

IPA-Proposed tax increase-12-6-19

The Illinois Tax Man cometh

By Jim Nowlan

A number of readers (actually two) have requested a column about Gov. Pritzker's tax initiatives. I have rattled on about this in the past, yet the topic is important to the future of Illinois, so here goes again, at least for the benefit of the two readers with interest.

There are two elements to this. Less than a year from now, we will be asked to vote for or against a constitutional amendment to authorize a progressive income tax (higher rates for higher incomes). If that passes muster, a statute enacted this past Spring will automatically go into effect, increasing tax rates on incomes above \$250,000 and even much higher for incomes above \$5 million. The new tax revenue is expected to raise more than \$3 billion per year.

Unfortunately, the State needs the money. There simply is not enough waste and corruption to be excised to fill the gap between present spending and revenue. Most of our state budget goes for state pensions, which the Illinois high court has said can't be touched; Medicaid (health care for 3+ million low-income and most nursing home residents), which nobody has figured out how to constrain, and education, which few want to cut. The remaining state agencies are puny by comparison (go to jimnowlan.com for in-depth budget columns).

Indeed, the Pritzker tax increases alone won't be enough to close the budget gap and pay off old bills.

Illinois state and local taxes (property a local levy) are already, overall, significantly higher than the national average. Each Illinoisan has his own gripe about taxes. For some, it's the property

taxes, which are among the highest in the nation. For others, it's high sales taxes in some jurisdictions on big ticket purchases like new autos. For employers, it's our high workers' compensation costs (a tax in the eyes of business).

Rich (some would say successful) people in our state are already chafing under the state's hefty inheritance tax, which most states abolished a few years ago. Further, Congress recently limited deductions from our federal income tax liability for state and local taxes paid. This increases federal income taxes for many high-income Illinoisans.

So, should the Pritzker tax increases be approved? Proponents say, since the money is needed, it is fair to impose the increases on the rich and not on the rest. Opponents say the increases, on top of other burdens noted above, would cause successful people to think about living six months a year in Florida to avoid all these burdens. They say it would also drive our perceived business climate even further toward the bottom among the states.

By the way, at present, though not opposed to the concept of a progressive rate structure, I am opposed to the specific tax increase—already enacted—and so plan therefore to vote against the amendment.

Will the increases be enacted in November 2020? Putting on my political analyst hat, I say it will be close (how's that for hedging my bets?). Democrats will tend to favor, as a way of reducing income inequality. "Main Street" and Rotary Club Republicans will generally oppose, asking why should we punish success, which many of them aspire to achieve?

Many Trump Republicans, a somewhat different breed from the Rotarian type, feel that "the system" and the elites have screwed them over, so they may support the increases as a way of sticking it to the rich.

The constitutional amendment will require a vote of 60 percent of those voting on the issue for it to be adopted. A recent poll I saw reports 68 percent favor the tax increases on high income earners.

However, based on election history, many voters, especially those I think might favor the proposal, will fail to go way down the long ballot to vote on constitutional amendments. Thus, they would not be a part of those “voting on the issue” of the amendment. On the other hand, those motivated to vote against the issue in their self-interest are more likely to vote against the amendment. So, it’ll be close, I aver.

What happens if the constitutional amendment fails? Fiscal chaos. Since there won’t be enough revenue to pay basic bills, bond houses will declare Illinois state and local debt to be “junk.” This will make the state and its 7,000 governments, which often need debt to fund long-term projects, a pariah among the states.

That is why “No” voters like me have a responsibility to be ready with Plan B. In our book “Fixing Illinois” (U. of I. Press, 2014), co-author Tom Johnson and I call instead for broadening the sales tax to remove scores of exemptions (semen for artificial insemination of livestock, for example, is among many) and extend the tax to services, as Iowa does. And also tax some retirement income, as most states that have an income tax do.

Pundits say the political barriers to Nowlan-Johnson are insuperable, because taxes would increase on all of us, not just the rich, and voters wouldn’t stand for it. So, as I say, chaos.

It’s called a conundrum, that is, a really difficult and intricate problem.