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Focus | The tax burden on the ... who, again?

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Story by Chris Graham



If you believe the partisan rhetoric, it's the wealthy who bear the tax burden, and who are deserving of tax breaks to get the economy moving.

A new report by the Institute on Taxation and Economic Policy and the Virginia Organizing Project puts the rhetoric in a new light.

Low- and middle-income Virginians put out significantly more of their income in local and state taxes than the average Virginia millionaire, according to the report, which was released today.

Millionaires pay out 6.3 percent of their income in local and state taxes, according to the report, while low- and middle-income Virginians pay 8.9 percent and 8.8 percent of their income in local and state taxes, respectively.

The reason for the disparity isn't hard to figure out.

“Put simply, Virginia and other state governments get the lion’s share of their revenues from three types of taxes - income, sales and property. And only one of them, income tax, can really be designed in a way that is fair. The other two, especially sales taxes, but also to a lesser extent property taxes, are inherently regressive, by which I mean they inherently fall most heavily on low-income families,” said Matthew Gardner, the executive director of the Institute on Taxation and Economic Policy and the lead author of the study.

Low- and middle-income families tend to spend most or all of their income getting by week to week, and thus are hit hardest by what are flat sales taxes that are the same for everybody no matter income levels. Property taxes are also a bigger issue for low- and middle-income families because, as Gardner explains, “Your home is often the biggest and only real asset you’ve got. And as your income goes up, of course the value of your home keeps going up, but it doesn’t keep pace with the growth in your income.”

“The personal income tax can be adjusted to be precisely as fair as you want it to be. By changing the rates, by changing the tax credits you allow. It’s a much more manipulable tax, from a tax-fairness perspective,” Gardner said.

This flies in the face of the contention of some conservatives to advocate for a flat income tax as being ultimately fair by setting a single tax rate across the income spectrum. Going that route, this report suggests, would make the tax system that much more regressive, and also hamstring local and state governments in their efforts to maintain a basic level of service in the core service areas.

“What we overlook in this when we talk about fairness first is that when you have an upside-down system as we have in Virginia, you don’t get a kind of a revenue system that can keep up with the needs of a modern state for public investment, in public education, transportation, health care, public safety, to name just the major categories. Also we neglect to construct a tax system that can help to generate rather than stifle economic activity. In my mind, those two things go along with fairness, or if you have no fairness in an upside-down system, your system always fails to do those two things,” said David Shreve, an economist and a member of the Virginia Organizing Project’s Tax Reform Committee.

The Project recommends reforming Virginia’s tax system to better serve Virginia’s families as well as the state budget.

“Virginia’s tax structure has not changed since 1926. Our regressive tax system is hitting working families hard. We cannot keep going like this. We all keep waiting for the wealth to trickle down, and it’s not happening. Where is it?” said Denise Smith, also a member of the Virginia Organizing Project Tax Reform Committee.

“Meanwhile low- and middle-income people are struggling to get by in this economy while paying a higher percentage of overall taxes than the wealthiest people in the state. Tax percentages should be determined by ability to pay.”