

Tennessee is a low-tax state; however, working families are paying more than their fair share.

Tennessee has one of the lowest overall tax burdens nationwide—the average effective tax rate* for Tennessee residents is 7.6%, the 3rd lowest in the nation, and the effective tax rate for businesses is 4.5%, the 9th lowest in the nation.^{1,2} A closer look at the state’s tax structure and revenues shows low-income families have higher tax burdens than wealthier families and businesses. Furthermore, Tennessee’s tax structure generates comparatively low state and local revenues, leaving less funding available for programs, initiatives, and investments that benefit working families.

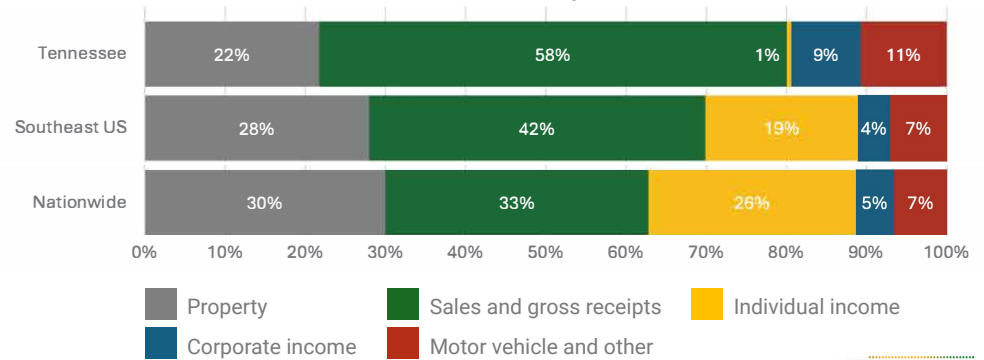
Tennessee's tax system relies heavily on regressive sales taxes.



Tennessee is one of only nine states without a broad-based income tax, relying heavily on other, more regressive revenue sources.³ In 2021, 58% of tax revenues came from sales tax, compared to 42% in the Southeast and 33% nationally. In addition, Tennessee is one of only 13 states with a tax on groceries—its grocery tax rate (4%) is the 6th highest in the nation.⁴

Tennessee derives 58% of its tax revenue from sales taxes, a far higher proportion than other states.

State and Local Tax Revenues by Source, 2021



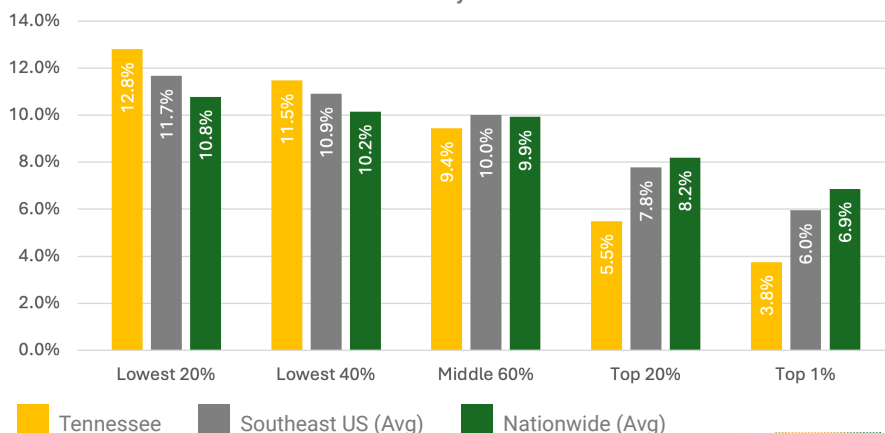
Source: U.S. Census Bureau, 2021 Annual Surveys of State and Local Government Finances



Tennessee's taxes are the 3rd most regressive in the nation.⁵

Tennessee's poorest households have a higher effective tax rate (12.8%) than wealthy households (3.8%).

