FUNDING OUR FUTURES

The Equitable Revenue Policies Illinois Families Need to Thrive

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ILLINOIS
FUND OUR FUTURES
COALITION

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EXECUTIVE SUMMARY

We envision a state that meets the basic human needs of all Illinoisans:

- Providing healthcare and childcare for all
- Adequately funding our public schools
- Creating a child tax credit and other direct cash assistance for lower-income families
- Ending homelessness
- Providing housing and services to returning citizens
- Ensuring that home care workers are properly compensated
- Address recidivism by ensuring that returning citizens have access to employment with a living wage

Too often, the needs of one community are held up against the needs of another. Working families are caught in the middle, forced to fight over crumbs in the state budget, while billions in potential revenue are left on the table from big corporations and the wealthiest Illinoisans, who can easily contribute more to ensure our state is welcoming and caring for all.

In this report, members of the Illinois Fund Our Futures coalition will lay out some of the new revenues that the General Assembly and Governor can pass in order to fund the programs needed to ensure families across Illinois can thrive. These include:

- **Reform Retailer's Discount:** Retailers are currently allowed to keep a portion of sales tax intended to cover costs to administer the tax. Illinois could cap the amount so it doesn't become a tax giveaway to large retail corporations. (Generating approximately $160 million)
- **Tax on Digital Advertising:** Digital ad sales mostly benefit a few large corporations. These big tech firms profit off our data without paying what they owe in taxes. To remedy this, many states are considering a tax on digital advertisement. ($650 million)
- **Close Corporate Tax Loopholes:** In 2021, Governor Pritzker's budget proposed eliminating a set of "corporate tax loopholes." Strong budget advocacy resulted in successful closure of some of these, but several remain. Closing those additional loopholes would result in significant revenue. ($175 million)
- **Billionaire Mark-to-Market Tax:** Billionaires do not pay Illinois income tax on much of the rapid increase in their wealth. Income tax has mostly been whittled down to a tax on wages not wealth. Billionaires should pay tax on their skyrocketing asset values. ($510 million)
- **Reform the Estate Tax:** The Illinois estate tax is a critical tool for keeping inequality in check, but recent changes have reduced its revenue potential. The estate tax should be reformed to more effectively tax the dynastic wealth of the super rich. ($150 million)

Now is not the time to scale back – it's time to generate the necessary revenue and consistent funding for the essential programs that help low and moderate income families succeed.

INTRODUCTION

As Illinoisans, we live in a wealthy state with abundant resources, but this wealth has become increasingly concentrated in the hands of a small number of residents as income inequality has continued to grow dramatically since the 1970's. Despite the rejection of the Fair Tax (2020) and Bring Chicago Home (2024) by voters of Illinois and Chicago respectively, support for programs that benefit all Illinoisans and proposals to increase revenue to bolster those programs by taxing the rich are popular among voters.[1]

At a time of historic concentration of wealth inequality, Illinois navigated through the Great Recession, years of a budget impasse in the mid 2010's, and the COVID-19 pandemic without adequate revenue by cutting and disinvesting in many of the key services and infrastructure that low and middle income families need, harming the health and well-being of many marginalized residents. Since 2019, Illinois has been on a constant, tenuous path of rebuilding. The American Rescue Plan Act (ARPA) offered a brief federal reprieve, while Governor JB Pritzker, the General Assembly, and community-based organizations worked together to expand programs toward a common goal to make Illinois the best state to raise a family.

However, recovery has been felt unequally, and many social programs are straining to serve growing needs. In addition, with the expiration of ARPA dollars, some of the pandemic-era expanded programs are being rolled back.

As members of the Illinois Fund Our Futures coalition, we see this need every day in our communities. Representing a broad base of coalition members from across the state, Fund Our Futures members have identified the programs most critically in need of continued or additional investments, as well as the revenue solutions that would fund these essential programs.

