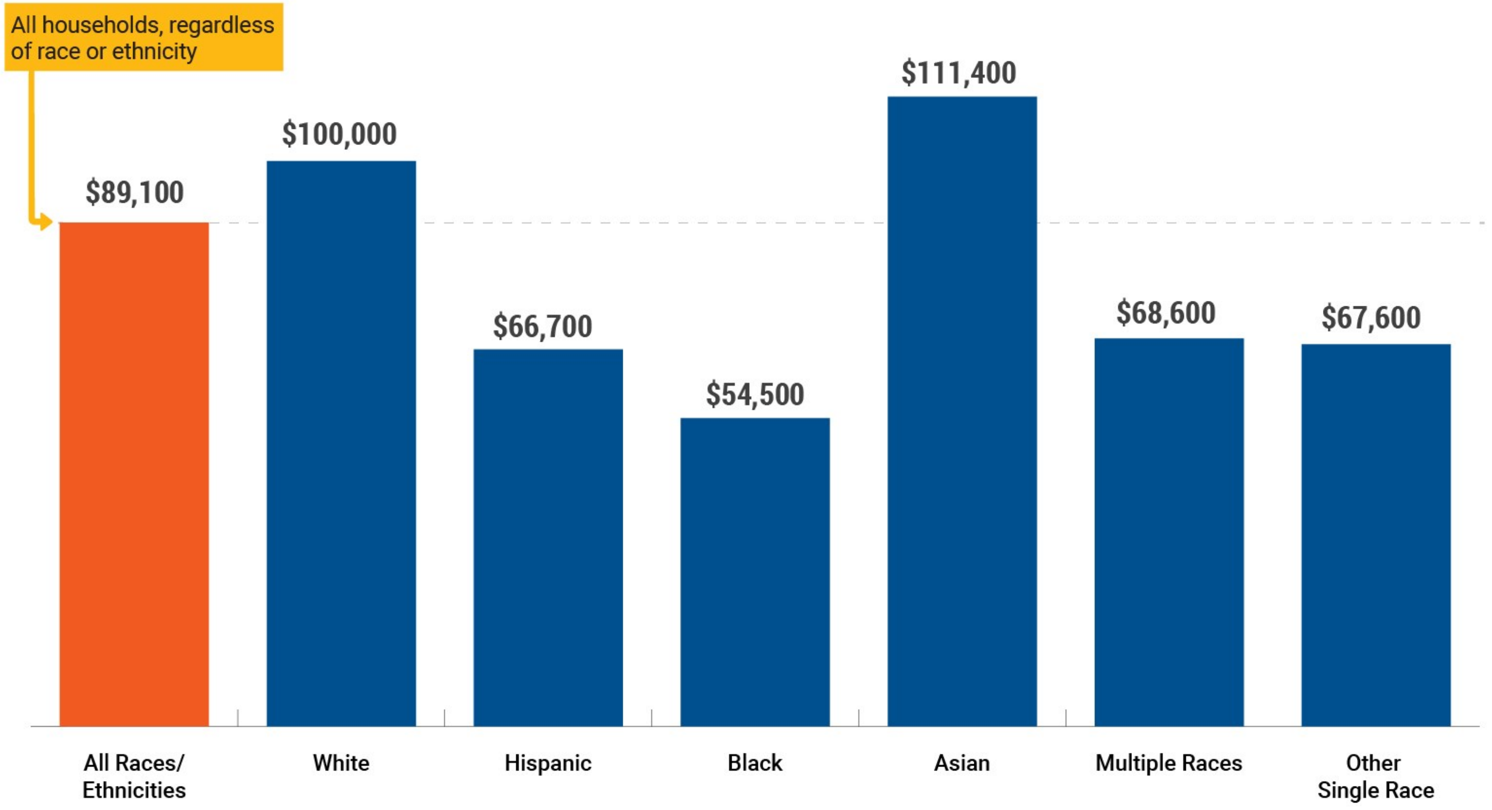
Racial Inequities and the Illinois Tax Code

