

The Impact of Enacting a Progressive Income Tax in Illinois:

Understanding How Illinois Could
Cut Middle-Class Taxes, Balance the
Budget, and Grow the Economy

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Executive Summary

Governor J.B. Pritzker and the General Assembly have debated whether to amend the Illinois Constitution to allow the state to replace its flat-rate income tax system with a progressive (or “graduated-rate”) income tax. Illinois is currently one of only eight states that has a flat-rate tax, while 33 states have progressive income tax systems.

There are five main reasons for Illinois to consider adopting a progressive tax:

1. It would promote tax fairness based on ability to pay. In Illinois, the top 1 percent of families brings in 65 times as much as the average income of the bottom 99 percent.
2. It could cut taxes for working-class and middle-class families. 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.
3. It could provide property tax relief for Illinois homeowners. At an average of over \$5,200 per year, Illinois’ property taxes are among the highest in the nation.
4. It would raise revenue and help produce budget stability. Illinois faces \$10 billion in unpaid bills, more than \$130 billion in unfunded pension liabilities, and a \$1.2 billion structural deficit per year that have caused lawmakers to underinvest in core public services.
5. It could boost the economy and create jobs. Progressive income taxes put more money in the pockets of middle-class families while raising taxes on the most affluent families to pay for broad-based public investments in education, infrastructure, and healthcare.

The Project for Middle Class Renewal (PMCR) at the University of Illinois at Urbana-Champaign and the Illinois Economic Policy Institute (ILEPI) have jointly evaluated the effects of 8 different scenarios for adopting a progressive income tax in the state, including the governor’s proposed “fair tax.” The scenarios are intended to serve as examples for voters and lawmakers.

An analysis of Illinois Department of Revenue data reveals that a progressive income tax could accomplish 5 potential policy goals:

1. Illinois could cut income taxes for at least two-thirds of taxpayers. Between 67 percent and 97 percent of all residents would receive tax cuts in a well-designed progressive income tax. These working-class and middle-class tax cuts would be paid for entirely by higher taxes on the top 1 percent of families.
2. Illinois could cut residential property taxes by about 10 percent. A progressive income tax would provide the revenue necessary for the State of Illinois to boost K-12 public education funding by \$2.5 billion, allowing local governments to deliver property tax relief for homeowners.
3. Illinois could protect small businesses. A well-designed tax could limit the tax rate on pass-through business entities at 5 percent, effectively holding small businesses harmless.
4. Illinois could balance the budget and restore investor confidence. A progressive income tax would allow lawmakers to eliminate the underlying \$1.2 billion structural deficit. If Illinois were to adopt a progressive income tax, the state could conservatively generate \$3 billion to \$5 billion in new revenue.
5. Illinois could grow the economy by increasing investments and boosting consumer demand. The state could increase investments in public education and critical infrastructure systems. A progressive income tax could grow the Illinois economy by between \$1 billion and \$8 billion annually.

A progressive income tax would transform Illinois’ tax code by bringing middle-class tax burdens down towards rates in neighboring states. Moving to a graduated-rate structure could make the state’s tax code fairer, cut income taxes for working-class and middle-class families, provide opportunities for property tax relief, help balance the budget, and provide revenue to fund essential public services that contribute to the growth of the Illinois economy.

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Key Tax Terminology

This brief section includes definitions of terms used throughout the report, for the reference of the reader.

Adjusted Gross Income (AGI) – Adjusted gross income is all wages, salaries, tips, dividends, alimony, business income or losses, capital gains or losses, rental income, unemployment compensation, and retirement income minus certain deductions. Federal deductions accounted for in AGI include health savings accounts, student loan interest payments, and IRA deductions. In this report, AGI includes income earned in Illinois from non-Illinois filers, including out-of-state residents and out-of-state businesses.

Net Income – *Illinois residents are taxed based on net income.* Net income is adjusted gross income minus Social Security benefits, retirement income, military pay, certain business subtractions, and exemptions such as the personal exemption.

Tax Filer – A tax filer is a personal income tax form submitted to the Illinois Department of Revenue. In this report, tax filer data include both single individuals and married couples (or those filing jointly). The terms “taxpayer” and “tax return” are sometimes used to describe a tax filer.

Middle Class and Working Class – While the concepts of “working class” and “middle class” may be easier to articulate in terms of social experience, cultural norms, and wealth or consumption habits, this report presents them in terms of income ([Habans, 2017](#)). There is no consensus definition of these terms, but this report categorizes all taxpayers with *net incomes* between \$1 and \$100,000 per year—representing 84 percent of Illinois taxpayers— as either “working class” or “middle class.”

- The working class includes 2.31 million tax filers (42 percent) with net incomes between \$1 and \$25,000 annually
- The middle class includes 2.31 million tax filers (42 percent) with net incomes between \$25,001 and \$100,000 annually.
- Those with net incomes above \$500,000 per year are in the top 1 percent of Illinois taxpayers.

Marginal Tax Rate – A marginal tax rate is the tax rate incurred on each additional dollar of income. Marginal income taxes apply *only* to incomes earned above the threshold for each bracket. When a taxpayer earns enough income to place them into a higher bracket, a new marginal rate is applied to all income within that rate level and only within that level.

Effective Tax Rate – The effective tax rate is the average taxation rate for a tax filer. For a typical tax filer, the effective tax rate may be what matters most because it is the actual percentage of income contributed in taxes.

Earned Income Tax Credit (EITC) – The Earned Income Tax Credit is a refundable tax credit for working-class individuals and families to reduce their tax liabilities or increase their tax refunds. The federal government has an EITC worth up to \$6,431 per year ([IRS, 2019](#)). Illinois’ state EITC is worth 10 percent of the federal EITC, which can provide an annual tax benefit of up to the \$643 for those who qualify and claim the federal EITC ([IDHS, 2018](#)). The EITC has been found to encourage greater labor force participation ([Meyer, 2010](#)).

Gross Domestic Product (GDP) – Gross domestic product is the total monetary value of goods produced and services provided in a jurisdiction over a given period of time, typically one year. GDP is considered the yardstick of an economy’s performance. The term “gross state product” (GSP) is sometimes used for U.S. states.

About the Project for Middle Class Renewal

The Project for Middle Class Renewal’s mission is to investigate the working conditions of workers in today’s economy and elevate public discourse on issues affecting workers with research, analysis, and education in order to develop and propose public policies that will reduce poverty, provide forms of representation to all workers, prevent gender, race, and LGBTQ+ discrimination, create more stable forms of employment, and promote middle-class paying jobs.

Each year, the Project will be dedicated to a number of critical research studies and education forums on contemporary public policies and practices impacting labor and workplace issues. The report that follows, along with all other PMCR reports, may be found by clicking on “Project for Middle Class Renewal” at illinoislabored.org.

If you would like to partner with the Labor Education Program in supporting the work of the Project or have questions about the Project please contact Robert Bruno, Director of the Labor Education Program, at (312) 996-2491.

Project for Middle Class Renewal
Labor Education Program
School of Labor and Employment Relations



About the Illinois Economic Policy Institute

Founded in 2013, the Illinois Economic Policy Institute (ILEPI) is a nonprofit organization which uses advanced statistics and the latest forecasting models to empower individuals, policymakers, and lawmakers to make informed choices on questions of public policy. ILEPI provides timely, candid, and dynamic analyses on issues affecting the economies of Illinois and the Midwest.

ILEPI is committed to providing rigorous and methodologically sound analyses that advance high-quality jobs, foster accountable government, and positively contribute to the policy dialogue. To learn more about ILEPI, visit www.illinoisepi.org or call (708) 375-1002.



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Introduction

Illinois has one of the most unfair tax systems in the United States. Working-class and middle-class families in Illinois pay a greater share of their income in taxes than wealthy households. This generally causes income inequality in the state to be worse after state and local taxes are collected (ITEP, 2018).

In response, lawmakers have debated whether to amend the Illinois Constitution to allow the state to replace its flat-rate income tax system¹ with a progressive income tax.² Amending the Illinois Constitution requires approval from at least 60 percent of lawmakers in both chambers of the General Assembly and either 60 percent approval from residents voting on the question or a simple majority of those who cast a ballot in the election (Miller, 2005). Last year, the Illinois House of Representatives passed a resolution endorsing the change. Governor J.B. Pritzker has also proposed a progressive income tax tied to specific rates (Miller, 2019; Finke, 2018). As of January 2019, Illinois is one of only eight states that has a flat-rate income tax system. A total of 33 states have a progressive income tax system that requires individuals to incrementally pay more as their earnings rise (FTA, 2019).

At the same time, Illinois faces persistent budget challenges. Currently, Illinois is projected to end the fiscal year with \$10 billion in unpaid bills and more than \$130 billion in unfunded pension liabilities (Martire, 2018). Illinois also has a \$1.2 billion structural deficit—meaning that the state needs to enhance revenue collections or reduce expenditures to prevent even higher debt levels (Miller, 2018). Persistent fiscal deficits have forced lawmakers to underinvest in public education and infrastructure and underfund the core public services of healthcare, public safety, and parks and natural resources. State funding for public colleges and universities has declined over the past decade, resulting in higher tuition costs and students choosing to attend cheaper, out-of-state schools (Manzo & Bruno, 2017). Following a two-year budget impasse that occurred under the previous administration, Illinois residents face billions of dollars in deferred capital improvements, with pothole-filled roads, deteriorating transit systems, run-down school buildings, and unsafe veterans' homes (Craighead, 2018; Pierog, 2018). Furthermore, the lack of state support has produced financial distress for school districts and forced local governments to rely heavily on property taxes (Manzo et al., 2017).

The state's underfunding of public investments has negatively impacted the Illinois economy. Academic research finds that investing in public education and investing in infrastructure are the most effective public policies at achieving broad-based economic prosperity (Bruno & Manzo, 2017). Researchers have found, for example, that boosting spending on public education significantly increases employment and reduces poverty (Blomquist et al., 2009; Jackson et al., 2015). A well-educated workforce also raises median wages in a state (Berger & Fisher, 2013). Additionally, for every dollar increase in infrastructure spending, economic output increases by about \$1.57 (Zandi, 2010). This is a larger economic impact than most other policy changes aimed at stimulating the economy, including tax cuts and tax credits (Bivens, 2017). Finally, fiscal sustainability through balanced budgets boosts business confidence and ensures that funds are available to continue these public investments during economic downturns (Manzo & Bruno, 2015).

¹ The Illinois Constitution currently states that “a tax on or measured by income shall be at a non-graduated rate” and that “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” (Miller, 2005).

² The progressive income tax is also sometimes referred to as a “graduated-rate” or “fair” income tax.

This report, conducted jointly by the Project for Middle Class Renewal ([PMCR](#)) at the University of Illinois at Urbana-Champaign and the Illinois Economic Policy Institute ([ILEPI](#)), evaluates the potential of a progressive income tax— also referred to as a “graduated-rate” or “fair” tax— to address the challenges facing Illinois. The report first examines reasons why passing a constitutional amendment to switch to a progressive income tax system could improve Illinois’ fiscal situation and strengthen the Illinois economy. Then, after displaying data on incomes and taxes in Illinois, fiscal and economic impacts of 8 possible graduated-rate structures are evaluated, including Governor Pritzker’s “fair tax” proposal and the structures currently in place in neighboring Iowa and Minnesota. Concerns regarding the adoption of a progressive income tax are subsequently addressed before a concluding section recaps key findings.

Five Reasons to Consider Adopting a Progressive Income Tax

Both voters and lawmakers are currently engaged in a public dialogue over whether the Illinois Constitution should be amended to allow for the implementation of a progressive income tax system. A progressive income tax system usually includes multiple brackets with increasingly higher taxes as income goes up. Marginal income taxes apply *only* to incomes earned above the threshold for each bracket. When a taxpayer earns enough income to place them into a higher bracket, a new marginal rate is applied to all income within that rate level and only within that level. Similarly, the income earned below that level is taxed at the lower marginal rate. Thus, the wealthy do not pay the top marginal tax on all the income they earn. Rather, they pay the same taxes as middle-class families on the first portion of their incomes and only owe a higher rate after they reach the next tax bracket. This clarification, specific rates, and the possible impacts of switching to a fairer system are often missing from the public debate. However, before evaluating scenarios with specific rates, it is important to understand the reasons for Illinois to consider adopting a progressive income tax system.

A Progressive Income Tax Would Promote Tax Fairness in Illinois

A basic principle of taxation is that tax burdens should be based on 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.³ Tax systems where the wealthy pay a higher percentage in taxes than the poor are “progressive” while those which place a proportionally larger burden on low-income and middle-class families are considered “regressive.” In an era of rising income inequality, some leading economists contend that progressive forms of taxation ensure that affluent individuals contribute their fair share towards investments in education, infrastructure, healthcare, public safety, and other essential services that strengthen communities ([Piketty, 2014](#); [Stiglitz, 2013](#)).

There are many root causes to worsening economic inequality in Illinois and across the United States ([Manzo, 2016](#)). These include structural economic changes— such as globalization and the polarization of occupations into high-skilled careers and low-skilled jobs— and labor market trends, such as the rise in CEO pay and the decline in unionization ([Autor, 2010](#); [Western & Rosenfeld, 2011](#); [Mishel & Davis, 2015](#)). Tax policies have also played a critical role ([Piketty, 2014](#)). Since 2000, the top 20 percent of households have received nearly two-thirds (65 percent) of all the benefits from changes in federal tax rates— including the recent Tax Cuts and Jobs Act (TCJA) passed in December 2017 ([Wamhoff & Gardner, 2018](#)). According to the Congressional Budget Office, the TCJA will increase the federal budget deficit by nearly \$1.9 trillion

³ Please see the Key Tax Terminology section for an explanation on the definition of “working class” and “middle class” as used in this report. Please also see the Technical Appendix at the conclusion of this report for additional information.

between 2018 and 2028 (CBO, 2019). This growth in inequality is associated with lower life expectancy, less happiness, a shrinking middle class, greater social unrest, and the potential for future cuts to Social Security, Medicare, and Medicaid (Golden, 2017; Case & Deaton, 2015; Stiglitz, 2013; Bjørnskov et al., 2013; Carr, 2013; Sacks et al., 2012; Krueger, 2012).

The Illinois economy has grown more unequal over the past four decades (Figure 1). In 1980, the median Illinois household earned about \$73,000 in inflation-adjusted annual income. By 2018, the median household earned more than \$79,000 per year, a real income growth of 8.5 percent. During this time, however, the top 1 percent of Illinois households saw their incomes rise exponentially from about \$247,000 per year to more than \$522,000— a growth of 111.6 percent. More recently, since 2000, real incomes have declined for working-class households (-4.8 percent) and middle-class households (-2.6 percent) in Illinois. Meanwhile, the top 1 percent has accumulated 34.8 percent more in annual income.

