



Wirepoints Special Report

April 2019

Pritzker's progressive tax push: A guide for the ordinary Illinoisan

By Ted Dabrowski, John Klingner and Kevin Maedomari



— *Connecting the dots between our economy, government and people* —

Table of Contents

Introduction	3
Background: pushing a progressive tax	4
1. Pritzker's offer isn't real	6
2. Ordinary Illinoisans will have no say over the actual progressive tax rates	8
3. Taxing only the rich won't work. The middle class will get hit, too	9
4. Many progressive tax states hit middle class individuals harder than Illinois does now	10
Just say no	12
Appendix. How a progressive income tax works	13

Introduction

If you're an ordinary Illinoisan, you may be tempted to support Gov. Pritzker's plan to change Illinois' flat tax structure to a progressive one. He's promising to lower your taxes if you'll support the switch. You should reject his offer. Pritzker's "plan" is simply too good to be true considering the billions in spending promises he's already made and his rejection of any structural reforms to the budget – especially to pensions.

Simply put, the governor's progressive tax numbers aren't credible, nor is his offer of tax breaks for the middle class. Illinoisans might think they'll get a deal, but in reality, they're setting themselves up to take a hit.

Here's why changing Illinois' flat income tax to a progressive tax is a bad idea:

1. Pritzker's "Fair Tax" isn't a real plan.
2. Ordinary Illinoisans will have no say over the actual progressive tax rates.
3. Taxing only the rich won't work. The middle class will get hit, too.
4. Many progressive tax states hit middle class individuals harder than Illinois does now – and that's before Pritzker's promised spending kicks in.

Background: pushing a progressive tax

Before we go into detail, here's the background on what Pritzker wants to do.

There are eight states in the nation that don't tax incomes at all. Ten states have a flat income tax structure. And 32 states have a progressive income tax.

Illinois is one of the 10 states with a flat income tax. That means everybody pays the same tax rate – 4.95 percent – regardless of how much they make. A low-income Illinoisan with a net income of \$20,000 pays nearly \$1,000 in taxes. An Illinoisan making 10 times more, or \$200,000, pays ten times more in taxes, or nearly \$10,000.

And a wealthy Illinoisan earning \$2 million, 100 times more than the low-income Illinoisan, pays 100 times more in taxes, or \$100,000. So, the more you make, the more you pay.

Pritzker wants you to vote for a new progressive structure that would change how income taxes work. Instead of making everyone pay the same rate, a progressive scheme would hit higher-income taxpayers with higher tax rates than taxpayers with lower incomes.

That means the progressive tax would take a larger percentage of income from high earners than it would from low earners. (See the Appendix for more on how progressive income taxes work).

However, the state's constitution only allows for a flat income tax. Supporters of a progressive tax will need to get a constitutional amendment passed to change that.





First, three-fifths of lawmakers in the House and Senate have to vote to approve the amendment. After that, the amendment needs to be put on the ballot of the next statewide election in 2020. A majority of people voting in the election – or three-fifths of Illinoisans that vote on the amendment – would have to approve the amendment for it to be added to the constitution.

That's a high bar to reach. Which is why Gov. Pritzker has jump-started his push for a progressive structure by promoting a set of tax rates he's called the "Fair Tax for Illinois."

It's important to note that the governor's rates are only hypothetical. And unrealistic. They're far too low compared to spending promises Pritzker's made – more on that later. But they're what Pritzker is marketing to Illinoisans, so they need to be discussed.

Pritzker says his rate structure will cut income taxes on all Illinoisans earning less than \$250,000 a year by as much as \$65. He's also promising additional tax credits that are worth \$200 bucks or more, depending on each taxpayer's circumstances. His main selling point is that 97 percent of all earners in Illinois will get a tax break under his "Fair Tax."

The next page has four simple scenarios shared by Pritzker that show savings for various family types, ranging from \$115 to \$271.

 <p>HOUSEHOLD WITH TWO CHILDREN RENTERS</p> <p>\$17,160 HOUSEHOLD INCOME — PROPERTY TAX PAID \$20 INCOME TAX RELIEF — PROPERTY TAX CREDIT \$200 CHILD TAX CREDIT \$220 TOTAL TAX RELIEF UNDER FAIR TAX</p>	 <p>HOUSEHOLD WITH ONE CHILD HOMEOWNERS</p> <p>\$125,000 HOUSEHOLD INCOME \$5,000 PROPERTY TAX PAID \$65 INCOME TAX RELIEF \$50 PROPERTY TAX CREDIT — CHILD TAX CREDIT \$115 TOTAL TAX RELIEF UNDER FAIR TAX</p>
 <p>HOUSEHOLD WITH TWO CHILDREN HOMEOWNERS</p> <p>\$61,000 HOUSEHOLD INCOME \$3,500 PROPERTY TAX PAID \$41 INCOME TAX RELIEF \$35 PROPERTY TAX CREDIT \$195 CHILD TAX CREDIT \$271 TOTAL TAX RELIEF UNDER FAIR TAX</p>	 <p>HOUSEHOLD WITH NO CHILDREN HOMEOWNERS</p> <p>\$250,000 HOUSEHOLD INCOME \$8,000 PROPERTY TAX PAID \$65 INCOME TAX RELIEF \$80 PROPERTY TAX CREDIT — CHILD TAX CREDIT \$145 TOTAL TAX RELIEF UNDER FAIR TAX</p>

