Draft Outline of Regional Tax Policy Task Force Options

Topic	Principles to Consider	Options	Implications
Personal Property Replacement Tax Rates • Corporations : 2.5% of taxable income • Partnerships, trusts, and S corporations: 1.5% of taxable income • Public utilities (gas, electric, water): 0.8% of invested capital • Electricity distributors: Rate is based on amount distributed and increases as the monthly amount distributed increases • Telecommunications services: 0.5% of all gross charges charged by the retailer	Enhancing the region's economic competitiveness • While the corporate income tax rate is 7.0% (until 2015), corporations pay 9.5% of their taxable income, which is among the highest rates in the United States	Reduce the PPRT rate	• Would make Illinois' business taxes more competitive with other states
		Eliminate the PPRT	
		Retain the PPRT	• While the corporate income tax rate is 7.0%, Illinois' corporations will be subject to a 9.5% tax • After the rate drops to 5.25%, Illinois corporations will be subject to a 7.75% tax
Individual Income Tax Base • Exempts federally-taxable retirement income	Ensuring financially sustainable local governments • The State's tax expenditure on this exemption has increased over the past nine years • The tax system should reflect the region's economy and demographics	Include federally-taxed retirement income in the individual income tax base	• Would provide a more stable tax base as the State's residents age • In combination with eliminating the PPRT and classification, this will involve a shift in the tax burden from businesses to residents
		Do not include federally-taxed retirement income in the individual income tax base	• The individual income tax base will become increasingly narrow as the State's residents age • Revenues will experience relative declines

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Sales Tax Base and Rates
• Includes tangible goods but just 17 services
• State rate is 6.25% and local rates vary by location
	• Enhancing the region's economic competitiveness
	  ◦ The sales tax base includes few services, while tax rates in many of the region's jurisdictions are among the highest in the United States
	  ◦ Lower-income taxpayers typically spend a higher percentage of their incomes on consumption than higher-income taxpayers and high rates amplify the regressive nature of the sales tax
	  ◦ Efficiency in the tax system should be increased through broadening the tax base and lowering tax rates
	• Ensuring financially sustainable local governments
	  ◦ Broadening the tax base would ensure revenue stability as consumption of services outpaces consumption of goods
	  ◦ The tax system should reflect the region's economy
		• Expand base to additional services
		• Reduce state rate
			• Would generate revenues that will remain stable as consumer preferences and consumption dynamics shift
			• The lower tax rates would create a more efficient and economically competitive tax system
			• Municipalities and counties with home rule and non-home rule sales taxes would have the ability to reduce rates

		• Do not expand base • Do not reduce the state rate	• If spending on services continues to exceed spending on goods, the size of Illinois' sales tax base will decline • If the size of the sales tax base declines, local governments may increase rates in order to make up for lost revenues

Overall Revenue Sharing System	• Generating sufficient revenue to meet regional needs
	  ◦ The current state revenue sharing system does not provide funding for regional infrastructure investments that are integral to the region's prosperity
	• Improving government accountability and transparency
	  ◦ The tax system should promote accountability to taxpayers
	  ◦ The expenditure of taxpayer dollars should correspond with the level of service provided in return
	  ◦ Current revenue sharing arrangements may encourage the region's decentralized system of local governance
		Reserve a share of state revenue sharing funds for regional needs	Would provide revenue to support regional needs such as infrastructure or economic development investments

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Sales Tax Revenue Sharing
• 20% of sales tax revenues are disbursed to counties, municipalities, and the Regional Transportation Authority based on the location of sale
	• Ensuring financially sustainable local governments
	  • Communities with low sales and property tax bases that are unable to raise the revenue required to provide the public services necessary to attract residents and businesses put the entire region at a disadvantage
	  • Maintaining overall levels of state revenue sources is important for communities that have planned based on the rules of this system
	• Enhancing the region's economic competitiveness
	  • Disbursing sales tax revenue based on the location of sale incentivizes intraregional competition among communities over some types of business establishments, which does not enhance the region's overall economy
	• Supporting reinvestment and the principles of livability
	  • Revenue sharing should encourage infill development where infrastructure already exists rather than outward expansion requiring investments in infrastructure
		Disburse new or incremental state sales tax revenues based on different criteria such as tax capacity or population	• Less emphasis on location of sale criteria would:
			  • reduce incentives for planning based on sales tax revenue generating land uses
			  • create a greater connection between the taxes paid and the services received by taxpayers
			  • reduce incentives for intraregional competition
			• Basing only new or incremental revenues on different criteria would not penalize communities for past planning decisions