Figure 1: Illinois Household Income Growth by Income Distribution, Adjusted for Inflation, 1980-2018

Year	Average	Bottom 25%	Median	Top 5%	Top 1%
1980	\$81,463	\$40,592	\$72,920	\$180,276	\$246,856
1990	\$82,725	\$39,896	\$70,422	\$202,052	\$298,529
2000	\$97,119	\$44,130	\$81,229	\$239,038	\$387,453
2010	\$91,281	\$36,183	\$69,687	\$218,307	\$513,566
2018	\$107,823	\$42,012	\$79,122	\$290,120	\$522,315
Growth Since 1980	+32.4%	+3.5%	+8.5%	+60.9%	+111.6%
Growth Since 2000	+11.0%	-4.8%	-2.6%	+21.4%	+34.8%

Source(s): 1980-2018 Current Population Survey Annual Social and Economic Supplements (CPS ASEC) by the U.S. Census Bureau (Flood et al., 2018).

Income polarization has been particularly sharp in Chicago. Researchers at the Voorhees Center for Neighborhood and Community Improvement at the University of Illinois at Chicago have found that half of Chicago’s 797 census tracts were middle-income in 1970, but only 16 percent are today. A majority of those formerly middle-income census tracts are now low or very low income. Contrarily, only 8 percent of the city’s census tracts in 1970 were considered high or very high income, but today 20 percent are high or very high income (Kursman & Zettel, 2018).

By not having a progressive income tax in effect, Illinois has missed out on generating much-needed tax revenue from the most affluent households who have disproportionately benefited from global economic trends and national public policies. The constitutionally-mandated flat tax does not respond to changes in the distribution of income growth. As a result, Illinois’ income tax system has exacerbated the state’s fiscal crisis.

A Progressive Income Tax Could Cut Taxes for Working-Class and Middle-Class Families

In Illinois, the state and local tax system contributes to rising inequality. According to the Institute on Taxation and Economic Policy, Illinois currently has the 8th-most unfair tax system in the country (Wiehe et al., 2018). While Illinois’ tax code includes features to make it more equitable, such as a personal exemption and an Earned Income Tax Credit, the regressive characteristics outweigh these features. Among the regressive characteristics are the flat-rate individual income tax and comparatively high property tax burdens.

Under the current system, working-class and middle-class families pay significantly more in state and local taxes than the top 1 percent (Figure 2). 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. Meanwhile, state and local taxes account for just 7.4 percent of the incomes of the wealthiest Illinois families. As a result, incomes in Illinois are more unequal after state and local taxes are collected than before (Wiehe et al., 2018).

Figure 2: State and Local Tax Share of Family Income in Illinois for Non-Elderly Taxpayers, 2018

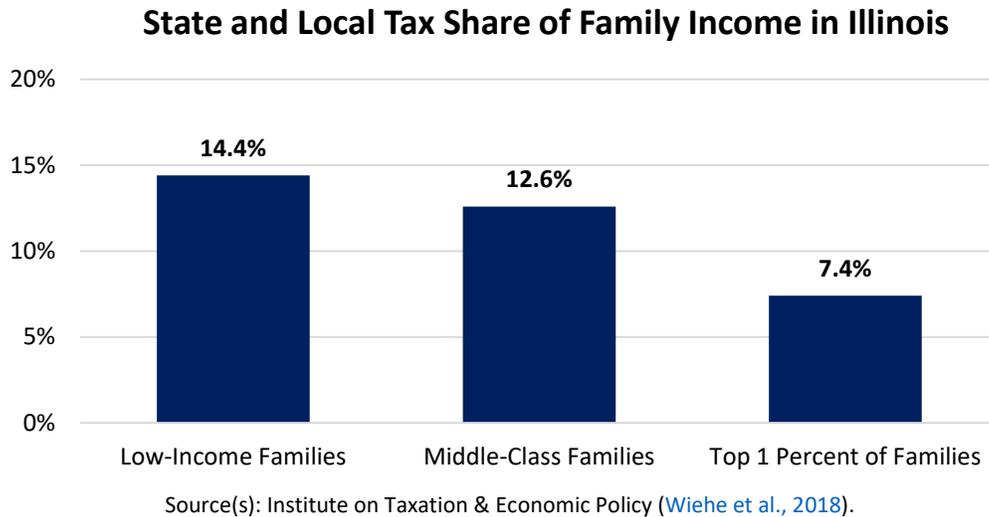


Figure 3 focuses exclusively on state income taxes, which usually promote tax fairness through graduated rates. Across the country, 41 states and the District of Columbia levy broad-based personal income taxes (Wiehe et al., 2018). Illinois is one of only eight states with a flat-rate income tax structure. Conversely, 33 U.S. states have progressive structures, including neighboring Iowa, Minnesota, and Wisconsin.

Because Illinois has a flat-rate tax system, working-class and middle-class families pay a higher share of their income in taxes than their counterparts in nearby states (Figure 3). In fact, while the poorest 20 percent of families in Illinois contribute about 1.5 percent of their income to state income taxes, the poorest 20 percent of families in Iowa (-0.3 percent), Minnesota (-0.4 percent), and Wisconsin (-0.1 percent) have negative effective tax rates, meaning that they receive a tax refund for working. The median family in Illinois also pays 3.4 percent of their income in taxes, more than the 2.9 percent to 3.1 percent range paid by their equivalents in Iowa, Minnesota, and Wisconsin. By contrast, the top 1 percent of Illinois families pays significantly less in state income taxes (4.1 percent) than the wealthiest families in Iowa (4.5 percent), Minnesota (7.6 percent), and Wisconsin (5.4 percent).

Figure 3: Income Taxes as a Share of Family Income and Marginal Tax Rate Range, Select States, 2018

Geography	Lowest-Income Families	Middle-Class Families	Top 1 Percent of Families	Marginal Tax Rate Range
Illinois	1.5%	3.4%	4.1%	4.95%
Iowa	-0.3%	2.9%	4.5%	0.36%–8.98%
Minnesota	-0.4%	3.1%	7.6%	5.35%–9.85%
Wisconsin	-0.1%	3.0%	5.4%	4.00%-7.65%

Source(s): Institute on Taxation & Economic Policy (Wiehe et al., 2018). The selected Midwest states each have a progressive income tax system.

Considered alongside its neighbors, Illinois is a relatively lower-tax state for wealthy families but a considerably higher tax state for middle-class families that represent the majority of Illinois residents (Figure 3). A well-designed progressive system would make Illinois competitive with neighboring states by cutting taxes for working-class and middle-class families while raising rates only on the most affluent households.

A Progressive Income Tax Could Provide Property Tax Relief for Illinois Homeowners

A progressive income tax system could also provide property tax relief for Illinois homeowners, who currently face some of the highest local property taxes in the nation. According to the Illinois Commission on Government Forecasting and Accountability, Illinois ranks 7th in the nation in property tax collections per capita at \$2,115 (Noggle et al., 2018). Similarly, according to the conservative-leaning Tax Foundation, Illinois ranks 9th in the nation in property taxes as a percentage of personal income (Walczak et al., 2018).

The primary reason why property taxes are comparatively high in the state is that school districts in Illinois depend on them for funding (Manzo et al., 2017). Property taxes comprise 63 percent of all elementary and secondary education revenue in Illinois (Civic Federation, 2017). State government only covers 24 percent of school funding, other local sources account for 5 percent, and the remaining 8 percent comes from the federal government (ISBE, 2018).⁴ Illinois ranks 50th in the nation, or dead last, in the percentage of K-12 education revenues coming from the state.⁵

In comparison, only 29 percent of elementary and secondary school funding in Minnesota comes from local sources while 66 percent is provided by the state (Census, 2018). This is partially due to Minnesota having the 4th-most progressive tax system of the 50 states (Wiehe et al., 2018). Bruce Baker, Professor of Educational Theory, Policy, and Administration at Rutgers University, explains that Illinois' reliance on property taxes is mostly a product of neglect: "Quite frankly, Illinois is just one of those states that's never bothered to put enough state aid into the system" (Vevea, 2016).

Property taxes can be a regressive form of taxation. This is because a home represents the largest share of total wealth for working-class and middle-class families, so most of their personal wealth is taxed. For high-income families who are disproportionately more likely to have stocks, bonds, and businesses, homes are a smaller share of their total wealth. Additionally, landlords pass on property tax burdens to renters in the form of higher rent. Because renters tend to earn lower incomes, this makes property taxes more regressive in nature. Moreover, a recent University of Chicago study found substantial inequity in property assessments in the City of Chicago. Lower-priced homes were assessed at higher rates, relative to their market values, than higher-priced homes. Because the most expensive homes in Chicago were under-taxed relative to their value, \$800 million in property tax burdens were shifted from the top 10 percent of properties onto the bottom 90 percent from 2011 to 2015 (Berry, 2018). A progressive income tax could raise enough revenue to boost the state's contribution to school funding, affording local governments the ability to provide property tax relief for Illinois homeowners.

⁴ All revenues that go into school district funds, except those that are dedicated for specific purposes, cover instruction, general administration, support services, and other expenditures. As a result, these figures cover employee wages and benefits, inclusive of pension contributions.

⁵ Approximately 330 school districts out of 852 (38.7%) rely on at least 75 percent of revenue from property taxes (Rado, 2016).

A Progressive Income Tax Would Raise Revenue and Help Produce Budget Stability

Illinois currently has a \$1.2 billion structural deficit and about \$10 billion in unpaid bills (Miller, 2018). Persistent fiscal deficits have caused lawmakers to underfund public education, infrastructure, and core public services (Figure 4). On a per-household basis, Illinois’ state government spends significantly less on education (\$3,739) than the state governments of Iowa (\$5,758), Minnesota (\$6,733), Wisconsin (\$5,114), and the United States as a whole (\$5,451). The Illinois State School Board Superintendent’s budget recommendation for FY2020 includes an \$11.8 billion appropriation for the Evidence-Based Funding model. The figure is twice the amount the General Assembly approved the previous year and is the minimum needed to fulfill the “statutory intent for funding public education” (ISBE, 2019). Illinois also spends less per household on public services (\$4,737), highways and bridges (\$1,293), and natural resources and parks (\$124) than both Iowa and Minnesota. Additionally, with the exception of highways and bridges, Illinois’ state government spends less money on public investments and public programs than the national average.

Figure 4: State Expenditures Per Household, Select Midwest States and USA, 2015

Public Expenditure	Illinois	Iowa	Minnesota	Wisconsin	United States
Education	\$3,739	\$5,758	\$6,733	\$5,114	\$5,451
Public Services	\$4,737	\$5,033	\$6,170	\$4,449	\$5,239
Healthcare and Hospitals	\$774	\$1,628	\$374	\$975	\$1,169
Highways and Bridges	\$1,293	\$1,738	\$1,400	\$1,092	\$1,027
Police and Corrections	\$396	\$320	\$477	\$551	\$580
Natural Resources and Parks	\$124	\$275	\$474	\$318	\$245

Source(s): 2015 Annual Survey of State Government Finances and the 2015 American Community Survey (5-Year Estimates) from the U.S. Census Bureau (Census, 2018).

Illinois’ fiscal crisis worsened considerably during the two-year budget impasse from July 2015 through August 2017. Residents experienced cuts to essential public services, with approximately 1 million people losing access to public health, education, and wellness programs. Public universities and colleges exhausted their financial reserves, cut degree programs, laid off workers, and experienced credit rating downgrades. The impasse resulted in a 7 percent rise in college tuition rates and 7,500 higher education-related jobs lost (Manzo & Bruno, 2017). Businesses were also discouraged from locating in Illinois due to uncertainty around the budget impasse (Crane, 2018).

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.

A Progressive Income Tax 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. Economic research has demonstrated that low-income and middle-class families spend a larger share of their incomes while the rich save more (Dyann et al., 2004; Hobijn & Nussbacher, 2015; Carroll et al., 2017). For example, if a worker earning \$50,000 per year receives a \$5,000 bonus, he or she is likely to spend that bonus back in the economy at local stores, restaurants, and car dealerships. A \$5,000 bonus is less impactful for an executive making \$5 million per year, who is more likely to put the bonus into savings. Because working-class and middle-class families

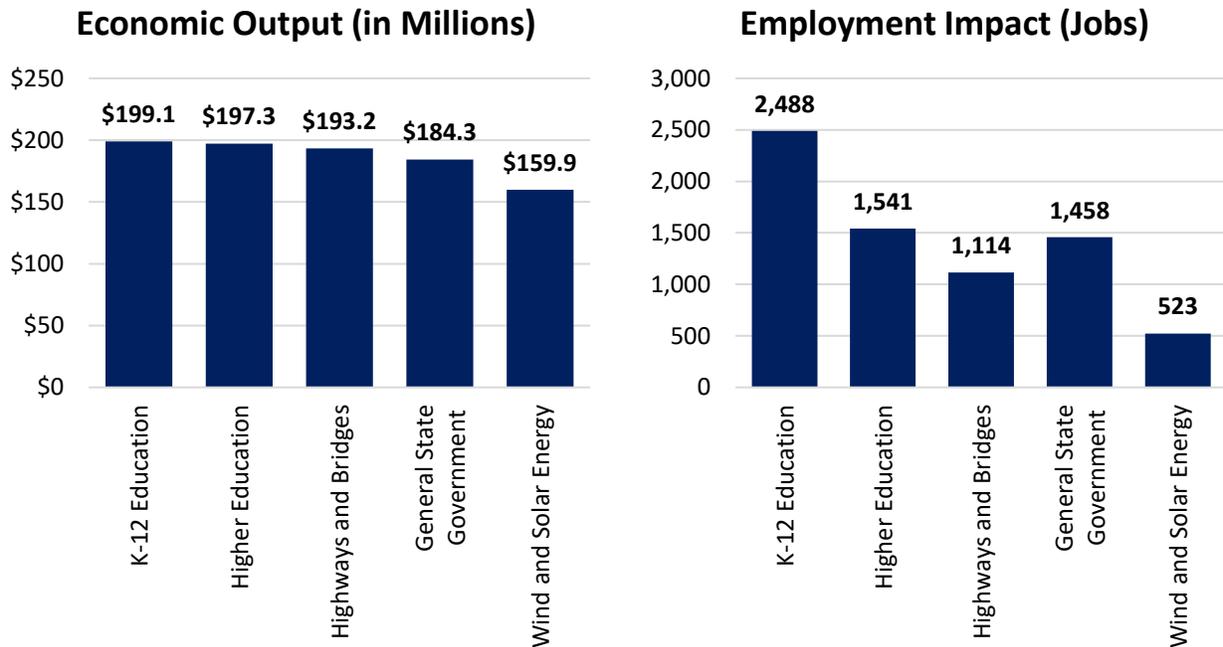
drive consumer spending, a tax cut targeted at them that is paid for by a dollar-for-dollar tax hike on affluent individuals would tend to stimulate the economy— increasing sales at local businesses.⁶

Figure 5: Growth in Gross Domestic Product (GDP), Selected Midwest States and USA, 2000-2017

GDP Growth	2000	2017	Growth	Growth Per Year
Illinois	\$487.2	\$822.5	+68.8%	+3.1%
Iowa	\$93.0	\$183.9	+97.7%	+4.1%
Minnesota	\$190.0	\$350.2	+84.3%	+3.7%
Wisconsin	\$180.5	\$321.4	+78.0%	+3.5%
United States	\$10,252.3	\$19,485.4	+90.1%	+3.9%

Source(s): “Regional Data: GDP and Personal Income” from the Bureau of Economic Analysis at the U.S. Department of Commerce (BEA, 2018).

