MORE THAN A TAX RATE: UNDERSTANDING THE CHOICES THAT COULD SHAPE ILLINOIS' INDIVIDUAL INCOME TAX



CIVIC FEDERATION

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EXECUTIVE SUMMARY

Illinois' income tax structure remains a recurring issue in state fiscal policy as ongoing structural fiscal pressures and growing demands for investment in education, public transit, pensions, and other public services continue to prompt debate over the state's revenue system. Illinois relies heavily on individual and corporate income taxes and sales taxes to support ongoing operations, but several features of its tax structure—including a constitutionally required flat income tax, a relatively narrow sales tax base, and reliance on excise taxes—raise questions about the adequacy, sustainability, and distribution of State revenues. Proposals to adopt a graduated income tax or impose additional taxes on high-income earners, often referred to as "millionaire's taxes," have emerged periodically in Illinois' fiscal policy debates in recent years.

As state policymakers weigh revenue options, this issue brief lays out several of the approaches Illinois could take to adjusting its income tax structure. **This issue brief does not endorse or recommend a specific proposal.** Rather, it explains Illinois' current income tax system and identifies potential pathways for reform. Within each of the pathways presented, the report outlines illustrative revenue scenarios and examines the fiscal, economic, and distributional tradeoffs associated with different policy design choices.

Illinois currently applies a flat individual income tax rate of 4.95% to taxable income. Because a flat rate is required by the Illinois Constitution, some changes that preserve a single rate—such as adjustments to rates, deductions, exemptions, or credits—could generally be made through a change to state statute. A graduated income tax or high-income surcharge, however, would require constitutional approval and therefore a change to the Illinois Constitution. Voters rejected a 2020 constitutional amendment that would have allowed Illinois to replace its flat income tax with a graduated rate structure, but the concept of a graduated tax or high-income surcharge remains a key proposal in revenue debates, making an understanding of the available policy options and their implications critical to discussions about Illinois' fiscal challenges.

The report examines three broad pathways for modifying the individual income tax:

- **Modifications within the existing flat-tax structure:** Adjusting the uniform rate, increasing exemptions or deduction, or expanding the tax base by taxing retirement income. Larger exemptions or deductions could provide lower-income tax relief while retaining a single rate, although higher rates would be necessary to offset the resulting reduction in taxable income or generate additional revenue.
- **A high-income surcharge**: Imposing an additional tax on income above a specified threshold while retaining the existing flat tax as the underlying structure. This approach would concentrate additional tax liability on higher-income taxpayers without directly increasing rates on income below the threshold.
- **Graduated income tax structures**: Establishing multiple marginal rates and income brackets to distribute tax liability differently across income levels. Depending on their design, these structures could provide tax relief to lower- and middle- income households while generating additional revenue from higher-income taxpayers. The

report examines the 2020 graduated income tax proposal and three alternative illustrative models (Model A, B, and C).

For each approach, the report outlines how each structure would work, how much revenue the tax could potentially generate, and the policy considerations and tradeoffs associated with each option.

Revenue Estimates:

The scenarios demonstrate how different tax structures and policy design choices affect potential revenue generation. Gross new revenue represents the additional revenue a tax structure could generate assuming no change in taxpayer behavior, while net new revenue accounts for potential changes in reported taxable income in response to changes in tax rates.

Modifications within the existing flat-tax structure. Policymakers could increase the existing flat rate, pair a higher rate with larger deductions to redistribute tax liability or expand the income tax base.

- With no changes to the existing taxable income base, increasing the flat rate from 4.95% to approximately 5.58% could generate $3 billion in additional annual revenue before accounting for potential changes in taxpayer behavior.
- Under scenarios that pair larger deductions with a higher flat rate, the rate required to maintain existing revenue ranges from 5.25% to 8.29%, while the rate required to generate approximately $3 billion in additional annual revenue ranges from 5.92% to 9.35%.
- Taxing retirement income represents another potential source of revenue. The Illinois Comptroller estimated that the retirement income and Social Security subtraction represented approximately $3.29 billion in foregone revenue in FY2023, although this amount does not necessarily represent the revenue that would be collected if the exclusion were eliminated.

High-income surcharge. A 3% surcharge on income above $1 million, in addition to the existing 4.95% flat rate, is estimated to generate approximately $1.68 billion in net new annual revenue, affecting roughly 30,000 tax returns. Unlike broader changes to the income tax structure, the surcharge would directly increase tax liability only for taxpayers with incomes exceeding the specified threshold.

Graduated income tax structures. The graduated income tax scenarios generate a range of estimated revenues depending on the income brackets and marginal rates selected.

- **The 2020 proposal** generates approximately $4.10 billion in net new revenue, the most of the graduated income tax scenarios examined, with a top rate of 7.99%.
- **Model A** prioritizes comparatively moderate marginal rates, limiting the top rate to 6.5%, and generates approximately $820 million in net new revenue.

- **Model B** seeks to balance additional revenue generation with more moderate rate increases, establishing a top marginal rate of 7.99% and generating approximately $2.26 billion in net new revenue.
- **Model C** places the greatest emphasis on progressivity, pairing an 11.5% top marginal rate with a 0% rate on the first $15,000 of income for single filers and $30,000 for joint filers. The model generates approximately $620 million in net new revenue.

These estimates are illustrative rather than official revenue forecasts. Because individual tax return data are not available, the analysis relies on assumptions about how income is distributed within the income ranges published by the Illinois Department of Revenue, the number of tax returns and taxpayers' filing statuses. The net revenue estimates for the high-income surcharge and graduated income tax scenarios also account for the possibility that taxpayers may change their behavior in response to changes in tax rates. An additional adjustment is applied to the 2020 proposal to align its revenue estimate with the Pritzker administration's original projection, adjusted for growth in the Illinois income base. Actual revenue collections under these scenarios could differ materially from the estimates.

Scenario	Basic Structure	Estimated Net New Revenue	Policy Consideration Prioritized	Associated Tradeoff
Flat Tax—Revenue Neutral	Larger deduction and higher uniform rate	$0	Progressivity and simplicity	No additional revenue capacity
Flat Tax—Revenue Generating	Higher uniform rate, with or without larger deductions	$3.0 billion	Revenue capacity and simplicity	Potential competitiveness concerns as the rate increases
Flat Tax—Broaden Tax Base	Inclusion of retirement income	$3.29 billion*	Revenue capacity	Tax burden distribution among retirement-income recipients
3% High-Income Surcharge	Additional 3% on income above $1 million	$1.68 billion	Progressivity	Revenue capacity limited by a narrow tax base
Graduated—2020 Proposal	7.99% top rate	$4.10 billion	Revenue capacity and progressivity	Accountability and institutional design; competitiveness
Graduated—Model A	6.5% top marginal rate	$820 million	Competitiveness	Limited additional revenue capacity
Graduated—Model B	7.99% top marginal rate	$2.26 billion	Revenue capacity and progressivity	Competitiveness and simplicity
Graduated—Model C	11.5% top marginal rate; zero-rate initial bracket	$620 million	Progressivity	Competitiveness and limited additional revenue capacity

*The retirement income figure represents an estimated FY2023 tax expenditure rather than projected revenue collections. Flat-tax scenarios represent illustrative revenue targets and do not incorporate behavioral adjustments. The surcharge and graduated income tax estimates reflect modeled net new revenue.

Policy Considerations and Tradeoffs:

The design of an individual income tax involves considerations that extend beyond how much revenue it could generate. This report identifies five policy considerations relevant to evaluating alternative income tax structures:

1. **Tax burden distribution and progressivity:** How tax liability is distributed among taxpayers at different income levels.
2. **Competitiveness:** How a tax structure may influence economic decisions and Illinois' position relative to other states.
3. **Simplicity:** How easily taxpayers can understand and comply with the tax structure and the State can administer it.
4. **Revenue capacity:** The ability of a tax structure to generate sufficient and sustainable revenue to support the State's fiscal obligations.
5. **Accountability and institutional design:** How decisions about tax rates and structures are made and how future changes could be implemented.

Each of the three pathways involves different tradeoffs. A flat-tax structure offers relative simplicity, and adjustments could be implemented without a constitutional amendment. However, pairing larger deductions with additional revenue generation would require increasingly high uniform rates. A high-income surcharge would concentrate additional tax liability on a relatively small group of taxpayers but would rely on a narrower and potentially more volatile tax base. A graduated income tax would provide greater flexibility to redistribute tax liability across income levels but would introduce additional complexity and require changes to the State's constitutional framework.

The graduated income tax scenarios also demonstrate that a higher top marginal rate does not necessarily generate more revenue. Model C provides the greatest relative relief at lower income levels and the largest shift in tax liability toward upper-income taxpayers. However, because its zero-rate bracket applies to every taxpayer's first dollars of income, it generates the least estimated revenue among the graduated scenarios despite having the highest top marginal rate. Its 11.5% top rate may also raise concerns about Illinois' competitiveness and potential taxpayer responses. By comparison, the 2020 proposal and Model B generate more revenue with top rates of 7.99%, while Model A maintains a comparatively moderate top rate but generates less additional revenue. These differences illustrate the importance of considering the entire tax structure rather than the top marginal rate alone.

Changes to individual income tax rates could also affect businesses organized as pass-through entities, including S corporations and partnerships, because their profits are generally reported on owners' individual income tax returns. The direct impact on business owners and other taxpayers would depend on their total taxable income and the rates and thresholds established under each proposal. Although broader economic effects are possible, their magnitude and distribution are uncertain and are not estimated in this analysis. The overall impact would also depend on how additional revenue is used.

Illinois' current 4.95% flat rate ranks 24th nationally, according to the Tax Foundation. Illinois is one of 15 states that apply a single-rate individual income tax, and its rate is higher than those of several neighboring flat-tax states but below the top marginal rates in many graduated income tax states. Changes to Illinois' income tax structure could therefore affect not only how tax liability is distributed within the State but also its relative position among states.

There is no single income tax structure that simultaneously maximizes revenue generation, progressivity, simplicity and competitiveness. **The scenarios presented in this report are intended to serve as a starting point for understanding the options available to Illinois policymakers, rather than an exhaustive list of potential income tax structures or an endorsement of a particular approach.** Policymakers could combine different rates, brackets, exemptions and other design features in numerous ways depending on their objectives. The report seeks to provide a framework for evaluating these choices and understanding how the individual income tax fits within Illinois' broader fiscal system, including other revenue sources, spending priorities and long-term fiscal obligations.

INTRODUCTION

The State of Illinois' (Illinois or the 'State') income tax has long been one of the most consequential—and contested—features of the State's fiscal system, particularly as policymakers confront ongoing spending pressures, federal funding uncertainty, and questions about the adequacy and fairness of existing revenue sources. While discussions often focus on whether Illinois should retain its flat individual income tax or adopt a graduated structure, the broader issue is how the State generates revenue, distributes the tax burden, and maintains sufficient resources to support public services over time.

HOW ILLINOIS' TAX STRUCTURE IS ORGANIZED

Illinois relies primarily on three major tax sources to fund State operations—individual income taxes, corporate income taxes, and sales taxes. Individual income taxes account for approximately 50% of General Funds revenues. The State also receives federal grants and reimbursements, but these three taxes form the foundation of its ongoing operating revenues.

Beyond these major sources, Illinois levies excise taxes on goods and activities such as alcohol, cigarettes, motor fuel, and cannabis. Illinois' excise tax burden in 1.68% of personal income compared with the national average of 1.05%.[1] Some of these taxes are also intended to discourage consumption, which can make them an uncertain source of recurring revenue.

These taxes illustrate a broader revenue design tradeoff; taxes intended to reduce an activity may generate less revenue as consumption changes. This matters when collections support recurring government obligations.

Several features distinguish Illinois' tax structure from those of other states. Illinois is among the minority of states that levy a flat individual income tax, applying the same rate to taxable income regardless of income level. The current rate of 4.95% is required to be uniform under the Illinois constitution,[2] limiting the State's ability to adjust tax rates based on taxpayer's incomes without constitutional approval.[3] While policymakers can modify the rate, exemptions, deductions, or credits through statute, adopting a graduated income tax or high-income surcharge would require a constitutional amendment.

Illinois also relies on a relatively narrow sales tax base. Although the State imposes comparatively high sales tax rates, it taxes relatively few consumer services despite the economy's shift toward service-based spending. In 2021, nearly half of consumer spending,

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[1] Civic Federation, FY2026 State Budget Roadmap.

[2] 35 ILCS 5/Illinois Income Tax Act.

[3] Illinois' Constitution also links the corporate and individual income tax rates. Under Article IX, Section 3, the corporate income tax rate may not exceed the individual income tax rate by more than an 8-to-5 ratio. A constitutional amendment permitting graduated individual income tax rates would therefore also need to address how, if at all, the corporate rate would remain linked to the individual rate structure. This report does not model corresponding changes to the corporate income tax.

excluding housing and healthcare, was on services.[4] Yet Illinois taxes only 29 of the 176 services identified by the Federation of Tax Administrators.[5] This limits the State's ability to generate revenue from a growing share of economic activity.

Two additional features affect the amount of revenue available for general State operations. Tax expenditures, including exemptions and incentives, reduce potential tax collections. In FY2023, these expenditures totaled approximately $12.3 billion, representing a 17% reduction from potential tax revenues.[6] In addition, Illinois maintains more than 400 Special State Funds that receive revenues designated for specific purposes, limiting the flexibility of those resources for other State priorities.[7]

WHY ILLINOIS' REVENUE STRUCTURE WARRANTS REEXAMINATION

These characteristics contribute to an uneven distribution of tax burdens across State and local revenue sources. Illinois has lower-than-average individual income and sales tax burdens, but one of the highest property tax burdens nationally.[8] Local governments, which have more limited revenue-raising options, rely heavily on property taxes to finance services. The State's relatively limited income tax revenues also constrain its capacity to provide financial support to local governments, further increasing the importance of property taxes.

Illinois' overall state and local tax structure is also regressive, meaning that lower-income residents pay a larger share of their income in taxes than higher-income residents. While the flat income tax limits the extent to which income tax rates can vary based on ability to pay, the State's reliance on other taxes contributes to differences in the burden faced by households at different income levels.

The challenges within Illinois' tax structure are particularly significant given the mismatch between revenue growth and spending pressures. A tax base is the income, sales, property or other activity subject to a tax. A narrow base can require higher rates to raise a given amount of revenue. Without the 2017 income tax rate increase, core tax revenues would have grown by approximately 5.2% annually, compared with 6.6% growth in non-Medicaid spending.[9]

As a result, continued spending growth without corresponding revenue growth could contribute to future budget gaps.[10] At the same time, opportunities to generate additional revenue through similar incremental measures may become increasingly limited.

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[4] Chicago Metropolitan Agency for Planning Analysis of U.S. Bureau of Economic Analysis Data.
[5] Federation of Tax Administrators, By the Numbers Newsletter, July 2017.
[6] Office of the State Comptroller, Tax Expenditure Report Illinois for Fiscal Year Ended June 30, 2023, December 12, 2024, p. 4.
[7] Civic Federation, FY2026 State Budget Roadmap, February 2025.
[8] Census Bureau, Annual Survey of State and Local Finances; U.S. Bureau of Economic Analysis, Personal Income Inlays and Outlays.
[9] Civic Federation, How Illinois' FY2027 Proposed Budget Addresses Long-Term Fiscal Sustainability, April, 2026.
[10] Civic Federation, How Illinois' FY2027 Proposed Budget Addresses Long-Term Fiscal Sustainability.

Illinois also faces revenue volatility associated with changing economic conditions, while its sales tax structure has become increasingly disconnected from consumer spending patterns. Despite the growing importance of services in the economy, the State continues to rely on a relatively narrow sales tax base. This creates a structure characterized by comparatively high rates on a limited range of transactions rather than a broader base that reflects the current economy.

One principle of government finance is that taxes are generally more stable and efficient when they apply to broad bases at relatively low rates. Illinois' sales tax presents a challenge in this regard because it combines a high rate with a narrow base. Expanding the sales tax to additional services could generate nearly $2 billion annually for the State, while potentially improving the distribution of the tax burden because higher-income households tend to spend a larger share of their incomes on services.[11]

Beyond the revenue structure itself, Illinois continues to face substantial fiscal obligations and funding needs, including pensions, K–12 education, early childhood education and care, higher education, transportation, healthcare and reserves. Federal funding uncertainty adds another layer of pressure to existing budget challenges, making the case that our revenue levels are inadequate.

Addressing these challenges requires examining both spending and revenue policies. Potential approaches include restraining expenditure growth, modernizing the sales tax, reviewing tax exemptions and incentives, reassessing the use of special revenue funds, and considering changes to tax rates or the broader tax base. Together, these options highlight the importance of evaluating whether Illinois' existing revenue structure is sufficiently diversified, equitable and sustainable over the long term.

