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Illinois Should Enhance its Earned Income Tax Credit and Create a Child Tax Credit

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1. Earned Income Tax Credit and Child Tax Credit Basics

The Earned Income Tax Credit, or "**EITC**," rewards work and reduces poverty by targeting tax relief to low-income families with children. The program, which was first established in 1975 under Republican President Gerald Ford, has enjoyed strong bipartisan support at the national level.[1] For instance, the EITC was expanded significantly under the administrations of both Republican President Ronald Reagan, as part of the 1986 Tax Reform Act, as well as Democratic President Joe Biden in the American Rescue Plan Act or "**ARPA**."[2]

The EITC has garnered strong support across a broad ideological spectrum for several reasons, which include everything from ease in administration, to effectiveness in satisfying the policy goal of alleviating poverty. Indeed, the EITC has become one of the more effective anti-poverty programs in the United States.[3] The reason the federal EITC is so effective is because it is designed as a "refundable" tax credit. When a tax credit is **"refundable**," the taxpayer who qualifies to receive it gets the full dollar value of the credit, even if that dollar value exceeds the income tax liability said taxpayer owes.

For instance, if in a given year a low-income worker qualifies to receive a $500 EITC from the federal government, but only owes $200 in federal income taxes, two things happen. First, that worker will not have to pay any federal income taxes, because the dollar value of the credit ($500) exceeds the full amount of her or his income tax liability ($200). Second, this worker will then receive a check from the Internal Revenue Service ("**IRS**") in the amount of $300, which is the difference between the dollar value of the worker's EITC and the amount of federal income taxes that worker owed for the year in question.

As the preceding example illustrates, because it is both targeted at lower income workers and refundable, the EITC effectively boosts the earnings of workers who qualify to receive it, thereby increasing their purchasing power and alleviating poverty. And because lower wage workers tend to spend, rather than save any increase in income they receive—including income enhancements from tax credits—that additional spending creates the concomitant benefit of stimulating private sector economic growth.

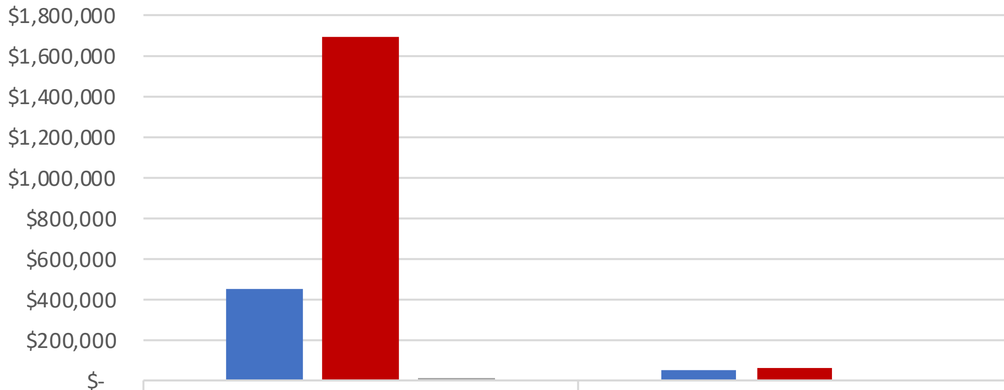
In addition to alleviating poverty and stimulating the economy, the refundability feature of the EITC also creates a very effective, as well as administratively facile way to make tax burden fairer.

It is now textbook tax policy that to be fair to taxpayers who have very different levels of income, tax burden should be allocated in a manner that comports with ability to pay**,** when tax burden is measured as a percentage of income.[4] This venerable principle of tax fairness goes all the way back to 1776 and the creation of the theory of capitalism by Adam Smith, in his seminal work *The Wealth of Nations*. In *The Wealth of Nations*, Smith specifically endorsed the propositions that:

- Tax policy should "remedy inequality of riches as much as possible, by relieving the poor and burdening the rich," and
- "The subjects of every state ought to contribute toward the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state."[5]

Smith championed allocating tax burden in accordance with ability to pay because he theorized that in a capitalist economy, top income classes would gain a disproportionately high share of income growth over time.[6] The good news is Adam Smith's theory can be tested with data, and the data show Smith's theory was spot on. As detailed in **Figure 1**, after adjusting for inflation, from 1979 to 2018, the average, annual income before taxes of the wealthiest one percent in America grew by 275 percent in real terms, while the average, annual income before taxes for everybody else grew by just 24 percent in real terms.

