

Who Pays State & Local Taxes?

An Analysis of All 50 States
With a Deeper Dive into
Pennsylvania



Notes

- This presentation is based on a report "Who Pays?" by the Institute of Taxation and Economic Policy (ITEP)
- The analysis is based on 'Tax Units' ... persons or groups of persons who file one tax return
- Excludes Seniors as in many states they are offered what amounts to a parallel tax code which would distort the tax situation for both populations
 - Inclusion of Seniors would likely show the tax systems to be increasingly regressive
- Excludes Native Americans living on reservations as many tribal governments have their own tax system



What Should
Be The Goal
Of State &
Local Taxes??

I would argue that one of the key goals should be to raise revenue that enables us to improve our shared well being*

We will see that this is clearly not the objective of the vast majority of state & local tax systems

* Or "... promote the general welfare ..." as it says in the preamble of the constitution

Highly
Favorable
Treatment
Of The
Wealthy

- 41 states tax the top 1% at a lower rate than any other income group ... even the poorest 20%
- The top 1% are contributing 37% less on average than the poorest families



Very Harsh Treatment Of The Poor

- 35 states tax the poorest 20% at a higher rate than any other income group.
- The tax structures in 44 states are regressive which increases inequality



The Vast Majority Of State And Local Tax Systems Are Regressive

U.S. Average

Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	80-95%	95-99%	Top 1%
Income Range	Less than \$23,500	\$23,500 to \$45,900	\$45,900 to \$80,400	\$80,400 to \$138,300	\$138,300 to \$297,900	\$297,900 to \$737,400	Over \$737,400
Average Income	\$13,600	\$37,400	\$62,200	\$108,100	\$186,800	\$428,800	\$1,889,900
Total Taxes	11.4%	10.4%	10.5%	10.3%	9.5%	8.3%	7.2%



Regressive States: Doubling Down On the Harm to the Poorest

- Today's income growth concentrates on the wealthy, so tax revenues grow more slowly in regressive states
- This deprive the state & localities of financial resources to properly fund programs & services that build opportunity and improve well-being for families and communities
 - Ex. Schools, health care, safety, transit, housing, colleges, etc.

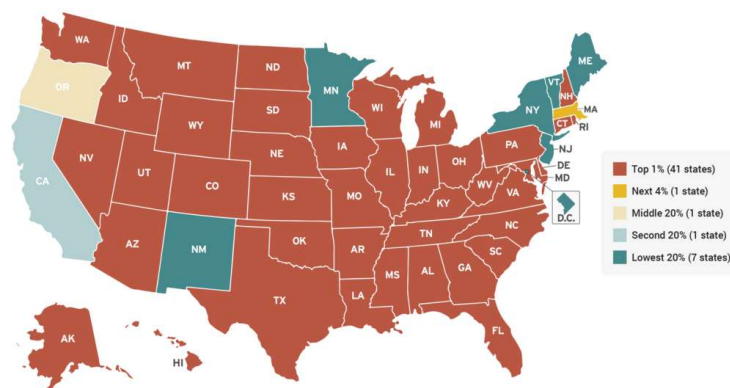
Bottom line: it hurts the poorest families that are also being hit hardest by the regressive taxes



FIGURE 3

Lowest-Tax Group Within Each State

The income group for whom state and local taxes, as a share of family income, are lowest



Source: Institute on Taxation and Economic Policy (ITEP)

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State & Local Taxes largely fall into three categories

- Personal & Corporate Income Taxes
- Property Taxes
- Sales & Excise Taxes

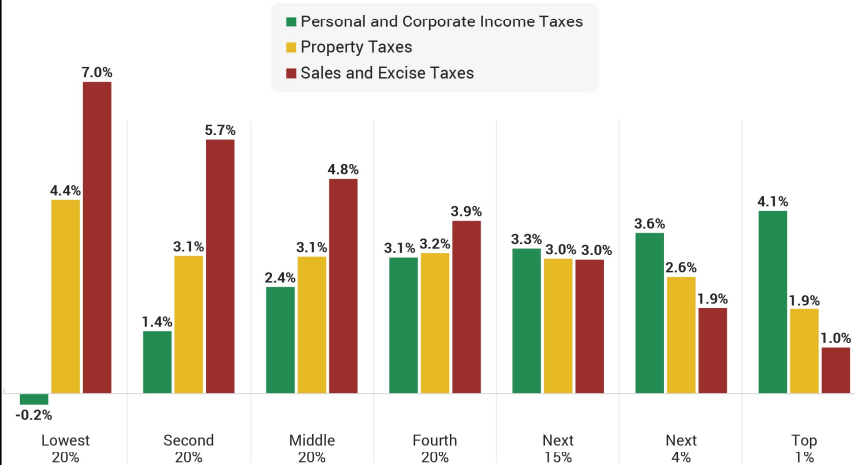
The Kind of Tax Matters



FIGURE 6

Comparing Tax Types

Average effective tax rates for all states, by tax category, across income groups



