

Illinois Taxes Hit Poor & Middle Class Far Harder than the Wealthy

Low- and middle-income families in Illinois pay a far higher share of their income in state and local taxes than do the richest Illinois families, according to a new study by the Institute on Taxation & Economic Policy.

“State and local governments are being called upon to take on more and more responsibilities,” said Robert S. McIntyre, ITEP’s tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “Unfortunately, when it comes to paying for services, Illinois has a very unfair tax system.”

Illinois’s Tax Code: Soak the Poor and Middle Class, Spare the Wealthy

When all Illinois taxes are totaled up, the study found that:

- The state and local tax rate on the best off one percent of Illinois families—with average incomes of \$1.3 million—is 5.8% before accounting for the tax savings from federal itemized deductions. After the federal offset, the effective tax rate is a mere 4.6%.
- The average tax rate on families in the middle of the income distribution—those earning between \$30,000 and \$48,000—is 10.4%. After the federal offset, the rate is 10.0%, more than twice the effective rate the richest pay.
- But the tax rate on the poorest Illinois families—those earning less than \$16,000—is the highest of all. At 13.1% it is nearly four times the effective rate on the wealthiest.

The study found the Illinois’ flat rate income tax relatively little revenue, and the state instead relies mainly on regressive consumption and property taxes to pay for public services.

MORE . . .

Illinois Taxes Among Nation's Most Regressive

Illinois's tax system earns it the dubious distinction of placing it on the list of the "Terrible Ten" most regressive states in the nation. Even before federal deduction benefits, it asks families in the bottom 20% of the income scale—to pay 2.3 times as great a share of their earnings in taxes as do the wealthy. By the same measure, middle-income families in Illinois pay 1.8 times as high a share of their income in taxes as the wealthiest families.

"Illinois is one of only six states nationwide that levies a flat personal income tax," McIntyre said. "The lack of a progressive income tax to offset regressive sales and property taxes is the most important factor in making the Illinois tax system so regressive. Taxes ought to be based on people's ability to pay them, which means that the share of income paid in tax should rise as income grows, not fall as is the case in Illinois."

Tax Regressivity Worsened Since 1989

The study also examined the impact of changes in the regressivity of Illinois taxes since 1989, when the last cycle of state government shortfalls began. The study's findings include:

- Tax burdens rose very significantly on low- and middle-income families and slightly on high-income families.
- The main causes of increased burdens were regressive rises in sales and excise taxes.

"Not only is the Illinois tax structure regressive, it got significantly worse in the last decade," said McIntyre. "As lawmakers consider budget-balancing strategies in 2003, they should remember that their past actions have served to shift a greater share of the tax burden onto middle- and low-income taxpayers."

Two pages of tables detailing the Illinois findings of the study follow

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at www.itepnet.org. Printed copies can be ordered by calling ITEP at 202-737-4315.

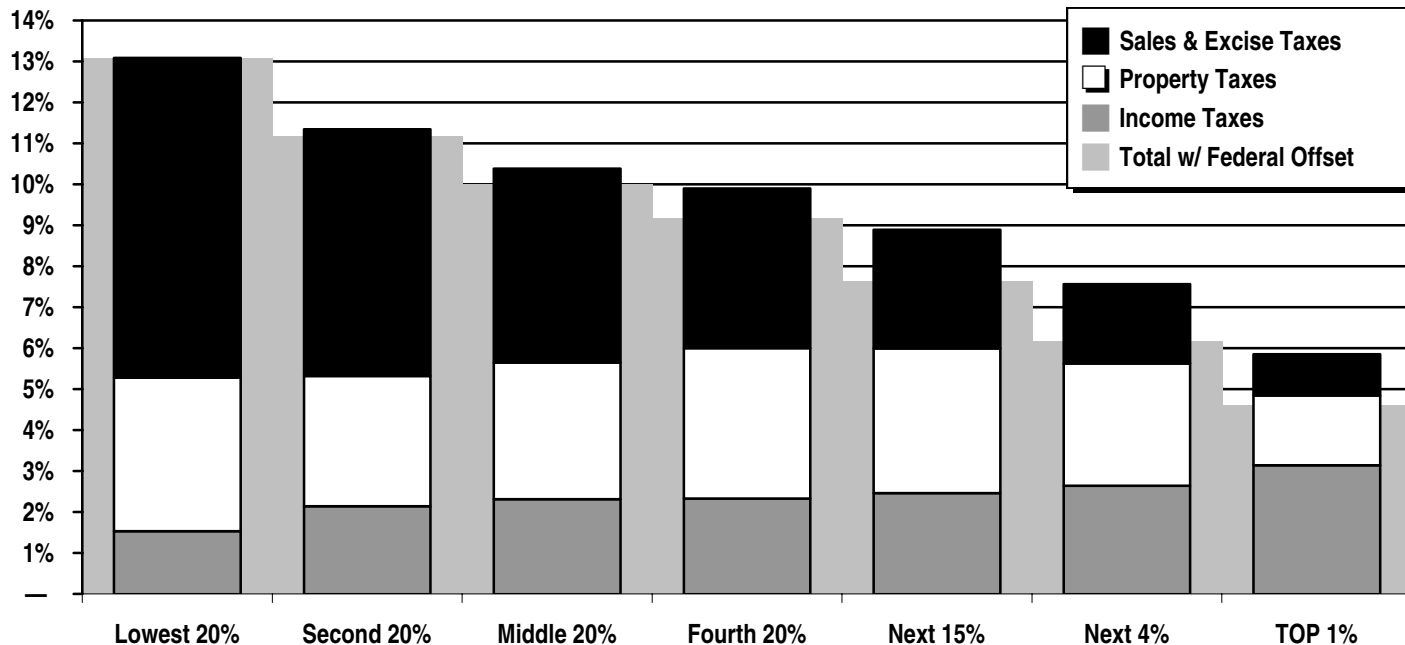
Who Pays? examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

