



Illinois Illustrated

A Visual Guide to Taxes and
the Economy

State University Annuitants
Association

June 16, 2015

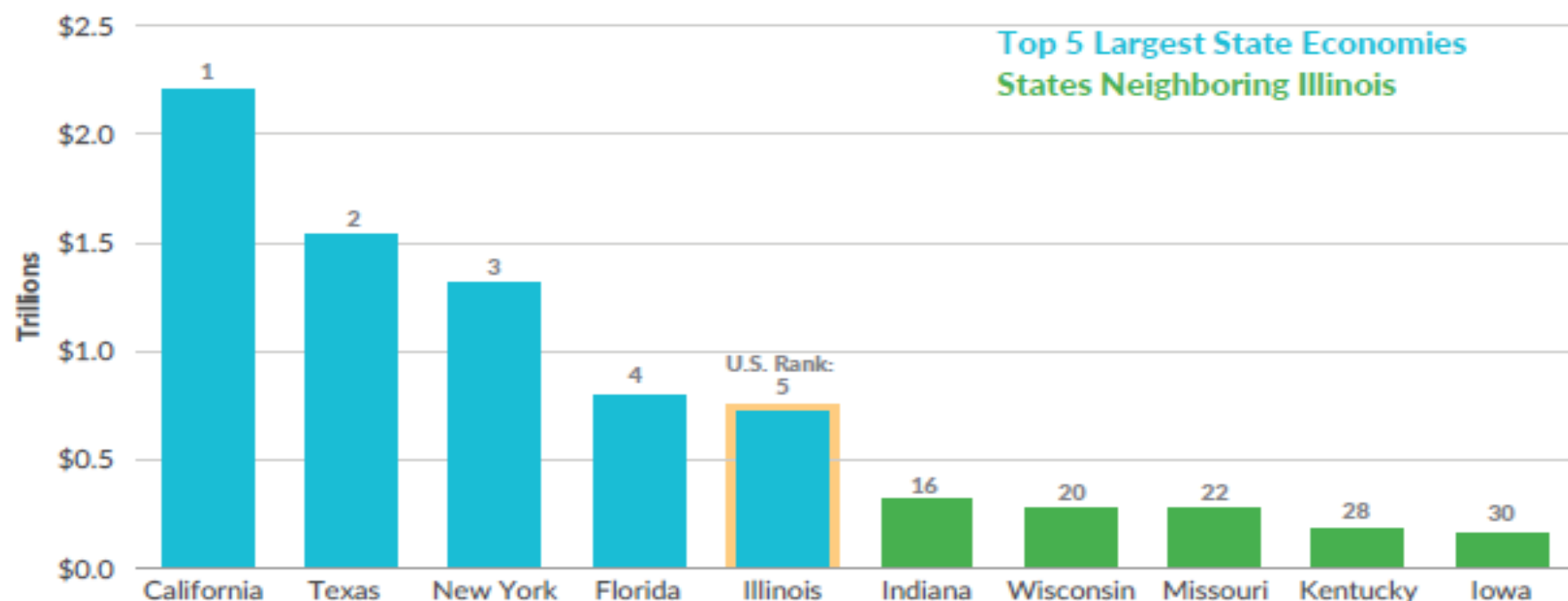
Taxpayers' Federation of Illinois

- Since 1940, Illinois' premier tax and fiscal policy organization
- Advocates sound and balanced tax and spending policies for Illinois' state and local governments
- Membership: businesses, tax professionals, individuals, local governments, other organizations
- Recent research topics:
 - Why so many corporations pay \$0 income tax
 - Homestead exemptions
 - Taxation of retirement income
 - Taxing consumer services



Illinois Has One of the Largest State Economies in the Country

State Gross Domestic Product, Select States (2013)

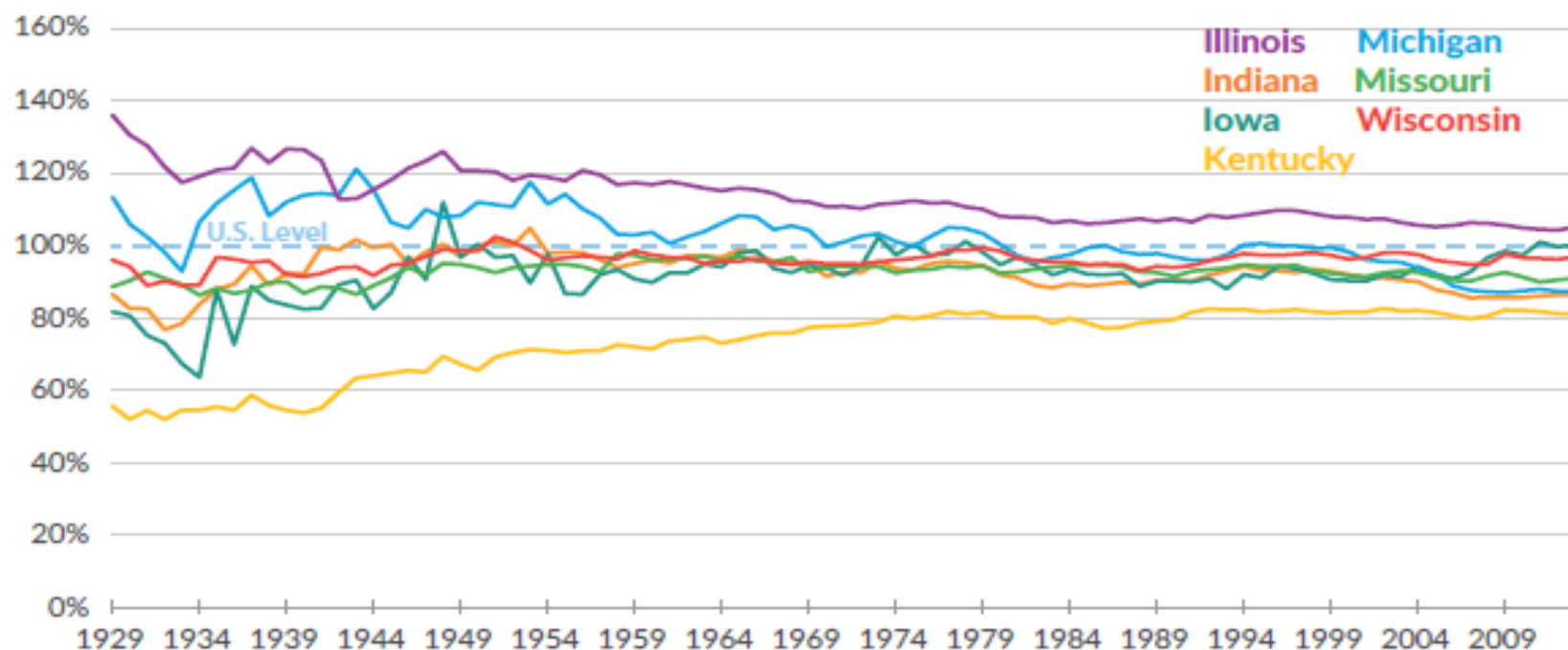


Illinois has one of the largest economies in the country (fifth largest based on state GDP) and is outranked only by California, Texas, New York, and Florida. All of Illinois' neighbors, however, have considerably smaller economies. Much of this difference is driven by the large urban center of Chicago, the third largest city in the United States. The fact that Illinois is a large, populous state surrounded by smaller-economy states puts it in a unique regional position.

