



Low Tax for Whom?

Texas is a “Low Tax State” Overall, But Not for Families Living in Poverty

Annual data from the U.S. Census Bureau appear to lend support to Texas’ reputation as a “low tax state,” ranking it **39th** nationally in taxes collected as a share of personal income.¹ But focusing on the state’s overall tax revenues has led many observers to overlook the fact that different taxpayers experience Texas’ tax system very differently. In particular, the **poorest 20 percent** of Texans pay significantly more of their income (**12.5 percent**) in state and local taxes than any other group in the state.² For low-income families, Texas is far from being a low tax state. In fact, only six states tax their poorest residents more heavily than Texas.

No Income Tax, but High Sales and Property Taxes

According to the Census Bureau, Texas’ state and local tax collections totaled **9.26 percent** of personal income in fiscal year 2012, well below the national average of 10.54 percent. One reason for Texas’ low ranking is that it is one of just nine states that does not levy a broad-based personal income tax.

But failing to levy an income tax comes at a cost. In order to pay for state and local government services, Texas’ sales and excise taxes are **19 percent** above the national average. Measured relative to personal income, Texas has the **12th highest** sales and excise tax collections in the entire country. According to the Institute on Taxation and Economic Policy (ITEP), the **poorest 20 percent** of Texas households spend **8.6 percent** of their income on these taxes, compared to just **1 percent** of income for the state’s most affluent residents.

Similarly, Texas property taxes are **13 percent** above the national average. As with the sales tax, the property tax also tends to disproportionately impact lower-income taxpayers. In Texas, the **poorest 20 percent** of taxpayers pay an average of **3.8 percent** of their household income in property taxes. Most other households

in the state spend closer to **3 percent** of their income on property taxes.

A High Tax State for the Poor

While Texas’ state and local taxes average **9.26 percent** of income, differently positioned taxpayers experience Texas’ tax system very differently. For the **top 1 percent** of Texas households (a group with an average income over \$1.8million), the Lone Star State’s decision not to levy a personal income tax has indeed been an enormous boon. This group pays just **2.9 percent** of their income in Texas taxes—the **8th lowest** (or 43rd highest) state and local tax bill for this group in the entire country.

But while Texas’ reputation as a “low tax state” is accurate for wealthy households, it bears little resemblance to reality for the state’s less affluent residents. The **poorest 20 percent** of Texas taxpayers (earning an average income of \$12,500 per year) actually face the **7th highest** state and local tax bill in the entire country, at **12.5 percent** of income. Similarly, among the next 20 percent of taxpayers (with an average income of \$27,600 in Texas), state and local taxes are the **12th highest** nationally.

Texas’ imbalanced tax system, with its heavy reliance on sales, excise, and property taxes, is pushing the state’s impoverished taxpayers deeper into poverty. The state’s lack of a personal income tax has been a major contributor to its reputation as a “low tax state,” but it comes at a steep price in terms of higher tax rates on low-income families.

Texas State and Local Taxes Are:

39th

highest overall

7th

highest for the poorest 20% of
taxpayers

¹ This brief reflects Census data for state and local tax collections for fiscal year 2012, the most recent year available.

² *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*, 5th Edition, ITEP 2015: www.whopays.org