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Chicago's Proposed Equitable Employer Tax: Coverage, Revenue, and Employer Incentives

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Executive Summary

On October 21, 2026, Mayor Brandon Johnson's administration introduced a proposal to revive Chicago's employer head tax, previously the Employer's Expense Tax, as the "Equitable Employer Tax" (EET). The EET would levy a $25 a month charge for each full-time employee at employers within the City of Chicago with 125 or more full-time employees. The proposal also includes a "SEED" credit (Socioeconomically Disadvantaged Area Employment Expansion and Development) of $25 a month for each full-time employee at a site in the City's Socioeconomically Disadvantaged Areas (SEDAs), up to the tax owed.

The goals of this report are to 1) identify which employers would pay the EET, 2) estimate how much revenue it might generate, and 3) explain what research to date tells us about how employers might respond to it.

We estimate that the EET would raise about $92 million a year net of the SEED credits. About 760 employers with 350,000 full-time workers in Chicago would owe the tax. We exclude roughly 20,000 of these workers (5.7 percent) who usually work from home outside the city. On the remaining workers, the tax would raise $99.0 million a year, or $92.3 million after $6.8 million in SEED credits (figures are rounded and may not sum). Depending on how we treat remote work and the ordinance's pay-based definition of full-time work, net revenue could range from $87.8 million to $100.4 million. The City's FY2027 proposed budget assumes $101.8 million net, or $9.5 million above our central estimate and above the top of our range. Figure 1 shows how we built our estimates.

Our main estimates assume employers would not change their behavior in response to the proposed EET. However, the 125-employee threshold gives them a strong incentive to do so. An employer with 124 full-time employees would owe nothing, while one with 125 employees would owe $37,500 a year. This is roughly 11 times the cost of crossing the equivalent threshold under the former Employer's Expense Tax. Because the ordinance defines full-time status by pay, employers near the threshold could adjust hours and scheduling, cap headcount, use contractors, or relocate, all of which would shrink the taxable base. Each 5 percent of the base lost would reduce net revenue by about $5 million a year; a 10 percent loss would reduce it by roughly $9 million.

No U.S. city currently levies a tax like the proposed EET. The nearest precedent is Chicago's own former Employer's Expense Tax, which charged $4 a month per employee. Other taxes differ from the EET in important ways. Payroll taxes like Seattle's JumpStart take a percentage of wages and exempt smaller employers by payroll dollars, not headcount. The EET, by contrast, charges a flat $300 per full-time employee each year regardless of pay, exempts employers by headcount, and charges the full amount on every employee once an employer reaches 125. This structure creates a tax "cliff" (a notch, in the public finance literature) where a payroll tax instead creates a "slope" (a kink). Flat per-worker taxes, such as Pennsylvania's local services taxes, apply regardless of employer size and create no cliff. Local income taxes and earnings taxes, like those in New York City, Philadelphia, Kansas City, and St. Louis, are paid by workers out of their earnings, not by employers. Where cities do charge employers, as Denver does per worker and St. Louis does on payroll, the charge applies regardless of employer size and creates no

cliff.

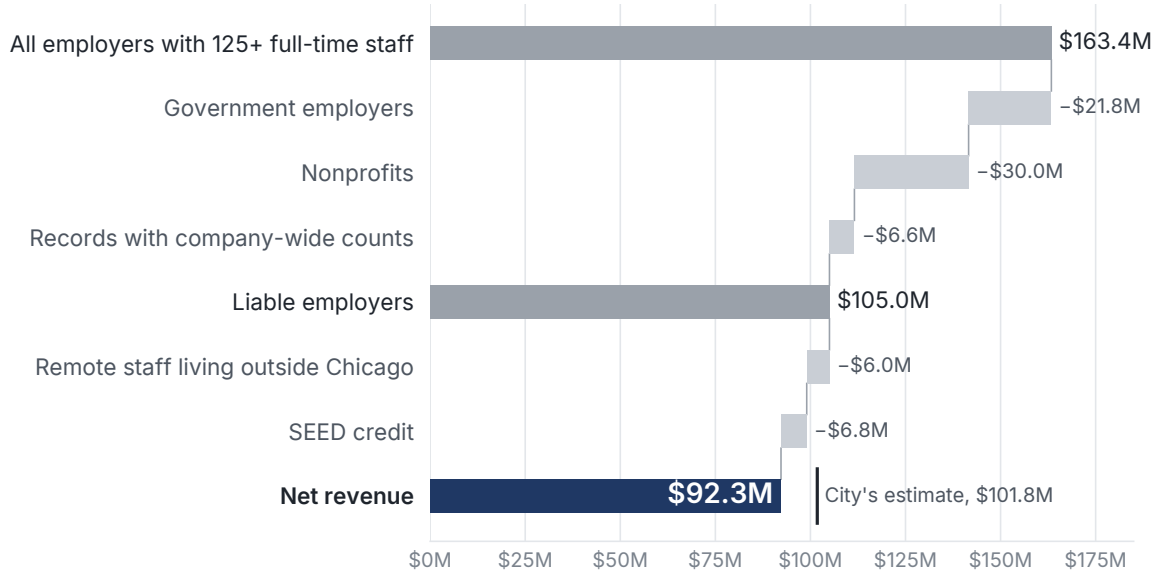

Figure 1. The tax would raise about $92 million a year, $9.5 million less than the City's estimate

Note: Annual revenue at $300 per full-time employee, central estimate. The top bar is what the tax would raise if every Chicago employer with 125 or more full-time employees paid; each lighter bar removes one provision of the ordinance or one data screen, as in Table 6. Records with company-wide counts are single Chicago sites carrying a headcount for the whole company. Remote staff are employees who usually work from home and live outside Chicago. The vertical mark on the last row is the City's net estimate. *Sources:* Analysis by the Center for Municipal Finance; Data Axle (Infogroup) 2025; IRS Exempt Organizations Business Master File; American Community Survey 2024; City of Chicago, 2027 Budget Recommendations.

The EET also pairs this unique structure with the geographically targeted SEED credit. The credit would offer targeted relief, but its initial reach is limited, as the SEDAs hold a quarter of Chicago households but only 7 percent of the employment the tax would reach. It also adds uncertainty about employer response, as employers cannot know if or when the City will redraw the SEDA map.

The academic literature does not offer definitive guidance on how employers might respond to the EET. No study has directly examined how a municipal head tax affects employment, business location, or other private sector outcomes. The closest U.S. evidence comes from state unemployment insurance taxes, which are paid per worker, and it suggests that employers respond mainly by adjusting their hiring. Research in other settings also shows that tax cliffs like that created by the EET can change employer behavior, even when firms otherwise respond little to taxes. But none of this substitutes for direct evidence on the EET. Employers' options have also changed since the former tax was in force. For instance, in 2012, 4.2 percent of workers in the Chicago area usually worked from home; in 2024, 14.9 percent did, so an employer can now move positions, if not entire operations, out of the city. In short, the City would likely learn how employers respond to the EET only after imposing it.

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1 Introduction

Chicago levied an employer head tax from 1974 until the end of 2013 charging a monthly amount for each full-time employee. The Johnson Administration proposed to revive the tax in its FY2026 budget, but the City Council left it out of the budget it passed in December 2025. On October 21, 2026, Mayor Johnson introduced a new version, the Equitable Employer Tax (EET), in his proposed 2027 Revenue Ordinance. The EET would charge $25 a month for each full-time employee at employers located in the City of Chicago with 125 or more full-time employees, and it would give a credit for employees at sites in disadvantaged areas. The Mayor's proposed FY2027 budget includes $113.8 million for the tax and $12.0 million for the credit, for $101.8 million net.

The debate around these proposals has settled into a familiar back-and-forth. Opponents describe the tax as a job killer. Supporters describe it as a modest levy on large employers who can absorb a larger share of the local tax burden.

Against that backdrop, this study has three purposes. The first is to identify which employers would pay the EET. The second is to estimate how much revenue the tax would raise and to compare that estimate with the City's. The third is to explain what research to date tells us about how employers might respond.

The first two purposes require knowing who would be liable. The proposed EET taxes the employer according to the number of employees who perform services within the city. Published statistics count worksites or national firm size, and neither matches that rule. We use establishment-level business microdata with a corporate parent identifier to aggregate to the firm level, so we can measure each employer's Chicago headcount the way the ordinance does and apply the ordinance's rules to it.

We estimate that 760 employers with about 350,000 full-time workers in Chicago would owe the tax. After we remove roughly 20,000 workers who usually work from home outside the city and subtract SEED credits, net revenue would be about $92 million a year, with a plausible range of $87.8 million to $100.4 million. The City's $101.8 million sits above the top of that range.

A tax with a headcount threshold gives employers near the threshold a strong reason to reorganize. An employer with 124 full-time employees would owe nothing, while one with 125 would owe $37,500 a year, about 11 times the cost of crossing the former employer head tax's threshold. Responses that avoid the tax without cutting employment could erode the base, make revenue projections less reliable, and concentrate the burden on employers with less flexibility to restructure.

That said, no study has directly examined how a municipal head tax affects employers. As an analogue, we draw on research about payroll taxes and size thresholds. That research does not settle how employers would respond. We also explain why the SEED credit is unlikely to move many employers into disadvantaged neighborhoods.

The report proceeds as follows. Section 2 reviews Chicago's head tax and recent proposals, and Section 3 reviews the academic literature. Section 4 identifies the employers the EET would reach. Section 5 estimates its revenue and compares our estimate with the

City's. Section 6 asks how employers might respond, including to the SEED credit. Section 7 concludes, and the Technical Appendix documents the data construction and our initial test of the former 50-employee threshold.

2 Background and Current Policy Context

2.1 Chicago's Head Tax

The City Council approved an Employer's Expense Tax, commonly called the head tax, in December 1973, and it took effect on January 1, 1974 (Woelfel and Qin, 2025). The original rate was $3 per month for each full-time employee, applying to employers with 15 or more workers in Chicago. The Illinois Supreme Court upheld the ordinance that same year (Paper Supply Co. v. City of Chicago, 1974).

The rate changed more than once over the following two decades, and for its final years it stood at $4 per employee per month (City of Chicago, Office of the Mayor, 2011). The amended ordinance that took effect in 1995 made two changes that matter for everything in this report: it raised the employee threshold from 15 to 50, and it limited the tax to full-time employees working at least half of their time within the city limits (City of Chicago, 1995; The Civic Federation, 2023).

Table 1 summarizes the history. Mayors Harold Washington and Richard M. Daley both criticized the tax, but neither repealed it, and in its later years it raised roughly $25 million a year (Woelfel and Qin, 2025). When repeal was proposed in 2011, the City estimated the revenue at stake at about $20 million a year and WBEZ reported about $23 million (City of Chicago, Office of the Mayor, 2011; Brandel, 2011).

Table 1. Chicago Employer's Expense Tax, rate and threshold history

In effect from	Rate	Threshold and scope
1974	$3 / employee / month	15 or more full-time employees
1995	$4 / employee / month	Raised to 50 employees; limited to full-time employees working at least 50 percent of time in Chicago
2012	$2 / employee / month	Phase-out begins
2014	Repealed	Tax eliminated
2027 (proposed)	$25 / employee / month	125 or more full-time employees (wages of at least $4,300 a quarter); government and 501(c) employers excluded; SEED credit for SEDA sites

Note: The rate changed between 1974 and 1995; the table shows only the changes documented in the sources cited. The 2027 row is the ordinance as introduced on October 21, 2026, not enacted law. *Sources:* Paper Supply Co. v. City of Chicago (1974); City of Chicago (1995); Chicago Department of Revenue (2005); City of Chicago, Office of the Mayor (2011); City of Chicago, City Council (2026).

Two sources give a sense of the tax's reach. Mayor Emanuel's office stated in 2011 that approximately 2,700 Chicago companies registered and paid the tax in 2009 and 2010

(City of Chicago, Office of the Mayor, 2011). WBEZ's analysis of city tax records found that roughly 2,200 companies paid it in a typical year between 2000 and 2013 (Woelfel and Qin, 2025).

Who Was Liable: The Employer, Not the Worksite

The ordinance's definition of an employer determines which businesses meet the size threshold and therefore owe the tax. In particular, aggregating employees across all Chicago worksites under a common corporate parent can push an employer above the threshold even when no individual worksite meets it. This distinction underpins both the revenue estimates in Section 5 and our initial test of the former threshold in the Technical Appendix.

Section 3-20-030(A) of the Municipal Code, effective July 1, 1995, imposed the tax on every employer who, in connection with the employer's business, engaged, hired, employed or contracted with 50 or more individuals as commission merchants and full-time employees, or any combination of the two, to perform work or render services in whole or in part within the city of Chicago (City of Chicago, 1995; Chicago Department of Revenue, 2005). The threshold is therefore 50 *or more*: an employer with 49 qualifying employees owed nothing, and an employer with 50 owed the tax on all 50.

Two further features follow directly from that language. First, the taxed unit is the employer, defined by the ordinance as any person employing one or more employees performing services within Chicago, where a person includes a corporation. It is not the worksite. Second, the count is of Chicago employees only. National headcount is irrelevant to liability, which distinguishes Chicago's ordinance from the firm-size measures available in most federal data.

The Department of Revenue's own guidance confirms the first point. A 1997 information bulletin addressed multi-location employers directly, with a worked example: a company with 60 employees distributed across three Chicago offices files a single return covering all 60, because the company controls payment of their wages (Chicago Department of Revenue, 1997).

The Department went further in 2005. Employer's Expense Tax Ruling No. 2, effective September 15, 2005, provided that for the purpose of calculating the 50-employee threshold, employees would be combined where they were employed by members of a single unitary business group. The ruling defined such a group as persons related through common ownership or control, operating in the same general line of business, and functionally integrated through centralized management over matters such as purchasing, financing, personnel and marketing. Common ownership in the case of corporations meant direct or indirect control of more than 50 percent of outstanding voting stock. The ruling described itself as a clarification of existing law rather than a change (Chicago Department of Revenue, 2005).

That interpretation was contested and upheld. In *DTCT, Inc. v. City of Chicago Department of Revenue*, the Department had assessed several groups of separately incorporated McDonald's franchises, each individually below the threshold but commonly owned and centrally managed. The First District affirmed the assessments, reasoning that the ordi-

nance's broad definition of business, which reaches entities that are subsidiary or independent, supported combining them, and that the contrary reading would allow large employers to avoid the tax by creating subsidiaries (Illinois Appellate Court, 2011). Presiding Justice Garcia dissented, arguing that the Department had expanded the definition of employer without authorization from the City Council.

Two implications carry forward. The correct unit of analysis is the firm, measured by its Chicago employment. And the 2005 ruling represents a tightening of threshold enforcement *within* the tax era, a second source of policy variation distinct from the 2014 repeal.

Repealing the Head Tax

The tax was phased out in two steps. In 2011, at Mayor Emanuel's request, the City Council approved halving the rate from $4 to $2 per employee per month in 2012 and eliminating the tax by 2014 (City of Chicago, Office of the Mayor, 2011; Woelfel and Qin, 2025).

The stated rationale was competitiveness. The tax was described as a penalty on hiring, and its removal as a signal to employers considering Chicago (City of Chicago, Office of the Mayor, 2011). The counterargument, then and now, is that the tax was small relative to the cost of employment and that the revenue it produced funded services with their own economic value. At its long-standing rate of $4 a month, shown in Table 1, the tax amounted to $48 per employee per year.

An analysis by WBEZ using city tax records obtained through a Freedom of Information Act request found that Chicago employment did rise after the repeal, but that the increase began during the recovery from the 2008 recession, before the phase-out, and was mirrored in the suburbs, which were never subject to the tax (Woelfel and Qin, 2025). That pattern is not consistent with the repeal having caused the improvement.