Institute on Taxation and Economic Policy

May 2021

Average Income by Race and Ethnicity, Illinois

2015 income data for non-elderly taxpayers



Note: Income measure is average total income earned by non-elderly tax units in 2015. Racial groups include only non-Hispanic tax units. Hispanic tax units may be of any race. All tax units, including those containing people of multiple races, are assigned to groups based only on the race of the tax unit head. The race of the tax unit head is estimated based on the racial composition of similar sub-household groups using the Census Bureau's American Community Survey (ACS). Whereas the Census allows for respondents to identify as "some other race alone," our application of the "other" grouping is broader. In most states, we combine this group with other non-Hispanic racial groups where sample size limitations prevent us from producing summary statistics. Moreover, the "Multiple Races" category only includes tax units where the tax unit head personally identifies as being of multiple races.

Source: Institute on Taxation and Economic Policy

Disparities in Income Are a Legacy of Historic & Current Racism

Historic and current injustices, both in public policy and in society more broadly, have resulted in vast disparities in income across race and ethnicity in Illinois.

Employment discrimination has denied good job opportunities to people of color. An uneven system of public education funding advantages wealthier white people and produces unequal educational outcomes. Racist policies such as redlining and discrimination in lending practices have denied countless Black families the opportunity to become homeowners or business owners, creating extraordinary differences in intergenerational wealth. These inequities have long-lasting effects that compound over time.

Hispanic households in Illinois, for instance, earn an average of **28.1** percent less than other households before state and local taxes. Black households fare even worse, earning **42.5** percent less than other households in Illinois before state and local taxes. White households, by contrast, earn **47.5** percent more than other households before Illinois taxes.

Put another way, white families in Illinois receive an average income that is **83.7** percent higher than Black families' average income and receive an average income that is **49.9** percent higher than Hispanic families' average income before taxes.