Figure 6: Economic Impact of a \$100 Million Increase in Expenditures, by Public Investment, IMPLAN



Source(s): IMPLAN (IMPLAN, 2018).

States with high graduated-rate income taxes have a good economic track record over recent years. A 2017 analysis of the economic performance of the nine states with the highest top tax rates and the nine states with no income taxes found that the higher-tax states experienced 1.7 percentage-point faster GDP growth and 2.2 percentage-point faster personal income growth from 2006 to 2016 (Davis & Buffie, 2017). Similarly, Figure 5 displays the economic growth of Illinois, Iowa, Minnesota, and Wisconsin since 2000, not adjusted for inflation. While Illinois’ economy grew by an average of 3.1 percent per year from \$487.2 billion in 2000 to \$822.5 billion in 2017, it grew slower than the three neighboring states with progressive

⁶ Note that the stimulative economic effect is more likely to occur if a progressive system reduces income taxes and/or property taxes for the majority of residents, rather than simply raising taxes on the wealthiest alone. However, “millionaire’s taxes” have generated significant revenue for public investments that provide long-run benefits. Of the eight states that raised rates on high-income taxpayers in recent years, five (63 percent) had better economic growth than their neighboring states (Tharpe, 2019).

income tax systems. Iowa’s economy expanded at an annual rate of 4.1 percent, Minnesota’s grew by 3.7 percent per year, and Wisconsin’s increased by 3.5 percent annually (Figure 5).

Illinois’ economy could also grow from additional public investments if the state were to implement a revenue-positive progressive income tax. Figure 6 shows the impact on the Illinois economy from a \$100 million boost to select public investments (IMPLAN, 2018). A \$100 million increase in state funding for public K-12 education boosts Illinois’ economic output by \$199 million and saves or creates nearly 2,500 jobs. Similarly, a \$100 million increase in funding for public colleges and universities would grow the economy by \$197 million and more than 1,500 jobs. The same level of investment in highways and bridges stimulates over 1,100 jobs and a \$193 million gain in economic activity, while a similar investment in wind and solar energy facilities produces more than 500 jobs and \$160 million in output. A graduated-rate tax could grow the economy by increasing funding for broad-based investments in people and infrastructure.

A Profile of Incomes and Taxes in Illinois

An understanding of Illinois tax returns is required before considering the effects of progressive income tax systems with specific rates. This section utilizes (tax year) 2015 data from the Illinois Department of Revenue obtained through an open records request to provide descriptive statistics on taxpayers and businesses in the state. The data on tax returns are not broken down by filing status; single and married or joint filers are grouped together. Income tax revenue figures are from 2015 and have been adjusted to account for the state income tax hike from 3.75 percent to 4.95 percent that occurred in July 2017. For more on the methodology used in this report, please see the Appendix.

Income Taxes in Illinois

Illinois taxpayers reported earning \$655.7 billion in adjusted gross income (AGI) in 2015 (Figure 7).⁷ Adjusted gross income includes wages, salaries, tips, business income, capital gains, and retirement income. The average Illinois tax filer, which includes both single individuals and married couples, earned about \$105,500 in adjusted gross income in 2015.⁸ However, 79 percent of tax filers (over 4.9 million tax returns) reported less than \$100,000 in adjusted gross income. The average AGI figure is inflated by the nearly 45,300 Illinois residents who earned an average of \$5.6 million annually in adjusted gross income.

Figure 7: Distribution of Adjusted Gross Income in Illinois, 2015

AGI Range	Tax Filers	Percent	Adjusted Gross Income (AGI)	Average AGI
\$25,000 or Less	2,134,693	34.3%	\$4,769.6 million	\$2,234
\$25,001-\$50,000	1,359,069	21.9%	\$49,455.9 million	\$36,390
\$50,001-\$100,000	1,443,532	23.2%	\$103,767.0 million	\$71,884
\$100,001-\$200,000	888,489	14.3%	\$120,824.4 million	\$135,989
\$200,001-\$500,000	286,741	4.6%	\$82,735.2 million	\$288,536
\$500,001-\$1,000,000	57,244	0.9%	\$39,071.7 million	\$682,546
\$1,000,001 or More	45,283	0.7%	\$255,089.3 million	\$5,633,224
Total	6,215,051	100.0%	\$655,713.0 million	\$105,504

Source(s): Open records request Illinois Department of Revenue (IDOR, 2017). Note that this data does not separate single taxpayers and married or joint filers. The data also excludes households that do not file tax returns.

⁷ These numbers differ slightly from published Illinois Department of Revenue data because the tables and income thresholds include all non-Illinois filers who earned income in Illinois, including out-of-state residents and businesses (e.g., see IDOR, 2015).

⁸ The average AGI is calculated by dividing the total AGI in Illinois by the number of tax filers in the state.

Illinois Department of Revenue data reveal substantial income inequality in the Illinois economy (Figure 8). Of the \$655.7 billion in adjusted gross income earned across the State of Illinois, the top 1 percent accounts for \$273.9 billion, or 42 percent. The bottom 99 percent of earners take home the remaining 58 percent of income generated in the Illinois economy. The top 1 percent earned an average annual AGI of \$4.0 million— 65 times as much as the average income of the bottom 99 percent of taxpayers (about \$62,100 per year).

Figure 8: Adjusted Gross Income Earned by the Bottom 99 Percent and the Top 1 Percent, 2015

Distribution of Adjusted Gross Income	Bottom 99 Percent	Top 1 Percent
Total Adjusted Gross Income	\$381,854.5 million	\$273,859.5 million
Share of Total Adjusted Gross Income	58.2%	41.8%
Average Adjusted Gross Income	\$62,119	\$4,031,021
Inequality Ratio	--	64.9 x

Source(s): Open records request Illinois Department of Revenue (IDOR, 2017).

However, Illinois residents are taxed based on *net income*. Net income is adjusted gross income minus retirement income and exemptions, such as the personal exemption. In 2015, Illinois residents reported \$387.9 billion in taxable net income. The average annual net income of Illinois tax filers was about \$62,400. Fully 12 percent of tax filers had zero tax liability after all credits and exemptions. Similarly, only about 20,600 tax returns reported a net income of over \$1 million in 2015 after credits and exemptions.

Figure 9: Distribution of Net Income in Illinois, 2015

Net Income Range	Tax Filers	Percent	Net Income	Average Net Income
Zero Liability	744,569	12.0%	\$0	\$0
\$1-\$25,000	2,306,247	37.1%	\$25,600.0 million	\$11,100
\$25,001-\$50,000	1,184,346	19.1%	\$42,954.2 million	\$36,268
\$50,001-\$100,000	1,125,711	18.1%	\$80,067.5 million	\$71,126
\$100,001-\$200,000	601,824	9.7%	\$81,619.8 million	\$135,621
\$200,001-\$500,000	194,382	3.1%	\$56,295.5 million	\$289,613
\$500,001-\$1,000,000	37,343	0.6%	\$25,323.9 million	\$678,142
\$1,000,001 or More	20,629	0.3%	\$76,009.0 million	\$3,684,571
Total	6,215,051	100.0%	\$387,869.9 million	\$62,408

Source(s): Open records request Illinois Department of Revenue (IDOR, 2017).

Figure 10: Net Income Earned by the Bottom 99 Percent and the Top 1 Percent, 2015

Distribution of Net Income	Bottom 99 Percent	Top 1 Percent
Total Net Income	\$286,537.0 million	\$101,332.9 million
Share of Total Net Income	73.9%	26.1%
Average Net Income	\$46,538	\$1,747,963
Inequality Ratio	--	37.6 x

Source(s): Open records request Illinois Department of Revenue (IDOR, 2017).

Still, the net income data also show the extreme inequality in Illinois (Figure 10). The top 1 percent accounts for 26 percent of all net income in Illinois while the bottom 99 percent of taxpayers make up the remaining 74 percent. On average, the top 1 percent had a net income of \$1.7 million subject to the flat-

rate income tax while the bottom 99 percent reported a taxable net income of just over \$46,500 on average. By net income, the top 1 percent earns 38 times more than the bottom 99 percent (Figure 10).

Illinois' personal income tax rate increased from 3.75 percent to 4.95 percent in July 2017. As a result of this revenue enhancement, Illinois taxpayers are expected to contribute \$18.8 billion in net individual income taxes in Fiscal Year 2020 (Figure 11). This aligns with official projections from the Illinois Office of Management and Budget (Illinois OMB, 2019). According to Illinois Department of Revenue data, the average Illinois tax filer pays about \$3,500 per year in state income taxes. However, while a middle-class Illinois family pays approximately \$3,500 per year, the typical millionaire pays about \$165,800 in state income taxes— equating to 4.5 percent of his or her net income due to other exemptions (Figure 11).

Figure 11: Income Taxes Collected (Adjusted to 2019) and Effective Tax Rate by Income Group in Illinois

Net Income Range	Tax Filers	Average Net Income	Average State Income Taxes	Effective Income Tax Rate	Total State Income Taxes
Zero Liability	744,569	\$0	--	--	--
\$1-\$25,000	2,306,247	\$11,100	\$544	4.90%	\$1,254.0 million
\$25,001-\$50,000	1,184,346	\$36,268	\$1,787	4.93%	\$2,116.8 million
\$50,001-\$100,000	1,125,711	\$71,126	\$3,511	4.94%	\$3,952.2 million
\$100,001-\$200,000	601,824	\$135,621	\$6,704	4.94%	\$4,034.3 million
\$200,001-\$500,000	194,382	\$289,613	\$14,325	4.95%	\$2,784.5 million
\$500,001-\$1,000,000	37,343	\$678,142	\$33,552	4.95%	\$1,252.9 million
\$1,000,001 or More	20,629	\$3,684,571	\$165,809	4.50%	\$3,420.5 million
Total	6,215,051	\$62,408	\$3,439	4.85%	\$18,815.2 million

Source(s): Open records request Illinois Department of Revenue (IDOR, 2017).

Property Taxes in Illinois

Illinois homeowners can deduct 5 percent of their property taxes from their state income taxes (IDOR, 2017). This study analyzes Illinois Department of Revenue data for the 2.17 million tax filers who own property and claim the credit, allowing for an accurate estimate of property tax burdens (Figure 12). In 2015, the average Illinois homeowner paid more than \$5,200 in local property taxes (or slightly more than \$430 per month), according to the Illinois Department of Revenue data. This is significantly higher than the \$3,400 estimated state income tax burden. The average property tax represents 7.4 percent of average net income compared to the 4.9 percent average effective income tax rate.

Figure 12: Property Taxes Collected and Effective Tax Rate by Income Group in Illinois, 2015

Net Income Range	Average Net Income	Average State Income Taxes	Effective Income Tax Rate	Average Property Taxes	Property Tax Rate
\$1-\$25,000	\$11,100	\$544	4.90%	\$3,019	27.20%
\$25,001-\$50,000	\$36,268	\$1,787	4.93%	\$3,685	10.16%
\$50,001-\$100,000	\$71,126	\$3,511	4.94%	\$4,444	6.25%
\$100,001-\$200,000	\$135,621	\$6,704	4.94%	\$6,472	4.77%
\$200,001-\$500,000	\$289,613	\$14,325	4.95%	\$10,269	3.55%
\$500,001-\$1,000,000	\$678,142	\$33,552	4.95%	\$15,022	2.22%
\$1,000,001 or More	\$3,684,571	\$165,809	4.50%	\$21,857	0.59%
Total	\$62,408	\$3,439	4.85%	\$5,217	7.36%

Source(s): Open records request Illinois Department of Revenue (IDOR, 2017).

Illinois' property taxes are particularly regressive (Figure 12). The typical homeowner with a net income between \$25,001 and \$50,000 annually pays at least 10.2 percent of their total taxable income in property taxes. Homeowners with net incomes between \$50,001 and \$200,000 contribute between 4.8 percent and 6.3 percent of their total taxable incomes towards property taxes. Meanwhile, property taxes account for 2.2 percent or less of the net incomes of the top 1 percent. Millionaire homeowners contribute just 0.6 percent of their net incomes towards property taxes.

Pass-Through Business Income in Illinois

Many businesses are subject to the state's income tax. While corporations face a 7.0 percent tax rate in Illinois, "pass-through" entities and small businesses pay the individual income tax rate. Pass-through entities include partnerships and S corporations, which are businesses of two or more people that pass on gains and losses to the individual partners or shareholders. A comprehensive analysis of a proposal to adopt a progressive income tax in Illinois thus requires an understanding of pass-through business income.

Illinois Department of Revenue data on partnerships and S corporations are provided in Figure 13 and Figure 14, respectively. In Illinois, 73 percent of partnerships and 40 percent of S corporations have no tax liability. Of the remaining businesses, the average partnership earns about \$221,000 in taxable profit and the average S corporation makes more than \$81,400 in net income. The bulk of income tax revenue from businesses comes from the small share of pass-through entities in Illinois that earn over \$1 million in taxable profits (Figures 13 and 14).

Figure 13: Estimated Average Net Income of Pass-Through Partnerships Filing Taxes in Illinois, 2015

Partnerships	Business Filers	Percent	Estimated Total Net Income	Estimated Average Net Income
No Liability	100,303	72.6%	<i>Unknown</i>	<i>Unknown</i>
Under \$100,000	26,951	19.5%	\$498.0 million	\$18,477
\$100,001-\$250,000	5,345	3.9%	\$829.7 million	\$155,234
\$250,001-\$1,000,000	3,744	2.7%	\$1,314.1 million	\$351,001
\$1,000,001 or More	1,812	1.3%	\$5,724.1 million	\$3,159,005
Totals*	37,852	27.4%	\$8,366.0 million	\$221,018

*Totals are only shown for partnerships that report positive tax liability.

Source(s): Open records request Illinois Department of Revenue (IDOR, 2017).

Figure 14: Estimated Average Net Income of Pass-Through S Corporations Filing Taxes in Illinois, 2015

S Corporations	Business Filers	Percent	Estimated Total Net Income	Estimated Average Net Income
No Liability	109,666	40.1%	<i>Unknown</i>	<i>Unknown</i>
Under \$100,000	139,755	51.1%	\$2,634.5 million	\$18,851
\$100,001-\$250,000	5,697	2.1%	\$733.3 million	\$128,724
\$250,001-\$1,000,000	16,342	6.0%	\$4,327.7 million	\$264,823
\$1,000,001 or More	1,813	0.7%	\$5,627.9 million	\$3,104,187
Totals*	163,607	59.9%	\$13,323.5 million	\$81,436

*Totals are only shown for S corporations that report positive tax liability.

