Not all taxes are created equal

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A new study published on Wednesday finds that local taxes are hitting low-wage earners much harder than wealthy individuals.

According to the Institute on Taxation and Economic Policy, the poorest 20 percent of Americans pay an average of 10.9 percent of their income in state and local taxes, while the top one percent pay 5.4 percent.

Meg Wiehe is the institute’s state tax policy director. This is not only bad policy, she says it’s bad for state budgets.

"That's because the more income that goes to the wealthy, and the lower a state's tax on the wealthy, the slower the states revenue could grow over time," says Wiehe.

The report also found that so-called “low tax” states, like Washington, Kansas, Texas and Florida, actually place the highest burden on the poor.

The reason behind this imbalance, claims Wiehe, is due to the fact states and cities rely heavily on sales and property tax, and specific excise taxes on things like gas, cigarettes and alcohol.

ITEP claims that this creates a “regressive” tax structure, which is a bad idea from a policy perspective because it means the less you make the more you pay.

But not everyone thinks all regressive taxes amount to bad policy.

“The purpose of it is as a user fee for local public schools and local public services like police. So state and local tax systems are not supposed to be progressive,” says Economist Chris Edwards with the Cato Institute.

Edwards says the Federal income tax system does tax wealthier people at higher rates, which is the appropriate place for these kinds of graduated rate structures. He also claims the report ignores the benefits of low taxes on competitiveness and job creation, all of which benefit the poor and middle class.