

AN OVERVIEW OF THE ILLINOIS TAX SYSTEM

State tax systems are evolving rapidly. Personal income taxes have become relatively more important across the nation in the past two decades. At the same time, property taxes have declined in importance, as states have assumed a greater role in funding education and local government funding has diminished. Yet Illinois has bucked these trends, continuing to rely on regressive local property taxes as the primary source of funding for schools. This chapter examines the Illinois state and local tax structure in comparison to other states and looks at trends in Illinois tax revenues over the past two decades. We also estimate the distribution of state and local tax liability by income levels in 2000, and assesses the distributional impact of tax changes enacted in recent years.

Total State & Local Taxes in 1999: Three Measures

	% of GSP	Rank	% of Pers. Inc.	Rank	Per Capita	Rank
Illinois	8.6%	33	10.3%	35	\$ 3,131	15
Indiana	8.7%	31	10.2%	36	\$ 2,621	32
Iowa	9.1%	27	10.6%	26	\$ 2,674	28
Kentucky	8.9%	30	10.8%	20	\$ 2,464	39
Michigan	9.8%	14	10.9%	19	\$ 3,032	16
Missouri	8.3%	37	9.9%	40	\$ 2,565	37
Wisconsin	10.9%	3	12.4%	3	\$ 3,317	7
ALL STATES	9.1%		10.8%		\$ 2,992	

Addendum: Illinois as a % of National Average

94.8%	95.5%	104.6%
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SOURCE: Bureau of Economic Analysis; Bureau of the Census. GSP data is fiscal 1998.

The Illinois Tax Burden: How High?

Several measures are frequently used for cross-state comparisons of tax burdens. Illinois's state and local tax burden can be seen as somewhat above average, or somewhat below average, depending on which of these measures is used.² In particular:

²All statistics presented here include both state and local taxes. Because states vary in the proportion of their revenues raised at different government levels (i.e., state versus local), limiting our analysis to only state (or only local) revenues would greatly distort the state-by-state comparisons. For an example of how the omission of local government revenues can skew state rankings, see "An Analysis of The Cato Institute's 'The Case Against a Tennessee Income Tax,' " (1999) Institute on Taxation and Economic Policy, at <http://www.ctj.org/itep/tncatoan.htm>.

State and local taxes include all taxes raised by state and local governments, mostly from property taxes, consumption taxes, personal income taxes, and corporate income taxes.

The state and local tax data cited here are for fiscal year 1998-99, the latest year for which the U.S. Bureau of the Census has published data for combined state and local taxes for all states.

- Expressed as a *share of gross state product*, taxes in Illinois are 33rd in the nation, more than five percent below the national average—and lower than all but one of the surrounding states.
- As a *share of total personal income*, state and local taxes in Illinois are more than four percent below the national average. At 10.3 percent of income, Illinois's tax burden ranks 35th in the nation—and is lower than all but one of the surrounding states.
- On a *per capita basis*, Illinois state and local taxes are 15th in the nation, more than four percent higher than the national average—and second highest among surrounding states.

Each of these measures offers some insight, but each has its limitations as a measure of tax burden. For example, measuring taxes on a per capita basis tells us that Illinois residents pay more taxes per person than do residents of most states—but tells us nothing about *why* this is so. Various factors can explain different levels of state tax burdens, including differences in income levels, the cost of providing government services in the state, and the level of services demanded by the public. Since Illi-

nois residents enjoy higher per-capita income than any of the surrounding states (and had the eighth-highest per-capita income in the country in 1999), it should not be surprising that the state's per-capita tax burden is above average. Moreover, the per capita measure tells us nothing about the percentage of state tax revenue that is actually paid by

Illinois residents; many states use sales taxes and business taxes to export a substantial part of their aggregate tax burden. In states that rely heavily on such taxes, the per capita measure can significantly overstate the real tax burden facing state residents: for most years, the state with the highest state per-capita tax burden is Alaska, which raises more than half of its taxes through sources that are exported out of state, such as severance and corporate income taxes.