Source(s): Open records request Illinois Department of Revenue (IDOR, 2017).

Though not studied in this report, an amendment to the Illinois Constitution that would permit a progressive income tax system would also have to amend corporate income taxes. Currently, the Illinois Revenue Code mandates that the corporate income tax rate “shall not exceed the rate imposed on individuals by more than a ratio of 8 to 5” (ILGA, 2018). Voters and lawmakers would need to amend the language to allow for a graduated-rate structure for corporate income taxes or eliminate this section altogether and provide no statutory limitation on corporate tax rates.

An Analysis of 8 Progressive Income Tax Rate Structures

The Project for Middle Class Renewal (PMCR) at the University of Illinois at Urbana-Champaign and the Illinois Economic Policy Institute (ILEPI) have jointly analyzed different scenarios for a possible progressive income tax system in Illinois. The scenarios are intended to serve as examples to educate voters and lawmakers. PMCR and ILEPI neither propose nor endorse any one of the 8 different scenarios.

Each scenario includes rates and effects. The rates are theoretical marginal tax rates for comparative purposes. The tax rates, which are generally presented in increments of 0.25 percent, are intended to be simple in nature. Most scenarios include no more than four marginal tax brackets. The effects include the share of tax filers who would receive a tax cut under the specific graduated-rate tax structure, the increase or decrease in average state and local taxes paid by homeowner income distribution, and revenue that would be raised from the given tax rates. The working-class and middle-class families who receive tax cuts are likely to spend their extra take-home income in the economy, while the wealthy who face higher tax burdens would likely consume less. This dynamic, and the resultant economic effects, are assessed using IMPLAN, an input-output economic modeling software that is considered the “gold standard” in economic impact analysis (Vowels, 2012). IMPLAN uses U.S. Census Bureau data to account for the interrelationship between households and businesses in a market, following a dollar as it cycles throughout the economy (IMPLAN, 2018).

Additionally, each scenario is objectively evaluated against 5 possible goals based on what voters and lawmakers may wish to achieve. These goals include:

1. cutting income taxes for at least two-thirds of Illinois families and raising taxes on the wealthy,
2. cutting property taxes by about 10 percent,
3. protecting small businesses,
4. closing the structural deficit to restore investor confidence, and
5. raising enough revenue to increase education funding by another \$250 million per year, boost capital infrastructure investment by \$250 million per year, and double the Earned Income Tax Credit for working families.

Scenario 1: The “3-5-7-9” Example

Scenario 1 presents a progressive tax structure with four income brackets that is based on actual tax returns submitted to the Illinois Department of Revenue (Figure 15). In this example, there is no difference between single individuals and married couples filing jointly— similar to the income tax system in neighboring Iowa. The theoretical *marginal* income taxes are as follows:

- 3 percent applied to net income between \$1 and \$25,000; then
- 5 percent applied only to net income between \$25,001 and \$100,000; then
- 7 percent applied only net income between \$100,001 and \$500,000; and finally
- 9 percent applied only to net income over \$500,000.

THE IMPACT OF ENACTING A PROGRESSIVE INCOME TAX IN ILLINOIS

Figure 15: Impact of Example Progressive Income Tax Structures on Tax Cuts, Tax Revenue, Property Tax Relief, and the Economy

Effect	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6
<i>Name of Scenario</i>	<i>"3-5-7-9"</i>	<i>"Low Top Rate"</i>	<i>"4-6-8-10"</i>	<i>"All 5 Goals"</i>	<i>Modified-IA</i>	<i>Modified-Minnesota</i>
Example Marginal Tax Rates						
Working Class: \$1-\$50,000*	3.00%	4.50%	4.00%	4.25%	Iowa's Rates (No Retirement)	Minnesota's Rates (Married Brackets)
Middle Class: \$50,001-\$100,000*	5.00%	5.50%	6.00%	6.00%	[0.36%–8.98%]	[5.35%–9.85%]
Top 20 Percent: \$100,001-\$500,000	7.00%	6.50%	8.00%	7.75%		
Top 1 Percent: \$500,001 or More	9.00%	7.50%	10.00%	9.00%		
Income Tax Cut Vs. Income Tax Hike						
Tax Filers with a Tax Cut	81.1%	71.3%	74.3%	67.3%	41.9%	56.2%
Tax Filers with No Tax Change	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
Tax Filers with a Tax Hike	6.9%	16.7%	13.7%	20.7%	46.1%	31.9%
Net Income Threshold for Lower Taxes	\$121,000	\$91,000	\$95,000	\$83,000	\$32,000	\$62,000
<i>Household Income for Lower Taxes**</i>	<i>\$128,000</i>	<i>\$98,000</i>	<i>\$102,000</i>	<i>\$90,000</i>	<i>\$39,000</i>	<i>\$73,000</i>
Total Revenue Change						
New State Tax Revenue***	\$2.51 billion	\$2.76 billion	\$4.96 billion	\$4.86 billion	\$8.56 billion	\$5.12 billion
Can Cut Property Taxes by 10%	Yes	Yes	Yes	Yes	Yes	Yes
\$250M More to Invest in Education	No	Yes	Yes	Yes	Yes	Yes
\$250M to Invest in Infrastructure	No	No	Yes	Yes	Yes	Yes
\$250M to Double the EITC	No	No	Yes	Yes	Yes	Yes
Change in State and Local Taxes****						
Net Income: \$1-\$25,000	-\$513	-\$346	-\$402	-\$374	-\$486	-\$587
Net Income: \$25,001-\$50,000	-\$842	-\$524	-\$705	-\$614	-\$291	-\$691
Net Income: \$50,001-\$100,000	-\$899	-\$543	-\$688	-\$563	+\$609	-\$202
Net Income: \$100,001-\$200,000	-\$357	-\$35	+\$499	+\$535	+\$2,945	+\$597
Net Income: \$1,000,001 or More	+\$151,116	+\$101,848	+\$187,462	+\$170,664	+\$160,996	+\$186,628
Economic Impacts						
Jobs Impact	+16,900	+10,500	+22,100	+29,800	+74,700	+26,300
GDP Impact (Net Value Added)*****	+\$1.60 billion	+\$1.00 billion	+\$2.20 billion	+\$2.98 billion	+\$7.65 billion	+\$2.67 billion
<p>*The marginal tax bracket is different in Scenario 1 than Scenarios 2-4. In Scenario 1, the first bracket (3%) is the net income range of \$1-\$25,000 and the second (5%) is \$25,001-\$100,000.</p> <p>**The threshold for lower taxes is the level of <i>adjusted gross income</i> below which a family of three would receive a tax cut under the progressive tax scenario.</p> <p>***The top marginal tax rate for pass-through business entities would be set at 5 percent.</p> <p>****Estimates are for Illinois homeowners. For all estimates for all taxpayers regardless of homeownership status, please see the Technical Appendix.</p> <p>*****Dynamic economic impacts include the impact on consumer demand, the impact of a 10 percent property tax cut, and the impact of potential public investments.</p>						

Source(s): Open records request Illinois Department of Revenue (IDOR, 2017). For detailed information and analysis of all 7 scenarios, please see the Technical Appendix.

Under the “3-5-7-9” progressive income tax structure in Scenario 1, working-class and middle-class taxpayers would receive a tax cut (Figure 15). An estimated 81 percent of Illinois taxpayers would receive a tax cut and the 12 percent with no tax liability would experience no change, leaving just 7 percent of Illinois residents— the most affluent in the state— who would pay more. Every family of three that has an income of \$128,000 or less would see their taxes go down. Importantly, in this scenario, working-class Illinois taxpayers would not only pay less than under current Illinois law, they would also face lower income taxes than their counterparts in Indiana (3.23 percent), Michigan (4.25 percent), Minnesota (5.35 percent), and Wisconsin (4 percent).

By shifting more of the tax burden onto affluent households, the State of Illinois would generate \$2.5 billion per year in new revenue under Scenario 1 (Figure 15). This estimate assumes that the tax rate on pass-through business entities is capped at 5 percent, which would shield small businesses from the graduated-rate income tax. Scenario 1 would provide the necessary revenue for the State of Illinois to augment its investment in K-12 public education by \$2.5 billion. At a near dollar-for-dollar replacement, this would afford local governments and school districts the ability to cut residential property taxes by about 10 percent per year across Illinois. If the state enacted Scenario 1 and used the new revenue to fund K-12 public education while enabling local governments and school districts to decrease property tax rates by 10 percent, the typical middle-class homeowner would save between \$842 and \$899 per year from lower income and property tax bills.

Scenario 1 would boost the Illinois economy. The example levies higher taxes on individuals who can most afford to pay and cuts both income taxes and property taxes for families who drive consumer demand. As a result, net economic activity in Illinois could expand by \$1.6 billion and employment would grow by nearly 17,000 jobs (Figure 15).

Scenario 2: The “Low Top Rate” Example

Scenario 2 also has a progressive income tax structure with four individual income brackets (Figure 15). In this example, there is once again no difference between single individuals and married couples, as is the case in Iowa. However, the net income range for the lowest tax bracket is wider than in Scenario 1:

- 4.5 percent applied to net income between \$1 and \$50,000; then
- 5.5 percent applied only to net income between \$50,001 and \$100,000; then
- 6.5 percent applied only net income between \$100,001 and \$500,000; and finally
- 7.5 percent applied only to net income over \$500,000.

The top marginal tax rate (7.5 percent) is lower than in Iowa (8.98 percent), Minnesota (9.85 percent), and Wisconsin (7.65 percent). Scenario 2’s marginal income tax rates are also more compressed, separated by only 1 percentage point. Still, an estimated 71 percent of Illinois taxpayers, including Illinois families of three with \$98,000 or less in annual income, would receive a tax cut; 17 percent would face a tax hike.

Scenario 2 would increase General Fund revenue by \$2.8 billion per year, even after limiting taxes on pass-through business entities at 5 percent of net income. With this revenue enhancement, Illinois could provide a 10 percent property tax cut to homeowners, leading to a \$524 to \$543 drop in state and local taxes for middle-class homeowners. Illinois could increase investment in higher education or public

infrastructure, both not both. Net economic activity could be boosted by \$1.0 billion annually, saving or creating more than 10,000 jobs in the labor market.⁹

Scenario 3: The “4-6-8-10” Example

Scenario 3, the “4-6-8-10” progressive income tax structure, would generate even more tax revenue:

- 4 percent applied to net income between \$1 and \$50,000; then
- 6 percent applied only to net income between \$50,001 and \$100,000; then
- 8 percent applied only net income between \$100,001 and \$500,000; and finally
- 10 percent applied only to net income over \$500,000.

Three-quarters (74 percent) of Illinois taxpayers would have lower income tax bills, including all Illinois families of three who earn less than \$102,000 per year (Figure 15). Scenario 3, however, would boost individual income tax revenue by \$5.0 billion annually. The bulk of the new revenue would come from the top 1 percent of Illinois families, who would pay more. On average, middle-class homeowners would have about \$688 more in discretionary income. Scenario 3 would allow the state to boost education funding for K-12 education by \$2.5 billion, enabling school districts to deliver property tax relief for Illinois households. Scenario 3 would also eliminate the state’s structural deficit (\$1.2 billion) and provide \$250 million each for public education, public infrastructure, and working-class tax credits. The result could be a \$2.2 billion expansion of Illinois’ gross domestic product and about 22,000 new jobs.

Scenario 4: The “All 5 Goals” Example

The progressive tax in Scenario 4 is structured with a working-class tax rate of 4.25 percent that gradually increases up to 9 percent:

- 4.25 percent applied to net income between \$1 and \$50,000; then
- 6 percent applied only to net income between \$50,001 and \$100,000; then
- 7.75 percent applied only net income between \$100,001 and \$500,000; and finally
- 9 percent applied only to net income over \$500,000.

This scenario would produce \$4.9 billion in new revenue while cutting taxes for two-thirds of Illinois taxpayers (67 percent), including all families with incomes up to \$90,000 per year. The income tax and property tax cuts would be paid for by higher taxes on millionaires, who would each owe an average of nearly \$171,000 more in state and local taxes. Because Illinois could cut property taxes, tackle the structural deficit, invest in both public education and capital infrastructure projects, and the EITC, the economy could improve by about \$3.0 billion and nearly 30,000 jobs.

Scenario 5: The “Modified-Iowa” Example

While Illinois collects a flat-rate income tax of 4.95 percent, Iowa has a graduated-rate personal income tax that progressively increases to 8.98 percent. Iowa also taxes retirement income; Illinois is one of only 13 states that does not tax retirement income (Brandon, 2017). As a result, the State of Iowa generates significantly more tax revenue per household than the State of Illinois.

⁹ Note that the economic simulation takes account of the fact that, due to the EITC, some households have a negative tax liability and receive a tax refund (e.g., see Figure 3). In this and other progressive income tax examples in this report, more Illinois households would have negative tax liability than under current law.

Scenario 5 is a “modified-Iowa” example that assesses impacts if Illinois were to adopt Iowa’s tax system, assuming that retirement income remains untaxed, as follows:

- 0.36 percent applied to net income between \$1 and \$1,598; then
- 0.72 percent applied only to net income between \$1,599 and \$3,196; then
- 2.43 percent applied only net income between \$3,197 and \$6,392; then
- 4.50 percent applied only net income between \$6,393 and \$14,382; then
- 6.12 percent applied only net income between \$14,383 and \$23,970; then
- 6.48 percent applied only net income between \$23,971 and \$31,960; then
- 6.80 percent applied only net income between \$31,961 and \$47,940; then
- 7.92 percent applied only net income between \$47,941 and \$71,910; and finally
- 8.98 percent applied only to net income over \$71,910.

If the Illinois Constitution were amended and the state adopted Iowa’s progressive income tax rates, only the lowest-income families would receive a tax break (Figure 15). In total, 42 percent of Illinois tax filers would have lower taxes, 46 percent would face higher taxes, and 12 percent would remain at zero liability. However, one meaningful difference from embracing Iowa’s tax structure is that state revenue would grow exponentially. After capping pass-through business taxes at 5 percent, Illinois would have \$8.6 billion more in revenue every year. This new funding could be used to balance Illinois’ budget, boost investments in education and infrastructure, and double the EITC. After addressing these needs, the state would have \$6.6 billion annually left over.

A statewide property tax cut of about 10 percent requires \$2.5 billion in new state revenue allocated to local school districts, and Iowa’s tax rates would allow Illinois to achieve that goal. Even though Figure 15 only shows impacts on homeowners from a 10 percent drop in property taxes to be consistent with the other examples, Illinois could decrease property taxes by 20 percent or more— offsetting the higher income taxes paid by middle-class families and making Illinois’ state and local tax code more progressive. If Illinois used the additional revenue generated from the implementation of Iowa’s progressive income tax system on either property tax reductions or public investments, this scenario would grow the Illinois economy by up to \$7.7 billion and nearly 75,000 jobs.

