Reforming the Illinois Estate Tax to Advance Tax Equity and Fund Public Services

April 24, 2023

A Joint Report By:

ILLINOIS
School of Labor & Employment Relations
Project for Middle Class Renewal

CTBA | Center for Tax and Budget Accountability

Dylan Bellisle, M.S.W., PhD
Allison Flanagan, MPP
Ralph Martire
Robert Bruno, PhD

EXECUTIVE SUMMARY

Illinois is at a fiscal crossroads. The state's General Fund has run a budget deficit for each of the past 22 years—a deficit primarily driven by the lack of revenue growth[1]. And while many like to blame Illinois' fiscal woes on profligate spending on services, the data simply does not support that position. In fact, after adjusting for inflation, General Fund spending on public services has decreased over the past 23 years, with considerable reductions in critical investments like Higher Education, Healthcare, Public Safety, and Human Services[2].

Tellingly, Illinois has cut its spending on those core services, despite receiving over $10 billion in federal subsidies through the Coronavirus Aid, Relief, and Economic Security Act and the American Rescue Plan Act[3]. Looking forward, all that federal fiscal relief is expected to be spent by the middle of FY 2024. Further aggravating conditions for working- and middle-class residents, Illinois is noted for having one of the most regressive tax systems in the country, placing a much greater tax burden on low-income workers and middle-class families than on affluent individuals, when tax burden is measured as a percentage of income[4].

While Illinois and many other states continue to struggle to create fair tax systems that have the capacity to fund vital services for their residents sustainably over time, wealth inequality has grown exponentially over the past 50 years, and now stands at a level the country has not seen in over a century[5]. For instance, from 1963 to 2016, the most recent year in which available wealth data is stratified by percentile, the wealthiest one percent in America saw their aggregate wealth jump from an average of $1.4 million in 1963 to $10.4 million in 2016 —a whopping 742 percent increase[6]. Over that same sequence, folks who had wealth in the 75th percentile saw their wealth grow from just over $110,000 to $368,600—a far more modest increase in both absolute and proportional terms. Moreover, the lower down the income scale one looks, the worse the disparity in wealth becomes[7].

From a fiscal policy standpoint, few tax options are available that would raise revenue while simultaneously making state-level taxation fairer by responding to the significant growth in wealth and income inequality. One such option, however, is the tax assessed on wealthy estates. Known as the "**Estate Tax**," this tax is levied on the net value of the estate of a deceased person (a "**decedent**") before the estate's assets are distributed to the decedent's heirs. Generally speaking, only estates that have a dollar value in excess of a specified amount are subject to Estate Taxes, and then only the value in excess of the specified amount gets taxed. The value of an estate that is below the threshold amount is typically exempt from taxation.

As it turns out, utilizing the Estate Tax to generate revenue while making tax incidence fairer is not only sound fiscal policy for today's economy, but can be traced back to the very beginnings of our nation. Many of the founding fathers not only believed government had a duty to limit the concentration of wealth and the inheritance of power, but felt that doing so was core to creating fairness and equality of opportunity[8]. Taxes on estates and inheritances were tools used to realize these uniquely American values[9]. Unfortunately, the tax insights of the founding fathers have fallen to the wayside, as over the last 30 years both the federal and many state governments have substantially reduced or even eliminated their estate taxes[10].

Prominent figures in the founding of the United States warned about the dangers of concentrated wealth and power. They believed that enacting legislation to curtail the inequality that resulted from the inheritance of wealth—and hence power and privilege – was an important task of the government. Key among these initiatives was utilizing progressive forms of taxation on property[11].

EXECUTIVE SUMMARY

The following report:

(i) provides a short history of the Estate Tax in the U.S. and Illinois;

(ii) shows how the evidence supports the historic alignment between the Estate Tax and traditional American values of fairness and equality of opportunity;

(iii) demonstrates how changes to the Estate Tax have eroded its capacity to generate revenue from those with the greatest ability to pay; and

(iv) offers a recommendation for reforming the Estate Tax to ensure it can play a positive role in enhancing revenue generation in a manner that makes tax incidence fairer.

Key Findings and Recommendation:

- Between 2002 and 2014, Illinois quadrupled the threshold for assessing the Estate Tax, called the "**Exclusion Limit,**" from $1 million to $4 million[12]. This has eroded the tax base with the number of estates paying the Estate Tax in Illinois decreasing from a 2001-peak of 5,100 to 860 in 2020, resulting in an estimated $5 billion of lost revenue over an 18-year period[13].

- Since increasing the Exclusion Limit to $4 million, the revenue generated from the Estate Tax has become particularly volatile – ranging from $240 million to $400 million in annual revenue generation, for an average year-over-year growth of 1.64 percent and average annual revenue collection of $340 million in inflation-adjusted dollars[14]. This stands in stark contrast to the decade of the 1990s—which immediately preceded the increases in the Exclusion Limit and the Exclusion Limit was set at $600,000—during which revenue from Illinois' Estate Tax steadily increased on average by 8.75 percent annually, or $286 million inflation-adjusted dollars annually.

- Reducing the Exclusion Limit would both broaden the base subject to Illinois' Estate Tax—thereby generating new revenue from those with large estates—and enhance the tax fairness created by the Estate Tax.

- Lowering the Exclusion Limit to (a) $2 million could generate an average of $151 million in new revenue annually; (b) to $1.5 million could generate an average of $221 million in new revenue annually; and (c) to $1 million to an average of around $300 million in new revenue annually.

- If Illinois returned its Estate Tax Exclusion Limit to its 2002 level of $1 million, the state could increase the total aggregate revenue generated from the Estate Tax from $340 million to $640 million annually.

Table of Contents

About the Authors

Allison Flanagan, MPP is the Associate Director Budget & Policy at the Center for Tax and Budget Accountability (CTBA). Allison leads CTBA's research on Illinois fiscal policy, including the Illinois General Fund Budget and Tax Policy such as income taxes, corporate taxes, federal revenue, and Illinois' structural deficit. She specializes in Education Policy research for CTBA, specifically the Evidence-Based Funding Formula and the intersection of education policy and fiscal policy. Prior to her work in the public policy space, Allison was an elementary school teacher. She has a Master of Public Policy degree with a certificate in Policy Analysis from UChicago's Harris School of Public Policy and a Bachelor of Arts in Education from Michigan State University.

Dylan Bellisle, M.S.W., PhD is a Postdoctoral Research Fellow with the Project for Middle Class Renewal at the School of Labor and Employment Relations at the University of Illinois at Urbana-Champaign. His research focuses on how public policy shapes family economic well-being and the financial coping and social mobility strategies of low-income families. His current research examines individual and family-level experiences with the Earned Income Tax Credit and Child Tax Credit, the possible misalignments between EITC eligibility and family life, and the ways in which families establish and maintain forms of social support expressed through mutual care. He completed his Ph.D. in Social Work, Policy, and Practice at the University of Chicago.

Ralph Martire is the Executive Director of the Center for Tax and Budget Accountability(CBTA) and Arthur Rubloff Professor of Public Policy at Roosevelt University. During his time at CTBA, he has helped obtain numerous legislative successes, including passage of the Evidence Based Model of Education Funding in FY 2018, a state Earned Income Tax Credit, creation of a bipartisan legislative task force to integrate workforce and economic development policies, passage of the 2011 Temporary Tax Increases, and corporate accountability legislation that requires public reporting of economic development benefits created through receipt of tax breaks and other subsidies.

Robert Bruno, PhD is Professor and Director, Labor Education Program at the University of Illinois – Urbana Champaign's School of Labor and Employment Relations. His research focuses broadly on working-class and union studies issues. He is the author of three books, Reforming the Chicago Teamsters: The Local 705 Story, Steelworker Alley: How Class Works in Youngstown and Justified by Work: Identity and the Meaning of Faith in Chicago's Working-Class Churches. He has also published articles in such journals as Workplace Democracy, Labor Studies Journal, Labor History, Advances in Industrial and Labor Relations, Working USA and the Journal of Labor Research.

ABOUT THE CENTER FOR TAX & BUDGET ACCOUNTABILITY

The Center for Tax and Budget Accountability ("CTBA") is a think tank committed to fostering social and economic justice through evidence-based, best practice public policy solutions that satisfy demographically driven needs, are sustainable over time, and are adequately funded to generate desired outcomes.

ABOUT THE PROJECT FOR MIDDLE CLASS RENEWAL

The Project for Middle Class Renewal's mission is to investigate the working conditions of workers in today's economy and elevate public discourse on issues affecting workers with research, analysis and education in order to develop and propose public policies that will reduce poverty, provide forms of representation to all workers, prevent gender, race, and LGBTQ+ discrimination, create more stable forms of employment, and promote middle-class paying jobs. Each year, the Project publishes critical research studies and holds education forums on contemporary public policies and practices impacting labor and workplace issues. If you would like to partner with the Labor Education Program in supporting the work of the Project or have questions about the Project please contact Robert Bruno, Director of the Labor Education Program, at (312) 996-2491.

ACKNOWLEDGMENT

The authors would like to thank representatives of the Illinois Attorney General's office for answering our questions related to the estate tax and providing information on the aggregate annual estate tax collections.

1. Reforming the IL Estate Tax to Address Flaws in IL Tax Policy

Illinois' inequitable tax policy has failed to respond to how income is distributed in the modern economy and hence constrained long-term revenue growth[15]. Moreover, to cover for the inadequate revenue the state's tax policy was generating, for generations Illinois decision makers opted to underfund the actuarial required contribution owed to the state's five public pension systems, and divert revenue that should have funded pensions to instead pay for delivery of current services. This in turn ultimately helped create the massive –as in $139 billion—unfunded pension liability that exists today[16]. The irresponsibly backloaded plan the state created in 1995 to repay that pension debt, called the "Pension Ramp," is now worsening the structural deficit initially caused by Illinois' flawed tax policy[17].

In a 2022 report, the Center for Tax and Budget Accountability ("CTBA") demonstrated that Illinois' General Fund has had a budget deficit for the past 20 years, and that this deficit is directly due to the lack of adequate revenue growth and the inability of Illinois to address this gap in revenue through progressive tax increases[18]. Moreover, despite the belief among some that the state is "recklessly spending," Illinois General Fund spending on services has decreased over the past 23 years, with Fiscal Year ("FY") 2023 spending on critical services in Healthcare, Education, Public Safety, and Human Services 15.9 percent less than the inflation-adjusted level of spending in FY 2000.

Over the past two years, Illinois received critical financial support from the federal government, most notably through two federal relief packages—the Coronavirus Aid, Relief, and Economic Security ("CARES") Act of 2020, and the American Rescue Plan ("ARPA") Act of 2021. Coupled with recent legislation passed by the Illinois General Assembly that modestly increased revenue by eliminating several tax expenditures for corporations starting in FY 2022, the state is projected to have an "on-budget" surplus for FY 2022, FY 2023, and FY 2024[19]. While the new revenue is vital to the state's fiscal health, this revenue did not lead to a meaningful increase in General Fund spending.

Illinois' ongoing structural deficit and impending fiscal cliff at the end of FY 2024 cannot be resolved sustainably without legislative action. Since cutting spending on core services is not a sound policy alternative in a state like Illinois, which in real, inflation-adjusted terms has been disinvesting in Education, Healthcare, Human Services and Public Safety ever since FY 2000, it would behoove lawmakers to consider raising recurring revenue to help eliminate the structural deficit and obviate the need for more cuts to core service expenditures.