Measuring tax burdens as a percentage of income represents a substantial improvement in that it takes account of a state's overall ability to pay taxes. For this reason, our analysis will focus primarily on this measure of tax burdens.

Taxes as a % of Own-Source Revenues

	1999	Rank
Illinois	75.6%	5
Iowa	65.5%	36
Indiana	67.2%	34
Kentucky	68.7%	26
Michigan	69.5%	22
Missouri	71.7%	14
Wisconsin	73.1%	9
ALL STATES	70.1%	

IL as % of US avg 107.8%

SOURCE: Bureau of the Census

Tax-by-Tax Variation in 1999

While the aggregate Illinois tax burden is below average, there is considerable variation in the level of particular Illinois taxes: some taxes are comparatively quite low, while others are relatively high. The chart on this page shows various Illinois taxes as shares of personal income in fiscal 1999.

- While the Illinois personal income tax and consumption tax burden is comparatively

State and Local Taxes as a Share of Personal Income, 1999

	Sales & Gross							
	Personal		Receipts		Property		Other Taxes	
	Income Tax	Rank	Taxes	Rank	Taxes	Rank		Rank
Illinois	2.0%	37	3.3%	36	3.8%	12	1.2%	29
Iowa	2.4%	33	3.5%	33	3.5%	15	1.1%	30
Indiana	2.8%	18	3.1%	39	3.4%	19	0.9%	41
Kentucky	3.6%	8	4.0%	22	1.9%	44	1.5%	13
Michigan	2.7%	22	3.4%	34	3.2%	22	1.6%	12
Missouri	2.7%	21	4.0%	21	2.3%	39	0.9%	46
Wisconsin	3.7%	6	3.6%	29	3.9%	11	1.2%	26
All States	2.5%		3.8%		3.2%		1.3%	
Addendum: Illinois as a % of national average								
	78.6%		87.1%		120.4%		91.6%	

Source: Bureau of Economic Analysis; Bureau of the Census

quite low, the property tax burden is relatively high. The personal income tax burden on Illinois residents was more than twenty percent below the national average in 1999—and the property tax burden was about twenty percent *above* the national average.

- Both personal income tax and consumption tax burdens rank, in the aggregate, in the lowest third of states nationally. The Illinois property tax burden is in the top third of states nationally.
- The Illinois personal income tax burden ranks substantially lower than that of all neighboring states. The total income tax burden in Illinois is just over half the income tax burden facing Wisconsin residents, and is 20 percent lower than the next-lowest neighboring state, Indiana.
- Of the 41 states that levied broad-based income taxes in 1999, only four states' income tax burden was lower than that of Illinois.
- Only Indiana has a lower aggregate consumption tax burden among neighboring states—and only Wisconsin has a *higher* aggregate property tax burden.³

The Illinois tax burden is even lower when non-tax revenues are taken into account. In 1999,

³One implication of this imbalance in the Illinois tax system is that substantial changes could be enacted without significantly raising the state's ranking. For example, if the Illinois income tax rate had been a flat 5 percent rather than 3 percent in 1999, the income tax would still have been below average in 1999.

Illinois ranked fifth nationally in the percentage of its own-source general revenues derived from taxes, with more than 75 percent of these revenues coming from taxes. This means that non-tax general revenues—primarily user fees on highways, sewers, education, hospitals and parks—represent an especially low share of Illinois state and local revenues compared to most other states. This also means that focusing only on tax revenues tends to overstate the cost of Illinois government compared to other states. Inclusion of non-tax own-source revenues drops the state’s revised tax burden even further, to 47th in the nation in fiscal 1999.

