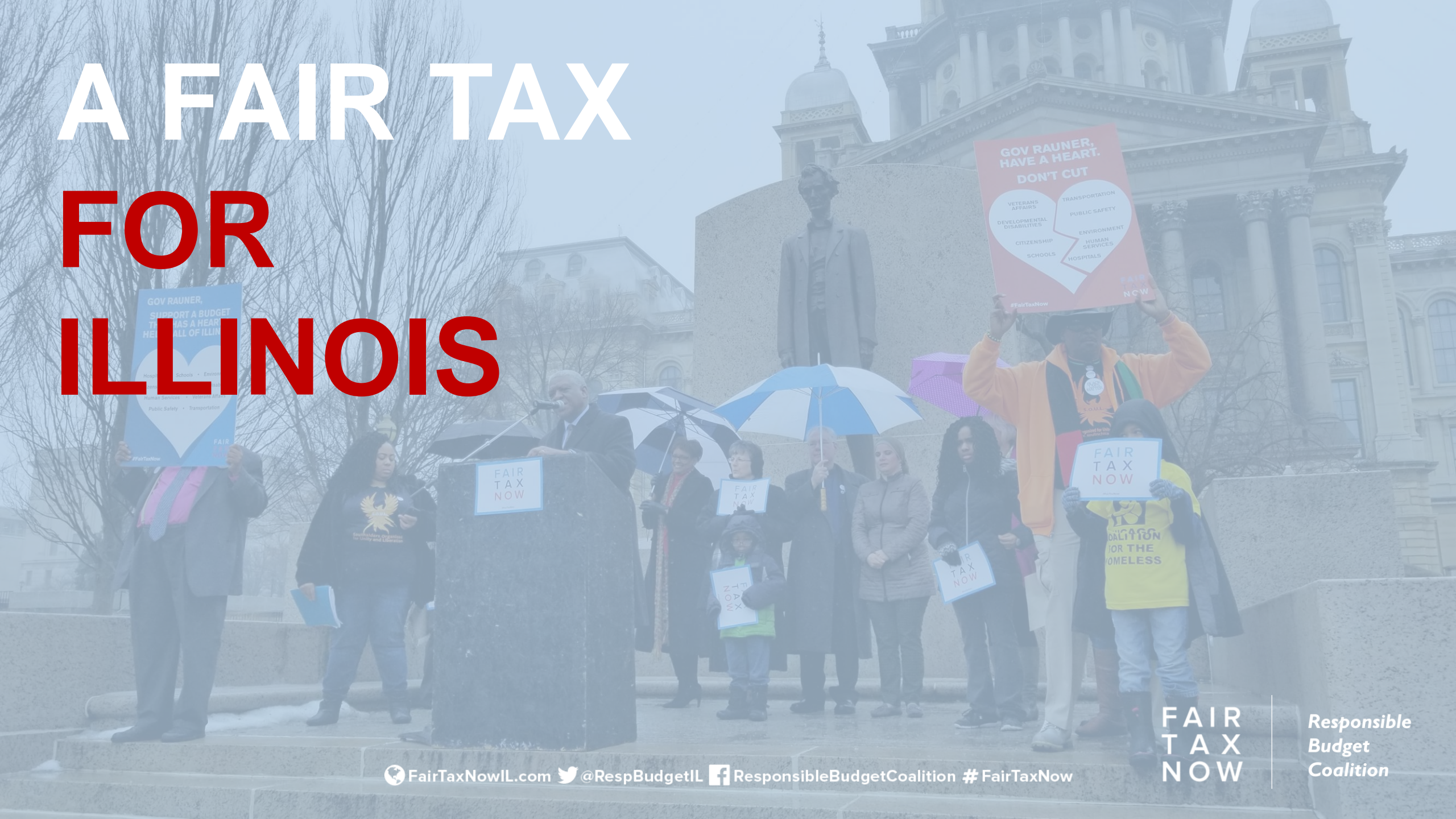


# A FAIR TAX FOR ILLINOIS



# THE RESPONSIBLE BUDGET COALITION

- ➔ Over 300 organizations
- ➔ Cross sector – human services, health care, higher education, pre k-12, labor unions, civic organizations, faith communities
- ➔ Non-partisan – focused on good policy, not electioneering



