

Reform State and Local Tax Policy

Action	Lead Implementers	Specifies	Retain/Revise/Complete/Delete
Create Task Force	CMAP	Membership on the task force should include local governments, academic experts, civic organizations, and the business community. The CMAP Board will have ultimate discretion in terms of recruiting, forming, and managing this group. CMAP will provide staff support to the task force and CMAP staff will lead the development of policy briefs, reports, and analysis on these matters.	Complete

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Implementation Examples:

- CMAP's [Regional Tax Policy Task Force](#) convened in 2011 and issued a final report to the CMAP Board in January 2012.

Rationale for Retain/Revise/Complete/Delete Assessment:

- Action has been completed.

Action	Lead Implementers	Specifics	Retain/Revise/Complete/Delete
Evaluate state and local revenue sharing criteria with particular emphasis on the sales tax	Task Force, CMAP Board, State, counties, municipalities	More than \$4 billion in state tax revenue, much of which is made up of sales tax, is disbursed annually to local governments in northeastern Illinois. Evaluate state/local revenue sharing criteria including the sales tax, income tax, personal property replacement tax, and MFT. The task force should analyze the fiscal, economic, and equity impacts of altering disbursement criteria and make appropriate recommendations to the state and/or propose regional or subregional actions. The sales tax disbursement, which is based on local retail sales, should receive particular emphasis. Prepare detailed recommendation.	Complete

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Implementation Examples:

- CMAP’s Regional Tax Policy Task Force evaluated state revenue sharing criteria, and made several recommendations. Regarding state sales tax revenue sharing, they recommended that the CMAP Board continue to analyze the effects of sales tax revenue sharing criteria and consider new approaches to the allocation of new or increased revenue streams that encourage regional cooperation and broader development goals, but avoid redistributing existing revenues. In terms of state income tax revenue sharing, the Task Force recommended that CMAP support the continuation of sharing the revenue with municipalities and counties on the basis of population. For personal property replacement tax revenue sharing, the Task Force recommended that CMAP support reform of the system in a manner that reflects the region’s changing demographics and needs. The Task Force also recommended that CMAP review the efficiency of state motor fuel tax revenue sharing.

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Evaluate property tax classification and the property tax extension limitation law	Task Force, CMAP Board, State, Cook County	Evaluate the property tax classification system in Cook County and propose reform, where appropriate. Special attention should be paid to impacts on businesses and households as well as residential and commercial location decisions. Evaluate the impacts of PTELL on local government revenues and services and propose reform, where appropriate. Prepare detailed recommendation.	Complete

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Implementation Examples:

- CMAP’s Regional Tax Policy Task Force evaluated both property tax classification and the property tax extension limitation law. The Task Force recommended that CMAP support policies that phase out property tax classification in Cook County, but over a period of years in order to allow residential taxpayers to adjust to the increased burden.

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Evaluate expanding the sales tax to the service sector	Task Force, CMAP Board, State	Evaluate the impacts of extending the sales tax to some services. Highlight the economic and equity impacts of extending the tax to particular services, but not others. Prepare detailed recommendation.	Complete

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Implementation Examples:

- CMAP’s Regional Tax Policy Task Force evaluated the impact of extending the sales tax base to additional services and recommended that CMAP support tax policies that broaden the sales tax base to more services as a way to respond to changing consumption patterns, with a focus on lowering tax rates.

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Evaluate the efficiency and equity of the state income tax	Task Force, CMAP Board, State	Evaluate the impacts of graduating the state income tax by applying marginal rates for different tax brackets. Also evaluate the relatively narrow nature of the state's income tax base, given its exemptions for retirement income, particularly public and private pensions. Prepare detailed recommendation.	Complete

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Implementation Examples:

- CMAP's Regional Tax Policy Task Force evaluated the state income tax base and recommended that CMAP pursue policies that lead to a broadening of the individual income tax base to include retirement income in conjunction with policies that lower tax rates in the state.

Rationale for Retain/Revise/Complete/Delete Assessment:

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Evaluate the various ramifications of local tax capacity	Task Force, CMAP Board, State, counties, municipalities	Evaluate the overall equity impacts of the tax system in northeastern Illinois. Recommend tax and other fiscal reforms that promise to increase equity without sacrificing regional economic productivity. Prepare detailed recommendation.	Complete

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Implementation Examples:

- CMAP’s Regional Tax Policy Task Force evaluated the impact of variations in local tax capacity. They recommended that CMAP should consider that when differentials in tax capacity are extreme, the entire region’s capacity to attract and maintain business investment may be affected, and that CMAP support policies that provide for regional needs.