Note: This chart omits a small number of taxes that do not fit into the above categories and that this report classifies as "other taxes."

Source: Institute on Taxation and Economic Policy (ITEP)

- Personal & Corporate Income Taxes tend to be most progressive
 - The exception being flat income taxes
- Property taxes are relatively flat for the middle incomes
 - But regressive on both ends
- Sales and excise taxes are highly regressive



Personal Income Taxes

- Personal and corporate income taxes are typically progressive — as incomes go up, effective tax rates go up
- Of the three major taxes used by states, the personal income tax is the only one where tax rates rise with income levels
- States often use progressive income taxes to help offset more regressive state and local taxes.



Some Regressive Income Tax Carveouts

- **Capital Gains:** profits from sale of assets
 - Are preferential rates offered & for what types of assets?
- **Pass-through business income** (partnerships, S corps, etc.)
 - Special handling has become more prevalent since the 2017 tax cut
- **Itemized deductions**
 - Typically mortgage, property tax or charity favoring the rich
- **Retirement**
 - Senior tax subsidies reduce nation-wide state tax revenue by 9% ... favoring relatively affluent seniors
- **Deductions for federal income taxes**
 - Falling out of favor ... only Alabama offers full deduction



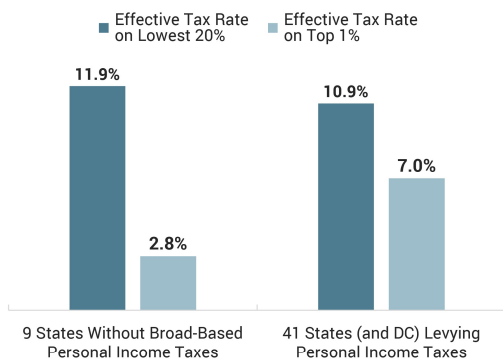
Some Progressive Income Tax Credits

- 31 states & D.C. have Earned Income Tax Credits
 - Most are calculated based on the federal EITC credit
 - In all but 6 of these states, the credits are refundable
- 14 states provide Child Tax Credits
 - States are seeking to emulate the temporary federal expansion in the American Rescue Plan Act of 2021
- 6 states offer a credit to offset the sales & excise taxes low-income families pay
- Refundability ensures that families get the full benefit of these credits



FIGURE 9

Absence of Income Tax Usually Means Higher Taxes for Poorer Households and Lower Taxes for High-Income Households



Note: Tax rates are medians across each category of states. The nine states without broad-based personal income taxes are Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming.

Source: Institute on Taxation and Economic Policy (ITEP)

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The Lack Of A Personal Income Tax Is The Top Indicator Of Highly Regressive Taxes



Corporate Income Taxes

- State corporate income taxes increase the equity and tax yield
 - Ensures that corporations pay for an educated workforce, a reasonable transportation system, a court and legal system, etc.
 - These taxes largely fall on shareholders which are typically wealthier, whiter, and geographically dispersed
- Corporations can move their profits to entities outside the state
 - 28 states now use a "combined reporting" system which is less vulnerable to these tax maneuvers
 - 14 of those states include at least some overseas reporting including 'tax havens'



Property Taxes

- Property taxes, on both individuals and businesses, are usually somewhat regressive.
- Low-income homeowners and renters pay more of their income in property taxes than any other income group — and the wealthiest taxpayers pay the least
 - Nationally, low-income families pay 4.4%
 - Middle-income families pay 3.1%
 - And the top 1 percent pay 1.9%
- Wealth in the form of business equity, stock, bonds, patents, copyrights, savings, and other 'intangible' property is generally not taxed



What Gets Taxed?

