Study Finds That Poor Americans Pay A Higher Tax Rate Than Their Wealtheir Counterparts

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For Americans, the lower your income, higher is your effective tax rate. This is one of the key findings of a 50-state study published by the Institute on Taxation and Economic Policy (ITEP). According to the '2015 Who Pays : A Distributional Analysis of the Tax Systems in All Fifty States', virtually every state tax system is flawed in that it takes a higher share of income as taxes from poor and middle class families than it does from wealthy families. When all the taxes pertaining to income, property and excise were taken into account, the effective tax rate was found to be 10.9% for the poor, 9.4% for the middle class and 5.4% for the top one percent.
Washington State Most Regressive

The study found that Washington State had the most regressive tax structure, followed by Florida, Texas, South Dakota, Illinois, Pennsylvania, Tennessee, Arizona, Kansas and Indiana. In these ten states, the bottom 20 percent of the population pay up to seven times as much of their income in taxes as compared to the wealthy. The cause of this regressive tax regime has been found to be the excessive reliance on sales and excise taxes.

Among the ten most regressive tax regime states, six states earn as much as two-thirds of their tax revenue from sale and excise taxes. For a perspective, the national share of sales and excise to overall tax revenue is just about one-third. Four of these bottom ten states do not tax people on their personal income. What is worse, only one of the ten states taxed citizens on their interests and dividends. The virtually flat tax personal income tax rate favors the wealthy over their poorer counterparts.

'Low Tax' States Don't Live Up To Their Name

States that are often commended as being tax-friendly places are mostly so only for the wealthy people. Seven out of ten states that form the group of 'terrible ten' have the highest tax rate for the poor while the tax for the wealthy are the least in the country. States with the highestÂ taxes on the poor are Arizona, Arkansas, Florida, Hawaii, Illinois, Indiana, Pennsylvania, Rhode Island, Texas, and Washington.

Consumption Tax Contributes To Regressiveness

Tax on essential commodities like food is one of the primary reasons for the larger burden on the poor. The ITEP study finds that the average sales and excise tax on the poor is 7%. In comparison, the equivalent tax rate for middle class families is 4.7% and is only 0.8% for the wealthiest. Five of the ten states at the bottom of the list tax food either at the state or the local level. Overall, the total sales and local taxes imposed on non-elderly population across the country is found to vary from around 10.9% for the lowest 20% of the population (Less than $18000 annual income) to around 5.4% for the wealthiest 1% (income greater than $419,000).

Rise in Corporate Tax Friendliness

The ITEP study also notes a growing corporate friendliness in tax propositions that have an impact on fairness. According to ADP.com , the drop in the overall corporate income tax rate across several states including Indiana (7.5% to 4.9%), New Mexico (7.6% to 5.9%), New York (7.1% to 6.5%), North Dakota (down 19%). Rhode Island (9% to 7%) and West Virginia (7% to 6.5%) along with the increasing business tax credit offered in states like New Hampshire could make the countries more business friendly. The ITEP study however says this could be a factor in rising the share of tax rates for the poor.