



ILLINOIS

ILLUSTRATED

A VISUAL GUIDE TO
TAXES & THE ECONOMY



Illinois Illustrated

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1325 G Street NW, Suite 950 • Washington, DC 20005 • (202) 464-6200
taxfoundation.org



Introduction

Taxes are complicated. Each state's tax code is a multifaceted system with many moving parts, and Illinois is no exception. This chart book aims to help readers understand Illinois' overall economy and tax system from a broad perspective. It also provides detailed illustrations of each of Illinois' major tax types—individual income taxes, business taxes, sales and excise taxes, and property taxes—to help make the complicated task of understanding the state's tax code a bit easier.

These charts were compiled by Tax Foundation staff and edited by economist Liz Malm.

Joseph Henchman

Vice President, Legal & State Projects
Tax Foundation

Carol Portman

President
Taxpayers' Federation of Illinois

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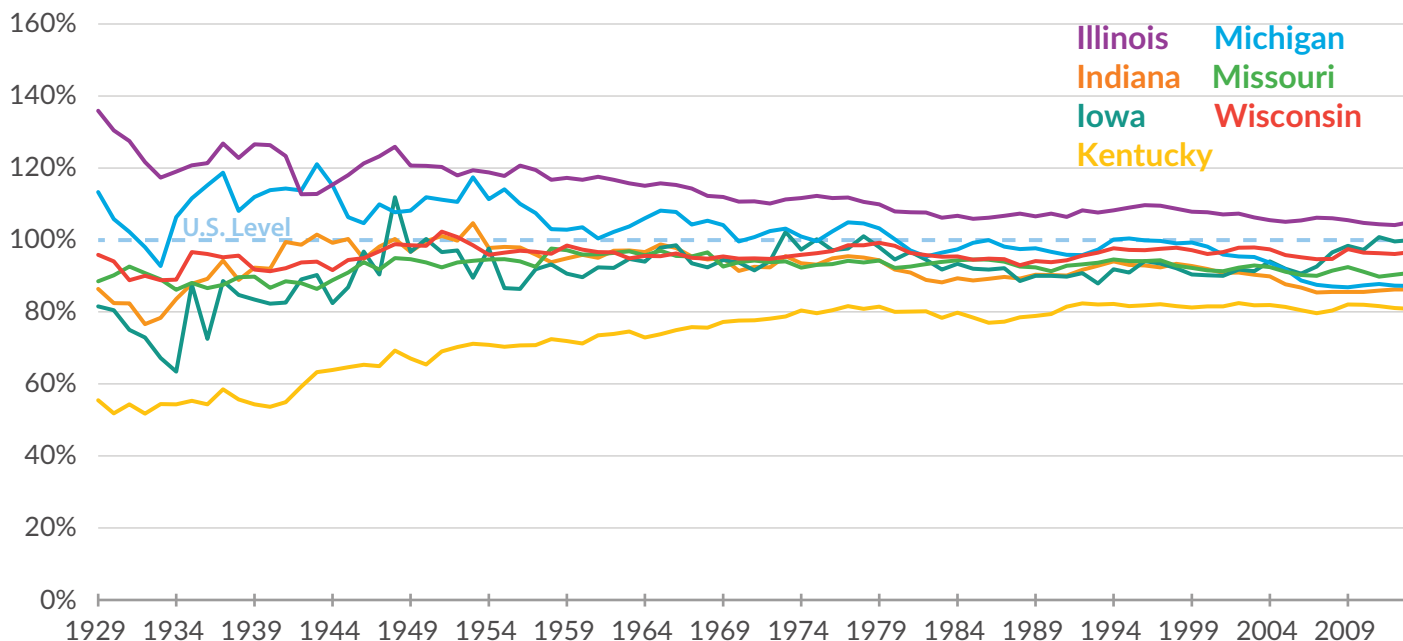
CHAPTER 1

An Overview of the Illinois Economy

The following charts illustrate the current state of the Illinois economy, in addition to how it has fared over time. We show various economic indicators, including personal income per person, state gross domestic product, industry mix, employment composition, migration, and unemployment.

Illinois' Income per Person Is High but Converging with U.S. and Neighbors' Levels

Personal Income per Capita as a Percent of the U.S. Level, Illinois and Neighboring States (1929-2013)

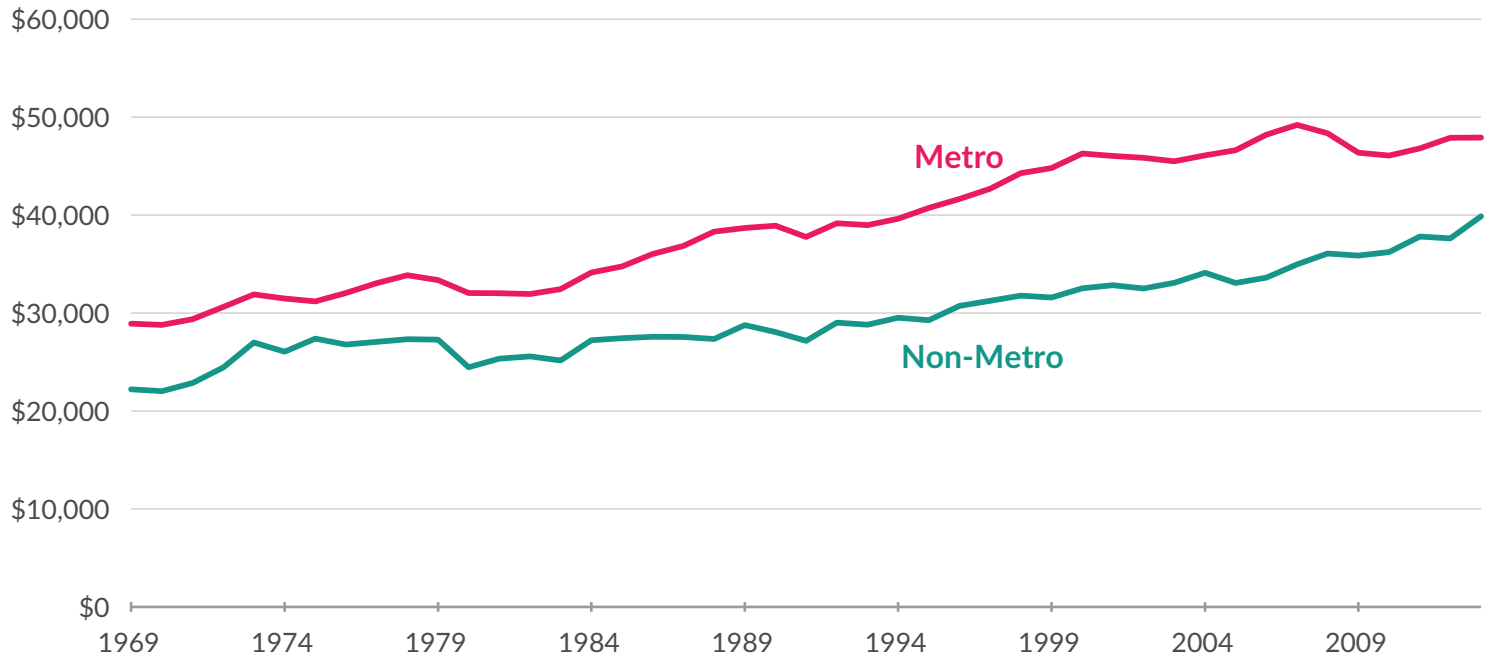


Historically, Illinois' personal income per person has been above both the U.S. level and the levels of neighboring states (except for a brief blip in the early 1940s). In recent years, however, Illinois and other states have seen a convergence in relative income per capita. In 1929, Illinois' personal income per person sat at 136 percent of the U.S. level, with all neighboring states trailing. By 2013, the gap between Illinois and its neighbors had decreased substantially as Illinois' per person income declined to 105 percent of the U.S. average.

Source: Bureau of Economic Analysis, Regional Economic Accounts, Annual State Personal Income and Employment.

Illinois' Metro Income Tends to Be Higher than Non-Metro

Personal Income per Capita, Metro and Non-Metro Illinois (1969-2013)



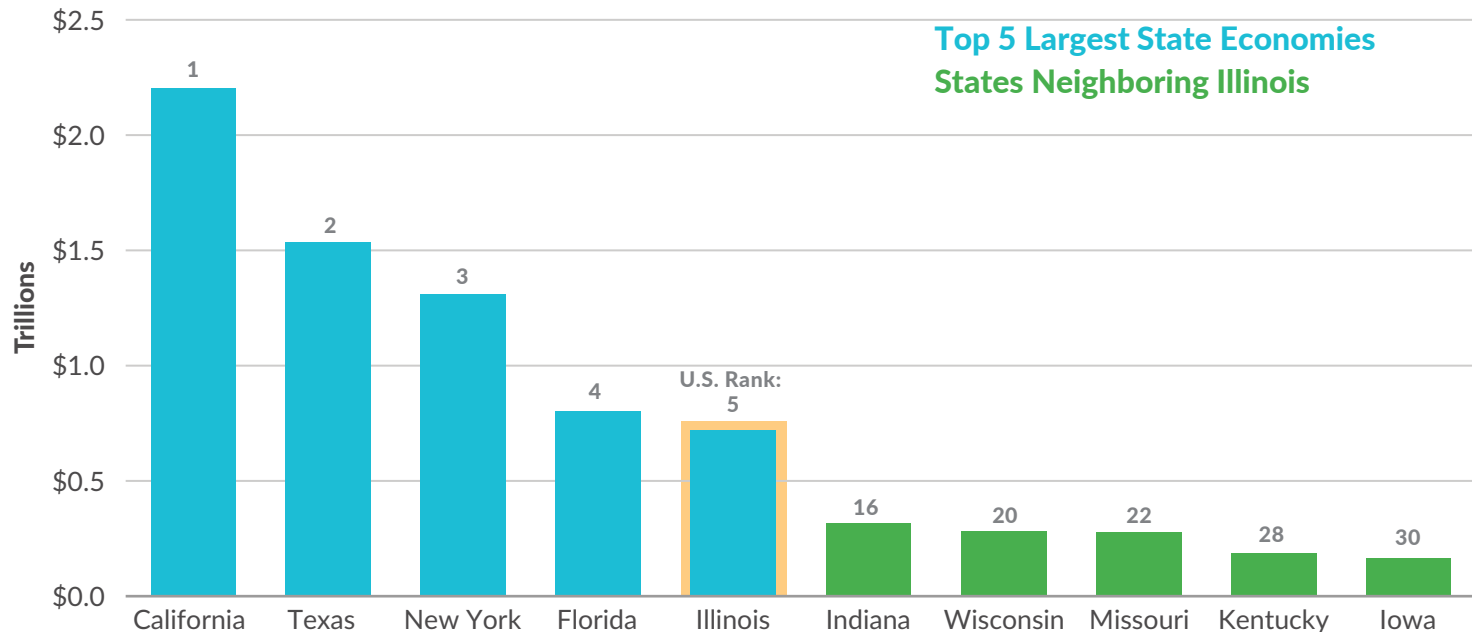
As in other states, personal income per capita levels are not uniform throughout Illinois. Metro-area income per person tends to be higher than non-metro-area income. This is likely a result of the differing industry makeups of metro versus non-metro Illinois. However, incomes tend to grow at the same rate in both areas over the long run. Notably, non-metro incomes showed more resilience during the most recent recession.

Note: Counties designated by the Bureau of Economic Analysis as metropolitan are Alexander, Bond, Boone, Calhoun, Champaign, Clinton, Cook, DeKalb, DeWitt, DuPage, Ford, Grundy, Henry, Jackson, Jersey, Kane, Kankakee, Kendall, Lake, McHenry, McLean, Macon, Macoupin, Madison, Marshall, Menard, Mercer, Monroe, Peoria, Piatt, Rock Island, St. Clair, Sangamon, Stark, Tazewell, Vermilion, Will, Williamson, Winnebago, and Woodford.

Source: Bureau of Economic Analysis, Regional Economic Accounts, *Local Area Personal Income and Employment*.

Illinois Has One of the Largest State Economies in the Country

State Gross Domestic Product, Select States (2013)

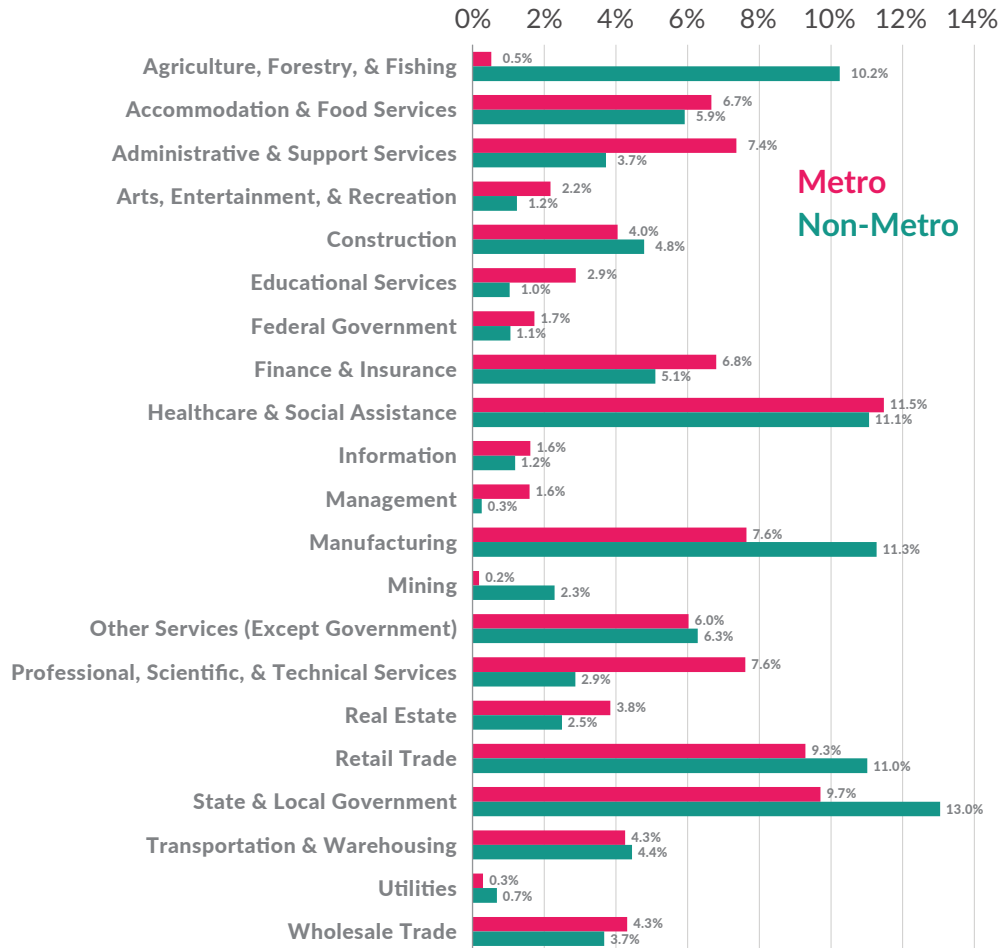


Illinois has one of the largest economies in the country (fifth largest based on state GDP) and is outranked only by California, Texas, New York, and Florida. All of Illinois' neighbors, however, have considerably smaller economies. Much of this difference is driven by the large urban center of Chicago, the third largest city in the United States. The fact that Illinois is a large, populous state surrounded by smaller-economy states puts it in a unique regional position.

Source: Bureau of Economic Analysis, Regional Economic Analysis, *Gross Domestic Product (GDP) by State*, "GDP in current dollars."

Metro-Area Employment in Illinois Is Very Different from Non-Metro

Industry Employment as a Percent of Total Area Employment, Metro and Non-Metro Illinois (2013)



State economies are diverse, and different areas of a state often have unique local economies, something that can be seen by comparing the largest sectors (based on the share of area total employment) in metro versus non-metro Illinois.

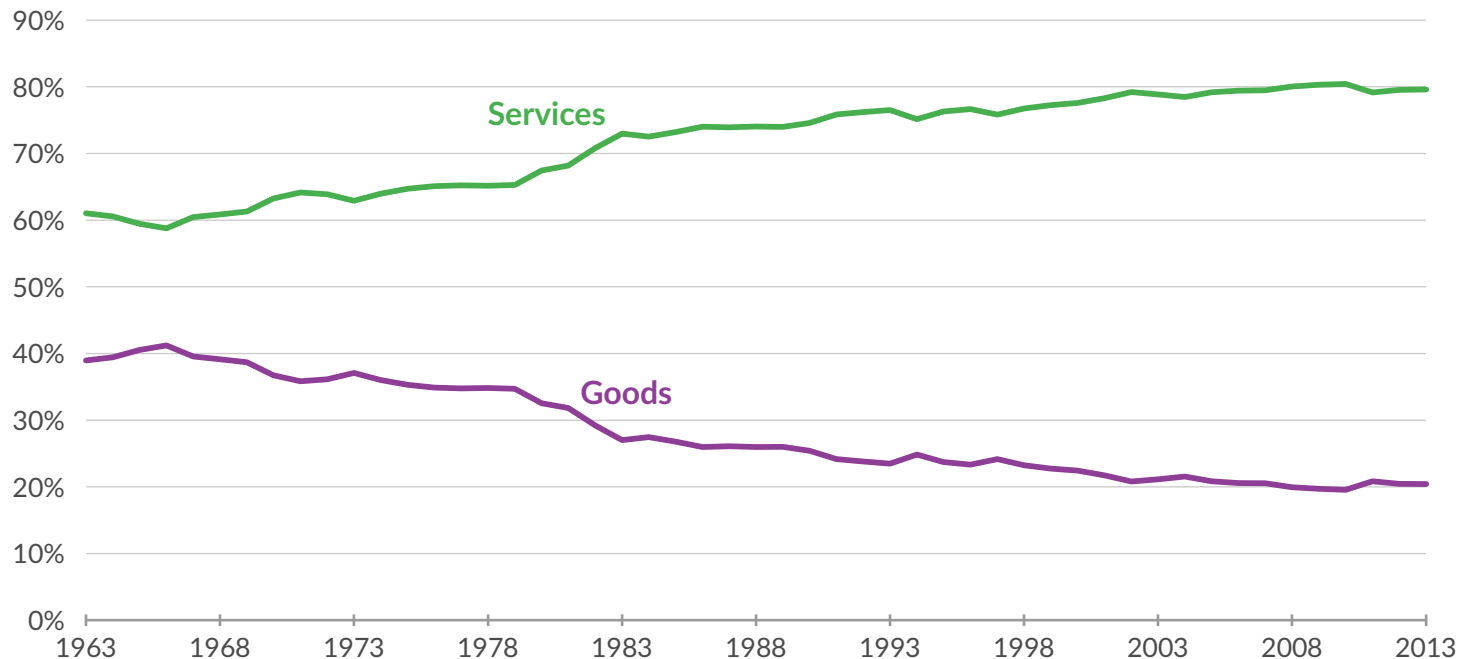
For example, agriculture makes up 10.2 percent of Illinois' non-metro employment but only 0.5 percent of metro-area employment. Similarly, while manufacturing, retail, and state and local government are prominent in both areas, these sectors make up a larger share of employment in non-metro areas of the state.

