



# **20 facts every Illinoisan should know about the progressive tax amendment**

October 2020

**On Nov. 3, Illinoisans will vote on whether to keep Illinois' flat income tax structure or move the state to a new progressive income tax scheme. The flat-tax structure has been in the Constitution since 1970.**

**Less than two weeks remain and the airwaves are being bombarded with emotionally charged ads for and against the progressive tax.**

**Still confused? Here are 20 facts you should know about the progressive tax amendment.**

### **Current constitutional language:**

#### SECTION 3. LIMITATIONS ON INCOME TAXATION

(a) A tax on or measured by income shall be at a non-graduated rate. At any one time there may be no more than one such tax imposed by the State for State purposes on individuals and one such tax so imposed on corporations. In any such tax imposed upon corporations the rate shall not exceed the rate imposed on individuals by more than a ratio of 8 to 5.

*(Source: Illinois Constitution)*

### **Proposed change:**

#### SECTION 3. LIMITATIONS ON INCOME TAXATION

(a) The General Assembly shall provide by law for the rate or rates of any tax on or measured by income imposed by the State. ~~A tax on or measured by income shall be at a non-graduated rate. At any one time there may be no more than one such tax imposed by the State for State purposes on individuals and one such tax so imposed on corporations. In any such tax imposed upon corporations the highest rate shall not exceed the highest rate imposed on individuals by more than a ratio of 8 to 5.~~

*(Source: Illinois Senate Joint Resolution Constitutional Amendment 1)*

## 1. What you're voting on...

First, know that when you vote on the amendment, you are **not** voting on any tax rates.

The only thing you are voting on is whether or not to let lawmakers move Illinois' income tax from a flat structure to one that allows different income levels to be taxed at different tax rates, often called a "progressive tax."

Today, the Illinois Constitution ensures Illinoisans are taxed at a single, flat-tax rate, regardless of how much they make. That means everybody pays the same share of their income in taxes.

Under a progressive tax structure some income levels will be taxed at higher tax rates than others.

Voting "yes" supports the change to a progressive tax structure, and voting "no" opposes the change and keeps the flat-tax structure.

## 2. What you're not voting on...

Again, **you are not voting on any tax rates**. The proposed amendment doesn't set any tax rates whatsoever. Instead, lawmakers set income tax rates through legislation, which can be changed at any time.

To be clear, the amendment you are voting on:

- Does not set permanent tax rates in the constitution.
- Does not ensure 97% of Illinoisans will pay the same, or less in taxes.
- Does not limit lawmakers to raising taxes only on the rich.
- Does not stop lawmakers from raising taxes on lower- and middle-income Illinoisans.

Also note that [the ballot language](#) describing the amendment is inaccurate. The ballot states the amendment "gives the State ability to impose higher rates on those with higher income levels and lower income tax rates on those with middle- or lower-income levels."

That is misleading. There is **nothing** in the amendment language to stop lawmakers from imposing the same high rates on both middle- and low-income Illinoisans. Eighteen progressive states tax middle-income residents at the same rate as the wealthy. (See fact 14 for details.)

### 3. The proposed tax rates can change at any time...

Lawmakers have already passed a set of progressive tax rates and income brackets which will go into effect on January 1st, if the amendment passes. When you [hear ads](#) saying “97% of Illinoisans will pay the same or less,” that statement is referring to the rates lawmakers passed, not the amendment.

The maximum tax break any Illinoisan would receive under the new structure is just \$65 (for a taxpayer with \$249,999 in income). An Illinoisan with a net income of \$10,000 will receive a tax break of \$10.

The tax rates and breaks, however, are only introductory. The progressive tax structure allows the state to impose higher rates on **any** income group. And the taxes and income brackets can be changed by the legislature **at any time**

without taxpayer input. The introductory tax rates and income brackets are shown above.

