

JOLIET REGION  
Chamber of Commerce

PRITZKER-MADIGAN  
GRADUATED TAX INITIATIVE

VOTE NO

September 10, 2020

## VOTE “NO” on the GRADUATED TAX...

1. BAD POLICY for a strong, growing economy
2. What we’ve heard is NOT what we will get
3. WE CAN’T TRUST THEM to keep their promises

# BAD POLICY

## ILLINOIS' CURRENT "COST" OF GOVERNMENT is already VERY HIGH

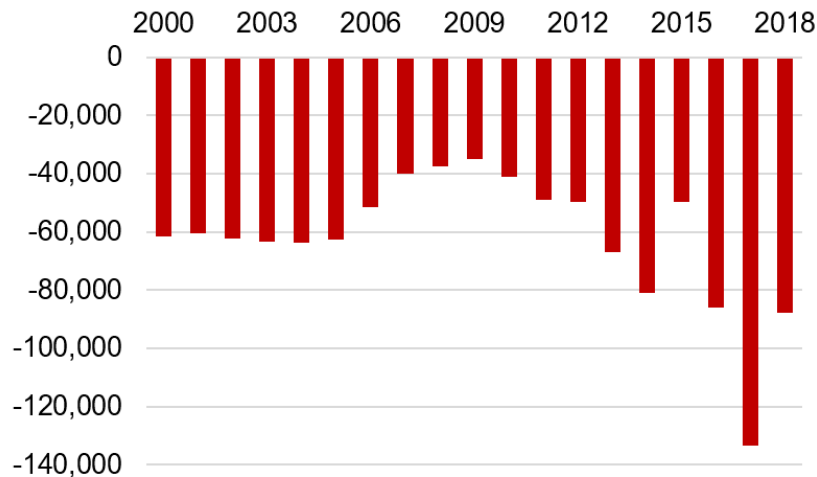
- 6<sup>TH</sup> highest weighted average SALES TAX rate (9.08%)
- 5th highest CORPORATE INCOME TAX rate
- 2<sup>nd</sup> highest PROPERTY TAX RATE
- HIGH EXCISE TAXES: gas, streaming, utility, tobacco, liquor, license plate renewals, etc.
- VERY HIGH UNEMPLOYMENT Post-Covid @ 15.2%
- WEAK COMPETITIVE POSITION on many other indicators—e.g., regulatory environment, workers comp costs, fees

Source: SIU/Berkeley Research Group Study, August 2020

# PEOPLE REACT TO BAD PUBLIC POLICY

## As Illinois loses a record number of people to other states...

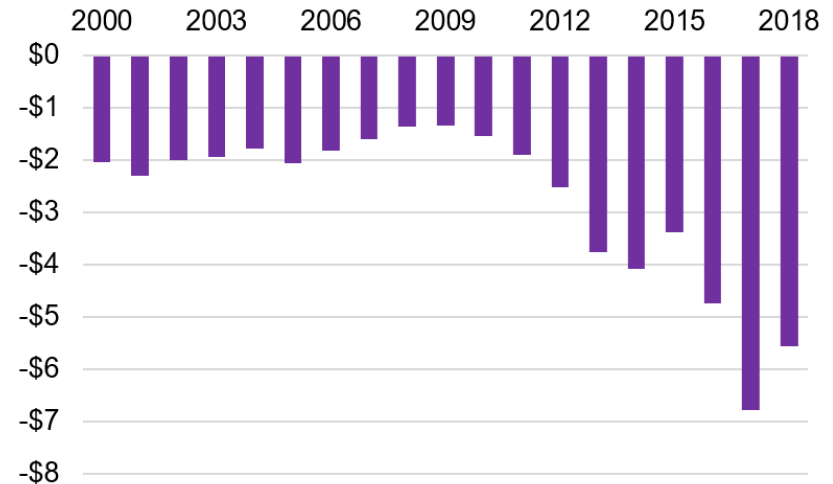
Annual Illinois residents (tax filers and exemptions) lost due to net domestic out-migration



