FOR IMMEDIATE RELEASE: January 9, 2024

Contact:
Mitch Lifson at Children's Advocates for Change (mlifson@childrensadvocates.org)
312-361-0101
or Jon Whiten at ITEP (jon@itep.org)

Illinois' Tax System Exacerbates Inequality, In-Depth National Study Finds

State Has the 8th Most Regressive Tax Code in the Nation

Illinois' tax system is upside-down, with the wealthy paying a far lesser share of their income to tax than low- and middle-income families. That's according to the latest edition of the Institute on Taxation and Economic Policy's *Who Pays?*, the only distributional analysis of tax systems in all 50 states and the District of Columbia.

Illinois' state and local tax system is marked by a non-progressive, flat state personal income tax rate, lacks a refundable state child tax credit, and has a high reliance on property taxes. Illinois is also one of just a dozen states that, according to the Center on Budget and Policy Priorities, had a state sales tax on groceries as of last fall. Illinois has a 1 percent state sales tax rate (with the revenue going to local governments), which is lower than the general state sales tax rate of 6.25 percent.

"While Illinois voters in 2020 turned down a constitutional change to allow a progressive income tax for our state, we can still adopt measures to provide greater economic security to working families", said Children's Advocates for Change President Dr. Tasha Green Cruzat. "A state child tax credit and an income tax credit for renters are just two steps in the short-term that would move us forward. "

The report's key findings for Illinois:

- The lowest-income 20 percent of taxpayers face a state and local tax rate that is 103 percent higher than the top 1 percent of households. The average effective state and local tax rate is 14.8 percent for the lowest-income 20 percent of individuals and families, 12.8 percent for the middle 20 percent, and 7.3 percent for the top 1 percent.
- Illinois has the 8th most regressive tax system in the nation.
- Illinois is one of 41 states that tax the top 1 percent less than every other income group, and one of 34 states that tax their poorest residents at a higher rate than any other group.

Nationally, tax systems in 44 states exacerbate inequality by making incomes more unequal after collecting state and local taxes, while systems in six states plus D.C. reduce inequality, the report finds. On average across the country, the lowest-income 20 percent of taxpayers face a state and local tax rate nearly 60 percent higher than the top 1 percent of households. The nationwide average effective state and local tax rate is 11.3 percent for the lowest-income 20 percent of individuals and families, 10.5 percent for the middle 20 percent, and 7.2 percent for the top 1 percent.

“When you ask people what they think a fair tax code looks like, almost nobody says we should have the richest pay the least. And yet when we look around the country, the vast majority of states have tax systems that do just that,” says Carl Davis, ITEP’s Research Director. “There’s an alarming gap here between what the public wants and what state lawmakers have delivered.”

Many states with tax codes that already increase inequality have doubled down on regressive tax policies in recent years. Arkansas, Idaho, Iowa, Kentucky, Nebraska, and West Virginia, for instance, have taken steps to deeply cut taxes on more affluent households and wealthy corporations.

On the other hand, many of the states with tax codes that reduce inequality, or at least do less than average to widen inequality, have made strides toward more progressive tax policies in recent years. Massachusetts, Minnesota, New Jersey, New Mexico, New York, and the District of Columbia, for instance, have taken steps both to raise taxes on more affluent households and lower them for low- and moderate-income families.

“We’ve seen a lot of states shift their tax systems to become even more regressive in recent years by enacting deep tax cuts for the wealthiest. But we know it doesn’t have to be like this. There is a clear path forward for flipping upside-down tax systems and we’ve seen a handful of states come pretty close to pulling it off,” said Aidan Davis, ITEP’s State Policy Director. “The regressive state tax laws we see today are a policy choice, and it’s clear there are better choices available to lawmakers.”

About the report:

Who Pays? is the only distributional analysis of tax systems in all 50 states and the District of Columbia. The comprehensive 7th edition of the report assesses the progressivity and regressivity of state tax systems by measuring effective state and local tax rates paid by all income groups. No two state tax systems are the same; this report provides detailed analyses of the features of every state tax code. It includes state-by-state profiles that provide baseline data to help lawmakers and the public understand how current tax policies affect taxpayers at all income levels. Over 99 percent of all state and local taxes, measured by their revenue contribution, are included in the analysis.

About ITEP:

ITEP is a non-profit, non-partisan tax policy organization. It conducts rigorous analyses of tax and economic proposals and provides data-driven recommendations on how to shape equitable and sustainable tax systems. ITEP’s expertise and data uniquely enhance federal, state, and local policy debates by revealing how taxes affect people at various levels of income and wealth, and people of different races and ethnicities.

About Children’s Advocates for Change:

Children’s Advocates for Change is a non-profit, independent advocacy organization committed to the well-being of every Illinois child. It champions those policies and investments children need so that they are educated, healthy, and thriving.