Note: Counties designated by the Bureau of Economic Analysis as metropolitan are Alexander, Bond, Boone, Calhoun, Champaign, Clinton, Cook, DeKalb, DeWitt, DuPage, Ford, Grundy, Henry, Jackson, Jersey, Kane, Kankakee, Kendall, Lake, McHenry, McLean, Macon, Macoupin, Madison, Marshall, Menard, Mercer, Monroe, Peoria, Piatt, Rock Island, St. Clair, Sangamon, Stark, Tazewell, Vermilion, Will, Williamson, Winnebago, and Woodford.

Source: Bureau of Economic Analysis, Regional Economic Accounts, *Local Area Personal Income and Employment*.

Illinois' Economy Is Moving away from Goods and toward Services

Services and Goods as a Percent of Total Private State GDP, Illinois Statewide (1963-2013)

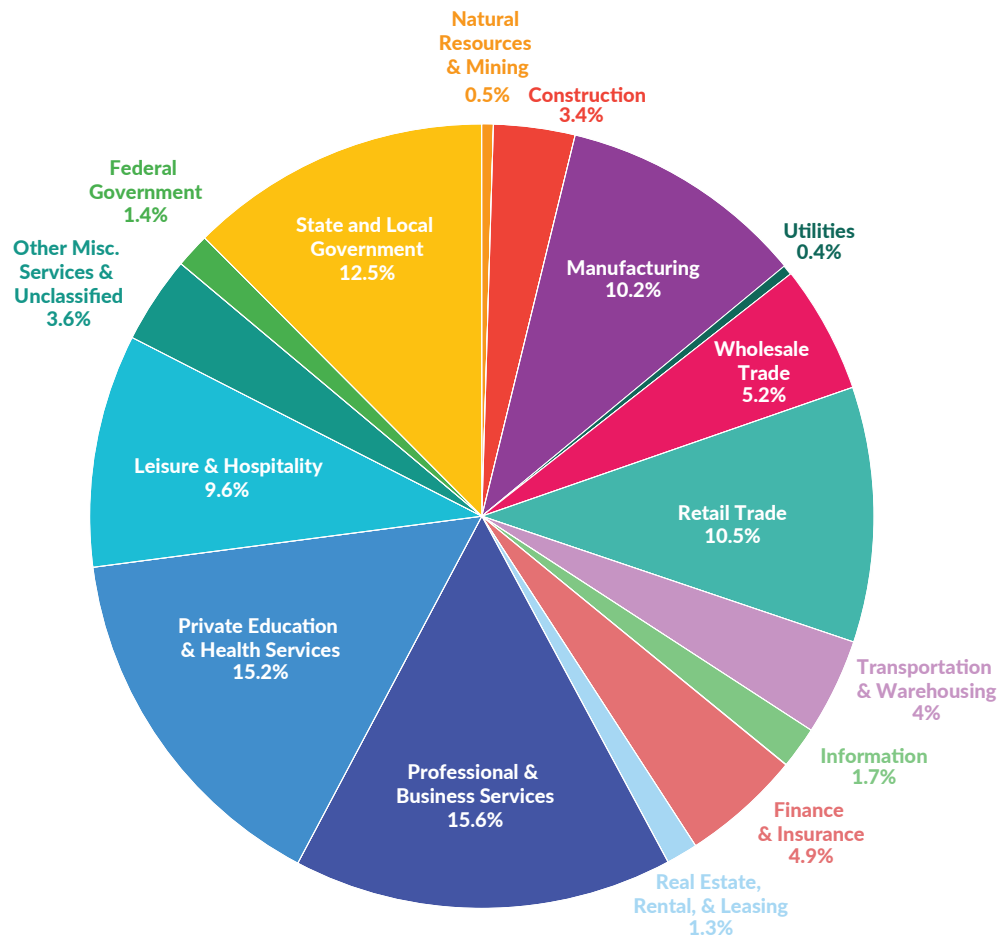


Five decades ago, economic sectors involving the production of tangible goods—agriculture, manufacturing, construction, and mining—made up approximately 40 percent of the Illinois economy (based on the share of state GDP). Today, those sectors only comprise 20 percent of the state's economy, while service-providing industries make up the remaining 80 percent.

Source: Bureau of Economic Analysis, Regional Economic Accounts, *Gross Domestic Product (GDP) by State*, "GDP in current dollars."

Professional & Business Services, Private Education & Health Services, and Government Employ the Most People in Illinois

Percent of Total Nonfarm Employment by Sector, Illinois Statewide (2013)

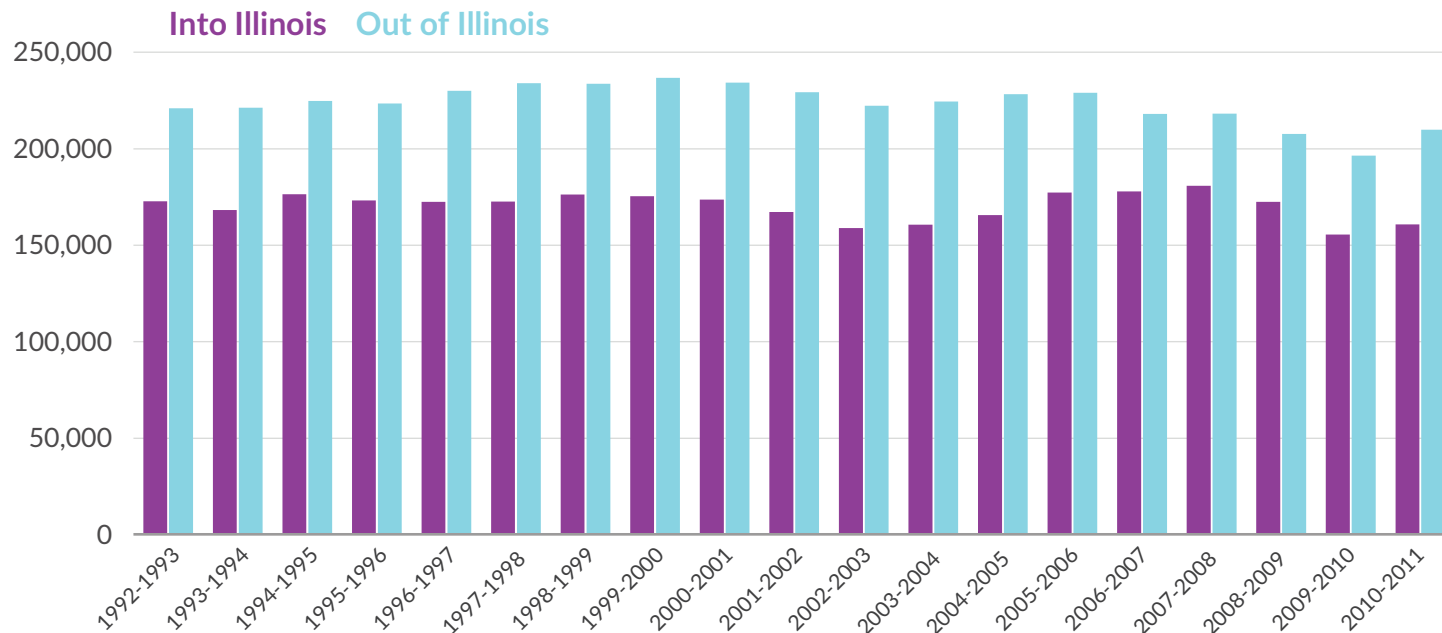


The majority of employees in Illinois work in service-providing sectors. The professional and business services sector employs the greatest percentage of workers at 15.6 percent of all employees. Other large employer industries include private-sector education and health services firms (15.2 percent), state and local government including public schools (12.5 percent), retail businesses (10.5 percent), manufacturing firms (10.2 percent), and leisure and hospitality businesses (9.6 percent).

Note: Percentages may not add to 100 due to rounding.
Source: Bureau of Labor Statistics, *Quarterly Census of Employment and Wages* (Illinois Statewide for All establishment sizes, All Employees, Private establishments).

Illinois Has Seen Consistent Out-Migration over the Last 20 Years

Migration to and from Illinois Based on the Number of Federal Tax Exemptions Claimed (1993-2011)

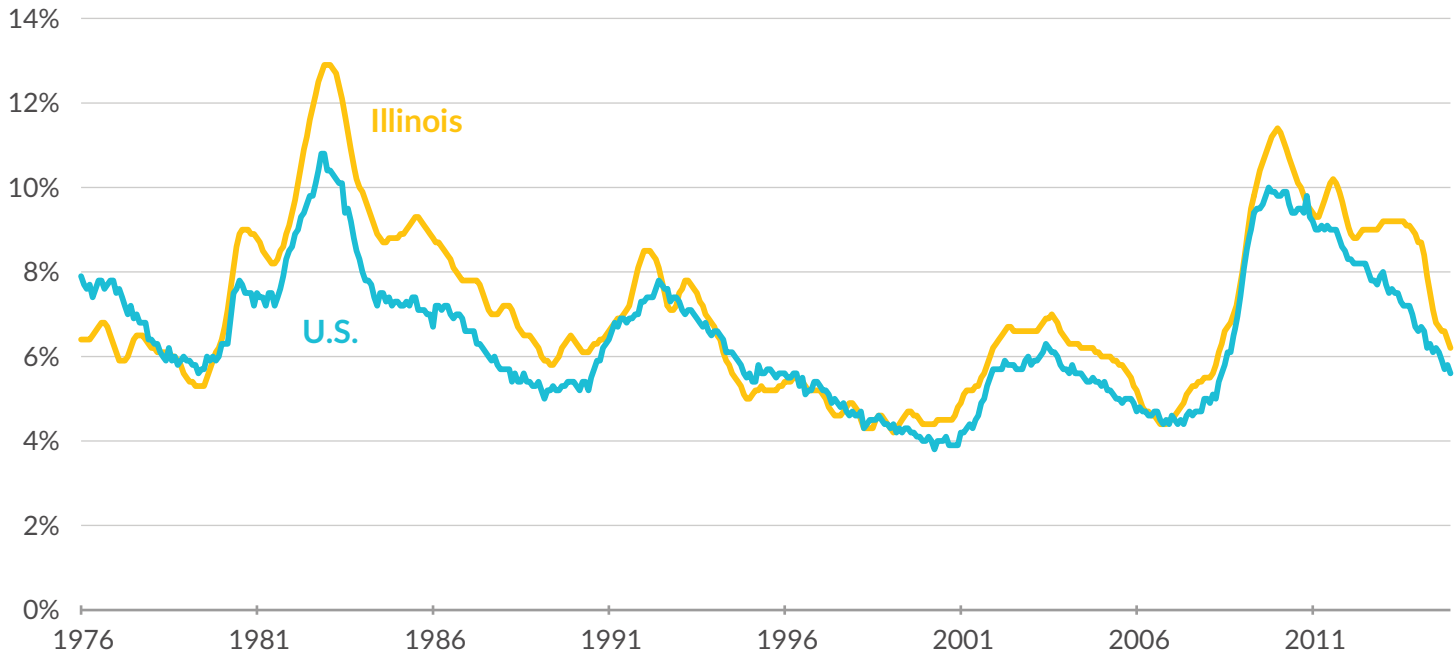


Since the early 1990s, Illinois has seen a net of 1,004,952 people leave the state, with net out-migration occurring each and every year since then. While people move for many reasons, this is still an important metric for a state to measure. Illinois has lost the most people to Florida, Indiana, Wisconsin, Texas, and Arizona. It has gained the most people from Michigan, Ohio, New York, New Jersey, and Pennsylvania.

Source: Internal Revenue Service, *Statistics of Income Tax Stats*, "State-to-State Migration Data."

Unemployment Rate in Illinois Tends to Be Higher than the U.S. Rate

Monthly Seasonally Adjusted Unemployment Rate, Illinois and U.S. (1976-2014)



Since the early 1980s, Illinois' unemployment rate has generally exceeded that of the U.S., except for a period in the mid-1990s. The rate in Illinois hit highs in the early 1980s (12.9 percent) and early 2010 (11.4 percent), both of which were significantly higher than the U.S. rate at those times. As of December 2014, the Illinois rate still exceeded that of the U.S.

Source: Bureau of Labor Statistics, *Local Area Unemployment Statistics*.

CHAPTER 2

Illinois' Tax Code: The Basics

Illinois' state and local governments rely on several types of taxes to raise revenue. Property taxes, income taxes, and sales taxes are well known, but other revenue sources include excise taxes, the estate tax, a tax on capital stock (known as the franchise tax), and funding from the federal government, among others.

In general, Illinoisans face a high state and local tax burden. Inflation-adjusted tax collections have risen over time, from \$17.4 billion in 1961 to \$66.5 billion in 2011. The composition of those collections has changed as well. The local share of collections has become smaller, and the state share has increased.

While the level of taxes levied matters, the structure of each tax is equally important. Each tax type has pros and cons, and each can contribute to or detract from a state's overall tax climate. Similarly, other budgetary issues, such as federal funding levels and unfunded liabilities, should also be kept in mind when evaluating a state's revenue structure.



Illinois Taxes at a Glance

This page provides a brief, broad overview of tax rates, tax collections, and other basic structural features of the Illinois tax system.

For all rankings on this page, 1 indicates the highest rank among the 50 states.

General Info

Rank Nat. Avg.

Income per capita	\$46,980	16	\$44,765
Federal aid as % of gen. revenue	25.9%	40	30.0%
State debt per capita	\$4,944	6	\$3,611

Property Tax

Collections per capita	\$1,985
Collections rank	10
Effective residential property tax rate	2.32%
Effective rate rank	2

Other Taxes

Gross receipts tax	None
Capital stock tax	0.10%
Inheritance tax	None
Estate tax	0.8% - 16.0%

Individual Income Tax

Number of brackets	1
Tax rate	3.75%
Tax rate rank	40
Tax base	Federal adjusted gross income with modifications
Collections per capita	\$1,206
Collections rank	11

Sales Tax

State rate	6.25%
State + average local rate	8.19%
State + average local rank	10
Collections per capita	\$749
Collections rank	39

Corporate Income Tax

Number of brackets	1
Tax rate	7.75%
Tax rate rank	17
Collections per capita	\$272
Collections rank	7

Excise Taxes

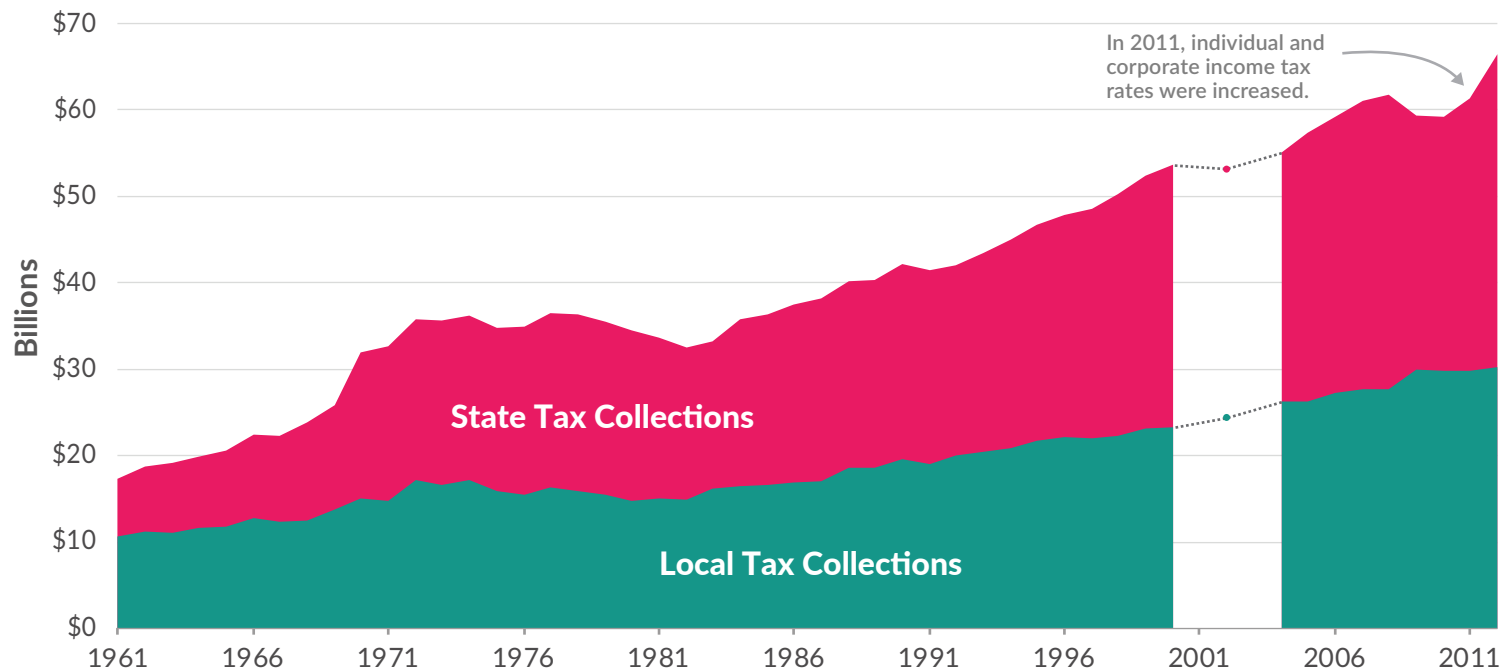
	Rate	Rank
Gasoline taxes and fees	30.72¢ per gallon	15
Cigarette taxes	\$1.98 per pack	16
Spirits taxes	\$8.55 per gallon	14
Wine taxes	\$1.39 per gallon	11
Beer taxes	\$0.23 per gallon	26
Cell phone taxes	15.81%	5

Note: All collections listed on this page are combined state and local per capita collections for the 2012 fiscal year. Income, federal aid, and state debt are for 2013. Individual and corporate income tax rates are ranked according to the top rate if a state has a graduated-rate individual or corporate income tax. Since individual and corporate income tax rates decreased at the beginning of 2015, these changes are not yet reflected in the individual and corporate income tax collections data that is as of the 2012 fiscal year. Illinois corporations face two separate income taxes: a regular corporate income tax and a corporate income tax enacted to replace the personal property tax. We present the combined rate. "State debt" is defined as the total outstanding debt at the end of the fiscal year, as defined by the Census Bureau.

