

TAX FACTS



Taxpayers' Federation of Illinois

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ILLINOIS NOW A HIGH TAX STATE

By Jim Nowlan and Ryan Aprill

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With the recent increases in corporate and individual income taxes, Illinois has vaulted from a moderate state and local tax burden to a high burden state, based on analysis done by the Illinois Tax Foundation, using data from the U.S. Bureau of Economic Analysis.

In 2008, Illinois state and local taxes represented 9.13 percent of Gross State Product (GSP), which put Illinois at 26th rank among the states, and below the national average of 9.21 percent. (See tables on page 3.) If the recent increases of individual and corporate income taxes to rates of 5 and 9.5 percent, respectively, had been in place in 2008, Illinois would have ranked 8th among the states, at 10.2 percent of GSP, a full percent higher than the national average of 9.21 percent.

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NOTES FROM THE INSIDE. . .

By J. Thomas Johnson

This issue of TAX FACTS includes three articles written by Jim Nowlan (with some help from his able research associate, Ryan Aprill) in his work with the Illinois Tax Foundation on subject matters that put more light on how Illinois compares to other states and how public sector employment compare to the private sector in relationship to compensation and benefits. All three of these articles were stimulated by either recent action here in Illinois (the January tax increase) or discussions that lead us to ask a little more about what do the rankings mean. For example, when one hears Illinois' spending or government employment numbers rank low compared to other states, you immediately ask how can that be given we have more units of government than any other state in the nation. The answer is you should not look at state government numbers isolated from local governments. In our federalist system each state structures its division of responsibility (and taxing authority) between the state and its local government differently. In order, to compare apples with apples you must combine state and local governments' numbers together. (It's only right since the same taxpayers fund both levels.) The other interesting finding was the greater level of private enterprise activities (i.e. healthcare and utilities) provided by governments in some states compared to Illinois which relies more on the private sector for these services. In addition, the differences between the states on the level of private versus public education impacted the rankings. All in all one should always ask that if something doesn't sound right there may be another explanation that will move us to understanding why it doesn't sound right? I hope these articles shed more understanding on the issues covered. Thanks Jim for the sunshine.

The recent increase from a rate of 3 percent to 5 percent in the individual income tax rate would have caused a worsening in the rankings for Illinois from 37th to 11th among the states. The 2008 burden of the individual income tax was 1.89 percent of personal income but would have been 2.95 percent had the new tax rate been in place. (The tax burden is less than the tax rate because of deductions and exemptions.)

The corporate income tax rate was already high among the states in 2008, ranking the state 9th at a burden of 0.49 percent in GSP. With the recent increase in the rate to 9.5 percent (which includes the 2.5 percent personal property replacement tax applied against corporate income), the corporate income tax in Illinois would have been 4th highest in the U.S., at 0.65 percent of GSP.

STATE TAX BURDEN - BEFORE & AFTER INCREASE

TOTAL STATE & LOCAL TAXES AS PERCENT OF GROSS DOMESTIC		
Rank		
1	Alaska	20.32%
2	Maine	11.94%
3	New York	11.71%
4	Vermont	11.52%
5	New Jersey	10.83%
6	Connecticut	10.69%
7	Hawaii	10.55%
8	ILLINOIS (After)	10.20%
8	Maryland	10.12%
9	Rhode island	10.11%
10	California	10.07%
11	Mississippi	10.04%
12	West Virginia	9.90%
13	Florida	9.86%
14	Michigan	9.84%
15	Ohio	9.77%
16	Wisconsin	9.71%
17	Kansas	9.68%
18	Arkansas	9.57%
19	Pennsylvania	9.44%
20	Minnesota	9.41%
21	Idaho	9.36%
22	New Mexico	9.33%
23	Massachusetts	9.31%
24	Arizona	9.24%
25	Wyoming	9.20%
26	ILLINOIS (Before)	9.13%
27	Montana	9.12%
28	Kentucky	9.05%
29	Indiana	9.01%
30	South Carolina	8.83%
31	Nebraska	8.58%
32	Washington	8.53%
33	Iowa	8.50%
34	Georgia	8.46%
35	North Dakota	8.35%
36	Alabama	8.26%
37	Oklahoma	8.16%
38	Virginia	8.15%
39	Utah	8.11%
40	North Carolina	8.10%
41	Louisiana	8.08%
42	Missouri	8.07%
43	Nevada	7.96%
44	New Hampshire	7.90%
45	Colorado	7.90%
46	Oregon	7.89%
47	Tennessee	7.28%
48	Texas	6.71%
49	South Dakota	6.47%
50	Delaware	6.00%
51	DC	5.55%
	Nat'l Avg.	9.21%

