

## ISSUE AREA 2

# TAXES & COST OF LIVING

### CHICAGO'S ENROLLMENT CRISIS SERIES

This issue brief is part of Kids First Chicago's second installment on Chicago's enrollment crisis focused on parent-led solutions to address the crisis. In January 2022, we released *Chicago's Enrollment Crisis Part One: Examining Root Causes*, which analyzed the primary drivers of Chicago Public Schools' (CPS) enrollment decline using available school enrollment, population, and census report data.

*Chicago's Enrollment Crisis Part Two: Adopting Parent-led Solutions* is the culmination of nearly two years of research and discussion with Chicago families, who offered their time and insights to help make the city a better place for families like theirs. For more information, visit [kidsfirstchicago.org/enrollment-solutions](https://kidsfirstchicago.org/enrollment-solutions).



**ABOUT KIDS FIRST CHICAGO**

Kids First Chicago’s mission is to dramatically improve education for Chicago’s children by ensuring their families are the respected authorities on what their kids need and decision-makers in their kids’ education. We do this by partnering with families to support them in gaining the resources, access, and voice they need to achieve their vision for their children.

We imagine a Chicago where Black and Brown parents have a prominent voice in shaping their communities so that every child has access to a world-class education—the kind that opens the doors to new opportunities in college, career, and life. An education where **100% of our students graduate with the confidence, knowledge, and skills to shape our city for the better.**

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# CHICAGO TAXPAYERS FACE THE HIGHEST TAX BURDEN IN THE COUNTRY

## OVERVIEW

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**“The cost of living is ridiculous. I’m on a fixed income and right now, I don’t think there will be a gift for my child this holiday season. It’s either food, gas for the car, or a Christmas gift.”** - MAYNARDA EDDMONDS

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Chicago regularly ranks among the most expensive places in the world to live.<sup>1</sup> One recent study suggests Chicago residents need to earn an annual income of \$172,600 for their purchasing power to equate to that of the average American bringing in \$100,000.<sup>2</sup>

A major driver of Chicago’s high cost of living is the city’s tax burden, **with one report ranking Chicago with the dubious distinction as the most heavily taxed city in America on a per capita basis.**<sup>3</sup> The city is tied for the highest combined state and local sales tax in the nation.<sup>4</sup> Property taxes have nearly doubled over the past decade, impacting Chicago homeowners and renters alike — especially low-income residents in gentrifying communities.<sup>5</sup> And the price of gasoline in Chicago regularly ranks among the highest in the country, partially due to the combined effect of state, county, and city taxes.<sup>6</sup>

Chicago’s high cost of living and unfair tax burden adversely affect middle- and low-income families who are forced to make tough decisions on how to make ends meet. Some families relocate to more affordable areas outside of Chicago, contributing to CPS’ declining enrollment. Other parents might work longer hours or multiple jobs, diminishing the time and energy they can devote to participating in their children’s education.

Parents championed city and state-level policies that address the high cost of living and high taxes for middle- and low-income families, including abolishing and/or reducing taxes on basic necessities like gasoline, groceries, and medicine; reducing and broadening the city sales tax; making the State of Illinois’ income tax fairer; and offering property tax relief for qualifying homeowners and renters.

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**“The government taxes us more than they tax the rich. They say money from taxes goes to schools and libraries, but the community is not seeing those investments. Where is the tax money going? How are taxes distributed?”**  
- MARIA OCHOA

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<sup>1</sup> NBC Chicago, [“Chicago Among Top Most Expensive Places Across the World,”](#) April 6, 2022.

<sup>2</sup> Jack Grieve, [“In Chicago, it takes \\$172K to feel like you make \\$100K.”](#) *Crain’s Chicago Business*. May 1, 2023.

<sup>3</sup> Catherine Alles. [“Chicago’s Taxpayer Burden Hits \\$119k Per Person to Lead US Cities, Report Finds.”](#) Foundation for Economic Education, May 14, 2019.

<sup>4</sup> Civic Federation. [“Financial Challenges Facing the Chicago Mayor and City Council: Options and Recommendations,”](#) June 14, 2023.

<sup>5</sup> Illinois Policy Institute, [“Chicago Property Taxes Nearly Doubled in a Decade,”](#) February 3, 2022.