However, whenever tax increases are on the table, tax fairness has to be considered. This is particularly important in Illinois, which according to the Institute on Taxation and Economic Policy ("ITEP"), has one of the most inequitable tax systems in the nation, imposing a much greater tax burden on low-and middle-income earners than on affluent individuals, when tax burden is measured as a percentage of income[20]. Hence, lawmakers should attempt to raise new revenue by implementing tax increases that would make distribution of tax burden more equitable across Illinois, by shifting the onus from low and middle income earners to wealthier individuals.

Unfortunately, the most facile means of doing so—utilizing a graduated rate for the state income tax like the federal government and most states with an income tax already do—is not permitted by the Illinois state constitution[21]. Instead, Illinois is constitutionally mandated to impose its income tax using one, flat rate across all levels of income, from minimum wage earners to millionaires. This constitutional restriction is one of the key reasons tax incidence in the state is so unfair[22].

The recent attempt to amend the state's constitution to permit a graduated rate income tax failed when voters did not ratify the Fair Tax Amendment in November of 2020[23]. That failure was a lost opportunity, given that most taxes, like sales taxes, property taxes, and excise taxes, as well as user fees, are regressive, because they take a greater portion of the earnings of low- and middle-income workers than top earners[24].

1. Reforming the IL Estate Tax to Address Flaws in IL Tax Policy

Indeed, only a couple of taxes allow for imposition of a fair, as in progressive, tax burden that comports with an individual's ability to pay. One, of course, is the income tax, but only if it has a graduated rate structure. As noted in a joint study by the University of Illinois' Project for Middle Class Renewal and the Illinois Economic Policy Institute ("ILEPI"), the Fair Tax would have promoted "tax fairness based on ability to pay."[25]

The other tax that can be designed in a manner that tracks ability to pay is the Estate Tax. Reforming Illinois' Estate Tax would generate vital revenue from the state's wealthiest residents to help fill future budget gaps in a manner that aligns with American ideals of fairness, equality of opportunity, and progressive taxation that many of the founding fathers, and philosophers like Thomas Paine, envisioned for the new nation.[26]

Unfortunately, the data illustrates that over the past 30 years, instead of living up to these American principles and limiting the concentration and inheritance of social and economic power and privilege, the country generally, and Illinois specifically, have allowed wealth and income inequality to grow significantly. So much so, that the current proportion of wealth concentration in the hands of the few hasn't been seen since the early 20th century.[27] For instance, a study of Illinois done by ILEPI demonstrated that since 1980, income inequality in the state worsened by 173 percent and property wealth inequality worsened by 92 percent.[28] Given those developments, and the recent failure of voters to ratify the fair tax, one of the few options Illinois has available that can simultaneously raise new revenue while decreasing tax burden on working- and middle-class families, is to enhance its Estate Tax.

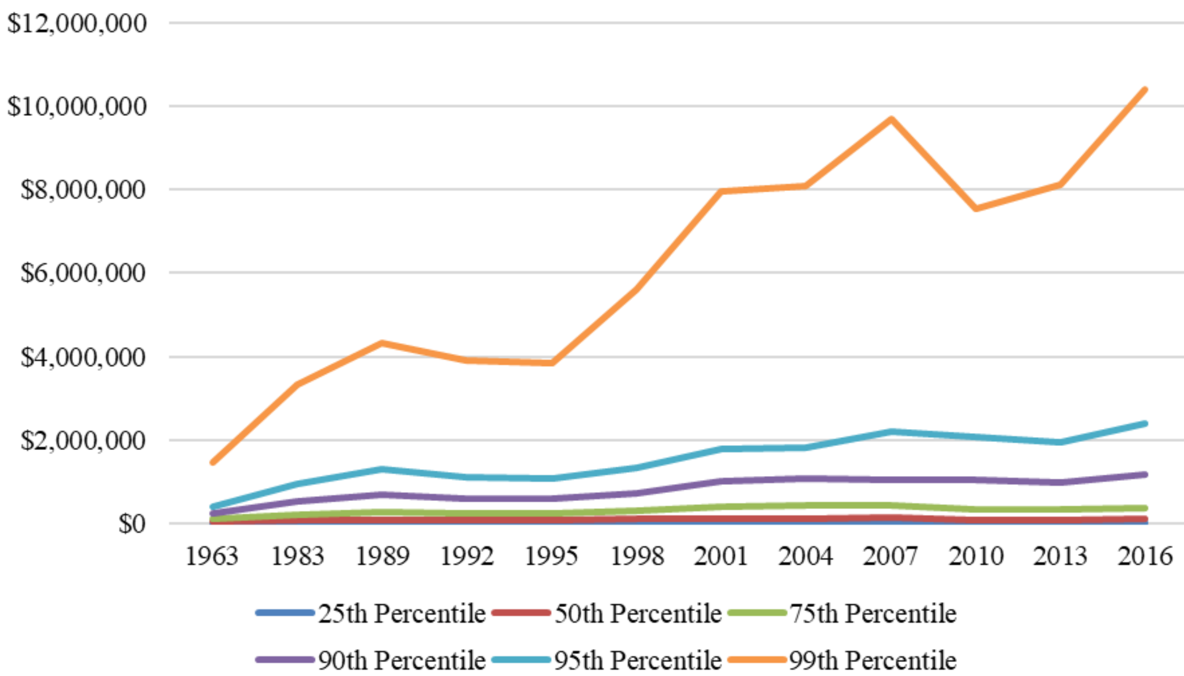
To determine the best possible approach for addressing tax fairness through reform of the Illinois Estate Tax, the analysis in the following sections of this report utilized data from the Internal Revenue Service ("IRS"), historic Estate Tax receipts data from the Illinois Attorney General, Illinois State Treasurer, and the Illinois Commission on Government Forecasting and Accountability ("COGFA"). It should be noted that the analysis in this report is limited due to availability of data and privacy of filers.

2. Growth in Wealth Inequality in the U.S.

Wealth inequality is a growing concern in the United States. Figure 1 shows the growth in family wealth by percentile from 1963 to 2016. As illustrated in **Figure 1**, the 99th percentile—i.e., the top 1 percent—of households, realized significant growth in wealth over this sequence, from about an average wealth level of $1.5 million in 1963, to nearly $10.5 million in 2016.[29]

Figure 1

Distribution of Family Wealth by Percentile, 1963 to 2016



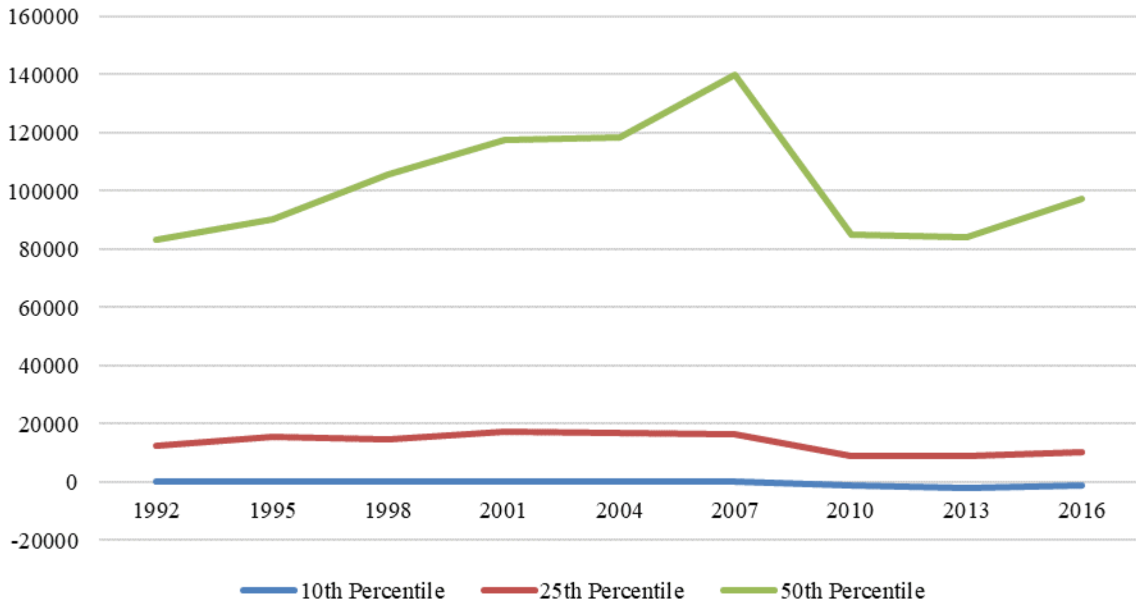
Source: Urban Institute. "Nine Charts about Wealth Inequality in America." https://apps.urban.org/feature

Figure 1 shows the 95th and the 90th percentiles (the top 5 percent and 10 percent, respectively) saw modest growth in wealth. Average household wealth at the 95th percentile in 1963 was about $410,000 and grew to $2.3 million in 2016, while the 90th percentile saw growth in household wealth from about $240,000 to $1.2 million over the same period. As **Figure 1** makes clear, wealth did not increase in a meaningful way for anyone at or below the 75th percentile.

Meanwhile, **Figure 2** illustrates how the bottom half of the population were hit hardest by the 2008 Great Recession and have experienced a very slow recovery in wealth accumulation. The average wealth at the 50th percentile peaked at $140,000 in 2007, then dropped 40 percent to $85,000 in 2010 and has yet to recover their pre-recession wealth. Meanwhile, since 2010 the 10th percentile—that is the bottom 10 percent in wealth—-realized a negative change in their wealth.

2. Growth in Wealth Inequality in the U.S.

Figure 2
Family Wealth Among the Bottom 50th Percentile, 1992 – 2016



Source: Urban Institute. "Nine Charts about Wealth Inequality in America." https://apps.urban.org/feature

What the data make clear is that the significant worsening of wealth inequality America is experiencing today is due to two different trends occurring simultaneously. On the one hand, the rate of growth in wealth for the top one percent of families has been remarkably high. On the other, the rate of growth in wealth for low- and middle-income families has either been remarkably low or even negative in some cases. This has led various decision makers, policy advocates, and researchers to promote the use of progressive tax reforms focused on wealth as a means of responding to these troubling trends. Key among them is world renown economist Thomas Piketty. He raised the alarm on the harm to society that growing wealth inequality causes, by detailing, among other things, how passing along significant wealth through inheritance threatens American ideals of democracy, meritocracy, and equal opportunity.[30]

Piketty and his colleagues, economists Emmanuel Saez and Gabriel Zucman, argued in a recent paper that a well-designed Estate Tax is not only integral to optimal capital taxation, but that there are also "strong meritocratic reasons why we should tax inherited wealth more than earned income or self-made wealth" because we don't choose our parents.[31]

Indeed, some elected officials at the federal level—who agree with the thinking of Saez and Zucman—recognize that more robust investments in core public services and programs (e.g., universal pre-K and childcare, expansion of access to healthcare, child tax credits for low-income workers and the middle class, etc.), are needed to address demographically driven needs, and to help enhance the earning and wealth development potential of low and middle income families. So, in addition to enhancing the Estate Tax, these federal officials have also proposed various new forms of taxation on the very wealthy, ranging from an annual "net wealth tax," to a minimum income tax of 20 percent on households with wealth holdings over $100 million.[32]

2. Growth in Wealth Inequality in the U.S.

It would seem such proposals have the potential to garner popular support, given national polls reveal most Americans believe the very wealthy are not paying their fair share and should pay more in taxes.[33] One poll found nearly two-thirds, or 63 percent, of Americans support a minimum income tax of 20 percent on income over $100 million, including 82 percent of Democratic voters, 60 percent of Independents, and 50 percent of Republican voters.[34] Yet despite this broad support across ideological lines, to date the federal government has failed to enact new approaches to taxing wealthy individuals.

