



FLORIDA CENTER FOR FISCAL AND ECONOMIC POLICY

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Florida Tax System Second-Worst in U.S.

In only one state do low- and middle-income people have a more lopsided state and local tax burden than in Florida, according to a new report.

A nationwide study of state tax systems called *“Who Pays? A Distributional Analysis of the Tax Systems in All 50 States”* documents the unfairness of Florida’s structure.ⁱ Low- and moderate-income families in Florida pay a far higher share of their income in state and local taxes than do the richest families in the state, according to the report by the Washington, D.C.-based Institute on Taxation and Economic Policy (ITEP). In fact, Florida families in the lowest income group pay over six times more of their income in state and local taxes than do those in the top 1%, based on income and taxes paid in 2007.

A state’s taxes should be both fair to the people who pay them and capable of producing enough revenue to meet public needs. Florida’s system fails on both counts.

Florida families in the lowest income group (about \$10,500 a year) pay an average of 13.5% of their income in state and local taxes. By comparison, families in the highest income group (about \$2.4 million a year) pay an average of 2.1% of their income in state and local taxes. Those in the middle income group (about \$37,400 a year) pay an average of 9% of their income in state and local taxes – over four times as much as those in the highest income group.

Florida’s tax system was also ranked the second-worst in the country in an earlier study by ITEP based on 2002 income.

ITEP’s latest study found that nearly every state and local tax system in the country takes a much greater share of income from the low- and middle-income groups than from the wealthy – but only one state does so to a greater extent than Florida: the state of Washington. Nationally, the state and local tax obligation for all states averages 10.9% for those in the lowest income group, 9.4% for those in the middle, and 5.2% for those in the top income bracket.

Like Florida, six of the worst ten tax systems are in states with no state personal income tax. A heavy reliance on sales tax is another characteristic shared among states whose tax systems place the heaviest percentage burden on the lowest income households. By contrast, states with the best balanced state and local tax systems have graduated personal income taxes, where rates rise as income goes up, and they rely less on sales and excise taxes.

What does all this mean? Of the three primary taxes used by states – income, sales, and local property taxes -- only the personal income tax is based on the ability to pay. Florida, which has no state personal income tax, does not draw revenue from the fairest tax. By comparison, property taxes typically take a larger percentage of low- or middle-income households' yearly earnings than they take from the wealthiest. Property taxes are used by local governments to fund public education, law enforcement and other critical local services. The third major tax source, the sales tax -- which constitutes almost three-fourths of Florida's general fund – also hits lower-income people the hardest. While wealthy people are likely to spend more money in a year than low- or middle-income people, the percentage of their income that goes to sales tax is lower and they can save more.

Nationwide, ITEP found that poor families pay almost eight times more of their income in sales taxes than the wealthy. Unlike the personal income tax that generally applies to all income, the sales tax is applicable only to income that is spent. The more affluent can save more of their income than those in other income groups and so pay much less of it on sales taxes. A tax system should not be designed with lower tax rates for the most affluent than those whose families are poor or in the middle income group.

The ITEP report is yet more evidence that Florida's tax structure is antiquated. It also contains major loopholes and unwarranted exemptions that reduce its capacity to respond to the need for public services. For the past several years, Florida's revenue has fallen well below the level needed to meet budget requirements for critical and high priority needs. Thousands of people who need state services remain on waiting lists year after year, while programs vital to the state's economy and well being – public education and our health system, for example – are underfunded and achieve poor results.

As the Legislature debates how to address the sizable gap between growing public needs and available revenue for next year's budget, a balanced approach is needed -- one that not only considers budget cuts in inefficient and ineffective programs but also includes options for increasing revenues. Legislators should be mindful of the unfairness in Florida's current tax structure and not add to the disproportional tax obligation already experienced by lower income families. Although many of Florida's political leaders are proud that our state is a "low-tax" state and work feverishly to keep it that way, the results of this study raise an important

question: low taxes for whom? Florida's tax system should be changed to make it fairer and adequate to meet the need for public services.

This Issue Brief was written by John C. Hall,
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ⁱ "Who Pays? A Distributional Analysis of the Tax Systems in All 50 States," 3rd Edition, Institute on Taxation and Economic Policy, November 2009, <http://www.itepnet.org/whopays3.pdf>