		Retain the current disbursement system	• Communities unable to generate the revenues necessary to provide public services due to a low tax base will continue to put the region at an economic disadvantage • Sales tax revenues will continue to be used in the community where the sale was made • Incentives for intraregional competition over some types of businesses would continue

Personal Property Replacement Tax Revenue Sharing
• PPRT revenues are disbursed to school districts, counties, municipalities, townships, and special districts based on the district's share of personal property tax revenues from 1976
	• Ensuring financially sustainable local governments
	  • Maintaining overall levels of state revenue sources is important for communities that have planned based on the rules of this system
	• Enhancing the region's economic competitiveness
	  • Disbursement criteria for the PPRT result in additional complexity in the tax system
	• Improving government accountability and transparency
	  • PPRT revenue sharing arrangements may encourage the region's decentralized system of local governance
		Disburse PPRT revenues based on different criteria	• Would provide for criteria that better reflects the current needs of the region
			• Local governments that experience reductions in PPRT revenue may consolidate
			• May require an amendment to the state constitution

		Disburse PPRT revenues to counties, who would determine disbursement arrangements	• Revenue disbursement would be based on local needs • Local governments that experience reductions in PPRT revenue may consolidate • May require an amendment to the state constitution
		Retain the current disbursement system	System would continue to be based on the makeup of the region 35 years ago rather than on the region's current needs
Motor Fuel Tax Revenue Sharing	• Ensuring financially sustainable local governments	Disburse MFT revenues based on different criteria	Would provide for criteria that better reflects the needs of the region

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• Municipalities receive 49.10% of the local allocation based on population • Townships receive 15.89% of the local allocation based on mileage of township roads • Counties with less than 1 million residents receive 18.27% of the local allocation based on motor vehicle license fees received • Cook County receives 16.74% of the local allocation	◦ Maintaining overall levels of state revenue sources is important for communities that have planned based on the rules of this system • Enhancing the region's economic competitiveness ◦ Complex disbursement criteria adds to the overall complexity in the region's tax system • Improving government accountability and transparency ◦ MFT revenue sharing arrangements may encourage the region's decentralized system of local governance	Disburse a share of MFT revenues to counties, who would determine disbursement arrangements	Would allow revenue disbursement based on local needs
		Retain the current disbursement system	Revenues would continue to be spread to widely throughout the region
Property Tax Classification • Cook County assesses commercial and industrial property at a higher percentage of market value than residential property	• Supporting reinvestment and the principles of livability ◦ There are significant opportunities for infill development in Cook County ◦ Higher property tax rates in Cook County in comparison to the collar counties may be an obstacle to redevelopment • Enhancing the region's economic competitiveness ◦ Results in a higher property tax burden for business taxpayers	Eliminate classification over a period of years	• Would reduce the tax burden for business taxpayers • Would shift the burden to residential taxpayers • Would reduce distortion in the tax system
		Retain classification	• Would retain a system that shifts the property tax burden from residents to businesses • Higher property tax rates for businesses in Cook County relative to other areas of the region would continue
Property Tax Extension Limitation Law • Limits the growth in property tax revenues for non-home rule governments unless voters approve a referendum allowing additional revenues	Ensuring financially sustainable local governments ◦ Local governments unable to increase property tax revenues may increase reliance on less efficient sources of revenue	Eliminate PTELL	Would allow local governments to base property tax extensions on public service needs without the approval of a referendum
		Allow a referendum on PTELL in counties that did not have the opportunity to vote on one	For counties where PTELL was imposed by state statute, voters would have the option of retaining or eliminating PTELL
		Retain PTELL	Local governments would continue to be constrained in their ability to raise revenue through the property tax

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Transportation Funding • State transportation funding is allocated through a non-statutory funding split: 55% of road funding to downstate districts and 45% to northeastern Illinois • The state motor fuel tax has been 19 cents per gallon since 1990	Generating sufficient revenue to meet regional needs • Investing in infrastructure is integral to the region's prosperity • The current funding split is not based on performance measures • The purchasing power of the MFT has decreased over time	• Provide state transportation funding based on performance measures rather than an arbitrary funding split • Increase the motor fuel tax and index to inflation	• Would ensure that state funding is based on performance measures • Would generate sufficient revenue to fund infrastructure investments
		Leave current system in place	• Purchasing power of the MFT will continue to decline • State funding will continue to be based on an arbitrary funding formula