



Property Tax Freeze (and other scary tax topics)

Blackhawk Hills Regional
Council

December 18, 2015

Taxpayers' Federation of Illinois

- Since 1940, Illinois' premier government watchdog organization
- Advocates sound and balanced tax and fiscal policies for Illinois' state and local governments
- Membership: businesses, tax professionals, individuals, local governments, other organizations
- Recent research topics:
 - Expanding the sales tax to consumer services
 - Why so many corporations pay \$0 income tax
 - Taxation of retirement income





ILLINOIS

ILLUSTRATED

A VISUAL GUIDE TO
TAXES & THE ECONOMY



The State of Our State

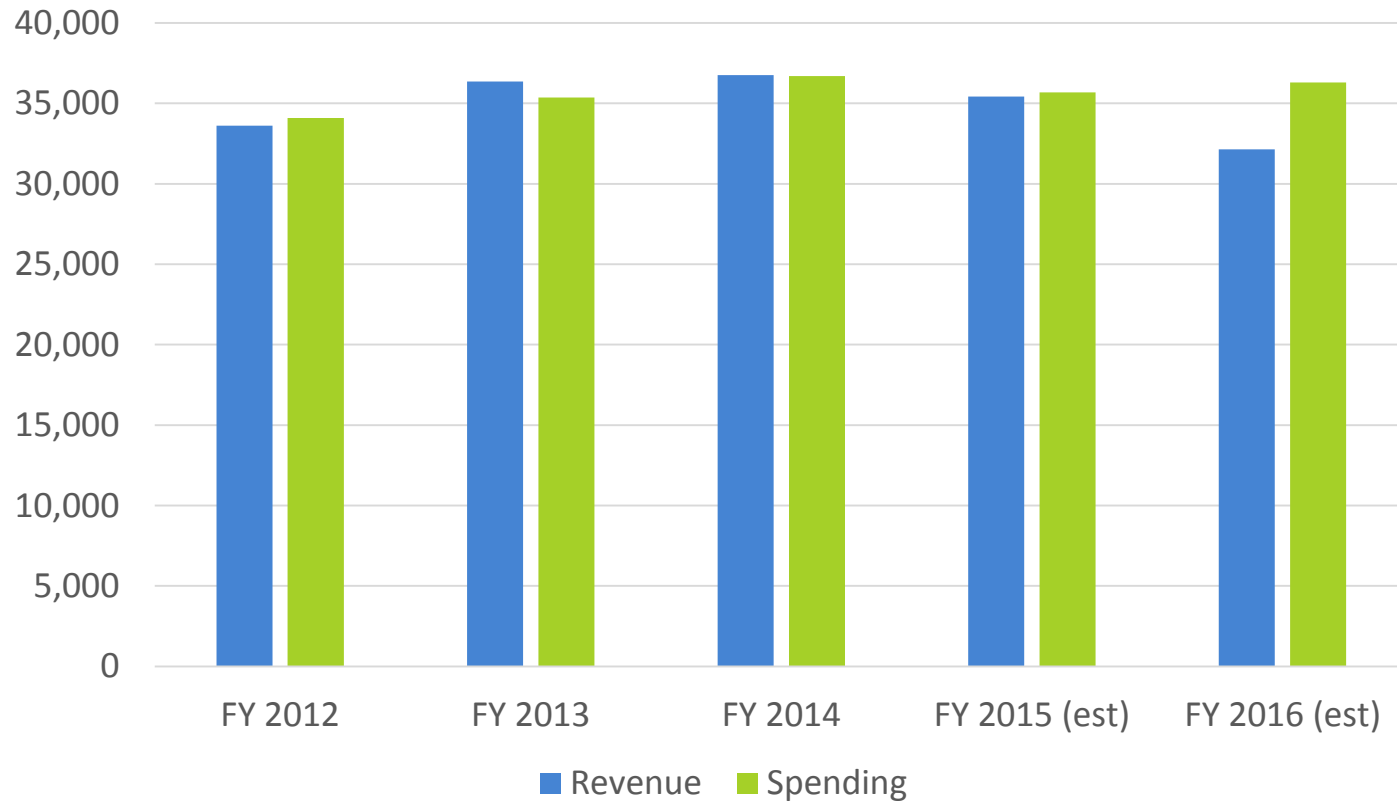
- **Backlog of Unpaid Bills:** \$7.5 Billion
As of 12/11/2015.
- **Unemployment Rate:** 5.4%
October 2015 (US: 5.0%; IL in October 2014: 6.3%)
- **Bond Rating:** A-/A3
Chicago rating: Ba1/A-/BBB+
- **Schools in Deficit Spending:** 42.3%
FY 2014. 2015 Projections: 64.2%
- **Business Capital Projects in 2014:** 394
3rd highest in US; 8th highest per capita (Site Selection Magazine)



Depressing Chart-of-the-Day

General Funds Revenue and Spending, FY 2012 – 2016

In \$ millions



Sources: Commission on Government Forecasting and Accountability, FY 2016 Economic Forecast and Revenue Estimate and FY 2015 Revenue Update, April 29, 2015; 2016 Spending: estimated total of budget bills passed by House and Senate

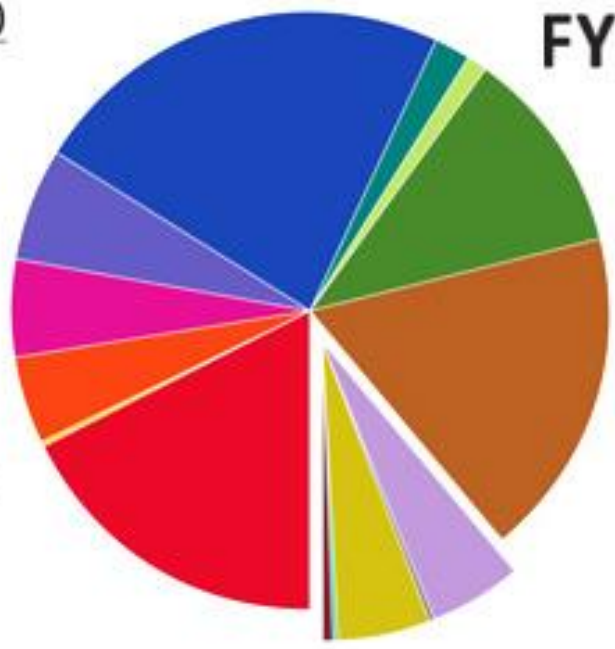


Depressing Chart-of-the-Day, #2

FY16 Budget Outlook (\$ in millions)

What is being spent (89.4%)

- \$6,833.6 Pension for teachers, state and university employees
- \$113.0 Teacher health care costs
- \$1,766.1 Group Insurance
- \$2,137.0 Debt Service
- \$2,333.8 Transfers to local governments including mass transit
- \$8,942.0 Medicaid (HFS/DHS)
- \$665.8 DCFS Services
- \$467.1 Human service programs tied to consent decrees
- \$4,268.4 State employee salaries
- \$6,937.9 K-12 funding



What is left (10.6%)

- \$1,939.3 Higher Ed.
- \$52.4 Remaining K-12 grants
- \$2,012.9 Human Services programs and grants
- \$77.8 Other state programs and grants
- \$148.2 Transfers out requiring legislative action

Source: Illinois Senate Democrats 8/13/2015



Principles of Good Tax Policy

- Adequacy
- Stability/Predictability
- Equity/Fairness
- Collectibility/Transparency/Simplicity
- Efficiency



TFI Tax Burden Analysis--FY2012

Total state and local tax burden as a % of state GDP:

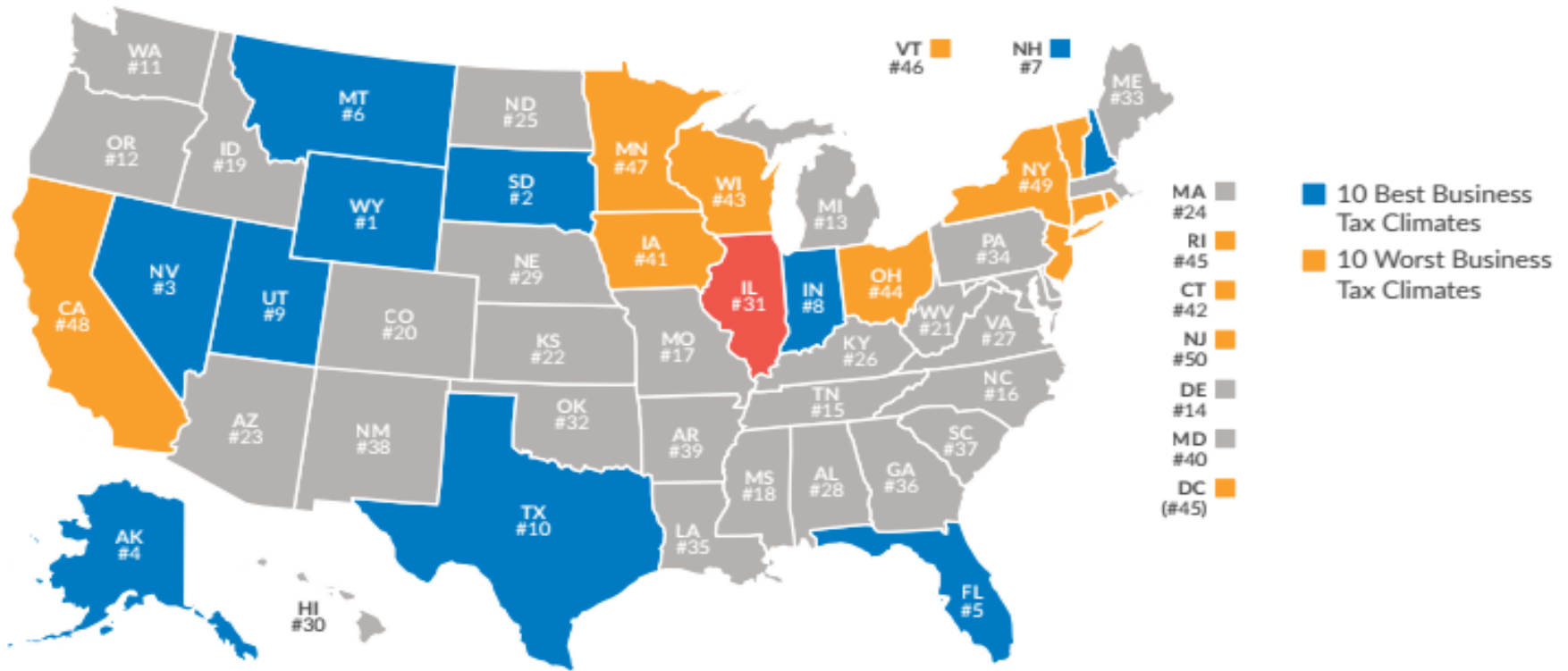
Midwest States	Ranking—State and Local Taxes as a % of State GDP
Wisconsin	9
Illinois	15
Michigan	19
Ohio	22
Iowa	28
Indiana	34
Missouri	38