Source: IRS - SOI migration data

## ...its tax base is taking a big hit, too.

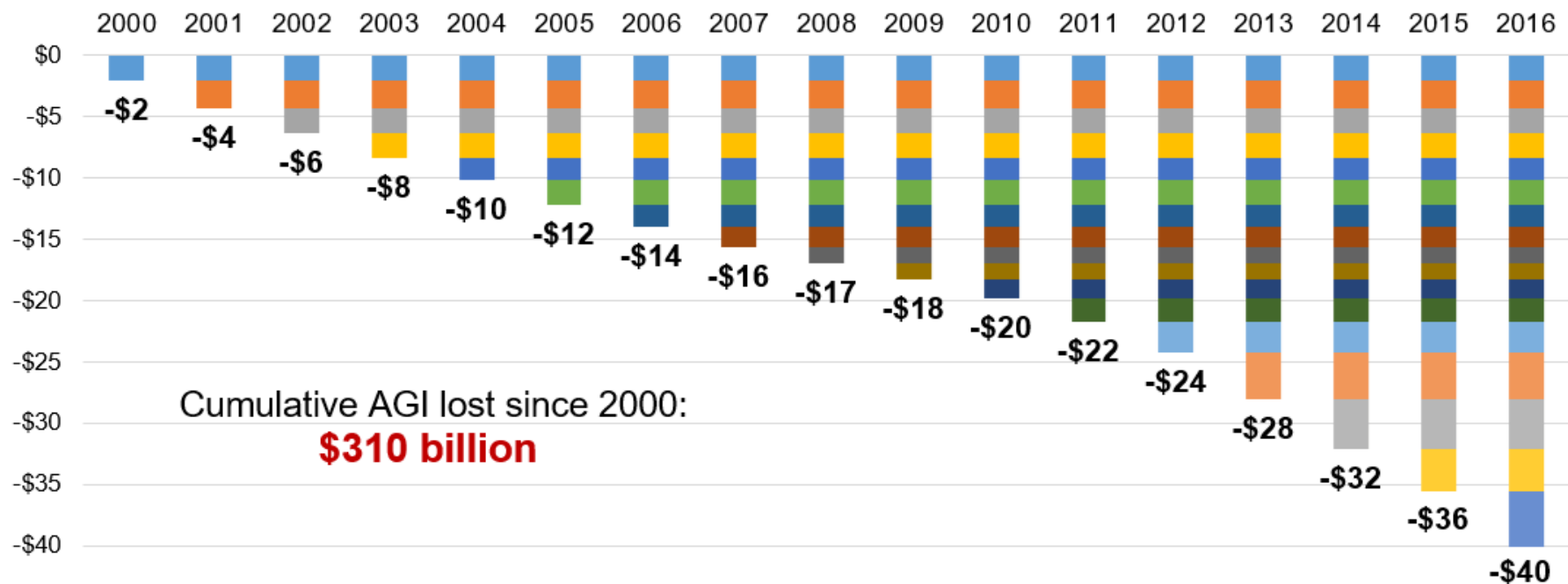
Annual adjusted gross income (AGI) lost due to net domestic out-migration, (in billions)



# COSTING ILLINOIS BILLIONS IN REVENUE

## Illinois has lost a cumulative \$310 billion in AGI since 2000

Annual cumulative net adjusted gross income (AGI) lost due to net domestic out-migration (in billions)



Source: IRS - SOI migration data

**WIREPOINTS**

Leslie  
Munger &  
company

## CURRENT “FLAT RATE” STRUCTURE HAS ADVANTAGES

- TREATS EVERYONE THE SAME – only one tax rate on income
- EVERYONE HAS SOME “SKIN IN THE GAME”
- DISCOURAGES TAX INCREASES & IMPOSES SPENDING DISCIPLINE
- CAP ON TAX RATE FOR CORPORATIONS
- PROVIDES A PREDICTABLE TAX ENVIRONMENT

# The “PROGRESSIVE” TAX ...BAD FOR TAXPAYERS

- Treats taxpayers UN-EQUALLY by imposing multiple tax brackets & rates
- BROADENS TAXING POWERS of “the State” in the IL Constitution
- BAD for BUSINESSES, JOBS & FAMILIES
  - HUGE TAX HIKES on job creators and employers
  - DISPROPORTIONATELY impact Women & Minorities\*
  - Devastating for IL small businesses on the heels of COVID-19 shut down
  - DUAL-INCOME families – “Marriage penalty”
- Will EXACERBATE ILLINOIS OUT-MIGRATION\*
- Will eventually RAISE TAXES on MIDDLE INCOME, DUAL INCOME & RETIREES

