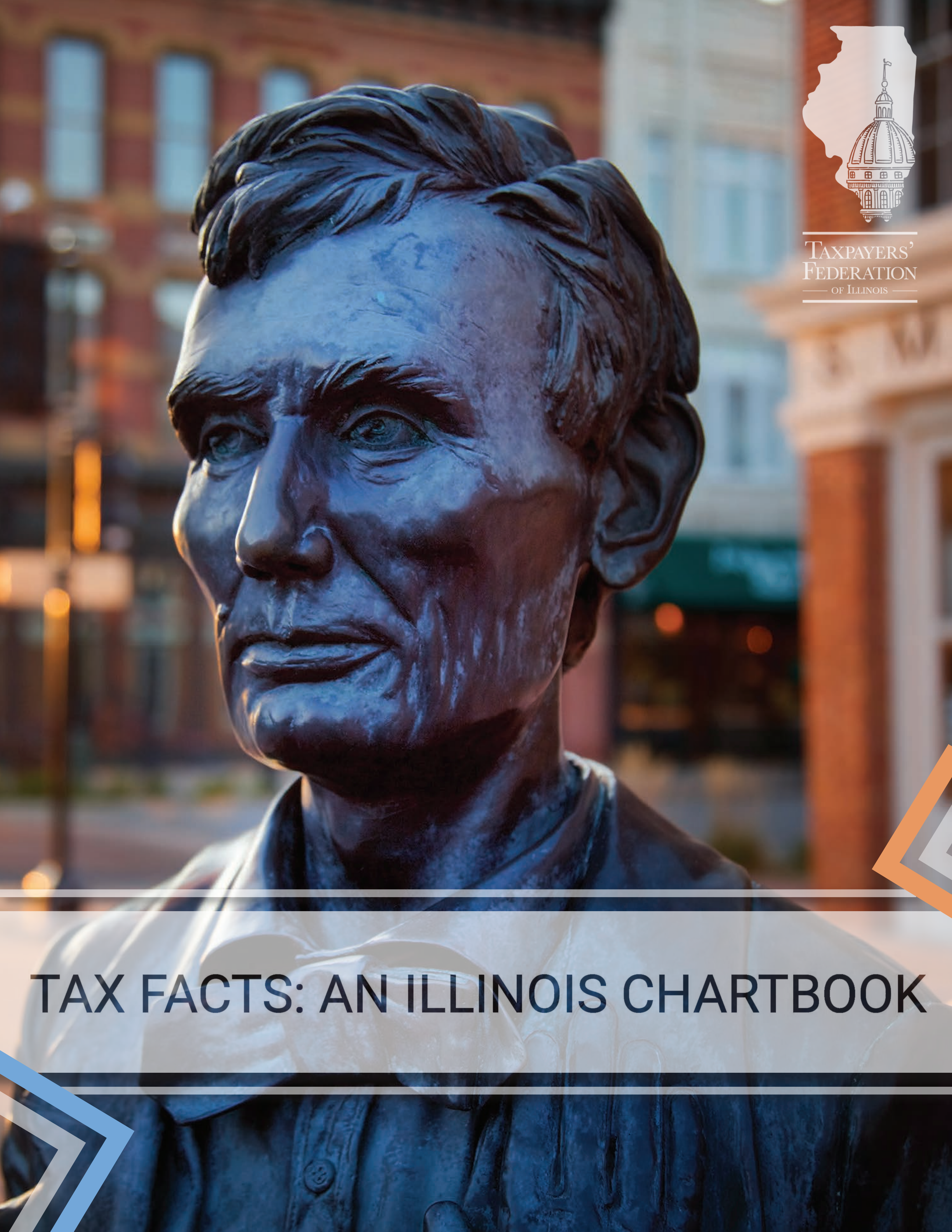


TAXPAYERS' FEDERATION OF ILLINOIS

TAX FACTS: AN ILLINOIS CHARTBOOK

Table of Contents

Introduction......2

CHAPTER ONE

Economic Overview......3

CHAPTER TWO

Overall State and Local Taxes......11

CHAPTER THREE

Income Taxes......21

CHAPTER FOUR

Sales Taxes......33

CHAPTER FIVE

Property Taxes......43

Methodology......53

Introduction

People frequently ask how taxes in Illinois compare to other states. The answer to that question depends on who you ask. Advocates for increasing government spending present statistics that show Illinois as a low-tax state, while those who want a more limited role for government present statistics that show Illinois as a high-tax state. This chartbook seeks to provide a true picture of where Illinois stands.

Two key points about how best to compare taxes between states:

• First, it is imperative to look at state and local taxes combined. There is little comfort for a citizen living in a state where the state government has low taxes, but local governments more than make up for it with high taxes. Furthermore, a person buying $100 worth of groceries and other household goods usually doesn't know (or care) who imposed the sales tax on those goods, and which government receives the tax.

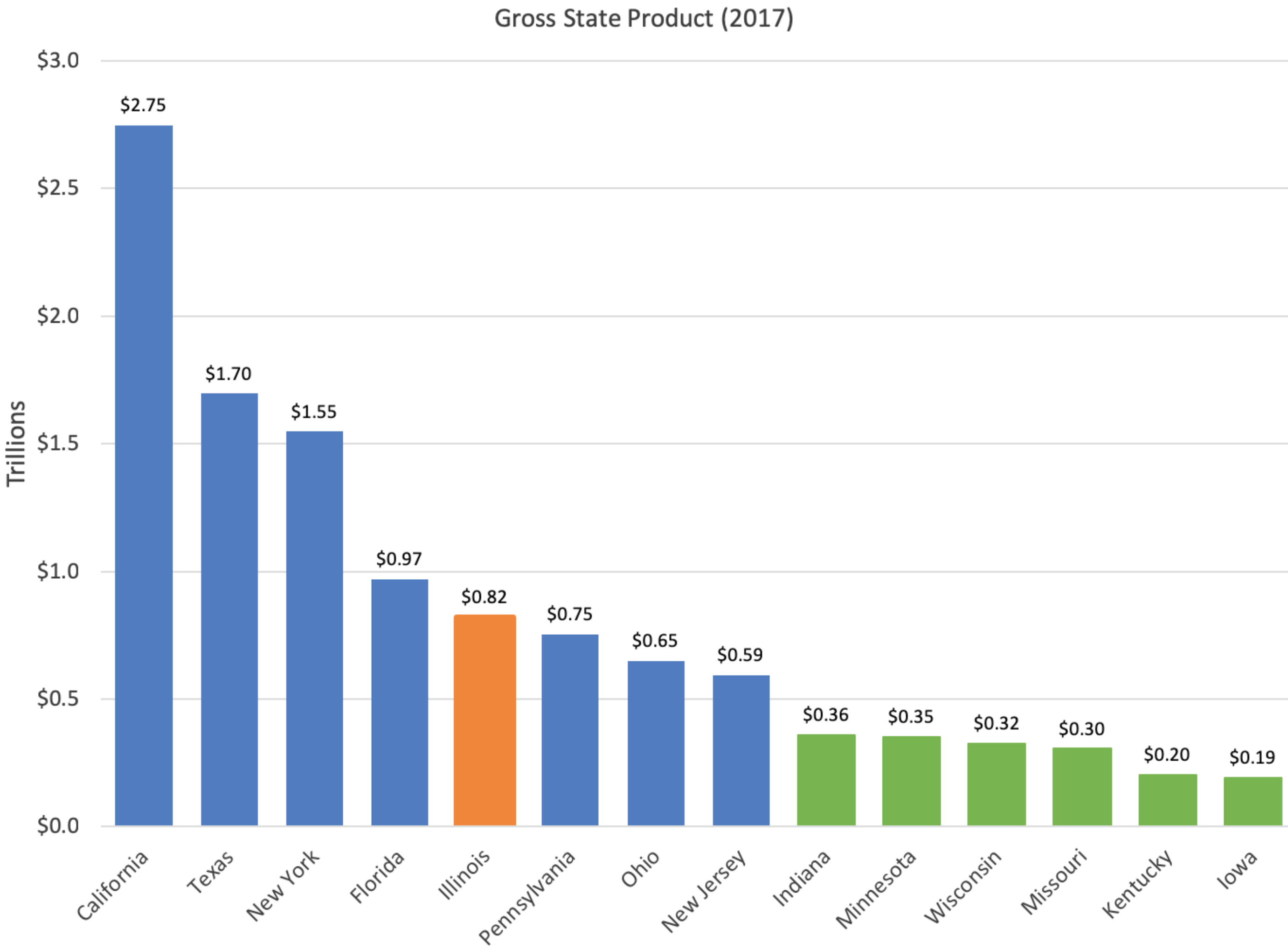
• Secondly, we contend that tax collection rankings should reflect different economies in different states (which often reflect different costs of living and income levels). For example, let's assume States A and B both have a flat income tax rate of 5%. However, in State A the average personal income is $40,000, and in State B the average personal income is $45,000. The average State A resident would pay $2,000 in income taxes and the average State B resident would pay $2,250. Even though the two states have the same rate, the State B resident pays more in absolute dollars, but she also has more after-tax income. Does State B have higher taxes, or are they equal? We would posit that they are equal. To reflect this properly, one can look at taxes as a percentage of the state's personal income (the total of all their resident's income from all sources) or of their gross state product (the total value of all goods and services produced within the State). One downfall of looking at taxes as a percentage of personal income is how it is sourced. If a person in Illinois owns a restaurant in Indiana, the income associated with that restaurant is considered Illinois personal income. However, Indiana has the ability to tax that income since it is from an activity within the borders of Indiana. The revenue associated with that restaurant is sourced to Indiana for purposes of gross state product. While for some states, using one measure or the other doesn't matter much, for others, it makes a significant difference. Taxes as a percentage of state gross product will be used throughout this book to compare states to one another.

One last note: Rankings make good headlines, but it is more useful to determine if a state is an outlier and if so, by how much. For example, if a state has the highest taxes in the country but is only slightly higher than the national average, then that #1 ranking means very little, because all the states have essentially the same tax burden. On the other hand, if a state is ranked 10th but it is significantly above average, the fact that nine states have higher taxes doesn't provide much comfort to that state's citizens.

CHAPTER ONE
Economic Overview

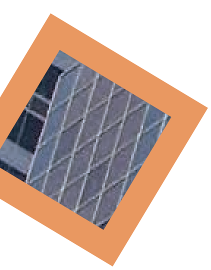
While the bulk of this chartbook focuses on tax policy, taxes do not exist in a vacuum. It is important and useful to understand the fundamentals of Illinois' economy and to see how Illinois has changed over time.

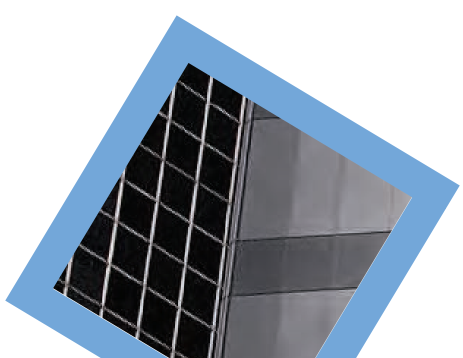
Illinois Has the Largest Economy in the Midwest



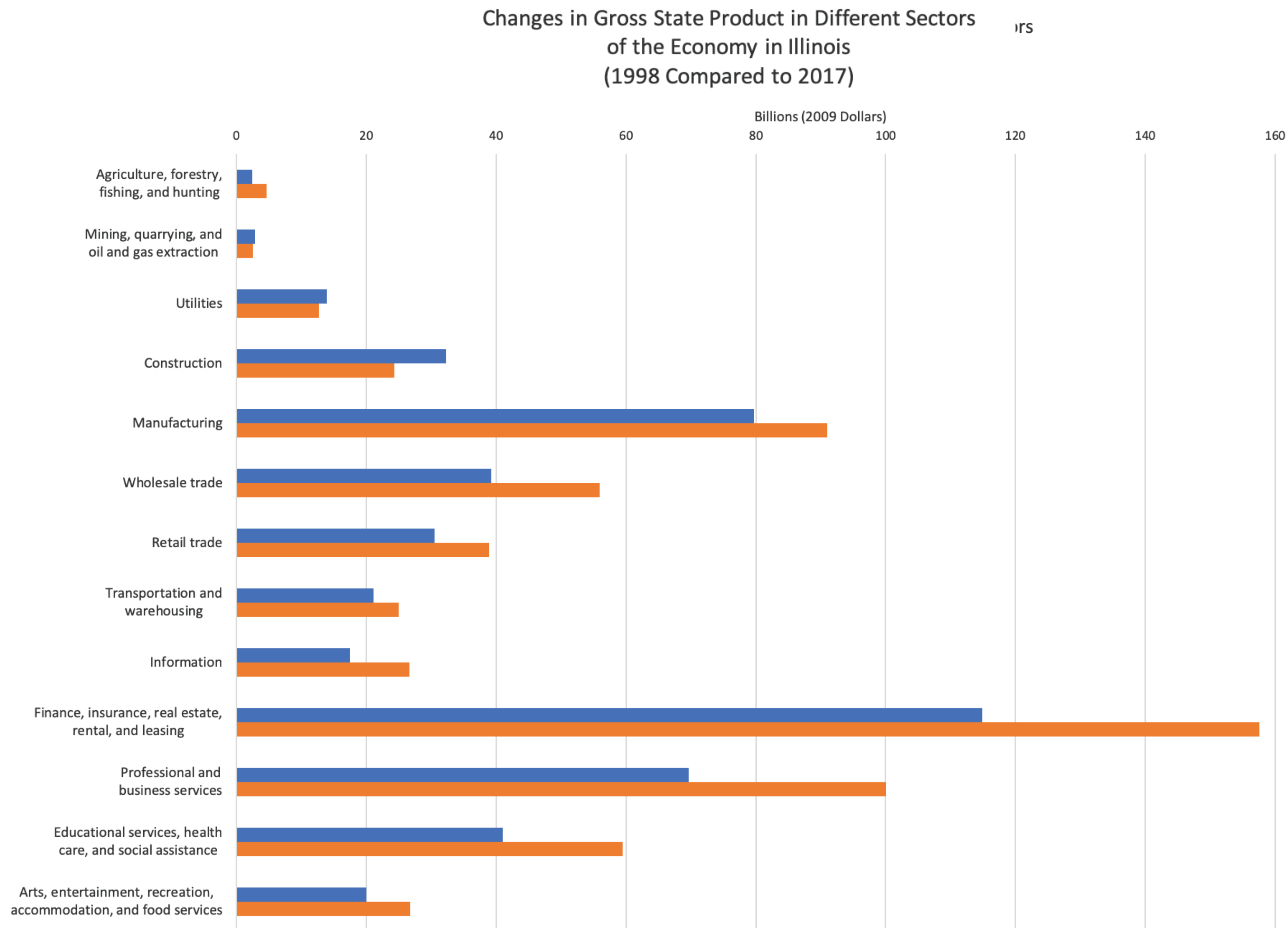
Source: U.S. Bureau of Economic Analysis, Regional Economic Accounts

When Illinois is compared to other states, people often first look to our neighbors here in the Midwest. However, the states Illinois should be compared to depends on what is being compared. Illinois does have a lot of similarities to its neighbors, but there are also stark differences. None of our neighbors have an area as populated and as dense as the Chicago metropolitan area. Chicago and the surrounding communities are the reason Illinois has such a high gross state product. Gross state product is the total value of all goods and services produced within the state, essentially a way to measure the size of a state's economy and is used throughout this book.



