

Written supplement to oral testimony provided by Ralph Martire to the House Revenue Committee during its subject matter hearing on tax fairness held on April 17, 2007.

## The Illinois Tax Climate

### 1. State and Local Tax Burden as a Percentage of Income

No matter the data source, it is clear that, overall, Illinois is a low tax state, when tax burden is measured as a percentage of income. In the data sets being reported, the higher the number the lower the tax burden. Hence, a ranking of "1" would mean the highest tax burden, and a ranking of "50" would be lowest. In fact, tax burden in Illinois is lower than all of our surrounding states. This, despite the fact that Illinois has the fifth largest population and fifth largest gross state product in the nation.

For example, when analyzing United State Bureau of Economic Analysis personal income data and United States Census state data, Illinois Ranks 41<sup>st</sup> in the nation in state and local tax burden (Figure 1). These data sets include all taxes imposed by any level of state or local government, but do not include fees.

**Figure 1**

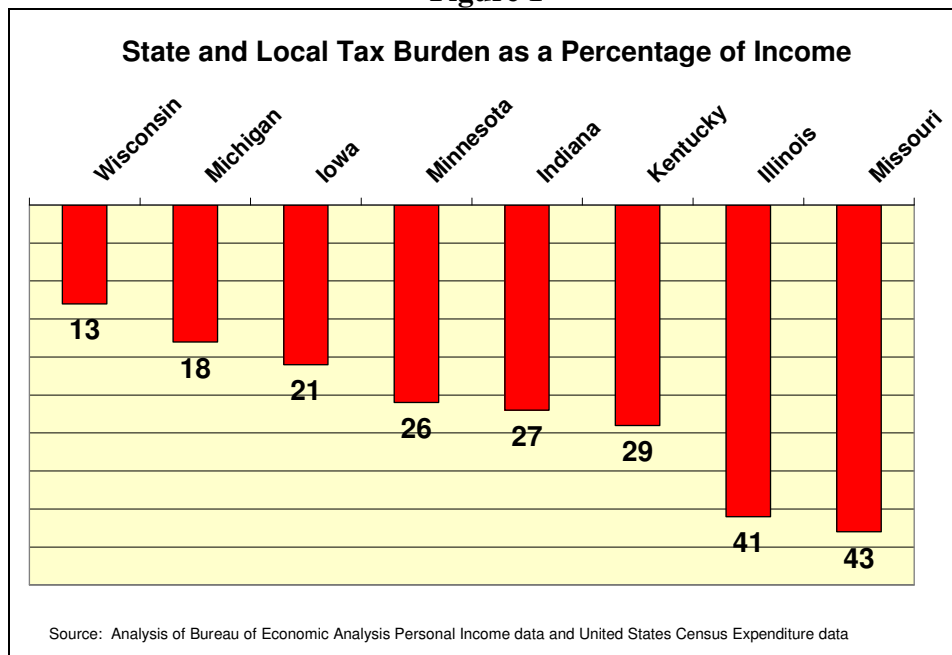
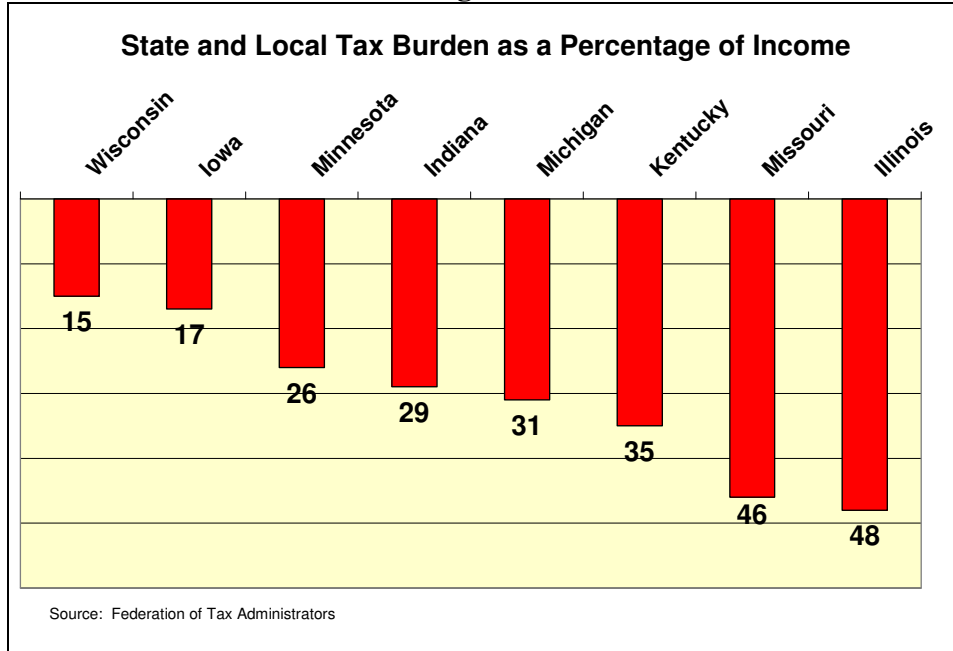


