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The Ugly Reality of the Big Beautiful Bill:

Impacts on the State of Illinois and the Path Forward

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The Ugly Reality of the Big Beautiful Bill: Impacts on the State of Illinois and the Path Forward

Authors:

Annie Rojas
Director of Fiscal Analysis
(312) 332-1481
arojas@ctbaonline.org

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

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430 S. Michigan Avenue, AUD 874
Chicago, IL 60605
www.ctbaonline.org

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1. Executive Summary

On July 4, 2025, President Trump signed into law the "One Big Beautiful Bill Act" ("**OBBBA**" or "**Big Beautiful Bill**"), the most significant restructuring of federal tax and spending policies in decades.[1] Over the next ten years, the legislation will produce trillions of dollars in permanent tax cuts weighted heavily toward wealthy individuals and corporations, financed in large part through cuts to programs that primarily support low-income populations, like Medicaid and the Supplemental Nutrition Assistance Program ("**SNAP**"), as well as to clean energy programs and federal education funding.[2] Overall, the Congressional Budget Office ("**CBO**") estimates the OBBBA will add approximately $4.2 trillion to the national deficit over the next ten years relative to the January 2025 baseline.[3]

The Big Beautiful Bill is the latest and most ambitious application of supply-side economic theory. This theory posits that reducing taxes on businesses and high-income individuals incentivizes them to both increase investments and create more jobs. That, in turn, spurs faster and stronger economic growth that ultimately "trickles down" from wealthy individuals and businesses to benefit everyone else. According to the theory, this trickle-down effect is so powerful that the gains it generates for low- and middle-income workers result in them paying so much more in additional income taxes that it offsets the cost of the tax cuts given to the wealthy and to businesses, and hence does not worsen the deficit. This is why adherents of supply-side claim the tax cuts in legislation like the OBBBA "pay for themselves."

Unfortunately for its proponents, supply-side theory has never worked in practice. In fact, far from boosting the economy, the data show that all primary economic indicators worsened after implementation of supply-side tax cuts. Hence, there were no benefits to trickle down, and rather than "pay for themselves," supply-side tax cuts greatly increased the national deficit. And so it will be again under the OBBBA.

For Illinois, the projected consequences for the state's fiscal system are severe. CTBA estimates it would cost the state's General Fund approximately $45.4 billion over ten years—an average annual impact of $4.54 billion—to fully offset the combined impact of the OBBBA's tax and spending cuts.[4] As things stand today, Illinois simply does not have the fiscal capacity to absorb the cost of those federal tax and spending cuts, given the pre-existing structural deficit in the state's General Fund, and the irresponsibly back-loaded amortization schedule for repaying the debt Illinois ran up in its five public pension systems.

This Report briefly recounts the theory behind supply-side economics, reviews the evidence for why it fails, details the OBBBA's major provisions and their projected impacts on Illinois residents and state finances, and identifies the structural revenue reforms and policy responses Illinois must pursue to navigate the fiscal pressures ahead.

2. Introduction: Supply-Side Economics in the U.S. Pre-OBBBA

The OBBBA is the most expansive application of supply-side economic theory in the modern era. Supply-side economics—known more commonly as "trickle-down economics"—is premised on the idea that reducing taxes on businesses and high-income individuals stimulates investment and job creation, generating economic growth that benefits everyone.[5] The theory rests on three interlocking claims: (1) tax cuts for wealthy individuals and corporations spur investment; (2) that investment creates jobs and raises wages across the income spectrum; and (3) the resulting economic growth generates so much

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additional tax revenue that the tax cuts ultimately pay for themselves, leaving the federal deficit unchanged or reduced.[6]

Supply-side tax policy was first implemented at the federal level in 1981, when the Reagan Administration enacted the Economic Recovery Tax Act ("**ERTA**").[7] At that time, ERTA was one of the largest tax cuts for the wealthy in U.S. history, reducing the top marginal income tax rate for individuals from 70% to 50%, while also cutting corporate taxes substantially.[8] Proponents promised the cuts would pay for themselves through job and income growth. They did not. ERTA cost the federal government an estimated $2 trillion in lost revenue between 1982 and 1991, and the federal deficit more than tripled during the Reagan years, rising from $79 billion in FY 1981 to a then peak of $221 billion in FY 1986.[9] Congress was forced to claw back significant portions of the 1981 cuts through tax increases in 1982, 1983, 1984, and 1987, just to contain the damage.[10]

The pattern repeated itself under President George W. Bush, whose administration pushed the passage of supply-side tax cuts in 2001 and 2003, against what was then projected to be a 10-year surplus of $5.6 trillion.[11] Instead, those years produced $6.1 trillion in cumulative deficits.[12] The CBO estimated that the supply-side tax cuts enacted under G.W. Bush added approximately $1.5 trillion to the national debt over the 2002–2011 decade, but that estimate excluded interest.[13] After including interest, the Center on Budget and Policy Priorities estimated that, over the long term, the G.W. Bush supply-side tax worsened the federal deficit by $5.6 trillion through 2018—making them responsible for roughly one-third of the federal debt accumulated to that point.[14] In addition to ballooning the deficit, the G.W. Bush tax cuts also failed to stimulate faster economic growth, with the national economic expansion from 2001 through 2007 coming out weaker than average by historical standards.[15]

The next major supply-side initiative at the federal level was the 2017 Tax Cuts and Jobs Act ("**TCJA**") signed into law by the first administration of President Donald J. Trump. And like its predecessors, the TCJA failed to spur the economy but did worsen the deficit. At the time it passed, the CBO estimated the TCJA would increase the federal deficit by approximately $1.9 trillion from 2018–2028, including macroeconomic feedback effects.[16,17] That estimate has proven largely accurate.[18] When it was enacted, many key tax cuts in the TCJA were scheduled to sunset by December 31, 2025.[19] The OBBBA now extends and makes permanent the TCJA's temporary provisions, adds new tax relief for businesses, and in part pays for its supply-side tax cuts with deep reductions in federal support for Medicaid, SNAP, education, and clean energy.[20] The CBO projects the OBBBA will add $4.2 trillion more to the national deficit between 2026 and 2035,[21] continuing, this time at a historic scale, the fiscal pattern of supply-side tax cuts growing the federal deficit.

3. What the Evidence Shows: Supply-Side Economics Does Not Work

3.1. Academic and Institutional Research Shows Supply-Side Has Never Worked in Any Industrialized Nation

A London School of Economics study of all major supply-side styled tax cuts for the wealthy which were implemented across 18 OECD nations from 1965 through 2015, found that the impact on economic performance of those tax cuts, as measured by GDP per capita and unemployment, was "statistically indistinguishable from zero."[22] The only consistent effect found was that major tax cuts for the wealthy reliably *increased* income inequality in the years that follow.[23]

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The International Monetary Fund similarly found that while tax cuts benefit the wealthy directly, those benefits do not trickle down to the broader population.[24] The Congressional Research Service, analyzing the relationship between top federal income and capital gains tax rates and economic outcomes from the end of World War II through 2010, concluded that "the top tax rates appear to have little or no relation to the size of the economic pie" and that no statistically meaningful relationship exists between cutting such taxes and growth, savings, investment, or productivity.[25]

3.2. The Data Show Supply-Side Has Never Worked as Promised in the U.S.

U.S. economic data across two distinct eras—the pre-supply-side era (1947–1980) and the supply-side era (1981–2024)—definitively show that supply-side theory has consistently failed to generate any of its promised economic or budgetary benefits.

In fact, as shown in **Figure 1,** despite the imposition of substantially higher tax rates on the wealthy, the pre-supply-side era outperformed the supply-side era across every major indicator that measures employment and economic growth.[26] Average annual GDP growth was nearly 40% higher in the pre-supply-side era (3.74%) than in the supply-side era (2.70%), and employment grew 73.5% faster (2.24% versus 1.29%) in the pre-supply side era.[27] Even the average annual unemployment rate was nearly a full percentage point lower during the pre-supply-side era.

Perhaps most striking is the investment data: average annual non-residential fixed investment growth—the very metric supply-side theory predicts should rise when taxes on the wealthy are cut—was actually 61.5% higher in the pre-supply-side era than in the supply-side era (8.98% versus 5.56%).[28] In other words, businesses invested more, not less, when top tax rates were substantially higher. These data do not establish that high tax rates cause growth; correlation is not causation, and many factors drive macroeconomic outcomes. But they do firmly establish that supply-side theory has never worked in practice, and that dramatically lower tax rates on the wealthy have not produced the superior economic outcomes their proponents promised.