2.2 Recent Proposals

The proposal in the Mayor's 2026 budget went through several versions: $21 per employee per month on employers with more than 100 employees (EY, 2025), then a version applying to employers with at least 200, and finally $33 per month, or $396 per year, on the largest employers (Cherone, 2025; Sheridan, 2025). Sources disagree on whether the final threshold was "more than 500" or "500 or more." The Administration stated that the tax would apply to roughly 175 companies and would raise approximately $82 million. The Administration never released the list of affected companies or an exemption schedule, and the Mayor's policy chief said the projection relied on data last updated more than a decade earlier (Sheridan, 2025).

The City Council passed the 2026 budget 30 to 18 on December 20, 2025 without the head tax, and the Mayor allowed it to take effect without a veto (WTTW News, 2025; Better Government Association, 2026).

The tax returned in the proposed FY2027 budget. On October 21, 2026 the Administration introduced the 2027 Revenue Ordinance, whose Article VII would create an Equitable Employer Tax of $25 per month for each full-time employee at employers with 125 or

more full-time employees working in whole or in part within the City (City of Chicago, City Council, 2026). The ordinance defines a full-time employee by pay, as one earning at least $4,300 from the employer in a calendar quarter; excludes government units and organizations exempt under Sections 501(c), 501(d) or 401(c) of the Internal Revenue Code; and taxes only employees who do at least half their work in the City. A new Chapter 3-22 creates the Socioeconomically Disadvantaged Area (SEDA) Employment Expansion and Development (SEED) credit of $25 a month for each full-time employee physically present at a site in a Socioeconomically Disadvantaged Area. The 2027 Budget Recommendations carry $113.8 million for the tax and $12.0 million for the credit, and the Mayor's office reports net revenue of $101.8 million (City of Chicago, Office of the Mayor, 2026a,b). In Section 6 we describe the potential effects of this SEED credit proposal.

The Administration's 2026 figures can be checked against history. At $396 per employee per year, $82 million implies roughly 207,000 covered employees. That is close to the WBEZ finding that, of the approximately 2,200 companies paying the head tax annually between 2000 and 2013, an average of about 188 employed 500 or more people, accounting for roughly 225,000 jobs each year, or about 21 percent of Chicago employment (Woelfel and Qin, 2025). In Sections 4 and 5 we examine whether that tax base still accurately reflects Chicago's workforce and the employers subject to the tax. Two developments since 2013 could materially affect the revenue the tax would generate. First, the growth of remote and hybrid work has changed where employees perform their jobs, potentially reducing the number of workers who count toward the taxable base. Second, changes in the size and composition of Chicago's employers have altered the distribution of firms across the tax threshold, affecting both the number of employers subject to the tax and the revenue they would generate.

2.3 Head Taxes in Other Jurisdictions

Two comparisons recur in the policy discussion.

Seattle's 2018 Employee Hours Tax is the closest recent attempt at a large-city head tax, and the clearest illustration of how far Chicago's proposal departs from it. The council's original proposal charged $500 per full-time employee on businesses with at least $20 million in taxable gross receipts and was expected to raise about $75 million a year (EY, 2018). The version adopted unanimously in May 2018 charged $275 per full-time-equivalent employee per year, defined as 1,920 hours, or about 14 cents per hour worked. It kept the $20 million threshold, reaching roughly 585 firms or about 3 percent of Seattle businesses, and was projected to raise about $47 million a year through 2023 (Seattle City Council, 2018). It was scheduled to take effect on January 1, 2019. After Amazon, Starbucks and other employers funded a campaign to put a repeal referendum on the ballot, the council repealed it 7 to 2 four weeks after passage (NPR, 2018).

Chicago's proposals differ from Seattle's on most dimensions in Table 2. The 2026 proposal's rate was 44 percent higher than Seattle's adopted rate, and the 2027 ordinance's is 9 percent higher. The 2026 proposal would have reached fewer firms but raised more revenue, about $469,000 per affected firm against Seattle's $80,000; the 2027 ordinance would reach more firms, about 760 in our estimate, at about $121,000 each on our central estimate

of net revenue. Most importantly, the taxes are triggered differently. Seattle's threshold was set on revenue, so adding one employee added one employee's tax. Chicago's is set on headcount, so the hire that crosses the threshold (500 employees in 2026, 125 full-time employees in 2027) brings the entire workforce into liability. Seattle's design had no notch; Chicago's is built around one.

Table 2. Seattle's 2018 head tax and Chicago's proposals

	Seattle, proposed	**Seattle, adopted**	**Chicago, 2026 proposal**	**Chicago, 2027 ordinance**
Annual tax per employee	$500	$275	$396	$300
Monthly equivalent	$41.67	$22.92	$33.00	$25.00
Threshold basis	Gross receipts	Gross receipts	Headcount	Full-time headcount
Threshold	$20M	$20M	500 employees	125 full-time employees
Firms affected	n/a	about 585	about 175	about 760 (our estimate)
Projected annual revenue	about $75M	about $47M	about $82M	$113.8M gross, $101.8M net
Notch at threshold	No	No	Yes	Yes
Outcome	Reduced to $275 before passage	Repealed before taking effect	Dropped from 2026 budget (Dec. 2025)	Introduced Oct. 2026

Note: Chicago 2026 figures are the Administration's public projections (Sheridan, 2025). Chicago 2027 revenue is from the 2027 Budget Recommendations (City of Chicago, Office of the Mayor, 2026a); the firm count is our central estimate (Section 5). The original Seattle proposal would have converted to a payroll tax of 0.7 percent of Seattle payroll from 2021 (EY, 2018).

Denver has levied an Occupational Privilege Tax since 1969. It has two components, one on employees and one on employers, currently $5.75 and $4.00 per month respectively, rates set in 1988 (Colorado Politics, 2016). The employee component applies to workers earning at least $500 a month in Denver. Denver's proposed 2027 budget projects about $56 million from the tax, essentially flat from 2026 (Colorado Politics, 2026). That figure combines both components; the employer side alone is $48 per employee per year, against $300 per full-time employee under Chicago's 2027 ordinance and $396 in its 2026 proposal. Denver's experience is the longest continuous record of a municipal head tax in a large American city, though the low rate limits how much we can infer about how Chicago businesses might respond to the proposed Equitable Employer Tax.

Other local taxes on employment differ from the EET in who pays and how the amount is set. Seattle's JumpStart payroll expense tax applies only to businesses above a payroll threshold and charges a percentage of the pay of highly compensated employees, at rates that rise with payroll and pay (City of Seattle, Office of City Finance, 2026). Pennsylvania

municipalities may levy a Local Services Tax of up to $52 a year on each person working within their boundaries, whatever the size of the employer (Commonwealth of Pennsylvania, 2007). New York City taxes the income of its residents (New York State Department of Taxation and Finance, 2026), while Philadelphia's wage tax and the 1 percent earnings taxes of Kansas City and St. Louis also reach nonresidents who work in the city (City of Philadelphia, Department of Revenue, 2020; City of Kansas City, Missouri, 2026; City of St. Louis, Collector of Revenue, 2026); all four are paid by workers, with employers only withholding them. St. Louis also charges employers a payroll expense tax of 0.5 percent of compensation paid for work in the city (City of St. Louis, Collector of Revenue, 2026). None of these combines a flat per-worker charge with an employer headcount threshold; the closest precedent is Chicago's own former tax.

3 Insights from the Academic Literature

3.1 Scope and Method of the Review

The existing research offers several ways to understand how the EET might affect employment, wages, business location, and tax revenue. Although no causal study directly examines a municipal head tax like Chicago's, studies of payroll taxes, business responses to local taxation, and firm-size thresholds provide useful evidence. This section reviews that research, distinguishes findings that apply most directly to Chicago from those that require greater caution, and examines how the tax's size threshold could influence employer behavior even without substantial job losses.

We reviewed three bodies of evidence: 1) the record of municipal employer taxes in the United States; 2) quasi-experimental studies of who bears payroll and per-employee taxes; and 3) studies of how business location responds to subnational taxes. We searched economics journals and working-paper series for each, and supplemented them with official documents and contemporaneous reporting for the municipal cases. We gave most weight to studies that use administrative or census data and a credible comparison group, and we note for each study how closely its setting resembles Chicago's. Size-contingent rules, which carry the most direct implications for a tax with an employee threshold, are reviewed separately in Section 3.3.

3.2 Employment and Wage Effects of Employer Head Taxes

Direct evidence on municipal head taxes is thin. We found no peer-reviewed causal evaluation of any U.S. municipal per-employee employer tax. The evidence that does exist comes from the municipal record itself, which is descriptive, and from a larger literature on payroll taxes, which is causal but rarely municipal. Table 3 summarizes the studies on which the review relies.

The Municipal Record

Chicago. The most systematic look at Chicago's own tax is WBEZ's analysis of anonymized city tax records for 2000 to 2013 and of employment in the city and suburban Cook County since 1972 (Woelfel and Qin, 2025). Chicago and the suburbs, which never had the tax, followed closely similar employment trends while the tax was in force, and the city's job growth after repeal began during the recovery from the 2008 recession, before the phase-out, and appeared in the suburbs as well. The four economists and policy experts WBEZ consulted agreed that the data could not establish the tax as a cause of job loss or growth. The analysis is descriptive rather than causal, but it is the only one that uses the city's payment records.

Seattle, 2006 to 2009. Before its 2018 proposal, Seattle levied a smaller employee hours tax of $25 per employee per year to fund transportation, with an exemption for employees who did not drive to work alone. It raised about $4.5 million a year. The City Council repealed it 8 to 1 in November 2009, effective at the start of 2010, during the recession; opponents argued that it was complicated to administer and signaled that businesses were not wanted in the city (Barnett, 2009). We are not aware of any evaluation of its effects.

Table 3. Studies relied on in the literature review

Study	Setting	Main finding
Municipal employment taxes		
Woelfel and Qin (2025)	Chicago head tax, 2000–2013	City and suburban employment followed similar trends; no evidence the tax or its repeal drove job loss or growth (descriptive)
Haughwout et al. (2004)	Philadelphia wage tax and three other cities	Wage tax increases cost about 173,000 city jobs, 1971–2001; large cities near the top of their revenue hills
Who bears taxes on employment		
Gruber (1997)	Chile, payroll tax cut	Tax burden fully on wages; no employment effect
Saez et al. (2019)	Sweden, youth payroll tax cut	No wage effect; youth employment up 2–3 points; firms shared windfall
Guo (2023)	U.S. state unemployment insurance taxes	Minimal pass-through to earnings; lower employment growth through hiring, largest for young and low-earning workers
Guo and Wallskog (2024)	U.S. new-employer unemployment insurance taxes	Less entry, more exit, more contract labor
Business location		
Suárez Serrato and Zidar (2016)	U.S. state corporate taxes	Firm owners bear about 40%, workers 30–35%, landowners 25–30%
Giroud and Rauh (2019)	U.S. state taxes, establishment data	Employment and establishments respond; about half is relocation across states
Size thresholds and notches (Section 3.3)		
Kleven and Waseem (2013)	Pakistan, income tax notches	Large bunching and large frictions despite modest underlying elasticity
Garicano et al. (2016)	France, 50-employee regulations	Cost equivalent to a 2.3% tax on labor; distorted firm-size distribution

San Francisco. San Francisco taxed payroll rather than headcount, charging a flat 1.5 percent on payroll expense above $250,000. In 2012 voters approved a shift to a tax on gross receipts, which became operative in 2014, and the payroll expense tax was fully repealed from 2021 (San Francisco Treasurer and Tax Collector, 2025). The move away from a tax on employment, by a city that kept the revenue, is itself informative: it reflects a judgment that taxing payroll penalized hiring in the city more than taxing sales would.

Philadelphia. Philadelphia's wage tax falls on workers' earnings rather than on employers per head, but it is the most carefully studied city tax on employment. Haughwout et al. (2004) estimate that increases in the wage tax cost the city 173,000 jobs between 1971 and 2001, and that Philadelphia, like New York and Houston, sits near the top of its "revenue hill," the point beyond which higher rates raise little or no additional revenue because the base shrinks. Their broader conclusion is that the mobility of residents and businesses sets the limit on what a city can raise. The setting differs from Chicago's proposal, since the wage tax applies to all workers at all employers, but it is direct evidence that city taxes on employment can erode their own base.

Who Bears a Tax on Employment

A per-employee tax raises the cost of employing a worker. In principle, the employer can absorb it, pass it to workers through lower wages, or pass it to customers through higher prices, and how it divides determines whether the tax shows up in wages, in employment, or in neither. The quasi-experimental evidence on payroll taxes does not give a single answer.

Gruber (1997) studies Chile's privatization of its social security system, which cut payroll taxes on manufacturing firms by about a quarter on average. He finds that the reduction passed fully into wages, with no effect on employment. Under that result, a payroll tax is ultimately borne by workers and costs few jobs.

Two more recent studies point the other way. Saez et al. (2019) examine a large cut in Swedish payroll taxes for young workers. Net wages of the young workers did not change relative to slightly older workers, but youth employment rose by 2 to 3 percentage points, and firms that employed many young workers expanded and shared the windfall with all their employees. Guo (2023) studies increases in U.S. state unemployment insurance taxes in 2010 and 2011, using matched employer-employee data, and finds minimal pass-through to earnings and a significant fall in employment growth: each $100 increase in the per-worker tax reduced year-over-year employment growth by about 0.4 percentage points, mainly through less hiring, with larger effects for young and low-earning workers. State unemployment insurance taxes are paid per worker on a capped wage base, which makes them the closest U.S. analogue to a head tax in the research literature. Guo and Wallskog (2024) find that the same taxes, charged to new employers, reduce business entry, increase exit, and push some firms toward contract labor not subject to the tax.

Two conclusions follow for Chicago. First, the burden of a per-employee tax is not settled by theory, and in the most comparable U.S. evidence it falls mainly on employment rather than wages, at least in the short run. Second, because the tax is a fixed amount per head, it is a larger share of the cost of a low-wage worker than of a high-wage one, so any employment response is likely to be concentrated among lower-paid jobs. A threshold limits the tax to larger employers, which pay comparatively high wages on average (Woelfel and Qin, 2025), but within those employers the same logic applies.

Business Location and Local Taxes

The second margin is location. Suárez Serrato and Zidar (2016) estimate who bears state corporate taxes when firms and workers are imperfectly mobile across places, and find that firm owners bear about 40 percent of the burden, workers 30 to 35 percent and landowners 25 to 30 percent. Giroud and Rauh (2019) use establishment-level census data on multistate firms and find that employment and establishment counts respond to state tax rates, with short-run elasticities of about -0.4 to -0.5 for corporate taxes on C corporations. About half of that response is business activity moving to other states, and it is strongest in tradable and footloose industries. Both studies concern state taxes on profits or income rather than city taxes on headcount, but both establish that multi-location firms shift activity in response to differences in taxes across places. For a city tax,

the relevant "other state" can be a suburb a few miles away.

3.3 Size-Contingent Rules and Threshold Avoidance

The economics of a head tax with a size threshold is not primarily about the level of the tax. It is about the shape of the schedule at the threshold.

Chicago's tax created what the public finance literature calls a *notch*: a point at which a small change in behavior produces a discrete jump in tax liability. Under the post-1995 ordinance, an employer with 49 qualifying employees owed nothing. An employer with 50 owed the tax on all 50, or $2,400 a year. Hiring the fiftieth employee therefore did not cost $48 in tax. It cost $2,400, because that hire pulled the other 49 into liability. Figure 2 draws this notch beside the one in the 2027 ordinance.