Sources: Census Bureau and Bureau of Economic Analysis

Illinois' Business Tax Climate Is Middle-of-the-Pack

Illinois Ranks 31st out of 50 in the *State Business Tax Climate Index* (2015)

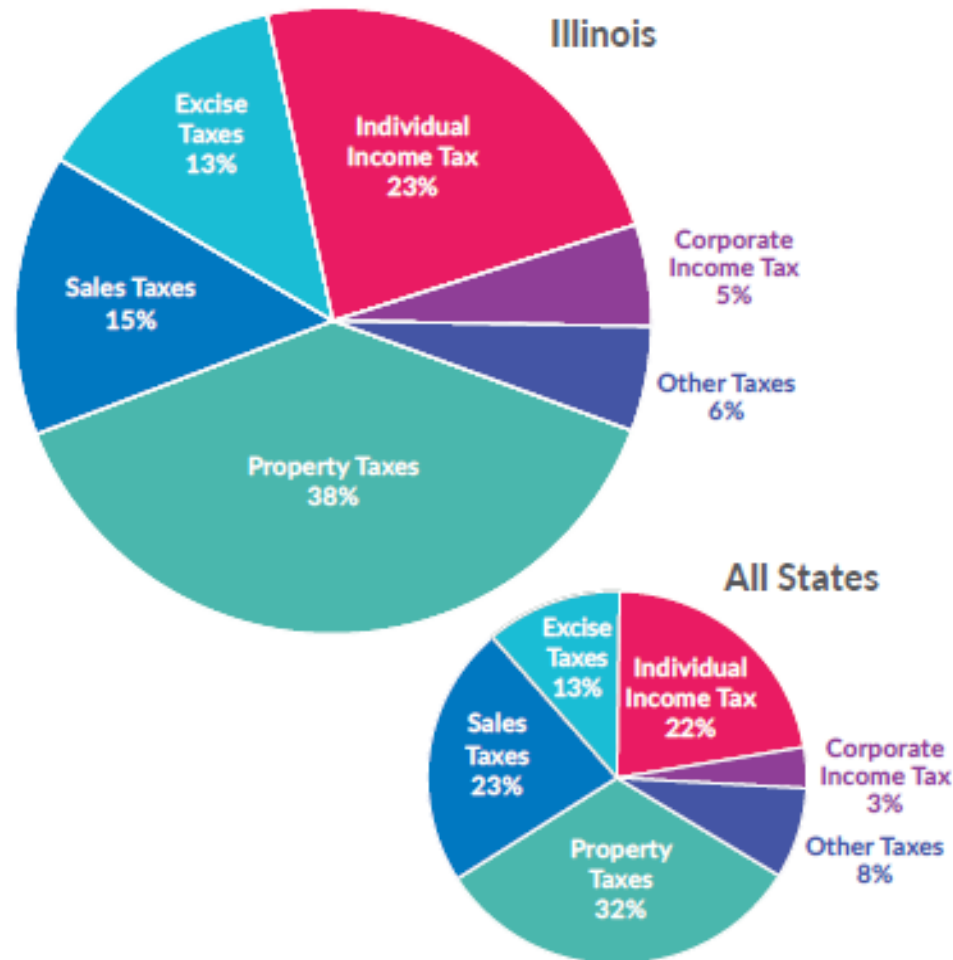


The *State Business Tax Climate Index* gauges how well-structured each state's tax code is for business. States that score well on the *Index* have broad bases and low rates, but Illinois has narrow bases and high rates on many taxes. Illinois is ranked 31st in the country.

Note: A rank of 1 indicates the state's tax system is more favorable for business; a rank of 50 indicates the state's tax system is less favorable for business. Snapshot date is July 1, 2014. DC's rank does not affect other states' rankings, but the figure in parentheses indicates where it would rank if included. Source: Tax Foundation, 2015 *State Business Tax Climate Index*.

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*.

Local Revenues—Not Just Property Tax

Sullivan	
Electric Utilities	41.62%
Gas Utilities	18.21%
Property Tax	12.58%
Water Utilities	6.44%
State Sales Tax	4.63%
Miscellaneous (Explain)	3.81%
Sewer Utilities	3.02%
State Income Tax	2.29%
Electric Utilities	1.74%
Other (Explain)	1.12%

Downers Grove	
Other (Explain)	26.06%
Property Tax	19.50%
State Sales Tax	18.71%
Water Utilities	12.88%
State Income Tax	4.28%
Communications Utilities	3.05%
Miscellaneous (Explain)	2.23%
Other Taxes (Explain)	2.18%
Electric Utilities	1.76%
Licenses and Permits	1.57%

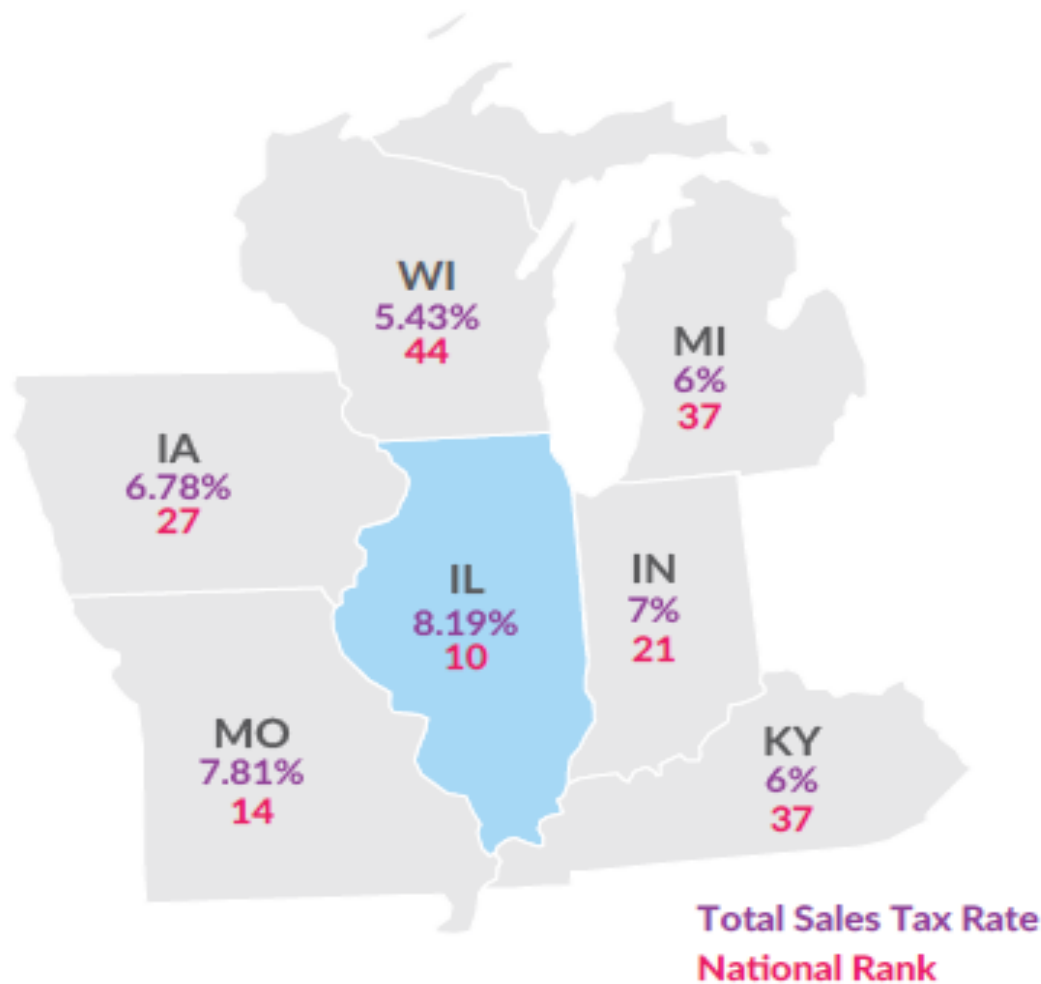
Peoria	
Miscellaneous (Explain)	17.90%
Property Tax	14.69%
State Sales Tax	10.35%
Local Sales Tax	9.42%
Other (Explain)	8.05%
Culture and Recreation	5.95%
Parking	5.51%
State Income Tax	4.69%
Other Taxes (Explain)	3.86%
State Replacement Tax	3.08%