# BEFORE THE BUDGET IMPASSE, ILLINOIS WAS MEDIUM – LOW TAX OVERALL

MIDWEST STATES	% OF TOTAL INCOME TO LOCAL AND STATE TAXES	NATIONAL RANK
Iowa	16.5%	14th
Ohio	15.4%	21st
Wisconsin	15.3%	22nd
Michigan	15.2%	25th
Illinois	15.1%	27th
Indiana	14.7%	32nd
Missouri	13.2%	48th

*Staying  
around  
27th after  
SB9*

Source: Federation of Tax Administrators. Includes all state and local taxes and fees.



# BUT WE WERE UNDERINVESTED IN OUR COMMUNITIES

## Consider that:

- ➔ 50<sup>th</sup> in the country in state support for public education
- ➔ 50<sup>th</sup> in the country in full-time state workers per 1000 residents
- ➔ 37<sup>th</sup> in total state expenditures per capita

National Association of State Budget Officers (2013), Census (2013), and Kaiser Family Foundation (2015), CBPP

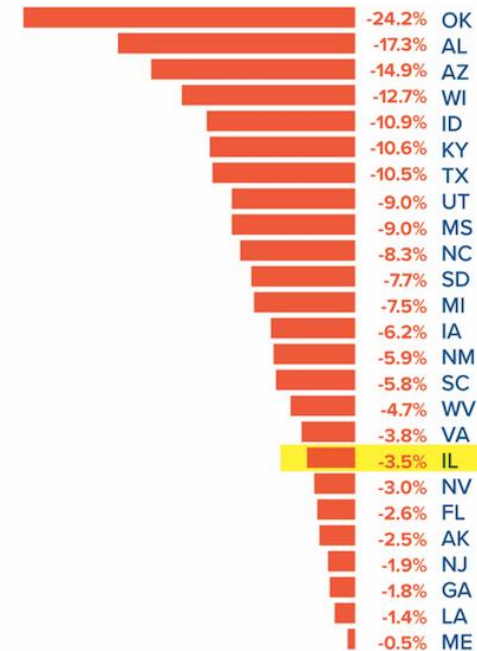
\*General or formula funding is the primary form of state K-12 funding. States also typically provide revenue for other, more specific purposes, such as bus transportation and contributions to school employee pension plans.

Note: California, Hawaii, Indiana, and Kansas are excluded because the data necessary to make a valid comparison are not available.

Source: CBPP budget analysis and National Center for Education Statistics enrollment estimates

## STATE GENERAL FUNDING PER STUDENT STILL LOWER THAN 2008 IN 25 STATES

Percent change in state formula funding\* per student,  
inflation-adjusted, fiscal years 2008–2016



