



Illinois Families Want Leadership and Reform, Not Tax Hikes

Budget myths vs. budget facts

Myth: You can't cut your way out of this budget crisis.

Fact: Sensible spending reforms would make a tax hike unnecessary.

Governor Pat Quinn wants to spend \$30 billion this year on the General Revenue Fund budget. He's claiming that we need \$3 billion in higher personal and corporate income taxes to help pay for this.¹ If Governor Quinn cut just 10 percent off his proposed budget, there would be no need for income tax hikes. Without a doubt, there's room to reduce 10 percent from the Governor's budget and spare our families and businesses from having to shell out more to state coffers.

Myth: State spending has hardly grown in recent years.

Fact: State spending on a per capita basis has skyrocketed.

State spending in Illinois has skyrocketed over the past decade, increasing 45 percent since 1998 (after inflation, per capita). Meanwhile, population has only grown 4 percent. In 1998, state spending per citizen was \$3,200. Ten years later, state spending per citizen was \$4,700 (inflation adjusted).² Government spending growth on a per-person basis has been on a sharp upward curve.

Myth: Illinoisans will accept a tax hike in the name of shared sacrifice.

Fact: Illinoisans remain united against a tax hike.

The Illinois Coalition for Jobs Growth & Prosperity conducted a poll with 800 registered Illinois voters in mid-June 2009. The poll

found that 82 percent of participants feel that the governor and lawmakers have not done enough to control spending; 72 percent feel that the state should not raise taxes to balance its budget; 74 percent think that state workers' contracts should be renegotiated; and 78 percent would support freezing state spending at the current level until revenues improve.³

Myth: Illinois has low tax burdens; we can afford to increase taxes.

Fact: Illinois is a high tax state; families can't afford to give more to the government.

Illinois has the 15th highest overall tax burden in the nation.⁴ We also have the 11th highest property tax burden (7th highest in median property taxes paid) and the 4th highest gas tax burden.⁵ Illinoisans already pay a lot in taxes. Families can't afford to send more of their paychecks to state coffers, especially during these tough economic times. Should Illinois increase its relatively moderate income tax rates, it would forfeit one of the best incentives for people to live and work in the state.

Myth: We've cut enough from the budget already.

Fact: Governor Quinn has abandoned plans to cut certain spending.

The truth is that it is easier for elected leaders to ask for a tax hike than it is to ask for spending discipline. Governor Quinn already backed off his very modest reforms to pensions and health care contribution rates by state employees. For our state to get back on a winning track it must put the brakes on out-of-control spending growth and focus on delivering core services.

Myth: There are no other workable options than increasing taxes.

Fact: The General Assembly has yet to consider many alternatives to tax hikes.

Spending reform recommendations from the Taxpayer Action Board show a clear path to significant state budget savings in the areas of government operations, public safety, education, pensions, Medicaid, human services, and public employee and retiree health care. Another avenue for savings would be to pass the Sunshine Act (HB 4134), which creates a tool to carefully and thoughtfully remove wasteful, fraudulent, ineffective or inefficient spending. The General Assembly could also pass the Illinois Efficient Government Act to help “right-size” state government by fostering competition, efficiency, and innovation in service delivery to Illinois taxpayers.

Myth: Spending reductions would unfairly target at-risk populations.

Fact: The 50-percent tax hike plan would hit lower and middle-class families hard.

Governor Quinn’s tax hike would target lower, middle, and upper-income families. Even with a higher personal exemption, a single taxpayer making as little as \$14,000 would see their tax bill increase under a 50 percent personal income tax rate increase. Couples making more than \$28,000 would also have to pay more in taxes, as would families of three earning in excess of \$42,000.⁶ The median household size in Illinois is 2.65 with an income of \$54,141.⁷ This means the median Illinois household will have a higher tax burden under Governor Quinn’s plan (and similar iterations).

Myth: Levying higher taxes on businesses will help balance the budget; besides, they can afford it.

Fact: Hiking taxes on businesses will drive job-producers out of our state.