Source: Bureau of Economic Analysis, Regional Economic Analysis, Gross Domestic Product (GDP) by State, "GDP in current dollars."

Illinois' Income per Person Is High but Converging with U.S. and Neighbors' Levels

Personal Income per Capita as a Percent of the U.S. Level, Illinois and Neighboring States (1929-2013)

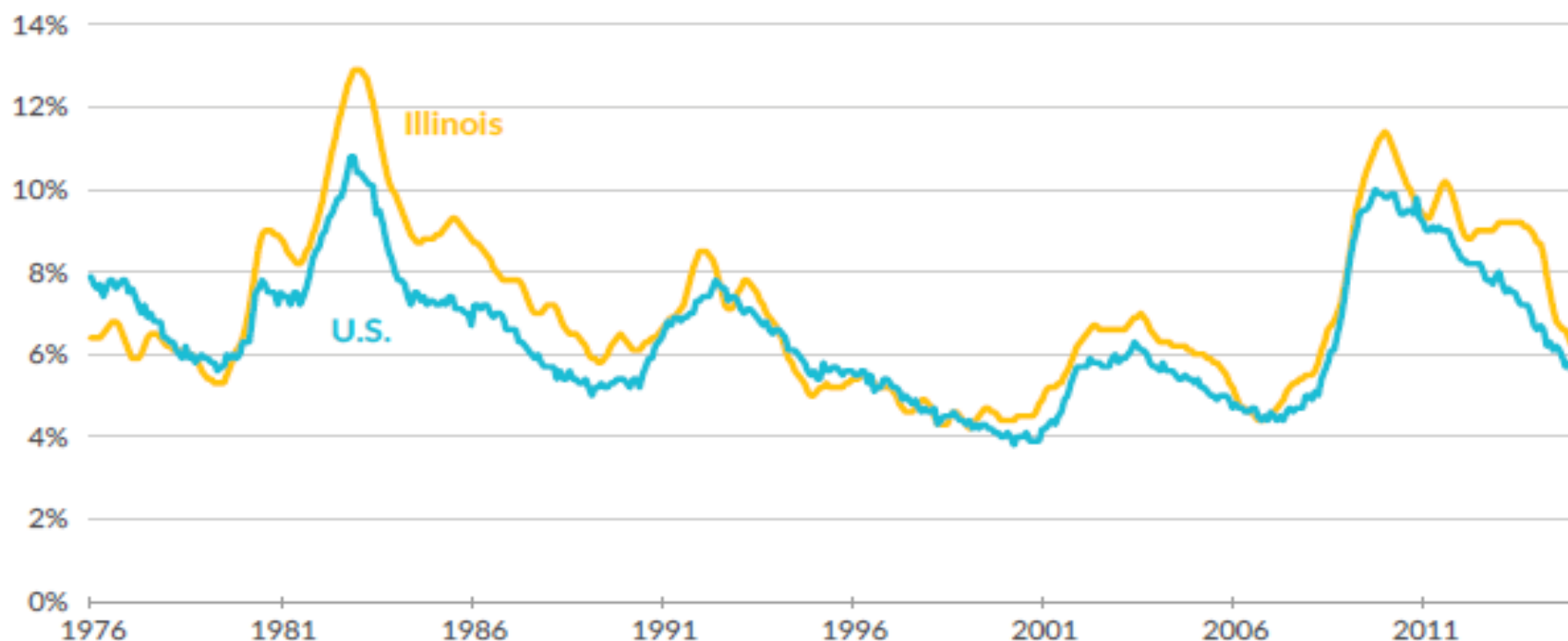


Historically, Illinois' personal income per person has been above both the U.S. level and the levels of neighboring states (except for a brief blip in the early 1940s). In recent years, however, Illinois and other states have seen a convergence in relative income per capita. In 1929, Illinois' personal income per person sat at 136 percent of the U.S. level, with all neighboring states trailing. By 2013, the gap between Illinois and its neighbors had decreased substantially as Illinois' per person income declined to 105 percent of the U.S. average.

Source: Bureau of Economic Analysis, Regional Economic Accounts, Annual State Personal Income and Employment.

Unemployment Rate in Illinois Tends to Be Higher than the U.S. Rate

Monthly Seasonally Adjusted Unemployment Rate, Illinois and U.S. (1976-2014)

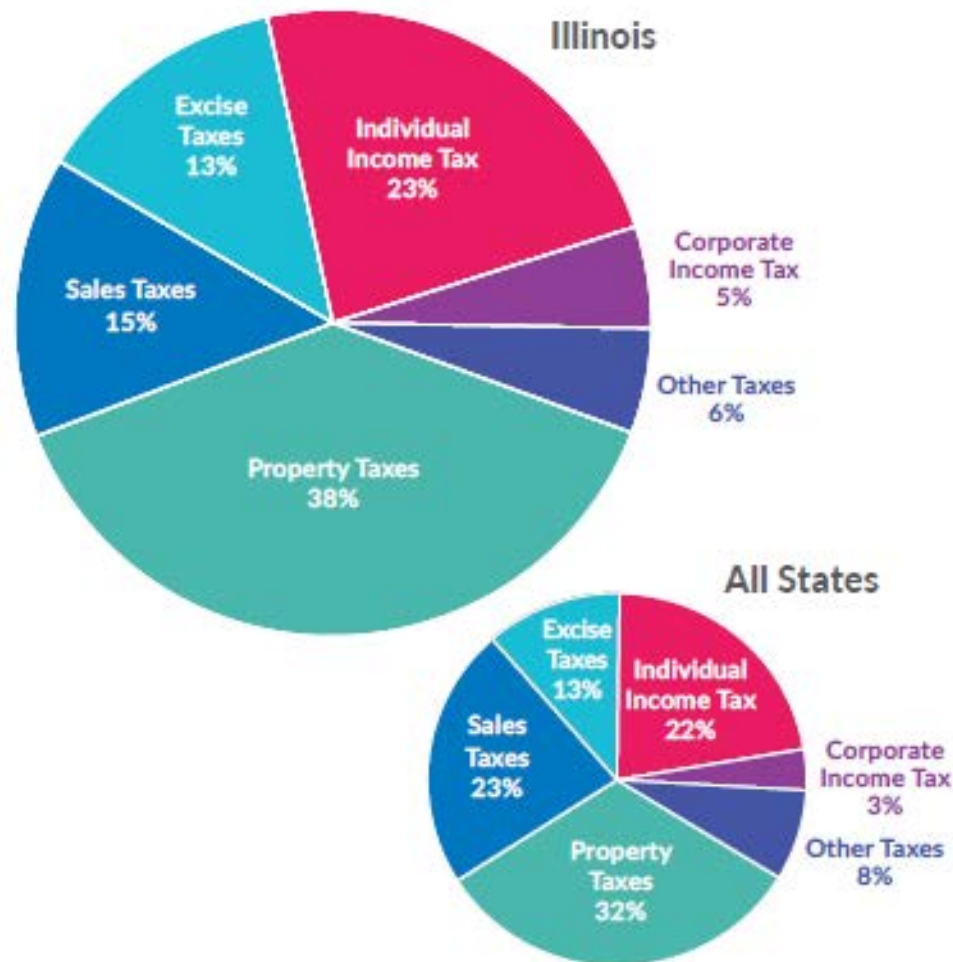


Since the early 1980s, Illinois' unemployment rate has generally exceeded that of the U.S., except for a period in the mid-1990s. The rate in Illinois hit highs in the early 1980s (12.9 percent) and early 2010 (11.4 percent), both of which were significantly higher than the U.S. rate at those times. As of December 2014, the Illinois rate still exceeded that of the U.S.