<sup>6</sup> Kids First Chicago review of municipality gas prices on [AAA website](#).

## ILLINOIS IS ONE OF ONLY 13 STATES TO TAX GROCERIES AND HAS THE SECOND HIGHEST GAS TAXES IN THE NATION

### RECOMMENDATIONS

#### ABOLISH ALL SALES TAXES ON MEDICINE AND GROCERIES AND DOUBLE TAXATION ON GASOLINE PURCHASES<sup>7</sup>

The State of Illinois should abolish its sales tax on medicine and groceries. Most states have a sales tax, but they typically exempt necessities like groceries and medicine. **Illinois does not.** Illinois is among just 13 states that impose a sales tax on groceries<sup>8</sup>, a policy that disproportionately burdens working-class families by increasing the cost of essential daily needs.

Additionally, the state, county, and city – which all assess a motor fuel tax – should abolish double taxing Chicago drivers with a sales tax on gasoline purchases. Currently, **Illinois has the second highest gas taxes in the nation<sup>9</sup>.** In addition to motor fuel taxes, the State of Illinois, Cook County and the City of Chicago each charge a sales tax on gas purchases, increasing the price of gasoline for Chicago drivers by roughly 9%.<sup>10</sup> Chicago's steep gasoline taxes add a significant financial strain on families, increasing their daily living expenses in an already costly urban environment.

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**“Groceries, medicine, and gasoline are all basic necessities and should not be taxed.”** - SAMANTHA SALINAS

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#### WHAT PARENTS SHARED

- They believed that sales taxes are regressive because they take a larger percentage of income from low-income taxpayers than from high-income taxpayers.
- They agreed that medicine, food, and gasoline are core necessities for families and that the cost of these items is already high prior to taxation.
- They expressed some openness to *reducing* the respective tax rates instead of a complete elimination since government relies on taxes to fund services.
- They noted that many roads and infrastructure in the city are in a poor state even with the existing double taxation on gasoline purchases.

<sup>7</sup> “Medicine” here is defined as over-the-counter medication. Illinois is the only state in the country to charge a sales tax on prescription medicine. Parents’ recommendation to abolish the application of the sales tax on prescription medication is included in the “Access to Quality Healthcare” chapter.

<sup>8</sup> Center on Budget and Policy Priorities, “[States That Still Impose Sales Taxes on Groceries Should Consider Reducing or Eliminating Them](#),” April 2020.

<sup>9</sup> Adam Hoffer and Jessica Dobrinsky-Harris, “[How High are Gas Taxes in Your State?](#),” Tax Foundation, August 15, 2023.

<sup>10</sup> Illinois Policy Institute, “[High gas prices mean Illinois’ sales tax adds \\$200 a year](#),” July 30, 2022.

## PROVIDE CHICAGO'S LOW- AND MEDIUM-INCOME HOMEOWNERS AND RENTERS WITH PROPERTY TAX RELIEF

The State of Illinois should implement targeted property tax breaks via a circuit-breaker program focused on low- and middle-income taxpayers.

Currently, **Illinois' property tax structure is regressive** – meaning low-income families pay more of their income in taxes than wealthier families. Nationally, property taxes account for 4.2% of income for the lowest 20% of taxpayers, compared to 3% for middle-class taxpayers and 1.7% for the wealthiest 1% of households.<sup>11</sup>

Over the past decade, **Chicago property taxes have nearly doubled**.<sup>12</sup> Between 2020 and 2021 alone, over 30 communities in Chicago experienced a property tax increase of at least 10%, with the Lower West Side (Pilsen) facing the most drastic hike, where property taxes soared by 44.7%.<sup>13</sup>

Every Chicago property taxpayer has had to bear the brunt of this increased burden, but it has been particularly hard for low-income homeowners in gentrifying areas, like Lower West Side (Pilsen), where higher property taxes can quickly increase housing costs. **A circuit-breaker program would make property taxation fairer.**

Renters, too, have felt the pain of recent property tax hikes as research shows that landlords shift most of the increased tax burden onto tenants.<sup>14</sup> Parents therefore also support an expanded circuit breaker program that passes on these savings to renters.