Figure 1

Select Economic Indicators, Pre-Supply-Side and Supply-Side Eras

Metric	1947–1980 (pre-supply-side)	1981–2024 (supply-side era)
Top marginal federal income tax rate range	70%–92%	28%–50%
Top corporate income tax rate range	38%–52.8%	21%–46%
Average annual non-residential fixed investment growth	8.98%	5.56%
Average annual employment growth	2.24%	1.29%
Average annual unemployment rate	5.21%	6.02%
Average annual GDP growth	3.74%	2.70%

Source: Tax Policy Center; CTBA analysis of U.S. Bureau of Economic Analysis and U.S. Bureau of Labor Statistics data

The data tell a similar story when it comes to wages. **Figure 2** shows that the bottom 90% in income realized aggregate wage growth of 84.3% during the pre-supply-side era, but only 46.8% in the supply-side era. Contrast that with the experience of the top 1%, who saw their growth in income jump from 101.8% during the pre-supply-side era, to a whopping 170.6% after receiving supply-side tax cuts.[29] The pattern is consistent across every income group: wage growth declined for the bottom 90%, the top 90-95%, and the top 95-99% in the supply-side era relative to the pre-supply-side era. The only group that

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fared better under supply-side tax policy was the very top 1%, whose aggregate wage growth accelerated by nearly 70 percentage points.[30] This is precisely the opposite of what supply-side theorists promise. If cutting taxes on the wealthy generated broad-based prosperity through investment and job creation, wage growth should have accelerated across the entire income spectrum. Instead, the data show that the gains from the supply-side era were concentrated almost entirely at the top, while workers in the bottom 90% saw their aggregate wage growth cut nearly in half. Supply-side tax cuts have not lifted all boats; they have only lifted the yachts.

Figure 2
Wage Differentials, Pre-Supply-Side and Supply-Side Eras

Metric	1947–1980 (pre-supply-side)	1981–2024 (supply-side era)
Top marginal federal income tax rate range	70%–92%	28%–50%
Top corporate income tax rate range	38%–52.8%	21%–46%
Bottom 90% Aggregate Wage Growth	84.3%	46.8%
Top 90-95% Aggregate Wage Growth	111.9%	80.8%
Top 95-99% Aggregate Wage Growth	111.7%	106.9%
Top 1% Aggregate Wage Growth	101.8%	170.6%

Source: CTBA analysis of data from the Tax Policy Center, Economic Policy Institute, and State of Working America Data Library.

4. Overview of the One Big Beautiful Bill Act

The OBBBA was signed into law on July 4, 2025.[31] Because of strong Democratic Party opposition, the Republican controlled Congress opted to use the budget reconciliation process to pass the OBBBA. That process involves a procedural mechanism that bypasses the filibuster, which allows legislation affecting federal revenues and mandatory spending to pass the Senate with a simple majority vote.[32] The OBBBA's major components fall into two broad categories: tax provisions that reduce federal revenue, and spending provisions that reduce federal outlays for key social and environmental programs, while increasing expenditures on programs like ICE.[33]

On the tax side, the OBBBA:

(i) makes permanent the temporary individual income tax rate reductions enacted under the 2017 Tax Cuts and Jobs Act, which were otherwise set to expire at the end of 2025;

(ii) expands and makes permanent enhanced business expensing rules, including full expensing for equipment and machinery under Section 168(k) bonus depreciation (allowing businesses to deduct the full cost of equipment purchases immediately rather than over time);

(iii) restores the more generous EBITDA-based limitation on business interest deductions under Section 163(j) (allowing businesses that carry debt to deduct a greater share of their interest payments from taxable income); and

(iv) creates new tax-preferred savings accounts for children, among other provisions.[34]

Taken as a whole, these tax cuts are projected to cost $4.5 trillion in lost revenue between FY 2025 and FY 2034, and are heavily weighted towards corporations and high-income individuals.[35]

Conversely the spending cuts in the OBBBA fall overwhelmingly on programs that support low- and middle-income Americans, with the legislation's largest reductions targeting Medicaid, SNAP, clean

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energy investment, and federal education programs[36]—all of which disproportionately serve households in the lower and middle portions of the income distribution. The result is a piece of legislation that is, in distributional terms, a transfer of fiscal resources upward: tax relief concentrated at the top of the income scale, financed by spending cuts concentrated at the bottom.

> *The CBO estimates the OBBBA adds approximately $4.2 trillion to the national deficit over the next decade relative to the January 2025 baseline, driven primarily by extending and expanding the 2017 Tax Cuts and Jobs Act, with partial offset from cuts to Medicaid, SNAP, and other social programs.[37]*

5. National Impacts: Healthcare, Nutrition, Education, and the Environment

5.1. Medicaid

The OBBBA's most consequential domestic spending cuts target Medicaid, the joint federal-state program that provides health coverage to approximately 67.7 million Americans,[38] or roughly one in five people in the United States. Medicaid currently covers one in four children (including more than eight in ten children in poverty), nearly half of all adults in poverty, more than one-quarter of all adults with disabilities, and five in eight nursing home residents. [39]

Figure 3 delineates the various Medicaid cuts under the Big Beautiful Bill. The OBBBA is projected to reduce total federal spending on Medicaid by approximately $911 billion over the next ten years, through a combination of new work requirements, increased administrative burdens, and other restrictions.

Figure 3
Medicaid Cuts Under OBBBA

Provision	10-Year Spending Reduction
Work/volunteer/school requirement (80 hours/month) for childless adults and parents of children over 14, absent a qualifying exception	$317 billion
Allow states to require more paperwork and more frequent eligibility checks	$78 billion
Cancel rule making it easier for low-income Medicare beneficiaries to get help paying premiums	$85 billion
Cancel minimum staffing ratios for nursing homes	$23 billion
Other Medicaid cuts	$408 billion
Total Medicaid cuts	**$911 billion**

Source: Congressional Budget Office

The CBO estimates these cuts will result in between 10.3 and 17 million people losing Medicaid coverage by 2034.[40] Research from Harvard and Yale estimates the coverage losses could lead to between 8,200 and 51,000 additional preventable deaths annually in the United States.[41,42]

One of the most pernicious aspects of the anticipated Medicaid spending cuts is that the majority of those savings are not expected to result from people actually failing to satisfy work requirements. Rather, the evidence strongly indicates that most people will lose Medicaid coverage and hence

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generate savings for the federal government because of administrative barriers the OBBBA creates—not because they are ineligible to receive that coverage.[43,44] This is precisely what has actually happened in the states that implemented similar work requirements.

For instance, in 2018, Arkansas became the first state to implement a Medicaid work requirement.[45] Within just seven months, approximately 18,000 Arkansans—roughly 25% of the state's population subject to the requirement—lost coverage before a federal court halted the program.[46] A 2019 study published in the *New England Journal of Medicine* found that more than 95% of the affected population was already meeting the work requirements or qualified for an exemption, yet coverage losses occurred anyway, driven primarily by lack of awareness of the requirements and barriers to navigating online reporting systems.[47]

If the intent is to increase employment among those receiving benefits, prior implementation indicates that work requirements are an ineffective policy lever. Georgia's Medicaid work requirement program has shown no measurable impact on employment, while costing more than $86 million in administrative expenses through 2024.[48] Taken together, the examples of Arkansas and Georgia lead to a sobering conclusion: the OBBBA's Medicaid work requirements are not, in practice, a mechanism for ensuring that only working-age, able-bodied non-workers lose coverage; they are an administrative gauntlet that will cause large numbers of eligible, working Illinoisans and Americans to lose healthcare coverage they are legally qualified to receive with no demonstrated benefit to employment outcomes.

5.2. Medicare

An often-missed spending cut under the OBBBA involves Medicare. Despite repeated assurances that the highly popular and effective Medicare program would remain untouched under any budget resolutions,[49] the OBBBA will, in fact, necessitate significant cuts to Medicare through at least 2034.[50] That is because the Big Beautiful Bill increases the federal deficit, so it triggers the Statutory Pay-As-You-Go ("**PAYGO**") Act of 2010.[51] The PAYGO legislation requires automatic across-the-board spending cuts, known as "sequestration," in mandatory programs not exempt from such cuts.[52] Social Security is exempt. Medicare is not, and will face automatic annual cuts of up to 4% of program spending.[53] That amounts to a projected $45 billion cut in FY 2026, growing to $76 billion annually by FY 2034, for a total of $536 billion in cumulative Medicare cuts over ten years.[54]

The Medicare cuts triggered by the OBBBA are particularly egregious given that the legislation's supporters repeatedly and explicitly promised that Medicare would be protected.[55,56] Those promises were false. While no member of Congress cast a specific vote to cut Medicare benefits, the PAYGO sequestration trigger is a well-established and well-understood feature of federal budget law, and any legislator who voted for a bill increasing the deficit knew, or should have known, that automatic Medicare cuts would follow. For the more than 70 million Americans enrolled in Medicare,[57] including approximately 2.4 million Illinoisans,[58] these cuts mean they will face significant reductions in provider reimbursement rates, covered services, and cost-sharing protections not through transparent policymaking, but through a back-door mechanism that allowed elected officials to cut Medicare while claiming they never voted to do so.