Our coalition's most immediate priorities include:

- While 14 other states have a state-level child tax credit, Illinois does not. Studies of the potential impact of a child tax credit in Illinois show the policy would disproportionately benefit Black and Latinx households. **Enacting a state child tax credit** at $288 million, on top of the $12 million allocated in Governor Pritzker's FY 2025 budget, would begin to fill the gap.

- Illinois is struggling to make progress toward equitable K-12 education. High-poverty school districts where students need more resources are still getting 15% fewer resources on average, placing students in those communities at a disadvantage. Illinois is the 7th worst state in the nation for disadvantaging students in high-poverty districts through inequitable funding. Each year, the state keeps making the minimum annual increase allowed by law, even though this means falling hundreds of millions of more dollars behind the pace required to achieve adequate funding in 2027. Allocating $425 million above and beyond the Governor's $350 million minimum proposal will allow Illinois to **catch up and address the needs of high-poverty school districts**.

- Many students around Illinois are at risk of losing after-school programs, as well. Due to a state funding shortfall, some were cut off in summer of 2023, and by this summer 40,000 students could be impacted. $50 million for **community learning centers grants** would restore the after-school programming that has been lost.

- Our state is experiencing a significant increase in the need for home care workers as the number of Illinoisans ages 65+ is projected to increase by nearly 30% from 2020 to 2030. However, the median wage for home care aides in Illinois is lower than for retail salespeople or warehouse workers. **Funding senior home care** at $170 million will ensure seniors will not go without care.

SPOTLIGHT: SENIOR HOME CARE

Vickie Alexander provides in-home care for seniors to help them continue to live full lives as they age. She is 57 years old and lives in Peoria with her husband and her two young grandchildren. Vickie began her career in home care 28 years ago when she was approached by her mother's case manager about possibly taking over her mom's care after her mom's aide moved out of state. Since then, she has switched employers and switched clients she serves several times. Like many home care workers, she has struggled with financial hardship. To make ends meet, she's had to defer payments on her car and delivers for Instacart part time as her schedule allows. Vickie has stuck with home care despite the low pay because she genuinely likes the work and has developed deep bonds with her clients over the years. She enjoys working with seniors and being able to help people.

- Finding and maintaining affordable housing is a struggle many Illinoisans face. An additional $42 million is needed this year to **fund housing and homeless prevention services** to ensure the state continues to make progress on its plan to reach zero functional homelessness. Needed supports range from funding for permanent supportive housing to services for homeless youth.

- Immigrant families who were left out of federal pandemic relief have been among the slowest to recover from the ongoing economic effects of COVID-19. Programs like the Immigrant Family Support Program have offered **emergency relief to immigrant families** in Illinois, and continuing the program at $50 million will extend that support to those who have not yet received it. Programs like these create the foundation for broader guaranteed income models the state should adopt for all low-income Illinoisans beginning in FY26 or sooner.

- A significant portion of aging Illinois residents have few options when it comes to accessing critically needed healthcare. The Health Benefits for Immigrant Adults and Seniors programs have allowed these Illinoisans (age 42 and up) to access life-saving care as well as ongoing preventative care. Significant new funding should be allocated in addition to the state's proposed appropriation to ensure that **more immigrant adults and seniors will be able to keep their healthcare access** when they have few other options, and that enrollment is re-opened for otherwise eligible people who are currently unable to access health coverage.

- Unemployment among people with conviction records is nearly five times the overall national rate. In Illinois, more than half of all job seekers returning from incarceration are unable to obtain stable employment within eight months of release. Those who do secure work earn significantly lower wages. Illinois can greatly enhance public safety and reduce recidivism by **establishing a living wage job creation program for formerly incarcerated residents** and offering local employers wage subsidies for hiring candidates with conviction records at an annual cost of $75 million.