Limitations of Aggregate Tax Data

The primary problem with the aggregate measures of tax burden presented so far is that they tell us little about whether specific groups of taxpayers experience Illinois as a low-tax, high-tax, or average tax state. Taxes can affect taxpayers differently depending on their income levels, the composition of their income, their family size, whether they own a home, and many other factors. Most states provide targeted tax breaks aimed at particular income or demographic groups—and the impact of these tax breaks is concealed by focusing on the aggregate tax burden. Any particular Illinois taxpayer might experience a higher or lower tax burden as a resident of a different state, regardless of the aggregate tax burden in each state.

Another problem with aggregate measures of tax burden is that they include all taxes collected in the state, regardless of whether the residents of the state actually pay those taxes. A significant portion of the taxes paid by businesses to the state of Illinois are not ultimately paid by Illinois residents at all, but are exported out-of-state and paid by non-residents. Much of the Illinois business tax burden ultimately is paid by non-Illinoisans through either higher prices on goods and services exported from Illinois or lower returns on profit for out-of-state investors in businesses operating in Illinois. Of course, this works both ways: Illinoisans pay business taxes imposed by other states. But a state can be a net exporter or importer of business taxes depending on the tax policies it chooses. Thus, the business tax component is another reason these aggregate statistics do not tell the whole story.

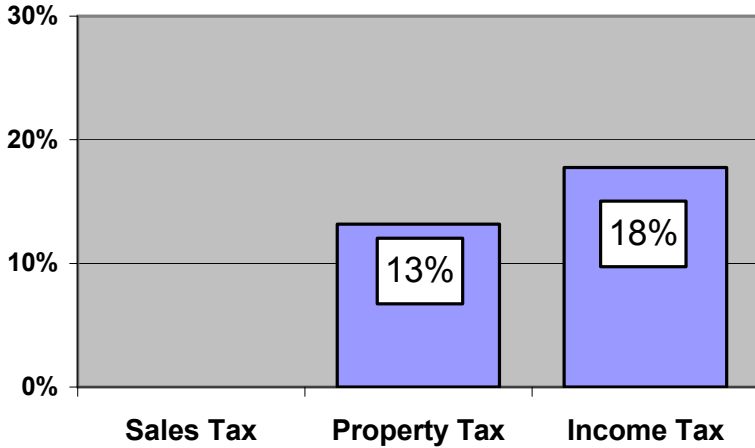
The Importance of Interaction with the Federal Income Tax

The ability to deduct some taxes on federal income tax returns also affects comparisons of tax burdens between states. The more a state relies on deductible taxes (such as income and property taxes), the lower are the federal taxes paid by its citizens. The citizens of states relying more heavily on deductible taxes have lower total tax burdens—state, local *and* federal—than the residents of states relying more heavily on non-deductible taxes (such as the general sales tax). The following example shows the impact of federal deductibility on a family earning \$75,000. A state tax burden of \$3,300 composed entirely of non-deductible taxes has no effect on this family’s federal tax burden. But if the same family paid \$3,300 in federally deductible taxes, the federal tax burden on this family would decrease by about \$500—or 15 percent of the state tax bill this family paid. This is an important mechanism for exporting state taxes to the federal government—by allowing a deduction for state and local income and property taxes to decrease federal taxes, the federal government

The Impact on an Illinois Family with \$75,000 of Income of Paying Deductible Instead of Non-Deductible Taxes			
Deductible Taxes		Non-Deductible Taxes	
State Property Tax	\$ 1,400		
State Income Tax	1,900	Non-Deductible Taxes	\$ 3,300
Total State Taxes	3,300	Total State Taxes	3,300
Federal Income Tax	8,900	Federal Income Tax	9,400
Total	\$ 12,200	Total	\$ 12,700
\$500 (15%) of deductible taxes is offset by federal tax cuts.			

essentially subsidizes states that rely heavily on deductible taxes—and offers no assistance to states that rely only on non-deductible sales and excise taxes. In 2000, Illinoisans paid over \$2.9 billion less in federal income taxes because of the state’s reliance on deductible personal income and property taxes than they would have if the state relied entirely on non-deductible taxes. The chart on the next page shows the extent to which individual Illinois taxes were paid by the federal government in 2000 in the form of lower federal income taxes.

