

Revenue Options for Illinois

Individual Income Tax Options

Rate	Additional Revenue Generated (\$ in millions)	Local Governments	Net to State
3.5%	\$1,400	\$140	\$1,260
4.0%	\$2,830	\$283	\$2,547
4.5%	\$4,300	\$430	\$3,870
5.0%	\$5,660	\$566	\$5,094

Calculations based on actual Fiscal Year 2006 Individual Income Tax receipts data from the Illinois Commission on Government Forecasting and Accountability.

Corporate Income Tax Options

Rate	Additional Revenue Generated (\$ in millions)	Local Governments	Net to State
6.4%	\$475	\$48	\$428
8.0%	\$950	\$95	\$855

Calculations based on actual Fiscal Year 2006 Corporate Income Tax receipts data from the Illinois Commission on Government Forecasting and Accountability. Under the constitution, the Illinois Corporate Income Tax can be no more than 8/5 of the personal income tax.

Sales Tax Options

Options for both the expansion of the Illinois Sales Tax base to include consumer services (not business, health care or housing services) with a reduction in the sales tax rate.

Rate	Additional Revenue Generated (\$ in millions)
3.0%	\$-1,810
3.5%	\$-937
4.0%	\$-57
4.5%	\$822
5.0%	\$1,700

Gross Receipts Tax

A Gross Receipts Tax or GRT is a tax imposed on *all income received by a business* without any deductions for costs of doing business, such as a deduction for wages

The Illinois proposed GRT is a tax of 0.85% on all manufacturing goods and 1.95% on all service industry items. Business with receipts under \$2 million would be exempt from the GRT. The Illinois Commission on Government Forecasting and Accountability estimates **the tax would raise revenues of \$2.186 billion in FY 2008 after that annually around \$7.6 billion.** Additionally, the state has proposed a 3.0% payroll tax that all employers with ten or more workers would pay on Illinois employee wages. This payroll tax would be reduced by a credit based upon the employer's contribution to cover health insurance cost for his/her employees. The Illinois Governor's Office of Management and Budget expects the payroll tax to generate \$1.3 billion

Value Added Tax

The taxable amount of a value added tax (VAT) is based on the value added at each stage of the process of producing goods and bringing them to market.

Implementing a 1% VAT in Illinois would generate approximately \$2.24 billion in new revenue. This calculation is based on the methodology of William G. Gale of the Brookings Institution and C. Eugene Steuerle of the Urban Institute who calculated that each percentage point of a VAT with only a few exclusions could generate net revenue equivalent to 0.4% of Gross State Product.

Carbon Emissions Charge

Creating "cap and trade" system on carbon emissions in Illinois could generate about **\$2 billion annually.** Additionally, it would decrease carbon emissions over time and generate dollars that could be devoted to energy efficient technologies. Because most of the cost to business would be passed on to consumers, it should be coupled with targeted relief to low and middle income families to eliminate potential regressive impacts.

Center for Tax and Budget Accountability calculation based on the emissions of CO2 annually by Illinois' emitters and the minimum auction price established in the statute.

Closing Corporate Tax Loopholes

Corporate Tax Loophole	Revenue (\$ in millions)
Repeal the Single Sales Factor	\$96
Reduce the Retailers Discount	\$80 - \$100
Eliminate public subsidies to the horse racing industry	\$48
Newsprint and Ink Exemption to Newspapers and Magazine Producers	\$41
Manufacturing and Assembling Machinery and Equip Exemption	\$164
Sales of Vehicles to Automobile Rentors Exemption	\$43
Enterprise and Foreign Trade Zone Dividend Subtractions	\$2.4
Enterprise and Foreign Trade Zone High Economic Impact Business Exemption	\$37
Timely Filing and Full Payment Discount	\$28
Trade-in allowance	\$20
Real Estate Investment Trusts – For tax years ending on or after Dec 31, 2008	\$40
Redefining “business income” to include all income apportionable to Illinois by the U.S. Constitution	\$29
Replace cost of performance rule with market state approach for service industries	\$40
Special industry rules (financial organizations/transit companies)	\$60
Eliminate tax benefit of related party transactions	\$40
Discharge of debt	\$4
Expense disallowance for exempt securities income	\$25
Withholding on non-resident partners/subchapter S shareholders	\$4
Corporate Franchise Tax Amnesty	\$25

Federal Decoupling

Qualified Production Activities Income (QPAI) - \$89-\$130 million

Decoupling from the federal corporate income tax break known as the “qualified production activities income,” or QPAI, deduction, would generate between \$89 million and \$130 million in tax revenue annually.

Revenue figure based on Center for Budget and Policy Priorities, *Sates are Decoupling from the Federal QPAI Deduction*, Sept., 2005.

Closing Personal Tax Loopholes

- 1. Create a means test for the Illinois tuition tax credit:** Limiting the credit to families earning \$60,000 a year or less would preserve the credit for low- and moderate-income families while saving the state **\$40-\$45 million** annually.
- 2. Subject pension income earned over \$75,000 to taxation:** Subjecting pension income over \$75,000 to taxation would generate **\$200 million** in new revenue annually.
- 3. Eliminate or means-test the Property Tax Credit:** Creation of a means-test for this tax credit would preserve the benefit for low- and middle-income families while saving the state an estimated **\$200-\$240 million** annually.
- 4. Coordination of credits/exemptions:** Multiple forms of tax credits/exemptions could duplicate policy purposes. Consolidating all of them into one credit/exemption could eliminate duplication and produce more targeted benefits. This could generate up to **\$200 million**.

Pension Obligation Bonds

Illinois could save money long-term by issuing pension obligation bonds to refinance existing pension debt for one simple reason, lower interest rates. The current interest rate of 8.0% to 8.5% on the unfunded pension liability is higher than interest rates available in the bond market.

How a POB Works

The state would issue a \$16 billion pension obligation bond at an interest rate lower than 8.0% and then deposit the proceeds immediately into the pension fund to pay off all or some of the current unfunded liability.

Using a simple interest formula, at the least, the state would save an estimated \$14 billion over the next 40 years by issuing \$16 billion in pension obligations bonds at 6.0 percent. Depending on the bond terms, the state could save more.

Gaming

Existing Proposal: Revenue estimate is \$1.5 to \$2.0 billion

(However, testimony by Economics Professor, Dr. Victor Mathason to the Commission on Government Forecasting and Accountability puts the number much lower, somewhere between \$260 and \$500 million).

1. Expansion of the number of positions at existing riverboat casinos from 1,200 to 2,000
2. Allow a land based Chicago casino with 4,000 positions
3. Allow three other Chicago area casinos with 3,500 positions each

Sale of the Illinois Lottery

If the state received \$10 billion in sale of lottery proceeds it would reduce the unfunded liability to \$30.7 billion. **This could save the state an estimated \$21 billion over the next 40 years.**

If the lottery is leased, a separate revenue stream must be introduced to replace the annual revenue stream that is targeted to education from lottery proceeds. For FY 2008, education is forecasted to receive \$650 million from the lottery.