#### Progressive tax rates passed in anticipation of amendment being approved

Marginal tax rate	Taxable income bracket
4.75%	Pay 4.75% on income up to \$10,000
4.90%	Pay 4.90% on additional income between \$10,000 and \$100,000
4.95%	Pay 4.95% on additional income between \$100,000 and \$250,000
7.75%	Pay 7.75% on additional income between \$250,000 and \$350,000
7.85%	Pay 7.85% on additional income between \$350,000 and \$750,000
7.99% flat	If income above \$750,000, then pay flat 7.99% on all income
<b>Total new revenue raised: \$3.1 billion*</b>	

Source: Public Act 101-0008 passed in advance of progressive tax amendment  
 \*New state revenue estimate from Preliminary Offering Statement General Obligation Bonds Series of October 2020



### 4. Without reforms, the proposed tax hike falls billions short of what Illinois needs...

The legislature’s introductory progressive tax rates are projected to raise an additional \$3.1 billion in revenue annually, though that amount may be overly optimistic if too many of Illinois’ wealthy residents flee.

That amount is far short of what’s needed to cover [the state’s deficits](#), let alone pay for the governor’s other spending promises. Without reforms, Illinois needs about \$10 billion in additional revenues each year just to properly balance the budget.

That’s made up of a structural budget shortfall of some [\\$3-\\$4 billion](#) annually, another \$1 billion yearly to begin paying down the state’s \$8 billion in unpaid bills, and about \$5 billion more each year to properly pay for the state’s [true retirement costs](#).

Unless lawmakers enact major spending and pension reforms, they’ll have no choice but to eventually raise tax rates again (see fact 5).

#### Illinois' true structural deficit equals \$10 billion a year

Category	Amount
Annual true budget shortfall	\$3-4 billion
Pay down unpaid bills	\$1 billion
Additional actuarial retirement costs	\$5 billion
<b>Total structural deficit</b>	<b>\$10 billion</b>

Source: Wirepoints calculations



## 5. What progressive tax rates may eventually look like...

Since Illinois lawmakers refuse to pursue pension and spending reforms, they will eventually be forced to raise taxes to address the state's \$10 billion annual deficit highlighted in fact 4.

A Wirepoints analysis of Illinois Department of Revenue tax data found that lawmakers will have to [significantly raise rates](#) on both middle- and higher-income Illinoisans to raise \$10 billion annually. Tax rates on middle-income Illinoisans would jump to 9 percent, while rates on the wealthiest taxpayers would increase to more than 11 percent.

*(The example is one of many potential rate structures, but it's a fair representation of the rates required to raise \$10 billion across middle- and higher-income taxpayers.)*

### Potential progressive tax rates needed to raise \$10 billion in additional revenues

Marginal tax rate	Taxable income bracket
4.95%	Pay 4.95% on income up to \$50,000
8.5%	Pay 8.5% on additional income between \$50,000 and \$75,000
9.0%	Pay 9.0% on additional income between \$75,000 and \$150,000
9.5%	Pay 9.5% on additional income between \$150,000 and \$250,000
10.5%	Pay 10.5% on additional income between \$250,000 and \$1 million
11.2%	Pay 11.2% on income in excess of \$1 million
<b>Total new revenue raised: \$10 billion*</b>	

Source: Detailed Income tax stratification data based on "Tax Year 2016 - Final" data obtained through a FOIA request to the Illinois Department of Revenue; Wirepoints calculations.  
\*New revenue raised is based on a comparison of revenue obtained from a 4.95% flat rate on Illinois' total taxable income vs. revenues obtained from progressive rates on the same taxable income.  
Note: Assumes no reduction in Illinois' tax base due to higher tax rates.



## 6. There's no property tax relief...

No matter what's [been advertised](#), the \$3.1 billion raised by the introductory progressive tax rates would **not provide** real property tax relief to Illinois homeowners.

The tax hike's new revenues would be immediately swallowed by the state's budget shortfall alone. There'd be nothing left for the state's other problems.