Those cuts happening indirectly under the PAYGO legislation's sequestration provisions are in addition to direct statutory changes the OBBBA makes to the Medicare Savings Program ("**MSP**").[59] The MSP is a federally funded, state-administered program that helps low-income Medicare beneficiaries afford their premiums, deductibles, and cost-sharing obligations.[60] The MSP currently serves approximately 14 million Americans (roughly one in five Medicare enrollees) by subsidizing the out-of-pocket costs that Medicare itself does not cover, including Part B premiums that can exceed $2,000 per year for a beneficiary with limited income.[61,62] The OBBBA cancels a rule finalized in 2024 that had streamlined

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MSP enrollment by allowing states to use existing Medicaid eligibility data to automatically enroll eligible beneficiaries, rather than requiring them to apply separately.[63] By repealing this streamlining rule and reimposing manual application requirements, the OBBBA is projected to result in more than 1.3 million low-income Medicare beneficiaries losing access to premium and cost-sharing assistance—again not because they are no longer eligible, but because the administrative burden of a separate application process will cause eligible individuals to fall through the cracks.[64]

5.3. SNAP

Since its inception in 1961, SNAP benefits have been 100% federally funded.[65] The OBBBA fundamentally changes this arrangement by shifting costs to states based on their administrative error rate and reducing the federally matched share of administrative costs from 50% to 25% beginning October 1, 2026, effectively doubling administrative costs imposed on states overnight.[66] Second, and more significantly, the OBBBA penalizes states for administrative inaccuracies in their SNAP reporting. This penalty is assessed by requiring states to cover a share of benefit costs based on their payment error rate, which is the percentage of SNAP benefits determined to have been incorrectly calculated or issued.[67]

Figure 4 shows the portion of SNAP benefits a state is required to fund based on its administrative error rate. States with error rates below 6% owe nothing, and the federal government continues funding the full amount of SNAP benefits earned by the state's residents; states with error rates between 6% and 8% must cover 5% of benefit costs; states with error rates between 8% and 10% must cover 10%; and states with error rates above 10% must cover 15% of benefit costs.[68] It is important to note that a state's error rate includes both overpayments and underpayments, and a significant share of what is counted as an "error" reflects the challenge of accurately tracking household income in real time—not fraud or intentional misuse of program funds.[69]

Figure 4

Portion of SNAP Benefits Covered by State Based on State's Error Rate

Error Rate	Required Match
0% - 6%	0%
6% - 8%	5%
8% - 10%	10%
>10%	15%

Source: Food Research & Action Center

The human consequences of these cuts extend well beyond state balance sheets. SNAP is one of the most economically efficient federal programs in existence: every $1 in SNAP benefits distributed generates $1.54 in economic activity, as recipients spend benefits at local grocery stores and food retailers, supporting jobs throughout the supply chain from farm to shelf.[70] Prior to the Big Beautiful Bill, the federal government was projected to spend approximately $1.03 trillion over the next ten years funding SNAP benefits and administrative costs.[71] Under the OBBBA, that figure falls to approximately $844 billion, a reduction of $186 billion, or roughly 18% of total projected program spending.[72] Through the multiplier effect, this SNAP spending cut translates into a $286.4 billion economic contraction. Low-income and rural communities, where SNAP participation rates are highest and alternative sources of consumer spending are most limited, will feel this contraction most acutely.[73]

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The bottom line: loss of SNAP benefits does not simply reduce food purchasing power for individual households; it reduces the revenue of local businesses, the employment of local workers, and the tax base of local governments, setting off a ripple effect of economic harm that extends beyond the direct benefit reduction.

5.4. Clean Energy

The Big Beautiful Bill represents the most significant federal rollback of clean energy investment in U.S. history, reversing much of what had been accomplished under the Inflation Reduction Act ("**IRA**"). Enacted in 2022 during the Biden Administration, the IRA was the single largest federal investment in clean energy and climate action in U.S. history.[74] The IRA created approximately $369 billion in clean energy tax credits, grants, and incentives designed to accelerate the transition away from fossil fuels, reduce greenhouse gas emissions, and build domestic clean energy manufacturing capacity.[75]

After the passage of the OBBBA, however, it is clear the shift to cleaner energy intended under the IRA will not be attained. In fact, the OBBBA specifically phases out most IRA tax credits for enhancing utilization of renewable energy through increased wind and solar power generation, clean energy manufacturing, and support of electric vehicle purchases, while simultaneously expanding federal subsidies for domestic oil and gas production, increasing access to federal lands for fossil fuel leasing, and reducing royalty rates payable to the federal government on oil and gas extraction.[76] The OBBBA also terminates a range of climate, environmental justice, and neighborhood equity grant programs.[77]

The scale of disruption to moving towards more environmentally friendly technology under the OBBBA is staggering. In the two years following the IRA's enactment, investment in building and deploying low-carbon technologies was 71% higher than when compared to the two years prior, while clean energy manufacturing investment grew more than fourfold, from approximately $9 billion per year before the IRA to nearly $42 billion annually on average through early 2025.[78] The OBBBA abruptly reversed this positive trajectory.

Studies indicate that the OBBBA puts more than $500 billion in clean energy and transportation investment at risk of cancellation, and project that new clean power capacity additions will shrink by 57–62% from 2025 through 2035, relative to the pre-OBBBA baseline.[79] That not only hurts the environment, but it also damages the nation's economy. Credible research projects that the cuts to clean energy under the OBBBA will reduce GDP by $1.1 trillion between 2025 and 2034,[80] and result in the loss of hundreds of thousands of jobs nationally, with 340 gigawatts of new clean energy generating capacity that would have been built by 2035 under the IRA now projected not to be developed.[81] To put loss of clean energy generation in perspective, that 340 gigawatt amount is more than one-quarter of the entire current U.S. electricity generating capacity of approximately 1,250 gigawatts, and equivalent to roughly 17 times the total amount of new clean energy capacity the entire country added in all of 2023.[82]

In addition to precipitating a decline in GDP and job loss, the OBBBA's reductions in funding for environmental technologies will also spike household utility costs. By removing the downward price pressure that new renewable capacity would have exerted on electricity markets, the OBBBA is projected to increase wholesale electricity prices by 25% by 2030, and 74% by 2035.[83] That in turn will result in residential energy bills rising by between $78 and $192 annually on average at the national level—and as much as $400 annually in some markets—compared to what they would have been under the IRA baseline.[84]

Furthermore, research by the American Council for an Energy-Efficient Economy consistently demonstrates that higher energy costs function like a regressive tax, with low-income households

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already spending an average of 17.8% of their annual income on home energy and transportation fuel costs combined, which is more than three times the national average for all U.S. households.[85] This of course means the anticipated jump in energy costs created by the OBBBA will fall most heavily on those least able to absorb it.[86]

The spike in energy prices will also disproportionately hit energy-intensive industries like manufacturing, agriculture, and logistics that form the backbone of many Illinois communities.[87]

Finally, the OBBBA's clean energy rollback carries significant public health consequences that are not reflected in energy cost estimates alone. The OBBBA is projected to increase air pollution by 160 million metric tons of carbon dioxide equivalent in 2030, and that will increase to nearly 310 million metric tons by 2035—the equivalent of adding 72 million cars to the road—resulting in an estimated 430 additional premature deaths annually by 2030.[88]

5.5. K–12 and Higher Education

From the K-12 perspective, the OBBBA creates the first ever federally funded school choice program called the "Federal Tax Credit Scholarship Program" or "**FTCS**." The FTCS is modeled on previously introduced legislation—the "Educational Choice for Children Act"—and allows governors or designated state officials to opt in to a federally funded tax credit scholarship program for elementary and secondary education.[89]

As the name of its predecessor legislation (the "Educational Choice for Children Act") implies, the FTCS authorizes the use of public taxpayer dollars to subsidize a family's decision to send their kids to private school.[90] Instead of directly issuing vouchers, the FTCS creates a federal tax-credit, capped at $3,400 for married couples filing jointly, who make donations to "scholarship granting organizations."[91] These SGOs in turn grant scholarships to eligible students that can cover everything from private school tuition to tutoring classes.[92]

For a student to qualify for an SGO scholarship, their family can earn up to 300% of the area median income (nationally, that cap would mean a family of four earning approximately $244,800 in annual income), [93] which means the program is not about helping low-income students and families. Indeed, the Education Trust is concerned that rather than create opportunities for economically disadvantaged kids, the FTCS will instead unnecessarily waste public dollars to subsidize tuition costs for wealthier kids already enrolled in private schools.[94]

Essentially, the policy question is not whether parents should have the right to send their kids to a private school—of course they should. The real question is whether public taxpayer dollars should subsidize the choice to do so. If the premise is taxpayer dollars should only subsidize activities that generate a public good, the data show the answer is a resounding no.

