



# Tax Fairness Advocacy Toolkit

## Tax Fairness Q&A

### **Q: Does Voices support the Governor's budget proposal?**

A: Voices for Illinois Children strongly applauds the centerpiece of the Governor's FY 2010 revenue plan: an income tax package that would raise much needed revenues in a fair way by increasing the standard exemption to lower the taxes of many lower- and middle-income families. This is especially important in the face of a state deficit reportedly exceeding \$12 billion, which is worsening the pressures on households and communities throughout Illinois.

Governor Quinn FY 2010 budget proposal would generate significant, overdue income tax relief in the context of an income tax increase that also can produce much-needed revenues. Specifically, the proposal would raise the personal income tax rate from 3 percent to 4.5 percent. It also includes critical tax relief, shielding many families from an income tax increase by tripling the standard exemption from \$2,000 to \$6,000 per person. In fact, many low- and moderate-income families would receive tax cuts. For example, a four-person family earning less than about \$60,000 would pay less in taxes.

However, the Governor's recommended budget cuts include several troubling examples of special significance to kids and families in need. Voices is firmly opposed to budget cuts in education, health and human services that are of vital importance to kids, families and communities. It's unwise to pare-back child care, after-school, mental health, home-visiting and youth services, among other significant examples of programs targeted for FY 2010 budget cuts. These prevention-oriented programs help children to avoid problems that are far more expensive, fiscally and socially, in the long run.

### **Q: Is Voices satisfied with the Governor's ideas? Haven't you called for a tax increase even greater than what he's proposing—and for other tax-fairness measures?**

A: We're very encouraged by the Governor's political courage and leadership in facing our most important responsibilities—adequacy of revenues to protect the well-being of kids and families, and fairness to families in the way we raise those revenues.

We do believe the income tax could be raised as high as 5 percent, in order to produce more revenues that are so badly needed. In addition to supporting an increase in the income tax's standard exemption, we'll continue to advocate for still other tax-fairness measures that should be considered. These include:

- Increasing the Illinois Earned Income Tax Credit (EITC), which provides low-income, working families with a well-deserved break on their taxes. This credit is currently worth a maximum of about \$240 per qualifying household in Illinois, the second-smallest state EITC in the nation. We should quadruple our Illinois EITC to provide families with more of the help they need and protect them from shouldering even more tax responsibility.

(next page)



# Tax Fairness Advocacy Toolkit

## Tax Fairness Q&A, cont.

- Creating a state-level Child Tax Credit (CTC) to target more relief to both low- and middle-income families. As in the case of the EITC, Illinois could establish a state version of the federal CTC, which provides families with as much as \$1,000 per qualifying child under age 17.

These tax credits would help further target relief to the families who need it most.

### **Q: Shouldn't the state be cutting its budget instead of raising taxes?**

A: Creating a better tomorrow requires responsible planning today. If we focus only on the short term, it will be detrimental to the state's long-term prosperity. That means making fiscally responsible choices that will help our state get through the economic crisis, while keeping our communities strong and our children healthy and educated. If we cut children's programs, we'll end up paying more in the future to deal with illness, crime and less productive workers.

The reality is that even in the short run, cuts alone cannot fill our \$12.5 billion canyon of debt. We could eliminate entire state agencies and still face a multibillion-dollar budget hole. What's more, closing the deficit through cuts would have a devastating impact on Illinois' most vulnerable families, who are already being hit hard by service reductions.

The state must raise a substantial amount of new revenue without putting an undue burden on low- and middle-income families. Increasing the state income tax is the best way to raise adequate new revenue. Income tax revenues are Illinois' largest and most powerful revenue source, and this tax has not been raised in 20 years. Also, because the income tax is based on people's ability to pay, an increase can actually improve tax fairness for working families, especially in conjunction with the wise use of credits and exemptions.

### **Q: But isn't a recession the worst possible time to raise taxes?**

A: It's important to keep in mind the ways that state government works with us to protect public health, improve public safety, revitalize local economies and enhance learning. We all benefit when community members and public agencies come together for the common good. No one ever wants to pay more in taxes. But with a more than \$12 billion state deficit, the alternative is multi-billion-dollar budget cuts that would devastate our system of state supports for kids, families and communities in need.

Furthermore, a carefully crafted revenue increase would be a better plan for putting Illinois back on track to economic recovery than cutting direct services to kids and families, according to two expert economists, Nobel Prize-winner Joseph Stiglitz of Columbia University and Peter Orszag, director of the U.S. Office of Management and Budget and former director of the Congressional Budget Office. Deep budget cuts can further harm a struggling economy, they say.