Illinois governments collect more than [\\$32 billion](#) in property taxes every year. To provide Illinoisans with meaningful property tax relief of just 15 percent, the state would have to increase progressive income taxes by an additional \$5 billion over and above the amount already needed to cover the state's structural deficits. That would require significantly higher tax rates on Illinois' middle- and lower-income residents.

## 7. Illinois' current flat income tax is fair...

You may have heard the current flat-tax structure is unfair because low income residents and wealthier residents pay the same tax rate. Under Illinois' current flat income tax, everyone pays the same rate of 4.95 percent. But focusing on the rate ignores that the wealthy pay far more in taxes under the flat-rate structure. Those who earn more, pay more.

Take, for example, two Illinoisans. One makes \$20,000, while the other makes 100 times more, or \$2,000,000. At a 4.95 percent tax rate, the lower income Illinoisan pays nearly \$1,000 in taxes, ignoring exemptions and deductions. In comparison, the wealthier resident will pay about \$100,000, or 100 times more.

## 8. Illinois' current flat income tax, after exemptions, is effectively progressive...

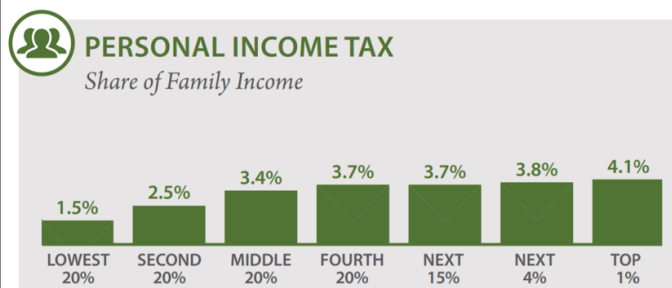
What you might not have heard is that after taking into account deductions and exemptions, Illinois' flat-tax structure is actually progressive.

Illinois' standard exemption lowers each Illinoisans' taxable income by \$2,275. That, coupled with many other deductions allowed by law, results in lower-income Illinoisans paying a lower effective tax rate than higher-income Illinoisans.

[Data](#) from the Institute on Taxation and Economic Policy shows how "progressive" Illinois' flat tax already is. Illinoisans with the lowest incomes effectively pay 1.5 percent of their income in taxes. In contrast, the wealthiest taxpayers pay 4.1 percent.

### Wealthy Illinoisans already pay a higher rate under Illinois' flat tax

ITEP breakdown of state effective income tax rates paid, by family income bracket



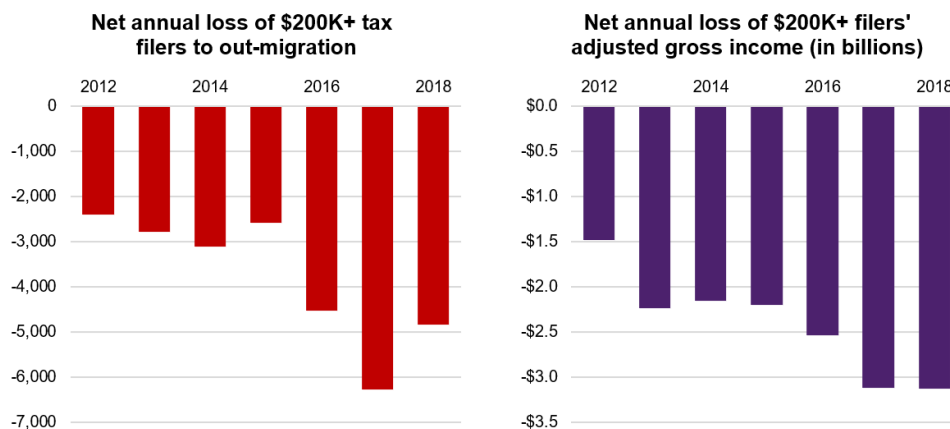
Source: Institute on Taxation and Economic Policy, "Who Pays? 2018"

## 9. Hitting the wealthy may cause more to leave...

Illinois already loses [thousands of wealthy Illinoisans](#) to other states every year. IRS data shows a net 26,000 tax filers making \$200,000 or more have left Illinois since 2012 alone, depriving the state of a cumulative \$60 billion in income that could have been taxed.