PERSONAL INCOME TAXES AS PERCENT OF TOTAL PERSONAL INCOME		
Rank		
1	New York	3.85%
2	Massachusetts	3.75%
3	Oregon	3.61%
4	Connecticut	3.55%
5	California	3.48%
6	Minnesota	3.46%
7	North Carolina	3.37%
8	Wisconsin	3.12%
9	Maine	3.02%
10	Utah	2.97%
11	ILLINOIS (After)	2.95%
11	Virginia	2.94%
12	Idaho	2.85%
13	Hawaii	2.85%
14	Delaware	2.85%
15	New Jersey	2.83%
16	Kansas	2.71%
17	West Virginia	2.65%
18	Georgia	2.62%
19	Montana	2.60%
20	Vermont	2.59%
21	Maryland	2.55%
22	Kentucky	2.54%
23	Iowa	2.54%
24	Arkansas	2.53%
25	Rhode island	2.51%
26	Nebraska	2.47%
27	Colorado	2.39%
28	Ohio	2.38%
29	Missouri	2.36%
30	South Carolina	2.28%
31	Indiana	2.19%
32	Oklahoma	2.13%
33	Pennsylvania	2.08%
34	Michigan	2.05%
35	Louisiana	1.97%
36	Alabama	1.95%
37	ILLINOIS (Before)	1.89%
38	New Mexico	1.83%
39	Mississippi	1.74%
40	Arizona	1.53%
41	North Dakota	1.24%
42	New Hampshire	0.21%
43	Tennessee	0.13%
44	Alaska	0.00%
45	DC	0.00%
46	Florida	0.00%
47	Nevada	0.00%
48	South Dakota	0.00%
49	Texas	0.00%
50	Washington	0.00%
51	Wyoming	0.00%
	Nat'l Avg.	2.10%

The local property tax burden in 2008 was also high in 2008, at 12th rank among the states and a burden of 3.23 percent of GSP. As for sales tax, the other major state (and local) tax, the basic state tax rate of 6.25 percent is high among the states yet the burden is relatively low, at 2.64 percent of GSP in 2008, for a rank of 28th. This is because Illinois has a narrow sales tax base, which is focused primarily on goods and not on services. It should be noted that Illinois counties and municipalities may also impose local sales taxes, and the total state and local rate reaches as high as 10 percent in some localities in Cook County.

Businesses thinking about moving into or out of Illinois must add to the new taxes the already high cost of workers' compensation insurance (for payments to persons injured on the job). In 2008, Illinois had a workers' compensation premium index of \$2.79 per \$100 of payroll, one of the highest rates in the nation, while Indiana businesses paid just \$1.23 per \$100 of payroll, the lowest rate in the nation.

This discussion suggests that Illinois has little if any tax capacity left, certainly not relative to most other states. And with the new tax revenues still not sufficient to meet current expenditures, the state will have to rethink what it needs to provide in services and re-engineer necessary services so as to increase efficiencies.

