



UNJUST TAXES

How State and Local Taxes Increase Inequality

BY FRED KAMMER, S.J., J.D.

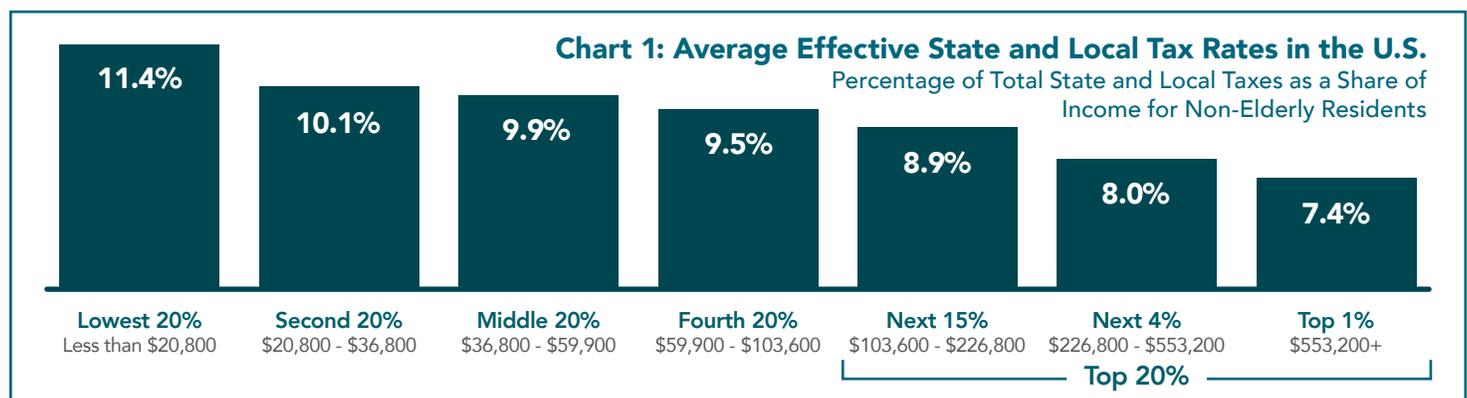
A new report from the Institute on Taxation and Economic Policy provides an important distributional analysis of the taxes in all 50 states and the District of Columbia.¹ Measuring the effective state and local tax rates by income groups, the report assesses tax fairness, providing key information to policymakers and taxpayers. Among the findings² are:

- The vast majority of state and local tax systems are inequitable and upside down. They take a much greater share of income from low-and-middle-income families than from the wealthy, caused largely by the absence of a graduated income tax in many states and too great a reliance on consumption taxes.
- The lower a family's income, the higher their effective state and local tax rate. On average, state and local rates for the lowest-income fifth of households—the bottom 20 percent—are more than 50 percent higher than the top one percent of households: 11.4 percent as compared to 7.4 percent.
- Tax structures in 45 states exacerbate income inequality. They make incomes more unequal by collecting proportionally more

taxes from poor families than wealthy ones. Only five states—none in the Gulf South—and the District of Columbia make incomes slightly more equitable after taxes.

- In the most regressive “terrible 10” states, the lowest-income 20 percent of families can pay as much as four-to-six times more of their income than do their wealthy counterparts. This includes Texas and Florida.³ Many of these states rely heavily on sales and excise taxes, while the least regressive states are characterized by a progressive income tax which raises, on average, more than one-third of state revenue.

The chart below⁴ provides the average effective state and local tax rates for all 50 states and the District of Columbia for different “quintiles” of U.S. families based on income. The lowest 20 percent of families—with annual incomes below \$20,800—pay 11.4% of their income in state and local taxes. The middle 20 percent—with incomes between \$36,800 and \$59,900—pay 9.9% in taxes. The wealthiest 20 percent are divided into three groups—15%, 4%, and the top 1%—because of wide income disparity within this quintile; they pay 8.9 percent, 8.0 percent, and 7.4 percent of family income respectively.



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Chart 2: Total State and Local Taxes as a Share of Family Income for Non-Elderly Taxpayers in Gulf South States—Ranked for Inequality

State	Rank	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%
Alabama	18	9.9%	9.8%	9.0%	7.9%	6.9%	5.7%	5.0%
Florida	3	12.7%	9.5%	8.1%	6.8%	5.6%	4.5%	2.3%
Louisiana	14	11.9%	10.7%	10.0%	9.3%	8.0%	7.2%	6.2%
Mississippi	24	10.2%	10.1%	10.8%	9.2%	8.1%	6.5%	6.7%
Texas	2	13.0%	10.9%	9.7%	8.6%	7.4%	5.4%	3.1%
U.S. Average		11.4%	10.1%	9.9%	9.5%	8.9%	8.0%	7.4%

Note: Table shows total state and local taxes enacted through September 10, 2018 as a share of 2015 non-elderly income. The three columns on the right comprise the top 20 percent in family income.