Over the past two decades, various states across the country have implemented school choice programs using everything from vouchers to tax credits. These school-choice initiatives were initially justified as a way to enhance student achievement. But they have failed to do so. In fact, the research evidence to date on the efficacy of school voucher programs is substantial and largely negative. Studies of voucher programs in Louisiana, Indiana, Ohio, and other states have consistently found that students who use vouchers to attend private schools perform worse academically than comparable peers who remain in public schools.[95,96,97] One study in Louisiana even found the negative academic impacts from that state's voucher program were even worse than the estimated academic losses that occurred during the COVID-19 pandemic.[98]

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Indeed, over the last 10 years, as various school choice measures were scaled up from small, targeted initiatives to large, state-wide programs, every study that evaluated the efficacy of these choice programs, including those done by choice advocates, has found negative impacts on achievement for students overall.[99,100]

Yet despite being discredited by the evidence, the OBBBA creates a national school choice program through the tax code.

Meanwhile, the cost of funding the program is projected to hit $134 billion in lost federal tax revenue over the next decade.[101] At a minimum, that revenue loss will worsen the burgeoning federal deficit, but in all likelihood it will also lead to spending cuts to programs that support low-income families, similar to the cuts Republicans in Congress authorized to Medicaid and SNAP services over the next decade to cover just some of the projected revenue loss from other provisions of the OBBBA.

Subsidizing individual decisions that do not generate a public good or service—even legitimate ones well within the rights of, in this case, the parents making them—is an inappropriate use of public money. Worse, all the evidence indicates the FTCS is more likely to impede rather than improve student achievement, just to subsidize rich kids attending private schools.

Beyond academic outcomes, funding school choice legislation with taxpayer dollars diverts enrollment-based funding away from public schools while those schools' operational costs—for items such as teacher salaries, transportation, special education services, and facilities upkeep—continue to increase annually, effectively straining public school budgets.[102] Private schools that benefit from receiving public funding through school choice programs are also generally not subject to the same accountability, non-discrimination, or special education requirements as public schools, meaning public funds flow to institutions that may legally turn away students with disabilities or other high-need populations that public schools are required to serve.[103]

The OBBBA's impacts on higher education extend well beyond the endowment tax, and taken together represent the most sweeping restructuring of federal student aid policy in more than a decade.[104] On the Pell Grant program—the cornerstone of federal need-based financial aid for low- and middle-income students—the OBBBA makes two significant eligibility changes beginning in the 2026-27 academic year. First, it eliminates Pell Grant eligibility for students whose total grant aid from all sources meets or exceeds their full cost of attendance. [105] Second, it eliminates eligibility for students whose Student Aid Index, a formula-based measure of a family's estimated ability to pay for college, is at least twice the current maximum Pell Grant amount of $7,395.[106] While the OBBBA provides a one-time $10.5 billion funding boost to shore up the Pell Grant reserve fund in the near term, this does not represent a permanent increase in Pell Grant funding; it is a stopgap measure that does not address the program's long-term adequacy.[107]

The OBBBA's student loan changes are equally far-reaching and will fall disproportionately on graduate and professional students. Effective July 1, 2026, the Graduate PLUS Loan program, which had allowed graduate and professional students to borrow up to the full cost of attendance, was eliminated entirely for new borrowers, leaving the Federal Direct Unsubsidized Loan program as the sole source of federal borrowing for graduate students.[108] Furthermore, the remaining loan program is subject to new annual caps of $20,500 for graduate students and $50,000 for professional students, and lifetime limits of $100,000 and $200,000, respectively.[109] To understand the impact of these caps, consider that the average annual cost of medical school alone exceeds $59,000, meaning the new annual cap for professional students does not cover even a single year of medical school tuition before accounting for living expenses.[110] The OBBBA also eliminates most existing income-driven repayment plans, replacing them with a single new Repayment Assistance Plan, and introduces a new earnings-based accountability

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framework that will cut off federal loan eligibility for programs whose graduates' earnings fall below specified thresholds, with most provisions taking effect July 1, 2027.[111,112] The Trump Administration has also separately pursued the elimination of the Department of Education through executive action; while the OBBBA does not formally transfer student loan administration to another agency, this broader policy direction creates significant uncertainty about the long-term oversight and administration of federal student loan programs.[113]

The OBBBA also eliminates $5 billion in Title I funding, rolls 18 federal education programs into a block grant generating $4.5 billion in additional K-12 cuts,[114] and increases the endowment tax on large private universities from 1.4% to a graduated rate reaching 8%—a provision that in Illinois falls almost entirely on the University of Illinois system, whose endowment revenue in FY 2024 constituted 88% of all endowment funds flowing to Illinois public universities.[115] Taken together, the OBBBA's education provisions, from the federally subsidized private school voucher program and the gutting of Title I to the elimination of Graduate PLUS loans and the steep new endowment tax, represent a deliberate reorientation of federal education policy away from expanding access and equity for low- and middle-income students, and toward subsidizing the educational choices of those who need no public assistance to make them.

6. Illinois-Specific Impacts

6.1. Medicaid in Illinois

Illinois is among the states with the most to lose from the OBBBA. As a Medicaid expansion state with a large low-income population, significant rural healthcare infrastructure, and a state budget already constrained by a structural deficit and pension debt, Illinois faces a convergence of fiscal pressures that the Big Beautiful Bill materially worsens.

Start with Medicaid, which is a joint federal-state healthcare initiative. The federal government finances much of the program by reimbursing a state for a defined share of its allowable Medicaid expenditures. The amount of that federal reimbursement is based on each state's Federal Medical Assistance Percentage ("**FMAP**"), which is predicated on the state in question's per capita income.[116]

In FY 2025, Illinois spent a total of $33.7 billion through its Medicaid program, of which $20.9 billion (approximately 62%) was covered by the federal government, with the remaining $12.8 billion coming from state funds, including both general revenue and special healthcare provider taxes created to generate federal Medicaid matching dollars.[117] The OBBBA reduces Illinois' federal Medicaid reimbursement through three primary mechanisms: freezing provider taxes, restricting state-directed payments, and imposing new work requirements and documentation burdens that will cause coverage losses through administrative churn.[118,119]

Estimates of Illinois' total Medicaid funding loss under the OBBBA vary, but are in each case material: Manatt Health estimates Illinois will lose $51 billion over the next decade[120] while the Illinois Department of Healthcare and Family Services ("**HFS**") estimates the state's loss will range from $26 to $48 billion.[121] The resulting loss of coverage will also be significant, as KFF projects that between 330,000 and 544,000 Illinoisans—roughly one in six to one in ten current enrollees—will lose coverage entirely.[122,123]

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> *Rural Illinois will bear the brunt of the impact. Illinois is projected to face the third-highest decrease in rural Medicaid spending of any state in the nation (approximately $6.36 billion, behind only Kentucky and North Carolina), potentially forcing the closure of nine rural hospitals and more than 90 nursing homes.[124,125] Given that every $1 invested in Illinois hospitals and health systems generates $1.40 in economic activity, this rural funding loss translates to an estimated $8.9 billion decline in rural economic activity.[126]*

What many do not realize is that the loss of federal Medicaid funding will have negative impacts on Illinois that go beyond healthcare and the state budget. Illinois hospitals and health systems support 445,000 full-time jobs (11% of total state employment) and generate approximately $117.7 billion for the state economy each year.[127,128] These institutions are not merely healthcare providers; they are among the largest employers and economic anchors in communities across the state. That is particularly true in rural and downstate Illinois, where a hospital is frequently the single largest employer in the county and the primary source of good-paying, benefits-eligible jobs.[129]

The projected Medicaid funding cuts under the OBBBA are so significant that they will force hospitals and other healthcare facilities to lay off staff and reduce third party contracts with local vendors. That in turn will mean the impacted community will lose jobs, as well as portions of its tax base that help fund schools, roads, and public safety. The negative economic fallout from the OBBBA's Medicaid cuts will be severe.

For an indication of how severe, consider that when Congress attempted to eliminate the ACA Medicaid expansion in 2017, it was estimated that would cause Illinois to lose between 55,000 and 60,000 jobs statewide and $7.5 billion in annual economic activity.[130] Fortunately, that effort failed. Unfortunately, the OBBBA passed, and it contains Medicaid cuts similar in size to the failed 2017 attempt. Even worse, the OBBBA's Medicaid cuts are coupled with cuts to SNAP, clean energy, and education that compound the economic disruption, and will therefore likely have an even greater negative economic impact on the state. Indeed, Illinois is expected to lose approximately 67,000 jobs as a direct result of the OBBBA's healthcare cuts alone.[131]

Moreover, the Big Beautiful Bill did not renew the ACA premium tax credits (the "**Enhanced Premium Credits**"), allowing them to expire and thereby increasing the cost of health insurance for many families.[132,133] Under that program, which was initially established as part of the American Rescue Plan Act of 2021 and then extended by the Inflation Reduction Act of 2022, a number of changes were made to the ACA that resulted in lowering the cost of health insurance for enrollees.[134,135,136] For instance, some key features of the Enhanced Premium Credits program included: (i) lowering the required percentage of household income participants were required to pay toward health insurance premiums across all income tiers; (ii) allowing anyone whose plan costs exceeded a set percentage of their income to qualify for federal premium subsidies by eliminating the upper-income eligibility cap of 400% of the federal poverty level; and (iii) increasing the credit amounts for middle- and lower-income brackets alike, which effectively cut average out-of-pocket monthly premiums for those enrollees.[137]

The OBBBA's elimination of the Enhanced Premium Credits program has already caused Illinois ACA marketplace premiums to spike by an average of 78%, with some downstate communities seeing premiums more than triple.[138] Illinois families with ACA marketplace plans will now pay an average of $1,032 more per year in premiums, with rural Illinoisans facing an average increase of approximately $1,700.[139] An Illinois couple earning $21,150 annually (just above the federal poverty level) could face more than $1,000—almost 5% of that couple's total income—in additional out-of-pocket medical costs

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due to new Medicaid cost-sharing requirements.[140] For a household already stretched thin, the practical consequence is not an abstract reduction in disposable income: it is a choice between paying a medical bill or buying prescription medications on the one hand, versus paying rent or buying groceries on the other. Adding insult to injury, families facing these difficult choices are not the ones who benefitted from the OBBBA's tax cuts; they are the ones whose healthcare was cut to pay for them.

