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PRESS RELEASE

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New Study: Indiana's Tax System Makes "Terrible Ten" List

State among a short list in U.S. with most regressive tax systems and highest taxes on low-income earners

Indianapolis, IN – Like a number of states in the U.S., Indiana takes a much larger share of taxes from middle and low-income families than from the most wealthy of Hoosiers, 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, the average overall effective tax rates for Hoosiers, by income group are:

- 12.3 percent for the bottom 20 percent
- 10.8 percent for the middle 20 percent
- 5.4 percent for the top one percent

"Taxing the incomes of working-poor families runs counter to efforts by policymakers to help families work their way into the middle-class. Additionally, the disproportionate tax bill paid by low-income families reduces their take home pay (after taxes). Having less money in an economy where costs for basic needs like food and health care continue to rise makes it harder to make ends meet," said Derek Thomas, Senior Policy Analyst for the Indiana Institute for Working Families.

The report also shows that Indiana is among ten states whose tax systems are the most regressive, meaning that middle-income Hoosiers pay twice as high a share of their income as the wealthiest and low-income Hoosiers pay two-and-a-half times as much. The most prominent features of Indiana's regressive tax system include its use of a flat income tax instead of a progressive one, and its comparatively low income tax exemptions.¹ Indeed, the data demonstrate that while Indiana is often commended for being "low tax", the state actually has the sixth *highest taxes on the poor* in the entire country.

In reference to general proposals to cut income taxes by some U.S. governors, Matthew Gardner, Executive Director of ITEP and the author of the study offers the following: "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." State consumption tax structures are particularly regressive, with an average 7 percent rate for the poor, a 4.6 percent rate for middle incomes and a 0.9 percent rate for the wealthiest taxpayers nationwide.

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.

¹ When the Indiana income tax was enacted in 1963, the basic personal exemption was set at \$1,000 per family member — where it remains today. Since then, inflation has eroded the value of \$1,000 substantially.

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ABOUT THE INSTITUTE ON TAXATION AND ECONOMIC POLICY

The Institute on Taxation and Economic Policy (ITEP) is a 501 (c) (3) non-profit, non-partisan research organization that works on federal, state, and local tax policy issues. ITEP's mission is to ensure that elected officials, the media, and the general public have access to accurate, timely, and straightforward information that allows them to understand the effects of current and proposed tax policies. www.itep.org

ABOUT THE INDIANA INSTITUTE FOR WORKING FAMILIES

The Indiana Institute for Working Families (Institute) is a program of the Indiana Community Action Association, Inc. (IN-CAA). The Institute was founded in 2004 and conducts research and promotes public policies to help Hoosier families achieve and maintain economic self-sufficiency. The Institute is the only statewide program in Indiana that combines research and policy analysis on federal and state legislation, public policies, and programs impacting low-income working families with education and outreach. The Institute achieves its work by focusing its activities in the following areas: Public Policy: Research and Analysis; Education and Outreach; and National, Statewide, and Community Partnerships. To learn more about the Institute, please visit: www.incap.org/iwif.html

ABOUT THE INDIANA COMMUNITY ACTION ASSOCIATION (IN-CAA)

The Indiana Community Action Association, Inc. (IN-CAA) is a statewide not-for-profit membership corporation, incorporated in the State of Indiana in 1970. IN-CAA's members are comprised of Indiana's 23 Community Action Agencies (CAAs), which serve all of Indiana's 92 counties. IN-CAA envisions a state with limited or no poverty, where its residents have decent, safe, and sanitary living conditions, and where resources are available to help low-income individuals attain self-sufficiency. IN-CAA serves as an advocate and facilitator of policy, planning and programs to create solutions and share responsibility as leaders in the War Against Poverty. IN-CAA's mission is to help the state's CAAs address the conditions of poverty through: training and technical assistance; developing models for service delivery; and providing resources to help increase network capacity. For more information about IN-CAA, please visit: www.incap.org