Policymakers at the state-level across the nation have also started to advance various proposals to increase taxes on wealth that include everything from enhancing Estate Taxes, to implementing various forms of an annual net wealth tax.[35] In Illinois, State Representative Will Guzzardi recently pitched the idea of treating "unrealized capital gains" (i.e., the increase in a capital asset's value annually) as income for individuals with more than $1 billion in assets, and tax those unrealized gains at the state's 4.95 percent income tax rate.[36] Such a proposal merits further analysis to ensure it is allowable under the Illinois Constitution and administratively feasible.

One concern about the proposal to tax unrealized capital gains is the relatively high threshold of $1 billion in financial assets, which means the initiative would only apply to the fewer than 25 billionaire residents in Illinois.[37] Having such a small tax base means the amount of revenue generated from the initiative would be especially sensitive to investment strategies of even one person subject to the tax.

3. The Estate Tax

3.1 Historical Context

The United States, like many other nations, established Estate Taxes to generate revenue from affluent citizens when they die and transfer their wealth to younger generations. The Estate Tax is levied on the net value of assets an individual transfers to others at the time of death. Therefore, an Estate Tax is a one-time tax on assets, minus debts and various deductions. Taxes on estates have a long history in the United States, with the federal government levying various short-term taxes on property and estates starting with the Stamp Act of 1797, which created a progressive Estate Tax.[38]

Important figures in the founding of the U.S. were wary of the societal problems caused by concentration of wealth and the inheritance of class and economic privilege.1 Because of that, they sought to forge a nation different from the aristocratic inheritance of power and privilege endemic in England at that time.[39] Influential American philosopher Thomas Paine was so dedicated to the idea of a progressive tax on property and wealth he outlined an elaborate tax structure with 24 brackets and a top marginal tax rate of 100%. [40]

The resistance to aristocratic inheritance was so prevalent at that time that many individual states enacted laws designed to prevent perpetual inheritance. For instance, North Carolina's original constitution gave that state's government the power to *"regulate entails in such a manner to prevent perpetuities,"* which allowed North Carolina to limit the existence of trusts that allow for land and property to be passed on to descendants. Legislation passed in North Carolina in 1784 further detailed the motivation of limiting the "perpetuity of wealth," stating *"entails of estates tend only to raise the wealth and importance of particular families and individuals, giving them an unequal and undue influence in a republic."*[41]

Stated plainly, inheritance of significant wealth and the power and influence that such wealth offers an individual and family was a practice many prominent founders of America sought to curtail through law, as they believed it ran counter to a nation based on equality of opportunity.

As industrialization grew in the U.S. during the late 1800s, so did the wealth among the owners of industry. This rapid renewed concerns about large concentrations of wealth and its potential impact on American society. So much so that even some well-heeled industrialists recognized the need to tax wealth passed through inheritance. For instance, in 1889 famed industrialist Andrew Carnegie averred, *"of all forms of taxation, [taxing estates] seems the wisest"* and allowing wealthy families to leave their surplus wealth to their decedents was the *"most injudicious"* mode in which wealth could be handled at death.[42]

As it turns out, Carnegie's stance on taxing wealth comported fully with capitalistic principles of tax fairness that go all the way back to 1776, and the very creation of the theory of capitalism by Adam Smith. In his seminal work *The Wealth of Nations*, Smith specifically endorsed the propositions that:

> Tax policy should "remedy inequality of riches as much as possible, by relieving the poor and burdening the rich," and
>
> "The subjects of every state ought to contribute toward the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state."[43]

Which means the concept of taxing wealth has its roots in both the founding of America and the creation of a capitalist economy.

In his 1906 State of the Union Address, President Theodore Roosevelt balanced the desire to leave one's

It is essential to note the profound contradictions of the American ideal that "all men are created equal" and that the founders were primarily concerned with the equality of opportunity and participation in governance for White men. Black and Indigenous people and White women were explicitly excluded from the founders' considerations and concerns of equality of opportunity and government. Furthermore, the enslavement of Black people and the dispossession and genocide of Indigenous people were essential methods for acquiring and growing wealth. Also, the interests of slaveholders significantly impacted the forms of taxation implemented throughout the early history of the nation and continue to impact American sentiments on taxation today.
See: https://www.aaihs.org/wealth-slavery-and-the-history-of-american-taxation/

children well-off after death with the need to prevent excessive concentrations of wealth by promoting a tax on large estates, saying *"… the prime object should be to put a constantly increasing burden on the inheritance of those swollen fortunes which it is certainly of no benefit to this country to perpetuate."*[44]

The passage of the Revenue Act of 1916 ushered in the modern era of taxation as the federal government began moving away from the use of tariffs to generate revenue and towards taxing income and inherited estates. This approach echoed Thomas Jefferson's wisdom to tax those with little the least (if at all), and those with great wealth and income the most. In accord with this philosophy, federal income tax rates on the wealthy were at their highest levels between the end of WWII and the 1970s, during the nation's period of fastest economic growth and shared prosperity.[45] Over that time period the country saw a dramatic improvement in the quality of life for much of the population, while also beginning to reckon with its legacy of racial and gender injustice.[46]

Which means even though the U.S. federal government did not impose a regular Estate Tax for its first 125 years, uniquely American ideals of equality of opportunity, and an aversion to inherited social and political privilege for the few, have been foundational principles throughout our history.

3.2 A Short History of the Current Federal Estate Tax

The Tax Reform Act of 1976 ("**TRA**"), which unified estate and gift taxes, created the basic structure of the current federal Estate Tax.[47] Under the TRA, the Estate tax was imposed using graduated rates as taxable assets grew, and adopted an Exclusion Limit (described below in further detail) of $120,00 that allowed for an annual increase. The graduated rate structure began at 18 percent on taxable transfers up to $10,000 , and went up to a maximum rate of 70 percent for transfers of more than $5 million.[48] Therefore, the estate tax has a similar structure as the federal income tax, with marginal tax rates for specific amounts and an effective tax rate that reflects the overall tax paid.

Various reforms enacted after the TRA changed numerous exemptions, exclusions and rules over time, including the maximum gift and estate exclusions, maximum marital deductions, charitable giving exemptions, and rules for estates consisting primarily of property and assets in a closely held family business. Today, federal Estate Tax rates range from 18 to 40 percent, and generally apply only to the value of estate assets that exceed $12.92 million.[49]

A central element of the federal Estate Tax is the point at which the tax is first levied. Prior to the Taxpayer Protection Act of 1997 ("**TPA**"), the federal government utilized a "unified credit" to offset some estate tax liability. Under the unified credit approach, the credit was used to offset tax liability, much like income tax credits.

The TPA changed terminology from the "unified credit" to an "**Exclusion Limit**", as they operated in a similar fashion. The Exclusion Limit sets the value of an estate that will be excluded for tax purposes. The TPA gradually increased the Exclusion Limit from $600,000 in 1997 to $1 million in 2006. The Economic Growth and Tax Relief Reconciliation Act of 2001 ("**EGTRRA**") incrementally raised the Exclusion Limit from $1 million in 2006, to $3.5 million in 2009, and reduced the top rate from 50 percent to 45 percent.[50]

EGTRRA also set in motion the weakening of the Estate Tax as a progressive source of revenue—and thereby diminished the efficacy of the only taxes levied on the accumulated wealth of the country's richest families. The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010, and the American Taxpayer Relief Act of 2013, further increased the Exclusion Limit to $5 million, and indexed it to inflation so it would continue to increase over time. Then, the 2017 Tax Cuts and Jobs Act ("**TCJA**") doubled the exemption to $11.18 million in 2018. Since the doubling of the exemption under the TCJA, fewer than one-tenth of one percent of all estates nationally have paid any Estate Tax, resulting in less than 1,300 federal Estate Tax filings in 2020, compared to nearly 52,000 in 2000.[51]

3. The Estate Tax

Over the past 20 years, the continued cuts in the tax rate structure, increases in the exemption amount, and concomitant decline in number of estates paying the Estate Tax, have collectively resulted in a considerable amount of revenue being lost. For example, inflation adjusted to 2020 dollars, the federal government collected over $33.7 billion in Estate Tax revenue in 2000—compared to less than $9.5 billion in 2020, a decline of 72 percent.[52] But that does not paint a complete picture of the scope of federal revenue lost to changes made to the Estate Tax.

According to research done by the Brookings Institute, after adjusting for the growth in wealth among the richest Americans, an estimated $145 billion could have been collected in 2019 via the Estate Tax if there had been no changes to the Estate Tax from 2000 onward.[53] Stated plainly, over the last 20 years, the wealthiest Americans have received tax cuts that allowed them to pass down an additional $130 billion plus in wealth to their decedents, thereby worsening the burgeoning wealth inequality gap in America—and denying the federal government revenue that could have been used to fund services.

3.3 The Estate Tax in Illinois

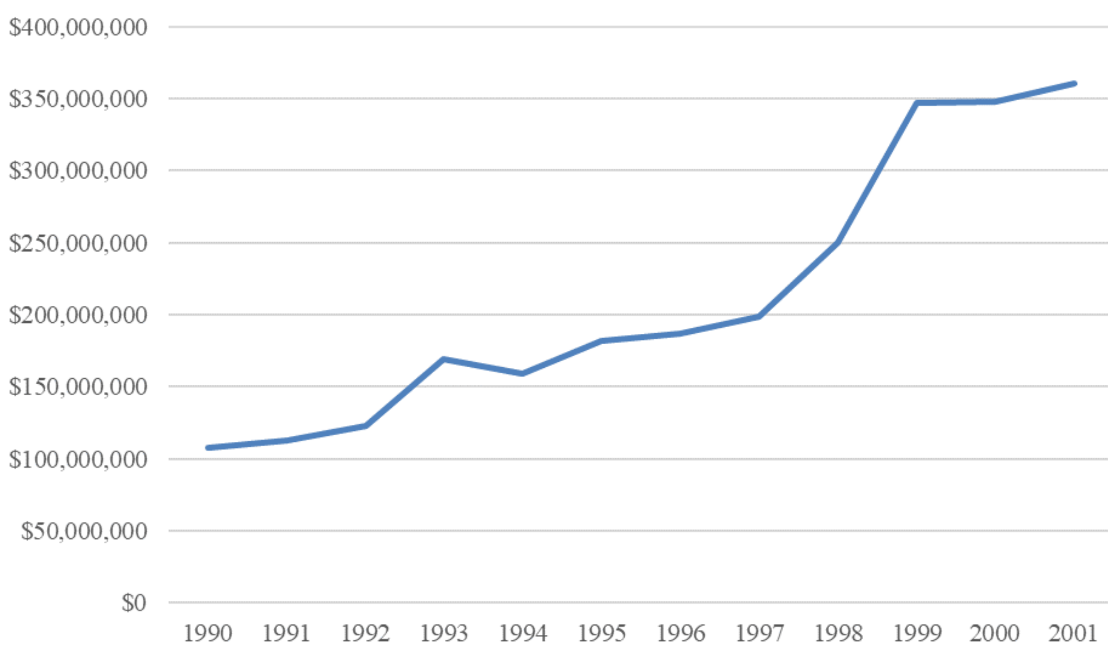
Illinois also has a long history of looking to the estates of its wealthiest residents as a source of revenue. Indeed, Illinois is one of several states that taxed large inheritances through a progressive tax structure prior to 1900. In addition, between 1949 and 1983, Illinois had both an Estate Tax and an Inheritance Tax. Illinois repealed its Inheritance Tax in 1983.[55]

Starting in 1955, Illinois set its Estate Tax equal to the maximum state credit that decedents could claim under federal Estate Tax laws, when determining the taxable value of their estate assets for federal purposes. This did not make Illinois unique, as most states "piggy-backed" their state Estate Tax to this provision in federal law.[56] Setting the Illinois estate tax equal to the maximum federal estate tax state credit created the applicable "Marginal Rate Band Structure" referenced later in this report. The Marginal Rate Band Structure has a graduated structure that levels a higher marginal rate on wealth holdings within certain value bands.