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<u>Play a leadership role in facilitating a regional perspective on tax policy.</u>	<u>CMAP</u>	<u>CMAP should take an active role in defining a regional perspective, backed by rigorous research and analysis, with respect to tax policy issues and appropriate changes in tax law that are in the best interests of the region as a whole, as well as the governments that are an integral part of the region and the residents and businesses that pay taxes.</u>	<u>This is a potential new implementation action to build off the recommendations of the Regional Tax Policy Task Force.</u>

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<u>Action</u>	<u>Lead Implementers</u>	<u>Specifics</u>	<u>Retain/Revise/Complete/Delete</u>
<u>Address tax policy issues in a manner that encourages effective local land use decisions and triggers sustainable economic activity</u>	<u>State</u>	<u>The State of Illinois, as well as other tax policy implementers, should enact tax policy reforms that benefit the region by encouraging decisions that make effective use of land and generating sustainable economic development. As an example, the State should consider new approaches to disbursing state sales tax revenue to local governments that enhance both the efficiency and the equity of the system for residents, businesses, and local governments.</u>	<u>This is a potential new implementation action to build off the recommendations of the Regional Tax Policy Task Force.</u>

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<u>Implement tax policy reforms that encourage efficient and modern approaches to governance</u>	<u>State</u>	<u>The tax system should reflect the region's demographics and needs, as well as encourage local governments to consolidate or share services when appropriate. Outmoded aspects of the State's tax system, such as allocating personal property replacement tax revenue to local governments using a method based on the structure of local taxes and the economy in the late 1970s, should be reformed. Barriers in the tax system that make it difficult for local governments to consolidate or share services should be removed.</u>	<u>This is a potential new implementation action to build off the recommendations of the Regional Tax Policy Task Force.</u>

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<u>Adopt reforms that improve the transparency of the tax system</u>	<u>State, counties, townships, municipalities, school districts, special districts</u>	<u>Taxpayers should have access to recent data on tax revenue and rates, as well as how tax revenue is expended. This should include tax expenditures, which are devises like tax exemptions and abatements which reduce the amount of revenue that would otherwise be collected. The State provides some of this data in a publicly-accessible manner, as do many local governments. However, the State, as well as local governments, should continue to standardize and improve the transparency of taxation and other fiscal data.</u>	<u>This is a potential new implementation action to build off the recommendations of the Regional Tax Policy Task Force.</u>

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<u>Enact reforms that phase out Cook County property tax assessment classification</u>	<u>Cook County</u>	<u>Cook County is the only county in the State that assesses commercial and industrial property at a higher percentage of market value than residential property. The higher tax burden on businesses in Cook County creates a discontinuity in taxation within the region, which impedes redevelopment of infill land to strengthen existing communities. The Cook County Board should phase out this regional inconsistency, but over a period of years in order to allow residential taxpayers to adjust to the increased burden.</u>	<u>This is a potential new implementation action to build off the recommendations of the Regional Tax Policy Task Force.</u>

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<u>Adopt tax policies that broaden the tax base with a focus on lowering tax rates</u>	State	The State of Illinois should enact tax policy changes that reduce economic distortions, broaden the tax base, and lower rates, which would help the region, as well as the State, compete more effectively for economic development opportunities. Specifically, broadening the state individual income tax base to include federally-taxed retirement income would provide a more stable revenue source as the region's demographics change. Likewise, the sales tax base should be broadened to include additional services as a way to respond to changing consumption patterns, with a focus on lowering the region's high sales tax rates.	This is a potential new implementation action to build off the recommendations of the Regional Tax Policy Task Force.

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<u>Action</u>	<u>Lead Implementers</u>	<u>Specifics</u>	<u>Retain/Revise/Complete/Delete</u>
<u>Evaluate state and local economic development incentives</u>	<u>State, counties, municipalities, other units of local government</u>	<u>State and local governments widely use numerous tax incentives to attract and retain businesses and developments. The impact of these tools should be evaluated for their consistency with GO TO 2040's goals of an efficient, equitable, and transparent tax system, as well as redevelopment goals.</u>	<u>This is a potential new implementation action to build off the recommendations of the Regional Tax Policy Task Force.</u>

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