Fiscal Policy Can Deepen or Alleviate Racial Disparities

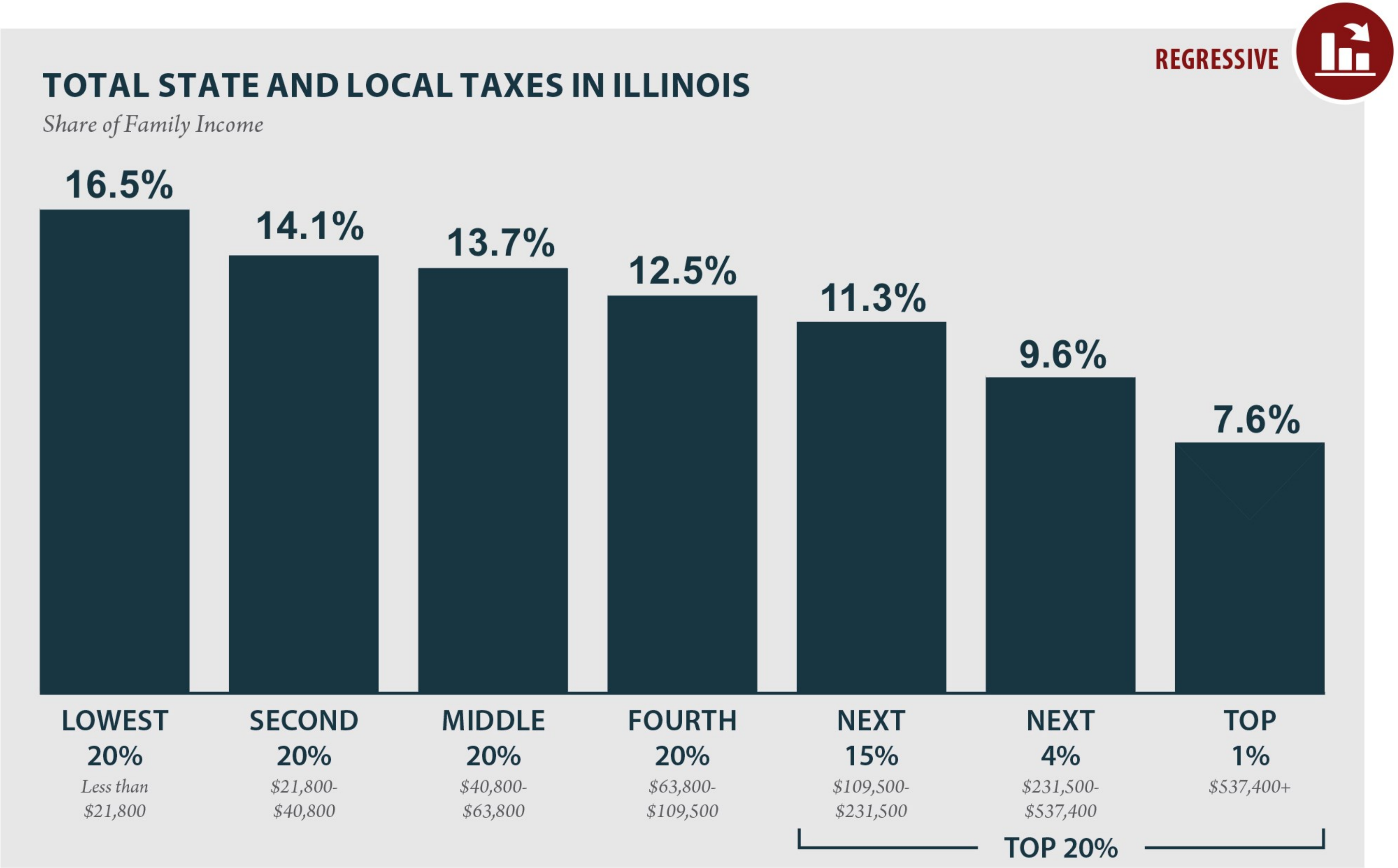
Illinois state and local tax and spending policies interact with this severe inequality in important ways.

Revenues raised through taxes are vital to funding public investments in education, health, and the safety net, all of which can help combat inequality.

But state tax systems—like Illinois's—exacerbate racial income inequality by taxing low-income people, a disproportionate share of whom are people of color, at higher rates than other families. Such regressive tax structures can make racial income inequality worse as incomes become more unequal after state and local taxes.

A progressive system for raising revenue, however, can narrow racial income gaps by asking more of families with the highest incomes, who are predominately white. When state policymakers leave immense racial and ethnic income inequality unaddressed in state tax codes, they solidify that inequality.

Illinois's Has the 8th Most Regressive State and Local Tax System



Source: January 2021 update to ITEP's *Who Pays?, 6th Edition* report.

Figure shows permanent law in Illinois enacted through December 31, 2020.

Our finding that Illinois has the 8th most regressive state and local tax system is based on the published *Who Pays?* study from October 2018. Based on our assessment of recent tax changes in Illinois and states with similar rankings, we do not expect this ranking to have changed meaningfully since the 2018 study was published.