In contrast, Pritzker’s “plan” hikes taxes on Illinoisans with incomes of \$250,000 and more. Their tax rates will jump from 4.95 percent today to 7.75 percent and higher.

The worst hit will be earners who make more than \$1 million a year. They’d see their income tax rate grow by more than 60 percent, to 7.95 percent from 4.95 percent. The table with the full range of rates is shown below.

Gov. Pritzker's "Fair Tax" progressive income tax rates

Marginal rate	Net income	Description
4.75%	\$0-\$10,000	Pay 4.75% on income between \$0 and \$10,000
4.90%	\$10,001-\$100,000	Pay 4.9% on income between \$10,001 and \$100,000
4.95%	\$100,001-\$250,000	Pay 4.95% on income between \$100,001 and \$250,000
7.75%	\$250,001-\$500,000	Pay 7.75% on income between \$250,001 and \$500,000
7.85%	\$500,001-\$1 million	Pay 7.85% on income between \$500,001 and \$1 million
7.95%*	Over \$1 million	Pay 7.95%* on income above \$1 million

*Filers with income above \$1 million pay a flat rate of 7.95%

In any ordinary case, most people would take any tax relief they can get. Especially in Illinois, where residents pay some of the nation’s [highest combined](#) tax burdens.

But Illinois politics isn’t ordinary. And neither are its politicians. Their promises simply aren’t credible.

1. Pritzker's offer isn't real

Pritzker's "Fair Tax" rates may sound good, but they simply aren't real. They don't raise the money Pritzker's promised to raise.

Pritzker says his rates will collect \$3.4 billion in new revenue, which isn't remotely close to the \$10.7 billion to \$18 billion in new, additional spending that Pritzker has [promised](#). The governor wants to increase Illinois' annual budget by at least 25 percent, spending billions more on everything from education to health care and from pensions to roads. The rates he's proposed won't do that.

Nor are those rates anywhere near high enough to fix the state's financial crisis in the absence of structural reforms. And since the governor has rejected making any reforms to pensions, the state will have to spend [billions of additional dollars](#) just to keep the pension crisis from getting worse.

The "Fair Tax" rates are one of the oldest sales tricks in the book. Draw customers in with a too-good-to-be-true deal, then whack them with the real cost after it's too late. In this case, after Illinoisans have passed the progressive tax amendment.

The reality is, Pritzker will have to hike rates on everybody, including the middle class, to get the money he really wants.

Since Pritzker never published any tax rates based on the spending promises he made, Wirepoints ran various scenarios. To get \$10.7 billion in new revenues, taxpayers with incomes above \$50,000 would end up paying higher taxes. The middle class would get stuck paying rates of 8.5 and 9 percent.

Pritzker can't avoid a middle class tax hike if he wants to spend all that he's promised

Wirepoints' progressive tax scenario based on Pritzker's \$10.7 billion in minimum spending promises

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% 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 \$1,000,000
11.2%	Pay 11.2% on income in excess of \$1,000,000
Total new revenue raised: \$10.7 billion*	

Source: Income tax stratification data obtained from the Department of Revenue, "Tax Year 2015 - Final" data

*New revenue raised is based on a comparison of revenue obtained from a 4.95 percent flat rate on Illinois' total taxable income vs. revenues obtained from the above progressive rates on the same taxable income.

Note: Assumes no reduction in Illinois' tax base due to higher tax rates.

For example, Illinoisans with \$75,000 in income would pay nearly \$900 more in taxes, up 24 percent compared to the current flat tax. That's on top of the 32 percent income tax increase Illinoisans got hit with just two years ago.

And those rates assume that people will stay and pay those increased taxes. If middle class and wealthy Illinoisans leave, lowering Illinois' tax base, then the rates below would have to go even higher to make up for any lost revenue. For more details, see Wirepoints' Special Report: [What Pritzker's progressive tax rates will probably look like.](#)

2. Ordinary Illinoisans will have no say over the actual progressive tax rates

Second, if and when you finally vote on a progressive tax – which you’d see on the statewide ballot in 2020 – you won’t actually get to vote yourself a tax break. You won’t even get to vote for Pritzker’s “Fair Tax” rates, either. In fact, you won’t get to vote for any rates at all. Instead, you’ll only be only voting on an amendment to the state constitution that will allow lawmakers to create a progressive income tax structure.