- High-end properties gain value more quickly
 - Frequency of re-assessments can seriously affect fairness of property taxes
 - A few states have mandatory re-assessment schedules
- Renters do not escape paying property taxes
 - The taxes are typically passed through in higher rent
- Homestead exemptions are a factor for primary residence
 - Can be either dollar valued or percentage of home value
 - Which taxes are covered? School, township, etc.
- Most states offer some form of low-income property tax credits



Sales & Excise Taxes

- Sales and excise taxes are very regressive.
- Poor families pay almost seven times more as a share of their incomes in these taxes than the best-off families
- And middle-income families pay almost five times the rate of the wealthy
- Low-income families pay 7%
- Middle-income families pay 4.8%
- And the top 1% pay 1%



What is Taxed Matters?

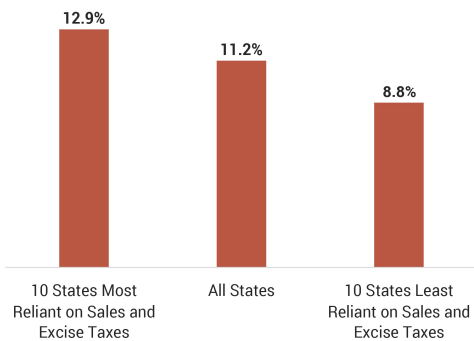
- The choice of what products and services to tax affects its regressivity
 - Taxing groceries is a good example of a very regressive tax
 - 7 of the top 10 consumption tax states include taxing groceries
 - SNAP benefits are tax exempt
- Gasoline & tobacco taxes are also regressive
- Other opportunities include taxing business travelers & tourists with hotel & rental car taxes
- Event & meal taxes are more of a mixed bag
- What kind of services (legal, accounting, etc.) are taxed?



FIGURE 10

States Relying Heavily on Sales and Excise Taxes Levy Higher Effective Tax Rates on Low-Income Families

Total state and local effective tax rate on lowest 20 percent of families



Note: Tax rates are medians across each category of states.
Source: Institute on Taxation and Economic Policy (ITEP)

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Sales & Excise Taxes Are the Most Regressive of The State & Local Taxes



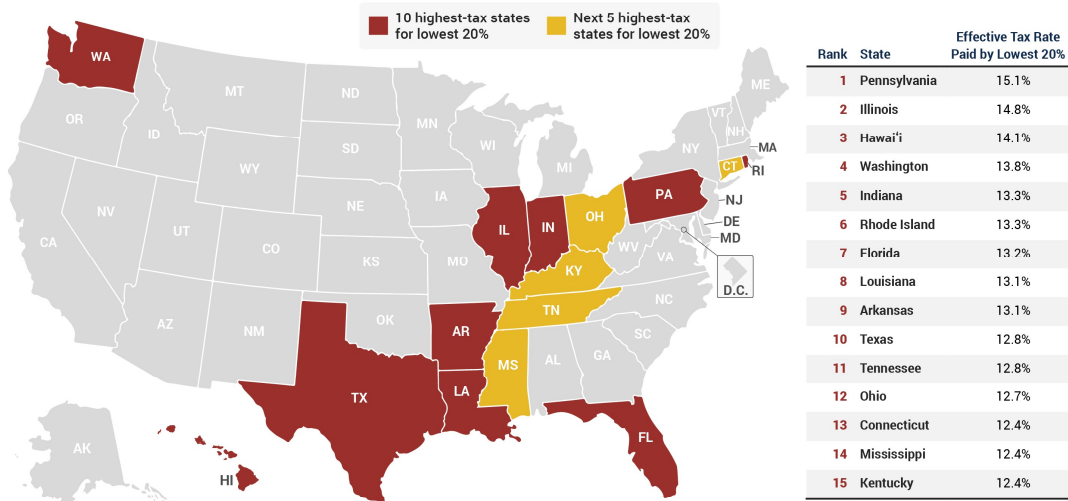
Top 10 Regressive Tax States

- In the 10 states with the most regressive tax structures, the poorest 20% pay three times as much as the wealthiest 1%
- Six of these top 10 do not have income taxes and most rely heavily on regressive sales and excise taxes
- In Florida, home of the most regressive tax system, low-income families pay almost five times as much as the wealthy
- Pennsylvania is the fourth most regressive tax state



FIGURE 11

States with the Highest Taxes on Low-Income Households



Source: Institute on Taxation and Economic Policy (ITEP)



