

ILLINOIS

TAX FACTS

TAXPAYERS' FEDERATION OF ILLINOIS

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2016 Year in Review

By Maurice Scholten

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BUDGET

Fiscal Year 2016

Usually, the budget is passed before the fiscal year begins and is based on a number of assumptions about what will happen during the year. As some of the assumptions prove to be incorrect or unanticipated events arise, the legislature may address it by passing a supplemental appropriation bill. There was no traditional budget in Illinois for FY2016, which ended on June 30, 2016. The State limped along, mainly relying on court orders, continuing appropriations and an occasional agreement to fund specific high-profile or emergency situations. In April, the Governor and the General Assembly agreed on P.A. 99-0502 which appropriated \$600 million for universities and community colleges. Until then, higher education had received no state funding for the year.

Fiscal Year 2017

COGFA estimated that GRF revenues would be \$31.91 billion in FY2017 (they have since lowered their estimate to \$30.88 billion). The General Assembly

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NOTES FROM THE INSIDE. . .

By Carol S. Portman

In one respect, this issue of *Tax Facts* is a very traditional publication for us. It contains our annual summary of the previous year's tax and budget bills passed into law. 2016 (which for this purpose includes the first few days of January when the 99th General Assembly was still in session and before the new legislature was sworn in) did not see any major tax reforms, although as you can see there were still a number of bills that passed. Frustratingly, our budget summary is incomplete, because Illinois continued to stumble along the budget-free path for yet another year.

That does not mean that nothing important happened in the legislature, or that we took it easy. Every year thousands of bills are introduced in the General Assembly, many of them tax-related, and we look at each one. We continue to carry out TFI's mission of advocating for sound tax policy and educating decision-makers about the real-world consequences of their decisions.

And there are sparks of hope: in January a package of bills was introduced, including major tax legislation, that may very well solve—or go a long way towards solving—Illinois' persistent fiscal crisis. As outlined in our November/December issue, there is no way out of our predicament without both tax increases and spending cuts. The Taxpayers' Federation of Illinois is fully supportive of this effort, which will be painful but is absolutely necessary.

The Taxpayers' Federation of Illinois evaluates current and proposed tax laws and regulations based on the fundamentals of sound tax policy, as set forth in our Statement of Principles on page 7. Last year we celebrated 75 years of following these principles—this year we are reinvigorated and ready to continue for another 75!

You may notice a departure from tradition in this issue as well. In order to increase both the quantity and timeliness of our research and analysis, we plan to change our publication schedule—*Tax Facts* is now going to come out monthly. Let us know if there are any topics you'd like us to add to our research agenda.

passed P.A. 99-0524 on the day before the fiscal year began. It funded K-12 education for the entire year, but only appropriated six months of spending for other areas of the budget. It also included some FY2016 spending. Between the appropriation bill and continuing appropriations, the General Assembly has approved approximately \$29.63 billion in GRF for FY2017, however, this is only for 6 months of operations. And despite appropriations being lower than the revenue estimate, the State's backlog of bills continues to grow as other spending continues

under court orders. The State's backlog was approximately at \$8.2 billion in June 2016 and is now at \$11.3 billion. While leaders in the Senate have made some progress in reaching a bipartisan solution that could put Illinois back on solid footing, it is not clear at this time whether it can pass the Senate or even gain approval from House leaders or the Governor. Until a comprehensive solution can be reached, human services and higher education will continue to be squeezed, the backlog will continue to grow, and

any potential solution becomes that much more painful.

INCOME TAXES

Income Tax Credit Extensions

SB 513, sponsored by Sen. Melinda Bush (D – Grayslake) and Rep. Barbara Flynn Currie (D – Chicago), extends the EDGE tax credit until April 30, 2017. The sunset prevents new companies from applying for the credit after that date, but companies that have agreements with DCEO can continue to earn and utilize the credit. P.A. 99-0925: <http://www.ilga.gov/legislation/99/SB/PDF/09900SB0513lv.pdf>

SB 1488, sponsored by Sen. Steve Stadelman (D – Rockford) and Rep. Linda Chapa LaVia (D – Aurora), extends the historic redevelopment tax credit for River Edge Redevelopment Zones to January 1, 2018. P.A. 99-0914: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0914.pdf>

