

Illinois income tax increase a missed opportunity for tax reform

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Already under fire for raising taxes on individuals and businesses, the state Legislature missed a major opportunity to update the Illinois tax structure, says a University of Illinois law professor.

Richard L. Kaplan, an expert on taxation and retirement issues, says the state of Illinois has a seriously outmoded tax structure that's in dire need of reform.

"Tax reform is often very difficult because tax changes necessarily alter the burden of taxation, and some people end up paying more," he said. "That makes legislators hesitant to undertake the process of tax reform, whether on the state or federal level. But with the Illinois Legislature finally agreeing to make unpopular tax increases, there was an unusual opportunity to do genuine tax reform that they failed to capitalize on."

Illinois has one of the 10 most regressive tax structures in the nation, Kaplan said.

"That means that the tax burden falls disproportionately on lower-income taxpayers," Kaplan said. "For example, the income tax has a single rate, as mandated by the state's constitution, but the personal exemption amount has not been adjusted for inflation in many years, thereby diminishing its ability to shift the burden of taxation to higher-income persons."

Kaplan, the Peer and Sarah Pedersen Professor of Law at Illinois, notes

that there are numerous special provisions in the Illinois tax code that reduces the state's taxable base.

"The popular view is that a flat-rate income tax, like the one we have in Illinois, is devoid of deductions, credits and other complications," he said. "But that is clearly not true. For example, Social Security benefits and pension plan payments are not subject to the state's income tax, regardless of the amount involved. What that means for a retiree in Illinois is, if all of your income is from Social Security, pension plan distributions or a 401k, you don't really care that the individual income tax rate just went up by two-thirds."

But it's not just seniors who benefit from special provisions, Kaplan says. Veterans, parents with children in school, property owners and many others are able to reduce their income tax burden.

"Some of these provisions, like the one for property taxes, are fairly common among states with an income tax, but they complicate the filing process nevertheless," he said.

The state's sales tax also needs attention from lawmakers.

"It's a dinosaur," Kaplan said. "It completely ignores the profusion of services that now dominate our economy, and largely misses the online world as well. The state sales tax has become a penalty for shopping in physical stores."

Should it ever gain legislative momentum, comprehensive tax reform should not be considered during a last-minute lame-duck session, Kaplan says.

"Even though the state's financial condition was well-known throughout the months-long regular session of the Legislature, taxes were not

seriously considered until after the election," he said. "Moving such a contentious issue into an unaccountable lame-duck session may seem like smart politics to some.

Provided by University of Illinois at Urbana-Champaign

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