As one of Illinois' primary sources of revenue, the individual income tax is central to discussions about the State's long-term fiscal sustainability and an important area to consider as part of potential changes to the State's revenue structure.

The effects of an income tax change depend on the full design—not simply the top marginal rate. Rates, bracket thresholds, exemptions and deductions determine who pays more or less and how much revenue is raised.

Scope of This Report

This issue brief examines several pathways for modifying Illinois' individual income tax, presents illustrative revenue scenarios and compares the modeled structures with those used in other states. It does not endorse or recommend a particular proposal. Rather, the analysis is intended to clarify the available policy choices and the tradeoffs they present for revenue generation, tax burden distribution, competitiveness and long-term fiscal sustainability.

[11] Chicago Metropolitan Agency for Planning, Plan of Action for Regional Transit, December 2023.

POLICY FRAMEWORK AND DESIGN CONSIDERATIONS

The design of an income tax structure has implications beyond how much revenue it generates. Decisions about tax rates, income brackets, exemptions and other structural features affect how the tax burden is distributed, how taxpayers and businesses may respond, and how easily the tax can be understood and administered. Because different policy designs advance different objectives, policymakers must consider the tradeoffs associated with each approach when determining which structure best meets the needs of the State.

This report identifies five key policy considerations for evaluating Illinois' individual income tax options: **tax burden distribution and progressivity; competitiveness; simplicity; revenue capacity; and accountability and institutional design.** In Illinois, these considerations take on added significance because the State's Constitution limits the structure of the individual income tax, while long-term fiscal pressures continue to raise questions about the adequacy, sustainability and distribution of State revenues.

The illustrative scenarios in this report are not evaluated or ranked against a single set of criteria. Rather, the following framework is intended to help policymakers and voters understand the tradeoffs associated with alternative income tax structures and identify which design features may best advance their policy objectives. Different structures may place greater emphasis on certain objectives, and no single design necessarily achieves all of them.

TAX BURDEN DISTRIBUTION AND PROGRESSIVITY

Tax burden distribution refers to how tax liability (the amount of tax owed) is divided among taxpayers at different income levels. A tax is more progressive when effective tax rates generally increase with income. These concepts relate to equity and taxpayers' ability to pay, although judgements about fairness also depend of credits, other taxes, ad ow public revenue is used.

Illinois ranks as the 8th most regressive tax system in the country.[12] Its current flat income tax applies the same 4.95% rate to taxable income regardless of income level. Although exemptions and credits can reduce liability for some taxpayers, the underlying rate does not change as income rises. A graduated income tax would allow the State to vary marginal rates across income levels, while a high-income surcharge would target additional tax liability to income above a specified threshold.

The effects on equity and progressivity depend on a proposal's detailed design, not simply whether it uses a flat or graduated rate. Larger exemptions may shift liability toward higher-

[12] Institute on Taxation and Economic Policy, Illinois.

income taxpayers even under a flat rate. Under a graduated structure, the rates and the thresholds at which they begin determine the distribution of tax burdens.

COMPETITIVENESS

Tax policy can influence economic decisions, including how income is earned, reported or invested and, in some cases, where individuals or businesses choose to locate. These considerations are especially relevant at the state level because taxpayers and economic activity can move across state borders.

Illinois ranks 13th on the Tax Foundation's 2026 State Tax Competitiveness Index, an overall measure of state tax structure rather than an individual income tax rate ranking. Regional comparisons are also relevant: the current 4.95% rate is higher than the flat individual income tax rates in Indiana, Iowa and Michigan, but below the top marginal rates in Wisconsin and Minnesota.[13]

The illustrative graduated models would change that comparison in different ways. A model with an 11.5% top marginal rate (Model C) would place Illinois near the high end of state top rates; an alternative with a 6.5% top rate (Model A) would retain a comparatively moderate upper rate.

These comparisons do not establish that a particular rate will cause taxpayers or businesses to relocate. Tax rates are one factor among many that may influence economic decisions. However, the size of a rate increase, the income levels affected, and Illinois' position relative to nearby states are relevant considerations when evaluating potential changes.

SIMPLICITY

Illinois' current flat income tax is relatively straightforward: a single tax rate applies to all taxable income. Although the calculation of taxable income may involve exemptions, credits, and federal income adjustments, the rate structure itself is easy to understand. Changes within the existing flat-tax framework would generally preserve that simplicity.

A surcharge adds a higher rate above a specified threshold, while a graduated structure has multiple brackets. Both may add complexity for taxpayers determining what they owe and for the State administering the tax, depending on filing status, exemptions and the number of rates.

Communicating a graduated structure clearly is also an aspect of simplicity. The marginal rate applies only to income in a particular bracket, rather than to all income once a taxpayer crosses a threshold; confusing that rate with the effective rate can lead readers to overstate the tax owed.

[13] Tax Foundation, 2026 State Competitiveness Index.

Administratively, additional brackets and filing-status rules can require more calculation, guidance and system changes. Policymakers must weigh these costs and the ease of taxpayer understanding against the ability to distribute liability differently by income level.

Revenue Capacity

Revenue capacity refers to the ability of a tax structure to raise sufficient and sustainable revenue to support the State's fiscal obligations and policy priorities. Illinois' individual income tax is a major component of the State's revenue system, so changes to its structure can materially affect how much revenue the State collects. Discussions of income tax policy should therefore occur in the context of Illinois' broader fiscal challenges, including pension obligations, spending pressures, reserve levels, and uncertainty surrounding future economic and federal funding conditions.

The scenarios modeled in this report demonstrate that revenue capacity depends on both tax rates and the amount of income subject to those rates. A narrowly targeted high-income surcharge may apply a relatively high rate but generate less revenue because it reaches a smaller tax base. Conversely, a broader graduated structure can generate more revenue by applying rate increases across multiple income brackets.

While larger deductions reduce taxes for some filers, they also narrow the taxable base. A higher uniform rate may then be needed to maintain current collections or generate additional revenue.

Income tax changes alone would not resolve Illinois' long-term fiscal challenges. However, the revenue generated—or forgone—under different tax structures is an important consideration when evaluating how a proposal fits within the State's broader fiscal strategy.

Accountability and Institutional Design

Institutional design concerns who has the authority to establish and change income tax rules. In Illinois, that authority is shaped by the State Constitution, not only by decisions about rates and revenue.

Article IX of the Illinois Constitution currently requires income taxes to be imposed at a non-graduated rate. As a result, changes to the flat tax rate, exemptions or credits can generally be made through the legislative process. Adoption of a graduated income tax or high income surcharge would require a constitutional amendment approved by voters.

The 2020 graduated income tax debate demonstrated the importance of institutional design and voter confidence. The proposed constitutional amendment would have removed the flat-tax requirement and allowed the General Assembly to establish and subsequently adjust graduated tax rates through statute. Public debate included questions about how future legislatures might use that authority.

Any future proposal to change Illinois' constitutional income tax structure would need to address not only the initial rates and brackets proposed, but also how future changes would be made, what level of legislative authority is appropriate and what transparency or accountability mechanisms should accompany that authority.

METHODOLOGY

The scenarios presented in this report are intended to illustrate how different individual income tax structures could operate in Illinois, how they could affect tax liability at different income levels and how much additional revenue they could generate. The estimates are not official revenue forecasts or recommendations for specific tax structures. Rather, they are intended to facilitate comparisons across different policy designs.

The analysis uses two revenue estimation approaches: one for graduated income taxes and the high-income surcharge and another for modifications within the existing flat-tax structure. These approaches reflect the different policy objectives and design features associated with each set of scenarios.

DATA SOURCES AND REVENUE BASELINE

The revenue estimates are based primarily on the Illinois Department of Revenue's (IDOR) individual income tax data for Tax Year 2023, supplemented by Internal Revenue Service (IRS) Statistics of Income data for Tax Year 2022, which provide more detailed information on income distributions and taxpayer filing statuses.

IDOR reports approximately $473.8 billion in net income among Illinois filers in Tax Year 2023. Applying the current 4.95% flat individual income tax rate to this income base produces approximately $23.45 billion in estimated individual income tax revenue. This amount serves as the current-law revenue baseline against which the illustrative scenarios are compared.

Unless otherwise specified, revenue estimates presented in this report represent additional revenue above this baseline rather than total individual income tax collections.

REVENUE ESTIMATES FOR GRADUATED TAXES AND THE HIGH-INCOME SURCHARGE

The revenue estimates for the graduated income tax and high-income surcharge scenarios are calculated by applying each proposed tax structure to the estimated Illinois income base and comparing the resulting tax liability with the amount owed under the current 4.95% flat rate.

Because IDOR reports income in broad ranges rather than providing individual taxpayer records, the analysis uses IRS income and return-count data to estimate how income is distributed within each reported range. These estimated distributions are constructed so that total income within each range matches the amount reported by IDOR. This allows the analysis

to estimate how much income falls within each of the proposed tax brackets. The analysis also estimates the distribution of income between single and joint filers to account for differences in bracket thresholds based on filing status.

Two types of tax rates are important for understanding how the modeled structures operate:

- **Marginal tax rate**: The tax rate applied to an additional dollar of taxable income. Under a graduated income tax structure, each marginal rate generally applies only to the portion of income that falls within the corresponding bracket.
- **Effective tax rate**: The total amount of tax owed expressed as a percentage of income. Under a graduated income tax structure, a taxpayer's effective rate is generally lower than the highest marginal rate to which their income is subject.

For example, under a marginal rate structure that imposes a higher rate on income above $500,000, the higher rate generally applies only to income exceeding that threshold rather than to the taxpayer's entire income.

Some revenue projection tables in this report also present blended tax rates. Because single and joint filers may be subject to different marginal rates at the same income level, a blended rate accounts for their estimated respective shares of income within a reported income range. These rates are used for revenue estimation purposes and do not represent additional statutory tax rates.

BEHAVIORAL ADJUSTMENTS

For the high-income surcharge and graduated income tax scenarios, the report presents both gross and net new revenue estimates.

Gross new revenue represents the additional revenue that would be generated by applying the proposed tax rates to the estimated income base, assuming taxpayers do not change their behavior in response to the new rates.

Net new revenue incorporates behavioral adjustments to account for potential changes in reported taxable income resulting from changes in marginal tax rates. Taxpayers may respond to changes in tax rates by changing the timing or form of income, adjusting their work effort, reducing taxable activity, or changing residency.

To account for these potential responses, the analysis uses a measure known as taxable income elasticity, which measures how responsive reported taxable income is to changes in the share of income taxpayers retain after taxes. For example, an elasticity of 0.57 means that a 1% increase in the share of income taxpayers retain after taxes is associated with an approximately 0.57% increase in reported taxable income, holding other factors constant.

The analysis uses an elasticity of 0.57 for taxpayers with incomes above $100,000 and 0.20 for those with lower incomes, drawing on research by Gruber and Saez (2002), which found that

higher-income taxpayers tend to be more responsive to changes in tax rates than lower-income taxpayers.[14]

For each scenario, the analysis calculates how the proposed marginal tax rates would change the share of income taxpayers retain, applies the relevant elasticity to estimate the resulting change in reported taxable income and recalculates revenue using the adjusted income base. The difference between gross and net new revenue reflects the estimated revenue impact of these behavioral responses.

Additional Adjustment for the 2020 Graduated Income Tax Proposal

The revenue estimate for the 2020 graduated income tax proposal incorporates an additional adjustment. After applying the same elasticity assumptions used in the other scenarios, the initial revenue estimate was higher than the Pritzker administration's original projection, even after accounting for growth in Illinois incomes through Tax Year 2023.

To bring the estimates into closer alignment, the analysis applies an additional 26.1% reduction to modeled revenue from income above $250,000. This adjustment is intended to align the estimate with the administration's adjusted projection rather than independently estimate how Illinois taxpayers would respond to higher tax rates.

Because this additional adjustment is not applied to the high-income surcharge or Models A, B, and C, differences in net new revenue across the scenarios reflect both differences in tax structure and, in the case of the 2020 proposal, differences in modeling assumptions.

Revenue Estimates for Flat-Tax Scenarios

The scenarios that modify Illinois' existing flat-tax structure use a different revenue estimation approach. Rather than establishing a tax rate and calculating how much revenue it would generate, the analysis establishes a revenue target and calculates the uniform tax rate necessary to achieve it.

The analysis uses two illustrative revenue targets:

- **Revenue neutrality**: Maintaining estimated individual income tax revenue of approximately $23.45 billion under the current tax structure.
- **Additional revenue generation**: Generating approximately $3 billion in annual revenue above the current-law baseline.

The $3 billion target is an illustrative fiscal benchmark intended to demonstrate the scale of a potential revenue increase. It approximates the gap between Illinois' statutory pension

[14] Gruber & Saez, The Elasticity of Taxable Income: Evidence and Implications, Journal of Public Economics 84(1), pp. 1–32, 2002.

contribution and its actuarially determined contribution and is not a recommendation for a particular tax increase.

The model assumes a baseline personal exemption of $2,850 for single filers and $5,700 for joint filers. These exemptions are distinct from a standard deduction, which Illinois does not currently offer. The hypothetical larger deductions modeled in this report replace, rather than supplement, these exemptions. The amount of income excluded from taxation cannot exceed a taxpayer's available taxable income.

For each illustrative deduction level, the analysis first estimates how much the taxable income base would decrease and then calculates the uniform tax rate necessary to achieve the specified revenue target.

This approach illustrates the relationship between the amount of income shielded from taxation and the tax rate required to maintain or increase revenue. As deductions increase and the taxable income base narrows, a higher uniform rate is necessary to generate the same amount of revenue.

Unlike the graduated income tax and high-income surcharge scenarios, the flat-tax scenarios do not incorporate behavioral adjustments.

Limitations of the Analysis

The revenue estimates presented in this report are subject to several methodological limitations and should be interpreted accordingly:

- Availability of taxpayer data: Because individual taxpayer records are not available, the analysis relies on estimates of how income and tax returns are distributed within published income ranges, including the distribution of income between single and joint filers.
- Differences in data years: The analysis relies primarily on Illinois income tax data from Tax Year 2023, supplemented by federal income tax data from Tax Year 2022. Changes in income distributions, filing patterns, and economic conditions since those years may affect potential collections.
- Behavioral assumptions: The taxable income elasticity assumptions are based on research examining historical changes in federal tax rates rather than Illinois-specific tax changes. They are intended to illustrate potential taxpayer responses rather than predict actual behavior. Actual responses could be greater or smaller than those modeled.
- Comparability across scenarios: Behavioral adjustments are not incorporated into the flat-tax scenarios, and the 2020 graduated income tax proposal incorporates an additional adjustment not applied to the other graduated income tax or surcharge scenarios. These methodological differences should be considered when comparing revenue estimates.

- Future economic and policy conditions: Actual revenue collections would depend on economic conditions, income growth, taxpayer behavior, final statutory design, and administrative implementation.

Given these limitations, the scenarios should be understood as illustrative estimates rather than precise projections of future revenue collections. Their primary purpose is to demonstrate how different income tax structures and policy design choices could affect revenue generation and the distribution of tax liability.

A detailed explanation of the data sources, calculations, and modeling assumptions is provided in Appendix B.

ILLINOIS' CURRENT INCOME TAX STRUCTURE

Illinois applies a flat individual income tax and as of 2026, the State's individual income tax rate is 4.95%.[15]

Under a flat tax structure, the same rate applies to each dollar of taxable income. For example, a taxpayer earning $30,000 and a taxpayer earning $300,000 are both subject to the same 4.95% rate on their taxable income. This differs from a graduated income tax system, in which different portions of income are taxed at different rates based on income thresholds.

Illinois calculates individual income tax based on federal adjusted gross income (AGI), with certain state-specific additions and subtractions. Illinois then allows a personal exemption, which reduces the amount of income subject to tax. A personal exemption is conceptually different from a deduction, although both reduce the taxable base. The illustrative flat-tax scenarios later in this report model larger deduction-like amounts as a replacement for the baseline personal exemption; they do not assume Illinois currently has a broad standard deduction. The 4.95% flat rate is then applied to the resulting taxable amount.

INCOME TAX OPTIONS AND ILLUSTRATIVE SCENARIOS

Illinois policymakers have several potential options for modifying the individual income tax system. These approaches differ in their objectives, revenue implications, legal requirements, and degree of structural change. Some changes—including adjustments to the existing flat tax rate or personal exemption—could be made through statute while retaining Illinois' constitutionally required non-graduated tax structure. A high-income surcharge or graduated income tax would require a constitutional amendment.

[15] Illinois Department of Revenue, Income Tax Rates.