Effective Tax Rate by Income Bracket



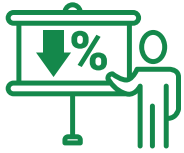
Source: Institute on Taxation and Economic Policy



Low-income families in Tennessee pay a higher proportion of their income on taxes than any other group. In Tennessee, poorer households have a higher effective tax—the households in the lowest 20% of the income bracket pay 12.8% of their income on taxes while the top 20% pay only 5.5% and the top 1% pay only 3.8%.⁶ Tennessee has the 11th highest effective tax rate on the lowest-income households—its 12.8% rate is higher than both the Southeast (11.7%) and the United States as a whole (10.8%)—but has the 45th highest effective tax rate for the top 1% of households.⁷

*Effective tax rate is the overall percent of income that an individual, household, or corporation owes for all types of taxes.

Tennessee's businesses pay a lower tax rate but benefit from more spending than in many states.

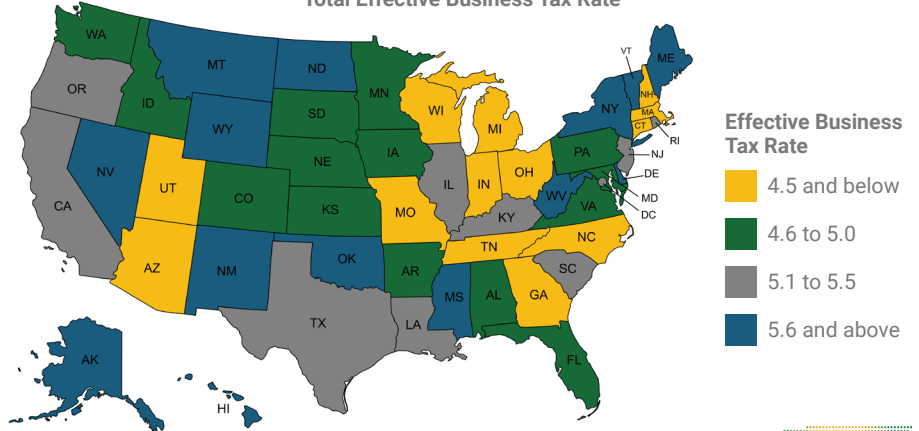


In Tennessee, the total effective business tax rate is 4.5%, lower than the national average

(5.0%) and all but 10 other states.⁸ From 2016 to 2019, more than 60% of Tennessee corporations paid no state corporate income tax at all, including 27% of corporations with a reported taxable income over \$1 billion.⁹ Despite these low business taxes, Tennessee ranks 8th in the “business tax-benefit ratio” which calculates the portion of state spending on programs and services benefiting businesses rather than individuals or families.¹⁰

Tennessee's Total Effective Business Tax (4.5%) is one of the lowest in the nation.

Total Effective Business Tax Rate



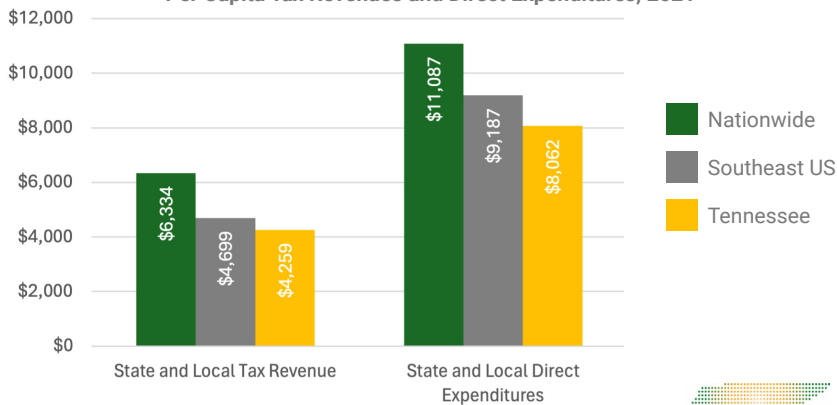
Source: Ernst & Young, State Tax Research Institute, and Council on State Taxation



Tennessee ranks 49th in revenue per capita and 45th in direct expenditures per capita.

