Nashville AREA CHAMBER of COMMERCE

THE RESEARCH CENTER

Overview:

The *Let's Move Nashville* transit proposal for Nashville includes an increase in sales, business, rental car and hotel tax rates to fund a dramatic expansion of the city's transit system. Most of the new revenue under the proposal comes from a new sales tax surcharge of one half cent in July 2018 and an additional half cent increase in 2023. While this proposal increases the sales tax paid by consumers, it is important to assess the impact in the context of the *overall tax burden* (percentage of income spent on taxes) for households living in Davidson County. The District of Columbia's Office of Revenue Analysis provides an annual report, *Tax Rates and Tax Burdens in the District of Columbia – A Nationwide Comparison*, that compares tax burdens based on the total state and local taxes paid by households at various income levels. Using this source, we can see what impact the sales tax increases will have on Nashville's overall state and local tax burden in relation to peer cities.

Main Source Used/Methodology:

The District of Columbia Office of Revenue Analysis' annual report on household tax burden across the nation assesses the overall taxes paid by households at various income levels in the largest city in each state. The taxes considered in the study include local and state taxes in each city, including income and payroll tax, property tax, sales tax, and auto tax. While many of Nashville's peer cities have a state income tax as part of their overall tax burden, the Tennessee Constitution prohibits an income tax in our state.

The total household tax burden is calculated based on a hypothetical family consisting of two wage-earning spouses and one school-age child. While Nashville, heretofore not the largest city in the state, is not included in the District of Columbia report, the Nashville data can be obtained by taking Memphis' tax values, and making adjustments for property tax rates and home values, according to the methodology set out in the report. Property tax values in the report are based on the median home value in each Metropolitan Statistical Area (MSA), and are adjusted using a linear multiplier calculated by dividing the median home value in the MSA by the median household income of homeowners.

To calculate the total tax burden, the value of income, property, sales, and auto taxes are added together and divided by the total household income at each level. For example, a household earning $50,000 annually in Nashville would be subject to $3,311 in taxes. Dividing the total taxes ($3,311) by the total income ($50,000) shows that the Nashville household has an annual local and state tax burden of 6.6 percent currently, the fifth lowest among 27 cities in the comparison set.

Total Tax Burden

The table below shows the dollar amount paid annually in state and local taxes ($) and total state and local tax burden (%) for households at various income level in selected cities.