Table 1: Comparison of Illustrative Income Tax Structures

Income Tax Structure Comparison				
Approach	Consitutional Amendment Required?	Raises Revenue?	Changes Structure?	Targets High-Income Earners?
Revenue-Neutral Flat Tax	No	No	No	Limited
Revenue-Generating Flat Tax	No	Yes	No	Limited
Expanding Tax Base by Taxing Retirement Income	No	Yes	No	Limited
Millionaire's Tax	Yes	Yes	Slightly	Yes
Graduated Income Tax	Yes	Yes	Yes	Depends on design

The scenarios presented below illustrate how several of these approached could operate and the tradeoffs associated with different designs. Theya re not recommendations and should not be viewed as the only structures available to policymakers. Tax rates, exemptions, brackets, thresholds, and other provisions could be combined in numerous ways depending on the policy objective.

Option 1: Modifications Within the Existing Flat Tax Structure

The most straightforward way to modify Illinois' income tax is to retain the current flat-tax structure while changing the tax rate, exemption amounts, or both. Because these changes would not alter the constitutional requirement that income be taxed at a non-graduated rate, they could be implemented through statutory changes.

The illustrations use three approaches within the existing flat-tax structure: (1) larger deductions paired with a revenue-neutral rate; (2) larger deductions paired with a rate designed to raise an additional $3 billion; and (3) broadening the tax base by reconsidering exclusions, illustrated by retirement income. A simple rate increase without a larger deduction is also shown as a benchmark.

Revenue-Neutral Adjustments

One approach is to increase the amount of income shielded from taxation while raising the flat tax rate sufficiently to offset the resulting revenue loss. In the illustrative model, this is represented as a larger deduction replacing the baseline personal exemption. Some lower-income taxpayers may experience reduced tax liability because a larger share of income would be excluded from taxation, while taxpayers with higher income could pay more because of the higher uniform rate. The goal of this scenario is not to increase total State revenue, but to redistribute tax liability within the existing flat-tax structure.

Because the underlying tax structure remains unchanged, all taxable income would continue to be subject to a single tax rate.

Revenue-Generating Adjustments

A separate revenue-generating option would be to raise the flat rate without changing the baseline exemption at all. Policymakers could also pair a higher rate with a larger exemption or deduction to provide some lower-income relief while still generating additional revenue. The illustrative scenarios in this report focus on the latter design to show the tradeoff between narrowing the taxable base and raising the uniform rate; a larger exemption is a policy choice, not a legal requirement when the flat rate increases.

Like the revenue-neutral approach, this option would maintain Illinois' flat-tax system and continue to apply a single rate to all taxable income. The primary difference is that the higher rate would generate additional revenue rather than simply redistributing existing tax liability.

Illustrative Scenarios

To illustrate how Illinois could modify its existing flat-tax structure, the report models several scenarios in which a larger deduction replaces the baseline personal exemption and the uniform tax rate is adjusted. The larger deduction is a policy choice intended to illustrate how a rate increase could be paired with lower-income tax relief; it is not required by the Illinois Constitution or by the mechanics of a flat tax. Increasing the deduction reduces the amount of income subject to taxation, which in turn requires a higher tax rate to maintain current revenue or achieve a specified revenue target.

The table below shows the flat tax rate required to achieve revenue neutrality and to generate approximately $3 billion in additional annual revenue under a range of illustrative deduction levels. The $3 billion target is used as a benchmark rather than a recommendation. For comparison, if the modeled taxable-income base and baseline exemption were left unchanged, a purely mechanical increase sufficient to raise approximately $3 billion would require a flat rate of about 5.58%, before any behavioral response; revenue neutrality with no change to the base would retain the current 4.95% rate.

Table 2: Flat Rate Adjustments

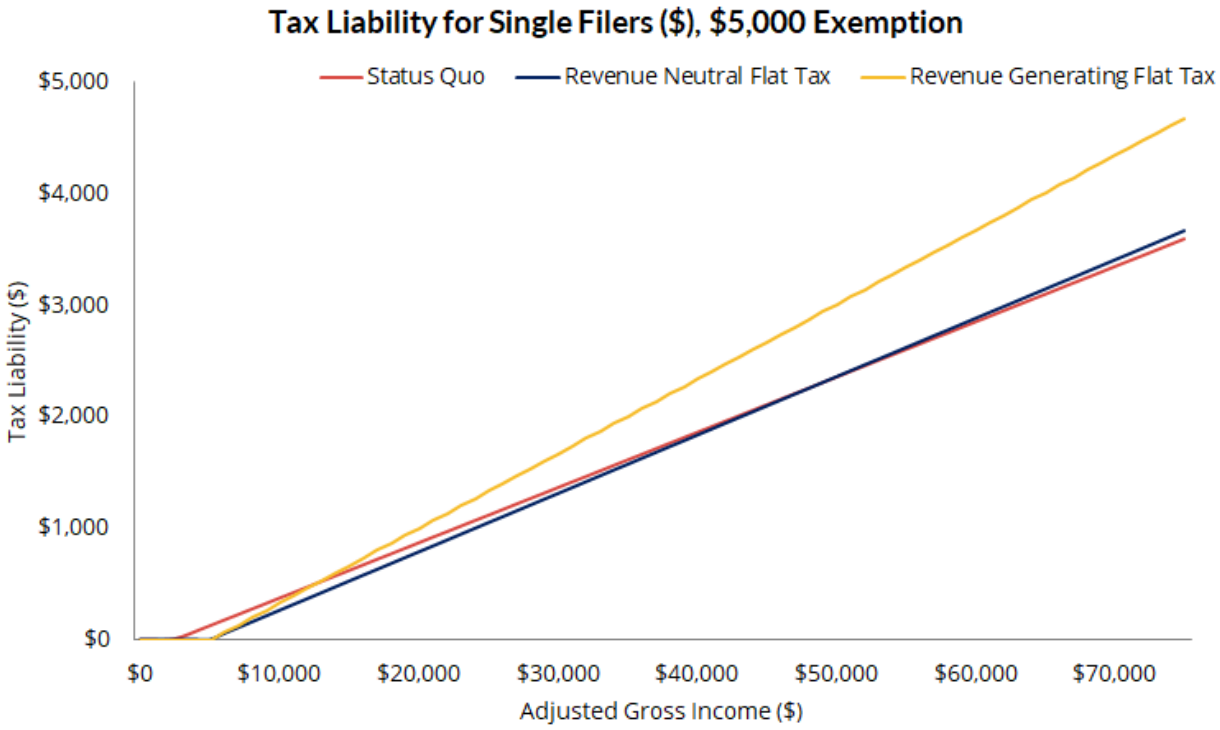
Flat Rate Adjustments			
Deduction (Single / Joint)	**Revenue-Neutral Rate**	**Rate for +$3B**	**Taxable Base Reduction**
Unchanged - $2,850 / $5,700	4.95%	5.58%	0.00%
$5,000 / $10,000	5.25%	5.92%	5.70%
$10,000 / $20,000	5.78%	6.52%	14.40%
$15,000 / $30,000	6.43%	7.25%	23.00%
$20,000 / $40,000	7.24%	8.17%	31.30%
$25,000 / $50,000	8.29%	9.35%	40.30%

The modeled $2,850 single-filer and $5,700 joint-filer personal exemptions are the baseline. Illinois provides a personal exemption, not a general standard deduction. The hypothetical deductions in the table replace that exemption, and the figures represent the resulting change in taxable income and required flat rate.

Policymakers are not limited to the deduction levels modeled here. They could raise the flat rate while leaving the baseline exemption unchanged, pair a rate increase with a smaller or larger deduction, or select a different revenue target. Under the illustrative deduction scenarios shown here, rates sufficient to generate approximately $3 billion in additional annual revenue range from 5.92% to 9.35%. The roughly 5.58% rate associated with an unchanged modeled tax base provides a useful benchmark for understanding how much additional rate increase is attributable to the decision to expand the deduction.

The effect of a flat-tax modification depends on the interaction between the exemption and the uniform tax rate. The figure below illustrates how tax liability would change for single filers under the current structure, a revenue-neutral scenario, and a revenue-generating scenario.

Figure 1: Tax Liability for Single Filers ($), $5,000 Exemption



The larger exemption reduces liability at lower income levels, but the higher uniform rate eventually offsets that benefit. Under the revenue-neutral scenario, taxpayers below the breakeven income ($40,500 for Revenue-Neutral; $13,500 for Revenue-Generating) would generally pay less than under current law, while taxpayers above that point would pay more. The revenue-generating scenario produces the same general pattern, but the higher rate causes tax liability to exceed current law at a lower income level and by a larger amount as income rises.

The key tradeoff is between the simplicity of retaining one statutory rate, distributing tax liability more progressively through a larger deduction, and maintaining adequate revenue

capacity. A larger deduction reduces the taxable base, so the rate on remaining taxable income must rise to meet the same revenue target.

Because these options would maintain Illinois' existing flat income tax structure, they could be pursued through statute rather than a constitutional amendment. This makes flat-tax adjustments a simpler and legally available tool, but a less targeted one than a graduated structure because the higher rate applies broadly to all taxable income rather than only to income above specified thresholds.

Expanding the Tax Base

A third approach is to expand the income tax base by reconsidering the treatment of certain types of income, such as retirement income, investment income, and income earned through S corporations. Broader tax reform could also include changes to other taxes, such as the estate tax. For purposes of this analysis, however, the report focuses on the potential revenue implications of taxing retirement income. Illinois currently excludes most federally taxable retirement income from its individual income tax base.

The Comptroller estimated approximately $3.29 billion in revenue forgone in FY2023 through the retirement income and Social Security subtractions. This tax expenditure estimate illustrates the scale of the exclusion but does not mean the State would necessarily collect that amount if it changed the law: exemptions, taxpayer behavior and implementation would affect actual collections.[16]

Illinois is one of a minority of states that fully exempts major forms of retirement income. Most states tax at least some retirement income, although the treatment of pensions, IRA and 401(k) distributions, and Social Security benefits varies considerably.[17] For purposes of this report, retirement-income taxation is presented only as an example of tax-base broadening; the analysis does not evaluate specific exemption thresholds or other design choices.

Option 2: High-Income Surcharges

A high-income surcharge, sometimes referred to as a "millionaire's tax," imposes an additional tax on income above a specified threshold. A high-income surcharge is a targeted form of graduated income taxation that imposes an additional tax on income above a specified threshold while retaining the existing flat income tax as the underlying structure. Unlike a broader graduated income tax, which establishes multiple brackets with different marginal rates, a surcharge generally introduces a single additional rate for higher-income taxpayers. Although the two approaches differ in design, both create a tax structure in which marginal rates vary by income level and would require constitutional authorization in Illinois.

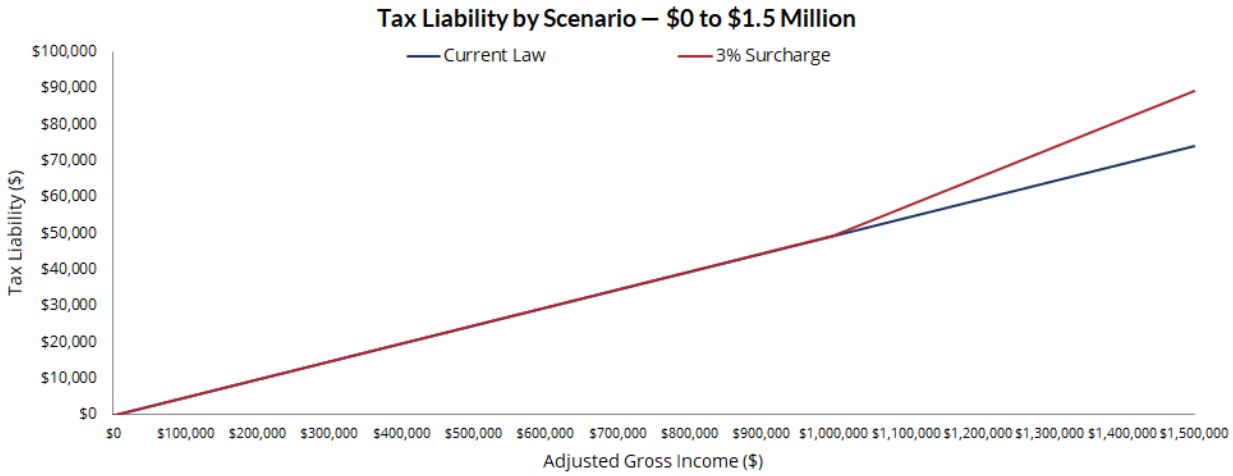
[16] Illinois State Comptroller, "Tax Expenditure Report for Fiscal Year Ended in June 30, 2023."
[17] Mengle, "13 States That Don't Tax IRA and 401(k) Distributions," AARP, 2026.

The surcharge would apply only to income above the specified threshold, so it concentrates the direct tax increase among taxpayers with incomes over that threshold.

Supporters often view surcharges as a way to generate additional revenue from higher-income households,[18] while critics raise concerns about economic competitiveness, taxpayer mobility, or revenue volatility.[19] The specific effect depends heavily on the income threshold, tax rate, and overall design policy.

To illustrate this option, the report models a 3% surcharge on income above $1 million—the proposed threshold and surcharge amount introduced during the 2026 General Assembly.[20] Income up to $1 million would continue to be taxed at Illinois' existing 4.95% rate; income above $1 million would be taxed at the 4.95% base rate plus the 3% surcharge, for a combined marginal rate of 7.95% on income above the threshold. The $1 million threshold is illustrative and is not presented as a recommended cutoff.

Figure 2: Tax Liability by Scenario - $0 to $1.5 million



Because the surcharge applies only to income above $1 million, tax liability is unchanged below that threshold. Above $1 million, the difference between the flat tax under current law and the surcharge grows with income because each additional dollar above the threshold is subject to an additional 3% tax.

Supporters of high-income surcharges often view them as a way to raise revenue from households with greater ability to pay.[21] Critics raise concerns regarding economic competitiveness, taxpayer mobility, or the volatility of revenue derived from a relatively small

[18] Ross & Hanlon, "The Millionaire Surcharge Would Improve the Fairness of the Tax Code," Center for American Progress, June 8, 2022.
[19] Risks and Benefits of A Millionaires Tax, The Center for State Policy Analysis, September 2022.
[20] House Joint Resolution Constitutional Amendment 21.
[21] Ross & Hanlon, "The Millionaire Surcharge Would Improve the Fairness of the Tax Code," Center for American Progress, June 8, 2022.

number of high-income taxpayers.[22] The effect of a surcharge depends on the threshold selected, the surcharge rate, and the characteristics of the affected taxpayer population.

The surcharge illustrates the tradeoff between progressivity and revenue capacity: it focuses the increase on the highest incomes, but relies on a smaller and potentially more volatile taxable base. It also raises competitiveness and behavioral-response considerations, while requiring constitutional authorization.

Revenue Projections

Table 3: Surcharge Revenue Projections

Surcharge Revenue Projections					
Bracket	Net Income (in $ Billions)	Blended Rate	Gross New Revenue (in $ Billions)	Behavioral Discount	Net New Revenue (in $ Billions)
$0 – $1,000,000 (no change)	$ 413.11	4.95%	$ -		$ -
$1,000,001+ (7.95% effective rate)	$ 60.64	7.95%	$ 1.82	8.00%	$ 1.68

Gross New Revenue (in $ Billions)	**$ 1.82**
Behavioral Discount (in $ Billions)	**$ 0.14**
Net New Revenue (in $ Billions)	**$ 1.68**
Projected Total Revenue (in $ Billions)	**$ 25.13**

The illustrative surcharge is estimated to generate approximately $1.82 billion in gross new revenue. After applying an 8% behavioral adjustment to income subject to the surcharge, estimated net new revenue declines to approximately $1.68 billion. Total individual income tax revenue under the scenario would increase from the current baseline of approximately $23.45 billion to $25.13 billion. The 7.95% combined marginal rate applies only to income above $1 million, not to a taxpayer's entire income.

The revenue estimate reflects the concentration of the surcharge on upper-income earnings. Approximately $60.64 billion, or 13% of the modeled income, falls above the $1 million threshold, compared with approximately $413.11 billion below the threshold. The additional tax therefore applies to a relatively small share of the overall income base, but that income is sufficiently concentrated to generate significant additional revenue.

This scenario illustrates the tradeoff associated with narrowly targeted income taxes. Limiting the surcharge to income above $1 million reduces the number of taxpayers directly affected, putting more of the burden on a narrower base, and therefore increases progressivity over the current flat tax. But the narrow base constrains the tax's ability to generate revenue. As a result, the surcharge generates less estimated revenue than the broader graduated income tax structures modeled in this report.

[22] Risks and Benefits of A Millionaires Tax, The Center for State Policy Analysis, September 2022.