Scenario 6: The “Modified-Minnesota” Example

Minnesota is another neighboring state that has a progressive tax. Unlike Iowa, Minnesota has broader income thresholds for married families, whose combined family incomes tend to be higher than their single counterparts. Minnesota has four tax brackets, starting at 5.35 percent for the working class and topping out at 9.85 percent for high-income individuals and families. Scenario 6 is a “modified-Minnesota” example which uses only Minnesota’s married tax brackets for all tax filers in Illinois:

- 5.35 percent applied to net income between \$1 and \$37,850; then
- 7.05 percent applied only to net income between \$37,851 and \$150,380; then
- 7.75 percent applied only net income between \$150,381 and \$266,700; and finally
- 9.85 percent applied only to net income over \$266,700.

This means that single individuals would also need to earn over \$266,700 to be taxed at the 9.85 percent marginal rate, which makes the estimates more conservative than if Illinois simply adopted Minnesota’s rates (Figure 15). In addition, the personal exemption in this scenario has been increased from \$2,225 under current Illinois law to \$6,000 per person. This reduces the net income amount taxed by Illinois’ state government but would encourage some married couples to file jointly rather than separately.

Figure 16: Impact of Scenario 7 on Tax Cuts, Tax Revenue, Property Tax Relief, and the Economy

Effect	Scenario 7	
<i>Name of Scenario</i>	<i>"No Marriage Penalty"</i>	
Example Marginal Tax Brackets	Single	Married
Marginal Tax Rate: 4.25%	\$1-\$50,000	\$1-\$100,000
Marginal Tax Rate: 4.50%	\$50,001-\$100,000	\$100,001-\$200,000
Marginal Tax Rate: 8.50%	\$100,001-\$500,000	\$200,001-\$1,000,000
Marginal Tax Rate: 9.00%	\$500,001 or More	\$1,000,001 or More
Tax Cut Vs. Tax Hike		
Tax Filers with a Tax Cut	79.8%	
Tax Filers with No Tax Change	12.0%	
Tax Filers with a Tax Hike	8.2%	
Net Income Threshold for Lower Taxes	\$232,000 (\$116,000 if Single)	
Household Income for Lower Taxes*	\$239,000 (\$118,000 if Single)	
Total Revenue Change		
New State Tax Revenue**	\$3.13 billion	
Can Cut Property Taxes by 10%	Yes	
\$250M to Invest in Education	Yes	
\$250M to Invest in Infrastructure	Yes	
\$250M to Double EITC	No	
Change in State and Local Taxes***		
Net Income: \$1-\$25,000	-\$374	
Net Income: \$25,001-\$50,000	-\$614	
Net Income: \$50,001-\$100,000	-\$906	
Net Income: \$100,001-\$200,000	-\$723	
Net Income: \$1,000,001 or More	+\$153,679	
Economic Impacts		
Jobs Impact	+19,200	
GDP Impact (Net Value Added)****	+\$1.92 billion	
<p>*The threshold for lower taxes is the level of <i>adjusted gross income</i> below which a family of three would receive a tax cut under the progressive tax scenario. The value in parentheses is for single individuals with no children. **The top marginal tax rate for pass-through business entities would be set at 5 percent. ***Estimates are for Illinois homeowners. For all estimates for all taxpayers regardless of homeownership status, please see the Technical Appendix. ****Dynamic economic impacts include the impact on consumer demand, the impact of a 10 percent property tax cut, and the impact of potential public investments.</p>		

Source(s): Open records request Illinois Department of Revenue (IDOR, 2017). For full details, please see the Technical Appendix.

Enacting this simplified version of Minnesota’s progressive tax system would generate at least \$5.1 billion in revenue for the State of Illinois. Fully 56 percent of Illinois taxpayers would receive a tax cut and only the top 32 percent would see a tax increase. Combined with a 10 percent property tax cut, Illinois working-class and middle-class families would save between \$202 and \$691 on average from lower state and local taxes. By shifting the burden of tax payments onto the wealthy, putting more money in the pockets of working-class families, and boosting public investments, Illinois’ economy could grow by approximately \$2.7 billion and over 26,000 jobs would be created or saved.

Scenario 7: The “No Marriage Penalty” Example

Scenario 7 takes a different approach (Figure 16). Many progressive income tax systems double their single-bracket widths to avoid the “marriage penalty.” A marriage penalty occurs when two individuals with relatively similar incomes marry and their combined income lifts them into a higher tax bracket (Pomerleau, 2015a). Scenario 7 thus has four income tax brackets for both single individuals and married couples filing jointly:

- 4.25 percent for single individuals with net incomes of \$1 to \$50,000 and married couples with net incomes of \$1 to \$100,000;
- 4.5 percent for single individuals with net incomes of \$50,001 to \$100,000 and married couples with net incomes of \$100,001 to \$200,000;
- 8.5 percent for single individuals with net incomes of \$100,001 to \$500,000 and married couples with net incomes of \$200,001 to \$1 million; and
- 9 percent for single individuals with net incomes of more than \$500,000 and married couples with net incomes of more than \$1 million.

Adopting this structure would cut taxes for 80 percent of taxpayers, keep them constant for 12 percent, and hike taxes on the top 8 percent in Illinois (Figure 16). Illinois families earning \$239,000 per year or less would receive a tax cut, as would all individuals earning \$116,000 annually or less. General Fund revenues would increase by \$3.1 billion per year, which would allow local governments to reduce property taxes for Illinois homeowners. Furthermore, Illinois homeowners who have take-home incomes of \$200,000 or less would save between \$374 and \$906 on average per year from lower income taxes and property taxes. Illinois could also double the Earned Income Tax Credit and increase investment in public education such as colleges and universities. Consequently, net economic activity could be boosted by \$1.9 billion annually, saving or creating more than 19,000 jobs in the labor market.

Scenario 8: The “Governor’s Proposal” Example

In March 2019, Governor J.B. Pritzker released his progressive income tax proposal, which he has called the “fair tax” (Miller, 2018). Under this proposal, there is no difference between single individuals and married couples filing jointly— similar to the income tax system in neighboring Iowa. The initial proposal also differs from Scenarios 1 through 7 in that it does not cap the income tax rate on pass-through business income, it increases the property tax credit on the individual income tax form, and it introduces a child tax credit for working-class and middle-class families.

Figure 17: Impact of Scenario 8 on Tax Cuts, Tax Revenue, Property Tax Relief, and the Economy

Effect	Scenario 8
<i>Name of Scenario</i>	<i>"Governor's Proposal"</i>
<u>Example Marginal Tax Brackets</u>	
Marginal Tax Rate: 4.75%	\$1-\$10,000
Marginal Tax Rate: 4.90%	\$10,001-\$100,000
Marginal Tax Rate: 4.95%	\$100,001-\$250,000
Marginal Tax Rate: 7.75%	\$250,001-\$500,000
Marginal Tax Rate: 7.85%	\$500,001-\$1,000,000
Marginal Tax Rate: 7.95%	\$1,000,001 or More
<u>Tax Cut Vs. Tax Hike</u>	
Tax Filers with a Tax Cut	85.3%
Tax Filers with No Tax Change	12.0%
Tax Filers with a Tax Hike	2.8%
Net Income Threshold for Lower Taxes	\$255,000
<i>Household Income for Lower Taxes*</i>	<i>\$262,000</i>
<u>Total Revenue Change</u>	
New State Tax Revenue**	\$3.12 billion
Can Cut Property Taxes by 10%	Yes
\$250M to Invest in Education	Yes
\$250M to Invest in Infrastructure	Yes
\$250M to Double EITC	No
<u>Change in State and Local Taxes***</u>	
Net Income: \$1-\$25,000	-\$325
Net Income: \$25,001-\$50,000	-\$419
Net Income: \$50,001-\$100,000	-\$513
Net Income: \$100,001-\$200,000	-\$727
Net Income: \$1,000,001 or More	+\$124,928
<u>Economic Impacts</u>	
Jobs Impact	+15,900
GDP Impact (Net Value Added)****	+\$1.58 billion
<p>*The threshold for lower taxes is the level of <i>adjusted gross income</i> below which a family of three would receive a tax cut under the progressive tax scenario. The value in parentheses is for single individuals with no children. **Income taxes paid by owners of pass-through business entities would not be set at 5 percent. This scenario includes revenue from the proposed 7.95 percent new tax rate on the net income of corporations. ***Estimates are for Illinois homeowners. For all estimates for all taxpayers regardless of homeownership status, please see the Technical Appendix. ****Dynamic economic impacts include the impact on consumer demand, the impact of a 10 percent property tax cut, and the impact of potential public investments.</p>	

Source(s): Open records request Illinois Department of Revenue (IDOR, 2017). For full details, please see the Technical Appendix.

The governor's proposal includes six marginal tax brackets:

- 4.75 percent applied to net income between \$1 and \$10,000; then
- 4.90 percent applied only to net income between \$10,001 and \$100,000; then
- 4.95 percent applied only to net income between \$100,001 and \$250,000; then
- 7.75 percent applied only to net income between \$250,001 and \$500,000; and
- 7.85 percent applied only net income between \$500,001 and \$1,000,000; with
- a 7.95 percent flat-rate tax applied to all income for those earning over \$1,000,000.

Usually, the top marginal rate in a progressive income tax structure applies only to income above the bracket threshold. Scenario 8 is unique in retroactively applying the 7.95 percent income tax to all individuals and families with net incomes over \$1 million. Only about 20,600 taxpayers (0.3 percent) would be subject to this flat-rate tax. Scenario 8 also differs from previous examples in this report in that it would raise the flat-rate corporate income tax from 7 percent to 7.95 percent, matching the top marginal tax rate for individuals and families.

Adopting this structure would cut taxes for 85 percent of taxpayers and keep them constant, or slightly lower them, for another 12 percent (Figure 17). Only 3 percent of Illinois families—those earning \$262,000 or more— would see an income tax hike. After factoring in a higher property tax credit (from 5 percent to 6 percent) and the new child tax credit, this scenario would increase General Fund revenues by an estimated \$3.1 billion per year. This also includes revenue from the proposed corporate income tax hike.

With this additional revenue, the state could increase K-12 education funding by \$2.5 billion per year, which could enable school districts to deliver tax relief amounting to a 10 percent drop in total property taxes, on average. This could provide \$325 to \$727 in total savings per year to Illinois homeowners with annual incomes below \$200,000. Furthermore, the state could use the rest of the revenue to invest in public colleges and universities and in infrastructure investments that support economic growth. As a result, the Illinois economy could grow by \$1.6 billion annually, creating nearly 16,000 new jobs.

Discussion and Recap

These 8 examples demonstrate that Illinois can implement a progressive income tax that accomplishes policy goals (Figure 18). Illinois could cut income taxes for at least two-thirds of taxpayers (6 out of 8 scenarios) while raising them on the wealthiest earners (8 out of 8 scenarios). In all 8 scenarios, a progressive income tax would provide the revenue necessary for the State of Illinois to boost K-12 public education funding by \$2.5 billion. With a near dollar-for-dollar replacement, local governments across Illinois could deliver homeowners property tax relief averaging more than \$500 per year. In addition, 7 of the 8 scenarios shield small businesses from higher taxes by capping the tax rate on pass-through business entities at 5 percent, which would reduce projected revenue but ensure that only wealthy individuals are paying more, not small businesses.

A progressive income tax would also help lawmakers balance the budget and boost public investments (Figure 18). In 5 of the 8 examples, a graduated-rate tax would raise enough revenue to allow lawmakers to close the structural budget deficit of \$1.2 billion. In fact, if the state were to adopt the systems in Iowa and Minnesota, Illinois would generate between \$5 billion and \$9 billion in new revenue. Additionally, Illinois could enhance funding for higher education and early childhood education, increase investments in capital infrastructure projects, and double the Earned Income Tax Credit (EITC) in most of the scenarios.

Finally, a progressive income tax could boost the economy by stimulating consumer demand. By reducing income taxes and property taxes for middle-class Illinois residents and taxing the wealthiest individuals to fund public investments, a graduated-rate structure could grow the Illinois economy by between \$1 billion and \$8 billion annually. While each of the examples meets a majority of these possible goals, only Scenario 4 accomplishes all five goals while also maintaining a top marginal tax rate that is lower than Minnesota’s top rate— keeping Illinois competitive with neighboring states.

Figure 18: The Achievement of 5 Potential Policy Goals, by Progressive Income Tax Scenario

Potential Goal	#1	#2	#3	#4	#5	#6	#7	#8
Cut Income Taxes for at Least 2/3 ^{rds} of Taxpayers	Yes	Yes	Yes	Yes	No	No	Yes	Yes
Cut Property Taxes by About 10% (\$2.5 Billion)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Hold Small Businesses Harmless	Yes	Yes	Yes	Yes	Yes	Yes	Yes	No
Close Structural Budget Deficit (\$1.25 Billion)	No	No	Yes	Yes	Yes	Yes	No	Yes†
Provide Broad-Based Public Investments	No	No	Yes	Yes	Yes	Yes	No	No
*Raise \$250 Million for Education	*No	*Yes						
*Raise \$250 Million for Infrastructure	*No	*No	*Yes	*Yes	*Yes	*Yes	*Yes	*Yes
*Double the EITC (\$250 Million)	*No	*No	*Yes	*Yes	*Yes	*Yes	*No	*No
Top Rate Lower than Minnesota (9.85%)	Yes	Yes	No	Yes	Yes	No	Yes	Yes

†Governor Pritzker proposed \$1.12 billion in new revenue sources— including the legalization and taxation of marijuana and sports betting— which would effectively close the structural budget deficit (Illinois OMB, 2019).

Three Theoretical Examples of a Progressive Income Tax Reducing Local Property Taxes

Each of the 8 progressive income tax scenarios in this report would provide the revenue necessary to enable the State of Illinois to significantly increase K-12 public education funding. In Fiscal Year 2019, K-12 education is expected to receive \$8.4 billion in state funding, a 5 percent increase over the \$8.0 billion appropriated in Fiscal Year 2018 (Illinois OMB, 2019). This additional spending is largely due to a planned \$350 million annual increase from the new Evidence-Based Funding formula passed in 2018 (Illinois Comptroller, 2018).

If Illinois adopted a progressive income tax, the state could boost K-12 education funding by \$2.5 billion per year. This means that annual state funding would increase from \$8.4 billion to \$10.9 billion, a 30 percent increase (Figure 19). With this additional \$2.5 billion, school districts could address budget shortfalls, invest in the classroom, or cut property taxes. School districts choosing to reduce property tax bills— either voluntarily or through a legislative requirement— would be able to deliver the average homeowner more than \$500 per year in local tax relief.

Figure 19: Potential Impact of a Progressive Tax on State Funding for K-12 Education

Potential Impact on K-12 Education	Value
Current State Funding for K-12 Education (FY2019)	\$8.39 billion
Potential State Funding with Progressive Income Tax	\$10.89 billion
<i>Potential Net Change in State Funding (%)</i>	<i>+\$2.50 billion (+29.8%)</i>

Source(s): Illinois State Budget: Fiscal Year 2020 from the Illinois Office of Management and Budget (Illinois OMB, 2019).