How Illinois Exports its State Tax Burden to the Federal Government



The Distribution of Illinois Taxes by Income Level

The following distributional chart takes into account the federal deductibility and exporting issues that the aforementioned aggregate data cannot address: the distributional chart estimates the net burden of Illinois taxes on Illinois residents at various income levels in 2000. The chart shows that the Illinois tax system is *regressive*: it requires middle- and lower-income residents to pay a greater share of their income in taxes than it does the wealthy. In 2000, the 20 percent of Illinois residents with incomes under \$15,000 paid 13.0 percent of their income in Illinois taxes. The middle 20 percent of Illinois residents, with average incomes of \$36,000, paid 10.0 percent of their income in Illinois taxes. The wealthiest one percent of Illinois residents—with average incomes of \$1.2 million in 2000—paid 6.0 percent of their income in Illinois taxes.

A regressive tax system is problematic because it places the largest tax burden on those with the least ability to pay taxes. A ten percent tax burden on middle- or low-income families cuts directly into their standard of living in a significant way. But a similar level of taxation on wealthy families does not as significantly impede their quality of life. This idea is the underpinning of the ability-to-pay principle—the

idea that wealthier taxpayers can more easily bear the cost of taxes than can lower-income taxpayers. A progressive tax system takes a *larger* percentage of the income of the well-off than it does from those with lower incomes. A regressive tax system—like that of Illinois—does exactly the reverse.

The overall regressivity of the Illinois tax system is due to several factors:

- The state’s personal income tax—generally the only progressive tax levied by states—is relatively unimportant as a revenue source for Illinois, and is levied at a flat rate.

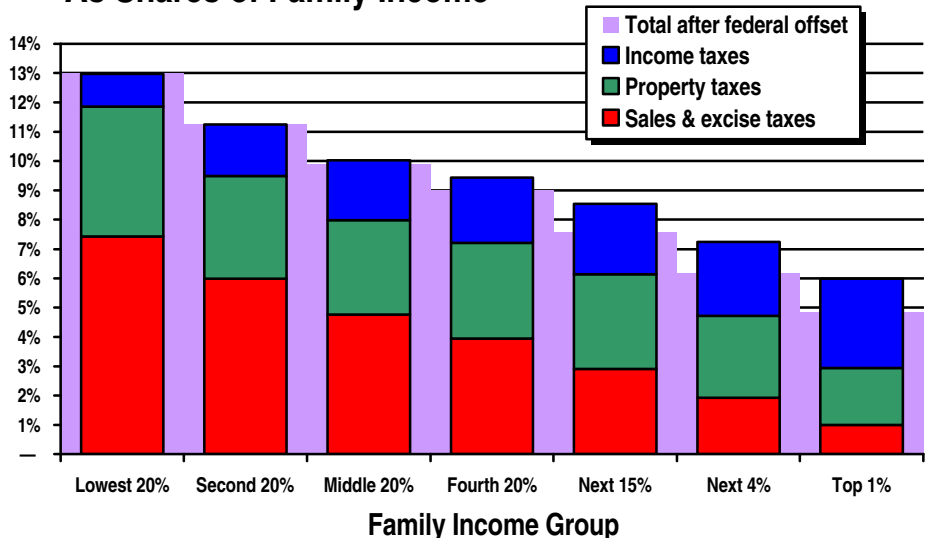
- Illinois property taxes are moderately regressive—but are substantially higher than property taxes in most states.

- Illinois consumption taxes, while not high in the aggregate, are quite regressive.

Most states rely more heavily on income taxes—and less heavily on property taxes—than Illinois. As a result, almost all state tax systems are less regressive than the Illinois system. A 1996 ITEP study found that the Illinois tax system was one of the ten most regressive in the nation.