Frustrated by Illinois' corruption, debts, high taxes, a struggling economy and politicians' complete refusal to pursue reforms, you can bet many more high-income residents have one foot out the door. A 60 percent tax hike might be their final reason to leave.

### A net 26,000 tax filers making \$200,000 or more have left Illinois since 2012, taking billions in income with them



Source: IRS - SOI migration data

## 10. Illinois' political history is full of broken promises...

Illinois politicians have a long history of breaking promises to Illinoisans, especially when it comes to taxes.

Politicians promised the 2011 “temporary,” 67 percent income tax hike would fix the state’s budget and eliminate its unpaid bills. “We have some temporary tax increases that are designed to pay our bills, get Illinois back on fiscal sound footing and make sure that our state has a strong economy,” said [Gov. Pat Quinn](#). Four years and \$31 billion additional tax dollars later, Illinois’ budget remained unbalanced, its bills unpaid and its pension debts were larger than ever.

Politicians again [promised balanced budgets and stability](#) after they passed a permanent 32 percent income tax hike in 2017. Now they’re back again, promising the same with the progressive income tax hike.

Illinois’ spiking pension debts prove how empty those promises have been. Despite billions of dollars in tax hikes, Illinois pension debts [continue to rise](#), putting a [larger and larger burden](#) on struggling Illinoisans.

Without real spending and pension reforms, lawmakers will have no choice but to raise taxes on those who [generate two-thirds](#) of the taxable income in Illinois: lower- and middle-income earners.

### Tax hikes can't fix Illinois' massive pension problem

History of Illinois' state unfunded pension liabilities (in billions)



Source: Commission on Government Forecasting and Accountability

## 11. Taxing retirements will be a whole lot easier...

There's been a lot of discussion whether the amendment would lead to a tax on retirement income. Today, retirement income is not taxed in Illinois, though there is nothing in state law prohibiting it. It's simply been too unpopular for lawmakers to pass under the current flat-tax regime – taxes would have to be raised on all retirees at one flat rate.

But under a progressive tax structure, taxing retirement becomes much easier. Lawmakers can target one segment of retirees, say higher-income retirees, with a new tax. That makes it far easier to pass politically than targeting all retirees at the same time. Once lawmakers successfully tax one segment of retirees, other segments could be targeted over time.

State Treasurer Frerichs said it best [recently](#): “One thing a progressive tax would do is make clear you can have graduated rates when you are taxing retirement income.” Frerichs is correct. Every single state with a progressive tax structure also taxes retirement income.

## 12. The amendment allows for multiple income taxes...

Passing the amendment will not only allow Illinois lawmakers to pass any progressive tax rates they want, it would also allow them to tax the same income more than once.

The current language of the Illinois Constitution says the state can only have one income tax. The amendment [strips that language](#) from the Illinois Constitution, giving state lawmakers the option to pass multiple taxes on Illinoisans' income. For example, they could pass an additional income tax dedicated to paying for pensions.

### Illinois' constitution prohibits more than one income tax

#### Current constitutional language

#### SECTION 3. LIMITATIONS ON INCOME TAXATION

(a) A tax on or measured by income shall be at a non-graduated rate. **At any one time there may be no more than one such tax imposed by the State for State purposes on individuals and one such tax so imposed on corporations.** In any such tax imposed upon corporations the rate shall not exceed the rate imposed on individuals by more than a ratio of 8 to 5.