Figure 20 provides theoretical examples of potential property tax relief that could be delivered in three Illinois communities. The three school districts include Crystal Lake Elementary District 47 in McHenry County, Naperville Community Unit School District 203 in DuPage County, and Springfield Public Schools

District 186 in Sangamon County. Note that these school districts— two in the Chicago metropolitan area and one in central Illinois— are only intended to serve as examples to demonstrate how additional state funding could enable school districts to reduce property taxes.

A broad 30 percent increase in state funding for K-12 education could provide significant property tax relief for homeowners in these communities (Figure 20). In Fiscal Year 2018, Crystal Lake Elementary District 47 received \$31.4 million in state funding, accounting for 32.9 percent of general revenue. If the state increased K-12 education funding by 30 percent, the district would receive \$9.4 million in new revenue. With this new revenue, the local school board could improve funding adequacy, invest in the classroom, or freeze property tax growth. At a dollar-for-dollar replacement, a \$9.4 billion drop in property tax assessments would equate to a 17 percent decrease in property taxes levied *by the school district*. Because about two-thirds of all property taxes go to fund schools, the average impact would be a 12 percent decrease in the total tax bill levied on the average homeowner in the district (Civic Federation, 2017).¹⁰

Comparable exercises can be done for Naperville Community Unit School District 203 and Springfield Public Schools District 186. A broad 30 percent increase in state funding for K-12 education would boost state aid by \$23.2 million and \$14.0 million, respectively. At a dollar-for-dollar offset, school districts in Naperville and Springfield could choose to reduce their reliance on property tax levies by 12 percent and 14 percent, respectively. Since school districts account for lion’s share of property tax collections in communities across Illinois, the average impact would be a 9 percent drop in the total tax bills paid by homeowners in both Naperville and Springfield (Figure 20).

Figure 20: Potential Impact of Progressive Tax on School Districts and Local Property Taxes

Potential Impact on	Crystal Lake ED 47	Naperville CUSD 203	Springfield PSD 186
County Located	McHenry	DuPage	Sangamon
Grades Covered	Pre-K thru 8	Pre-K thru 8	Pre-K thru 12
Total District Enrollment	7,553	16,654	14,295
<u>Total General Revenue</u>	<u>\$95.4 million</u>	<u>\$286.1 million</u>	<u>\$156.6 million</u>
Revenue from Property Taxes	\$56.0 million	\$187.8 million	\$103.1 million
Revenue from State Funding	\$31.4 million	\$78.0 million	\$47.0 million
Revenue from Other Sources*	\$8.1 million	\$20.3 million	\$123.3 million
<i>Net Revenue from 30% Increase in State Funding</i>	<i>+\$9.4 million</i>	<i>+\$23.2 million</i>	<i>+\$14.0 million</i>
Dollar-for-Dollar Offset in Property Taxes	-\$9.4 million	-\$23.2 million	-\$14.0 million
Net Property Tax Revenue Needed for District	-16.7%	-12.4%	-13.6%
Estimated Impact on Average Property Tax Bill**	-11.7%	-8.5%	-8.6%

Source(s): Authors’ analysis of a potential \$2.5 billion increase in annual state funding for K-12 public education, using Fiscal Year 2018 Comprehensive Annual Financial Reports for the year ended June 30, 2018 (Crystal Lake CCSD 47, 2018; Naperville CUSD 203, 2018; Springfield PSD 186, 2018). Nearly 70% of property taxes go to fund public schools in the collar counties of Chicago and nearly 63% of property taxes go to fund public schools in central Illinois (Civic Federation, 2017).

These examples demonstrate how a progressive income tax could cut residential property taxes by about 10 percent, on average. All 8 of the progressive income tax scenarios in this report generate over \$2.5 billion in new revenue, which could be allocated to K-12 public education. A \$2.5 billion increase in funding— 30 percent more than current levels— could allow local school districts to address budget

¹⁰ This assumes that the local high school district is also able to reduce their property tax levy by 16.7 percent.

shortfalls or invest in the classroom. However, the General Assembly could also require or incentivize local school districts to use the new state funding to deliver property tax relief. This would make Illinois' state and local tax system less regressive while providing both homeowners and renters with additional discretionary income to spend back in the local economy.

Alternative Revenue Options

It is worth noting that alternative sources of funding could be enacted with a progressive income tax in a comprehensive plan to reform Illinois' tax code. For example, there is significant public support for legalizing and taxing recreational marijuana, which could create jobs and generate \$505 million in new state tax revenues (Manzo et al., 2018). Similarly, Illinois could legalize and tax sports betting, which could create over 2,500 new jobs and generate \$98 million in state tax revenues (Manzo & Bruno, 2019). Illinois could also broaden the sales tax to include 14 services that are taxed in Wisconsin but not in Illinois, such as dry-cleaning services and repairs of tangible personal property, to generate \$588 million in tax revenue by FY2020 (COGFA, 2017). Moreover, Illinois could reduce the retailer's discount, which allows retailers to keep a portion of the sales taxes they collect to pay for transaction costs (Civic Federation, 2016). If Illinois lowered the discount rate from 1.75 percent to the 0.5 percent rate used in Wisconsin, the state would add \$102 million (Manzo & Manzo, 2016). These four tax changes alone would generate \$1.29 billion to address Illinois' structural budget deficit. In fact, in his Fiscal Year 2020 budget proposal, Governor J.B. Pritzker has already included legalizing and taxing marijuana, legalizing and taxing sports betting, and reforming the retailer's discount with other revenue enhancements to raise \$1.12 billion and effectively close the structural budget deficit (Illinois OMB, 2019).

Addressing Four Common Objections to Progressive Income Tax Systems

Those who object to progressive income taxes generally make four types of arguments. First, they argue that graduated-rate income taxes hurt the economy because there is a negative tax rate elasticity of the tax base. Second, they argue that graduated-rate income taxes could negatively affect small businesses, who employ 54 percent of Illinois workers (Pomerleau, 2015b). Third, they claim that graduated-rate income taxes could be unfair because state expenditures disproportionately benefit the poor. Fourth, they say that adopting a graduated income tax is a Trojan Horse that inevitably leads to increased rates. This section addresses these objections, which are often incorrect or overstated.

In general, these arguments posed in opposition to progressive taxation are not well supported. For example, they are unable to explain the recent failed experiment in Kansas, which "flattened" its progressive income tax by lowering the top tax rate from 6.4 percent to 4.9 percent. Instead of paying for itself, the tax cuts reduced state revenue by 8 percent, caused budget instability, and weakened the state economy (Tankersley, 2017). From January 2012 to January 2018, total nonfarm employment in Kansas increased by just 4.4 percent while it grew by 10.9 percent nationally (BLS, 2018). On the other hand, new research finds that states that raised income tax rates on wealthy individuals, including through "millionaires' taxes," fared better economically than their neighboring states. Of the eight states that raised taxes on high-income individuals, five had faster economic growth (63 percent) and seven had better per-capita income growth (88 percent) than their neighboring states (Tharpe, 2019). There is no evidence that a progressive income tax system adversely affects economic growth (Weller & Rao, 2008; Davis & Buffie, 2017).

Relatedly, a graduated-rate tax structure is unlikely on its own to cause Illinois' millionaires to flee to low-tax jurisdictions. A 2016 study by researchers at Stanford University and the U.S. Treasury Department evaluating tax returns for all million-dollar earners over 13 years found that millionaires move at a lower rate (2.4 percent) than the population as a whole (2.9 percent). The highest migration rates are for lower-income individuals, who move in search of better employment opportunities. Millionaires are "embedded elites" who are more likely to be married and more likely to have business obligations in their states. As a result, the authors find no statistically significant evidence that millionaire migration is affected by shifts in a state's tax rates (Young et al., 2016).

"Pass-through" business income is taxed on the business owners' individual income tax returns. As a result, some have argued that a progressive income tax that cuts taxes for middle-class earners but raises them on the rich will indirectly raise taxes on small business owners, limiting their ability to compete with firms in other states. However, there are three offsetting factors that must be considered. First, 73 percent of partnerships and 40 percent of S corporations in Illinois have no tax liability, so the impact would only be on the largest pass-through entities (Figures 13 and 14). Second, of the pass-through entities that do pay taxes, the graduated-rate structure would provide tax relief to many small businesses. For example, in 6 of the 8 examples presented in this paper, small business owners who take home less than \$90,000 per year from their companies would receive a tax cut (Figures 16 and 17). Third, 7 of the 8 scenarios shield small businesses from higher taxes by capping the tax rate on pass-through business income at 5 percent, which reduces projected revenue but ensures that only wealthy individuals are paying more—not small businesses. This would also create a tax incentive to invest in pass-through businesses, which could spur additional job growth.

Third, there is the claim that graduated-rate income taxes are unfair because most state expenditures bring greater benefits to low-income families than to high-income earners. It is true that many state programs aim to reduce poverty and provide services to the poor, the disabled, the sick, and the elderly. On the other hand, significant portions of state funds provide broad-based value to all Illinois residents—such as state expenditures on public infrastructure, public education, and police protection. In fact, as previously documented in this report, Illinois' state government spends significantly less, per household, on education and public services than neighboring states.

Finally, opponents of a graduated-rate income tax structure claim that lawmakers will use the system to inevitably raise rates. This fear appears unwarranted. A review of state individual tax changes from 2016 through 2018 reveals that 13 states with graduated-rate income taxes lowered their rates. Arkansas, Georgia, Idaho, Iowa, Kentucky, Maine, Mississippi, Missouri, New York, North Dakota, Ohio, Oklahoma and Vermont all trimmed income tax rates. Hawaii cut income tax rates in 2016 but later reinstated them in 2018. Since 2016, only two states with graduated-rate income tax structures—Kansas and Connecticut—have raised rates. Meanwhile, Illinois raised its flat-rate income tax over this time (NCSL, 2019; Scarboro, 2018; Scarboro, 2017; Kaeding, 2016; Walczak, 2015). These recent years indicate that states make policy decisions about tax rates based on particular contexts and that the nature of the tax system is not predictive of whether the rates will go up or down. It is also worth noting that, if Illinois does not adopt a progressive tax structure, the General Assembly could choose to increase the flat-rate income tax.

Claims that a progressive income tax would hurt the economy and raise taxes on businesses are misleading at best. Because working-class and middle-class families spend larger shares of their incomes in the economy than do wealthier families, a progressive income tax could increase consumer demand—resulting in higher sales at local businesses like retailers, restaurants, and car dealerships. In addition, it could cut taxes for working-class and middle-class families while generating additional state revenue from

high-income residents to provide broad-based public investments. Consequently, the adoption of a well-designed progressive income tax system could boost Illinois' economy and protect small businesses.

Conclusion

A progressive income tax would transform Illinois from having a tax code where working-class and middle-class families pay a disproportionate share of taxes to one that makes their burdens competitive with neighboring states. A well-designed system would promote tax fairness based on ability to pay and cut taxes for working-class and middle-class residents. If lawmakers amended the Illinois Constitution to allow progressive taxation, more than two-thirds of Illinois residents could receive a tax cut. The additional revenue generated could be used to provide property tax relief, eliminate the structural budget deficit, boost tax credits for low-income workers, fund public education, and make critical infrastructure investments that stimulate consumer demand and grow the Illinois economy.

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Appendix: Data and Methodology

This report primarily uses data obtained from an open records request with the Illinois Department of Revenue, pursuant to the Illinois Freedom of Information Act (FOIA). Data collection included total adjusted gross income and net income reported by tax filers. The data were obtained in income increments to assess the impact of possible progressive income tax structures for the working class, the middle class, and the wealthy. The cumulative amount of Illinois Property Tax Credits was also reported for Illinois homeowners who claimed the 5 percent credit. Lastly, data were obtained on business partnerships and S corporations to analyze the effect of implementing a progressive income tax that capped the marginal tax rate on pass-through business entities at 5 percent—effectively holding them harmless from the tax reform.

At the time of the open records request, the 2015 tax year was the most recent year for which all of this data was available. In 2015, Illinois had a flat-rate income tax of 3.75 percent. This individual income tax rate was raised in July 2017 to 4.95 percent. Accordingly, this analysis adjusts state income taxes owed by the 1.2 percentage-point increase to arrive at baseline revenue estimates. The impact of each progressive income tax scenario is compared and contrasted with this baseline.

The assessed impacts of the graduated-rate tax scenarios are generally *conservative* estimates because Illinois’ economy has expanded since 2015. Figure A presents labor market data from the Bureau of Labor Statistics at the U.S. Department of Labor. From July 2015 to July 2018, Illinois added nearly 140,000 nonfarm jobs, an employment growth of 2.3 percent. In addition, the average weekly earnings for private sector workers increased from \$881 per week to \$967 per week, a gain of 9.8 percent (not adjusted for inflation). The growth in employment and the rise in incomes both increase income tax collections for the State of Illinois. This growth since 2015 is not captured in this analysis, which makes the estimates in this report conservative in nature.

Figure A: Nominal Growth in Nonfarm Employment and Weekly Earnings in Illinois, 2015-2018

Month and Year	Total Nonfarm Employment	Weekly Earnings for Workers in Private Industry
July 2015	5,985,400	\$880.99
July 2018	6,125,200	\$967.44
Total Change	+139,800	+\$86.45
Percent Change	+2.3%	+9.8%

Source(s): “Employment, Hours, and Earnings - State and Metro Area” from the Bureau of Labor Statistics at the U.S. Department of Labor ([BLS, 2018](#)).

Technical Appendix: Full Results for Each of the 8 Scenarios

Scenario 1: The “3-5-7-9” Example

Table 1.1: Theoretical Marginal Tax Brackets and Rates in Scenario 1 Progressive Tax

Net Income Range	Tax Filers	Group	Average Net Income	Marginal Progressive Tax Rate
\$1-\$25,000	2,306,247	Working Class	\$11,100	3.00%
\$25,001-\$100,000	2,310,057	Middle Class	\$53,255	5.00%
\$100,001-\$500,000	796,206	Top 20 Percent	\$173,216	7.00%
\$500,001 or More	57,972	Top 1 Percent	\$1,747,963	9.00%

Source(s): Open records request Illinois Department of Revenue (IDOR, 2017).