Impact on Small Businesses and Middle-Income Households

A high-income surcharge could affect some small businesses, particularly those organized as pass-through entities, such as S corporations and partnerships. Unlike C corporations, which pay Illinois' 7% corporate income tax, S corporations generally pass their profits through to owners' individual income tax returns and pay a separate 1.5% replacement tax.[23] As a result, business income reported by owners earning more than $1 million could be subject to the additional surcharge, bringing the combined top State tax rate on pass-through income to 9.45%, including the replacement tax.

In Tax Year 2022, approximately 22,020 Illinois filers with incomes of $1 million or more reported partnership or S corporation income, accounting for $26.9 billion of the $41.2 billion in pass-through income reported statewide.[24] However, the surcharge would apply to net income rather than business revenue, meaning a business with $1 million in sales would not necessarily be affected if their business expenses pushed them below the threshold. With average pass-through business income of approximately $103,600 per owner, most small-business owners would not be directly subject to the surcharge.[25]

For middle-income households, a high-income surcharge would have no direct impact on State income tax liability for taxpayers earning below the $1 million threshold, although indirect effects are possible. The Tax Foundation argues that businesses facing higher taxes could pass some of those costs on to workers and consumers through lower wages or higher prices, potentially affecting middle-income households.[26] The extent of these effects would depend on how affected businesses respond to the surcharge. The broader impact on middle-income households would also depend on how the additional revenue is used, including whether it supports public services or reduces other fiscal pressures, such as property taxes. Finally, the long-term distributional impact would depend in part on whether the $1 million threshold is adjusted over time, as a fixed threshold could gradually encompass more taxpayers as nominal incomes rise.

OPTION 3: GRADUATED INCOME TAXES

A graduated income tax applies different tax rates to different portions of income. Under this structure, income is divided into brackets, and higher rates apply only to income above specified thresholds. As income increases, additional portions of income may be taxed at progressively higher rates. This approach allows policymakers to more directly align tax burdens with taxpayers' ability to pay by applying lower rates to lower levels of income and higher rates to higher levels of income. A graduated structure can also provide tax relief to lower- and middle- income households while generating additional revenue from higher-income taxpayers, depending on ow the rates and brackets are designed.

[23] Illinois Department of Revenue, Subchapter S (Small Business) Corporation.
[24] Illinois Economic Policy Institute & Project for Middle Class Renewal, Adopting a Millionaire's Tax in Illinois, April 2026.
[25] Illinois Economic Policy Institute & Project for Middle Class Renewal, Adopting a Millionaire's Tax in Illinois.
[26] Tax Foundation, Testimony: Illinois "Millionaire's Tax Would Hurt Small Businesses, Exacerbate Outmigration, April 2026.

A surcharge, like a broader graduated structure, would also require a constitutional amendment under Illinois' current non-graduated rate requirement.

Graduated income taxes can be designed in many different ways. Policymakers must determine the number of tax brackets, the income thresholds associated with each bracket, the applicable tax rates, and the treatment of lower-income households through exemptions, credits, or other mechanisms. As a result, there is no single graduated income tax model. Different structures can produce substantially different outcomes in terms of revenue generation, tax burdens, and progressivity.

The four graduated structures considered here are the rejected 2020 proposal and three new illustrations: Model A (a relatively low top rate), Model B (a midrange rate-and-revenue design) and Model C (larger reductions on lower brackets paired with a high top rate).

The 2020 Graduated Income Tax Proposal

Structure

In 2020, Illinois voters considered a proposed constitutional amendment that would have allowed the State to replace its flat individual income tax with a graduated rate structure. The proposed amendment would have removed the constitutional requirement for a single tax rate and granted the State authority to implement a system with multiple tax brackets and varying marginal rates. Contingent on voter approval, legislation had been enacted establishing the rates shown below.[27] Those rates never took effect because voters did not approve the constitutional amendment.

Throughout this report, categories reflect the difference between each marginal tax rate and Illinois' current 4.95% flat individual income tax rate. "Increase" indicates a rate above 4.95% but less than 2 percentage points higher; "significant increase" indicates a rate at least 2 percentage points higher.

[27] Public Act 101-0008.

Table 4: 2020 Graduated Income Tax Structure

2020 Graduated Income Tax Structure			
Income Range, Single Filer	Income Range, Joint Filer	Rate	Vs. Current 4.95%
$0 - $10,000	$0 - $10,000	4.75%	Slight Cut
$10,001 - $100,000	$10,001 - $100,000	4.90%	Slight Cut
$100,001 - $250,000	$100,001 - $250,000	4.95%	No Change
$250,001 - $350,000	$250,001 - $500,000	7.75%	Significant Increase
$350,001 - $750,000	$500,001 - $1,000,000	7.85%	Significant increase
750,001+	1,000,001+	7.99%	Significant increase

Source: Civic Federation, The Graduated Income Tax Proposal: An Issue Brief, 2020.

Revenue Projections

Adjusted to the Tax Year 2023 income base used throughout this report, the 2020 graduated income tax structure is estimated to generate approximately $5.96 billion in gross new revenue and $4.10 billion in net new revenue after accounting for behavioral adjustments. The net estimate is calibrated to the Pritzker administration's original revenue projection, adjusted to reflect growth in the Illinois income base.

The 2020 proposal is modeled differently from the other illustrative graduated scenarios. In addition to the base taxable-income elasticity used elsewhere in this report, the estimate applies an Illinois-specific behavioral discount to upper-income brackets so that the modeled result aligns with the administration's adjusted revenue benchmark. This calibration should not be interpreted as an independently estimated Illinois behavioral elasticity.

Policy Design & 2020 Outcome

The 2020 proposal was designed to reduce or maintain income tax rates for taxpayers at lower and middle income levels while generating additional revenue primarily through higher marginal rates on upper-income taxpayers. Supporters emphasized the proposal's ability to increase progressivity and raise additional State revenue without increasing rates for most taxpayers.

The campaign also raised broader concern about tax policy and institutional design.[28] Opponents questioned the magnitude of the proposed upper-income rate increases, potential effects on taxpayers and businesses, and the authority the amendment would give future General Assemblies to establish and subsequently modify graduated tax rates through statute.[29] The amendment itself did not establish permanent rates; rather, it removed the

[28] Walczak & Loughead, Twelve Things to Know About the "Fair Tax for Illinois," Tax Foundation, October 6, 2020.
[29] Schutz, "What Voters Need to Know About the 'Fair Tax' Amendment," WTTW, September 15, 2020.

constitutional flat-rate requirement, while the accompanying statutory rate structure would have taken effect only if the amendment passed.

These issues became central elements of the public debate and contributed to the amendment's defeat. The outcome therefore provides a useful lesson for future proposals: voter evaluation of an income tax change may depend not only on the rates initially proposed, but also on confidence in how the tax structure could evolve and how additional revenue would be used.

Graduated Income Tax Model A

Model A is designed to emphasize competitiveness while maintaining a graduated rate structure. The model features a lower top marginal rate of 6.5% and a bracket structure intended to remain comparatively moderate relative to many states with graduated income taxes.

Because of its lower rates, the model generates less revenue than all the other graduated rate models presented in this report. Gross annual revenue is estimated at approximately $930 million, with net new revenue of approximately $820 million after behavioral adjustments.

This model demonstrates that graduated income taxes can be structured in ways that prioritize lower marginal rates while still generating additional revenue and increasing progressivity relative to a flat-tax system.

Illustrative Structure

Model A is designed to add progressivity while preserving a comparatively low 6.5% top marginal rate. It applies lower rates to initial income brackets and then increases rates in steps.

Table 5: Model A Tax Structure

Model A Tax Structure				
Income Range, Single Filer	Income Range, Joint Filer	Rate	Vs. Current 4.95%	Notes
$0 - $2850	$0 - $5700	0.00%	No Change	Reflects current Illinois deduction
$2850 - $25,000	$5700 - $25,000	4.00%	Slight cut	Significant relief for lowest earners
$25,001 - $75,000	$25,001 - $75,000	4.95%	No Change	Below current rate—broad middle-class benefit
$75,001 - $150,000	$75,001 - $150,000	5.10%	Increase	Small step up; keeps most suburban households near current rate
$150,001 - $500,000	$150,001 - $750,000	5.75%	Increase	Targets upper-income bracket without dramatic jump
$500,001 - $1,000,000	$750,001 - $1,500,000	6.25%	Increase	Below Wisconsin's top at lower end; comparable at this level
$1,000,001+	$1,500,001+	6.50%	Increase	Top rate ranks IL mid-pack nationally

The distinction between marginal and effective rates is particularly important in Model A. The 6.5% top marginal rate applies only to income above $1 million for single filers and $1.5 million for joint filers; income below those thresholds continues to be taxed at the lower bracket rates. For a single filer under the modeled structure, the effective rate would be approximately 4.64% at $100,000 of income, 5.46% at $500,000 and 5.86% at $1 million. These examples show that even taxpayers who reach the upper brackets would generally face an effective rate below their highest marginal rate.

The 4.0% rate on income between $2,850 and $25,000 for single filers and between $5,700 and $25,000 for joint filers provides additional relief to lower-income taxpayers. The rate is nearly a full percentage point below Illinois' current 4.95% flat rate, reducing tax liability on income within this range while preserving a taxable base above the exemption threshold. Compared with a broader zero-rate bracket, this approach provides targeted relief while limiting the amount of revenue removed from the tax base.

For income between $25,001 and $75,000, the model applies the current 4.95% rate. This means a large portion of lower- and middle-income earnings would remain taxed at the same rate as under current law, limiting the change in tax liability for many taxpayers.

The next bracket applies 5.10% between $75,001 and $150,000, a 0.15-percentage-point increase above the current rate. The change is limited relative to the larger increases in the upper brackets.

Between $150,000 and $500,000 for single filers (or $750,000 for joint filers), the modeled rate is 5.75%, or 0.80 percentage points above current law.

The 6.25% rate applies to income between $500,001 and $1 million for single filers and between $750,001 and $1.5 million for joint filers. The top rate of 6.5% applies only to income above $1 million for single filers and above $1.5 million for joint filers.

The primary tradeoff in Model A is between competitiveness and revenue capacity. The 6.5% top marginal rate is lower than the top rates in several nearby graduated-tax states and therefore maintains a comparatively moderate rate structure while still shifting to a more progressive tax structure than the current flat tax. The lower rates also produce the smallest behavioral adjustment among the graduated models. However, this model would produce limited new revenue. Model A therefore illustrates that Illinois could adopt a graduated structure without moving into the highest-rate tier nationally but would gain less additional revenue than under higher-rate alternatives.

Revenue Projections

Table 6: Model A Revenue Projections

Model A Revenue Projections					
Bracket	Net Income (in $ Billions)	Blended Rate	Gross New Revenue (in $ Billions)	Behavioral Discount	Net New Revenue (in $ Billions)
$2,850 – $25,000 (4.00% both)	$ 105.45	4.00%	$ (1.00)		$ (1.00)
$25,001 – $75,000 (no change, 4.95%)	$ 122.87	4.95%	$ -		$ -
$75,001 – $150,000 (5.10% both)	$ 78.83	5.10%	$ 0.12	3.00%	$ 0.11
$150,001 – $500,000 (5.75% both)	$ 81.27	5.75%	$ 0.65	6.00%	$ 0.61
$500,001 – $1,000,000	$ 25.75	5.97%	$ 0.26	6.00%	$ 0.25
$1,000,001+	$ 59.58	6.46%	$ 0.90	6.00%	$ 0.85

Gross New Revenue (in $ Billions)	**$ 0.93**
Behavioral Discount (in $ Billions)	**$ 0.11**
Net New Revenue (in $ Billions)	**$ 0.82**
Projected Total Revenue (in $ Billions)	**$ 24.27**

Model A is estimated to generate approximately $930 million in gross new revenue and $820 million in net new revenue after behavioral adjustments. Projected total individual income tax revenue under the model would reach approximately $24.27 billion.

The model's lower brackets provide targeted tax relief or maintain the current rate. The 4.0% rate on income between the exemption threshold and $25,000 reduces estimated revenue by approximately $170 million, while income between $25,001 and $75,000 remains subject to the current 4.95% rate and produces no estimated revenue change. Most of the additional revenue is generated above $150,000.

Unlike graduated Models B and C, however, Model A limits its top marginal rate to a much lower 6.5%. The model therefore produces a smaller behavioral adjustment—approximately $110 million—but also generates less gross new revenue from the upper-income brackets. The result illustrates the model's central tradeoff: lower marginal rates lessen the estimated

taxpayer response and maintain a more competitive rate structure, but they also limit the amount of additional revenue generated.

Model A demonstrates that adopting a graduated income tax would not necessarily immediately put Illinois among other states with the highest individual income tax rates. However, the revenue estimate also shows the fiscal consequence of that design choice. A more moderate rate structure generates additional revenue and increases progressivity, but provides less revenue capacity than models that apply higher rates to upper-income brackets.

Graduated Income Tax Model B

Model B is designed to promote revenue capacity and progressivity while maintaining competitiveness, with tax rates closer to those commonly observed in other states. The model uses a graduated rate structure with a top marginal tax rate of 7.99%, matching the top rate proposed in 2020.

Despite sharing the same top marginal rate as the 2020 proposal, the model generates less revenue due to differences in bracket design, income thresholds, and rate distribution across income levels. Gross new annual revenue is estimated to approximately $2.47 billion, with net new revenue of approximately $2.26 billion.

Illustrative Structure

This structure is designed to illustrate a more moderate graduated income tax option. It prioritizes a tax cut for many taxpayers below $100,000, and keeps the top marginal rate below 8%.

Table 7: Model B Tax Structure

Model B Tax Structure				
Income Range, Single Filer	**Income Range, Joint Filer**	**Rate**	**Vs. Current 4.95%**	**Notes**
$0 - $2850	$0 - $5700	0.00%	No Change	Reflects current Illinois deduction
$2851 - $100,000	$5700 - $100,000	4.75%	Slight Cut	Clear, demonstrable reduction for the majority of filers
$100,001 - $250,000	$100,001 - $250,000	5.25%	Increase	Small enough to avoid suburban voter backlash
$250,001 - $500,000	$250,001 - $750,000	6.50%	Increase	Stays well below the 7% psychological threshold
$500,001+	$750,001+	7.99%	Signigicant Increase	Just below 8%--critical for optics; near Wisconsin's top

Model B is designed to balance additional revenue and greater progressivity while keeping increases in marginal tax rates comparatively moderate through the middle of the income distribution. Like the other graduated scenarios, it illustrates how bracket thresholds can be

used to limit the extent of tax increases for lower- and middle-income taxpayers while shifting more of the additional burden to higher incomes.

The 4.75% rate on all income up to $100,000 is the central feature of the structure. By setting a rate for all income below $100,000 that is less than Illinois' current 4.95% flat rate, this model provides the majority of taxpayers with tax relief compared to current law.

The 5.25% rate for income between $100,001 and $250,000 is a relatively small increase above the current flat rate. Because the increase applies only to income within that bracket, taxpayers would see limited changes in their effective rates.

The 6.5% bracket on income from $250,000 to $500,000 for single filers, $750,000 for joint filers, is where the structure begins to generate more meaningful additional revenue. The rate remains below the 7.75% level at which the 2020 graduated income proposal's upper brackets began, which may make the structure easier to distinguish from the proposal voters rejected in 2020.

The 7.99% top rate on income above $500,000 for single filers, $750,000 for joint filers. Although the top rate matches the 2020 proposal, the lower bracket design differs, which is why the model generates different revenue estimates. The rate is also just below 8%, a threshold that may matter for public perception, though the effect has not been tested specifically in the context of tax rate proposals.[30]

From an interstate competitiveness perspective, a top rate of 7.99% would be slightly above Wisconsin's top bracket of 7.65% but below Minnesota's 9.85% top rate. Because the rate applies only to income above the top threshold, the practical difference for any taxpayer would depend on how much income falls into the highest bracket.

The primary tradeoff in Model B is between keeping tax burdens and marginal-rate increases comparatively moderate and generating additional revenue. The model keeps the top rate at 7.99% and provides a rate reduction below $100,000, making it less aggressive than Model C. However, its more gradual rate increases also limit revenue capacity. Model B therefore illustrates a middle-ground approach: more progressive than the current flat tax and capable of generating meaningful new revenue, but less revenue-generating than structures that impose larger increases on upper-income brackets.

[30] Research in consumer psychology has documented what is known as the left-digit effect—the tendency to anchor on the leftmost digit of a multidigit number when making quick evaluations. Thomas and Morwitz (2005) demonstrated this effect across five experiments and found it extends beyond prices to multidigit numbers generally, suggesting a rate of 7.99% may be perceived as categorically lower than 8.00% by a voter evaluating it quickly rather than analytically. This effect has not been tested specifically in tax rate perception; the application here is an inference from the documented cognitive mechanism.

