CTBA | Center for Tax and Budget Accountability

70 East Lake Street, Suite 1700
Chicago, IL • 60601
www.ctbaonline.org

Issue Brief

January 2010

A Comparison of Major Illinois Tax Proposals

As the campaign season heats up in Illinois, one compelling issue dominates all others—the state's ever increasing deficit. The size of the revenue shortfall is so significant, its sheer magnitude belies any suggestion that the state can cobble together a budget next year without a revenue enhancement.

Consider, for instance, that to fund the state's FY 2010 General Fund Budget of $26.08 B—86% of which goes to education, healthcare and human services—Illinois had to manufacture $6.259 B in non-recurring, one-time revenue. That's 24% of the $25.08 B budget without pension fund payments and 21% of the $29.55 B budget with $3.466 of borrowed pension fund payments included.

Figure 1

Illinois' FY2011 Starting Budget Shortfall—Minimum	
Replacement of one-time FY2010 revenues and debt	$6.259 B
First installment of five-year Debt Service on Pension Notes	$ .800 B
Carry Forward of Operating Deficits from FY2009/2010*	$4.0 B
Estimated Decline in Revenue in FY2010	$.900 B
Increase in required pension contribution under the Pension Ramp**	$1.2 B
TOTAL MIMIMUM FY2011 STARTING DEFICIT***	**$13.159 B**

* *The Illinois State Comptroller's Quarterly* of January 2010 estimates that the state will have a backlog of $ 8.75 B in unpaid bills by the start of FY2011, and $ 5.1 B as of December 2010. However, many of these bills are presumably for items that are covered in FY2010 budget appropriations. We estimate that a $ 4.0 B backlog of unpaid bills not covered by FY2010 appropriations will be carried into FY2011.

** Note: In 1995, Illinois passed a pension ramp bill requiring significant, annual increases in the state's contribution to its public employee retirement systems, to make up for a decades long practice of failing to make the full, employer contribution into the system. That is why the pension contribution escalates by $1.2 billion next year. It is also why Illinois has an unfunded liability in excess of $74 billion today.

***The Starting Deficit for FY2011 is 45% of the $29.55 B FY2010 on-line and off-line Appropriation.

Given that the state's fiscal problems dictate it enact a revenue increase, it is helpful to review the most salient proposals to accomplish tax reform that have been introduced to date in Illinois.

Figure 2 delineates the main aspects of the five most comprehensive initiatives.

Figure 2.

Revenue Source/Adjustment **Additional Tax Revenue (all $ in Millions)**	**SB750 at 5% (personal rate) and 8.0% (corporate rate)**	**HB174 At 5% (personal rate) and 5% (corporate rate)**	**Quinn At 4.5% (personal rate) and 7.2% (corporate rate)**	**Houlihan at 4.25% (personal rate)**	**Hynes At 3.0% plus an additional 0.5% on $200,000 - $300,000 income, 2.5% on $300,000 - $500,000, 4.0% $500,000 - $1,000,000, 4.5% over $1,000,000**
Individual Income Tax (net of refund fund)	**$6,422**	**$6,422**	**$4,721**	**$4,150**	**$2,352**
Local Government Distributive Fund LGDF	**-($576)**	**-($222)***	**-($327)**	**-($260)**	**-($235)**
Personal Exemption Cost		**-($1,047)**	**-($872)**	**-($1,279)**	
Total Personal Income	**$5,846**	**$5,153**	**$3,522**	**$2,611**	
Corporate Income Tax (net of refund fund)	**$407**	**$31**	**$366**		
LGDF	**-($41)**	**-($3)**	**-($36)**		
Total Corporate Income	**$366**	**$27**	**$330**		
Sales Tax Base Expansion	**$2,400**	**$515-$723**		**$1,051**	**$360**
Double Residential Property Tax Credit from 5% to 10%	**-($493)*** **	**-($493)*** **	**-($493)** **		
Repeal Property Tax Credit and Implement Circuit Breaker				**$150**	
Creates Family Tax Credit to Offset Income Tax Increase for Bottom 60% of Households	**-($600)**				
Increase State EITC from 5% to 10%, 15%, or 30% of Federal	**-($167)**	**-($167)**	**-($83)**	**-($417)**	
Net Revenue to State General Fund (minus refund fund, Personal Exemption and tax relief)	**$7,352**	**$5,035 - $5,243**	**$3,683**	**$3,395**	**$2,477**

* In FY 2010 (only), $20.8 million per month will be diverted from the LGDF to the Common School Fund. Hence the LGDF cost will increase by $249 million starting in FY 2011.

