

**Comparison of Illinois
Individual Income Tax
Amounts With
Surrounding States—
Who Wins, Who Loses?"**



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January 2011 Legislation



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Impetus for the Study

Denham (2011) argued that at least the Illinois tax rate would still be lower than the surrounding states.

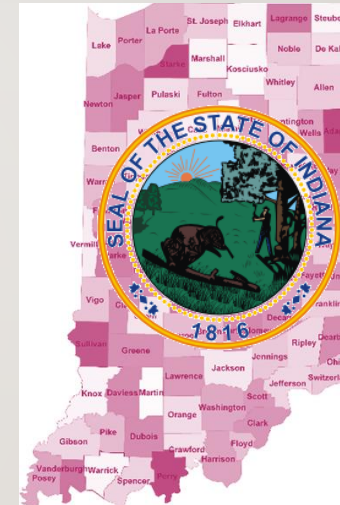
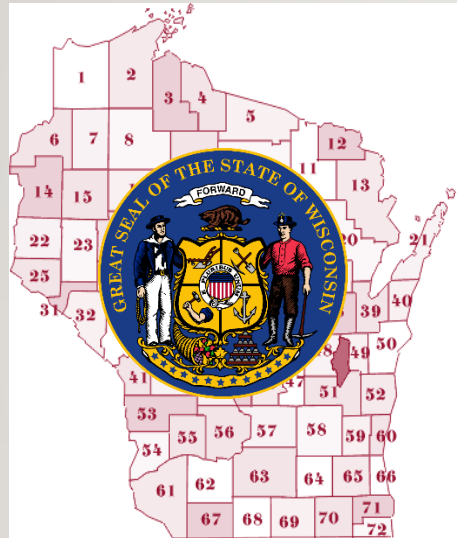
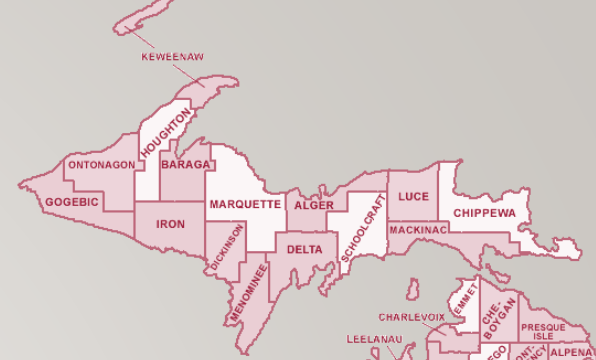
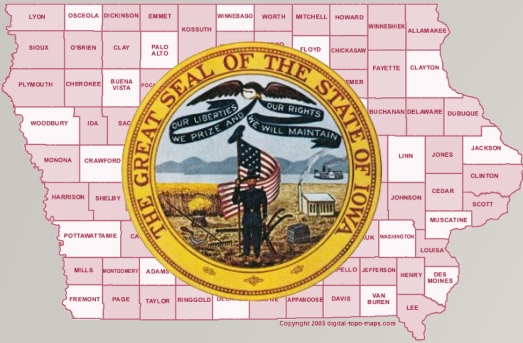
Bibo (2011) asserts that Laura Johns, a CPA with H&R Block, as stating the Illinois income taxes would still be relatively low compared with other states.



Although the 2011 tax increase sunset after 2014, over the July 4 holiday weekend in 2017, the stealth Illinois General Assembly, passed a budget for the first time in two years which included a permanent increase in the Illinois income tax rate to 4.95%.

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How do Illinois taxpayers compare with their counterparts in surrounding states?



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Brief History of Illinois Individual Income Tax



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AFP (2014) claims in a special session of the 57th General Assembly in 1932, a progressive income tax structure was passed by the Illinois House by a one-vote margin and signed by then Governor Louis L. Emmerson.

VanMetre (2014) stated the Illinois Constitution passed in 1870 did not authorize Illinois to tax income.

AFP (2014) reported the tax was quickly challenged and was ruled unconstitutional in *Bachrach vs. Nelson* by the Illinois Supreme Court

The sixth Illinois Constitutional Convention approved by the voters on December 15, 1970, and becoming effective on July 1, 1971, assured the constitutionality of an individual income tax.

Nevertheless, Illinois Issues (2016) cites *Chicago Sun-Times* reporter, Charlie Wheeler, as saying the convention delegates opted for the path of least-resistance by proposing a 2.5% flat tax rate knowing that the voters would have to approve the measure.

Over the years, the Illinois individual income tax rate has fluctuated between the 2.5% original rate and the 5% rate enacted for the period 2011-2014.



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This is not intended to portray the change in tax over the years 2010-2016 for any one specific family or taxpayer. The income and deductions were held constant.

Does not recognize differences in real estate taxes and home prices (mortgage interest) across the different states. The high level of Illinois real estate taxes is well documented (see McDermott, 2011; Vinicky, 2015; and Renderman, 2011.)

Nevertheless, the approach used allows the isolation of the income tax changes over the period in the study.

It is not intended to represent every possible scenario that could possibly exist in evaluating the state tax amounts. However, the scenarios provide a broad cross-section of impacted taxpayers.

An “average” Indiana county tax rate was used in computing the taxpayer’s total liability. The Indiana county income tax rates in 2016 ranged from a low of 0.2% to a high of 2.864%.



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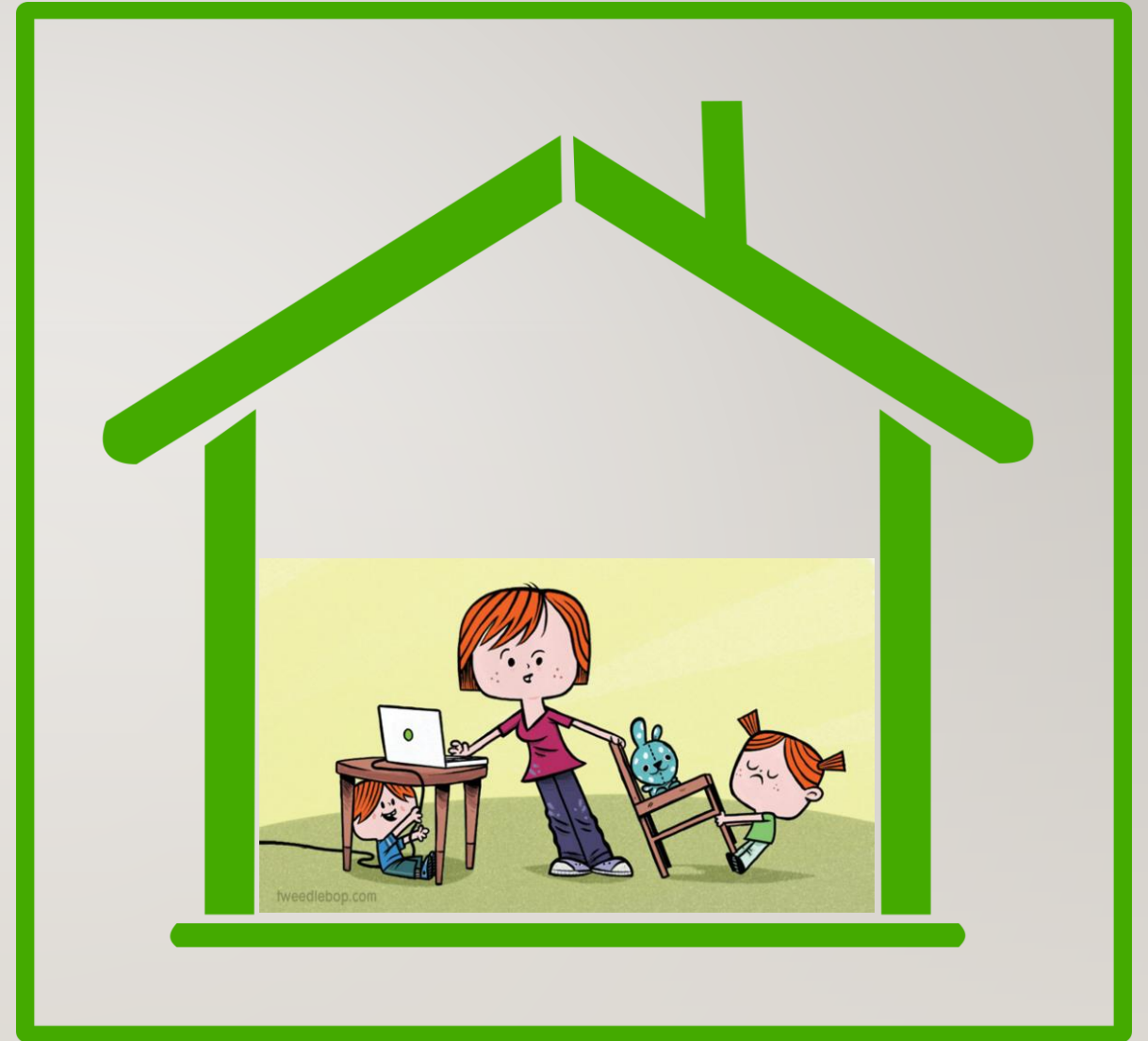
Scenario 1—Sally Single

Sally is a single taxpayer that earns wages from her job. Sally has no dependents and is renting an apartment. Although she does not have enough deductions to itemize on her federal return, she did make some charitable contributions during the year.