The ITEP study also found that while the Illinois tax burden was relatively low, many Illinoisans did not experience Illinois as a low tax state at all: the tax burden on the poorest twenty percent of Illinoisans was eighth highest in the nation, while the tax burden on the wealthiest one percent was just 39th. In fact, the ITEP study found, the poorest 60 percent of married families in Illinois actually

Illinois State and Local Taxes in 2000 As Shares of Family Income



faced a tax burden above the national average—while the wealthiest 40 percent of taxpayers paid a tax burden substantially *below* the national average.

The Illinois Tax Burden in 1995: Low or High?

	Tax as %	
Income Group of Income		US Rank
Lowest 20%	13.6%	8
Second 20%	10.6%	15
Middle 20%	9.8%	23
Fourth 20%	9.2%	29
Next 15%	8.6%	30
Next 4%	7.2%	36
Top 1%	6.1%	39

As mentioned earlier, Illinois income and property taxes can be deducted in computing federal income taxes. However, only those taxpayers who itemize their deductions on federal tax returns can take advantage of this. For those who do itemize, their federal tax liability is substantially lowered. Hence, the *net* burden of Illinois personal income and property taxes, after accounting for the reduction in federal taxes for itemizers, is lower than it first appears. Because the benefits of itemized deductions go disproportionately to higher-income taxpayers in higher federal tax brackets, the net distribution of Illinois taxes is even more regressive after the federal deductions are taken into account.

For instance, the wealthiest one percent of Illinois taxpayers on average see their Illinois tax burden of 6.0 percent offset by a reduction in their federal taxes equal to 1.1 percent of their income.

Thus, the net burden of the Illinois tax system on the wealthiest one percent is 4.9 percent of income—20 percent less than the nominal state tax burden. In contrast, for middle-income Illinoisans, the burden of Illinois taxes is cut by only 0.1 percent—from 10.0 percent to 9.9 percent. This represents just a 1 percent federal offset for this group.

Low-income Illinoisans, who rarely itemize federal income taxes, are unable to take advantage of the exportability of income and property taxes.

Trends in Illinois Taxes

In the past two decades, total state and local taxes in Illinois have increased slightly as a share of personal income—but other states increased their tax burdens even faster. In 1979, total state and local taxes in Illinois were 10 percent of income, ranking Illinois 30th nationally. By 1999, Illinois's ranking had fallen to 35th, and the state's tax burden had risen slightly to 10.3 percent of personal income. The Illinois tax burden has remained below the national average throughout this period, and the state's ranking relative to its neighbors has remained generally unchanged. Expressed this way, the Illinois tax burden is substantially lower than the burden in Iowa, Kentucky, Michigan and Wisconsin, and is higher than the burden in Indiana and Missouri.

The Illinois tax system has also become less balanced. The state's reliance on regressive property taxes, already above average in 1979, has increased relative to other states during the past two decades.

- While the percentage of Illinois taxes derived from the property tax rose only moderately during the period from 1979 to 1999, many other states chose to decrease their reliance on property taxes during this period. As a result, the state's reliance on property taxes rose from 22nd nationally in 1979 to 9th nationally in 1999.
- In contrast, a moderate increase in the share of Illinois revenues derived from personal income taxes was swamped by a substantial trend towards income taxes nationally, with the result that the state's ranking in reliance

	Total Taxes as a % of Personal Income				% Change in Tax Burden	Change in Rank
	1979	Rank	1999	Rank		
Illinois	10.0%	30	10.3%	35	2%	-5
Indiana	8.8%	43	10.2%	36	16%	7
Iowa	10.1%	29	10.6%	26	5%	3
Kentucky	9.9%	32	10.8%	20	9%	12
Michigan	11.0%	14	10.9%	19	-1%	-5
Missouri	8.8%	45	9.9%	40	13%	5
Wisconsin	11.8%	8	12.4%	3	5%	5
ALL STATES	10.5%		10.8%			
Illinois/U.S. avg	95.7%		95.5%			

SOURCE: Bureau of the Census, Bureau of Economic Analysis

on personal income taxes *dropped* from 28th to 35th from 1979 to 1999.