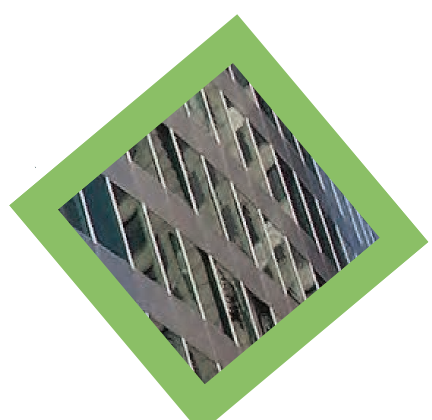
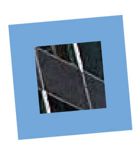


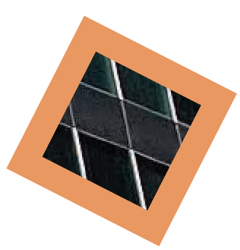
Illinois Has a Diverse and Growing Economy



Source: U.S. Bureau of Economic Analysis, Regional Economic Accounts

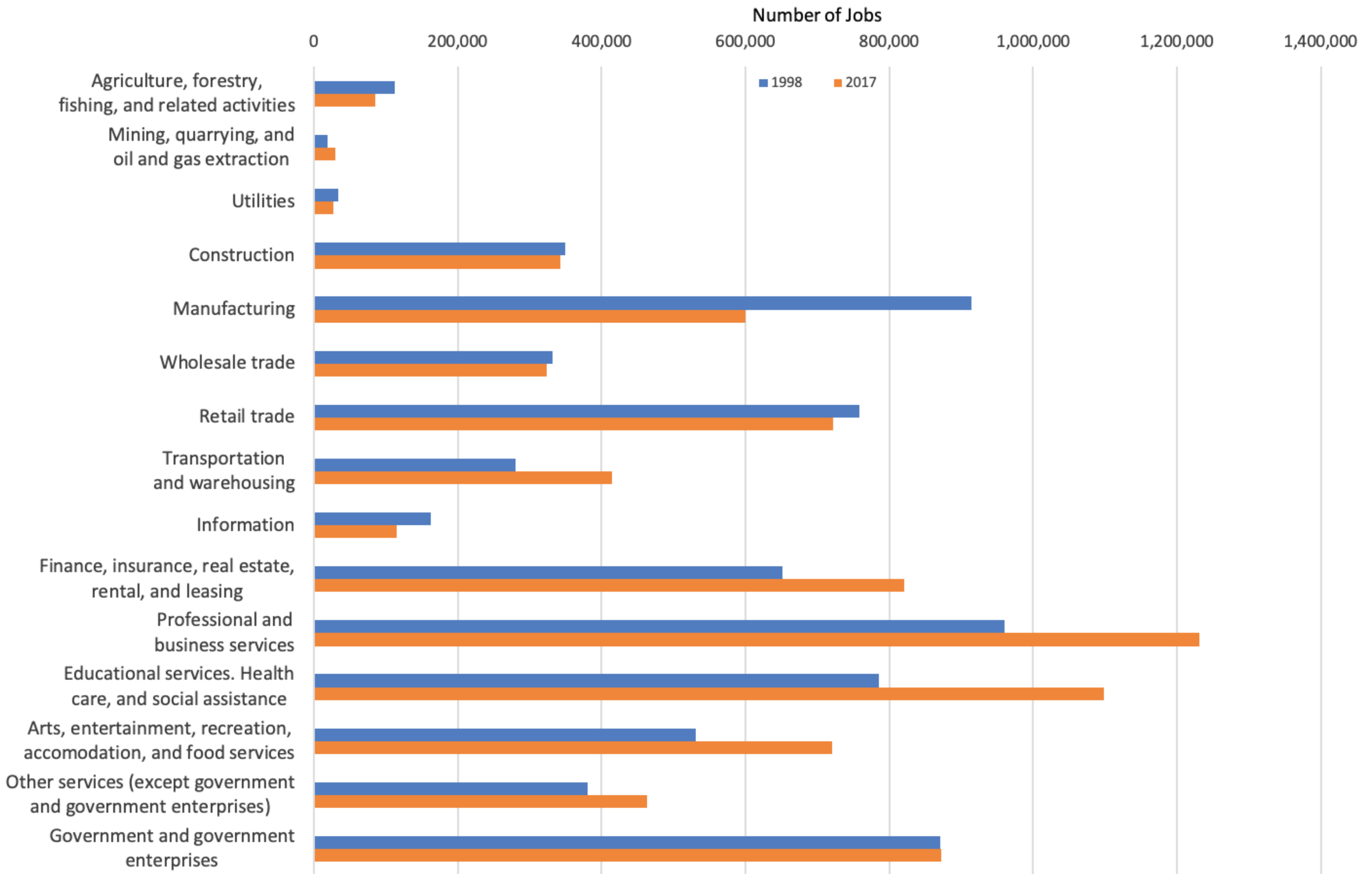
Illinois is a diverse state. This chart shows what sectors make up the Illinois economy and how they have changed in the last 20 years. While most sectors have seen significant growth, there has been a 27% decline in construction.




Economic Growth Doesn’t Always Lead to Job Growth

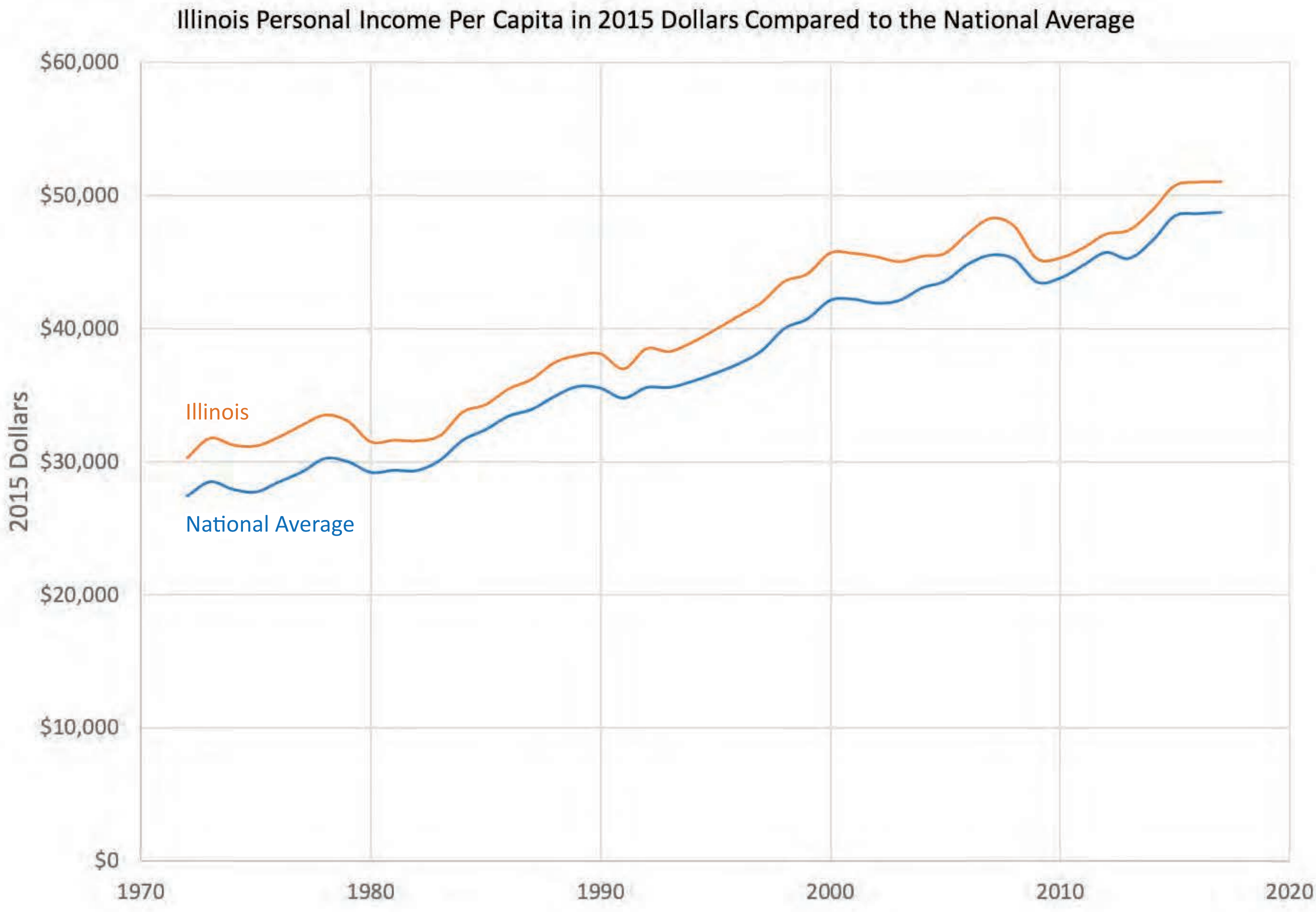
Changes in Employment of Differenct Sectors of the Economy in Illinois
(1998 Compared to 2017)



Source: U.S. Bureau of Economic Analysis, Regional Economic Accounts

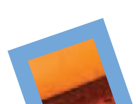
While underlying economic growth is good, it is important to also look at the change in the number of jobs. This chart looks at the change in the number of jobs in each sector during the same time period. Some sectors, such as manufacturing, saw economic growth but have fewer jobs.

Per Capita Personal Income in Illinois is Higher than the National Average

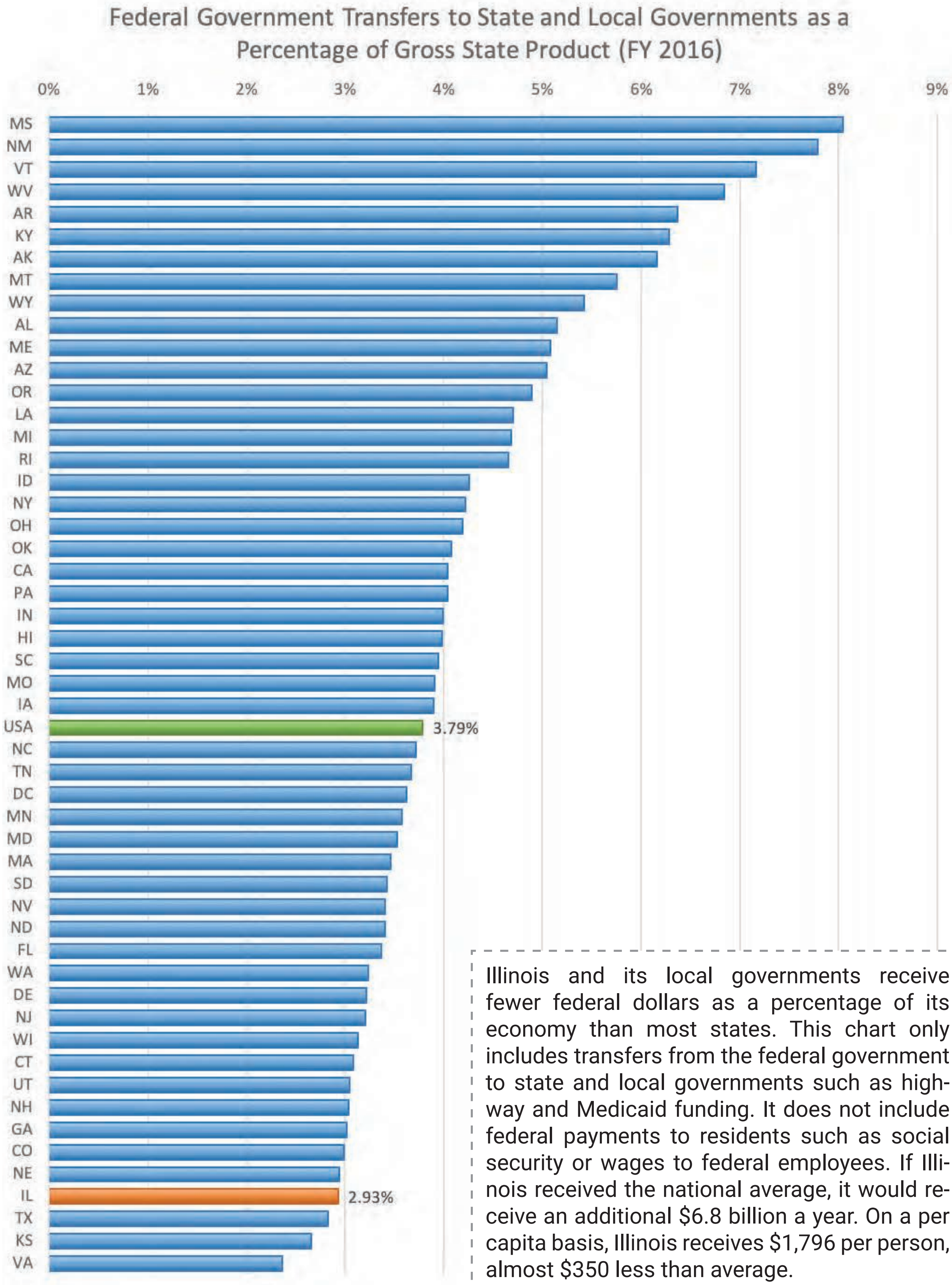


Source: U.S. Bureau of Economic Analysis, Regional Economic Accounts

Illinois has traditionally enjoyed higher personal income per capita than the national average. And it has increased over time, even when adjusted for inflation. However, in 1972, the Illinois average was 10% higher than the national average, whereas it's now only 5% higher. Over time, there has been a convergence; states that were outliers in either direction have grown closer to the national average.



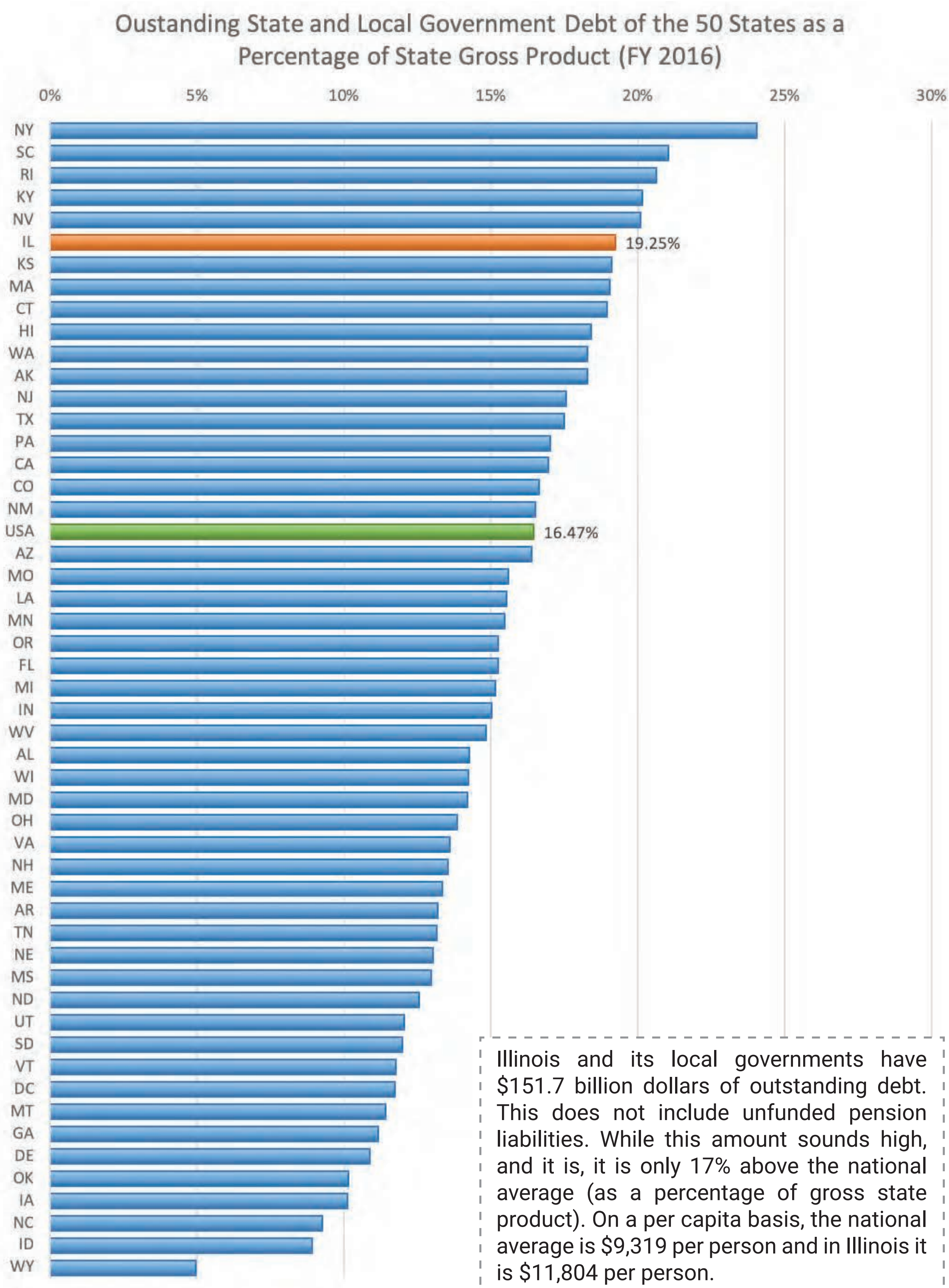
Illinois Receives Relatively Little Federal Support



Illinois and its local governments receive fewer federal dollars as a percentage of its economy than most states. This chart only includes transfers from the federal government to state and local governments such as highway and Medicaid funding. It does not include federal payments to residents such as social security or wages to federal employees. If Illinois received the national average, it would receive an additional $6.8 billion a year. On a per capita basis, Illinois receives $1,796 per person, almost $350 less than average.