Source: Bureau of Labor Statistics, *Local Area Unemployment Statistics*.

Compared to the Entire U.S., Illinois Relies More on Property Taxes, Less on Sales Taxes

Percent of Total Combined State and Local Tax Collections by Tax Type, Illinois and U.S. (2012)



Illinois obtained the largest share of state and local combined collections in 2012 from property taxes (38 percent of total), followed by individual income taxes (23 percent) and general sales taxes (15 percent). The Illinois property tax share is higher than the U.S. average, and the sales tax share is lower. Corporate income taxes make up the smallest share of collections in both Illinois and the U.S. as a whole, although Illinois relies on them a slightly more than other states.

Note: Percentages may not add to 100 due to rounding.
Source: Census Bureau, *State and Local Government Finances*.

Corporate Income Taxes Are Illinois' Most Volatile State Tax

Annual Percent Change in Illinois' State Tax Collections by Tax Type (1978-2012)

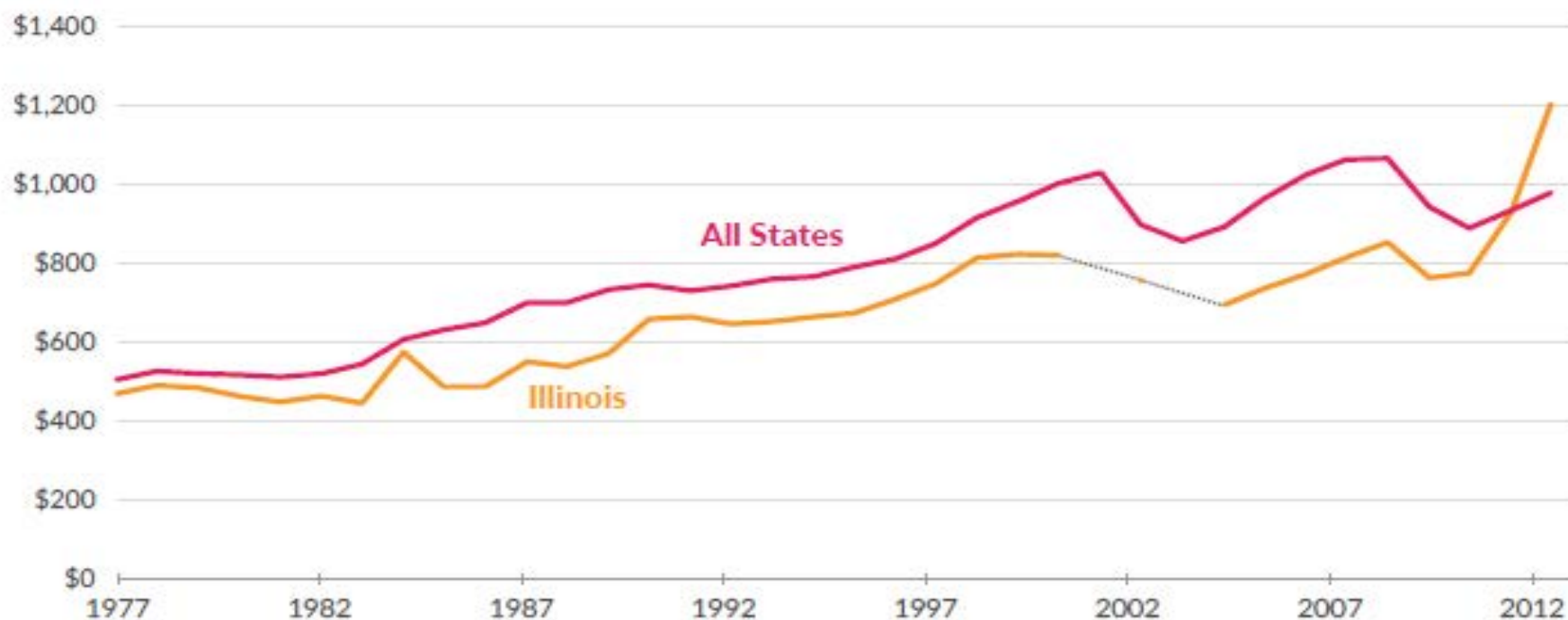


Revenue stability over the business cycle is an important facet of state tax policy. Different types of taxes react differently to changes in the economy. In Illinois, corporate income taxes fluctuate the most, followed by individual income and sales taxes.

Source: Census Bureau, *State and Local Government Finances*.

Illinois' Individual Income Tax Collections per Person over Time

Total State and Local Individual Income Tax Collections per Capita, Illinois and U.S.
(1977-2012, in 2012 Dollars)



Prior to 2012, inflation-adjusted individual income tax collections per person in Illinois were lower than state and local collections in the country on average. In 2012, however, this trend flipped due to a substantial increase in Illinois' individual income tax rate.

Note: Dollar amounts are inflation-adjusted based on the annual average Consumer Price Index for All Urban Consumers (CPI-U) with a 2012 base year. Because local data is unavailable for 2001 and 2003, those points were excluded here, and points surrounding these years are connected with dotted lines.

Source: Census Bureau, *State and Local Government Finances*; Census Bureau, *American Community Survey*; Bureau of Labor Statistics, *Consumer Price Indexes*.

How Does the Illinois Individual Income Tax Impact Real People?

The way a state chooses to structure its income tax matters for real people. These six scenarios show how low- or high-income Illinois taxpayers with or without children fare under the code in Illinois and its six neighboring states.

