The Illinois Chamber Opposes a Graduated/Progressive Income Tax

The moment you abandon.....the cardinal principle of exacting from all individuals the same proportion of their income or their property, you are at sea without rudder or compass, and there is no amount of injustice or folly you may not commit. J.R. McCullough: A Treatise on the Principles and Practical Influence of Taxation on the Funding System 2007

Illinois fiscal policy and tax laws should actively promote economic growth in Illinois by encouraging increased capital investment, productivity, and the creation of new jobs for the citizens of Illinois. A graduated income tax undercuts these fundamental tax policy goals and impedes the economic growth and competitiveness of all Illinois businesses.

Amending the Illinois Constitution to permit a graduated income tax is the wrong signal to send if Illinois wants to grow jobs and see its citizens prosper. Individual income tax rates are just as important to business activity as corporate rates. Proposals to raise income taxes on high-income individuals fall heavily on Illinois’ non-corporate businesses.

Small businesses account for an ever-increasing percentage of business income and employment in Illinois and frequently operate as sole proprietors or through some form of tax pass-through entity (partnerships, Sub-S Corps, or as an LLP/LLC). As such, small business owners pay individual income tax on their business income, rather than corporate tax. Increasing tax rates on small businesses leaves less available revenue for economic expansion such as hiring additional employees or making capital investments.

In recent years, proposals to amend the Illinois Constitution to permit a graduated income tax were not limited to a graduated tax on individuals. The proposed constitutional amendment scheduled for the ballot in 2020 also allows the imposition of a graduated income tax on corporations. Imposing a graduated income tax on corporations would create additional disadvantages to locating and expanding business activities in this state.

In addition to the economic drain on job creators, a graduated income tax is a less reliable source of funding for state programs due to the volatility of the business cycle—creating sometimes wild fluctuations in tax revenues. While economic good times increase state revenues, economic downturns can result in increased deficits and put unnecessary stress on funding for critical social services.

A graduated income tax is often criticized as a stealth tax. As taxpayer incomes rise over time with inflation, lower and middle income individuals are subjected to higher marginal rates—so-called “bracket creep.” Governments receiving the resulting increased income tax revenues are less enthused about adjusting rate brackets to remove taxpayers from the tax rolls. A good example of bracket creep was found in the federal alternative minimum tax, which was intended to tax only high-income earners, but affected middle income taxpayers until this problem was addressed in the 2017 federal tax reform legislation. P.A. 101-0008, which would implement the graduated income tax if the constitutional amendment is successful, establishes tax brackets that are not indexed to inflation and would allow “bracket creep.”
A graduated or progressive income tax can create a very real dis-incentive to work as it punishes, through higher tax rates, those who choose to work more hours or longer days.

The current Illinois Constitution provides that the corporate tax rate shall not exceed the rate imposed on individuals by more than a ratio of 8 to 5. The Constitutional 8 to 5 ratio protects Illinois businesses from disproportionate taxation. The graduated income tax constitutional amendment scheduled for the ballot in November 202 purports to maintain the 8 to 5 ratio. It does so by creating an 8 to 5 ratio between the highest statutory rate on individuals and the highest rate on corporations. The top rate on individuals under P.A. 101-0008 is 7.99%. As a result, the top rate on corporations could be raised to 12.78%, plus the 2.5% personal property tax replacement income tax, for a total of 15.28%, without raising the top tax rate on individuals.

Illinois’ current flat rate income tax is inherently more fair than a graduated income tax since everyone pays the same rate and tax increases uniformly affect everyone. A flat rate tax does not promote divisive class warfare rhetoric or purposefully attempt to re-distribute income according to a subjective fairness standard. A flat rate tax requires all taxpayers to vigilantly stand guard against excessive government spending.