Illinois's Regressive Tax Structure Worsens Racial Income Inequalities

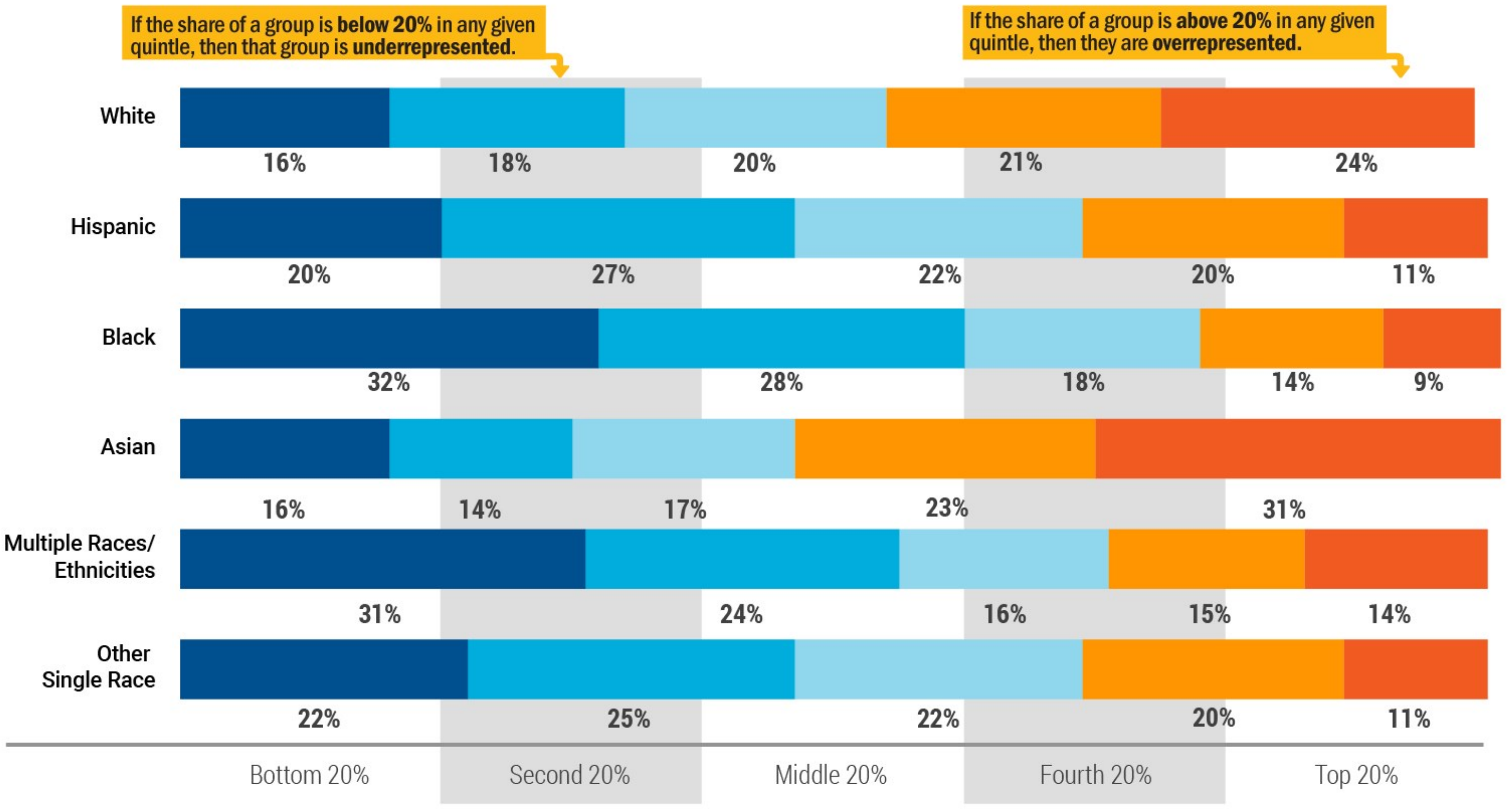
Historical and current racism have caused a disproportionate share of Black and Hispanic households to fall into lower-income groups. **Thirty-two percent** of Black and **20 percent** of Hispanic households in Illinois earn less than $21,800. compare to Just **16 percent** of white households.

On the other hand, years of policy advantage and privilege have led to a significant overconcentration of white families among the state's top earners. **Twenty-four percent** of white households can be found among the highest-income group, those with incomes over $109,500, compared to just **9 percent** of Black and **11 percent** of Hispanic households.