Source: Illinois Comptroller's Local Government Warehouse, accessed 12/14/2015



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)



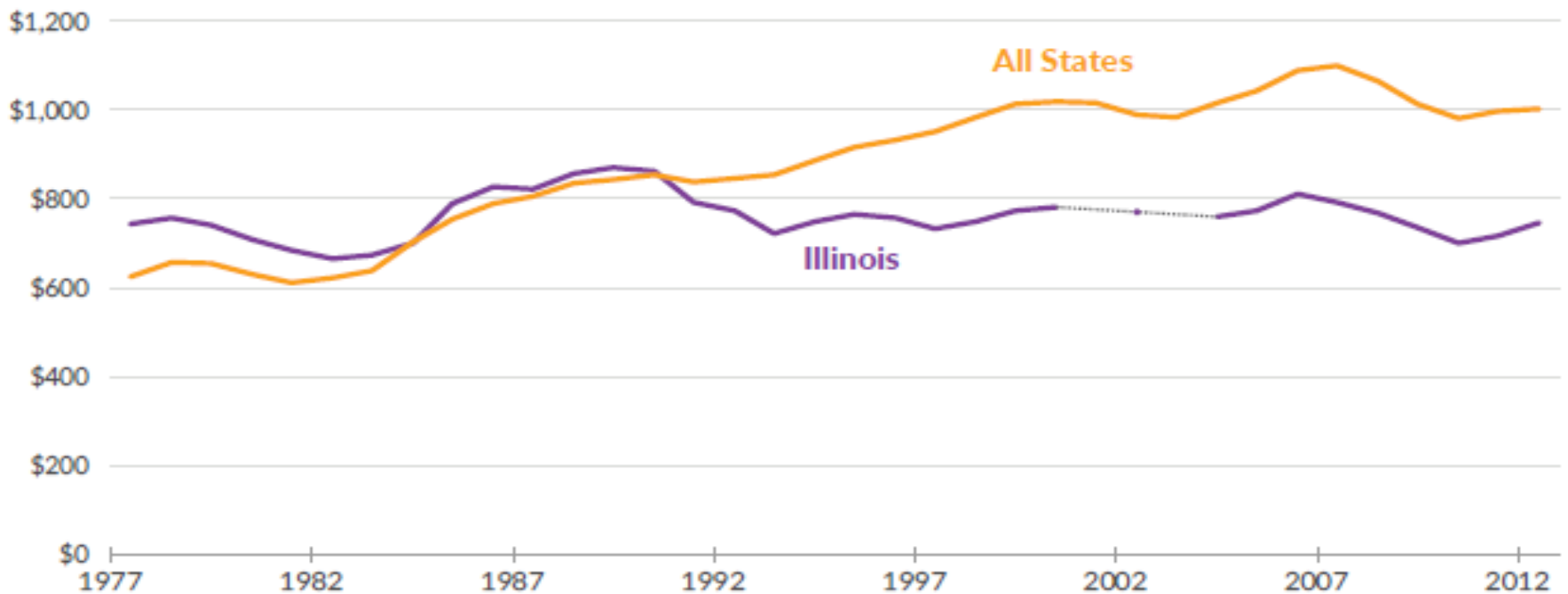
Sales taxes in most states are levied at both the state and local levels. Illinois' state-level rate (6.25 percent), which is already high compared to other states, is made higher by the additional local taxes that are tacked on top.

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?*

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)



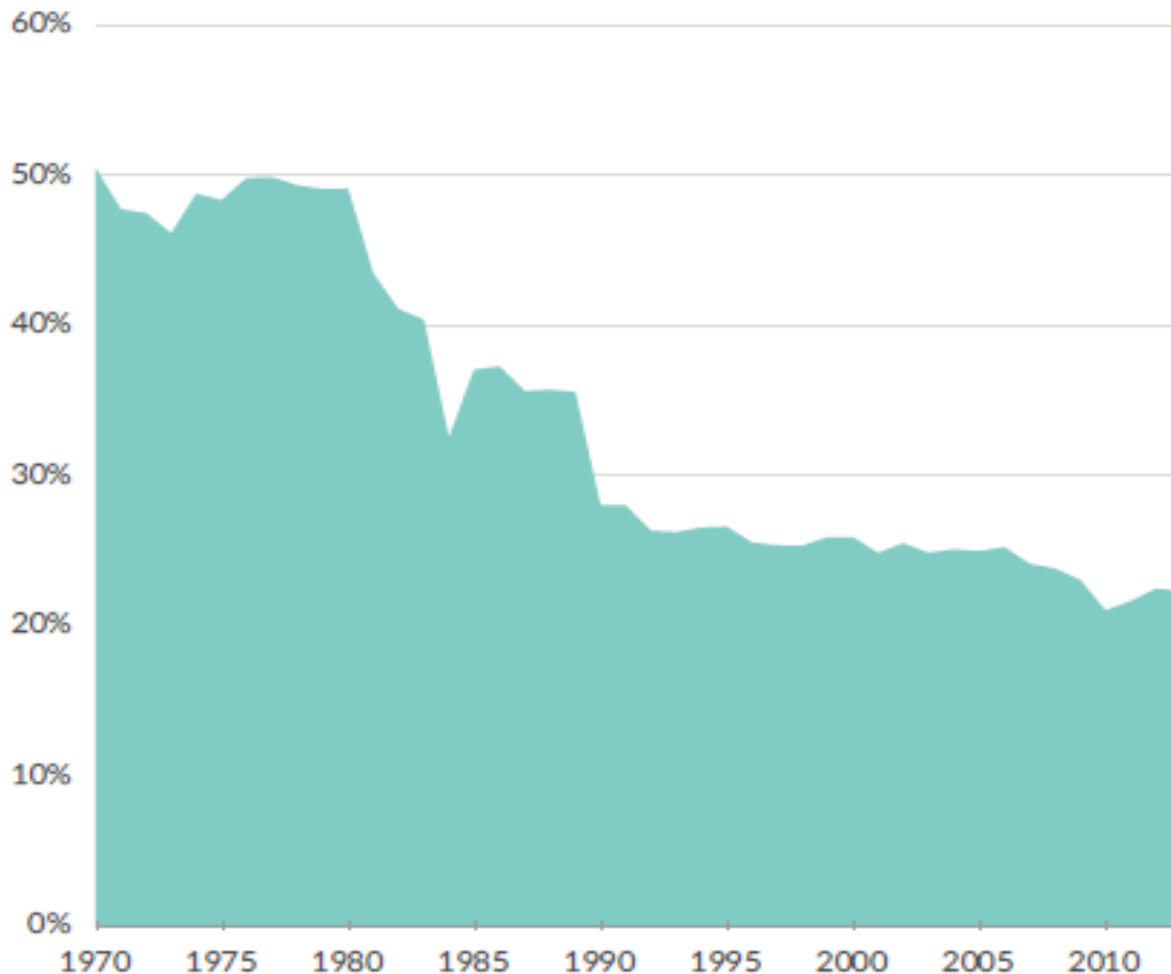
Illinois' state and local sales tax collections per person are much lower than the U.S. average, despite the fact that the state has a comparatively high total sales tax rate. While inflation-adjusted total U.S. collections exhibit an upward trend over time, Illinois' collections have remained relatively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

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

Illinois' Sales Tax Breadth (1970-2013)