Tennessee's state and local tax revenue is only \$4,259 per capita, two-thirds of the national average.

Per Capita Tax Revenues and Direct Expenditures, 2021



Source: Tax Policy Center, State Revenues and Expenditures



Tennessee's low-tax rates and regressive tax structure result in lower revenues and less funding available for schools, healthcare,

public safety, transportation, and other services. In 2021, Tennessee collected only \$4,259 per capita in state and local tax revenue, lower than both the Southeast (\$4,699) and nationwide (\$6,334).¹¹ In the same year, Tennessee ranked 45th in direct expenditures, spending \$8,062 per capita, 73% of the national average of \$11,097 per capita.¹² (Expenditures exceed tax revenue due to other funding sources such as federal allocations and no-tax charges.)

Tennessee spends less per capita on programs and services than other states.

Per Capita Direct Expenditures on Select Programs, 2021

	EDUCATION	PUBLIC ASSISTANCE AND HEALTH*	POLICE	HIGHWAYS
Nationwide	\$3,215	\$3,733	\$407	\$622
Southeast US	\$2,571	\$3,100	\$353	\$551
Tennessee	\$2,120	\$2,930	\$331	\$392

*For clarity, the analysis combines the Census categories for Public Assistance and Health/Hospitals, due to the fact that the Census Bureau counts states' largest health expenditure - Medicaid - within the former category.

Source: Tax Policy Center



References and Notes

- ¹ York, E. (March 5, 2024). Tax Burden by State: 2022 State and Local Taxes. Tax Foundation. See: <https://taxfoundation.org/data/all/state/tax-burden-by-state-2022/>
- ² Ernst & Young LLP, Council on State Taxation, & State Tax Research Institute. (2023). *Total State and Local Business Taxes*. See: <https://www.cost.org/globalassets/cost/stri/studies-and-reports/ey-50-state-tax-burden-study-fy22.pdf>
- ³ CNBC. (February, 9, 2023). "Living in these 9 states means you don't pay income tax, but here's what to watch out for." See: <https://www.cnbc.com/select/states-with-no-income-tax/>
- ⁴ Tennessean. (August 2, 2023). Are groceries tax-free in Tennessee? For these three months, they are. See: <https://www.tennessean.com/story/news/local/2023/08/01/tennessee-grocery-tax-holiday-2023-startdate-whats-included/70504007007/>
- ⁵ Who Pays? 7th Edition: A Distributional Analysis of the Tax Systems in All 50 States. (January, 2024). See: <https://sfo2.digitaloceanspaces.com/itep/ITEP-Who-Pays-7th-edition.pdf>
- ⁶ Tennessee: Who Pays? 7th Edition. (January 9, 2024). ITEP. See: <https://itep.org/whopays/tennessee-who-pays-7th-edition/>
- ⁷ Ibid.
- ⁸ Ernst & Young LLP, Council on State Taxation, & State Tax Research Institute. (2023b). *Total State and Local Business Taxes*. See: <https://www.cost.org/globalassets/cost/stri/studies-and-reports/ey-50-state-tax-burden-study-fy22.pdf>
- ⁹ Bivens, Josh. (April 14, 2022). *Reclaiming Corporate Tax Revenues*. Economic Policy Institute. See: <https://www.epi.org/publication/reclaiming-corporate-tax-revenues/>
- ¹⁰ Ernst & Young LLP, Council on State Taxation, & State Tax Research Institute. (2023b). *Total State and Local Business Taxes*. See: <https://www.cost.org/globalassets/cost/stri/studies-and-reports/ey-50-state-tax-burden-study-fy22.pdf>
- ¹¹ Tax Policy Center. (n.d.). Statistics: State and Local General Revenue, Per Capita. See: <https://www.taxpolicycenter.org/statistics/state/state-revenues-and-expenditures>
- ¹² Tax Policy Center. (n.d.). Statistics: State and Local Direct General Expenditures, Per Capita. See: <https://www.taxpolicycenter.org/statistics/state/state-revenues-and-expenditures>

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