Scenario 2—Single Parent (owns home)

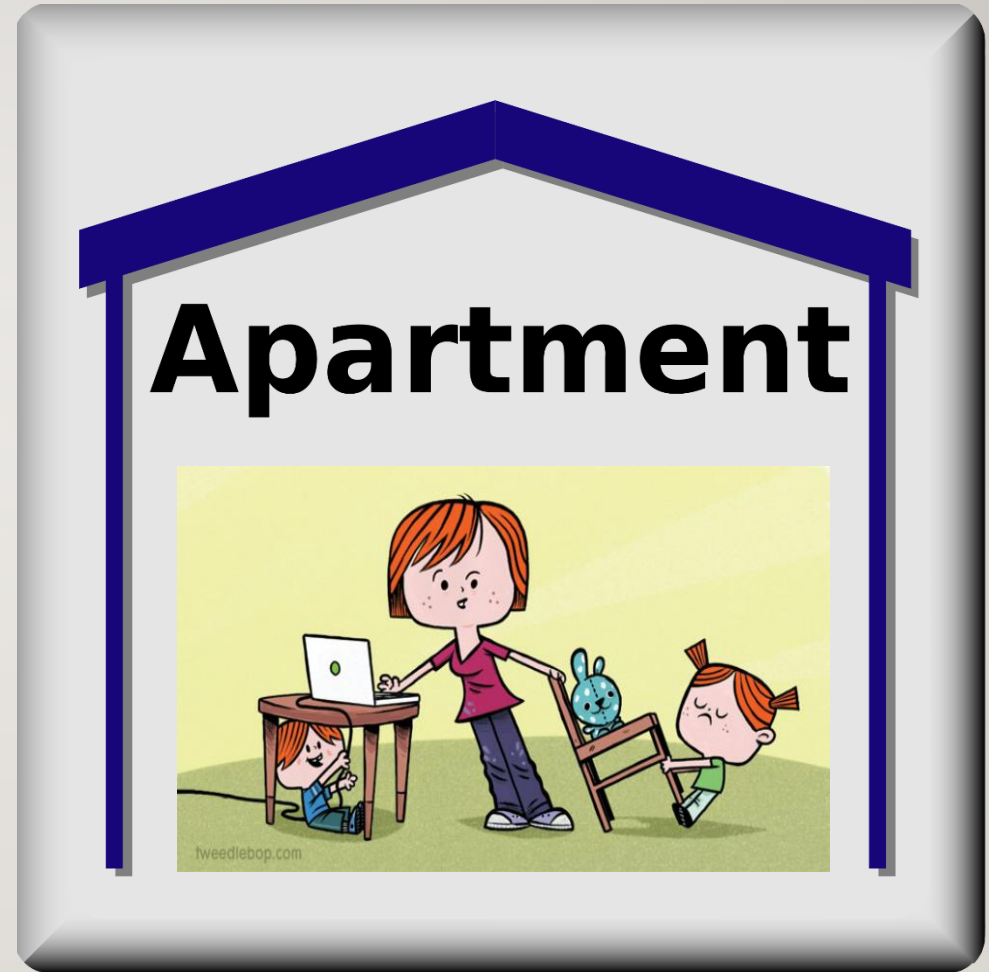
This taxpayer earns wages and has two kids that live at home and are claimed as dependents. The taxpayer pays child care (day care) costs allowing them to work, mortgage interest, real estate taxes, and charitable contributions.



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Scenario 3—Single Parent (rents)

This scenario is the same as Scenario 2 except the taxpayer rents instead of owns the home. Consequently, there are no mortgage interest or real estate taxes, but rent is paid.



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Scenario 4—Highroller Saleperson

This taxpayer is a young, up and coming professional that earns \$140,000 in salary, and has interest and dividend income. This taxpayer owns their home so has both mortgage interest and real estate tax deductions. This taxpayer also has a considerable amount of unreimbursed work expenses treated as miscellaneous itemized deductions on their federal return.



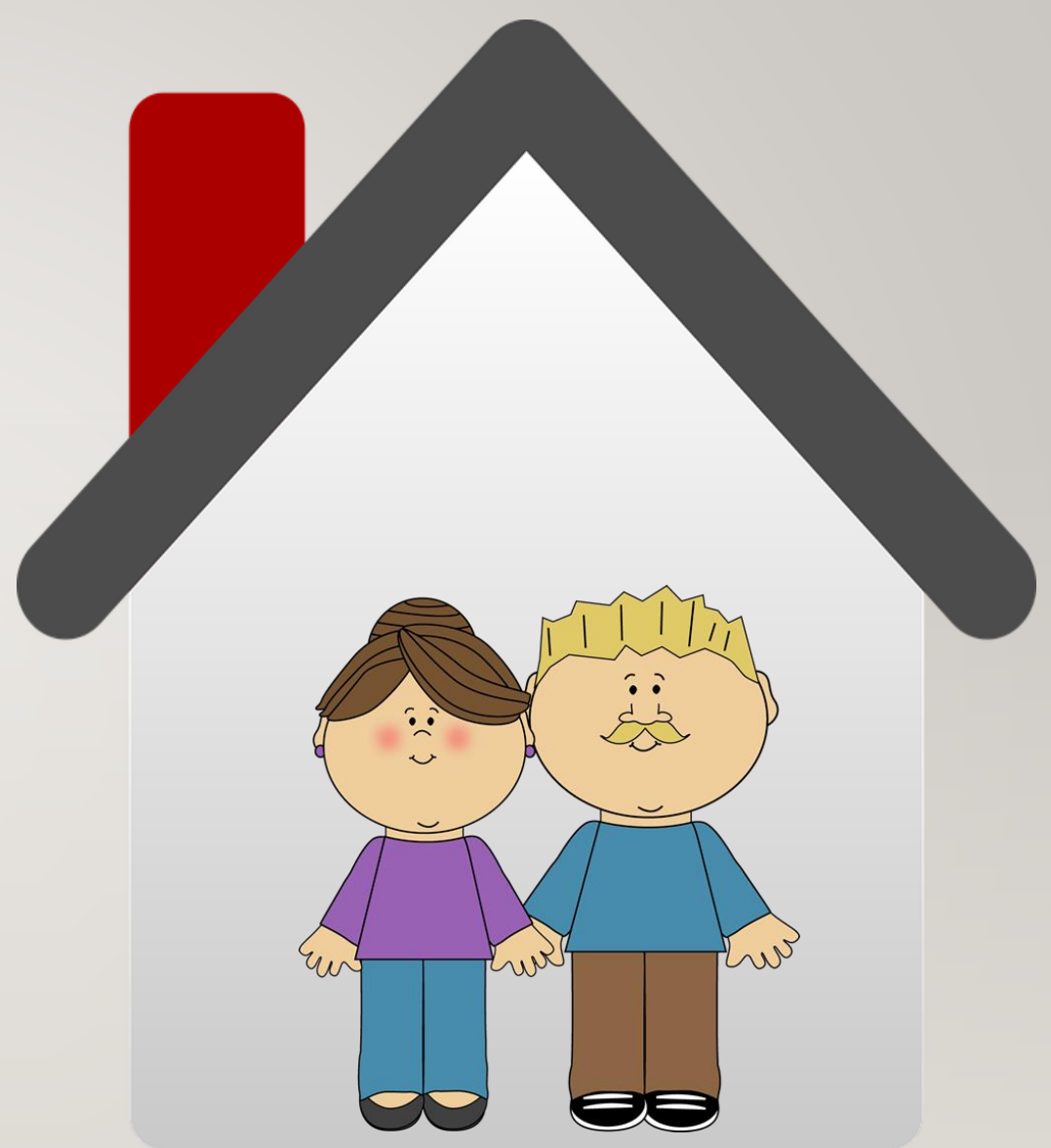
Scenario 5—IR and Happy Retired

These taxpayers are age 68 and are enjoying retirement. Their main sources of income are from pensions and social security, but they also have significant interest and dividend income. They own their home which is fully paid for, so the bulk of their deductions are from real estate taxes and charitable contributions.