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**“I just received a property tax bill and it has almost tripled. How can people afford to pay these high taxes and keep their homes?”- JOYCE ANDERSON**

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### WHAT PARENTS SHARED

- They felt that providing property tax relief for low- and middle-income earners would help families afford to own or rent a home in the city, particularly in gentrifying areas.
- Some noted that beneficiaries of the program should only be renters or homeowners who paid their rent or mortgage payments on time.

### WHAT IS A CIRCUIT-BREAKER PROGRAM?

Circuit breakers protect families from property tax “overload” much like how traditional circuit breakers protect against electrical overload. Under most circuit breaker programs, when a property tax bill exceeds a certain percentage of a taxpayer’s income, the circuit breaker reduces property taxes in excess of this “overload” level. Currently, property tax circuit breaker programs are available in 29 states plus the District of Columbia.

Importantly, renters are also beneficiaries of circuit breaker programs. More than two-thirds of states with circuit breakers (21 of 30) extend their programs to at least some renters, and Oregon provides its circuit breaker exclusively to renters. (ITEP, 2019).

<sup>11</sup> Institute on Taxation and Economic Policy. “[Preventing an Overload: How Property Tax Circuit Breakers Promote Housing Affordability.](#)” May 2023.

<sup>12</sup> Illinois Policy Institute, “[Chicago Property Taxes Nearly Doubled in a Decade.](#)” February 3, 2022.

<sup>13</sup> Illinois Policy Institute, “[Up 40% Or Down 40%. Chicago Property Taxes All Over The Map.](#)” August 7, 2023.

<sup>14</sup> Leah J. Tsoodle & Tracy M. Turner, 2008. “[Property Taxes and Residential Rents.](#)” *Real Estate Economics*, American Real Estate and Urban Economics Association, vol. 36(1), pages 63-80, March.

## ENACT A GRADUATED INCOME TAX IN THE STATE OF ILLINOIS AND CREATE AUTOMATIC TRIGGERS TO REDUCE INCOME TAX RATE FOR LOW-INCOME EARNERS

**“Low earners should not be paying the same rate as high earners – that is just not fair.”- SAMANTHA SALINAS**

The State of Illinois should adopt Governor Pritzker’s proposal to shift Illinois’ flat tax to a graduated income tax, which would allow lower-income earners to pay a lower percentage of their income in taxes than higher earners. Parents felt a graduated income tax would improve the fairness of Illinois’s combined state and local taxes. Illinois residents in the bottom 20% of the income distribution—those making under \$21,800 annually—pay 14.4% of their incomes in combined state and local taxes, compared to only 7.4% of those in the top 1%—those making \$537,400 or more annually.<sup>15</sup> Governor Pritzker’s proposal would reduce taxes for taxpayers with incomes in the bottom 95% while raising effective tax rates for the top 1% by 2.4%.<sup>16</sup> **As a result, Illinois’s tax structure would move from the eighth most regressive in the US to the twentieth.**<sup>17</sup>

Moreover, when the State of Illinois’ funding reserves are sufficient – that is, when revenues regularly exceed spending and so long as the state’s rainy day fund balance continues to increase – the state’s lowest income earners should receive an automatic income tax rate cut. Parents supported this proposal to keep Illinois competitive after reviewing examples of how several border states, specifically Indiana<sup>18</sup> and Kentucky<sup>19</sup>, had enacted legislation to automatically reduce income tax rates as long as specific economic and fiscal conditions are met.

<sup>15</sup> Institute on Taxation and Economic Policy. [“Illinois’s Flat Income Tax Amounts to a Tax Subsidy for the Wealthiest Illinoisans That Compounds Income and Wealth Inequalities.”](#) September 2020.

<sup>16</sup> Ibid.

<sup>17</sup> Ibid.

<sup>18</sup> In 2023, Indiana’s income tax rate dropped from 3.23%, which was already the third-lowest in the nation, to 3.15%. If specific economic and fiscal conditions are met, it will drop to 2.9% by 2029. See Ernst & Young, [“Indiana Law Lowers Personal Income Tax Rate in 2023 and 2024; New Local Taxes May Be Imposed for Emergency Medical Services,”](#) March 30, 2022.