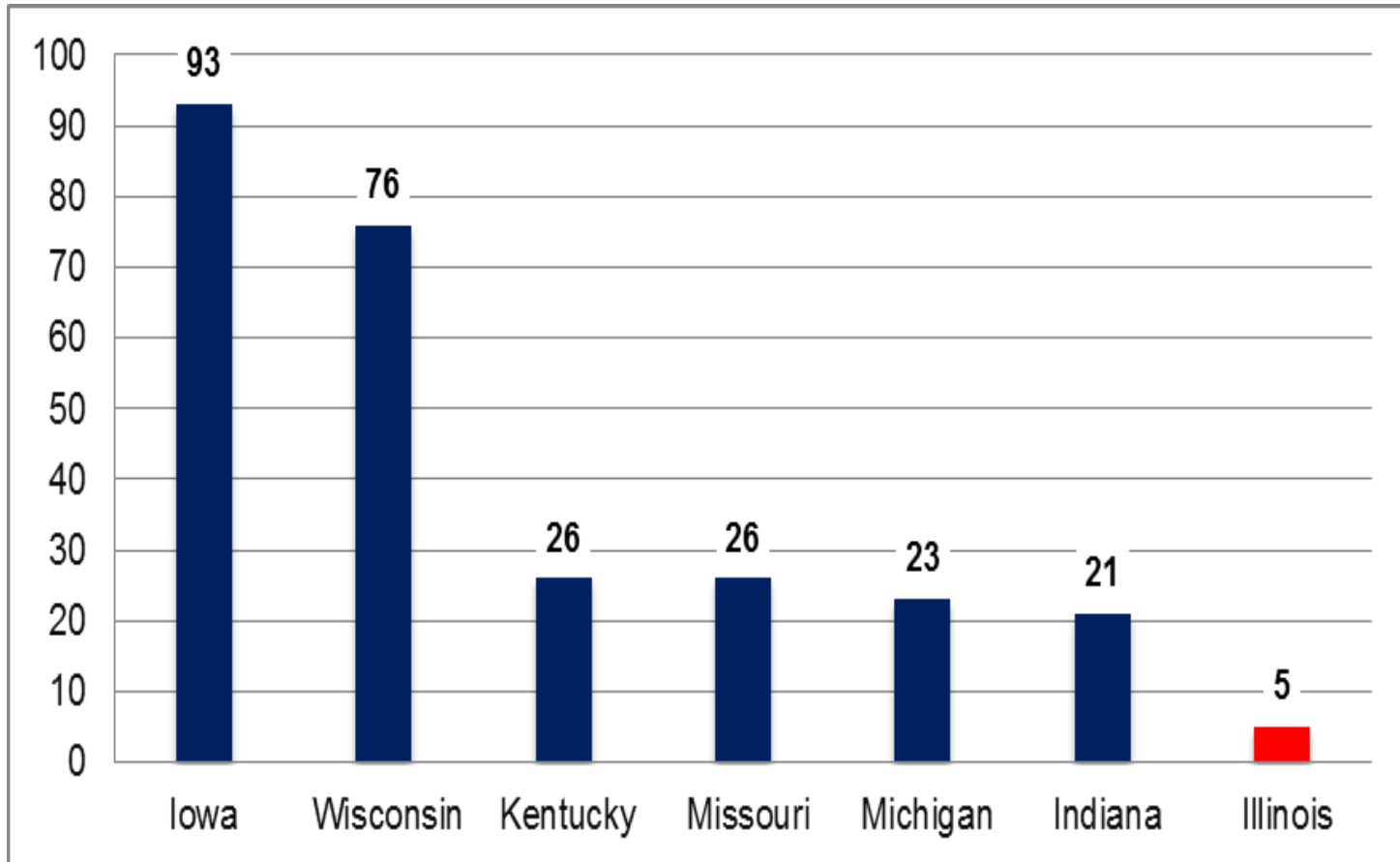


An ideal sales tax is one that is levied on all final consumer purchases. By taxing a large number of transactions, the rate can be kept low and still raise sufficient revenue.

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).

Number of Service Industries Taxed under General Sales Tax



Source: Analysis of Federation of Tax Administrators, Survey of Services Taxation (Washington, DC: July 2008), <http://www.taxadmin.org/fta/pub/services/btn/0708.html>



“Service” Tax

- Not a completely new tax regime, but really expanding the current sales tax regime to services
- List taxed services v. list exempted services
- Special rates?
- Pros:
 - Additional revenue
 - Fairness and stability
 - Grows with economy
- Cons:
 - Tax pyramiding if B-to-B transactions are taxed
 - Complicated
 - Politics



Sales Tax Revenues—Local Share

State-Level Retailers Occupation Tax: 6.25%

- 5% “state rate”
- 1% municipal tax (or county, if unincorporated)
- 0.25% county tax

State-Level Use Tax: 6.25%

- 5% state rate
- 1.25% local tax—allocated to counties and municipalities, based on population

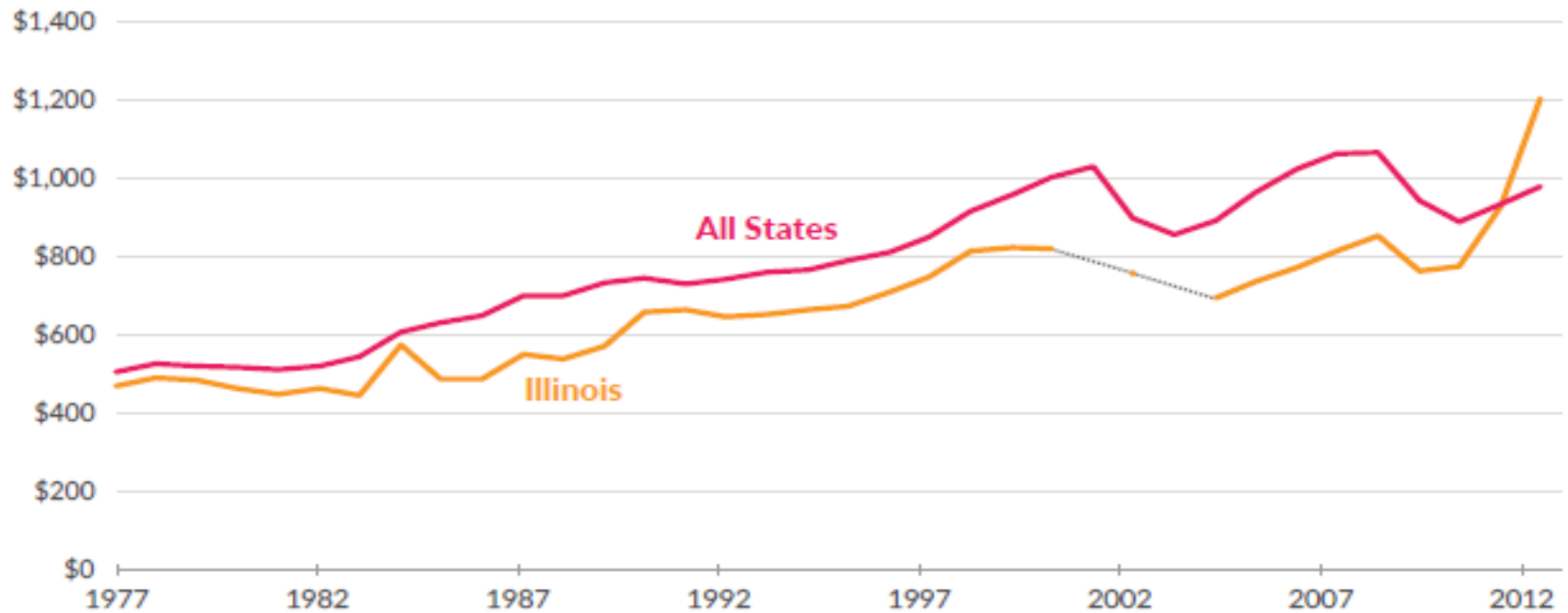
Municipal Retailers’ Occupation Taxes

- City, County, Transit District, etc.
- Sometimes require voter approval
- Sometimes limited purpose
- 0.25% - 4.0% in total



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)



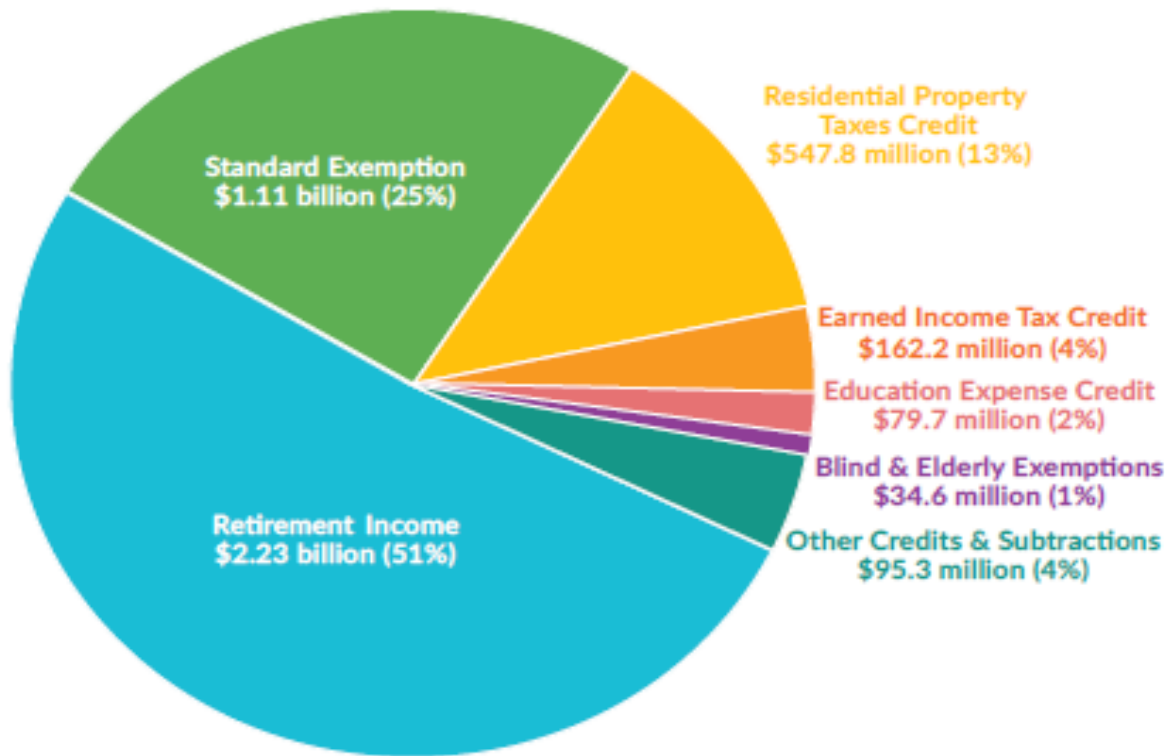
Prior to 2012, inflation-adjusted individual income tax collections per person in Illinois were lower than state and local collections in the country on average. In 2012, however, this trend flipped due to a substantial increase in Illinois' individual income tax rate.