CORPORATE INCOME TAXES AS % OF GROSS DOMESTIC PRODUCT		
Rank		
1	Alaska	2.05%
2	New Hampshire	1.02%
3	West Virginia	0.87%
4	ILLINOIS (After)	0.65%
4	California	0.64%
5	Massachusetts	0.60%
6	New Jersey	0.59%
7	North Dakota	0.52%
8	Delaware	0.50%
9	ILLINOIS (Before)	0.49%
10	Michigan	0.46%
11	Montana	0.45%
12	New Mexico	0.44%
13	New York	0.44%
14	Kansas	0.43%
15	Mississippi	0.42%
16	Tennessee	0.40%
17	Pennsylvania	0.40%
18	Minnesota	0.40%
19	Maine	0.37%
20	Idaho	0.36%
21	Utah	0.36%
22	Wisconsin	0.36%
23	Indiana	0.36%
24	Arkansas	0.35%
25	Kentucky	0.34%
26	Vermont	0.33%
27	Louisiana	0.32%
28	Arizona	0.32%
29	Alabama	0.31%
30	Rhode island	0.31%
31	North Carolina	0.30%
32	Florida	0.30%
33	Oregon	0.30%
34	Nebraska	0.28%
35	Maryland	0.27%
36	Iowa	0.26%
37	Connecticut	0.25%
38	Oklahoma	0.25%
39	Georgia	0.24%
40	South Carolina	0.20%
41	Colorado	0.20%
42	Virginia	0.20%
43	South Dakota	0.19%
44	Hawaii	0.16%
45	Missouri	0.16%
46	Ohio	0.16%
47	DC	0.00%
48	Nevada	0.00%
49	Texas	0.00%
50	Washington	0.00%
51	Wyoming	0.00%
	Nat'l Avg.	0.37%

PROPERTY TAXES AS PERCENT OF GROSS DOMESTIC PRODUCT

Rank		
1	Vermont	4.86%
2	New Hampshire	4.85%
3	New Jersey	4.52%
4	Rhode island	4.15%
5	Maine	4.14%
6	Michigan	3.80%
7	Connecticut	3.73%
8	Florida	3.61%
9	Wisconsin	3.50%
10	Wyoming	3.39%
11	New York	3.33%
12	ILLINOIS	3.23%
13	Montana	3.08%
14	Massachusetts	3.03%
15	Nebraska	2.87%
16	Ohio	2.83%
17	Kansas	2.82%
18	Texas	2.79%
19	Pennsylvania	2.79%
20	South Carolina	2.75%
21	Iowa	2.66%
22	Virginia	2.52%
23	Arizona	2.50%
24	Oregon	2.45%
25	Indiana	2.41%
26	Mississippi	2.40%
27	Maryland	2.40%
28	Georgia	2.39%
29	Minnesota	2.33%
30	Washington	2.28%
31	Colorado	2.28%
32	California	2.26%
33	North Dakota	2.24%
34	South Dakota	2.22%
35	Missouri	2.21%
36	Nevada	2.19%
37	Alaska	2.16%
38	Idaho	2.11%
39	Utah	1.86%
40	West Virginia	1.84%
41	North Carolina	1.83%
42	Hawaii	1.78%
43	Tennessee	1.74%
44	Kentucky	1.65%
45	DC	1.56%
46	Arkansas	1.37%
47	Oklahoma	1.32%
48	New Mexico	1.26%
49	Alabama	1.23%
50	Louisiana	1.17%
51	Delaware	0.92%
	Nat'l Avg.	2.58%

SALES TAXES AS PERCENT OF GROSS DOMESTIC PRODUCT

Rank		
1	DC	6.06%
2	Washington	4.97%
3	Hawaii	4.96%
4	Arkansas	4.24%
5	Mississippi	4.12%
6	Florida	4.07%
7	Nevada	4.06%
8	New Mexico	4.05%
9	Arizona	3.98%
10	Louisiana	3.91%
11	Tennessee	3.81%
12	Wyoming	3.61%
13	Alabama	3.28%
14	South Dakota	3.12%
15	West Virginia	2.99%
16	Texas	2.87%
17	Utah	2.83%
18	New York	2.80%
19	Kansas	2.80%
20	Georgia	2.79%
21	Idaho	2.79%
22	Kentucky	2.78%
23	Indiana	2.78%
24	Oklahoma	2.74%
25	Vermont	2.74%
26	Missouri	2.69%
27	Maine	2.64%
28	ILLINOIS	2.64%
29	California	2.64%
30	Michigan	2.61%
31	North Dakota	2.58%
32	Nebraska	2.51%
33	Minnesota	2.50%
34	Ohio	2.48%
35	South Carolina	2.48%
36	Rhode island	2.41%
37	New Jersey	2.35%
38	Pennsylvania	2.26%
39	North Carolina	2.25%
40	Iowa	2.23%
41	Delaware	2.16%
42	Wisconsin	2.14%
43	Maryland	2.05%
44	Colorado	1.99%
45	Virginia	1.82%
46	Massachusetts	1.38%
47	Alaska	0.80%
48	New Hampshire	0.79%
49	Montana	0.62%
50	Oregon	0.25%
51	Connecticut	0.11%
	Nat'l Avg.	2.76%

