

Should Illinois Adopt a Graduated Income Tax System?

Arguments For

1. It would promote tax fairness based upon ability to pay.

Tax systems based on the ability-to-pay principle require households with the highest incomes to pay a greater share of their income towards taxes than working-class and middle-class families. In Illinois, the top 1 percent of families brings in 65 times as much as the average income of the bottom 99 percent. Between 1979 and 2015, the wealthiest percent of Illinois households saw their incomes grow by an average of 177 percent, while the remaining 99 percent of households realized inflation-adjusted income growth of just 9 percent. A progressive income tax could generate much-needed tax revenue from the most affluent households who have disproportionately benefited from global economic trends and national public policies.

2. It would raise revenue and help produce budget stability.

Illinois' current financial hole is more than \$200 billion, including unfunded pension liabilities of \$139 billion and \$56 billion of unfunded retiree health care benefits (Truth in Accounting). Each year the state's net position decreases by billions of dollars. Illinois needs to generate additional revenue to balance the budget, restore investor confidence, and boost public investment. A progressive income tax system could generate billions of dollars in additional state revenue and help Illinois produce budget stability. (Bruno Sawicky p.6)

3. It would cut taxes for working-class and middle-class families and may provide property tax relief for Illinois homeowners.

"Working-class and middle-class families in Illinois currently pay a greater share of their income in taxes than wealthy households, causing inequality to be worse after state and local taxes are collected...Under the current system, working-class and middle-class families pay significantly more in state and local taxes than the top 1 percent. Low-income families contribute 14.4 percent of their incomes to total state and local taxes. Middle-class families contribute 12.6 percent of their incomes to state and local taxes." (Bruno Sawicky p.6)

4. It could boost the economy and create jobs.

"Adopting a progressive income tax system could grow the Illinois economy by stimulating aggregate consumer demand and increasing public investments." (Bruno Sawicky p.6) Economic research has demonstrated that low income and middle-class families spend a larger share of their incomes while the rich save more (Dyner et al., 2004; Hobijn & Nussbacher, 2015; Carroll et al., 2017).

5. It would bring Illinois' tax system in line with other states.

Of the 41 states that impose an individual income tax, Illinois is one of just eight that impose a flat rate on the income of all earners. Thirty-three states in the U.S. have some form of a progressive income tax. (FTA, 2019)

Arguments Against

1. The amendment does nothing to fix Illinois' structural problems.

A progressive income tax will not solve Illinois' fiscal issues. Despite a constitutional requirement to balance its budget, the state is \$224 billion in debt, including \$139 billion of unfunded pension liabilities and \$56 billion of unfunded retiree health care liabilities (Truth in Accounting). Fixing the weak wording in the constitution that allows elected officials to claim "balanced" budgets while putting the state billions of dollars in debt is not being considered. Changing the constitution to allow the state to reform pensions earned by state employees in the future is also not included on the ballot.

2. Income inequality is higher in progressive tax states.

Not only is income inequality higher in states with progressive income taxes, but progressive income tax states haven't been any more effective at combating rising inequality. The difference in inequality between progressive and non-progressive income tax states remains unchanged compared with last decade (Illinois Policy Institute).

3. States without a progressive income tax structure see faster growth in their economics, wages, labor force and employment.

Since the end of the Great Recession, state economies have grown 5.9 percent faster than the national average in states without a progressive income tax. Meanwhile, states with a progressive income tax have grown 2.4 percent slower than the national average. Wages in states without a progressive income tax have grown 10.5 percent faster than the national average, while states with a progressive income tax have grown 6.9 percent slower. The labor force in states without a progressive income tax has grown 42 percent faster than the national labor force.

4. It is a blank check, which the untrustworthy legislature and governor can use to raise taxes not only on the wealthy, but also on the middle class.

The vote for/against a constitutional amendment will only determine whether a progressive tax structure is allowed or not. It does not set which tax brackets will pay what rate. While a rate schedule has been passed, the voters are being asked to trust the current and all future governors and legislatures. A simple majority vote of the legislature and a governor's signature could increase rates on all tax brackets, including the middle class.

