

## SNG-Nowlan-Millionaires' tax bad idea

### Tax on millionaires bad idea

By Jim Nowlan

On first blush, the proposal by Illinois Speaker of the House Michael Madigan to impose a 3 percent tax surcharge on income greater than \$1 million sounds like a relatively painless (for most of us, certainly) way to raise about \$1 billion for education.

On second blush, it's a bad idea for at least these reasons:

First, The proposal reinforces the widely held perception by business that Illinois has an unpredictable and unstable fiscal system.

Following on the heels of a major tax increase in 2011, the new proposal sends the signal to business, which craves predictability and stability, that Illinois is the Wild West of tax policymaking.

Second, Illinois is embedded in a federal system of 50 states. And while an 8 percent tax on millionaires' income wouldn't be the highest in the nation, it sounds mighty high when contrasted with competitor states such as Texas and Florida, which don't even levy an income tax.

The tax increase would thus distort behavior. Many of us know former Illinois residents who have already moved their primary residences to those states because they don't tax income.

Third, Illinois has the second highest unemployment rate in the nation, at 8.7 percent in January, and our economic growth rate is one of the slowest in the nation as well. A major new tax bite on the 13,600 residents with incomes of \$1+ million, who represent an important class of

capital and creativity, would certainly dampen any interest the class might have in creating jobs and investing in Illinois.

Fourth, This is no way to amend the state constitution, which would be required. Why a 3 percent increase; why on millionaires? Who has given thought to this, other than the Speaker? Such detail should not be enshrined in a constitution, which is terribly hard to change later.

The Speaker's constitutional amendment proposal would put the \$1 billion in annual revenue from the millionaires' tax into a new annual grant of about \$500 per pupil for the students in our public schools.

This means New Trier High in the tony suburbs, which already spends \$20,000+ per pupil, would get the same \$500 per pupil as my local rural district, which has only half as much to spend per pupil.

This would not be good policy in a state where the disparity in spending among school districts is the worst in the nation.

Illinois has a 5 percent flat-rate income tax, which is about in the middle of the pack among states that have an income tax. This does not mean everybody pays the same tax.

At 5 percent, a person with \$1 million in taxable income already pays 20 times more in income tax than a person earning \$50,000 a year.

There is a proposal in the state Senate that would authorize graduated tax rates, with rates moving upward with income. This proposal is apparently stalled for lack of support.

The federal government imposes graduated tax rates on income, which is fine, though I think the flat rate in Illinois is fair.

As with others, I worry that growing income inequality in the U.S. threatens the health of our society. And the interest of some national Republicans in a wage subsidy for the working poor appears to have merit.

But I don't think Illinois, with its fragile economy, can afford to take the lead on this issue with a surcharge on millionaires.

Over the decades, the Illinois revenue system has become jerry-rigged. Our sales and income taxes are built on narrow bases, and our revenues grow slower than the economy, which is a sure-fire recipe for continuing budgetary problems.

If ever there were a time for a classic blue ribbon commission of key lawmakers and experts to stand back and evaluate the state's revenue system, now is the time.