

Report says Tennessee's tax system among nation's most regressive

By Richard Locker

Originally published 11:28 a.m., November 18, 2009

Updated 12:07 a.m., November 19, 2009

NASHVILLE — The Tennessee tax system is the fourth most regressive among the states, with lower-income families paying a higher portion of their income in state and local taxes than do more affluent households, according to a national study released Wednesday.

When all of Tennessee's state and local taxes are considered, the study found that Tennessee families earning less than \$17,000 per year pay 11.7 percent of their income in state and local taxes, compared to 3.1 percent paid by households earning \$414,000 or more, the top 1 percent.

The percentage of state and local taxes paid as a proportion of income steadily declines as income rises, a result of Tennessee's reliance on sales and consumption taxes and its limited income tax on dividends and interest, according to the new study, titled "Who Pays? A Distributional Analysis of the Tax Systems in all 50 States."

The analysis was compiled by the Washington-based Institute on Taxation and Economic Policy, a nonprofit, nonpartisan research group that examines government tax and spending policies. ITEP favors tax systems that distribute the burden equally across income groups.

ITEP's last 50-state analysis was in 2003, when Tennessee ranked third in terms of its bias against low-income taxpayers.

Since then, South Dakota moved ahead of Tennessee, joining Washington and Florida as states with more regressive taxes.

Tennesseans for Fair Taxation presented the Tennessee portion of ITEP's report in a Nashville briefing.

The group advocates state tax reform, including a graduated-rate income tax coupled with closing sales-tax loopholes and removing the tax from grocery food.

Tennessee's reliance on sales taxes on consumption, particularly necessities like food, place the state on ITEP's "Terrible Ten" list of most regressive tax systems, with Washington, Florida, South Dakota, Texas, Illinois, Michigan, Pennsylvania, Nevada and Alabama.

“These ‘Terrible Ten’ states ask poor families — those in the bottom 20 percent of the income scale — to pay almost six times (on average) as much of their earnings in taxes as do the wealthy. Virtually every state has a regressive tax system, but these 10 states stand out for the extraordinary degree to which they have shifted the cost of funding public investments to their very poorest residents,” said Matthew Gardner, ITEP’s executive director and lead author of the study.

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The full report is available at ctj.org/itep



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