6.2. SNAP in Illinois

As indicated previously, the OBBBA shifts SNAP costs to the states in two key ways. First, states will now incur a financial penalty based on their administrative error rate. This penalty is assessed by requiring states to cover a share of benefit costs based on their payment error rate, which is the percentage of SNAP benefits determined to have been incorrectly calculated or issued.[141] Second, the OBBBA reduces the share of program administrative costs the federal government will cover from 50% to 25%, beginning October 1, 2026.[142]

In addition to the increase in administrative costs generally being shifted to the states under the OBBBA, Illinois' FY 2025 SNAP benefit error rate of 14.7% places it in the highest OBBBA penalty tier.[143] It bears emphasizing what that error rate does and does not mean. The federal SNAP error rate calculation counts both overpayments and underpayments, and a significant share of what is classified as an "error" reflects the inherent administrative complexity of accurately tracking fluctuating household income—not fraud or intentional misuse. Illinois is being penalized at the highest tier not because its program is rife with abuse, but because accurately administering a program for hundreds of thousands of households with variable incomes is challenging and, at times, imprecise.[144]

The fiscal consequences of this penalty structure are severe. When all OBBBA SNAP provisions take effect, Illinois will owe approximately $785 million annually in SNAP administrative and benefit costs—up from $130 million in the FY 2027 state budget, a more than fivefold increase.[145] To absorb this cost without cutting benefits, Illinois would have to identify nearly $655 million in new annual General Fund revenue dedicated solely to replacing federal SNAP funds. For context, that amount is more than the state spends annually on its entire network of community mental health services.[146] Governor Pritzker estimates that approximately 360,000 Illinois residents will lose food assistance benefits due to the OBBBA's SNAP cuts.[147] Moreover, the USDA has identified an economic multiplier associated with SNAP benefits of $1.54, which simply means that every dollar of SNAP benefits distributed generates another $1.54 in economic activity in the recipient's community.[148] If the state is unable to cover the anticipated $655 million SNAP shortfall, it will cause affected communities across Illinois to collectively lose over $1 billion in annual economic activity.

6.3. Clean Energy in Illinois

Illinois' Climate and Equitable Jobs Act ("**CEJA**"), which passed in September 2021, committed Illinois to having a 100% clean energy grid by 2050.[149] The OBBBA's rollback of IRA clean energy incentives jeopardizes this goal by imposing severe financing constraints on wind and solar development across Central and Southern Illinois. The Illinois Environmental Council estimates that over $16.8 billion in public and private clean energy investments will be lost statewide, eliminating as many as 52,000 jobs and increasing residential energy bills by up to $400 annually.[150] Those 52,000 jobs are disproportionately located in Central and Southern Illinois—regions that have experienced decades of manufacturing decline and that were, under CEJA and the IRA, positioned to participate in the growing, clean energy industry which provides access to high-paying, often union-represented employment.[151,152] The OBBBA does not merely slow Illinois' clean energy transition, it actively forecloses an economic development opportunity that was already well underway in communities across the state which

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needed that development, in favor of federal subsidies for the fossil fuel industry that those same communities have little capacity to benefit from.

6.4. OBBBA's Tax Provisions Cause Revenue Loss for the State

When the OBBBA cut federal income taxes for wealthy individuals and large corporations, it also cut their Illinois state-level income taxes, without any vote by the Illinois General Assembly and without any corresponding reduction in the public services the state is expected to fund. That is because Illinois bases both its individual and corporate state income taxes on federal law. Individuals filing a state income tax return in Illinois use their Adjusted Gross Income ("**AGI**") as reported to the Internal Revenue Service ("**IRS**") as the starting point for calculating state income tax liability, while corporations use their federal taxable income ("**FTI**") as reported to the IRS their starting point for Illinois state income tax purposes.[153]

Illinois' "rolling conformity" with the Internal Revenue Code for both individual and corporate income taxes means that the state automatically adopts changes made in newly enacted federal tax legislation unless Illinois takes affirmative action to "decouple" from those changes through specific state legislation.[154] This means that federal tax policy changes that impact how either AGI or FTI is calculated—as the OBBBA does in numerous respects—automatically changes Illinois' income tax law. Since the OBBBA's changes to both AGI and FTI resulted in tax cuts, and hence revenue losses for the federal government, they also resulted in tax cuts, and hence revenue losses for the state, without any vote by the Illinois General Assembly.

Illinois took a first, significant step to redress this potential revenue loss in December 2025, when Governor Pritzker signed S.B. 1911 into law, decoupling Illinois from the OBBBA's bonus depreciation provisions under Section 168(n), and updating the state's treatment of Net CFC Tested Income, saving approximately $243 million in income tax revenue for FY 2026 that otherwise would have been lost due to the OBBBA.[155] However, even after that decoupling legislation passed, Illinois was still expected to lose approximately $587 million in income tax revenue in FY 2026 alone as a result of remaining OBBBA tax provisions, as outlined in **Figure 5**.[156]

Figure 5

Remaining Revenue Loss Impact of OBBBA on Illinois State Budget (Absent Further Decoupling)

OBBBA Tax Provision	Corporate Income Tax Loss (FY 2026)	Individual Income Tax Loss (FY 2026)
Research & Development Expensing	$304.6 million	$108 million
EBITDA-Based Interest Deductions	$51.3 million	$60 million
Section 179 Expensing	$5.1 million	$20 million
Trump Accounts	—	$38 million
FY 2026 Revenue Loss	**$361 million**	**$226 million**
TOTAL Revenue Loss (Absent Further Decoupling)	**$587 million**	

Source: CTBA analysis of data from the Tax Foundation and Governor's Office of Management and Budget

In the spring legislative session of 2026, two additional decoupling bills were introduced in the Illinois General Assembly that would substantially close this remaining gap. HB 5125 and its Senate companion SB 3796 would accomplish two distinct things. First, they would decouple Illinois from the remaining OBBBA tax provisions still reducing state revenues, preserving approximately $587 million annually that

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was already collected under Illinois law before the OBBBA altered the federal tax base to which Illinois automatically conforms. [157] Second, the bills would end the carried interest tax expenditure—a provision of state tax law that allows investment fund managers to treat their compensation as capital gains rather than ordinary income, resulting in a lower effective tax rate than that paid by most Illinois wage earners.[158] Eliminating this tax expenditure would generate approximately $123 million in new annual recurring revenue for the state.[159] Together, the two components of HB 5125 and SB 3796 would generate a combined $710 million in annual fiscal benefit for Illinois's General Fund. Alongside the December 2025 decoupling already enacted, passage of these two bills would represent a comprehensive legislative response to OBBBA's income tax revenue impacts.

6.5. Total Estimated Fiscal Impact on Illinois' General Fund

Illinois' entire FY 2027 General Fund budget is approximately $55.9 billion.[160] **Figure 6** provides an estimate of the full cost to the state of Illinois' General Fund of offsetting every spending cut, tax change, and administrative charge created under the OBBBA, which is broken down by item, and by average annual cost and 10-year total cost. Because certain provisions of the Big Beautiful Bill do not take effect until 2028, in some cases the annual impact has been broken out into subsets of years.

While the Governor's Office of Management and Budget ("**GOMB**") estimates the OBBBA and Trump's quixotic fiscal actions will cost Illinois some $8.4 billion over the next five years,[161] this figure understates the full potential scope of the long-term fiscal challenges created by the Trump Administration. GOMB's projections do not assume that the state will fully backfill lost federal funding to continue providing all current services to Illinois residents without interruption. CTBA's estimates do make that assumption, and on that basis, the annual fiscal impact increases to approximately $4.54 billion per year, or roughly 8.4% of the total FY 2027 General Fund budget of $55.9 billion. That is not a gap that can be closed through modest budget adjustments or one-time measures. It is a structural, recurring shock that will require structural, recurring solutions.

