



Achieving Greater **Fairness for Working Families**

A Plan for Reforming Illinois' Revenue Structure

Illinois' state and local revenue system is fundamentally flawed in several ways. Chiefly, it's:

- **Unfair** to low- and middle-income families, who bear a disproportionately heavy burden of state and local taxes
- **Inadequate** to support a wide range of important education, health care and human services programs, upon which many of those same families depend

The Budget & Tax Policy Initiative at Voices for Illinois Children has outlined a policy strategy for improving tax fairness as well as generating new revenue. This approach – **the Fairness for Working Families plan** – links a state income tax increase with a three-part reform package:

1. **Raise the standard exemption** to provide some tax relief to all households, with the greatest impact on lower- and middle-income families. When Illinois' income tax was enacted in 1969, the exemption was \$1,000, the equivalent of more than \$5,000 in today's dollars. But it has been increased only once, to \$2,000.
2. **Increase the Illinois Earned Income Tax Credit** to target extra relief to the lowest-income working families. The Illinois EITC, set at 5 percent of the federal EITC, is one of the nation's smallest such credits, representing a maximum of \$235 per qualifying household – compared with a top credit of more than \$2,000 in Wisconsin.
3. **Create a state child tax credit** to provide more help for both low- and middle-income families. As in the case of the EITC, Illinois could establish a state version of the federal Child Tax Credit, which provides families with as much as \$1,000 per qualifying child under age 17.

These reforms could offset the effects of a state income tax increase on low- and middle-income families. Such a general revenue increase is necessary not only to support these fairness measures, but to raise the additional funding that's greatly needed to bolster education, cover outstanding state bills and put Illinois on more sound fiscal footing.

There are many different ways to design this multifaceted policy strategy. The resulting amount of tax relief would depend upon the size of an income tax increase and the levels at which the individual components of the reform plan are set.

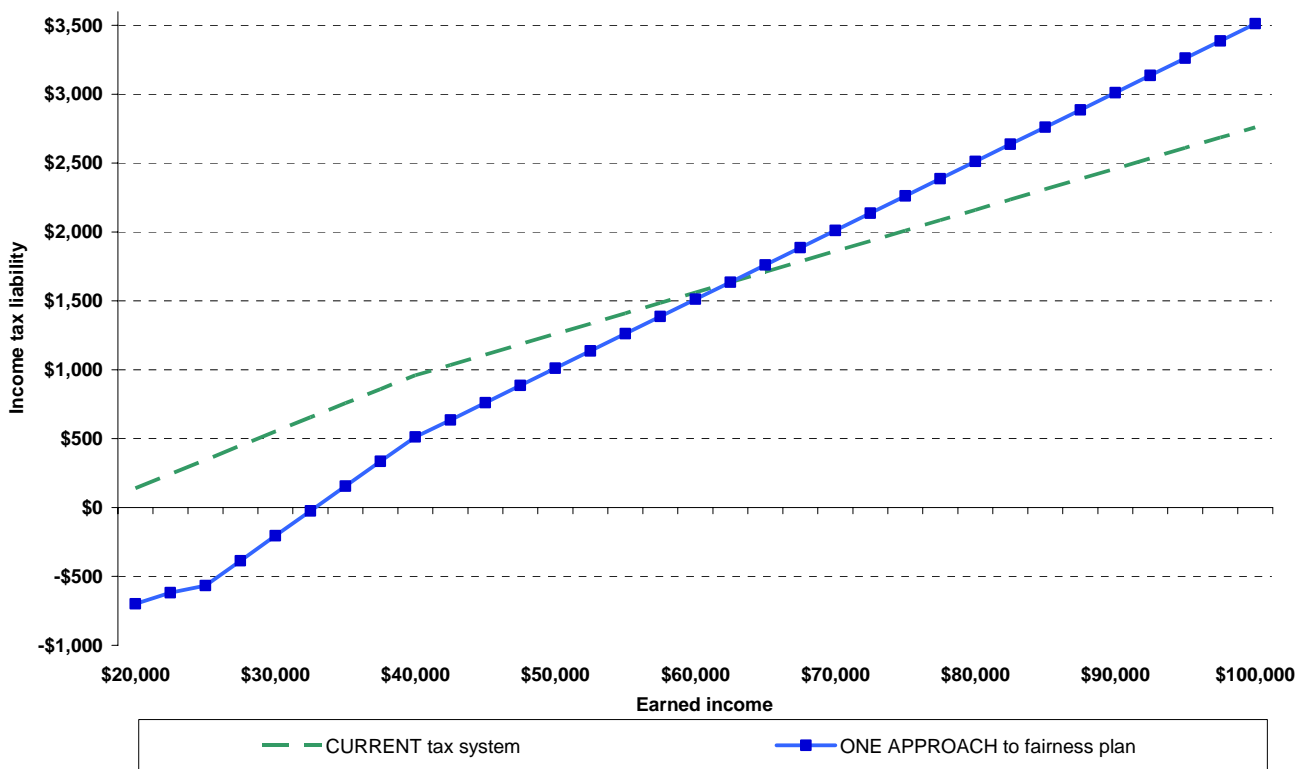


Here's just one example of how the Fairness for Working Families plan could work:

- Increase the individual income tax rate to 5 percent
- Set the standard exemption at \$4,140 (115 percent of the federal exemption)
- Double the Illinois Earned Income Tax Credit to 10 percent of the federal EITC
- Create a state-level child tax credit set at 33 percent of the federal CTC

As a result, families of four earning up to \$62,000 a year – close to the median family income in Illinois – would actually pay less in state income taxes than they currently do.

ONE ILLUSTRATION of how the Fairness for Working Families plan could affect the taxes of a family of four, at different income levels



The goal of the Fairness for Working Families plan:

A fairer, more adequate state revenue system that better reflects families' ability to pay.

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