Illinois Tax Bill

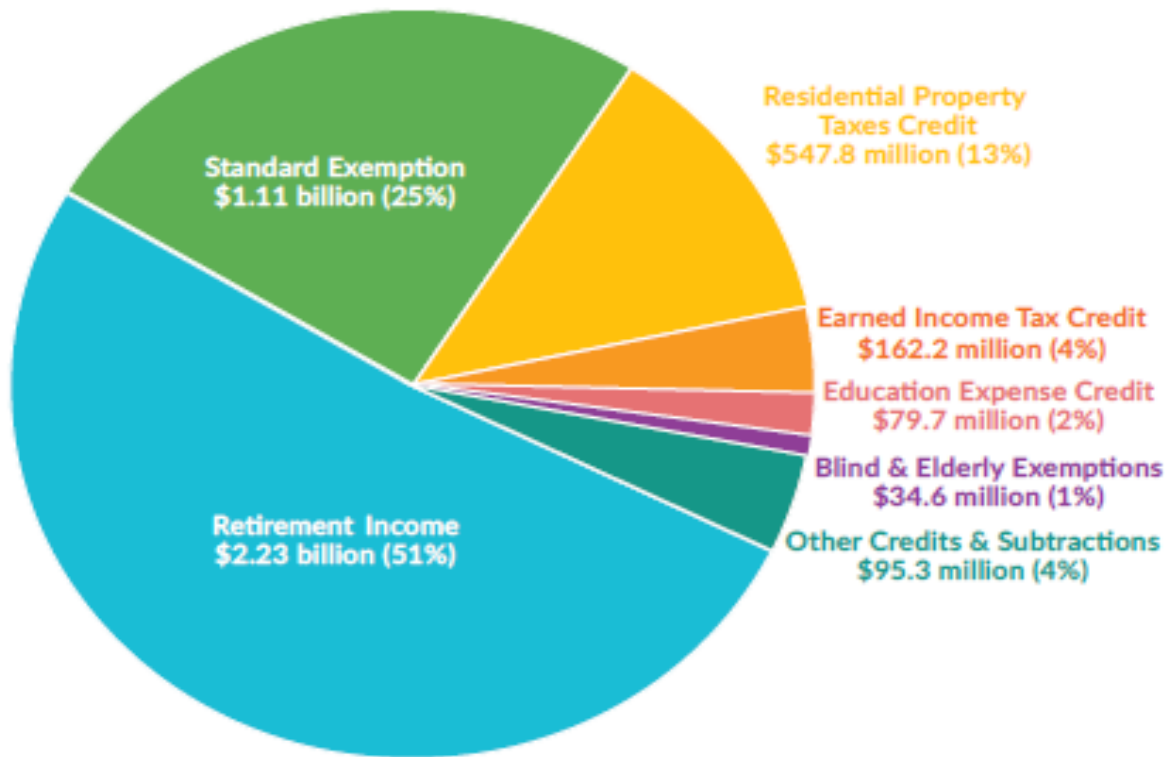
	Jack	Jason & Nicole Retired	Justine	Max & Danielle	Sam & Ellen	Heidi & Bret
Filing Status	Head of Household	Married Filing Jointly	Single	Married Filing Jointly	Married Filing Jointly	Married Filing Jointly
Income	\$15,930	\$38,304	\$33,113	\$83,546	\$413,378	\$1,747,714
Exemptions	2	2	1	4	2	4
Income Taxes Paid to Illinois	\$106	\$0	\$1,161	\$2,810	\$15,340	\$65,217
Effective Tax Rate (ETR), Illinois	0.7%	0.0%	3.5%	3.4%	3.7%	3.7%
ETR, Federal + Illinois	-20.1%	0.0%	12.4%	12.1%	26.9%	33.7%

Note: All calculations are made for the 2015 tax year and reflect state statutes and tax rates as of January 1, 2015. This assumes an equal split of income between spouses, all income was earned in the state of filing, no estimated tax payments were made in advance, and there were no interest or penalties charged. This does not include Illinois' property tax credit.

Source: State statutes and forms; Tax Foundation calculations.

Illinois Spent \$4.35 Billion on Individual Income Tax Expenditures in 2013

Individual Income Tax Expenditures, by Amount and Percent of Total (FY 2013)

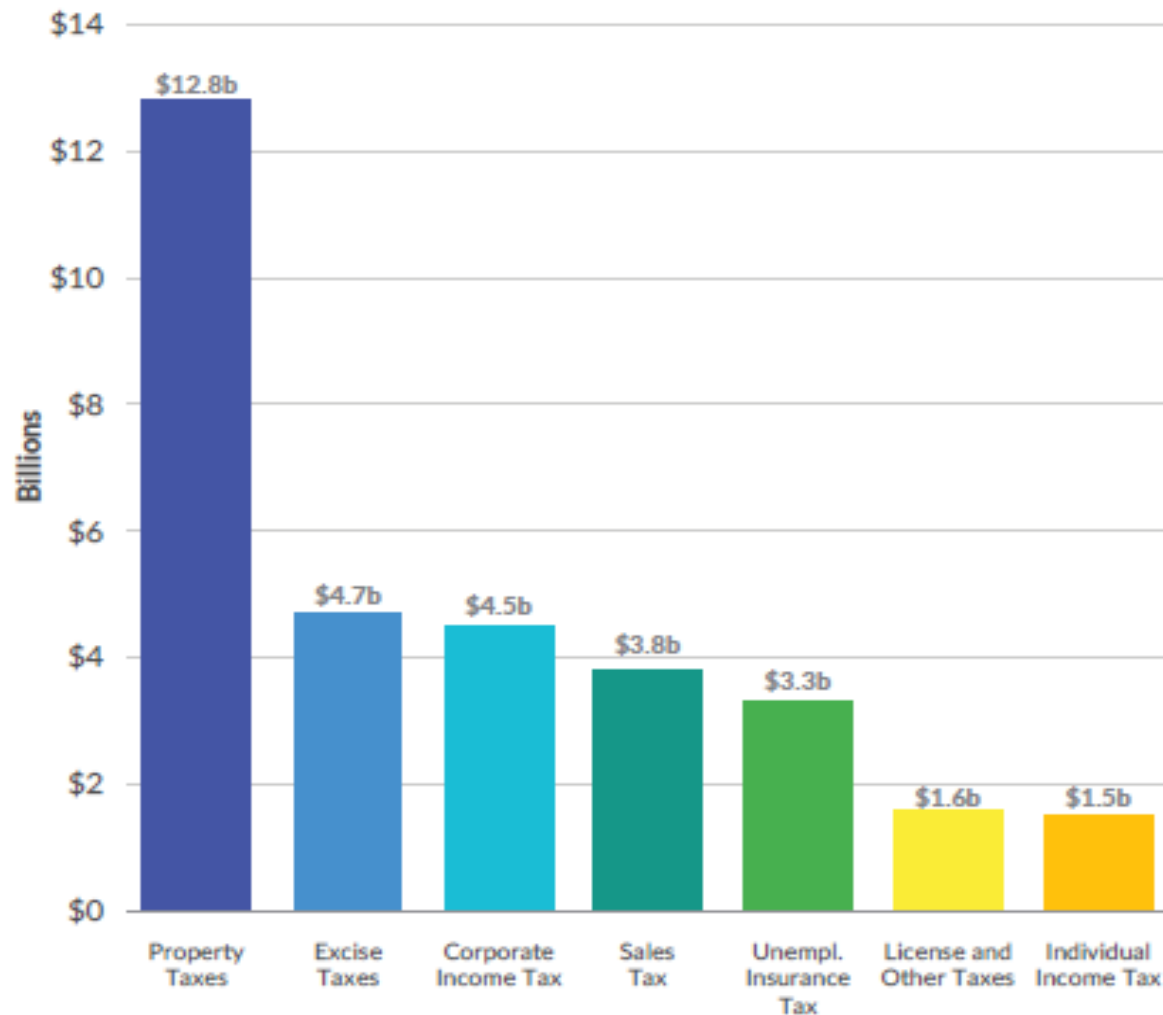


A tax expenditure is an activity that has been specifically exempted from taxation via a subtraction, exclusion, deduction, credit, or some other means. Individual income tax expenditures in Illinois totaled approximately \$4.35 billion in 2013. The largest expenditure (amounting to over half of the total) was the subtraction for retirement income, followed by the standard exemption (25 percent of the total) and the credit for residential property taxes paid (13 percent).