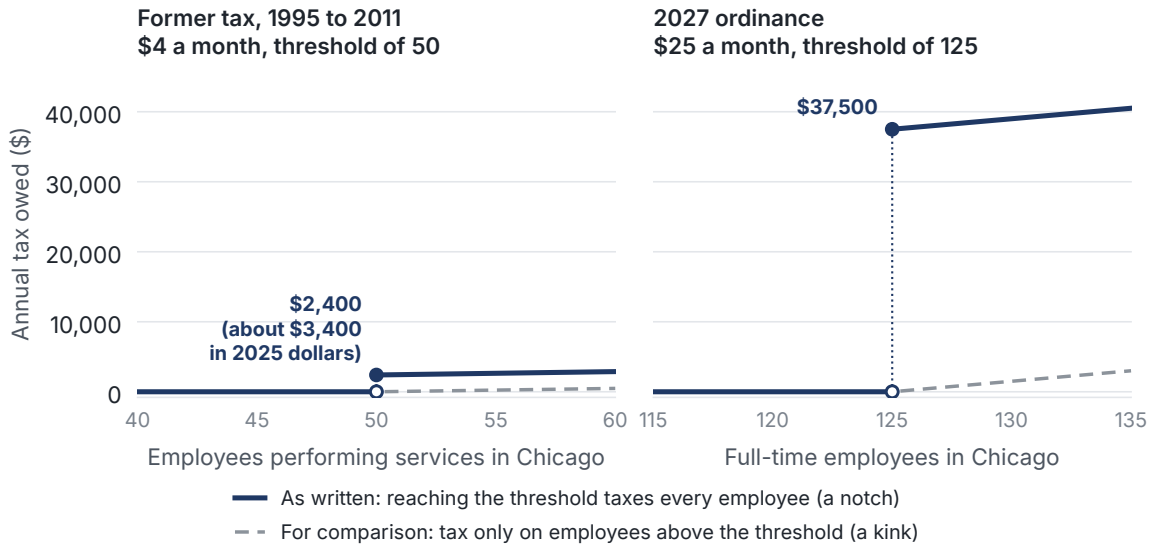

Figure 2. Reaching the threshold taxes the whole workforce, and the 2027 jump is about 11 times the old one

Note: The solid line is the tax as written: an employer just below the threshold owes nothing, and one at the threshold owes tax on every employee, so the hire that crosses the line carries the tax on the entire workforce. The dashed line shows what the tax would be if only employees above the threshold were taxed (a kink); neither law works that way, and the line is shown only for comparison. Left: the former tax, $4 per employee per month from 1995, threshold of 50 employees, a $2,400 jump (about $3,400 in 2025 dollars). Right: the 2027 ordinance, $25 per full-time employee per month, threshold of 125 full-time employees, a $37,500 jump. Both panels use the same dollar scale. *Sources:* Chicago Municipal Code 3-20-030(A), effective July 1, 1995; Ordinance O2026-0029643.

This is distinct from a *kink*, the more common design, in which a higher rate applies only to the marginal unit above the threshold. Under a kink, the fiftieth hire would have cost $48. The distinction matters because notches generate far sharper incentives to locate just below the cutoff, and because they create a region just above the threshold in which a firm would be strictly better off with fewer employees and more after-tax income. Kleven and Waseem (2013) call this the dominated region, and observe that it would contain no firms at all in a world without adjustment frictions.

Their framework is the standard reference for estimating behavioral response at notches. Notches produce excess mass below the cutoff and missing mass above it, and by combining the observed bunching, which is attenuated by frictions, with the mass remaining in the dominated region, which measures those frictions, one can recover the elasticity that would govern behavior in their absence. They apply it to Pakistan's personal income tax, where each bracket carried a single average tax rate applied to a filer's entire income, so earning one rupee above a bracket cutoff raised the tax owed on every rupee. At an income of 500,000 rupees, one additional rupee raised a self-employed filer's tax by 12,500 rupees. Using administrative records on every personal income tax filer from 2006 to 2009, about four million returns, they find sharp excess bunching just below every cutoff. Yet most filers who would have been strictly better off moving below a cutoff did not: about 90 percent of wage earners and 50 to 80 percent of the self-employed in dominated regions stayed where they were. Absent these frictions, bunching would have been about ten times larger for wage earners and two to five times larger for the self-employed. Even so, the structural elasticity behind these responses is modest, generally around 0.05 or lower for wage earners, with lower-bound estimates mostly between 0.05 and 0.15 for the self-employed. Their conclusion is that notches are inefficient precisely because they create price distortions strong enough to induce substantial behavioral responses even when the underlying elasticity is small. Two lessons carry over to a head tax, though the setting differs. A large response at a notch does not require firms to be especially sensitive to taxes, only that the penalty for sitting just above the line be steep. And short-run evidence can understate the long-run response: in their data, the share of filers in dominated regions declined over time as frictions eased.

The closest institutional analogue to Chicago's ordinance is French labor law, where a range of regulatory obligations begin to bind on firms at 50 employees. Garicano et al. (2016) study the resulting distortion using population data on French firms and estimate that the cost of these size-contingent regulations is equivalent to a 2.3 percent variable tax on labor, with welfare costs of roughly 3.4 percent of GDP under France's partial real wage rigidity. Their description of the empirical size distribution is also a caution for the present study: because of measurement error, the departure from the underlying distribution is not a clean spike at 49 but a bulge spread across several sizes below the threshold, followed by a valley rather than an empty region above it.

The method itself originates with Saez (2010), who used bunching at kink points to estimate taxable income elasticities, and is surveyed in Kleven (2016).

Applied to Chicago, this literature supports a specific prediction. Under the former ordinance, the fiftieth employee brought roughly $2,400 a year of tax liability. In 2011, the last full year at that rate, private employers spent an average of $28.57 per hour worked on wages and benefits (U.S. Bureau of Labor Statistics, 2012), or about $59,000 over a full-time year of 2,080 hours. The notch was therefore a surcharge of about 4 percent on the cost of the hire that crossed it, a small distortion by the standards of the studies above, and theory predicts modest rather than dramatic bunching. The 2026 proposal would have been a different matter. At $396 per employee per year, the five-hundredth hire would have brought about $198,000 of liability, assuming that, as under the former ordinance, a firm at the threshold owed tax on its entire workforce. With private em-

ployers now spending $46.89 per hour worked (U.S. Bureau of Labor Statistics, 2026), or about $97,500 a year, that is a surcharge of roughly 200 percent: the hire that crossed the threshold would have cost the firm about three times what it pays that worker in wages and benefits. The proposed EET sits between the two. At $300 per full-time employee, the hire that takes an employer to 125 brings $37,500 of liability, roughly 11 times the old notch in today's dollars and a surcharge of about 38 percent on the cost of that hire.[1]

Initial evidence from the former tax. The new threshold carries a much larger penalty than the previous Employer's Expense Tax. Nonetheless, a natural question is how employers responded to the imposition and later the repeal of the Employer's Expense Tax. We conducted an initial test of the former 50-employee threshold. If employers had held their size at 49 to avoid the tax, businesses reporting 49 employees would have been unusually common while the tax applied and less so after its repeal. Among single-location Chicago businesses that reported their own headcount from 1998 to 2025, businesses reporting 49 employees did become more common over the period, but we find no evidence that the tax caused it. The clustering at 49 was larger after the 2014 repeal than while the tax applied, and it also rose in suburban Cook County and the rest of the metropolitan area, which never had the tax.

Two limits matter. The test could detect only a large response, so smaller responses are not ruled out. It also observes only single-location businesses, while 432 of the 760 employers the 2027 ordinance would reach have more than one Chicago site and hold 76 percent of its employment. The result is consistent with the modest size of the former notch, and it says little about how employers would respond to one roughly 11 times larger. Nor can the test see choices such as where employers added jobs or invested, so it does not show that the former tax had no effect. Sections A2 and A3 of the Technical Appendix set out the method and results in full. We are developing a fuller analysis of whether employers changed their hiring, locations, remote work arrangements, job classifications or other business elements in response to the tax, using the data described throughout this report supplemented with other data.

3.4 Strength and Applicability of the Evidence Base

The credible quasi-experimental evidence concerns payroll taxes and size-contingent labor regulation rather than head taxes as such, and almost none of it is municipal. The municipal record is descriptive. The results transfer in three respects: a tax on employment can reduce hiring even when it does not reduce wages; multi-location firms move activity in response to differences in taxes across places; and notches distort behavior more than their average cost suggests. They transfer poorly in others: the French and Pakistani settings involve national rules, different labor markets and, in the French case, obligations that are not a tax at all. Chicago's tax also applied inside a metropolitan area where a firm can move a worksite across the city line without changing customers or workers, a margin national studies do not have.

[1] Using the average for full-time private industry workers instead, $54.00 per hour or about $112,000 a year, the surcharge is roughly 175 percent for the 2026 proposal and 33 percent for the 2027 ordinance (U.S. Bureau of Labor Statistics, 2026).

4 Which Employers Would Pay the Equitable Employer Tax?

This section identifies the employers the proposed EET would reach. We first set out the ordinance's rules, then describe the data, then build the liable base step by step from establishments to firms.

4.1 The Ordinance's Rules

We apply every rule as the revenue ordinance states it. Where the ordinance leaves a quantity to data we do not have, we say so and show how much it matters. Table 4 sets out each provision and how we apply it.

Table 4. How the ordinance's provisions are applied in the estimate

Provision (O2026-0029643)	Treatment
$25 a month for each full-time employee, at employers with 125 or more (3-20-030(A))	$300 a year; threshold tested as 125 or more
Full-time: wages of at least $4,300 in a calendar quarter (3-20-020(F))	Share of headcount above the line from LEHD 2023: 84.8% central, 82.9% to 86.7%
Government units and 501(c), 501(d), 401(c) organizations excluded (3-20-020(E))	Removed by public-body screen and IRS match
Threshold counts employees working in whole or in part in the City (3-20-030(A))	Threshold tested before the remote-work adjustment
Tax applies only to employees doing half or more of their work in the City (3-20-030(B))	Remote workers living outside the City removed from the taxed count
Tax due each quarter the employer reaches 125, except for months in which it falls below 125 (3-20-030(D))	Single 2025 snapshot
SEED credit: $25 a month per full-time employee physically at an SEDA site for most hours, up to the tax owed (3-22-030, 3-22-050)	Full-time employment at SEDA sites after the remote-work adjustment

Source: 2027 Revenue Ordinance as introduced on October 21, 2026, Article VII (Chapters 3-20 and 3-22).

4.2 Data and Measurement

The analysis uses the Data Axle Historical Business Database (formerly InfoGroup) (Data Axle, 2025). The panel covers 1997 to 2025 and records individual establishments with location, employment, industry, and, critically for this report, an identifier linking each establishment to its corporate parent. We report only aggregate results and name no private employer. Unless a table note says otherwise, the estimates in this report also draw on the IRS Exempt Organizations Business Master File, the City of Chicago Data Portal (including its business license and business owner records), the Census Bureau's LEHD data for 2023, the 2024 American Community Survey (tables B08126, B08008 and B08604) and the ordinance itself (City of Chicago, City Council, 2026).

Four properties of the data constrain what we can claim. Section A4 of the Technical

Appendix documents all four.

Composition changes over time. Between 2011 and 2025 the count of Chicago establishments in the file rose by 22 percent, from 113,532 to 139,025, while total Chicago employment in the file fell by 3.2 percent. Neither movement describes Chicago's economy. Official counts show covered employment in Cook County rising about 10 percent between March 2011 and March 2025 and private employment in the city rising 12.5 percent between March 2013 and March 2025 (U.S. Bureau of Labor Statistics, 2011, 2025a; Illinois Department of Employment Security, 2013, 2025). The file mixes records with verified headcounts, which the business reported or confirmed, and records whose headcounts the vendor models from industry, sales and location. Modeled records grew from 59,404 to 99,298 while verified records fell from 54,128 to 39,727, and the records that dropped out carried more employment than the records that replaced them. The file therefore cannot measure business formation or employment change over time (Technical Appendix, Section A1.1). This does not affect the tax base, which rests on large employers whose headcounts are mostly verified.

Verification rises with size. The share of records with verified employment increases steeply with establishment size (Table 5). It is 79 percent for establishments of 100 to 249 employees and close to 100 percent above 250, so restricting attention to verified records would cost little in the size range where a 125 threshold binds. Across the employers the ordinance would reach, 87.0 percent of Chicago employment comes from verified records (Table 7), against 28.6 percent of all Chicago establishment records (Table 5).

Table 5. Share of Chicago establishment records with verified employment, by size, 2025

Size band	Verified share
1 to 4	16.4%
5 to 9	45.3%
10 to 19	59.1%
20 to 49	64.1%
Exactly 50	93.2%
51 to 99	59.8%
100 to 249	79.4%
250 to 499	98.3%
500 and over	100.0%
All Chicago records	28.6%

Source: Analysis by the Center for Municipal Finance; Data Axle (Infogroup) 2025.

A floor at one employee. In 2025, 47,107 Chicago records (34 percent) report exactly one employee, and 92 percent of them are modeled. This looks like a default and not an estimate. It has little effect on the tax base, which rests on much larger employers, but genuinely larger unverified firms could sit at one employee and escape our count.

Benchmarking against official counts. We compared the file's employment totals with official counts for Cook County and the city (Section A1.1 of the Technical Appendix). The file's 2025 total for Cook County is close to the official count, though the two define em-

ployment differently, but its change since 2011 does not track official employment, so we do not use the file to measure change in Chicago employment over time. We have not benchmarked employment by industry or employer size against the Quarterly Census of Employment and Wages or the Census Bureau's Statistics of U.S. Businesses. Readers should therefore treat the estimates as measures of the base as the Data Axle file records it.

4.3 From Establishments to Firms

The ordinance taxes the employer and counts the employer's full-time employees working "in whole or in part within the City" (City of Chicago, City Council, 2026). Published statistics do not report that quantity. The Bureau of Labor Statistics defines an establishment as a single economic unit at one physical location, in contrast to a firm, which may comprise many establishments (U.S. Bureau of Labor Statistics, 2025b). A count of establishments with 125 or more employees therefore counts large worksites, not large employers. The Census Bureau's firm-size measure has the opposite problem. It reports national firm size and not Chicago employment, and so overstates the base.

The parent identifier in the business microdata permits a measure that matches the ordinance. We first restrict establishments to Chicago and then aggregate them to their corporate parent, so that each firm carries only the employment located within the city. We treat single-location establishments with no parent as firms in their own right (Technical Appendix, Section A5).

For small employers the distinction matters little, since only 1.2 percent of Chicago firms in 2025 have more than one Chicago establishment. For the employers the ordinance reaches it matters a great deal. Of the 760 employers in our central estimate, 432 have more than one Chicago site, and they hold 76 percent of the employment in the base.

The measure has known limitations, and they mostly run in one direction. The parent identifier captures corporate parent and subsidiary structure. It does not link several separately incorporated entities held by the same individuals, the arrangement that Employer's Expense Tax Ruling No. 2 combined and that the court upheld in *DTCT* (Illinois Appellate Court, 2011). Those structures appear in the data as unrelated businesses. The base reported here is therefore, on balance, a lower bound on the population that would be liable, with the shortfall concentrated in staffing, home health care and franchise systems that the data do not roll up to a brand. The opposite problem occurs where the data do roll franchised locations up to the brand parent although separate owners run them, which overstates the size of one employer while understating the number of employers. For the 24 franchise brands in the base, we therefore match each location to its holder in the City's business license records and group holders that share an owner, following *DTCT* (City of Chicago, Department of Business Affairs and Consumer Protection, 2026a,b); each owner group, and each brand's own locations and offices, is then tested against the threshold (Technical Appendix, Section A5). The parent identifier also fragments hospital systems, but most of those systems are 501(c)(3) organizations that the ordinance excludes, so the fragmentation no longer affects the base materially.

Two data problems at the top of the distribution matter because they feed revenue di-

rectly. Some large employers report round figures (8,000, 7,000, 5,000), and a firm reporting 5,000 employees instead of 3,200 adds about $458,000 a year at the ordinance's rate. Some records also carry a company-wide headcount on a single Chicago establishment. We describe the screens for both below.