And the Top Progressive Tax States

- Six states and the District of Columbia reserve their lowest tax rates for their poorest residents
- Tax structures in these six states and D.C. are progressive and reduce inequality
- They narrow the gap between the various incomes, making the distribution of income more equal
- These states are California, Maine, Minnesota, New Jersey, New York, and Vermont



FIGURE 5

The 10 Least Regressive State and Local Tax Systems

Taxes as a share of family income and tax features driving these outcomes

Rank	State	ITEP Inequality Index	Lowest 20%	Middle 60%	Top 1%	Higher Income Tax Brackets or Rates on Upper Incomes	Absence of Broad Preferences for Capital Gains or Business Income	High Reliance on Income Taxes	Presence of Refundable Credits	Low Reliance on Sales & Excise Taxes	Levies Estate or Inheritance Tax
51	D.C.	+3.1%	4.8%	11.8%	11.4%	✓	✓	✓	✓	✓	Estate
50	Minnesota	+2.6%	6.2%	10.1%	10.5%	✓	✓	✓	✓		Estate
49	Vermont	+2.3%	6.3%	9.8%	10.1%	✓			✓	✓	Estate
48	New York	+1.6%	11.1%	13.3%	13.5%	✓	✓	✓	✓	✓	Estate
47	California	+0.8%	11.7%	10.7%	12.0%	✓	✓	✓	✓		
46	New Jersey	+0.7%	8.8%	11.2%	10.5%	✓	✓		✓	✓	Inheritance
45	Maine	+0.2%	8.6%	10.4%	9.5%		✓		✓		Estate
44	Massachusetts	-0.1%	8.2%	9.7%	8.9%	✓	✓	✓	✓	✓	Estate
43	New Mexico	-0.5%	7.1%	11.0%	8.1%	✓			✓		
42	Oregon	-0.7%	12.0%	10.4%	10.4%	✓		✓	✓	✓	Estate

Note: States are ranked by the ITEP Inequality Index. The 10 states in this table are those whose tax systems either lessen income inequality (those with positive ITEP Inequality Index values) or have the least detrimental impact on inequality. See the report methodology for a full description of the Index. States identified as having higher personal income tax rates on upper incomes are those with at least one statutory rate applying only to incomes of \$200,000 or more per year. High, or low, reliance on a particular tax type is defined as being among the top 10 most, or least, reliant states as measured in Appendix C.

Source: Institute on Taxation and Economic Policy (ITEP)



Key Factors in More Equitable Tax Systems

- Higher reliance on income taxes and lower reliance on regressive consumption taxes
- Highly progressive income tax brackets and rates
 - Few deductions or exemptions benefiting the wealthy (such as capital gains preferences or itemized deductions)
- Use of targeted, refundable low-income credits
 - The top 10 states with more equitable tax systems offer refundable Earned Income Tax Credits (EITC)
 - 9 of these states offer refundable Child Tax Credits (CTC)
 - Refundable credits to offset sales and property taxes are also common




"Low Tax" States ... Or "Tax the Poor" States


- Nationally, states with lower taxes for their highest-income earners are frequently referred to as "Low Tax" states
- This includes states such as Florida, Tennessee, and Texas which lack personal income taxes
- While "Low Tax" may apply for high-income families, these states levy some of the nation's highest tax rates on the poor



Changing Tax Systems: - Reducing Regressivity

- Some states are passing policies that lessen tax regressivity
 - New Mexico advanced 18 spots through reforms to refundable credits and more robust taxation of top earners
 - Massachusetts improved its ranking by 10 spots in just over a year, primarily through voter approval of a higher income tax rate on millionaires
 - At the other end of the rankings, Washington was able to shed its title as the nation's most regressive tax jurisdiction with enactment of a new tax on capital gains and the creation of a tax credit for low- and moderate-income families
 - Other jurisdictions making notable strides toward lessening tax regressivity in recent years include Minnesota, New Jersey, New York, and D.C.
- 

Changing Tax Systems: - Increasing Regressivity

- Other states are passing policies exacerbating tax regressivity
 - Arizona lawmakers overrode a public vote in favor of higher taxes on top earners and enacted tax cuts for those families instead moving Arizona from 27th to one of the more regressive tax codes (13th) in the nation
 - Other states recently moving in the direction of more regressive taxation include Arkansas, Idaho, Iowa, Kentucky, Mississippi, Nebraska, North Carolina, Ohio, and West Virginia
 - All of which have prioritized tax cuts for more affluent households and corporations
 - Some efforts to eliminate property taxes, but what is the alternative?
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Examples: Changes in Kentucky & Minnesota