Figure 1
Average Annual Incomes of Top 1%, Bottom 99% in U.S., 1979 & 2018



	Top 1%	Bottom 99%
1979	$452,513	$53,407
2018	$1,697,006	$66,480
% Growth	275%	24%

Source: CTBA analysis of IRS Statistics of Income for U.S., inflation-adjusted using CPI for 2018

Given the growth in income inequality that has manifested over the last few decades, making tax burden fairer requires shifting tax burden from low- and middle-income earners to more affluent earners. In tax policy speak, that means shifting from a "regressive" tax system (i.e. a system where tax burden as a percentage of income is greater for low- and middle-income individuals than for affluent individuals) to a more progressive tax system (i.e. a system where tax burden as a percentage of income increases as annual income increases).

As outlined previously, because the EITC is refundable, a lower wage worker who qualifies to receive this credit gets the full dollar value they qualify for, even if that dollar value exceeds her or his income tax liability. This excess monetary benefit effectively makes tax policy more progressive because it helps offset the impact of many of the taxes, like sales, property and excise, low- and lower-middle-income workers' pay in addition to the income tax. That in turn makes their overall tax burden less regressive and hence fairer.

As of December 2021, 25 million workers and families received around $60 billion in EITC benefits from the federal government, with the average federal EITC benefit nationwide being roughly $2,411.[7] In 2018, the EITC lifted about 5.6 million people out of poverty, including about 3 million children.[8]

Of the 41 states that have an income tax, 22 base their state income tax codes on the federal income tax.[9] This has made it easy for many states to establish their own EITC, by simply piggybacking on federal law. Frequently, states establish their EITCs as a set percentage of the amount of the federal EITC refund their state residents qualify to receive.[10] As things stand now, 30 states, as well as the District of Colombia and Puerto Rico, have established their own EITC, which range in value from three percent of the federal credit in Montana, to 100 percent in the District of Columbia.[11]

The Child Tax Credit ("**CTC**") was established as part of the Taxpayer Relief Act of 1997 and is another effective federal program that has been continuously expanded on a bipartisan basis.[12] Initially, the CTC provided qualified taxpayers with a $400 per child nonrefundable credit.[13] Unlike the EITC, which is targeted towards lower-income workers, the CTC was intended to provide tax relief to middle-income families.[14]

Over time, eligibility under the CTC has been expanded by Congress, to make the credit available to families with both lower and higher levels of earnings. Congress also increased the dollar value of the credit from its initial amount of $400 per child to $2,000 per child, for children between the ages of 0 and 16 years old.[15] In 2001, the CTC was made refundable, on a limited basis, with a maximum refundable benefit of $600.[16]

Under ARPA, the CTC was made fully refundable to ensure its benefits reached low- and no-income families. [17] As currently drafted, ARPA's expanded refundability provisions for the CTC expired on December 31, 2021.[18] Thereafter, low-income families will be eligible to receive a maximum of $1,400 in refundable benefits under the CTC, irrespective of how many children they may have (a more detailed analysis of the ARPA expansion of benefits under the CTC and EITC is set forth in Section 2 of this Report).[19]

Like the EITC, because the CTC is refundable it has become a powerful tool against poverty. In 2018, it was estimated that the CTC lifted about 2.3 million children out of poverty and lessened poverty for another 5.8 million children.[20] Moreover, the same logic that applies to the EITC regarding the spending of low-income individuals and families applies to the CTC: because lower wage workers tend to spend rather than save any increase in income they receive, their additional spending generates private sector economic growth.

Its refundability feature also makes the CTC effective at making tax policy fairer, because like the EITC, the CTC functions to offset taxes other than income taxes—like sales, excise and property taxes—which place a disproportionate burden on lower income earners.

2. Recent Federal Enhancements of the EITC and CTC Were Intended to Help Counter Some of the Negative Economic Impacts of COVID-19

Because the COVID-19 pandemic disproportionately impacted low- to middle-income individuals and families, Congress and President Biden included in ARPA, among other things, an increase in the benefits provided, and expansion of eligibility under both the EITC and CTC.

For instance, on a temporary basis through December 31, 2021, ARPA enhanced the EITC in the following two ways for low-income workers without qualifying children:[21]

i. First, ARPA increased the maximum dollar value of the credit from 7.65 percent of earned income to 15.3 percent of earned income, and made corresponding increases in the benefit amount the credit generated as it plateaued and then phased down as earned income increased—this effectively tripled the maximum dollar value of the benefit under the EITC from $543 to $1,502; and
ii. Second, ARPA increased the earned income level at which benefits began to phase down from $8,880 to $11,610 and from $14,820 to $17,550.[22]

ARPA also temporarily reduced the minimum age of eligibility to qualify to claim the EITC from 25 to 19 years old for most workers. For students attending school at least part-time in 2021, the age limit to claim the EITC was temporarily reduced from 25 to 24. Finally, ARPA temporarily eliminated the upper age limit on qualifying to claim the EITC, making workers aged 65 and older eligible in 2021.[23] All the preceding enhancements to the EITC under ARPA expired on December 31, 2021.[24]

