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LIFE AND TAXES IN ILLINOIS

By Allen R. Sanderson

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Your boss, in recognition of your solid contributions, surprises you with a \$1,000 increase in salary. How happy should you be? Far less than \$1,000, that's for sure.

Assume for the sake of argument that one's property tax, state license plate and Chicago city sticker, and taxes paid for cable television, phone services and electricity are independent of one's income level. Then try on this thought experiment for size.

You work and live in Illinois. Your salary, before that knock on your office door, is \$50,000. That puts you in between pauper and prince — and approximately the per-capita income in the state. As you contemplate a weekend spending spree at a local mall or along North Michigan Avenue, exactly how much better off are you?

First, you would face a 25 percent marginal tax rate on your federal tax obligation. There goes \$250 right off the top. But the feds also want 6.2 percent for Social Security — the payroll or FICA tax — and an additional 1.45 percent for Medicare taxes. And Gov. Pat Quinn would expect a \$50 check for the 5 percent state income tax.

So before you park your car or step off that bus, your \$1,000 increase has dwindled to about \$623. Then, in looking at price tags on sweaters, housewares and toys, you have to remember that you will have to pay about 10 percent of each item in state and local sales taxes. Thus, what is the maximum amount of merchandise you could actually haul to the cash registers? About \$566.

The bottom line is that the typical person in Chicago already faces approximately a 44 percent effective tax rate. (And if your boss doubled your salary you would now be in a higher federal income tax bracket — 28 percent instead of 25.)

Or, framing it another way, how much would you have to earn to pay that \$100 traffic ticket or, for nonitemizers, write out a \$100 check to your favorite charity? About \$161 (the city doesn't charge sales tax for fines, nor does United Way.) Or, in Chicago political terms, how much would Jesse Jackson Jr. have had to earn legitimately to afford the \$750,000 in goodies he siphoned off by misappropriating campaign funds? About \$1.4 million, arguably a better measure of his looting.

Most of the recent media coverage and proposals coming from Washington have to do with the need to raise more revenue, principally by increasing taxes on personal incomes at the federal level. But in this country the myriad taxes and divisions among federal, state and local governments, distinctions not applicable to many nations, have been largely overlooked or purposefully ignored. Even what are thought of as straight-forward comparisons of taxes paid by Americans vs. citizens in other countries are quite misleading.

What matters, whether in deciding whether to work — or study — one more hour, is not the benefit "on average" but the gain from that additional (or marginal) time unit. And at what point do taxes on even relatively modest wage-earners begin to dampen incentives and morale, and also lead to attempts to "game" the system?

Recent high-profile cases, such as French — now Russian — actor Gerard Depardieu and golfer Phil Mickelson, well-heeled people whose choice of country or state, respectively, hinges on their after-tax welfare. Monaco has long been the destination of choice for (formerly) German tennis players; popular Texas and Florida are made even more attractive by the absence of any state income tax.

In addition to geographical relocations, nontaxable benefits also become more enticing. The French have found that working fewer hours per year via combinations of short work weeks and extended vacations, given that leisure time cannot be taxed, is a distinct advantage.

We might want to remember this when conversations and public-policy discussions turn to fiscal and other cliffs. And perhaps also not look so grudgingly when the boss gives us a Thanksgiving turkey or Christmas goose in lieu of a bonus — the fowl are not taxable. Yet.

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