

WHY ILLINOIS NEEDS A GRADUATED INCOME TAX

BACKGROUND: Among different methods of taxation (property, income, sales, etc.), the income tax is inherently the most fair because it is the only tax which can increase or decrease its burden on a taxpayer in accordance with that taxpayer's ability to pay. If a taxpayer receives a raise, her income tax liability will increase. If on the other hand she loses her job, her income tax liability will decrease. No other tax adjusts its burden in accordance with a taxpayer's ability to pay.

Moreover, since an income tax can have a progressive rate structure—that is, impose slightly higher tax rates on individuals with higher incomes—a well-designed, progressive income tax can actually help make a state's overall tax burden fair—or at least fairer than it would be without a progressive rate structure. The Illinois Constitution, however, prohibits lawmakers from setting marginal rates at different levels for different income classes, because it mandates a flat tax rate across all income brackets.

CURRENT STRUCTURE: Illinois' single income tax structure is regressive by design, meaning it places a greater overall burden on lower income taxpayers than it does affluent taxpayers. This not only makes the Illinois tax system unfair, but also contributes to other problems for the state's fiscal system, economy and working families. From a fiscal standpoint, low and middle income families not only make less money than their affluent counterparts, historically they also do not share in the nation's economic growth. Focusing tax burden on a demographic that loses income over time necessarily means revenue collection will not keep pace with the economy.

As low and middle income families obtain more income, they tend to spend it, and in the local economy to boot. Since 1979, low and middle income families in Illinois have less income over time to cover the cost of their basic needs. Since this is the case, designing tax relief that would actually stimulate the economy, that is, increase consumer spending, requires reducing tax burden for low and moderate income families, who will take their additional income and spend it. Instead, the state imposes a significant tax burden on low and middle income families, thereby hurting the economy by reducing the amount of money these families, our best consumers, actually have to spend.

IMPACT OF GRADUATED TAX ON CONSUMERS: If Illinois implemented a modestly progressive income tax that: did not tax income of \$5,000 and below, raised the marginal tax rate on income of \$100,000 to \$1,000,000 and above:

- Effective taxes would be reduced to zero or below for the lowest income, 22% of filers, (with \$9,000 or less Illinois 'Base Income' before credits and deductions), most of whom would receive an "Earned Income Tax Credit" (EITC) or property tax income tax credit instead.
- Only the top 6% of filers (with incomes above \$150,000) would receive an effective tax rate increase:

Under these rates the bottom 94% of income filers in Illinois would receive a \$1.15 B tax cut and the state would be able to raise and spend 22.7% or \$3.6 B more. The combined effect would be to stimulate the economy from tax cuts and from additional spending by about \$5.0 B. Reduced spending from tax increases for the very high upper 6% of income earners would be minimal.