Like the EITC, the CTC was enhanced in meaningful ways. For starters, the maximum age a child could be to qualify for generating a credit under the CTC was increased from 16 years old to 17 years old.[25] In addition, the maximum dollar value of the credit was increased from $2,000 per child to $3,600 per child for children between the ages of 0-5 years old, and from $2,000 to $3,000 per child for children between the ages of 6-17 years old.[26] Moreover, the CTC was made fully refundable for families who were making no earned income.[27] This latter change made the CTC a far more effective tool for alleviating poverty than it had been previously, when the refundability benefit was capped at $1,400 per qualifying child.[28]

In fact, when the first benefits from the expanded refundability feature ARPA created for the CTC hit bank accounts across the country in July of 2021, the impact was measurable and immediate. Data from the Census Bureau's Household Pulse Survey (as defined in Section 4 of this Report) showed that roughly half of families who received a CTC benefit that month reported using it to pay for food, and 1 in 4 spent some of their payment on clothing.[29] Because it has been so effective, the Biden Administration has proposed making the CTC enhancements that were contained in ARPA permanent.[30]

3. The Impact of the EITC (Federal and State) and CTC in Illinois

In 2020, 883,000 claims were filed for the federal EITC in Illinois.[31] The average dollar value of the federal EITC received in the state per such filing was $2,503.[32] In addition to the federal EITC, Illinois has established its own state-level EITC, with the dollar value of Illinois' state EITC set at 18 percent of the federal credit a filer receives. The dollar value of Illinois' state-level EITC has ranged anywhere from $97 to $1,188 per year, depending on the taxable income level and number of qualified dependents of the filer in question.[33]

The most recent Illinois Comptroller Tax Expenditure Report shows the state-level EITC cost Illinois roughly $400 million in nominal dollars in FY 2019.[34] For context, that equates to approximately **one-percent** of the total revenue Illinois realized in its FY 2019 General Fund.[35]

Under the temporary expansion of the federal CTC that passed as part of ARPA, 2.2 million children in Illinois were eligible to receive an average CTC benefit of $418 per child.[36] Illinois currently does not have a CTC at the state level.

The enhancements of the CTC and EITC under ARPA had a profound impact in Illinois from both economic and social justice standpoints. Overall:

- 89 percent of children under the age of 18 in Illinois benefited from the CTC enhancements (2,543,000).[37]
- 50 percent of children under 18 who benefited from the CTC enhancements are a race other than white.[38]
- Of the 986,000 children under the age of 17 that were not eligible for the CTC prior to the enhancements made in ARPA—that were not only made eligible under ARPA but also benefit from ARPA's increase in the dollar value of the CTC from $2,000 to $3,000 per child—63 percent are from Black and Brown households.[39]
- An additional 616,000 workers in Illinois benefited from the ARPA expansion of EITC eligibility to include more workers without children.[40]
    - Of that amount, 39 percent were people of color.[41]

Unfortunately, despite being highly effective, the enhanced EITC and CTC benefits created under ARPA ended on December 31, 2021.[42] Given the positive impact these expired federal benefits have had in Illinois, it would make sense for decision makers to consider potentially enhancing Illinois' state level EITC and/or creating a state level CTC during the current legislative session. This is especially the case given the governor's recently professed desire to include tax relief in his FY 2023 General Fund budget proposal.[43] Fortunately, there has been a legislative proposal to do precisely that: HB 4920 which was introduced by State Representative Carol Ammons and State Senator Omar Aquino during the 102nd Illinois General Assembly.

4. HB 4920/SB 3774—a Proposal to Both Enhance Illinois' Existing State EITC While Creating a New CTC at the State Level

Under HB 4920/SB 3774 as introduced by Representative Carol Ammons and Senator Omar Aquino (the "**Tax Equity Initiative**"), eligibility to claim the Illinois state EITC would be expanded to include individuals over the age of 65 without children, childless taxpayers between the ages of 18-24, and taxpayers using a tax identification number ("**ITIN**").[44]

For instance, the Tax Equity Initiative would enhance the dollar value of the benefit provided under Illinois' state-level EITC from the 18 percent of the federal EITC benefit an Illinois taxpayer receives under current law to:

- 20% of the federal EITC benefit claimed for each taxable year beginning on or after January 1, 2023, and prior to January 1, 2024;

- 22% of the federal EITC benefit claimed for each taxable year beginning on or after January 1, 2024, and prior to January 1, 2025; and
- 25% of the EITC benefit claimed for each taxable year beginning on or after January 1, 2025.[45]

The Tax Equity Initiative also creates an eligible dependent tax credit that is similar to, but not the same as the federal CTC. For instance, while the definition of a child 'dependent' contained in the Tax Equity Initiative is based on IRS criteria for federal tax purposes, the benefit a new state-level CTC would create is not contingent on the number of dependents a family has.[46] Instead, the new state-level CTC would be made available at a flat rate to each qualified household with at least one child.