Source: Illinois Constitution



### Amendment allows multiple taxes on income

#### Proposed change to the Illinois Constitution

#### SECTION 3. LIMITATIONS ON INCOME TAXATION

(a) The General Assembly shall provide by law for the rate or rates of any tax on or measured by income imposed by the State. ~~A tax on or measured by income shall be at a non-graduated rate. At any one time there may be no more than one such tax imposed by the State for State purposes on individuals and one such tax so imposed on corporations.~~

Source: Illinois Senate Joint Resolution Constitutional Amendment 1





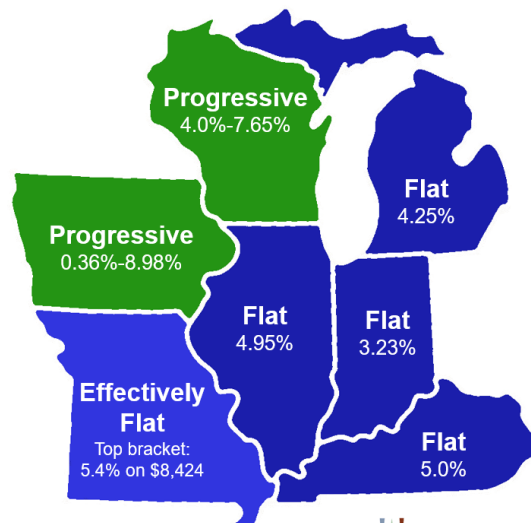
### 13. Illinois is nearly surrounded by flat-tax states...

Several pro-tax ads imply that Illinois' flat tax makes the state an outlier, especially among its neighbors.

But the fact is the majority of Illinois' neighbors have a [flat or nearly-flat tax structure](#). Michigan has a flat tax like Illinois. All Michiganders pay the same rate of 4.25 percent. The same goes for residents in Indiana, with a flat state tax of 3.23 percent. Kentuckians, too, pay a flat-tax rate of 5.0 percent. And Missouri's progressive tax structure is essentially flat, taxing all income above \$8,424 at a rate of 5.4 percent.

#### Illinois is nearly surrounded by neighbors with flat or near-flat income taxes

State individual income tax structures as of Jan. 2020



Source: Tax Foundation

### 14. There are 18 states with a flat tax or no income tax at all...

Illinois will not "modernize" its taxes, as some promoters of the tax like to say, by adopting a progressive structure. In fact, the trend nationally has been for states to adopt flat or zero income taxes.

[Utah](#) changed from a progressive income tax to a flat tax in 2008. [North Carolina](#) moved to a flat tax in 2014. [Kentucky](#) changed to a flat tax in 2018. And [Tennessee](#) has passed legislation that will eliminate the state's income tax by 2022. In contrast, [Connecticut](#) was the last state to adopt a progressive income tax back in 1996. In all, there are currently 18 states nationally that tax residents at the same tax rate. Nine states have flat income taxes and nine have no income tax at all.

#### States with no income tax or a flat-tax structure

No income tax states	Flat income tax states
Alaska	Colorado
Florida	Illinois
Nevada	Indiana
New Hampshire*	Kentucky
South Dakota	Massachusetts
Texas	Michigan
Tennessee*	North Carolina
Washington	Pennsylvania
Wyoming	Utah

Source: Tax Foundation  
\*Dividend and interest income only

## 15. Many progressive tax states treat the middle class like the wealthy...

No matter what pro-tax ads may imply, a progressive tax is not a cure-all for middle-income residents. Many “progressive tax” states tax low- to middle-income workers at the same marginal rate as millionaires. Eighteen of them, in fact. The table below highlights those states.

Georgia, for example, taxes everybody’s income above \$7,000 at the marginal rate of 5.75 percent. Idaho’s top marginal rate is 6.93 percent on all income greater than \$11,554. Neighboring Missouri has a top rate of 5.4 percent on all incomes above \$8,424.

Almost all of the top tax rates in the table are higher than the 4.95 percent Illinoisans pay today, before taking exemptions and deductions into account. Look down the list. Nebraska’s top rate is 6.84 percent on incomes over \$31,160. That’s certainly not “millionaire” income levels. Nor is it in Iowa, where residents pay a max of 8.53 percent on the income they make over \$73,710. In that whole group of states, only New Mexico has a top rate that’s lower than Illinois’ current flat tax.