Source: State of Illinois Comptroller, Tax Expenditure Report (Fiscal Year 2013).

Businesses Don't Just Pay Corporate Income Taxes

Illinois' Total State and Local Business Tax Liability by Tax Type (FY 2013)



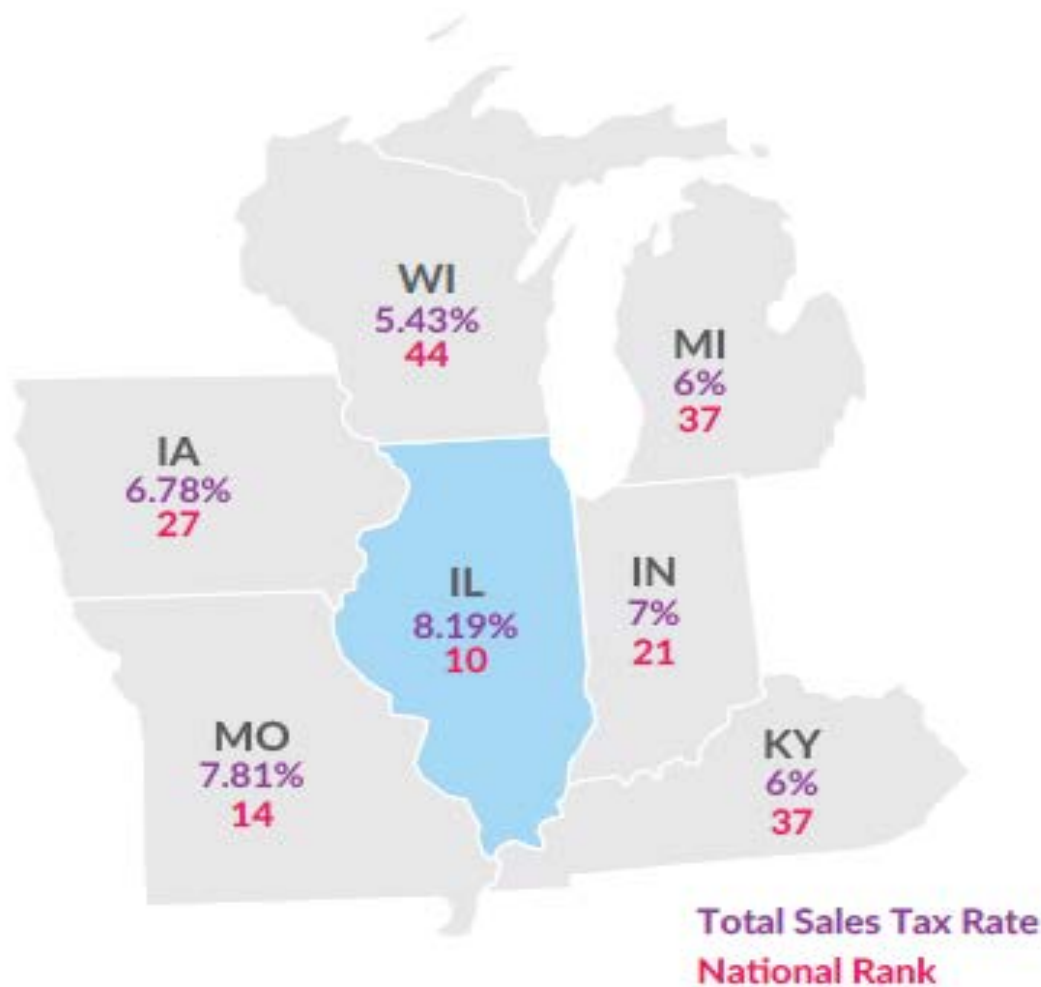
A common misconception is that corporate income taxes are the only tax cost for businesses. However, businesses pay a number of other taxes, including property taxes on real estate, sales taxes on the goods they use, and individual income taxes on business income (if they're pass-through entities that file through the individual income tax code rather than the corporate income tax code).

Overall, Illinois businesses paid \$32.3 billion in taxes in 2013, with the largest portion going to property taxes.

Source: Council on State Taxation and Ernst & Young LLP, Total state and local business taxes (FY 2013).

Illinois Has the Highest Combined Average Sales Tax Rate among Its Neighbors

Combined State and Average Local Sales Tax Rates, Illinois and Neighbors (as of July 1, 2014)



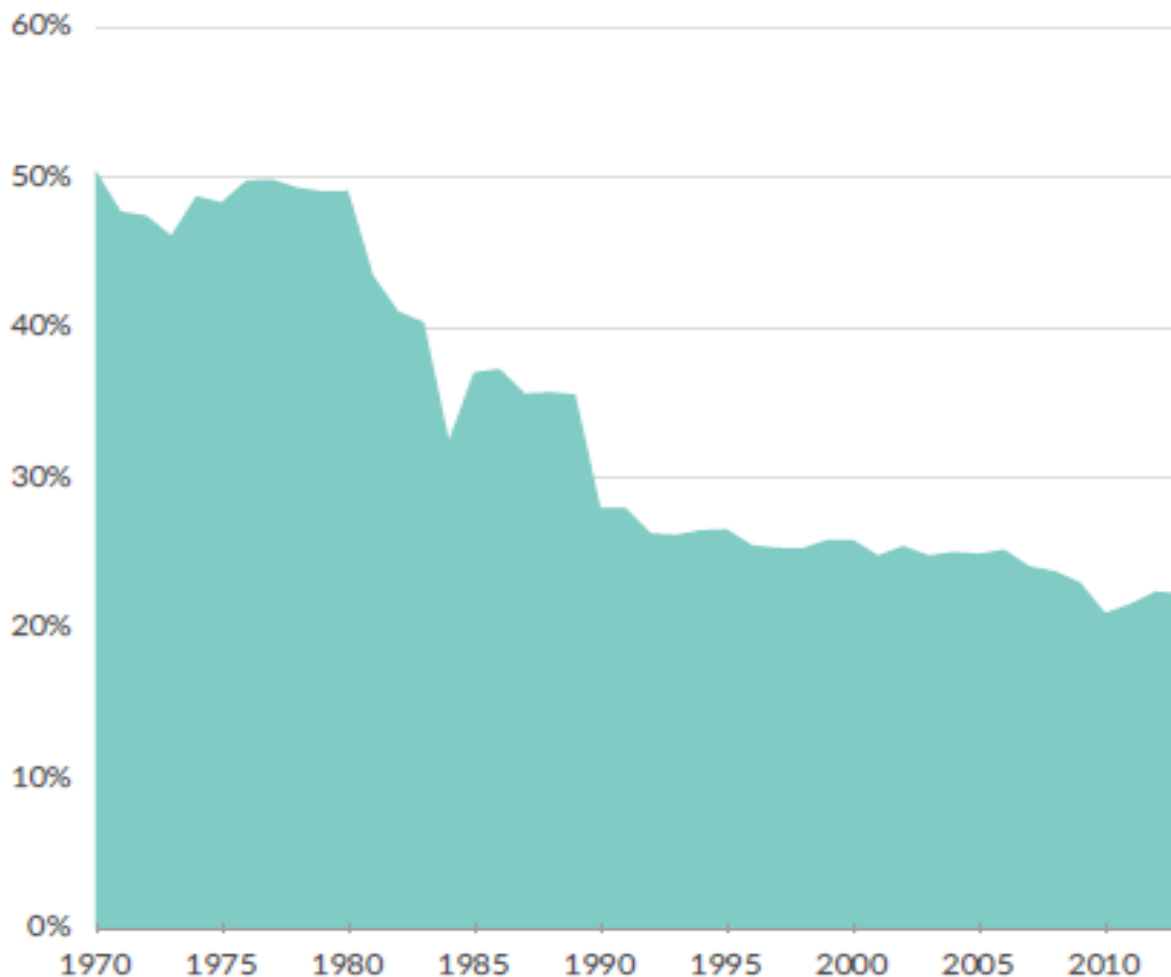
Sales taxes in most states are levied at both the state and local levels. Illinois' state-level rate (6.25 percent), which is already high compared to other states, is made higher by the additional local taxes that are tacked on top.