Scenario 6—Sortof and Partly Retired

These taxpayers are age 65 and are transitioning into retirement. Although they do have Individual Retirement Account (IRA), pension and social security income. One spouse also has a part-time job and earns a small salary. This couple also own their home with no mortgage. Hence, their primary itemized deductions consist of real estate taxes, charitable contributions, and medical expenses.



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Scenario 7—Ralph and Debbie Hardluck

This couple have two dependent children that live at home. Although both spouses earned wages during the year, one spouse lost their job so the bulk of this couple's income is unemployment compensation. The couple does not own their home and pays rent. The couple also made some charitable contributions but do not have enough deductions to itemize on their federal return.



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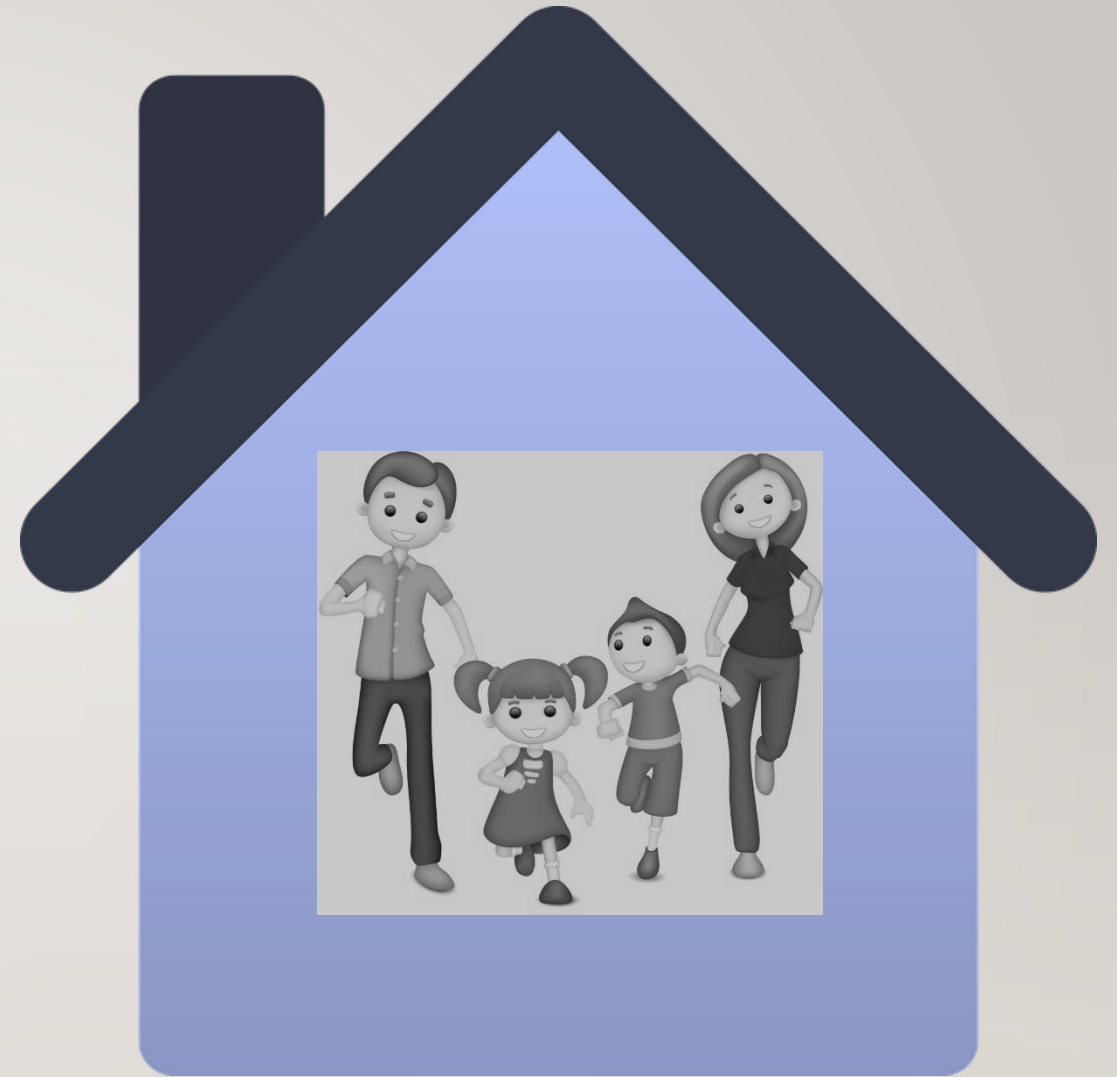
Scenario 8—Willie and Wilma Welloff

This couple have two dependent children that live at home. Fortunately, only one spouse must work but that spouse earns \$235,000. They also have interest and dividend income. The couple itemized their deductions which consists primarily of mortgage interest, real estate taxes, and charitable contributions.



Scenario 9—Mike and Millie Middleclass

Both spouses work and have combined wages totaling \$58,000 for the year. They also have some interest and dividend income. They have child care (day care) costs which enable both parents to work. Their itemized deductions on the federal return consist primarily of mortgage interest, real estate taxes, and charitable contributions.



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Scenario 10—Samuel and Samantha Sawbones

One spouse is a doctor and earns \$832,000 annually. The other spouse works part-time and earns \$25,000. They also have a rental property and have earnings from interest and dividends. They pay mortgage interest and real estate taxes on their home and a lake home. They also have charitable contributions and investment expenses that qualify as itemized deductions. Table A1 provides the detail of their deductions.

