

# *Illinois*

## **FISCAL POLICY COUNCIL**

### *Research Report Publication*

2015 ■ 2

## **Navigating Illinois' State/Local Tax Maze**

**By Mike Klemens**

*Mike Klemens does tax policy research for the Taxpayers' Federation of Illinois. He retired from the Illinois Department of Revenue in 2012.*

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People don't like to pay taxes and do not much care which government imposes the tax. In Illinois a taxpayer probably cannot tell whether a particular tax is a state or local tax, because Illinois state government collects many local taxes. Adding to the confusion, Illinois has more local governments than any other state in the nation and many of them are authorized to impose those taxes.

In addition to allowing local governments to impose numerous taxes, Illinois shares a significant amount of its own tax revenues directly with units of local government pursuant to statutory mandate. Today, nearly one in four dollars the Illinois Department of Revenue (IDOR) collects is either a local tax that it administers or a state tax that is statutorily allocated to particular local governments. That figure excludes tax revenues that the state collects and passes along to local governments like school districts or municipalities through budgetary programs, things like school aid or municipal public health department grants.

The tax system that has evolved in Illinois has efficiency advantages for both government and those paying the tax. When a store owner reports both state and local sales taxes on the same form, the retailer has less paperwork, and the local government does not have to employ (at a cost to its taxpayers) the personnel to process the returns, deposit the receipts and enforce collection of the tax.

Illinois' tax system also has disadvantages. For example, the large amount of locally imposed sales tax means that local governments consume much of the tax capacity, limiting state government's ability to raise more money by simply increasing state sales tax rates. Today, the state receives funds pursuant to a state tax rate of 5 percent, while the combined state and local tax rate in some Illinois communities runs as high as 10 percent.

This article catalogs the extent to which various taxes paid by Illinois residents are collected by state government on behalf of or directly shared with units of local government to get a state/local breakdown of collections. We are using 2012 data – the latest data for which IDOR has published its *Annual Report of Collections and Distributions* (the Annual Report).

According to the Annual Report, in Fiscal Year 2012 IDOR collected \$38.2 billion, of which \$3.1 billion was from locally imposed taxes administered by IDOR and another \$5.1 billion was state tax revenue statutorily shared with and spent by local governments.

The Annual Report does not include another \$563 million in Motor Fuel Taxes collected by the Department of Revenue and distributed by the Department of Transportation to municipalities, counties and road districts. After excluding the \$2 billion set aside to pay income tax refunds in FY2012, local governments' direct share of total state tax collections is 24 percent.

None of the additional income tax revenue generated by the 2011 temporary income tax increases was shared with local governments. In 2010, before the income tax rate increases, the direct local share of taxes collected by IDOR was 31 percent. As state tax collections decline with the income tax rate rollback in 2015, local governments' share of total tax collections will rise.

The following listing summarizes various distributions to local governments, both through statutory sharing of state tax receipts and through state administration of locally imposed taxes. For each we give the amount distributed in FY 2012 and the percentage that represents of total state and local tax collections (less Income Tax Refund Fund deposits). Some minor distributions are ignored.

## **INCOME TAX**

The Illinois Income Tax is state imposed. (Cities and counties may not impose their own income taxes.) Illinois state government has shared a portion of its income tax receipts with municipalities and counties since the income tax was enacted in 1969. Originally municipalities and counties received 8.33 percent (one-

twelfth) of collections, distributed based on populations with the county population being the number of persons in the unincorporated area of the county. Local governments and schools shared all the revenue from the 1989 income tax surcharge. When the surcharge was made permanent, the county and municipal share of the total income tax collected was set first at 9.1 then finally, in 1995, at 10 percent. The temporary rate increase of 2011 was designed to direct all new money to the state, so the local share of income taxes collected was reduced to 6 percent for Individual Income Tax and 6.86 percent for Corporate Income Tax. (As the income tax rate rolls back, beginning in 2015, the local share increases accordingly.)

Interestingly, the population-based distribution – based on census data – results in Illinois municipalities asking the U.S. Census Bureau to conduct special censuses more often than in any other state. The reason: In FY 2014, the average annual income tax distribution was \$95 per capita. If a special census identified 1,000 new residents in a fast-growing municipality, that municipality will receive \$95,000 a year in increased revenues until the next census.

**Income Tax Revenue Sharing**  
**\$1,095,259,945**                      **3.0 percent**

## **PERSONAL PROPERTY REPLACEMENT TAX**

The Personal Property Replacement Taxes are state imposed but entirely distributed to local governments. The Illinois Constitution of 1970

mandated the elimination of the personal property tax on businesses (primarily a tax on machinery and equipment) by 1979 and the replacement of the revenue lost by local governments. That replacement ended up being a 2.5 percent surcharge on the Illinois Corporate Income Tax and a 1.5 percent tax on the entity-level income of partnerships, Subchapter S corporations, and trusts along with a 0.8 percent tax on the invested capital of public utilities. When deregulation changed the taxation of utilities, the Electricity Distribution Tax and the Telecommunications Infrastructure Maintenance Fee were imposed in 1998 to maintain revenue flow to local governments.