Revenue Projections

Table 8: Model B Revenue Projections

Model B Revenue Projections					
Bracket	Net Income (in $ Billions)	Blended Rate	Gross New Revenue (in $ Billions)	Behavioral Discount	Net New Revenue (in $ Billions)
$0 - $100,000	$ 263.99	4.75%	$ (0.53)		$ (0.53)
$100,001 - $250,000	$ 85.10	5.25%	$ 0.26	5.00%	$ 0.24
$250,001 - $500,000	$ 39.34	5.85%	$ 0.36	7.00%	$ 0.33
$500,001+	$ 85.32	7.74%	$ 2.38	7.00%	$ 2.21

Gross New Revenue (in $ Billions)	**$ 2.47**
Behavioral Discount (in $ Billions)	**$ 0.21**
Net New Revenue (in $ Billions)	**$ 2.26**
Projected Total Revenue (in $ Billions)	**$ 25.71**

Model B is estimated to generate approximately $2.47 billion in gross new revenue and $2.26 billion in net new revenue after behavioral adjustments. Projected total individual income tax revenue would increase to approximately $25.71 billion.

The model initially reduces revenue by approximately $530 million by applying a 4.75% rate to income below $100,000. Additional revenue from the middle brackets is comparatively modest. Income between $100,001 and $500,000 generates approximately $570 million in gross new revenue under the model. The majority of the model's revenue increase comes from income above $500,000, which generates approximately $2.21 billion in gross new revenue.

The comparison with the 2020 proposal shows why the top marginal rate alone does not determine revenue. Both structures use a 7.99% top rate, but Model B makes smaller rate increases in the middle brackets and applies those increases more gradually. The 2020 proposal moved from the current 4.95% rate to 7.75% beginning at $250,001 for single filers, while Model B applies 5.25% from $100,001 to $250,000 and 6.5% from $250,001 to $500,000 before reaching 7.99%. As a result, less income is exposed to the largest rate increases under Model B, producing a lower revenue estimate despite the identical top rate.

Graduated Income Tax Model C

Model C is designed to maximize progressivity by putting less tax burden on lower-income taxpayers while imposing higher marginal rates on upper-income households. The model includes six tax brackets, an expanded deduction structure, and a top marginal rate of 11.5%.

Among the scenarios evaluated in this report, Model C generates the smallest amount of revenue. Gross new revenue is estimated at approximately $1.18 billion, with net new revenue of approximately $620 million after behavioral adjustments. Because the graduated models apply different behavioral discounts across income brackets, the behavioral effect is reported as a total dollar adjustment rather than as one uniform percentage.

This model demonstrates how a graduated income tax can be structured to concentrate a larger share of tax liability among higher-income households while maintaining revenue levels.

Illustrative Structure

This structure prioritizes equity and revenue generation. It is designed to maximize progressivity while maintaining some competitiveness with peer states.

Table 9: Model C Tax Structure

Model C Tax Structure				
Income Range, Single Filer	**Income Range, Joint Filer**	**Rate**	**Vs. Current 4.95%**	**Notes**
$0 - $15,000	$0 - $30,000	0%	Tax cut	Full poverty relief; aligns with standard federal deduction level
$15,001 - $100,000	$30,001 - $100,000	4.75%	Slight cut	Modest reduction vs current rate—middle-class benefit
$100,001 - $250,000	$100,001 - $250,000	5.90%	Increase	Upper-middle earners contribute marginally more
$250,001 - $500,000	$250,001 - $750,000	7.75%	Significant Increase	Approaches Wisconsin's top bracket
$500,001 - $1,000,000	$750,001 - $1,500,000	9.50%	Significant Increase	Competitive with Minnesota
$1,000,001+	$1,500,001+	11.50%	Significant Increase	Well below California (13.3%) but a high top rate for IL

Model C is designed on the principle that a tax system should vary with ability to pay. The lowest taxpayers receive the greatest relief, while higher-income taxpayers face higher marginal rates.

The first bracket taxing 0% on the first $15,000 of income for single filers and $30,000 for joint filers functions as targeted lower-income relief. Illinois' current exemption already reduces tax liability at the bottom of the income distribution, but a true zero-rate bracket would provide a clearer and larger reduction for taxpayer with very low taxable income.

The 4.75% on income from $15,001 to $100,000 is set slightly below the current 4.95% flat rate. This means many taxpayers with income below that threshold would receive a modest tax cut relative to current law while the model begins to raise additional revenue only as income moves to higher brackets.

The 5.9% tax rate on income between $100,001 and $250,000 represents a moderate increase for upper-middle taxpayers. Because the higher rate applies only to income within that bracket, the effective tax rate for households in this range would remain close to the current flat rate.

The jump to 7.75% for income between $250,001 and $500,000 for single filers, and $750,000 for joint filers, is where the structure becomes more progressive. This bracket is close to Wisconsin's top marginal rate of 7.65%, which provides one regional benchmark for comparison. Taxpayers in this range would pay more than under current law, but their effective

rates would remain below the statutory marginal rate because lower portions of income would continue to be taxed at lower rates.

The 9.5% rate on income between $500,001 and $1 million for single filers, $750,00 and $1.5 million for joint filers, would generate substantial revenue from a relatively concentrated portion of the income base. This rate is below Minnesota's top rate of 9.85%, but would still represent a significant increase from Illinois' current flat rate.

The 11.5% top rate on income above $1 million for single filers, $1.5 million for joint, is the highest rate included in any of the modeled scenarios. It would generate significant additional revenue from very high income taxpayers, but it would also raise the most substantial competitiveness and taxpayer mobility considerations among the models presented.

The primary tradeoff in Model C is between increasing progressivity and maintaining revenue capacity, while also considering potential behavioral responses and competitiveness. By applying higher marginal rates to upper-income brackets, including an 11.5% top rate, the model shifts a greater share of tax liability toward higher-income taxpayers and provides the greatest relative relief at lower income levels. However, these reductions also limit revenue generation, resulting in the lowest estimated net new revenue among the graduated income tax scenarios. Among the scenarios modeled, Model C is the most likely to affect taxpayer behavior, mobility, and interstate competitiveness because it produces the largest increase in upper-income marginal rates. It therefore demonstrates the revenue potential of a highly progressive structure, but also the risks associated with relying heavily on upper-income taxpayers.

Revenue Projections

Table 10: Model C Revenue Projections

Model C Revenue Projections					
Bracket	Net Income (in $ Billions)	Blended Rate	Gross New Revenue (in $ Billions)	Behavioral Discount	Net New Revenue (in $ Billions)
$0 - $15,000 (zero bracket)	$ 93.75	0.00%	$ (4.64)		$ (3.36)
$15,001 - $25,000 (joint at 0%)	$ 37.56	2.55%	$ (0.90)		$ (0.90)
$25,001 - $100,000	$ 158.54	4.50%	$ (0.72)		$ (0.72)
$100,001 - $250,000	$ 105.43	5.90%	$ 0.81	6.00%	$ 0.76
$250,001 - $500,000	$ 33.24	6.79%	$ 0.73	8.00%	$ 0.67
$500,001 - $1,000,000	$ 21.45	8.53%	$ 0.92	8.00%	$ 0.85
$1,000,001+	$ 49.64	11.17%	$ 3.70	10.00%	$ 3.32

Gross New Revenue (in $ Billions)	**$ 1.18**
Behavioral Discount (in $ Billions)	**$ 0.56**
Net New Revenue (in $ Billions)	**$ 0.62**
Projected Total Revenue (in $ Billions)	**$ 24.07**

Model C is estimated to generate approximately $1.18 billion in gross new revenue and $620 million in net new revenue after behavioral adjustments. Despite having the highest top

marginal rate of the graduated scenarios, Model C generates the least additional revenue, increasing projected individual income tax revenue to approximately $24.07 billion.

The distribution of revenue across the brackets helps explain the result. Lower rates and the zero-rate bracket reduce estimated revenue by approximately $4.98 billion for income below $100,000. Those reductions are more than offset by additional revenue generated at higher income levels. The largest contribution comes from income above $1 million, which generates approximately $3.32 billion in gross new revenue before the behavioral adjustment.

Model C also receives the largest behavioral discount of the scenarios presented. The estimated $560 million adjustment reflects the magnitude of the rate increases applied at higher income levels, particularly the 11.5% top marginal rate. Model C also receives a substantial behavioral adjustment of approximately $560 million, reflecting the potential taxpayer response to higher marginal rates, particularly the 11.5% top rate. Although the model generates significant additional revenue from upper-income brackets, much of that revenue is offset by reductions in tax liability at lower income levels. As a result, Model C generates less net new revenue than the other graduated scenarios, illustrating how a structure can place greater emphasis on progressivity without necessarily generating more revenue. The results illustrate how a graduated structure can simultaneously provide relief at lower income levels and maintain revenue when higher rates apply to a concentrated upper-income tax base.

Implications for Businesses and Middle-Income Households

Like a high-income surcharge, graduated income tax structures could affect small businesses organized as pass-through entities, including S corporations and partnerships, because business profits are generally taxed through owners' individual income tax returns. However, the scope of these effects would depend on the rates and thresholds established under each model. While the high-income surcharge scenario would increase tax liability on income exceeding $1 million, the graduated models introduce higher marginal rates at lower income levels, potentially affecting a broader group of business owners. Model A's more moderate rate increases could limit additional tax liability relative to additional tax liability relative to the other graduated scenarios, while Model C's higher upper-income rates could create stronger incentives for affected taxpayers to alter their economic behavior. These effects would depend on business owners' total taxable income, rather than business revenue alone.

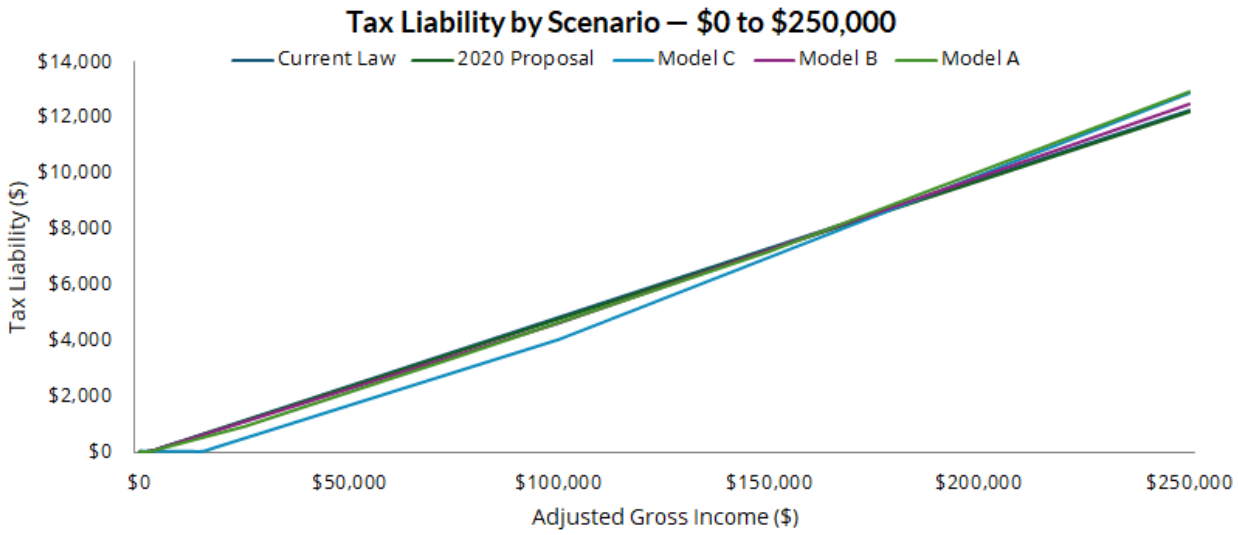
The implications for middle-income households would similarly vary by model. Unlike the high-income surcharge, which would leave direct income tax liability unchanged below the threshold, the graduated structures could reduce or increase tax liability for households at different income levels depending on the applicable rates and brackets. Indirect effects could also arise if businesses respond to higher taxes by adjusting wages, prices, or investment, although the extent of these responses is uncertain. The overall impact on middle-income households would also depend on how additional State revenue is used and whether it supports public services, reduces other fiscal pressures or finances changes elsewhere in the tax system.

ILLUSTRATIVE TAX LIABILITY

A graduated income tax applies different marginal rates to different portions of income. Unlike Illinois' current flat tax, under which the same rate applies broadly to taxable income, a graduated system taxes successive portions of income at different rates based on specified thresholds. As a result, the taxpayer impact of a graduated structure depends not only on the top marginal rate, but also on the number of brackets, the thresholds at which rates change, and the rates applied below the top bracket.

The scenarios modeled in this report illustrate several possible graduated structures. They are not recommendations, but examples designed to show how different bracket designs can affect tax liability, revenue generation and the distribution of tax burdens.

Figure 3: Tax Liability by Scenario - $0 to $250,000



The plotted lines should be read as changes in tax liability at specific income points, not as a ranking based on top marginal rates alone. Differences may look small at the displayed scale for much of the income range, while widening at higher incomes. The bracket tables provide the precise rates and thresholds underlying each line.

Model C provides more relief on the lowest income brackets, but the higher brackets eventually raise liability relative to current law. The size of that difference depends on the income shown, and the overall revenue estimate also reflects the cost of the initial zero-rate bracket.

The 2020 proposal and Model B provide a useful comparison because both use a 7.99% top marginal rate, but their tax liability curves differ. This demonstrates an important point: the top marginal rate alone does not determine taxpayer impact. Differences in bracket thresholds and rate distribution below the top bracket can produce different effective tax burdens and different revenue results even when two structures share the same top rate.

Model A represents the most moderate graduated option. Its liability line remains closer to current law over much of the income distribution and rises more gradually at higher income levels. This reflects the model's emphasis on maintaining a comparatively lower top rate while still introducing greater progressivity than the current flat tax.

Taken together, the curves show that the design of a graduated income tax matters as much as the decision to adopt one. Rates, thresholds and bracket structure all shape how tax liability changes across income levels and therefore influence both revenue capacity and taxpayer impact.

COMPARING THE MODELS

The scenarios are best understood by the policy objectives they advance and the tradeoffs required to achieve them. No single structure simultaneously maximizes revenue generation, progressivity, simplicity, and competitiveness. The principal differences are how broadly a tax increase is applied, how much of the burden is shifted toward higher-income taxpayers, how much revenue is generated, and whether a constitutional amendment is required. The following table summarizes how much of a priority each tax model places on the policy considerations identified earlier in this report.

Table 11: How Illustrative Income Tax Modifications Relate to Tax Design Considerations

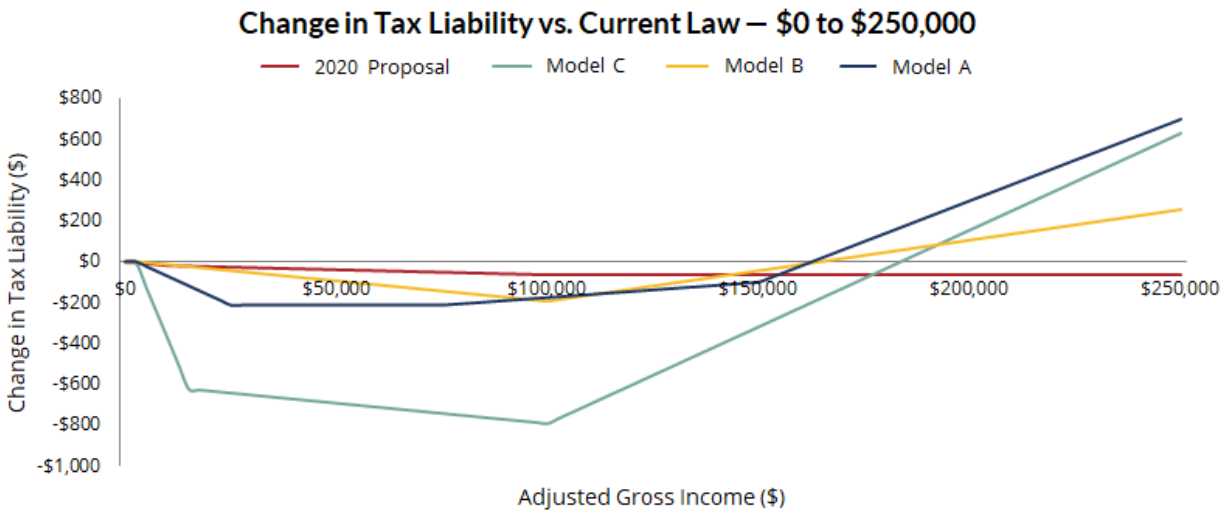
How Illustrative Income Tax Modifications Relate to Tax Design Considerations					
Modification	**Progressivity / Distribution of Tax Burden**	**Revenue Capacity**	**Competitiveness**	**Simplicity**	**Ability to Target Tax Changes**
Current Flat Tax	Low	Moderate	High	High	Low
Flat-Rate Increase Only	Low	High	Moderate	High	Low
Higher Exemption + Revenue-Neutral Flat Rate	High	Low	Moderate	High	Moderate
Higher Exemption + Revenue-Generating Flat Rate	High	High	Low	Moderate	Moderate
High-Income Surcharge	High	Moderate	Moderate	Moderate	High
2020 Graduated Income Tax Proposal	High	High	Moderate	Low	High
Graduated Tax — Model A	High	Low	High	Low	High
Graduated Tax — Model B	High	High	Moderate	Low	High
Graduated Tax — Model C	High	Low	Low	Low	High

Legend	
High	Strongly advances or prioritizes the consideration
Moderate	Mixed or moderate effect; outcome depends on design
Low	Does not prioritize the consideration or involves a significant tradeoff

Note: Ratings are qualitative comparisons of the illustrative approaches in this report, not objective scores. "High," "Moderate" and "Low" indicate the extent to which each approach advances a given tax design consideration. Actual effects depend on specific rates, thresholds, exemptions, credits and tax base design.