SPOTLIGHT: RE-ENTRY

Donnell Williams returned home from prison over 12 years ago and currently works for Sunshine Gospel Ministries. Settling into his new life was challenging at first but Donnell was committed to fully re-enter and positively contribute to society once he returned home. Securing a stable job was a cornerstone of his success. His talents and passions led him to the role of Violence Prevention Specialist for the Ministries' Flourishing Communities Initiative and youth mentor in the Woodlawn community starting in 2012. His experiences steered him to become a long-time member of the Workers Center for Racial Justice (WCRJ). Through his involvement with WCRJ, Donnell has been a fierce advocate for the SAFER Communities Act. He believes that everyone should have the same access to job security and economic opportunity as him. Additional revenue needs to be secured to fund the SAFER Communities Act to establish a living wage job creation program for formerly incarcerated Illinois residents and make stories like Donnell's a common occurrence.

To pay for these critical investments, we have compiled a list of revenue options that would generate over $1.5 billion in new revenue for the state annually. Illinois' tax system is currently the 8th most unequal of all states and the most unequal of all states in the Midwest, according to new data from the Institute on Tax and Economic Policy (ITEP). Households with the lowest 20% of family incomes pay more than twice the percent of their income toward state and local taxes as those with the top 1% of incomes.

Each revenue proposal listed below would begin to reverse Illinois' antiquated tax policies away from a low revenue generating trajectory while not placing additional burdens on low or middle income families and instead focusing on those benefiting most from the state's increasing wealth and abundant resources. The following recommended policies are a step toward reversing the chronic disinvestment that critical services in Illinois have been subject to for decades:

- **Reform Retailer's Discount:** Retailers are currently allowed to keep a portion of sales tax intended to cover costs to administer the tax. Illinois could cap the amount to benefit small businesses while preventing it from serving as a large tax giveaway to wealthy retail corporations. ($160 Million)

- **Tax on Digital Advertising:** Digital ad sales mostly benefit a few large corporations. These big tech firms profit off our data without paying what they owe in taxes. To remedy this, many states are considering a tax on digital advertisements. ($650 Million)

- **Close More Corporate Tax Loopholes:** In 2021, Governor Pritzker's budget proposed eliminating a set of "corporate tax loopholes." Strong budget advocacy resulted in the successful closure of some of these, but several remain. Closing these additional loopholes will generate significant revenue. ($175 Million)

- **Billionaire Mark-to-Market Tax:** Billionaires do not pay Illinois income tax on much of the rapid increase in their wealth derived from investments, real-estate and other non-employment related sources. Income tax has mostly been whittled down to a tax on wages, not wealth. Billionaires should pay tax on their skyrocketing asset values. ($510 Million)

- **Broaden the Estate Tax:** Illinois estate tax is a critical tool for keeping inequality in check, but recent changes have reduced its revenue potential. The estate tax should be reformed to more effectively tax the dynastic wealth of the super rich. ($150 Million)

While this is only a portion of what is needed, and our groups are committed to continuing to advocate for a statewide progressive tax structure, the urgency behind imminent program reductions and the expiration of ARPA funds necessitates immediate action from the Illinois General Assembly this legislative session, in time for the 2025 fiscal year. Governor Pritzker and many in the General Assembly have long said that their goal is to make Illinois the best state in which to raise a family. They have undoubtedly moved towards that goal during their time in office, but choosing not to enact these revenue solutions and instead sacrificing programs or passing up critical opportunities to expand the safety net would be a step backwards. However, by continuing on their bold path, the Governor and General Assembly listen to communities across the state and build upon their progress to make Illinois the most family-friendly state in the country.

ENVISIONING A JUST STATE BUDGET

Investments Our Communities Need

To fully meet the needs of Illinois' most vulnerable residents and to dramatically reduce poverty, the state needs to make equitable investments in the priorities we, as Illinoisans, are seeking to achieve together. We look to the state government to fund primary human needs such as health care, education, housing, and services for seniors, immigrants, reentering community members, and other populations. State government can play a major role in K-12 funding equity since local education funding through property tax is extremely unequal across communities by income and race. Through the Medicaid program, the state government is the main payer for long-term care for seniors and people with disabilities. Increasingly, state governments are taking on the need for affordable child care and early childhood services.