- The state's reliance on sales and excise taxes has decreased substantially; while consumption taxes represented more than 38 percent of total state and local tax collections in fiscal 1979, these taxes comprised only 32.6 percent of total taxes in fiscal 1999. By this measure, the state's reliance on consumption taxes fell from 25th in 1979 to 29th in 1999.

Illinois's increased reliance on property taxes has made the state more dependent on local taxes as a revenue source—at a time when states nationwide have been moving toward greater reliance on *state* taxes. Illinois relies on localities for an unusually high percentage of total tax revenue. In 1999, 44.1 percent of Illinois tax revenue was raised by localities, ranking the state eighth nationally and highest in the Great Lakes region. Both the local share of revenue and the state's ranking have increased over the past two decades.

Tax Changes Since 1997

Many states engaged in major tax reforms during the 1990s, including substantial tax hikes in the early years and a wave of tax cuts during the last five years of the decade. Previous ITEP research has shown that for some states, the net impact of these changes has been regressive.⁴ This section examines the impact of major tax changes enacted since 1997 in Illinois.

By national standards, the tax changes enacted in Illinois during this period were relatively small in scope. In 1997 and 1998, lawmakers cobbled together tax hikes for education (in 1997) and transportation (in 1998) spending. These tax hikes focused almost entirely on regressive tax hikes in excise taxes, including alcohol, cigarette and telephone taxes. Lawmakers also passed a series of small, progressive income tax cuts, most of which were temporary. Finally, lawmakers passed temporary tax cuts in the form of a six-month suspension of the sales tax on gasoline and a one-time “property tax rebate” distributed to income-tax payers.

1997: School Funding Debate

In 1997, various proposals for a major tax shift from local property taxes to state income taxes were discussed. These proposals were prompted by a 1996 report by the state Commission on Education Funding, which identified the state's high and inequitable reliance on local property taxes as a major reason for the inability of many Illinois localities to adequately fund their schools. Throughout the year, lawmakers considered new ways of funding the state's schools. Among the options considered were an increase in the state income tax rate combined with drastic property tax reductions. After much acrimonious debate—and a special session of the state legislature—a revenue-raising measure was enacted into law in December of 1997 that focused not on income taxes but on regressive consumption taxes and gambling revenues. In particular:

- The cigarette tax was increased from 44 to 58 cents per pack.
- The state tax on telephone services rose from 5 to 7 percent.
- The tax rate on riverboat casinos was increased from 20 percent to 35 percent.

As the table on the next page shows, these tax hikes were regressive in their impact—and completely bypassed the recommendations of the Commission on Education Funding. The important questions raised by the Commission about “property tax swap” options were left unanswered.

1999: Illinois FIRST

In 1999 the state legislature passed a five-year, \$12 billion capital development program, partially funded by increases in excise taxes and vehicle transfer fees. The major tax-related component of the plan was a 6-cent increase in the excise tax on beer, a 90-cent increase in the tax on distilled spirits, and a 15-cent increase in the tax on wine. These changes represented substantial tax hikes, doubling or tripling the tax rates on sales of various alcoholic beverages. And these changes were highly regressive in their impact, since alcohol consumption represents a larger share of income for low-income taxpayers.

⁴*Pennies from Heaven? The Distributional Impact of Massachusetts Tax Cuts in the 1990s*, ITEP and the Tax Equity Alliance for Massachusetts (1998), available on the TEAM website at <http://www.massteam.org/itep.pdf>.

2000: Property Tax Rebates

The fiscal 2000 budget included both temporary and permanent tax relief measures. The largest component of the tax relief was a one-time property tax rebate. The Homeowners's Tax Relief rebate was equal to the amount of credit claimed by Illinois income-tax payers under the existing Property Tax Credit on the income tax form for tax year 1999, with one important modification—the credit was capped at \$300 per taxpaying household. This rebate was funded entirely by taking \$280 million from the Tobacco Settlement Recovery Fund, and transferring it to a new Homeowner's Tax Relief Fund. While the overall impact of the rebate was slightly progressive, it offered no tax relief to non-homeowners. Chapter Four of this report includes a more detailed analysis of the property tax rebate.