Table 1.2: Change in Effective Income Tax Rates from Scenario 1 Progressive Tax, By Income Distribution

Net Income Range	Tax Filers	Group	Average Net Income	Effective Income Tax Rate	Estimated Progressive Tax Rate	Change in State Income Tax Rate
\$1-\$25,000	2,306,247	Working and Middle Class	\$11,100	4.90%	3.00%	-1.90%
\$25,001-\$50,000	1,184,346		\$36,268	4.93%	3.62%	-1.31%
\$50,001-\$100,000	1,125,711		\$71,126	4.94%	4.30%	-0.64%
\$100,001-\$200,000	601,824	Top 20 Percent	\$135,621	4.94%	5.16%	+0.21%
\$200,001-\$500,000	194,382		\$289,613	4.95%	6.14%	+1.19%
\$500,001-\$1,000,000	37,343	Top 1 Percent	\$678,142	4.95%	7.16%	+2.21%
\$1,000,001 or More	20,629		\$3,684,571	4.50%	8.66%	+4.16%

Table 1.3: Dollar Change in Income Taxes Owed from Scenario 1 Progressive Tax, By Income Distribution

Net Income Range	Group	Average State Income Taxes	Estimated Progressive Taxes	Change in State Income Taxes
\$1-\$25,000	Working and Middle Class	\$544	\$333	-\$211
\$25,001-\$50,000		\$1,787	\$1,313	-\$474
\$50,001-\$100,000		\$3,511	\$3,056	-\$454
\$100,001-\$200,000	Top 20 Percent	\$6,704	\$6,993	+\$290
\$200,001-\$500,000		\$14,325	\$17,773	+\$3,448
\$500,001-\$1,000,000	Top 1 Percent	\$33,552	\$48,533	+\$14,981
\$1,000,001 or More		\$165,809	\$319,111	+\$153,302

Table 1.4: Effect of Scenario 1 on Tax Revenue

Effect	Metric
Total Revenue Change	
New Revenue from Scenario	\$3,006,100,000
New Revenue Holding Pass-Through Entities Constant*	\$2,508,000,000

*The top marginal tax rate for pass-through business entities would be set at 5 percent.

Table 1.5: Dollar Change in Income and Property Taxes Owed from Scenario 1, By Homeowner Income

Net Income Range	Group	Change in State Income Taxes	10% Drop in Property Taxes	Total Change in State and Local Taxes
\$1-\$25,000	Working and Middle Class	-\$211	-\$302	-\$513
\$25,001-\$50,000		-\$474	-\$369	-\$842
\$50,001-\$100,000		-\$454	-\$444	-\$899
\$100,001-\$200,000	Top 20 Percent	+\$290	-\$647	-\$357
\$200,001-\$500,000		+\$3,448	-\$1,027	+\$2,421
\$500,001-\$1,000,000	Top 1 Percent	+\$14,981	-\$1,502	+\$13,479
\$1,000,001 or More		+\$153,302	-\$2,186	+\$151,116

Scenario 2: The “Low Top Rate” Example

Table 2.1: Theoretical Marginal Tax Brackets and Rates in Scenario 2 Progressive Tax

Net Income Range	Tax Filers	Group	Average Net Income	Marginal Progressive Tax Rate
\$1-\$50,000	3,490,593	Working Class	\$19,640	4.50%
\$50,001-\$100,000	1,125,711	Middle Class	\$71,126	5.50%
\$100,001-\$500,000	796,206	Top 20 Percent	\$173,216	6.50%
\$500,001 or More	57,972	Top 1 Percent	\$1,747,963	7.50%

Source(s): Open records request Illinois Department of Revenue ([IDOR, 2017](#)).

Table 2.2: Change in Effective Income Tax Rates from Scenario 2 Progressive Tax, By Income Distribution

Net Income Range	Tax Filers	Group	Average Net Income	Effective Income Tax Rate	Estimated Progressive Tax Rate	Change in State Income Tax Rate
\$1-\$25,000	2,306,247	Working	\$11,100	4.90%	4.50%	-0.40%
\$25,001-\$50,000	1,184,346	and Middle	\$36,268	4.93%	4.50%	-0.43%
\$50,001-\$100,000	1,125,711	Class	\$71,126	4.94%	4.80%	-0.14%
\$100,001-\$200,000	601,824	Top 20	\$135,621	4.94%	5.39%	+0.45%
\$200,001-\$500,000	194,382	Percent	\$289,613	4.95%	5.98%	+1.04%
\$500,001-\$1,000,000	37,343	Top 1	\$678,142	4.95%	6.54%	+1.59%
\$1,000,001 or More	20,629	Percent	\$3,684,571	4.50%	7.32%	+2.82%

Table 2.3: Dollar Change in Income Taxes Owed from Scenario 2 Progressive Tax, By Income Distribution

Net Income Range	Group	Average State Income Taxes	Estimated Progressive Taxes	Change in State Income Taxes
\$1-\$25,000	Working	\$544	\$500	-\$44
\$25,001-\$50,000	and Middle	\$1,787	\$1,632	-\$155
\$50,001-\$100,000	Class	\$3,511	\$3,412	-\$99
\$100,001-\$200,000	Top 20	\$6,704	\$7,315	+\$612
\$200,001-\$500,000	Percent	\$14,325	\$17,325	+\$3,000
\$500,001-\$1,000,000	Top 1	\$33,552	\$44,361	+\$10,809
\$1,000,001 or More	Percent	\$165,809	\$269,843	+\$104,033

Table 2.4: Effect of Scenario 2 on Tax Revenue

Effect	Metric
Total Revenue Change	
New Revenue from Scenario	\$3,102,300,000
New Revenue Holding Pass-Through Entities Constant*	\$2,760,700,000
*The top marginal tax rate for pass-through business entities would be set at 5 percent.	

Table 2.5: Dollar Change in Income and Property Taxes Owed from Scenario 2, By Homeowner Income

Net Income Range	Group	Change in State Income Taxes	10% Drop in Property Taxes	Total Change in State and Local Taxes
\$1-\$25,000	Working	-\$44	-\$302	-\$346
\$25,001-\$50,000	and Middle	-\$155	-\$369	-\$524
\$50,001-\$100,000	Class	-\$99	-\$444	-\$543
\$100,001-\$200,000	Top 20	+\$612	-\$647	-\$35
\$200,001-\$500,000	Percent	+\$3,000	-\$1,027	+\$1,973
\$500,001-\$1,000,000	Top 1	+\$10,809	-\$1,502	+\$9,307
\$1,000,001 or More	Percent	+\$104,033	-\$2,186	+\$101,848

Scenario 3: The “4-6-8-10” Example

Table 3.1: Theoretical Marginal Tax Brackets and Rates in Scenario 3 Progressive Tax

Net Income Range	Tax Filers	Group	Average Net Income	Marginal Progressive Tax Rate
\$1-\$50,000	3,490,593	Working Class	\$19,640	4.00%
\$50,001-\$100,000	1,125,711	Middle Class	\$71,126	6.00%
\$100,001-\$500,000	796,206	Top 20 Percent	\$173,216	8.00%
\$500,001 or More	57,972	Top 1 Percent	\$1,747,963	10.00%

Source(s): Open records request Illinois Department of Revenue (IDOR, 2017).

Table 3.2: Change in Effective Income Tax Rates from Scenario 3 Progressive Tax, By Income Distribution

Net Income Range	Tax Filers	Group	Average Net Income	Effective Income Tax Rate	Estimated Progressive Tax Rate	Change in State Income Tax Rate
\$1-\$25,000	2,306,247	Working	\$11,100	4.90%	4.00%	-0.90%
\$25,001-\$50,000	1,184,346	and Middle	\$36,268	4.93%	4.00%	-0.93%
\$50,001-\$100,000	1,125,711	Class	\$71,126	4.94%	4.59%	-0.34%
\$100,001-\$200,000	601,824	Top 20	\$135,621	4.94%	5.79%	+0.85%
\$200,001-\$500,000	194,382	Percent	\$289,613	4.95%	6.96%	+2.02%
\$500,001-\$1,000,000	37,343	Top 1	\$678,142	4.95%	8.08%	+3.14%
\$1,000,001 or More	20,629	Percent	\$3,684,571	4.50%	9.65%	+5.15%

Table 3.3: Dollar Change in Income Taxes Owed from Scenario 3 Progressive Tax, By Income Distribution

Net Income Range	Group	Average State Income Taxes	Estimated Progressive Taxes	Change in State Income Taxes
\$1-\$25,000	Working	\$544	\$444	-\$100
\$25,001-\$50,000	and Middle	\$1,787	\$1,451	-\$337
\$50,001-\$100,000	Class	\$3,511	\$3,268	-\$243
\$100,001-\$200,000	Top 20	\$6,704	\$7,850	+\$1,146
\$200,001-\$500,000	Percent	\$14,325	\$20,169	+\$5,844
\$500,001-\$1,000,000	Top 1	\$33,552	\$54,814	+\$21,263
\$1,000,001 or More	Percent	\$165,809	\$355,457	+\$189,648

Table 3.4: Effect of Scenario 3 on Tax Revenue

Effect	Metric
Total Revenue Change	
New Revenue from Scenario	\$5,628,000,000
New Revenue Holding Pass-Through Entities Constant*	\$4,960,100,000

*The top marginal tax rate for pass-through business entities would be set at 5 percent.

Table 3.5: Dollar Change in Income and Property Taxes Owed from Scenario 3, By Homeowner Income

Net Income Range	Group	Change in State Income Taxes	10% Drop in Property Taxes	Total Change in State and Local Taxes
\$1-\$25,000	Working	-\$100	-\$302	-\$402
\$25,001-\$50,000	and Middle	-\$337	-\$369	-\$705
\$50,001-\$100,000	Class	-\$243	-\$444	-\$688
\$100,001-\$200,000	Top 20	+\$1,146	-\$647	+\$499
\$200,001-\$500,000	Percent	+\$5,844	-\$1,027	+\$4,817
\$500,001-\$1,000,000	Top 1	+\$21,263	-\$1,502	+\$19,761
\$1,000,001 or More	Percent	+\$189,648	-\$2,186	+\$187,462

Scenario 4: The “All 5 Goals” Example

Table 4.1: Theoretical Marginal Tax Brackets and Rates in Scenario 4 Progressive Tax

Net Income Range	Tax Filers	Group	Average Net Income	Marginal Progressive Tax Rate
\$1-\$50,000	3,490,593	Working Class	\$19,640	4.25%
\$50,001-\$100,000	1,125,711	Middle Class	\$71,126	6.00%
\$100,001-\$500,000	796,206	Top 20 Percent	\$173,216	7.75%
\$500,001 or More	57,972	Top 1 Percent	\$1,747,963	9.00%

Source(s): Open records request Illinois Department of Revenue (IDOR, 2017).

Table 4.2: Change in Effective Income Tax Rates from Scenario 4 Progressive Tax, By Income Distribution

Net Income Range	Tax Filers	Group	Average Net Income	Effective Income Tax Rate	Estimated Progressive Tax Rate	Change in State Income Tax Rate
\$1-\$25,000	2,306,247	Working	\$11,100	4.90%	4.25%	-0.65%
\$25,001-\$50,000	1,184,346	and Middle	\$36,268	4.93%	4.25%	-0.68%
\$50,001-\$100,000	1,125,711	Class	\$71,126	4.94%	4.77%	-0.17%
\$100,001-\$200,000	601,824	Top 20	\$135,621	4.94%	5.81%	+0.87%
\$200,001-\$500,000	194,382	Percent	\$289,613	4.95%	6.84%	+1.90%
\$500,001-\$1,000,000	37,343	Top 1	\$678,142	4.95%	7.82%	+2.88%
\$1,000,001 or More	20,629	Percent	\$3,684,571	4.50%	9.19%	+4.69%

Table 4.3: Dollar Change in Income Taxes Owed from Scenario 4 Progressive Tax, By Income Distribution

Net Income Range	Group	Average State Income Taxes	Estimated Progressive Taxes	Change in State Income Taxes
\$1-\$25,000	Working	\$544	\$472	-\$72
\$25,001-\$50,000	and Middle	\$1,787	\$1,541	-\$246
\$50,001-\$100,000	Class	\$3,511	\$3,393	-\$118
\$100,001-\$200,000	Top 20	\$6,704	\$7,886	+\$1,182
\$200,001-\$500,000	Percent	\$14,325	\$19,820	+\$5,495
\$500,001-\$1,000,000	Top 1	\$33,552	\$53,049	+\$19,497
\$1,000,001 or More	Percent	\$165,809	\$338,659	+\$172,850

Table 4.4: Effect of Scenario 4 on Tax Revenue

Effect	Metric
Total Revenue Change	
New Revenue from Scenario	\$5,481,400,000
New Revenue Holding Pass-Through Entities Constant*	\$4,860,400,000

*The top marginal tax rate for pass-through business entities would be set at 5 percent.

Table 4.5: Dollar Change in Income and Property Taxes Owed from Scenario 4, By Homeowner Income

Net Income Range	Group	Change in State Income Taxes	10% Drop in Property Taxes	Total Change in State and Local Taxes
\$1-\$25,000	Working	-\$72	-\$302	-\$374
\$25,001-\$50,000	and Middle	-\$246	-\$369	-\$614
\$50,001-\$100,000	Class	-\$118	-\$444	-\$563
\$100,001-\$200,000	Top 20	+\$1,182	-\$647	+\$535
\$200,001-\$500,000	Percent	+\$5,495	-\$1,027	+\$4,468
\$500,001-\$1,000,000	Top 1	+\$19,497	-\$1,502	+\$17,995
\$1,000,001 or More	Percent	+\$172,850	-\$2,186	+\$170,664

Source(s): Open records request Illinois Department of Revenue (IDOR, 2017)

Scenario 5: The “Modified-Iowa” Example

Table 5.1: Actual Marginal Tax Brackets and Rates in Iowa’s Progressive Tax System

Net Income Range	Marginal Progressive Tax Rate: Iowa
\$1-\$1,598	0.36%
\$1,599-\$3,196	0.72%
\$3,197-\$6,392	2.43%
\$6,393-\$14,382	4.50%
\$14,383-\$23,970	6.12%
\$23,971-\$31,960	6.48%
\$31,961-\$47,940	6.80%
\$47,941-\$71,910	7.92%
\$71,911 or More	8.98%

Source(s): Tax Foundation – “State and Individual Income Tax Rates and Brackets for 2018” (Scarboro, 2018).

Table 5.2: Change in Effective Income Tax Rates from Iowa’s Progressive Tax, By Income Distribution

Net Income Range	Tax Filers	Group	Average Net Income	Effective Income Tax Rate	Estimated Progressive Tax Rate	Change in State Income Tax Rate
\$1-\$25,000	2,306,247	Working	\$11,100	4.90%	3.24%	-1.66%
\$25,001-\$50,000	1,184,346	and Middle	\$36,268	4.93%	5.14%	+0.21%
\$50,001-\$100,000	1,125,711	Class	\$71,126	4.94%	6.42%	+1.48%
\$100,001-\$200,000	601,824	Top 20	\$135,621	4.94%	7.59%	+2.65%
\$200,001-\$500,000	194,382	Percent	\$289,613	4.95%	8.33%	+3.38%
\$500,001-\$1,000,000	37,343	Top 1	\$678,142	4.95%	8.70%	+3.75%
\$1,000,001 or More	20,629	Percent	\$3,684,571	4.50%	8.93%	+4.43%

Table 5.3: Dollar Change in Income Taxes Owed from Iowa’s Progressive Tax, By Income Distribution

Net Income Range	Group	Average State Income Taxes	Estimated Progressive Taxes	Change in State Income Taxes
\$1-\$25,000	Working	\$544	\$360	-\$184
\$25,001-\$50,000	and Middle	\$1,787	\$1,865	+\$78
\$50,001-\$100,000	Class	\$3,511	\$4,564	+\$1,053
\$100,001-\$200,000	Top 20	\$6,704	\$10,295	+\$3,592
\$200,001-\$500,000	Percent	\$14,325	\$24,124	+\$9,799
\$500,001-\$1,000,000	Top 1	\$33,552	\$59,014	+\$25,462
\$1,000,001 or More	Percent	\$165,809	\$328,991	+\$163,182

Table 5.4: Effect of Iowa’s Progressive Tax on Tax Revenue

Effect	Metric
Total Revenue Change	
New Revenue from Scenario	\$9,235,400,000
New Revenue Holding Pass-Through Entities Constant*	\$8,556,300,000
*The top marginal tax rate for pass-through business entities would be set at 5 percent.	