Source: Census Bureau, *State and Local Government Finances*

Illinois Governments are Big Borrowers

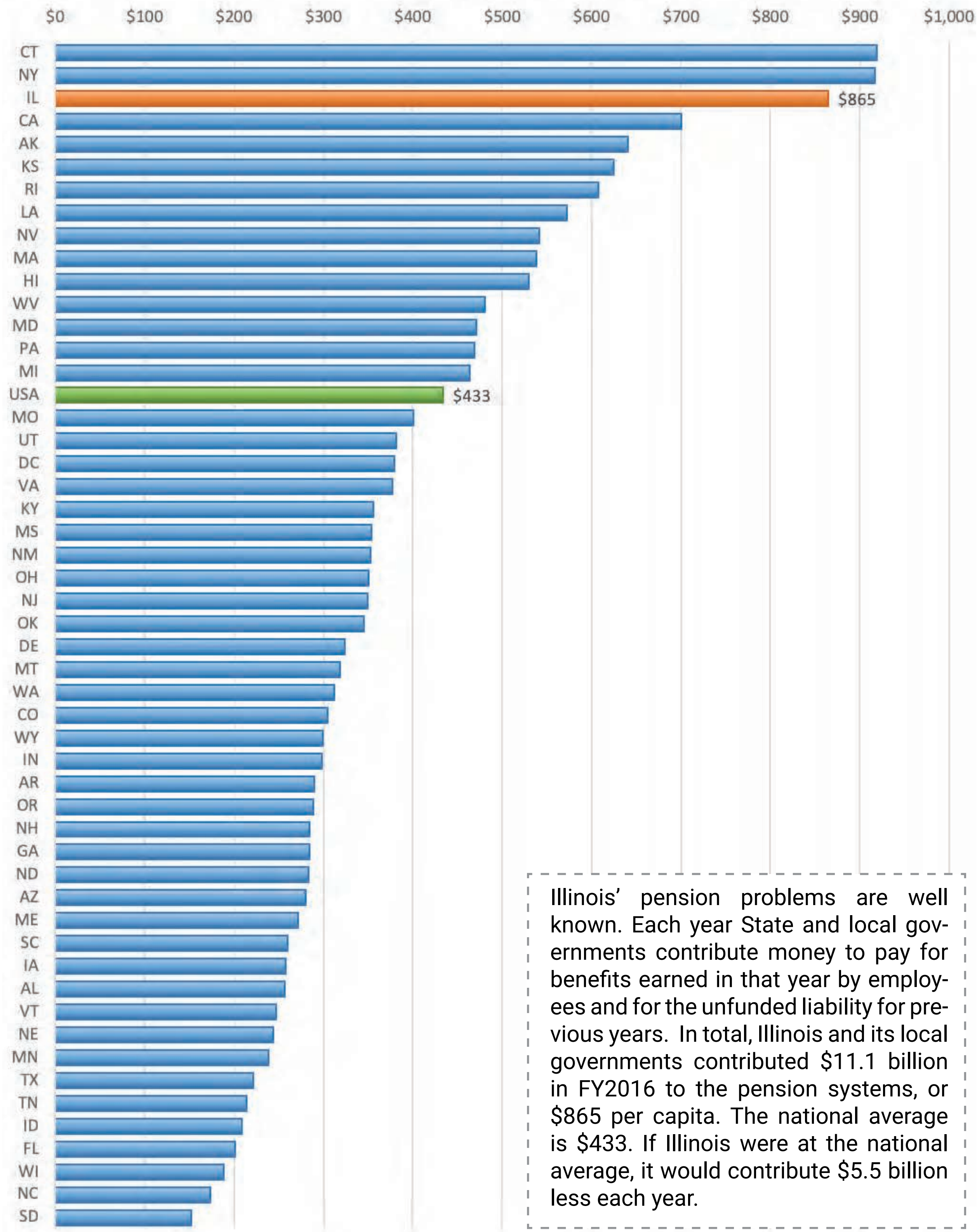


Source: Census Bureau, *State and Local Government Finances*

Illinois and its local governments have $151.7 billion dollars of outstanding debt. This does not include unfunded pension liabilities. While this amount sounds high, and it is, it is only 17% above the national average (as a percentage of gross state product). On a per capita basis, the national average is $9,319 per person and in Illinois it is $11,804 per person.

Illinois Pension Contributions are Among the Highest in the Country

State and Local Government Pension Contributions of the 50 States
Per Capita (FY 2016)



Illinois' pension problems are well known. Each year State and local governments contribute money to pay for benefits earned in that year by employees and for the unfunded liability for previous years. In total, Illinois and its local governments contributed $11.1 billion in FY2016 to the pension systems, or $865 per capita. The national average is $433. If Illinois were at the national average, it would contribute $5.5 billion less each year.

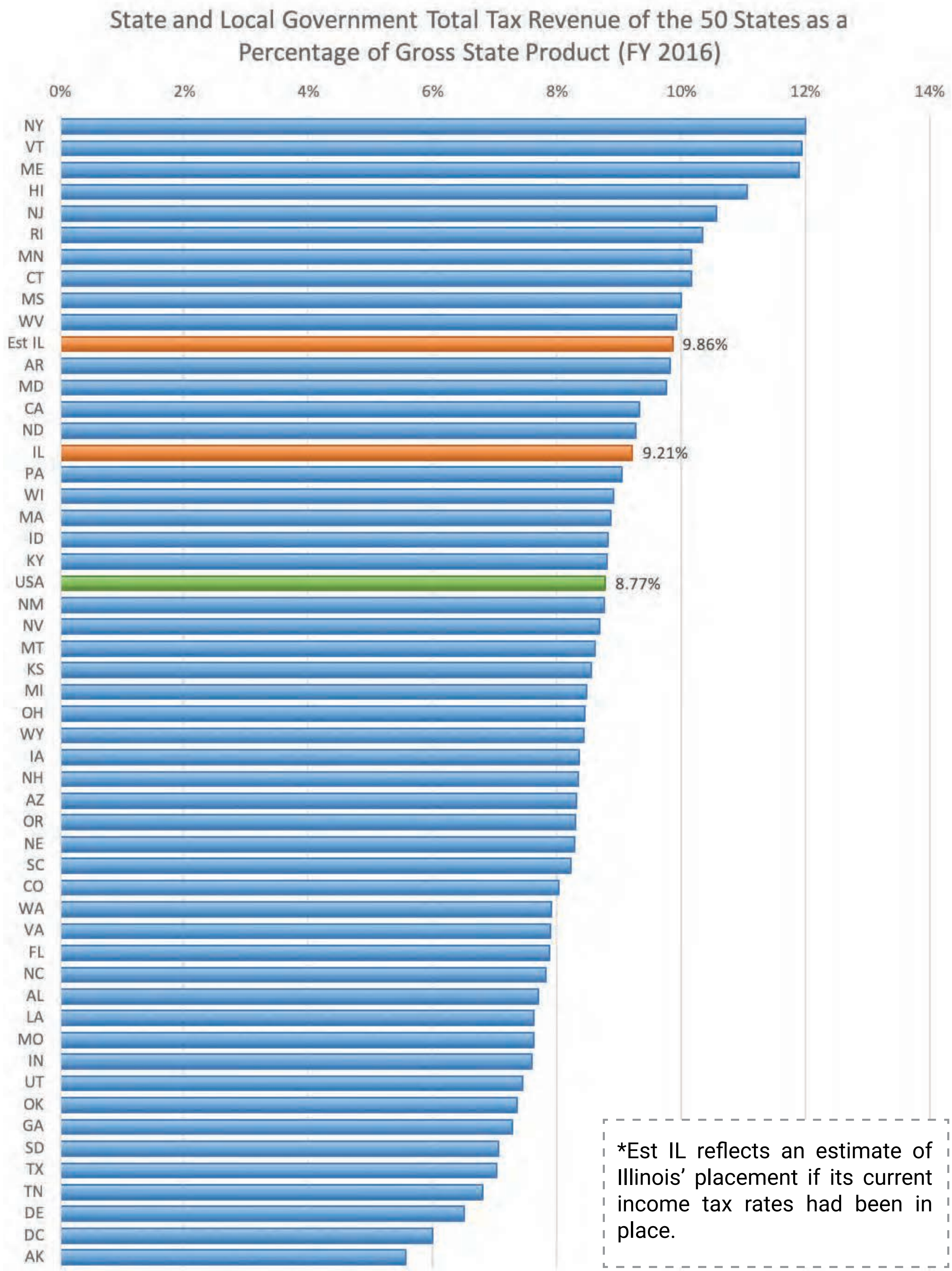
Source: Census Bureau, *Annual Survey of Public Pensions*

CHAPTER TWO

Overall State and Local Taxes

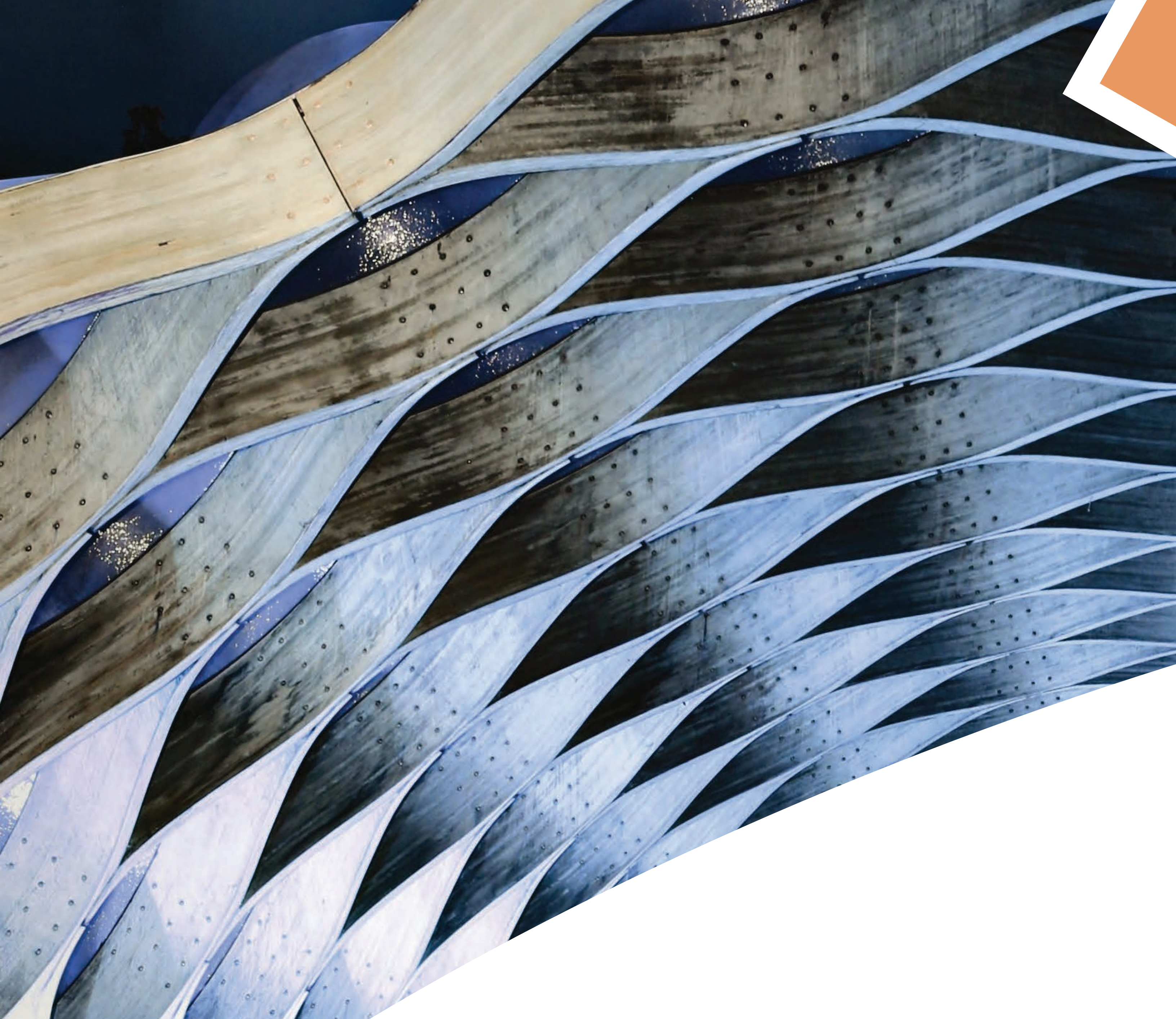
We first examine the overall tax climate in Illinois and how we compare to other states. We look at the sum of all taxes that are imposed by the state and local governments which includes income taxes, property taxes, sales taxes, excise taxes, and other taxes.

Illinois Taxes are Above Average and Rising



*Est IL reflects an estimate of Illinois' placement if its current income tax rates had been in place.

Source: Census Bureau, *State and Local Government Finances* and Bureau of Economic Analysis, Regional Economic Analysis

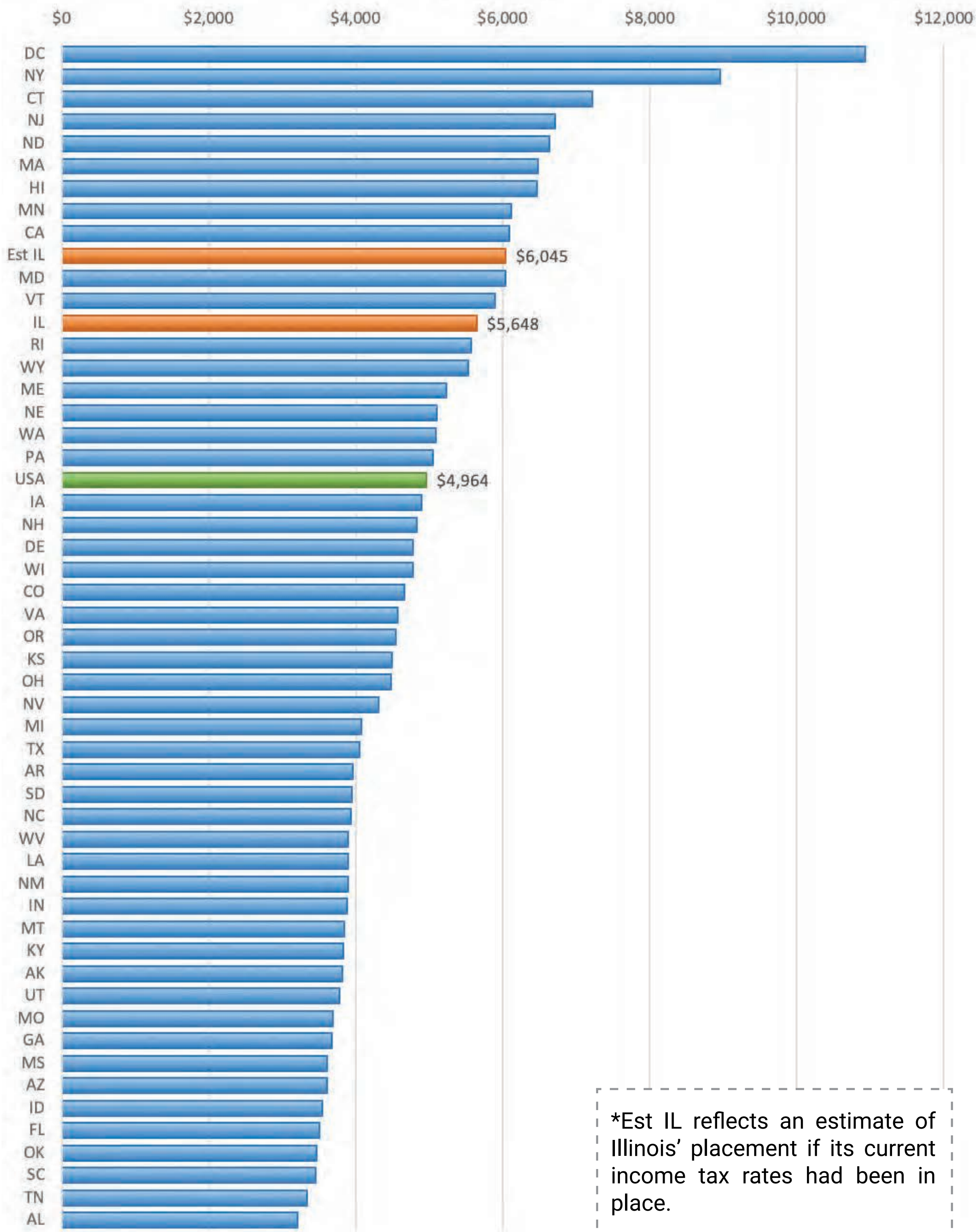


In FY2016, Illinois had the 15th highest total tax collections, at 9.21% of gross state product (Illinois collected $72.6 billion in state and local taxes). However, in FY2016, the individual income tax rate was 3.75%, while the current rate is 4.95%. The corporate rate was 5.25% rather than the current 7%, or, after including the Personal Property Tax Replacement Income Tax, 7.75% then and 9.5% now. Assuming the higher rates had been in place in FY2016, Illinois would have risen to 11th place (and would have collected an estimated $77.7 billion).