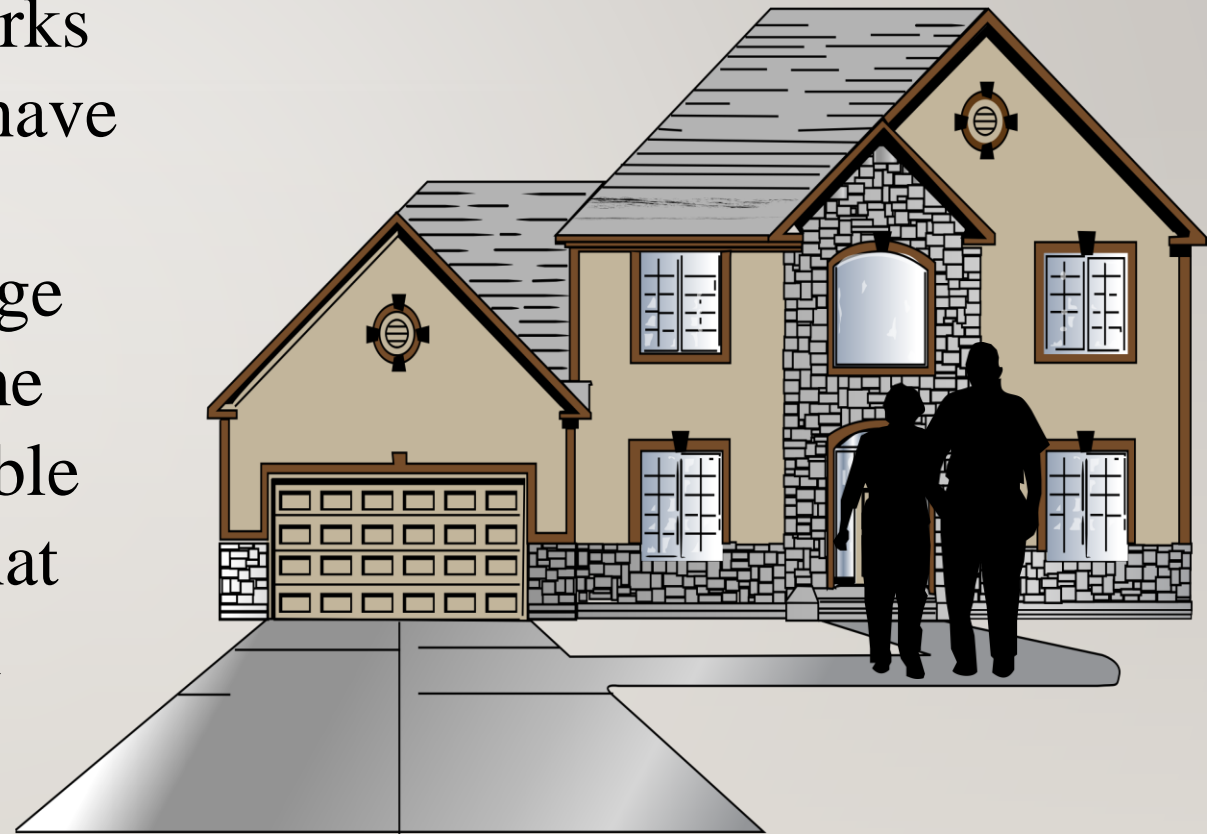
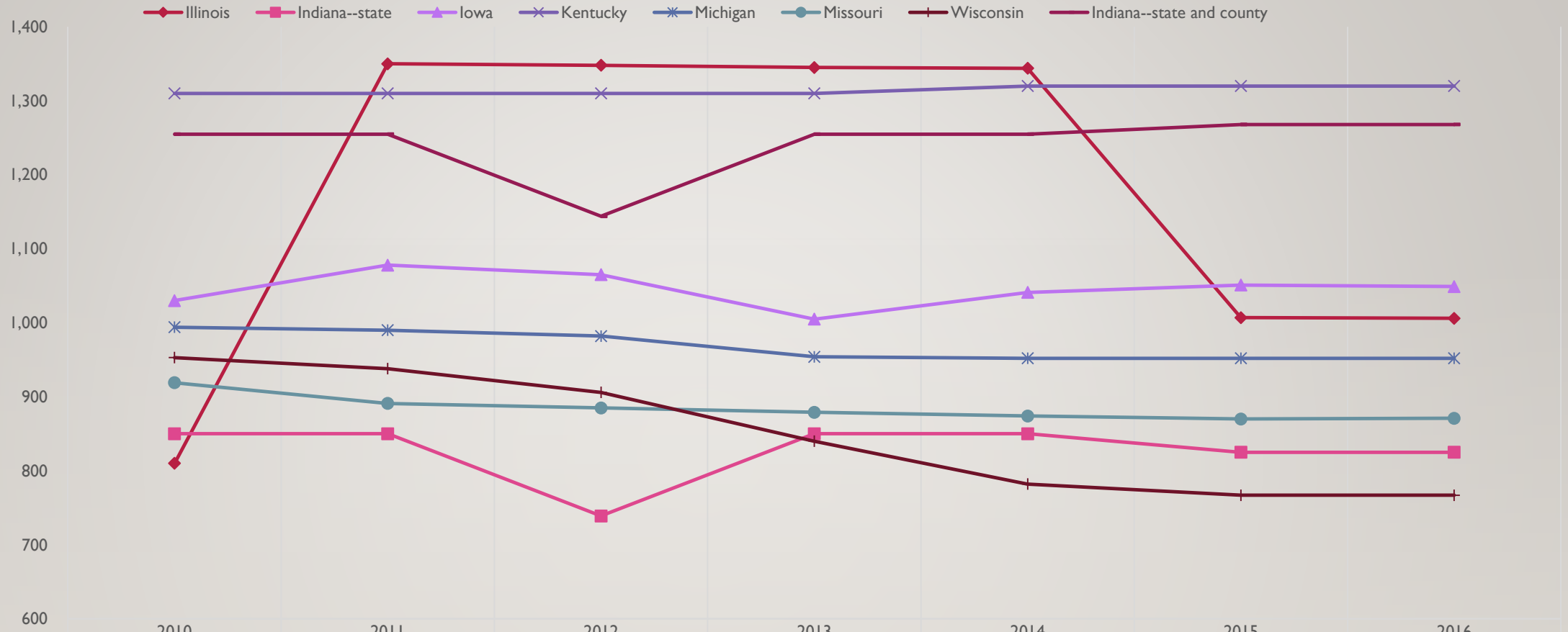
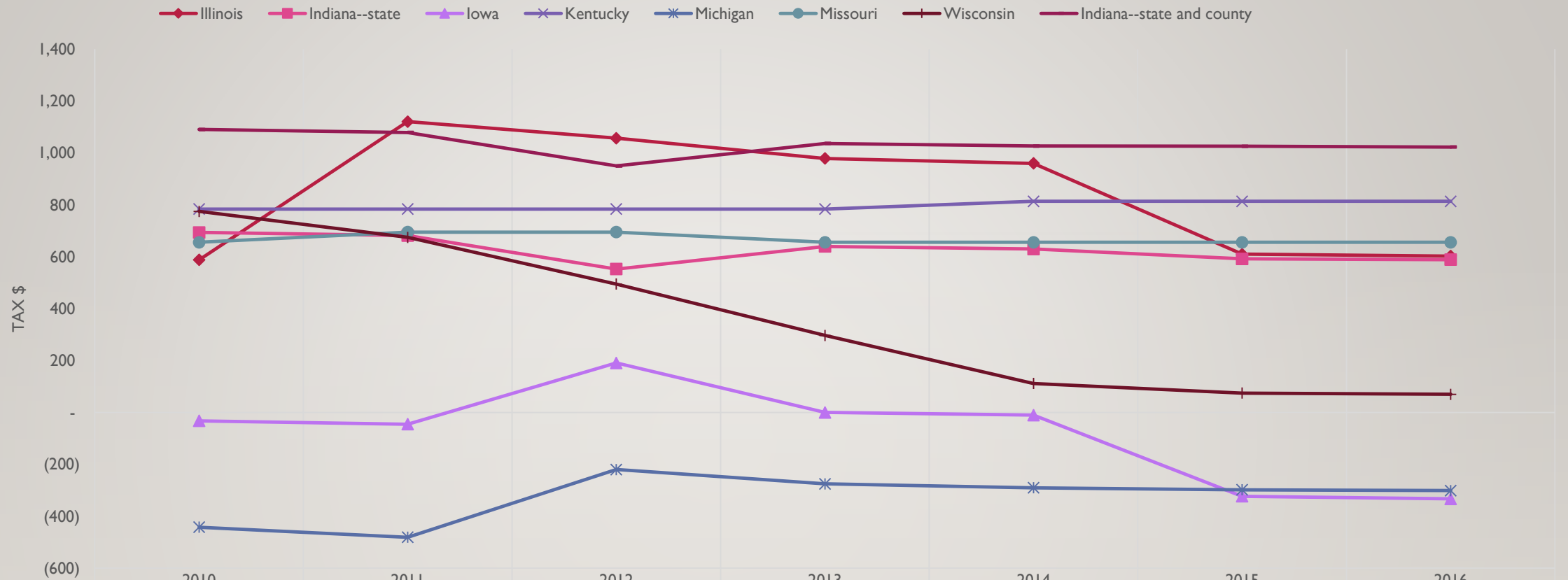


FIGURE I. COMPARISON OF STATE INCOME TAXES--SALLY SINGLE



State	2010	2011	2012	2013	2014	2015	2016
Illinois	810	1,350	1,348	1,345	1,344	1,007	1,006
Indiana--state	850	850	739	850	850	825	825
Iowa	1,030	1,078	1,065	1,005	1,041	1,051	1,049
Kentucky	1,310	1,310	1,310	1,310	1,320	1,320	1,320
Michigan	994	990	982	954	952	952	952
Missouri	919	891	885	879	874	870	871
Wisconsin	953	938	906	840	782	767	767
Indiana--state and county	1,255	1,255	1,144	1,255	1,255	1,268	1,268