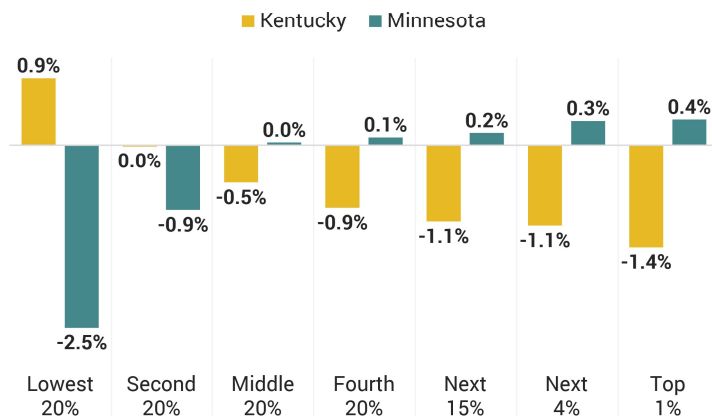
- Kentucky went from a graduated income tax to a flat rate tax and reduced the rate
 - Paid for by higher sales & excise taxes
 - The poorest pay more ... and everyone else gets a tax break!
 - The law calls for continuing to drop the income tax rates ... when specific conditions are met
 - Avoids the immediate challenge of having a balanced budget
- Minnesota went in the opposite direction
 - Increased taxes on corporate profits and high-income families
 - Larger tax credits for low-income workers and families with children
 - Moved Minnesota to the most progressive state



FIGURE 7

Recent Tax Changes in Kentucky and Minnesota

Shares of family income



Note: Chart shows impact of legislation enacted since 2018 in both states. Kentucky cut personal and corporate income taxes over this period while raising consumption taxes. Minnesota bolstered refundable credits while raising taxes on corporations and individuals with large amounts of investment income.

Source: Institute on Taxation and Economic Policy (ITEP)

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Examples of Changing Who Pays



Race Matters

- Race and ethnicity continue to be significant factors in income and wealth disparities based on historic and current injustices in public policies
- The result has been unequal opportunities in access to housing, education, healthcare, jobs, capital and other economic resources
- Research by ITEP shows that the distributional impact of the state and local tax systems affects racial and ethnic income and wealth inequality
 - Black & Hispanic families in Tennessee pay about 1% more in taxes than the state average while in Minnesota, they pay roughly 0.4% to 0.7% less
- But tax codes alone will not even begin to fix this problem

Pennsylvania

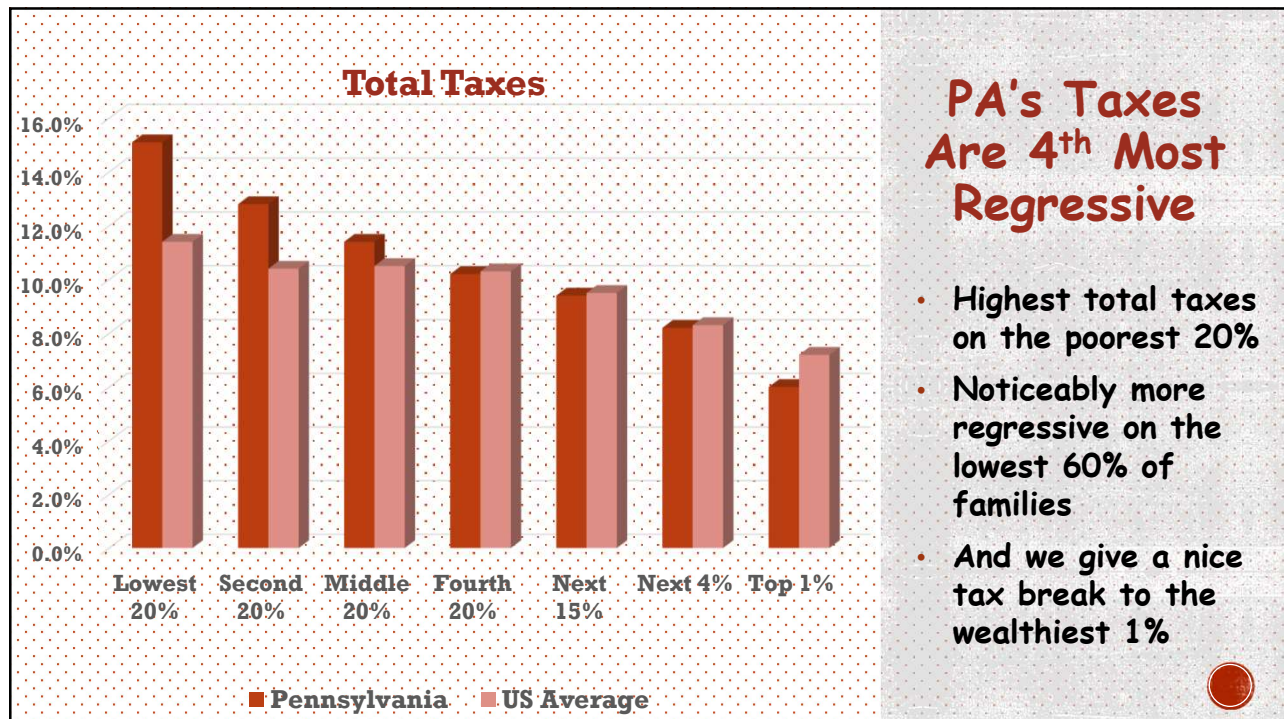
A Closer Look At
How Our State &
Local Taxes
Compare To The
Other States