4.4 The Liable Base

Table 6 builds the base in stated steps, from every Chicago employer large enough to meet the threshold to the revenue the ordinance would raise. Each step follows a provision of the ordinance or a screen on the data, and readers can check each one in the data.

Table 6. From Chicago employers to net revenue under the 2027 ordinance, central estimate (revenue in $ millions a year)

Step	Employers	Employees	Full-time	$M
Employers with 125+ full-time employees	1,085	642,125	544,522	
Less government units	−161	−85,550	−72,546	
Less 501(c), 501(d), 401(c) organizations	−125	−118,021	−100,082	
Less company-wide headcount records	−39	−25,801	−21,879	
Liable employers	**760**	**412,753**	**350,014**	
Less remote staff living outside Chicago			−19,934	
Taxed employees; gross revenue			**330,080**	**99.0**
Less SEED credit (178 employers)			−22,540	−6.8
Net revenue			**307,540**	**92.3**

Note: Employers are corporate parents measured by Chicago employment, with franchised locations grouped by owner (Section 4.3). Full-time employees are those earning at least $4,300 in a quarter (3-20-020(F)), estimated as 84.8% of headcount from Census LEHD 2023 earnings bands; the 125 test counts employees working in whole or in part in the City (3-20-030(A)). Employees working mostly outside the City are those who usually work from home and live outside it (ACS work-from-home rate by industry times 30.7%). Revenue at $300 per full-time employee a year. Rows may not sum to totals because of rounding. *Source:* Analysis by the Center for Municipal Finance; data sources in Section 4.2.

The full-time test. The proposed EET defines a full-time employee by pay, not hours. Specifically, it defines full-time as anyone earning at least $4,300 from the employer in a calendar quarter (City of Chicago, City Council, 2026). That is about $1,433 a month, or roughly 20 hours a week at Chicago's minimum wage of $17.05. As a result, the test excludes short-hours and seasonal staff and not ordinary full-time workers, and it counts some part-time workers as full-time. Data Axle reports headcount, not pay, so we estimate the share of each employer's workers above the line from the Census Bureau's LEHD workplace data for private jobs located in Chicago in 2023. LEHD reports jobs in three monthly earnings bands with breaks at $1,250 and $3,333, and 13.3 percent of Chicago private jobs pay $1,250 a month or less. The line falls inside the middle band, so the share above it lies between 82.9 and 86.7 percent. Our central estimate of 84.8 percent assumes jobs spread evenly across that band, and we report the two bounds as sensitivities. We apply one share to every employer, which is the largest simplification in the estimate. A hotel or restaurant group, for instance, is likely to have more workers below

the line than a law firm.

Government and nonprofits. The proposed tax excludes services for any governmental unit and for organizations exempt under Sections 501(c), 501(d) or 401(c) of the Internal Revenue Code, unless more than half their income is unrelated business income (City of Chicago, City Council, 2026). We identify government by industry code and a named list of public bodies, since Data Axle codes many of them to their operating industry (the Transit Authority as transportation, the Streets Department as construction). Section A5 of the Technical Appendix reproduces the list. We identify exempt organizations by matching every employer to the IRS Exempt Organizations Business Master File for Illinois, by name and address, and we review every match at employers of 500 or more by hand. A check of the liable employers by name against IRS and other public records removed seven more government or exempt employers and two records of organizations no longer in Chicago. Together the two exclusions remove 286 employers and about 204,000 employees. The exempt organizations are mostly hospitals, universities and other health and education employers, which would otherwise make up a large share of the largest employers.

Headcounts recorded at the company level. A company-wide headcount screen removes single-location firms that report more employees than their own parent record. A firm with one Chicago site should carry the same headcount on the site and on the parent record, so a gap means someone wrote a company-wide figure onto a local record. The screen is arithmetic and involves no judgment about names. It removes 39 employers. Table 8 shows the estimate without it, and with three further large round-number records removed.

Verified employment. The verified share falls with the number of sites (Table 7), because large multi-site employers carry modeled headcounts at some of their smaller locations.

Table 7. Share of liable employers' Chicago employment from verified records

Chicago sites per employer	Employers	Verified share
1	328	96.5%
2 to 10	303	90.6%
11 to 50	105	75.6%
More than 50	24	66.9%
All liable employers	760	87.0%

Note: Verified records carry a headcount reported by the business rather than modeled by the vendor. Across all Chicago establishment records the verified share is 28.6%. *Source:* Analysis by the Center for Municipal Finance; Data Axle (Infogroup) 2025.

Composition. Four sectors pay over half the tax. Professional and technical services account for 17.9 percent of the full-time employees in the base, accommodation and food services for 12.9 percent, finance and insurance for 12.7 percent and retail for 12.5 percent (Figure 3). Health care and education, which would make up nearly a quarter of employment at the largest employers, fall to under 6 percent once we remove exempt organizations. Across the base as a whole, the SEED credit offsets 6.4 percent of full-time

employees and remote workers who live outside the city remove 5.7 percent, but the two reach different employers. The remote-work adjustment falls mostly on office sectors, where we estimate that 8.6 to 9.5 percent of full-time employees work from home and live outside the city. The credit falls mostly on place-bound sectors with sites in disadvantaged areas, namely retail, accommodation and food, manufacturing and health care. This matters for who bears the tax over time. Office employers can owe less as more of their suburban staff work from home, while hotels, restaurants and stores cannot.

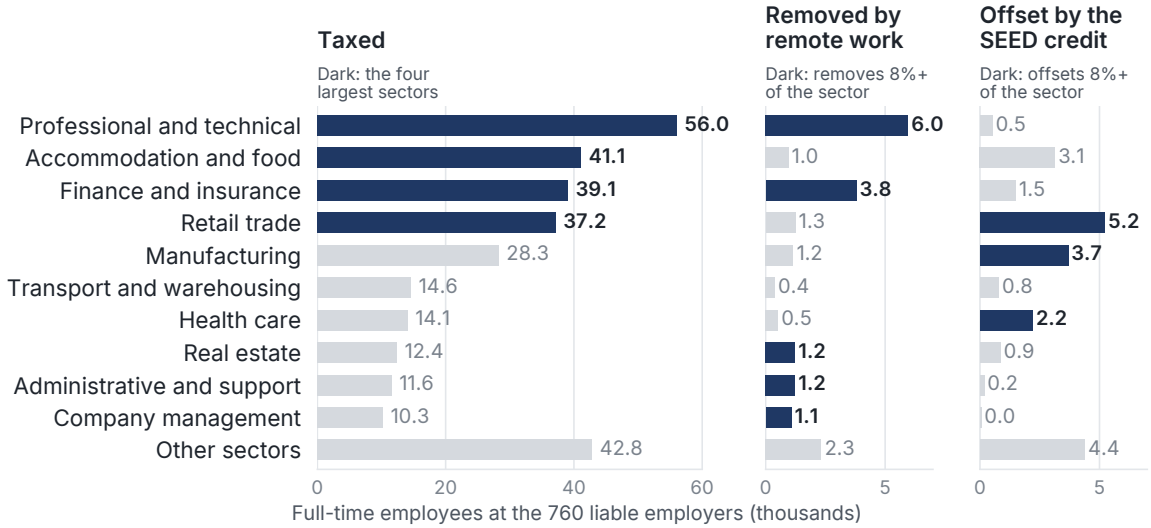

Figure 3. Four sectors pay over half the tax, and the two deductions relieve different ones

Note: Full-time employees at the 760 liable employers, in thousands. Taxed employees are net of both deductions. Removed by remote work: employees who usually work from home and live outside Chicago, estimated by applying each industry's work-from-home rate to the share of Chicago jobs held by people living outside the city; this is an assumption applied by industry, not observed for each employer. Offset by the SEED credit: full-time employees at the employer's sites in Socioeconomically Disadvantaged Areas, from site locations. Bars are highlighted for the four largest sectors and where a deduction removes 8 percent or more of the sector's full-time employees. Sectors with fewer than 10,000 taxed employees are grouped. *Sources:* Analysis by the Center for Municipal Finance; American Community Survey 2024, tables B08126, B08008 and B08604; Data Axle Historical Business Database, 2025; Ordinance O2026-0029643.

5 How Much Would the Equitable Employer Tax Raise?

This section estimates the revenue the EET would raise on today's employer base, shows which assumptions matter most, and compares our estimate with the City's.

5.1 Our Estimate

The ordinance resolves most of the questions that made earlier proposals hard to score. It names the rate, the threshold, the exemptions and the definition of a full-time employee (Table 4).

Remote work. A remote worker who lives in Chicago still works in Chicago, so only remote

workers who live outside the city can fall outside the tax. For each employer we compute

$$\text{full-time employees not taxed} \;=\; \text{full-time employees} \times w_s \times (1-\rho),$$

where w_s is the metropolitan work-from-home rate for the employer's industry group (American Community Survey table B08126) and $\rho = 0.6926$ is the share of jobs in Chicago held by Chicago residents (tables B08008 and B08604) (U.S. Census Bureau, 2025b). Because the ordinance counts anyone working in whole or in part in the City toward the threshold, we test an employer's liability before this adjustment and compute its tax after it. Figure 3 shows how the adjustment falls by sector. We report three cases: no adjustment, the Census adjustment above, and a bound in which every remote worker lives outside the city ($\rho = 0$).

The central estimate. With the Census remote-work adjustment and the central wage-test share, 760 employers would owe the tax on 330,080 full-time employees, for gross revenue of $99.0 million a year. The SEED credit would offset $6.8 million at 178 of them, leaving net revenue of $92.3 million. Table 8 reports these revenue projections alongside the City's estimate and each sensitivity, and Figure 1 in the Executive Summary shows how we build the estimate from the full set of large employers. Holding the base fixed, revenue is proportional to the rate, so each dollar of the monthly rate is worth about $4 million a year gross. This is a descriptive estimate of the pre-policy base under stated assumptions, not a forecast of collections.

Table 8. Revenue projections under the 2027 ordinance ($ millions a year): the City's estimate, our central estimate and sensitivities

	Employers		$ millions a year		
Case	Taxed	Credited	Gross	Credit	Net
City, 2027 budget			113.8	12.0	**101.8**
Central estimate	760	178	99.0	6.8	**92.3**
Sensitivity, each from the central estimate					
No remote adjustment	760	178	105.0	7.0	98.0
All remote workers outside the city	760	178	85.5	6.1	79.4
Wage-test share 82.9% (low)	684	168	94.1	6.3	87.8
Wage-test share 86.7% (high)	769	183	101.6	7.0	94.6
Threshold counted after remote adjustment	666	167	95.6	6.4	89.2
Single-site records over parent kept	799	180	105.1	7.0	98.1
Three suspect large records removed	757	178	96.8	6.8	90.0
SEDA sites near a boundary excluded	760	133	99.0	4.5	94.5
SEDA sites near a boundary included	760	193	99.0	7.8	91.2

Note: Rules as in Table 4. Central estimate: Census remote-work case and a wage-test share of 84.8%. Each sensitivity changes one assumption from the central estimate. *Sources:* Analysis by the Center for Municipal Finance; City of Chicago, 2027 Budget Recommendations, pp. 32 and 141, and City of Chicago, Office of the Mayor (2026b).

Which assumptions matter. Across the remote-work cases we consider plausible (none and the Census adjustment) and the full range of the wage-test share, net revenue runs from $87.8 million to $100.4 million (Table 10). The bounding case in which every remote worker lives outside the city gives $79.4 million at the central wage-test share and $75.5 million at the low one, and we treat it as a floor, not a projection. Within the plausible cases the two assumptions that move the estimate most are remote work, worth about $6 million between no adjustment and the Census case, and the wage-test share, worth about $7 million across its range. The SEED estimate depends on how we assign sites close to an SEDA boundary, which moves the credit between $4.5 million and $7.8 million.

The wage-test share moves the number of employers more than it moves revenue. Across its plausible range the count of liable employers runs from 684 to 769, because we apply a single share to every employer, and that share moves the 125 line between about 144 and 151 people on the payroll. The employers that cross in or out are small relative to the base, so net revenue moves by much less, from $87.8 million to $94.6 million. In practice each employer's position depends on its own pay, which our data do not record.

Table 9 lists the assumptions that could move these figures and the direction each pushes. The two largest that we cannot test both push the estimate up. The Census measure counts only workers who usually work from home, so it treats hybrid workers as fully in the city, and the estimate assumes full compliance with no behavioral response.

Table 9. Assumptions in the revenue estimate and the direction of their effect

Assumption	Effect on revenue
Full-time status from Census earnings bands, not payroll records	Either way
Government and 501(c) employers identified by name screen and IRS match; employers below 500 matched by rule, not reviewed by hand	Overstates slightly
Only remote workers who usually work from home and live outside the City escape; hybrid workers are taxed	Overstates
Industry work-from-home rates and resident share are metropolitan and citywide averages	Either way
Threshold tested before the remote adjustment, as the ordinance counts work in whole or in part in the City	Small
SEED credit uses the published SEDA tracts, which the Department may revise by rule	Either way
Parent identifiers miss commonly owned groups outside franchising and split some hospital systems	Understates
Franchised locations grouped by owner from City license records	Either way
Single 2025 snapshot; the ordinance taxes each month in which an employer has 125 or more	Either way
Full compliance and no behavioral response	Overstates

Note: Section references: 3-20-020(E) and (F), 3-20-030(A) to (D), 3-22-030 and 3-22-050 of O2026-0029643.
Source: Analysis by the Center for Municipal Finance.

5.2 Comparison with the City's Estimates

The 2027 Budget Recommendations carry $113.8 million for the EET and appropriate $12.0 million for the SEED credit, and the Mayor's release reports net revenue of $101.8 million (City of Chicago, Office of the Mayor, 2026a,b). The City has not published how it built either figure. Table 10 sets them beside ours.

Table 10. The City's estimate beside ours ($ millions a year)

Estimate	Taxed full-time	Gross	SEED credit	Net
City, 2027 budget	379,333	113.8	12.0	**101.8**
Ours, no remote adjustment	350,014	105.0	7.0	98.0
range over the wage-test share		99.8–107.7	6.6–7.3	93.2–100.4
Ours, central	330,080	99.0	6.8	**92.3**
range over the wage-test share		94.1–101.6	6.3–7.0	87.8–94.6

Note: The City's taxed full-time employees are implied by its gross at $300 each. Central: Census remote-work case, wage-test share 84.8%. *Sources:* Analysis by the Center for Municipal Finance; City of Chicago, 2027 Budget Recommendations, p. 32 (EET, $113.8 million) and p. 141 (SEED, $12.0 million), and City of Chicago, Office of the Mayor (2026b).

Gross revenue. The City's gross implies about 379,000 taxed full-time employees. Our estimate with no remote-work adjustment gives 350,000 and gross revenue of $99.8 million to $107.7 million, 5 to 12 percent below the City's figure. With the Census remote-work adjustment the gap widens to 11 to 17 percent. Because the City's gross exceeds even our estimate with no remote-work reduction, the City's figure in effect makes no allowance for employees who work mostly outside Chicago, although the ordinance does not tax them. The City has not published its method, so we cannot say how it reached the figure. A historical comparison is also consistent with that reading. The City's revenue estimates at each threshold proposed since 2025 are about 92 percent of what the 2000 to 2013 size distribution of head tax payers reported by WBEZ gives at the same rate and threshold (Woelfel and Qin, 2025). That pattern fits a projection built from the tax's historical records, but it does not prove one. In 2025 the Mayor's policy chief said the projection then in use relied on data more than a decade old (Sheridan, 2025).

The SEED credit. The City's $12.0 million implies 40,000 credited full-time employees, 77 percent more than our 22,540. Our estimate counts employees at sites inside the published SEDA tracts. A cruder method, applying the SEDAs' share of Chicago private jobs in the LEHD data (9.1 percent) to the City's gross, gives about $10 million. We cannot reproduce $12.0 million from public data. It may reflect an appropriation ceiling and not an estimate, or it may anticipate new jobs in SEDAs or a revised map. If the credit comes in near our estimate, net revenue would be about $5 million higher than the City's gross and credit figures imply.