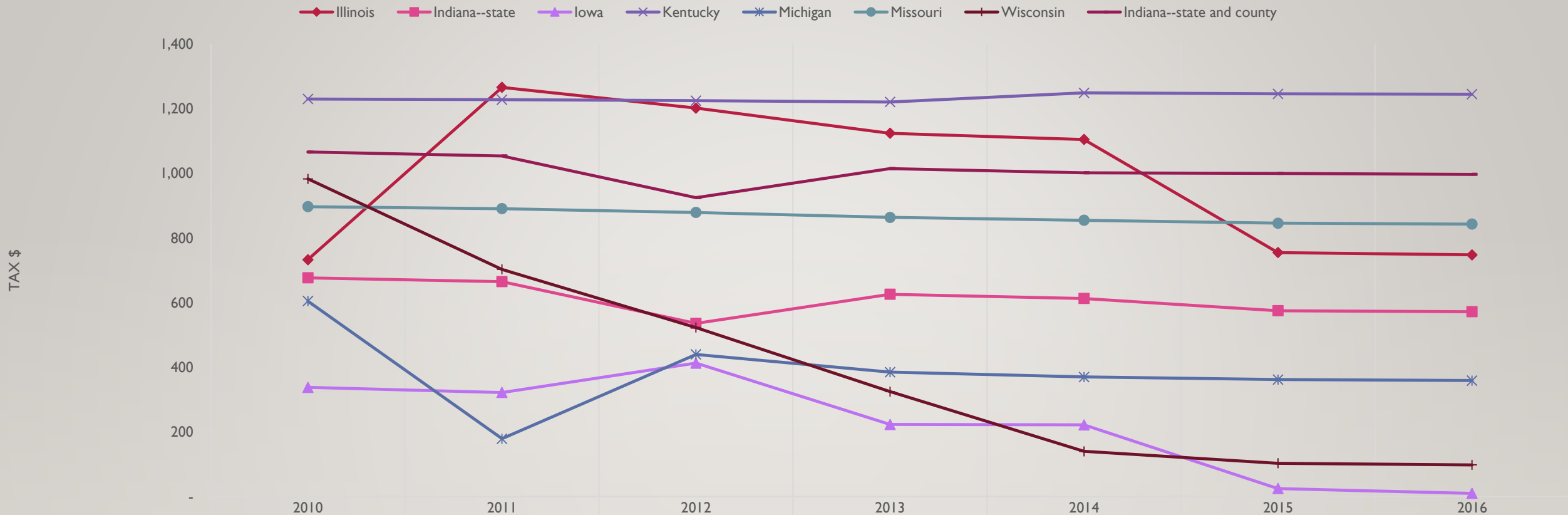
FIGURE 2. COMPARISON OF STATE INCOME TAX--SINGLE PARENT OWN



Year	2010	2011	2012	2013	2014	2015	2016
Illinois	588	1,121	1,057	979	960	610	603
Indiana--state	694	682	553	640	630	592	589
Iowa	(32)	(45)	191	-	(10)	(323)	(333)
Kentucky	784	784	784	784	814	814	814
Michigan	(442)	(481)	(220)	(275)	(290)	(298)	(301)
Missouri	656	695	695	656	656	656	656
Wisconsin	775	675	495	297	112	75	70
Indiana--state and county	1,091	1,079	950	1,037	1,027	1,026	1,023



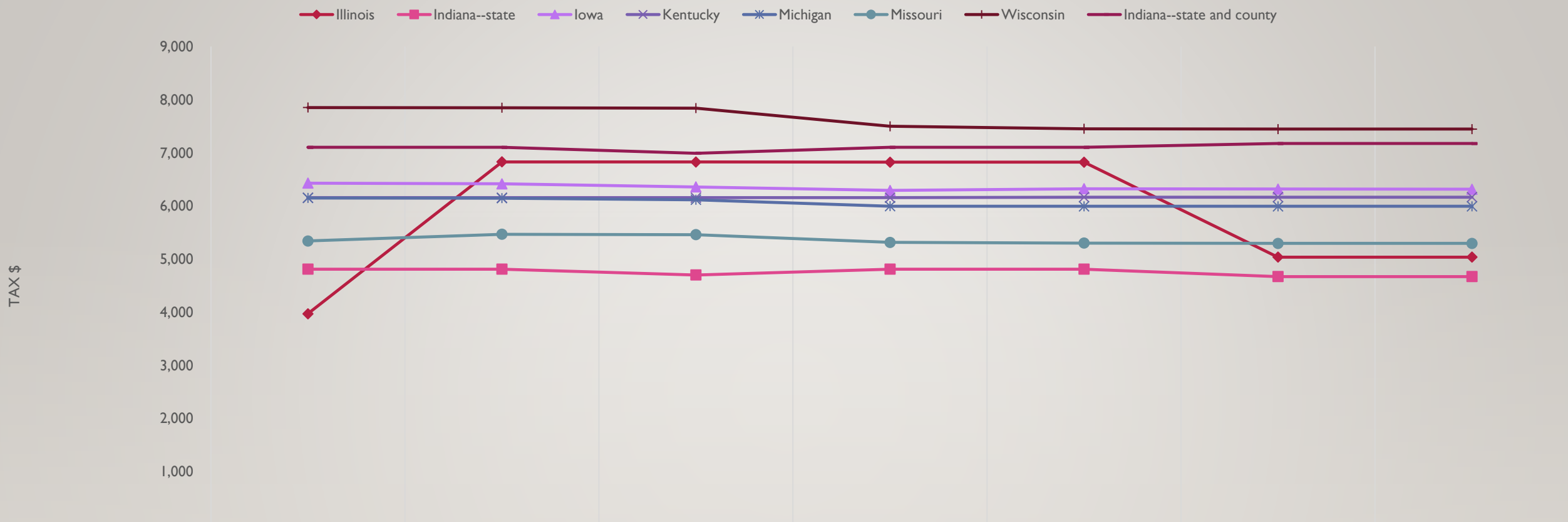
FIGURE 3. COMPARISON OF STATE INCOME TAX--SINGLE PARENT RENT



	2010	2011	2012	2013	2014	2015	2016
Illinois	733	1,266	1,202	1,124	1,105	755	748
Indiana--state	677	665	536	626	613	575	572
Iowa	338	322	413	223	222	25	10
Kentucky	1,230	1,228	1,225	1,221	1,249	1,246	1,245
Michigan	605	179	440	385	370	362	359
Missouri	897	891	879	864	855	846	843
Wisconsin	983	703	523	325	140	103	98
Indiana--state and county	1,066	1,054	925	1,015	1,002	1,000	997



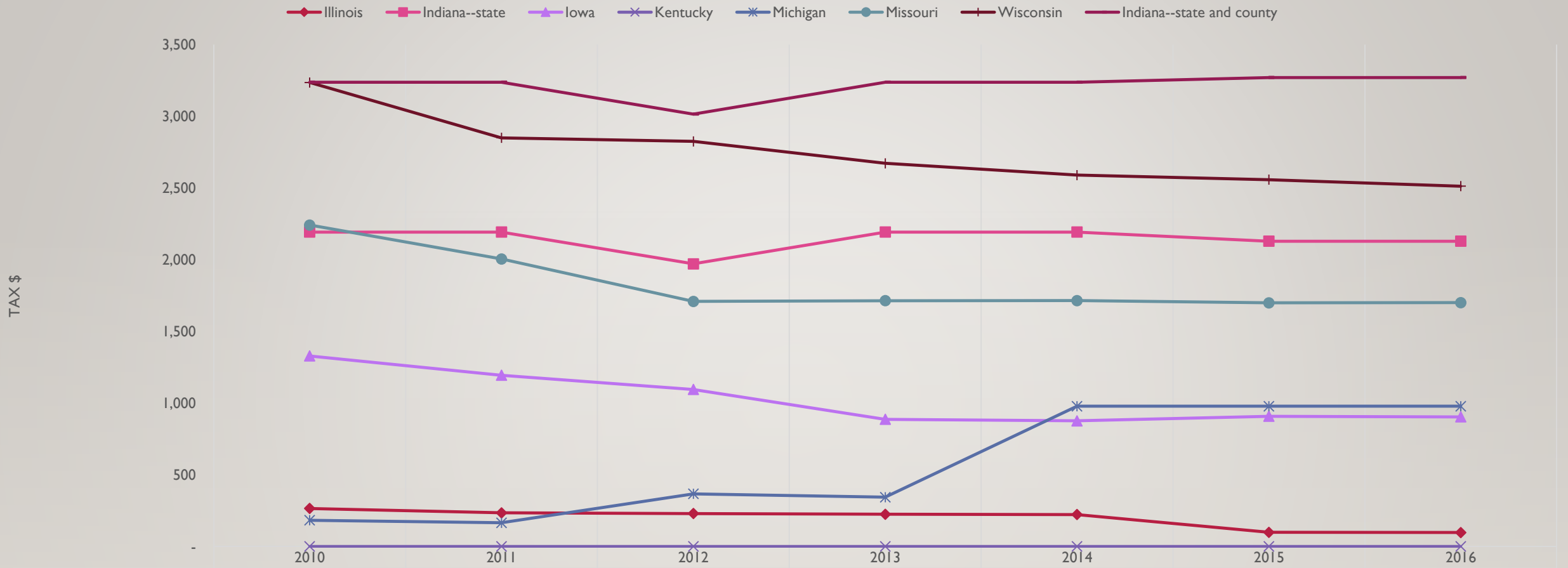
FIGURE 4. COMPARISON OF STATE INCOME TAX--HIGHROLLER SALESPERSON



	2010	2011	2012	2013	2014	2015	2016
Illinois	3,970	6,830	6,828	6,825	6,824	5,037	5,036
Indiana--state	4,811	4,811	4,700	4,811	4,811	4,670	4,670
Iowa	6,429	6,416	6,359	6,292	6,324	6,318	6,314
Kentucky	6,156	6,156	6,156	6,156	6,166	6,166	6,166
Michigan	6,151	6,147	6,116	5,995	5,993	5,993	5,993
Missouri	5,340	5,468	5,460	5,314	5,302	5,296	5,296
Wisconsin	7,853	7,850	7,842	7,500	7,453	7,448	7,447
Indiana--state and county	7,103	7,103	6,992	7,103	7,103	7,175	7,175