GOVERNMENT JOBS PAY BETTER THAN IN PRIVATE SECTOR

By Jim Nowlan

Aggregate total compensation for state and local government employees in the U.S. reached \$40.10 per hour in 2010 compared with \$27.88 for those in “private industry” (basically all non-farm jobs). (See **Figure 1**.) Comparisons are difficult, however, because the public sector is so heavily weighted with education jobs and positions such as police and fire for which there are few equivalents in the private sector. Nevertheless, there are some distinct advantages to working in the public sector, including superior health care and pension benefits overall and greater job security.

The U.S. Bureau of Labor Statistics reported in September 2010 that per hour wages for state and local government (S&L) employees averaged \$26.25 versus \$19.68 in private industry. In addition, benefits represented \$13.85 per hour compared with just \$8.20 in private industry. The most significant differences in benefits lay in health insurance (\$4.80 per hour in S&L versus \$2.24 in private sector) and retirement and savings (\$3.26 per hour in S&L compared with \$0.99 in private industry.)

S&L workers are highly concentrated in the education sector, which represents 53 percent of all S&L employees. This sector includes teachers and university professors, two

categories with high unionization rates and high compensation costs. Teachers had the highest total compensation costs among S&L employers in 2007, according to Ken McDonnell of the Employee Benefits Research Institute, at \$53.39 per hour worked. By contrast, services represented the largest component of the private sector, at 47.9 percent of the total, and total compensation costs were just \$24.91 per hour worked.

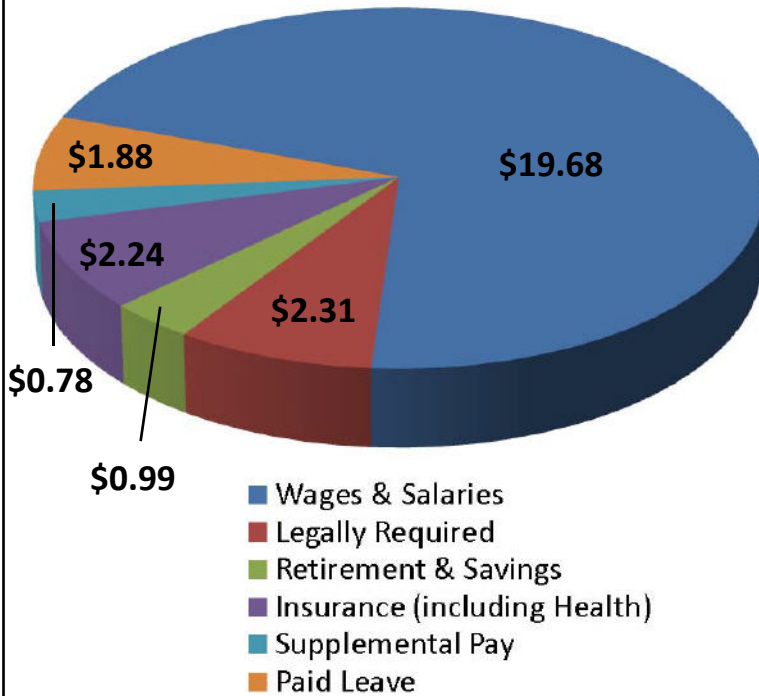
High skill positions in the private sector tended to pay higher wages than in the S&L sector. For example, in 2007 lawyers in all industries earned \$56.87 per hour versus \$37.65 for those in state governments (benefits are excluded in this comparison). Dentists in the private sector earned \$70.68 per hour compared with \$52 in S&L governments. On the other hand, nursing aides, orderlies and attendants in the S&L sector fared better than did their private sector counterparts (\$13 per hour v. \$11.50) as did bookkeeping, accounting and auditing clerks (\$16.10 v. \$15.76).

Economist Keith Bender told a 2009 Federal Reserve Bank of Chicago conference on public-private compensation that “in low skill jobs, public sector wages exceed private sector wages but in high skill jobs, public sector wages significantly lag private sector wages.”