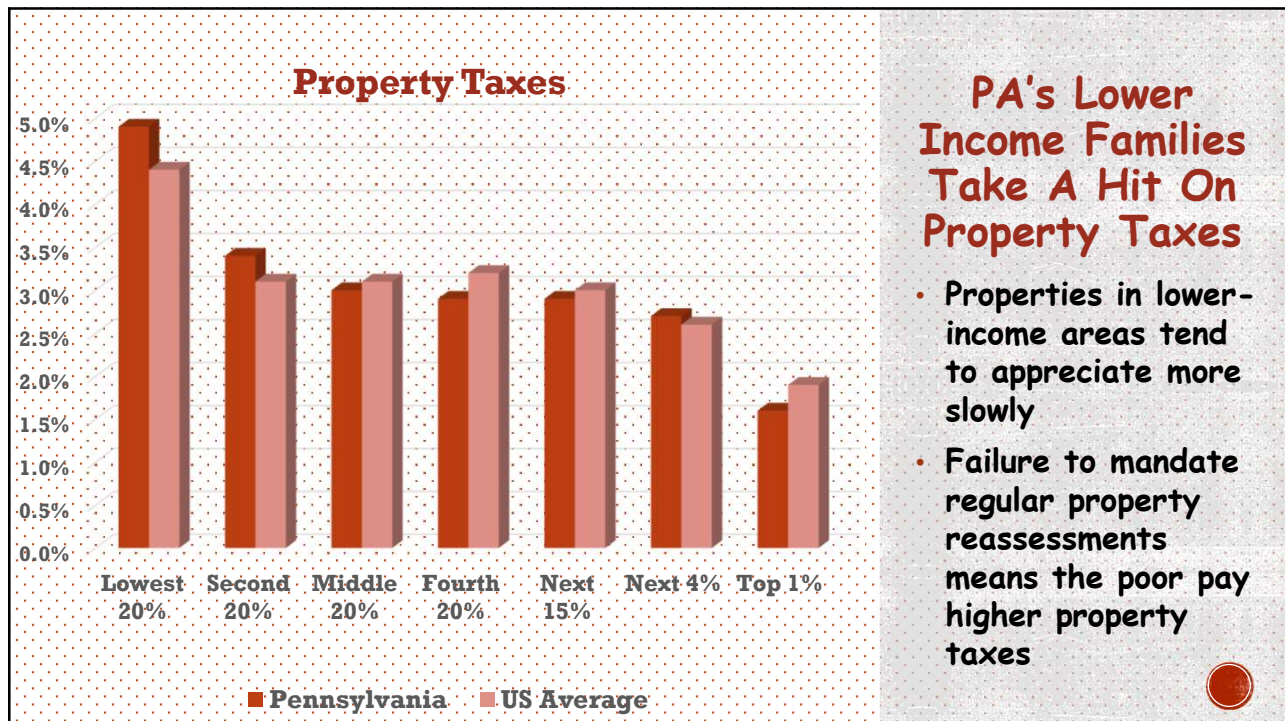
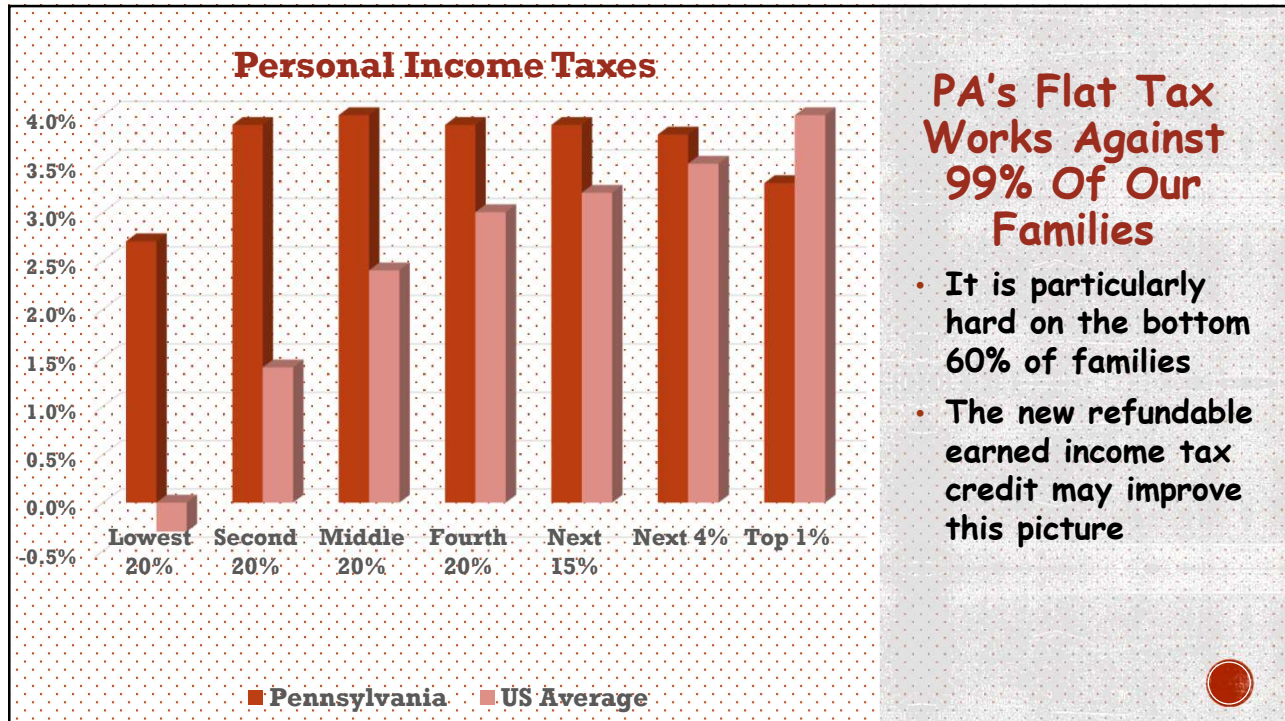
- PA taxes the poorest 20% of families at the highest rate of any state
- PA's taxes are the fourth most regressive in the nation
- And PA has some of the laxest campaign finance laws in the country

