



Illinois House proposes permanent income tax increase as pension fix

DAVID KALL | TAX AND BENEFITS CHALLENGES | FEB 21, 2013

On February 20, 2013, the Illinois House proposed legislation that would permanently extend a temporary individual income tax increase in order to provide funds for the state's unfunded pension plans.

Two years ago, the Illinois legislature temporarily raised the state's flat personal income tax rate from 3 percent to 5 percent for four years beginning on January 1, 2011. This personal income tax rate is scheduled to decrease to 3.75 percent on January 1, 2015 and to 3.25 percent on January 1, 2025.

H.B. 2375 would make the 5 percent personal income tax rate permanent. The bill would also change the state pension funding goal from 90 percent to 80 percent and beginning in fiscal year 2014, would apply a 50-year amortization formula to reach this 80 percent funding ratio.

The revenues generated under this bill would be used to fund the state's actuarially required contributions to the state's pension plans. The bill also provides that if the state's total contribution to the pension plans in any fiscal year is less than the proceeds from this income tax increase and certain debt service savings, the extra funds will be provided back to Illinois taxpayers in the form of a refundable tax credit.



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