What the comparison shows. Our central net estimate of $92.3 million is $9.5 million, or 9 percent, below the City's $101.8 million. Every case in Table 8 and Table 10 falls below the City's figure, including the highest, $100.4 million. Our gross is $14.8 million below the City's. About $6 million of that gap comes from the remote-work adjustment, and the

rest comes from a smaller base before any adjustment. Our smaller SEED credit offsets $5.2 million of the gap.

6 How Might Employers Respond?

The estimates in Section 5 assume full compliance and no behavioral response. This section asks how employers might respond to the threshold, how much that response could erode the base, and whether the SEED credit would change where employers locate.

6.1 The Threshold

The ordinance keeps the notch design of the historical tax. An employer with 124 full-time employees owes nothing, while one with 125 owes $37,500 a year, before any SEED credit. Spread across 125 employees, that is $300 each, a small fraction of the cost of employment. Measured against the single hire that triggers it, it is about 38 percent of what that worker costs the employer in wages and benefits (Section 3.3). The incentive a notch creates scales with the second figure, because employers near the line see the discontinuity. The old tax's notch was $2,400 (50 employees at $48 a year). On the same inflation basis as Section 3.3, the new notch is roughly 11 times larger, though far smaller than the $198,000 notch in the 2026 proposal (Figure 4).



Figure 4. Reaching 125 full-time employees triggers a $37,500 tax bill

Note: Annual tax owed under the 2027 ordinance by an employer's full-time employees in Chicago. The grey line shows the tax if only employees above 125 were taxed, for comparison. The 38 percent compares the $37,500 with the average cost of a private-sector worker in wages and benefits, $46.89 per hour worked or about $97,500 a year; for a lower-paid 125th hire the share is larger. *Sources:* Analysis by the Center for Municipal Finance; Ordinance O2026-0029643; Bureau of Labor Statistics, Employer Costs for Employee Compensation, June 2026.

Many employers sit close to the line. Among private employers the ordinance does not exempt, 155 fall within 25 full-time employees above it and would owe about $6 million a year before credits, and 185 fall within 25 below it (Figure 5). These counts depend on the wage-test share, which moves each employer's estimated full-time headcount, and on round payroll counts in the file.

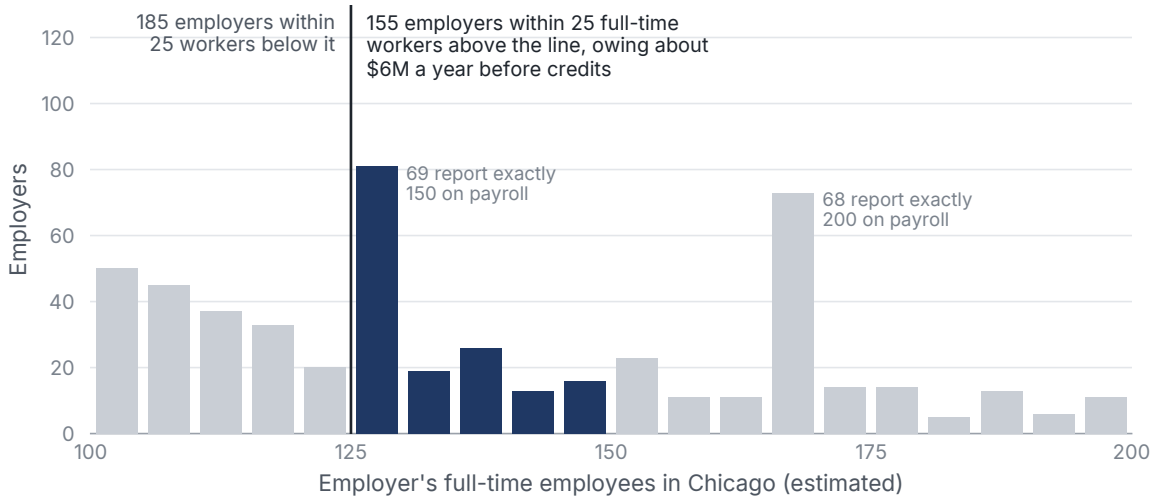

Figure 5. 155 employers sit just above the line, and 185 just below it

Note: Private Chicago employers not excluded by the ordinance, by estimated full-time employees in Chicago (headcount times the central wage-test share of 84.8 percent), in bands of five. Dark bars are employers within 25 full-time employees above the threshold. Two bars stand out because employers report round payroll counts: 69 employers report exactly 150 employees, which converts to about 127 full-time, and 68 report exactly 200, about 170 full-time. The spikes reflect how employers report headcounts, not employers gathering above the line. *Source:* Analysis by the Center for Municipal Finance; Data Axle (Infogroup) 2025.

The literature reviewed in Section 3.3 speaks directly to this point. Notches induce large behavioral responses even where the underlying structural elasticity is modest (Kleven and Waseem, 2013). The ordinance's definitions also create specific margins of response. Because the ordinance sets full-time status by pay, an employer near the line can stay below it by keeping some workers under $4,300 a quarter, through shorter hours or seasonal scheduling, as well as by assigning work to suburban sites, contractors or remote staff who do less than half their work in the City. Because no tax is due for any month in which the employer falls below 125, an employer near the line can also reduce its liability month by month, for example by keeping seasonal headcount below 125 in slower months.

6.2 Base Erosion

Any estimate for the proposal, including the City's and ours, applies a rate to a base measured before the tax exists. The historical test found no detectable response at the old threshold, but it could detect only a large response, it observes only single-site firms, and it covers a notch about one eleventh the size of this one in today's dollars. The literature gives no basis for expecting the base to be stable, and the tax does not fall evenly. Employers with several sites, flexible job designs or the resources to restructure have more ways to reduce their liability than employers whose work must happen at one Chicago location.

A different setting. Employers' options have also widened since the former tax was repealed. In 2012, while the former tax was in force, 4.2 percent of workers in the Chicago

area usually worked from home; in 2024, 14.9 percent did (U.S. Census Bureau, 2025a). An employer today can move positions, not only whole operations, outside the city, and the ordinance taxes only employees who do at least half their work in Chicago (City of Chicago, City Council, 2026). Research on state taxes finds that about half of the employment response comes from firms shifting activity across state lines (Giroud and Rauh, 2019), and evidence from Philadelphia shows that city taxes on employment can erode their own base (Haughwout et al., 2004). None of this measures how employers would respond to the EET. It does suggest that responses need not take the form of firms leaving the city, and that the former tax, levied before remote work was common, is a weak guide to them.

We cannot estimate the erosion rate. Table 11 and Figure 6 instead show how much it would matter. Each 5 percent of the base lost costs about $5 million a year, and erosion of 10 percent would bring our central estimate to $83.0 million. The City's net estimate would fall to our central figure with erosion of about 9 percent.

Table 11. Illustrative effect of base erosion on net revenue ($ millions a year)

Estimate	No erosion	5%	10%	20%
City, 2027 budget	101.8	96.7	91.6	81.4
Ours, no remote adjustment	98.0	93.1	88.2	78.4
Ours, central	92.3	87.6	83.0	73.8

Note: Erosion is the share of the taxed base lost to restructuring, moving employees outside the City, more remote work, or reclassification below the wage line. Revenue is treated as proportional to the base, which is an approximation, since an employer that falls below 125 removes all of its employees at once. Illustrative arithmetic, not a forecast. *Source:* Analysis by the Center for Municipal Finance.

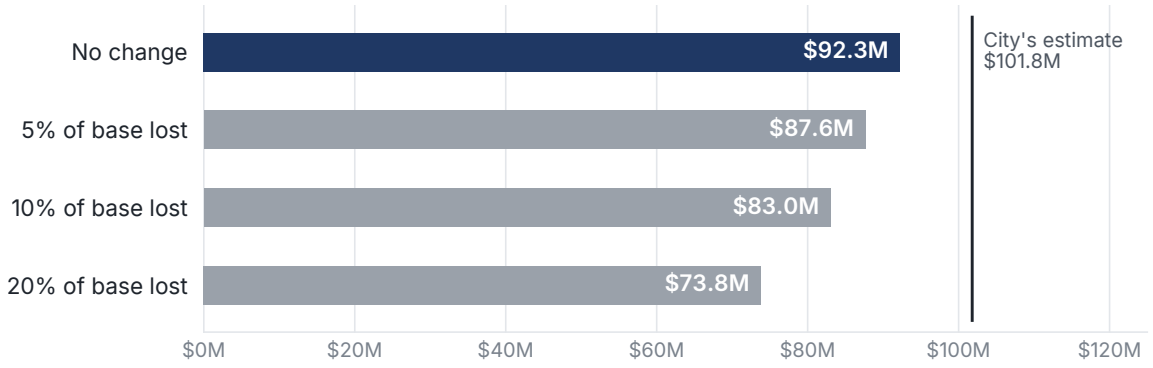

Figure 6. Restructuring near the line would widen the gap with the City's estimate

Note: Net annual revenue under our central estimate if the given share of the taxed base is lost to restructuring, moving employees outside the City, more remote work or reclassification below the wage line. The vertical line is the City's net estimate of $101.8 million. Values are in Table 11. *Sources:* Analysis by the Center for Municipal Finance; City of Chicago, 2027 Budget Recommendations.

6.3 Will the SEED Credit Move Employers?

The Administration presents the SEED credit as an incentive for large employers to place jobs in the city's most disadvantaged neighborhoods (City of Chicago, Office of the Mayor, 2026b). The ordinance gives an employer a credit of $25 a month for each full-time employee who is physically present at a site in a Socioeconomically Disadvantaged Area (SEDA) for most of their working hours, up to the tax the employer owes (City of Chicago, City Council, 2026). The Mayor's release describes the credit as applying to each Chicago resident an employer hires in these neighborhoods (City of Chicago, Office of the Mayor, 2026b), but the ordinance as introduced has no residence test and no new-jobs test, and states that its purpose includes job retention as well as job development (City of Chicago, City Council, 2026). The credit therefore applies to existing and new positions alike, and to employees wherever they live. We test whether the credit is likely to work as an incentive against seven pieces of evidence.

The map describes where disadvantaged residents live, not where employers are. The Department of Planning and Development designates SEDAs by ranking census tracts on four characteristics of their residents (median household income, unemployment, poverty and high school completion) and taking the lowest-ranked tracts that together hold roughly a quarter of the city's households (City of Chicago, Department of Planning and Development, 2024). The official tracts hold 24.4 percent of Chicago households in the 2018 to 2022 American Community Survey, consistent with that rule. They hold a much smaller share of jobs, 9.1 percent of private jobs located in the city (U.S. Census Bureau, 2023) and 7 percent of the full-time employment the tax would reach. The SEDAs are predominantly residential neighborhoods on the West and South Sides, while the taxed jobs concentrate downtown (Figure 7). For the credit to change where jobs are, employers would have to move or add jobs from the left-hand map into the right-hand one. Only 3.5 percent of SEDA tracts lie within three miles of State and Madison, against 67 percent of taxed employment, and the nearest SEDA tract centroid is about two miles from that point.

The credit mostly pays for jobs already there. In our central estimate, 178 employers receive $6.8 million a year. The median credit is about $25,000 and the mean about $38,000. The ten largest recipients receive 28 percent of the total (Table 12). They include an entertainment venue, retailers, manufacturers, a wholesaler, a moving company and a bank already operating in these neighborhoods. Because the credit applies to existing positions, its cost to the City arises whether or not any employer moves.

The employers in SEDAs are place-bound, and the employers that could move are not there. We group sectors by how readily their work can move, using three analyst-defined portability tiers: finance; information, professional services and company management; and real estate, administrative support and wholesale. Portable sectors account for 46 percent of taxed full-time employment but only 21 percent of credited employment (Figure 3). Only 3.1 percent of their taxed employment sits at SEDA sites, against 10.0 percent in place-bound sectors such as health care, retail, food service and manufacturing. Wholesale trade is the one portable sector with a sizeable SEDA presence, likely reflecting warehouses and distribution sites and not offices. The employers best able to relocate are the least present in SEDAs, and customers, patients or plant mostly tie the employers already

there to their sites.

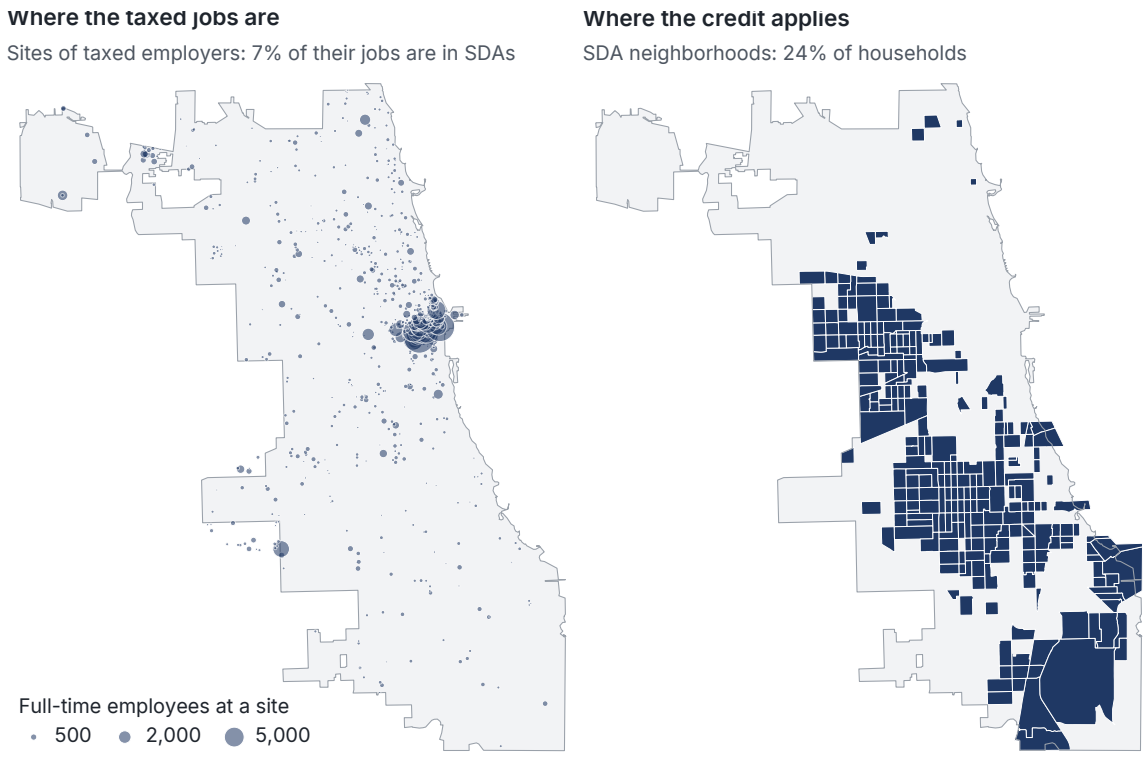

Figure 7. Taxed jobs are downtown, and the credit applies elsewhere

Note: Left: Chicago sites with 50 or more full-time employees belonging to employers taxed in the central estimate, sized by full-time employment; 7 percent of taxed full-time employment is at sites in an SEDA. Right: the 254 Socioeconomically Disadvantaged Area (SEDA) tracts, chosen by residents' income, poverty, unemployment and schooling, which hold 24 percent of Chicago households. *Sources:* Analysis by the Center for Municipal Finance; City of Chicago Data Portal (2ui7-wiq8, qqq8-j68g); Data Axle (Infogroup) 2025.