The Tax Equity Initiative also provides that at a minimum, an unpaid caregiver of children under the age of 17 who is eligible to claim benefits under the state's expanded EITC and new dependent child credit, shall receive a combined benefit worth at least $600 in any year.[47] Additionally, unpaid caregivers of children who currently have no income—and thereby are ineligible for the EITC—will receive a fully refundable $600 credit if they have at least one dependent child under age 17. **Figure 2** details the expansion categories and incremental annual/total cost of implementing the Tax Equity Initiative.

Figure 2
Incremental Cost of State-Level EITC Expansion & Dependent Credit Creation under Tax Equity Initiative

Year	Category	Incremental Annual Cost (in millions)
1	• Inclusion in state EITC of young adults 18-24, older adults 65+ & ITIN filers • Increase the benefit under State EITC from 18% to 20% of the federal EITC benefit claimed	$105
2	• Expand state EITC to, and establish new state dependent credit for, unpaid caregivers of dependent children under age 17 with a minimum combined benefit of $600 • Increase the state-level EITC benefit from 20% to 22% of the federal EITC benefit claimed	$163
3	• Establish new state dependent credit for unpaid caregivers with $0 income who have dependent children under age 17, for a benefit of $600 • Increase the state-level EITC benefit from 22% to 25% of the federal EITC benefit claimed	$147
	Total:	**$415**

Source: data analysis conducted by the Institute on Taxation and Economic Policy

Figure 3 shows how many people will benefit from the Tax Equity Initiative.

Figure 3
Potential Beneficiaries of Tax Equity Initiative

Category	Total Number of Beneficiaries in IL	Number of Child Beneficiaries Included in the Total
Expand state-level EITC to include childless workers aged 18-24	170,365	0
Expand state-level EITC to include childless workers aged 65+	284,137	0
Expand state-level EITC to include ITIN filers	490,539	208,987
Create a new minimum $600 Child Dependent Tax Credit per family with children under age 17 (current working EITC eligible families)	1,430,704	671,775
Create a new minimum $600 Child Dependent Tax Credit per family with $0 income, that have children under age 17 (currently ineligible for state-level EITC)	300,725	176,260
Subtotal:	**2,676,470**	**1,057,022**
Increase in percent of federal benefit eligible to be claimed ** including EITC eligible working families qualified for proposed child tax credit*	*3,605,365*	*1,502,915*
Total	**4,851,131**	**1,888,162**

Source: data analysis conducted by the Institute on Taxation and Economic Policy

Though the people who would benefit from expanding the Illinois EITC detailed in **Figure 3** do not currently qualify to receive the federal EITC, the state-level expansion proposed under the Tax Equity Initiative does in fact piggy-back on the same income guidelines used under the federal EITC, as shown in **Figure 4**.

Figure 4
Tax Year 2021 Income Limits and Range of EITC Under Federal Law and as Proposed under the Tax Equity Initiative

Number of Qualifying Children	For Single/Head of Household or Qualifying Widow(ed), or Married Filing Separately, Income Must be Less Than	For Married Filing Jointly, Income Must be Less Than
No Child	$21,430	$27,380
One Child	$42,158	$48,108
Two Children	$47,915	$53,865
Three or More Children	$51,464	$57,414

Source: Internal Revenue Service

Providing the aforesaid benefits to lower income and no income individuals in Illinois makes particularly good sense now, because of the economic impact COVID-19 has had on these populations. In April 2020, after the onset of the pandemic, the U.S. Census Bureau launched a weekly survey to track the impact the pandemic was having on households from a social and economic perspective. That survey, called the Household Pulse Survey ("**HPS**"), is administered each week to collect information on how difficult it was for a household to pay its typical expenses. On a scale of "not at all difficult" to "very difficult," respondents select the level of difficulty for categories such as food, rent, car payments, student loans, and healthcare payments.

The **Hardship Rate** is then calculated based on the number of responses for a question that stated it was difficult to pay usual bills compared to the total number of responses received for said question.[48] For instance, nationally, the HPS found that nine percent of all households that answered the question regarding ability to purchase enough food to cover family needs responded that it was very difficult, and therefore are considered to have a higher Hardship Rate compared to households that did not find it difficult to purchase enough food to cover family needs.[49]

The survey tracked various hardship rates based on households that are—and are not—able to pay typical expenses such as purchasing food, paying rent or mortgages, making car payments, covering medical expenses, and keeping current on student loans. Households with children, for example, faced much higher hardship rates—or had more trouble paying usual household expenses—than households without children, according to the HPS.[50]

Data from the HPS also showed that the economic hardships created by COVID-19 have disproportionately impacted people of color.[51] For instance, of the adults who had trouble paying for usual expenses during the pandemic, and thus higher hardship rates, 23 percent were white, while 44 percent were Black, and 38 percent were Latinx.[52]

In Illinois, the rates at which families were suffering from food hardships were no different from the national level, as shown in **Figure 5**.