# WHERE DOES THE MONEY GO?

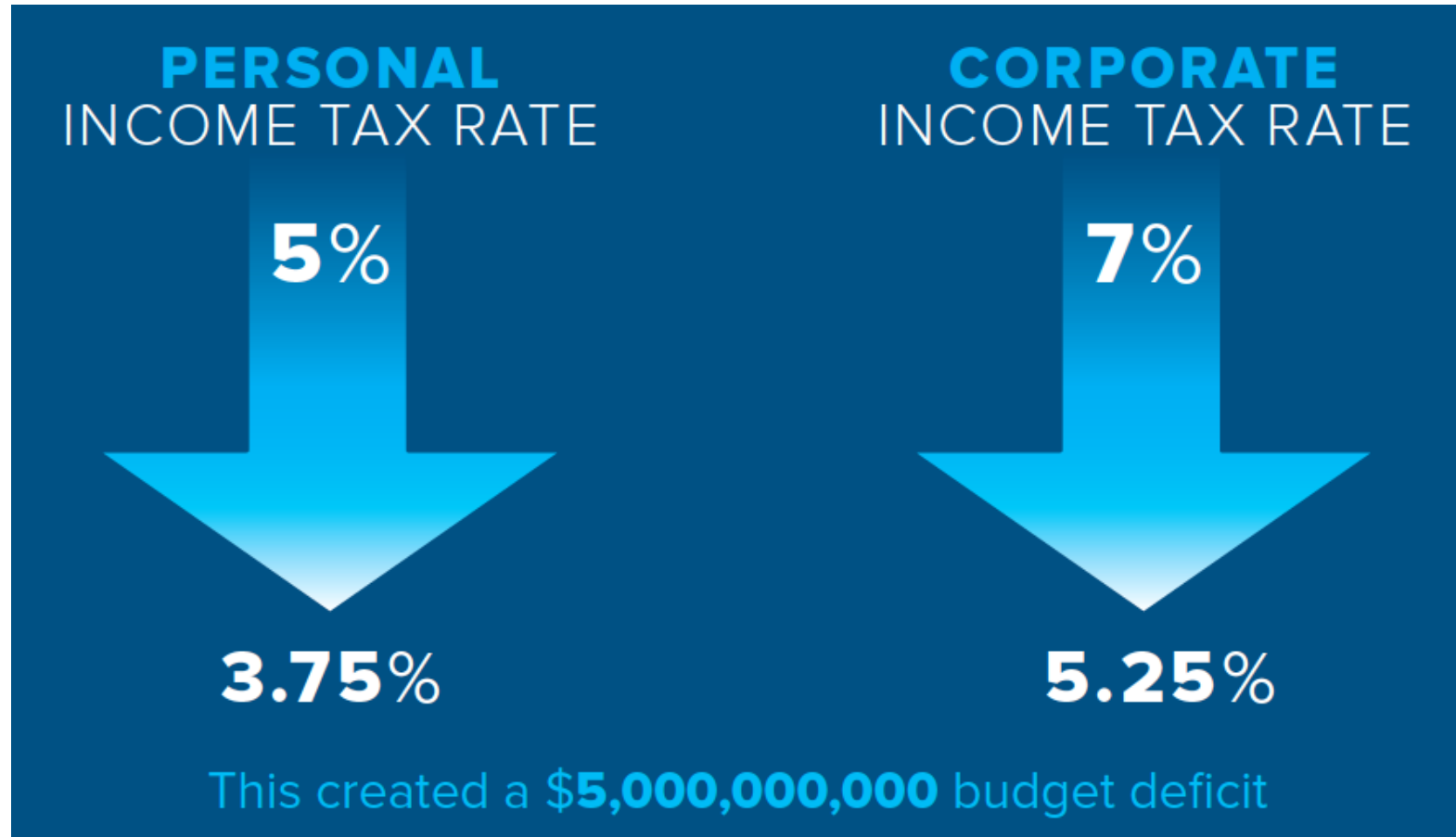
Ratios of disbursements  
to revenues by county

