

# CONCLUSION

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This report has shown that chronic imbalances exist within the Illinois tax structure—and that sensible remedies exist for the structural flaws that limit the yield and progressivity of Illinois taxes.

In recent decades, lawmakers of all stripes have expressed interest in systematic tax reform. Yet, as this study has shown, the tax changes enacted in recent years have only perpetuated the balancing act that characterizes Illinois tax policy.

- Illinois has historically relied primarily on property taxes to fund elementary and secondary schools and other government functions. Yet while states across the nation have moved to reduce their reliance on these regressive property taxes through expansion of the income and sales tax base, Illinois has bucked this trend by further *increasing* its reliance on local property taxes as a revenue source. Meanwhile, the aggregate Illinois tax burden from the other traditional state and local revenue sources—personal income taxes and consumption taxes—remains below average.
- While Illinois lawmakers have enacted a series of mechanisms for property tax relief over the years, these tax credits and deductions are either expensive and poorly targeted (as is the case with the five percent property tax credit) or have lost much of their value for low-income taxpayers (as is true of the elderly circuit breaker and the homestead exemption).
- The Illinois income tax has historically been a low-yield tax because of its low, flat rate. Yet the provision of costly tax breaks for

pensions and Social Security income, and exclusions for property taxes paid and education expenses, has further depleted the yield of the tax. This narrow-base strategy has made it considerably more difficult for lawmakers to provide meaningful low-income tax relief. Recently enacted increases in the state's personal exemption have been far from sufficient to offset the declining real value of the exemption. And while the state Earned Income Tax Credit offers important low-income tax relief, the non-refundability of the credit and its low 5 percent rate limits its usefulness to Illinois taxpayers.

- The Illinois sales tax base is among the narrowest in the nation, due to the almost complete exclusion of personal and professional services from the base, and due to costly partial exemptions for groceries and drugs. As a result, state and local governments must apply higher-than-average rates in order to obtain a sufficient stream of sales tax revenue.

These long-term imbalances in the Illinois revenue structure hurt low- and middle-income Illinoisans both directly, in the form of an oppressively high tax burden on the low-income taxpayers who are least able to afford it, and indirectly, by reducing the state's ability to fund important government services in the long run.

As the state continues to grapple with these issues, we hope that this report will help lawmakers and the public achieve a better understanding of the options available for achieving greater balance in the Illinois tax system.