If Illinoisans approve that amendment, lawmakers will be able to set any progressive rates they want in early 2021 and beyond. And if politicians’ [legislative history](#) is any guide, any new progressive tax rates would likely be negotiated out of public view, voted on, and signed into law [before](#) taxpayers can react.

Illinoisans would be trusting politicians with what amounts to a blank check by authorizing a progressive tax structure with no rates attached. Politicians in Illinois haven’t earned that trust. And they certainly don’t deserve the benefit of the doubt when it comes to radically changing Illinois’ tax structure.

Remember, these are the same politicians who promised that the 2011 temporary tax hike would fix Illinois’ pension problem and pay down the state’s unpaid bills. Four years and \$32 billion in additional tax dollars later, both promises ended up being broken.

And these are the same politicians who said that the 2017 income tax hike would stabilize Illinois’ finances and balance the budget. That turned out to be untrue, too.

Illinoisans were wrong to take their politicians at their word then, and they’d be foolish to take them at their word now.

3. Taxing only the rich won't work. The middle class will get hit, too

It's wrong for Pritzker to market his "Fair Tax" plan as a solution to Illinois' financial woes when it doesn't come close to raising the money the governor wants – or what the state needs if Pritzker rejects real spending reforms.

It's worse for him to market the progressive tax as a "free lunch:" that the wealthy will pay more while the rest of Illinois gets a tax cut.

The problem is there's no guarantee all of the rich will stick around to pay the tax. There's little incentive for Illinois' wealthiest residents to get stuck with a 60 percent increase in their income tax rates (to 7.95 percent from 4.95 percent).

According to the latest public income tax data from the Illinois Department of Revenue, there are only about 775 tax filers in Illinois who make more than \$10 million a year. Only a few of them would have to leave for Illinois' revenues to be seriously impacted.

For example, Pritzker's "Fair Tax" would lose over \$200 million in revenue if just 100 of the people who make more than \$10 million left the state.

That loss would leave politicians with three options: further increase tax rates on the rich, cut spending, or hike taxes on the middle class.

Hitting the rich would only encourage more of them to leave. And Pritzker and other lawmakers have promised too much to too many people and special interests to cut spending.

That leaves a tax hike on the middle class as politicians' remaining option.

And the "wealthy" don't even have to physically move for Illinois to lose a chunk of new revenue from a progressive tax. All that has to happen is an economic recession.

According to [a recent report](#) by Moody's Investors' Service, progressive tax states that rely heavily on their wealthiest taxpayers to fund their budgets often suffer large ups and downs in revenue. That's because the wealthy are far more liable to lose a large part of their income during economic downturns, which in turn cuts down on the taxes those states can collect.

4. Many progressive tax states hit middle class individuals harder than Illinois does now

There's another reason why you should treat Pritzker's promise to tax the wealthy while sparing the middle class with skepticism.

Progressive income tax proponents always promise to make the rich "pay their fair share" while sparing the middle class. But look at the progressive tax structures around the country.

Many progressive tax states hit both the wealthy and middle class with tax rates above what Illinoisans already pay. In fact, 15 progressive tax states hit middle class single filers with incomes of \$75,000 and above harder than Illinois' current flat tax does: Arkansas, Connecticut, Delaware, Georgia, Hawaii, Idaho, Minnesota, Montana, Nebraska, New York, Oregon, South Carolina, Virginia, West Virginia and Wisconsin.*

Take South Carolina, for example. Its tax structure is technically progressive, but ends up treating the middle class and the wealthy exactly the same.

The state's highest bracket starts at just \$14,650, hitting all taxpayer incomes above that with a 7 percent marginal rate. A middle class, individual tax filer in South Carolina making a gross income of \$75,000 pays \$3,909 in income taxes a year after exemptions and deductions are applied. Under Illinois' current flat tax, a \$75,000 earner pays \$3,602.

South Carolina's progressive tax hits all income above \$14,650 with a 7 percent rate

South Carolina income tax structure as of 1/1/2018

Marginal tax rate	Income tax bracket
3.0%	Pay 3% on income between \$2,930 and \$5,860
4.0%	Pay 4% on income between \$5,860 and \$8,790
5.0%	Pay 5% on income between \$8,790 and \$11,720
6.0%	Pay 6% on income between \$11,720 and \$14,650
7.0%	Pay 7% on income above \$14,650

Source: Tax Foundation

**Analysis of state income taxes is for single filers only. The taxes paid by single filers, married taxpayers filing separately and married taxpayers filing jointly will vary significantly because many states have different tax rates, exemptions and deductions for each class of filer.*

Middle-class taxpayers in Oregon get hit under that state's progressive structure, too. There, the first tax bracket begins at 5 percent, and all middle class income (\$8,500-\$125,000) is taxed at 9 percent. Oregon's tax bill for residents with \$75,000 in income is \$5,513, over \$1,900 more compared to Illinois' tax.

