



Center for Public Policy Priorities

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Update on State and Federal Action

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WHO PAYS TEXAS TAXES?

The Comptroller has released her biennial study of the fairness of the Texas tax system, Tax Exemptions and Tax Incidence, (<http://www.window.state.tx.us/taxinfo/incidence/>) which confirms that low- and moderate-income Texas families bear a disproportionate share of state and local taxes. For additional information, contact Dick Lavine at (512) 320-0222 or lavine@cppp.org

REGRESSIVITY

The simplest way to judge the fairness of a tax system is to compare the percentage of income different families pay in taxes. In a state with a fair tax system, families in all income groups would pay the same percentage of their income in taxes. In Texas, the families with the lowest income pay the highest percentage of their income in taxes; the families with the highest income pay the lowest percentage of their income in taxes. In other words, those who can least afford it pay the most.

6.8% of its income in taxes, the state would receive the same amount of money as it does now, but the burden would be shared equally. It is obvious that a flat tax of 6.8% would be a tax break for the majority of Texas families in the three lower- and middle-income groups, and an increase only for families in the highest income group. The total income of the wealthiest families is so large that a tax increase on only the richest one-fifth of Texas families would fund a tax cut for everyone else, and permit all families to pay the same percentage of income in taxes.

AVG. ANNUAL FAMILY INCOME	TAXES PAID	% OF INCOME PAID IN TAXES
\$9,950	\$1,749	17.6%
\$25,300	2,413	9.5
\$40,750	3,326	8.2
\$65,200	4,521	6.9
\$141,550	7,208	5.1
Total	3,844	6.8

WHICH IS THE WORST TAX?

Another way to judge the fairness of a tax is the Suits Index, which mathematically compares the percentage of taxes paid and the percentage of total income received for each taxpayer. If the percentage of a tax that is paid by a family is the same as that family's share of total statewide income, the Suits Index would be zero. If a tax

The chart above shows the average income of families in each income group, the average amount of major state and local taxes paid by families in the income group, and the average percentage of total family income paid in taxes. Each income group contains one-fifth (20%) of all Texas households.

The percentage of all family income paid in taxes is 6.8%. In other words, if each Texas family were to pay

TAX	SUITS INDEX (HIGHER SCORES ARE BETTER)
Franchise tax	-0.31
Gasoline tax	-0.28
Sales tax	-0.20
Motor vehicle sales tax	-0.19
School property tax	-0.15
Natural gas tax	+0.09

takes more from a family than its share of total income, then the Suits Index is less than zero. Only the natural gas tax has a Suits Index greater than zero (possibly because nearly half of the tax burden is exported to out-of-state purchasers); all other major Texas taxes rate below zero on this index. By this measure, the franchise and gasoline taxes are the least fair taxes.

The franchise tax is paid initially by corporations, but the burden can be shifted onto workers through lower wages and onto consumers through higher prices, as well as onto shareholders through lower profits.

It is clear why the gasoline tax is so burdensome on lower-income families. You can drive only one car at a time and, even if it's an enormous Lincoln Navigator, there is a limit to how much you spend at the pump. But if your family income is lower, the dollars you

spend on gas are a bigger proportion of your income than if your family income is high.

It is important to note that the property tax is a relatively more fair tax than the sales tax, although neither tax is very fair. The sales tax imposes a larger burden on low-income families than on higher-income families, since it is based on how much each family spends. Low-income families tend to spend almost all of their income (and sometimes even more, by going into debt), while higher-income families often can buy what they need and still have something left over to save.

As the Legislature begins to consider sources of revenue to support necessary services, they should examine not only how funds are spent, but also the equity of how they are raised.

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