FIGURE 5. COMPARISON OF STATE INCOME TAX--IR AND HAPPY RETIRED



	2010	2011	2012	2013	2014	2015	2016
Illinois	265	235	230	225	223	99	97
Indiana--state	2,193	2,193	1,971	2,193	2,193	2,129	2,129
Iowa	1,329	1,194	1,095	887	876	908	904
Kentucky	-	-	-	-	-	-	-
Michigan	183	165	367	344	978	978	978
Missouri	2,242	2,005	1,709	1,714	1,715	1,699	1,701
Wisconsin	3,236	2,850	2,825	2,672	2,590	2,558	2,513
Indiana--state and county	3,238	3,238	3,016	3,238	3,238	3,271	3,271

FIGURE 6. COMPARISON OF STATE INCOME TAX--SORT OF AND PARTLY RETIRED

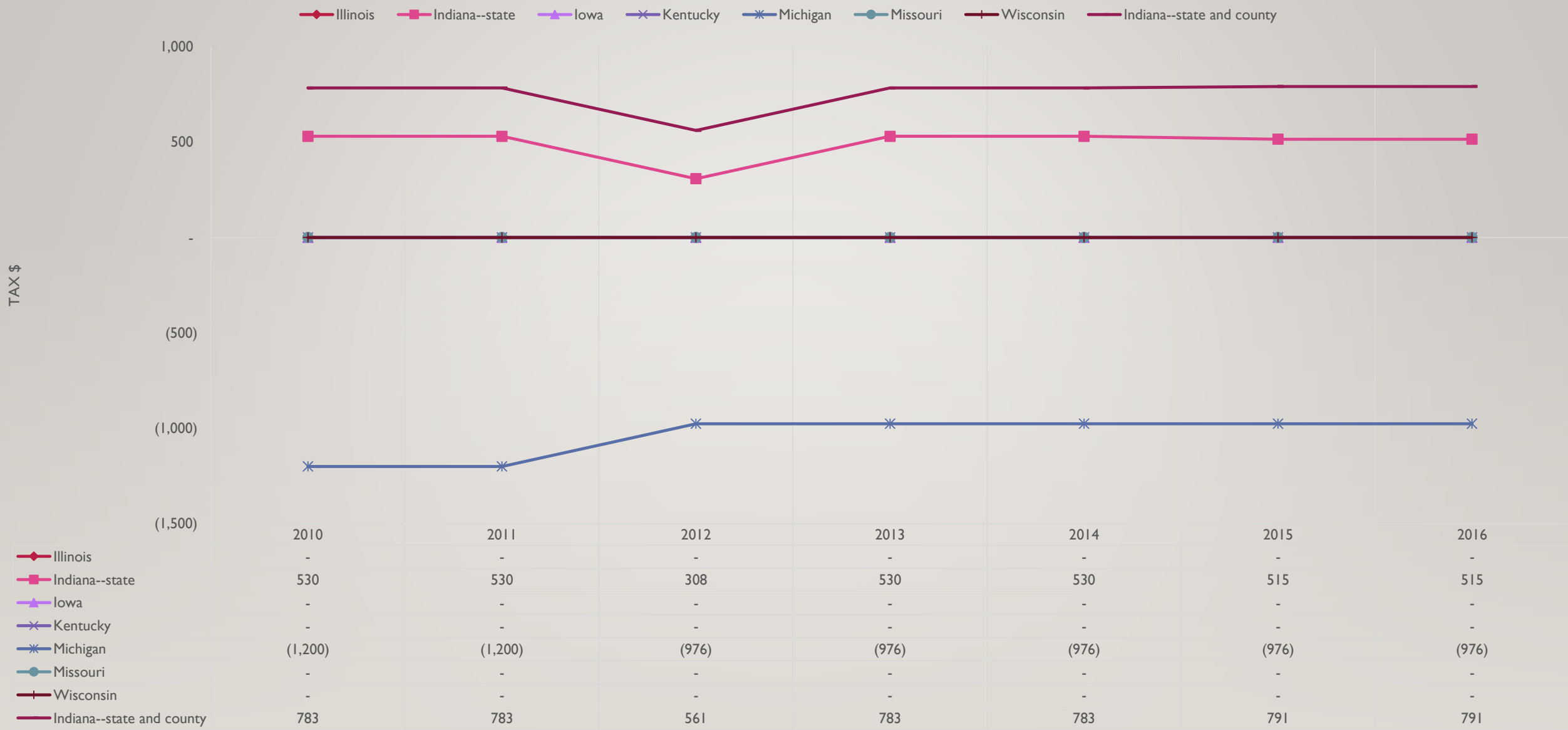
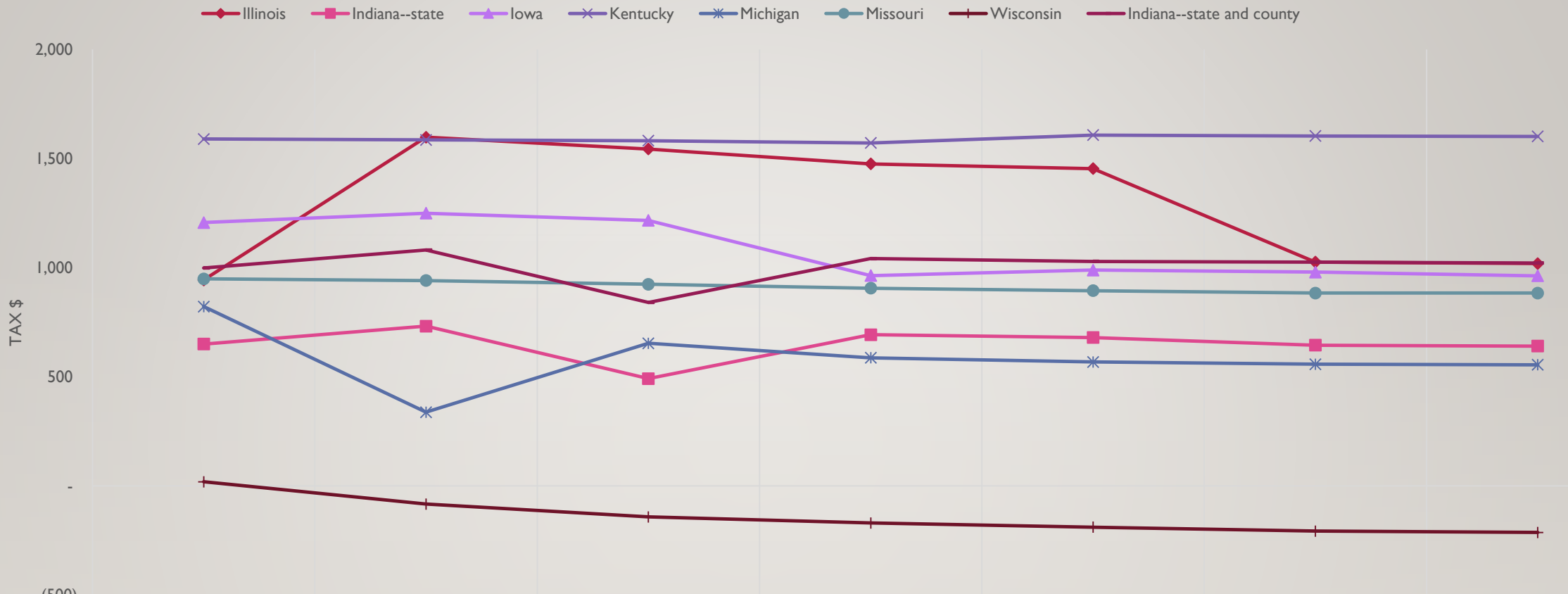


