25th among the 27 nations in the Organization for Economic Cooperation and Development (OECD) for which data are available. Only Turkey and Mexico had combined lower taxes at 23.5 percent and 20.4 percent of GDP. Many industrial countries have tax levels much higher; for example, 17 of the 24 OECD nations with higher taxes exceed the U.S. tax level by at least 25 percent. Nine of these have taxes at least 50 percent higher as a percent of GDP.

Corporate Taxes

Are corporate taxes too high? In 1965, the taxes paid by U.S. corporations were 4.0 percent of our GDP, compared to 2.3-percent average of other OECD nations. The U.S. then ranked second among OECD nations in corporate income taxes as a percent of GDP. By 2008, U.S. corporate taxes had dropped to 2.5 percent of GDP, while other OECD nations had raised corporate income taxes to 3.0 percent of GDP. The result was that in 2008—the latest available figures—U.S. corporate taxes were the fifth lowest as a percentage of GDP among developed countries. We ranked 21st among 25 OECD nations.

Anti-tax corporate lobbyists will point to the high U.S. marginal corporate tax rate of 35 percent, which actually is the top rate of a graduated corporate tax structure. President Obama even talked of lowering the corporate tax rate in his State of the Union message. But, because of the combination of corporate deductions, credits, and other tax breaks, U.S. corporations actually paid 13.4 percent of their profits in taxes on average from 2000 to 2005. In 2007, the Treasury Department estimated that various corporate tax breaks would cost the U.S. government more than $1.2 trillion over the 10-year period from 2008 to 2017.

And in the States...

Two recent reports have highlighted the acute disparities in taxation in the 50 states—namely, how it is the poor who carry the greatest tax burdens and how regressive are state and local tax systems. State taxes only reinforce the income distribution trends of the past several decades where—you guessed it—the rich are indeed getting richer, the poor poorer, and the middle class largely standing still (until the current recession knocked many of them down). The five states of the Gulf South, sadly, are among the most regressive.

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Taxes in the Gulf South in 2007

Taxes as Shares of Income for Non-Elderly Residents

<table>
<thead>
<tr>
<th>INCOME GROUP</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>10.5%</td>
<td>9.5%</td>
<td>8.2%</td>
<td>6.6%</td>
<td>4.9%</td>
<td>4.0%</td>
</tr>
<tr>
<td>Florida</td>
<td>13.5%</td>
<td>10.4%</td>
<td>9.0%</td>
<td>7.2%</td>
<td>5.7%</td>
<td>4.2%</td>
<td>2.1%</td>
</tr>
<tr>
<td>Louisiana</td>
<td>10.4%</td>
<td>10.3%</td>
<td>9.8%</td>
<td>8.9%</td>
<td>7.3%</td>
<td>5.6%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Mississippi</td>
<td>10.8%</td>
<td>10.7%</td>
<td>10.7%</td>
<td>9.4%</td>
<td>7.9%</td>
<td>6.4%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Texas</td>
<td>12.2%</td>
<td>10.2%</td>
<td>8.4%</td>
<td>7.2%</td>
<td>5.8%</td>
<td>4.4%</td>
<td>3.0%</td>
</tr>
</tbody>
</table>

Many States Tax Working-Poor Families into Deeper Poverty

On April 26, 2010, Phil Oliff and Ashali Singham of the Center on Budget and Policy Priorities (CBPP) released a new report on how, out of 42 states with income taxes, 13—including Louisiana, Mississippi, and Alabama—are taxing families whose incomes are below the federal poverty line (in 2009, $21,947 for a family of four and $17,102 for a family of three). Five states, including Alabama, tax families living in severe poverty, earning less than 75 percent of the federal poverty line. In addition, from those living just above the official poverty line (up to 125 percent of the poverty line), a majority of the states collect income taxes. This is despite the fact that many studies indicate that in most parts of the U.S. the basic costs of living exceed the federal poverty line.

States can protect their poorest families in many ways from such exploitive taxes. Use of personal exemptions and/or standard deductions can lift the income tax threshold above the poverty line. Twenty-four states, including Louisiana, have adopted an Earned Income Tax Credit (EITC) modeled on the federal EITC which reduces the tax obligation of working families, especially those with children. See the full report The Impact of State Income Taxes on Low-Income Families in 2009 at http://www.cbpp.org/cms/index.cfm?fa=view&id=3173 (accessed 1/31/11).

Most States Have Regressive Overall Tax Systems

A more intense look at state tax systems is important, especially in the current economic context where almost every state is scrambling to identify ways to close enormous recession-driven and past-tax-cut revenue shortfalls. A study of state tax burdens was released in November 2009 by the Institute on Taxation and Economic Policy. Its key finding is on page one:

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. (page 1)

Of the 10 “particularly regressive” states, three are in the Gulf South: Florida (2nd), Texas (5th), and Alabama (10th). They are the most regressive because of the relative overall tax burdens on the poorest families (the bottom quintile) when compared with the wealthiest families. And families in the middle also carry a greater tax burden than the wealthiest.

The institute’s report breaks out the relative tax burdens for the year 2007 of first four quintiles of the families in each state—from, first, the poorest 20 percent to the fourth 20 percent—and then divides the top 20 percent into three groups (the top 1 percent, the next 4 percent, and the remaining 15 percent, due to sharp disparities even in their wealth). In the Gulf South, the relative tax burdens (measured in percentage of income paid in taxes) can be seen in the above chart.

As you can see just from the Gulf South states, in Florida the poorest families pay a six-times-heavier tax burden than the most wealthy, and in Texas a four-times greater percentage of the poorest families’ income goes to state and local taxes. While the CBPP study, above, focused on states with income taxes and their impact on working poor families, often more regressive tax systems exist in states without an income tax, including Texas and Florida.

See Catholic Social Teaching and Taxes in this issue, page 3.

ENDNOTES

3 Ibid., p. 2.
5 The study limited its scope to non-elderly families (singles and couples, with or without kids) because state tax systems often treat elderly families very differently.
6 While the table depicts the respective quintiles by each state, the actual income ranges for each quintile vary due to the overall income levels of the state population, e.g. the lowest quintile’s income is below $15,000 in Mississippi, but below $18,200 in Texas.