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# A Windy City Tax Dilemma

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In this installment of State Tax Merry-Go-Round, Hamilton examines the budget battle brewing in Chicago, finding that the city has put itself in a position where painful cuts and tax increases are both desperately needed.

Chicago has been known by many nicknames, but the one that has stuck is the Windy City. Many explanations have been offered for the nickname's origins, including the city's sometimes brutal weather, but the one I favor is the suggestion that it came from the city's tradition of long-winded politicians. If that's the case, Chicago is once again earning its nickname, owing to the city's imposing budget shortfall and the seemingly endless discussions of Democratic Mayor Brandon Johnson's plan to address it.

The mayor released his 2026 budget proposal in mid-October.[1] He said the main goals of his $16.6 billion plan were to close a budget deficit estimated at $1.19 billion, preserve city services, and avoid city layoffs.[2]

The shortfall is the largest since the 2021 budget, when city revenue was devastated by the COVID-19 pandemic. This deficit is largely self-inflicted, caused by continued high pension costs and the significant increase in city spending funded with temporary sources like federal pandemic aid, which has ended.[3] Illinois Policy, a free-market think tank based in Chicago, reported in October 2024 that the city budget had grown by $6 billion since the pandemic, a 58 percent increase.[4]

True to his word, the mayor's budget proposed just $80 million in cuts, with most of those savings coming from a yearlong hiring freeze for all city departments except for those focused on public safety or revenue collection.[5] The bulk of the deficit would be closed under Johnson's plan with $617 million in new and increased taxes, including a new head tax on corporations and a tax on social media, thus combining two of the most controversial new tax ideas of the last few years into a single political hot potato for the city council's consideration.[6]

## Taxing Business and the 'Ultra-Wealthy'

The mayor's corporate tax proposal, styled as the "community safety surcharge," calls for a tax of $21 per employee per month on businesses with 100 or more employees in the city.[7] The tax would generate about $100 million a year, which would be used to fund violence prevention and youth employment programs. The tax on social media companies — dubbed the social media amusement and responsibility tax, or SMART — would be the first of its kind in the country.[8] Under the measure, companies with more than 100,000 active users in the city will pay 50 cents for each user above that threshold, with the resulting revenue of about $31 million a year earmarked to help finance the city's free mental health clinics and crisis response teams.[9]

The list of tax proposals didn't end there. The mayor also proposed hiking the existing "cloud tax," a personal property lease transaction tax on cloud computing services, from 11 percent to 14 percent and creating a new 10.25 percent online sports betting tax on companies like DraftKing and FanDuel. Also included was a tax increase on ride-sharing services by expanding the areas where Lyft and Uber riders must pay an additional congestion surcharge and shifting the tax from a flat rate to a 10.25 percent rate on the amount charged per ride. The plan also proposed a $2 tax on hemp products, plus a tripling of the tax on boat moorings, sometimes referred to as the yacht tax, from 7 percent to 23.25 percent, and an increase in the fee charged to the owners of vacant buildings.

Under the plan, the remaining deficit would be covered by short-term borrowing to pay the cost of "extraordinary and one-time" expenses, including the cost of resolving police misconduct lawsuits and paying Chicago firefighters and paramedics the retroactive pay they are owed after working without a contract for four years, according to the budget summary from the mayor's office, WTTW-TV reported.[10]

What the plan didn't include was a property tax hike. The property tax is the city's largest revenue source, but Johnson has told reporters he wouldn't increase the tax to help close the city's budget gap because of its impact on the average Chicago homeowner.[11] Avoiding a property tax hike could also avoid a costly defeat by the city council, which rejected the mayor's proposal for a $300 million property tax hike last year.[12] Along the same lines, the plan would allow the state's 1 percent tax on groceries, which is allocated to the city, to expire at the end of the year.[13]

The mayor defended his tax plan, with its focus on businesses and wealthy Chicagoans: "This intense and growing wealth inequality is not sustainable for our city. . . . We cannot separate the immense wealth of the few from the poverty and insecurity of the many."[14] Johnson added that his plan was the best way to avoid deep — and unpopular — cuts in city programs while protecting the city from the impact of federal policies. "Our budget proposal asks the large corporations and the ultra-wealthy to chip in a little bit more, so that working families are not burdened with higher property taxes or grocery taxes or garbage fees," the mayor said.[15]

## Mixed Reactions

With his plan on the table, all Johnson had to do was persuade a majority of the city's 50-member city council to go along, but that has proven to be easier said than done. As the city council began its budget deliberations, it was immediately clear that the proposed tax hikes would be a bitter political pill for some of the council members to swallow, even if they were staring at a billion-dollar deficit. A month after the mayor released his plan, the council was still debating whether to swallow it — or parts of it — and remains divided.

