



State Universities
Annuitants Association

The Power of Effective Advocacy



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**Graduated Income Tax Amendment
Position Paper
State Universities Annuitants Association (SUAA)
Board of Directors**

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The State Universities Annuitants Association's (SUAA) 2020 Legislative Platform, adopted at the October 2019 SUAA Delegates Meeting, states that SUAA "supports, in principle, a progressive state income tax." SUAA leadership urges its members to vote "Yes" this autumn to pass the Constitutional Amendment that will change the State Constitution to allow a graduated income tax. Passage of the amendment will activate the tax rate structure passed by the State Legislature in 2019 for which the vast majority of Illinois taxpayers will see either no change or a reduction of their state income tax, while only those taxpayers with an income of \$250,000 or higher will receive higher tax bills. Passage of the Amendment will be a major first step in resolving the State's revenue shortfalls and help it meet its pension obligations, continue health care benefits to employees and retirees, and address the need to adequately fund the state's universities and community colleges.

Background

Illinois is one of only eleven states with a "flat" income tax, while thirty-two states have a graduated tax. Of the 43 states with a general income tax, only 3, including Illinois, do not tax some amount of retirement income (income reported on Form 1099-R). Illinois also imposes sales taxes on fewer items than most states. The result is that Illinois repeatedly fails to generate sufficient revenue to meet its obligations and forcing the State's local governments to rely heavily on property taxes to meet their obligations.

A flat tax is a regressive tax placing the burden of taxes on those who can afford it least, while letting wealthy taxpayers avoid what many would argue is their fair share. Progressive tax structures, particularly those that are graduated, remove some of the burden from low- and moderate-income taxpayers and place more of it on wealthy taxpayers. A graduated structure is one for which the first so many dollars of a taxpayer's income is taxed at a certain rate and the rate is increased for the next amount of income and so on.

Governor Pritzker campaigned on changing the tax structure and implementing what he called a “fair tax.” The State Legislature during its session in 2019 passed two initiatives to carry out the governor’s campaign promise. First, it passed legislation to put a Constitutional Amendment on the November 2020 ballot that would allow the implementation of the “fair tax” (progressive graduated income tax). Second, it passed legislation setting tax rates that would take effect if the voters approve the Amendment. The legislatively-approved tax structure is as follows:

Income	Tax rate
Up to \$ 10,000	4.75%
\$ 10,000 to \$100,000	4.90%
\$100,000 to \$250,000	4.95%
\$250,000 to \$350,000	7.75%
\$350,000 to \$750,000	7.85%
\$750,000 and above	7.99%

Illinois’ current flat tax rate is 4.95%. Under the proposed tax structure, taxpayers with incomes of \$250,000 or less will see a reduction in their state income taxes, while those with incomes above that amount will see an increase. The projection is that only 3% of the State’s taxpayers would see an increase. The vote in November deals with only the Constitutional Amendment and not the legislatively determined tax rates.

Why Should SUAA Members Support a Graduated Income Tax?

Illinois has a structural deficit of \$13 billion, and it is getting larger. Illinois needs a revenue source that will help reduce this deficit. A graduated state income tax is a starting point.

The Illinois proposal is not unique since a graduated scale depending on income is used by most of the other states and the Federal Government. If the Amendment passes, the new rates will help shift the tax burden from lower- and middle-level income earners to the wealthy who will pay a more equitable share.

The current Illinois income tax system taxes everyone, regardless of income, at the same rate. The highest income earners and the lowest pay approximately just under 5% of their adjusted income. Under the Governor’s proposed tax structure, those earning above \$250,000 will be taxed in the 7-8% range; those earning below \$250,000 will be taxed in the 4-5% range. Those earning above \$250,000 income make up approximately 3% of Illinois taxpayers. The remaining 97% earn below \$250,000, and their rate will remain the same or be slightly lower under the new structure.

The state has tried to reduce its deficit by attacking our pensions. In the past, the state has not met its pension obligations either by failing to pay into the pension systems or by “kicking the can down the road.” The now infamous “Edgar Ramp” allowed the Legislature to pretend to

meet its pension obligation by artificially reducing payments initially. This has meant that in current years the pension debt has grown significantly. Although SUAA and others successfully defeated efforts to reduce pension and health care payments, the fight is not over. Failure to pass the Amendment will no doubt renew calls for “pension reforms.”

Funding for Illinois colleges and universities has been decreasing since 2002. The Covid-19 pandemic will cause further budget strains. Enrollment is decreasing; expenses are increasing. The new revenue from the “Fair Tax” proposal will help stabilize state funding for higher education, including the State University Retirement System.

The arguments against a graduated tax are weak. Opponents argue that once established, the Legislature will set higher rates. They can do this now with the existing flat tax but are loath to raise taxes on the lower- and middle-income earners. The same will be true with a graduated tax. Opponents also argue that businesses will leave the state if the Amendment passes, but numerous studies have shown that there is no evidence of state tax structure affecting entrepreneurial activity (Center for Tax and Budget Accountability).

If the proposal fails and there is no new revenue source to fund State programs, the taxing of retirement income will probably be considered.

Form on the Ballot

According to Senate Joint Resolution No. 1, the Constitutional Amendment will appear on the November 3rd ballot in the following form.

Proposed Amendment to the 1970 Illinois Constitution

The proposed amendment grants the State authority to impose higher income tax rates on higher income levels, which is how the federal government and a majority of other states do it. The amendment would remove the portion of the Revenue Article of the Illinois Constitution that is sometimes referred to as the “flat tax” that requires all taxes on income to be at the same rate. The amendment does not itself change tax rates. It gives the State the ability to impose higher tax rates on those with higher income levels and lower income tax rates on those with middle or lower income levels. You are asked to decide whether the proposed amendment should become a part of the Illinois Constitution.

Yes for the proposed amendment of Section 3 of Article IX of the Illinois Constitution
No against the proposed amendment of Section 3 of Article IX of the Illinois Constitution

The SUAA Board of Directors urges you to vote “Yes” in the November general election on the Constitutional Amendment to create a Graduated State Income Tax.

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