- 0.80 and under
- 0.81–1.00
- 1.01–2.00
- 2.01 and over



**FOR EVERY DOLLAR A  
COUNTY SENDS TO THE  
STATE, HOW MUCH DOES  
IT GET BACK?**

# 2014: GOVERNOR RAUNER AND THE GENERAL ASSEMBLY DECIDE TO ALLOW THE INCOME TAX TO FALL



# THE LAST TAX CUT BENEFITED THE WEALTHY

## SHARE OF TAX CUT BY NET ILLINOIS INCOME—ILLINOIS RESIDENTS ONLY

	Net Illinois Income Group	Total Difference between 3.75% and 5% for Income Bracket	% of Tax Benefit	Average Cut	Average Net Illinois Income	Average Adjusted Gross Income	% of Tax Filers	
13%	\$0–\$25,000	(\$301,052,960)	8.1%	(\$106.89)	\$8,550.90	\$18,964.43	50.4%	Bottom 60%
	\$25,001–\$35,000	(\$189,646,232)	5.1%	(\$372.32)	\$29,785.39	\$39,082.14	9.1%	
	\$35,001–\$50,000	(\$300,654,609)	8.1%	(\$526.45)	\$42,115.75	\$51,775.10	10.2%	
	\$50,001–\$75,000	(\$492,169,307)	13.2%	(\$768.78)	\$61,502.31	\$71,740.42	11.5%	
	\$75,001–\$100,000	(\$418,908,679)	11.2%	(\$1,080.17)	\$86,413.26	\$97,258.15	6.9%	
54%	\$100,001–\$200,000	(\$809,279,182)	21.7%	(\$1,677.04)	\$134,162.76	\$146,324.98	8.6%	Top 11%
	\$200,001–\$1,000,000	(\$717,656,313)	19.2%	(\$4,371.34)	\$349,706.85	\$365,598.00	2.9%	
	\$1,000,001 or Greater	(\$503,206,395)	13.5%	(\$36,797.54)	\$2,943,802.83	\$2,976,255.53	0.2%	
	<b>Total</b>	<b>(\$3,732,573,676)</b>	<b>100.0%</b>	<b>(\$668.28)</b>	<b>\$53,462.03</b>	<b>\$64,072.49</b>	<b>100.0%</b>	

Source: CTBA analysis of the Illinois Department of Revenue's Personal Income Tax data for tax year 2011.  
Numbers do not add up due to rounding

# BUDGET IMPASSE

- ➔ Illinois goes more than 2 years without a budget – longest in U.S. history
- ➔ Backlog of unpaid bills reaches \$16 billion
- ➔ State road construction projects halted
- ➔ State downgraded to near junk status – the lowest state rating in U.S. History
- ➔ People denied essential services, while providers go over a year without receiving payment

## Damage Done:

The Impact of the Illinois Budget Stalemate  
on Women and Children





# FINALLY, A BUDGET – JULY, 2017

## RAISES APPROXIMATELY \$5 BILLION



Restores the Individual  
Income Tax Rate

**3.75%** → **4.95%**



Restores the Corporate  
Income Tax Rate

**5.25%** → **7%**

## SOME POSITIVE ELEMENTS:

- Prohibits a taxpayer with an adjusted gross income of more than \$250,000 (or \$500,000 for spouses filing a joint federal return) from claiming: Standard Exemption, Property Tax Credit, or Education Expense Credit.
- Increases the state's Earned Income Tax Credit from 10% of the federal EITC to 14% in tax year 2017 and then to 18% in tax year 2018
- Increases the maximum Education Expense Credit amount from \$500 to \$750.
- Creates a new tax credit of up to \$250 for teachers who use personal income on instructional materials and supplies.
- Closes 3 corporate loop holes.

# ILLINOIS IS STILL DROWNING IN **RED INK**

## 1. Over \$3 billion in Cuts

- ➔ \$1.4 billion cut by creating a Tier III pension (no savings will be realized this year)
- ➔ 10 percent cut to higher education
- ➔ 10 percent cut to transfers to local government distributive fund and public transit funds
- ➔ Additional human service lines zeroed out

## 2. Authorized \$6 billion in bonding

## 3. Authorized nearly \$1.5 billion in special fund transfers (must be paid back within 24 months)

# MORE CUTS

## October, 2017

Governor Rauner issued a \$89 million budget reduction across 36 social service programs

- ➔ **Teach Reach:** -36 percent
- ➔ **Youth Employment Programs:** -23 percent
- ➔ **Independent Living Centers:** -12 percent
- ➔ **Westside Health Authority Crisis Intervention:** -66 percent

# THE FISCAL YEAR 2019 PROPOSED BUDGET:

## BUILT ON A SHAKY FOUNDATION

Estimated Revenues: **\$37.96B\*** → Estimated Expenditures: **\$37.61B** → Estimated Surplus: **\$351M**

Begin shifting teacher and university employee pension and health care costs to local school districts and universities over a four-year period. **For FY19, that means:**

Teachers Retirement System	\$262M
State would not pick up Chicago Teacher Pension Payment that was part of new school funding bill	\$228M
Eliminate payment for retired teachers' health care	\$129M
Reduce health care benefits for current state employees	\$470M
Reduce Medicaid reimbursement rates for providers (except community health centers or for prescriptions) by 4%	\$150M
<b>TOTAL</b>	<b>\$1.24B</b>

\*Assumes authorization for \$600 million in Interfund transfers.