<sup>19</sup> The income tax rate in Kentucky was reduced to 4.5% in 2023 from 5%. Additionally, the state established a trigger for automatic rate reductions of half a percent when state funding reserves are kept intact and revenue outpaces spending. See Ernst & Young, [“Kentucky law lowers personal income tax rates for 2023 and 2024,”](#) March 15, 2023.

### WHAT IS A “FLAT TAX”?

A “Flat Tax” is when lower and higher earners pay the same percentage of their income in taxes. Illinois is one of only nine states that uses one income tax rate for all residents.

### WHAT PARENTS SHARED

- They liked the idea of low earners paying less than high earners, saying that is fairer.
- They felt that tax income tax rates are high and appreciated a mechanism that could reduce income tax rates further without cutting services or benefits.
- Some were concerned they might be taxed higher with a graduated income tax.

## REDUCE CITY OF CHICAGO'S SALES TAX, BROADEN TO INCLUDE LUXURY SERVICES

**“Sales taxes are too high in Chicago. It forces individuals to go to Indiana and other counties to shop at a lower tax rate, which also hurts Chicago businesses.”**

-TIQUITA BREWER

The City of Chicago should reduce its sales tax rate to lessen the tax burden on low-income families. At 10.25%, **Chicago is tied for the highest combined sales tax rate nationwide** with Seattle and several cities in California.<sup>20</sup>

### WHAT IS A “SALES TAX BASE” AND HOW IS ILLINOIS DIFFERENT FROM OTHER STATES?

The sales tax base is the total amount of sales, transactions, or services subject to sales tax within a specific jurisdiction. The State of Illinois' sales tax base has been criticized for being too narrow because the state excludes most services from being subject to the sales tax. Out of the 168 total services taxed by U.S. states, Illinois currently taxes only 17. Most of these are related to the delivery of utility services, such as gas, electricity, and telecommunications. The other 49 states tax an average of 56 services. (Civic Federation, 2023).

See Also: Illinois General Assembly, Commission on Government Forecasting and Accountability. “Service Taxes: 2011 Update.” 2011.

## CHICAGO IS TIED FOR THE HIGHEST COMBINED SALES TAX RATE NATIONWIDE

To offset the loss in revenue, the City of Chicago should work with the State of Illinois to extend the sales tax to apply to luxury services taxed by other states, but currently exempted by Illinois. In 2011, the City of Chicago's Office of Inspector General estimated an expanded sales tax could bring in an additional \$450 million in revenue to the city each year.<sup>21</sup>

### WHAT PARENTS SHARED

- As previously noted, they felt that sales taxes are inherently regressive because they take a larger percentage of income from low-income taxpayers than from high-income taxpayers. For that reason, they generally supported the concept that cutting sales taxes is progressive in providing greater tax relief for lower-income families.
- They believe that an individual who can afford “luxury” services can afford to pay higher taxes on those items.
- Some expressed concerns that what some consider “luxury” services others consider a necessity.

<sup>20</sup> Civic Federation. “[Financial Challenges Facing the Chicago Mayor and City Council: Options and Recommendations](#),” May 2023.

<sup>21</sup> City of Chicago Office of Inspector General. “[Budget Options for the City of Chicago](#),” September 2011.

## CONCLUSION: FAMILIES NEED ACTION NOW

Chicago has always been a dynamic tapestry of culture, innovation, and diversity, but we face an urgent challenge. Families, the cornerstone of any thriving society, are leaving our great city. By listening to parents, we can create an environment that attracts and retains families, boosting our city's vibrancy, prosperity, and long-term stability.

Thank you for joining us on this crucial exploration of the issues affecting Chicago's families. Together, we can create a brighter future for our great city.



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### LEARN MORE

We invite you to dive deeper into other issue briefs, available for download on our website. Visit [kidsfirstchicago.org/enrollment-solutions](https://kidsfirstchicago.org/enrollment-solutions).

### QUESTIONS?

Please contact José Pacas, Hal Woods, or any member of our team at Kids First Chicago to explore our analysis further.

Contact us at [kidsfirstchicago.org/our-team](https://kidsfirstchicago.org/our-team).

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