Oregon's progressive income tax structure hits income above \$3,400 with a 7 percent rate, and the rates only go up from there
Oregon income tax structure as of 1/1/2018

Marginal tax rate	Income tax bracket
5.0%	Pay 5% on income between \$0 and \$3,400
7.0%	Pay 7% on income between \$3,400 and \$8,500
9.0%	Pay 9% on income between \$8,500 and \$125,000
9.9%	Pay 9.9% on income above \$125,000

Source: Tax Foundation



Hawaii hits middle class incomes between \$48,000 and \$150,000 with a rate of 8.25 percent. A resident with \$75,000 in income pays \$5,165 in taxes. That's \$1,500 more than the current income tax bill in Illinois.

And in California, the marginal tax rate on incomes from \$43,000 to \$53,980 is 8 percent. The next bracket hits income from \$53,980 to \$275,738 with a 9.3 percent rate. A resident making \$80,000 has to pay \$3,918 in taxes, \$68 more than the same resident in Illinois. California's rates shoot up rapidly from there, hitting the upper middle class and wealthy hard.

What all of the above tells you is that it's very likely politicians will hit the middle class with higher taxes despite what they're promising now.

Pritzker and other progressive tax proponents will argue that the "Fair Tax" rates will provide a tax cut to most Illinoisans, but remember, those rates simply aren't real.

The governor will eventually need more money to fulfill the billions in spending promises he's made. And like so many other progressive income tax states have done, he'll likely end up hiking taxes on the middle class to get it.

Just say no

Illinoisans are already burdened with the nation's [highest property taxes](#) and one of the highest overall state-local tax burdens. Residents are already leaving in record numbers and Illinois is [losing people](#) faster than almost every other state. Wirepoints detailed Illinois' population decline in a recent report: [Illinois' demographic collapse: fewer immigrants, fewer babies and fleeing residents](#).

Enacting a progressive tax will only hollow Illinois out further. Higher taxes on the wealthy and the middle class will only encourage more people to leave.

If Pritzker truly wants to turn Illinois around, he'll keep Illinois' flat tax structure in place and focus on growing Illinois' tax base, not its tax rates.

Appendix. How a progressive income tax works

A progressive income tax structure makes higher-income taxpayers pay overall higher tax rates than taxpayers with lower incomes. That means the progressive structure takes a larger **percentage** of income from high earners than it does from low earners.

A progressive income tax is comprised of different tax rates for different levels of income. States can create any combination of rates and income brackets that they want, but to be progressive, tax rates have to rise as incomes get bigger.

For an example, let's look at Connecticut's progressive tax structure. Connecticut has seven tax brackets, ranging from 3 percent on a taxpayer's first \$10,000 in net income to 6.99 percent on all net income above \$500,000. "Net income" is a filer's income after any personal tax exemptions and deductions are applied.

The important thing to understand is that the above tax rates from 3 percent to 6.99 percent are *marginal* rates. That means each rate only applies to the income in each rate's bracket.

So, for example, a Connecticut resident with \$55,000 in net taxable income would end up paying the tax rates under the first three tax brackets.

- Her first \$10,000 – the income between \$0 and \$10,000 – would be taxed at 3 percent;
- Her next \$40,000 – the income between \$10,000 and \$50,000 – would be taxed at 5 percent; and
- Her last \$5,000 – the remaining income between \$50,000 and \$100k – would be taxed at 5.5 percent.

State income taxes paid by a Connecticut resident with \$55,000 in taxable income

State income tax structure as of 1/1/2018

		Taxpayer with \$55,000 in taxable income		
Marginal tax rate	Income tax bracket	Portion of taxpayer's income	Formula	Income taxes paid
3.00%	\$0-\$10,000	\$10,000	$(\$10,000 \times 0.03)$	\$300
5.00%	\$10,000-\$50,000	\$40,000	$(\$40,000 \times 0.05)$	\$2,000
5.50%	\$50,000-\$100,000	\$5,000	$(\$5,000 \times 0.055)$	\$275
6.00%	\$100,000-\$200,000			
6.50%	\$200,000-\$250,000			
6.90%	\$250,000-\$500,000			
6.99%	\$500,000 and above			
Total:		\$55,000		\$2,575
		Total effective income tax rate (total tax / total income)		4.68%

Source: Tax Foundation

That's a total tax bill of \$2,575 dollars and an *effective* tax rate of 4.68 percent (\$2,575 in taxes divided by \$55,000 in income equals the effective rate).