Low Tax for Who?
Tennessee is a “Low Tax State” Overall, But Not for Families Living in Poverty

New data from the Census Bureau appear to lend support to Tennessee’s reputation as a “low tax state,” ranking it 49th nationally in taxes collected as a share of personal income.¹ But focusing on the state’s overall tax revenues has led many observers to overlook the fact that different taxpayers experience Tennessee’s tax system very differently. In particular, the poorest 20 percent of Tennessee residents pay significantly more of their income (11.2 percent) in state and local taxes than any other group in the state. For low-income families, Tennessee is far from being a low tax state.²

Limited Income Tax, but High Sales and Excise Taxes
According to the Census Bureau, Tennessee’s state and local tax collections totaled 8.3 percent of personal income in fiscal year 2011, well below the national average of 10.6 percent. One reason for Tennessee’s low ranking is that it is one of just nine states that does not levy a broad-based personal income tax.

But failing to levy a broad-based income tax comes at a cost. In order to pay for state and local government services, Tennessee’s sales and excise taxes are 31 percent above the national average. Measured relative to personal income, Tennessee has the 7th highest sales and excise tax collections in the entire country. According to the Institute on Taxation and Economic Policy (ITEP), the poorest 20 percent of Tennessee households spend 8.9 percent of their income on these taxes, compared to just 1.3 percent of income for the state’s most affluent residents.

A High Tax State for the Poor
While Tennessee’s state and local taxes average 8.3 percent of income, differently positioned taxpayers experience Tennessee’s tax system very differently. For the top 1 percent of Tennessee households (a group with an average income over $945,000), the Volunteer State’s decision not to levy a broad-based personal income tax has indeed been an enormous boon. This group pays just 2.8 percent of their income in Tennessee taxes—the 7th lowest (or 43rd highest) state and local tax bill for this group in the entire country.

But while Tennessee’s reputation as a “low tax state” is accurate for wealthy households, it bears little resemblance to reality for the state’s less affluent residents. The poorest 20 percent of Tennessee taxpayers (earning an average income of $10,000 per year) actually face the 14th highest state and local tax bill in the entire country, at 11.2 percent of income.

Tennessee’s imbalanced tax system, with its heavy reliance on sales and excise taxes, is pushing the state’s impoverished taxpayers deeper into poverty. The state’s lack of a broad-based personal income tax has been a major contributor to its reputation as a “low tax state,” but it comes at a steep price in terms of higher tax rates on low-income families.

¹This brief reflects Census data for state and local tax collections for 2011, the most recent year available.