The scenarios also differ in how they change individual tax liability relative to current law. The figure below shows the estimated change in liability for single filers under the high-income surcharge, the 2020 proposal, and Models A through C.

Figure 4: Change in Tax Liability vs. Current Law - $0 to $250,000



The figure highlights the different distributional patterns created by each structure. The surcharge produces no change below $1 million and then increases liability only above the threshold. Among the graduated options, Model C produces the largest reductions at lower income levels and the largest increases at higher incomes, while Model A produces more modest changes in both directions. Model B and the 2020 proposal both reach a 7.99% top marginal rate but produce different liability patterns because their intermediate rates and bracket thresholds differ.

For policymakers whose first priority is avoiding a constitutional amendment, flat-tax modifications provide the clearest path. They can redistribute liability or raise additional revenue through statutory changes, but they are less targeted than graduated structures: as exemptions or deductions expand, the taxable base narrows and the uniform rate required on remaining income rises.

Table 12: Graduated Income Tax Model Revenue Projections (in $ billions)

Graduated Income Tax Model Revenue Projections (in $ billions)				
Tax Structure	**Top Rate**	**Gross New Revenue**	**Behavoiral Discount**	**Net New Revenue**
2020 Graduated Income Tax	7.99%	$5.96	$1.86	$4.10
Model B	7.99%	$2.47	$0.21	$2.26
Millionaire's Tax (3% surcharge)	7.95%	$1.82	$0.14	$1.68
Model A	6.50%	$0.93	$0.11	$0.82
Model C	11.50%	$1.18	$0.56	$0.62

Note: The 2020 Graduaded Income Tax behaivoral discount is calibrated to match Prizker administration projections of $4.0-$4.2 billion (2023 dollars). All other models use base Gruber & Saez (2002) elasticity without Illinois mobility premium. These are mechanical estimates only and have not been validated against external projections. Actual revenue for high-rate proposals is likely lower than shown.

For policymakers seeking to concentrate a tax increase on the highest incomes while leaving the existing rate unchanged for most taxpayers, the high-income surcharge is the most targeted option modeled. The 3% surcharge applies only to income above $1 million and

generates an estimated $1.68 billion in net new revenue. Its narrower base limits the number of taxpayers directly affected but also limits revenue relative to broader graduated structures.

For policymakers prioritizing progressivity, Model C goes furthest. It produces the largest relative shift in liability toward upper-income taxpayers: it raises roughly $3.3 billion from income above $1 million, while cutting taxes for most filers with incomes below roughly $200,000. Its net revenue, however, is modest, at an estimated $0.62 billion. The zero bracket on the first $15,000 (single) or $30,000 (joint) of income applies to every filer, not only low-income households, and costs more than $4 billion on its own. Model C also carries the greatest exposure to behavioral, mobility, and competitiveness concerns because of its 11.5% top marginal rate. Its estimated behavioral losses are nearly as large as its net gain, and under stronger mobility assumptions net revenue falls to roughly $0.3 billion.

For policymakers seeking a more moderate graduated structure, Models A and B illustrate two different compromises. Model B generates approximately $2.26 billion in net new revenue while keeping the top rate at 7.99% and using more gradual increases through the middle brackets. Model A limits the top rate to 6.5% and generates approximately $0.82 billion. It places greater weight on interstate rate positioning and lower behavioral risk, but its 4.00% rate on every filer's first $25,000 offsets most of the revenue from its upper brackets, leaving it with less revenue than the high-income surcharge.

The 2020 proposal provides an additional benchmark. Its 7.99% top rate is the same as Model B's, but it produces an estimated $4.10 billion in net new revenue, the most of any scenario. The difference lies below the top rate. The 2020 proposal kept rates close to the current 4.95% for most income below $250,000. It applied the 7.75% rate starting at $250,000 for both single and joint filers, and it taxed all income of the highest earners at 7.99%. Model B, by contrast, lowers the rate to 4.75% on every filer's first $100,000 and sets joint thresholds at 1.5 times single thresholds. Together with Model C, which has the highest top rate but the least revenue among the graduated models, this comparison shows that bracket thresholds and lower and intermediate rates can matter as much as the headline top rate.

Taken together, the options form a continuum rather than a single flat-versus-graduated choice. Flat-tax changes maximize legal simplicity. The surcharge maximizes targeting, raising an estimated $1.68 billion from roughly 30,000 returns, more than either Model A or Model C. Model A emphasizes moderate rates, Model B seeks a balance between moderate rate increases and revenue, and Model C maximizes progressivity. Moving toward one objective generally requires accepting more of another tradeoff: a higher uniform rate, a narrower revenue base, lower revenue generation, or greater behavioral and competitiveness risk.

For Illinois policymakers, the central question is therefore what the income tax change is intended to accomplish. If the goal is primarily revenue generation, the 2020 proposal and Model B perform best in these illustrations. A higher top rate alone does not guarantee more revenue when it is paired with broad rate reductions lower in the schedule. If the goal is to limit the number of taxpayers affected, the surcharge is the most targeted and still raises meaningful revenue. If the goal is to keep Illinois' top rate closer to peer states, Model A provides the strongest graduated example, though with modest revenue. And if avoiding a

constitutional amendment is a threshold requirement, policymakers are limited to changes within the flat-tax framework. These objectives can be combined, but no scenario achieves all of them equally.

NATIONAL COMPARISON

State individual income tax systems vary considerably in both their rate structures and the income levels at which higher marginal rates apply. Comparing Illinois with other states therefore requires looking beyond the statutory top rate alone. A relatively high top rate may apply only to a small amount of very high income, while a lower top rate may apply broadly across the income distribution.

For this reason, comparing states solely on their top marginal rate can be misleading. A relatively high top rate may apply only to income earned by a small number of very high-income taxpayers, while a lower top rate may apply broadly across the income distribution. The comparisons below therefore consider both the top marginal rate and the income level at which that rate begins.

HOW DOES ILLINOIS COMPARE UNDER CURRENT LAW?

State income tax structures vary widely, but Illinois' flat-tax structure puts it in the minority of states that use this approach. As of 2026, 42 states levy an individual income tax; 15 use a flat-rate structure and 27 use a graduated-rate structure. Eight states levy no individual income tax. Illinois therefore is not an outlier for levying an income tax, but it is among a smaller group of states that apply one statutory rate to taxable income.[31]

Illinois' 4.95% statutory rate is not especially high in isolation, although it is higher than the rates in several nearby states. Regional peers including Indiana, Iowa, Michigan, Missouri, and Ohio generally cluster below Illinois, with relatively low top marginal rates that begin at low levels of income. Indiana, Iowa, and Michigan use flat-rate structures, meaning their top rate applies broadly to all taxable income.

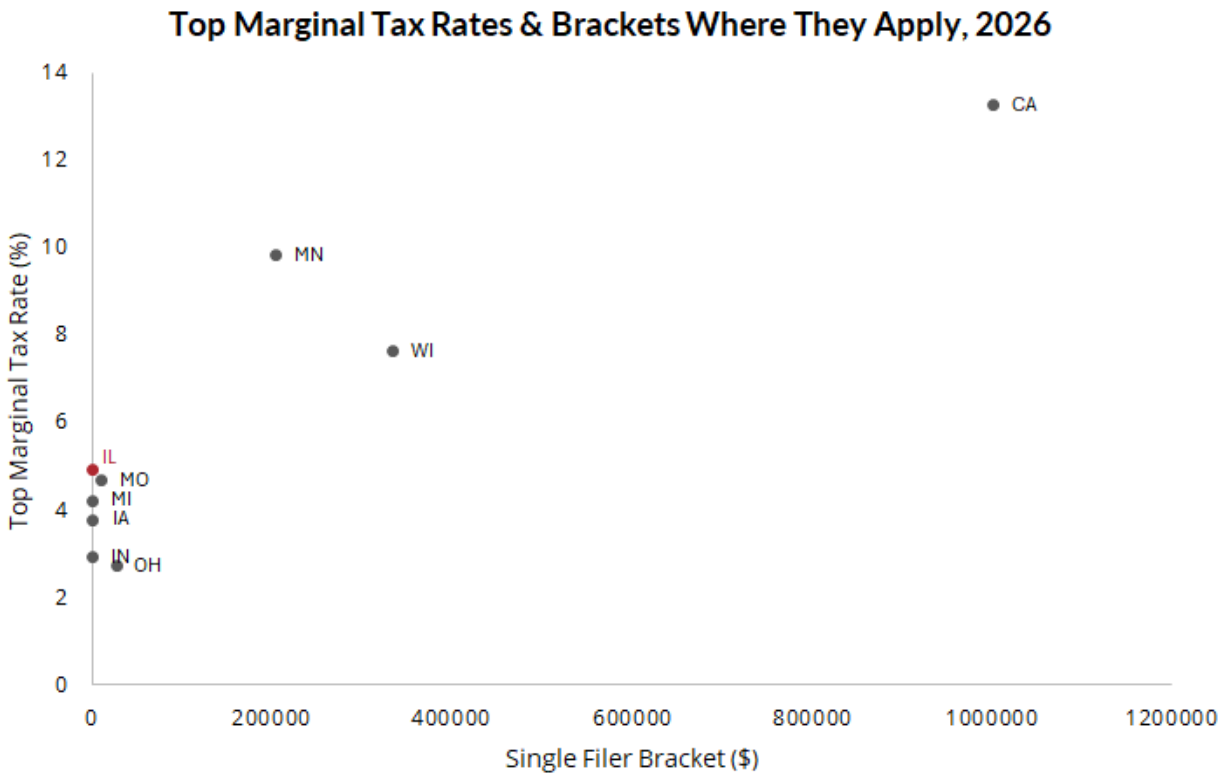
Wisconsin and Minnesota provide a different regional comparison. Both use graduated income tax structures and impose substantially higher top marginal rates, but those rates apply only after taxpayers reach higher income thresholds. As a result, these states combine lower rates at the bottom of the income distribution with substantially higher marginal rates on upper-income taxpayers.

Higher-rate states such as California illustrate the other end of the spectrum. California's top marginal rate of 13.3% is substantially higher than Illinois' current 4.95% rate and applies only at relatively high levels of income. New York also has a double-digit top rate, although its

[31] Tax Foundation, State Individual Income Tax Rates and Brackets, 2026.

highest bracket begins at such a high-income level that including it in a chart of top-rate thresholds can distort comparisons among most states, and this therefore excluded.

Figure 5: Top Marginal Tax Rates & Brackets Where They Apply, States



States without income taxes include AK, FL, NV, NH, SD, TN, TX, and WY.
NY is excluded, as the top rate applies to income over $25 million.
Source: Tax Foundation, State Individual Income Tax Rates and Brackets, 2026.

The figure illustrates three broad groupings. Illinois sits near a cluster of relatively low-rate Midwestern states, although its 4.95% rate is toward the upper end of that group. Wisconsin and Minnesota impose substantially higher top rates but only apply those rates to taxpayers at higher income levels. California represents a third model, combining a much higher top rate with a top bracket targeted to very high-income taxpayers.

Illinois' current position therefore involves an important tradeoff. The State applies a somewhat higher rate than several lower-rate regional peers, but avoids the much higher marginal rates imposed on upper-income taxpayers in a number of graduated-tax states.

How Would the Illustrative Options Change Illinois' Position?

The illustrative scenarios examined in this report would move Illinois to substantially different positions relative to other states. The magnitude of the change depends not only on the highest rate in each scenario but also on where that rate begins and how much income is exposed to it.

Model C represents the greatest departure from Illinois' current position. Its 11.5% top marginal rate would place Illinois among the highest-rate states nationally. However, the top rate would apply only to income above $1 million for single filers rather than broadly to taxable income, as Illinois' current 4.95% rate does. At the same time, Model C would move Illinois in the opposite direction at the bottom of the income distribution. Its 0% rate on the first $15,000 (single) or $30,000 (joint) of every filer's income would make it a tax cut for most filers with incomes below roughly $200,000.

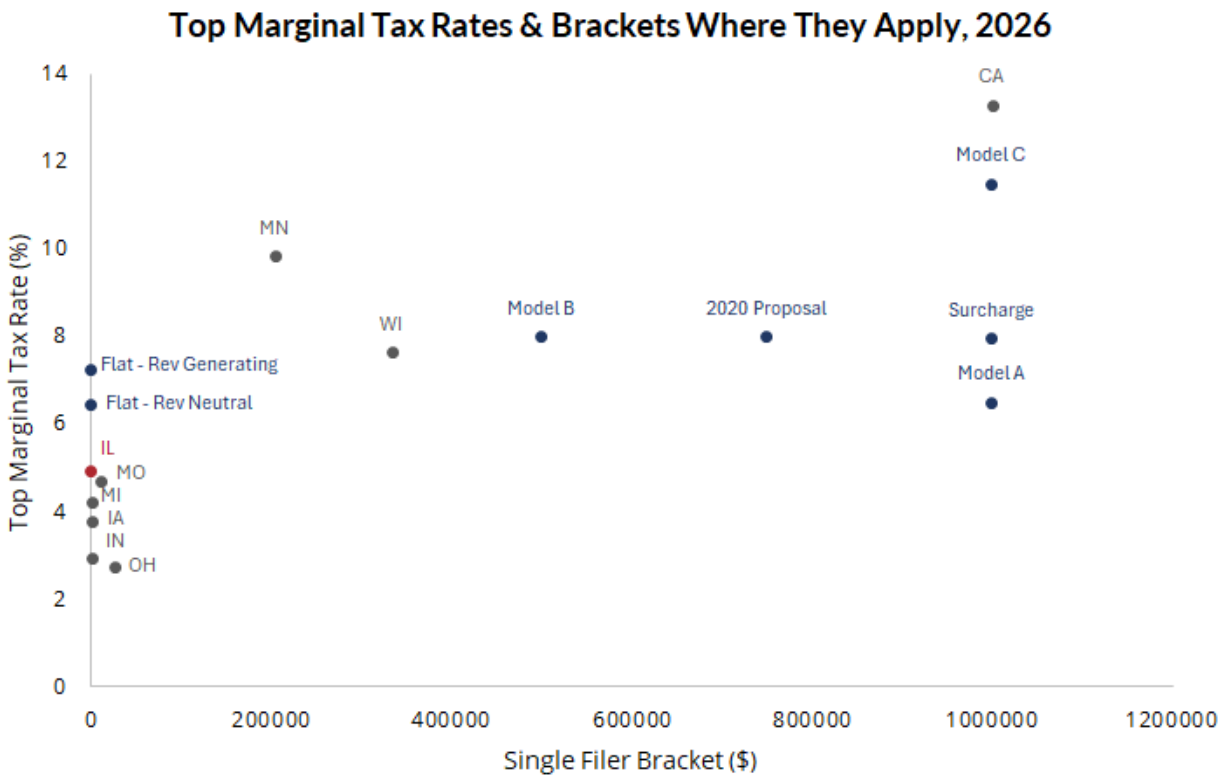
The 2020 graduated income tax proposal and Model B both use top marginal rates on 7.99%. That would place Illinois' highest rate slightly above Wisconsin's 7.65% rate but below Minnesota's 9.85% rate. The two Illinois structures would nevertheless affect taxpayers differently because their bracket thresholds and rates below the highest bracket differ. The 2020 proposal and Model B therefore illustrate why the top rate alone is insufficient to compare tax structures.

The illustrative high-income surcharge would result in a similar combined marginal rate of 7.95%, but only on income above $1 million. Ranking the surcharge solely according to its highest rate would therefore overstate how broadly the higher rate would apply. Most taxable income would continue to face Illinois' existing 4.95% rate.

Model A represents a more moderate move away from the status quo. Its top marginal rate of 6.5% would place Illinois above the lower-rate Midwestern states but below Wisconsin, Minnesota, and other higher-rate graduated-tax states. The 6.5% would apply only to income above $1 million for single filers. Model A would also lower the rate on every filer's first $25,000 of income from 4.95% to 4.00%.