When we look more closely at the Gulf South, however, inequality is more dramatic. The chart above⁵ displays tax rates for the same income groups by state as well as the state ranking for inequality among all states. By a complex formula, the inequality index ranks the states by answering the question whether incomes of the various groups are more or less equal after state and local taxes than before taxes by comparing each group’s before-and-after-tax income.⁶ Texas and Florida rank second and third nationally in tax inequality, because, although they do exempt groceries from sales taxes, the overall system is very regressive due to the absence of any income, estate, or inheritance taxes and the failure to provide tax credits to offset sales, excise, or property taxes.

In meeting state needs, Gulf South states ask a lot more of families with the fewest resources than they do of their wealthiest families. State tax structures reflect legislative choices made over generations. They need not remain sources of greater future inequality, because elected representatives certainly can change how they tax. They can shift the taxation burden to those with greater resources, meaning more *progressive taxation*. They also can raise more revenue to meet the needs of states and restore funding to critically underfunded programs through progressive changes.

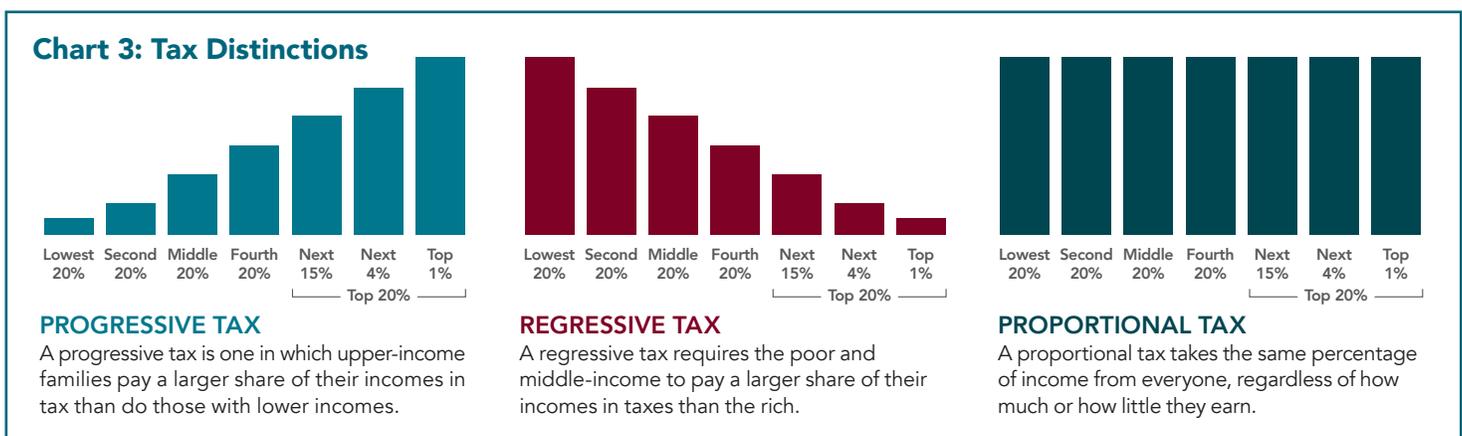
Catholic theology has well established the principle favoring progressivity in taxation. As the U.S. bishops explained decades ago, “the tax system should be structured according to the principle of progressivity, so that those with relatively greater financial resources pay a higher rate of taxation.” They then

added, “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.”⁷ Evaluating the morality of tax systems means asking about the progressivity and regressivity of various taxes—the more progressive, the more moral. The chart below⁸ provides a graphic understanding of the distinctions:

The personal income tax can be the most just system, IF it is structured progressively. A “flat tax” or proportional tax is much less progressive since, by definition, it taxes the income of the wealthiest family at the same rate as the poorest. 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. Finally, sales and excise taxes (e.g. on cigarettes, gasoline, and alcohol) are the most regressive because they take a larger share of income from low and moderate income families than they do from wealthy families. One moderating factor in sales taxes can be the exclusion of necessary items such as groceries.⁹

Key tools to enhance income tax fairness and lift individuals out of poverty are low-income tax credits such as the Earned Income Tax Credit (EITC). These credits are most effective when they are refundable and adjusted for inflation—that is, they allow “a taxpayer to have a negative income tax liability which offsets the regressive nature of sales and property taxes—and are adjusted for inflation so they do not erode over time.”¹⁰ However, except for Louisiana, none of the Gulf South states are among the 29 states and the District of Columbia which have enacted the EITC.