FIGURE 1.

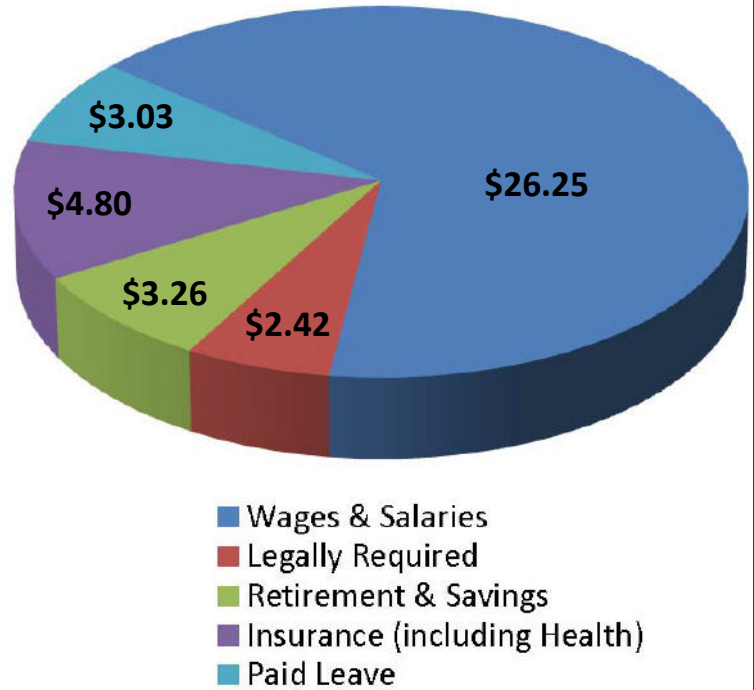
PRIVATE INDUSTRY

Total Compensation - \$27.88 per hour



STATE & LOCAL GOVERNMENTS

Total Compensation - \$40.10 per hour



Source: U.S. Budget of Labor Statistics, September 2010.

Finance professor Jeffrey Brown told the conference that, as noted in Figure 1, the public sector provides more generous benefits and greater employer subsidies than does the private sector. He noted that 60 percent of part-time S&L employees receive pension benefits and two-thirds of the public pensions include automatic cost of living increases, which are now rare in the private sector. Brown observed, however, that about 25 percent of S&L employees across the nation do not participate in Social Security, and thus rely heavily on their pensions in retirement.

In addition to stronger health care and pension benefits, public sector employees overall have

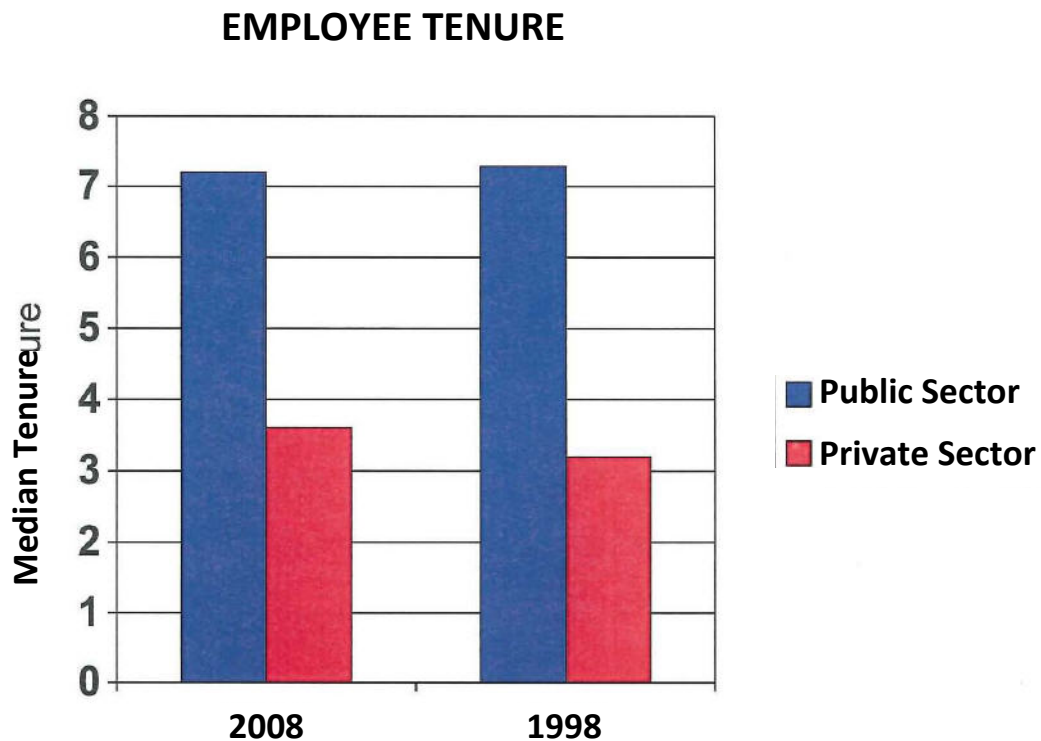
greater job security. **Figure 2** on page 8 shows that median tenure for public sector employees (including federal employees) was more than seven years yet only about half that for private sector workers. This represents a valuable psychological benefit, though hard to monetize.