Figure 2, contains data from the Federation of Tax Administrators, which includes all taxes and fees charged by any unit of state or local government. Interestingly, when all charges made on taxpayers to pay for state and local services are considered, total tax burden in Illinois as a percentage of income is even lower, ranking just 48<sup>th</sup> in the nation.

**Figure 2**

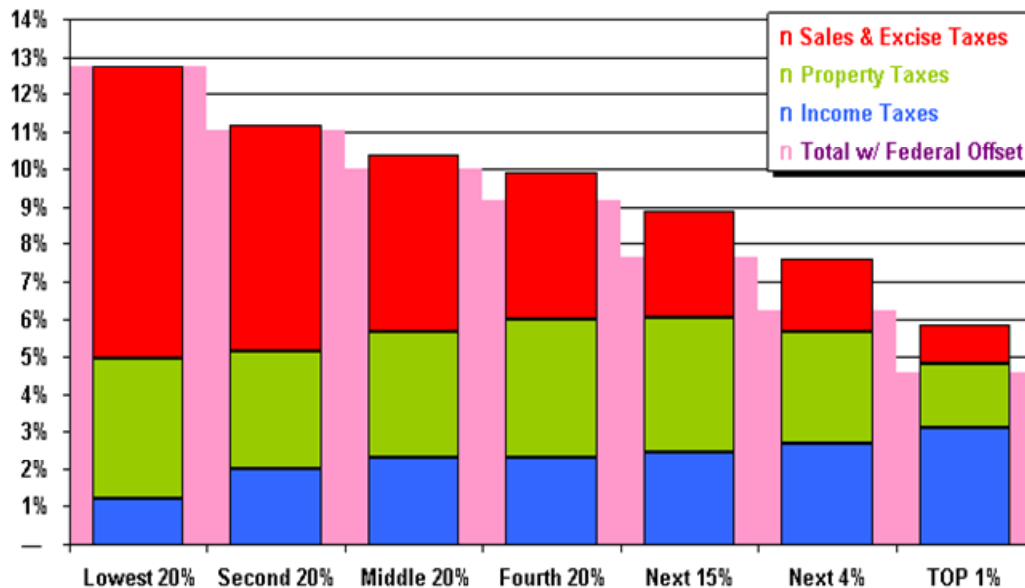


## 2. Tax Regressiveness

But, while Illinois is a low tax state overall, it is nonetheless a very high tax state for middle and low income families. As Figure 3 demonstrates, the lowest 20% of income earners in Illinois pay 12.7% of their income in taxes, while the wealthiest 20% pay only 4.6% of their incomes in taxes. That means the working poor in Illinois have almost triple the tax burden as the most affluent. Compared nationally, Illinois ranks as the sixth most regressive taxing state.

Figure 3

## State & Local Tax Burden as a Percentage of Income



Income Range	Less than \$16,000	\$16,000 – \$30,000	\$30,000 – \$48,000	\$48,000 – \$77,000	\$77,000 – \$148,000	\$148,000 – \$295,000	\$295,000 or more
Average Income	\$8,900	\$22,600	\$38,500	\$61,100	\$101,400	\$203,600	\$1,322,100
Tax Burden	12.7%	11%	10%	9.2%	7.7%	6.2%	4.6%

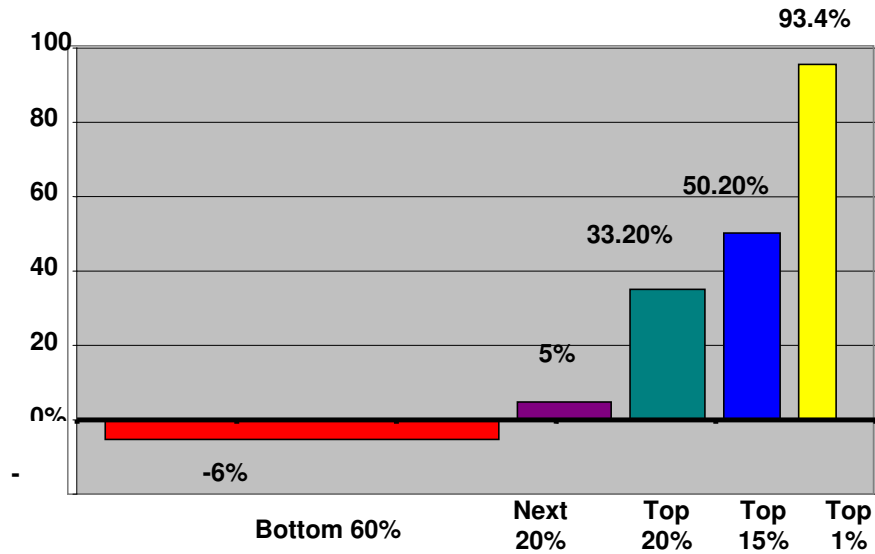
\*Data from the Institute on Taxation and Economic Policy