Alderman Bill Conway said:

> At a time when we're already very much worried about affordability in this city, I'm concerned about all the taxes and fees we're adding on Chicagoans here. We really need to grow the size of the city, and what that's going to require is affordable housing as well as jobs. This budget really hurts both those things by taking a massive [tax increment financing] surplus, which often is used in affordable housing, as well as the jobs tax, which I worry certainly won't create jobs and will add a tax on people who are trying to do that.[16]

On the other side, Alderman Jason Ervin, chair of the city council's Budget Committee, thought the plan had a lot to offer:

> Many of the things [the mayor] puts on the table have been designed not to hurt everyday Chicagoans in their pocketbooks. The budget is not something that I'm sure everybody is happy with, but at the end of the day, no one wants to decrease services. We talked to residents about that — they don't want to see decreased services.[17]

Stoked by outside groups opposing the mayor's plan, the rift has put the city council on the horns of a dilemma, leaving next year's budget in a sort of limbo for the past month. According to reporting by WTTW, it is likely that council budget negotiations will stretch into December, forcing the council to scramble to meet the December 31 budget deadline.[18]

## The Head Tax Headache

Much of the debate over the mayor's plan has centered on the head tax proposal. In his comments, Johnson argued that business leaders told him his biggest priority should be public safety. He said it makes sense for Chicago's largest companies to "put more skin in the game" to allow the city to "double down" on efforts at public safety that are working.[19] He also downplayed the size of the tax, which he said is the equivalent of big firms buying their employees lunch once or twice a month.[20]

The head tax has a checkered history in city finances nationally. Denver has one. Seattle had one, repealed it, and replaced it with a payroll expense tax. In California, San Francisco toyed with the idea but moved to a tax primarily on business gross receipts. Mountain View, also in the San Francisco Bay Area, has a head tax, while nearby Cupertino has considered the possibility a couple of times and put discussions on hold both times.[21]

Chicago had a head tax called an "employer's expense tax" until it was repealed in 2014. It was imposed during Mayor Richard J. Daley's administration in 1973. It charged businesses with more than 15 workers $3 per employee per month. Daley proposed the tax to balance the 1974 budget after his suggestion for a stock and commodity tax met stiff opposition.[22]

Over time, inflation eroded the tax's real value in city finances. By the early 2000s, the rate stood at $4 per employee per month, applying to firms with 50 or more employees, and brought in only $20 million to $23 million annually.[23] It remained unpopular with the business community, and in a 2011 press release, then-Mayor Rahm Emanuel called it a "job killer" and said eliminating it would boost job creation in the city.[24] The tax was phased out, starting with a 50 percent reduction to $2 per employee in July 2012, before being fully eliminated in 2014.[25]

Just as the old head tax did, the new head tax proposal drew fire from the business community, which again labeled the tax a job killer. Illinois Gov. JB Pritzker (D) told a crowd of business leaders in October that he was "absolutely, four-square opposed" to Johnson's head tax, adding that the tax "penalizes the very thing that we want" by discouraging hiring and new businesses, Pritzker said.[26]

As the *Chicago Tribune* described the mayor's bumpy tax ride last year:

> Less than a year into Johnson's term, voters rejected the mayor's "Bring Chicago Home" tax referendum [that would have increased the real estate transfer tax on high-end homes]. His Springfield strategy of pressuring Gov. JB Pritzker and state lawmakers to tax the rich has similarly faltered so far. If Johnson strikes out a third time by failing to convince City Council on the head tax, he may struggle to find a lane to pass new levies before his current term ends in 2027.[27]

In recent comments, Johnson said he would continue to ask state officials to allow Chicago to levy additional taxes on the wealthiest residents and biggest businesses. Most revenue-generating proposals, like imposing a sales tax on services, not just goods, would require a change in state law. "Many of the proposals in our budget wouldn't even be necessary if the progressive demands for a billionaire's tax, a tax on services, or the elimination of corporate tax breaks were met at the state level," Johnson said, according to reporting by WTTW.[28]