That all changed with the passage of the EGTRRA in 2001 because, in addition to the exemption increases mentioned above, the EGTRRA also phased out the state tax credit over a four-year period.[57] Given that the Illinois Estate Tax was set equal to the state credit allowed against federal Estate Tax liability, as the federal credit lessened over this period, the maximum Illinois could collect under its Estate Tax also lessened, thereby causing the state to lose revenue from its Estate Tax in 2002 and 2003. Responding to that problem, the Illinois General Assembly passed legislation in 2003 that "decoupled" the state's estate Tax from federal law, and effectively reverted back to the Estate Tax structure that pertained in Illinois before the EGTRRA phased out the state tax credit allowed under federal law.[58]

From a purely fiscal standpoint, the state had a very rational reason to decouple its Estate Tax from EGTRRA. A report commissioned by the Illinois General Assembly in 2001 to assess the potential impact of EGTRRA estimated that Illinois would lose nearly $1.5 billion in Estate Tax revenue between 2003 and 2007, if the state did not decouple from the federal law.[59] That would have been a significant blow to its fiscal system, given that Illinois' General Fund was already running a multi-billion dollar deficit.[60] Moreover, prior to the passage of EGTRRA, Illinois was realizing steady growth in Estate Tax revenue receipts from 1990 to 2001, as shown in **Figure 3**.

Figure 3
Illinois Revenue from Estate Tax, 1990 – 2001, nominal dollars



Source: Illinois Attorney General data

3. The Estate Tax

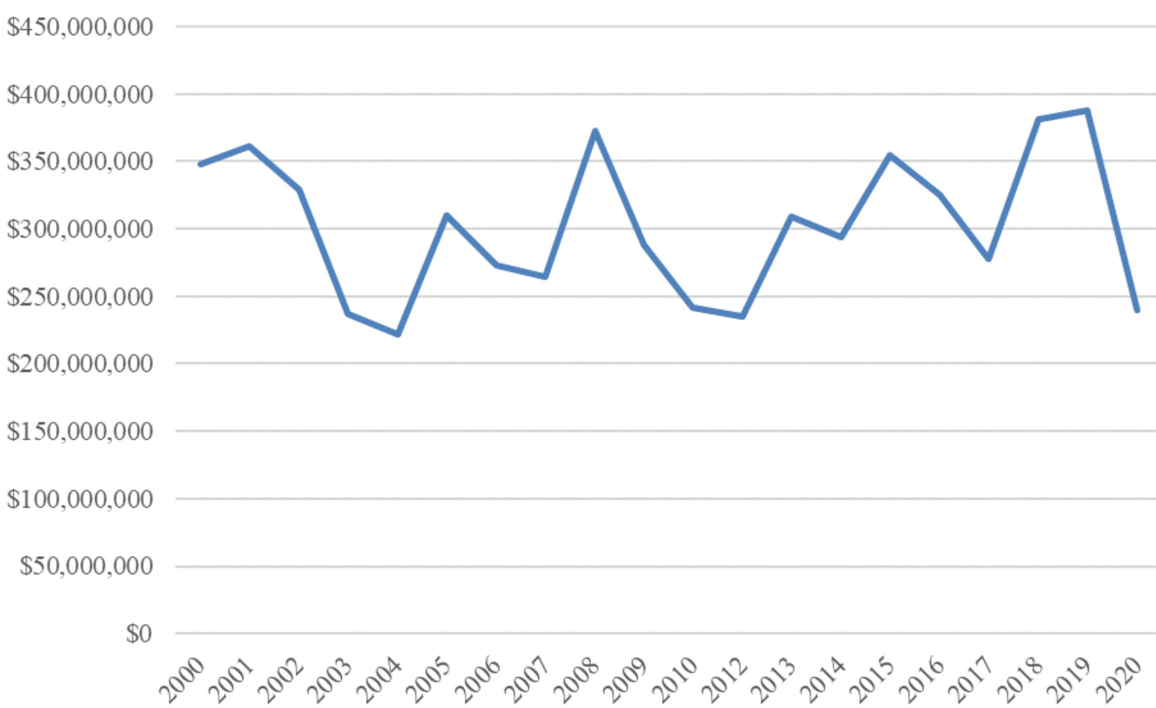
A 2006 COGFA report found that historically, revenue from the Estate Tax in Illinois grew steadily during the 1990s, at a clip of about 8.3 percent a year.[61] Of course, that was prior to enactment of the EGTRRA in 2001, as well as the other federal and Illinois state level changes to the Estate Tax that followed. From a state-law perspective, no changes to the Illinois Estate Tax had a greater—or more deleterious—impact on revenue generation than did the decision made by Illinois policy makers to continually increase the threshold dollar amount at which the Illinois Estate Tax was levied between 2004 and 2013. Over that sequence of time, the threshold amount for taxation of a decedent's estate in Illinois went from $1 million in 2002, to $1.5 million in 2004, $2 million in 2006, $3.5 million in 2012, and ultimately up to $4 million in 2013, where it currently remains.[62]

In a 2001 report, the state predecessor to COGFA, known as the Illinois Economic and Fiscal Commission or "**EC & Fisc**," predicted that if the state's revenue from its Estate Tax grew at just 4 percent per year thereafter—which is less than half the rate of growth the state actually experienced during the 1990s—Illinois would have collected an estimated $760 million in Estate Tax revenue in 2020.[63] Of course, at the time of that report the threshold amount for taxation of a decedent's estate in Illinois was still $1 million.

Instead, the state only collected $240 million, or less than one-third as much as Illinois was projected to collect, if the threshold amount for the state's Estate Tax had remained at the $1 million level that applied in 2000.[64] Worse, predicated on Ec & Fisc's projections from 2001 referenced above, Illinois' General Fund potentially lost over $5 billion in aggregate revenue from the wealthiest families in the state between 2002 and 2020, due to the erosion of the Illinois Estate Tax caused by increasing the threshold amount.

Moreover, rather than increase annually at a steady rate as it had during the 1990s, annual revenue collected from the Estate Tax in Illinois instead fluctuated considerably between 2000 and 2020, varying from about $220 million to just under $400 million, as shown in **Figure 4**.

Figure 4
Illinois Revenue from Estate Tax, 2000 – 2020, nominal dollars



Source: Illinois Attorney General data

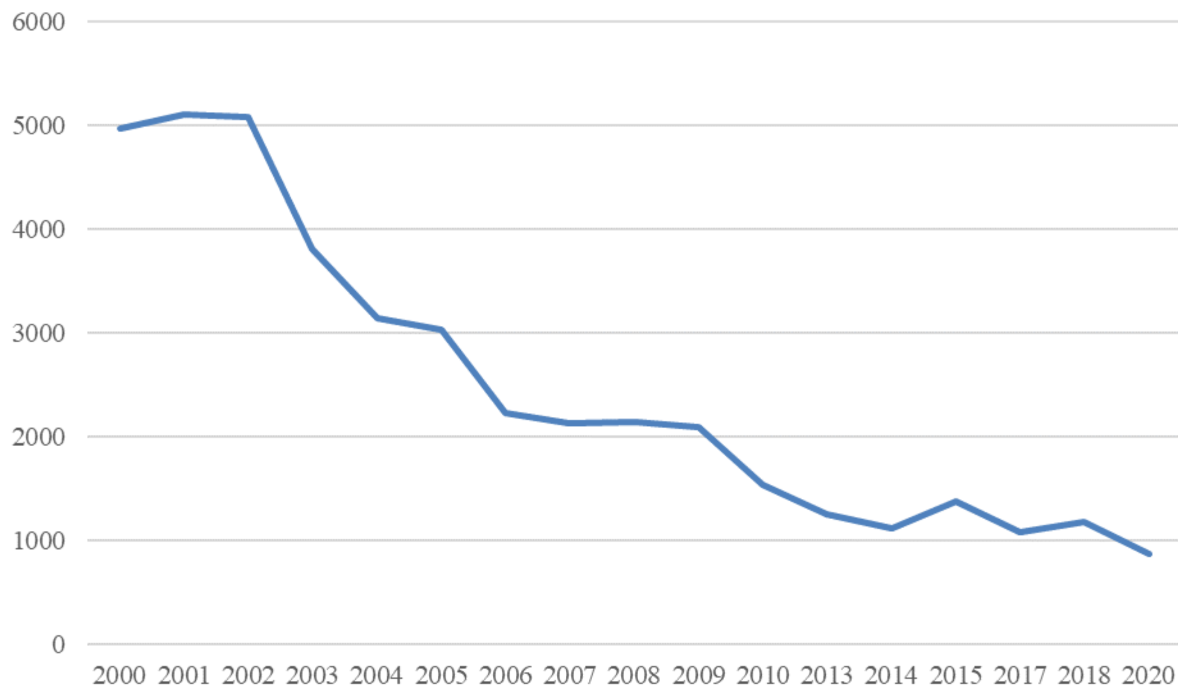
3. The Estate Tax

The primary driver of both the fluctuations in, and reduced collections of revenue from Illinois' Estate Tax Estate Tax, were the aforesaid bumps in the threshold amount enacted between 2004 and 2013.[65]

Effectively, the various increases Illinois made to the threshold amount at which an estate is taxed diminished the capacity of the Estate Tax to make overall tax incidence in Illinois fairer—a function that is sorely needed given that Illinois remains one of the most unfair, regressive taxing states in America today.[66]

From a purely fiscal standpoint, by increasing the threshold amount, Illinois also narrowed the base of its Estate Tax by reducing the number of estates with liability to pay it. This in turn helped drive the instability of revenue collection from the tax that manifested over the 2000-2020 time period. That reduction in tax base is shown in **Figure 5**, which illustrates the dramatic decline in the number of Illinois estates filing a state-level Estate Tax return, from a peak of 5,100 in 2001 to just 860 in 2020.

Figure 5
Number of Estates Paying Estate Tax in Illinois



Source: Illinois Attorney General data

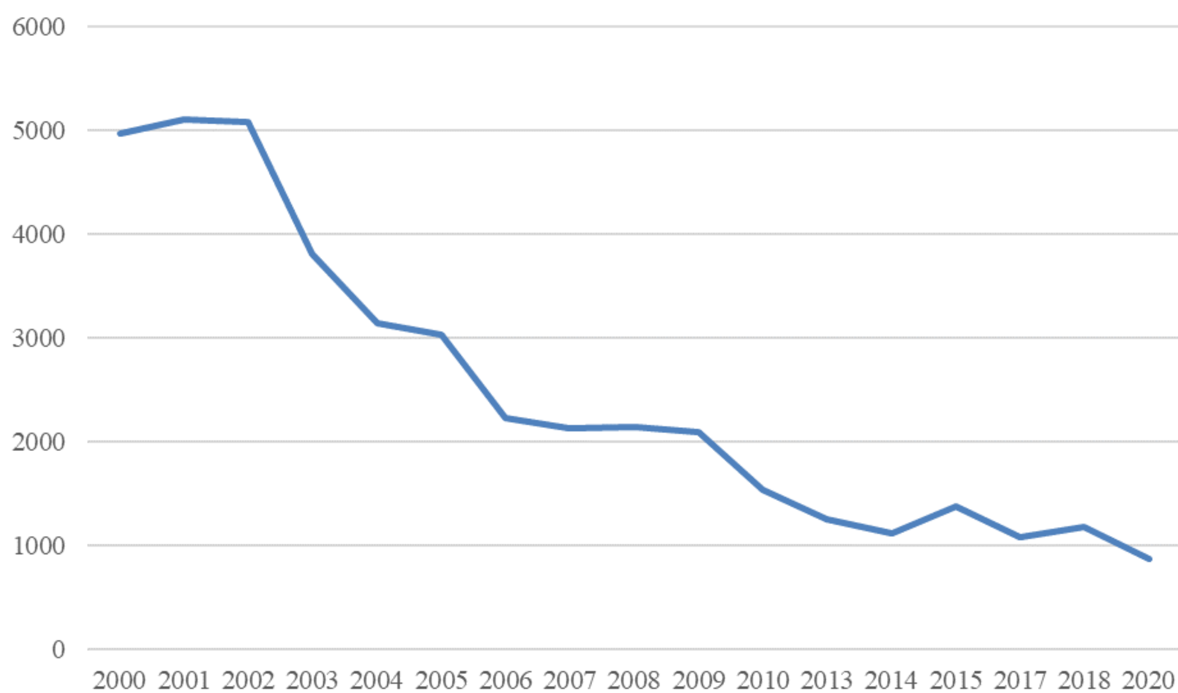
4. Policy Changes to the IL Estate Tax & the Impact of Those Changes

The primary driver of both the fluctuations in, and reduced collections of revenue from Illinois' Estate Tax Estate Tax, were the aforesaid bumps in the threshold amount enacted between 2004 and 2013.