Governor Pat Quinn wants to increase the corporate income tax rate from 4.8 percent to 7.2 percent. This, combined with a 2.5 percent “replacement tax” on business income, would give Illinois the fourth-highest corporate income tax rate in the nation at 9.7 percent. Says the non-partisan Tax Foundation: “With a 50 percent increase in the income tax rate, Illinois legislators would give up the state’s one tax climate advantage.”⁸ Illinois ranks 44th and 48th, respectively, in its economic outlook and performance, according to the ALEC-Laffer State Economic Competitiveness Index.⁹ We can’t afford to make things worse with a corporate income tax increase.

Myth: A tax hike will solve today’s budget crunch without long-term repercussions.

Fact: The personal income tax hike would limit Illinois’s future economic growth.

Tax policy economist Scott Moody calculates Gov. Quinn’s personal income tax hike would cost the Illinois economy \$8.6 billion in lost output over the long term.¹⁰ To put this massive sum into perspective, the hidden cost of the personal income tax hike is the economic equivalent of taking all the 2008 tax revenue from the sales tax, cigarette tax, liquor tax, inheritance tax, corporate franchise tax and fees, and insurance taxes and fees and dumping that money into Lake Michigan.

Myth: Public employee pay and benefits are untouchable.

Fact: A comprehensive budget fix can’t ignore public employee compensation.

At a time when Illinois faces a serious budget shortfall, all areas of government spending should be carefully reviewed for potential savings. A closer look at public employee pay in Illinois shows a significant gap between wages in the public and private sector (in 2007, Illinois state workers earned an average annual wage of \$53,925, while private sector workers earned an average annual wage of \$48,006¹¹). Legislators shouldn’t automatically dismiss reductions to what is the largest area of operations spending; rather, they should carefully consider the various avenues to achieving sensible savings.

Myth: Reducing aid to localities would create massive budget deficits.

Fact: Localities can live with less state subsidization.

In 2008, the state sent \$1.2 billion in state income tax collections to local governments. In 2006, local governments in Illinois had \$53 billion in general revenue to spend, according to the U.S. Census Bureau.¹² A 2.3 percent reduction in spending of \$53 billion won’t cause any localities to slash spending by an irresponsible amount. Municipalities might moan if they lose this plum subsidy, but if forcing them to make smarter budgeting decisions stops a tax hike on their very own constituents and the rest of the state, it’s the right thing to do.

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Notes

- 1 Governor Pat Quinn, "FY2010 Budget," <http://budget.illinois.gov/documents/FY2010OperatingBudget.pdf>.
- 2 Illinois Policy Institute, "Illinois Budget Facts," <http://illinoispolicyinstitute.org/news/article.asp?ArticleSource=1051>.
- 3 Illinois Coalition for Jobs, Growth & Prosperity, "2010 Illinois Budget Poll," <http://www.jobscoalition.org/2010%20Illinois%20Budget%20Poll.pdf>.
- 4 Tax Foundation, "The Facts on Illinois' Tax Climate," <http://www.taxfoundation.org/research/topic/26.html>
- 5 Illinois Policy Institute, "Key Facts About Illinois," http://illinoispolicyinstitute.org/uploads/files/Policy%20Points/keyfacts_policypoint%5B1%5D.pdf.
- 6 Illinois Policy Institute, "Who really pays for Governor Quinn's tax plan?" <http://illinoispolicyinstitute.org/news/article.asp?ArticleSource=826>.
- 7 U.S. Census Bureau, "Illinois QuickFacts," <http://quickfacts.census.gov/qfd/states/17000.html>.
- 8 Tax Foundation, "Illinois's 'Business-Friendliness' Ranking Would Decline Sharply Under Governor's Plan," <http://www.taxfoundation.org/news/show/24486.html>.
- 9 American Legislative Exchange Council, "2009 ALEC-Laffer State Economic Competitiveness Index," <http://www.alec.org/am/pdf/tax/09RSPS/states/09illinois.pdf>.
- 10 Illinois Policy Institute, "The Tax That Keeps on Taking," <http://illinoispolicyinstitute.org/news/article.asp?ArticleSource=848>.
- 11 U.S. Department of Labor's Bureau of Labor Statistics, "Quarterly Census of Employment and Wages," <http://www.bls.gov/cen/>.
- 12 U.S. Census Bureau, "State and Local Government Finances by Level of Government and by State: 2005-06," http://www.census.gov/govs/estimate/0614ils_1.html.