[While calling for a shift in pension and health care costs for state universities and community colleges, the FY19 budget includes an appropriation of \$205.7 million to offset the costs.]

The Governor's proposal calls for capturing revenue from the sale of the James R. Thompson Center—a prior proposal that has not occurred to date. **Net Revenue: \$240M**



# IT'S EVEN WORSE THAN IT SEEMS

Category	FY2000 (Nominal)	FY2018 Projected Net Appropriated Expenditures	FY2000 (Adjusted for Inflation and Population)	\$ Difference	% Difference
Healthcare (including Medicaid)	\$5.04B	\$7.18B	\$8.34B	-\$1.16B	-13.9%
PreK-12 Education*	\$4.84B	\$7.79B	\$8.01B	-\$220M	-2.7%
Higher Education	\$2.15B	\$1.74B	\$3.56B	-\$1.82B	-51.1%
Human Services	\$4.66B	\$5.61B	\$7.71B	-\$2.10B	-27.2%
Public Safety	\$1.39B	\$1.90B	\$2.30B	-\$400M	-17.4%
Other	\$1.64B	\$1.05B	\$2.71B	-\$1.66B	-61.0%

Note: PreK-12 education and human services have artificially high approps due to shift of pre-existing special funds to General Fund. Also note that Group Health is excluded.

# WHERE DO WE GO FROM HERE?

**1**

**A Fair Tax for Illinois**

**2**

**Higher incomes pay higher rates, and  
lower incomes pay lower rates**

# TWO APPROACHES TO TAX POLICY

## KANSAS

- Cut top personal income tax rate from 6 percent to 4.5 percent in 2012
- Projected to reduce revenue by \$920 million in FY2017
- Income tax as share of state revenue fell from 50 percent to 40 percent
- Bond rating fell
- Had to issue cuts to education and infrastructure
- This year, the Republican legislature overrode the governor to restore taxes

## MINNESOTA

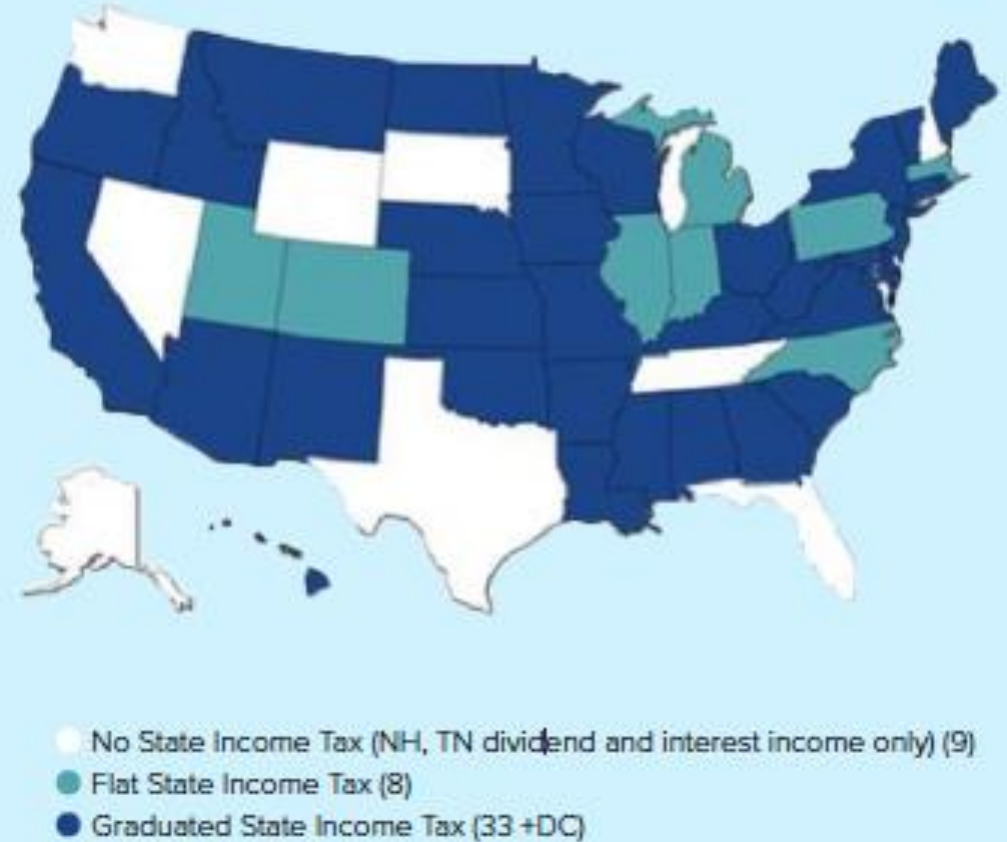
- Raised income taxes in 2013
- Created the third-highest top marginal personal income tax rate (9.85 percent)
- \$1.4 billion budget surplus for FY2018-19
- Fastest growing economy in the Midwest
- Unemployment continues to fall while median household incomes are increasing