Over the years, economic inequality has skyrocketed in Illinois. Despite being one of the wealthiest states in the country, revenue policy choices have made Illinois a low-revenue state lacking resources to address the needs of all Illinoisians. Only recently has Illinois undertaken a tenuous path toward rebuilding. This recovery is felt unequally, with many social programs straining to serve social needs. Our state is still rebuilding systems of care and education from the years of political impasse, the Great Recession, and pandemic tragedy and disruption. On an even longer arc, our state has shortchanged these types of investments in our communities for decades compared with other states and with Illinois' own previous spending levels.[2] Since 2019, however, our state has had a governor intent on making Illinois the best place in the nation to raise a family. In 2021, as part of a national reckoning on systemic racism and through the leadership of the Illinois Legislative Black Caucus, our state enacted a series of bills advancing racial justice in health, education, and criminal justice.[3] And in most recent years, the state budget has been buoyed by significant federal pandemic relief funding, though the last of these additional federal dollars are now receding.

SPOTLIGHT: HEALTHCARE, CHILD TAX CREDIT & HOUSING

Lucia Garcia and her family have lived in a mobile park in Stone Park for almost six years. Her husband, Teodoro Garcia, enrolled into the Health Benefits for Immigrant Adults (HBIA) program in April 2023, after healthcare coverage was expanded to immigrant adults age 42 and over. Lucia (age 37) was too young to qualify for HBIA and has no path toward accessing affordable care since new enrollment was indefinitely paused in mid-2023. Healthcare is one of several financial challenges Lucia and her family struggle with, along with housing fees that increase each year. When Lucia heard about the state child tax credit through her involvement in PASO, she immediately thought about how she and her neighbors could use this benefit to cover rising housing fees. Lucia envisions a future where her and her family meet their full potential, and is committed to fighting to make this vision a reality for herself and all vulnerable families in Illinois.

Illinois' Investments in K-12 and Early Childhood Funding

Illinois committed to equitable K-12 education funding through the Evidence-Based Funding for Student Success Act, known as "EBF," six years ago and is struggling to make progress toward that goal. High-poverty school districts where students need more resources are still getting 15% fewer resources on average, placing students in those communities at a disadvantage. Illinois is the 7th worst state in the nation for disadvantaging students in high-poverty districts through inequitable funding.[4] EBF defines adequate funding for a school district based on student need and requires the state to increase funding until adequate funding is achieved by 2027. Each year, the state keeps making the minimum annual increase that is allowed under EBF, $350 million, even though this means falling hundreds of millions more dollars behind the pace that would be required to achieve adequate funding in 2027.[5]

Illinois is also now seeking to address its lack of child care and early childhood education resources. The number of licensed child care slots in the state declined almost 10% between state fiscal years 2016 and 2021.[6] Some licensed programs and classrooms are closed as well, lacking the money to recruit and retain classroom staff. Governor Pritzker announced the creation of the Early Childhood Funding Commission in 2019.[7] The commission delivered its report in March 2021, recommending that funding for a near-universally available, sustainable system of early learning and care would require about six and a half times the current public spending.[8] For several years, funding increased substantially as the Governor's administration channeled federal relief dollars, most notably from the American Rescue Plan Act (ARPA), toward child care providers. These funds are now going away, however. While the Governor's proposed budget for fiscal year 2025 would increase state funding for child care, total funding would decrease because of the disappearance of a larger amount of ARPA funds.