If the higher rates in effect today had been in place in 2016, Illinois' taxes would have been 12.4% above the national average which translates to $8.54 billion.

Per Capita Taxes in Illinois are High

State and Local Government Tax Revenue Per Capita of the 50 States
(FY 2016)



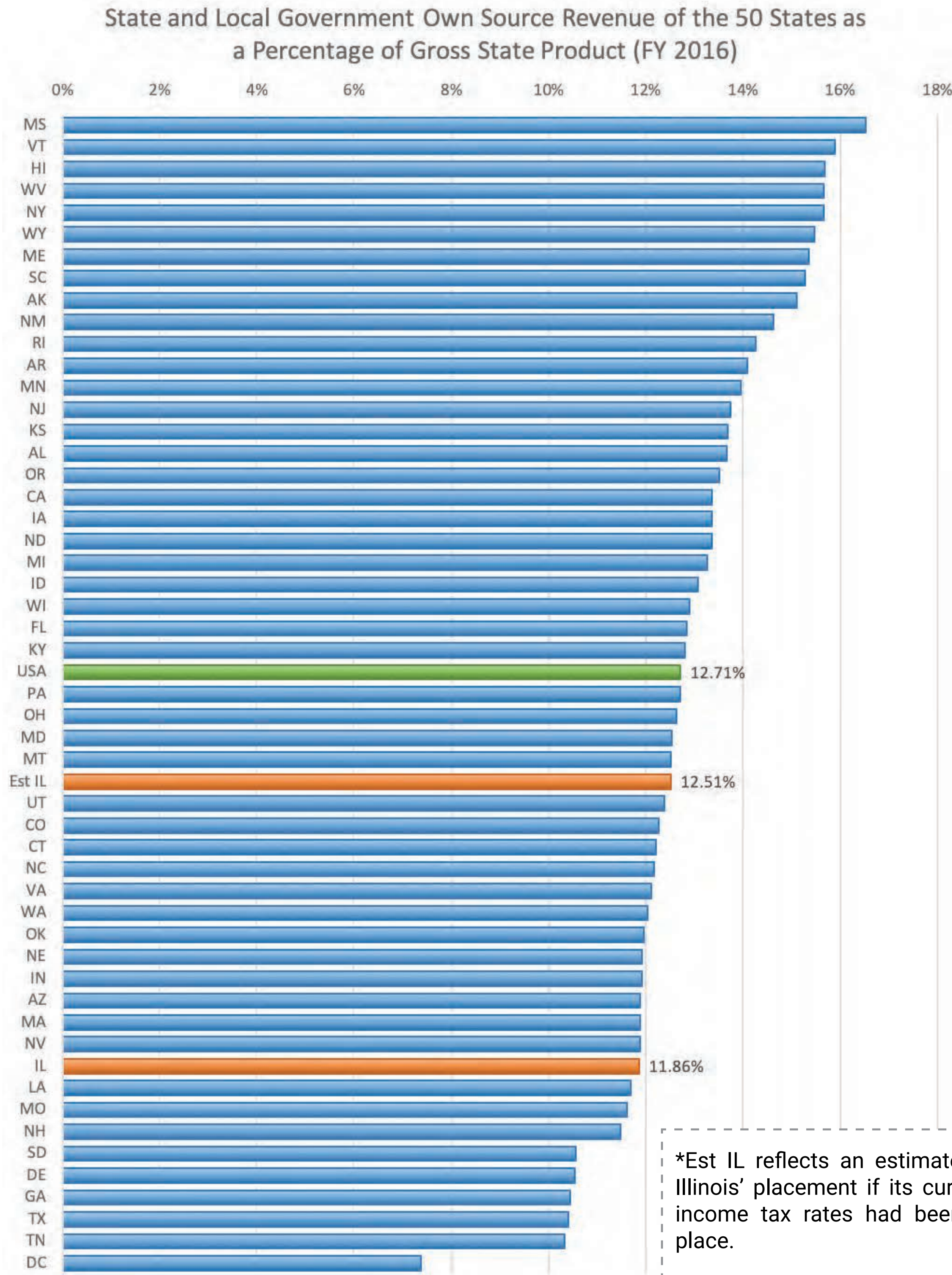
*Est IL reflects an estimate of Illinois' placement if its current income tax rates had been in place.

Source: Census Bureau, *State and Local Government Finances*

Per capita measurements fail to consider the different economies within the states, but they still have a purpose. When we say Illinois' state and local taxes are at 9.86% of gross state product, most people don't know what that means to them personally. Saying that Illinois' state and local tax burden is $5,648 per person, on the other hand, is easier to understand (even though some people pay less than this and others pay more). The average per capita state and local tax collection is $4,964, but Illinois collected $5,648 per person in FY2016. If the income tax rates had been at their current levels, Illinois would have generated $6,045 per person, or 21.8% above average.

Once again, different numbers looking at the same thing-- taxes in Illinois-- paint two similar but different pictures. Measuring total state and local taxes paid both on a per capita basis and as a percentage of gross state product show that Illinois collects more taxes than average, but using one measurement (gross state product) Illinois is 12.4% above average, while the other measurement (per capita) shows Illinois is 21.8% above average. This is a significant difference: using per capita figures, Illinois' taxes are $13.9 billion above average, but only $8.6 billion above average using the gross state product comparison.

Illinois Own Source Revenues Tell a Different Story



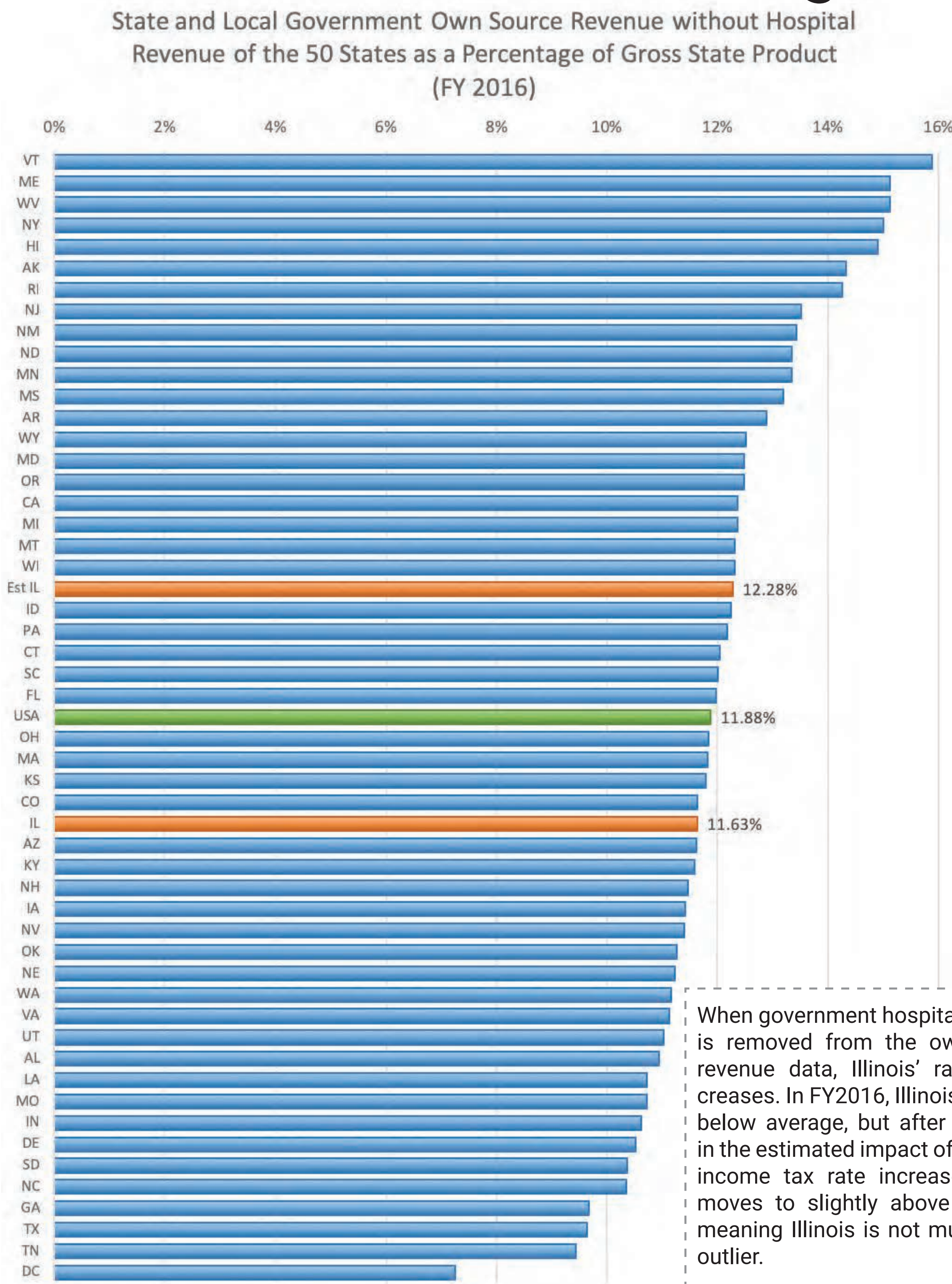
*Est IL reflects an estimate of Illinois' placement if its current income tax rates had been in place.

Source: Census Bureau, *State and Local Government Finances* and Bureau of Economic Analysis, Regional Economic Analysis, So far, we have looked at Illinois' total tax collections, which includes income taxes, sales taxes, property taxes, excise taxes, utility taxes, and other miscellaneous taxes. It does not include other revenues that state and local governments receive, such as fines, fees, college tuition, tolls, and other similar revenues. One can argue that a more inclusive figure (commonly called own-source revenue) is a better measuring stick, since a person doesn't care if a payment they make to a government is a fee or a tax--it is still going to the government. However, most fees are for a specified service (or should be), such as parents paying a sports fee for their child to play soccer in high school or a driver paying a toll to use a certain highway. And the revenues from these fees are generally used to fund that specific service (the soccer team or highway), rather than for general government purposes. Despite these misgivings, it is important to look at this more inclusive figure, which shows that Illinois is below the national average, even when the 2017 income tax increase is factored in.

This is a surprise—tax revenues are above average, according to the chart on page 12, but total own-source revenues are below average. What Illinois fees or non-tax revenue sources are below the national average and offset our above average taxes? This figure does not include revenues from government run utilities and liquor stores, but one area where Illinois collects significantly less than the national average is hospital revenue: Illinois collects $140 per capita while the national average is $470 per capita. Nationally, 19.8% of hospitals are run by state and local governments. In Illinois, that figure is 12.2%, which explains why we collect a below average amount. If Illinois were at the national average, we would collect an additional $4.23 billion in hospital revenue. However, governments that collect hospital revenue need to provide medical care in exchange. If Illinois wanted to increase the hospital revenue figure, our state and local governments would also have to increase the number of, and amount of expenditures on, government hospitals. Increasing hospital revenues would not guarantee any additional funding for other state functions or otherwise alleviate Illinois' tax burden.

While this own-source revenue number may be useful for some purposes, understanding it requires looking at what is driving the difference: where is Illinois significantly below average, and where are we significantly above average.

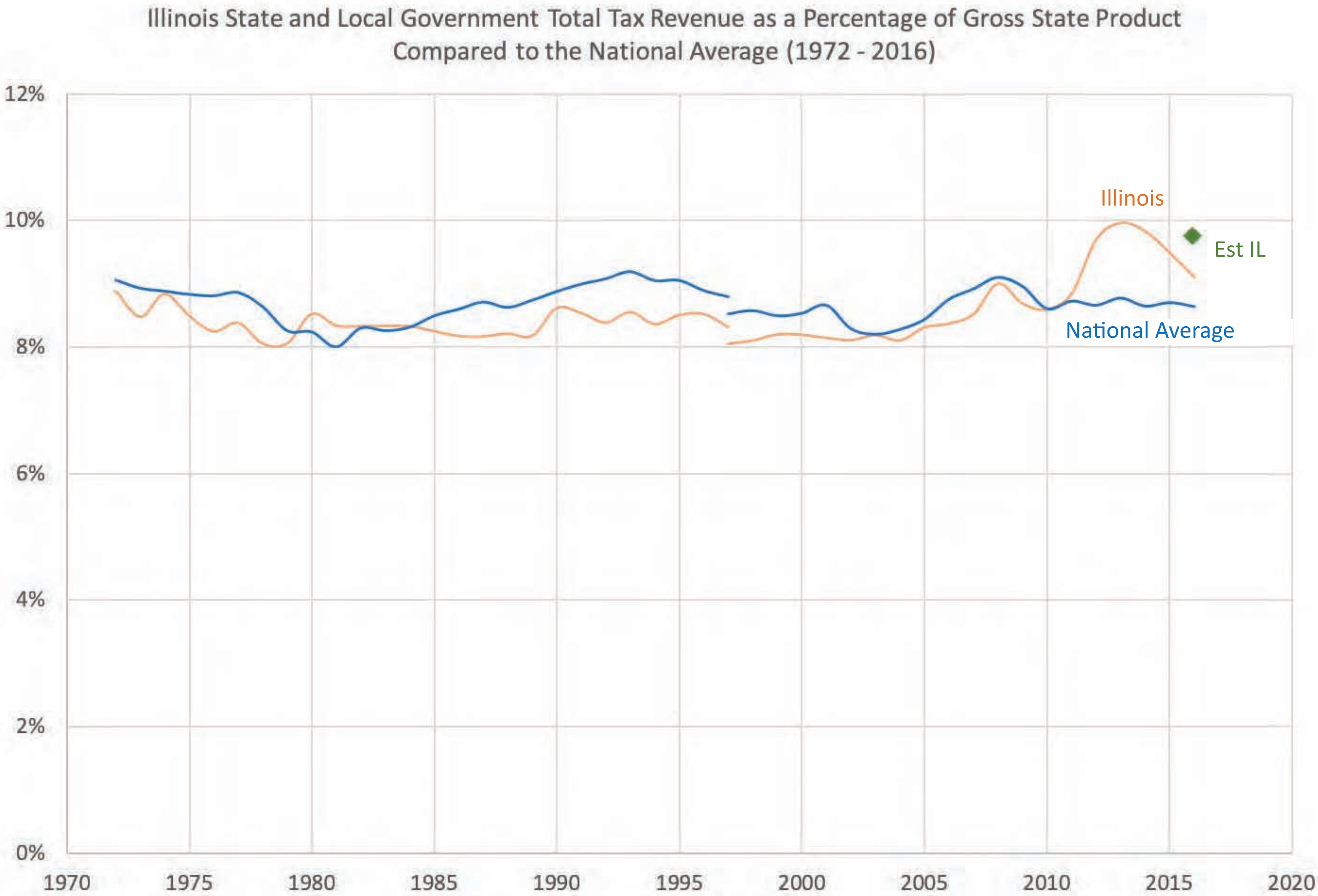
Removing Hospital Revenue Increases Illinois' Ranking



When government hospital revenue is removed from the own-source revenue data, Illinois' ranking increases. In FY2016, Illinois was still below average, but after factoring in the estimated impact of the 2017 income tax rate increase, Illinois moves to slightly above average, meaning Illinois is not much of an outlier.