Figure 5
Hardship Rates (September 15-October 11)

Hardship Categories	United States	Illinois
Adults reporting difficulty covering usual household expenses	28%	26%
Adults reporting that households didn't have enough food to eat	9%	8%
Adults reporting that children in households weren't eating enough because households couldn't afford enough	12%	15%
Adults in the rental market reporting not being caught up on rent	17%	17%

Source: Center on Budget and Policy Priorities, "Tracking the COVID-19 Economy's Effects on Food, Housing, and Employment Hardships," November 2021

Moreover, according to the HPS, 17 percent of adults in Illinois rental housing reported not being caught up on rent, while 26 percent of adults in Illinois reported difficulty covering usual household expenses, compared to 28 percent nationwide. The hardship rates in Illinois were compounded by the fact that Illinois' unemployment rate remained higher than the national average—7 percent compared to 5.1 percent from July-September 2021—when COVID-19 cases were declining.[53]

The good news is hardship rates fell quickly after the implementation of ARPA. This was initially due to the inclusion of $1,400 direct payments ARPA made to qualified households.[54] Hardship rates fell again after families began receiving the expanded monthly Child Tax Credit benefits included in ARPA for calendar year 2021. Which means expanding the state EITC and creating a dependent child credit in the state for the first time as proposed under the Tax Equity Initiative would in all likelihood help lessen the hardship rates plaguing many Illinois households.

As indicated previously in Figure 2, the projected annual cost of implementing the Tax Equity Initiative after all benefits are phased in is just $415 million. For context, that cost represents approximately one percent of the net, recurring General Fund revenue Illinois projects for FY 2022—even after deducting all federal relief support the state is receiving under ARPA.[55]

In addition to generating meaningful financial benefits for many struggling Illinois families, passage of the Tax Equity Initiative would also stimulate additional private sector economic activity (as detailed in Section 5 of this Report) while simultaneously making Illinois' overall state and local tax system fairer than it currently is.

Making the Illinois state tax system fairer is desirable from a public policy standpoint for two reasons. First, growth in income inequality in Illinois pretty much mirrors the national data. As shown in **Figure 6**, between 1979 and 2018, the wealthiest one percent of Illinois households saw their average, annual incomes grow by 254 percent before taxes, while the remaining 99 percent of households realized inflation-adjusted growth in average annual income before taxes of just 20 percent.[56]

Figure 6
Average Annual Incomes of Top 1% and Bottom 99% in Illinois, in 2018 Dollars, 1979 & 2018

	Top 1%	Bottom 99%
1979	$464,975	$58,187
2018	$1,842,478	$70,272
% Growth	254%	20%

Source: CTBA analysis of IRS Statistics of Income for Illinois, 1979 & 2018, inflation-adjusted using CPI

In fact, according to IRS data, the average income gap between the top one percent and bottom 99 percent of households in Illinois grew at the fastest rate of any state in the Midwest, as shown in **Figure 7**.

Figure 7
Ratio of Average Annual Income by Top 1% to Bottom 99%, U.S. and Midwest, 2018

State	Average Income of Top 1%	Average Income of Bottom 99%	Top-to-Bottom Ratio
Illinois	$1,842,478	$ 70,272	26.2
United States	**$1,697,006**	**$ 66,480**	**25.5**
South Dakota	$1,414,152	$ 62,871	22.5
Missouri	$1,264,240	$ 59,156	21.4
Michigan	$1,281,016	$ 60,686	21.1
Kansas	$1,314,656	$ 63,480	20.7
Minnesota	$1,405,745	$ 72,363	19.4
Kentucky	$1,047,733	$ 55,300	18.9
Wisconsin	$1,203,326	$ 63,668	18.9
Ohio	$1,100,839	$ 59,483	18.5
Nebraska	$1,147,617	$ 64,007	17.9
Indiana	$1,017,307	$ 58,429	17.4
North Dakota	$1,173,821	$ 69,950	16.8
Iowa	$ 998,306	$ 64,086	15.6

Source: CTBA analysis of IRS, Statistics of Income, Adjusted Gross Income (AGI) Percentile by State, Table 2, 2018

Overall, as of 2018 (the last year for which there is comprehensive data available), of all 50 states and the District of Columbia, Illinois ranked as having the 10th most unequal distribution of income.

Moreover, Illinois has consistently ranked as one of the most regressive, and hence unfair taxing states in America over the last two decades, and currently ranks as the 8th most regressive taxing state in the nation.[57] Hence, any initiative that lessens tax burden for low- to middle-income working families in Illinois constitutes a welcome step forward—particularly one with such a relatively low cost associated with it, like the Tax Equity Initiative.