The State of In-Home Care for Seniors in Illinois

In-home care for seniors is another major state-supported system of care in which valuing the care workforce is critical for participants. Illinois operates home and community-based service programs such as the Community Care Program (CCP) that help 130,000 seniors live full lives in their communities. Our state is facing a greatly increased need for care workers driven mainly by the aging of the Baby Boom generation, with the number of Illinoisans ages 65+ projected to increase by nearly 30% from 2020 to 2030. Home care and personal care is the health and human services job with the highest need for new workers in Illinois by 2030 and the highest overall outside of fast food and warehouse work.[9] The median wage for home health and personal care aides in Illinois is lower than for retail salespeople or warehouse workers, undervaluing home and personal care as a profession and showing a lack of compassion for the state's aging population. Seniors are going without care because it is hard for workers to put together full-time hours or adequate benefits and stay in caregiving work. The number of authorized CCP home care hours not serviced increased by 46%.[10] Currently, state law sets a wage floor in CCP of $17/hour. The Governor's proposed budget includes funding to serve additional seniors but not to raise the wage floor.

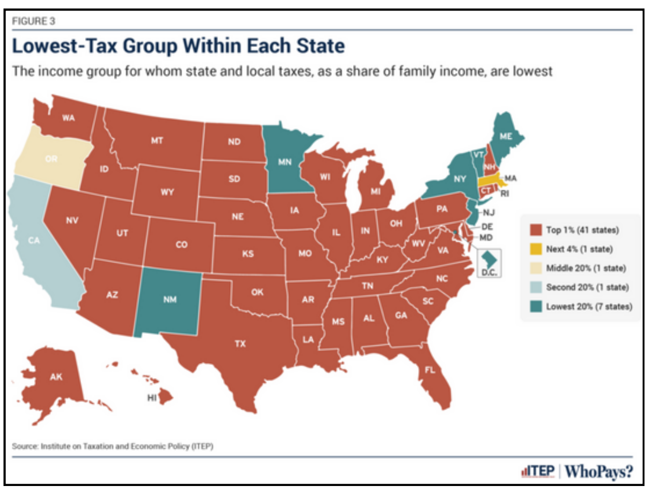
Tackling Child Poverty through Tax Credits for Low-Income Parents

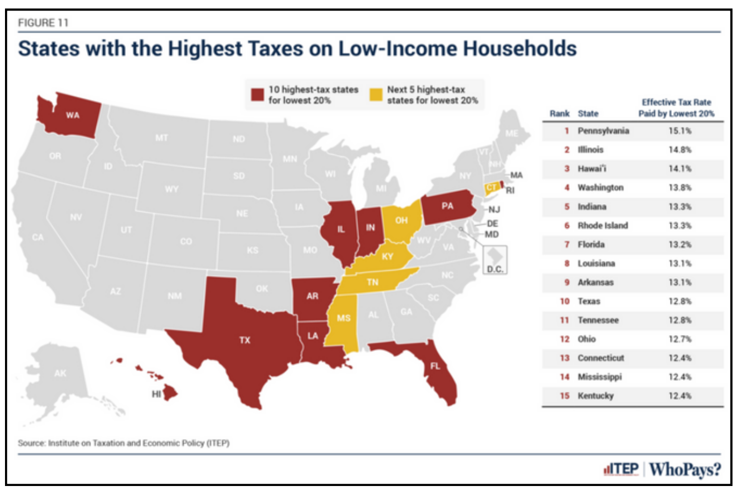
For a brief time in 2021, child poverty in Illinois was cut in half by federal enactment of an expanded child tax credit as a pandemic relief measure.[11] Congress unwisely allowed this measure to lapse, and in 2022 child poverty nationally more than doubled.[12] While 14 other states have a state-level child tax credit, Illinois does not.[13] This is an example of the type of investment Illinois families need and deserve. Most child tax credit policies make the credit refundable, meaning a family could get the full amount even if they did not owe that much in tax. In effect, this makes the credit a "child allowance" for a broad base of families. A child tax credit addresses the effects of racial income inequality on children. Studies of the potential impact of a refundable child tax credit in Illinois show the policy would disproportionately benefit Black and Latinx households.[14] Following a two-year organizing push by community leaders and advocates, the Governor's proposed budget included a very small, narrow child tax credit policy for families with children 0 to 3 in the form of a portion of their Earned Income Tax Credit amount. While the investment signals support for this type of credit in principle, this particular proposal does not reach the level of investments in low-income children needed to significantly reduce child poverty in Illinois.