(next page)



# Tax Fairness Advocacy Toolkit

## Tax Fairness Q&A, cont.

We urgently need to shore up services that people depend on, particularly during a fiscal crisis. And we have an opportunity to reform a tax system that has been unfair to struggling families even in the best of economic times.

### **Q: How can low-income families afford a tax increase in this economy?**

A: Governor Quinn's tax proposal would actually reduce the tax liability for many families. For example, a four-person household earning less than about \$60,000 would pay less in taxes under his plan. We can further ease the tax burden on low-income, working families through targeted relief. We all have a shared responsibility to improve our tax system in ways that treat struggling families more fairly, especially in these tough times. Our current mix of state and local taxes is anything but fair to them. As an overall percentage of their income, studies show low-income families often pay twice the amount in state and local taxes as wealthier households.

These low-income, working families can least afford to be paying the greatest proportional share of their incomes in state and local taxes. Even before the current recession, they were earning less and less over time. According to the Center on Budget & Policy Priorities (CBPP) in Washington, D.C., from the late 1990s to the mid-2000s:

- The average income of the poorest one-fifth of families decreased by \$1,588 (about eight percent), from \$19,928 to \$18,340.
- The average income of the wealthiest 5 percent of families increased by \$36,730 (nearly 19 percent), from \$196,934 to \$233,664.

CBPP also reports that Illinois' tax threshold—the level at which families begin to pay income taxes—is among the nation's lowest and harshest on working-poor households. This means that our state taxes the income of extremely poor families, pushing them deeper into poverty.

In Illinois, our current tax policies exacerbate the widening wealth gap between the rich and the poor. That's why income-tax fairness reforms are so important—because they're urgently needed by the families who are hit hardest by taxes, the recession, a miserable housing market, and rising costs for basic needs.

### **Q: Won't the federal stimulus money coming to Illinois solve many or most of our problems?**

Fiscal assistance from the federal government—mostly for education and Medicaid—would offset the deficit by about \$4 billion. But that still leaves an enormous gap of more than \$8 billion. We cannot rely on the federal money to entirely fill this hole; we have to take most of the responsibility ourselves.

(next page)



# Tax Fairness Advocacy Toolkit

## Tax Fairness Q&A, cont.

### **Q: Can't Illinois reduce state spending to address the deficit?**

A: We cannot cut our way out of a \$12 billion deficit. Vital programs already are being pushed to the limit. Since 1999, funding for human services, higher education and most other parts of the budget have not even kept pace with inflation. Elementary and secondary education and Medicaid are the only major program areas that have seen significant spending growth since that time, and those increases were necessary to address important obligations to our school-children and to families in need of medical help. Even so, we're left with shortfalls in both of those areas. For example, we're still hundreds of dollars shy of the per-pupil funding minimum that education experts recommend.

The state's fiscal crisis has two components: a "cyclical deficit" caused primarily by the recession and a long-term structural deficit, which is rooted in the state's revenue system. Failure to address the long-term problem has exacerbated the short-term problem. The magnitude of the current deficit is such that both tax increases and spending cuts are inevitable. Those who want "spending cuts first" or "spending cuts only" are asking the state to abandon its social responsibilities. Those who want tax increases alone are ignoring fiscal realities. Illinois needs a balanced approach to balancing the budget.

### **Q: Why do we have a structural deficit?**

A: Illinois suffers from chronic, built-in budget deficits because the revenue produced by its tax system fails to keep pace with economic growth and cannot support existing levels of state services over the long term. Since FY 2000, revenue from the individual income tax has generally grown at the same pace as personal income, but revenues from the sales tax and most other state sources have not. "Normal" revenue growth has chronically lagged behind our basic spending needs and pressures.

### **Q: Do you support any other revenue-raising ideas?**

A: The state sales tax base could be expanded to cover more consumer services to raise revenues and modernize that tax. Our antiquated, manufacturing-based sales tax does not reflect today's economy. We could even lower the overall sales tax rate somewhat, if we were to extend the tax to cover more services.

### **Q: Are there any revenue-raising ideas you do not support?**

A: Certainly. A chief example is expanding state-sponsored gambling. Voices has long opposed that option because it disproportionately impacts struggling families, compounding the unfairness of our revenue system. Although gambling expansion is billed as a way to draw more revenues from out-of-state visitors, studies show a large amount of the money comes from people who live within a 50-mile radius of any casino. There are far fairer, more adequate, sustainable and straight-forward ways to produce new state revenues, such as raising the state income tax.