SB 2921, sponsored by Sen. Toi W. Hutchinson (D – Olympia Fields) and Rep. Arthur Turner (D – Chicago), extends the tax credit for affordable housing donations until December 31, 2021. P.A. 99-0915: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0915.pdf>

State Tax Preparer Oversight Act

HB 5527, sponsored by Rep. Natalie A. Manley (D – Joliet) and Sen. Terry Link (D – Waukegan), creates the State Tax Preparer Oversight Act. The Act requires income tax return preparers to include their Preparer Tax Identification Number (“PTIN”) on any income tax return or claim for

refund they prepare and file. P.A. 99-0641: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0641.pdf>

SALES TAXES

Feminine Hygiene Product Exemption

SB 2746, sponsored by Sen. Melinda Bush (D – Grayslake) and Rep. Will Guzzardi (D – Chicago), exempts feminine hygiene products from sales tax. P.A. 99-0855: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0855.pdf>

Cancer Treatment Exemption

SB 3047, sponsored by Sen. Chris Nybo (R – Elmhurst) and Rep. Peter Breen (R – Lombard), clarifies that products classified as Class III medical devices by the FDA and are prescribed to treat cancer are subject to the food and drug sales tax rate as opposed to the general merchandise rate. P.A. 99-0858: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0858.pdf>

IDOR Agreements with Local Governments

HB 5598, sponsored by Rep. Barbara Flynn Currie (D – Chicago) and Sen. Toi W. Hutchinson (D – Olympia Fields), revises the requirements authorizing the Department of Revenue to enter into an agreement with a unit of local government to collect and remit a local tax. The bill also expands the sharing of local sales tax information to counties (previously, only municipalities could participate). P.A. 99-0517: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0517.pdf>

PROPERTY TAXES

Transit TIF

SB 2562, sponsored by Sen. Toi W. Hutchinson (D – Olympia Fields) and Rep. Barbara Flynn Currie (D – Chicago), allows municipalities to create transit facility improvement areas. The areas would act like a TIF, where the incremental property tax revenue can be used to finance mass transit projects. The bill also extends TIFs for Lacon, Bradford, Oak Forest, Pinckneyville, South Jacksonville, Chicago, LaSalle, Dieterich, Rosemont, and Springfield. P.A. 99-0792: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0792.pdf>

CPS Pension Levy

SB 318, sponsored by Sen. John J. Cullerton (D – Chicago) and Rep. Marcus C. Evans, Jr (D – Chicago), allows the Chicago Board of Education to levy a property tax for making the employer contribution to the Chicago teachers' pension fund. The rate for this levy cannot exceed 0.383%. The levy is exempt from PTELL. Public Act 99-0521: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0521.pdf>

Electronic Correspondence

SB 2593, sponsored by Sen. Karen McConaughay (R – St. Charles) and Rep. Steven A. Andersson (R – Geneva), allows the Property Tax Appeal Board to send decisions and copies of the appellant's petition by electronic means. P.A. 99-0626: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0626.pdf>

SB 2889, sponsored by Sen. Pat McGuire (D – Joliet) and Rep. Mike Fortner (R – West Chicago), allows taxing districts to choose to receive notification by electronic means when a property tax complaint seeks a reduction of \$100,000 or more. P.A. 99-0579: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0579.pdf>

Assessment Date

SB 2517, sponsored by Sen. Andy Manar (D – Bunker Hill) and Rep. Ed Sullivan (R – Mundelein), changes the date when chief county assessment officers return the assessment books to Boards of Review in counties other than Cook. P.A. 99-0573: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0573.pdf>

Special Service Areas

SB 3337, sponsored by Sen. Don Harmon (D – Oak Park) and Rep. Sara Feigenholtz (D – Chicago), establishes special service area commissions which can manage a special service area. The bill also prohibits members of the commission, municipal officials, and municipal employees from owning companies that provide services to the special service areas. P.A. 99-0930: <http://www.ilga.gov/legislation/99/SB/PDF/09900SB3337lv.pdf>