The incentive is small relative to the reasons employers are not there. The credit is worth at most $300 per full-time employee a year, under one percent of pay for any job paying more than $30,000. It can never make an SEDA site cheaper than a suburban one, since a suburban site pays no head tax at all, and at most it brings the tax to zero. Rail access does not separate most SEDAs from downtown, because 65 percent of SEDA tracts lie within a mile of an L station. Land in most of these neighborhoods is cheaper than downtown, yet it has not drawn large office employers, which suggests that access to clients and skilled workers, building stock and the presence of other firms weigh more than a few hundred dollars per worker. The place-based program with the clearest evidence of job gains, the federal Empowerment Zone wage credit, was worth up to $3,000 per qualifying worker a year, ten times the SEED credit (Busso et al., 2013) (Figure 8). Size alone does not guarantee an effect, since California's enterprise zones, which offered substantial hiring credits, had no detectable effect on employment (Neumark and Kolko, 2010). San Francisco's exclusion of new payroll in the Central Market area from its 1.5 percent payroll tax is the closest precedent for a geographic carve-out from a tax on employment. Strong growth

Table 12. The ten largest SEED credits, central estimate

Rank	Sector	Credited full-time	Credit ($ thousands)	Cumulative share
1	Arts and recreation	1,660	498	7%
2	Manufacturing	736	221	11%
3	Retail trade	706	212	14%
4	Retail trade	700	210	17%
5	Wholesale trade	483	145	19%
6	Real estate	465	140	21%
7	Manufacturing	439	132	23%
8	Retail trade	403	121	25%
9	Finance and insurance	402	121	27%
10	Retail trade	389	117	28%
All 178 credited employers		22,540	$6,762	100%

Note: Employers are not named; the business file is licensed for aggregate reporting. Credit is $25 a month per full-time employee physically at an SEDA site for most hours, after the remote-work adjustment, up to the tax owed. Franchised locations are grouped by owner (Section 4.3). *Source:* Analysis by the Center for Municipal Finance; data sources in Section 4.2.

followed in the area, but the City Controller could not determine how much of it reflected relocation within the city and how much reflected new activity (Egan, 2014).

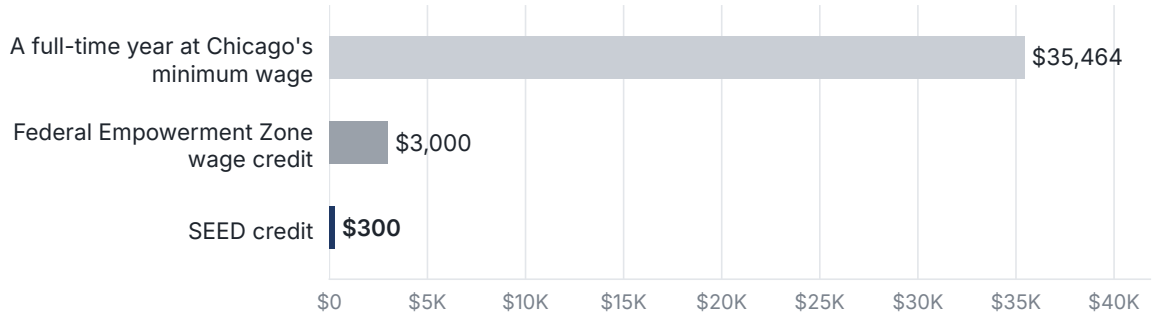

Figure 8. $300 a year is under 1 percent of a minimum-wage salary

Note: Annual value per full-time worker. A full-time year at Chicago's minimum wage is $17.05 an hour for 2,080 hours. The SEED credit is $25 a month per full-time employee at an SEDA site. The federal Empowerment Zone wage credit was worth up to $3,000 per qualifying worker a year. *Sources:* Analysis by the Center for Municipal Finance; Ordinance O2026-0029643; Busso et al. (2013).

The credit misses the residents the map was drawn for. Only 21 percent of jobs located in SEDAs belong to SEDA residents, and 48 percent belong to people who live outside Chicago (Table 13). In the other direction, only 10 percent of SEDA residents' jobs are located in an SEDA, while 28 percent are in the central area within two miles of State and Madison and 37 percent are outside the city (U.S. Census Bureau, 2023). A credit tied to where jobs are located reaches SEDA residents only indirectly. A suburban commuter

working at an SEDA site earns the employer a credit, but an SEDA resident working downtown does not.

Table 13. Who works in SEDAs, and where SEDA residents work

	Share of jobs
Jobs located in an SEDA, by where the worker lives	
Lives in an SEDA neighborhood	21%
Lives in Chicago, outside the SEDAs	32%
Lives outside Chicago (suburbs or farther)	48%
Jobs held by people who live in an SEDA, by where the job is	
Job is in an SEDA neighborhood	10%
Job is downtown (within 2 miles of State and Madison)	28%
Job is elsewhere in Chicago	24%
Job is outside Chicago	37%

Note: SEDA means Socioeconomically Disadvantaged Area, the census tracts the City designates by residents' income, poverty, unemployment and schooling. All jobs, 2023. 129,028 jobs are located in SEDA tracts and 264,495 jobs are held by people who live in them. Shares may not sum to 100 because of rounding. Downtown: the 40 census tracts within two miles of State and Madison. *Sources:* Analysis by the Center for Municipal Finance; Census LEHD Origin-Destination Employment Statistics (LODES 8), Illinois.

Small and new firms cannot respond. The tax and the credit apply only to employers with 125 or more full-time employees. Among private, non-exempt employers, 75 percent of employment located in SEDAs is at employers below that line (Figure 9), and of the roughly 15,100 such employers with a site in an SEDA, all but 178 are too small to owe the tax. A new business forming in an SEDA almost always starts below that line, so it neither pays the tax nor receives the credit, and the credit cannot encourage new business formation there. It can affect only an established employer choosing where to put a new site, or a growing one that will cross 125.



Figure 9. Three quarters of jobs in disadvantaged areas are at employers the credit cannot reach

Note: Private jobs at sites in Socioeconomically Disadvantaged Areas at employers the ordinance does not exempt, split by the employer's estimated full-time employees in Chicago at the central wage-test share. Employers below 125 full-time employees neither pay the tax nor receive the credit. *Sources:* Analysis by the Center for Municipal Finance; Data Axle (Infogroup) 2025; City of Chicago Data Portal (`2ui7-wiq8`).

The map moves. The City first published the SEDA designation in October 2022 and updated it in 2024, and the ordinance allows it to change again by rule, effective the fol-

lowing quarter. To measure how stable the map is, we rebuilt the Department's rule from the American Community Survey (Table 14). Our rebuild reproduces 217 of the 254 official tracts, since the Department has not published its exact scoring. Applying the same method to the next year of data moves 26 tracts out and 26 in. In our rebuild, 20 of the official tracts would leave on that update, and they carry 12 percent of the credit. This instability is built into using a poverty map for a long-term investment incentive. A neighborhood that improves loses the credit, so an employer considering a long-lived investment in an SEDA cannot count on the credit lasting. The tax itself is also uncertain. The City Council declined to adopt a head tax in the 2026 budget, and employers are unlikely to plan new sites around a credit that may not survive.

Table 14. How much the SEDA map moves with one more year of data

	Tracts
Official SEDA tracts	254
Reproduced by our rebuild of the Department's rule (2018–2022 data)	217
Same rule, one more year of data (2019–2023)	
Tracts that stay	228
Tracts that leave	26
Tracts that enter	26
Official tracts that would leave	20
Share of the SEED credit at sites in those tracts	12%

Note: The Department of Planning and Development ranks 2020 census tracts on median household income, unemployment, poverty and high school completion and designates the lowest-ranked tracts holding about a quarter of the City's households. We rebuild that rule from the ACS five-year summary files; the Department's exact scoring is not published, so the rebuild matches most but not all official tracts. *Sources:* Analysis by the Center for Municipal Finance; City of Chicago Data Portal (2ui7-wiq8); American Community Survey 2018–2022 and 2019–2023.

What the credit is likely to do. Taken together, the evidence suggests the SEED credit is unlikely to move established downtown employers or to encourage new business formation in the SEDAs. SEDAs hold only 7 percent of the full-time employment the tax would reach (Figure 7), and most of the $6.8 million goes to employers already there (Table 12). The portable sectors that could relocate are the least present in the SEDAs (Figure 3). The credit is small (Figure 8), misses the residents the map was drawn for (Table 13), cannot reach the 75 percent of SEDA employment at employers below 125 (Figure 9), and rests on a map that shifts from year to year (Table 14). It appears to work as a hold-harmless provision for employers already in disadvantaged neighborhoods, although it may tip location-flexible expansions between Chicago sites.

7 Conclusion

Chicago's proposed Equitable Employer Tax (EET) would revive a tax the City repealed little more than a decade ago, but in a form that differs substantially from the original. This report examined which employers would pay, how much the tax would raise, and how employers might respond. This section summarizes what the analysis shows and where its limits lie.

Findings

The ordinance taxes each employer's full-time workers in Chicago, a quantity that no published statistic measures. To approximate it, our analysis used business data that link each worksite to its parent company, aggregated each company's Chicago employment, and applied the ordinance's provisions in sequence: the 125-employee threshold, the exemptions for government and nonprofit employers, the pay-based definition of full-time work, the remote-work provision, and the SEED credit. Because each step is shown separately, the contribution of each provision to the result can be observed directly.

On that basis, an estimated 760 employers would owe the tax, and it would raise roughly $92 million a year after SEED credits. This is somewhat less than the City's estimate of $101.8 million. The difference arises partly because the City's figure appears to make little allowance for employees who work mostly from home outside Chicago, whom the ordinance does not tax, and partly because we find a smaller base even before that adjustment.

These figures describe the tax base as it exists today. They are not forecasts of collections. They rely on industry and citywide averages rather than any employer's actual payroll, and they assume full compliance and no change in employer behavior. They indicate how sensitive the base is to the ordinance's provisions but cannot establish what any individual employer would owe.

The Threshold and Employer Response

The most consequential feature of the EET is the cliff at 125 full-time employees. An employer with 124 full-time employees owes nothing, while an employer with 125 owes $37,500. The ordinance also offers employers near the threshold several relatively low-cost means of remaining below it, including reduced hours, contractors, suburban sites, and remote staff. The extent to which employers would use these means is the largest unresolved question in any estimate of the tax. It bears not only on revenue but also on the number and type of jobs the tax would affect.

The available evidence on this question is limited. No study has examined the effect of a municipal head tax on employers, and Chicago's own experience offers little guidance because the former tax's cliff was far smaller and was levied before remote work let employers move jobs, not only firms, outside the city. Responses could also take forms our data cannot observe, such as where employers choose to add jobs or invest. Research in other settings indicates that sharp cliffs can alter behavior even when employers are not especially sensitive to taxes. The magnitude of any response cannot be estimated here,

though a relatively modest response could materially change the outcome.

The SEED Credit

The SEED credit is intended to encourage employers to locate in disadvantaged neighborhoods, but the evidence suggests it is unlikely to do so. The designated areas are defined by where disadvantaged residents live rather than where employers are, and they contain only a small share of the employment the tax would reach. The credit is small relative to the other factors that shape business location, and it largely benefits employers already present in those areas. It provides no benefit to the small and new businesses that account for most private employment in these neighborhoods, and the underlying map may change from year to year. As designed, the credit functions more as relief for existing employers than as a location incentive.

Overall Assessment

The EET would likely raise somewhat less than the City projects, even if no employer changed its behavior. The City's estimate is also less certain than a single figure suggests, because the 125-employee threshold gives employers a strong reason to respond. No U.S. city has levied a tax like the EET, and remote work, which more than tripled in the Chicago area between 2012 and 2024, now lets employers move work out of the city far more easily than when the former tax applied. Its effects could therefore differ substantially from anything the former tax suggests. Good tax policy rests on a reasonable understanding of how taxpayers are likely to respond. For the EET, no study has yet measured that response, so its effects on employment and revenue, and the accuracy of any estimate, including the City's and ours, would likely become clear only after the tax takes effect.

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THE UNIVERSITY OF CHICAGO
HARRIS SCHOOL
OF PUBLIC POLICY
Center for Municipal Finance

Technical Appendix

Data and Methods for *Chicago's Proposed Equitable Employer Tax: Coverage, Revenue, and Employer Incentives*

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Companion to Report #26-04

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This technical appendix accompanies Report #26-04, *Chicago's Proposed Equitable Employer Tax: Coverage, Revenue, and Employer Incentives*, prepared by the Center for Municipal Finance at the University of Chicago with support from the Civic Committee of the Commercial Club of Chicago. It can be read on its own. For questions or comments, contact Justin Marlowe (jmarlowe@uchicago.edu). The analysis, findings, and conclusions are solely those of the authors and do not necessarily reflect the views of the Civic Committee or the University of Chicago.

About This Appendix

Chicago taxed employers from 1974 until the end of 2013. From 1995 the Employer's Expense Tax charged $4 a month for each full-time employee at employers with 50 or more employees working in the city; the rate was halved in 2012 and the tax was repealed from 2014. In October 2026 the City proposed a successor, the Equitable Employer Tax: $25 a month for each full-time employee at employers with 125 or more full-time employees. Both are notches: an employer that reaches the threshold owes tax on its entire workforce, not only on the employees above it.

The companion report estimates who would pay the proposed tax and what it would raise, and asks how employers might respond. One way to learn about that response is to ask whether employers responded to the former tax by staying below its threshold. This appendix sets out that test in full: the data, the design, the results, and their limits. It also documents the business microdata and the construction of the employer-level measure that the report's revenue estimate relies on.

The short answer is that the test finds no detectable response to the former tax. Businesses reporting 49 employees, the last untaxed size, did become more common, but the rise continued after repeal, appeared in areas that never had the tax, and is not distinguishable from noise when calibrated against sizes with no threshold. The test could detect only a large response, and it observes only single-location businesses, so it says little about how employers would respond to the much larger notch now proposed.

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A1 Data

The analysis uses the Data Axle Historical Business Database, formerly InfoGroup, licensed through the University of Chicago Library for non-commercial academic use (Data Axle, 2025). The panel covers 1997 to 2025, and every year used is from the same full-file product tier. The file records individual establishments with location, employment, industry and an identifier linking each establishment to its corporate parent. Only aggregate results are reported, and no private employer is named. Table A1 describes Chicago in the file at two points; Section A4 documents the file's properties over time and Section A5 the construction of the employer-level measure.

Table A1. Chicago in the Data Axle file, 2011 and 2025

	2011	2025
Establishments	113,532	139,025
Total employment	1,417,304	1,371,766
Headcount verified	54,128	39,727
Headcount modeled by vendor	59,404	99,298
Verified share	47.7%	28.6%
Employment missing	1.67%	7.01%
Firms with more than one Chicago establishment	1.0%	1.2%

Note: Neither the rise in establishments nor the fall in employment reflects Chicago's economy; official employment rose over the same years (Table A2). The added records are mostly small establishments whose headcount the vendor models rather than collects. In 2025, 47,107 Chicago records report exactly one employee, 92 percent of them modeled, and 2,121 are U.S. Postal Service collection boxes with no employment. Employment missing is the share of records for which the vendor reports no headcount; those records count as zero in total employment. Counts use the vendor's city field; the analysis of the tax base also requires Cook County. *Source:* Analysis by the Center for Municipal Finance; Data Axle Historical Business Database, 2011 and 2025.

A1.1 The File Against Official Employment Counts

Total employment in the file fell between 2011 and 2025, in Chicago and in Cook County, while official counts rose (Table A2). Covered employment in Cook County, which counts jobs reported to state unemployment insurance programs, rose 9.6 percent between March 2011 and March 2025 (U.S. Bureau of Labor Statistics, 2011, 2025). Private covered employment in the city rose 12.5 percent between March 2013 and March 2025 (Illinois Department of Employment Security, 2013, 2025); the city series is not published for 2011 in the sources available to us. The comparison is of direction, not level: the official counts are for March, exclude the self-employed and, for the city, exclude government, while the file is a July snapshot of everyone recorded at each location. By 2025 the file's Cook County total is close to the official count.

