

Census Data Reveal Arkansas's Fundamental Tax Mismatch Arkansas is a Low Tax State, But Not for Families Living in Poverty

Recently released data from the Census Bureau confirms that overall, Arkansas could be considered a “low tax state.” However, families living near or below the poverty line generally do not experience Arkansas as a low tax state -- instead, they pay more than their fair share of state and local taxes.

A Low Tax State With Above Average Sales Taxes

Arkansas's state and local taxes are 17th lowest in the nation as a share of personal income. At 10.3 percent of personal income, Arkansas's taxes were well below the national average in 2008. Arkansas income tax collections are just 2 percent above the national average. Arkansas's property taxes are, 53 percent below the national average. Arkansas sales and excise taxes, by contrast, were 43 percent above the national average. However, the state's reliance on one tax in particular is dramatically above the national average, the state ranks 7th highest in terms of sales and excise taxes as a share of income. This heavy reliance on regressive sales and excise taxes means that Arkansas isn't a low tax state for everyone.

A High Tax State for Low Income Taxpayers

Arkansas's tax laws actually redistribute income away from ordinary families and towards the richest Arkansans. A November 2009 report by the Institute on Taxation and Economic Policy¹ found that the poorest twenty percent of Arkansans paid, on average, 12.1 percent of their income in Arkansas taxes, while the wealthiest one percent of taxpayers paid an average of only 5.9 percent of their income in state and local taxes. In fact, taxes paid by the poorest 20 percent of non-elderly Arkansans (those with an average income of \$8,600) are 7th highest in the nation. By this same measure, the taxes paid by Arkansans in the second quintile, with average incomes of \$20,600, were 2nd highest in the nation.

The primary reason for this mismatch is that Arkansas's tax system is extremely imbalanced in its reliance on the “big three” taxes (income, sales, and property). Specifically, Arkansas's tax system relies far too heavily on sales taxes. “With poverty rates on the rise, Arkansas's tax system is actually pushing families further into poverty.” said Meg Wiehe, ITEP's State Tax Policy Director. “Reforming Arkansas's unfair tax system to achieve greater fairness should be a top priority for state lawmakers.”

¹ Who Pays? A Distributional Analysis of the Tax Systems in All 50 State, 3rd Edition. (Institute on Taxation and Economic Policy, 2009). http://www.itepnet.org/state_reports/whopays.php