

Summary: Institute on Taxation and Economic Policy's
Reviews Illinois Democrat Candidates
Hynes vs. Quinn on Income Tax :

The Institute on Taxation and Economic Policy is a Washington D.C. based research and education organization that studies government taxation and spending policy issues. ITEP's mission is to keep policymakers and the public informed of the effects of current and proposed tax policies on tax fairness, government budgets and the soundness of economic policies; analysis of state and federal tax systems and how they affect taxpayers at different income levels.

Illinois, like virtually every other state in the union, is in the midst of a serious fiscal crisis. Crain's Chicago Business reported, in the first week of December, that Moody's Investors Service downgraded Illinois' general obligation bond rating to A2 from A1, citing the state's failure to take action to head off a budget gap of more than \$11 billion. The state's Build Illinois sales tax revenue bonds were also cut to A2 from A1. The downgrade gave Illinois the second lowest U.S. state rating from Moody's, with California having the lowest at Baa1.

Unlike most states, Illinois is constitutionally barred from imposing a graduated income tax. Article IX, § 3 of the Illinois Constitution (1970), stipulates that "A tax measured on or measured by income shall be at a non-graduated rate." However, Article IX, § 2 does allow for reasonable exemptions, deductions, and credits.

Initially, Governor Pat Quinn has proposed raising the income tax rate from 3% to 4.5% and increasing the personal and dependent exemptions from \$2000 to \$6000. The plan is projected to generate approximately \$3 billion annually. Various modifications to this plan have been suggested, but the Institute used the Governor's original plan for sake of comparison. Comptroller Dan Hynes suggests the creation of a graduated income tax. The Hynes' rate structure would maintain the current 3% rate for taxpayers earning up to \$200,000 and begin increasing from 3.5% on incomes above that amount. The highest rate to be applied would be 7.5% for incomes in excess of \$1.5 million. This graduated plan estimates it would generate more than \$5 billion; however, this plan would require an amendment to the Illinois Constitution first. The Quinn plan only needs the legislature's approval.

The Institute on Taxation and Economic Policy estimates that Mr. Hynes plan would result in higher taxes

Plans Compared

	Current Law	Quinn Proposal	Hynes Proposal
Personal exemption	\$2,000 \$3,000 if blind or elderly	\$6,000 \$7,000 if blind or elderly	\$2,000 \$3,000 if blind or elderly
Dependent exemption	\$2,000	\$6,000	\$2,000
Income tax rate(s)	3.0% on all net income	4.5% on all net income	3.0% on net income (NI) up to \$200,000; 3.5% on NI between \$200,000 and \$300,000; 5.5% on NI between \$300,000 and \$500,000; 7.0% on NI between \$500,000 and \$1 million; 7.5% on NI over \$1 million
Credit(s)	Property tax credit, Earned Income Credit, et. al.	Same as current law	Same as current law
Effective date	---	July 1, 2009*	January 1, 2011

for only 3 percent of Illinois taxpayers, impacting the wealthiest 1 percent (those earning > \$1.5 million) the greatest. Governor Quinn's plan would affect 58 percent of taxpayers; those in the top 20 percent (households earning > \$94,000) paying the most in taxes in 2011. The bottom 27 percent of Illinois taxpayers would enjoy a reduction in taxes under the Quinn plan. Thus, the Hynes plan targets the "upper-class" and the Quinn plan looks to the "middle-class" for revenues. The Institute concludes that the Quinn

proposal represents the greatest step to correct Illinois regressive tax system, and is the most fair when applied. However, an important factor not to be overlooked is what is known as the *Federal Offset*. Taxpayers who itemize their returns reduce their federal taxable income by the state and local income taxes paid. The federal tax liability could be reduced by approximately \$655 million in 2011, under the Quinn plan. Alternatively, the Hynes tax scheme would result in a potential federal offset of \$850 million for the same period. The Federal Offset can be considered the portion of the state tax increase that would be paid for by the federal government.

Regardless of calls for cost cutting, which translates into reduction of services, all seemingly agree on the need for an “Extreme Makeover” of the state’s tax scheme. The Institute on Taxation and Economic Policy has called the current Illinois tax system, “ among the most regressive in the nation, as a single rate income tax is unable to balance out the unfair incidence of sales, excise, and property tax”. Due to the immediate nature and sheer scope of the budget crisis facing Illinois, the Institute advises adopting both short and long-term strategies for restructuring. The Quinn proposal would clearly be more expedient compared to the complex constitutional considerations of the Hynes’ plan; however the Hynes proposal allows for a more fair, graduated tax system for a long-term solution.