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Announcing the New Edition of *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*

Who pays taxes in Tennessee? The working class and the middle class pay more in taxes than their rich and powerful fellow citizens.

“Over the years the rich and powerful elites, in collaboration with the Governor and General Assembly, have shaped Tennessee tax policy for their own benefit at the expense of the poor and middle class,” says John Stewart, Board Chair of Tennesseans for Fair Taxation. “Now Tennesseans earning less than \$17,000 per year pay 11.7% of their income in state and local taxes while those earning between \$29,000 and \$47,000 pay 9.3%. Meanwhile, the top-earning 1% with annual incomes of \$414,000 or more pay only 3.3% and the next 4% earning between \$155,000 and \$414,000 pay 4.2%. What could be more unjust?”

Of the 50 states, Tennessee is the fourth most-biased in favor of the rich, according to the just-released *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*, compiled by the Institute on Taxation and Economic Policy (ITEP)

What are the characteristics of the Tennessee tax structure that make it so biased? One is the state’s excessive reliance on sales and other consumption taxes and flat-rate privilege and license fees. Taxes on items like fuel, tobacco, and alcohol make up more than 70 percent of state-sourced revenue. Lower-income taxpayers pay a greater share of state taxes because a larger portion of their income must be spent on the necessities of life (food, clothing, fuel, transportation) that are taxable. Meanwhile, higher-income taxpayers have more disposable income to spend on luxury services (maids, limousines, marinas, pool-cleaning, pet-grooming, charter planes, etc.) and investments (stocks, bonds, insurance, real estate, etc.) — none of which are subject to Tennessee sales taxes. That’s right. While your groceries are taxed at 7.75% to 8.25%, their limousine ride is tax-free.

Another structural flaw is the absence of a broad-based income tax. The only way to level the playing field is to reduce consumption taxes and add a broad-based, graduated-rate income tax to our state’s tax toolbox. With a graduated rate structure, the tax could be designed so that the net effect is an overall “flat tax” with a total impact on all income groups of about 6 percent.

Dr. Kenneth T. Whalum, pastor of The New Olivet Baptist Church says, "I worked as a pastor in Arkansas for 10 years and had to pay that state's income tax, even though I still resided in Memphis. It's almost laughable that our neighboring state just to the west of us would be more progressive than my own state. It's time our elected officials realize that they were elected to represent the "least of these", and not themselves. I and others have determined that we will no longer be silent about the continued economic molestation of the majority of Tennesseans, for there comes a time when silence is betrayal."

Grant Law, a retired businessman and community volunteer in Chattanooga says. "It is long past time to completely re-design our current, highly regressive system of taxation in Tennessee into a more equitable and fair manner of state taxation for all Tennessee citizens and taxpayers. This is much easier said than done, but our current and ongoing fiscal crisis in Tennessee is Exhibit A in the need for quickly implementing wholesale changes in state taxation policy in 2010. As Tennesseans, we are not reinvesting properly in our collective future or in the future of our children and have not been doing so for way too many years."

NOTE:

The attached factsheet from *Who Pays?* shows the detailed "tax incidence analysis" for Tennessee and other highlights of Tennessee's tax structure and revenue composition. The bar chart titled "State & Local Taxes in 2007" shows the percentage of their income paid in state and local taxes by Tennessee households. The red bar shows sales and excise (consumption taxes. The green bar shows property taxes. The dark blue bar is state income tax (the Hall tax on dividends and interest) and the lighter blue bar is the offsetting reduction in federal income tax due to deductibility of state taxes. The large light blue background bar shows the sum of all state and local taxes including the federal offset.

References:

Institute on Taxation & Economic Policy (ITEP) web site: www.itepnet.org
Link to the full *Who Pays?* Report: www.itepnet.org/whopays3.pdf
Link to individual state fact sheets: www.itepnet.org/whopays.htm
Tennesseans for Fair Taxation web site: www.fairtaxation.org