\* SIU/Berkeley Research Group Study, August 2020; Paul Simon Institute 2016



## The “PROGRESSIVE” TAX ...BAD FOR IL BUSINESSES

- Flat, fair tax (eliminated) –Only one tax based on income eliminated
- The cap on the 8 to 5 ratio on corporate tax rates largely gutted (applies to top individual rate which would result in a 15.28% top rate, including PPRT)
- **Illinois businesses** currently pay a total income **tax** rate of 9.5% – this includes a 7% corporate income **tax** plus a 2.5% Personal Property Replacement **Tax**, or PPRT.
- Under Pritzker's plan, the total corporate income **tax** rate would increase to 10.49% (7.99% corporate income **tax** plus 2.5% PPRT)

WHAT WE'VE HEARD...  
IS NOT WHAT WE WILL GET


## WHAT WE'VE HEARD...

- "We need it because of COVID-19"
- Will **INCREASE REVENUE** by **\$3.5 Billion\*** annually
  - ✓ More funding for schools
  - ✓ More funding for pensions
  - ✓ Lower property tax burden
  - ✓ Address structural budget deficit and put IL on a path to fiscal health
  - ✓ Ensures "essential workers" pay less than "millionaires & billionaires"
  - ✓ Average Household will save/pay the same

\*Governor's Office estimate "pre-Covid" reductions

## THEY'VE PROMISED THIS...

- Tax increases ONLY on the “*wealthiest*”



<u>Proposed</u> Marginal Rate	Net Income Range, Single Filer	Net Income Range, Joint Filer
4.75%	\$0 to \$10,000	\$0 to \$10,000
4.90%	\$10,001 to \$100,000	\$10,001 to \$100,000
4.95%	\$100,001 to \$250,000	\$100,001 to \$250,000
7.75%	\$250,001 to \$350,000	\$250,001 to \$500,000
7.85%	\$350,001 to \$750,000	\$500,001 to 1,000,000
7.99%	Over \$750,000**	Over \$1,000,000**

\*Marginal tax rates become effective only after passage of constitutional amendment in November 2020.

\*\*The tax rate becomes flat in this range, meaning that all income is taxed at this rate.

Source: Public Act 101-0008, enacted on June 5, 2019.

## ... BUT THIS IS WHAT'S ON YOUR BALLOT

“The proposed amendment **grants the State authority to impose higher income tax rates on higher income levels**, which is how the federal government and a majority of other states do it. The amendment would **remove the portion** of the Revenue Article of the Illinois Constitution that is sometimes referred to as the “flat tax,” **that requires all taxes on income to be at the same rate. The amendment does not itself change tax rates. It gives *the State* the ability to impose higher tax rates on those with higher income levels and lower income tax rates on those with middle or lower income levels.** You are asked to decide whether the proposed amendment should become a part of the Illinois Constitution.”

## WHAT'S MISSING?

- No rates
- No income brackets
- No restriction on the number of income brackets
- No restriction on how often taxes can be raised
- No “high” limit
- Does NOT PROTECT ANY income level from tax increases... only promises that higher earners will pay more
- No protection against retiree income being taxed

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***WHY: Illinois needs a LOT more than \$3.5 Billion***

And it's NOT DUE TO COVID

**\$3.5B is LESS THAN 2%**  
of Illinois' **\$226B “*Structural Deficit*”**

- 20 years of unbalanced budgets
- Over \$200B in pension & healthcare promises not paid for
- Pension funding “holidays”
- Borrowing to pay down bills, to fund pension obligations

## 2021 budget adds \$14-18 Billion to debt

<b><u>2021 Enacted Budget</u></b>	<b><u>\$ Billions</u></b>
Revenues (projected)	\$36.6
Spending	\$42.6
Deficit	(\$ 6.0 )
+ Unpaid bills	(\$4 - 8 )
<b>Deficit w/o add'l pension funding</b>	<b>(\$10-14B)</b>
Underfunded Pension liabilities	(\$4.0 )
<b>TOTAL 2021 DEFICIT:</b>	<b>(\$14-18 )</b>



# “TAX” WHERE THE MONEY IS....

Middle income earners are pay over 60% of the taxes

## Just 3% of Illinois tax filers paid 34% of all state income taxes in 2016

Illinois state income tax stratification data for Tax Year 2016 - Final

Net income stratification	Number of tax returns	% of total returns	Taxable net income	Net taxes paid	% of total taxes paid
\$0 – \$10K	1,773,771	28%	\$4,713,442,919	\$60,257,483	0.5%
\$10K – \$100K	3,583,958	58%	\$144,316,971,915	\$4,831,283,553	38%
\$100K – \$250K	692,948	11%	\$101,263,124,512	\$3,473,177,726	28%
\$250K – \$1M	154,926	2%	\$64,919,663,851	\$2,225,203,230	18%
\$1M – \$10M	19,164	0.3%	\$42,033,395,438	\$1,375,798,711	11%
\$10 million +	775	0.0%	\$20,104,279,015	\$614,507,757	5%
<b>Total</b>	<b>6,225,542</b>	<b>100%</b>	<b>\$377,350,877,650</b>	<b>\$12,580,228,460</b>	<b>100%</b>