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*.

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).

Retirement Income

- Illinois exempts all retirement income:
 - social security
 - public and private pensions
 - IRAs
 - 401(k)
- Federal government taxes them (except some social security)
- Annual cost: \$2.3 Billion in 2012
- 41.5% of seniors believe Illinois' state income tax on retirement income is "too high"



More retirement data

- From 2007 to 2012:
 - Illinois returns filed decreased 0.5%
 - # with retirement subtraction increased 9.0%
 - AGI on returns filed increased 7.5%
 - Size of retirement subtraction increased 36.0%
- In 2012:
 - More than half of retirement subtraction claimants were under 65
 - Returns with >\$100,000 AGI made up nearly half of total retirement subtractions



Income Tax Revenues—Local Share

- Local Government Share of Corporate and Individual income Tax (LGDF)
 - Approx \$1.3 billion/year
 - Gov's proposed budget: 50% cut
- Personal Property Tax Replacement Income Tax
 - The 1970 Illinois Constitution abolished the personal property tax and required it to be replaced with another revenue source
 - 2.5% income tax on corporations; 1.5% income tax on partnerships, trusts, and S corporations; and various utility taxes
 - Allocated to local governments based on their share of personal property tax collections in 1976 or 1977
 - Approx \$1.5 billion/year



Isn't it True that Two-Thirds of Corporations Don't Pay Income Tax?

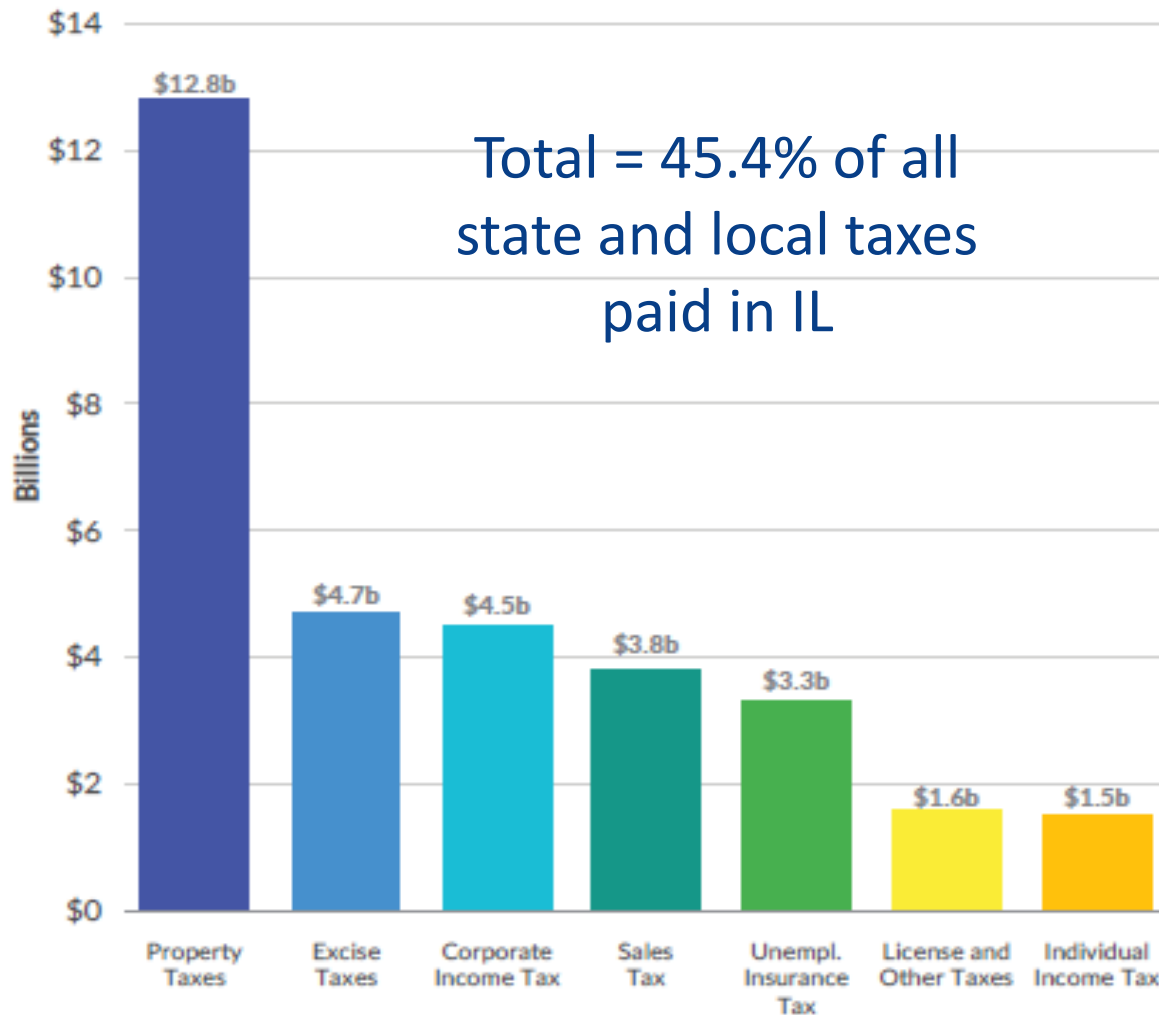
- Yes, but an incomplete picture
- Of those non-payors:
 - 95% had no federal taxable income
 - 78% were Illinois-only businesses
 - 0.2% claimed credits

Source: Probing Beneath the Surface: Understanding Why So Many Corporations Do Not Pay Illinois Corporate Income Tax; JD Michael LLC (Dr. Natalie Davila) February, 2014



Businesses Don't Just Pay Corporate Income Taxes

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



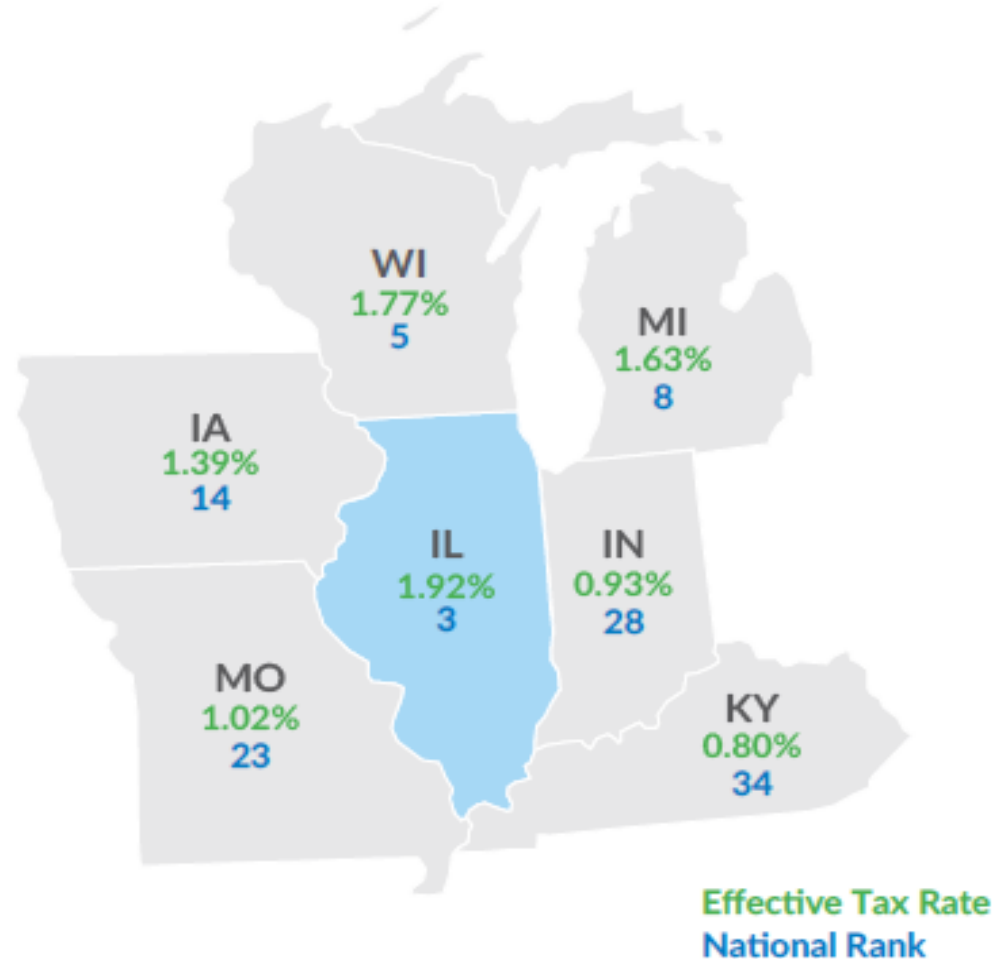
A common misconception is that corporate income taxes are the only tax cost for businesses. However, businesses pay a number of other taxes, including property taxes on real estate, sales taxes on the goods they use, and individual income taxes on business income (if they're pass-through entities that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