**Personal Property Replacement Tax**  
**Distributions \$1,235,977,355**                      **3.4 percent**

## **SALES AND USE TAXES**

Sales and Use Taxes fall both into the revenue sharing (imposed by state and statutorily allocated in part to locals) and the administered for (imposed locally and administered by state) categories. The statutory state sales tax rate is given as 6.25 percent. The 6.25 percent breaks down to a 5 percent state tax, a 1 percent municipal or county tax, and a 0.25 percent county tax. Until the 1990 sales tax reform effort, the 1.25% in local taxes were locally imposed; after sales tax reform they continued to be administered by the state as if they were locally imposed, with the tax receipts being

distributed back to the municipality or county where the sale took place.

Municipal and County Retailers Occupation Tax (1 Percent Share)

State law imposes these taxes, the broadest based of all sales and use taxes in Illinois, that include groceries, drugs, and medical appliances that are exempt from most other sales and use taxes in Illinois. If the sale occurs within a municipality the local 1 percent is distributed to that municipality. If it the sale takes place in an unincorporated area, the tax is distributed to the county.

**Municipal and County ROT**  
**\$1,623,725,907**      **4.5 percent**

Countywide 0.25 Percent Tax (formerly County Supplemental Tax)

State law imposes this tax on all general merchandise sales (excluding food, drugs, and medical appliances). Revenues are allocated to the county where the sale occurred (whether or not within a municipality). In Cook County, this money is distributed to the RTA instead of to Cook County Government. (See the discussion below regarding transit district taxation.)

**Countywide 0.25 percent tax**  
**\$212,977,744**      **0.6 percent**

Home Rule and Non-Home Rule Sales Taxes

IDOR administers the sales tax that home-rule governments can impose in 0.25 percent increments, as well as the sales tax that non-home rule municipalities can, subject to referendum, impose in 0.25 percent increments up to a maximum of 1 percent. (There is no 1 percent

maximum for home rule municipalities). The state also administers Chicago's Home Rule Vehicle Use Tax for vehicles purchased in Cook, DuPage, Kane, Lake, McHenry and Will counties and registered to an address in Chicago.

**Home Rule and Non-Home Rule Sales Taxes**  
**\$1,433,074,606**      **4.0 percent**

Chicago Soft Drink Tax

IDOR administers the 3 percent tax on the sale of soft drinks imposed by Chicago.

**Chicago Soft Drink Tax**  
**\$9,449,784**      **<0.1 percent**

County Motor Fuel Tax

IDOR administers a 4-cent per gallon tax on motor fuel imposed by DuPage, Kane, and McHenry counties.

**County Motor Fuel Tax**  
**\$32,027,253**      **0.1 percent**

DuPage Water Commission Tax

IDOR administers a 0.25 percent sales tax imposed by the DuPage Water Commission within its boundaries.

**DuPage Water Commission Tax**  
**\$31,835,073**      **0.1 percent**

Metro-East Park and Recreation District Tax

IDOR administers a 0.10 percent sales tax imposed by the park district within its boundaries.

**Metro-East Park and Recreation Tax**  
**\$4,421,940**      **<0.1 percent**

### Municipal Business District Taxes

IDOR administers sales taxes imposed by municipalities within business districts inside their boundaries. There were 64 business districts in FY 2012.

#### **Municipal Business District Tax**

**\$10,076,400**                      **<0.1 percent**

### MPEA Food and Beverage Tax

IDOR administers the 1 percent sales tax on restaurant meals and drinks imposed by the Metropolitan Pier and Exposition Authority within a specific district in downtown Chicago.

#### **MPEA Food and Beverage Tax**

**\$36,864,404**                      **0.1 percent**

### County Public Safety Tax

IDOR administers the sales tax that counties impose, with voter approval, in 0.25 percent increments for public safety, transportation, or public facility purposes.

#### **County Public Safety Tax**

**\$86,612,059**                      **0.2 percent**

### County School Facility Tax

IDOR administers the sales tax that counties impose, with voter approval, in 0.25 percent increments for school facilities.

#### **County School Facility Tax**

**\$39,328,131**                      **0.1 percent**

### Flood Prevention Tax

IDOR administers the 0.25 percent sales tax imposed by flood prevention districts in Madison, Monroe, and St. Clair counties to repair and rebuild levees.