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- ¹ The Institute on Taxation and Economic Policy. (2018, October). *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. Sixth Edition. Unless otherwise noted, the report shows the impact of permanent tax laws on non-elderly taxpayers, including the impact of all tax changes enacted through September 10, 2018, at 2015 income levels.
- ² Ibid., 1-2.
- ³ The rest of the "terrible 10" are South Dakota, Nevada, Tennessee, Pennsylvania, Illinois, Oklahoma, and Wyoming. Ibid., 2.
- ⁴ Ibid., 4.
- ⁵ Adapted from charts on pp. 26-29. Ibid.
- ⁶ Ibid., see formula, p. 138, at <https://itep.org/wp-content/uploads/whopays-ITEP-2018.pdf>
- ⁷ National Conference of Catholic Bishops. (1986). *Economic Justice for All: Pastoral Letter on Catholic Social Teaching and the U.S. Economy*, 202.
- ⁸ *Who Pays*, 13.
- ⁹ Fred Kammer, SJ. (2011, Spring). "Catholic Social Teaching and Taxes." *JustSouth Quarterly*, 3.
- ¹⁰ *Who Pays*, 16

DEPORTATION - ENDNOTES —Continued from page 7

- ¹ A large proportion of arrests labeled "criminal" involve arrests of persons with prior immigration violations, such as re-entry after deportation, or traffic offenses. For FY 2016 and 2017, ICE included "pending criminal charges" as non-criminal arrests in its annual listing of arrests and removals by ICE District of Responsibility, but not for FY 2018. For consistency's sake and because a person is innocent until proven guilty, the author chose to continue including "pending criminal charges" as non-criminal arrests in her FY 2018 analysis of arrests and removals by ICE District of Responsibility.

- ² U.S. Immigration and Customs Enforcement, *Fiscal Year 2017 ICE Enforcement and Removal Operations Report* at <https://www.ice.gov/sites/default/files/documents/Report/2017/iceEndOfYearFY2017.pdf>
- ³ U.S. Immigration and Customs Enforcement, *Fiscal Year 2018 ICE Enforcement and Removal Operations Report* at <https://www.ice.gov/doclib/about/offices/ero/pdf/eroFY2018Report.pdf>
- ⁴ Ibid, *Fiscal Year 2018 ICE Enforcement and Removal Operations Report*.
- ⁵ Ibid, *Fiscal Year 2017 ICE Enforcement and Removal Operations Report*.
- ⁶ Ibid, *Fiscal Year 2018 ICE Enforcement and Removal Operations Report*.
- ⁷ Wall Street Journal (2018, June 21). The Immigration Issue in Eight Charts. Retrieved at <https://www.wsj.com/articles/the-immigration-issue-in-eight-charts-1529578800>
- ⁸ Passel, J. & Cohn, D. (2016, September 20). Overall number of U.S. unauthorized immigrants holds steady since 2009. Pew Research Center. Retrieved at <http://www.pewhispanic.org/2016/09/20/overall-number-of-u-s-unauthorized-immigrants-holds-steady-since-2009/>
- ⁹ *FY 2017 and FY 2016 ERO Administrative Arrests and ICE Removals*, no longer available on-line; author's files. FY 2018 may be found at <https://www.ice.gov/sites/default/files/documents/Report/2018/ero-fy18-localstatistics.pdf>
- ¹⁰ Capps, R., Koball, H., Campetella, A., Perreira, K., Hooker, S., & Pedroza, J.M. (2015, September). *Implications of Immigration Enforcement Activities for the Well-Being of Children in Immigrant Families*. Urban Institute and Migration Policy Institute. Retrieved at <https://www.urban.org/sites/default/files/alfresco/publication-exhibits/2000405/2000405-Implications-of-Immigration-Enforcement-Activities-for-the-Well-Being-of-Children-in-Immigrant-Families.pdf>
- ¹¹ Ibid.
- ¹² Kerwin, D., Alulema, D, & Nicholson, M. (2018). *Communities in Crisis: Interior Removals and Their Human Consequences*. Nogales, AZ, New York, NY, and Washington, D.C. Kino Border Initiative, Center for Migration Studies, and Jesuit Conference/Office of Justice and Ecology. Retrieved at <https://doi.org/10.14240/rpt1118>.
- ¹³ Koball, H. Capps, R., Perreira, K., Campetella, A., Hooker, S. Pedroza, J.M., Monson, W. & Huerta, S. (2015, September). *Health and Social Service Needs of US-Citizen Children with Detained or Deported Immigrant Parents*. Urban Institute and Migration Policy Institute. Retrieved at <https://www.urban.org/sites/default/files/publication/71131/2000405-Health-and-Social-Service-Needs-of-US-Citizen-Children-with-Detained-or-Deported-Immigrant-Parents.pdf>
- ¹⁴ Information on Mujeres Luchadoras based on author interviews with MariLo Martinez in October, 2018, and Clark, M. (2018, October 25) From a Kenner backyard, these women are growing a support network for families torn apart by immigration arrests. *NOLA.Com*. Retrieved at <https://www.nola.com/news/2018/10/separated-but-united-new-orleans-immigrant-families-form-support-network.html>
- ¹⁵ See Massaro, T. (2008) *Living Justice: Catholic Social Teaching in Action*. Lanham, MD: Rowan & Littlefield Publishers, Inc.

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