** $500 cap not modeled.

*** $1500 refundability and cap not modeled.

Sources: Center for Tax and Budget Accountability calculation based on final FY 2010 revenue assumptions by the Illinois Commission on Government Forecasting and Accountability, obtained August 23rd, 2009; Illinois Department of Revenue LGDF and sales tax expansion estimates obtained 9/2009 and 10/2009; ITEP SB 760 sales tax expansion and Family Tax Credit estimates.

SB 750 Analysis

Senate Amendment Sponsor: James T. Meeks

Senate Bill 750 would create a new, permanent revenue source for schools, property tax relief for homeowners and $1 billion for debt service for a state infrastructure program. It is the only piece of legislation that will truly reform the way education is funded in Illinois by making the state the primary funder of K-12 education. The bill also targets $300 million for community colleges and universities

Among the bill's highlights, SB 750 would:

- Reduce reliance on property taxes to fund schools by doubling the Illinois residential property tax credit;
- Create the invest in Illinois Capital Fund, which would dedicate $1 billion each year, to underwrite debt service and fees on bonds for capital projects, such as roads and schools, throughout the State;
- Mandate a $300 million annual appropriation (indexed for inflation) for grants to institutions of Higher Education;
- Increase Early Childhood education funding on a phased-in basis, from $45 million in the first fiscal year after the bill passes to $180 million four years later;
- Increase the state's per-student Foundation Level for K-12 education to the amount recommended by the Education Funding Advisory Board over four years (raising it to $8,410 from $5,959)—The Foundation Level and state Poverty Grants would also be automatically tied to increases to the Employment Cost Index to adjust for inflation;
- Double the special education personnel reimbursement rate;
- Maintain and expand grants for high-poverty schools;
- Fund teacher and principal mentoring programs;
- Provide additional funding for science, math and technology programs;
- Increase the personal income tax rate to 5% (from 3%), while the corporate income tax rate increases to 8% (from 4.8%);
- Expand the sales tax base to include consumer services that for the most part are already taxed by Illinois' neighbor states tax;
- A Family Tax Credit is created for low and middle income taxpayers to help offset the income tax increase and sales tax base expansion; and
- Triple the Earned Income Tax Credit to create tax fairness by offsetting tax burden of the working poor.

HB 174 Analysis

Senate Amendment Sponsor: John Cullerton
(Revised as of January 11, 2010)

This bill is a modified version of SB 750, first introduced by Senator James T. Meeks and Representative David Miller. It effectively changes the Illinois tax structure in a number of ways. It would raise anywhere from $5.0 billion to $5.2 billion in new, recurring tax revenues, provide tax relief to homeowners and low income families, and provide additional funding for public schools, health and human services.

HB 174 is based on but differs from SB 750 in a number of ways. While the personal income tax rate increase remains the same as in SB 750, the sales tax base expansion is smaller, as is the increase in the corporate income tax rate. HB 174 increases the standard exemption an individual can claim against the state's personal income tax by $1,000, which SB 750 did not do. HB 174 also redirects (in FY 2010 only) $20.8 million per month into the Common School Fund from the Local Government Distributive Fund (state income tax funds which otherwise would flow to local governments, like municipalities). Local governments still benefit under HB 174, however, gaining an additional $222 million from the Local Government Distribution Fund in FY 2010.

Following are highlights of HB 174:

- The Illinois individual income tax rate increases from 3% to 5%.
- The Illinois corporate income tax rate increases from 4.8% to 5%.
- The standard exemption an individual taxpayer can claim against the state income tax increases from $2,000 to $3,000.
- Property tax relief is provided by doubling the state personal income tax credit individuals may claim for the local property taxes paid on their principal residence in Illinois, from 5% to 10%. The value of this credit is capped at $1,500 (the $1,500 cap is then indexed to CPI in subsequent years). The bill also makes the tax credit for property taxes paid refundable (i.e., a homeowner will receive the full, $1,500 maximum value of the credit, even it if exceeds his or her state income tax liability, ensuring low and middle income families get the maximum property tax relief intended). HB 174 also clarifies that the Illinois income tax credit for property taxes paid only applies to a taxpayer's principal residence.
- Tax fairness for low income working families comes from a tripling of the state's Earned Income Tax Credit (EITC) from 5% to 15% of the federal EITC claimed.
- The Illinois sales tax base is expanded to include 39 different consumer services that previously were untaxed, such as travel agent services and scenic & sightseeing transportation. All 39 specific services that would be taxed are listed in HB 174. Most of the services Illinois will tax under HB 174 are already taxed by one or more of our neighboring states.
- Education funding will be enhanced starting in Fiscal Year 2011 and continuing thereafter, with 33 and 1/3% of all new revenues generated from the tax increases in HB 174 annually going to the Common School Fund (this new revenue for education must be added to the appropriation amount from the previous year). Similarly, commencing in FY 2011 and continuing each year thereafter, 16 and 2/3% of all new revenues generated from the tax increases in HB 174 are allocated to the Higher Education Fund. The rest of the new revenue from HB 174 will go to the State General Revenue Fund (GRF).