Under Illinois's highly regressive tax system, top earners who pay the least are disproportionately white, while high-taxed families of more modest means include a disproportionate share of people of color, resulting in after-tax incomes that are more unequal than pre-tax incomes.

Distribution of Race and Ethnicity by Income Level, Illinois

income and tax data for non-elderly taxpayers



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Source: Institute on Taxation and Economic Policy

Income and Tax Data for Non-elderly Taxpayers by Race and Ethnicity, Illinois

	SHARE OF STATE RESIDENTS' STATEWIDE INCOME		SHARE OF STATE RESIDENTS' STATEWIDE TAXES PAID		DIFFERENCE: SHARE OF TAX MINUS SHARE OF INCOME	
	Bottom 80%	Top 20%	Bottom 80%	Top 20%	Bottom 80%	Top 20%
ALL	**40.3%**	**59.7%**	**48.3%**	**51.7%**	**8.0%**	**-8.0%**
White	26.9%	47.4%	32.7%	41.6%	5.8%	-5.9%
Hispanic	6.0%	4.4%	6.9%	3.4%	0.9%	-1.0%
Black	5.1%	3.3%	5.7%	2.6%	0.6%	-0.8%
Asian	1.8%	3.9%	2.3%	3.7%	0.6%	-0.3%
Multiple Races	0.5%	0.5%	0.6%	0.5%	0.1%	-0.1%
Other Single Race	0.1%	0.1%				

Note: Includes non-elderly tax units in 2015. Racial groups include only non-Hispanic tax units. Hispanic tax units may be of any race. All tax units, including those containing people of multiple races, are assigned to groups based only on the race of the tax unit head. The race of the tax unit head is estimated based on the racial composition of similar sub-household groups using the Census Bureau's American Community Survey (ACS). Whereas the Census allows for respondents to identify as "some other race alone," our application of the "other" grouping is broader. In most states, we combine this group with other non-Hispanic racial groups where sample size limitations prevent us from producing summary statistics. Moreover, the "Multiple Races" category only includes tax units where the tax unit head personally identifies as being of multiple races.

Source: Institute on Taxation and Economic Policy • Created with Datawrapper

Illinois Incomes are More Unequal After Taxes

One consequence of Illinois's regressive tax code is that upper-income families contribute a smaller share of tax dollars than the share of income they receive. Households in the top 20 percent receive **59.7** percent of all income but pay only **51.7** percent of all taxes.

As a result, families of more modest means must contribute more. Families of all races and ethnicities earning under $109,500 receive just **40.3** percent of statewide income but pay **48.3** percent of statewide taxes.