Effectively, the various increases Illinois made to the threshold amount at which an estate is taxed diminished the capacity of the Estate Tax to make overall tax incidence in Illinois fairer—a function that is sorely needed given that Illinois remains one of the most unfair, regressive taxing states in America today.

From a purely fiscal standpoint, by increasing the threshold amount, Illinois also narrowed the base of its Estate Tax by reducing the number of estates with liability to pay it. This in turn helped drive the instability of revenue collection from the tax that manifested over the 2000-2020 time period. That reduction in tax base is shown in **Figure 5**, which illustrates the dramatic decline in the number of Illinois estates filing a state-level Estate Tax return, from a peak of 5,100 in 2001 to just 860 in 2020.

Figure 5
Number of Estates Paying Estate Tax in Illinois



Source: Illinois Attorney General data

4. Policy Changes to the IL Estate Tax & the Impact of Those Changes

As indicated previously, the Estate Tax in Illinois was directly linked to the Federal Estate Tax until 2010. **Figure 6** shows how changes in the Exclusion Limit over the years impacted the number of estate tax returns filed.

Figure 6
Estate Tax Return Count & Exclusion Limit, 2000 - 2020

Source: CTBA analysis of Illinois Attorney General data

For example, in 2000 and 2001, the federal Estate Tax Exclusion Limit—the set value of an estate that would be excluded for tax purposes—was set at $675,000. Since Illinois was still linked with the federal Estate Tax law, Illinois' Estate Tax Exclusion Limit was also set at $675,000. This means that no estate with assets valued less than $675,000, in nominal terms, would realize any tax liability. At that threshold level, 4,971 estates filed an Illinois estate tax return in 2000, while another 5,100 filed in 2001.

After 2001, the Exclusion Limit increased, and the number of Estate Tax returns filed decreased (the gaps in **Figure 6** are due to a lack of data available for the applicable year). The 2011 return count in Figure 6 is shaded red due to Illinois' effective decoupling from Federal Estate Tax policy. Estate Tax returns are not expected immediately upon the death of a decedent, and given up to nine months to file a return, thus resulting in a delay of reporting. In other words, returns reported in 2010 are from death occurring in both 2009 and 2010, while returns received in 2011 are from both 2010 and 2011. Since there was no Estate Tax in 2010, the data shown in Figure 6 for reported 2010 returns are likely from deaths that occurred in 2009, while 2011 returns are likely from deaths that occurred in 2011, rather than 2010.

As shown in **Figure 7**, between 1990 and 2000, Illinois realized more real year-over-year growth in Estate Tax revenue compared to year-over-year declines.

Between 1998 and 1999, Illinois experienced the greatest increase in Estate Tax revenue collected. After 2000, this trend reversed, and in the two decades between 2000 and 2020, Illinois realized real year-over-year declines in tax revenue in 12 out of the 20 years, or more than 50 percent of the time.[2]

[2] While there was a steady increase in net revenue collection of Estate Tax between 1990 to 2001, there has also been some fluctuations. This is primarily driven by fluctuations in the number of decedents in a given year.

Figure 7
Change in Estate Tax Revenue, 1990 – 2020, inflation-adjusted 2020 dollars

Year of Collection	Collection amount in millions (infl.adj.)	Year-Over-Year Change	Exclusion
1990	$214		$600,000
1991	$215	$1	$600,000
1992	$227	$12	$600,000
1993	$303	$76	$600,000
1994	$278	($25)	$600,000
1995	$309	$31	$600,000
1996	$309	($1)	$600,000
1997	$321	$12	$600,000
1998	$397	$76	$625,000
1999	**$539**	**$142**	**$650,000**
2000	$523	($16)	$675,000
2001	$528	$5	$675,000
2002	$473	($54)	$1,000,000
2003	$333	($140)	$1,000,000
2004	$304	($29)	$1,500,000
2005	$411	$107	$1,500,000
2006	$351	($60)	$2,000,000
2007	$330	($21)	$2,000,000
2008	$449	$119	$2,000,000
2009	$347	($101)	$2,000,000
2010	$289	($58)	No Collection in 2010*
2011	$141	($148)	$2,000,000
2012	$265	$124	$3,500,000
2013	$344	$79	$4,000,000
2014	$322	($22)	$4,000,000
2015	$387	$66	$4,000,000
2016	$351	($37)	$4,000,000
2017	$293	($57)	$4,000,000
2018	$393	$99	$4,000,000
2019	$394	$1	$4,000,000
2020	$240	($153)	$4,000,000

Source: CTBA analysis of COGFA 2006, 2012, and 2019 Estate Tax reporting

4. Policy Changes to the IL Estate Tax & the Impact of Those Changes

During the 20-year period between 2000 and 2020, Illinois increased the Exclusion Limit on six different occasions to the current level of $4 million. But what if Illinois hadn't? What if Illinois had maintained an Exclusion Limit at $2 million, or even $1 million? What revenue is Illinois missing out on due to narrowing its estate tax base?

Based on available data, Illinois received 1,142 tax returns, on average, each year between 2013 and 2020—when the Estate Tax Exclusion Limit was changed to its current amount of $4 million.[67] The average annual revenue collected over this sequence, in real, inflation-adjusted 2020 dollars was $340.5 million, as shown in **Figure 8**.

Figure 8
Average Annual Estate Tax Statistics in Illinois, 2013- 2020

Average Annual Number of Estates Filing a return ($4M Exclusion Limit)	1,142
Average Annual Revenue Collected ($4M Exclusion Limit—infl.adj. 2020 dollars)	$340,452,537

Source: CTBA analysis of 2006, 2012, and 2019 Estate Tax reporting

As shown in **Figure 9**, in Illinois, if an estate's "**Adjusted Taxable Estate Value**"—i.e., the net value of assets of the estate after all deductions and adjustments—exceeds the Exclusion Limit, then the full amount of that estate's Adjusted Taxable Estate Value is subject to the Estate Tax**.**

Figure 9
Adjusted Taxable Estate Value

Less than the Exclusion Limit in a Given Year:	No Taxes Owed
At or Above the Exclusion Limit:	Taxes Owed on Entirety of Adjusted Taxable Estate Value

Figure 10
Illinois Exclusion Limit and Year of Change

Year of Change	Illinois Exclusion Limit
1990	$600,000
1998	$625,000
1999	$650,000
2000	$675,000
2002	$1,000,000
2004	$1,500,000
2006	$2,000,000
2012	$3,500,000
2013	$4,000,000

4. Policy Changes to the IL Estate Tax & the Impact of Those Changes

Figure 11 outlines the graduated rate structure Illinois assesses against those estates which have an Adjusted Taxable Estate Value in excess of the Exclusion Limit that pertains in a given year. For example, if in 2023 an estate's net assets after deductions and exemptions were less than $4 million, that estate would have no tax liability. However, if an estate's Adjusted Taxable Estate Value was greater than $4 million, then the graduated rate structure shown in Figure 11 would be applied to the full amount of its Adjusted Taxable Estate Value. As a reminder, the estate tax is levied on net wealth, meaning assets minus liabilities (e.g., debts, mortgages, etc), minus various deductions and exemptions (e.g., legal fees for estate administration, funeral expenses, certain taxes, charitable contributions).

Figure 11
Estate Tax Marginal Rate Band Structure

Marginal Rate	Adjusted Taxable Estate Value Rate Band	Base Tax Liability
0%	$1 – $40,000	-
0.8%	$40,000 – $90,000	$0
1.6%	$90,000 – $140,000	$400
2.4%	$140,000 – $240,000	$1,200
3.2%	$240,000 – $440,000	$3,600
4.0%	$440,000 – $640,000	$10,000
4.8%	$640,000 – $840,000	$18,000
5.6%	$840,000 – $1.04 million	$27,600
6.4%	$1.04 million – $1.54 million	$38,800
7.2%	$1.54 million – $2.04 million	$70,800
8.0%	$2.04 million – $2.54 million	$106,800
8.8%	$2.54 million – $3.04 million	$146,800
9.6%	$3.04 million – $3.54 million	$190,800
10.4%	$3.54 million – $4.04 million	$238,800
11.2%	$4.04 million – $5.04 million	$290,800
12.0%	$5.04 million – $6.04 million	$402,800
12.8%	$6.04 million – $7.04 million	$522,800
13.6%	$7.04 million – $8.04 million	$650,800
14.4%	$8.04 million – $9.04 million	$786,800
15.2%	$9.04 million – $10.04 million	$903,800
16.0%	$10.04 million and up	$1,082,800

Source: Illinois Decedents Estate Tax Calculator

The column labeled "Base Taxes Liability" shows the amount of the minimum tax liability for an estate that falls within the applicable Adjusted Taxable Estate Value Rate Band. An individual's effective estate tax is calculated in a similar fashion as their effective income tax. There are marginal tax rates that gradually increase that are applied to the value of the estate within the specific rate band, and an individual's effective tax rate is the combined tax paid.

For example, let's suppose that Illinois had kept its Exclusion Limit at $1 million, as it was in 2002. To determine the estate tax liability for an estate that, after deductions and credits, had a net asset value equal to the minimum threshold for tax lability of $1 million, one would add the Base Tax Liability for that estate, to any additional assessments that estate would pay under the marginal rate structure, predicated on its Rate Band. The Rate Band would be $840,000 to $1,040,000 for a taxable estate valued at the minimum threshold of $1,000,000. Hence the estate in question would pay a minimum of $27,600—plus 5.6 percent on the amount of its assets that exceed $840,000, the bottom level of the Adjusted Taxable Estate Value Rate Band it falls within.

Which means the final Estate Tax liability for the aforesaid estate would equal the sum of $27,600, plus 5.6 percent of the difference between $1,000,000 and $840,000—or $160,000. 5.6 percent of $160,000 equals $8,960. Adding the Base Tax Liability for this estate of $27,600 assessed on its value below $840,000, to the $8,960 of additional tax liability that would be assessed to its value between $840,000 and $1,000,000, results in a total tax liability for this estate of $36,560. The aforesaid calculation is shown in **Figure 12**.