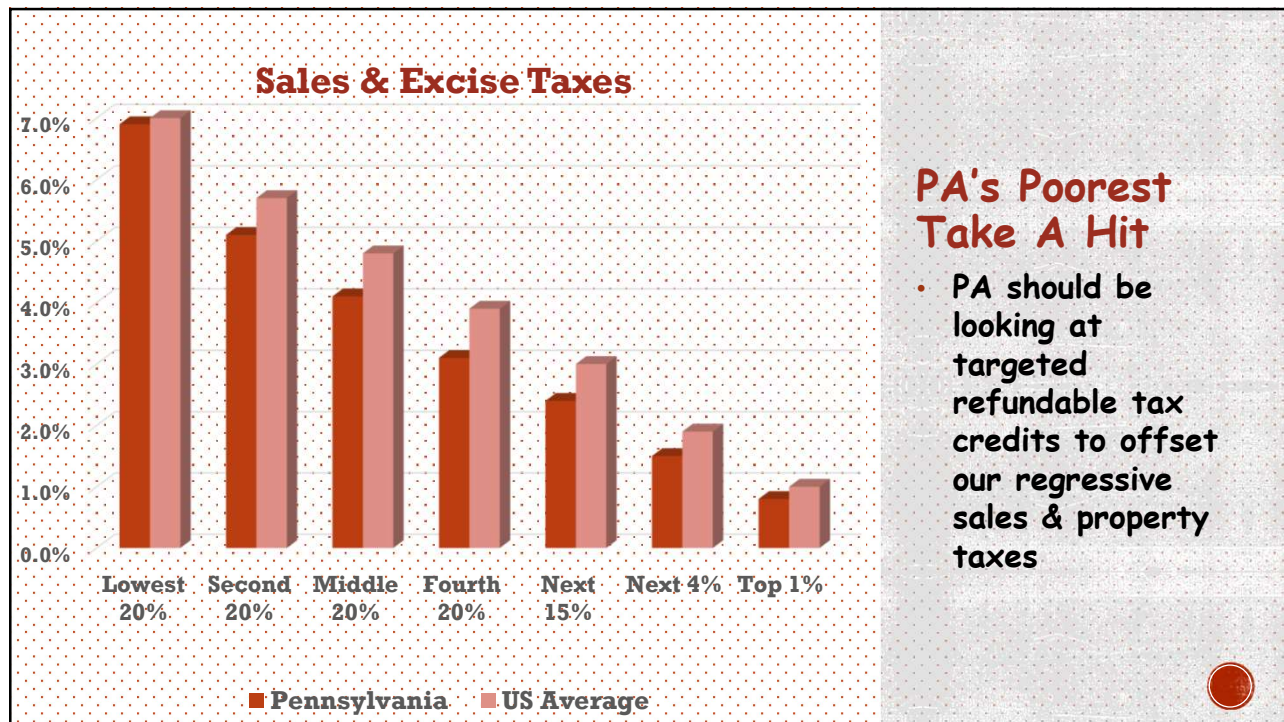
Coincidence??

