

Keep income tax flat rate

By Jim Nowlan

Two Democratic Illinois lawmakers have introduced a constitutional amendment proposal to allow the state to impose a graduated income tax. This is the worst of all times to even be considering such a move.

Most states impose an income tax (importantly, Texas and Florida and five others do not) and most that do have graduated rates. That is, as with the federal income tax, the higher your income, the higher your rate of taxation.

In 1969, when I was a pink-cheeked state legislator, Illinois enacted a state income tax, at a flat rate of 2.5 percent (today, it is 5 percent). I do not recall any discussion of a graduated rate. The 1970 Illinois constitution limited any income tax to a flat rate.

A flat rate is proportional, and thus a high earner pays more than a low income person. Five percent of \$200,000 is \$10,000 while 5 percent of \$20,000 is \$1,000.

The Center for Tax and Budget Accountability in Chicago has a mission of putting a few more bucks in the pockets of the working poor. It is a good-hearted group, and I helped found it. The Center has proposed a state income tax that would be graduated from 5 percent to 11 percent, the highest rate for those with incomes over \$1 million.

The Center claims that under their proposal 94 percent of Illinois workers would actually pay less in taxes, because of liberal individual exemptions from the tax, while the rich would share more of the burden

[We do need to figure out how to rebuild a middle class that has eroded into working poor status in recent decades. The Center points out that between 1979 and 2010, inflation-adjusted wages for the bottom 60 percent of workers actually dropped while for the top ten percent wages went up 23 percent. But that is a debate for another column.]

State senate constitutional amendment sponsor Don Harmon (D-Oak Park) told another reporter that, “It’s high time to consider amending the constitution to authorize a fair tax where those who make less pay less and those who make more pay more.” Rep. Naomi Jakobsson (D-Urbana) is the House sponsor of a similar proposal.

At a time when Illinois is unsettled politically and governmentally, to say the least, business needs stability and predictability. Yet this proposal creates ominous uncertainty for entrepreneurs and investors who might like to invest in Illinois, if only they knew what the future held. And higher taxes do not represent a future they like to behold.

Those who promote economic development in their Illinois communities have a tough enough time as it is, what with our reputation for corruption and our huge state debt.

Yet we have a great central location and transportation infrastructure second to none. If only we could bring to the state some calm and a clear picture of what state government holds for the future.

And to their credit, Gov. Quinn and state lawmakers have been cutting back the size of state government. In 2001, the state had 88,000 employees; in 2012, that figure had dropped to 64,000.

Illinois has the second lowest ratio of state employees to population in the nation, at 102 per 10,000 residents, versus a national average of 140 per 10,000 people.

There are some winners in this proposal for a graduated income tax. The conservative Illinois Policy Institute is undoubtedly racking up big dollars in contributions with pleas to its well-heeled backers, who are nervous about higher taxes.

A multi-bracketed, graduated income tax rate structure is volatile. When the economy is strong, tax revenue from a graduated rate soars. When a recession hits, however, revenue plummets. We could live with that if we saved for a rainy day during good times, but the legislature has a poor track record when it comes to saving.

The proposal is unlikely to be enacted. It requires a 3/5ths vote in each house of the legislature; then it would go on the 2014 November ballot. All Republicans have come out against the proposal and they have almost enough votes alone to defeat the proposal.

Sen. Harmon wants his proposal to be part of the debate in 2014. Candidates for governor will also be asked if they favor rolling back the temporary income tax increase to 3.75 percent in 2015, as required by present law.

There will be lots of vague talk of tax reform in the coming election cycle. Talk of graduated income tax rates for Illinois should not be a part of that conversation.