The fall in the file's total is therefore a property of the file. Three features account for it. First, establishments present in both years, identified by the vendor's record number, grew: the 34,335 Chicago establishments in both files had 688,977 employees in 2011 and

735,244 in 2025, a rise of 6.7 percent, and the 23,045 of them with a verified headcount in both years rose 7.4 percent. Second, records that left the file carried more employment than records that joined it: 79,197 records with 728,327 employees left and 104,690 records with 636,522 employees joined. Many of the largest exits and entries are the same employers recorded again under a new number, and some are single round-number records, such as a single 2011 record carrying 20,000 employees for one bank. Third, records with no headcount, which count as zero, rose from 1,893 to 9,752; had the 7,859 additional records carried the average headcount of modeled records, about 4.2 employees, they would have added roughly 33,000 employees. By size, the decline is concentrated in records of 500 or more employees, where single records are large and lumpy, and in records of one to four employees.

These features matter for measuring change over time, which the report does not do with the full file. They matter much less for the tax base, which is a single 2025 snapshot of large employers whose Chicago employment comes 87.0 percent from verified records.

Table A2. Employment in the file against official counts, 2011 and 2025

	2011	2025	Change
Cook County			
Data Axle file (July)	2,727,025	2,639,708	−3.2%
BLS covered employment (March)	2,333,900	2,558,100	+9.6%
City of Chicago			
Data Axle file (July)	1,417,304	1,371,766	−3.2%
IDES private employment (March)[a]	1,088,765	1,224,952	+12.5%
Inside the file, City of Chicago			
Establishments present in both years	688,977	735,244	+6.7%
Records that left (2011) or joined (2025)	728,327	636,522	
Records with no headcount	1,893	9,752	

Note: Employment except the last row, which counts records. [a]The city's official series covers private employment only and its first column is 2013, the earliest year available to us; the file's city rows use the vendor's city field. Establishments are matched across years by the vendor's record number, so an employer re-recorded under a new number counts as leaving and joining. *Sources:* Analysis by the Center for Municipal Finance; Data Axle Historical Business Database, 2011 and 2025; U.S. Bureau of Labor Statistics (2011); U.S. Bureau of Labor Statistics (2025); Illinois Department of Employment Security (2013); Illinois Department of Employment Security (2025).

A2 Testing for Threshold Avoidance

If employers responded to the 50-employee threshold, the response should be visible in the distribution of employer size. Because the ordinance taxed employers with 50 or more employees, 49 was the last untaxed size, and avoidance predicts excess mass at 49 and a corresponding deficit at and above 50.

Three design choices follow from the institutional setting, and each rules out an alternative that might otherwise seem natural.

This is a bunching design, not a regression discontinuity. A regression discontinuity design would not be valid here, because it requires that units cannot precisely control which side of the cutoff they fall on. Employers can, and that choice is exactly what we want to measure.

The threshold is a notch, not a kink. An employer at the threshold owed tax on every employee, not only on those above it, which gives a much sharper incentive to stay below the line (Section 3.3 of the report). Estimation therefore follows Kleven and Waseem (2013) rather than the kink-based approach of Saez (2010).

Raw excess mass is not evidence of avoidance. Business microdata exhibits severe round-number heaping: employers report headcount in round figures, so mass accumulates at 50 and at other round values regardless of whether any threshold is in force. In 2025, more than a decade after Chicago repealed its head tax, 3,305 Illinois establishments in the file reported exactly 50 employees, against 315 at 49 and 343 at 51. Because the heap at 50 leaks into neighboring sizes, a raw spike at 49 cannot be read as avoidance on its own. The design therefore relies on comparison across time, across geographies, and against placebo sizes.

Statistic and sample. For a size k, we compute

$$R_k \;=\; \frac{n_k}{\frac{1}{6}\left(n_{k-3}+n_{k-2}+n_{k-1}+n_{k+3}+n_{k+4}+n_{k+5}\right)},$$

the count at k relative to the mean count at nearby sizes. The baseline skips $k+1$ and $k+2$, the round number itself and the size just above it, because the heap at the round number leaks into both. For the test size $k = 49$, the sizes skipped are 50 and 51, so the baseline is 46 to 48 and 52 to 54. Because the count at 51 changes over the panel for reasons we cannot document, we also report the statistic with 51 kept in the baseline, and with each side of 49 used alone (Table A7). The primary sample consists of single-location establishments with no corporate parent and a headcount the data vendor marks as reported by the business rather than modeled. This sample is not a deduplication filter, since each establishment appears once per year in every file. It is the sample in which reported headcount can be treated as a firm's headcount, and its limits are discussed below.

A2.1 Comparison Areas and Statistical Power

The credibility of a comparative design rests on the comparison areas tracking Chicago in the absence of the policy. We use two comparison areas: suburban Cook County (Cook County outside Chicago) and Illinois outside Cook County. The second is all of Illinois outside Cook, not the collar counties. We report both because they disagree in ways that turn out to be informative.

Placebo sizes. The same estimator is run unchanged at twelve other sizes at which no employment threshold applied in Chicago, including 30, 35, 40, 45, 55 and several round numbers from 60 to 90. Their spread is used to calibrate inference, because nominal standard errors from the underlying counts understate the uncertainty. In the placebo exercise, four of twelve placebos were nominally significant at the five percent level on a single-size difference-in-differences test against suburban Cook.

Detection floor. The placebo difference-in-differences estimates range from about -1.2 to $+1.1$ log points. An effect would need to be roughly as large as tripling the excess at 49 to stand out from that noise. Smaller responses are not ruled out. We have no case in the data in which the estimator is known to detect avoidance where it exists (see the discussion of size 99 below), so this floor is an estimate of noise, not a demonstrated sensitivity.

A3 Results

Table A3 reports the excess mass at 49 in Chicago and the two comparison areas by period. Chicago's excess rises from 0.74 in 1998 to 2002 to 4.51 in 2023 to 2025. The clustering at 49 is genuine, but the findings below indicate that the tax did not cause it. Figure A1 summarizes the central test: if employers had held at 49 to stay under the tax, the excess in Chicago should have fallen after repeal, and fallen relative to areas that never had the tax. It rose, in all three areas, and most in Chicago.

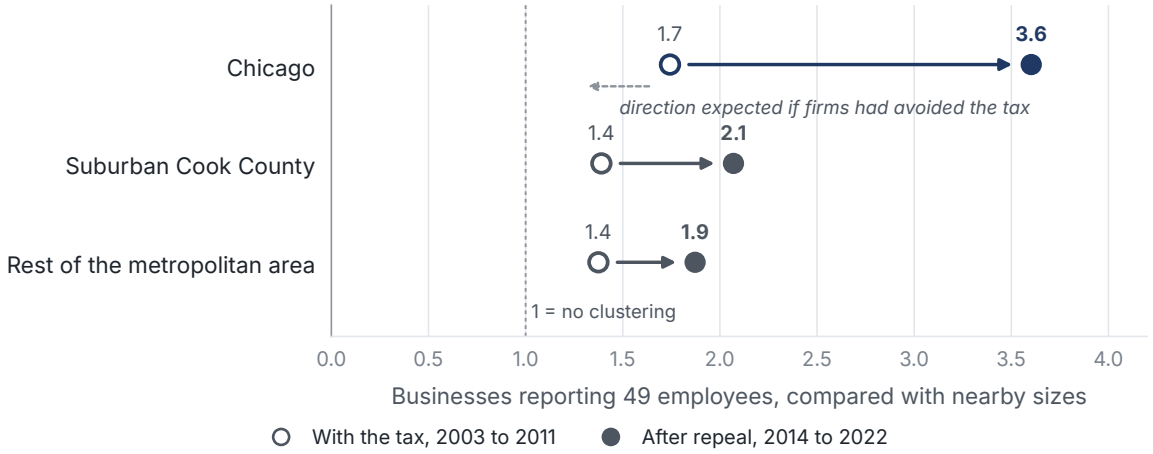

Figure A1. Clustering at 49 rose after repeal, in Chicago and in areas that never had the tax

Note: Excess mass at 49 (R_{49}): businesses reporting 49 employees relative to the average at 46–48 and 52–54. A value of 1 means 49 was no more common than its neighbors. Open circles pool 2003–2011, when the tax applied; filled circles pool 2014–2022, after repeal. The dashed arrow shows the direction avoidance of the tax would predict for Chicago. Single-location businesses with a headcount reported by the business. The rest of the metropolitan area is the Illinois collar counties, Northwest Indiana and Kenosha County, Wisconsin. *Source:* Analysis by the Center for Municipal Finance; Data Axle Historical Business Database, 1998–2025.

Table A3. Excess mass at 49 employees (R_{49}), single-location businesses with a reported headcount, size 51 left out of the baseline

Period	Tax regime	Chicago	Suburban Cook	Illinois ex Cook
1998–2002	$4, threshold 50	0.74	1.06	0.83
2003–2011	$4, threshold 50	1.74	1.39	1.01
2012–2013	Phase-out, $2	2.89	1.73	1.09
2014–2022	Repealed	3.60	2.07	1.57
2023–2025	Repealed	4.51	2.27	2.14

Note: The snapshot month changes from December to July in 2003, so comparisons that cross that date mix policy and data timing. Chicago records are those with both a Chicago city name and Cook County.
Source: Analysis by the Center for Municipal Finance; Data Axle Historical Business Database, 1998–2025.

Timing. On our primary measure the excess keeps rising through the 2012 rate cut and past the 2014 repeal, and it is highest after the tax is gone. With size 51 kept in the baseline the series peaks in 2011 to 2013, falls in 2014 to 2016 and is back near that level by 2023 to 2025. On either baseline the taxed years are no higher than the repealed years when pooled (Table A7), and avoidance of a tax that no longer exists cannot explain a rise after 2014.

Untaxed comparison areas. Suburban Cook and Illinois outside Cook were never subject to the tax, and both show excess mass at 49 that rises over the same years (Table A3). The pattern is the same within the metropolitan area. Excess mass at 49 roughly doubles in suburban Cook County (1.06 in 1998 to 2002 to 2.27 in 2023 to 2025) and in the rest of the metropolitan area (1.07 to 2.11), neither of which levied the tax (Figure A2).

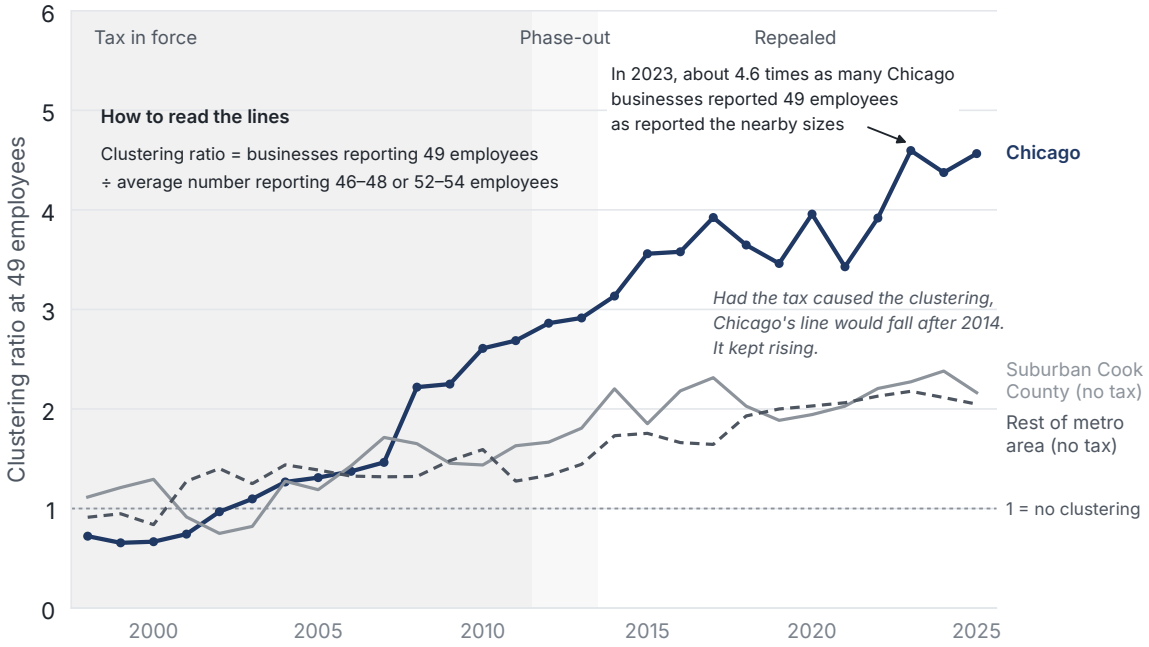

Figure A2. Clustering at 49 kept rising after the tax ended, in Chicago and around it, 1998–2025

Note: A value of 1 means that 49 was no more common than its neighbors. Baseline is the average count at 46–48 and 52–54, as in our primary measure. The rest of the metropolitan area is the Illinois collar counties (DeKalb, DuPage, Grundy, Kane, Kendall, Lake, McHenry and Will), Northwest Indiana and Kenosha County, Wisconsin. Shading marks the years the tax applied and the 2012–2013 phase-out. Single-location businesses with a reported headcount. *Source:* Analysis by the Center for Municipal Finance; Data Axle Historical Business Database, 1998–2025.

Placebo sizes. Sizes that carried no threshold show no comparable rise, as Table A4 shows. These placebos have sample sizes comparable to or larger than the sample at 49, so the absence of a rise is not a lack of power.

Table A4. Excess mass by size, Chicago: first and last period

Size	1998–2002	2023–2025	Note
30	0.51	0.68	Placebo
35	1.13	1.08	Placebo
40	0.68	1.18	Placebo
45	0.66	0.38	Placebo
49	**0.74**	**4.51**	Historical threshold (last untaxed size)
55	1.24	0.55	Placebo
99	2.54	5.47	Just below federal WARN Act threshold; see text

Note: Sizes 60 through 90 are flat or falling and are omitted for space. *Source:* Analysis by the Center for Municipal Finance; Data Axle Historical Business Database, 1998–2025.

Magnitude. The excess at 49 in Chicago amounts to about 89 businesses across the nine taxed years from 2003 to 2011, or about 10 a year citywide, against roughly 2,200 firms

paying the tax annually (Woelfel and Qin, 2025). After repeal it is about 210 businesses over nine years, or about 23 a year. With size 51 kept in the baseline the figures are about 90 businesses (10 a year) in the taxed years and about 151 (17 a year) after repeal. On either baseline the excess is larger once the tax is gone (Figure A3).

Formal inference. Because nominal standard errors over-reject, we base inference on the placebo distribution. Table A5 shows that no specification is significant on that basis. The nominal difference-in-differences estimates of -0.328 against suburban Cook and -0.286 against Illinois outside Cook are negative, meaning the gap between Chicago and its controls widened after repeal, which is the opposite of what avoidance predicts. The sign also depends on the choice of pre and post windows, which is a further reason not to rely on the difference-in-differences.

Table A5. Placebo-based inference on the difference-in-differences at 49

Specification	**Estimate**	**Placebos at least as large**	**Placebo p**
Size 49 vs suburban Cook	-0.328	7 of 12	0.58
Size 49 vs Illinois ex Cook	-0.286	2 of 12	0.17
Sizes 46–49 pooled vs suburban Cook	$+0.004$	12 of 12	1.00
Sizes 46–49 pooled vs Illinois ex Cook	-0.179	8 of 12	0.67

Note: Estimates are in log points, 2003–2011 versus 2014–2022. *Source:* Analysis by the Center for Municipal Finance; Data Axle Historical Business Database, 1998–2025.