When both are considered, Illinois has the highest combined average rate among its neighbors and the 10th highest rate in the country. Local sales taxes, on average, amount to 1.94 percent. Indiana, Kentucky, and Michigan do not levy local sales taxes.

Source: Tax Foundation, *Facts & Figures 2015: How Does Your State Compare?*

Illinois' Sales Tax Applies to Less and Less of the Economy

Illinois' Sales Tax Breadth (1970-2013)



An ideal sales tax is one that is levied on all final consumer purchases. By taxing a large number of transactions, the rate can be kept low and still raise sufficient revenue.

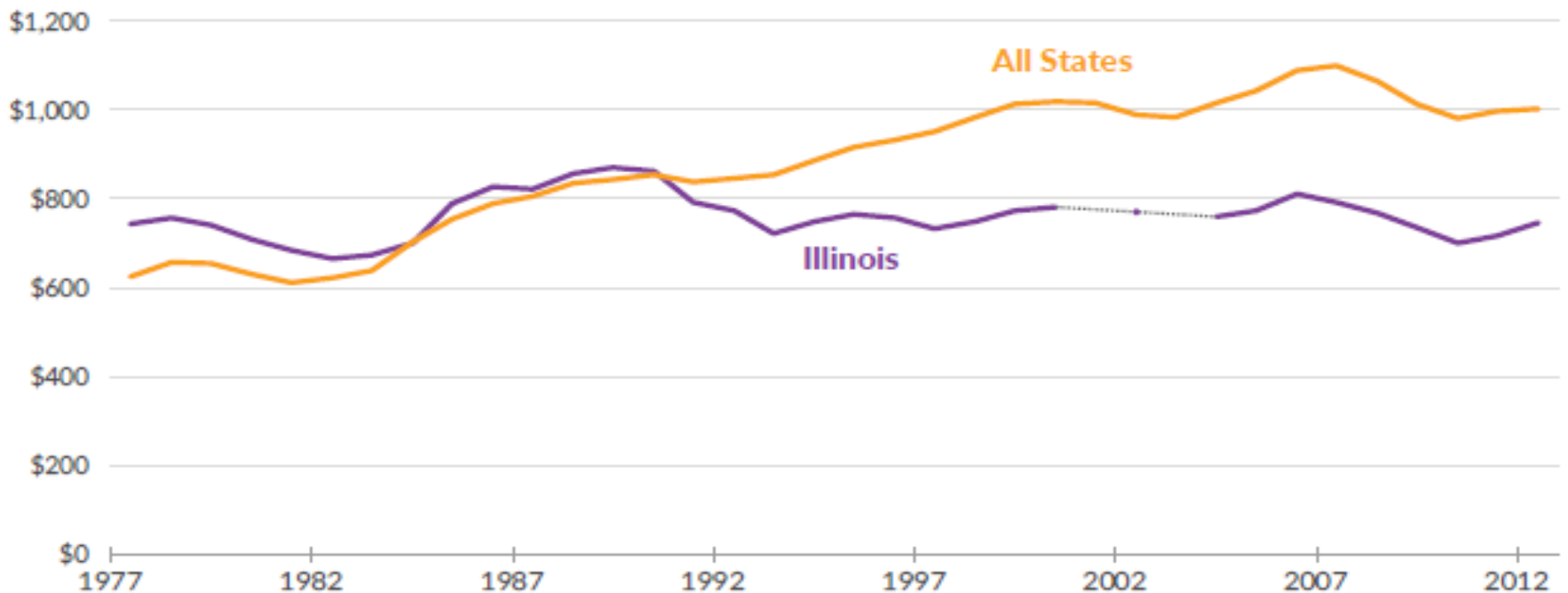
When sales taxes were created in the 1930s, they were levied on tangible goods, which at the time were a large part of the overall economy. However, the economy has become more service based since then. As a result, the sales tax is not nearly as productive. Further, by failing to tax consumer services, the sales tax inherently favors the services sector of the economy over the goods sector.

Note: Sales tax breadth is defined as the ratio of the implicit sales tax base to state personal income.

Source: Professor John Milkesell (Indiana University).

Even with High Rates, Illinois Has Lower Sales Tax Collections per Person than the U.S.

**Total State and Local Sales Tax Collections per Capita, Illinois and U.S.
(1977-2012, in 2012 Dollars)**



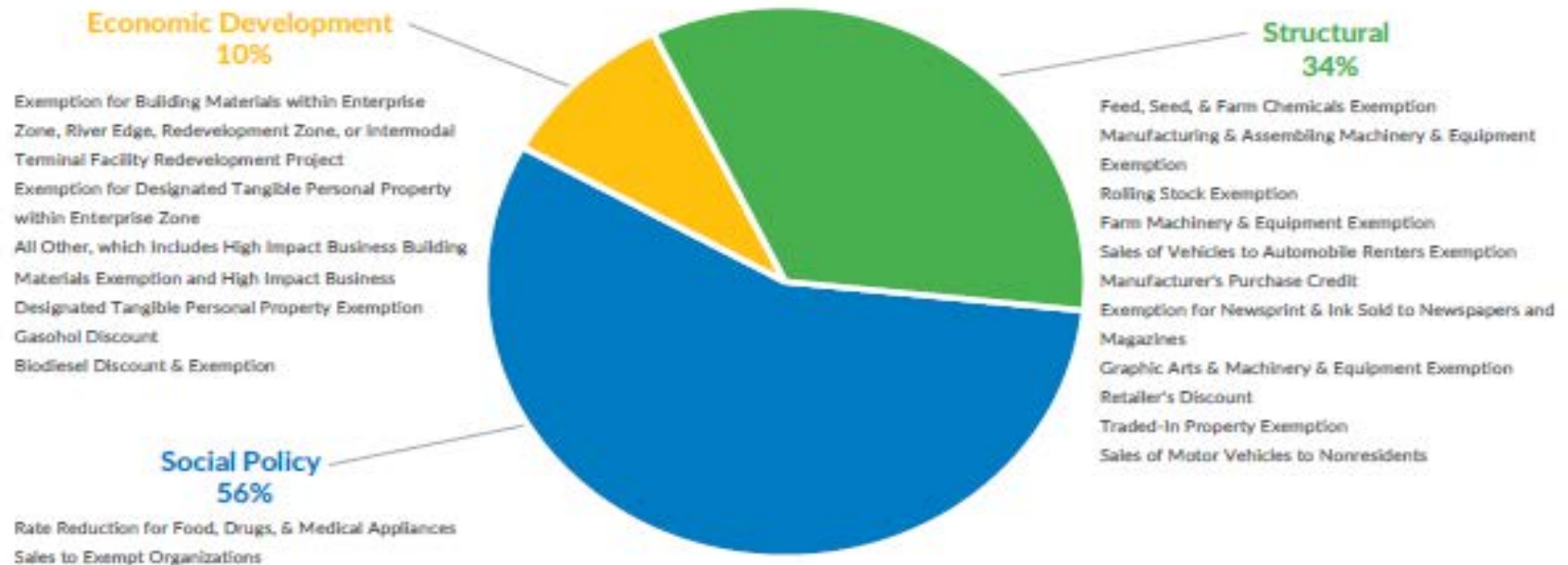
Illinois' state and local sales tax collections per person are much lower than the U.S. average, despite the fact that the state has a comparatively high total sales tax rate. While inflation-adjusted total U.S. collections exhibit an upward trend over time, Illinois' collections have remained relatively flat, despite several historical rate increases.

