



BUILDING BETTER LIVES

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Illinois Taxes Working-Poor Families Deeper Into Poverty

Report Shows Urgent Need for Income Tax Reform

CHICAGO, IL – Low-income families in Illinois are already struggling to get by in a weak economy, and a report released by the Center on Budget and Policy Priorities in Washington, D.C., examines the income taxes that are pushing them deeper into poverty.

The report measures the “tax threshold” in each state – the income level at which families begin owing income taxes. Key findings for Illinois in the CBPP report include:

- In 2007, the income tax threshold for a family of four in Illinois was \$15,900 – 8th lowest among 42 states with income taxes.
- Illinois was one of only nine states to impose an income tax bill of more than \$200 on a family of four at the federal poverty level (\$21,203).
- Illinois’ effective tax threshold for a family of four has become lower – it was 75 percent of the federal poverty level in 2007, down from 80 percent of poverty in 2000.

“These disappointing findings indicate that our state income tax is one of the worst for low-income working families,” said Larry Joseph, director of Budget & Tax Policy Initiative at Voices for Illinois Children. “Collecting income tax from these struggling families is bad policy, particularly at a time when working families in Illinois face steep challenges just trying to make ends meet.”

According to Joseph, the low threshold for income tax liability reflects the state’s small standard exemption and its small earned income tax credit. When the state income tax was first enacted some 40 years ago, the standard exemption was \$1,000 per person, which was enough to exempt a family of four at poverty level from the tax. The exemption is now \$2,000 per person, but if the original amount had been adjusted for inflation, it would be more than \$5,000.

The federal earned income tax credit (EITC) is widely recognized as an important tool for reducing poverty among working families with children. Twenty-four states have enacted their own versions of the EITC, and ten states have increased the size of their credits in past few years. The Illinois EITC — set at just 5 percent of the federal EITC — is one of the lowest in the nation. In 2007, state EITCs were 17 percent of the federal credit in Kansas, 20 percent in New Jersey, and 32 percent in Vermont.

Voices for Illinois Children recommends three important reforms that would make the state income tax more progressive. One, Illinois should follow the practice of many other states by raising the standard exemption to the same level as the federal exemption, which was \$3,400 in 2007 and is indexed to inflation. Two, Illinois should raise the EITC from its current 5 percent to at least 10 percent of the federal EITC. And three, Illinois should create a state-level child tax credit. These three reforms, all permissible under the current state constitution, would have a significant impact on the take-home pay of Illinois working families.

Taxing the incomes of working-poor families runs counter to the efforts of policymakers across the political spectrum to help families work their way out of poverty. The federal government has exempted such families from the income tax since the mid-1980s, and a majority of states now do so as well.

Eliminating state income taxes on working families with poverty-level incomes gives a boost in take-home pay that helps offset higher child care and transportation costs that families incur as they strive to become economically self-sufficient. In other words, relieving state income taxes on poor families can make a meaningful contribution toward “making work pay.”

For a full copy of the report, see <http://www.cbpp.org/10-29-08sfp.htm>

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Voices for Illinois Children champions the full development of every child in Illinois to assure the future well-being of everyone in the state. We work with families, communities and policymakers on all issues to help children grow up healthy, happy, safe, loved, and well educated.