Figure 6
Estimated Impact of Select OBBBA Provisions on Illinois' General Fund

OBBBA Provision	Average Annual Cost	Total 10-Year Cost
SNAP cuts and cost shifts	FY 2026: $60M FY 2027: $80M FY 2028-FY 2035: $645M **Average: $530M**	$5.30 billion
Medicaid cuts and cost shifts	FY 2026-FY 2027: $0 FY 2028-FY 2035: $4.43B **Average: $3.54B**	$35.4 billion
Implementation costs (new SNAP & Medicaid requirements)	FY 2026: $0 FY 2027-FY 2028: $100M FY 2029-FY 2035: $0 **Average: $20M**	$200 million
Individual income tax provisions	$226 million	$2.26 billion
Corporate income tax provisions	$361 million	$3.61 billion
Total	**$4.54 billion**	**$45.4 billion**

Source: CTBA analysis of data from the Tax Foundation and Governor's Office of Management and Budget

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The OBBBA's total ten-year fiscal impact of $45.4 billion is a staggering sum to absorb from a single piece of federal legislation. It imposes a recurring, structural hit on the state's finances for the foreseeable future. Illinois will not be able to cut its way to fiscal sustainability in the face of this shock—structural, economy-responsive revenue reform is the only path to sustaining current service levels—especially since the state's General Fund was already running a structural deficit before the OBBBA passed.

7. How The OBBBA Makes Illinois' Structural Deficit Worse

A "structural deficit" exists whenever a tax system consistently fails to generate sufficient revenue growth to both: (i) maintain current public service levels from year-to-year, after adjusting solely for changes in inflation and population, and assuming no changes in law; and (ii) meet existing debt service obligations as they become due. Illinois has operated under precisely this condition for most of the past three decades.

That is problematic, given that historically, approximately 95% of the current service expenditures covered by the General Fund are dedicated to the four core areas of Education (PreK, K-12, and Higher Ed), Healthcare (primarily Medicaid coverage for low-income families), Human Services, and Public Safety.[162] There are typically two factors that drive a structural deficit: overspending on services and/or poorly designed tax policy. All the data confirm the structural deficit in Illinois' General Fund is not driven by overspending on services. In fact, after adjusting for inflation, the enacted appropriations for current services in FY 2027 are scheduled to be $6.719 billion, or 14.5% less than actual spending on those services was at the beginning of this century in FY 2000, under then Republican Governor George Ryan.[163]

On the other hand, the data also confirm that Illinois' flawed tax policy—in particular, the state's reliance on a flat rate income tax and its significant dependence on revenue sources that do not grow with the modern economy—has chronically prevented the state's General Fund revenue from keeping pace with the inflation-adjusted cost of providing the same level of services from year-to-year.[164]

OBBBA exacerbates the structural deficit in two ways. First, as previously discussed, it reduces revenue the state would otherwise collect via its personal and corporate income taxes because Illinois uses the federal AGI and TFI as the starting point for calculating the amount of income taxes owed to the state.[165] So when the OBBBA cut taxes by enhancing ways for taxpayers to reduce their AGI and/or TFI, it also cut Illinois' state-level income taxes automatically, unless Illinois "decoupled" from those federal tax changes via specific state legislation.[166] To date, Illinois has only decoupled from some of these cuts; the state still lost $587 million in income tax revenue in FY 2026 from the OBBBA tax cuts that the state has yet to decouple from.

The second avenue by which the Big Beautiful Bill worsens the structural deficit is by shifting to the state of Illinois the responsibility to increase expenditures to make up for the significant federal spending cuts the OBBBA makes to Medicaid and SNAP. As delineated previously, the most material cut under the Big Beautiful Bill is to Medicaid. If the state's decision makers opt to fully fund access to healthcare services for Illinoisans who would otherwise lose Medicaid coverage under these cuts, it would cost an estimated $4.43 billion per year beginning in FY 2028, when all provisions of the OBBBA go into effect.[167]

The Big Beautiful Bill also slashes federal funding for SNAP benefits, while shifting an increasing portion of administrative costs to states, and financially penalizing states for administrative inaccuracies.[168] When all the SNAP provisions of the OBBBA take effect, Illinois will owe an estimated total of $785

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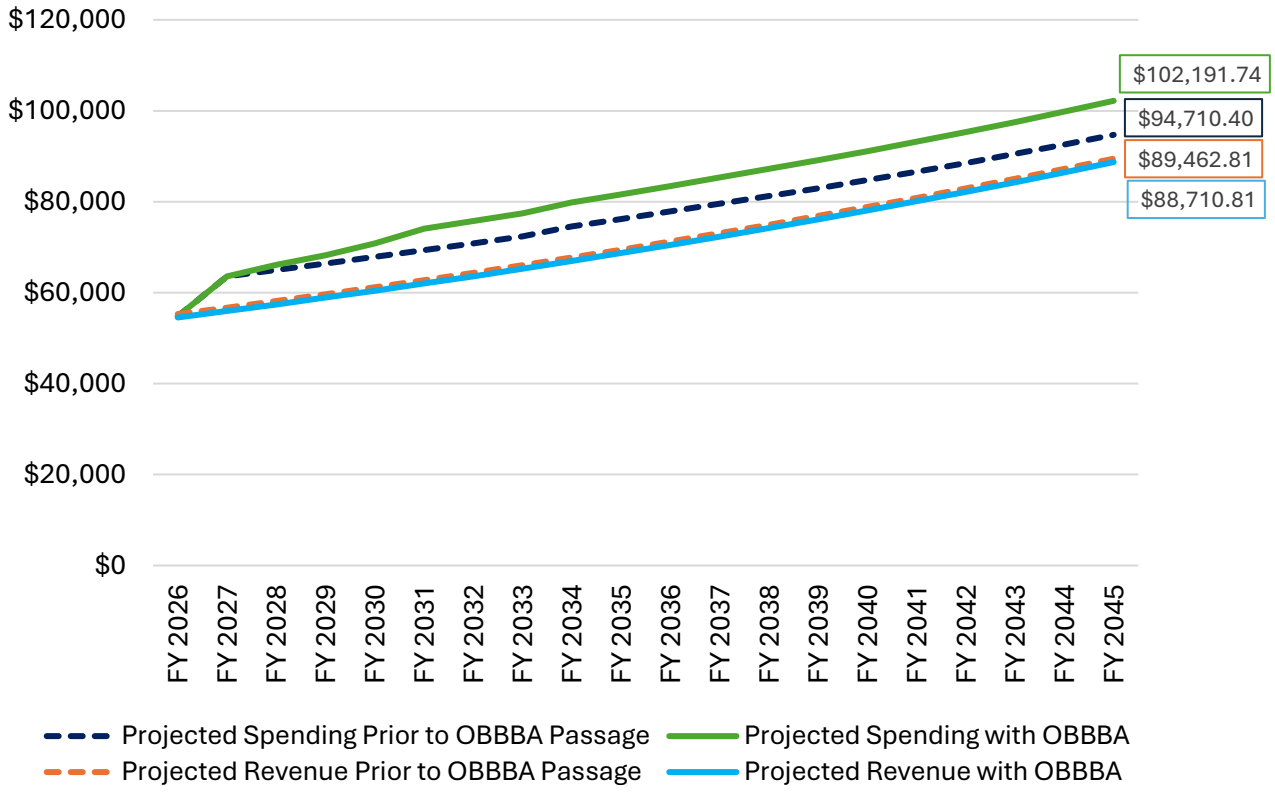
million in annual SNAP administrative costs and benefit expenditures, up from the $130 million appropriated in the FY 2027 General Fund budget.[169]

Fewer revenues paired with greater expenditures is precisely the dynamic that defines a structural deficit, and the Big Beautiful Bill pulls both levers simultaneously, widening the gap between what Illinois collects and what it must spend to maintain current services, year after year, for the foreseeable future.

Figure 7 depicts the state's structural deficit, both with and without the effects of the Big Beautiful Bill. The structural deficit the state would have faced absent the OBBBA is less severe than what the state has experienced in past decades, primarily because of various tax increases Illinois passed in the last few years. However, if Illinois decided to offset all the service cuts and revenue losses it faces due to the OBBBA, the deficit the General Fund would face in FY 2045 would balloon to $13.5 billion, compared to the $5.25 billion deficit it would have faced due to the existing structural deficit prior to passage of the OBBBA.[170] This means the Trump-policy induced budget hole is nearly 2.6 times greater than it would have been without his landmark legislation.

Figure 7
The Projected Structural Deficit in Illinois' General Fund ($ Millions), FY 2026 – FY 2045



Source: CTBA analysis using historical revenue data from COGFA and FY 2026 estimate from GOMB

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8. Main Drivers of The State's Current Structural Deficit

8.1. Illinois' Flawed Tax Policy

The state's two primary revenue sources—its income tax and its sales tax—are fundamentally misaligned with the modern economy. Because of that, they cannot generate sufficient revenue growth to maintain funding for the same level of public services over time.

