

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

Recently released data from the Census Bureau confirms that overall, Tennessee could be considered a “low tax state.” However, families living near or below the poverty line generally do not experience Tennessee 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

Tennessee's state and local taxes are 3rd lowest in the nation as a share of personal income. At 8.9 percent of personal income, Tennessee's taxes were well below the national average in 2008. Tennessee doesn't levy a broad-based personal income tax, instead levying a tax on some investment income, so income tax collections are 95 percent below the national average. Tennessee's property taxes are also quite low, 36 percent below the national average. Tennessee sales and excise taxes, by contrast, were 38 percent above the national average. However, the state's reliance on one tax in particular is dramatically above the national average, the state ranks 8th highest in terms of sales and excise taxes as a share of income. This heavy reliance on regressive sales and excise taxes means that Tennessee isn't a low tax state for everyone.

A High Tax State for Low Income Taxpayers

Tennessee's tax laws actually redistribute income away from ordinary families and towards the richest Tennesseans. A November 2009 report by the Institute on Taxation and Economic Policy¹ found that the poorest twenty percent of Tennesseans paid, on average, 11.7 percent of their income in Tennessee taxes, while the wealthiest one percent of taxpayers paid an average of only 3.1 percent of their income in state and local taxes. In fact, taxes paid by the poorest 20 percent of non-elderly Tennesseans (those with an average income of \$10,200) are 12th highest in the nation. By this same measure, the taxes paid by Tennesseans in the second quintile, with average incomes of \$23,100, were 11th highest in the nation.

The primary reason for this mismatch is that Tennessee's tax system is extremely imbalanced in its reliance on the “big three” taxes (income, sales, and property). Specifically, Tennessee's tax system relies far too heavily on sales taxes, and far too little on income taxes. “With poverty rates on the rise, Tennessee's tax system is actually pushing families further into poverty.” said Meg Wiehe, ITEP's State Tax Policy Director. “Reforming Tennessee'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