A Low-Revenue State: The Poor Pay More, the Rich Get Richer

Illinois' tax system is the 8th most unequal of all states, according to the recent Who Pays? A Distributional Analysis of the Tax Systems in All 50 States report released by the Institute on Tax and Economic Policy (ITEP). Households with the lowest 20% of family incomes pay an effective state and local tax rate – the percent of income that goes to taxes – more than twice as high as those with the top 1% of incomes, 14.8% compared with 7.3%. Illinois has the 2nd highest effective tax rate for those with the lowest 20% of family incomes and has the most unequal tax system of all states in the Midwest.[15] Since ITEP published the previous edition of Who Pays? in 2018, Illinois' tax system has grown more unequal. In that year, those with the lowest incomes paid an effective tax rate slightly less than twice as high as the top 1% and paid the 3rd highest effective tax rate for those with the lowest incomes across all the states.[16]

ITEP found that other states have been modernizing their revenue policies to be more equitable. The state with the most progressive tax structure is one of our Midwest neighbors, Minnesota. Last year, Minnesota imposed a tax on certain corporate profits held offshore to avoid taxation and increased taxes on high investment incomes, raising more than $1 billion, as well as creating a child tax credit.[17] Similarly, California, under the leadership of Governor Gavin Newsom, expanded its Earned Income Tax Credit and created a child tax credit, both in 2019.[18] In 2022, Massachusetts created a millionaires' tax to fund education and transportation.[19] In 2021, Washington state created a tax on investment profits to fund child care and education, which raised over $890 million in its first year.[20]





Infographic by Institute on Taxation and Economic Policy: Who Pays? A Distributional Analysis of the Tax Systems in All 50 States

ITEP's work shows clearly which revenue policies make the difference between state tax systems that are fairer or more unfair. In every state, low-income households pay a significantly higher portion of their income in sales tax because they use practically all their resources to buy basic necessities. In most states, low- and middle-income households pay proportionally more of their income in property taxes because the rich are more likely to have their wealth in financial instruments and other investments than in property. States that depend heavily on sales tax or depend heavily on property tax to fund K-12 education typically have more unfair tax systems. In states with fairer systems, these inequities are almost always offset by an income tax with higher rates for higher-income households. All of the states with the ten most unequal tax systems highlighted by the Who Pays? report rely heavily on sales and property taxes not offset through personal income tax. These include Illinois, with its flat income tax, as well as states like Florida with no income taxation at all.[21]

Tax treatment of wealthy households and large corporations matters as well. While at every other level household incomes are commonly connected with salaries and wages, the wealthiest households make most of their money through investments, which are not subject to income or capital gains tax unless converted into cash. Specifically addressing the most affluent individuals' skyrocketing wealth in the tax code is, therefore, the only way to ensure the rich pay their fair share. Recent changes in taxation of capital gains in Minnesota and Washington illustrate how this can be accomplished. Similarly, large corporations require particular attention in state tax code or will otherwise go under-taxed. This mainly means closing loopholes, especially those allowing corporations to hide profits from taxation. One such loophole is separate reporting that allows corporations to play a shell game among their subsidiaries, shifting profits on paper to either a state where they avoid taxation or internationally to an "offshore" tax haven.[22] Minnesota is now taxing some of these profits corporations shifted offshore. This is only one particularly large example of the many loopholes devised by corporate lawyers and lobbyists.

