# 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