



Chicago Metropolitan Agency for Planning

Agenda Item No. 3.0

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Regional Tax Policy Task Force

DRAFT Minutes

Friday, May 13, 2011

9:30 a.m.

Cook County Conference Room

233 S. Wacker Drive, Suite 800

Chicago, Illinois

- Members Present:** Frank Beal (Chair)-Metropolis Strategies, Zahra Ali-Cook County Department of Revenue, Paul Braun-Village of Flossmoor, Barry Burton-Lake County, Karen Darch-Village of Barrington, Paul Fisher-CenterPoint Properties Trust, Larry Hartwig-Village of Addison, Tom Johnson-Taxpayers' Federation of Illinois, Mike Klemens-Illinois Department of Revenue, Daniel McMillen-University of Illinois, Ann McNabb-City of Chicago, Laurence Msall-Civic Federation, Michael Pagano-University of Illinois at Chicago, Donovan Pepper-Walgreen Co.
- Members Absent:** Dan Long-Commission on Government Forecasting and Accountability
- Others Present:** John Donovan-Federal Highway Administration, Gary Gordon-Lake County, Bona Heinsohn-Cook County Farm Bureau, Yerik Kaslow-Center for Tax and Budget Accountability, William Lachman-Regional Transportation Authority, Mitchell Lifson- Illinois Department of Revenue, Chris Staron-Northwest Municipal Conference
- Staff Present:** Randy Blankenhorn, Jill Leary, Matt Maloney, Lindsay Hollander, Brett Baden, Patricia Berry, Tom Garritano, Gordon Smith

1.0 Call to Order

Chair Frank Beal called the meeting to order at 9:35 a.m.

2.0 Agenda Changes and Announcements

Chairman Beal introduced new members of the Regional Tax Policy Task Force, Karen Darch, President of the Village of Barrington, and Larry Hartwig, Mayor of the Village of Addison.

3.0 Approval of Minutes – April 8, 2011

A motion to approve the minutes of the April 8 meeting, as presented was made and seconded and with all in favor, carried.

4.0 Background Information on Revenue Sharing

Mike Klemens from the Illinois Department of Revenue gave a presentation on the history of state revenue sharing in Illinois. The Illinois income tax was implemented in 1969, and rates have been raised five times since. The state constitution requires that the rate be flat and that the corporate income tax rate be no more than 8/5 of the individual income tax rate. Revenues are sometimes inflated by underfunding the refund fund, which is used for tax refunds. Since funds are distributed to local governments based on population, Illinois is the number one consumer of special censuses in the country.

Property tax originally included real and personal property. The personal property component was eliminated for individuals when the income tax was implemented. For businesses, the personal property tax was eliminated in 1979 and was replaced with a surcharge on the income tax paid by businesses. The replacement tax is distributed to local governments based on their share of personal property tax collections in 1977 (or 1976 for Cook County local governments). While the state constitution required a replacement to the personal property tax, it is unclear whether that meant that each local governments' funds had to be replaced. During the time of the personal property tax, different counties had different definitions of real and personal property. Once the personal property component was eliminated, whatever was considered personal property in 1979 was now considered personal property going forward, and therefore not subject to taxation.

The sales tax was implemented in 1933, and is actually a retailer's occupation tax and service occupation tax paired with a use tax and a service use tax. Since 1955, numerous types of local option sales taxes have also been authorized by statute. While there has been no change in the State's share of the sales tax since 1984, there have been many increases to the local share. Sourcing is based on where the final order of sale is accepted, not the point of delivery. Therefore, this could be a call center or a factory. In general, sales taxes have become very complex, with the IDOR having to administer sales taxes by street address due to various business district sales taxes. Remote and internet sales are a big issue right now, but federal legislation is likely necessary in order to effectively tax internet sales. Due to the authority that local governments have to tax sales, tax climate in the State varies greatly by community and within regions.

Mr. Klemens answered questions posed by members.

5.0 Discussion of Sales Tax Revenue Sharing

The Chair stated that the CMAP Board convened the Regional Tax Policy Task Force in order to evaluate tax policy issues outlined in GO TO 2040. The distribution of the sales tax is one of the topics to address.

The Task Force discussed how many communities that receive relatively high amounts of sales tax disbursements do not have a lot of retail, but may instead of industrial suppliers or call centers that generate sales taxes. Since some types of businesses that generate sales tax revenues do not require much in terms of municipal services, municipalities rebate a portion of local sales tax revenue back to the business. The Task Force discussed how this arrangement results in sales tax incentives and intraregional competition. Also, members questioned whether changing state sales tax disbursements and not changing local option sales taxes would affect land use decisions and intraregional competition.

Some members expressed concern that changing the current formula for disbursing sales tax revenue will impact communities which have established themselves based on the current system. Just redistributing any increase in sales tax revenue, or the increment, may help to mitigate this. However, holding local governments harmless in the long run may be problematic, as the region changes. For example, disbursements of the Personal Property Replacement Taxes are based on revenues from 1977, and this is problematic.

Members expressed interest in changing the system to a formula based on a several criteria, of which location of sale would be just one component. A couple members liked the idea of disbursing the revenue to counties and allowing the counties to disburse the revenues to municipalities based on their own formula. However, some municipalities would certainly not be comfortable entrusting this type of responsibility to their county government.

The Task Force discussed issues involved with sales tax rebates and incentives. Some businesses may not be willing to build on a brownfield without some kind of an incentive, whether it is sales tax or a Tax Increment Financing district. One problem with sales tax incentives is that consumers who pay the tax are expecting the funds to go toward government services, and not back to the retailer.

The Task Force further discussed how the revenues relate to municipal service delivery. It was suggested that the tax system should stimulate service intensive areas that would have less impact on infrastructure.

The Task Force inquired about which municipalities would benefit or lose from changing the disbursement formula. It was questioned whether that was important, or whether what is best for the citizens of the region was the most important. Sometimes, communities make land use decisions based on financial reasons, and it is not necessarily what is best for the community in the long run. The Task Force also discussed the importance of individual municipalities looking outside of their borders and supporting policies that would benefit other areas in the region. It was mentioned that funds for maintaining infrastructure and furthering regional goals should be a part of any new formula. It is difficult to enhance the region's economic competitiveness when there are so many inequities in the region. Perhaps regional service delivery could be a component of any reforms.

The Task Force requested that staff provide additional information about sales tax disbursements, including data for how each municipality in the region would fare under a different system. The Task Force also requested information on whether some communities receive relatively high sales tax disbursements because of call centers located within their borders.

6.0 Other Business

There was no other business.

7.0 Public Comment

There was no public comment.

8.0 Next Meeting – June 17, 2011.

9.0 Adjournment

The meeting adjourned at 11:40 a.m.