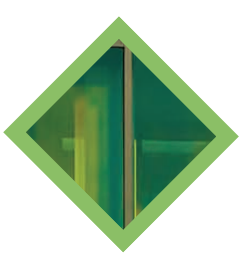
Source: Census Bureau, *State and Local Government Finances* and Bureau of Economic Analysis, Regional Economic Analysis

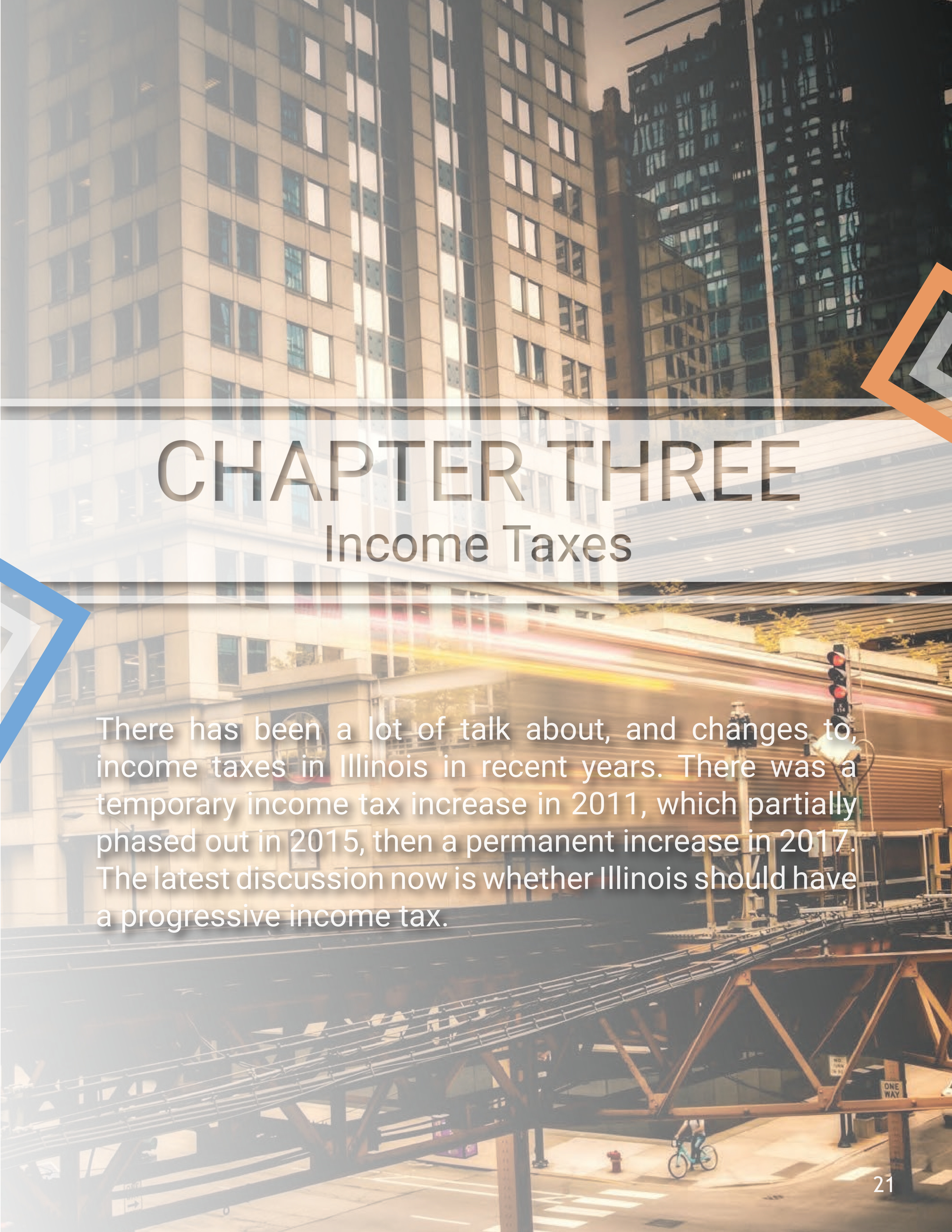
Until Recently, Illinois Taxes Have Been Below Average



Source: Census Bureau, *State and Local Government Finances* and Bureau of Economic Analysis, Regional Economic Analysis

Historically, Illinois' total state and local tax collections as a percentage of gross state product has been slightly below the national average. Taxes in Illinois increased in 2011 when income tax rates temporarily increased and came down when the income tax rate increase expired. In mid-2017, income tax rates were increased again. The GREEN point on the chart shows Illinois' estimated tax collections if those higher income tax rates had been in place in FY2016. We can expect the Illinois line to start trending up once data that reflects the increased income tax rates is available.



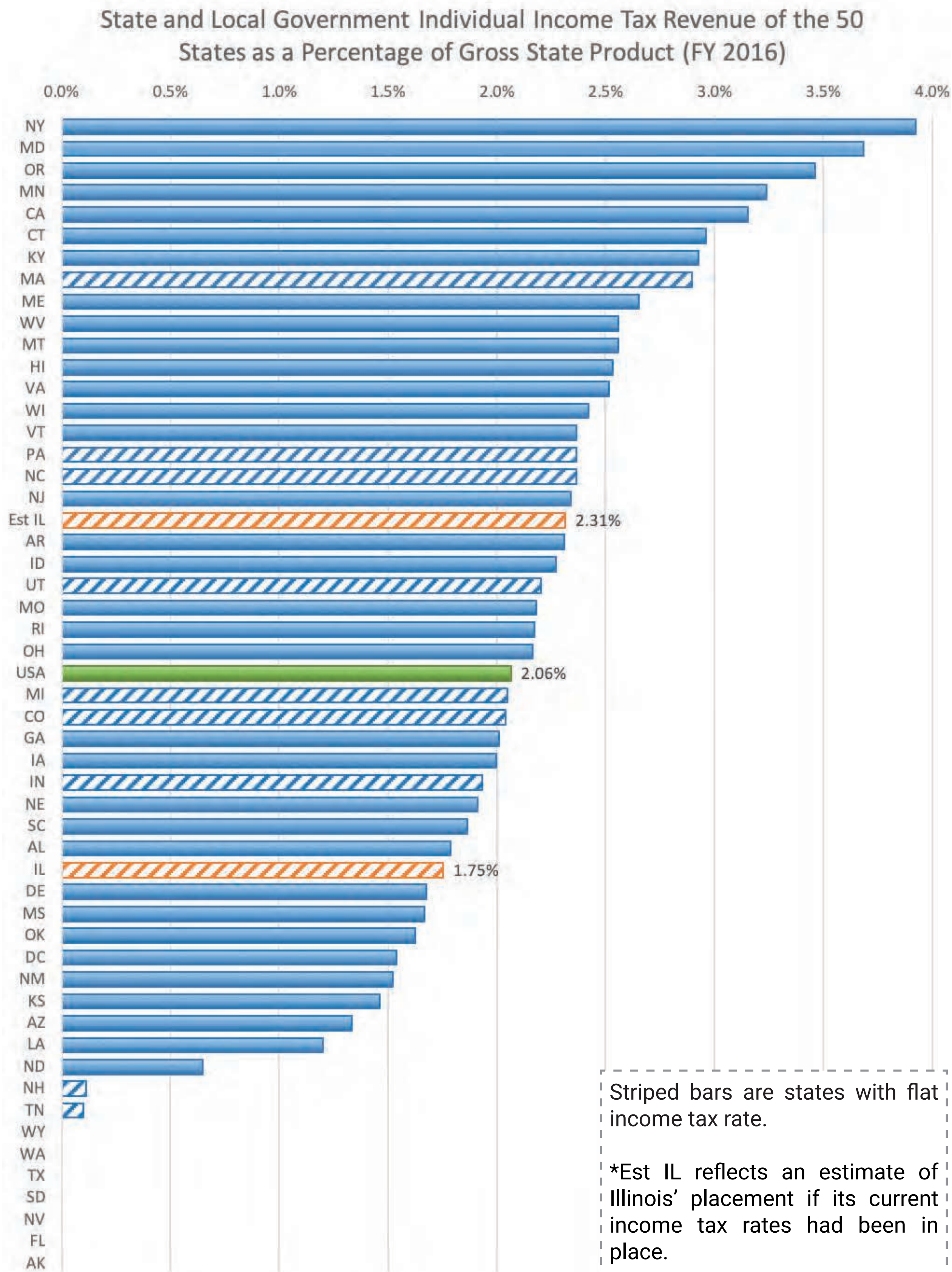


CHAPTER THREE

Income Taxes

There has been a lot of talk about, and changes to, income taxes in Illinois in recent years. There was a temporary income tax increase in 2011, which partially phased out in 2015, then a permanent increase in 2017. The latest discussion now is whether Illinois should have a progressive income tax.

Individual Taxes in Illinois Went from Below Average to Above Average



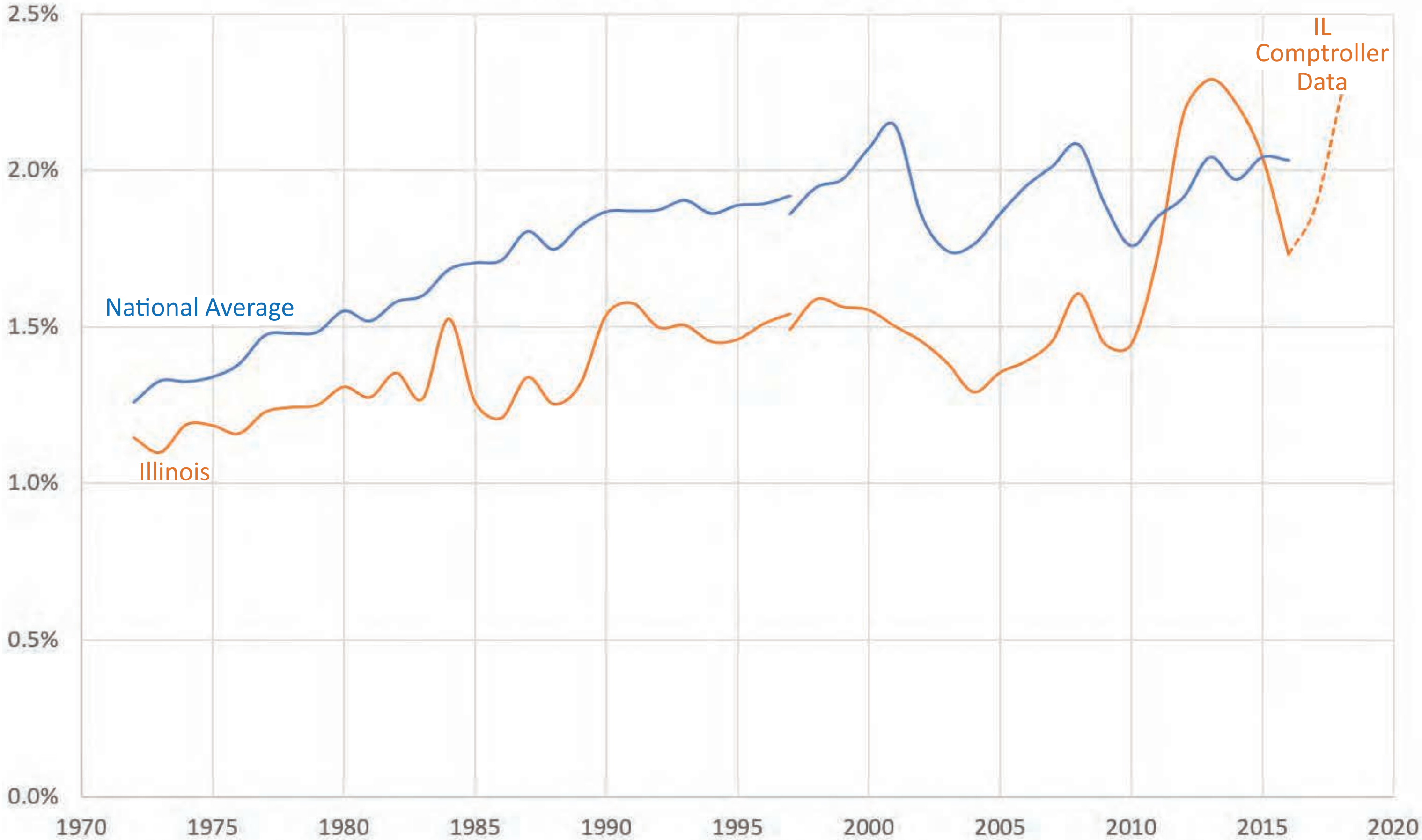
Source: Census Bureau, *State and Local Government Finances* and Bureau of Economic Analysis, Regional Economic Analysis

During fiscal year 2016, the individual income tax rate was 3.75%. Illinois' individual income tax collections, when measured as a percentage of gross state product, were 15% below the national average. The individual income tax rate is now 4.95%. If Illinois had imposed this higher rate in 2016, collections naturally would also have been higher—approximately 12% above the national average. Even after the estimated impact of the increase is taken into account, there are eighteen states that rank higher on this measure.

Illinois and seven other states are "flat-rate" states; their individual income tax is imposed at the same statutory rate at all levels of income. (New Hampshire and Tennessee also impose flat rate taxes on certain types of income.) Sometimes there is an implication that a flat tax structure results in lower income taxes. However, this chart shows that is not always the case.

Illinois Individual Income Taxes Have Historically Been Below Average

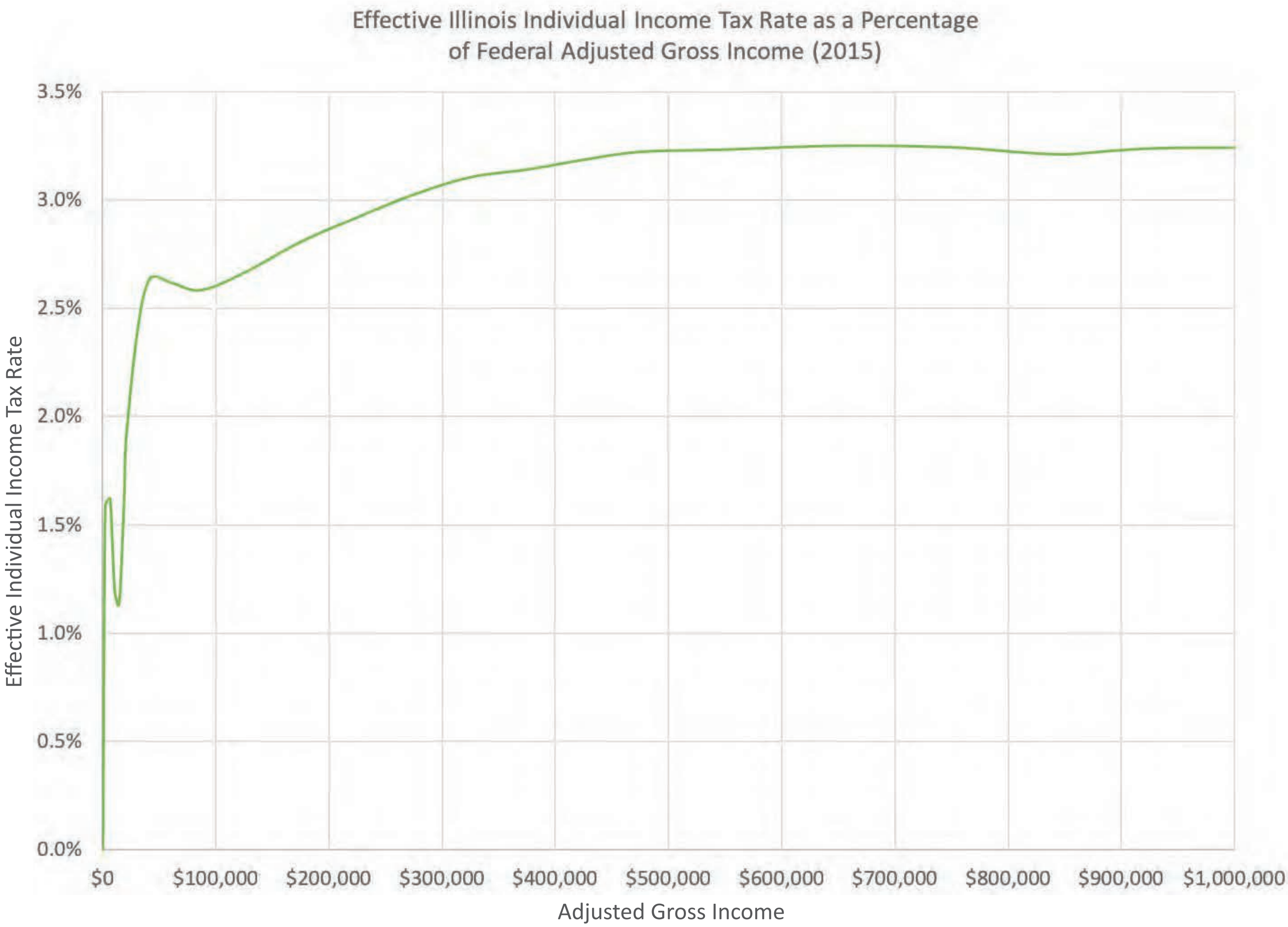
Illinois State and Local Government Individual Income Taxes as a Percentage of Gross State Product Compared to the National Average over Time



Source: Census Bureau, State and Local Government Finances and Bureau of Economic Analysis, Regional Economic Analysis

Individual income tax collections in Illinois have traditionally been below the national average. This changed when rates were increased in 2011. When the rates dropped in 2015, we were once again below the national average. Census information for the years after the 2017 rate increase is not yet available; the dotted line on this chart reflects data from the Illinois Comptroller's Office and shows that Illinois is likely to once again be above the national average.