Source: Tax Foundation, *Facts & Figures 2015: How Does Your State Compare?*

State Tax Collections Have Grown Faster than Local Collections

Illinois' Combined State and Local Tax Collections (1961-2012, in 2012 Dollars)



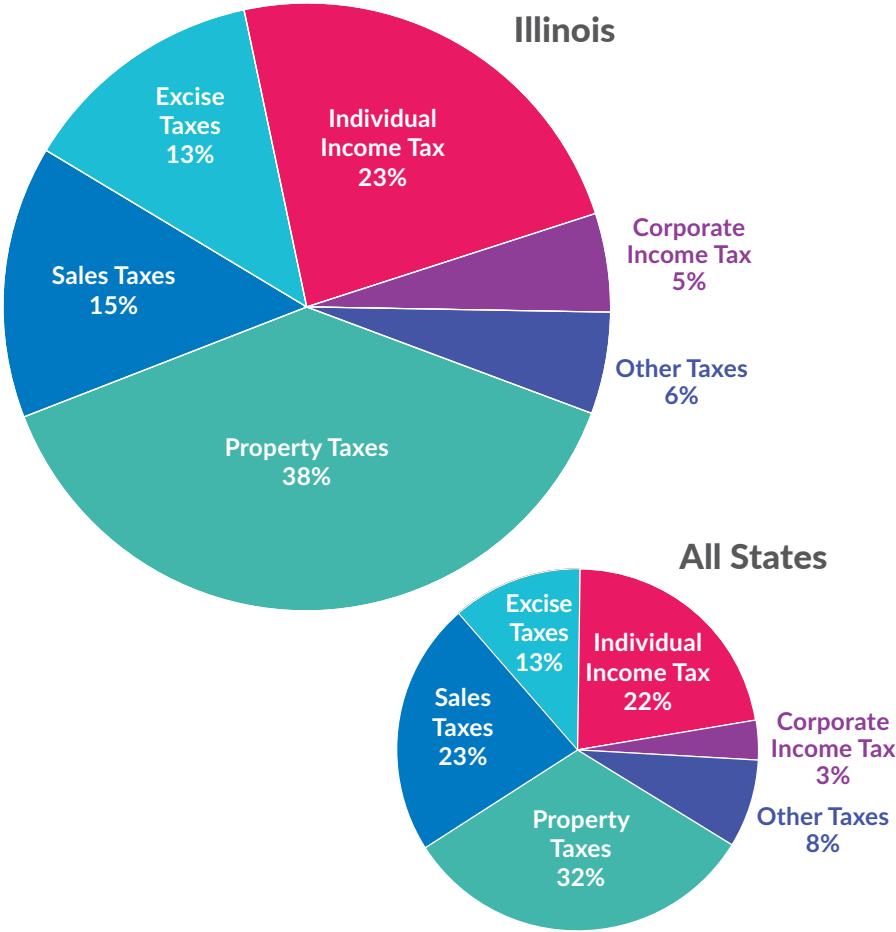
Illinois' inflation-adjusted total state and local tax collections have risen from approximately \$17.4 billion in 1961 to \$66.5 billion in 2012. Since 1961, state tax collections have grown from 39 percent of the combined total to 55 percent. Meanwhile, local tax collections have decreased from 61 percent of the total to 45 percent.

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. Chart shows collections, not distributions.

Source: Census Bureau, *State and Local Government Finances*.

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)

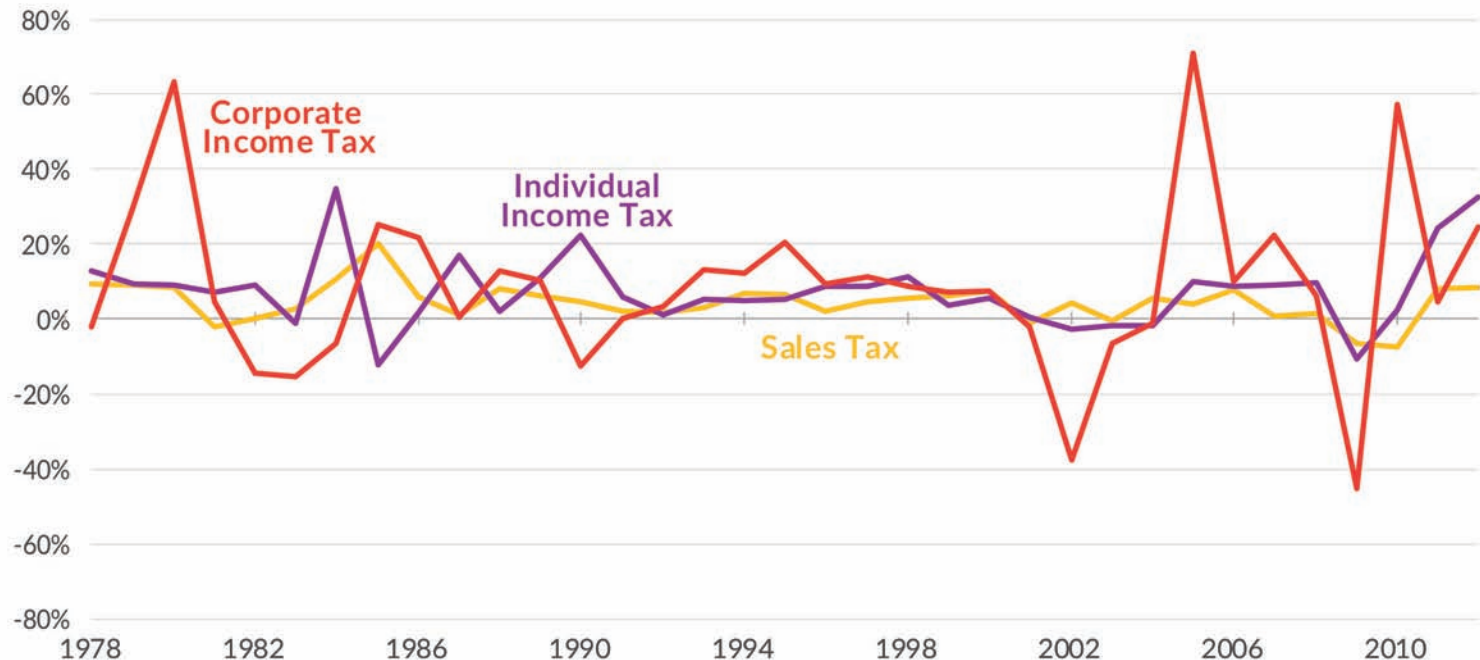


Illinois obtained the largest share of state and local combined collections in 2012 from property taxes (38 percent of total), followed by individual income taxes (23 percent) and general sales taxes (15 percent). The Illinois property tax share is higher than the U.S. average, and the sales tax share 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*.

Corporate Income Taxes Are Illinois' Most Volatile State Tax

Annual Percent Change in Illinois' State Tax Collections by Tax Type (1978-2012)

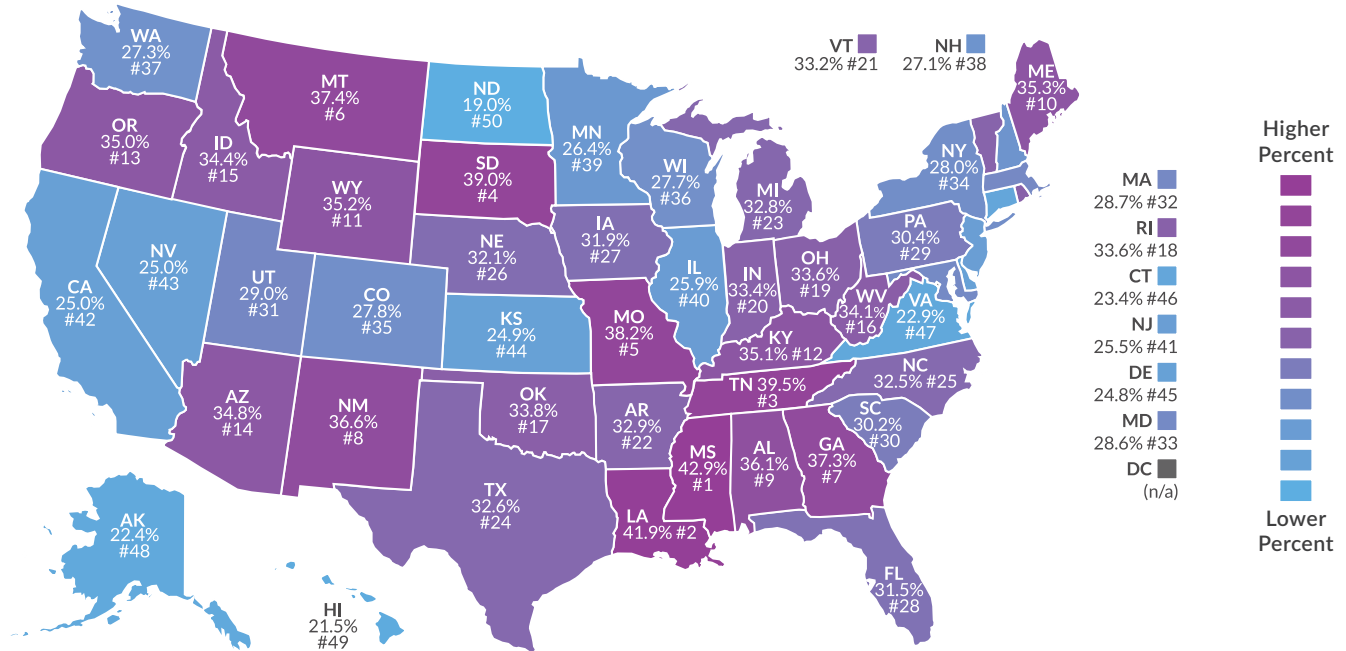


Revenue stability over the business cycle is an important facet of state tax policy. Different types of taxes react differently to changes in the economy. In Illinois, corporate income taxes fluctuate the most, followed by individual income and sales taxes.

Source: Census Bureau, *State and Local Government Finances*.

Illinois, like All States, Relies Heavily on Federal Aid

Federal Funding as a Percent of State Government General Revenues (FY 2013)



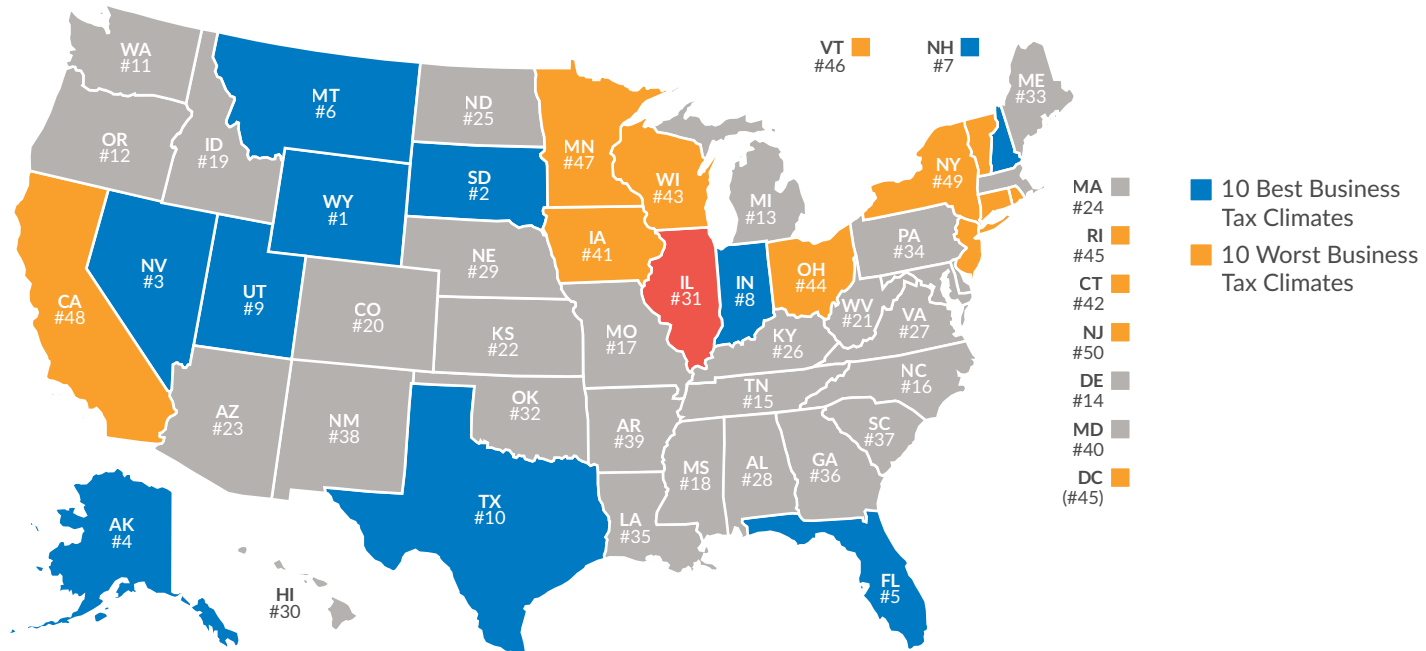
While state and local taxes are a large component of state revenue toolkits, federal transfers are also surprisingly sizeable. Illinois relied on federal funding for 25.9 percent of general revenues in 2013, compared to the national average of 30.0 percent. Federal funding in the states supports a variety of programs, including those related to public welfare, health, education, and transportation.

Note: Figures are calculated by dividing the amount of each state's "intergovernmental revenues" from the federal level to the state level by the state's "general revenue," as estimated by the Census Bureau. General revenue includes all taxes but excludes utility, liquor store, and insurance trust revenue. DC is not included because it is designated as a local jurisdiction.

Source: Census Bureau, *State and Local Government Finances*.

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*.

Illinois' Business Tax Climate Falls behind Most Neighboring States

State Business Tax Climate Index Rankings for Illinois and Neighboring States (2015)

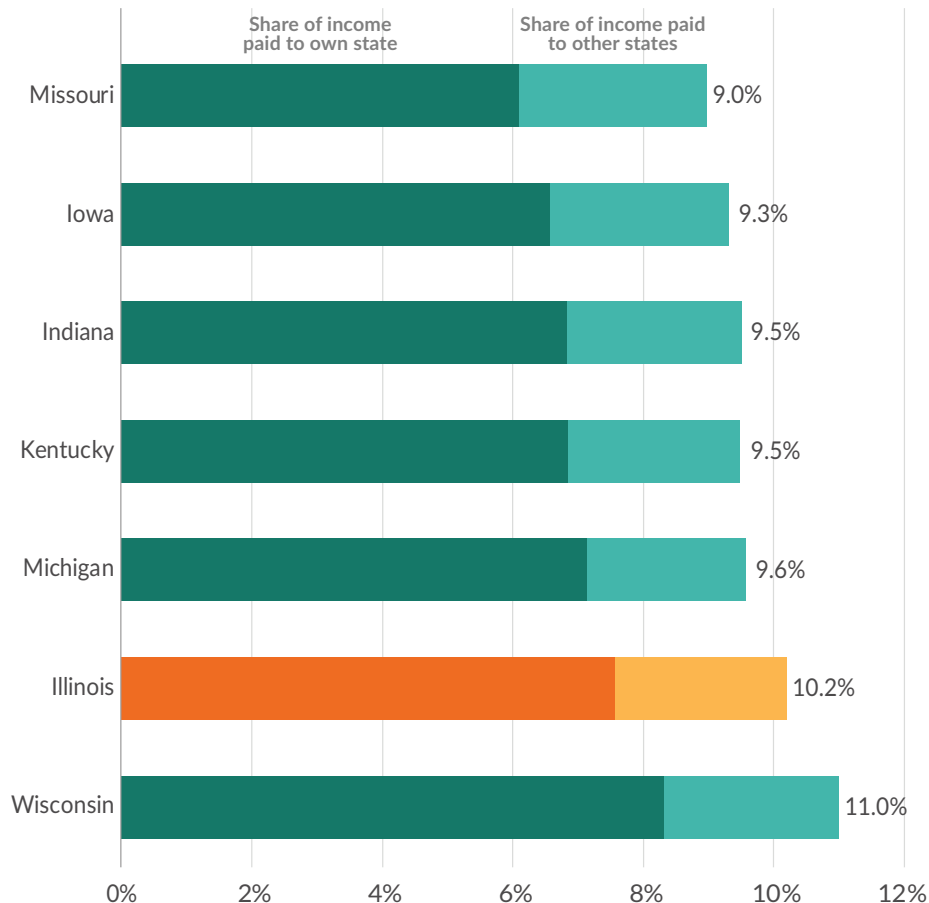
	Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Unemployment Insurance Tax Rank	Property Tax Rank
Indiana	8	22	10	10	7	5
Michigan	13	10	14	7	47	27
Missouri	17	4	29	29	12	7
Kentucky	26	29	30	11	45	17
Illinois	31	47	11	34	38	44
Iowa	41	49	32	23	33	38
Wisconsin	43	33	43	14	27	31

Breaking the *State Business Tax Climate Index* into its subcomponents allows us to compare the structure of each major tax type. Nearly all neighboring states have better corporate tax codes than Illinois. However, many Illinois businesses file income taxes through the individual income tax code, where Illinois scores relatively well compared to most of its neighbors. Illinois scores poorly in terms of sales tax, unemployment insurance tax, and property tax.

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. Component rankings do not average to the overall rank. States without a given tax rank equally as number 1 in that component. Source: Tax Foundation, 2015 *State Business Tax Climate Index*.

Illinois' Tax Burden Ranks Higher than Most Other States' Burdens

Total State-Local Tax Burden as a Percent of State Residents' Income, Illinois and Neighboring States (FY 2011)



Illinois' total state-local tax burden is ranked 13th highest in the country and above most of its neighbors. The average Illinois taxpayer paid \$4,658 in state and local taxes in 2011, amounting to 10.2 percent of state residents' total income. Illinoisans pay approximately 74 percent of their total tax burden to state and local governments in Illinois and pay the remaining share to out-of-state jurisdictions.