CORRECTING COURSE:

THE EQUITABLE REVENUE POLICIES ILLINOIS FAMILIES NEED TO THRIVE

Illinois' regressive tax system relies too heavily on poor and working-class households, while failing to generate the revenue required for urgently needed public investment. As ITEP's report shows, the primary reason Illinois' tax system is one of the most regressive in the nation is its constitutionally mandated flat income tax. Most states that ITEP ranked as having relatively equitable tax systems—such as Minnesota, California, New York, and Massachusetts—have higher income tax rates for their wealthiest residents. To catch up to peer states, Illinois will need to amend its constitution and implement a progressive income tax. In the shorter term, Illinois can pursue several reforms to raise additional revenue from wealthy individuals and corporations who currently do not pay their fair share in taxes.

The following recommended policies would start reversing the chronic disinvestment that critical services in Illinois have undergone for decades. These proposals would generate between $1.5 billion and $2 billion in additional annual state revenues, funds that are urgently needed for investments—in education, health care, child care, senior care, and more—that can make Illinois a sustainable place to live and thrive for all its residents.

Reform the Illinois Retailers' Discount Tax Break

Illinois is one of 30 states that allow vendors to retain a percentage of the sales tax they collect as compensation for administering the tax.[23] This practice dates back to the 1940s and made more sense when the burden of sales tax collection was much heavier because computers did not exist. Sales tax collection is now automated and happens with the touch of a button. While most states have capped their retailers' discounts at small amounts, Illinois allows vendors to keep 1.75% of all sales tax collected, even if they collect millions in annual sales.[24] In its current form, Illinois' retailers' discount is a substantial tax break for large corporations and big box stores which are receiving a public subsidy that far exceeds the cost of administering sales tax.

Illinois' vendor discount should be reformed to be more in line with peer states, which have capped their discounts at low levels. Pennsylvania, for instance, capped their discount at $300 per year in 2016.[25] New York caps their discount at $800 per year.[26] In 2022, Colorado excluded all businesses with over $1 million in sales from their discount.[27]

We propose that Illinois cap its retailers' discount at $1,000 per year while raising the discount rate to 2%. The raised rate means a larger discount for small businesses, while the $1,000 cap would end an unnecessary tax break for wealthy corporations. We estimate that this will raise $160 million in new state revenues annually while benefiting or holding harmless 85% of retailers.

We commend the Pritzker Administration for including a retailers' discount cap in their fiscal year 2025 budget proposal and look forward to working together to eliminate this unnecessary tax giveaway for wealthy corporations.[28]

Tax Digital Advertisements

Digital advertising is a hundred-billion dollar industry in which revenue is mostly concentrated among a very few gigantic tech companies: Google, Meta (Facebook), Amazon, and Microsoft.[29] These corporations use their control of essential online platforms to acquire our personal data for much less than it is worth, and they make billions using our data to target us with tailored advertisements. A digital advertisement tax, used to fund urgently needed social investments, would raise the price of acquiring our data for monopolistic tech giants.

We propose taxing digital advertisements in Illinois at a rate of 10% on digital ad revenue above $150 million—a threshold that would limit the tax to wealthy tech corporations. This would raise an estimated $650 million in annual revenue, an amount that would likely grow each year as the digital advertising industry continues to expand.

Illinois would not be the first state to implement a digital ad tax—Maryland did so in 2021. Despite litigation attempts backed by big tech, Maryland has already raised significant revenue.[30]

Close Corporate Tax Loopholes

The Pritzker Administration's fiscal year 2022 budget proposed eliminating a number of "corporate tax loopholes."[31] Some of these tax loopholes were eliminated, but others remain on the books. We propose closing the remaining loopholes:

- Eliminate the add-on corporate income tax credits for construction job payroll. This tax incentive program for certain construction projects provides a subsidy on top of other tax giveaways a construction project is receiving.[32]
- Remove production-related tangible personal property from the manufacturing machinery and equipment sales tax exemption. In this loophole, "production-related" tangible personal property can include a wide range of items that are not actual machinery and equipment used to manufacture. This loophole was closed in 2008 but reopened in 2019.[33]
- Accelerate the expiration of the remaining sales tax exemptions for biodiesel. Current biodiesel sales tax exemptions give tax dollars to the biodiesel industry by subsidizing greater use of biodiesel in fuel blends. The exemptions are set to sunset in 2030.[34]

Closing these loopholes would raise an estimated $175 million in additional annual revenue.

