

Tax Incidence by Income Group

Economists commonly distinguish between the initial "impact" of a tax and its "incidence." The initial impact of a tax falls on taxpayers legally liable to pay the tax, while the incidence refers to the ultimate payer of the tax. For example, the initial impact of a business tax falls on the firm incurring the tax liability. Over time, to varying degrees, the tax cost is "shifted" so that the ultimate burden of the tax falls either to consumers in different retail prices, to employees in changed wages, to owners of land and capital in different investment returns, or most likely, to some combination of all three. The degree to which a tax can be shifted, and the amount of time that elapses before a tax can be shifted, depend on the type of tax and the competitiveness of capital, labor, input material and product markets.

The results of this analysis for tax law changes effective with this proposal are shown in Table 3 and Table 4.

Table 3
Tax Incidence by Income Decile
Current Law vs. House Bill 3, As Substituted
Taxes Effective in Fiscal Year 2007
Comparisons Include Property Tax, Sales and Excise Taxes and Taxes on Business

Decile	Expanded Family Range (Dollars)		Current Law Tax (millions)	HB 3 Tax (millions)	Change in Tax (Millions)	Percent Change in Tax
1	\$0	to \$13,415	\$2,009.5	\$2,121.4	\$ 111.9	5.57%
2	\$13,415	to \$22,833	2,315.9	2,435.3	119.4	5.16%
3	\$22,833	to \$31,735	2,999.9	3,148.4	148.5	4.95%
4	\$31,735	to \$41,463	3,303.0	3,455.5	152.5	4.62%
5	\$41,463	to \$51,750	4,076.2	4,251.6	175.4	4.30%
6	\$51,750	to \$64,325	4,734.5	4,909.1	174.6	3.69%
7	\$64,325	to \$79,271	5,679.8	5,830.8	151.0	2.66%
8	\$79,271	to \$100,593	6,860.2	6,973.4	113.2	1.65%
9	\$100,593	to \$140,853	8,547.9	8,511.2	(36.7)	(0.43)%
10	Over	\$140,853	13,910.3	13,509.8	(400.5)	(2.88)%
	Total		\$54,437.2	\$55,146.5	709.3	1.30%