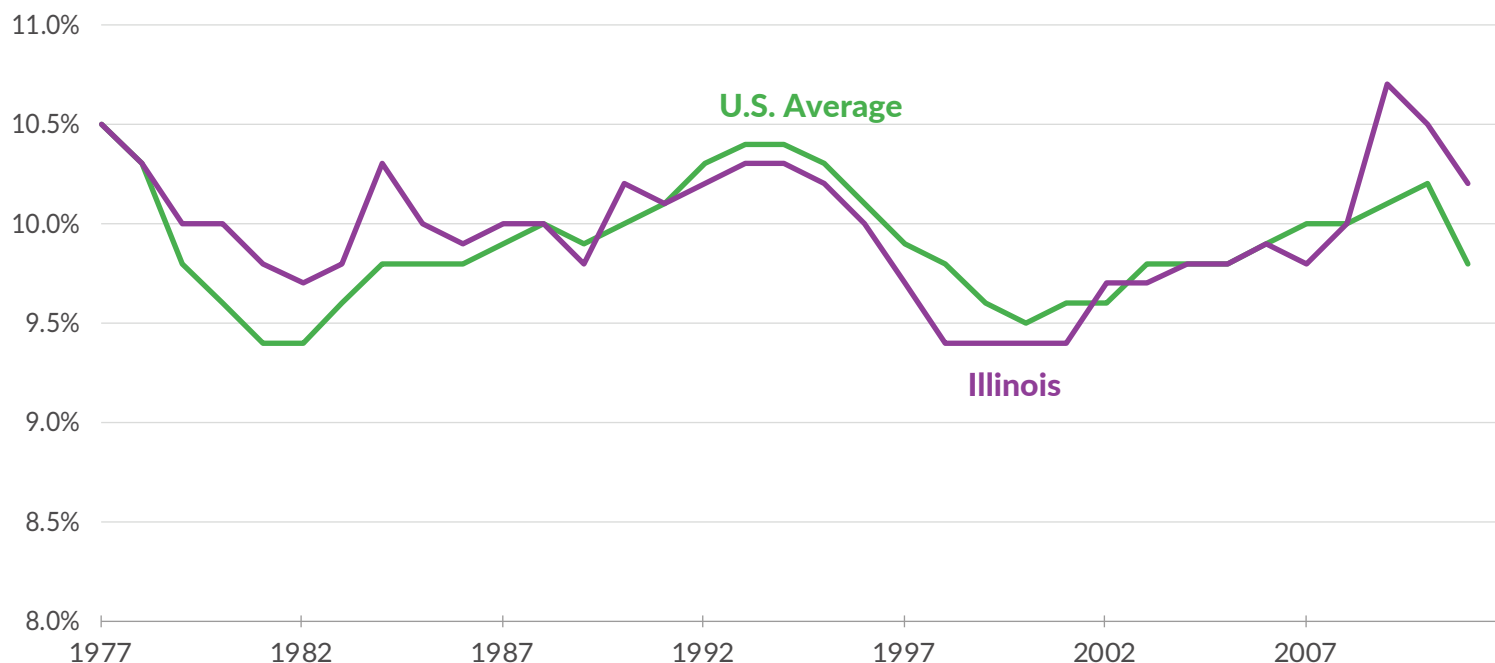
Illinois taxpayers pay state and local taxes not only to Illinois but also to other state and local governments due to tax shifting across state lines. For example, sales and excise taxes are paid by nonresident tourists when they travel to other states and spend money on lodging and food.

Note: Total state-local tax burden includes all taxes levied by state and local governments. For a full list of taxes included, see Tax Foundation *Working Paper No. 10*.

Source: Tax Foundation, *Annual State-Local Tax Burden Ranking* (FY 2011).

Illinois' Tax Burden Is Now Higher than the U.S. Average

Total State-Local Tax Burden as a Percent of State Income, Illinois and U.S. Average (FY 2011)



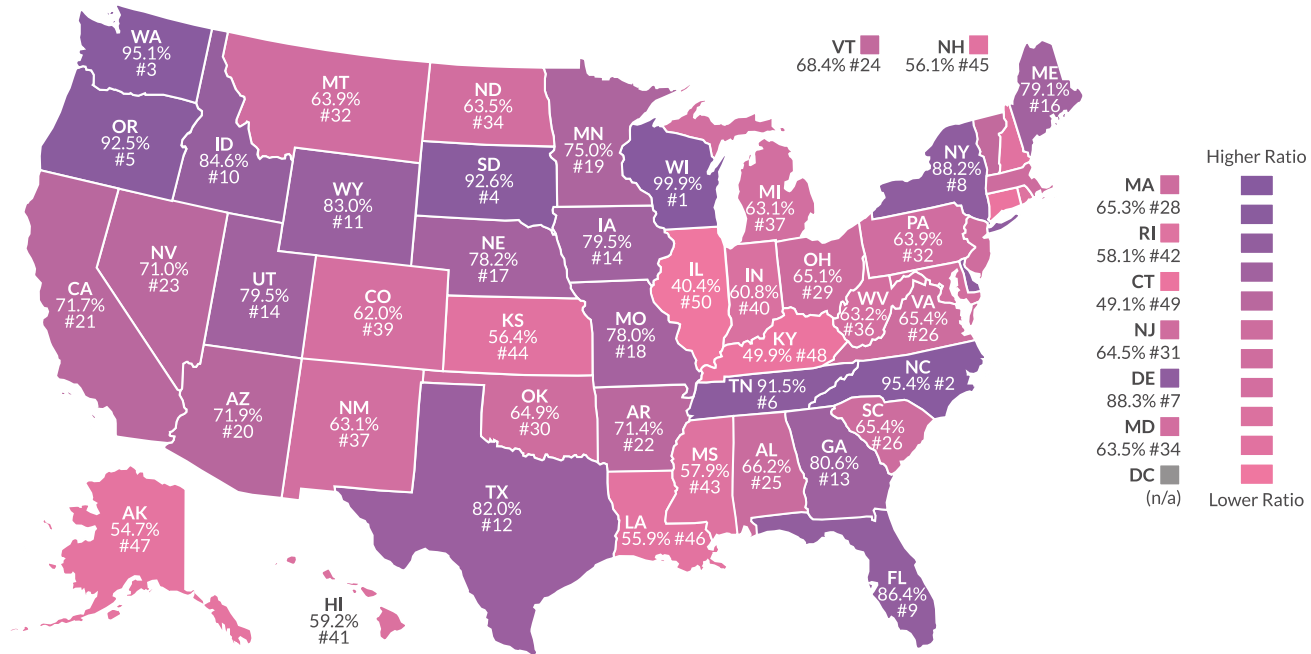
Since 1977, state and local tax burdens in Illinois have fluctuated around the U.S. national average. In the late 1970s through the late 1980s, tax burdens in Illinois were higher than average. That trend flipped in the early 1990s through the early 2000s. Since 2008, Illinois' tax burdens have exceeded that of the U.S.

Three things can change a state's tax burden as a share of income: changes in taxes paid to other states, changes in taxes paid to the home state, and changes in state income.

Note: For a full list of definitional terms and methodology, see Tax Foundation *Working Paper No. 10*.
Source: Tax Foundation, *Annual State-Local Tax Burden Ranking* (FY 2011).

Illinois Has the Most Under-Funded Public Pensions in the Country


Funded Portion of State-Sponsored Pension Plans (2012)



Public pensions, or the retirement benefits promised to public employees, are an important state budgetary consideration. The degree to which a state meets these obligations offers a glimpse of that state's financial soundness. This measure is referred to as a "funded ratio" because it estimates the amount of pension obligations that a state can pay at this time. As of 2012, Illinois could only pay for 40.4 percent of existing public pension liabilities—the least in the nation.

Note: "Funded Ratio" is defined as actuarial value of assets divided by actuarial accrued liabilities.

Source: Standard & Poor's Ratings Services, *U.S. State Pension Funding: Strong Investment Returns Could Lift Funded Ratios, But Longer-Term Challenges Remain*, Table 3A (June 2014).

A large, multi-story brick building with many arched windows, identified as Peoria City Hall. The building is made of reddish-brown brick and features numerous arched windows on each floor. The roof has several gables and dormers. In the foreground, there are some trees, a street lamp, and a blue mailbox.

CHAPTER 3

Individual Income Tax in Illinois

Among the states that levy income taxes on wages and salaries, Illinois is one of seven that has a single-rate, rather than graduated-rate, tax structure. As of 2015, the Illinois rate is one of the lowest in the country at 3.75 percent. This has positive implications for both individual and business taxpayers.

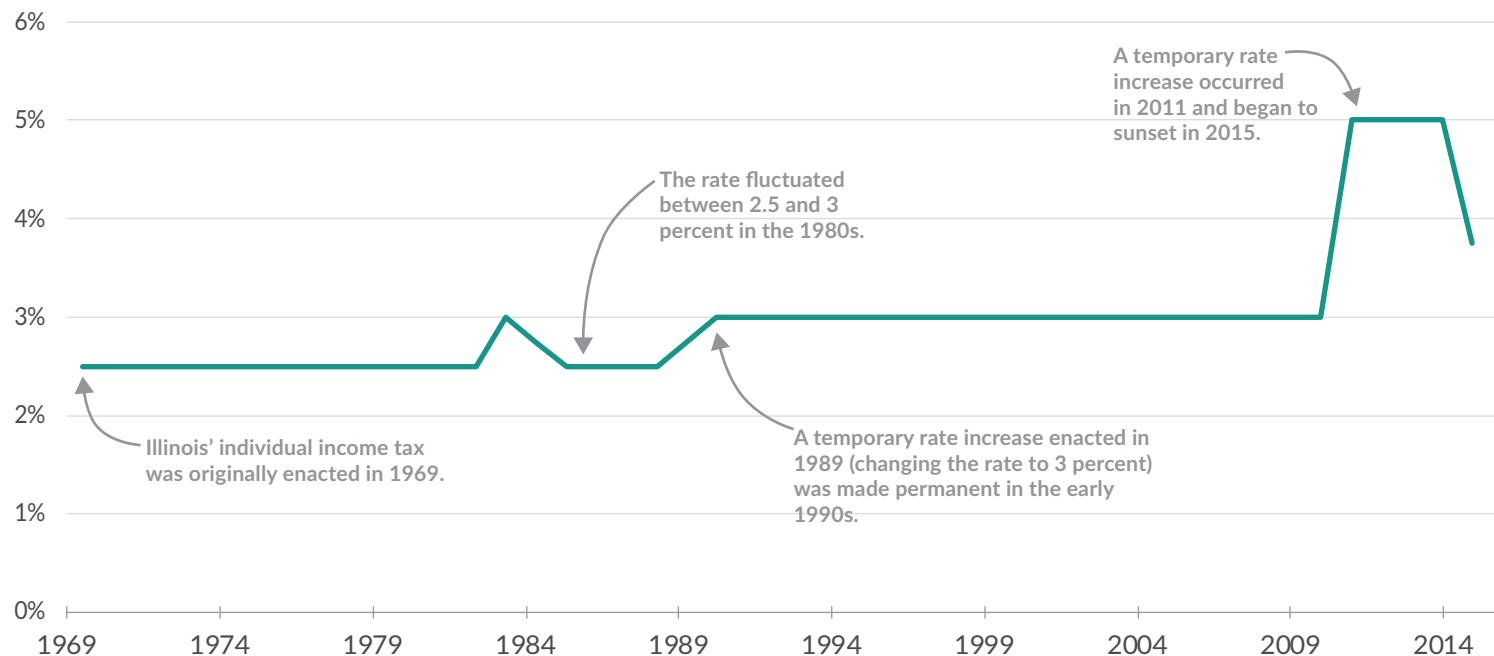
Illinois lawmakers responded to the most recent recession with an individual income tax increase, which began to sunset at the end of 2014. Prior to this, the Illinois rate had generally seen an upward trend over time (except for brief fluctuations in the 1980s).

But rates are only one component of the overall tax structure—the tax base matters too. Illinois has many high-cost individual income tax expenditures that carve away at the income tax base. The most notable is the expenditure for retirement income, which amounted to \$2.23 billion in 2013.

The 2011 rate increase had one striking result: Illinois' individual income tax collections per person in 2012 were higher than the all-state average. This was a recent change, however. Prior to 2011 and at least as far back as the late 1970s, Illinois' collections per person had always been below the U.S. average.

Illinois' Individual Income Tax Rate Has Fluctuated over Time

Individual Income Tax Rate, Illinois (1969-2015)

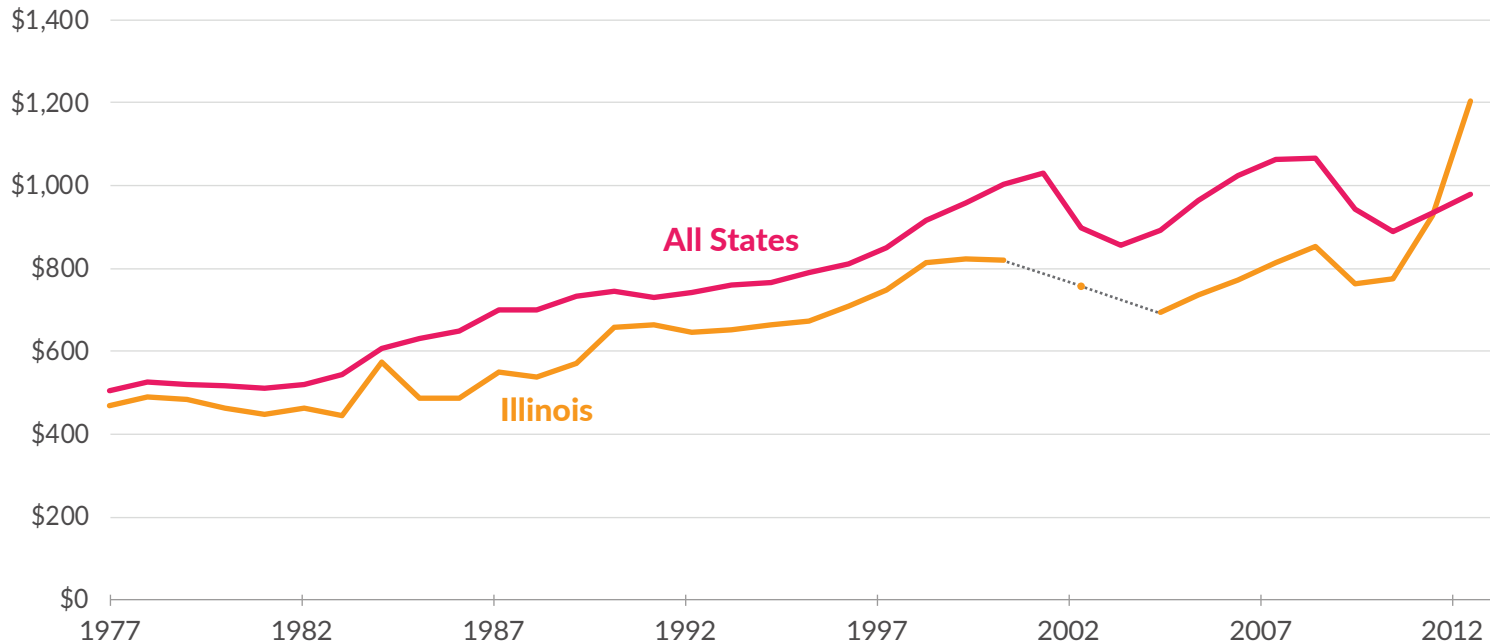


The Illinois individual income tax has a history of temporary increases, one of which was made permanent. The tax was originally created in 1969 with a rate of 2.5 percent levied on all incomes. After brief fluctuation in the 1980s, the rate increased to 3 percent in the early 1990s. The rate remained constant for two decades before a temporary rate increase was enacted in 2011. Rates dropped to 3.75 percent at the start of 2015 and are scheduled to drop further to 3.25 percent in 2025.

Source: Illinois Department of Revenue, *Tax Rate Database*; Illinois Economic and Fiscal Commission, *Illinois Individual Income Tax* (May 2002); Illinois General Assembly, *Illinois Compiled Statutes*.

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*.

How Does the Illinois Individual Income Tax Impact Real People?

The way a state chooses to structure its income tax matters for real people. These six scenarios show how low- or high-income Illinois taxpayers with or without children fare under the code in Illinois and its six neighboring states.

Illinois Tax Bill







	Jack	Jason & Nicole	Justine	Max & Danielle	Sam & Ellen	Heidi & Bret
						
		Retired				
Filing Status	Head of Household	Married Filing Jointly	Single	Married Filing Jointly	Married Filing Jointly	Married Filing Jointly
Income	\$15,930	\$38,304	\$33,113	\$83,546	\$413,378	\$1,747,714
Exemptions	2	2	1	4	2	4
Income Taxes Paid to Illinois	\$106	\$0	\$1,161	\$2,810	\$15,340	\$65,217
Effective Tax Rate (ETR), Illinois	0.7%	0.0%	3.5%	3.4%	3.7%	3.7%
ETR, Federal + Illinois	-20.1%	0.0%	12.4%	12.1%	26.9%	33.7%

Note: All calculations are made for the 2015 tax year and reflect state statutes and tax rates as of January, 1, 2015. This assumes an equal split of income between spouses, all income was earned in the state of filing, no estimated tax payments were made in advance, and there were no interest or penalties charged. This does not include Illinois' property tax credit.

Source: State statutes and forms; Tax Foundation calculations.

Tax Bills in Other Select States in the Region

If these same Illinoisans lived in one of the states below, these would be their income tax bills.

