CTBA | Center for Tax and Budget Accountability

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70 E. Lake Street, Suite 1700
Chicago, IL • 60601
www.ctbaonline.org

Ralph M. Martire
Executive Director
(312) 332-1049
rmartire@ctbaonline.org

Allison Flanagan
Director of Policy Analysis
(312) 332-1348
aflanagan@ctbaonline.org

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Center for Tax and Budget Accountability Releases New Report: Implementing the "Fair Tax" Will Help the Illinois Fiscal System Respond Better to the Modern Economy While Promoting Tax Fairness

CHICAGO – Today, the Center for Tax and Budget Accountability (CTBA) released a new report titled ***Implementing the "Fair Tax" Will Help the Illinois Fiscal System Respond Better to the Modern Economy While Promoting Tax Fairness***. The report finds that the state's current tax structure has both worsened after-tax income inequality in Illinois, while also constraining private sector economic growth by diminishing consumer spending, which accounts for roughly 67 percent of all economic activity.

The Report concludes that ratification of the proposed amendment to the Illinois Constitution that would permit implementation of the graduated rate income tax structure contained in P.A.101-008 and known as the "Fair Tax,"—which cuts taxes for the bottom 97% of income earners in Illinois while raising new revenue from the top 3% of income earners—would reduce the regressivity of Illinois' state and local tax system, help reduce after-tax income inequality, and help Illinois recover from the current recession driven by COVID-19.

Over the last four decades, the wealthiest one percent of Illinois households saw their annual average incomes spike on an inflation-adjusted basis from $411,177 per year in 1979, to over $1.4 million by 2017, an increase of 254 percent. Meanwhile the bottom 99 percent of Illinois households—or literally everyone else—saw far more modest growth in inflation-adjusted average annual income, which went from just over $51,000 per year in 1979, to just over $61,000 per year in 2017.

So, before accounting for the impact of the state's regressive tax system, the average incomes of the wealthiest one percent in Illinois went from being 7.9 times greater than the average incomes of everyone else in 1979, to 22.6 times greater by 2017. As it turns out, the average income gap before taxes between the top one percent and bottom 99 percent of households in Illinois grew at the fastest rate of any state in the Midwest over this time period.

The CTBA Report finds that current state and local tax policy in Illinois actually worsens the growing income inequality between the wealthiest one percent and all other households. For instance, before accounting for state and local taxes, in 2016—the last year for which comprehensive tax burden by income quintile in Illinois is available—the wealthiest one percent in Illinois had annual earnings that were 137 times greater than workers in the bottom 20 percent. After accounting for state and local taxes, however, the top one percent in Illinois had net after-tax incomes that were 149 times greater than the bottom 20 percent.

Given Illinois' current fiscal woes and the structural deficit in its General Fund, the state cannot continue to fund the current level of public services it provides into the future without a tax increase. Due to the regressive nature of Illinois' state and local tax system, any tax increase under the current structure would make income inequality even worse and further increase the tax burden on low- and middle-income workers.

The Report highlights how, in addition to being bad tax policy, focusing tax burden on low- and middle-income workers has historically constrained long-term private sector growth in the state. The reason for this is regressive taxation diminishes the spending power of low- and middle-income workers, who tend to spend the vast majority of their incomes. By dampening consumer spending, which accounts for around 67 percent of all economic activity, the state's regressive tax policy slows economic growth. Continuing to focus tax burden on low- and middle-income workers would be particularly bad economically during the recession caused by the Coronavirus pandemic, which is being driven in large part by historic declines in consumer spending.

"For small businesses, tax rates are far, far less important than aggregate demand, that is, the overall disposable income in the pockets of our customers," said David Borris, member of the Executive Committee of the Main Street Alliance, a national business network. *"First and foremost, our very survival depends upon a client base with enough money in their pockets to spend in our shops and fuel our growth, creating jobs in a virtuous cycle of rising demand, increasing wages, and higher overall profitability. A small tax increase on a mere 3% of taxpayers is incidental to our overall prospects for growth."*

The Report therefore concludes it would be both fairer to taxpayers and more responsive to the modern economy, to have as much of the new tax revenue generated in a manner that recognizes the significant growth in income inequality that's occurred in the Illinois private sector over the last four decades, by taking into account ability to pay. The income tax is the only tax that can be designed to impose new taxes in a manner that comports with ability to pay and responds to growing income inequality, but only if it has a graduated rate structure like the one created in the Fair Tax, that assesses higher tax rates on higher levels of income and lower tax rates on lower levels of income.

The full report can be found online at CTBA's website: https://ctbaonline.org/reports.

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The Center for Tax and Budget Accountability, established in 2000, is a bi-partisan 501(c)(3) research and advocacy think tank that promotes fair, efficient, and progressive tax, spending, and economic policies.