Regressive Features of PA Tax System

- Flat personal income tax
- No standard deduction or personal exemption
- Retirement income exempt from personal income tax
- Most local income taxes exclude investment income
- No refundable income tax credit to offset sales, excise and property taxes
- Does not use combined reporting for corporate income tax
- Property tax: regressive mis-assessment of home values
 - Regular re-assessment is recommended but not required
- Real estate transfer tax is a flat 1% to the state and typically, 0.5% to the municipality and 0.5% to the school district







Tax Policy to Advance Shared Prosperity & Racial Justice

- Ensure the wealthy pay their fair share
 - Structure a progressive tax code free of special treatment for high incomes or wealth
- Improve the financial standing of low-income families
 - Provide targeted, refundable credits
- Reduce reliance on fees & fines
 - Shift towards progressive revenue sources at the state & local level
- Create adequate, sustainable revenue levels
 - Provide support for the public services and institutions that are essential to building broadly shared prosperity

Resources: White Papers

- **Who Pays?: A Distributional Analysis of the Tax Systems in All 50 States (Seventh Edition);** January 2024; Institute on Taxation and Economic Policy; <https://itep.org/whopays-7th-edition/>
- **Taxes & Racial Equity: An Overview of State and Local Policy Impacts;** Misha Hill, Carl Davis & Meg Wiehe; March 2021; Institute on Taxation and Economic Policy; <https://itep.org/taxes-and-racial-equity/>
- **There's No Good Way to Pay for Property Tax Repeal;** Jared Walczak, October 2025; Tax Foundation; <https://taxfoundation.org/wp-content/uploads/2025/10/FF868.pdf>



Upcoming Dems Club Events

**Democratic Club of Willow Valley
Monthly Meeting**
Tuesday, Feb. 24th @ 1pm in the
Education Room

- Introducing Jess Branas, candidate for PA 97th House District, who will be joining us to talk about the campaign and key issues

**Candidate Petition Signing Event @
Willow Valley**

Thursday, Feb. 26th @ 9-11am at the
four main apartment complexes

- Look for more details in the
Weekly Insider



Next Understanding Our Democracy Forum

- **Tuesday, March 10th @ 10am in the Education Room:**
- **"PA's Budgets: Current & Future"**
- **We will look at PA budgeting. What would it take to 'Improve Our Shared Well-Being' for Pennsylvanians? Education, healthcare, housing, transit, childcare, etc.? And given what we now know about PA's regressive tax system, how can we do that with a 'Fair State Tax System'? How does that translate into the PA budget process ... current and future?**
- **Please join us ... everyone is welcome.**