Illinois' Flat Rate is Slightly Progressive

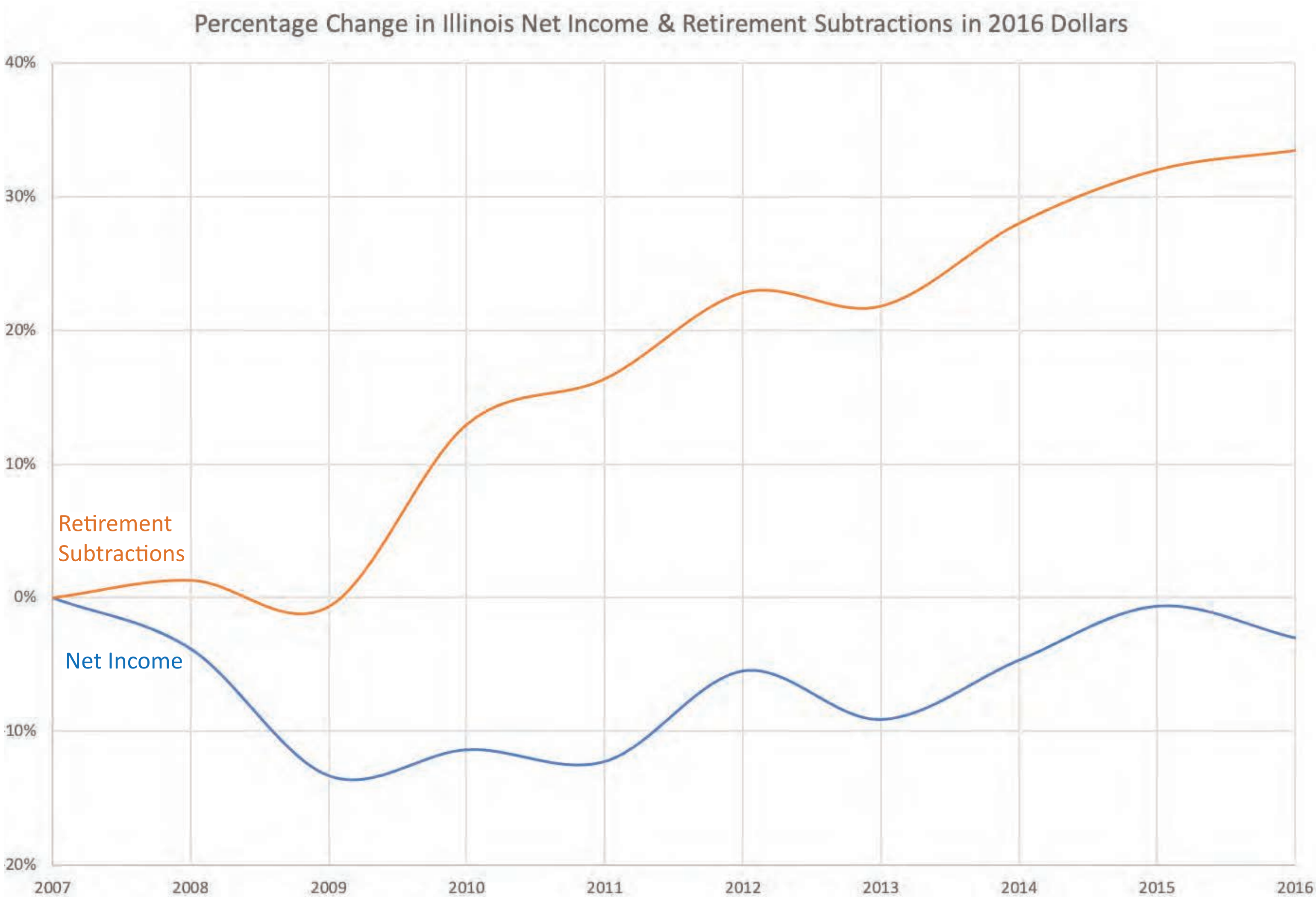


Source: Illinois Department of Revenue

Even though Illinois has a flat tax—a single rate applies to all income levels—the average effective individual income tax rate varies for different levels of income. An "effective rate" is calculated by comparing the actual tax paid with income (here federal adjusted gross income), using aggregate data for all taxpayers.

The data used to calculate the graph is for the 2015 tax year, when the individual income tax rate was 3.75%. However, at no point does the effective rate reach the statutory rate of 3.75%. This can be explained by the various deductions and credits that are available to taxpayers under the tax code. The largest deduction is that for retirement income. Additionally, there are the personal exemptions, the property tax credit, the K-12 education expense credit, the earned income tax credit, and the constitutionally required credit for taxes paid to another state.

Illinois' Retirement Exemption is Growing Faster than Incomes



Source: Illinois Department of Revenue

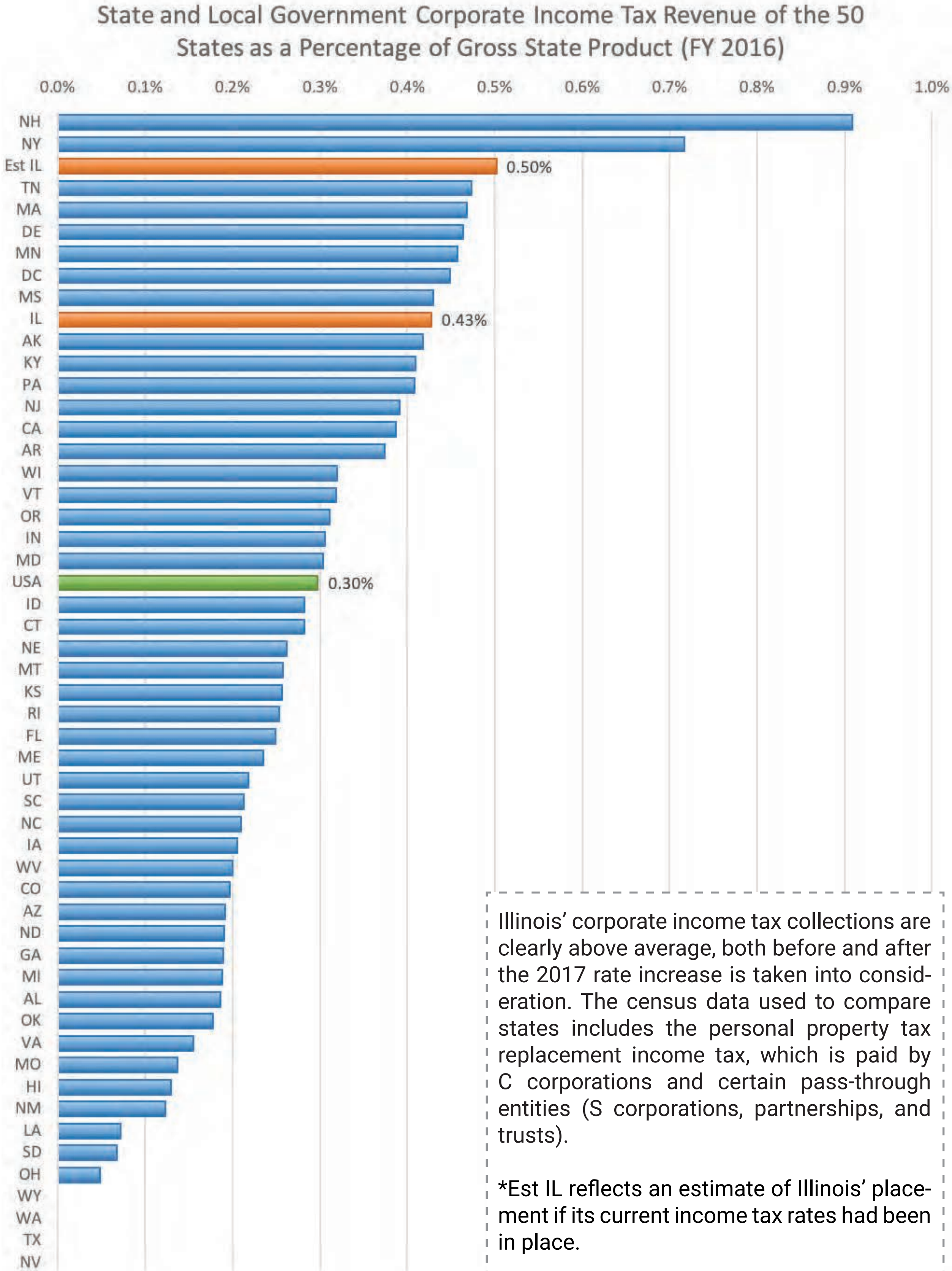
All retirement income, whether or not it is taxed by the federal government (and most of it is), is exempt from Illinois income tax. This chart shows the growth in the retirement exemption and the income tax base since 2007 in 2015 dollars, to adjust for inflation. While the income received but not taxed under the retirement exemption grew by over 25%, the income tax base grew by barely 5%.







Illinois Corporate Income Tax Collections are High

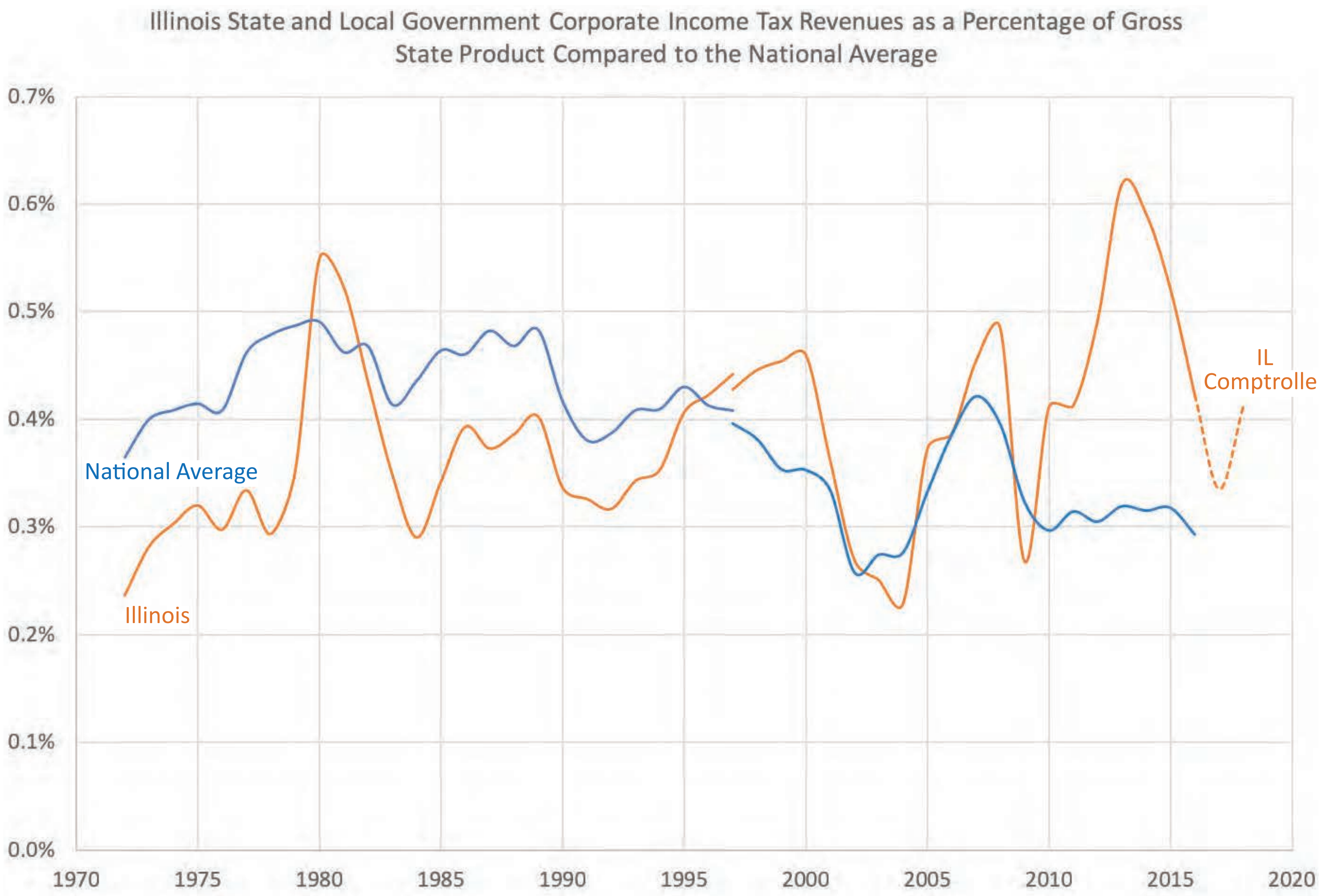


Illinois' corporate income tax collections are clearly above average, both before and after the 2017 rate increase is taken into consideration. The census data used to compare states includes the personal property tax replacement income tax, which is paid by C corporations and certain pass-through entities (S corporations, partnerships, and trusts).

*Est IL reflects an estimate of Illinois' placement if its current income tax rates had been in place.

Source: Census Bureau, *State and Local Government Finances* and Bureau of Economic Analysis

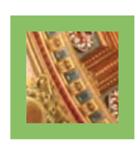
Corporate Income Taxes are Volatile



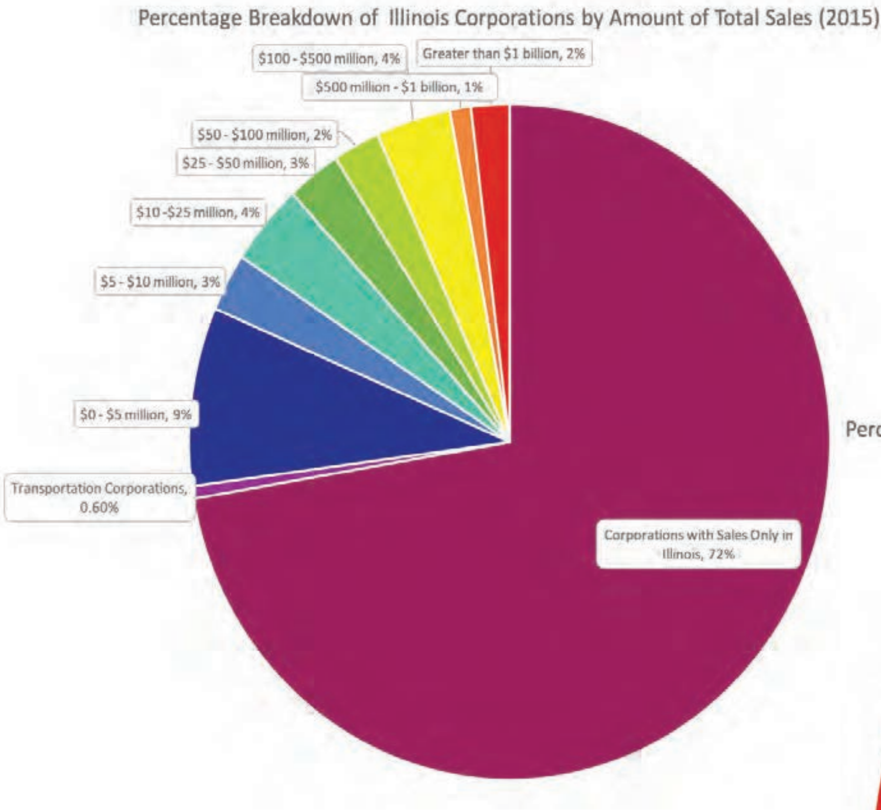
Source: Census Bureau, *State and Local Government Finances* and Bureau of Economic Analysis, Regional Economic Analysis

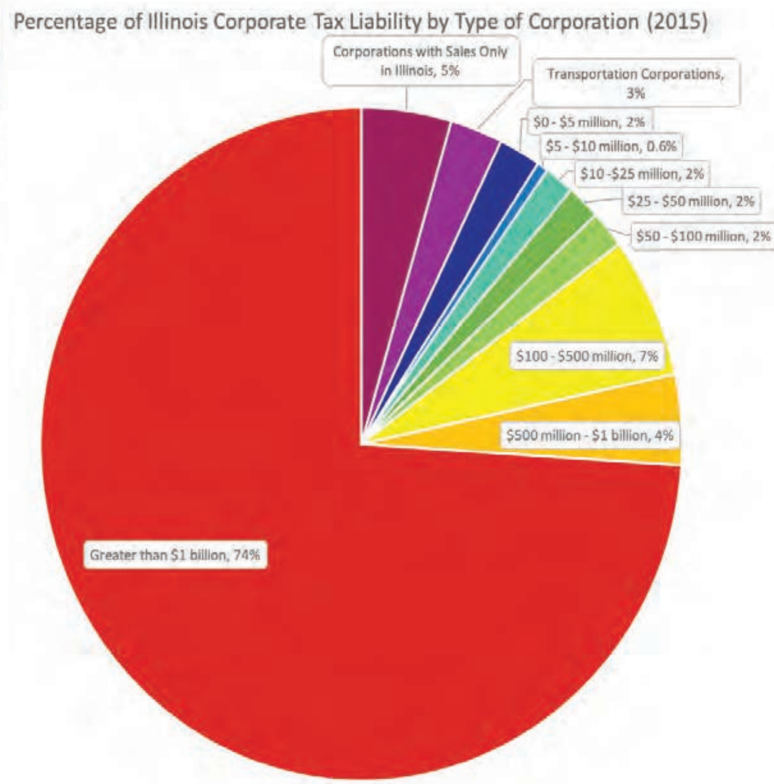
Traditionally, Illinois' corporate income tax collections were below or at the national average. However, after the income tax increase in 2011, it became significantly above average. This chart shows the corporate income tax has been particularly volatile in Illinois over the last couple of years. This is likely due to the change in rates, but also with the suspension of the net operating loss deduction ending in 2015. Even without those rate changes, the corporate income tax is one of the most volatile taxes. When comparing states, it is better to look at historical trends; a single year may be an outlier and focusing on it can lead to inaccurate conclusions.