5. Private Sector Economic Benefits of Passing the Tax Equity Initiative

As highlighted previously, creating a state level CTC while enhancing Illinois' existing EITC will help make the state's tax policy fairer, while also reducing child poverty and providing income support to workers in low-wage jobs. And precisely because that income support is being received by individuals who are far more likely to spend than save it, the private sector economy will receive a boost as well. The reasons for this have everything to do with the multiplier effect associated with enhanced consumer spending.

An economic multiplier, as defined by textbooks such as Dornbusch and Fischer's Macroeconomics, is "the amount by which output changes when autonomous aggregate demand increases by one unit."[58] What the heck does that mean? The definition may sound arcane, but what happens is very straightforward. Say the public sector invests in infrastructure by constructing a new bridge. Initially, the economy is stimulated when the public sector makes a direct payment to contractors, construction workers, etc. for work and economic activity that otherwise would not have taken place.

As the individuals who receive these payments then spend some of that money on other purchases in the economy, such as food, clothing or car repairs, a portion of the initial public investment made on construction becomes additional purchases in various areas of the private sector economy. In other words, one person's spending becomes another individual's income, who in turn spends that income again on other purchases in the local economy and so on.

Moody's Analytics found that historically, every dollar spent to fund core public services like education or healthcare will generate a positive multiplier of 1.34.[59] That simply means for every dollar spent on these core services by the public sector, the private sector economy gets an economic benefit of $1.34 from the increase in demand such spending generates. Similarly, Moody's found that public sector income support targeted to individuals with low- to middle-earnings, like supplemental unemployment insurance, generate a multiplier of roughly 1.49.[60] **Figure 8** contains a summary of the multipliers Moody's identified as accruing to various fiscal actions taken by the public sector.

Figure 8
Various Multipliers Associated with Different Fiscal Policy Actions

Fiscal Action by Public Sector	Private Sector Multiplier
Supplemental Nutrition Assistance Program (SNAP)	1.61
Supplemental Unemployment Insurance	1.49
Work-Share Unemployment Insurance	1.37
Aid to State and Local Government	1.34
Low Income Home Energy Assistance Program (LIHEAP)	1.31
Transportation Infrastructure Spending	1.29
Defense Spending	1.24
Childcare (Universal Child Care Act)	1.19
Universal Pre-K (3-and 4-yr-olds)	1.17
Elder Care	1.15
Earned Income Tax Credit	**1.27**
Child Tax Credit	**1.25**
Economic Impact Checks	1.09
Payroll Tax Holiday for Employees	1.07
Payroll Tax Holiday for Employers	0.95
Nonrefundable Lump-Sum Tax Rebate	0.93
Personal Income Tax Rate	0.88
Housing Tax Credit	0.8
Student Loan Debt Forgiveness	0.65
Dividend and Capital Gains Tax Rate	0.38
Corporate Tax Rate	0.32
Accelerated Depreciation	0.27
Net Operating Losses	0.24

Source: Moody's Analytics, "The Biden Fiscal Rescue Package: Light on the Horizon," 2021

As **Figure 8** illustrates, Earned Income Tax Credit and Child Tax Credit programs targeted to low- and middle-income families generally have a multiplier of $1.27 and $1.25, respectively (the "**Moody's Multipliers**"). This means for every $1 of public sector investment in the EITC, the state and local economies should be boosted by an additional $1.27, and for every $1 invested in the CTC, there should be a boost of $1.25 in the state and local economies.

Using specific Illinois data collected from the HPS referenced in Section 4 of this Report, as well as research conducted by the Federal Reserve of Chicago that analyzed how individuals spent direct impact payments received as part of the federal government's COVID relief packages, CTBA was able to determine the level of multiplier effect that spending had in Illinois.[61] As it turns out, the Illinois specific multiplier generated by individuals spending COVID relief benefits of 2.5 (the "**Illinois Specific Multiplier**") is slightly less than the combined national multipliers Moody's Analytics found.[62] Hence for every dollar of such relief received by individuals in Illinois, the private sector received $2.50 in state and local economic benefits.[63] The reasons for this are varied and include everything from Illinois having a higher unemployment rate than the national average, to some of the unique economic impacts created by the pandemic.

In any event, the revenue used to cover the cost of implementing the Tax Equity Initiative in Illinois should be viewed as an investment, since it will generate private sector activity that will exceed the cost of the benefits being funded. In a best-case scenario using the national multipliers identified by Moody's Analytics, the annual $415 million dollar cost of funding the Tax Equity Initiative after it is fully phased in, will generate private sector economic benefits of up to $1.05 billion. However, even using the lesser Illinois Specific Multiplier, the state and local economies will benefit by some $1 billion annually, or $623 million more annually than the cost to taxpayers of funding the legislation.

In either case, the $415 million spent on EITC enhancement and CTC creation in Illinois is much more of an investment that will stimulate the state's private sector economy, while simultaneously reducing poverty, making taxes fairer, and generating a return that exceeds the initial investment.