TREND LINES APPEAR TO BE CHANGING

The U.S. Bureau of Labor Statistics compiles an Employee Cost Index over time. From 1981-2010 that index for private industry employees increased by 184 percent while that for S&L went up 215 percent.

In more recent years, however, it appears that the rate of growth nationally has been a bit

FIGURE 2.



Source: U.S. Bureau of Labor Statistics, Current Population Survey

slower in the S&L sector than in private industry. From 2004-2010 the index saw private sector compensation grow by 17.3 percent while that in S&L increased by only 15.5 percent.

In Illinois, however, the state of Illinois public employee union contracts, which cover most state workers, will see a 34 percent increase in compensation between 2004 and 2012, when the present contracts expire, according to John Hartnett, a labor-management bargaining expert with the University of Illinois Institute of Government and Public Affairs.

Private sector compensation benefits have been undergoing dramatic changes in recent decades. Allen Steinberg of Hewitt Associates, a human resources consulting firm, reported to a Chicago

Federal Reserve Bank conference that in 1998, 68 percent of Fortune 500 firms offered some form of ongoing pension plan whereas by 2008 that figure had fallen to 42 percent.

Steinberg noted the drop in retiree health care coverage was even more dramatic. Retiree health care coverage before Medicare eligibility (age 65) had fallen from 88 percent in 1991 to 33 percent in 2008. Retiree coverage after Medicare also dropped, from 80 percent to 27 percent over the same period.

Given the parlous condition of state and local budgets such as in Illinois, S&L employee compensation will face pressures in the future similar to those in the private sector to limit or reduce compensation levels.

DOES ILLINOIS EMPLOY TOO FEW GOVERNMENT WORKERS AND SPEND TOO LITTLE MONEY? By Jim Nowlan

Public employee unions point out repeatedly that Illinois ranks 50th among the states in the number of state government employees per 10,000 population, at 97 versus a national average of 143, according to the U.S. Bureau of the Census report on State and Local Finances for 2008. The Taxpayers' Federation of Illinois decided to look into the numbers to see if Illinois were really such an outlier when it came to government employment.

First, we consolidated state *and* local government employment, on the premise that some states, including Illinois, delegate responsibilities for government functions to their local governments. Illinois distributes about \$15 billion a year to its local governments to help them conduct functions from education to local roads.

For example, in Illinois community college education is a local function, whereas in Indiana and many states it is a state function. In Illinois, according to the Census Bureau, local governments employed 20,126 persons in "higher education" for its community colleges; in contrast, Indiana employed zero at the local level, instead conducting the function at the state government level.

Indeed, at the state and local government levels combined, Illinois had 503 full time employees per 10,000 population versus a national average of 546. Illinois ranked 43rd among the 50 states on this measure. Illinois employment represented 92 percent of the national average on this measure, significantly closer to the norm than the 67 percent which state employment alone represented.

There are additional reasons that Illinois might rank lower than the national average in state and local employment—and still be fulfilling its functions quite adequately. For example, Illinois enrolls a higher percentage than the national average in its private, non-public elementary and secondary schools, at 11.2 percent of its enrollment versus a national average of 9.5 percent. As a result, Illinois public schools employ 207 persons in elementary-secondary education per 10,000 population versus a national average of 221.