FIGURE 7. COMPARISON OF STATE INCOME TAX--RALPH AND DEBBIE HARDLUCK



	2010	2011	2012	2013	2014	2015	2016
Illinois	944	1,598	1,544	1,476	1,454	1,026	1,019
Indiana--state	650	732	492	693	680	645	641
Iowa	1,207	1,250	1,217	964	989	980	963
Kentucky	1,590	1,586	1,582	1,572	1,608	1,604	1,602
Michigan	822	338	654	587	568	558	555
Missouri	949	941	924	906	895	884	884
Wisconsin	19	(83)	(142)	(170)	(189)	(207)	(213)
Indiana--state and county	999	1,081	841	1,042	1,029	1,026	1,022

FIGURE 8. COMPARISON OF STATE INCOME TAX--WILLIE AND WILMA WELLOFF

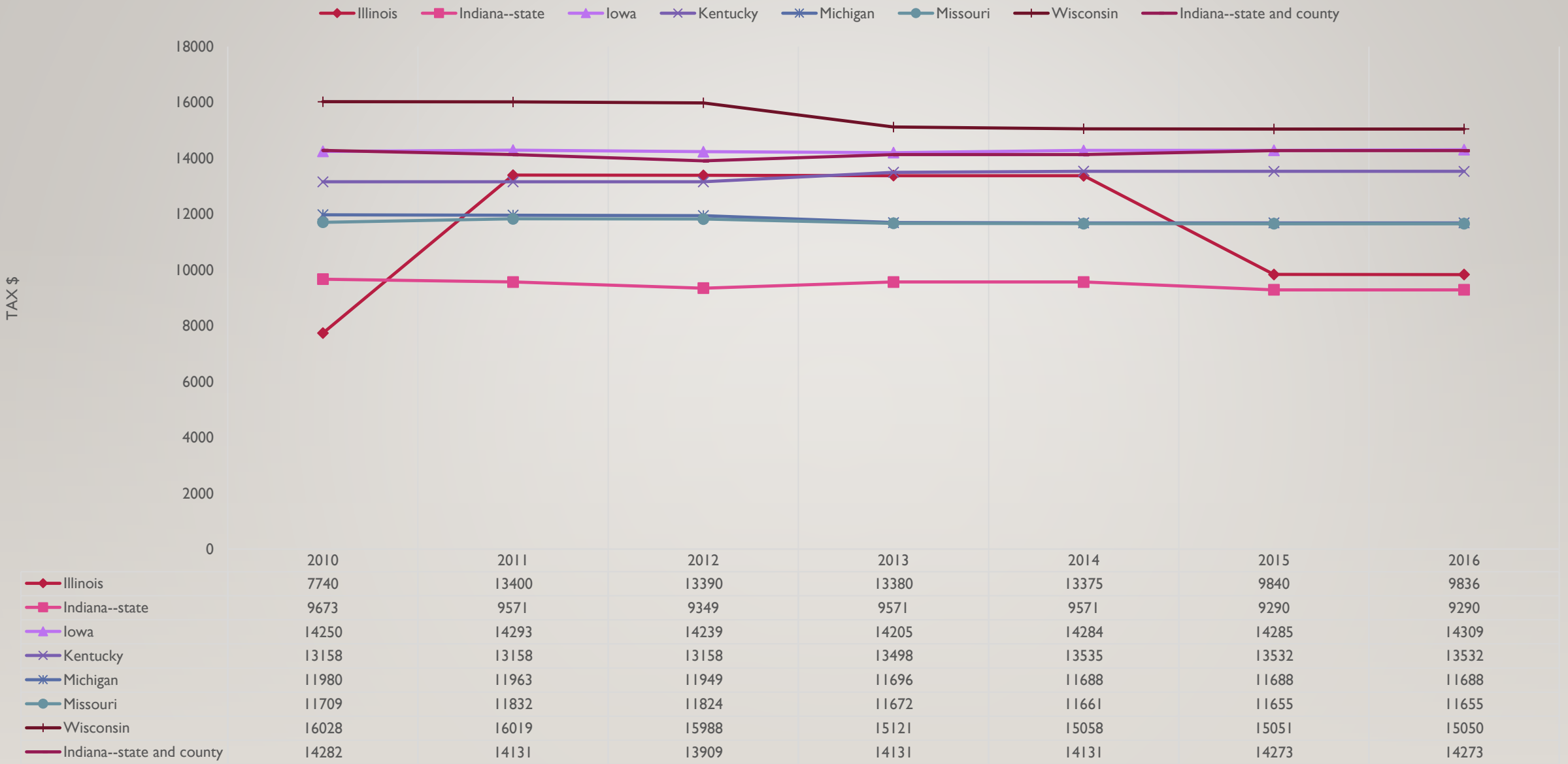
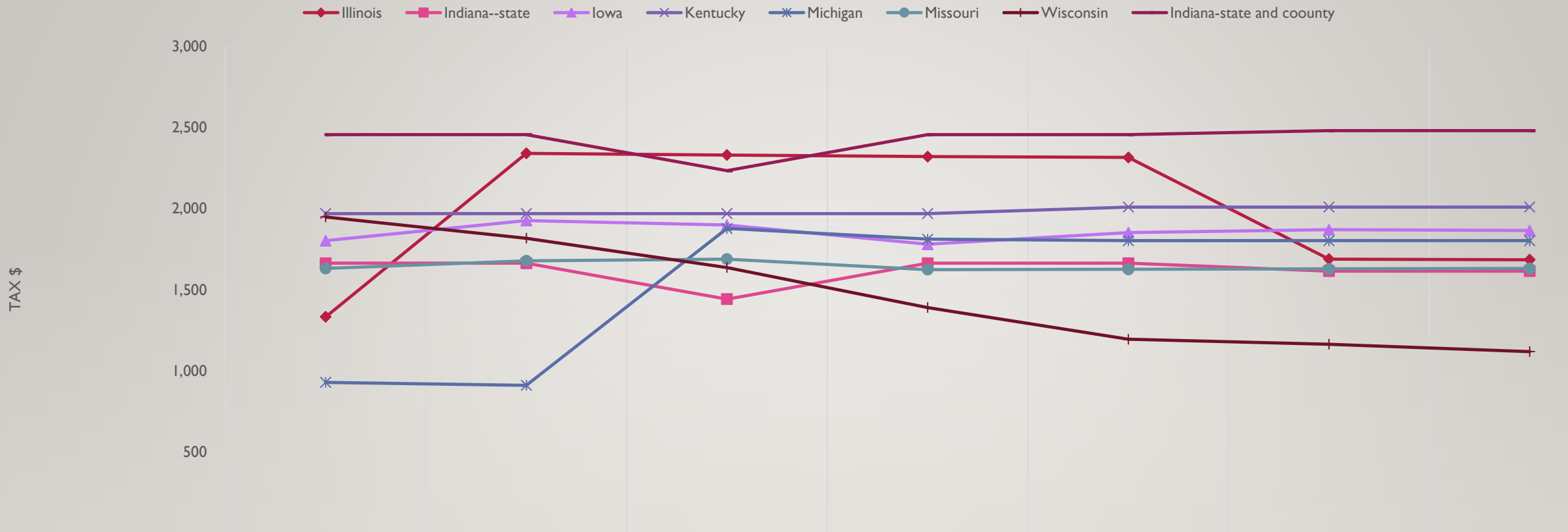


