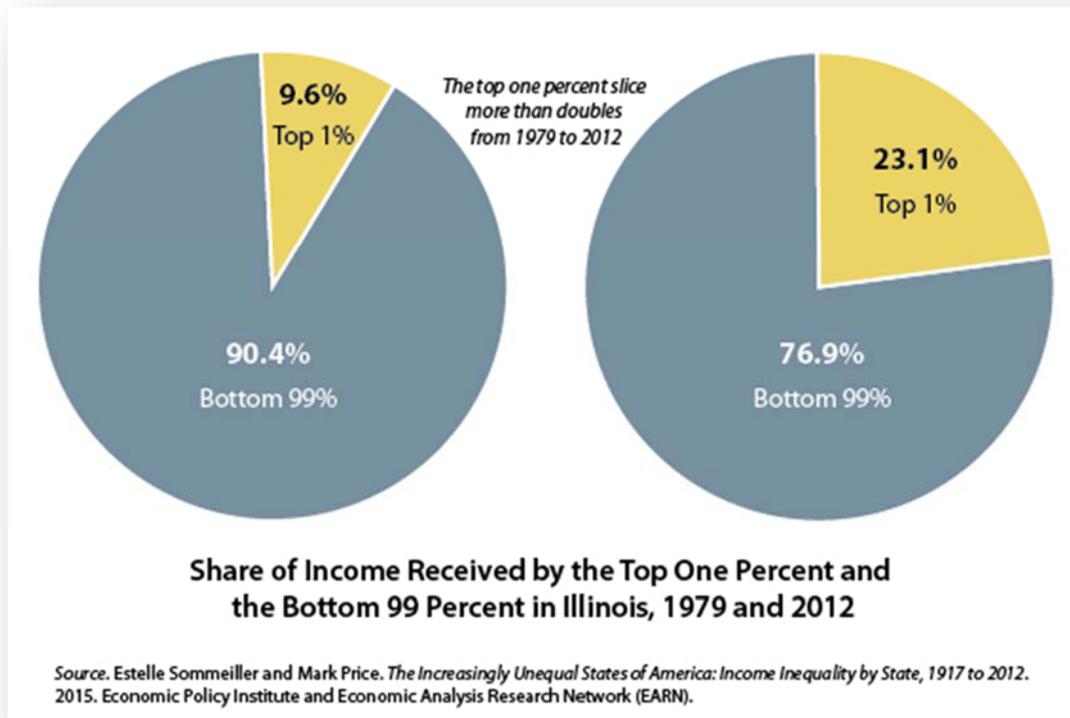


# Tax Fairness: An Answer to Illinois' Budget Problems

In Illinois, income inequality is getting much worse: the top one percent of taxpayers—those with incomes averaging \$1.37 million in 2012—now get *nearly a quarter* of all the state's income. They also pay lower tax rates than everyone else—less than *half* the rate of the middle class. If these with the highest incomes paid taxes at the same rate as the middle class in Illinois, the state could solve many of its budget problems—raising \$5.1 billion per year for education, infrastructure, health care, pensions and job creation. Taxing the top fifth at the same rate as the middle fifth would raise an additional \$8.6 billion in revenue.