The flat-tax scenarios present a different tradeoff. Because larger personal exemptions reduce the amount of income subject to taxation, maintaining revenue or generating additional revenue requires increasingly high uniform rates on the remaining taxable base. Unlike the graduated scenarios, those higher rates would generally apply broadly rather than only to upper-income brackets.

Figure 6: Top Marginal Tax Rates & Brackets Where They Apply, States and Illustrative Scenarios



States without income taxes include AK, FL, NV, NH, SD, TN, TX, and WY.
NY is excluded, as the top rate applies to income over $25 million.
Source: Tax Foundation, State Individual Income Tax Rates and Brackets, 2026.

This comparison makes it clear that a move to a graduated structure would change Illinois along two dimensions at once. The State would generally move to the right, toward a higher top marginal rate, but also upward, because that top rate would begin only at substantially higher levels of income. The tax increase represented by a higher top rate would therefore be more concentrated among upper-income taxpayers than Illinois' current uniform rate.

Implications for Illinois Tax Design

Illinois' current individual income tax occupies a relatively favorable position within the State's broader tax structure. Although its 4.95% rate is somewhat higher than the rates imposed by several Midwestern peers, its single-rate structure contributes to a comparatively strong individual income tax ranking even as Illinois performs poorly on several other measures of tax competitiveness.

The illustrative alternatives would change that position to different degrees. Model A would move Illinois above the cluster of lower-rate Midwestern states while keeping its top marginal rate below Wisconsin and Minnesota. The 2020 proposal, Model B and the high-income surcharge would move Illinois into a higher-rate group, although those higher rates would

apply only at substantially higher levels of income than the current flat rate. Model C would represent the greatest departure from the status quo and place Illinois among states with the highest top marginal rates nationally.

The comparison therefore highlights a tradeoff that cannot be captured by ranking top rates alone. Illinois currently gains simplicity and relatively favorable tax competitiveness from applying a moderate single rate broadly. Graduated structures could reduce rates on lower portions of income and concentrate higher marginal rates on upper-income taxpayers, but doing so would move the State away from a feature of its tax system that currently compares relatively favorably with other states.

How significant that tradeoff is depends on both the rate selected and the amount of income subject to that rate. A 7.95% rate applied only to income above $1 million represents a very different tax structure from a 7.95% rate applied broadly. Likewise, a 6.5% graduated top rate would position Illinois differently from an 11.5% top rate even though both would represent a departure from the current flat-tax system. The rates below the top bracket matter as well. Because Model C pairs its 11.5% top rate with a zero bracket available to every filer, it is estimated to raise less net revenue than Model A, whose top rate is 6.5%. Interstate comparisons are therefore most useful when they consider the full rate and bracket structure rather than the top marginal rate in isolation.

CONCLUSION

Illinois' income tax structure is likely to remain part of the State's broader fiscal policy debate. Continued discussion of graduated income taxes, high-income surcharges, and other revenue options reflects both Illinois' long-term fiscal pressures and ongoing questions about how tax burdens should be distributed across taxpayers.

The scenarios are starting points for policy discussion, not an exhaustive menu of reforms. Illinois lawmakers could combine rates, bracket thresholds, exemptions, credits and tax-base changes in other ways. The illustrative results demonstrate why the full design and the fiscal objective matter more than a single headline tax rate.

Whether Illinois uses a flat, graduated, or surcharge structure does not by itself determine the fiscal outcome. The specific rates, brackets, exemptions, and thresholds ultimately determine how much revenue a proposal generates and how tax liability is distributed. Revenue outcomes depend not only on whether a tax is flat or graduated, but also on the rates, brackets, income thresholds, deductions, filing status assumptions, and behavioral responses built into the structure. A higher top marginal rate does not necessarily translate directly into higher effective tax rates for most taxpayers, or into more revenue. In these illustrations, two structures with the same 7.99% top rate differ by more than $1 billion in estimated net revenue, and the structure with the highest top rate raises the least.

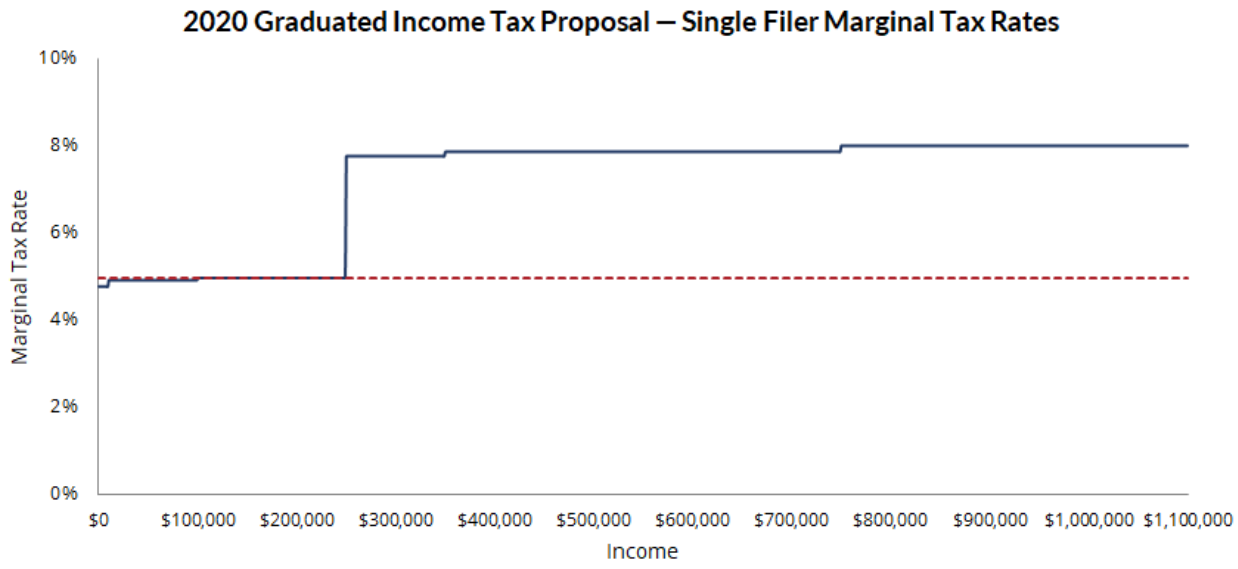
The national comparison also shows that there is no single standard approach to state income taxation. States use a wide range of flat and graduated structures, and comparisons based only

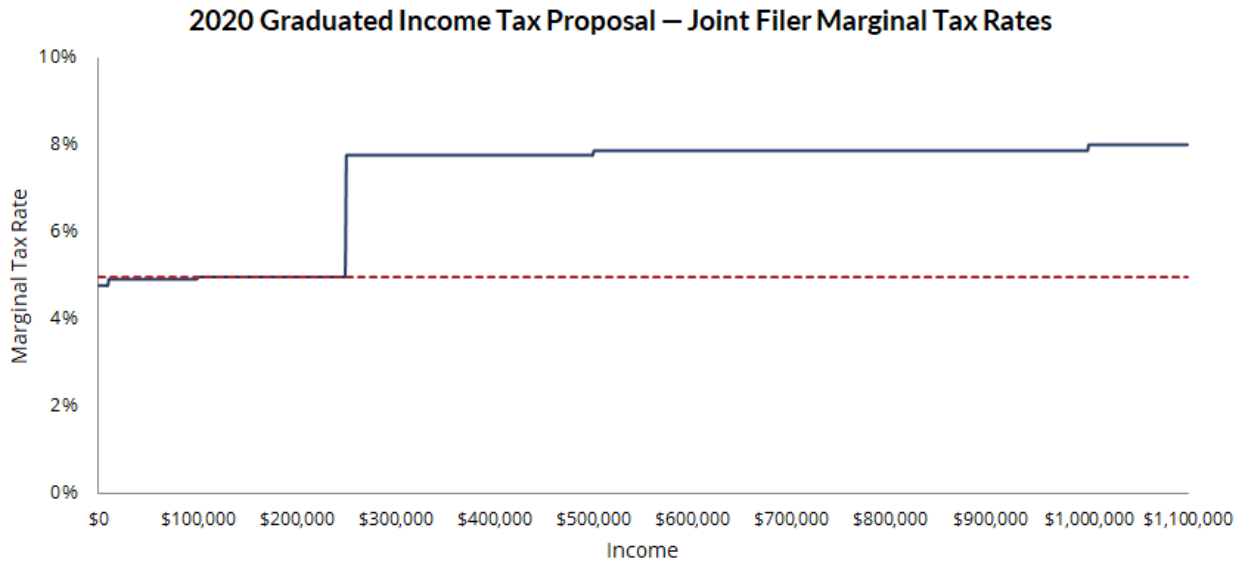
on top marginal rates provide an incomplete picture. Broader tax system design, including sales taxes, property taxes, corporate taxes, deductions, exemptions, credits, and local taxes, also affect overall tax burden and competitiveness.

Ultimately, any change to Illinois' income tax should be evaluated within the broader context of the State's fiscal condition and tax system. Income tax policy can affect revenue capacity, progressivity, and taxpayer liability, but it is only one component of the larger system. Long-term stability will depend not only on revenue decisions, but also on spending priorities, pension obligations, reserve levels, economic growth, and the State's ability to plan beyond a single budget year. As policymakers and stakeholders continue to consider Illinois' fiscal future, a clearer understanding of these choices can support a more informed and transparent debate.

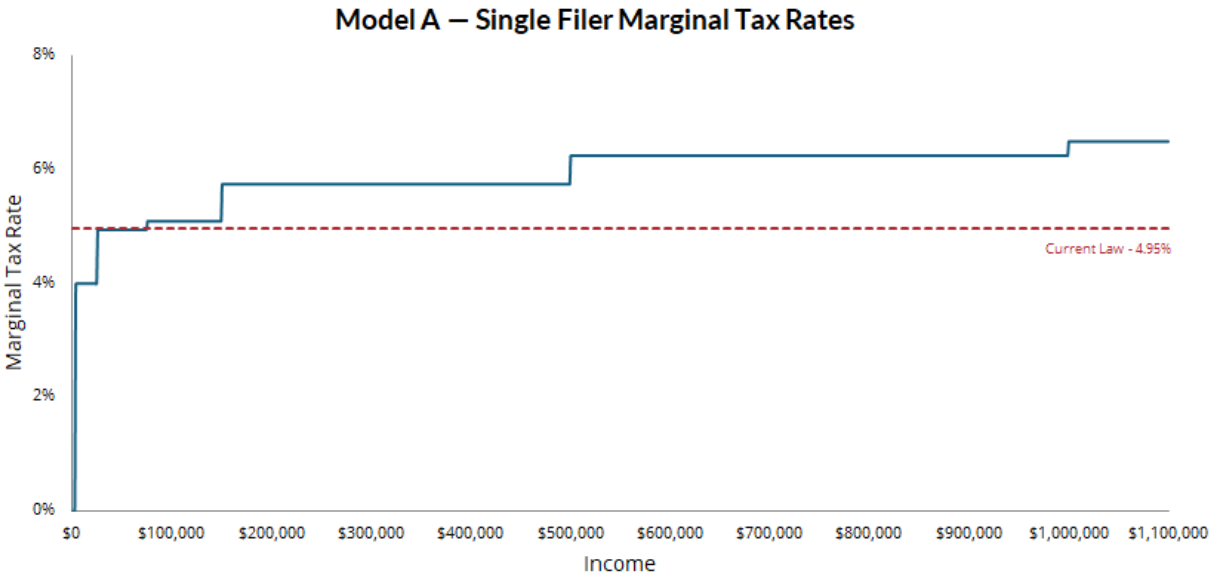
APPENDIX A: GRADUATED INCOME TAX MODELS

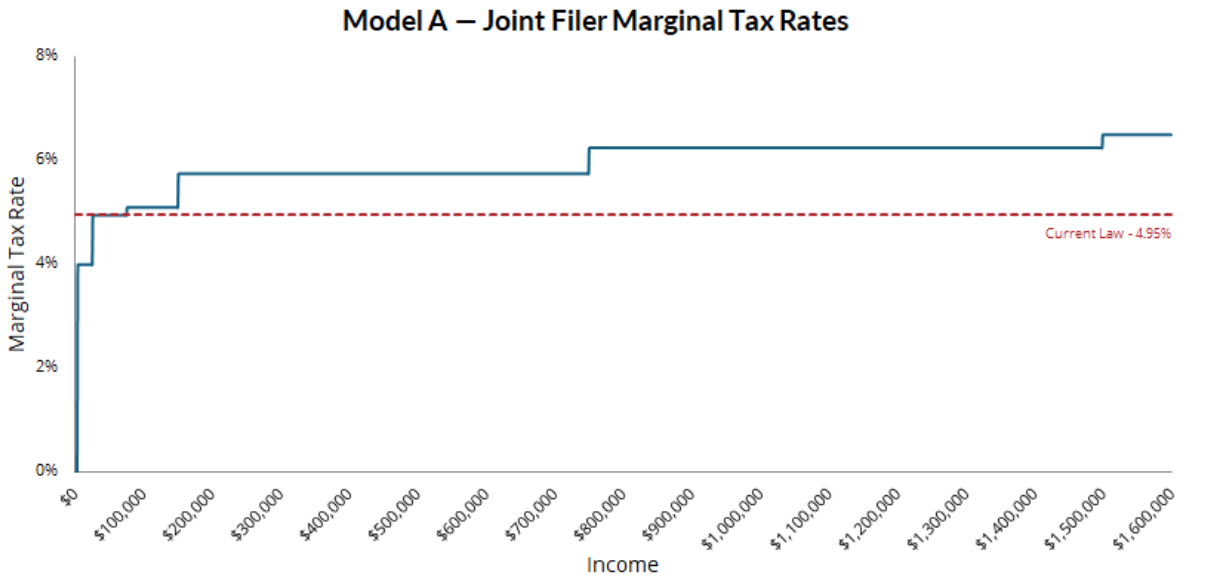
2020 Graduated Income Tax Proposal



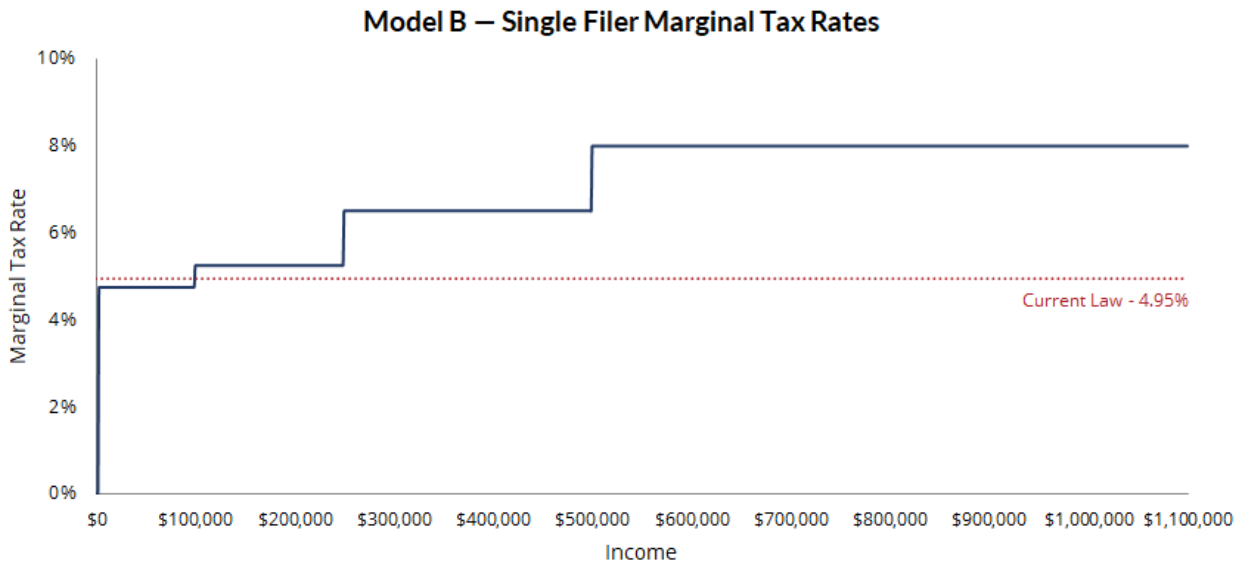


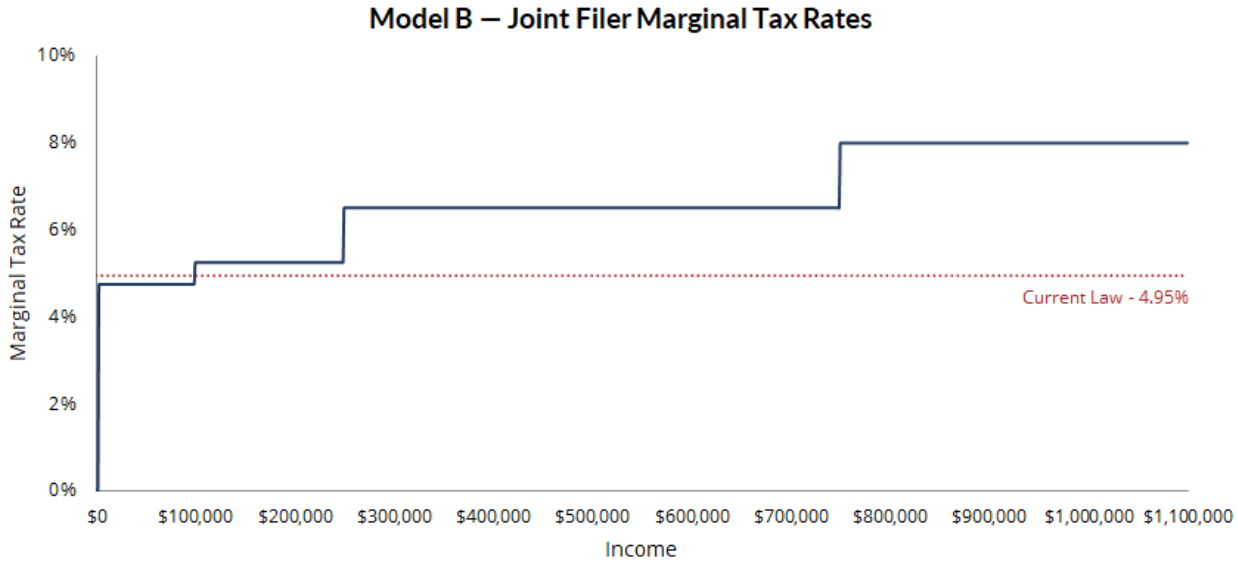
Model A


Model A — Single Filer Marginal Tax Rates
8%
6%
4%
2%
0%
Marginal Tax Rate
Current Law - 4.95%
$0
$100,000
$200,000
$300,000
$400,000
$500,000
$600,000
$700,000
$800,000
$900,000
$1,000,000
$1,100,000
Income