Similarly, Illinois has a higher ratio of non-public to public hospitals than is typical across the states. Thus, according to the Census Bureau, Illinois employs just 28 persons per 10,000 population in the state and local health and hospital sectors whereas the average nationally is a significantly higher 47 persons per 10,000

population. If Illinois had the same ratio of employees to population in the public health and hospitals sector as neighboring Indiana, our state and local governments would employ 55,000 in the sector rather than the actual figure of 33,200.

Other sectors where Illinois employs fewer in its state and local governments than the national average include higher education, water and electric supply, apparently because Illinois relies more heavily on the private sector in these areas than the typical state. For example, Illinois enrolls 33.4 percent of its college students in the private, non-public sector as compared with the national average of 25.5 percent. And Illinois has a large scholarship program to support students in non-public colleges, yet the program requires few governmental employees.

If Illinois state and local governments employed at the national average rate for the above-cited functions, Illinois would rank 30th among the states in state and local government employment. Quite different from the bottom-among-the-states figure that the public employee unions cite so vigorously.

Nor does Illinois have low-spending state and local governments. At the state government level alone, Illinois does rank rather low among the states in spending. According to the Census Bureau, in 2006 Illinois ranked 40th among the states, at \$4,371 per capita, significantly lower

than the \$5,210 spent per capita as a national average. But as noted above during the discussion of governmental employment, functions such as that of community colleges are local government responsibilities in Illinois whereas in many states they are conducted by state governments.

So, when state and local governments are combined, in 2006 Illinois ranked 23rd among the states in total governmental expenditures, at \$7,915 per capita versus a national average of \$8,403. (Alaska at \$15,952 per capita and New York at \$12,444 were the highest in governmental expenditures, and Arkansas, \$6,958, and Idaho, \$6,386, were the lowest.)

In summary, Illinois state and local governments in toto are in the middle ranks among the states when it comes to both government employment and expenditures.

APRIL 2011 97TH GENERAL ASSEMBLY

Monday	Tuesday	Wednesday	Thursday	Friday
			DEADLINE APRIL 15 HOUSE - 3RD READING HOUSE BILLS SENATE - 3RD READING SENATE BILLS	1 House and Senate Session
4	5 House Session Consolidated General Election	6 House and Senate Session	7 House and Senate Session	8 House and Senate Session
11 House and Senate Session	12 House and Senate Session	13 House and Senate Session	14 House and Senate Session	15 House and Senate Session
18 PASSOVER	19	SPRING BREAK		22 GOOD FRIDAY
25	26 House Session	27 Senate Perfunctory Session House Session	28 House Session	29 House Session

MAY 2011 97TH GENERAL ASSEMBLY

Sunday	Monday	Tuesday	Wednesday	Thursday	Friday	Saturday
1	2	3 House and Senate Session	4 House and Senate Session	5 House and Senate Session	6 House and Senate Session	7
8 MOTHER'S DAY	9 Senate Perfunctory Session	10 House and Senate Session	11 House and Senate Session	12 House and Senate Session	13 House and Senate Session	14
15 House and Senate Session	16 House and Senate Session	17 House and Senate Session	18 House and Senate Session	19 House and Senate Session	20 House and Senate Session	21 House and Senate Session
22 House and Senate Session	23 House and Senate Session	24 House and Senate Session	25 House and Senate Session	26 House and Senate Session	27 House and Senate Session	28 House and Senate Session
29 House and Senate Session	30 House and Senate Session Memorial Day STATE HOLIDAY	31 House and Senate Session ADJOURNMENT		DEADLINE MAY 13 HOUSE - COMMITTEE SB'S SENATE - COMMITTEE HB'S		DEADLINE MAY 27 HOUSE - 3RD READING SB'S SENATE - 3RD READING HB'S

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Taxpayers' Federation of Illinois

70th Annual Meeting

Thursday, June 23, 2011

**Maggiano's Little Italy
111 W. Grand Avenue
Chicago, Illinois**

Earn 1 Hour MCLE/CPE Credit