Table 5.5: Dollar Change in Income and Property Taxes from Iowa’s Progressive Tax, By Homeowner

Net Income Range	Group	Change in State Income Taxes	10% Drop in Property Taxes	Total Change in State and Local Taxes
\$1-\$25,000	Working	-\$184	-\$302	-\$486
\$25,001-\$50,000	and Middle	+\$78	-\$369	-\$291
\$50,001-\$100,000	Class	+\$1,053	-\$444	+\$609
\$100,001-\$200,000	Top 20	+\$3,592	-\$647	+\$2,945
\$200,001-\$500,000	Percent	+\$9,799	-\$1,027	+\$8,772
\$500,001-\$1,000,000	Top 1	+\$25,462	-\$1,502	+\$23,960
\$1,000,001 or More	Percent	+\$163,182	-\$2,186	+\$160,996

Scenario 6: The “Modified-Minnesota” Example

Table 6.1: Actual Marginal Tax Brackets and Rates in Minnesota’s Progressive Tax System

Marginal Progressive Tax Rate: Minnesota	Single	Married	Scenario 6 (Simplified)
5.35%	\$1-\$25,890	\$1-\$37,850	\$1-\$37,850
7.05%	\$25,891-\$85,060	\$37,851-\$150,380	\$37,851-\$150,380
7.85%	\$85,061-\$160,020	\$150,381-\$266,700	\$150,381-\$266,700
9.85%	\$160,021 or More	\$266,701 or More	\$266,701 or More
Exemption	\$0	\$0	\$6,000

Source(s): Tax Foundation – “State and Individual Income Tax Rates and Brackets for 2018” (Scarboro, 2018).

Table 6.2: Change in Effective Tax Rates from Minnesota’s Progressive Tax, By Income Distribution

Net Income Range	Tax Filers	Group	Average Net Income	Effective Income Tax Rate	Estimated Progressive Tax Rate	Change in State Income Tax Rate
\$1-\$25,000	2,306,247	Working and Middle Class	\$11,100	4.90%	2.33%	-2.57%
\$25,001-\$50,000	1,184,346		\$36,268	4.93%	4.04%	-0.89%
\$50,001-\$100,000	1,125,711		\$71,126	4.94%	5.28%	+0.34%
\$100,001-\$200,000	601,824	Top 20 Percent	\$135,621	4.94%	5.86%	+0.92%
\$200,001-\$500,000	194,382		\$289,613	4.95%	7.14%	+2.19%
\$500,001-\$1,000,000	37,343	Top 1 Percent	\$678,142	4.95%	8.62%	+3.67%
\$1,000,001 or More	20,629		\$3,684,571	4.50%	9.62%	+5.12%

Table 6.3: Dollar Change in Income Taxes Owed from Minnesota’s Progressive Tax, By Distribution

Net Income Range	Group	Average State Income Taxes	Estimated Progressive Taxes	Change in State Income Taxes
\$1-\$25,000	Working and Middle Class	\$544	\$258	-\$286
\$25,001-\$50,000		\$1,787	\$1,465	-\$322
\$50,001-\$100,000		\$3,511	\$3,753	+\$242
\$100,001-\$200,000	Top 20 Percent	\$6,704	\$7,948	+\$1,244
\$200,001-\$500,000		\$14,325	\$20,682	+\$6,357
\$500,001-\$1,000,000	Top 1 Percent	\$33,552	\$58,465	+\$24,913
\$1,000,001 or More		\$165,809	\$354,623	+\$188,813

Table 6.4: Effect of Minnesota’s Progressive Tax on Tax Revenue

Effect	Metric
Total Revenue Change	
New Revenue from Scenario	\$5,817,800,000
New Revenue Holding Pass-Through Entities Constant*	\$5,115,000,000

*The top marginal tax rate for pass-through business entities would be set at 5 percent.

Table 6.5: Dollar Change in Income and Property Taxes from Minnesota’s System, By Homeowner

Net Income Range	Group	Change in State Income Taxes	10% Drop in Property Taxes	Total Change in State and Local Taxes
\$1-\$25,000	Working and Middle Class	-\$286	-\$302	-\$587
\$25,001-\$50,000		-\$322	-\$369	-\$691
\$50,001-\$100,000		+\$242	-\$444	-\$202
\$100,001-\$200,000	Top 20 Percent	+\$1,244	-\$647	+\$597
\$200,001-\$500,000		+\$6,357	-\$1,027	+\$5,330
\$500,001-\$1,000,000	Top 1 Percent	+\$24,913	-\$1,502	+\$23,411
\$1,000,001 or More		+\$188,813	-\$2,186	+\$186,628

Scenario 7: The “No Marriage Penalty” Example

Table 7.1: Theoretical Marginal Tax Brackets and Rates in Scenario 7 Progressive Tax

Marginal Progressive Tax Rate	Group	Single	Married
4.25%	Working Class	\$1-\$50,000	\$1-\$100,000
4.50%	Middle Class	\$50,001-\$100,000	\$100,001-\$200,000
8.50%	Top 20 Percent	\$100,001-\$500,000	\$200,001-\$1,000,000
9.00%	Top 1 Percent	\$500,001 or More	\$1,000,001 or More

Source(s): Open records request Illinois Department of Revenue (IDOR, 2017).

Table 7.2: Change in Effective Income Tax Rates from Scenario 7 Progressive Tax, By Income Distribution

Net Income Range	Tax Filers	Group	Average Net Income	Effective Income Tax Rate	Estimated Progressive Tax Rate	Change in State Income Tax Rate
\$1-\$25,000	2,306,247	Working	\$11,100	4.90%	4.25%	-0.65%
\$25,001-\$50,000	1,184,346	and Middle	\$36,268	4.93%	4.25%	-0.68%
\$50,001-\$100,000	1,125,711	Class	\$71,126	4.94%	4.29%	-0.65%
\$100,001-\$200,000	601,824	Top 20	\$135,621	4.94%	4.89%	-0.06%
\$200,001-\$500,000	194,382	Percent	\$289,613	4.95%	6.36%	+1.42%
\$500,001-\$1,000,000	37,343	Top 1	\$678,142	4.95%	7.65%	+2.71%
\$1,000,001 or More	20,629	Percent	\$3,684,571	4.50%	8.73%	+4.23%

Table 7.3: Dollar Change in Income Taxes Owed from Scenario 7 Progressive Tax, By Income Distribution

Net Income Range	Group	Average State Income Taxes	Estimated Progressive Taxes	Change in State Income Taxes
\$1-\$25,000	Working	\$544	\$472	-\$72
\$25,001-\$50,000	and Middle	\$1,787	\$1,541	-\$246
\$50,001-\$100,000	Class	\$3,511	\$3,049	-\$462
\$100,001-\$200,000	Top 20	\$6,704	\$6,628	-\$76
\$200,001-\$500,000	Percent	\$14,325	\$18,430	+\$4,105
\$500,001-\$1,000,000	Top 1	\$33,552	\$51,900	+\$18,348
\$1,000,001 or More	Percent	\$165,809	\$321,674	+\$155,864

Table 7.4: Effect of Scenario 7 on Tax Revenue

Effect	Metric
Total Revenue Change	
New Revenue from Scenario	\$3,674,400,000
New Revenue Holding Pass-Through Entities Constant*	\$3,134,300,000
*The top marginal tax rate for pass-through business entities would be set at 5 percent.	

Table 7.5: Dollar Change in Income and Property Taxes Owed from Scenario 7, By Homeowner Income

Net Income Range	Group	Change in State Income Taxes	10% Drop in Property Taxes	Total Change in State and Local Taxes
\$1-\$25,000	Working	-\$72	-\$302	-\$374
\$25,001-\$50,000	and Middle	-\$246	-\$369	-\$614
\$50,001-\$100,000	Class	-\$462	-\$444	-\$906
\$100,001-\$200,000	Top 20	-\$76	-\$647	-\$723
\$200,001-\$500,000	Percent	+\$4,105	-\$1,027	+\$3,078
\$500,001-\$1,000,000	Top 1	+\$18,348	-\$1,502	+\$16,846
\$1,000,001 or More	Percent	+\$155,864	-\$2,186	+\$153,679

Scenario 8: The “Governor’s Proposal” Example

Table 8.1: Proposed Marginal Tax Brackets and Rates in Scenario 8 Progressive Tax

Net Income Range	Marginal Progressive Tax Rate: Iowa
\$1-\$10,000	4.75%
\$10,001-\$100,000	4.90%
\$100,001-\$250,000	4.95%
\$250,001-\$500,000	7.75%
\$500,001-\$1,000,000	7.85%
\$1,000,001 or More	7.95%

Table 8.2: Change in Effective Income Tax Rates from Scenario 8 Progressive Tax, By Income Distribution

Net Income Range	Tax Filers	Group	Average Net Income	Effective Income Tax Rate	Estimated Progressive Tax Rate	Change in State Income Tax Rate
\$1-\$25,000	2,306,247	Working and Middle Class	\$11,100	4.90%	4.69%	-0.21%
\$25,001-\$50,000	1,184,346		\$36,268	4.93%	4.79%	-0.14%
\$50,001-\$100,000	1,125,711		\$71,126	4.94%	4.84%	-0.10%
\$100,001-\$200,000	601,824	Top 20 Percent	\$135,621	4.94%	4.88%	-0.06%
\$200,001-\$500,000	194,382		\$289,613	4.95%	5.37%	+0.42%
\$500,001-\$1,000,000	37,343	Top 1 Percent	\$678,142	4.95%	6.73%	+1.78%
\$1,000,001 or More	20,629		\$3,684,571	4.50%	7.95%	+3.45%

Table 8.3: Dollar Change in Income Taxes Owed from Scenario 8 Progressive Tax, By Income Distribution

Net Income Range	Group	Average State Income Taxes	Estimated Progressive Taxes	Change in State Income Taxes
\$1-\$25,000	Working and Middle Class	\$544	\$521	-\$23
\$25,001-\$50,000		\$1,787	\$1,737	-\$50
\$50,001-\$100,000		\$3,511	\$3,443	-\$68
\$100,001-\$200,000	Top 20 Percent	\$6,704	\$6,623	-\$80
\$200,001-\$500,000		\$14,325	\$15,549	+\$1,225
\$500,001-\$1,000,000	Top 1 Percent	\$33,552	\$45,644	+\$12,093
\$1,000,001 or More		\$165,809	\$292,923	+\$127,114

Table 8.4: Effect of Scenario 8 on Tax Revenue

Effect	Metric
Total Revenue Change	
New Revenue from Scenario*	\$3,119,999,877
*The top marginal tax rate for pass-through business entities would <i>not</i> be set at 5 percent. This includes \$273,735,714 from the corporate tax rate change from 7.0% to 7.95%, which is unique to this example.	

Table 8.5: Dollar Change in Income and Property Taxes Owed from Scenario 8, By Homeowner Income

Net Income Range	Group	Change in State Income Taxes	10% Drop in Property Taxes	Total Change in State and Local Taxes
\$1-\$25,000	Working and Middle Class	-\$23	-\$302	-\$325
\$25,001-\$50,000		-\$50	-\$369	-\$419
\$50,001-\$100,000		-\$68	-\$444	-\$512
\$100,001-\$200,000	Top 20 Percent	-\$80	-\$647	-\$727
\$200,001-\$500,000		+\$1,225	-\$1,027	+\$198
\$500,001-\$1,000,000	Top 1 Percent	+\$12,093	-\$1,502	+\$10,591
\$1,000,001 or More		+\$127,114	-\$2,186	+\$124,928

Summary of Results in Each Scenario by Income: Tax Cut or Tax Hike for Family of Three

Effect on a Family of Three's Income Taxes†			Tax Cut or Tax Hike, By Scenario							
Adjusted Gross Income	Taxable Net Income	Percentile of Filers (Est.)	#1	#2	#3	#4	#5	#6**	#7	#8
\$10,000	\$3,325	18%	Cut	Cut	Cut	Cut	Cut	Cut	Cut	Cut
\$20,000	\$13,325	36%	Cut	Cut	Cut	Cut	Cut	Cut	Cut	Cut
\$30,000	\$23,325	48%	Cut	Cut	Cut	Cut	Cut	Cut	Cut	Cut
\$40,000	\$33,325	58%	Cut	Cut	Cut	Cut	Hike*	Cut	Cut	Cut
\$50,000	\$43,325	65%	Cut	Cut	Cut	Cut	Hike*	Cut	Cut	Cut
\$60,000	\$53,325	70%	Cut	Cut	Cut	Cut	Hike*	Cut	Cut	Cut
\$70,000	\$63,325	74%	Cut	Cut	Cut	Cut	Hike	Cut	Cut	Cut
\$80,000	\$73,325	78%	Cut	Cut	Cut	Cut	Hike	Hike	Cut	Cut
\$90,000	\$83,325	82%	Cut	Cut	Cut	Cut	Hike	Hike	Cut	Cut
\$100,000	\$93,325	85%	Cut	Hike*	Cut	Hike*	Hike	Hike	Cut	Cut
\$125,000	\$118,325	87%	Cut	Hike*	Hike	Hike	Hike	Hike	Cut	Cut
\$150,000	\$143,325	92%	Hike*	Hike	Hike	Hike	Hike	Hike	Cut	Cut
\$175,000	\$168,325	94%	Hike	Hike	Hike	Hike	Hike	Hike	Cut	Cut
\$200,000	\$193,325	95%	Hike	Hike	Hike	Hike	Hike	Hike	Cut	Cut
\$225,000	\$218,325	96%	Hike	Hike	Hike	Hike	Hike	Hike	Cut	Cut
\$250,000	\$243,325	97%	Hike	Hike	Hike	Hike	Hike	Hike	Hike	Cut
\$500,000+	\$493,325	99%	Hike	Hike	Hike	Hike	Hike	Hike	Hike	Hike

†This table assumes that the family of three has no retirement income and only claims the personal exemptions (\$2,225 per person).
 *Indicates that an average family of three would receive a total tax cut if they owned a home for which property taxes were cut by 10 percent, based on the average property taxes paid for filers in their net income tax range.
 **Note: The personal exemption in Scenario 6, the "modified-Minnesota" example, is increased from \$2,225 per person to \$6,000 per person.