### 18 progressive tax states have top marginal tax rates that treat middle-income and wealthy taxpayers the same

Highest brackets and highest rates of select progressive income tax states, as of Jan. 2020

State	Highest income tax bracket	Highest marginal tax rate
Iowa	\$73,710	8.53%
Maine	\$52,600	7.15%
South Carolina	\$15,400	7.00%
Idaho	\$11,554	6.93%
Montana	\$18,400	6.90%
Nebraska	\$31,160	6.84%
Arkansas	\$79,300	6.60%
Delaware	\$6,000	6.60%
West Virginia	\$60,000	6.50%
Louisiana	\$50,000	6.00%
Georgia	\$7,000	5.75%
Virginia	\$17,000	5.75%
Kansas	\$30,000	5.70%
Missouri	\$8,424	5.40%
Oklahoma	\$7,200	5.00%
Mississippi	\$10,000	5.00%
Alabama	\$3,000	5.00%
New Mexico	\$16,000	4.90%

Source: Tax Foundation

## 16. The progressive tax would result in the second-highest business rate in the nation...

Lawmakers' introductory progressive tax would raise tax rates on all individuals making over \$250,000, many of whom are small business owners, to as high as 7.99 percent from today's flat rate of 4.95 percent. It would also raise Illinois' corporate income tax rate to 10.49 percent, the second-highest in the nation, behind only New Jersey.

The [Tax Foundation](#) found that Illinois' business competitiveness would plummet to 47th from 36th nationally under those progressive tax rates.

That's exactly [why Warren Buffett says](#) he wouldn't relocate a business to a state like Illinois. He knows lawmakers will hit businesses with higher taxes to pay for things like the state's pension crisis: "In the public sector, you know, it's a disaster...If I were relocating into some state that had a huge unfunded pension plan, I'm walking into liabilities...And those are big numbers, really big numbers...And when you see what they would have to do – I say to myself, 'Why do I wanna build a plant there that has to sit there for 30 or 40 years?'"

### Illinois' business competitiveness will plummet under a progressive tax

Tax Foundation state business tax climate index

	Current	Projected
Corporate	36	39
Individual	13	40
Sales	38	38
Property	48	48
U.I.	43	43
<b>Overall</b>	<b>36</b>	<b>47</b>

Source: Tax Foundation

## 17. Illinois is already the most corrupt state in the nation...

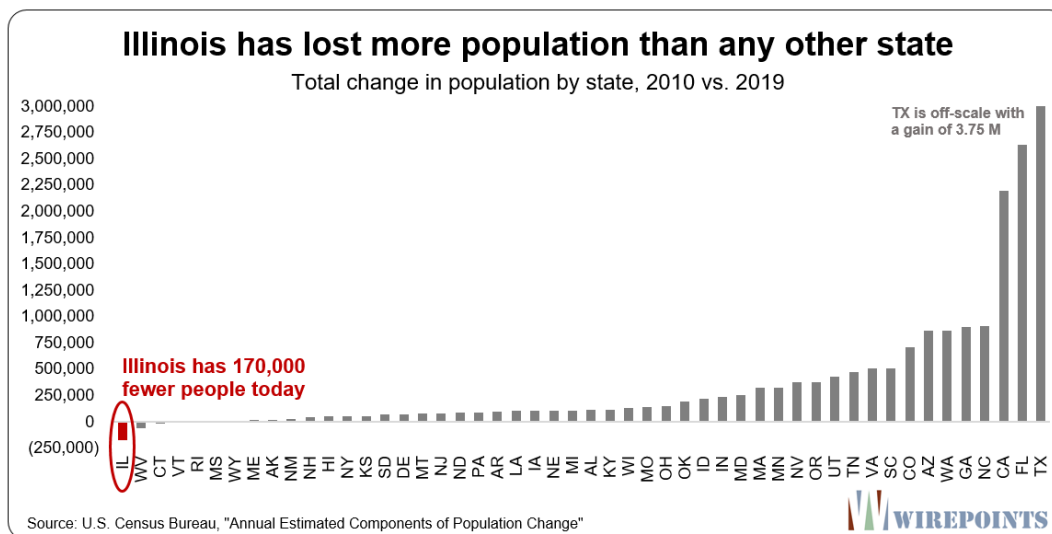
Voters have to decide if they want to hand over more of their tax dollars to the most corrupt state in the nation.