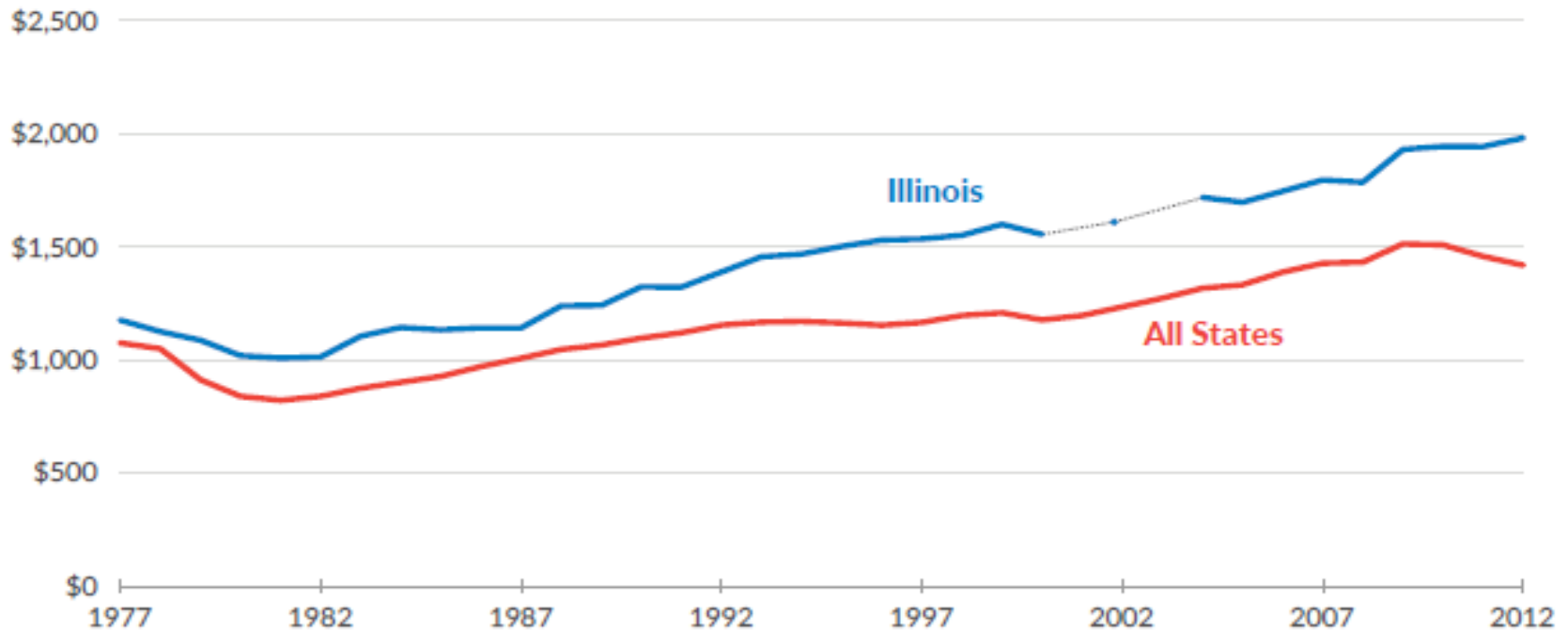
However, this measure of property taxes is a state average, so it does not demonstrate the variation in residential effective rates among and within counties in the state. And because this measure looks specifically at residential property, business property is not included.

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.

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)

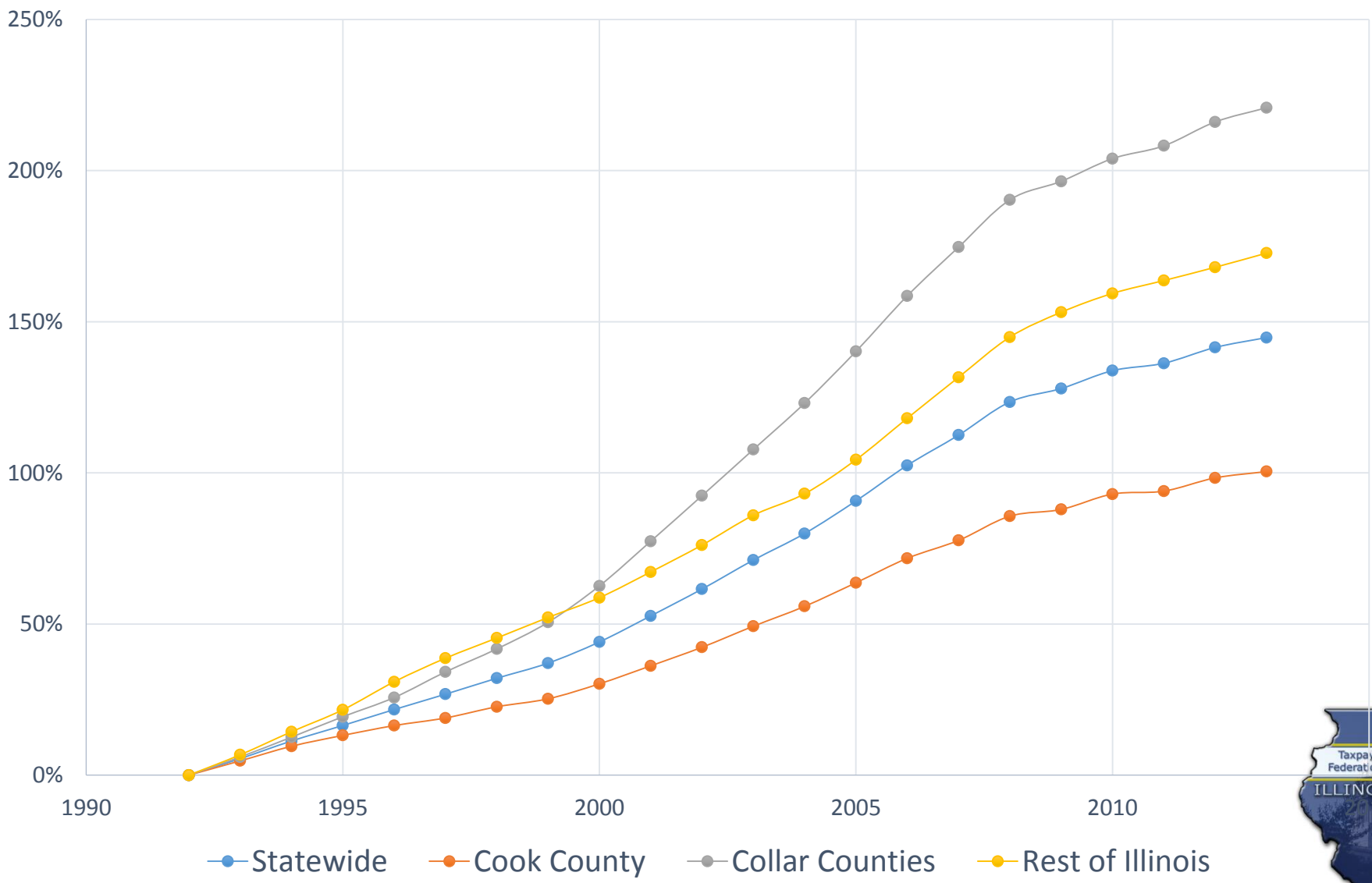


Only real property is taxed in Illinois, while personal property (things other than land and buildings, such as cars and furniture) is untaxed. Inflation-adjusted property tax collections per person in Illinois are higher than U.S. collections per person and have been since 1977. Based on this measure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

