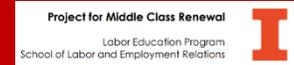


# Addressing Concerns About Illinois Switching to a Progressive Income Tax

By: Frank Manzo IV and Robert Bruno | April 1, 2019



Recently, Governor J.B. Pritzker and the General Assembly have debated whether to amend the Illinois Constitution to allow the state to replace its flat-rate income tax system with a progressive income tax. The Illinois Economic Policy Institute (ILEPI) and the Project for Middle Class Renewal (PMCR) at the University of Illinois have answers to common questions about progressive taxation.

**Q: *Would a progressive income tax lower economic growth?***

**A: No.** There is [no evidence](#) that a progressive income tax system adversely affects economic growth. Recent research finds that states that raised income tax rates on wealthy individuals, including through “millionaires’ taxes,” [fared better economically than their neighboring states](#). Of the eight states that raised taxes on high-income individuals, five had faster economic growth (63%) and seven had better per-capita income growth (88%) than their neighbors. Another 2017 analysis of the nine states with the highest top tax rates and the nine states with no income taxes found that the higher-tax states experienced [1.7% faster economic growth and 2.2% faster personal income growth](#) from 2006 to 2016.

**Q: *Would the wealthy leave Illinois for other states?***

**A: No.** A 2016 study by researchers at Stanford University and the U.S. Treasury Department found [no statistical evidence](#) that high-income migration is affected by shifts in state tax rates. In fact, millionaires move at a lower rate (2.4%) than the population as a whole (2.9%) because they are “embedded elites” who are more likely to be married and more likely to have business ties to their states.

**Q: *Would a progressive income tax hurt small businesses?***

**A: No.** First, 73% of partnerships and 40% of S corporations in Illinois have no tax liability. Second, small businesses [could be protected](#) from higher taxes by capping the tax rate on pass-through business income.

**Q: *Would a progressive income tax inevitably lead lawmakers to raise rates?***

**A: No.** Since 2016, [13 states with progressive income taxes have lowered or will lower rates](#): Arkansas, Georgia, Idaho, Iowa, Kentucky, Maine, Mississippi, Missouri, New York, North Dakota, Ohio, Oklahoma, and Vermont.

**Q: *Some organizations say the math does not add up. Are they right?***

**A: No.** [One recent article simply assumes](#), without supporting evidence, that the structural budget deficit will increase by 2021, the first year in which a progressive income tax could go into effect. It fails to consider other changes to the tax code proposed by the Governor— such as [legalizing and taxing marijuana](#) and [legalizing and taxing sports betting](#). Another think tank uses an [untested “dynamic scoring” technique with dubious assumptions that are not based in real-world data](#), which call their findings into question. Their model, for example, would have anticipated stronger economic growth after Kansas “flattened” its progressive income tax. Instead, in reality, the tax cuts [reduced state revenue by 8%, caused budget instability, and weakened the economy](#). On the other hand, [a recent peer-reviewed analysis](#) from the Project for Middle Class Renewal (PMCR) at the University of Illinois and the Illinois Economic Policy Institute (ILEPI) uses data on *actual* tax returns submitted to the Illinois Department of Revenue and finds that the “Fair Tax for Illinois” would cut taxes or keep them the same for 97% of taxpayers, generate \$3.1 billion in new revenue per year, and provide a small boost to the Illinois economy.

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**Read more:** Bruno, Robert & Frank Manzo IV. (2019). *The Impact of Enacting a Progressive Income Tax in Illinois: Understanding How Illinois Could Cut Middle-Class Taxes, Balance the Budget, and Grow the Economy*. University of Illinois at Urbana-Champaign; Illinois Economic Policy Institute. The report is available here: <https://illinoisepi.files.wordpress.com/2019/03/pmcr-ilepi-the-impact-of-enacting-a-progressive-income-tax-in-illinois.pdf>