Illinois' income tax is assessed at a single, flat rate of 4.95% across all levels of income—irrespective of earnings and hence ability to pay.[171] Using a flat rate income tax is mandated by the state's 1970 Constitution.[172] This structure is indefensible from both a fiscal and a fairness standpoint for one, compelling reason: since the Constitution was ratified, income inequality in Illinois has exploded. Between 1979 and 2022, real average annual incomes for the top 1% of Illinois earners grew from $501,320 to $2,132,780, a 325% increase.[173] Over that same period, real average annual incomes for the remaining 99% of Illinoisans grew from $62,734 to $81,845, or by just 30.5%.[174] A flat income tax rate is structurally incapable of responding to this economic reality.

Because it fails to respond to how income growth is truly realized by taxpayers over time, the state's income tax fails to generate revenue growth that keeps pace with economic growth, which helps drive the structural deficit. But contributing to the structural deficit is not the only fiscal problem created by having a flat rate income tax. By nature, most taxes are regressive, meaning they impose a greater tax burden on low- and middle-income earners than on affluent people when tax burden is measured as a percentage of income. From a pure tax policy standpoint, the income tax is supposed to create some tax fairness by helping to offset the natural regressiveness of most other taxes by utilizing a progressive rate structure, and thereby imposing tax burden in accordance with ability to pay and shifting some tax burden from low- and middle-income individuals to affluent individuals.[175] Illinois' income tax cannot play this crucial tax fairness role due to the state constitution that mandates a single, flat rate.

That tax policy failure is reflected in Illinois' overall state and local tax burden, which falls more heavily on those with the least. According to the Institute on Taxation and Economic Policy ("**ITEP**"), the lowest 20% of income earners in Illinois—who make less than $26,700 per year—pay 14.8% of their income in state and local taxes, while the top 1% of earners pay just 7.3%, less than half the rate paid by the state's lowest-income residents.[176] ITEP ranks Illinois as having the 8th most regressive state and local tax system in the country, and finds that income disparities are actually larger in Illinois after state and local taxes are collected than before.[177]

The state's sales tax also fails to comport with the modern economy and further drives Illinois' structural deficit. The reason for this is that Illinois' sales tax applies predominantly to transactions involving goods, not services. In fact, Illinois taxes only 29 out of 176 consumer service categories, far fewer than the national average of 58.[178] This is a losing fiscal proposition in the modern economy, where service-related transactions account for 73% of Illinois' GDP.[179] Because its base is weighted toward goods while the economy has shifted decisively toward services, the Illinois sales tax automatically captures a shrinking share of economic activity over time, even when the economy grows. The fiscal consequence is stark: after adjusting for inflation, General Fund sales tax revenue in FY 2027 will be approximately $1.1 billion less than it was at the beginning of the century in FY 2000.[180]

These twin structural revenue failures—a flat income tax that cannot respond to income concentration at the top, and a sales tax base that cannot respond to the service-driven economy—are the root cause of Illinois' structural deficit. Because of those tax policy flaws, even when the economy is expanding, General Fund revenue growth falls short of the cost of maintaining current service levels.

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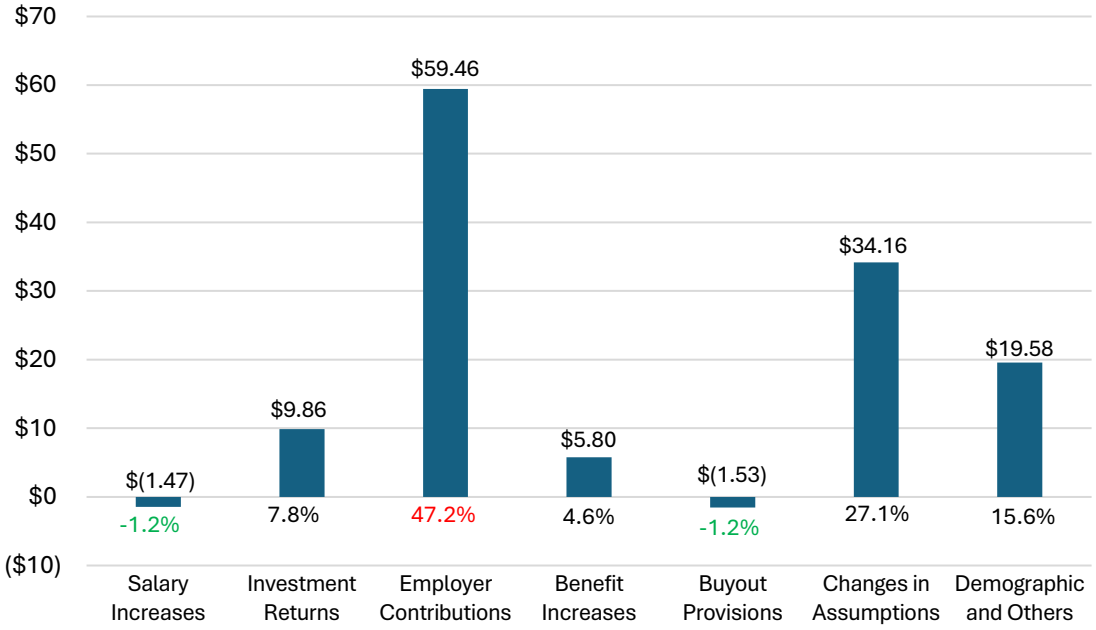
8.2. The Pension Ramp

Illinois' underfunded pension system is another factor that contributes to the structural deficit in the state's General Fund. Illinois state government funds five public pension systems. As of FY 2025, those systems had a combined funded ratio of just 47.4%[181]—the lowest of any state in the nation and more than 35 percentage points below the 80% threshold the Government Accountability Office identifies as a basic standard of fiscal health.[182] The aggregate unfunded liability across all five systems stands at $144.6 billion, with $274.9 billion in liabilities but just $130.4 billion in assets.[183]

The primary driver of this debt has not been excessive benefits. **Figure 8** illustrates that decades of insufficient employer contributions by the state have been the leading factor contributing to the significant increase in unfunded liabilities over the past 30 years.[184] The 1995 Pension Ramp—the statutory repayment schedule meant to address this problem—made it worse by creating a back-loaded payment schedule that increases annually until culminating in a final payment of over $18 billion.[185]

Figure 8
Factors Contributing to the Change in Unfunded Liabilities for All Five State Pension Systems Combined, FY 1996-FY 2025 ($ Billions)



Source: CGFA Special Pension Briefing, November 2025

The Pension Ramp's back-loaded structure does more than create an unaffordable payment schedule; it directly exacerbates Illinois' structural deficit. As shown in **Figure 9**, it is the Pension Ramp's debt service repayment schedule, not the normal cost of funding benefits being earned by current employees, that is straining the state's General Fund.[186] Because the Pension Ramp's debt service payments are scheduled to escalate sharply in the years ahead, it will consume an ever-larger share of new General Fund revenue each year, leaving less funding to cover the cost of current public services and offset the OBBBA's added pressures.

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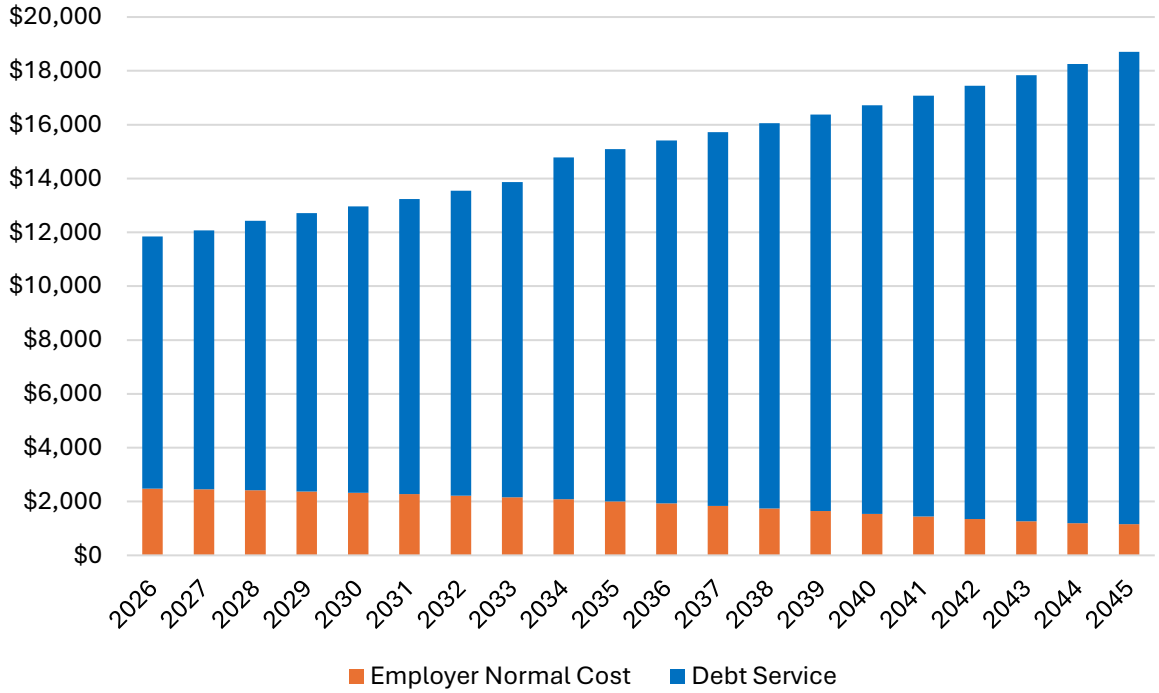
Figure 9
Actuarial Breakdown of Pension Ramp Payment Projections by Debt Service Versus Normal Cost, FY 2026-2045 ($ Millions)



9. Policy Options to Eliminate the Structural Deficit and Offset the OBBBA's Fiscal Impacts

9.1. Modernizing Illinois' Tax Policy

The path forward requires both near-term defensive actions and long-term structural reforms. To redress the structural deficit sustainably over time, Illinois must reform its two primary revenue sources, the income and sales taxes, to comport with the modern economy.