2% of Corporations Pay 74% of Total Corporate Income Tax



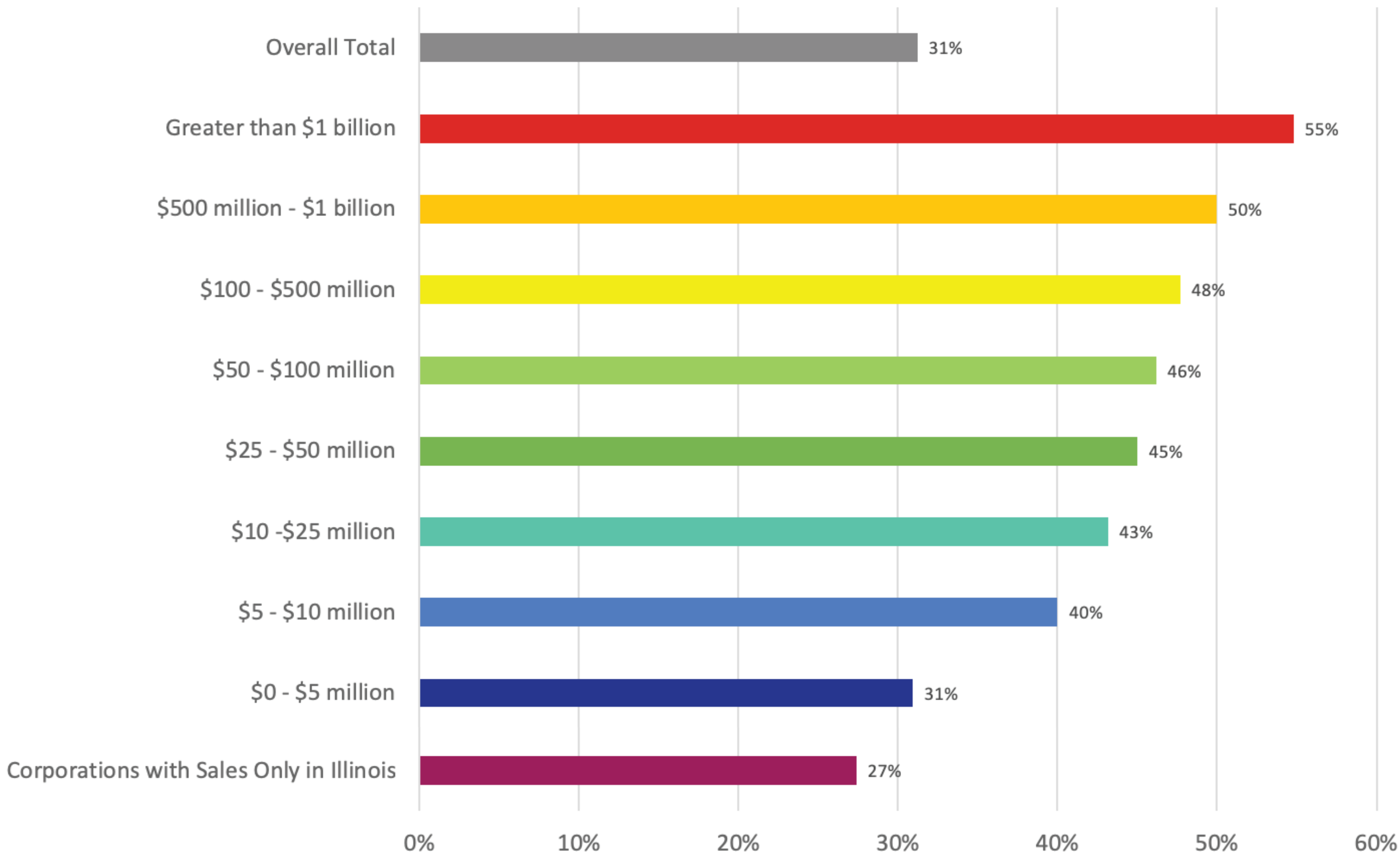


Source: Illinois Department of Revenue

Only 2% of corporations filing Illinois tax returns have sales of $1 billion or more, but they pay 74% of the corporate income taxes collected by the State. Conversely, those corporations with sales only in Illinois (in other words, they do not do business in any other state, and are likely fairly small) make up 72% of the total number of corporations that file but only pay 5% of the taxes.

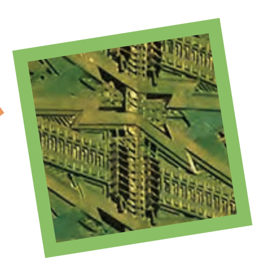
Many Small Corporations Pay No Corporate Income Tax

Percent of Illinois Corporations with Corporate Income Tax Liability (2015)

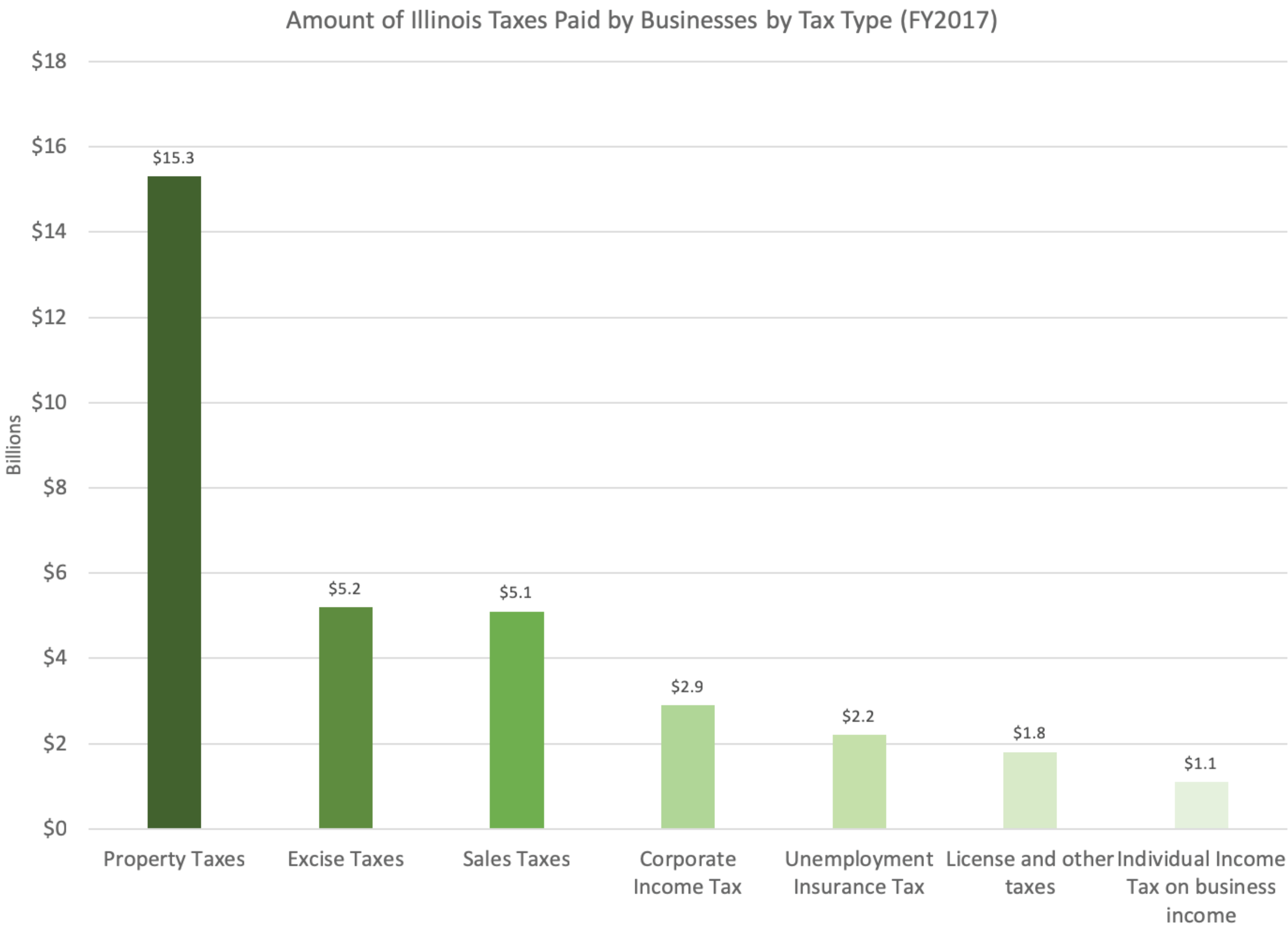


Source: Illinois Department of Revenue

Advocates for higher corporate taxes often cite the statistic that two-thirds of corporations do not pay corporate income taxes. They then imply that these are large profitable conglomerates that are taking advantage of tax loopholes. This graph shows the opposite to be true: the greater a corporation's sales, the more likely it is to owe corporate income tax. In fact, more than half of corporations with sales of more than $1 billion pay corporate income taxes. There are many reasons a corporation may not pay income tax. Most commonly, of course, is that the business simply didn't make a profit that particular year or had losses from previous years that exceeded its profit. There are many other corporations that do not do much if any business, and therefore don't pay much, if any, income tax.

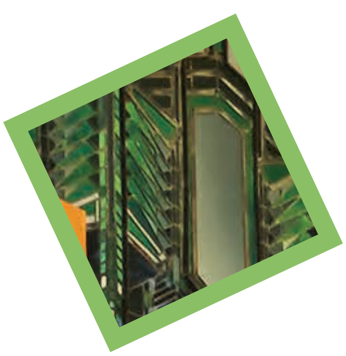


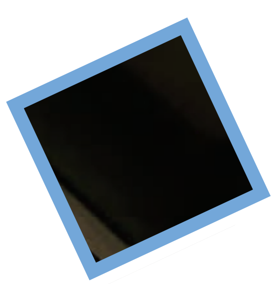
Businesses Pay More than Just Corporate Income Taxes



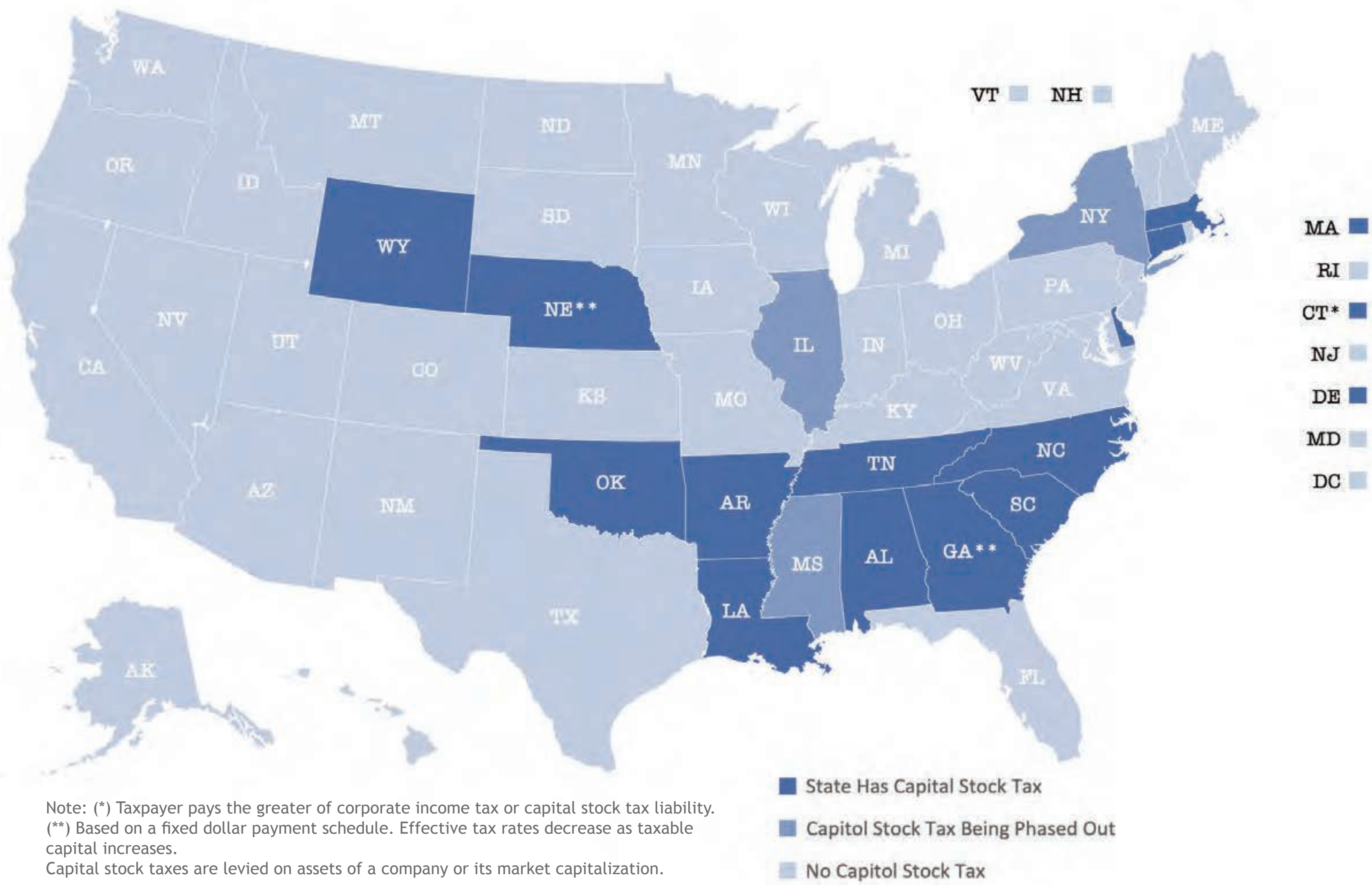
Source: Council on State Taxation and Ernst & Young LLP, State and local business taxes by type

Many people think that state corporate income taxes are the most important or largest tax for businesses. Businesses pay all types of taxes. Property taxes account for nearly half of the taxes businesses pay in Illinois, while the Illinois corporate income tax is only 8.6% of the overall business tax burden in Illinois.





Illinois Franchise Tax is an Outlier



Note: (*) Taxpayer pays the greater of corporate income tax or capital stock tax liability.
(**) Based on a fixed dollar payment schedule. Effective tax rates decrease as taxable capital increases.
Capital stock taxes are levied on assets of a company or its market capitalization.

Source: Tax Foundation

Illinois is one of the few states that still imposes a net worth or capital tax but has recently begun the process of phasing out this tax and it is scheduled to be eliminated in 2024. These taxes typically predate the federal income tax and were frequently temporary-turned-permanent measures to raise revenue from the business community when there was no other means to do so. Most states have since repealed their taxes as they have modernized their tax codes.