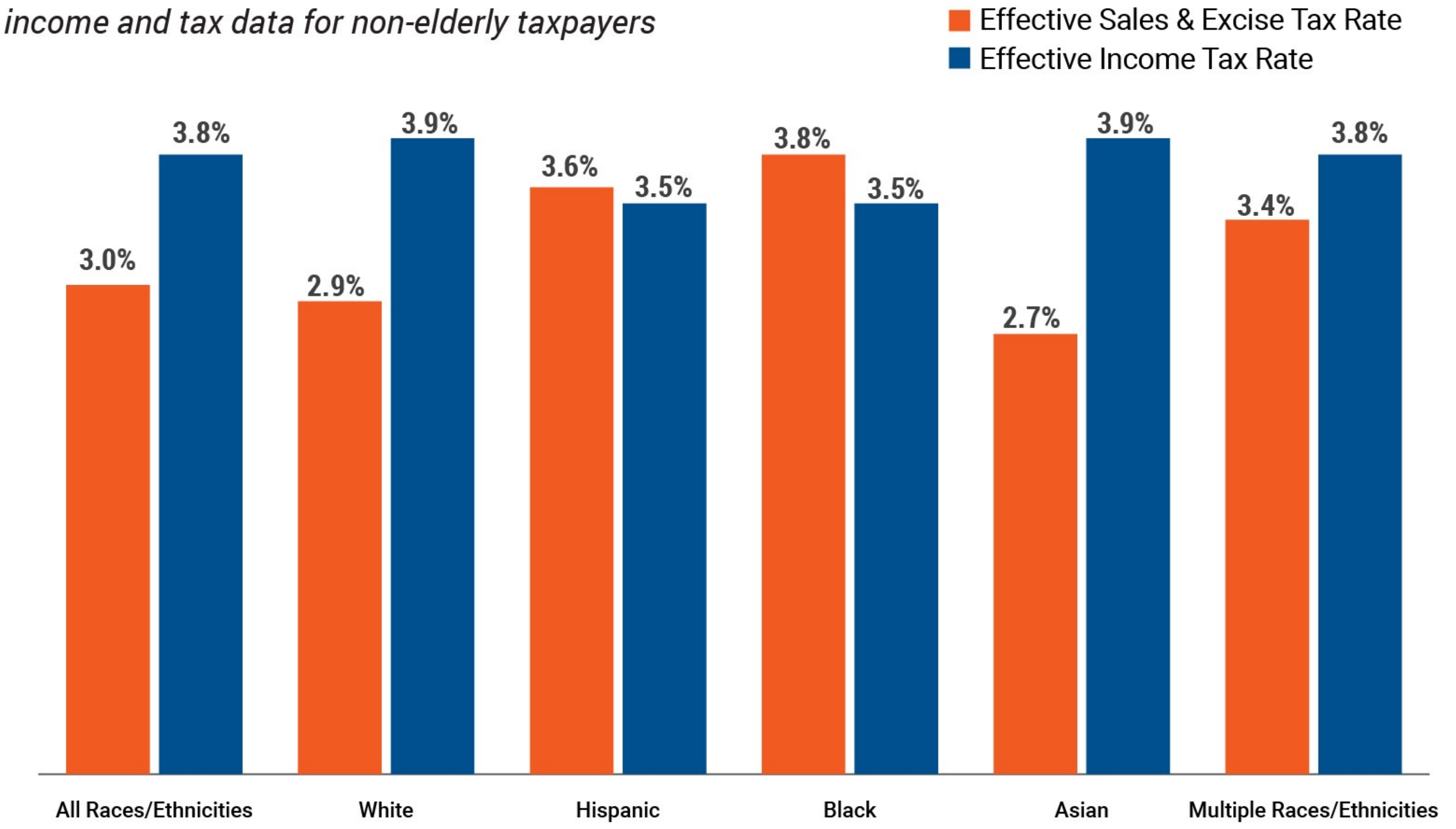
This imbalance in Illinois's tax code suppresses the income of a diverse group of low- and middle-income families in the bottom 80 percent by **2.2 percent**, while lifting the incomes of the state's more affluent, and largely white, top earners by **1.5 percent**.

Different Tax Types Have Different Impacts

Different taxes have very different impacts by race and ethnicity. Sales and excise taxes, for example, are worsening disparities in income by race and ethnicity in Illinois. Black households in Illinois pay an average effective sales and excise tax rate (3.8 percent) that is **27 percent** above the average rate (3.0 percent) and **31 percent** above the rate faced by the average white household (2.9 percent). Hispanic households pay an average rate (3.6 percent) that is **20 percent** above average and **24 percent** above the rate faced by the average white household.

Personal and corporate income taxes, by contrast, slightly narrow the income gap by race and ethnicity in Illinois but the state's flat personal income tax rate structure makes it impossible for that tax to address racial income disparities in a meaningful way. Because white families have higher average incomes, their average combined income tax payment, at **3.9 percent** of income, is higher than the rates paid by Black or Hispanic (**3.5 percent**) families.