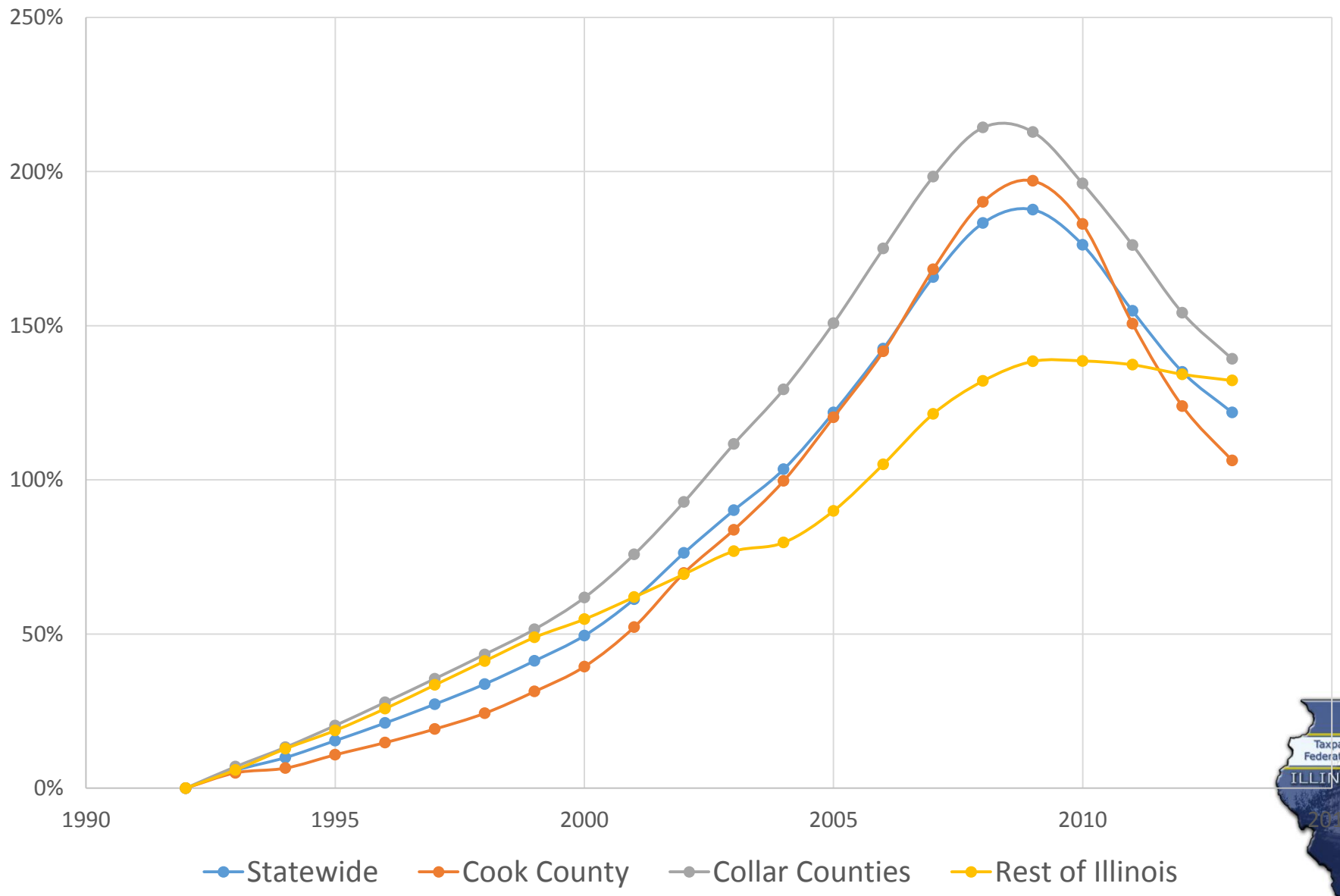
Note: Dollar amounts are inflation-adjusted based on the annual average Consumer Price Index for All Urban Consumers (CPI-U) with a 2012 base year. Because local data is unavailable for 2001 and 2003, those points were excluded here, and points surrounding these years are connected with dotted lines.

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*.

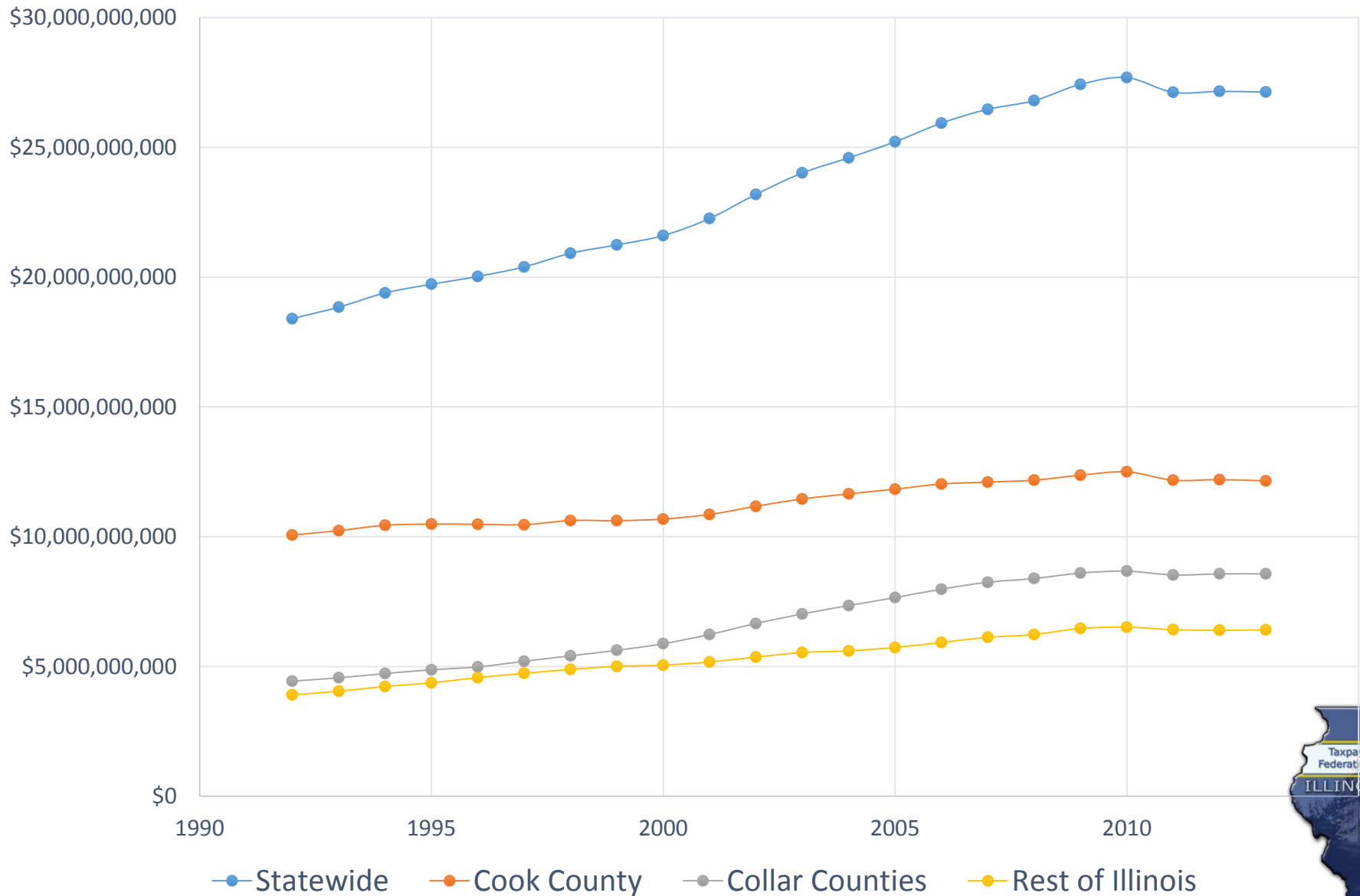
Percentage Increase in Property Taxes by Region



Percentage Increase in EAV by Region

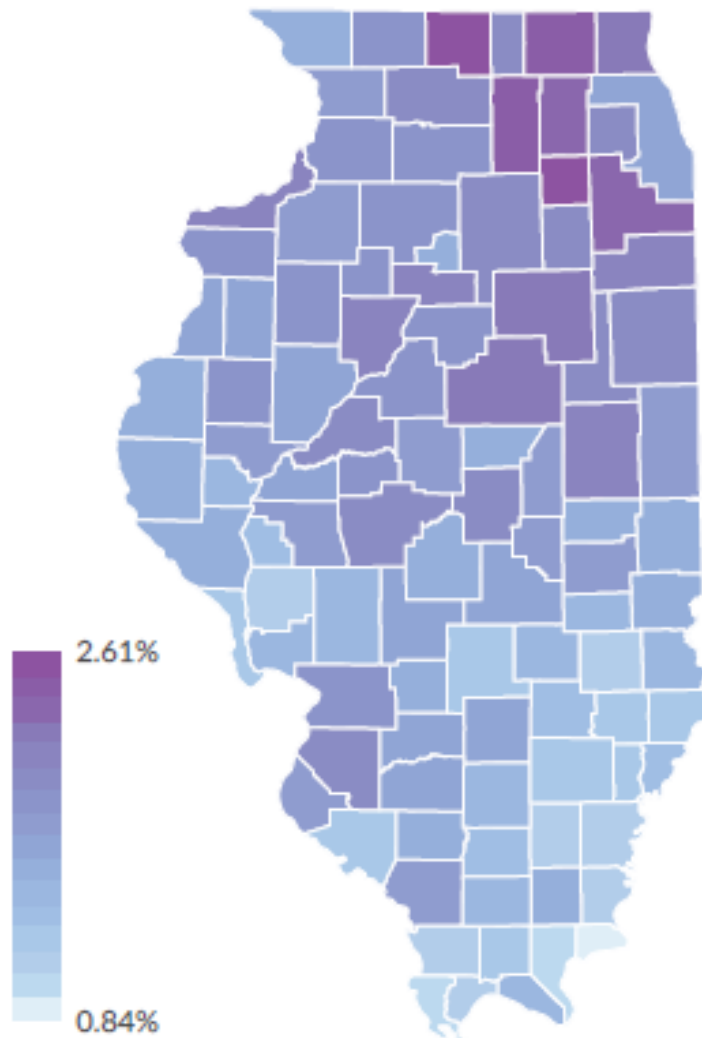


Property Tax Extensions - 2013 Dollars



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).

