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Lowest-Income Wisconsinites Pay Much More of Their Income in Taxes Than the Wealthiest

New 50-State Study Provides Detailed Profiles and Comparisons of Tax Systems

(Madison, Wisconsin) Like most state tax systems, Wisconsin takes a much larger share from middle- and low-income families than from wealthy families, according to the fourth edition of "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," released today by the Washington-based Institute on Taxation and Economic Policy (ITEP).

Combining all of the state and local income, property, sales, and excise taxes Wisconsin residents pay, the average overall effective tax rates by income group are 9.6%for the bottom fifth of Wisconsinites; 10.7%for the middle fifth: and 6.9%for the top 1%. Nationally, those figures are 11.1% for the bottom fifth; 9.4% for the middle fifth; and 5.6% for the top one percent. The full report is online at www.whopays.org.

Jon Peacock, director of the Wisconsin Budget Project, said the report's findings illustrate why state lawmakers need to be very careful about the effects of new tax proposals on the distribution of state and local taxes.

"The sort of income tax cut that is currently being discussed won't provide any assistance to the lower two-fifths of state tax filers, and would disproportionately benefit taxpayers making more than $150,000 per year," Peacock said. "Those income tax cuts would make Wisconsin's state and local tax system even more heavily tilted against low-and middle-income households."

The report notes that two changes made in the last state budget have increased the share of taxes paid by low-income Wisconsinites. The biggest of those is a cut of $56 million over two years in the state's Earned Income Tax Credit, which resulted in higher taxes for modest-income working families with children.

The last budget also raises taxes on low-income seniors and other people of modest means by ending the annual inflationary adjustments in the state Homestead Tax Credit, which is a form of property tax relief for homeowners and renters. That change reduces the credit by $14 million in the current biennium, and the effect will grow steadily over time as inflation cuts into the value of the credits and makes more households ineligible.

Matthew Gardner, executive director of ITEP and an author of the study, commented on the proposals under consideration in some states to rely more heavily on consumption taxes, while reducing income taxes. "Cutting the income tax and relying on sales taxes to make up the lost revenues is the surest way to make an already upside down tax system even more so," Gardner stated.

(more)

The data in "Who Pays?" also demonstrates that states commended as "low tax" are often high tax states for low- and middle- income families. The ten states with the highest taxes on the poor are Arizona, Arkansas, Florida, Hawaii, Illinois, Indiana, Pennsylvania, Rhode Island, Texas, and Washington. "When you hear people brag about their low tax state, you have to ask them, low tax for who?" said Gardner.

The fourth edition of "Who Pays?" measures the state and local taxes paid by different income groups in 2013 (at 2010 income levels including the impact of tax changes enacted through January 2, 2013) as shares of income for every state and the District of Columbia. The report is available online at www.whopays.org.

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The Wisconsin Budget Project is a nonpartisan research organization that analyzes the impact on Wisconsin of state and federal tax and budget policies. www.wisconsinbudgetproject.org

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