4.3M

175k

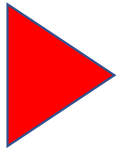
Source: Detailed income tax stratification data obtained through a 2019 FOIA request to the Illinois Department of Revenue



# HUGE TAX INCREASES on MIDDLE CLASS is INEVITABLE

**EXAMPLE**

**\$10 B**



## Potential progressive tax rates needed to raise \$10 billion in new Illinois revenues

Marginal tax rate	Taxable income bracket
4.95%	Pay 4.95% on income up to \$50,000
<b>8.5%</b>	<b>Pay 8.5% on additional income between \$50,000 and \$75,000</b>
<b>9.0%</b>	<b>Pay 9.0% on additional income between \$75,000 and \$150,000</b>
9.5%	Pay 9.5% on additional income between \$150,000 and \$250,000
10.5%	Pay 10.5% on additional income between \$250,000 and \$1 million
11.2%	Pay 11.2% on income in excess of \$1 million

**Total new revenue raised: \$10 billion\***

Source: Detailed Income tax stratification data based on "Tax Year 2016 - Final" data obtained through a FOIA request to the Illinois Department of Revenue; Wirepoints calculations

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

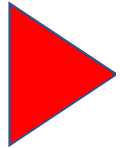
Note: Assumes no reduction in Illinois' tax base due to higher tax rates.



# EXPECT TAX RATE INCREASES OF AT LEAST 70% OR HIGHER...

**EXAMPLE**

**\$15 B**



## Potential progressive tax rates needed to raise \$15 billion in new Illinois revenues

Marginal tax rate	Taxable income bracket
4.95%	Pay 4.95% on income up to \$50,000
9.5%	Pay 9.5% on additional income between \$50,000 and \$75,000
10.0%	Pay 10.0% on additional income between \$75,000 and \$150,000
13.0%	Pay 13.0% on additional income between \$150,000 and \$250,000
13.5%	Pay 13.5% on additional income between \$250,000 and \$1 million
14.0%	Pay 14.0% on income in excess of \$1 million
Total new revenue raised: \$15 billion*	

Source: Detailed Income tax stratification data based on "Tax Year 2016 - Final" data obtained through a FOIA request to the Illinois Department of Revenue; Wirepoints calculations

