# History of State/Local Revenue Sharing in Illinois

**BOTH TAX RECEIPTS AND TAX BASE** 

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# Taxes Collected For Local Governments

Illinois collects at lot of money for local governments.

In FY 2009

- \$30 billion state and local tax collections by IDOR
- \$5 billion state revenues "shared" with locals
- \$3 billion locally imposed taxes administered for locals

## Milestones in State/Local Revenue Sharing

- 1932 Illinois abandons the state property tax and replaces it with a sales tax.
- 1969 Illinois imposes an income tax, and shares it with locals.
- 1969 Illinois abolishes the personal property tax on individuals.
- 1979 Illinois abolishes the personal property tax on businesses, and replaces it with an income tax surcharge and tax on utilities that it distributes to locals.
- 1990 Sales tax reform

#### **Income Tax Rates**

Date	Individual	Corporate
8/1/69	2.5%	4.0%
1/1/83	3.0%	4.8%
7/1/84	2.5%	4.0%
7/1/89	3.0%	4.8%
1/1/11	5.0%	7.0%

## Income Tax Distributions

Income tax is collected and after money is set aside for refunds, a share is set aside for distribution to municipalities and counties, based on population.

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8/1/69 - 6/30/94 1/12th
7/1/94 - 6/30/95 1/11th
7/1/95 - 12/31/10 1/10th
1/1/11 6.0 percent individual; 6.86 percent business
```

From 7/1/89 until 6/30/96, locals also received money from the 1989 tax rate increase, through the income tax local government distributive fund.

#### Income Tax Issues

- Flat rate
- 8/5 ratio
- Inflated by underfunding the refund fund
- Number one consumer of special censuses

# Personal Property Replacement Tax

Property tax originally included

- Real property land and buildings
- Personal property wagon, chicken, cow (today car, boat, big screen TV)

# Abolition of Personal Property Tax

- Individuals part of the deal to pass the income tax in 1969
- Businesses constitution of 1970 required abolition by 1979 and its replacement

# Replacement Tax

- Surcharge on income tax paid by business
- Tax on utilities (originally on their invested capital)

## Personal Property Replacement Tax Administration

We collect, set aside money for refunds, and distribute eight times per year.

- 51.65 percent to local governments in cook county, based on each's share of personal property tax collections in 1976.
- 48.35 percent to governments outside Cook, based on each's share of personal property tax collections in 1977.

# Replacement Tax Issues

- Meaning of replacement
- Pushes up state rate
- Different definitions in different counties
- World has changed in 36 years

## Sales Tax

#### No sales tax – actually a

- Retailer's occupation tax
- Service occupation tax
- Service use tax
- Use tax

#### State Sales Tax Rate

- 1933 2 percent
- 1935 3 percent
- 1969 4 percent
- 1984 5 percent
- 1990 6.25 percent

## Local Sales Taxes

1955 Municipalities

1959 Counties

1979 RTA

1980 Metro East

1986 DuPage Water Commission

1986 County Supplementary

1990 Sales Tax Reform

1990 Home Rule

1994 Non-home Rule

1998 County Public Safety

2001 Metro East Park And Recreation

2005 Business Districts

2008 County School Facility

2009 County Flood Prevention

## Sales Tax Issues

- State share no rate or base change since 1984
- Local share many increases
- Sourcing
- Services outside base not a panacea
- Gotten very complex
- With business districts administer by street address
- Remote sales Internet sales

## Use Tax

Sales tax reform meant there was a local component to the use tax.

## Use Tax Administration

#### State and local sales tax reform fund

- Gets the 1.25 percent of the 6.25 percent use tax
- And the 1 percent tax on food and medicines

## Use Tax Distribution

20 percent Chicago

10 percent RTA

0.6 percent metro east public transportation

• \$37.8 million Build Illinois

Balance to municipalities and counties based on population

#### Use Tax Issues

- Cannot administer for individuals
- Need for federal legislation

## Conclusion

#### 1) Taxes are old

- Sales tax back to 1932
- Replacement tax back to 1976

#### 2) Very diffuse

Lots of local authority

#### 3) Tax Climate

- Varies by community
- Varies even within a region