Aggregate Tax Rates by City

Alton	10.106%	Grayslake	14.973%	Palatine	11.110%
Arlington Heights	10.523%	Gurnee	9.946%	Peoria	8.524% - 9.095%
Aurora	9.788% - 12.822%	Jacksonville	8.643%	Pontiac	9.144%
Bloomington	7.985%	Joliet	12.935%	Quincy	7.046%
Blue Island	13.315% - 18.573%	Kankakee	14.909%	Rockford	14.002%
Cairo	18.026%	Kewanee	11.080%	Rushville	11.408%
Calumet City	22.189%	Lake Forest	5.503%	Schaumburg	10.426% - 11.797%
Carlinville	7.449%	Lincoln	9.759%	Springfield	8.102%
Charleston	8.985%	Marion	7.322%	St. Charles	13.713%
Chicago	6.993%	Markham	21.589% - 25.783%	Sullivan	9.588%
Decatur	9.401%	Mattoon	9.113%	Tinley Park	11.345% - 17.423%
Dixon	9.935%	McHenry	12.303%	Urbana	10.462%
Downers Grove	6.346% - 7.95%	Moline	9.233%	Waukegan	11.377% - 15.616%
Edwardsville	7.960%	Mt. Vernon	9.127%	Wilmette	8.375%
Elgin	10.644% - 12.531%	Naperville	7.313% - 10.207%	Winnetka	8.626%
Evanston	9.820%	North Chicago	14.842%	Woodstock	12.905%
Freeport	11.959%	Oak Park	12.225%	Zion	19.510%

A Tale of Three Cities

Estimated taxes paid in 2014 on a home worth \$300,000 in:

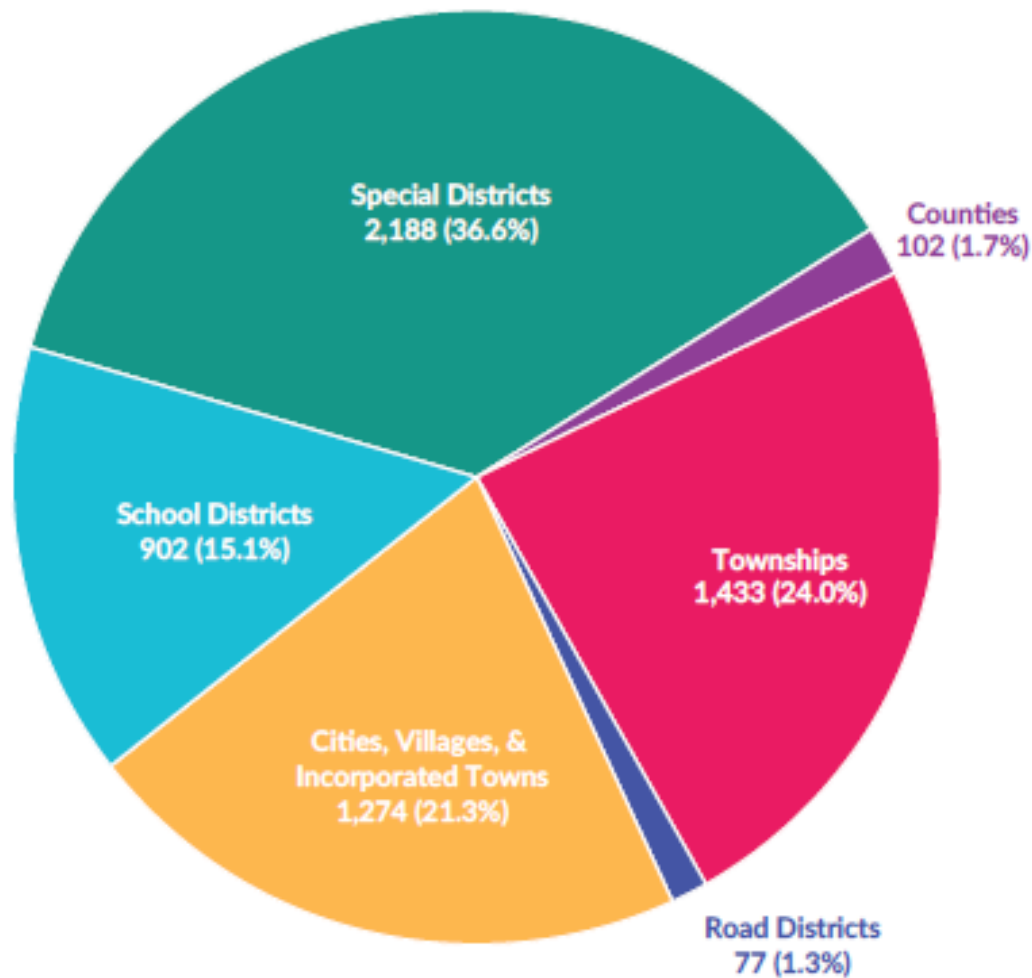
Aurora	\$11,106
Galena	\$6,560
Chicago	\$5,354
US Urban Average	\$4,662

Source: *50-State Property Tax Comparison Study*;
Lincoln Institute of Land Policy and Minnesota
Center for Fiscal Excellence, April 2015



Illinois Had 5,976 Different Taxing Districts in 2012

Percent of Total Number of Taxing Districts by Type (2012)



Property taxes are levied at the local level, and there are many types of local government entities with taxing authority, including counties, cities, towns, school districts, and special purpose districts (such as those for fire protection, hospitals, and airports).

Of the nearly 6,000 local taxing districts that existed in Illinois in 2012, the largest share were special districts (36.6 percent of the total number), followed by townships (24.0 percent), and cities, villages, and incorporated towns (21.3 percent).

Note: "School Districts" includes elementary, unit, high, non-high, and community college districts. "Special Districts" includes the following types of districts: fire protection, park, sanitary, forest preserve, mosquito abatement, public health, airport authority, library, hospital, street lighting, river conservancy, water authority, surface water protection, cemetery, soil and water conservation, auditorium authority, mass transit, watershed/flood control, multi-township assessment, water service, museum, solid waste disposal, rescue squad, and public water.

Source: Illinois Department of Revenue, 2012 Property Tax Statistics.

What is a “Special District”?

Fire protection	838	Soil & Water conservation	8
Park	361	Conservation	5
Sanitary	99	Auditorium authority	1
Forest preserve	14	Mass transit	7
Mosquito abatement	22	Watershed/flood control	4
Public health	4	Multi-twp. assessment	327
TB sanitarium	---	Water service	1
Airport authority	28	Museum district	3
Library	349	Solid waste disposal	5
Hospital	15	Rescue squad	4
Street lighting	26	Public water district	---
River conservancy	13		
Water authority	16		
Surface water protection	6		
Cemetery	31		

Source: Illinois Department of Revenue, Property Tax Statistics 2012, Table 4



How do we compare with other states?

Illinois	6,963	Wisconsin	3,128
Texas	5,147	Michigan	2,875
Pennsylvania	4,897	Indiana	2,709
California	4,425	Iowa	1,947
Kansas	3,826	Florida	1,650
Missouri	3,768	Kentucky	1,338
New York	3,453	Virginia	519

Source: US Bureau of the Census,
2012 Census of Governments



Property Tax Freeze

- The least popular tax
- Governor Rauner has proposed freezing property taxes unless voters approve an increase
- What does that mean?
 - *Not* an actual freeze of each land-owner's tax bill
 - Temporary state-wide imposition of PTELL, set to 0%
- Variations on the proposal: HB 677, HB 690, HB 691, HB 692, HB 695, HB 696, HB 699, HB 4224, SB 316, SB 1046...



PTELL—what is it?

- Property Tax Extension Limitation Law (or “tax caps”)
- PTELL’s goals:
 - 1) protect property owners from increased taxes, while
 - 2) recognizing that taxing districts need *some* increased revenues
- PTELL limits the increase in total taxes collected to the rate of inflation.
- Taxing districts can exceed the inflationary increase only with the permission of voters.
- PTELL does not cap individual tax bills; it does slow the growth of tax bills, particularly when property values are increasing



PTELL--History

- **1991:** imposed on the collar counties (DuPage, Kane, Lake, McHenry and Will counties)
- **1994:** imposed on Cook County
- **1996:** downstate county boards were given the authority to put the question on the ballot and ask voters whether the county should be covered by PTELL
- To date voters in 33 counties have approved PTELL; voters in nine counties have rejected PTELL.



PTELL –How does it work?

1. The Department of Revenue publishes the annual change in the Consumer Price Index for all urban consumers.

2013 change, to be used in 2014 calculations (payable in 2015) was 1.5 %

2. PTELL Districts are limited to a tax rate that would generate an increase in taxes payable equal to the lesser of 5 percent or the CPI change, when applied to the previous year's property base (the "limiting rate").
3. The limiting rate is then applied to the current year's property base (including new property).



PTELL—an example

- School District Y, in a PTELL county:
- Year One tax extension: \$10,000,000
- Year One EAV: \$100,000,000
- Year One tax rate: 0.10, or 10%

- Assume this year's EAV: \$105,000,000
- Lesser of 1.5% or 5% times \$10 million =
- This year's permissible increase in taxes: \$150,000
- To collect \$10,150,000 on \$105,000,000 base: 0.0967, or 9.67% is the highest permissible (“limiting”) rate



PTELL—more complications

Exclusions:

- PTELL does not apply to all funds – particularly not to certain debt service funds.
- Home rule districts within PTELL counties are exempt
- Districts crossing county lines

Calculation complexities:

- New property (construction) is not taken into consideration when calculating the limiting rate
- Expiring TIFs are treated like new property



Carol Portman, President
Taxpayers' Federation of Illinois
carol@iltaxwatch.org
mobile: 312-310-3145