



## NEWS RELEASE

**For immediate release**

5/1/08

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# New report shows wide gap in tax impact

*State and local taxes hit Alabama's low-income families at more than twice the rate for highest earners*

MONTGOMERY, Ala. – The share of income that the poorest fifth of Alabama families pay in state and local taxes is more than twice the share paid by families with the highest income, according to a report released this week by the Institute on Taxation and Economic Policy, a Washington, D.C.-based nonprofit research center.

The report, *Who Pays?*, compares the state-by-state impact of taxes on non-elderly families across all income levels. In a Wednesday news conference at the State House, the report's co-author, Matt Gardner, presented the new findings, along with an analysis of proposed reforms of the state tax system.

“Alabama is a low-tax state – but only for the very wealthiest families,” Gardner said. “The rest of Alabama’s middle- and lower-income working families pay much higher effective tax rates as a result.”

The report finds that Alabama’s lowest earners, averaging \$9,500 a year, pay 11.2 percent of their income in state and local taxes. The top 1 percent, averaging \$999,400, pay a 4.3 percent share. This imbalance has two main causes, Gardner explained – Alabama’s high sales taxes and our low, nearly flat income tax.

Our sales taxes are 34 percent above the national average as a share of income. For families who must spend most or all of their monthly income for basic necessities, a high sales tax has a large impact on daily life. For wealthier taxpayers with more disposable income, the sales tax does not have the same impact. Thus, the lower the sales tax, the better for low-income families.

By contrast, the income taxes of most states have higher rates for the highest earners. In Alabama, the highest rate (5 percent) starts at such a low taxable income (\$3,000) that nearly 80 percent of families pay at the same top rate. By this measure, ours is the least graduated income tax in the nation.

Gardner’s analysis of the proposed Tax Fairness Amendment shows that it would narrow the gap between shares of income paid in state and local taxes by Alabama’s lowest and highest earners. By repealing the state grocery tax, increasing the income tax threshold to \$20,000 for a family of four, and ending the state deduction for federal income taxes paid, Alabamians in the lowest fifth of

earners would see their state and local tax share drop from 11.2 percent of income to 9.6 percent. Those in the top 1 percent would see an increase from 4.3 percent to 5.1 percent.

“The Tax Fairness Amendment would directly address both of the flaws that make Alabama’s tax system so unfair – its high sales taxes and its low, flat income tax,” Gardner said. “And it would do so in a way that would cut taxes for most working families.”

Under the amendment, the net impact for the 80 percent of Alabamians earning under \$71,000 a year would be a substantial tax cut. Overall, the taxes paid by the next 15 percent would be virtually unchanged. The top 5 percent of the income distribution would see an overall tax hike.

“This new report comes at a critical time for our state,” said Kimble Forrister, state coordinator of Alabama Arise, the nonprofit advocacy group that hosted Gardner’s presentation. “It’s clear that our tax system has fallen out of balance. It’s also clear that the Tax Fairness Amendment will be a meaningful step toward everyone paying a fair share.”

For more information, visit [www.alarise.org](http://www.alarise.org).

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**Alabama Arise** is a nonprofit statewide citizens’ organization comprising 152 congregations and community groups dedicated to improving the lives of low-income Alabamians.

**The Institute on Taxation and Economic Policy (ITEP)**, based in Washington, D.C., has engaged in research on tax issues since 1980, with a focus on the distributional consequences of both current law and proposed changes. ITEP’s *Who Pays?* report is widely recognized as a key national benchmark in assessing the fairness of state tax systems.