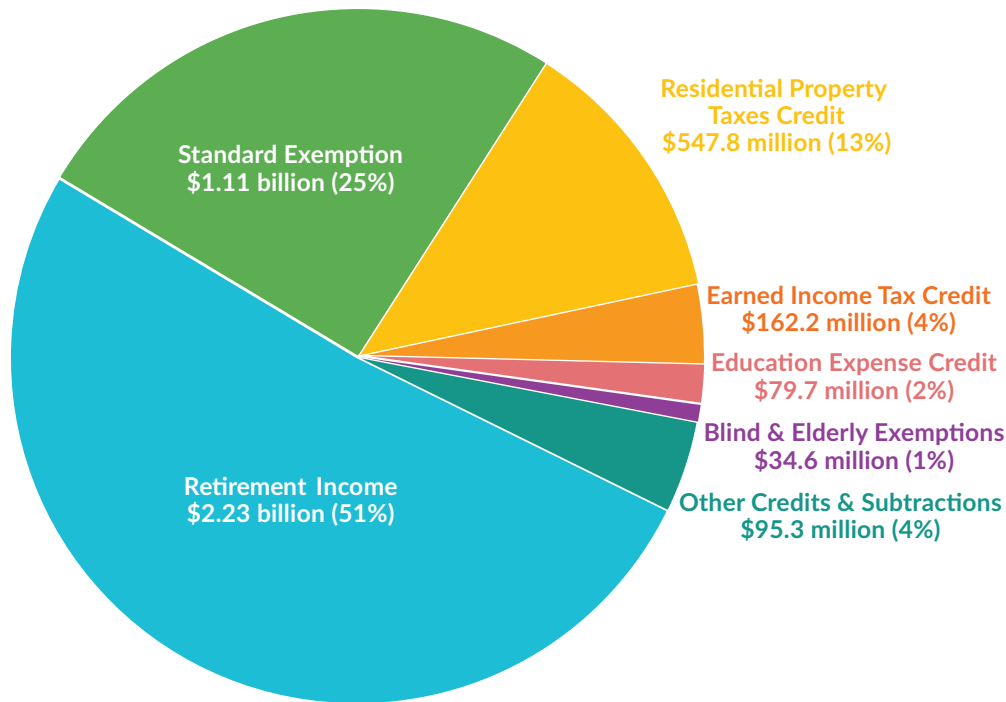
	Jack	Jason & Nicole	Justine	Max & Danielle	Sam & Ellen	Heidi & Bret
						
		Retired				
Filing Status	Head of Household	Married Filing Jointly	Single	Married Filing Jointly	Married Filing Jointly	Married Filing Jointly
Income	\$15,930	\$38,304	\$33,113	\$83,546	\$413,378	\$1,747,714
Exemptions	2	2	1	4	2	4
Total Taxes Paid in:						
Illinois	\$106	\$0	\$1,161	\$2,810	\$15,340	\$65,217
Indiana	\$146	\$359	\$1,060	\$2,592	\$13,575	\$57,510
Iowa	-\$228	\$148	\$1,294	\$4,410	\$24,177	\$88,810
Kentucky	\$1	\$1,878	\$1,587	\$4,495	\$22,826	\$91,721
Michigan	\$139	\$1,288	\$1,237	\$2,871	\$17,229	\$73,598
Missouri	\$136	\$1,233	\$1,342	\$3,864	\$23,738	\$103,714
Wisconsin	-\$132	\$1,050	\$1,233	\$4,292	\$26,704	\$128,674

Note: All calculations are made for the 2015 tax year and reflect state statutes and tax rates as of January, 1, 2015. This assumes an equal split of income between spouses, all income was earned in the state of filing, no estimated tax payments were made in advance, and there were no interest or penalties charged. This does not include Illinois' property tax credit or local income taxes, which are levied in some states and can be substantial (Indiana, Iowa, Kentucky, Michigan, and Missouri have local income taxes).

Source: State statutes and forms; Tax Foundation calculations.

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).

CHAPTER 4

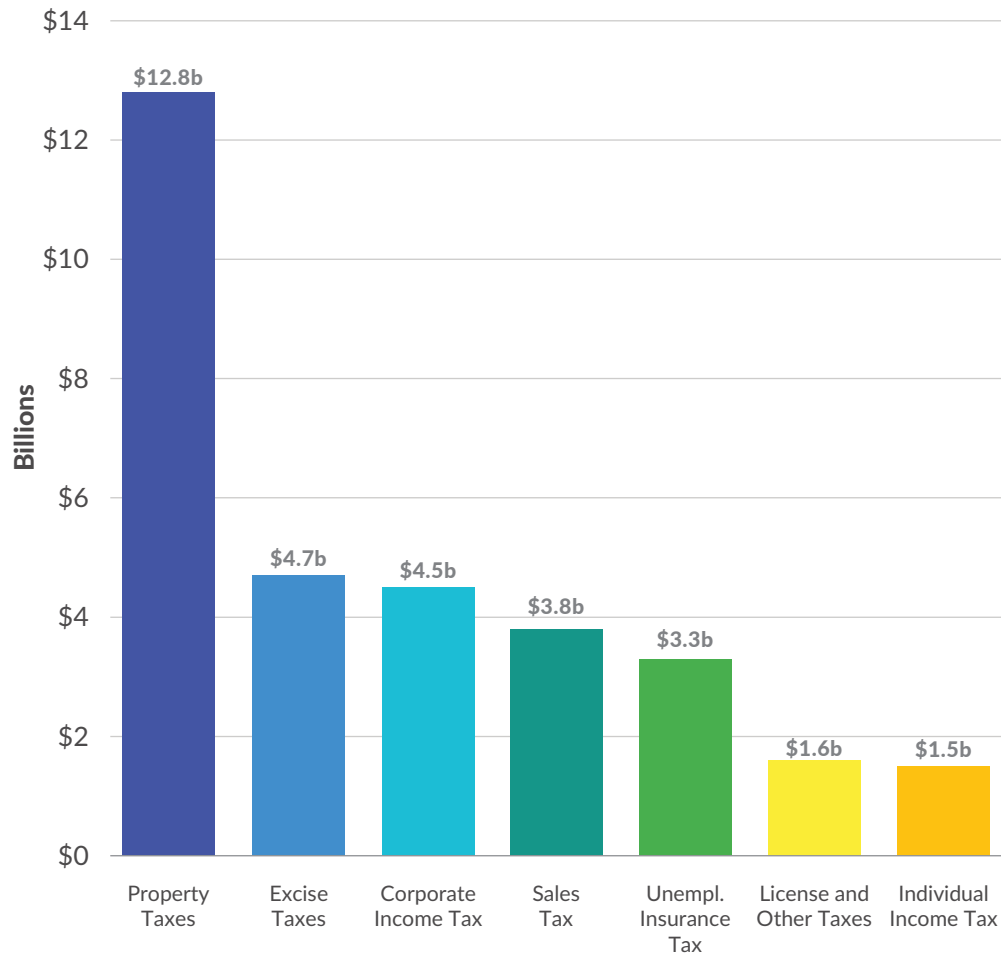
Business Taxes in Illinois

All taxes paid by businesses are ultimately borne by people—whether it's in the form of higher prices, lower wages, or smaller returns on investment. In Illinois, businesses paid \$32.3 billion in total taxes in 2013, primarily toward taxes other than the corporate income tax (the most recognizable type of business tax). In reality, many firms are pass-through entities such as limited liability companies (LLCs), S-corporations, and sole proprietorships that pay individual income taxes rather than corporate income taxes. Businesses also pay property, sales, and excise taxes, among others.

Illinois' business tax structure has several flaws. Not only is the corporate income tax rate comparatively high both regionally and nationally, the state has many business incentives that carve away at the tax base. Additional detrimental features exist, including application of the sales tax to several business inputs, lack of horizontal equity, and existence of a capital stock tax (a tax that most states have eliminated).

Businesses Don't Just Pay Corporate Income Taxes

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



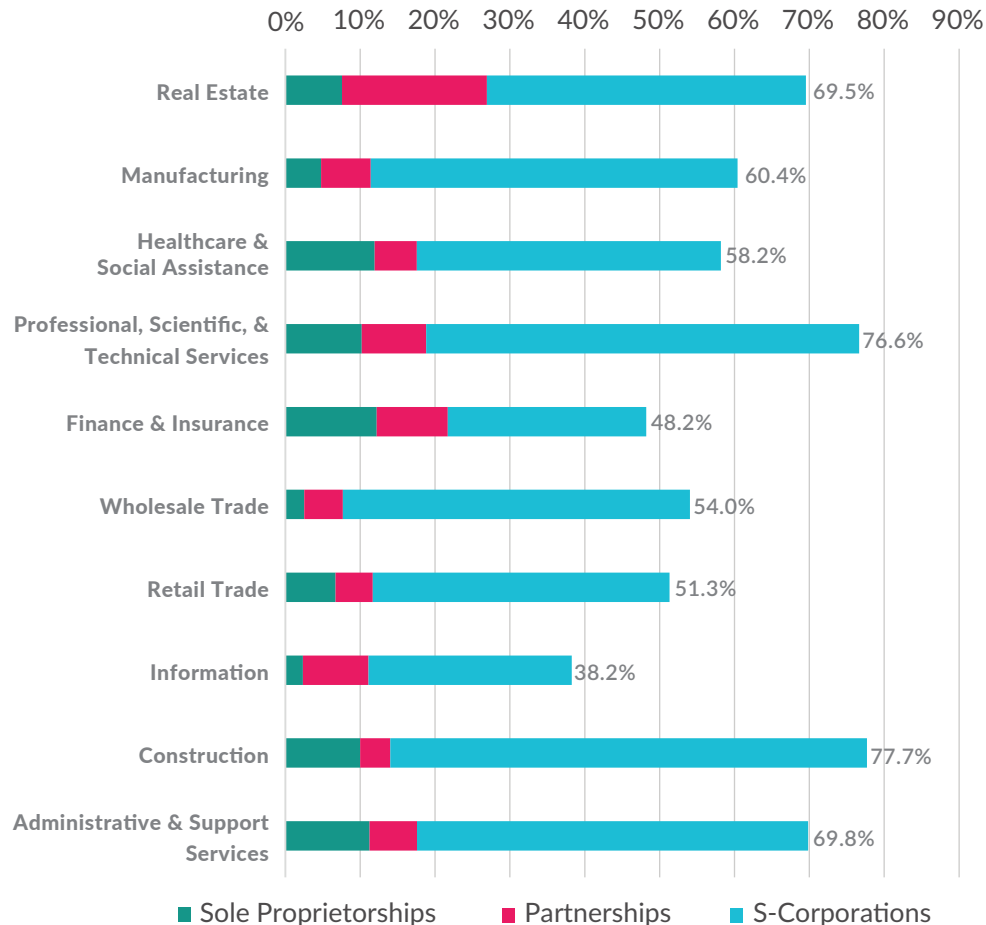
A common misconception is that corporate income taxes are the only tax cost for businesses. However, businesses pay a number of other taxes, including property taxes on real estate, sales taxes on the goods they use, and individual income taxes on business income (if they're pass-through entities that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

Businesses Pay Individual Income Taxes Too

Percent of Employer Businesses that Are Pass-Through Entities in Illinois' Ten Largest Private Industries (2011)



Firms that pay individual income taxes rather than corporate income taxes are known as “pass-through” or “flow-through” entities because business income “flows through” to the owner’s individual income tax return. Sole proprietorships, partnerships, and S-corporations are all types of pass-throughs.

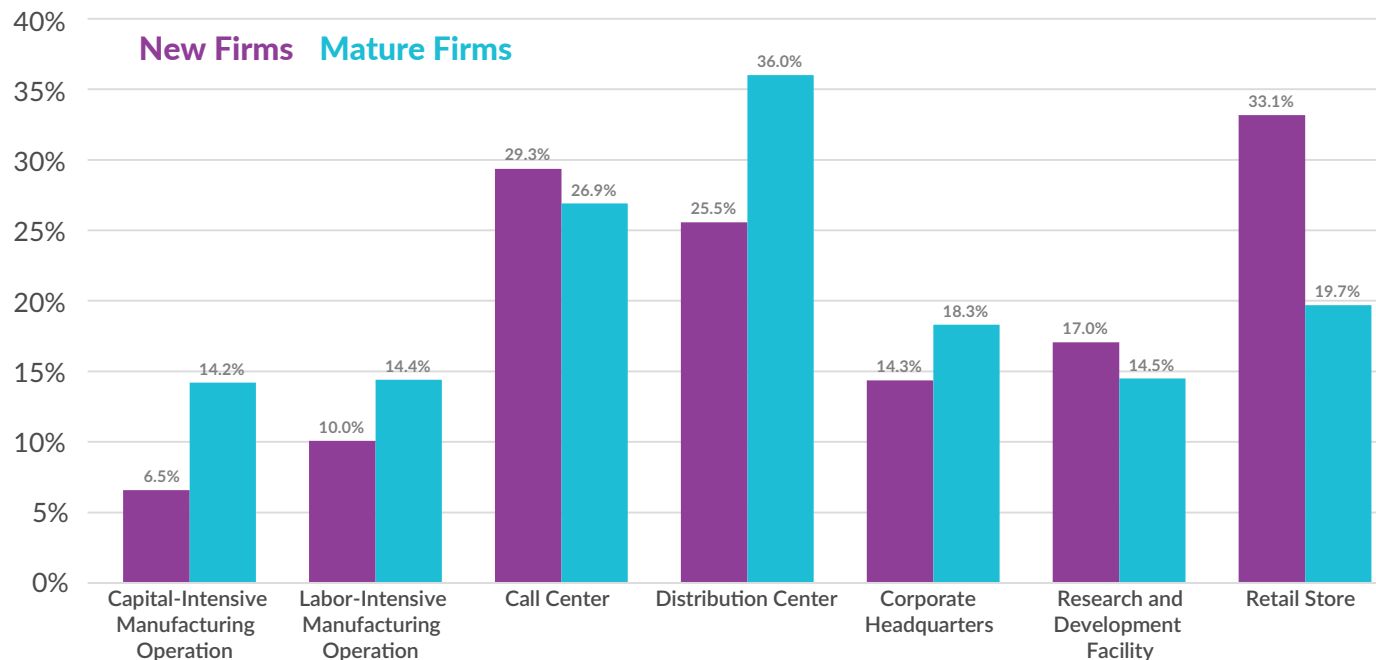
Sixty-one percent of all employers with payroll in Illinois are pass-through entities, but that share varies for specific sectors of the economy. However, it’s important to note that even though this page breaks down the total number of employer firms, when we consider the aggregate number of workers at businesses with payroll in Illinois, most of them work at traditional corporations (known as C-corporations).

Note: Industries listed are the ten largest private sector industries in Illinois as determined by share of total state GDP. This does not include non-employer firms.

Source: Census Bureau, *County Business Patterns*; Bureau of Economic Analysis, *Regional Economic Accounts, Gross Domestic Product (GDP) by State, “GDP in current dollars.”*

Effective Tax Rates Vary Widely by Industry and Age of Firm

Total Effective Tax Rates for Select Illinois Business Types, New and Mature Firms (2015)



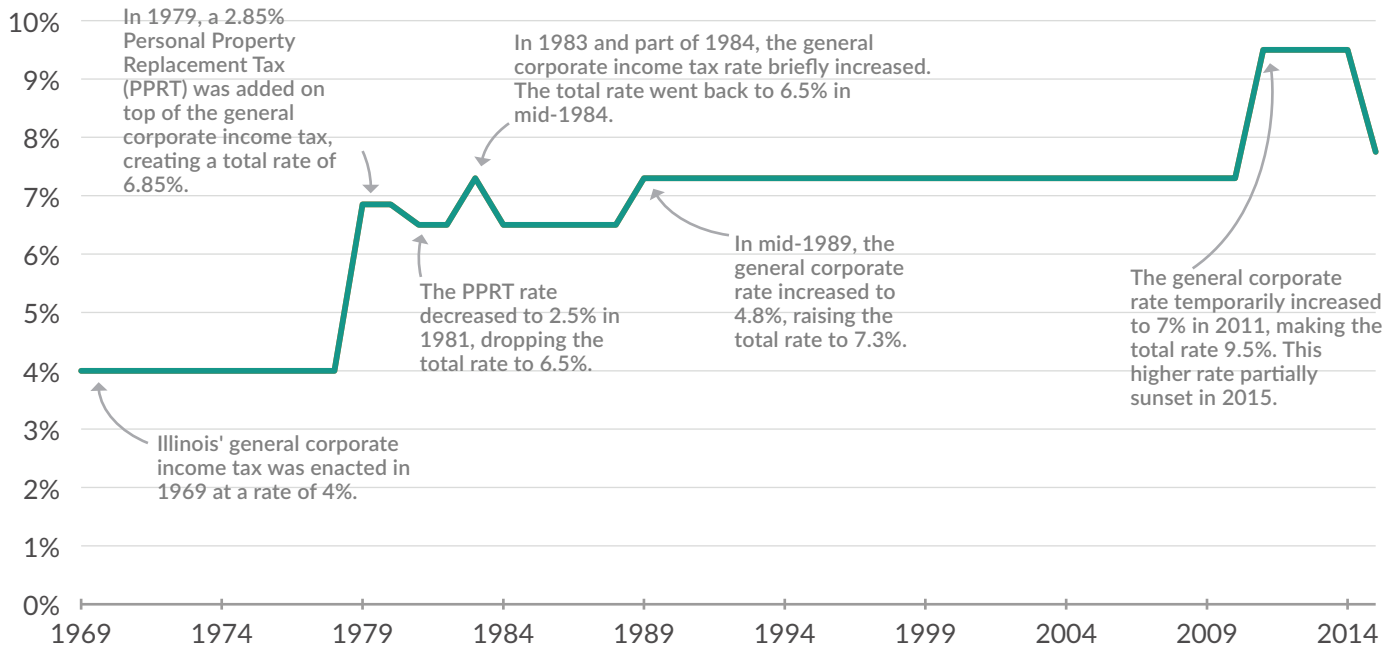
The Tax Foundation's *Location Matters* study calculates the tax bills in every state for 14 hypothetical firms (one new and one mature) in seven different industries. Under the existing Illinois tax code, new and mature firms tend to be treated differently. This feature is most pronounced in the retail industry, among distribution centers, and for capital-intensive manufacturing firms. Ideally, firms in the same industry should face the same effective tax rate, regardless of whether they are new or mature.

Note: Total effective tax rate only includes state and local tax liability, not federal tax liability.

Source: Tax Foundation, *Location Matters: A Comparative Analysis of State Tax Costs to Business* (2015, forthcoming).