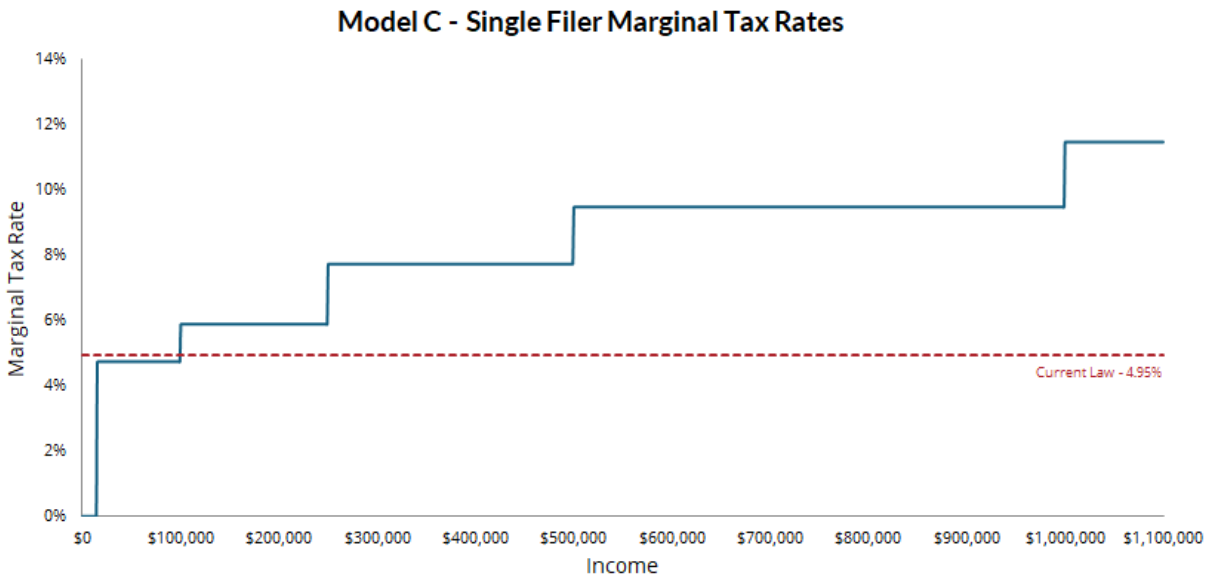

Model A — Joint Filer Marginal Tax Rates
8%
6%
4%
2%
0%
Marginal Tax Rate
Current Law - 4.95%
$0
$100,000
$200,000
$300,000
$400,000
$500,000
$600,000
$700,000
$800,000
$900,000
$1,000,000
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$1,200,000
$1,300,000
$1,400,000
$1,500,000
$1,600,000
Income

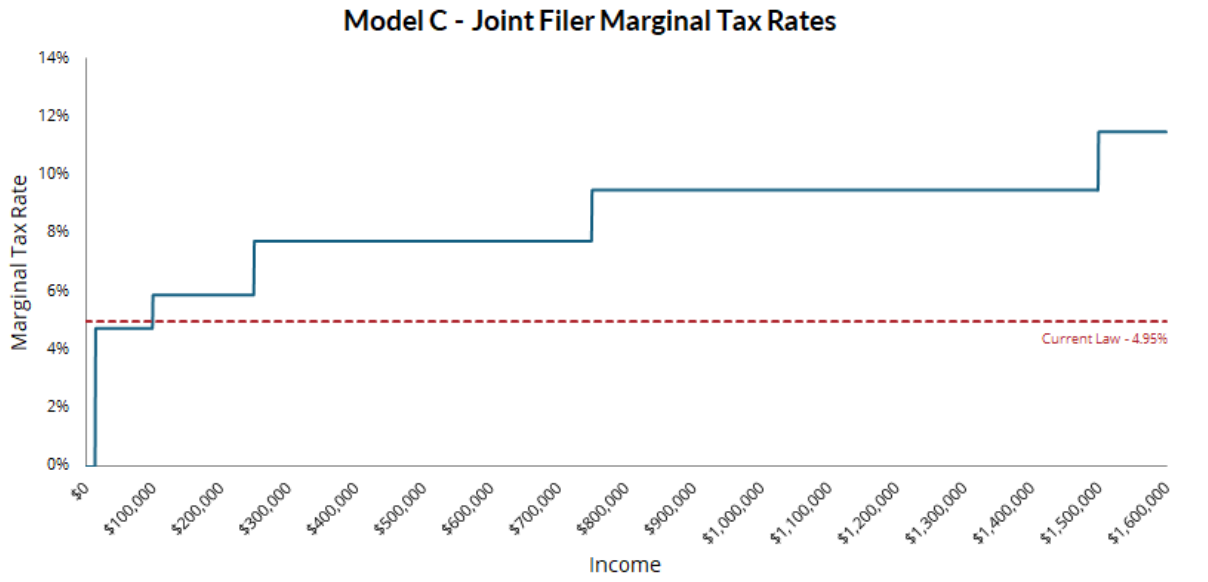
Model B


Model B — Single Filer Marginal Tax Rates
10%
8%
6%
4%
2%
0%
Marginal Tax Rate
Current Law - 4.95%
$0
$100,000
$200,000
$300,000
$400,000
$500,000
$600,000
$700,000
$800,000
$900,000
$1,000,000
$1,100,000
Income


Model B — Joint Filer Marginal Tax Rates
10%
8%
6%
4%
2%
0%
Marginal Tax Rate
Current Law - 4.95%
$0
$100,000
$200,000
$300,000
$400,000
$500,000
$600,000
$700,000
$800,000
$900,000
$1,000,000
$1,100,000
Income

Model C


Model C - Single Filer Marginal Tax Rates
Marginal Tax Rate
14%
12%
10%
8%
6%
4%
2%
0%
Current Law - 4.95%
$0
$100,000
$200,000
$300,000
$400,000
$500,000
$600,000
$700,000
$800,000
$900,000
$1,000,000
$1,100,000
Income


Model C - Joint Filer Marginal Tax Rates
Marginal Tax Rate
14%
12%
10%
8%
6%
4%
2%
0%
Current Law - 4.95%
$0
$100,000
$200,000
$300,000
$400,000
$500,000
$600,000
$700,000
$800,000
$900,000
$1,000,000
$1,100,000
$1,200,000
$1,300,000
$1,400,000
$1,500,000
$1,600,000
Income

APPENDIX B: REVENUE ESTIMATION METHODOLOGY

The revenue estimates presented in this report were developed using two separate models. The first estimates the additional annual revenue associated with the high-income surcharge, the 2020 graduated income tax proposal, and the three illustrative graduated income tax models. The second estimates the flat individual income tax rates required under alternative deduction levels to maintain current revenue or generate approximately $3 billion in additional annual revenue.

Both models rely on publicly available aggregate tax data and are intended to support comparison across illustrative tax structures. They are not certified fiscal notes or forecasts of future State revenue. Actual collections would depend on final statutory design, economic conditions and taxpayer behavior.

Income Base

The analysis begins with the Illinois Department of Revenue's (IDOR) Tax Year 2023 IL-1040 return data, which reports net income by broad income range. Illinois net income reflects the State tax base after applicable additions, subtractions and personal exemptions.

Illinois filers reported approximately $473.75 billion in net income in Tax Year 2023. Applying the current 4.95% individual income tax rate to that base produces approximately $23.45 billion in estimated individual income tax revenue. This amount serves as the current-law baseline against which the illustrative scenarios are compared.

Revenue estimates in this report are generally presented as additional revenue above this baseline, rather than total individual income tax collections.

Allocating Income Across Tax Brackets

The IDOR data report income in broad ranges that do not align with every threshold used in the illustrative tax structures. To estimate the amount of income falling within the brackets required by each model, the analysis supplements the IDOR data with Internal Revenue Service (IRS) Statistics of Income data for Illinois filers for Tax Year 2022.

IRS taxable income and return-count data are used to estimate how income within a broader IDOR range is distributed across narrower income bands. The resulting proportions are then applied to the corresponding IDOR Tax Year 2023 net income totals.

Where the IRS data provide an income boundary that corresponds directly with a model threshold, the available income distribution is used directly. Where a model requires a threshold that is not separately reported in the available data, the analysis uses linear interpolation to estimate the share of income falling above and below the threshold.

For example, thresholds such as $150,000 or $750,000 require income to be divided within a broader published range. These allocations are approximations and do not alter the underlying IDOR total income base.

Filing Status and Blended Rates

The graduated income tax models use different income thresholds for single and joint filers at certain income levels. In the three illustrative graduated models A-C, thresholds are generally identical at lower income levels and scaled by 1.5 for joint filers in specified upper brackets.

Because the aggregate IDOR data do not separately report net income within each modeled bracket by filing status, the analysis uses IRS return counts to estimate the mix of single and joint filers within the relevant income ranges.

For brackets in which filing statuses are subject to different statutory marginal rates, a blended rate is calculated as:

Blended Rate = (Single Filer Share × Single Filer Rate) + (Joint Filer Share × Joint Filer Rate)

The weights are the estimated proportions of returns filed by single and joint filers within a published income range. No additional assumption that joint filers earn a fixed percentage more than single filers is imposed. These are estimated return shares, not observed taxpayer-level income weights.

For example, if an income range were estimated to be 60% single filers at a 5% marginal rate and 40% joint filers at a 4% rate, the blended rate shown for that aggregate range would be 4.6%. Neither filer would actually face a statutory 4.6% rate.

Calculating Gross New Revenue

Gross new revenue for each income bracket is the estimated change from the current 4.95% tax rate, before behavioral adjustments. “Allocated net income” means the share of IDOR net income estimated to fall in that bracket after splitting the available published income ranges.

For each bracket:

Gross New Revenue (bracket) = Allocated Net Income × (Modeled Marginal Rate − 4.95%)

A rate above 4.95% produces additional revenue. A rate below 4.95% produces a negative revenue change, representing an estimated tax reduction relative to current law.

The gross new revenue estimate is the sum of the positive and negative revenue changes across all income brackets.

Accounting for Behavioral Responses

Taxpayers may change the amount of taxable income they report in response to higher marginal tax rates. Potential responses include changing the timing or form of income, reducing taxable activity, reclassifying income or changing residency.

The adjustment uses an elasticity of taxable income to estimate how much reported taxable income might change in response to the proportional change in the net-of-tax rate (one minus the marginal tax rate). An elasticity of 0.57 means a 1% change in that after-tax share corresponds to about a 0.57% change in taxable income. The resulting estimated income change is translated into a reduction in modeled collections. Lower-income brackets use 0.20 as the baseline elasticity.

The adjustment therefore varies with both the size of the rate change and the income exposed to that rate. It is not a flat 57% discount on revenue. Additional assumptions at larger increases and the separate calibration used for the 2020 proposal mean the adjustment varies by scenario.

Where single and joint filers face different rate increases within the same aggregate income range, behavioral adjustments are calculated by filing status before being combined. This allows the adjustment to reflect differences in the size of the rate change faced by each group.

Behavioral discounts are applied only to estimated revenue gains. Revenue reductions resulting from tax rates below the current 4.95% rate are not discounted.

The behavioral discount for any bracket is capped at 50% of estimated gross new revenue. Net new revenue is calculated as:

Net New Revenue = Gross New Revenue − Modeled Behavioral Discount

These adjustments are intended to provide a more realistic comparison than a purely mechanical application of new rates to the existing tax base. However, they remain illustrative and should not be interpreted as predictions of actual taxpayer behavior.

Flat-Tax Deduction Scenarios

The flat-tax scenarios require a separate estimation approach because they change the size of the taxable income base before solving for a new uniform tax rate.

Illinois' personal exemption directly reduces the amount subject to tax, whereas a hypothetical standard-style deduction is a separate design choice. For this illustration, the baseline personal exemption is replaced by the modeled deduction rather than added to it.

For example, under a $15,000 deduction for single filers and a $30,000 deduction for joint filers, the additional reduction from the existing exemption is:

Single filer: $15,000 − $2,850 = $12,150
Joint filer: $30,000 − $5,700 = $24,300

Not every filer has sufficient taxable income to use the full additional deduction. The model therefore estimates the reduction in the taxable income base based on taxpayers' income levels.

For filers whose taxable income would fall to zero under the larger deduction, the amount of income removed is limited to their existing taxable income. For filers with sufficient income to use the full deduction, the full incremental deduction is multiplied by the estimated number of returns.

IRS income and return-count distributions are used to estimate the number of filers and amount of taxable income within the relevant income ranges.

Once the adjusted income base is calculated, the model solves for the flat rate necessary to achieve the specified revenue target:

Required Flat Rate = Revenue Target ÷ Adjusted Taxable Income Base

For the revenue-neutral scenarios, the revenue target is the approximately $23.45 billion current-law baseline. For the revenue-generating scenarios, the target is approximately $26.45 billion, or $3 billion above the baseline. The $3 billion amount is an illustrative benchmark selected to approximate the scale of the gap between statutory and actuarially determined pension contributions; it is not intended as a recommended revenue target.

The same method is applied across the alternative deduction levels shown in the report.

Model Limitations

The estimates in this report are designed to illustrate how alternative tax structures compare under a consistent set of assumptions. Several limitations should be considered when interpreting the results.

First, the models rely on aggregate income data rather than individual tax return microdata. IRS income distributions are used as proxies to divide broad IDOR income ranges, and linear interpolation is required at certain bracket thresholds. A fiscal estimate based on individual Illinois return data could produce different results.

The model combines the most recent data used for these components: Tax Year 2023 IDOR net income sets the statewide tax base, and Tax Year 2022 IRS Statistics of Income informs the estimated distributions within broad ranges. The limitation is both the use of different years and the fact that published aggregate data cannot identify each Illinois filer’s precise position within the proposed brackets.

Third, the behavioral adjustment is modeled at the bracket and filing-status level. It does not account for differences in the composition of income within each bracket. For example, taxpayers with a larger share of capital gains or pass-through business income may respond differently to rate changes than taxpayers whose income consists primarily of wages.

Fourth, behavioral effects are not incorporated into the flat-tax deduction scenarios. Higher flat rates may affect the timing, reporting or form of taxable income, meaning the actual rate required to achieve a specified revenue target could be higher than the static estimate.

Fifth, the models do not incorporate future economic growth or recession. The estimates show how each structure would apply to the income base used in the analysis. They are not forecasts of collections in a future fiscal year.

Finally, the estimates are not certified fiscal notes. A formal State revenue estimate using IDOR individual return data and final legislative language would provide greater precision. The scenarios presented in this report are intended for illustrative and comparative purposes.