Total Tax Burden at Various Income Levels, Selected Cities ($ Amount and Percentage)								
City	$25,000		$50,000		$100,000		$150,000	
	$	%	$	%	$	%	$	%
Detroit, MI	$ 2,848	11.4%	$ 6,830	13.7%	$ 14,385	14.4%	$ 21,296	14.2%
Baltimore, MD	$ 2,333	9.3%	$ 6,168	12.3%	$ 13,248	13.2%	$ 19,950	13.3%
Philadelphia, PA	$ 4,461	17.8%	$ 6,148	12.3%	$ 12,365	12.4%	$ 17,705	11.8%
Columbus, OH	$ 2,800	11.2%	$ 5,515	11.0%	$ 11,670	11.7%	$ 17,469	11.6%
Milwaukee, WI	$ 2,175	8.7%	$ 5,468	10.9%	$ 12,566	12.6%	$ 19,014	12.7%
Louisville, KY	$ 3,565	14.3%	$ 5,252	10.5%	$ 10,618	10.6%	$ 15,635	10.4%
Boston, MA	$ 3,824	15.3%	$ 5,249	10.5%	$ 11,122	11.1%	$ 16,931	11.3%
Kansas City, MO	$ 3,230	12.9%	$ 4,893	9.8%	$ 10,315	10.3%	$ 15,528	10.4%
Birmingham, AL	$ 4,009	16.0%	$ 4,827	9.7%	$ 9,400	9.4%	$ 13,193	8.8%
Chicago, IL	$ 3,596	14.4%	$ 4,712	9.4%	$ 9,940	9.9%	$ 14,340	9.6%
Los Angeles, CA	$ 3,767	15.1%	$ 4,574	9.1%	$ 10,257	10.3%	$ 16,429	11.0%
Charlotte, NC	$ 3,264	13.1%	$ 4,571	9.1%	$ 9,672	9.7%	$ 14,367	9.6%
New York, NY	$ 3,325	13.3%	$ 4,520	9.0%	$ 11,148	11.1%	$ 18,143	12.1%
Atlanta, GA	$ 3,116	12.5%	$ 4,402	8.8%	$ 9,257	9.3%	$ 14,280	9.5%
Indianapolis, IN	$ 3,064	12.3%	$ 4,359	8.7%	$ 9,659	9.7%	$ 15,618	10.4%
Salt Lake City, UT	$ 2,747	11.0%	$ 4,279	8.6%	$ 9,163	9.2%	$ 13,457	9.0%
Median (All Cities)	**$ 2,800**	**11.2%**	**$ 4,279**	**8.6%**	**$ 9,474**	**9.5%**	**$ 14,318**	**9.5%**
Phoenix, AZ	$ 2,932	11.7%	$ 4,193	8.4%	$ 8,617	8.6%	$ 12,969	8.6%
Memphis, TN	$ 3,306	13.2%	$ 3,841	7.7%	$ 7,171	7.2%	$ 9,736	6.5%
New Orleans, LA	$ 3,325	13.3%	$ 3,824	7.6%	$ 8,406	8.4%	$ 12,158	8.1%
Washington, D.C.	$ 3,142	12.6%	$ 3,731	7.5%	$ 9,020	9.0%	$ 14,206	9.5%
Minneapolis, MN	$ 1,705	6.8%	$ 3,697	7.4%	$ 9,101	9.1%	$ 14,274	9.5%
Nashville increase (.01)	**$ 3,455**	**13.8%**	**$ 3,491**	**7.0%**	**$ 6,410**	**6.4%**	**$ 8,515**	**5.7%**
Nashville increase (.005)	**$ 3,374**	**13.5%**	**$ 3,401**	**6.8%**	**$ 6,261**	**6.3%**	**$ 8,331**	**5.6%**
Denver, CO	$ 2,508	10.0%	$ 3,374	6.7%	$ 7,470	7.5%	$ 10,839	7.2%
Nashville, TN (current)	**$ 3,294**	**13.2%**	**$ 3,311**	**6.6%**	**$ 6,111**	**6.1%**	**$ 8,146**	**5.4%**
Las Vegas, NV	$ 2,923	11.7%	$ 3,252	6.5%	$ 6,309	6.3%	$ 9,038	6.0%
Houston, TX	$ 2,716	10.9%	$ 3,113	6.2%	$ 6,068	6.1%	$ 8,378	5.6%
Seattle, WA	$ 3,879	15.5%	$ 3,104	6.2%	$ 5,670	5.7%	$ 7,716	5.1%
Jacksonville, FL	$ 2,659	10.6%	$ 2,681	5.4%	$ 5,880	5.9%	$ 8,452	5.6%
• $ refers to the total annual tax burden in dollars								
• % refers to the percentage of total income that is devoted to taxes								
The table is sorted by tax burden at the $50,000 income level because this level most closely reflects median household income								

Conclusion:

When considering the total state and local tax burden for Nashville households, the total Nashville tax burden remains among the lowest across the nation for large, comparable cities. For households at the $50,000 income level, Nashville residents experience a lower tax burden than residents in many other cities even when the full cent sales tax increase is factored in. At all income levels above $25,000 included in the report, the total tax burden for Nashville households is well below the median of all cities considered in the study.

Sources:

2015 Tax Rates and Tax Burdens in the District of Columbia: A Nationwide Comparison, Government of The District of Columbia, Office of Revenue Analysis, U.S. Census American Community Survey, Department of Housing and Urban Development.