Figures Behind Tax Burden

Laurence F. Jones and Kenneth L. Stewart
November 5, 2015

It was during the weeks leading up to a congressional deadline for deciding whether a set of tax laws should be extended past their scheduled expiration date in 2010. The tax provisions in question were highly favorable to the wealthiest Americans and originally passed in 2003 during the Bush Presidency.

It was then that business magnate and billionaire investor Warren Buffett raised eyebrows among his fellow privileged Americans with a candid admission. "If anything," Buffett said in an ABC News interview, "taxes for the lower and middle class and maybe even the upper middle class should even probably be cut further. But, I think that people at the high end - people like myself - should be paying a lot more in taxes. We have it better than we've ever had it."

Of course, regular outcries from business leaders warning of dire consequences from just thinking about raising taxes on businesses and the wealthy refute Buffet. However, Warren Buffett is also not the only American raising doubts about the equity of the tax system.

Indeed, a March 2015 national survey by the Pew Research Center found that the top complaint that Americans have about the tax system is the belief that some corporations and wealthy people do not pay their fair share of taxes. State and local tax levies often escape careful scrutiny in debates over tax fairness because the most heated issues usually focus on federal corporate and personal income taxes.

The Institute on Taxation and Economic Policy, a non-partisan research group committed to providing accurate and timely information, estimates that the average American pays about 28 percent of their income for taxes. This overall tax burden for the average American is part federal taxes (18%), and part state and local taxes (10%).

However, the fairness of state and local taxes varies from place-to-place because states and locales have diverse tax systems. Fortunately, the Institute on Taxation tracks the differences in its yearly report, Who Pays: A Distributional Analysis of the Tax Systems in All Fifty States.

The 2015 report assesses the fairness of state and local tax systems by measuring the share of income different groups will pay in 2015. The key finding is that nearly every state and local tax system is fundamentally unfair because so many of them rely heavily on consumption (sales and excise) taxes to raise revenue. It pegs Texas as the third most unfair tax state in the nation.

The problem with relying on a consumption tax like the sales tax is that it fundamentally takes a much greater share of the income of low- and middle-income individuals and families than from the wealthy. Ironically, as the 2015 report on Who Pays points out, states like Texas feature themselves as low tax states, but in reality, they are high tax states for middle-income, and especially for low-income, people because of the heavy reliance on sales tax.

Building from the Institute on Taxation findings, we decided to develop a method to estimate how the sales tax affects neighborhoods across San Angelo. To begin, we retrieved data on the sales tax revenue used to fund the state government, the City of San Angelo, and Tom Green County during 2013.

2013 Revenue and Budget Estimates

2013 Revenue Estimate	Budgeted Sales Tax Revenue	Households	Average Sales Tax	Total Budgeted Tax Revenue	Percent Reliance on Sales Tax
State of Texas	$25,943,807,086	$8,886,471	$2,919	$50,992,561,539	51%
Tom Green County	$7,700,000	$42,286	$182	$35,036,625	22%
City of San Angelo	$15,128,366	$35,973	$421	$47,530,703	32%

We found that the state budgeted nearly $26 billion of sales tax collections for its operations, while the city planned on a little over $15 million and the county called for $7.7 million. The sales tax made up 22 percent of the total budgeted tax revenue in the county plan and 32 percent in the city's budget. The state relied on the sales tax for 51 percent of its overall tax collections.

Our next step was to divide the budgeted sales tax revenues by the number of households obligated to pay. Statewide, for instance, there were 8,886,471 households in 2013 to pay the planned $25,943,807,086 in sales tax collections for state government operations. By dividing the budgeted sales tax amount by the number of households, we determined that the State of Texas planned to collect an average of $2,919 per household in 2013.

Using the same method, we discovered the City of San Angelo counted on $421 per household and Tom Green County relied on $182 per household. Altogether, the state and the two local governments counted on collecting $3,522 per household in San Angelo.

Our final task in assessing the sales tax effect was to determine the sales tax burden on different households in the city and its neighborhoods. We accomplished this by applying the findings from state and local budgets to the Census Bureau's American Community Survey estimates of average household income.

For instance, the Census Bureau estimated that the average household income in San Angelo for 2013 was $58,237. By taking the previous finding that governments planned to raise $3,522 per household in sales tax, we can see that the average after-tax household income would be $54,715. This computes to a sales tax burden of six percent on San Angelo households to fund local and state government operations.

Applying the same calculations to Census Bureau data on average household income in the various neighborhoods of the city reveals the simple mathematical truth about the problem of unfair consumption taxes identified by the Institute on Taxation.

In 2013, 13 of the city's 20 census tract neighborhoods had higher sales tax burdens than the six percent liability for households in the city overall. Mirroring the Institute on Taxation findings, the local results show that the sales tax burden takes the greatest share of income (13.1%) from

the city's lowest income neighborhood (the Blackshear and Downtown census tract) where the average household income was $26,833 in 2013.

Estimate of Household Revenue by Neighborhood

Neighborhood	Census Tract	2013 Average Household Income	Average After-Sales Tax Household Income	Sales Tax Burden
Blackshear-Downtown	18	$26,833	$23,311	13.1%
Fort Concho	9	$33,974	$30,452	10.4%
Fort Concho-East	7	$36,415	$32,893	9.7%
Rio Vista	14	$40,573	$37,051	8.7%
Angelo Heights	12	$42,941	$39,419	8.2%
Belaire	8.02	$44,053	$40,531	8.0%
Reagan	4	$44,738	$41,215	7.9%
Vista del Arroyo	13.04	$48,354	$44,832	7.3%
Lake View	2	$48,844	$45,322	7.2%
ASU-College Hills	13.01	$50,095	$46,573	7.0%
Paulann	3	$51,408	$47,885	6.9%
Central	11.02	$55,055	$51,532	6.4%
Riverside	1	$55,646	$52,124	6.3%
San Angelo City	**All Tracts**	**$58,237**	**$54,715**	**6.0%**
Sunset	13.03	$58,317	$54,795	6.0%
Glenmore	8.01	$67,503	$63,981	5.2%
Southland	17.06	$68,720	$65,198	5.1%
The Bluffs	11.01	$68,999	$65,477	5.1%
Santa Rita	10	$71,347	$67,825	4.9%
Bonham	17.07	$76,369	$72,846	4.6%
Bentwood-Nasworthy	17.08	$124,919	$121,397	2.8%

Source Notes: The average household income data are from the US Census Bureau, American Community Survey, 2009-2013 combined samples. The average after-sales tax household income applied budgeted sales tax revenues from the Texas Comptroller's Office, Tom Green County Treasurer, and City of San Angelo Budget Office to determine that tax collections of $3,522 per household.

Even in middle-income neighborhoods like ASU-College Hills or Paulann, many households and families shouldered sales tax burdens around seven percent. The burden in the city's higher income areas dropped to less than five percent in Santa Rita and Bonham; less than 3 percent in the Bentwood and Nasworthy census tract.

Recent political news has signaled the beginning of a wild "silly season" in America's national political life. We will hear plenty of absurd claims in the next 12 months about how low- and middle-income Americans pay little to nothing in taxes, saddling wealthy business people and companies with almost all the responsibility for funding essential functions of government.

In San Angelo, we have an opportunity to follow Warren Buffett's lead toward clear-headed recognition of the excess burdens we place on those in the middle and at the bottom when it comes to funding state and local government service. Honest and sincere appreciation of the actual contributions of ordinary people, even of the poorest among us, can go a long way toward opening many pathways to progress in the local community.