Houlihan Tax Plan Analysis

- The Illinois individual income tax rate increases from 3% to 4.25%.
- The standard exemption an individual taxpayer can claim against the state income tax increases from $2,000 to $4,000.
- Property tax relief is provided by repealing the current property tax credit and implementing a property tax “circuit breaker”.
- Tax fairness for low income working families comes from increasing the state's Earned Income Tax Credit (EITC) from 5% to 30% of the federal EITC claimed.
- The scope of the state sales tax would increase to include food and service items currently excluded, but the state rate would be reduced from 5% to 3.25%.

Quinn Bill Analysis

- The Illinois individual income tax rate increases from 3% to 4.5%.
- The Illinois corporate income tax rate increases from 4.8% to 7.2%.
- The standard exemption an individual taxpayer can claim against the state income tax increases from $2,000 to $3,000.
- Property tax relief is provided by doubling the state personal income tax credit individuals may claim for the local property taxes paid on their principal residence in Illinois, from 5% to 10%. The value of this credit is capped at $500 and not refundable.
- Tax fairness for low income working families comes from a doubling of the state's Earned Income Tax Credit (EITC) from 5% to 10% of the federal EITC claimed.

Hynes Tax Plan Analysis

Sales Tax

1) The Hynes sales tax expansion to services (p. 12 of Hynes Tax Plan: http://www.danhynes.com/hynesbudgetplan.pdf) is more modest than that envisioned by HB 174. Hynes gives examples of 14 new service categories to which the sales tax would apply, all of which would also be taxed under HB 174 except for: a) elective cosmetic surgeries, b) car and truck rentals, and c) cultural events. Hynes estimates $360 million in revenue from sales tax expansion, whereas CTBA uses IDOR's estimate of $515 - $723 million in new revenue from HB 174's sales tax expansion.

Personal Income Tax

2) Under the Hynes proposal, a progressive income tax rate would be authorized pursuant to an amendment to the state's constitution. The Hynes plan would leave the base income tax rate at 3% for people with up to $200,000 in taxable income. Commencing at the $200,000 level of taxable, annual income and continuing thereafter, the income tax rate would progressively increase from 3.5% to a maximum of 7.5%, that would apply solely to those with more than $1 million in annual, taxable income. Hynes claims that this would mean that 97% of Illinois taxpayers would see no change in their personal income tax burden, and that the proposal would raise additional revenue of $5.5 billion. However, applying Hynes tax brackets to IDOR 2007 individual income tax data (see below) results in only $2.4 B in additional revenue, most of this coming from the 28,999 filers with over $1,000,000 in annual income.

CTBA's estimated shortfall in the revenue generated by the Hynes proposal has been independently confirmed, by the Institute on Taxation and Economic Policy. For ITEP's full analysis, see: http://www.itepnet.org/Combine_Quinn_and_Hynes.pdf.

HYNES TAX PLAN ADDITIONAL REVENUE BY INCOME BRACKET
(IN $ MILLIONS)

Illinois Base Income Bracket	**Number of Filers**	**Taxable Income and Incremental Tax Rate Bracket**				**Total**
		$200,000< $300,000 0.5%	**$300,000< $500,000 2.5%**	**$500,000 < $1000,000 4.0%**	**$1,000,000 < 4.5%**	
$200,000< $300,000	101,381	$5.7	$0.0	$0.0	$0.0	$5.7
$300,000< $500,000	61,034	$30.5	$29.7	$0.0	$0.0	$60.2
$500,000 < $1000,000	37,652	$18.8	$188.3	$47.6	$0.0	$254.7
$1,000,000 <	28,999	$14.5	$145.0	$580.0	$1,292.0	$2,031.5
Total	229,066	$69.5	$363.0	$627.6	$1,292.0	$2,352.1

Source: CTBA Calculations Based on FY 2007 Illinois Department of Revenue Data

For more information, contact the Center for Tax and Budget Accountability:
www.ctbaonline.org

Ralph M. Martire
Executive Director
(312) 332-1049
rmartire@ctbaonline.org

Ron P. Baiman, Ph.D.
Director of Budget and Policy Analysis
(312) 332-1480
rbaiman@ctbaonline.org