6. Paying for the Investments Made Under Tax Equity Initiative

6.1. ARPA Funds

In March 2021, the federal government passed the final COVID-19 relief package implemented to date—ARPA. Included in this relief package was a program designated as Coronavirus State Fiscal Recovery Funds ("**CSFRF**").[64] CSFRF provided financial assistance to state, local and tribal governments. As part of CSFRF, the State of Illinois received $8.127 billion.[65] In FY 2022, Illinois is expected to use $2.8 of the $8.127 billion in total funds the state is slated to receive.[66]

While some limitations were placed on the use of these funds, they may be spent on, among other things, providing cash assistance to households that were negatively impacted by the pandemic.[67] That is precisely the type of financial support that would be generated by expanding the state's EITC and creating a state CTC as provided in the Tax Equity Initiative. Hence, Illinois would have the authority to use approximately $415 million per year—or 5 percent of the total CSFRF distributed to Illinois—to expand the EITC and CTC as provided in the Tax Equity Initiative.[68]

However, ARPA funds will no longer be available to claim after December 31, 2024, which means that Illinois will need to find a sustainable way to fund the Tax Equity Initiative going forward.[69] As shown in **Figure 9**, continuing to invest in a state level CTC and enhanced EITC the EITC makes good fiscal and economic sense.

Figure 9
Five-year Projected Costs and Benefits of EITC Expansion/CTC Creation under the Tax Equity Initiative

Year of Program – FY	Annual Cost of Expansion	Revenue Source	Cost Out of General Funds existing as of FY 2022	Potential Economic Benefit of Expansion to Illinois Economy
Year 1: FY 2023	($105 million)	ARPA CSFRF	$0	**$263 – $265 million**
Year 2: FY 2024	($268 million)	ARPA CSFRF	$0	**$670 – $675 million**
Year 3: FY 2025	($415 million)	ARPA CSFRF	$0	**$1,038 – $1,046 million**
Year 4: FY 2026	($415 million)	Elimination of Corp. Tax Expenditures/Annual Revenue Growth	$0	**$1,038 – $1,046 million**
Year 5: FY 2027	($415 million)	Elimination of Corp. Tax Expenditures/Annual Revenue Growth	$0	**$1,038 – $1,046 million**
	($1,618 million)	**Total**	**$0**	**$4,045 - $4,077 million**

Source: CTBA analysis of ITEP projected cost data and ARPA/General Fund Revenue funds

Following the exhaustion of ARPA funds in FY 2025, Illinois could continue to cover the cost of funding the Tax Equity Initiative without utilizing any current FY 2022 General Funds, by utilizing a combination of: (i) eliminating certain ineffective corporate tax expenditures the Pritzker Administration previously put on the table for cutting—which are detailed in Section 6.3 of this Report; and (ii) natural revenue growth (as detailed in Section 6.2 of this Report).

6.2. Use Greater Than Expected Revenue Growth

After the CSFRF have been depleted, decision makers could utilize some of the state's natural General Fund revenue growth to cover a portion of the cost of implementing the Tax Equity Initiative. This is especially the case now, as revenue estimates for FY 2022 are greater than initially projected, and hence may indicate the state will have slightly greater natural revenue growth in the future.

As shown in **Figure 10,** the Governor's Office of Management and Budget ("**GOMB**") now estimates that General Fund Revenue in FY 2022 will be $325 million more than initially projected.

Figure 10
GOMB General Fund 2022 Quarter 2 Report

Year-to-Date Budgeted versus Actual (in millions)	FY22 YTD Budget	FY22 YTD Actual	Dollar Change	Percent Change
Gross Individual Income Tax	**$10,688**	**$10,981**	**$293**	**2.7%**
Income Tax Refund Fund	($989)	($1,016)	($27)	2.7%
Local Government Distributive Fund Deposit	($588)	($604)	($16)	2.7%
Net Individual Income Tax	**$9,111**	**$9,362**	**$251**	**2.8%**
Gross Corporate Income	**$2,349**	**$2,657**	**$308**	**13.1%**
Income Tax Refund Fund	($352)	($399)	($47)	13.3%
Local Government Distributive Fund Deposit	($137)	($155)	($18)	12.9%
Net Corporate Income Tax	**$1,860**	**$2,103**	**$243**	**13.1%**
Gross Sales Tax	**$5,391**	**$5,483**	**$92**	**1.7%**
Net Sales Tax	**$5,193**	**$5,250**	**$57**	**1.1%**
Public Utility	$343	$348	$5	1.5%
Cigarette	$140	$136	($4)	-2.9%
Inheritance	$262	$309	$47	17.9%
Liquor	$97	$98	$1	1.0%
Insurance	$169	$188	$19	11.2%
Corporate Franchise	$102	$112	$10	9.8%
Investment Income	$11	$6	($5)	-45.5%
Cook County IGT	$0	$0	$0	0.0%
Other	$157	$141	($16)	-10.2%
TOTAL STATE REVENUES	**$17,446**	**$18,053**	**$607**	**3.5%**
Federal Revenues	**$2,663**	**$2,196**	**($467)**	**-17.5%**
Transfers In	**$1,105**	**$1,246**	**$141**	**12.8%**
Lottery	$360	$409	$49	13.6%
Gaming/Gaming Taxes	$82	$86	$4	4.9%
Adult-Use Cannabis	$53	$53	$0	0.0%
Interfund Borrowing	$0	$0	$0	0.0%
Other	$610	$698	$88	14.4%
SUBTOTAL REVENUES	**$21,213**	**$21,495**	**$282**	**1.3%**
Investment Borrowing	$0	$0	$0	0.0%
Short Term Borrowing	$0	$0	$0	0.0%
ARPA Reimbursement for Gov. Services	$394	$439	$45	11.4%
TOTAL REVENUES	**$21,609**	**$21,934**	**$325**	**1.5%**