## The Cloud Tax Redux

Sensing that the political winds were blowing against his original head tax proposal, in early November the mayor began floating the idea of a change that would increase the minimum size of companies affected by it from 100 to 200 employees, according to the *Chicago Tribune*.[29] The revised approach would charge the same $21 per employee per month but on a smaller tax base and would generate about $82 million annually. The change would apply to just 1.5 percent — instead of 3 percent — of Chicago businesses.[30]

When asked about the potential head tax change, mayoral spokesperson Cassio Mendoza avoided giving a direct answer; in a statement, Mendoza said that "conversations are ongoing with Aldermen on a number of potential changes," but "no final decisions have been made at this time."[31]

According to the *Tribune*, the hole left by the reduced head tax revenue could be filled by further hiking the cloud tax, which presumably would mean a rate hike from the current 11 percent rate to a rate above the 14 percent rate proposed by the mayor's original plan, although the precise rate isn't immediately known.[32]

Whatever the decision on the rate, the tax is still likely to become an issue eventually. The cloud tax is an odd duck of a tax. It is a component of the broader personal property lease transactions tax, which dates to 1974 and applies to businesses or individuals that are either a lessor or lessee of personal property used in Chicago. The tax has been amended several times over the years to clarify its scope, including its application to nonpossessory computer leases — that is, cloud computing and software as a service. According to a *National Law Review* article, the tax's application to cloud computing began in 2015 when the city's finance department issued a ruling saying that a "nonpossessory computer lease" includes "cloud computing, cloud services, hosted environment, software as a service, platform as a service, and infrastructure as a service."[33] The article said, "The Chicago City Council amended the Ordinance [later in 2015] to include a lower Transaction Tax rate of 5.25 percent for 'the nonpossessory computer lease of a computer,' effective January 1, 2016."

The rate eventually was raised to 9 percent and increased to the current 11 percent last year as part of the city's budget, as an alternative to a property tax increase. Raising it again — so soon and by so much — would be adding insult to injury for many Chicago businesses. Johnson has labeled the tax, which accounts for more than half of his tax plan's revenue, as a "tax on big tech," but in practice, it isn't levied directly on the cloud companies but rather on Chicago businesses using their services.[34]

Those in the business community — not to mention many pundits — have pointed out that the tax threatens the city's goal to become the "Silicon Valley of the Midwest," an effort that has recorded some impressive wins in recent years, including attracting tech companies like Google and PSIQuantum, which made a billion-dollar investment in the city's new Illinois Quantum and Microelectronics Park on the South Side.[35] The addition of the social media tax would be another thorn in the side of the city's tech sector.

For Johnson, this sort of trouble seems to be all in a day's work. As an article noted last year:

> Johnson, a former union organizer who surprised pundits when he beat incumbent Lori Lightfoot, had already alienated many of the city's economic leaders by proposing a series of taxes on the rich. All at a time when the Chicago area is contending with the loss of firms including Citadel, Boeing Co., Caterpillar Inc. and the local offices of Tyson Foods Inc.[36]

## Deus ex Machina

The outlook for the mayor's plan grew significantly more difficult on November 17, when the city council's finance committee voted 25-10 against the mayor's tax package mainly because of the head tax. According to CPA Practice Advisor: "The 25-10 vote shooting down the revenue package was a remarkable rebuke against the first-term chief executive who has steadily overseen more losses in City Council than his predecessors. But not in modern times has a mayor lost a budget vote, even in committee."[37]

As of this writing, the full council had scheduled a meeting to discuss the budget, and Johnson was reportedly refusing to back down from his full plan. In the meantime, the budget remains in limbo, where it has taken up residence for the past month.

Many members of the city council are reported to be deeply concerned at the prospects of voting for Johnson's tax increases. At the end of October, a majority of its members, including the Black Caucus chair and several members of Johnson's leadership team, wrote a letter declaring their opposition to Johnson's head tax proposal and asking him to find a $100 million replacement.[38]

The difficult decisions facing the council were made clear again during a hearing of the city's Budget and Government Operations Committee on November 10. The purpose of the hearing was to review the results of a report from the consulting firm EY, which was hired to develop spending and tax revenue options for the city.[39]

