City Income Tax

City Income Tax: The City does not currently impose an income tax on residents or workers in Chicago.

Background

The City does not impose an income tax on residents or workers in Chicago. All residents of Illinois, including Chicago residents, are subject to State and Federal income taxes. The Federal income tax is a progressive income tax. The Illinois income tax is a flat tax, with an individual income tax rate of 3.75% and a corporate income tax rate of 5.25%. A portion of these State income tax revenues – 8% of individual income tax revenue and 9.14% of corporate income tax revenue – flow into the Local Government Distribution Fund (LGDF), from which municipalities are paid their share of state income tax revenue based on population.

Over the past 5 years, revenue to the City from the State income tax has been impacted not only by fluctuations in the economy, but also by changes in the State income tax rates and the portion of revenues that the State allows to flow into the LGDF. Since 2011, revenue to the City from the State income tax has ranged from $200.3 million to $276.0 million, with a 2015 year-end estimate of $275.4 million. Additional information on the share of State income taxes received by the City and revenue history for these taxes can be found on pages 16-17 of the 2015 Annual Financial Analysis.

Revenue Impact

Setting aside the legal issues discussed below, there a number of forms and structures that income taxes can take – following are estimates based on a few simple scenarios, including the concept of taxing only commuters (e.g. non-resident employees).

Based on recent population and income data, it is estimated that a flat income tax on all workers in the city at 0.5% could produce an estimated $420 million; if this was applied only to commuters, it could produce an estimated $170 million. If the first $50,000 in income was exempt from the tax, a 0.5% tax could produce an estimated $190 million; if this was applied only to commuters, it could produce an estimated $90 million.

Legal Authority

Imposing any tax on income would require a change in state law, as the City does not have authority to impose any tax "upon or measured by income or earnings or upon occupations." Ill. Const. 1970, Art. IV, Sec. 2.

Even if the State authorized the City to implement an income tax, there are constitutional hurdles to making that tax progressive – the Illinois Constitution limits Illinois governments to imposing a flat income tax. Ill. Const. Art. IX Section 3(a).

In addition, there are both U.S. and Illinois constitutional hurdles to taxing only commuters – both Constitutions restrict the targeting of a specific group of people to raise revenues, such that the City could not impose an income tax on non-residents but not residents, nor could it impose an income tax at a higher rate on non-residents than on residents. See, e.g., Toomer v. Witsell, 334 U.S. 385, 396 (1948); City of New York v. State of New York, 94 N.Y. 2d 577 (2000); City of Elgin v. Winchester, 300 Ill. 214, 216-7 (1921). It is possible that some kind of a fee could be levied if it were tied to specific, higher costs associated with commuters. This would require conducting a study in order to demonstrate what those costs are, and then basing any fee closely upon those higher costs. Such a fee would also require a change in State law. See, e.g., Commercial National Bank v. City of Chicago, 89 Ill. 2d 45 (1982).

Other Cities

- New York City imposes an income tax on all residents of the city, with a progressive rate ranging from approximately 3% to 4%.
- Most other cities that impose an income tax apply the tax to all wages earned in the city, such that the tax applies to both resident and non-resident workers. For example, in Denver, all employees within the city must pay a $5.75/month tax on compensation over $500; in San Antonio, all employees within the city must pay a local tax of 2.5%; in San Francisco, a 1.5% income-based tax is imposed on the employer.
- A number of jurisdictions impose a higher tax on resident workers than non-resident workers, including counties in Indiana and Maryland and the city of Philadelphia, which imposes an approximately 4% income tax on residents and an approximately 3.5% income tax on non-residents.
- No major city charges a tax on only non-resident employees.