5. The state will continue to lose its tax base.

The states facing the worst population losses and outmigration crises are states that have a progressive income tax system. In 2018 alone, nearly 300,000 people left progressive income tax states for more competitive tax environments. Meanwhile, flat tax states, besides Illinois, attracted nearly 68,000 residents from other states, and states with no income tax attracted nearly 340,000 residents from flat income tax states.

Background

Illinois did not have an income tax until 1969 when a “non-graduated” 2.5 percent rate was enacted for individuals. “A non-graduated tax system, referred to as a ‘flat tax,’ imposes the same tax percentage on all individuals regardless of income.” (Kagan, 2018)

Shortly thereafter, the framers of the Illinois Constitution - which was enacted in 1970 - considered changing to a progressive tax, also sometimes referred to as a “graduated-rate” or “fair” income tax, which would have imposed higher tax percentages as an individual’s income increased. But some Con-Con Delegates were nervous that after having a “hard-fought battle” to get the flat income tax passed, it would have been politically risky to change to a “potentially unpopular tax concept.” (Dunn, 2016) Many framers also believed that voters would not accept a constitution that included a progressive tax.

The original 2.5 percent tax rate remained in effect until 1983, and then the rate fluctuated between 2.5 percent and 3 percent until 2010. A temporary tax rate of 5 percent was implemented in 2011

and was scheduled to drop to 3.75 percent in 2015 and then to 3.25 percent in 2025. The rate did go to 3.75 percent in 2015, but in 2017, the legislature permanently set the rate at 4.95 percent, where it remains today. (Bremer, 2019)

In late May 2019, the Illinois Senate and House provided, by the necessary 60 percent majorities, a proposed amendment to the Illinois Constitution to allow the state to replace its flat-rate income tax system with a progressive income tax. The amendment will appear on the November 3, 2020 general election ballot. The amendment will become effective if it is approved by three-fifths of those voting on the amendment or a majority of those voting in the election.

Specifically, the amendment would delete the following wording from the constitution: “A tax on or measured by income shall be at a non-graduated rate. At any one time, there may be no more than one such tax imposed by the State for State purposes on individuals and one such tax so imposed on corporations.”



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Progressive income tax brackets Joint Filers	
Income Range	Rate
\$0 to \$10,000	4.75%
\$10,000 to \$100,000	4.90%
\$100,000 to \$250,000	4.95%
\$250,000 to \$500,000	7.75%
\$500,000 to \$1,000,000	7.85%
More than \$1,000,000	7.99%

Progressive income tax brackets Single Filers	
Income Range	Rate
\$0 to \$10,000	4.75%
\$10,000 to \$100,000	4.90%
\$100,000 to \$250,000	4.95%
\$250,000 to \$350,000	7.75%
\$350,000 to \$750,000	7.85%
More than \$750,000	7.99%

The amendment would add the following wording:

“The General Assembly shall provide by law for the rate or rates of any tax on or measured by income imposed by the State.”

The Constitutional amendment does not set the different tax rates that would be charged. At the end of the last legislative session, however, legislation was passed that set new rates, which would take effect January 1, 2021, if the amendment is ratified.

All of the income of single filers who have income more than \$750,000 and joint filers with income more than \$1,000,000 will be taxed at the top rate of 7.99 percent. The income of filers not in the top bracket will be taxed at different rates. For example, a joint filer who has an income of \$225,000 would have \$10,000 taxed at 4.75 percent, \$90,000 taxed at 4.9 percent, and \$125,000 taxed at 4.95 percent. See the chart below for all of the progressive tax rates proposed.

Resources

Center for Tax and Budget Accountability
<https://www.ctbaonline.org/repository-report-tags/graduated-income-tax>

Illinois Opportunity Project
<http://illinoisopportunity.org>

Truth in Accounting
truthinaccounting.org

State Data Lab
statedatalab.org

Works Cited

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