The consultant's report, which cost the city $3.2 million, identified between $530 million and $1.4 billion in potential savings and new revenue. The mayor's plan includes about $80 million in cuts identified in the report. One suggestion from the report that Johnson didn't touch was a recommendation for the city council to automatically hike property taxes annually to keep pace with inflation. Johnson didn't include it in his plan, and no one on the city council has proposed reviving it.[40]

As the hearing got underway, the consultant's report must have looked like a sort of deus ex machina to the council, because it promised far more cuts than the mayor's budget, meaning fewer controversial tax hikes. But there wasn't much comfort to be had from the consultants. At the committee meeting, Adam Chepenik, the principal author of the EY report, declined to tell committee members that the Johnson administration had failed to implement the bulk of the cuts and efficiencies recommended by the report. "I think the options in the report identify options and opportunities to capture what is not currently captured," he said.[41] He added that the report was neither an audit designed to identify waste, fraud, and abuse nor an evaluation of the merits of Johnson's budget proposal. "The report was designed to provide as many options as possible, and in terms of how things are implemented and the timeline that they take to implement, it is in the city's discretion."[42]

Also testifying was Budget Director Annette Guzman, who answered questions about the mayor's budget proposal and, according to WTTW, "repeatedly assured alderpeople that she and Chief Financial Officer Jill Jaworski were using the report as a 'roadmap to structural balance for the city.'"[43]

The council, according to news reports, seemed resigned to the answers — if not the conclusions. "It's kind of frustrating to hear with so much work being done and so much money being spent that an additional analysis would be needed in terms of how to act," said Alderman Matt Martin, who represents neighborhoods on the city's North Side. "I think what you're hearing from a lot of people is that we need to move more quickly on a lot of this work."[44]

## A Grueling Fight

Once the report became public, Johnson refused to admit having second thoughts. "We put forth this investment that some had some trepidation around . . . but we've already demonstrated that we're willing to implement the very ideas that came from this report," he said.[45]

Joe Ferguson, the president of the Civic Federation, responded, saying the mayor was missing out on many more opportunities for saving money by not implementing more of the ideas contained in the report: "He is not governing to all Chicagoans. He is governing more to the benefit of a subset of constituents, and he's doing so in a very ideologically-driven way."[46]

Johnson had an answer for that, too. Before the hearing, he said it was time for those who opposed his plan to make their own proposal and consider what it would mean to residents who rely on city services:

> We hear a lot of calls for cuts, and people like to refer to them as efficiencies, but folks get real quiet when we ask them to provide some of the specifics. Chicagoans do not want to see our snow plowing reduced. They do not want to see less workers out there working in the night so their mornings can be better.[47]

The comments came just hours after the city's first snowfall of the season.

Regardless of what happens, the budget fight is shaping up to be a grueling battle between the mayor and the council. The city, like many others across the country, has reached a point when the bills are coming due for the ambitious tax and spending decisions made during the post-pandemic boom. If anything, it appears Chicago went further than most cities and has put itself in a position where painful cuts are desperately needed, along with tax increases, to balance a budget wildly out of line with economic realities. To what degree city officials are in a position to acknowledge that reality remains to be seen.

The mayor's budget plan is unlikely to be adopted as a whole, so someone will have to come up with an alternative option soon. In the meantime, the council will likely feel the heat from the business community, which is lobbying against the mayor's proposal. The city is in a hole, and as the old saying goes: The first rule of holes is when you're in one, stop digging. No solution will come overnight, and no workable solution will be easy for the city. Now isn't the time to make it worse by doubling down on decisions made under the illusions of plenty created by the last few years. That was tried last year, and it just shifted the core problem to the 2026 budget.

In that sense, Guzman had a valid point when she told the committee that the city's financial woes have been decades in the making and cannot be solved in a single year: "The city didn't get here overnight, and the structural reform won't happen overnight, but you have to begin somewhere."[48]

**FOOTNOTES**

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[10] Cherone, "With No Easy Fixes in Sight, Debate Over Chicago's 2026 Spending Plan Reaches Tipping Point," WTTW-TV (Chicago), Nov. 12, 2025; see City of Chicago, *supra* note 1.

[11] Hill, *supra* note 3.

[12] *Id.*

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[15] *Id.*

[16] Blake Thor, "Chicago Alderpeople React to Johnson's Budget Proposal as Hearings Begin," WTTW-TV (Chicago), Oct. 20, 2025.

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[39] Cherone, *supra* note 10.

[40] *Id.*

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**END FOOTNOTES**


## DOCUMENT ATTRIBUTES

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