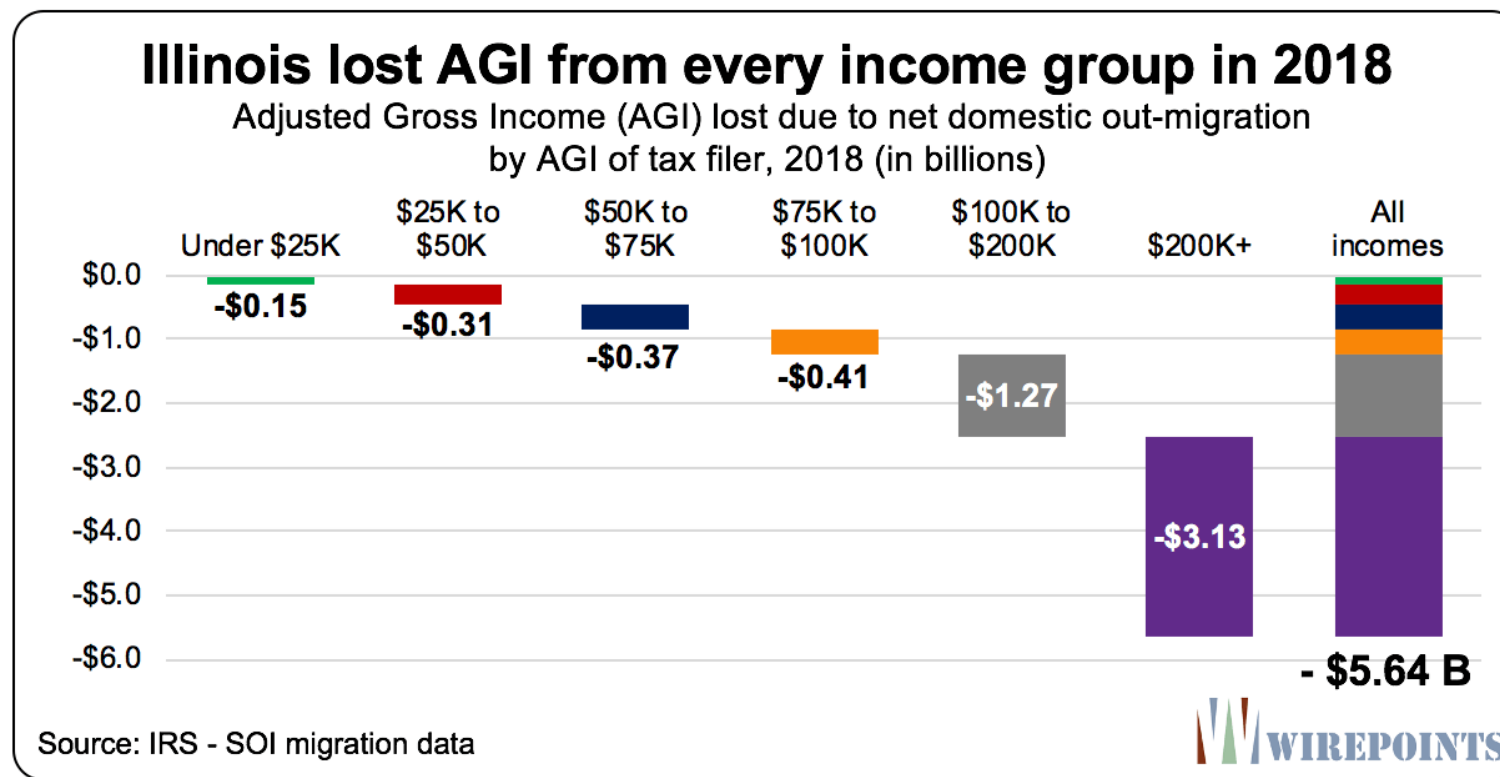
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Note: Assumes no reduction in Illinois' tax base due to higher tax rates.



The largest income losses coming from \$200K+ earners

BRG/SIU study estimates Illinois economy will **SHRINK** by **\$1.8B**



## RETIREMENT INCOME WILL EVENTUALLY BE TAXED

“One thing a progressive tax would do is make clear you can have graduated rates when you are taxing retirement income.”

*– Illinois Treasurer Michael Frerichs*

## IT'S FAILED BEFORE...

- In 1996, CONNECTICUT switched from a FLAT tax to a graduated tax.
- Highest tax bracket is now 6.99%
- "Sold" the tax change with promises of a "middle-class" tax relief and property tax reduction.
- The results were disastrous for "typical" households...
  - Income taxes +13%
  - Property taxes +35%
  - State revenues DOWN -\$10B
  - Over 360,000 fewer jobs
  - Budget deficits 12 of the past 15 years

**WHY? PEOPLE REACT TO BAD PUBLIC POLICY**

WE CAN'T TRUST THEM  
TO KEEP THEIR PROMISES

## WE CAN'T TRUST THEM

***“FOOL ME ONCE, SHAME ON YOU... FOOL ME TWICE, SHAME ON ME”***

- **TAX “SAVINGS” for an AVERAGE FAMILY IS \$47/YEAR**
- TWO DECADES of UNBALANCED BUDGETS
- INCREASED TAXES in 2011, 2017 with promise to pay down bills, fund pensions, pay off debt, limit spending increases...BUT DID NOT
- COST OF CORRUPTION
- BOND RATING FROM AA+ to just above “Junk”
- Blaming all Illinois’ budget problems on COVID



## SUMMARY: GRADUATED TAX IS “UNFAIR” TO ILLINOISANS...

- **BLANK CHECK** for future tax increases
- **PUNISHES** small businesses with very high tax rates
- **PUNISHES** two income households
- **PUNISHES** retirees
- **EXACERBATES OUTMIGRATION** of higher earners and businesses
- **WILL EVENTUALLY BE A HUGE TAX INCREASE ON MIDDLE INCOMES,**  
because IL needs MUCH MORE than *\$3.5 Billion*
- **WE CAN'T TRUST THEM TO KEEP THEIR PROMISES**

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