A 2020 study by the University of Illinois at Chicago [found that](#), "Chicago continues to be the most corrupt city in the country and Illinois remains the third most corrupt state." And [a report](#) by the ABC 7's investigative news team pegs Illinois as "the most corrupt state in America."

A Chicago alderman, two state senators and two state representatives have all been indicted in the past year. House Speaker Mike Madigan is under investigation and Senate President Don Harmon's offices have been raided by federal agents, as well.

## 18. Illinois is already shrinking more than any other state in the country...

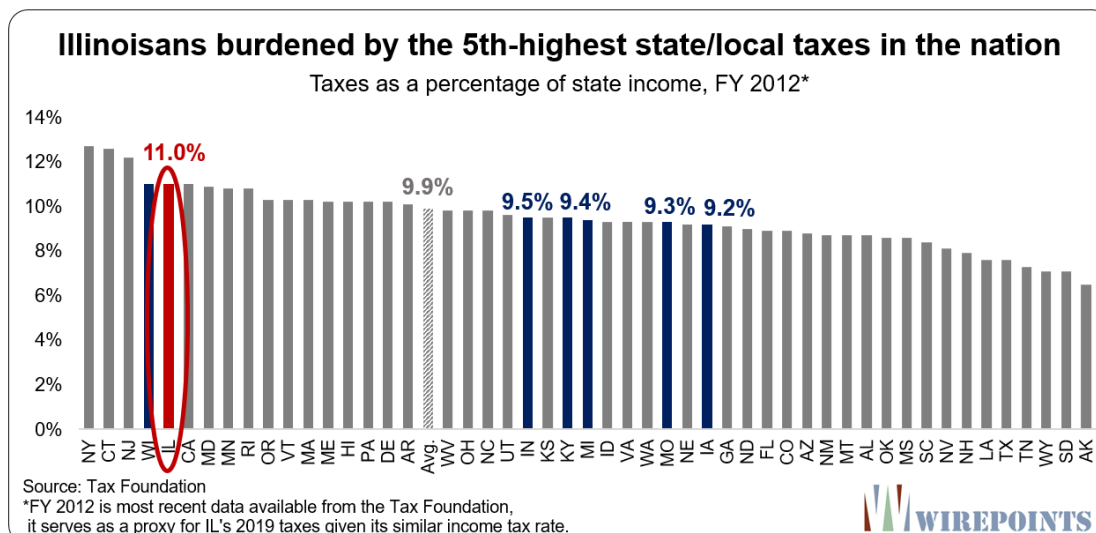
Voters have to decide whether higher taxes are worth the risk of even more residents leaving. Illinois is already losing more people than any other state in the nation. In all, Illinois' population has shrunk [by 170,000 since 2010](#).



## 19. Illinoisans already face one of the nation's highest tax burdens...

Illinoisans have to decide whether they can afford a higher overall tax burden, already one of the nation's highest.

The Tax Foundation says Illinoisans are burdened by the [5th-highest state and local taxes](#) in the nation. And Kiplinger, the personal finance company, calls Illinois the ["Least Tax-Friendly State"](#) in the nation.



Illinoisans have to decide whether their already-suffering home values can handle more tax hikes.

A Wirepoints-Zillow study found that Illinois homeowners lost out on [\\$270 billion in property appreciation](#) between 2009 and 2019 due to the state not growing at the national average.



Despite the many crises described above, structural reforms have never been offered to ordinary Illinoisans as an option – only higher taxes.

Vote how you want on Nov. 3, but realize that Illinoisans should have been voting on a pension reform amendment – the constitutional change Illinois really needs.

To learn more about the real solution to Illinois' financial and pension crisis, visit [Wirepoints' Pension Solutions](#) page.