## The Rich Are Getting More Income than Ever

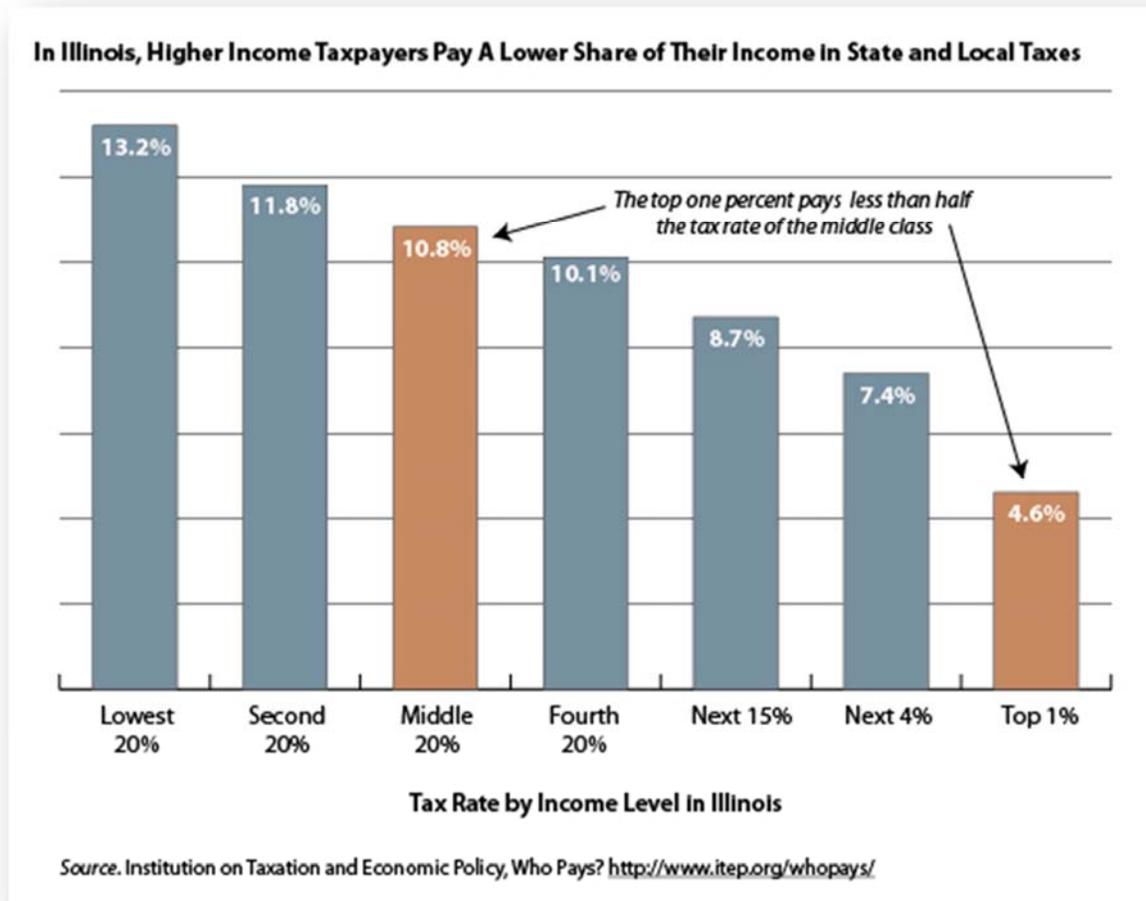


In 1979, the top one percent of taxpayers received 9.6 percent of total income in Illinois. By 2012, their share of Illinois's total income had more than doubled, to 23.1 percent. This shift means that, every year, \$92 billion in income now goes to just one percent of Illinois taxpayers.

For context: \$92 billion is about two-and-a-half times the Illinois state (General Fund) budget and about 30 times the annual cost of paying down the state's pension debt.<sup>1</sup>

## High-Income People Pay Far Lower Tax Rates than the Rest of Us

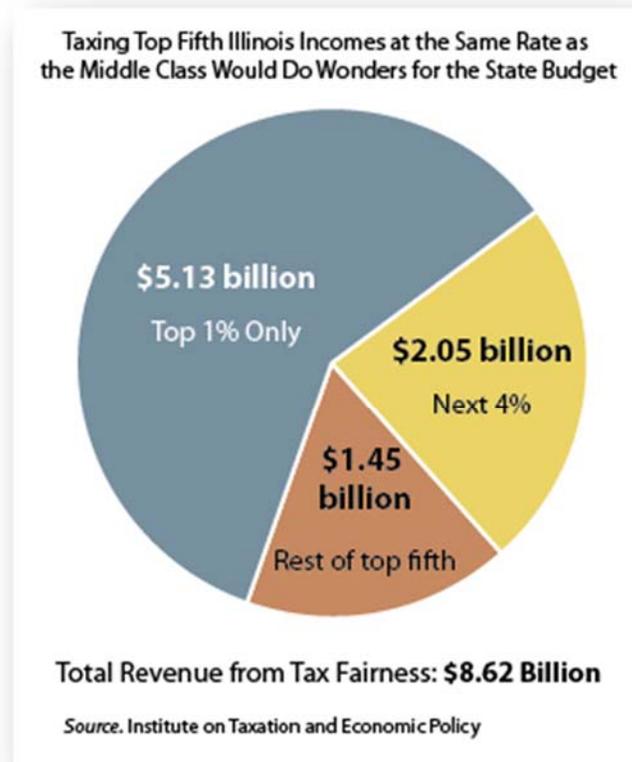
The Institute on Taxation and Economic Policy ranks Illinois as having the fifth most regressive tax state and local tax system in the nation. High-income residents pay a far smaller share of their income in state and local taxes than middle-income residents. The top one percent in Illinois pay just 4.6 percent of their income in taxes, while the middle fifth pay more than twice that rate: 10.8 percent. Illinois's lowest income families pay even more: 13.2 percent.



There are a few basic reasons Illinois's tax system is so inequitable, and the solutions are simple.

- Illinois has a flat personal income tax so that millionaires and hedge fund managers pay the same income tax rate as middle-class families, and only a small amount of income is exempt from the personal income tax.
- The state and local sales tax bases includes groceries (although the state taxes groceries at a lower rate).
- The state does not limit the share of income paid in property taxes by low-income taxpayers.

## Taxing the One Percent at Middle-Class Rates Would Do Wonders for the Budget



Taxing upper-income groups at the same overall tax rate as the middle class in Illinois would relieve enormous pressure on the state's budget. Taxing just the highest one percent at the same rate that the middle fifth pays would raise \$5.1 billion in new revenue, the third-largest such amount among the 50 states.

Extending tax fairness to the top 20 percent would generate an estimated *\$8.6 billion* in additional revenue each year—about a quarter of the Illinois state General Fund budget. This amount is sufficient to invest adequately in education from cradle to grave, improve Illinois' infrastructure, and pay off pension debt.

### Tax Fairness is Not Rocket Science

There are many ways that Illinois could embrace tax fairness. It could emulate other states by making the income tax progressive. It could also raise its flat income tax rate while also increasing personal exemptions that eliminate the income tax on the first part of income.

After 30 years of a middle-class squeeze, it's time to restore balance. One percent of taxpayers in Illinois get nearly two-and-a-half times the share of income they got 30 years ago—taxing them at less than half the middle-class rate is the wrong direction. Solving the budget deficit through tax fairness while restoring education and infrastructure will help revitalize Illinois's economy.

## END NOTES

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<sup>i</sup> This assumes that Illinois's roughly \$100 billion in unfunded pension liabilities is paid off in equal installments over 30 years. Unfunded pension liabilities from Pew Charitable Trusts, *The Fiscal Health of State Pension Plans*, March 2014, online at <http://www.pewtrusts.org/~media/Assets/2014/03/31/PewStatesWideningGapFactsheet2.pdf>