Effective Tax Rates by Race and Ethnicity, Illinois



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Source: Institute on Taxation and Economic Policy

A Note on Property Taxes By Race & Ethnicity

The effect of property taxes across race and ethnicity is a complex topic. Vast differences in intergenerational wealth and a long history of racist housing policy have allowed white households to achieve homeownership rates far beyond those seen in most communities of color. Moreover, white households tend to own homes with significantly higher market values than those owned by people of color. Because white families hold significantly more property value than families of color, in some cases those white families also incur comparatively higher property tax bills.

On the other hand, renters pay some property tax indirectly in the form of higher rent. And homeowners of color can see their property tax bills pushed upward by assessment discrimination and housing segregation which tends to result in higher tax rates in lower-wealth areas.

Perhaps most important, lower home values and lower property tax payments – which are often found in communities of color – are directly tied to lower school quality and put children at a disadvantage starting in the very early years of their lives.

A recent study by a University of Chicago researcher found that homes in low-income neighborhoods are routinely over-assessed relative to their market value and properties in income rich areas are routinely under-assessed. This is true not only in cities like Chicago, but nationwide.

This practices result in shifting billions of dollars in tax responsibility from high-income to lower-income households, further exacerbating income and wealth disparities by race and ethnicity.

Source: Chris Berry, *Reassessing the Property Tax,* The University of Chicago (March 1, 2021).

Policies that Drive—and Could Reduce—Regressivity in Illinois's Tax System

The high regressivity in Illinois's state and local tax system is the result of heavy reliance on inherently regressive taxes – such as sales and excise taxes and to some extent property taxes – coupled with an underreliance on progressive taxes to offset the impacts of the other tax types.

Corrective policy changes that would result in a better-balanced tax code that doesn't exacerbate racial inequities include:

- Raise new revenue to fund critical public priorities through progressive sources like closing corporate income tax loopholes and increasing personal income taxes through rate increases or base expansions (e.g., taxing retirement income)
- Increase the progressivity of the personal income tax by adopting a graduated rate structure, boosting the Earned Income Tax Credit (EITC), and supporting renters and families with children with new tax credits
- Broaden the sales tax base to include services, lower the general sales tax rate, and enact robust mean-tested refundable credits to offset the regressive impact of sales taxes
- Lower the exemption level on the estate tax and enact a mansion tax on high-value properties
- Improve property tax assessment by using more sophisticated price data and techniques

Table 2: Tax Subsidies to Highest-Income Illinoisans from Black & Hispanic Taxpayers with Less Than $250,000 Under Flat Tax & Wealth Equivalent (2020 dollars)

Year	Actual Tax Rate	% Tax Paid by Black and Hispanic Taxpayers <$250,000 under Flat Tax	% Tax Paid by Black and Hispanic Taxpayers <$250,000 under Fair Tax	Resulting Tax Subsidy to Taxpayers >$250,000 under Flat Tax	Wealth Equivalent of Tax Subsidies for Highest-Income Illinoisans under Fair Tax
1999	3.00%	8%	7%	$127,821,558	$216,872,714
2000	3.00%	8%	7%	$133,457,575	$196,162,457
2001	3.00%	8%	7%	$127,502,273	$217,056,279
2002	3.00%	8%	7%	$121,902,866	$245,260,791
2003	3.00%	9%	7%	$126,154,470	$336,816,315
2004	3.00%	9%	7%	$134,165,942	$292,519,085
2005	3.00%	9%	7%	$142,446,635	$296,128,073
2006	3.00%	9%	8%	$151,213,579	$318,480,084
2007	3.00%	9%	8%	$157,900,420	$304,469,081
2008	3.00%	9%	8%	$153,363,715	$296,986,928
2009	3.00%	9%	8%	$136,308,046	$431,615,237
2010	3.00%	9%	8%	$145,198,877	$370,024,742
2011	5.00%	9%	8%	$242,522,770	$560,958,641
2012	5.00%	10%	8%	$267,718,427	$637,599,534
2013	5.00%	10%	8%	$261,409,333	$555,710,098
2014	5.00%	10%	8%	$276,209,051	$457,440,968
2015	3.75%	10%	8%	$212,105,674	$315,105,920
2016	3.75%	10%	8%	$209,297,559	$310,275,973
2017	3.75%	10%	8%	$258,754,068	$353,739,036
2018	4.95%	10%	9%	$299,898,797	$351,652,651
2019	4.95%	10%	9%	$318,523,679	$405,450,210
			TOTAL	**$4,003,875,313**	**$7,470,324,814**