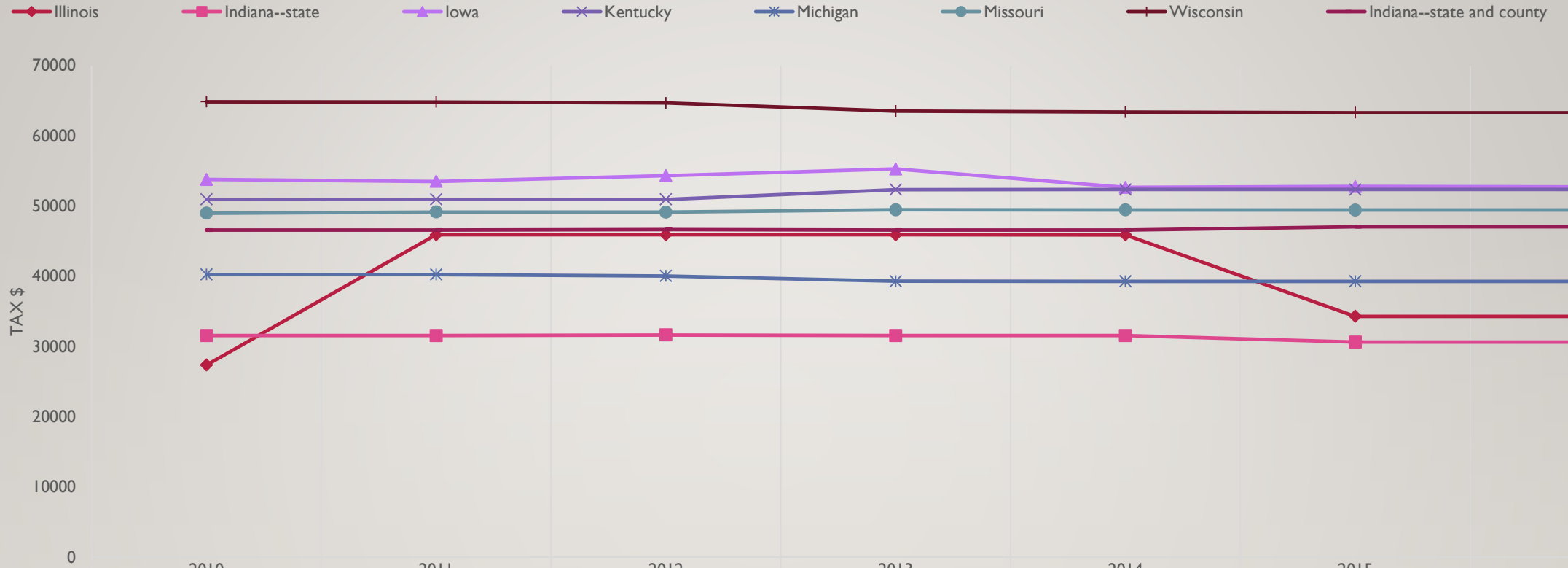
FIGURE 9. COMPARISON OF STATE INCOME TAX--MIKE & MOLLY MIDDLECLASS



	2010	2011	2012	2013	2014	2015	2016
Illinois	1,332	2,340	2,330	2,320	2,315	1,688	1,684
Indiana--state	1,663	1,663	1,441	1,663	1,663	1,614	1,614
Iowa	1,802	1,926	1,898	1,780	1,851	1,869	1,864
Kentucky	1,969	1,969	1,969	1,969	2,009	2,009	2,009
Michigan	928	910	1,877	1,811	1,802	1,802	1,802
Missouri	1,630	1,678	1,688	1,623	1,625	1,628	1,630
Wisconsin	1,948	1,817	1,636	1,389	1,194	1,163	1,118
Indiana-state and county	2,455	2,455	2,233	2,455	2,455	2,480	2,480



FIGURE 10. COMPARISON OF STATE INCOME TAX--SAMUEL AND SAMANTHA SAWBONES



	2010	2011	2012	2013	2014	2015	2016
Illinois	27338	45900	45895	45890	45888	34288	34286
Indiana--state	31538	31538	31616	31538	31538	30611	30611
Iowa	53778	53489	54319	55272	52642	52777	52734
Kentucky	50929	50929	50929	52334	52351	52349	52348
Michigan	40233	40224	40034	39279	39274	39274	39274
Missouri	48972	49130	49121	49449	49430	49418	49416
Wisconsin	64863	64820	64677	63520	63386	63301	63290
Indiana--state and county	46565	46565	46643	46565	46565	47030	47030



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Illinois Winners

IR and Happy Retired
and
Sortof and Partly Retired

Honorable Mention:
Samuel and Samantha Sawbones



Illinois Losers

**Sally Single,
Ralph and Debbie Hardluck,
Single Parent, and
Mike and Mollie Middleclass**

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Five of the ten tax scenarios ranked last or next-to-last during the years 2011-2014 when the temporary 2011 tax increase was effective. This is essentially what Illinois currently has.



Table 1

Ranking of Illinois state tax amounts by year and scenario

Scale==1 = lowest 8 = highest

Eight data points as Indiana state only and state and county combined are two different calculations

	2010	2011	2012	2013	2014	2015	2016
Sally Single	1	8	8	8	8	5	5
Single Parent--own	3	8	8	7	7	5	5
Single Parent--rent	4	8	7	7	7	5	5
Highroller Salesperson	1	5	5	5	5	2	2
IR & Happy Retired	3	3	2	2	2	2	2
Sortof & Partly Retired	2*	2*	2*	2*	2*	2*	2*
Ralph & Debbie Hardluck	4	8	7	7	7	6**	6
Willie & Wilma Welloff	1	5	5	4	4	2	2
Mike & Mollie Middleclass	2	7	8	7	7	4	4
Samuel & Samantha Sawbones	1	3	3	3	3	2	2

Note. *= 5-way tie as five states impose no income tax on this situation

** = tie for 6th with combined Indiana state and county

The highlighted section is representative of the rankings associated with the new tax legislation passed in July 2017.

Flat Tax vs. Progressive Rate Structure



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The current Illinois income tax structure has been referred to as unfair, badly outdated, and as one that burdens families and children with a heavier tax load.

A constitutional amendment providing for a progressive rate structure where the highest rate could not be more than three times the lowest rate was proposed during the fifth Illinois Constitutional Convention in 1922. This was soundly rejected by a margin of 921,398 to 185,259 AFP (2014)

Recent attempts to adopt a progressive rate structure:

2011—State Rep. Naomi Jakobsson
(D-Urbana)

2014—Senator Don Harmon
(D-Oak Park)

2016—Representative Lou Lang
(D-Skokie) (highest rate – 9.75)

2018—Candidate for governor—JB Pritzker



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It is interesting that many in Illinois are clamoring for a progressive rate structure while many desire a flat tax at the federal level!

What ramifications might be gleaned from this study as to who might be most negatively affected from such a tax structure?



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The Illinois electorate must hold our elected officials accountable and demand comprehensive tax reform of which income tax is only one piece of the puzzle.



Table 2

Comparison of Lowest Tax Rate for Each State by Year

	2010	2011	2012	2013	2014	2015	2016	
Illinois	3.00%	5.00%	5.00%	5.00%	5.00%	3.75%	3.75%	
Indiana--state tax only	3.40%	3.40%	3.40%	3.40%	3.40%	3.30%	3.30%	
Indiana--state and county	5.02%	5.02%	5.02%	5.02%	5.02%	5.07%	5.07%	
Iowa	0.36%	0.36%	0.36%	0.36%	0.36%	0.36%	0.36%	
	1,407	1,439	1,469	1,494	1,515	1,539	1,554	
Kentucky	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	
	3,000	3,000	3,000	3,000	3,000	3,000	3,000	
Michigan	4.35%	4.35%	4.33%	4.25%	4.25%	4.25%	4.25%	
Missouri	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%	(No tax up to \$99)
	1,000	1,000	1,000	1,000	1,000	1,000	1,000	Up to this amount
Wisconsin	4.60%	4.60%	4.60%	4.60%	4.00%	4.00%	4.00%	
Single or H of H	10,220	10,180	10,570	10,750	10,910	11,090	11,120	
MFJ		13,580	14,090	14,330	14,540	14,790	14,820	

Table 3

Comparison of Highest Marginal Tax Rates for Each State by Year

	2010	2011	2012	2013	2014	2015	2016
Illinois	3.00%	5.00%	5.00%	5.00%	5.00%	3.75%	3.75%
Indiana--state tax only	3.40%	3.40%	3.40%	3.40%	3.40%	3.30%	3.30%
Indiana--state and county	5.02%	5.02%	5.02%	5.02%	5.02%	5.07%	5.07%
Iowa	8.98%	8.98%	8.98%	8.98%	8.98%	8.98%	8.98%
	63,315	64,755	66,105	67,230	68,175	69,255	69,930
Kentucky	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
	75,000	75,000	75,000	75,000	75,000	75,000	75,000
Michigan	4.35%	4.35%	4.33%	4.25%	4.25%	4.25%	4.25%
Missouri	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%	6.00%
	9,000	9,000	9,000	9,000	9,000	9,000	9,000
Wisconsin	7.75%	7.75%	7.75%	7.75%	7.65%	7.65%	7.65%
Single or H of H	221,660	224,210	232,660	236,600	240,190	244,270	244,750
MFJ	295,550	298,940	310,210	315,460	320,250	325,700	326,330