Kansas Source: Brookings Institute, 2017 | Minnesota Source: PolitiFact, 2015

# THE FACTS

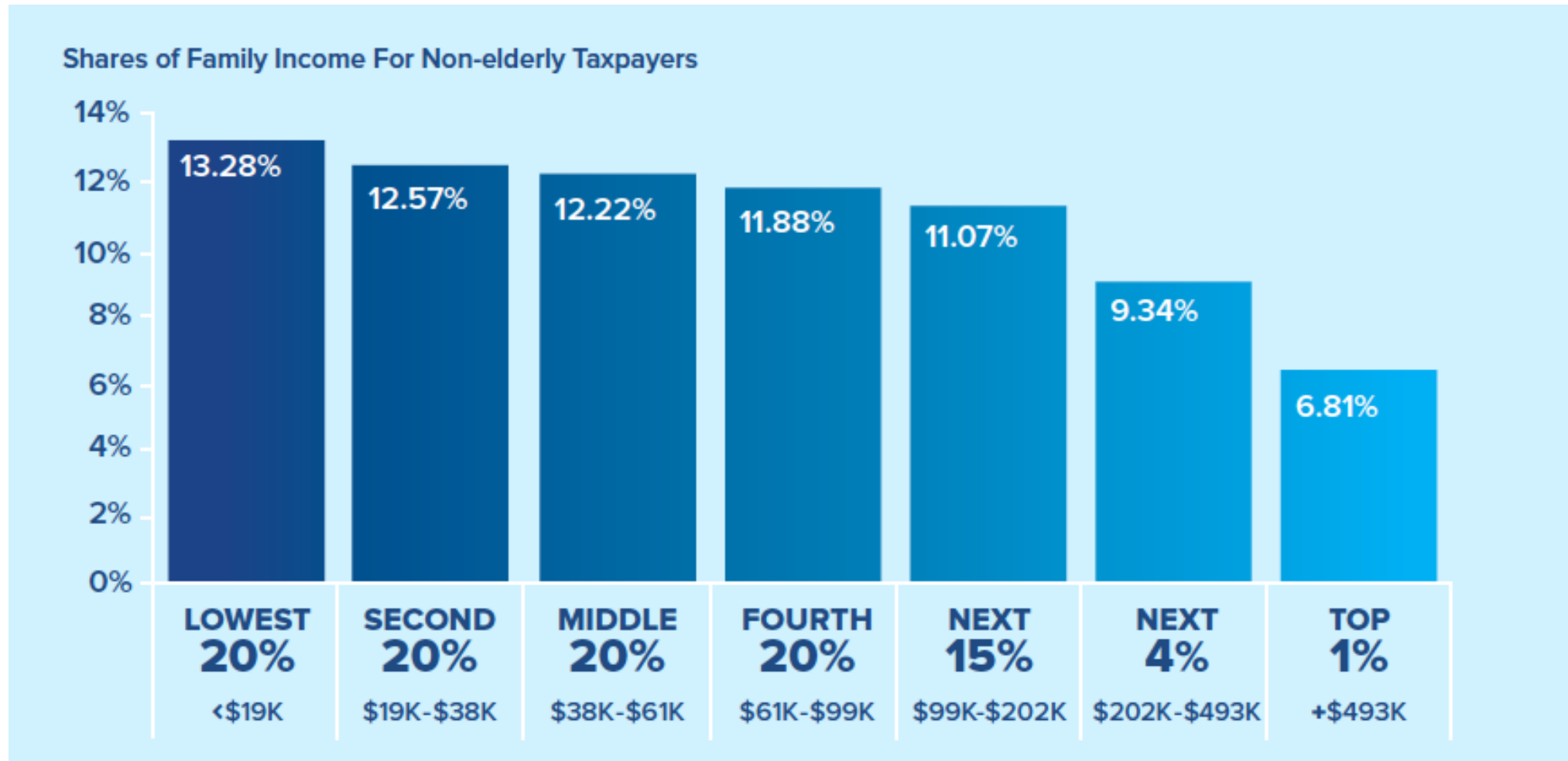
- ➔ Illinois is 1 of only 4 states that mandates a flat tax in its constitution.
- ➔ 33 states, D. C., and the Federal Government use a fair tax structure
- ➔ Nearly all income growth over the past decades has been among the top 10% of earners – a flat tax fails to capture this growth.
- ➔ States with a fair tax, on average, grow their economies as fast or faster than states that do not.
- ➔ A graduated income tax rate structure helps create a fair tax system by placing a greater tax burden on affluent families than on low and middle income families, when tax burden is measured as a percentage of income. (CTBA)

