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Media Contact
Patrick Getlein
Communications Director
patrick@thecommonwealthinstitute.org
804-396-2051 x103
www.thecommonwealthinstitute.org

Jenice R. Robinson
Communications Director
ITEP
Jenice@itep.org
202-299-1066 x 27

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New Analysis: Low-Income Taxpayers in Virginia Pay Higher Rate Than the Rich

RICHMOND, VA -- The lowest income Virginians pay 74 percent more in taxes as a percent of their income compared to the state's wealthiest residents, according to a new study released today by the Institute on Taxation and Economic Policy (ITEP).

The study, *Who Pays?*, analyzes tax systems in all 50 states and factors in all major state and local taxes, including personal and corporate income taxes, property taxes, sales and excise taxes, and federal deductions for high-income taxpayers who itemize.

"This report contains important information about the challenges facing Virginia and should be required reading for lawmakers as the legislative session gets under way," says Michael Cassidy, President of The Commonwealth Institute for Fiscal Analysis, a Richmond-based fiscal and economic policy organization.

Virginia's tax system is unfair, or regressive, because the lower a person's income, the higher their effective tax rate. This is in part because Virginia relies heavily on sales taxes to raise revenue, has a nearly flat personal income tax, and doesn't have a refundable earned income credit.

"With the recent increase in the state sales tax and changes to the gas tax, lower-income people are getting hit even harder," says Cassidy. "But there's a good solution," he adds. "Making Virginia's earned income credit refundable would help working people support their families and make our state's tax system more fair."

How Virginia taxes residents matters for myriad reasons. In recent years, anti-tax advocates have pushed for tax policies across the country that would reduce tax rates for the wealthy and

businesses. Specifically in Virginia, there have been proposals to eliminate corporate income taxes and local business taxes. There are clear problems with this agenda. Foremost, many anti-tax proposals would make regressive tax structures even worse in part because they often rely on hiking taxes that fall more heavily on poor and middle-income families to pay for tax cuts at the top. Second, aggressive tax cuts that favor businesses and the wealthy can result in states having difficulty adequately funding basic public obligations such as education.

There's also a more practical reason for Virginia and all states to be concerned about regressive tax structures, according to ITEP. If the nation fails to address its growing income inequality problem, states will have difficulty raising the revenue they need over time. The more income that goes to the wealthy (and the lower a state's tax rate on the wealthy), the slower a state's revenue grows over time.

"In recent years, multiple studies have revealed the growing chasm between the wealthy and everyone else," said Matt Gardner, executive director of ITEP. "Upside down state tax systems didn't cause the growing income divide, but they certainly exacerbate the problem. State policymakers shouldn't wring their hands or ignore the problem. They should thoroughly explore and enact tax reform policies that will make their tax systems fairer."

The full report, *Who Pays?*, can be found online here.

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About The Commonwealth Institute
The Commonwealth Institute for Fiscal Analysis provides credible, independent, and accessible information and analyses of fiscal and economic issues with particular attention to the impacts on low- and moderate-income persons. Our products inform fiscal and budget policy debates and contribute to sound decisions that improve the well-being of individuals, communities and Virginia as a whole. Visit www.thecommonwealthinstitute.org for more information.