Illinois

State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$16,000	\$16,000 – \$30,000	\$30,000 – \$48,000	\$48,000 – \$77,000	\$77,000 – \$148,000	\$148,000 – \$295,000	\$295,000 or more
Average Income in Group	\$8,900	\$22,600	\$38,500	\$61,100	\$101,000	\$204,000	\$1,322,000
Sales & Excise Taxes	7.8%	6.0%	4.7%	3.9%	2.9%	1.9%	1.0%
General Sales—Individuals	3.5%	3.1%	2.6%	2.2%	1.7%	1.2%	0.6%
Other Sales & Excise—Ind.	2.3%	1.4%	1.0%	0.7%	0.5%	0.3%	0.1%
Sales & Excise on Business	1.9%	1.6%	1.2%	1.0%	0.7%	0.5%	0.3%
Property Taxes	3.8%	3.2%	3.3%	3.7%	3.5%	3.0%	1.7%
Property Taxes on Families	3.6%	3.0%	3.1%	3.4%	3.2%	2.5%	0.8%
Other Property Taxes	0.2%	0.2%	0.2%	0.2%	0.3%	0.5%	0.9%
Income Taxes	1.5%	2.1%	2.3%	2.3%	2.5%	2.6%	3.1%
Personal Income Tax	1.5%	2.1%	2.3%	2.3%	2.4%	2.5%	2.6%
Corporate Income Tax	0.0%	0.0%	0.1%	0.1%	0.1%	0.2%	0.5%
TOTAL TAXES	13.1%	11.3%	10.4%	9.9%	8.9%	7.6%	5.8%
Federal Deduction Offset	-0.0%	-0.2%	-0.4%	-0.7%	-1.2%	-1.4%	-1.2%
TOTAL AFTER OFFSET	13.1%	11.2%	10.0%	9.2%	7.6%	6.2%	4.6%

Note: Table shows 2002 tax law at 2000 income levels.

Illinois Tax Trends

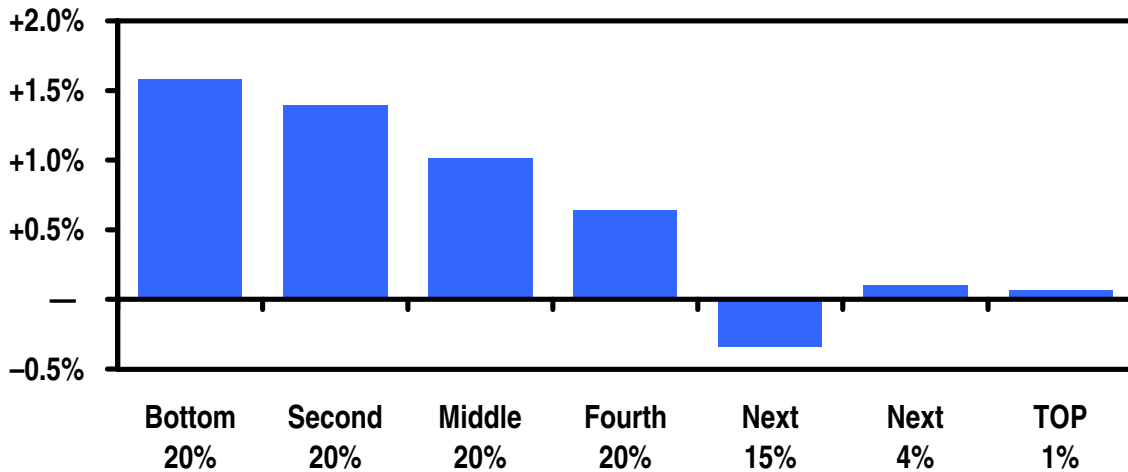
Progressive Features

- ✓ Property tax homestead exemption

Regressive Features

- ✗ Groceries subject to sales tax, though at a lower rate
- ✗ Flat-rate income tax
- ✗ Low income tax exemptions
- ✗ Nonrefundable property tax credit

Changes in Taxes as Shares of Income, 1989 – 2002



	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Sales & Excise	+1.0%	+0.5%	+0.3%	+0.2%	+0.1%	+0.1%	+0.0%
Property	+0.8%	+1.2%	+1.0%	+0.9%	-0.1%	+0.1%	+0.0%
Income	-0.2%	-0.2%	-0.2%	-0.2%	-0.1%	+0.0%	+0.3%
Federal Offset	-0.0%	-0.1%	-0.2%	-0.3%	-0.2%	-0.1%	-0.3%
Overall Change	+1.6%	+1.4%	+1.0%	+0.6%	-0.3%	+0.1%	+0.1%

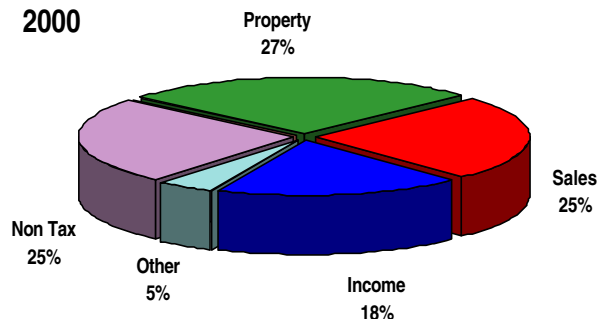
Small but progressive changes in the Illinois income tax, including an expanded personal exemption, were insufficient to offset regressive sales and excise tax hikes. Excise taxes were raised by 68 cents on cigarettes, 6.5 cents on beer and 3 cents on gasoline. Local sales tax rates climbed steadily throughout the decade.

Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census