



Position Statement

Center for Economic Progress Endorses Governor Quinn's Tax Reform Proposal

March 24, 2009

The Center for Economic Progress strongly endorses Governor Pat Quinn's effort to offer tax relief to Illinois families. The Governor's budget provides a blueprint for the state to extricate itself from more than a decade of financial mismanagement and an inadequate revenue base which has led to a structural budget deficit. Unlike prior governors, Governor Quinn has leveled with the people of Illinois.

The Governor's proposal is bold, it is honest and it meets the test of transparency. It also provides an opening and an opportunity for the legislature, working with the Governor, to openly debate and discuss proposals and ideas that can help Illinois put its finances back on the right track.

We applaud the Governor for his two-tiered approach to make the state income tax more progressive. Critics have unfairly called his revenue proposal a 50% tax increase on Illinois' residents. In fact, based on our analysis, not one taxpayer in Illinois will actually pay 50% more in state income taxes. The majority will experience a decrease in the state income taxes they pay each year.

The Governor proposes to increase the personal exemption on the Illinois income tax from \$2,000 per person to \$6,000 per person. When the personal exemption of \$1,000 was created in 1969, it had the impact of shielding, for a family of four, the first \$4,000 of income from taxation. At that time, \$4,000 was approximately the same as the federal poverty level. By tripling the personal exemption --- from \$2,000 to \$6,000, families who are struggling and financially burdened will experience a similar level of tax relief as was intended when the state income tax was first enacted. For a family of 4, the first \$24,000 of income would be shielded from the state income tax.

At the same time, the Governor proposes increasing the individual income tax rate by 1.5 percentage points to 4.5 percent. Paired with the increased personal exemption, 5 million families and individuals in Illinois would pay less income tax under this proposal than currently. The remaining taxpayers would pay more.

For example, a family of four earning \$30,000 would experience a 72% decrease in their tax burden, saving \$426 per year. A family of four earning \$45,000 would experience a 22% decrease in their tax burden, saving \$219 per year.

The overwhelming majority of families served by Center for Economic Progress would benefit under the Governor's proposal.

While these tax proposals are intended to benefit families, there is some benefit to single individuals, although far less. The increase in the personal exemption would shield the first \$6,000 of an individual's income, rather than only the first \$2,000. This means that a single individual would not see an increase in their tax burden, under the Quinn plan, until their income reaches \$14,000. For single individuals earning \$20,000 – the upper limit of those served by the Center – the Governor's proposal will result in an additional \$90 in state taxes.

As the Governor said in his budget address, it's time for Illinois to make tough choices. The deficit must be addressed by a combination of tax increases and budget cuts. Making the state tax code more progressive will put Illinois on par with other Midwestern states and bring in much needed revenues to help balance the budget while ensuring a basic level of services to all residents. We welcome the opportunity to work with the Governor and members of the state legislature to come up with workable and realistic solutions to the state's fiscal crisis while providing a framework for the long-term prosperity of our great state.