Figure 12
Estate Tax Liability Calculation for 2002 Exclusion Limit of $1,000,000

1. Adjusted Taxable Estate Value	$1,000,000
2. Adjusted Taxable Estate Value Rate Band Estate Falls Within	$840,000 – $1,040,000
3. Base Tax Liability on assets below the Bottom of the Rate Band	$27,600
4. Rate for Assets over the Bottom of the Rate Band	5.6%
5. Difference between Adjusted Taxable Estate Value & Bottom of the Rate Band	$160,000
6. Rate for Excess * Difference (5.6% X $160,000)	$8,960
7. Total Estate Tax Liability (Row 3 + Row 6)	$36,560
8. Effective Tax Rate	**3.66%**

As highlighted in **Figure 12**, at the $1,000,000 Exclusion Limit, an estate with an Adjusted Taxable Estate Value of $1,000,000 would pay Estate Taxes to Illinois at an effective tax rate of 3.66 percent, which is derived by dividing the estate's total tax liability of $36,560 by its total Adjusted Taxable Estate Value of $1,000,000.

The Estate Tax table identified in **Figure 11**, including the graduated tax rates and rate bands, have remained constant over the years. The only factor determining an estate's tax lability in Illinois that has changed over time is the Exclusion Limit, which has steadily increased from $600,000 in 1990, to the $4,000,000 where it sits at today.

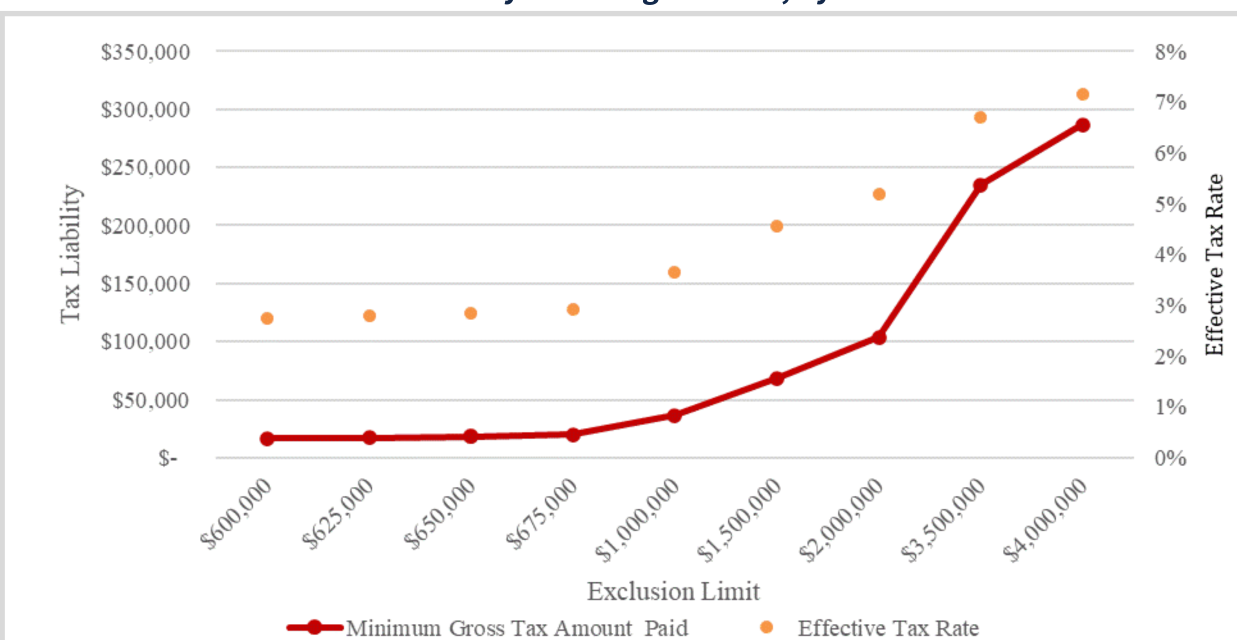
Figure 13 shows the same calculation as **Figure 12**, but using the present day Exclusion Limit minimum of $4 million for an estate with an Adjustable Taxable Value of 4,000,000.

Figure 13
Estate Tax Liability Calculation for 2023 Exclusion Limit of $4,000,000

1. Adjusted Taxable Estate Value	$4,000,000
2. Adjusted Taxable Estate Value Rate Band Estate Falls Within	$3,540,000-4,040,000
3. Base Tax Liability Owed on assets below the Bottom of the Rate Band	$238,800
4. Rate for Assets over the Bottom of the Rate Band	10.4%
5. Difference between Adjusted Taxable Estate Value & Bottom of the Rate Band	$460,000
6. Rate for Excess * Difference (10.4% X $460,000)	$47,840
7. Total Estate Tax Liability (Row 3 + Row 6)	$286,640
8. Effective Tax Rate	**7.17%**

As shown in **Figures 12** and **13**, as the Adjusted Taxable Estate Value increases, the effective tax rate also increases. This means the application of the Illinois Estate Tax is progressive in incidence, imposing a higher percentage tax burden as estates become wealthier. The progressivity of Illinois' estate tax is shown in **Figure 14**.

Figure 14
Minimum Tax Liability for a Single Estate, by Exclusion Limit



Source: CTBA analysis of Estate Tax calculations

Moreover, the Estate Tax also impacts most Illinoisans in a progressive fashion, in that, irrespective of the Exclusion Limit Illinois has utilized from time-to-time, very few Illinois estates have liability to pay it.

Unfortunately, there have been two main consequence that have resulted from increasing the Exclusion Limit over time. First, increasing the Exclusion Limit has decreased the number of estates with liability to pay the Illinois Estate Tax.[68] Second, decreasing the number of estates with tax liability reduces the base of the Estate Tax, and ultimately leads to revenue loss.[69]

So, how might Estate Tax revenue increase if the Exclusion Limits were reduced? Using available data, Figure 15 shows an estimate of how much new revenue would be generated on average, from estates that were not taxable at the current $4 million Exclusion Limit, but would become taxable if that Exclusion Limit were reduced to $2 million, $1.5 million, or $1 million, respectively.

Figure 15
Additional Revenue for Each Newly Taxable Estate Generated By Reducing Exclusion Limit from Current Level of $4 Million, inflation-adjusted 2020 $

Exclusion Limit Change	Average Tax Paid By Each Newly Taxable Estate
Reducing Exclusion from $4M to $2M	$172,337
Reducing Exclusion from $4M to $1.5M	$125,606
Redacting Exclusion from $4M to $1M	$90,432

Source: CTBA analysis of Estate Tax modeling using historic COGFA and Attorney General data

As shown in Figure 15, by reducing the Exclusion Limit, previously untaxed estates would become taxable, thereby broadening the tax base. Broadening the tax base will in turn generate new revenue, and likely more stability in the amount of revenue collected.

Figure 16 shows an estimate of the amount of new Estate Tax revenue that would be generated if the Exclusion Limit was reduced from its current level of $4 million, to $2 million, $1.5 million, or $1 million, respectively.

Figure 16
Aggregate New Revenue from Reducing Exclusion Limit from Current Level of $4 million, inflation-adjusted 2020 $

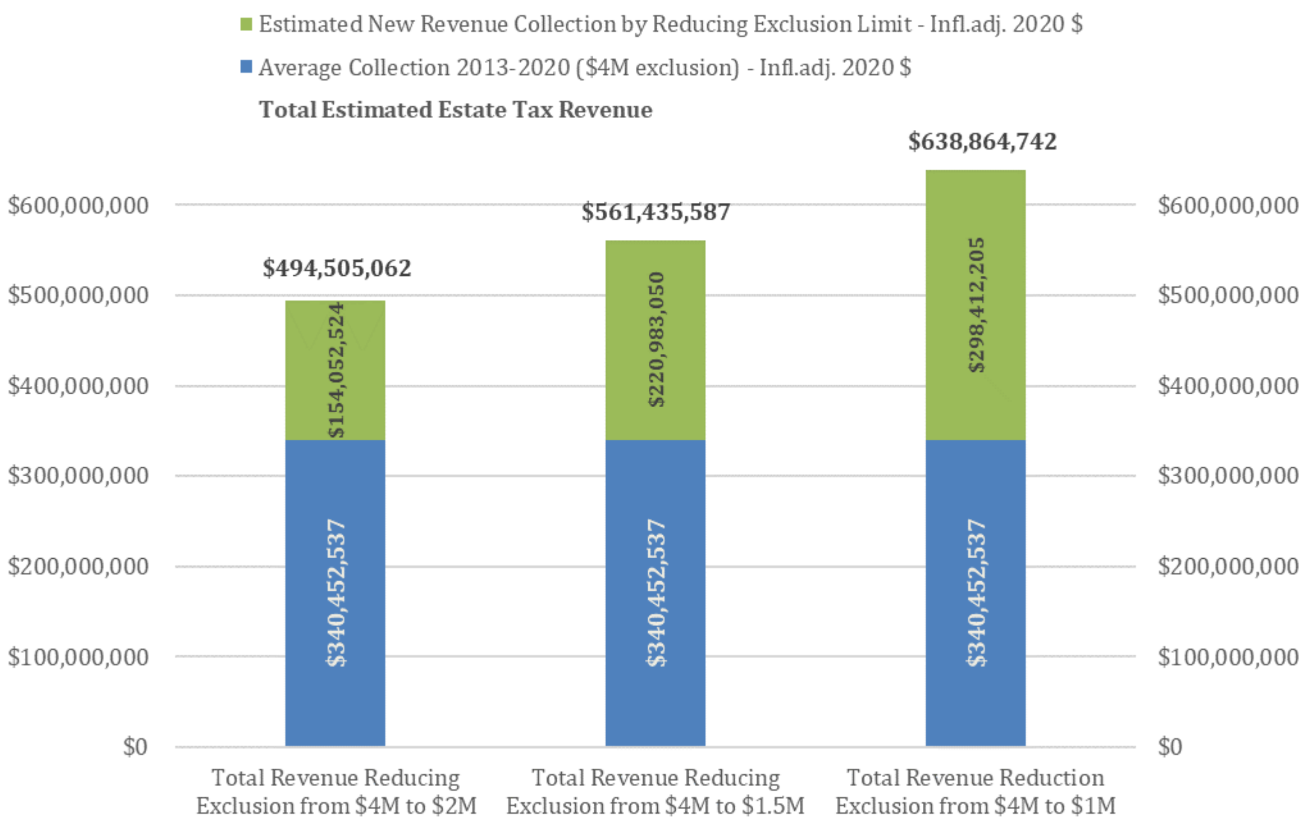
Change in Exclusion Limit	Estimated Total New Estate Tax Revenue
Additional Revenue Reducing Exclusion from $4M to $2M	$151,139,661
Additional Revenue Reducing Exclusion from $4M to $1.5M	$220,941,181
Additional Revenue Reduction Exclusion from $4M to $1M	$298,382,060

Source: CTBA analysis of Estate Tax modeling using historic COGFA and Attorney General data

4. Policy Changes to the IL Estate Tax & the Impact of Those Changes

Figure 17 shows an estimate of the total Estate Tax revenue that would be generated, including revenue from both estates taxable under current law, as well as estates that would become taxable if the Exclusion Limit were reduced from its current level of $4 million to $2 million, $1.5 million, or $1 million respectively.

Figure 17
Estimated Total Tax Revenue, Including Revenue from Both Estates Taxable under Current Law & Estates that Become Taxable When the Exclusion Limit is Reduced



Source: CTBA analysis of Estate Tax modeling using historic COGFA and Attorney General data

Therefore, by making a single small change to Estate Tax policy—reducing the Exclusion Limit—while maintaining the same tax rates and rate bands for the Estate Tax that have always pertained in Illinois, and therefore maintaining that the Estate Tax be a progressive tax, the state could generate a significant amount of revenue for its General Fund, while simultaneously making tax burden fairer.