Trends. Firms may adjust slowly to a standing threshold, which would show up as growth in excess mass while taxed and a plateau after repeal. Table A6 tests trends directly. Chicago's excess grows at 0.123 a year during 2003 to 2011 and only 0.015 a year after 2014. Suburban Cook shows the same deceleration, while Illinois outside Cook accelerates. The two comparison areas therefore disagree with each other, and the divergence is between Cook County and downstate, not between Chicago and everywhere else. A tax levied only inside the city would not be expected to produce a pattern that suburban Cook shares. The difference in trends against suburban Cook is small and insignificant on the placebo distribution ($p = 0.67$). We therefore treat suburban Cook as the more relevant comparison.

Table A6. Trend in excess mass at 49, taxed versus repealed years

Area	Trend, 2003–2011	Trend, 2014–2022	Change after repeal
Chicago	+0.1226	+0.0153	−0.107
Suburban Cook	+0.0557	−0.0029	−0.059
Illinois ex Cook	+0.0098	+0.0558	+0.046
Slowdown after repeal, control minus Chicago			
vs suburban Cook	+0.0488, placebo $p = 0.67$		
vs Illinois ex Cook	+0.1534 [+0.0569, +0.2499], placebo $p = 0.17$		

Note: Trend is the annual change in R_{49}. Change after repeal is the 2014–2022 trend minus the 2003–2011 trend. The slowdown rows give how much more Chicago's trend fell than the control's; a positive value is the pattern slow adjustment to the tax would predict. Brackets give the nominal 95 percent interval, which over-rejects. *Source:* Analysis by the Center for Municipal Finance; Data Axle Historical Business Database, 1998–2025.

Table A7 shows that the level after 2013 depends on whether size 51 is included in the comparison set, though the taxed years are below the repealed years on every baseline. Together with the placebo tests and formal inference above, the evidence does not identify the former tax as the cause of the clustering, and the historical data do not provide a clean estimate of how employers would respond to a much larger notch.

Table A7. Sensitivity of the excess at 49 to the baseline, Chicago

Baseline sizes	Taxed, 2003–2011	Repealed, 2014–2022
46–48 and 52–54 (primary measure, 51 left out)	1.74	3.60
46–48 and 51–54 (51 kept in)	1.77	2.08
46–48 only	1.52	3.72
52–54 only	2.04	3.49

Note: Ratio of the count at 49 to the average count at the baseline sizes, single-location businesses with a reported headcount. Size 50 is excluded from every baseline. *Source:* Analysis by the Center for Municipal Finance; Data Axle Historical Business Database, 1998–2025.

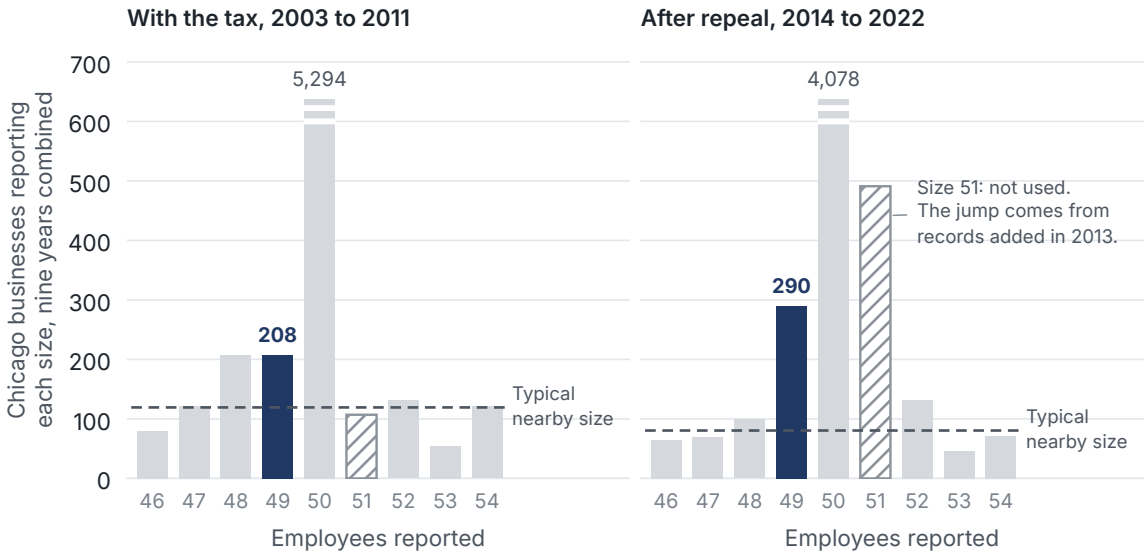

Figure A3. The excess at 49 is larger after repeal than while the tax applied

Note: Counts pooled over 2003–2011, when the tax applied, and 2014–2022, after repeal. The dashed line is the average count at 46–48 and 52–54, the primary baseline. Size 50 is cut off at the top of the chart; its count is printed above the bar. Size 51 is drawn hollow because it is left out of the baseline; its rise after 2013 comes from records first added to the file in 2013 (Section A3.1). Single-location businesses with a reported headcount. *Source:* Analysis by the Center for Municipal Finance; Data Axle Historical Business Database.

A3.1 Limitations

Four limitations bear on how the null result should be read.

First, we cannot show that the method would detect avoidance if it existed. The standard check for a method like this is a positive control: a threshold where avoidance is expected, used to confirm that the estimator finds it. The natural candidate is the federal WARN Act, which generally requires employers with 100 or more employees to give advance notice of mass layoffs, so a firm at 99 employees avoids the obligation. Size 99 does show high excess mass in all three areas (Table A4). But avoidance would put more businesses just below 100 than just above it, and the data show the reverse. In Chicago from 2003 to 2011, 81 businesses reported 99 employees and 139 reported 101, and more businesses sit at 101 than at 99 in every period from 2003 on. The high value at 99 is therefore spillover from the large number of businesses reporting exactly 100, not firms staying under the threshold. Because we have no positive control anywhere in the data, the null at 49 should be read as the absence of a response large enough to detect, roughly one that would triple the excess at 49 (Section A2), and not as evidence that employers did not respond at all.

Second, reported headcounts cannot distinguish a firm that stays at 49 employees from a firm that reports 49. Both responses are threshold-driven and neither is specific to Chicago, so the conclusion stands, but we have not measured employment decisions.

Third, Chicago's excess rose 2.4-fold from 1998–2002 to 2003–2011 while the rate and threshold were fixed, and that rise is unexplained, although suburban Cook shows a

smaller one. Both the series at 49 and at 99 begin rising around 2002 to 2003, which is also when the snapshot month moves from December to July and the modeled-employment codes change (Section A4). The level is well measured; the timing of its rise is not explained by the data.

Fourth, one pattern looks like avoidance and is not. The asymmetry between counts at 49 and 51 in Chicago peaks at the 2012 to 2013 phase-out and turns negative after repeal, which reads like avoidance ending when the tax ends. The count at 51 rises from 107 in 2003 to 2011 to 491 in 2014 to 2022, and we cannot document why. The rise comes from records first added to the file in 2013 and visible from the 2014 files: among records still in the 2025 file that first appeared in 2013 and sit in the 50 to 99 band, 22 of 58 (38 percent) report exactly 51, against 23 of 1,155 (2 percent) for all other entry years. Six of the 2013 records at 51 carry no phone-verification date. A default headcount on newly added records would produce this pattern, but the vendor documentation available to us does not say so, and we treat that as a hypothesis, not a finding. We neither adjust the count at 51 nor use the pattern as evidence. Instead we report the excess at 49 with 51 left out of the baseline and kept in it (Table A7), and the conclusion does not depend on the choice.

A3.2 Effects on Wages

The business microdata underlying this report records establishment employment and sales volume but not payroll, so we do not estimate wage effects directly. Two forms of evidence bear on the question.

Descriptively, Bureau of Labor Statistics data indicate that Illinois workers at businesses with 500 or more employees are paid more on average than counterparts at smaller establishments, though the Bureau does not publish size-class breakdowns at the city or county level (Woelfel and Qin, 2025). Any head tax with a large-employer threshold therefore falls disproportionately on comparatively well-paid jobs.

The incidence literature reviewed in Section 3.2 of the report does not settle how a per-employee levy divides between wages and employment. Evidence from Chile finds the burden passed fully into wages (Gruber, 1997), while more recent evidence from Sweden and from U.S. unemployment insurance taxes finds little effect on wages and a response in employment and hiring instead (Saez et al., 2019; Guo, 2023). Chicago's tax was small enough relative to compensation that either kind of shift would be difficult to detect against normal wage variation.

A3.3 Effects on Business Location

We do not estimate relocation effects. Doing so credibly would require comparing establishments just inside and just outside the city boundary, which the geocoding in the data would support but which is a separate analysis beyond the scope of this report. The comparison with suburban Cook County in Section A3 speaks to relocation only indirectly: if firms had shifted employment across the city line to avoid the tax, suburban Cook would be partly treated, and its clustering at 49 would partly reflect Chicago's tax. Section 6 of the report discusses why relocation of employees, rather than of whole firms, is the more

likely margin under the 2027 ordinance.

A4 Data Provenance and Quality

The business file covers 29 years, 1997 to 2025, and every year comes from the same full-file product tier. Several features of the file matter for any analysis of change over time, and each was handled explicitly.

- *Format.* The earliest files lack column headers and some years contain a small number of malformed records. Column alignment was verified on every row, and malformed records were repaired rather than dropped.
- *Missing headcounts.* The vendor records a missing headcount as a code that reads as zero. These records were set to missing before any calculation; in 2025, 7.3 percent of Illinois records carry the code.
- *Verification.* The 1997 file has no usable verification flag and is excluded from anything that uses the verified sample. The share of Chicago records with verified employment falls from about 66 percent in 1998 to 48 percent in 2011, 32 percent in 2022 and 29 percent in 2025.
- *Timing and coding.* The snapshot month is December for 1997 to 2002 and July from 2003. The vendor's codes for modeled employment change several times over the panel, most notably in 2003, 2013 and 2023. In 1998 to 2002, single-location businesses carry a parent number of zero, which we treat as no parent.
- *Coverage.* The rise in Chicago establishment counts between 2011 and 2025 (Table A1) reflects the vendor adding small, modeled records, not business growth.

A5 Construction of the Firm-Level Rollup

The rollup is built as follows.

1. Restrict to Chicago, requiring both a Chicago city name and Cook County, because the city field alone admits records outside Cook.
2. Set missing headcounts to missing before any sum (Section A4).
3. Aggregate employment by corporate parent identifier.
4. Treat single-location establishments with no parent as firms in their own right.
5. Remove government firms as a legal constraint, before any policy tier, by industry code (NAICS 92, or SIC 9xxx) and by a named list of public bodies that the vendor codes to their operating industry (Table A8).
6. Remove organizations exempt under Sections 501(c), 501(d) and 401(c) of the Internal Revenue Code, identified by matching to the IRS Exempt Organizations Business Master File for Illinois, and apply the company-wide headcount screen, as set out in

Section 4 of the report.

7. Regroup the locations of 24 franchise brands from the brand parent to their owners. Each location is matched to its active City business license, by street address or, failing that, the nearest license within 150 metres; license holders that share a principal owner, a parent legal entity or a legal name, in the City's business owner records, form one employer (City of Chicago, Department of Business Affairs and Consumer Protection, 2026a,b). Licenses held by the brand itself, and the brand's unmatched sites of 200 or more employees, stay with the brand parent. Small vendor sites with no license are dropped as unverified, licensed locations missing from the file enter at the brand's median site size, and each brand's headcount is rescaled to its vendor total, so the step changes who the employer is and not the size of the workforce. Licenses held by contract food-service companies are left out.

8. Remove seven government or exempt employers found by checking the liable employers by name against IRS and other public records, and drop two records of organizations that no longer operate in Chicago.

Table A8. Public bodies with 500 or more employees removed by name because the vendor codes them to an operating industry, 2025

Public body	Vendor industry	Sites	Employees
UI Health (University of Illinois)	Health care	49	5,919
U.S. Postal Service	Transport	66	5,161
City Colleges of Chicago (Truman College record)	Education	14	4,078
City of Chicago, Streets and Sanitation	Construction	1	3,500
Chicago Transit Authority	Transport	170	3,162
Chicago Public Library	Information	76	2,379
Chicago Transit Authority (second record)	Transport	1	1,500
O'Hare International Airport	Transport	1	1,301
Chicago State University	Education	5	1,121
McCormick Place	Accommodation and food	1	1,001
Metropolitan Pier and Exposition Authority	Administrative support	1	1,000
Board of Trustees, Community College District	Finance and insurance	1	750
Fantus Health Center (Cook County)	Health care	1	750
Chicago-Read Mental Health Center	Health care	1	628
Provident Hospital (Cook County)	Health care	11	609
Chicago Transit Authority (third record)	Transport	1	600
McCormick Place (second record)	Administrative support	1	500
Department of Cultural Affairs	Arts and recreation	1	500
Lane Tech High School	Education	1	500
Total, 19 records			**34,959**

Note: A further 14 firms with 19,196 employees are removed by industry code (NAICS 92) and are not listed. Sites are Chicago establishments rolled up to the record. The 2027 base applies the same screen at 125 full-time employees and removes 161 government employers in all (Table 6 of the report). *Source:* Analysis by the Center for Municipal Finance; Data Axle Historical Business Database.

Only 1.0 percent of Chicago firms in 2011 and 1.2 percent in 2025 have more than one Chicago establishment, but multi-site firms dominate the population the ordinance would reach: 432 of the 760 liable employers, holding 76 percent of its employment.

The unitary-business-group undercount described in Section 4 of the report, upheld in *DTCT* (Illinois Appellate Court, 2011), means the rollup is a lower bound for commonly owned groups outside the franchise brands regrouped above. Parent-identifier fragmentation in hospital systems has the same effect, but most of those systems are exempt under the ordinance. An alternative that clusters establishments by name is not a bound on the parent rollup, because it splits firms the parent field correctly groups and merges others. The two are different partitions, so we do not use it.

A6 Census Parameters Used in the Revenue Estimate

The remote-work parameters come from American Community Survey 2024 one-year tables (U.S. Census Bureau, 2025); the full-time share comes from the Census Bureau's LEHD workplace data (U.S. Census Bureau, 2023). Work-from-home rates are for the Chicago-Naperville-Elgin metropolitan area, table B08126.

Table A9. Work-from-home rate by industry group, Chicago metropolitan area, 2024

Industry group	Rate	Worked from home	Workers
Agriculture, forestry, fishing, hunting and mining	12.9%	2,073	16,059
Construction	8.4%	20,429	242,869
Manufacturing	11.4%	58,774	516,488
Wholesale trade	16.3%	18,806	115,696
Retail trade	9.3%	43,649	467,704
Transportation, warehousing and utilities	7.9%	28,755	364,130
Information	29.8%	26,358	88,401
Finance, insurance, real estate, rental and leasing	27.8%	101,859	366,055
Professional, scientific, management, administrative and waste services	31.0%	214,355	691,284
Educational services, health care and social assistance	10.0%	106,973	1,065,626
Arts, entertainment, recreation, accommodation and food	6.9%	28,508	411,600
Other services (except public administration)	13.7%	31,806	231,765
Public administration	12.9%	21,258	165,263
Armed forces	37.5%	5,189	13,832
All industries	**14.9%**	708,792	4,756,772

Source: American Community Survey 2024 one-year estimates, table B08126 (U.S. Census Bureau, 2025).

Table A10. Other parameters

Parameter	Value	Source
Resident share ρ	0.6926	B08008 and B08604, Chicago city: 1,085,613 residents working in Chicago of 1,567,413 working in Chicago
Wage-test (full-time) share	0.848 (0.829–0.867)	LEHD LODES 8 workplace file, 2023, private jobs located in Chicago: share earning at least $1,433 a month ($4,300 a quarter), with jobs spread evenly within the $1,251–$3,333 band. The high bound counts the whole band as above the line; the low bound treats the bottom of the band as twice as dense as even

Source: Analysis by the Center for Municipal Finance.

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