Corporate Income Tax Rate Has Fluctuated over Time

Illinois' Total Corporate Income Tax Rate (1969-2015)



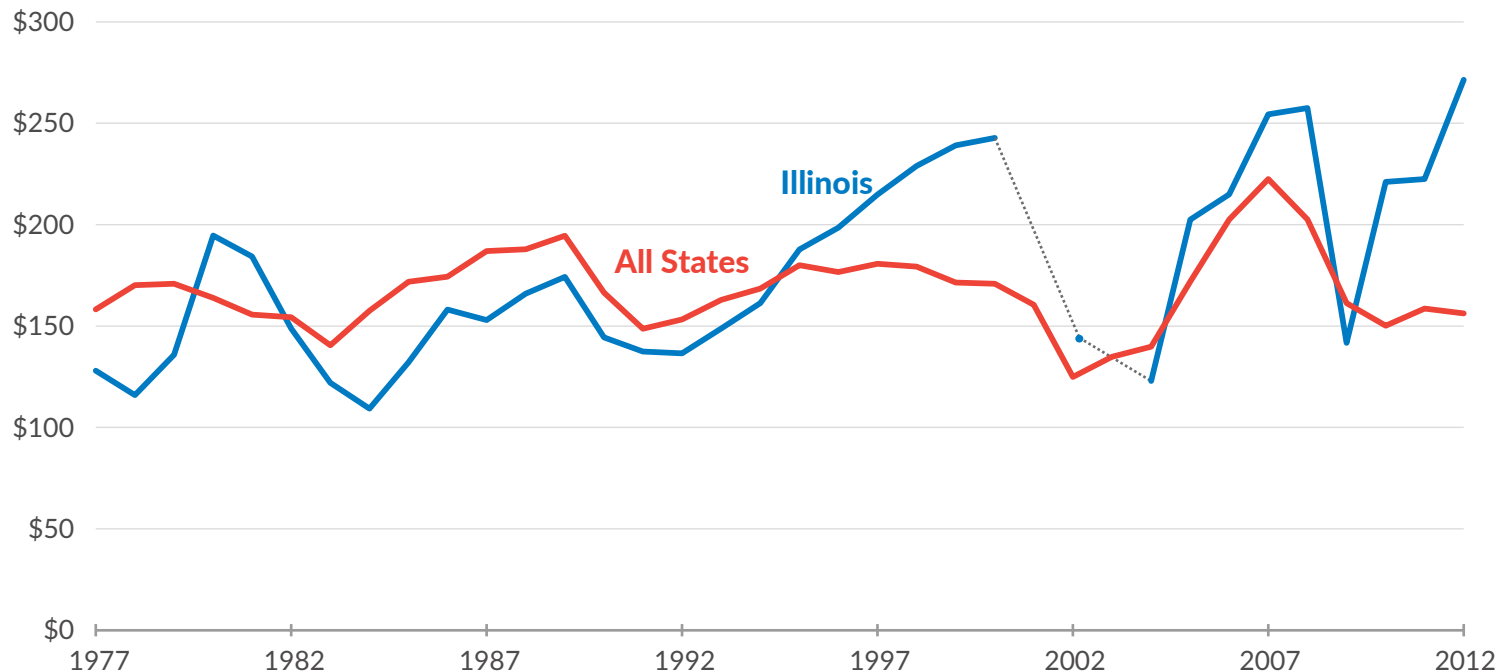
Illinois' corporate income tax is the 17th highest in the nation. The 7.75 percent rate includes two components: the general corporate income tax (with a current rate of 5.25 percent levied on net income) and what is known as the "Personal Property Replacement Tax" (PPRT) (an additional 2.5 percent rate, also levied on net income). The PPRT was added in 1979 to make up for reduced local tax revenues as a result of the removal of business personal property taxes.

Note: "Total Corporate Income Tax Rate" includes the corporate income tax and Personal Property Replacement Tax.

Source: Illinois General Assembly, *Illinois Compiled Statutes*; Illinois Economic and Fiscal Commission, *Illinois Corporate Income Tax* (July 2002).

Corporate Income Tax Collections per Person Are Volatile

**Total State and Local Corporate Income Tax Collections per Capita, Illinois and U.S.
(1977-2012, in 2012 Dollars)**

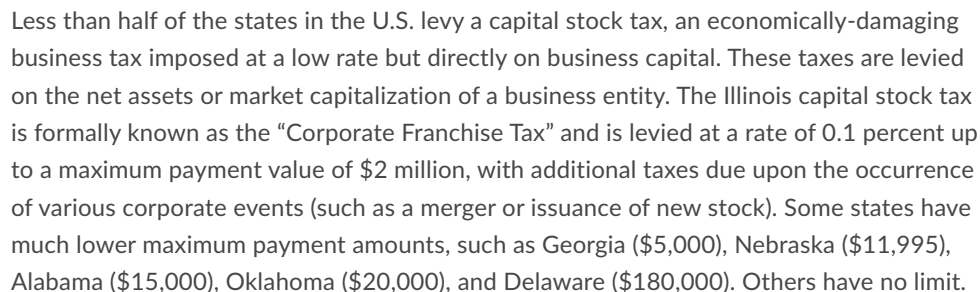


Corporate income tax collections per person in Illinois are currently higher than the U.S. level and have fluctuated widely over time. While corporate income taxes are often a popular tool among state lawmakers for funding state governments, they are an unreliable tool because of their instability over the business cycle.

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*.

States with and without Capital Stock Taxes (as of January 1, 2015)



Source: Tax Foundation, *Facts & Figures 2015: How Does Your State Compare?*

CHAPTER 5

Sales Taxes in Illinois

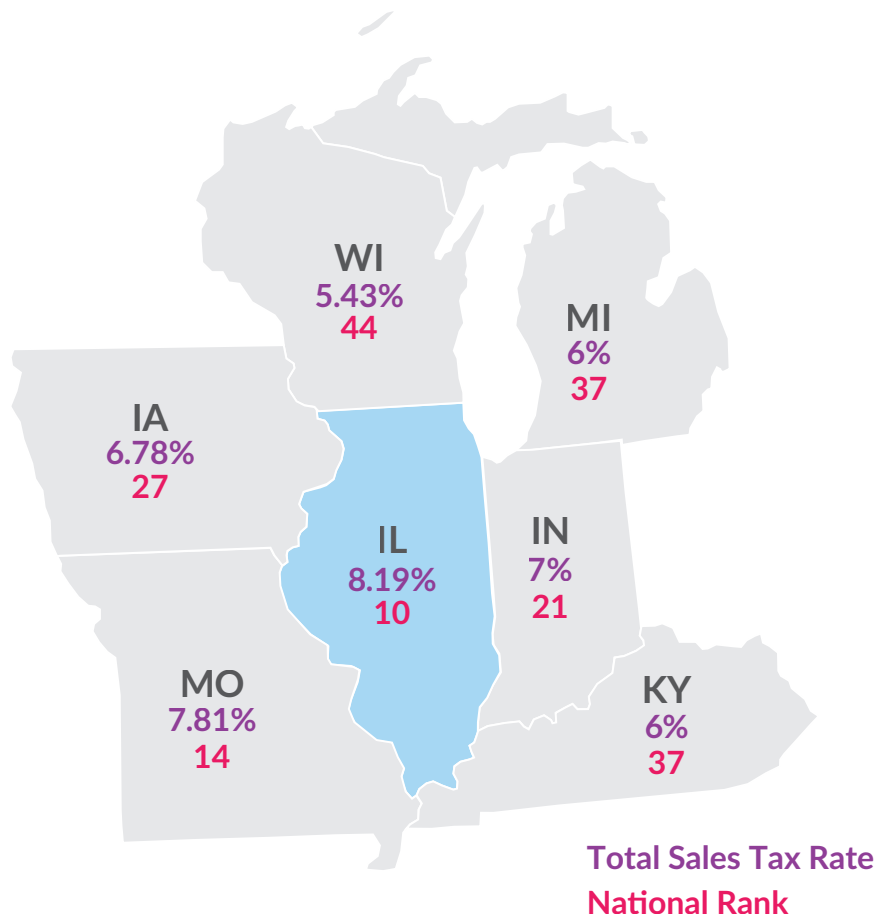
Illinois' sales tax rate is high compared to both the region and the nation in part due to a high state-level tax but also as a result of additional local option sales taxes. The state-level rate has generally increased over time, and this can be partially attributed to a shrinking tax base.

The shrinking sales tax base is not unique to Illinois. States tend to levy sales taxes on goods, even though the services sector now makes up a much larger share of the economy than when sales tax statutes were written in the 1930s. Over time, the decreasing tax base has contributed to the stagnation of sales tax collections per person in Illinois, even as the rate has increased.



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)



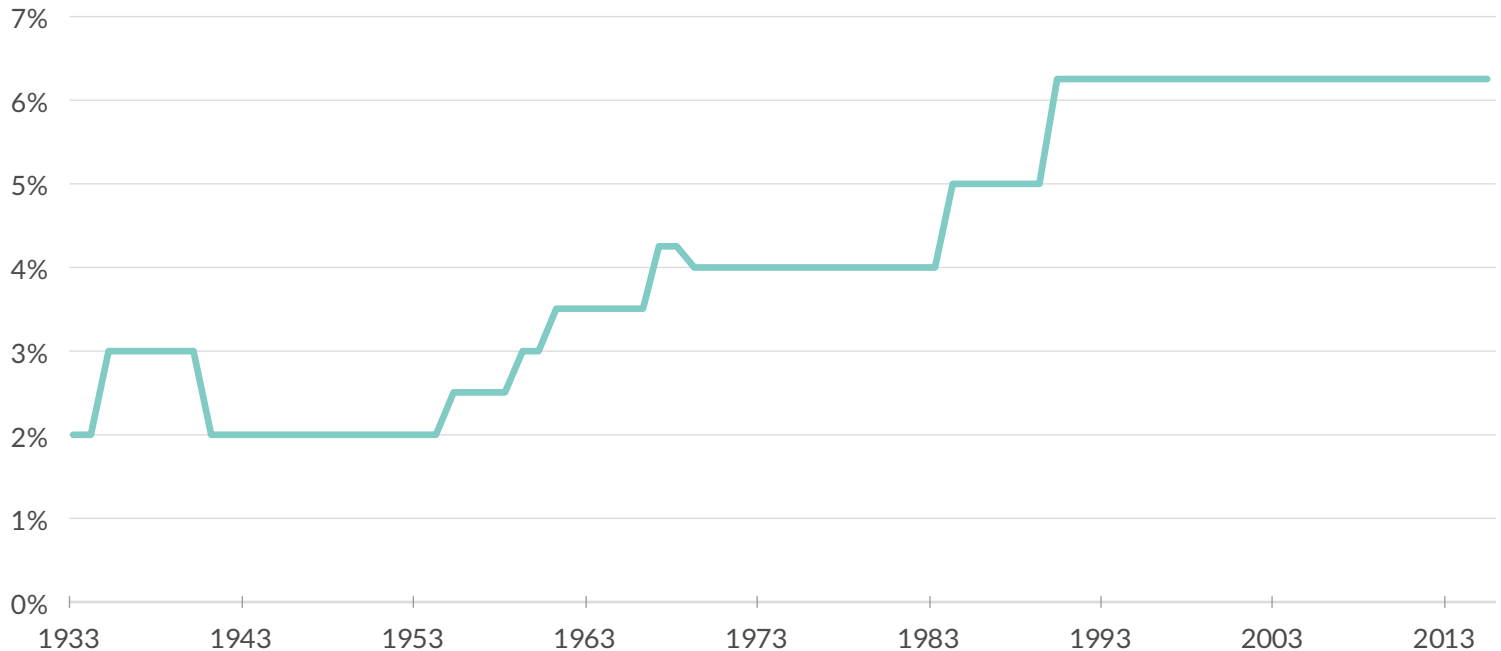
Sales taxes in most states are levied at both the state and local levels. Illinois' state-level rate (6.25 percent), which is already high compared to other states, is made higher by the additional local taxes that are tacked on top.

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?*

State-Level Sales Tax Rate Has Risen over Time

Illinois' State Sales Tax Rate (1933-2015)



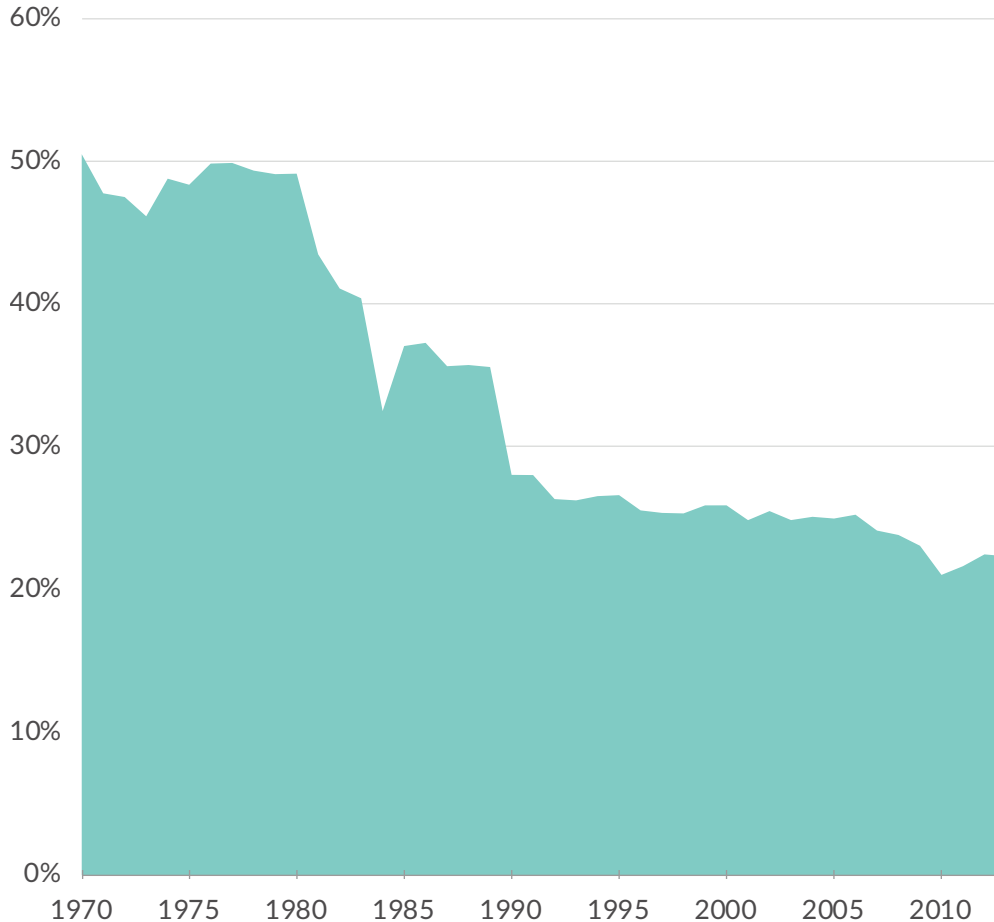
Since its creation in 1933, Illinois' state sales tax rate has more than tripled from 2 percent to 6.25 percent today. Except for two brief rate decreases (one in 1941 and another in 1969), the sales tax rate has increased over time. The current state-level rate of 6.25 percent is the 12th highest in the country.

Note: This does not include local option sales taxes (see previous page).

Source: Illinois Commission on Government Forecasting and Accountability, *Sales Taxes in Illinois* (May 2010); Commerce Clearing House.

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.

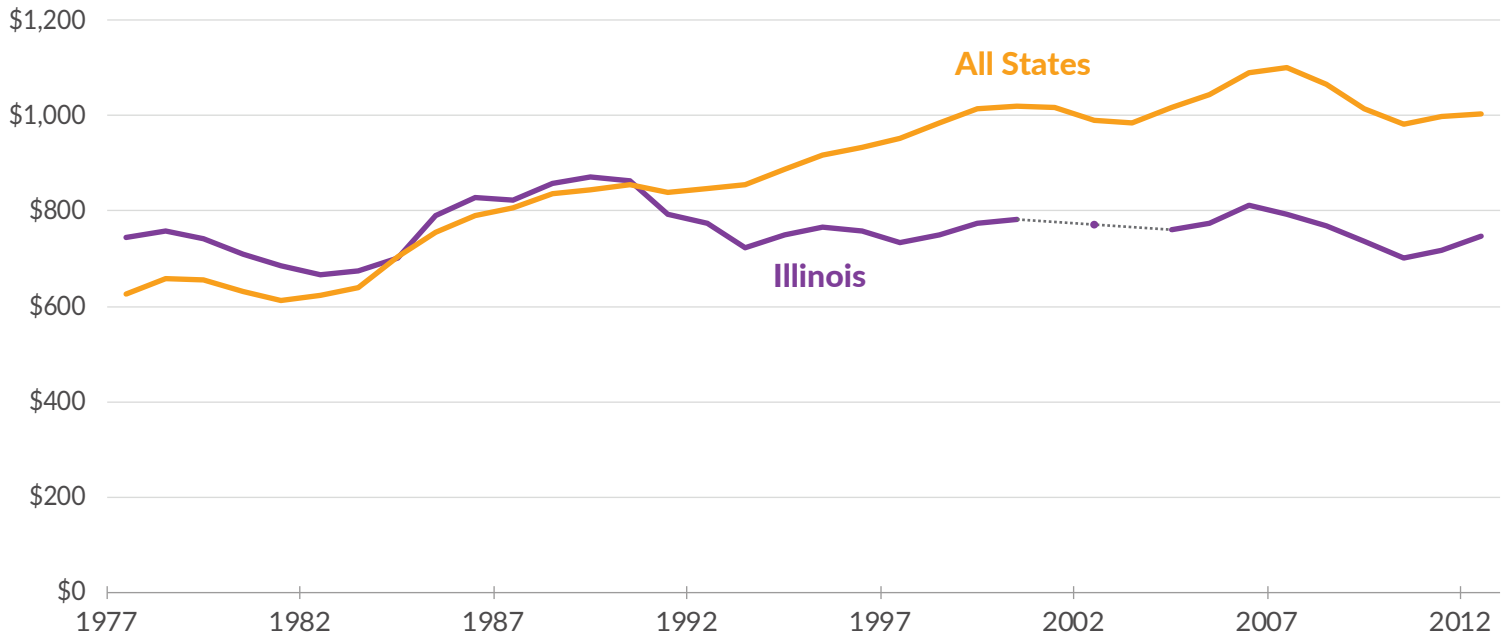
When sales taxes were created in the 1930s, they were levied on tangible goods, which at the time were a large part of the overall economy. However, the economy has become more service based since then. As a result, the sales tax is not nearly as productive. Further, by failing to tax consumer services, 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 Mikesell (Indiana University).