The same legislation also created a state Earned Income Tax Credit. The credit is unusual among the fifteen state EITCs in existence for tax year 2000 in that it is scheduled to be repealed on December 31, 2002.⁵ The EITC is paid for by transferring \$35 million each year from the Tobacco Settlement Recovery Fund to the Income Tax Refund Fund. As described in Chapter Three, the usefulness of the current EITC is limited by its low rate—no state allows a credit of less than the 5 percent Illinois credit—and its nonrefundability, which means that taxpayers can only use the credit to reduce their income tax liability to zero—even if their tax burden from sales and excise taxes is substantial. Chapter Seven estimates the impact of expanding the state EITC.

The legislature also increased the income tax personal exemption from \$1,000 to \$2,000 over several years, and increased the maximum income level at which elderly taxpayers can claim the circuit breaker property tax credit. These progressive

Major Illinois State Tax Changes, 1995-2000

Fully Phased-In, 2000 Levels

Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	Top 1%
Average Income in Group	\$8,500	\$21,200	\$35,100	\$55,500	\$94,800	\$229,800	\$1,047,400
Income Range	Less than \$14,000	\$14,000 – \$28,000	\$28,000 – \$44,000	\$44,000 – \$71,000	\$71,000 – \$143,000	\$143,000 – \$531,000	\$531,000 or more
Tax Change as % of Income due to:							
1997 Excise Tax Hikes	0.2%	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%
1999 "Illinois FIRST" Excise Tax Hikes	0.1%	0.1%	0.0%	0.0%	0.0%	0.0%	0.0%
New 5% EITC	-0.1%	-0.1%	-0.0%	-0.0%	—	—	—
Corporate Tax Breaks	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Property Tax Circuit Breaker Expansion	-0.1%	-0.0%	-0.0%	-0.0%	-0.0%	-0.0%	-0.0%
Personal Exemption Hike	-0.2%	-0.2%	-0.1%	-0.1%	-0.1%	-0.0%	-0.0%
Permanent Tax Changes as % of Inc	-0.2%	-0.1%	-0.0%	-0.0%	-0.0%	-0.0%	0.0%

ADDENDUM: Temporary Tax Cuts

One-time Property Tax Rebate	-0.2%	-0.1%	-0.1%	-0.2%	-0.1%	-0.1%	-0.0%
Suspension of Sales Tax on Gasoline	-0.2%	-0.2%	-0.1%	-0.1%	-0.1%	-0.0%	-0.0%
All Tax Changes:	-0.6%	-0.4%	-0.3%	-0.3%	-0.2%	-0.1%	-0.0%

Note: This table excludes the effect of the tuition tax credit introduced in 2000. Since nearly half of the poorest Illinoisans are ineligible for the tuition credit, it will do little to mitigate the regressivity of the state tax system and may actually increase it.

Corporate tax breaks modeled include the single sales factor of apportionment and the extension of the research and development tax credit.

This analysis assumes that the tax cuts from the temporary gasoline sales tax cut were passed on to consumers. However, some observers argued that the sales tax cut was often not passed through at all.

Source: Institute on Taxation and Economic Policy Microsimulation Tax Model, February 2002

changes were fully effective in tax year 2000.