Start with the income tax. Because the state constitution requires utilization of a flat tax rate, reforming the Illinois income tax to both generate revenue that helps eliminate the structural deficit, and create more tax fairness, involves two separate steps.

First, to generate the needed revenue, the state should increase the flat income tax rate from 4.95% to 6.45%. That will generate about $6.2 billion in new recurring revenue for the General Fund.187 However, this flat rate increase would fail to create any tax fairness, as all taxpayers would pay an additional 1.5 percentage point tax on their taxable income. Second, to address this shortfall and enhance tax fairness, $1.7 billion of that new revenue should be used to create a targeted income tax credit for households making $75,000 or less in annual taxable income. This policy would allow the state to generate approximately $4.5 billion in new annual revenue to help eliminate the structural deficit and help insulate the state from the impacts of the OBBBA. It also ensures that the net tax increase is paid entirely by those who can afford it—higher-income taxpayers—while the bottom 77% of taxpayers (comprising 4.9 million Illinoisans) would not see any bump in income taxes.188 For more information

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on a graduated rate income tax, please see CTBA's report "A Fair Tax: Implementing a Graduated Rate Income Tax to Support Illinois, Volume II."

The second tax policy change needed to redress the structural deficit is to expand the state's sales tax base to include the same consumer services already taxed in neighboring Iowa and Wisconsin, while continuing to exclude professional, housing, healthcare, and business-to-business services. This would generate an additional $2 billion in new recurring annual revenue, while also making the sales tax burden less regressive than current law, because high-income households spend five times more on currently untaxed services than do low-income households.[189] For more information on expanding the sales tax base to include consumer services, please see the report "Modernizing Illinois' Sales Tax: A Pathway for a Sustainable Future," which was coauthored by CTBA, The Civic Federation, Chicago Metropolitan Agency for Planning, and Illinois Economic Policy Institute.

Together, these two tax policy reforms would generate approximately $6.5 billion in new annual revenue—enough to substantially offset the OBBBA's full-effect annual fiscal impact while also meaningfully narrowing the structural deficit that predates the federal legislation.

9.2. Pension Re-Amortization

CTBA's pension re-amortization model offers a responsible path to getting all five state pension systems healthy while simultaneously reducing the state's structural deficit and saving Illinois taxpayers billions of dollars in unnecessary debt service costs. The model shifts away from the back-loaded, escalating payment approach created under the 1995 Pension Ramp and toward a level-dollar amortization of unfunded pension liabilities beginning in 2033, much like the fixed monthly payment structure of a 30-year home mortgage, where the same nominal amount is paid each year and the real cost declines over time as inflation erodes the value of those fixed payments.[190]

Prior to 2033, CTBA's model front-loads payments into the pension systems through the issuance of pension obligation bonds, with all bond proceeds used to pay down existing unfunded liability principal. The model also moves annual pension to the first day of the fiscal year, generating additional compounding investment returns that materially reduce long-term costs. Iterations of the model include retaining the current timeframe and funded ratio goal (90% funded by 2045) as well as an option to extend the timeline to reach 100% funded by 2048.[191]

Depending on whether policymakers choose to target the current 90% funded ratio by 2045 or the option of 100% funded by 2048, CTBA's model saves Illinois taxpayers between $43.1 billion and $20.0 billion, respectively, in total state costs over the full repayment period—savings generated not by reducing benefits, but by eliminating the fiscal inefficiency of the Pension Ramp's back-loaded structure.[192] To reduce cashflow challenges posed by the existing re-amortization model, which requires the state to make the full annual pension contribution on the first day of each fiscal year, CTBA is preparing an adjusted model that utilizes pension obligation bond proceeds to front-load the entirety of the first fiscal year's payment, then prepays the following fiscal year's contributions on a rolling basis. This report will be updated with revised savings estimates when the adjusted modeling is completed.

Critically, as shown in CTBA's analysis, re-amortization also reduces the state's structural deficit by replacing the Pension Ramp's escalating annual debt service payments with a flat, predictable payment schedule that the state's existing revenue structure can accommodate, freeing up General Fund capacity that would otherwise be consumed by ballooning pension costs. In the context of the OBBBA's fiscal pressures, this reform is not merely advisable, it is a necessary precondition for fiscal sustainability. Together with income tax reform and sales tax base expansion, re-amortization would provide the fiscal breathing room Illinois needs to absorb the OBBBA's mounting costs without devastating cuts to core

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public services. For more information on pension re-amortization, please see CTBA's report "Understanding – and Resolving Illinois' Pension Funding Challenges: Volume II."

9.3. Short Term Policy Responses

Several actions are available to Illinois policymakers on a short timeline that can meaningfully reduce the OBBBA's fiscal impact without requiring major new revenue.

First, the General Assembly should pass HB 5125 and SB 3796. As described in Section 6.4, these bills would decouple Illinois from the various OBBBA tax cuts that reduce AGI and/or FTI and hence cause Illinois to lose state-level income tax revenue. That legislation also eliminates the carried interest tax expenditure. Collectively, the bills would save the state $587 million in revenue it otherwise would have lost due to the tax cuts in the OBBBA, while generating an additional $123 million in new recurring revenue by ending an unnecessary tax expenditure.[193]

Second, Illinois should maximize its federal Medicaid draw-down under current rules before the provider tax and directed payment restrictions take effect in October 2028. In practical terms, this means ensuring that Illinois' provider taxes are set as close to the current 6% maximum as permissible, that all eligible provider categories are being taxed, and that the resulting federal matching funds are being drawn down as completely as possible. This will allow Illinois to capture federal Medicaid revenue that, once the OBBBA's lower cap takes effect in October 2028, will no longer be accessible. Every dollar of federal matching funds Illinois fails to draw down before that deadline is a dollar permanently foregone.

The FY 2027 General Fund budget already acts on a third lever to lessen the Big Beautiful Bill's fiscal impact, and that is to invest in the administrative systems needed to implement the OBBBA's eligibility verification requirements with the explicit goal of minimizing administrative churn and the loss of coverage by people who are eligible but unable to navigate the documentation requirements. Arkansas' example makes clear that poor implementation causes harm not just to enrollees, but to state budgets: when eligible people lose coverage, the state loses federal matching dollars it would otherwise have received.

Fourth, Illinois should carefully evaluate whether to pursue litigation challenging specific OBBBA provisions, particularly those affecting provider taxes and directed payments, in coordination with other Medicaid expansion states.

Even if all of these proposed actions are taken, Illinois will still face the reality that the OBBBA has restructured the federal-state fiscal relationship in ways that impose permanent new costs on state budgets not designed or resourced to absorb them. Policymakers should be explicit with Illinoisans about the nature of this challenge: the OBBBA has imposed real fiscal costs that require real revenue solutions. Protecting healthcare, nutrition, and education for Illinois' most vulnerable residents is worth the political cost of asking higher-income taxpayers and profitable corporations to contribute more.

10. Conclusion

The One Big Beautiful Bill Act is, at its core, an application of an economic theory that five decades of evidence has proven to be ineffective. Supply-side tax cuts have not produced the job growth, investment, or broad-based prosperity their proponents promised. What they have consistently produced is greater income inequality and larger deficits paid for, ultimately, by reducing the public investments on which ordinary Americans depend.

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For Illinois, the OBBBA represents a fiscal shock of historic proportions: an estimated $45.4 billion in lost federal funds and increased state obligations over ten years, concentrated in healthcare, nutrition, and education. These impacts will fall hardest on the Illinoisans who are least able to absorb them: low-income families, people with disabilities, rural communities, and children.

The task before Illinois' policymakers is therefore both urgent and clear. They must pursue structural revenue reforms including income tax reform, sales tax base expansion, and pension re-amortization as well as near-term policy responses needed to put the state's finances on a sustainable trajectory in the face of reduced federal support. The alternative is not the status quo; it is a compounding fiscal crisis that will force cuts to the very services the state government exists to provide.

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