School Tax Rate Exception

SB 516, sponsored by Sen. James F. Clayborne, Jr. (D – East St. Louis) and Rep. Eddie Lee Jackson, Sr. (D – East St. Louis), allows school districts that receive impact aid due to a military installation in the district to increase property tax rates. If the school's property tax rates get too low, the amount of federal aid the district receives will be

reduced. P.A. 99-0908: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0908.pdf>

PPV Leases

SB 3149, sponsored by Sen. James F. Clayborne (D – East St. Louis) and Rep. Jay Hoffman (D – Swansea), allows taxing districts and the leaseholder of a U.S. Military Public/Private Residential Development in St. Clair County to enter into a 20-year settlement agreement as to the taxable value of the leasehold. P.A. 99-0818: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0818.pdf>

SB 2782, sponsored by Sen. Terry Link (D – Waukegan) and Rep. Rita Mayfield (D – Waukegan), extends the special method for assessing U.S. Military Public/Private Residential Developments through taxable year 2017. P.A. 99-0738: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0738.pdf>

Erroneous Homestead Exemption

SB 2427, sponsored by Sen. Emil Jones, III (D – Chicago) and Rep. Al Riley (D – Olympia Fields), provides that a homeowner has until March 1 of the collection year to provide notice to the Cook County Assessor that a homestead exemption was received incorrectly in order to prevent interest and penalties from accruing. P.A. 99-0851: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0851.pdf>

Wind Turbine Assessment

SB 2612, sponsored by Sen. David Koehler (D – Peoria) and Rep. Tom Demmer (R – Dixon), extends the special assessment method for wind

turbines until 2021. P.A. 99-0825: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0825.pdf>

Vegetative Filter Strips

SB 2160, sponsored by Sen. John M. Sullivan (D – Rushville) and Rep. John Bradley (D – Marion), extends the property tax exemption for vegetative filter strips for an additional ten years. Public Act 99-0560: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0560.pdf>

HB 4645, sponsored by Rep. Tim Butler (R – Springfield) and Sen. John M. Sullivan (D – Rushville), is a trailer bill to P.A. 99-0560. It corrects the effective date of the bill so the provision wouldn't automatically be repealed. Public Act 99-0916: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0916.pdf>

TIF District Extensions

SB 1596, sponsored by Sen. Emil Jones, III (D – Chicago) and Rep. Robert Rita (D – Blue Island), allows for a twelve-year extension of a tax increment financing district in Blue Island. Public Act 99-0495: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0495.pdf>

HB 694, sponsored by Rep. Katherine Cloonen (D – Kankakee) and Sen. Toi W. Hutchinson (D – Olympia Fields), allows for an Economic Development Area in Grundy County with an electric generating facility to last thirty-five years, as opposed to the standard twenty-three years. Public Act 99-0513: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0513.pdf>

HB 4423, sponsored by Rep. William Davis (D – Homewood) and Sen. Napoleon Harris, III (D – Flossmoor), allows for a twelve-year extension of a tax increment financing district in Oak Forest. Public Act 99-0508: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0508.pdf>

MISCELLANEOUS

Enterprise Zone Effective Date

SB 571, sponsored by Sen. David Koehler (D – Peoria) and Rep. Jehan Gordon-Booth (D – Peoria), states that enterprise zones that are certified between January 1, 2016 and December 31, 2016, are to become effective on the date of the certification, as opposed to January 1 following the certification. P.A. 99-0615: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0615.pdf>

Estate Tax Returns

SB 2611, sponsored by Sen. Emil Jones, III (D – Chicago) and Rep. Arthur Turner (D – Chicago), repeals a requirement that estate tax returns are filed with the State Treasurer. Returns are only to be filed with the Attorney General’s Office, but payments are still made to the State Treasurer. P.A. 99-0575: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0575.pdf>

Local Government Consolidation

HB 5584, sponsored by Rep. Barbara Wheeler (R – Crystal Lake) and Sen. Pamela J. Althoff (R – McHenry), creates a process for the dissolution of the Round Lake Sanitary District. P.A. 99-0783: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0783.pdf>

HB 229, sponsored by Rep. Jack D. Franks (D – McHenry) and Sen. Melinda Bush (D – Grayslake), expands the Local Government Reduction and Efficiency Division of the Counties Code to Lake and McHenry counties. It previously only covered DuPage County. This provision gives the county board the ability to dissolve a unit of local government if the county board chairman appoints a majority of the local government’s governing board. P.A. 99-0709: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0709.pdf>