## Most States Have Fair Income Tax





# THE FLAT TAX IS UNFAIR



# ILLINOIS TAX BURDEN

The lowest 20% income households pay **nearly twice** as much in taxes as percentage of income than the top 1% income households.\*

INCOME	LOWEST 20%	SECOND 20%	MIDDLE 20%	FOURTH 20%	TOP 20%		
					NEXT 15%	NEXT 4%	TOP 1%
Income	Less than \$19,000	\$19,000–\$38,000	\$38,000–\$61,000	\$61,000–\$99,000	\$99,000–\$202,000	\$202,000–\$498,000	\$498,000 or more
Average Income In Group	\$10,900	\$28,400	\$49,500	\$78,000	\$133,700	\$305,000	\$1,826,400

\*Source: Institute on Taxation and Economic Policy

# IT JUST MAKES SENSE

**AMENDING THE ILLINOIS CONSTITUTION TO ALLOW A FAIR TAX WOULD RESULT IN A TAX CUT FOR 90 PERCENT OF ILLINOISANS AND RAISE AN ADDITIONAL \$1-\$3 BILLION TO REPAIR THE DAMAGE DONE BY THE BUDGET IMPASSE. A FAIR TAX WOULD MAKE SMART INVESTMENTS IN BUILDING THRIVING COMMUNITIES ACROSS OUR STATE.**

# THE PROCESS

## STEP 1

- ➔ Pass a Joint Resolution for a Constitutional Amendment through both the Illinois House and Senate by May 10, 2018
- ➔ The resolution requires 3/5 vote.
- ➔ There is no veto.

## STEP 2

- ➔ The question is placed on the ballot for the 2018 general election.
- ➔ If we vote in favor, the constitution is amended.



# NEXT STEPS

1

Contact your state senator and state representative to express your support for a fair tax!

2

Attend the next town hall meeting/cluster gathering.

3 SPRING 2018

Legislators vote to put the fair tax on the ballot as a constitutional amendment

4 NOV. 6, 2018

**YOU** vote for Illinois to adopt a fair tax structure



# QUESTIONS

# FAIR TAX NOW

 [FairTaxNowIL.com](https://FairTaxNowIL.com)  [@RespBudgetIL](https://twitter.com/RespBudgetIL)  [ResponsibleBudgetCoalition](https://www.facebook.com/ResponsibleBudgetCoalition) [#FairTaxNow](https://twitter.com/FairTaxNow)

FAIR  
TAX  
NOW

*Responsible  
Budget  
Coalition*