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)**



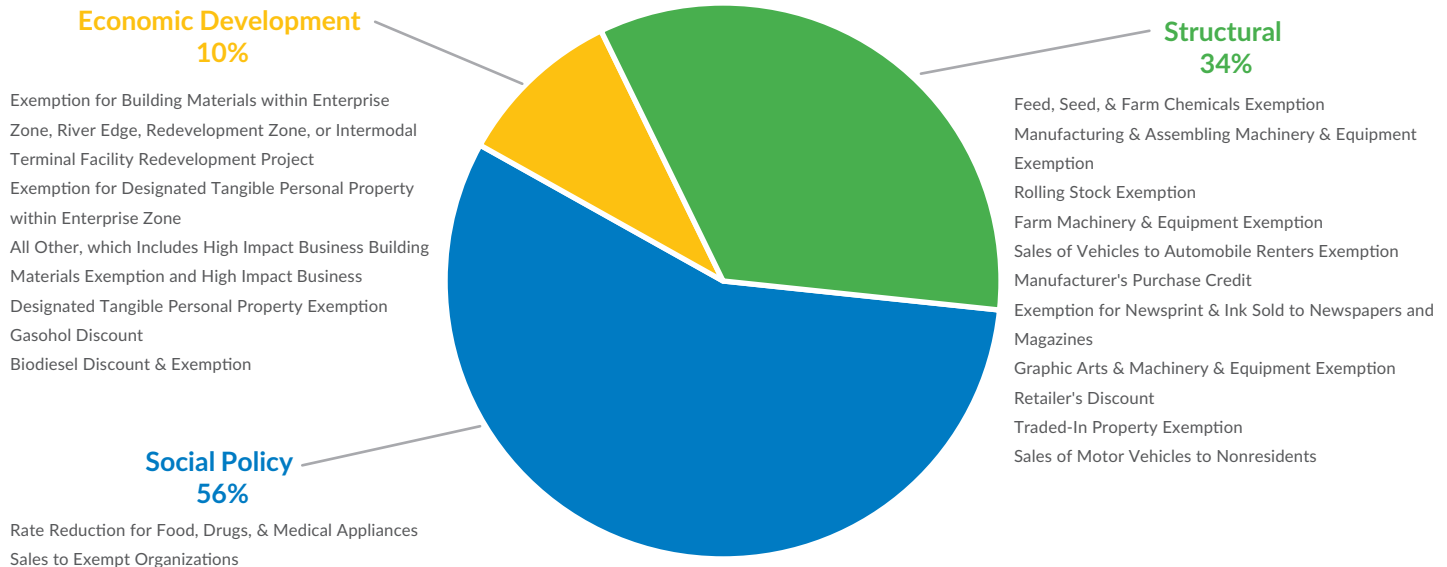
Illinois' state and local sales tax collections per person are much lower than the U.S. average, despite the fact that the state has a comparatively high total sales tax rate. While inflation-adjusted total U.S. collections exhibit an upward trend over time, Illinois' collections have remained relatively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

Not All Sales Tax Expenditures Are Created Equal

Illinois' Sales and Use Tax Expenditures, by Type (FY 2013)



When states quantify tax expenditures, they often mistakenly lump structural provisions with social policy carve-outs, when the two should be distinct. The former are tools used to ensure the sales tax is correctly structured—such as exemptions for business input purchases (to avoid tax pyramiding). Approximately 34 percent of sales tax expenditures fall into this category. Social policy carve-outs are specific policy decisions enacted for a certain purpose (56 percent fall into this category).

Source: State of Illinois Comptroller, *Tax Expenditure Report (Fiscal Year 2013)*.

CHAPTER 6

Excise Taxes in Illinois

States levy transactional taxes not only on general purchases (in the form of sales taxes) but also on specific types of transactions, such as the purchase of gasoline, alcohol, cigarettes, and wireless phone service. These taxes are known as excise taxes.

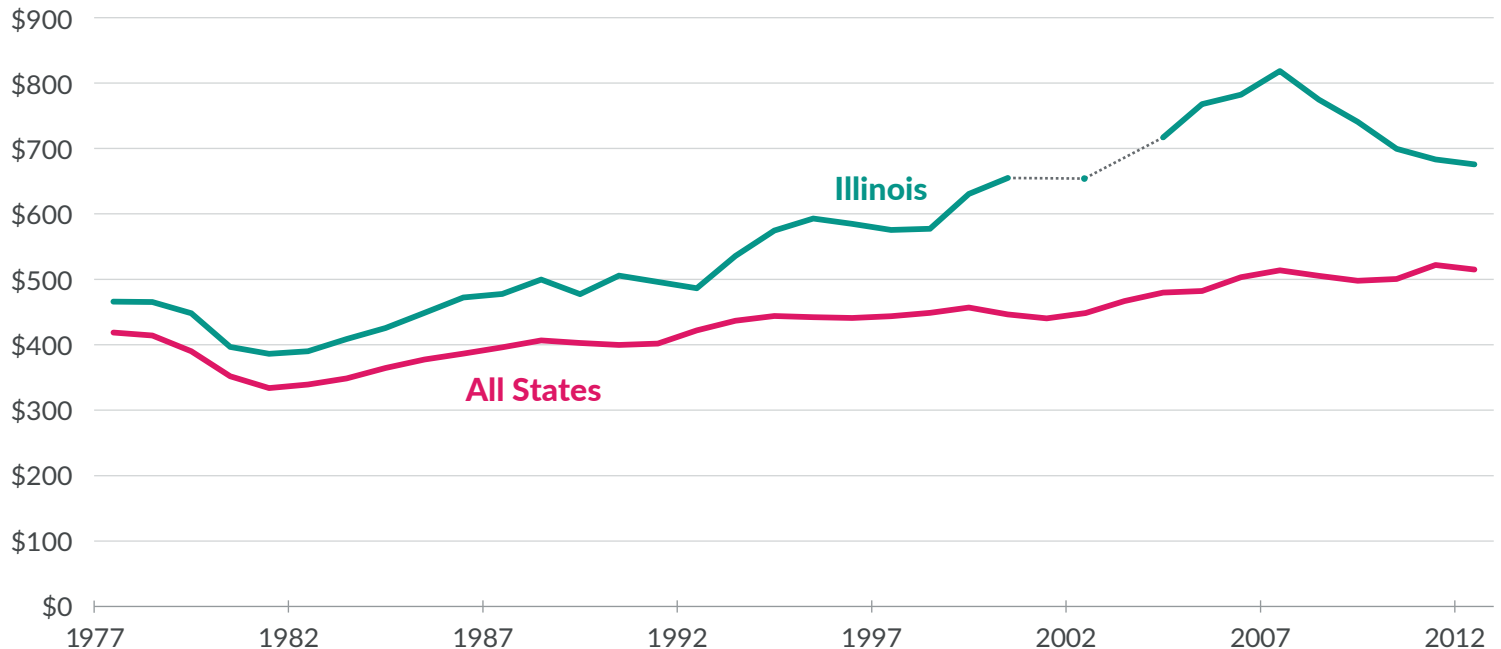
Excise tax collections per person have increased over time in Illinois and are much higher than the national average. We highlight three types of excise taxes in this chapter: gasoline excise taxes, “sin” taxes (on cigarettes and alcohol), and wireless phone service taxes.

Gasoline excise taxes in most states aren’t indexed for inflation, meaning that their value has eroded over time. This is also true for Illinois, however, gasoline is subject to the sales tax in Illinois as well as an excise tax. Sin taxes in Illinois, except for those on beer, tend to be comparatively high nationally. Wireless taxes are also well above the national average in Illinois.



Illinois' Total Excise Tax Collections per Person Are High

Total State and Local Excise Tax Collections per Capita, Illinois and U.S. (1977-2012, in 2012 Dollars)



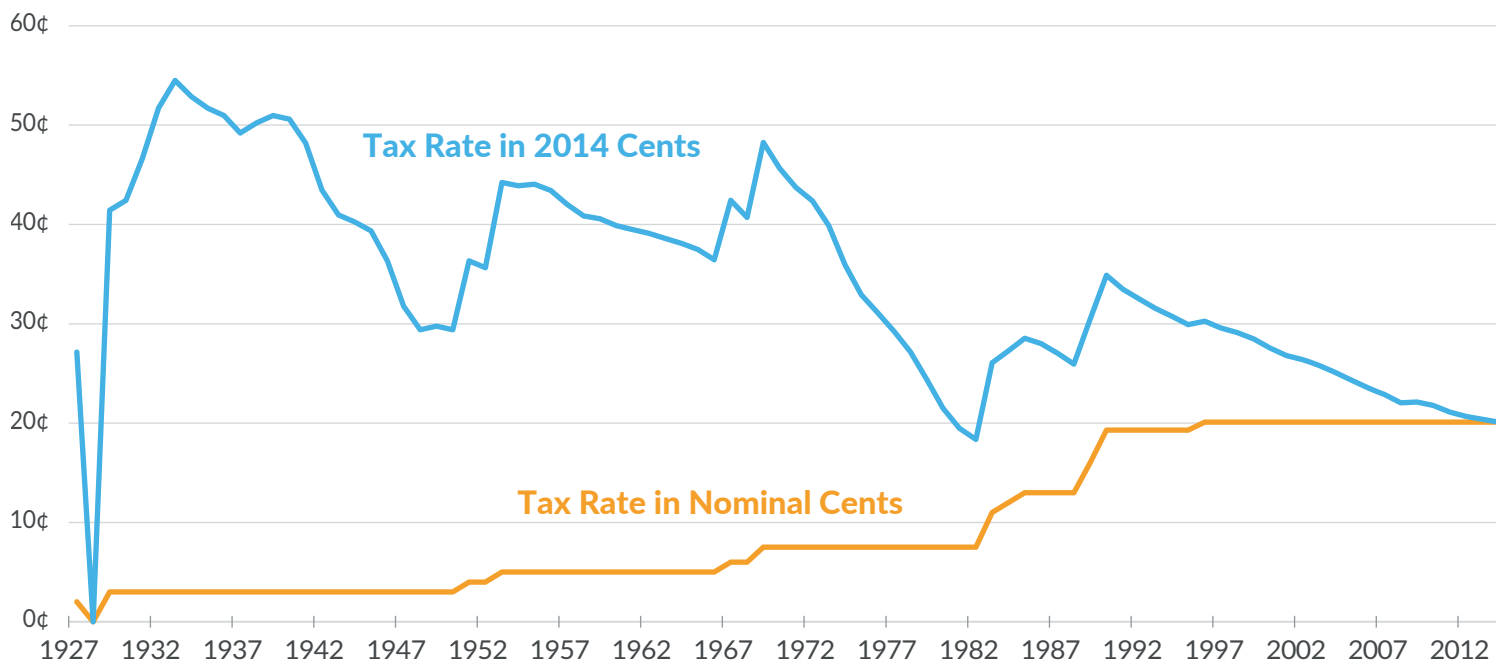
When all state and local excise taxes are considered, Illinois' collections per capita are well above the national average. Excise taxes include those levied on the purchase of gasoline, alcohol, cigarettes and other tobacco products, amusements, insurance premiums, public utilities, and others.

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*.

The Value of Illinois' Gas Tax Has Declined over Time

Illinois' Gasoline Tax Rate, Nominal and Real (1927-2014)



All states tax motor fuels with excise taxes on gasoline and diesel. Illinois' gas tax started at 2 cents per gallon in 1927 and has increased periodically to today's 20.1 cents per gallon (yellow line). The blue line shows each year's tax rate expressed in today's cents. For example, the 5 cent per gallon tax in 1957 is the equivalent of 42 cents per gallon today.

Note: Amounts are inflation-adjusted based on the annual average Consumer Price Index for All Urban Consumers (CPI-U) with a 2014 base year. Rates include the state gasoline excise tax, environmental impact fee, and underground storage fee. Fees are scheduled to sunset in January 2025. Rates do not include local excise taxes or state sales tax.

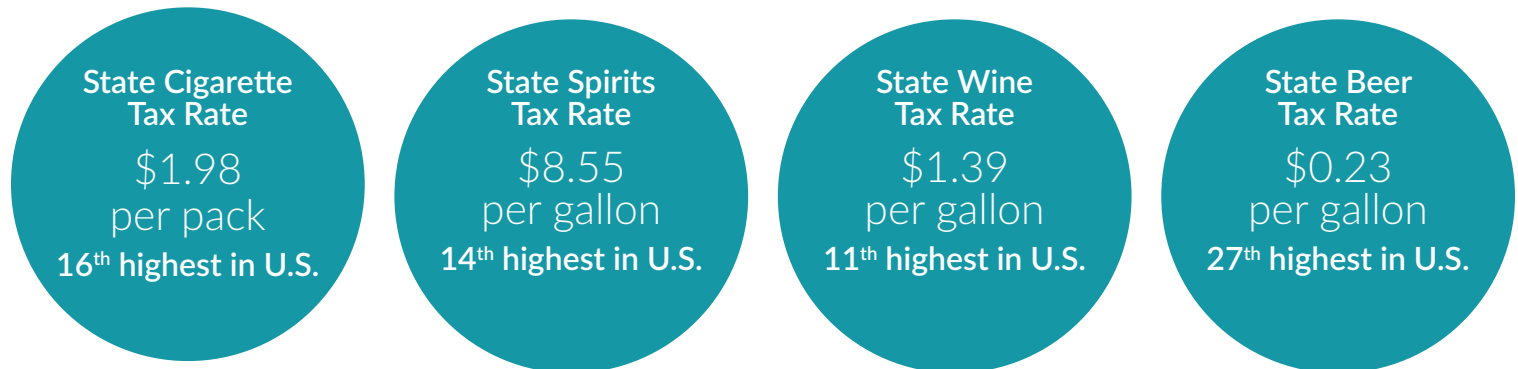
Source: Illinois General Assembly, *Illinois Compiled Statutes*; U.S. Federal Highway Administration, *Highway Statistics*; Bureau of Labor Statistics, *Consumer Price Indexes*.

Illinois' State Excise Taxes on Cigarettes and Alcohol

State Excise Tax Rates on Cigarettes, Spirits, Wine, and Beer (as of January 1, 2015)

Taxes on cigarettes and different types of alcohol are often referred to as “sin” taxes. While excise taxes on the sale of these specific types of goods should be used to offset the social costs created by their private use (such as the health issues associated with cigarette and alcohol use), sin taxes should not be used as a means to raise general revenues. The revenues aren't sustainable over the long run, and these taxes tend to be regressive.

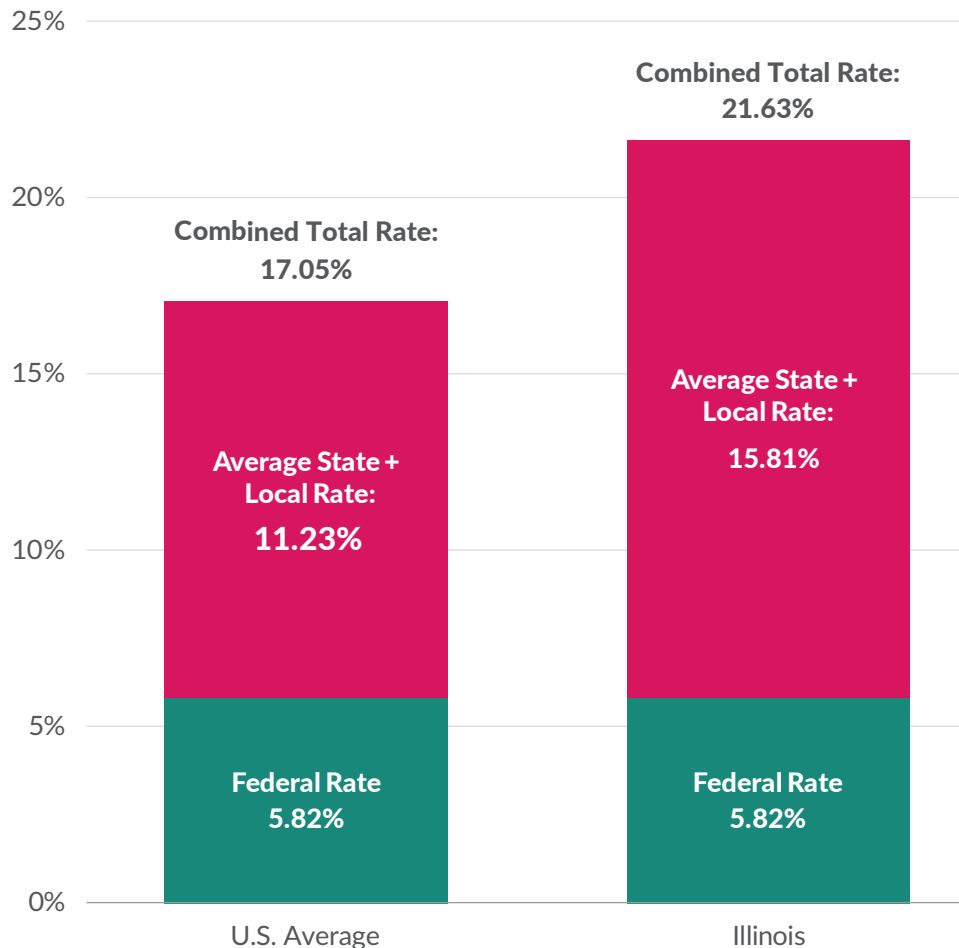
Illinois has relatively high state-level taxes on cigarettes, spirits, and wine. Taxes on beer are more competitive. Local taxes are not included here, which can be substantial.



Note: The cigarette tax rate assumes 20 cigarettes in a pack.
Source: Tax Foundation, *Facts & Figures 2015: How Does Your State Compare?*

Illinois Taxpayers Face High Wireless Service Taxes

Charges on Wireless Service, Illinois and U.S. Average (as of July 2014)



Wireless consumers continue to face excessive tax burdens when compared to the tax burden on other goods and services purchased in the competitive marketplace. The average rates of taxes and fees on wireless telephone services are more than two times higher than the average sales tax rates that apply to most other taxable goods and services.

When federal, state, and local taxes and fees on wireless service are considered, Illinois taxpayers face the fifth highest effective tax rate in the country (21.63 percent). This is considerably higher than the U.S. average of 17.05 percent.

Source: Tax Foundation, *Wireless Taxation in the United States 2014*.

A photograph of the Edward R. Hills House, a two-story Prairie School style home with light-colored stucco walls, dark wood window frames, and a prominent front porch with a wide staircase. The house is surrounded by greenery and trees.