Billionaire Mark-to-Market Tax

Since 2020, the average billionaire gained $1.7 million for each dollar earned by someone in the bottom 90 percent globally, more than half of all wealth generated during this period.[35] The wealth of billionaires based in Illinois has skyrocketed in recent years, with some more than doubling their wealth. Morningstar CEO Joe Mansueto is now worth over $6 billion, and insurance titan Patrick Ryan, now worth over $10 billion, is the wealthiest man in Illinois.[36] This rapid increase in the wealth of the super-rich is allowed to occur, in part, because the tax system is not set up properly to tax the income of billionaires.

Billionaires make most of their income through investments—in equities, real estate, and other speculative assets—not through salaries and wages. This income is not subject to income tax or capital gains tax unless it is converted into cash, meaning the super-rich continue to get richer while they avoid paying any income tax. To fund their consumption spending while avoiding capital gains taxes, billionaires can borrow against their assets at negligible interest rates. This borrowing is not subject to income tax either, allowing billionaires to finance their lifestyles without paying tax.[37]

To ensure billionaires pay tax on their income, we propose a billionaire mark-to-market tax in Illinois. This would apply Illinois' 4.95% income tax to increases in billionaire net worth. We estimate this would generate $510 million in annual income. Similar proposals have been introduced in other states, such as New York and Vermont.[38]

Broaden the Illinois Estate Tax

Illinois has a long tradition of taxing wealthy estates as they are transferred to the next generation and has taxed large inheritances using a progressive structure since the late 1800s.[39] In a time of snowballing inequality in the US, in which the top 10% of households hold two-thirds of total household wealth and the bottom 50% holds 2.6%, Illinois' estate tax remains an essential check on the accumulation of dynastic wealth in our state.[40]

Unfortunately, changes made to the estate tax in the last few decades have sharply reduced the number of estates the tax applies to, leading to inconsistent revenue. In the past twenty years, the number of estates subject to the tax has dropped 80% as the "exclusion amount" was raised from $675,000 to $4,000,000.[41] Such a high exclusion amount is unnecessary, as the progressive structure of the tax already accounts for each estate's ability to pay.[42]

We propose returning the estate tax exclusion limit to $2,000,000, its level prior to 2012, which would generate an estimated $150 million in additional annual revenue. Illinois could also modify the estate tax brackets, which are based on a now repealed federal law, and increase the marginal tax rate on the wealthiest estates from 16% to 20%, as Washington and Hawaii have done.[43]

While some claim that the estate tax is burdensome to family farmers who are cash-poor and asset-rich, current laws include ample mechanisms to ensure the estate tax does not unduly burden family farms as they pass from one generation to the next.[44]

CONCLUSION

Illinois has long been a state that lives out its values. Whether that means enacting pro-worker legislation, prioritizing education, enacting groundbreaking criminal justice reforms, or being a welcoming state for immigrants, Illinois has frequently put its values forward, particularly in recent years. But built-in, regressive tax structures mean that Illinois must take a creative approach to generating revenue that will help us continue on the pathway to being the best state to raise a family. The solutions that the Fund Our Futures coalition has laid out in this report will generate over $1.5 billion in revenue and set Illinois on a path towards significant poverty reduction by building up the essential safety net programs that our communities need.

The General Assembly and Governor must make a choice in the FY 2025 budget – will they maintain the status quo and welcome a period of austerity and program cuts, or will they boldly take on poverty reduction and economic racism by taking the necessary steps to reverse the built-in inequalities in our state's tax system and strengthen essential programs for all families across the state?

Illinois can make great strides towards addressing inequality, reducing poverty, and improving the lives of its residents by making key investments across education, health care, cash assistance, housing, senior care, immigrant and reentry services. Communities have laid out the path; now it is time for our elected officials to act.

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