Note: Dollar amounts are inflation-adjusted based on the annual average Consumer Price Index for All Urban Consumers (CPI-U) with a 2012 base year. Because local data is unavailable for 2001 and 2003, those points were excluded here, and points surrounding these years are connected with dotted lines.

Source: Census Bureau, *State and Local Government Finances*; Census Bureau, *American Community Survey*; Bureau of Labor Statistics, *Consumer Price Indexes*.

Not All Sales Tax Expenditures Are Created Equal

Illinois' Sales and Use Tax Expenditures, by Type (FY 2013)

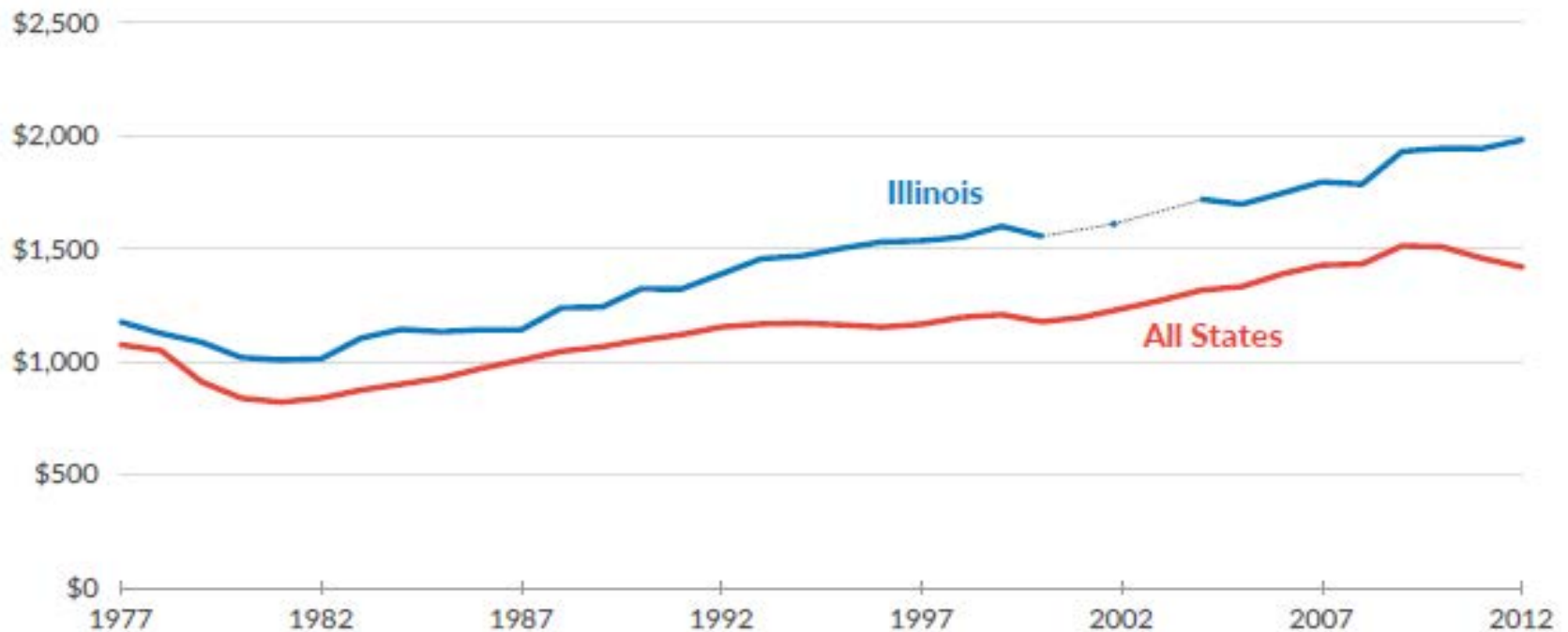


When states quantify tax expenditures, they often mistakenly lump structural provisions with social policy carve-outs, when the two should be distinct. The former are tools used to ensure the sales tax is correctly structured—such as exemptions for business input purchases (to avoid tax pyramiding). Approximately 34 percent of sales tax expenditures fall into this category. Social policy carve-outs are specific policy decisions enacted for a certain purpose (56 percent fall into this category).

Source: State of Illinois Comptroller, Tax Expenditure Report (Fiscal Year 2013).

Illinois Has High Property Tax Collections per Person

Total State and Local Property Tax Collections per Capita, Illinois and U.S.
(1977-2012, in 2012 Dollars)



