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Illinois Central Railroad Taxes

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One of Abraham Lincoln's most famous lawsuits was *Illinois Central Railroad v. McLean County*, 17 Ill. 291 (1855), colloquially known as the McLean County tax case. Lincoln successfully argued that the statute creating the Illinois Central in 1851 was constitutional in exempting the company from paying taxes in lieu of giving the state seven percent of its profits. The case saved the railroad millions of dollars, allowing it to flourish for more than a century. More famously, Lincoln had to sue the Illinois Central to obtain his $5,000 legal fee in the case. Generally, the story ends there. But what happened afterwards? Was this case eventually overturned or was it affirmed in later decisions?

The Illinois Supreme Court affirmed the *McLean* decision in *Neustadt v. Illinois Central Railroad*, 31 Ill. 484 (1863), noting that "no city or town authority can impose a tax for municipal purposes, on the property of that company which may be within their limits."

In 1887, the City of Decatur imposed a special assessment and special taxation for contiguous property against the railroad to help pay for paving several streets. The railroad would pay the tax to pave its right of way where it intersects the streets, and contiguous property leading to the right of way. The Illinois Central objected, arguing that the 1851 charter exempted it from all taxes, including special assessments. The railroad notably cited Lincoln's McLean County tax case. The Macon County Court ruled for the City of Decatur, and the railroad appealed to the Illinois Supreme Court.

In *Illinois Central Railroad v. City of Decatur*, 126 Ill. 92 (1888), the railroad continued to rely on the McLean County tax case, but the Illinois Supreme Court affirmed the judgment of the lower court. In his opinion, Justice John Magruder drew a distinction between a "tax" and a "special assessment" in that the special assessment was made for a particular purpose and the end result is improved value of the land, therefore, the railroad is not financially burdened by the assessment and actually benefited from it.

Unhappy with the Illinois Supreme Court decision, the Illinois Central appealed the case to the U.S. Supreme Court. In *Illinois Central v. Decatur*, 147 U.S. 90 (1893), the U.S. Supreme Court

affirmed the Illinois Supreme Court's decision with nearly identical reasoning. Justice David Brewer provided a clearer line of distinction between general taxes that support the government and special taxes for local improvements.

Both the Illinois Supreme Court and the U.S. Supreme Court agreed that the 1855 McLean County tax case remained in effect and that one-time taxes to improve municipalities, as the City of Decatur imposed, did not change Abraham Lincoln's original argument from thirty-five years prior.