5. Recommendations

Recommendations for Reforming the Illinois Estate Tax

Over the last four decades, wealth inequality has grown in the United States and in Illinois. Illinois' current tax policy does not respond to that economic reality, and instead imposes a much greater tax burden on low to middle income workers that on affluent individuals, when tax burden is measured as a percentage of income. This creates a tax system that is not only unfair because it ignores ability to pay, but also one that does not generate adequate revenue over time, because it fails to respond to how income growth is distributed in the modern economy.

In this report, we show how prominent founders and early philosophers of the United States were wary of concentrated wealth and power and believed in enacting laws to curtail unequal growth in wealth and power, including progressive forms of taxation on property. We illustrate how the Illinois Estate Tax has eroded over the past 30 years through increases in the Exclusion Limits, which have more than quadrupled. Our estimates show that reducing the Exclusion Limits could increase revenue by between $150 million to $300 million—and do so in a progressive fashion that would shift some tax burden to folks at the top of the income ladder, making the state's tax policy fairer.

Therefore, based on our analysis we recommend three (3) policy options for lowering the Estate Tax Exclusion Limit. The options are presented in order of their revenue generation capacity, contribution to tax fairness, impact on reducing wealth and income inequality and ability to support income and household security.

- Lowering the Exclusion Limit to $1 million (returning the limit to its 2002 level) which could generate an average of around $300 million in new revenue annually.
- Lowering the Exclusion Limit to $1.5 million which could generate an average of $221 million in new revenue annually.
- Lowering the Exclusion Limit to $2 million which could generate an average of $151 million in new revenue annually.

We further recommend that the additional state revenue which would be derived from lowering the Estate Tax Exclusion Limits be applied to help fund an expansion of tax relief for low and moderate-income families, like the creation of a child tax credit.

Illinois' inequitable tax policy has failed to respond to how income and wealth is distributed in the modern economy and hence constrained long-term revenue growth. Tax policy has also exasperated wealth and income inequality and created tax burdens that fall disproportionately on working and middle-income earners. Resetting the Estate Tax Exclusion Limit to its previous lower thresholds would strengthen the state's investment in its residents by generating significant additional resources to provide essential public services.

Endnotes

[1] CTBA analysis of Illinois Comptroller Comprehensive Annual Reports 1985 – 2021, https://illinoiscomptroller.gov/financial-reports-data/find-a-report/comprehensive-reporting/annual-comprehensive-financial-report/

[2] CTBA, "Analysis of Illinois FY 2023 Enacted General Fund Budget," July 1, 2022, https://www.ctbaonline.org/reports/analysis-illinois-fy-2023-enacted-general-fund-budget

[3] CTBA, "Analysis of Illinois FY 2023 Enacted General Fund Budget," July 1, 2022, https://www.ctbaonline.org/reports/analysis-illinois-fy-2023-enacted-general-fund-budget

[4] Institute on Taxation and Economic Policy, "Who Pays," October 2018, https://itep.sfo2.digitaloceanspaces.com/whopays-ITEP-2018.pdf

[5] Saez, Emmanuel, and Gabriel Zucman. 2014. "Exploding Wealth Inequality in the United States." Washinton, D.C.: Washington Center for Equitable Growth. http://www.equitablegrowth.org/exploding-wealth-inequality-united-states/.

[6] Urban Institute. "Nine Charts about Wealth Inequality in America." https://apps.urban.org/feature

[7] Urban Institute. "Nine Charts about Wealth Inequality in America." https://apps.urban.org/feature

[8] Beckert, Jens. 2008. "Why Is the Estate Tax so Controversial?" *Society* 45 (6): 521–28. https://doi.org/10.1007/s12115-008-9145-x.
Fox, Justin. 2017. "A Defense of the All-American Estate Tax." *Bloomberg.Com*, October 3, 2017. https://www.bloomberg.com/opinion/articles/2017-10-03/a-defense-of-the-all-american-estate-tax.

[9] Huebner, Solomon. 1904. "The Inheritance Tax in the American Commonwealths." *The Quarterly Journal of Economics* 18 (4): 529–50. https://doi.org/10.2307/1882415.

[10] (i) CTBA, "Eschewing Supply Side to Spur Economic Growth," October 18, 2021, https:// www.ctbaonline.org/reports/eschewing-supply-side-spur-economic-growth; and (ii) McNichol, Elizabeth, and Samantha Waxman. 2021. "State Taxes on Inherited Wealth | Center on Budget and Policy Priorities." Washington, D.C.: Center on Budget and Policy Priorities. https://www.cbpp.org/research/state-budget-and-tax/state-taxes-on-inherited-wealth.

[11] (i) Bearer-Friend, Jeremy, and Vanessa Williamson. 2022. "The Common Sense of a Wealth Tax: Thomas Paine & Taxation as Freedom from Aristocracy." *Florida Tax Review*. https://scholarship.law.gwu.edu/cgi/viewcontent.cgi?article=2863&context=faculty_publications.; (ii) Jefferson, Thomas. 1785. "Letter from Thomas Jefferson to James Madison," 1785. https://www.loc.gov/resource/mjm.02_0677_0679/?st=text.; and (iii) Orth, John V. 2009. "Allowing Perpetuities in North Carolina." *Campbell Law Review* 31 (3): 399–411.

[12] Analysis of (i) Commission on Government Forecasting and Accountability, "Illinois Estate and Genera tion Skipping Transfer Tax," 2006, Illinois General Assembly, https://cgfa.ilga.gov/Upload/06_Estate_GenerationTax.pdf; (ii) Commission on Government Fore casting and Accountability, "Illinois Estate Taxes," 2012, Illinois General Assembly, https://cgfa.ilga.gov/Upload/2012IllinoisEstateTax.pdf; and (iii) Commission on Government Fore casting and Accountability, "Illinois Tax Handbook for Legislators," 2019, https://www.ilga.gov/commission/lru/2019taxhandbook.pdf

[13] Analysis of (i) Commission on Government Forecasting and Accountability, "Illinois Estate and Genera tion Skipping Transfer Tax," 2006, Illinois General Assembly, https://cgfa.ilga.gov/Upload/06_Estate_GenerationTax.pdf; (ii) Commission on Government Fore casting and Accountability, "Illinois Estate Taxes," 2012, Illinois General Assembly, https://cgfa.ilga.gov/Upload/2012IllinoisEstateTax.pdf; and (iii) Commission on Government Fore

Endnotes

casting and Accountability, "Illinois Tax Handbook for Legislators," 2019, https://www.ilga.gov/commission/lru/2019taxhandbook.pdf

[14] Analysis of (i) Commission on Government Forecasting and Accountability, "Illinois Estate and Generation Skipping Transfer Tax," 2006, Illinois General Assembly, https://cgfa.ilga.gov/Upload/06_Estate_GenerationTax.pdf; (ii) Commission on Government Forecasting and Accountability, "Illinois Estate Taxes," 2012, Illinois General Assembly, https://cgfa.ilga.gov/Upload/2012IllinoisEstateTax.pdf; and (iii) Commission on Government Forecasting and Accountability, "Illinois Tax Handbook for Legislators," 2019, https://www.ilga.gov/commission/lru/2019taxhandbook.pdf

[15] CTBA, "Analysis of Illinois FY 2023 Enacted General Fund Budget," July 1, 2022, https://www.ctbaonline.org/reports/analysis-illinois-fy-2023-enacted-general-fund-budget

[16] CTBA, "Analysis of Illinois FY 2023 Enacted General Fund Budget," July 1, 2022, https://www.ctbaonline.org/reports/analysis-illinois-fy-2023-enacted-general-fund-budget

[17] CTBA, "Analysis of Illinois FY 2023 Enacted General Fund Budget," July 1, 2022, https://www.ctbaonline.org/reports/analysis-illinois-fy-2023-enacted-general-fund-budget

[18] CTBA, "Analysis of Illinois FY 2023 Enacted General Fund Budget," July 1, 2022, https://www.ctbaonline.org/reports/analysis-illinois-fy-2023-enacted-general-fund-budget

[19] CTBA, "Analysis of Illinois FY 2023 Enacted General Fund Budget," July 1, 2022, https://www.ctbaonline.org/reports/analysis-illinois-fy-2023-enacted-general-fund-budget

[20] Institute on Taxation and Economic Policy, "Illinois: Who Pays? 6th Edition," October 2018, https://itep.org/whopays/.

[21] CTBA, "Implementing the "Fair Tax" Will Help Illinois' Fiscal System," October 1, 2020, https://www.ctbaonline.org/reports/implementing-%E2%80%9Cfair-tax%E2%80%9D-will-help-illinois-fiscal-system

[22] Gee, Lisa Christensen, "Illinois's Flat Tax Exacerbates Income Inequality and Racial Wealth Gaps," 2020, https://itep.org/illinois-flat-tax-exacerbates-income-inequality-and-racial-wealth-gaps/.

[23] Center for Economic and Policy Research, "Universal Lessons from Illinois's Fair Tax Failure," November 19, 2020, https://cepr.net/report/universahttps://cepr.net/report/universal-lessons-from-illinoiss-fair-tax-failure-how-a-rich-minority-wins-the-majority-vote/l-lessons-from-illinoiss-fair-tax-failure-how-a-rich-minority-wins-the-majority-vote/

[24] CTBA, "Implementing the "Fair Tax" Will Help Illinois' Fiscal System," October 1, 2020, https://www.ctbaonline.org/reports/implementing-%E2%80%9Cfair-tax%E2%80%9D-will-help-illinois-fiscal-system

[25] Bruno, Robert and Frank Manzo, "The Impact of Enacting a Progressive Income Tax in Illinois: Understanding How Illinois Could Cut Middle-Class Taxes, Balance the Budget, and Grow the Economy," *Project for Middle Class Renewal and Illinois Economic Policy Institute*, April 1, 2019 at https://lep.illinois.edu/wp-content/uploads/2021/08/PMCR-ILEPI-The-Impact-of-a-Progressive-Income-Tax-in-Illinois-FINAL.pdf.

[26] (i) Bearer-Friend, Jeremy, and Vanessa Williamson. 2022. "The Common Sense of a Wealth Tax: Thomas Paine & Taxation as Freedom from Aristocracy." *Florida Tax Review*. https://scholarship.law.gwu.edu/cgi/viewcontent.cgi?article=2863&context=faculty_publications.; and (ii) Paine, Thomas. 1782. "The Necessity of Taxation." In *Pennsylvania Packet*. https://www.thomaspaine.org/works/recently-discovered/the-necessity-of-taxation.html

Endnotes

[27] Urban Institute. "Nine Charts about Wealth Inequality in America." https://apps.urban.org/feature

[28] Manzo, Frank, "The History of Economic Inequality in Illinois, 1850 – 2014," *Illinois Econiomc Policy Insti tute*, March 4, 2016, https://illinoisepi.org/site/wp-content/themes/hollow/docs/wages-labor-standards/The-History-of-Economic-Inequality-in-Illinois-FINAL.pdf.

[29] Urban Institute. "Nine Charts about Wealth Inequality in America." https://apps.urban.org/feature

[30] Piketty, Thomas, *Capital in the Twenty-First Century,* 2017*,* Cambridge, MA: Belknap Press.

[31] Piketty, Thomas, Emmanuel Saez, and Gabriel Zucman, "Rethinking Capital and Wealth Taxation," 2022, *Oxford Review of Economic Policy*, Taxing the Rich (More), . https://gabriel-zucman.eu/files/PikettySaezZucman2022RKT.pdf.