HB 4371, sponsored by Rep. Steven A. Anderson (R – Geneva) and Sen. James F. Clayborne (D – East St. Louis), creates a procedure to allow for the dissolution of water authorities. P.A. 99-0668: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0668.pdf>

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Illinois Tax Facts

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Statement of Principles

The Taxpayers' Federation of Illinois supports sound tax policy and fiscal practices that encourage economic growth in Illinois. The tenets of sound tax policy can be articulated in a number of different ways. The Taxpayers' Federation of Illinois evaluates Illinois' overall state and local tax structure and individual tax provisions using the following guideposts:

Adequacy. A tax structure must raise enough revenue to properly fund government operations. Decisions about the scope and level of government services are outside the scope of tax policy, except to the extent overall tax burdens become unsustainably high. Tax revenues need to reflect economic growth, which usually requires that tax collections be balanced across multiple tax types. Income, property, and sales taxes are the most common tax types relied on by state and local governments.

Stability/Predictability. From the taxpayer's perspective, tax liabilities should not fluctuate dramatically from year to year. From the government's perspective, the same is true of revenues. Similarly, both taxpayers and governments function best when their future tax liabilities and collections can be projected with some degree of confidence. "The most damaging thing you can do to any businessman in America is to keep him in doubt, and to keep him guessing, on what our tax policy is." That was true when President Lyndon Johnson said it in 1964, and it remains true today.

Equity/Fairness. Equity has two dimensions: horizontal equity and vertical equity. Horizontal equity compares similarly situated taxpayers. Vertical equity compares tax burdens across taxpayer income or wealth brackets. Identical houses situated side-by-side should have the same property tax bill; that is horizontal equity. A third, more valuable house should have a higher tax bill commensurate with the higher value; that is vertical equity. Both actual and perceived fairness are important.

Collectibility/Transparency/Simplicity. These interrelated principles apply primarily to tax administration and, although they are generally noncontroversial, are too often overlooked. Voluntary compliance is an essential ingredient in most state and local tax structures; these principles help maintain taxpayer confidence in and compliance with the system. In addition, if a tax is easy to comply with and easy to collect it is also less costly to do so, and more funds are available for other business and government needs.

Efficiency. This is sometimes considered an aspect of equity. Taxes should be imposed without distorting economic behavior; the tax code should not pick winners and losers. The notion of a broad base and low rate is a manifestation of the efficiency principle. Similarly, the tax compliance and administration processes should not be unnecessarily inefficient and costly (which is frequently a consequence of violating the simplicity principle).

Taxes matter. Individuals and businesses make decisions every day about where to live, to invest, to expand. Illinois' overall business climate and economic prospects are critical factors in those decisions. Our tax structure and each taxpayer's anticipated tax liabilities are certainly not the only piece of the puzzle, but they play an important role in the process. Individual tax provisions and our tax code as a whole should adhere as closely as possible to these principles. The Taxpayers' Federation of Illinois supports those measures that do so, and opposes those that do not comport with good tax policy.

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SB 2994, sponsored by Sen. Thomas Cullerton (D – Villa Park) and Rep. David McSweeney (R – Barrington), requires each county to submit a report to the General Assembly listing every local public entity that the county board appoints members to. P.A. 99-0634: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0634.pdf>

Utility Reimbursement in River Edge Redevelopment Zones

SB 321, sponsored by Sen. Linda Holmes (D – Plainfield) and Rep. Linda Chapa LaVia (D – Aurora), extends a provision that allows public utilities to receive reimbursement for the remediation, removal, or relocation of facilities located in a River Edge Redevelopment Zone

until August 1, 2020. P.A. 99-0733: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0733.pdf>

Chicago Pension Funding

SB 777, sponsored by Sen. John J. Cullerton (D – Chicago) and Rep. Barbara Flynn Currie (D – Chicago), changes the funding schedule for Chicago's Police and Fire pension funds. The new schedule includes a five-year ramp of increasing payments. Under the new plan, the systems are scheduled to be 90% funded by 2055. Public Act 99-0506: <http://www.ilga.gov/legislation/publicacts/99/PDF/099-0506.pdf>