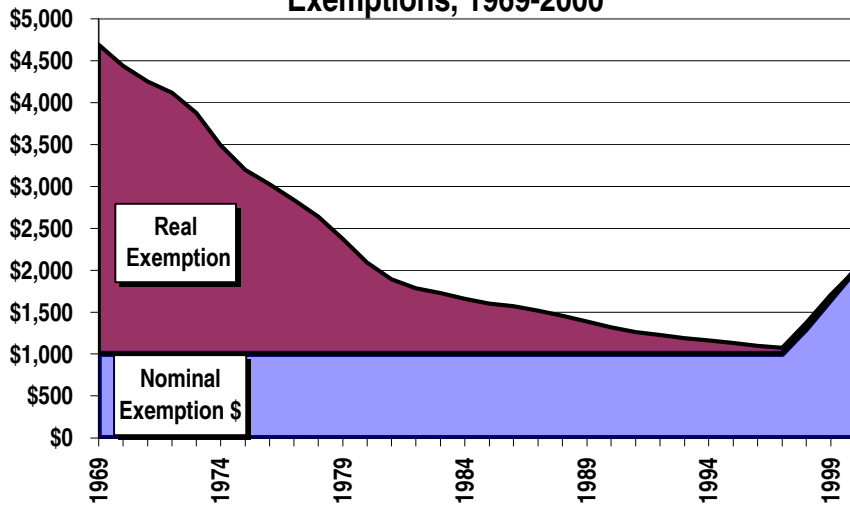
The Whole Story?

The data presented above suggest that even as lawmakers have enacted substantial increases in various excise taxes, they have passed income tax cuts which offset the regressive effects of the excise tax increases. However, these results present an incomplete picture of changes in the Illinois tax structure for two reasons.

First, these figures here show only the *statutory* changes enacted in recent years. This approach does not account for tax hikes that are due to inflation. For example, the real value of the personal exemption has been gradually losing its value since 1969, when the income tax was introduced. The inflation-adjusted current value of the \$1,000 exemption that was introduced in 1969 was \$4,700. By doubling the personal exemption from \$1,000 to \$2,000, lawmakers have actually offset less than half of the inflationary *decline* in the value of the

⁵The Illinois approach is not unique, however. Indiana and Colorado have also enacted low-income tax credits that are temporary (in the case of Indiana) or dependent on fiscal surpluses (in the case of Colorado).

The Declining Real Value of Illinois Personal Exemptions, 1969-2000



exemption. over the past thirty years. Chapter Three of this study explores this problem at more length—and Chapter Four shows that the recent expansion in circuit breaker eligibility has been more than offset by inflationary losses in the value of the circuit breaker.

Second, the data presented here do not take into account *local* tax changes that are not mandated by the state. As documented in Chapter Five of this study, local governments in Illinois sharply increased their use of local-option sales taxes during the 1990s. An ongoing ITEP study, to be released in the spring of 2002, will systematically compare the effect of *all* tax changes in Illinois and each other state during the 1990s.

Conclusion

For much of the twentieth century, local property taxes were the most important revenue source for state and local governments. While many states have moved toward a greater reliance on state taxes in general and personal income taxes in particular, Illinois has so far avoided this path. As a result, the state continues to rely on local taxes for a greater share of its tax revenue than most states—and continues to rely on property taxes substantially more than most states.

The most common topic of discussion among Illinois tax policy makers during the 1990s was the best way to achieve what some observers saw as an inevitable tax shift from heavy reliance on local property taxes to a higher reliance on state income taxes as a source of funding for state and local services. Yet the series of relatively small tax changes that have been enacted in the past several years have done nothing to advance this cause. All of the substantial tax changes enacted since 1997 have focused on regressive excise tax hikes—and while major property tax relief legislation was enacted during the 2000 legislative session, the enacted tax relief was temporary, partially regressive

in its impact, and limited to those with personal income tax liability.

Moreover, changes enacted in the personal income tax structure during this period—while progressive enough to roughly offset the impact of the recent excise tax hikes—have done nothing to systematically increase the role of the income tax in the state’s revenue system. And the recent expansion of the state’s personal exemption is best understood not as a tax cut, but as a partial offset for the gradual, long-term tax increase that has been enacted due to the slowly declining value of the exemption.

In short, while the tax changes enacted during the past three legislative sessions have mitigated the regressivity of the tax system to some extent, these changes have failed to address the underlying problems facing the Illinois tax structure—and have not reduced the regressivity of the tax structure significantly.