[32] Dore, Kate, "There's a growing interest in wealth taxes on the super-rich," April 9, 2022, https://www.cnbc.com/2022/04/09/theres-a-growing-interest-in-wealth-taxes-on-the-super-rich.html

[33] (i) Katz-Brown, Jason, "Taxing Billionaires is Enormously Popular," November 23, 2021, https://www.dataforprogress.org/blog/2021/11/23/taxing-billionaires-is-enormously-popular; (ii) Orth, Taylor. 2022. "60% of Americans say billionaires don't pay the full amount they owe in taxes." April 1, 2022. https://today.yougov.com/topics/politics/articles-reports/2022/04/01/americans-say-billionaires-dont-pay-full-taxes ; and (iii) Newport, Frank. 2022. "Average American remains ok with higher taxes on rich." August 12, 2022. https://news.gallup.com/opinion/polling-matters/396737/average-american-remains-higher-taxes-rich.aspx

[34] Orth, Taylor. 2022. "60% of Americans say billionaires don't pay the full amount they owe in taxes." April 1, 2022. https://today.yougov.com/topics/politics/articles-reports/2022/04/01/americans-say-billionaires-dont-pay-full-taxes

[35] Fund Our Future. https://fundourfuturetji.com/

[36] Vinicky, Amanda. 2023. "Wealthy Illinois residents would pay more in income tax under new proposals." January 19, 2023. https://news.wttw.com/2023/01/19/wealthy-illinois-residents-would-pay-more-income-tax-under-new-proposals

[37] Stacker. 2023. "Richest billionaires in Illinois." March 3, 2023. https://stacker.com/illinois/richest-billionaires-illinois

[38] Luckey, John R., "A History of Federal Estate, Gift, and Generation-Skipping Taxes," 2003, Congressional Research Service, https://www.naepcjournal.org/journal/issue01f.pdf.

[39] (i) Jefferson, Thomas, "Letter from Thomas Jefferson to James Madison," 1785; (ii) Beckert, Jens, "Why Is the Estate Tax so Controversial?" 2008, *Society* 45 (6): 521–28. https://doi.org/10.1007/s12115-008-9145-x.; (iii) ; and Richard T. Ely, "The Inheritance of Property," North American Review 153, no. 146 (July 1891): 54–66, https://babel.hathitrust.org/cgi/pt?id=hvd.32044092623693&view=1up&seq=62.; and (iv) Fox, Justin. 2017. "A Defense of the All-American Estate Tax." *Bloomberg.Com*, October 3, 2017. https://www.bloomberg.com/opinion/articles/2017-10-03/a-defense-of-the-all-american-estate-tax

[40] Bearer-Friend, Jeremy, and Vanessa Williamson. 2022. "The Common Sense of a Wealth Tax: Thomas Paine & Taxation as Freedom from Aristocracy." *Florida Tax Review*. https://scholarship.law.gwu.edu/cgi/viewcontent.cgi?article=2863&context=faculty_publications

[41] Orth, John V., "Allowing Perpetuities in North Carolina," 2009, *Campbell Law Review* 31 (3): 399-411.

[42] Carnegie, Andrew, "Wealth," 1889, *The North American Review* 148 (391): 653–64.

Endnotes

43 Smith, Adam, *Wealth of Nations*. (W. Strahan and T. Cadell, London), 1776.

44 [44] Beckert, Jens, "Why Is the Estate Tax so Controversial?" 2008, *Society* 45 (6): 521–28. https://doi.org/10.1007/s12115-008-9145-x.

[45] CTBA, "Eschewing Supply Side to Spur Economic Growth," October 18, 2021, https://www.ctbaonline.org/reports/eschewing-supply-side-spur-economic-growth

[46] Stone, Chad, Danilo Trisi, Arloc Sherman, and Jennifer Beltran, "A Guide to Statistics on Historical Trends in Income Inequality, " 2020, Center on Budget and Policy Priorities. https://www.cbpp.org/research/poverty-and-inequality/a-guide-to-statistics-on-historical-trends-in-income-inequality.

[47] Luckey, John R., "A History of Federal Estate, Gift, and Generation-Skipping Taxes," 2003, Congressional Research Service, https://www.naepcjournal.org/journal/issue01f.pdf

[48] Luckey, John R., "A History of Federal Estate, Gift, and Generation-Skipping Taxes," 2003, Congressional Research Service, https://www.naepcjournal.org/journal/issue01f.pdf

[49] Josephson, Amelia. 2023. "A guide to the federal estate tax for 2022 and 2023." Smartasset.com. March 07, 2023. https://smartasset.com/taxes/all-about-the-estate-tax

[50] Commission on Government Forecasting and Accountability, "Illinois Estate and Generation Skipping Transfer Tax," 2006, Illinois General Assembly, https://cgfa.ilga.gov/Upload/06_Estate_GenerationTax.pdf.

[51] (i) Center on Budget and Policy Priorities. 2018. "Policy Basics: The Federal Estate Tax." Washington, D.C.: Center on Budget and Policy Priorities. https://www.cbpp.org/research/federal-tax/the-federal-estate-tax.; and (ii) Gale, William, Christopher Pulliam, John Sabelhaus, and Isabel Sawhill. 2020. "Taxing Wealth Transfers through an Expanded Estate Tax." Washington, D.C.: Brookings Institu tion. https://www.brookings.edu/research/taxing-wealth-transfers-through-an-expanded-estate-tax/.

[52] Analysis of (i) Commission on Government Forecasting and Accountability, "Illinois Estate and Genera tion Skipping Transfer Tax," 2006, Illinois General Assembly, https://cgfa.ilga.gov/Upload/06_Estate_GenerationTax.pdf; (ii) Commission on Government Fore casting and Accountability, "Illinois Estate Taxes," 2012, Illinois General Assembly, https://cgfa.ilga.gov/Upload/2012IllinoisEstateTax.pdf; and (iii) Commission on Government Fore casting and Accountability, "Illinois Tax Handbook for Legislators," 2019, https://www.ilga.gov/commission/lru/2019taxhandbook.pdf

[53] Gale, William, Christopher Pulliam, John Sabelhaus, and Isabel Sawhill, "Taxing Wealth Transfers through an Expanded Estate Tax," 2020, Washington, D.C.: Brookings Institution. https://www.brookings.edu/research/taxing-wealth-transfers-through-an-expanded-estate-tax/.

[54] Huebner, Solomon, "The Inheritance Tax in the American Commonwealths," 1904, *The Quarterly Journal of Economics* 18 (4): 529–50. https://doi.org/10.2307/1882415.

[55] Commission on Government Forecasting and Accountability. 2006. "Illinois Estate and Generation Skip ping Transfer Tax." Springfield, Illinois: Illinois General Assembly. https://cgfa.ilga.gov/Upload/06_Estate_GenerationTax.pdf.

[56] Illinois Economic and Fiscal Commission. 2001. "Federal and State Estate Tax Report: Impact of Federal H.R. 1836." Springfield, Illinois: Illinois General Assembly. https://cgfa.ilga.gov/Upload/2001_estate_report.pdf.

Endnotes

[57] Illinois Economic and Fiscal Commission, "Federal and State Estate Tax Report: Impact of Federal H.R.1836," 2001, Springfield, Illinois: Illinois General Assembly, https://cgfa.ilga.gov/Upload/2001_estate_report.pdf.

[58] Commission on Government Forecasting and Accountability. 2006. "Illinois Estate and Generation Skip ping Transfer Tax." Springfield, Illinois: Illinois General Assembly. https://cgfa.ilga.gov/Upload/06_Estate_GenerationTax.pdf.

[59] Illinois Economic and Fiscal Commission. 2001. "Federal and State Estate Tax Report: Impact of Federal H.R. 1836." Springfield, Illinois: Illinois General Assembly, https://cgfa.ilga.gov/Upload/2001_estate_report.pdf.

[60] CTBA, "Analysis of Illinois FY 2023 Enacted General Fund Budget," July 1, 2022, https://www.ctbaonline.org/reports/analysis-illinois-fy-2023-enacted-general-fund-budget

[61] Commission on Government Forecasting and Accountability, "Illinois Estate and Generation Skipping Transfer Tax," 2006, Illinois General Assembly, https://cgfa.ilga.gov/Upload/06_Estate_GenerationTax.pdf

[62] Analysis of (i) Commission on Government Forecasting and Accountability, "Illinois Estate and Genera tion Skipping Transfer Tax," 2006, Illinois General Assembly https://cgfa.ilga.gov/Upload/06_Estate_GenerationTax.pdf; (ii) Commission on Government Fore casting and Accountability, "Illinois Estate Taxes," 2012, Illinois General Assembly, https://cgfa.ilga.gov/Upload/2012IllinoisEstateTax.pdf; and (iii) Commission on Government Fore casting and Accountability, "Illinois Tax Handbook for Legislators," 2019, https://www.ilga.gov/commission/lru/2019taxhandbook.pdf

[63] Fiscal and Economic Commission Report, 2001 (Predecessor to COGFA)

[64] Analysis of (i) Commission on Government Forecasting and Accountability, "Illinois Estate and Genera tion Skipping Transfer Tax," 2006, Illinois General Assembly, https://cgfa.ilga.gov/Upload/06_Estate_GenerationTax.pdf

[65] Analysis of (i) Commission on Government Forecasting and Accountability, "Illinois Estate and Genera tion Skipping Transfer Tax," 2006, Illinois General Assembly, https://cgfa.ilga.gov/Upload/06_Estate_GenerationTax.pdf; (ii) Commission on Government Fore casting and Accountability, "Illinois Estate Taxes," 2012, Illinois General Assembly, https://cgfa.ilga.gov/Upload/2012IllinoisEstateTax.pdf; and (iii) Commission on Government Fore casting and Accountability, "Illinois Tax Handbook for Legislators," 2019, https://www.ilga.gov/commission/lru/2019taxhandbook.pdf

[66] Institute on Taxation and Economic Policy, "Illinois: Who Pays? 6th Edition," October 2018, https://itep.org/whopays/.

[67] Analysis of (i) Commission on Government Forecasting and Accountability, "Illinois Estate and Genera tion Skipping Transfer Tax," 2006, Illinois General Assembly, https://cgfa.ilga.gov/Upload/06_Estate_GenerationTax.pdf; (ii) Commission on Government Fore casting and Accountability, "Illinois Estate Taxes," 2012, Illinois General Assembly, https://cgfa.ilga.gov/Upload/2012IllinoisEstateTax.pdf; and (iii) Commission on Government Fore casting and Accountability, "Illinois Tax Handbook for Legislators," 2019, https://www.ilga.gov/commission/lru/2019taxhandbook.pdf

[68] Analysis of (i) Commission on Government Forecasting and Accountability, "Illinois Estate and Genera tion Skipping Transfer Tax," 2006, Illinois General Assembly, https://cgfa.ilga.gov/Upload/06_Estate_GenerationTax.pdf; (ii) Commission on Government Fore casting and Accountability, "Illinois Estate Taxes," 2012, Illinois General Assembly,

https://cgfa.ilga.gov/Upload/2012IllinoisEstateTax.pdf; and (iii) Commission on Government Fore casting and Accountability, "Illinois Tax Handbook for Legislators," 2019, https://www.ilga.gov/commission/lru/2019taxhandbook.pdf

[69] Analysis of (i) Commission on Government Forecasting and Accountability, "Illinois Estate and Genera tion Skipping Transfer Tax," 2006, Illinois General Assembly, https://cgfa.ilga.gov/Upload/06_Estate_GenerationTax.pdf; (ii) Commission on Government Fore casting and Accountability, "Illinois Estate Taxes," 2012, Illinois General Assembly, https://cgfa.ilga.gov/Upload/2012IllinoisEstateTax.pdf; and (iii) Commission on Government Fore casting and Accountability, "Illinois Tax Handbook for Legislators," 2019, https://www.ilga.gov/commission/lru/2019taxhandbook.pdf