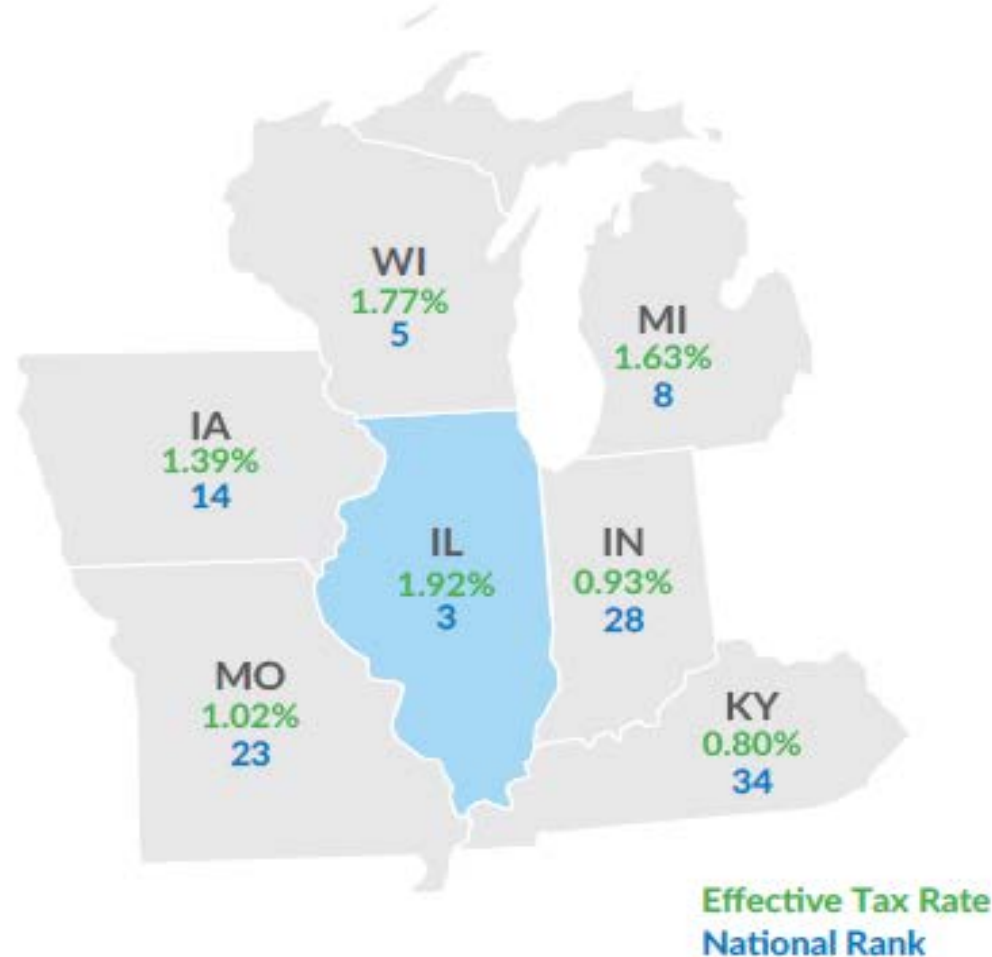
Only real property is taxed in Illinois, while personal property (things other than land and buildings, such as cars and furniture) is untaxed. Inflation-adjusted property tax collections per person in Illinois are higher than U.S. collections per person and have been since 1977. Based on this measure of property taxes, Illinois' are some of the highest in the nation, ranking 10th as of 2012.

Note: Dollar amounts are inflation-adjusted based on the annual average Consumer Price Index for All Urban Consumers (CPI-U) with a 2012 base year. Because local data is unavailable for 2001 and 2003, those points were excluded here, and points surrounding these years are connected with dotted lines.

Source: Census Bureau, State and Local Government Finances; Census Bureau, American Community Survey; Bureau of Labor Statistics, Consumer Price Indexes; Illinois Department of Revenue, The Illinois Property Tax System.

Illinois' Residential Effective Property Tax Rates Are Comparatively High

Aggregate Real Estate Taxes Paid as a Percent of Aggregate Housing Value of Owner-Occupied Housing Units (5-Year Estimate, 2009-2013)



One way to look at state property taxes is to calculate a state's residential effective tax rate and see how it stacks up compared to other states'. Illinois' residential effective rate is third highest in the nation—outranked only by New Jersey's and New Hampshire's. In the region, only Wisconsin's rate comes anywhere close to Illinois'.

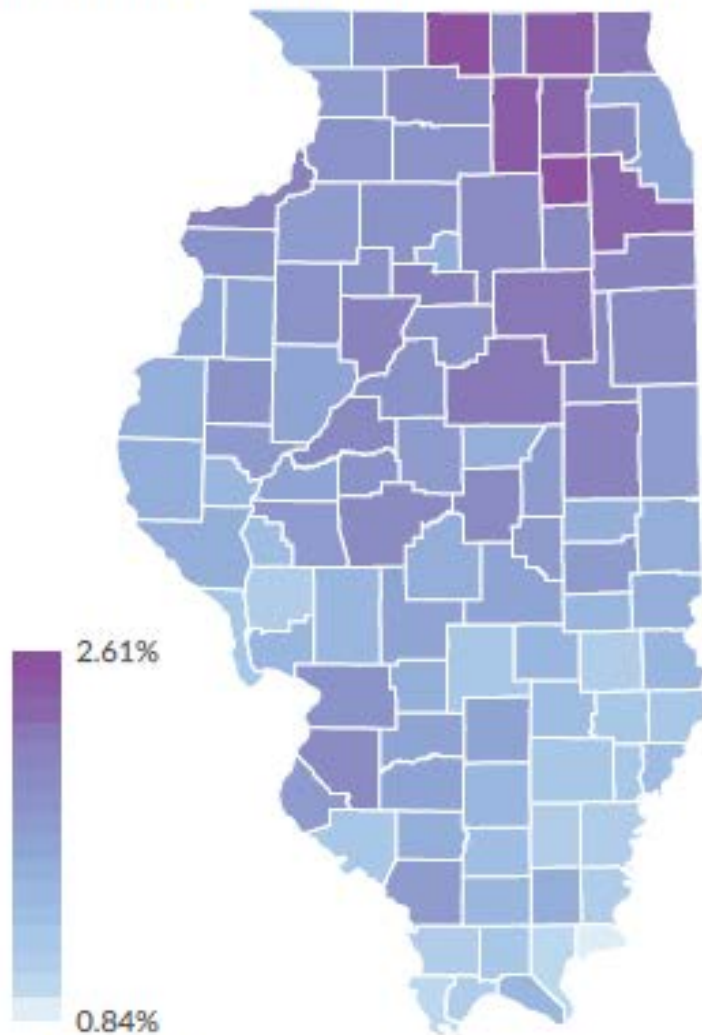
However, this measure of property taxes is a state average, so it does not demonstrate the variation in residential effective rates among and within counties in the state. And because this measure looks specifically at residential property, business property is not included.

Note: "Residential Effective Property Tax Rate" is calculated by dividing the total real estate (property) taxes paid in a state by the state's total housing value (owner-occupied units only). The American Community Survey data used here is based on 5-year estimates (2009 to 2013). This data does not include commercial property.

Source: Census Bureau, American Community Survey.

Residential Effective Property Tax Rates Vary Widely among Counties

Aggregate Real Estate Taxes Paid as a Percent of Aggregate Housing Value of Owner-Occupied Housing Units (5-Year Estimate, 2009-2013)



On average, the residential effective property tax rate in Illinois (using a five year average from 2009 to 2013) was 1.92 percent, though county-specific values vary around this mean. The highest residential effective rate occurred in Kendall County at 2.61 percent, while the lowest was in Hardin County at 0.84 percent. Cook County, the home of metropolitan Chicago, had an effective property tax rate of 1.68 percent.

Within a county, individual homeowners' effective rates may differ from these county averages. For example, a home in Cook County could have drastically different effective property tax rates depending on where it sits—a recent study found that a \$250,000 home in Chicago in 2010 had an effective property tax rate of 1.28 percent, while a home with the same market value in Park Forest (also in Cook County) had an effective rate of 5.68 percent.

It's important to note that an effective property tax rate is not the same as the millage rate (that is, the statutory property tax rate levied by a local government).

Note: "Residential Effective Property Tax Rate" is calculated by dividing the total real estate (property) taxes paid in a county by the county's total housing value (owner-occupied units only). The American Community Survey data used here is based on 5-year estimates (2009 to 2013). This data does not include commercial property.

Source: Census Bureau, American Community Survey; Taxpayers' Federation of Illinois, Tax Facts, Volume 66, No. 3 (Summer 2013).

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