CHAPTER 7

Property Taxes in Illinois

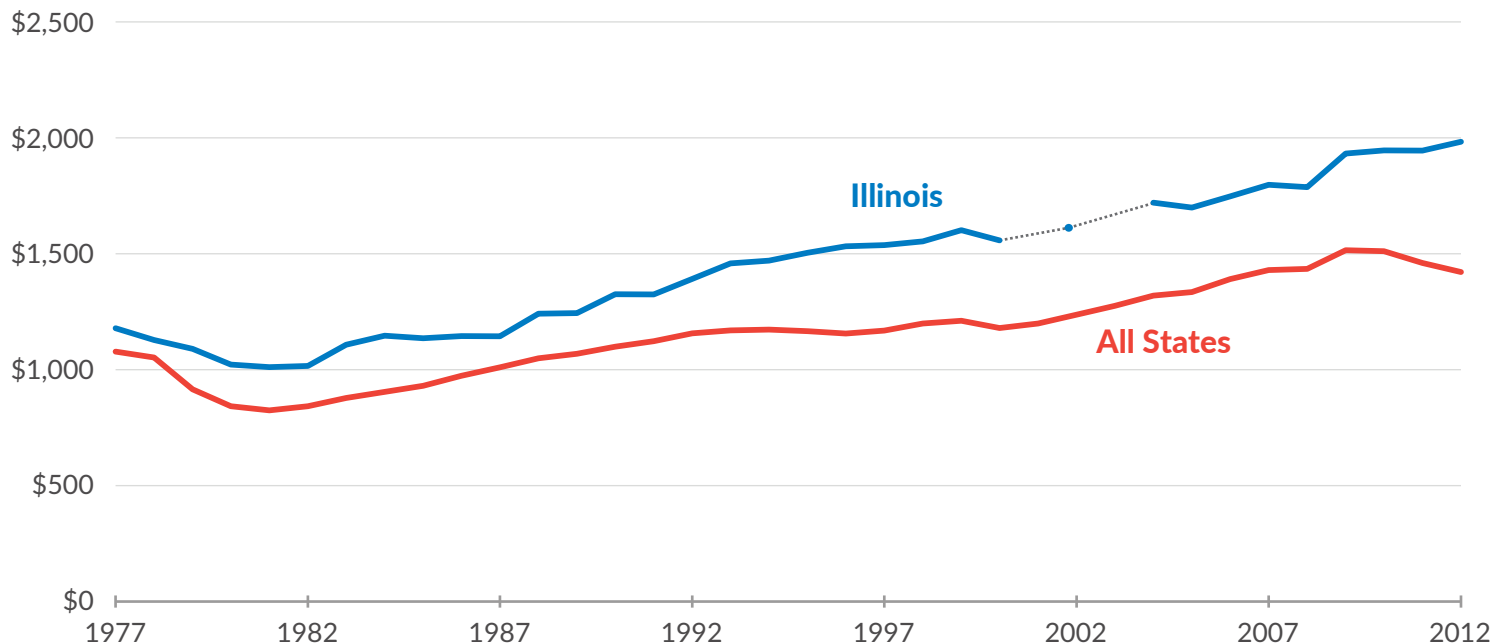
Property taxes are a major part of Illinois' revenue toolkit, representing the largest share of total state and local tax collections. While this is a local-level tax in Illinois, it still has broad implications for state finances.

Illinois' property tax collections per person, which include taxes paid by both businesses and individuals, are nearly the highest in the nation and have risen over time. When only residential property taxes are considered, Illinois' effective rates again rank among the highest.

When we discuss property taxes, we're often describing many layers of taxation at the local level—taxes levied by towns, cities, counties, school districts, and even specific-purpose districts such as those dedicated to fire protection. Because of this, effective property tax rates vary widely by county but also exhibit much intra-county variation, as well.

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)**



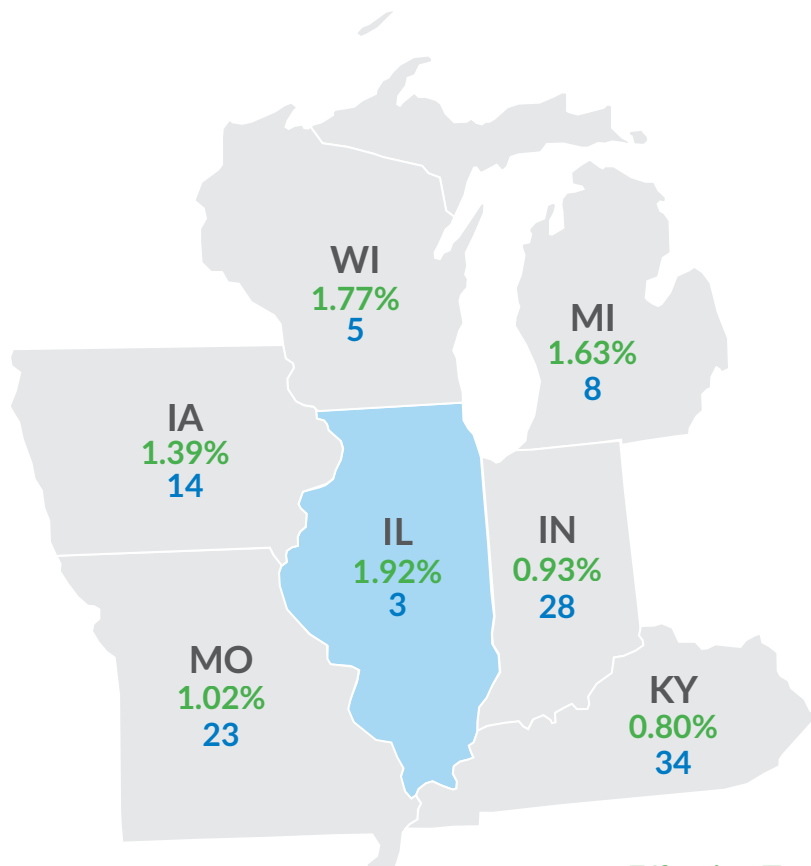
Only real property is taxed in Illinois, while personal property (things other than land and buildings, such as cars and furniture) is untaxed. Inflation-adjusted property tax collections per person in Illinois are higher than U.S. collections per person and have been since 1977. Based on this measure 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*.

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)



Effective Tax Rate
National Rank

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'.

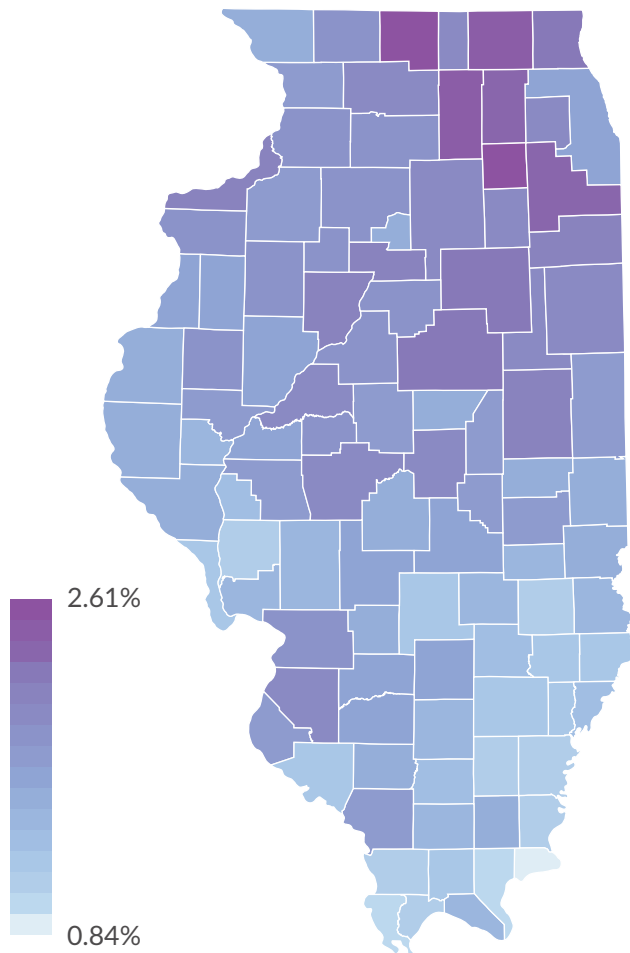
However, this measure of property taxes is a state average, so it does not demonstrate the variation in residential effective rates among and within counties in the state. And because this measure looks specifically at residential property, business property is not included.

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*.

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.

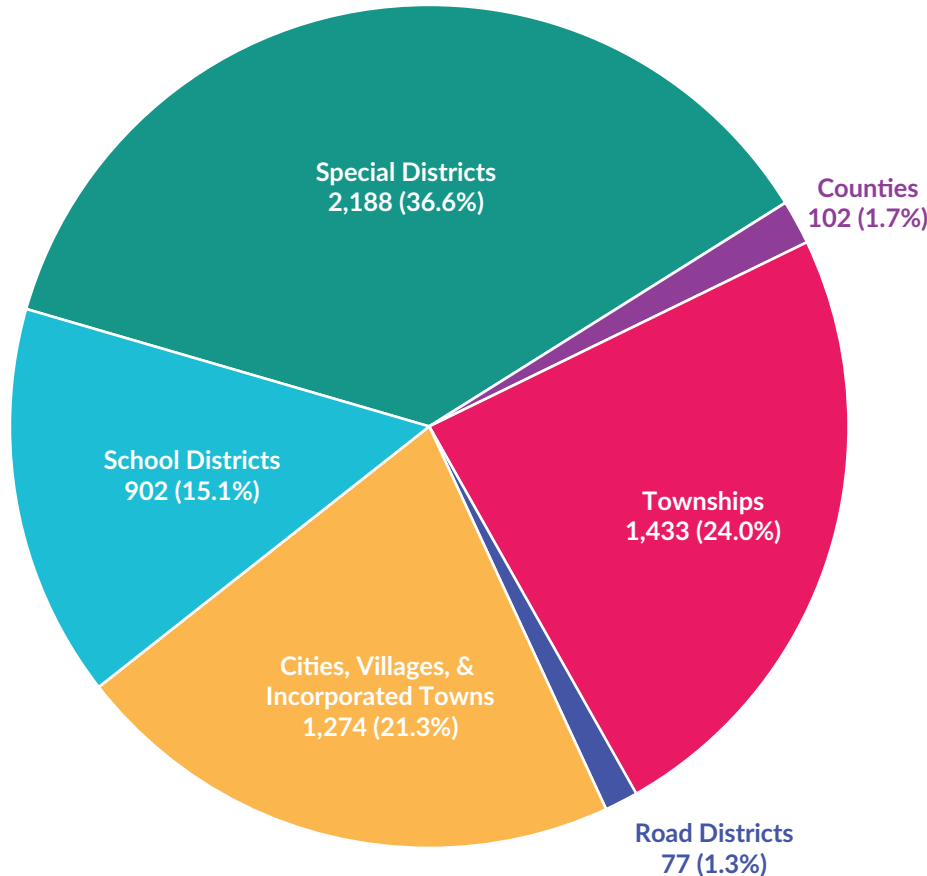
It's important to note that an effective property tax rate is not the same as the millage rate (that is, the statutory property tax rate levied by a local government).

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).

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*.

Attributions

Center for State Tax Policy

Joseph Henchman

Vice President, State Projects

Scott Drenkard

Economist & Manager of State Projects

Liz Malm

Economist

Jared Walczak

Policy Analyst

Publications

Melodie Bowler

Editor

Dan Carvajal

Production Designer

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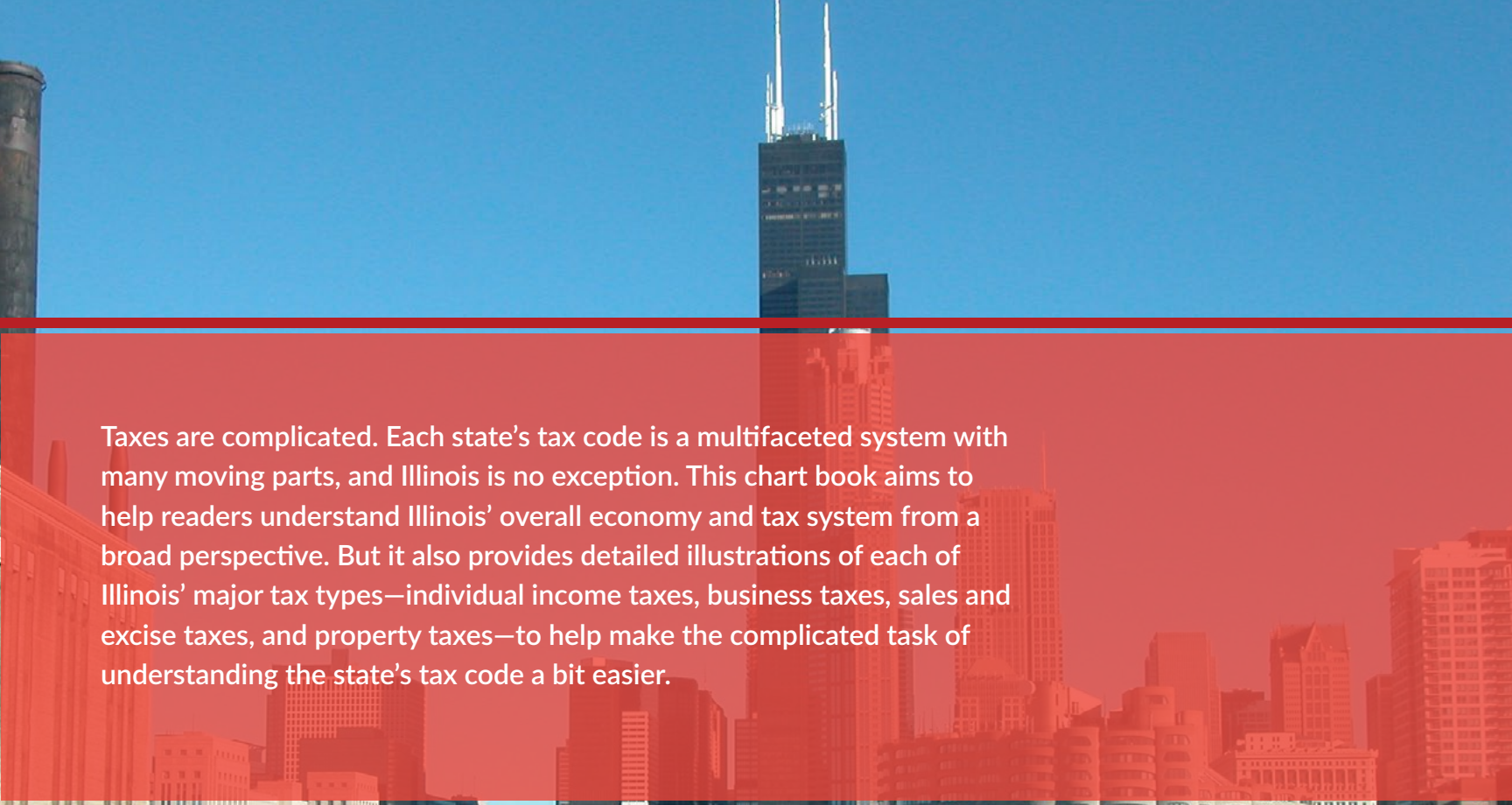
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About the Taxpayers' Federation of Illinois and the Illinois Fiscal Policy Council

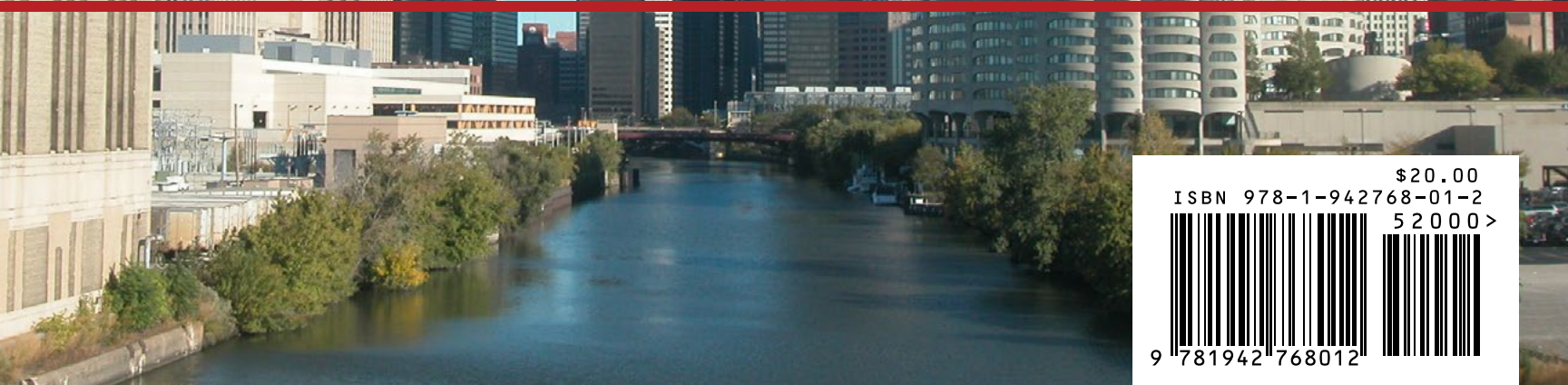
The Illinois Fiscal Policy Council was created in 1981 by the Taxpayers' Federation of Illinois, the state's most respected nonpartisan state and local tax and fiscal policy advocacy organization. The Council is a charitable foundation focusing on state and local government finance, particularly issues relating to how Illinois taxes its citizens and businesses. Its educational materials, studies, and other research papers are geared toward and available to the public, elected officials, and the media.

Front Cover – *A Greater Task*, Springfield, Illinois photo: Mary C.

Back Cover – Chicago, Illinois, photo: David Wilson

A photograph of the Chicago skyline, featuring the Willis Tower prominently in the center. The image is overlaid with a semi-transparent red rectangle that serves as a background for the text.

Taxes are complicated. Each state's tax code is a multifaceted system with many moving parts, and Illinois is no exception. This chart book aims to help readers understand Illinois' overall economy and tax system from a broad perspective. But it also provides detailed illustrations of each of Illinois' major tax types—individual income taxes, business taxes, sales and excise taxes, and property taxes—to help make the complicated task of understanding the state's tax code a bit easier.

A photograph of the Chicago River flowing through the city. The river is surrounded by green trees and modern buildings. The sky is clear and blue.

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