Source: Governor's Office of Management and Budget General Fund Quarter 2 Report

Hence, after the CSFRF run-out in FY 2025, a portion of that unanticipated $325 million, plus the natural growth therein, could be utilized to fund Tax Equity Initiative benefits, at no cost to existing General Fund services.

6.3. Eliminate Ineffective Corporate Tax Expenditures

In FY 2022, the Pritzker Administration and General Assembly successfully closed several tax expenditure loopholes, which effectively increased General Fund revenue in Illinois by $655 million annually in nominal dollars. However, some of the corporate tax expenditures the Pritzker Administration cited for elimination remain on the books.

However, if these tax expenditures are in fact eliminated, that will effectively result in the generation of approximately $266 million more in annual, recurring General Fund Revenue. The following is a brief description of the corporate tax expenditures the Pritzker Administration has previously targeted for elimination, but which remain on the books today.

i. Reverse Several Recent Illinois Tax Changes ($179 million)

The state should eliminate the following business tax expenditures that passed into law in 2019, as part of PA 101-0009: the add-on income tax credit for qualifying construction job payroll expenditures; and the right to include production-related tangible personal property in the Manufacturing Machinery and Equipment Exemption from Illinois sales taxes.[70] Collectively, it is estimated that elimination of the preceding three tax expenditures will generate $72 million annually in additional corporate income tax revenues.[71]

Additionally, the state could roll back various sales tax exemptions for special motor fuels that began in 2017 and 2019. Doing so is projected to generate $107 million in various General Fund tax revenues.[72]

ii. Cap Retailer's Discount ($73 million)

Illinois retailers are allowed to keep 1.75 percent of the sales tax they collect and remit to the state as an administrative fee.[73] This was initially intended to reimburse retailers for their out-of-pocket costs of collecting sales taxes for the state. Of the 45 states that impose a sales tax nationally, Illinois is one of only 26 that has such a program.[74] Most states with this tax expenditure limit or cap it in some way. The governor has proposed limiting the total amount that a retailer could retain under this tax expenditure to $1,000 per month.[75] Setting the cap that high effectively means the vast majority of Illinois retailers—nearly 99 percent—would not be affected.[76] It is estimated that eliminating this tax expenditure would generate $73 million annually in increased sales tax revenue.[77] Capping this tax expenditure as proposed makes sound fiscal sense, as the benefit currently provided significantly exceeds the costs it was intended to address.

iii. Limit the Tax Credit For Private Scholarships ($14 million)

In 2017, Illinois created a program granting a 75 percent income tax credit to individuals and businesses that contribute to scholarship funds for private schools.[78] The governor proposes to reduce this credit to 40 percent, to better match a similar credit at the federal level. It is estimated this will generate an annual increase in income tax revenue of $14 million.[79] Reduction of this tax expenditure is sound policy for four reasons. First, it is questionable whether public taxpayer money should be used to subsidize private schools for many reasons, not the least of which is private schools can discriminate when admitting students, while public schools cannot. Second, public education in Illinois is underfunded by close to $5 billion, so diverting public taxpayer money away from the state's underfunded public education system makes no sense.[80] Third, this tax expenditure is subsidizing decisions parents make to send their children to private schools that would have been made in any event, even without the public subsidy, which means the public subsidy is not generating any public good or service. Fourth, the research shows that public schools do a better job of educating low-income and minority students than do private schools,[81] so subsidizing the choice to send such children to private schools may in fact be counter-productive from an educational standpoint.

If these tax expenditures are closed and the additional $266 million in recurring revenue is generated annually, the new General Fund Revenue generated would cover most of the cost of the expansion of the state EITC and creation of the new state CTC under the Tax equity Initiative.

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