### **Flood Prevention Tax**

**\$11,340,707**                      **<0.1 percent**

## **USE TAX ON OUT-OF-STATE SALES**

Sales Tax reform in 1990 increased the Use Tax on out-of-state sales from 5 percent to 6.25 percent. The state collects and distributes the 1.25 percent Use Tax on general merchandise and the 1 percent tax on groceries, drugs, and medical appliances primarily to local governments based on a statutory formula that gives 20 percent to Chicago, 10 percent to the RTA, 0.6 percent to the Metro-East Mass Transit District (transit district taxes are addressed below), \$37.8 million to Build Illinois, and the balance to counties and municipalities based on population.

**Chicago**    **\$53,522,095**                      **0.1 percent**

**Downstate**    **\$147,921,668**                      **0.4 percent**

## **SIMPLIFIED MUNICIPAL TELECOMMUNICATION TAX**

IDOR administers (outside of Chicago which administers its own tax) taxes imposed by municipalities on the origin or receipt of telecommunications within their boundaries. Such a tax can be imposed in 0.25 percent increments up to 6.0 percent.

#### **Municipal Telecommunications Tax**

**\$301,176,919**                      **0.8 percent**

## **HOTEL TAXES**

IDOR administers three hotel taxes imposed in Chicago: a 1 percent city tax, a 2 percent Illinois

Sports Facility Authority Tax, and a 2.5 percent Metropolitan Pier and Exposition Authority Tax.

### **Hotel Taxes**

**\$96,411,535** **0.3 percent**

## **AUTOMOBILE RENTING TAXES**

IDOR administers automobile renting taxes imposed by municipalities, counties, and the Metropolitan Pier and Exposition Authority.

### **Automobile Renting Taxes**

**\$34,832,648** **0.1 percent**

## **MOTOR FUEL TAX**

IDOR collects the state-wide motor fuel tax and deposits the proceeds into funds under control of the Department of Transportation. After diversions to funds earmarked for boating and railroad crossing, and the retention of amounts intended to cover costs of the Revenue and Transportation departments, the remaining money is split 45.6 percent for state purposes and 54.4 percent for locals, including municipalities, counties, and road districts.

### **Motor Fuel Tax**

**\$563,317,620** **1.6 percent**

## **TRANSIT DISTRICTS**

Transit districts in Illinois – the Regional Transportation Authority (RTA), the Metro East Mass Transit District, and a number of downstate transportation districts, receive funding through an assortment of taxes they impose and state tax revenues shared with them. The RTA is the most complex.

## RTA

In Cook County the IDOR collects an RTA-imposed sales tax of 1 percent on general merchandise and 1.25 percent on food and drugs. In the five collar counties (DuPage, Kane, Lake, McHenry and Will) IDOR collects an RTA-imposed tax of 0.75 percent on both general merchandise and food and drugs. However, one-third of what the state collects in the collar counties (0.25 of 0.75 percent) is allocated to the county governments for transportation and infrastructure demands.

IDOR also collects and remits to the RTA Cook County's allocation of the 0.25 percent sales and use tax on general merchandise. As discussed above, in all other counties this 0.25 percent tax replaced the county supplementary tax.

The RTA receives 10 percent of the 1.25 percent Use Tax IDOR collects on out of state sales.

The RTA also receives a 30 percent match from the state's general funds (which is reported as a transfer to the Public Transportation Fund) for all the above receipts, (other than the diversion to the collar counties) and for a Real Estate Transfer Tax surcharge that Chicago imposes and collects on real estate sales and shares with the RTA.

### **RTA Sales Tax**

**\$846,625,622** **2.3 percent**

### **Collar Counties' Share of RTA Tax**

**\$111,849,726** **0.3 percent**

**RTA Share of Statewide Use Tax****\$26,761,047**                      **0.1 percent****RTA Share of .25 Percent Tax in Cook****\$119,473,705**                      **0.3 percent****RTA 30 Percent Match****\$312,689,437**                      **0.9 percent**Metro East Mass Transit District (MED)

IDOR collects a 0.25 percent sales tax imposed by the Metro East Mass Transit District within portions of Madison County and a 0.75 percent sales tax imposed by the Metro East Mass Transit District on general merchandise and a 0.25 percent sales tax on food, drugs, and titled vehicles in portions of St. Clair County. In St. Clair County the state also administers a MED-imposed \$20 per transaction fee on the sale of vehicles.

**MED Sales Tax****\$29,007,615**                      **0.1 percent**Downstate Public Transportation Districts

Additionally, the MED and other transit districts outside of the RTA receive, via a transfer from the Downstate Public Transportation Fund, 3/32nds of the state's 5 percent sales and use tax collected within the districts. And the Downstate Public Transportation Fund also receives 0.6 percent of the receipts from the 1.25 percent Use Tax collected on out-of-state sales.

**Downstate Public Transportation Fund****\$170,194,886**                      **0.5 percent****CONCLUSION**

Most people think of the Illinois Department of Revenue as a state tax collection agency, but one dollar in four that it collects is shared with or collected on behalf of Illinois' many local governments.