## 3. Income Growth

The regressivity of the Illinois tax system is especially hard to justify, when relative share in income growth by income class is considered. On an inflation adjusted basis, over the last two decades, the incomes of middle and lower income families, both nationally and in Illinois, have declined, while virtually all real growth has gone to upper income families. Figure 4, which is based on U.S. Census data, depicts how income growth has been shared nationally over the last 20 years. According to Census data, the bottom 60% of income earners saw their real incomes decline by 6% from 1979 through 1999. During that same period, the top 20% saw their incomes increase by 33.2% and the top 1% by 93.4%.

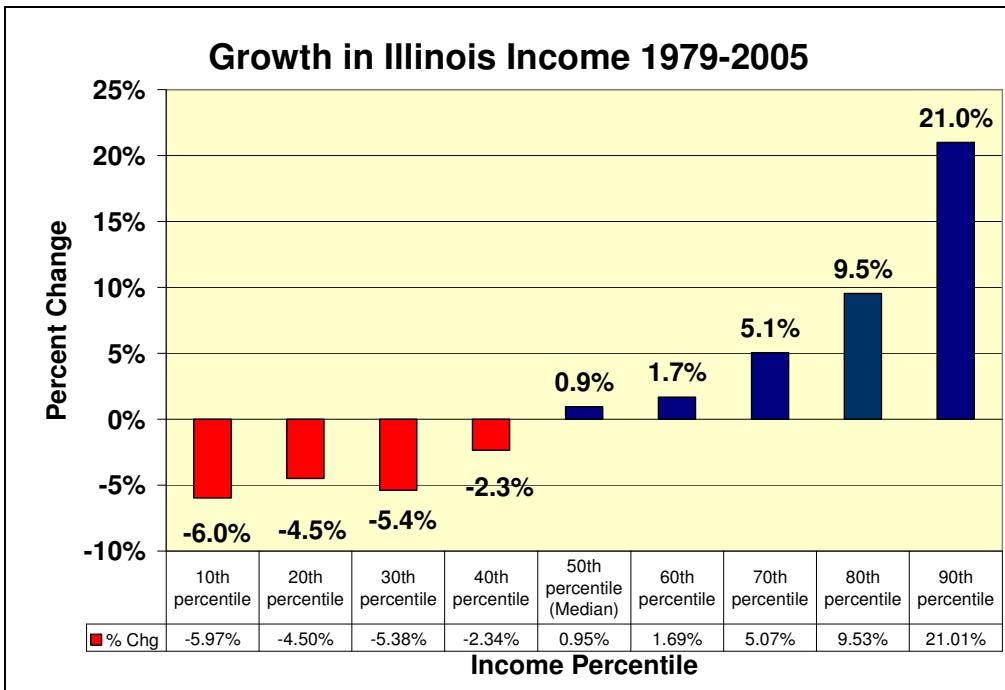
Figure 4

### Income Growth in the United States 1979-1999 (Real 1999 Dollars)



In Illinois, a similar pattern exists. Since 1979, the bottom 40% of income earners have seen their inflation adjusted incomes decline, while most income growth was concentrated in the higher income classes, and especially the top 10%.

Figure 5



#### 4. Business Tax Climate

Illinois has an average business tax climate, ranking 23<sup>rd</sup> nationally. However, when compared to our surrounding states, only Indiana and Missouri have a better business tax climate. The lower a state's numeric ranking in this index, the better climate, so a ranking of "1" would be best, and "50" would be worst.

The business tax climate ranking is designed to measure the competitiveness of each state's tax system so lawmakers, the media and the public alike can gauge how their state compares to other states. The business tax climate is based on a measure of five component indexes including the Corporate Tax Index, Individual Income Tax Index, Sales Tax Index, Unemployment Tax Index and Property Tax Index.