ITEP Case Study: Flat vs. "Fair" Graduated Income Tax

In 2020, ITEP analyzed the consequences of Illinois's flat income tax on households of different races and ethnicities as compared to the then proposed graduated income tax proposal referred to as "the Fair Tax."

The analysis assessed the impact of having a flat personal income tax on households of different race and ethnicities over a 20-year period, and found the following:

> Black and Hispanic Illinois taxpayers with taxable incomes less than $250,000 paid $4 billion more in taxes over the 20-year period studied under a flat tax than they would have under the Fair Tax.
>
> The $4 billion in additional taxes that Black and Hispanic taxpayers with income less than $250,000 effectively paid under the state's flat tax would otherwise have been paid by the wealthiest Illinoisans, 84 percent of whom are white, non-Hispanic. Assuming an ordinary rate of return, that $4 billion transfer from the state's Black and Hispanic taxpayers with low and moderate incomes to its top 3 percent of earners allowed the state's most affluent residents to build their wealth by as much as an additional $7.5 billion.
>
> These tax differences reduced the standard of living for these families and exacerbated racial income and wealth gaps.

Source: Lisa Christensen Gee, "Illinois's Flat Tax Exacerbates Income Inequality and Racial Wealth Gaps," Institute on Taxation and Economic Policy (September 17, 2020).

Beyond Tax Equity: The Tax Code as a Tool for Advancing Racial Justice

Taxes on income and wealth have a valuable role to play in narrowing unconscionable disparities across race and ethnicity, and meaningfully advancing racial equity through state tax policy will require bold tax reforms.

Addressing disparities in income by race and ethnicity in a meaningful way will require shifting toward a more progressive system with higher tax rates on affluent residents and comparatively less reliance on the tax dollars paid by lower- and middle-income families.

Implementing a graduated personal income tax rate structure, eliminating regressive deductions, strengthening the corporate income tax, and strengthening the estate tax on high levels of wealth would all move Illinois in this direction. Policies designed to lift up low-income families like tax credits for workers, renters, and families with children could also enhance the racial equity of Illinois's tax code.

Just as policymakers and stakeholders came together to create our current state and local tax systems, advocates and lawmakers today can also work together to create something better. In creating more progressive and sustainable tax codes, we can advance social and economic justice for all Illinoisans.

Note on Race/Ethnicity Categories and Methodology

Throughout this analysis, ITEP has provided disaggregated data where possible to provide a preliminary understanding of disparities by race and ethnicity. Data are unfortunately not always available for all races and ethnicities, which is problematic given a history of cultural erasure. As a result of all of this, the statistics throughout this report tell a limited story. And in some cases, the numbers don't reflect – and may even misrepresent – people's lived experiences.

In the Illinois analysis, we want to hold up two notable limitations:

1. Sample size limitations prevent us from producing tax estimates for some groups, such as American Indian and Pacific Islander households.
2. The relatively high average income (and associated higher tax rates) in the Illinois Asian community is in part because U.S. immigration laws over the last 30 years have favored high-skilled visas, many of which are allocated to Asian immigrants. However, this aggregate reporting also obscures the fact that many segments of the Asian community—such as Pakistani, Vietnamese, and Laotian Americans—have comparatively lower incomes and thus vastly different tax profiles and lived experiences than represented in the aggregate data.

ITEP's method for disaggregating state and local tax incidence by race is explained here: https://itep.org/itep-tax-model/iteps-approach-to-modeling-taxes-by-race-and-ethnicity/

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