Report: Inequitable Tax Code
Costs Illinois up to $8.6 Billion

Taxing Top Incomes at the Same Rate as the Middle Class Could Fund Critical State Priorities, Restore Cuts to Education Funding

As Illinois battles over the Rauner budget that would make devastating cuts to public services, a new report shows that Illinois could generate up to $8.6 billion a year in revenue by fixing inequities in its state tax code.

Illinois’ highest-income one percent pay a significantly lower percentage of their income in state and local taxes than those in the middle of the income distribution — 4.6 percent to 10.8 percent, respectively. The report, Tax Fairness: An Answer to Illinois’s Budget Problems, released by the Keystone Research Center and Good Jobs First, finds that if Illinois taxed the top one percent of taxpayers at the same rate as the middle 20 percent, the state and localities could raise $5.1 billion per year. Similarly, if the top 20 percent of income earners paid the same rate as the middle 20 percent, states and localities would generate $8.6 billion per year.

“Revenue lost because of the one-two punch of rising inequality and regressive state tax codes has led states to impose years of unnecessary austerity—underfunding schools, cutting investments in higher education, and deferring maintenance of our aging infrastructure,” said KRC economist and executive director, Dr. Stephen Herzenberg. “After 30 years of a middle-class squeeze, it’s time to restore balance.”

In 1979, the top 1 percent of taxpayers received only 9.6 percent of total income in Illinois. By 2012, their share of Illinois’s total income had more than doubled, to 23.1 percent. This shift means that, every year, $92 billion in income now goes to just to the top one percent in Illinois.

Comparing Illinois to other states, the $5.1 billion raised by fairly taxing just the top one percent is the third-largest such amount in any of the 50 states. The $8.6 billion raised by extending tax fairness to the top 20 percent is equal to about a quarter of the Illinois state General Fund budget—or enough to improve K-12 education, catch up on Illinois’ infrastructure deficit, and pay off pension debt.

The loss of revenue because the top one percent pay low tax rates is not unique to Illinois. Nationally, the top one percent pays 5.4 percent of their income in taxes while the middle fifth pays 9.4 percent. Nationwide, applying tax fairness to the one percent would generate $68 billion, or $128 billion if applied to the top 20 percent.
“Restoring public goods that benefit all employers and all working families is critical to reversing the corrosive rise of inequality,” said Greg LeRoy, Executive Director of Good Jobs First. “The middle class won’t recover — and states won’t get their finances in order — until they fix their tax codes.”

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