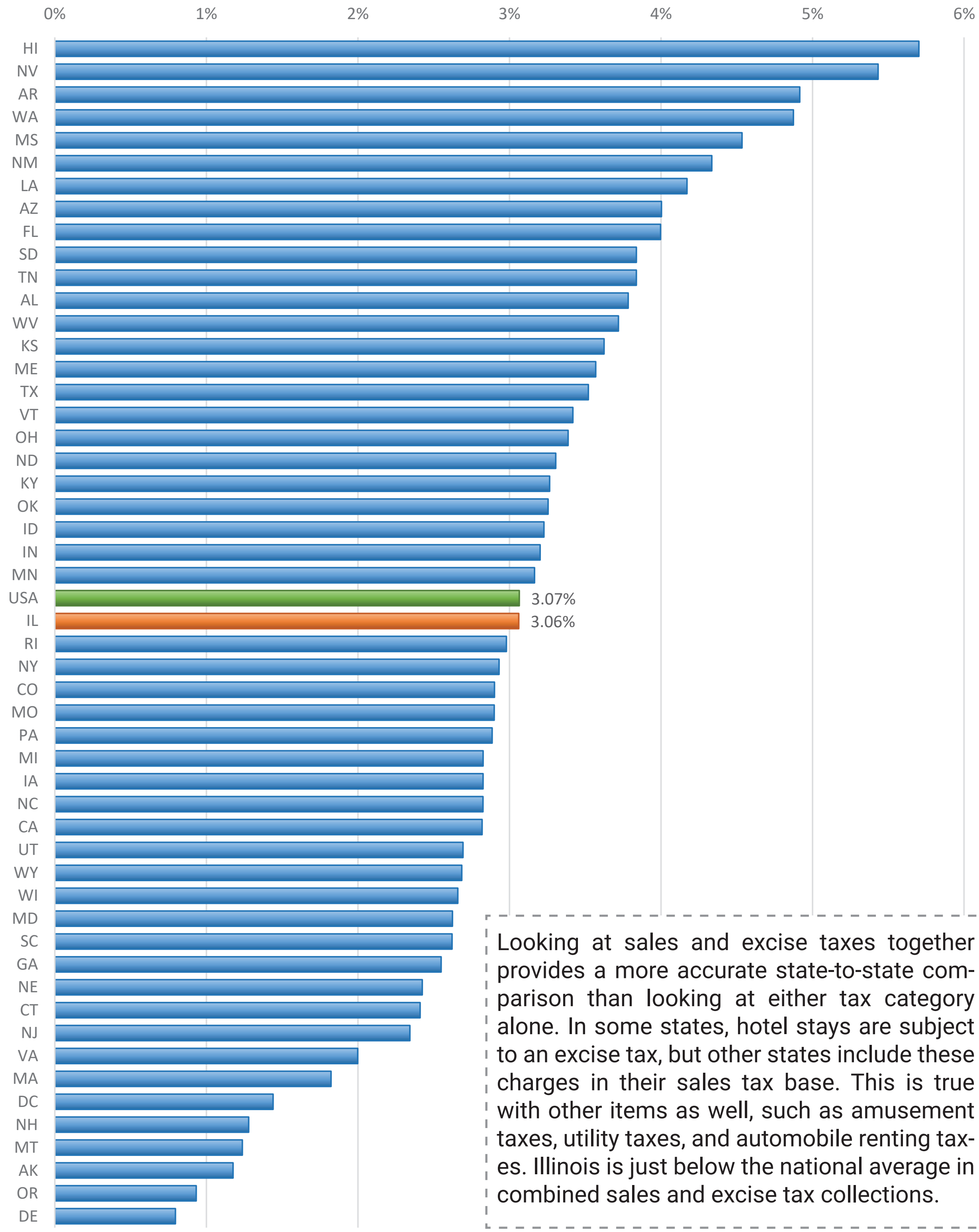
CHAPTER FOUR

Sales Taxes

Illinois first enacted a sales tax (called then, and now, the "Retailers' Occupation Tax") in 1933. A corresponding Use Tax was enacted in 1955, followed by Service Occupation and Service Use Taxes (imposed on goods transferred when providing services, not on the services themselves) in 1961. Various local governments are also authorized to impose sales (also called occupation) taxes, and many do. These taxes are added onto the state tax and collected at the same time. An excise tax is a tax on a specific good or service and can be measured as a percentage of the selling price, or based on the weight, volume, or other measurement of the good. Excise taxes can be collected and administered both locally and at the state level.

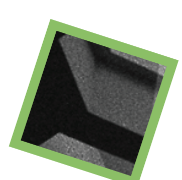
Illinois Sales & Excise Taxes are Middle of the Road

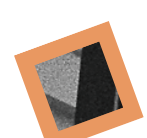
State and Local Government Sales and Excise Tax Revenue of the 50 States as a Percentage of State Gross Product (FY 2016)

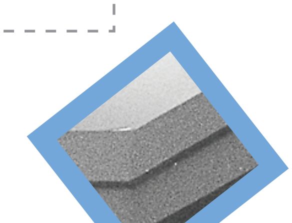


Looking at sales and excise taxes together provides a more accurate state-to-state comparison than looking at either tax category alone. In some states, hotel stays are subject to an excise tax, but other states include these charges in their sales tax base. This is true with other items as well, such as amusement taxes, utility taxes, and automobile renting taxes. Illinois is just below the national average in combined sales and excise tax collections.

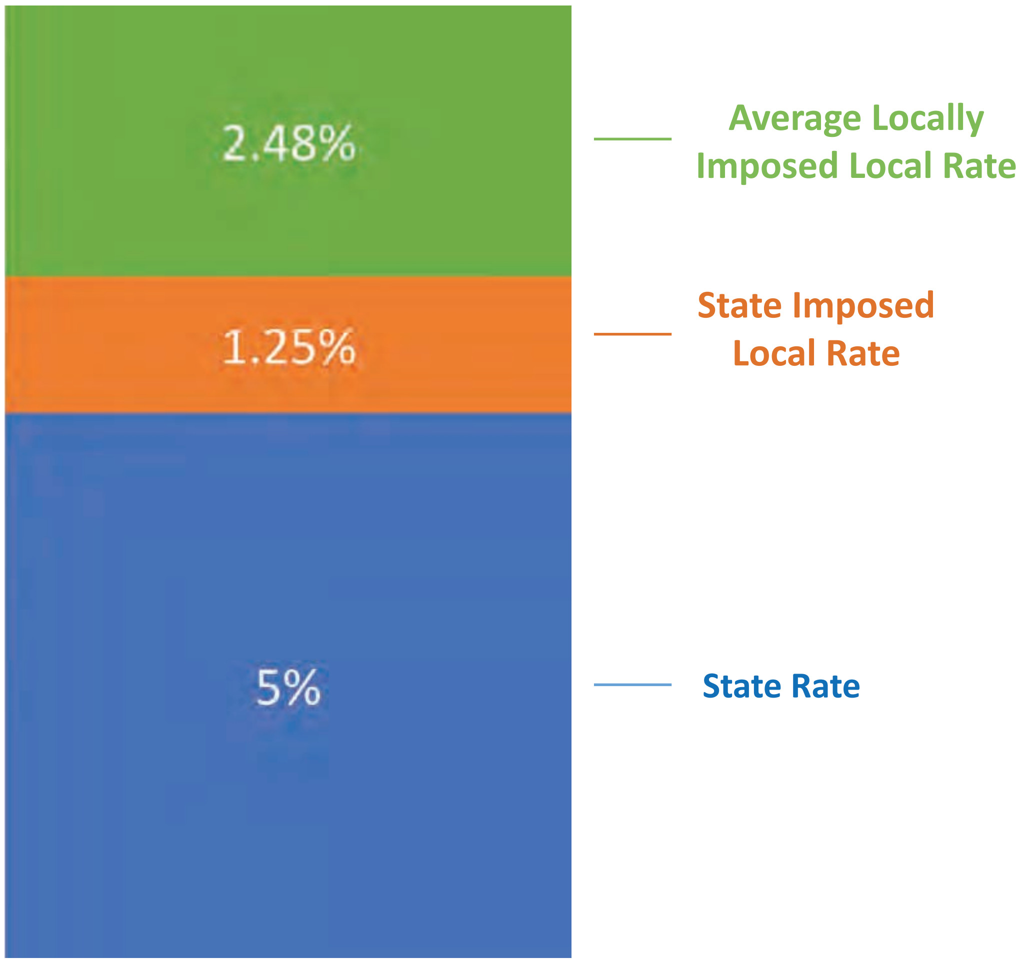
Source: Census Bureau, *State and Local Government Finances* and Bureau of Economic Analysis, Regional Economic Analysis





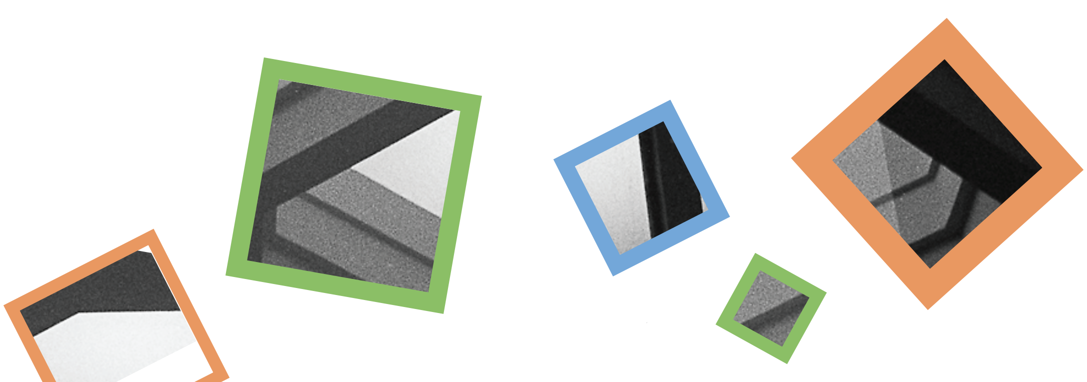


On Average, 43% of the Sales Tax on General Merchandise Goes to Local Governments



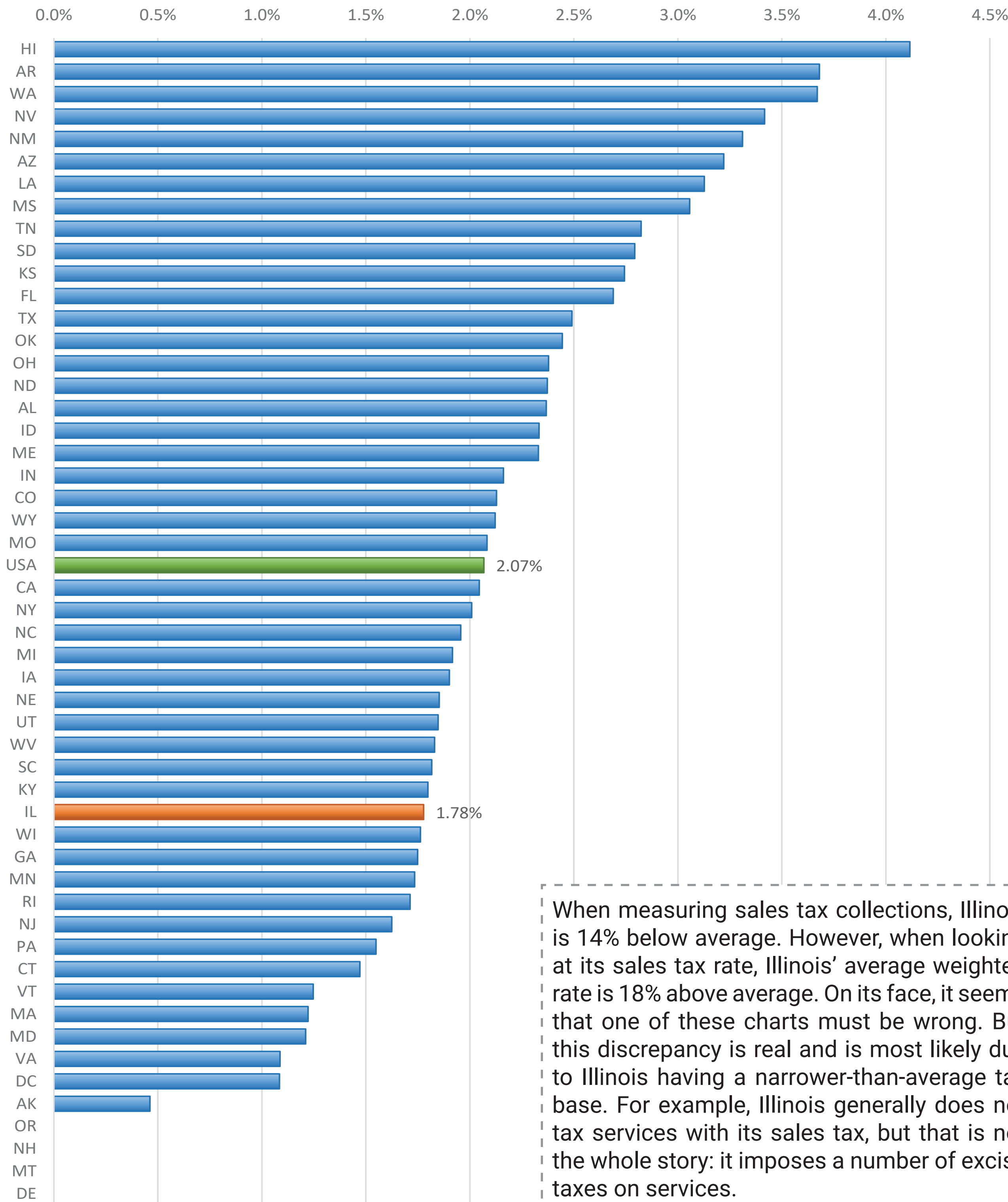
Source: Tax Foundation

The Tax Foundation has calculated that Illinois' population-weighted average combined state and local sales tax rate on general merchandise is 8.73%, and this is commonly reported as a state rate of 6.25% and an average local rate of 2.48%. It should be noted that the state government only retains 5.00% and the remaining 1.25% is distributed to local governments as if they had imposed the tax. Arguably, then, the state rate is 5.00% and the average total local rate is 3.73%.



Illinois Sales Tax Collections are Below Average

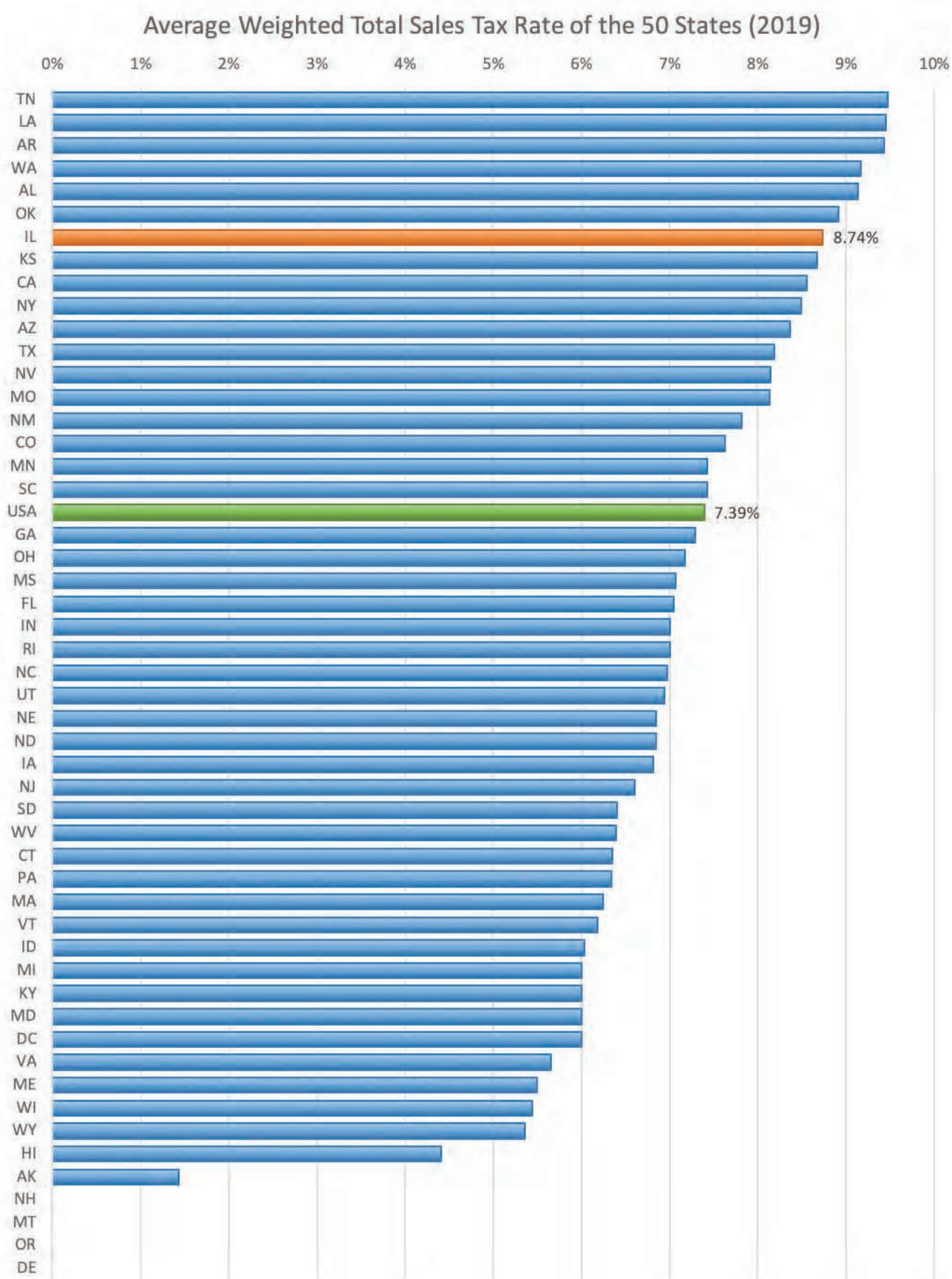
State and Local Government Sales Tax Revenue of the 50 States as a Percentage of State Gross Product (FY 2016)



When measuring sales tax collections, Illinois is 14% below average. However, when looking at its sales tax rate, Illinois' average weighted rate is 18% above average. On its face, it seems that one of these charts must be wrong. But this discrepancy is real and is most likely due to Illinois having a narrower-than-average tax base. For example, Illinois generally does not tax services with its sales tax, but that is not the whole story: it imposes a number of excise taxes on services.

Source: Census Bureau, *State and Local Government Finances* and Bureau of Economic Analysis, Regional Economic Analysis

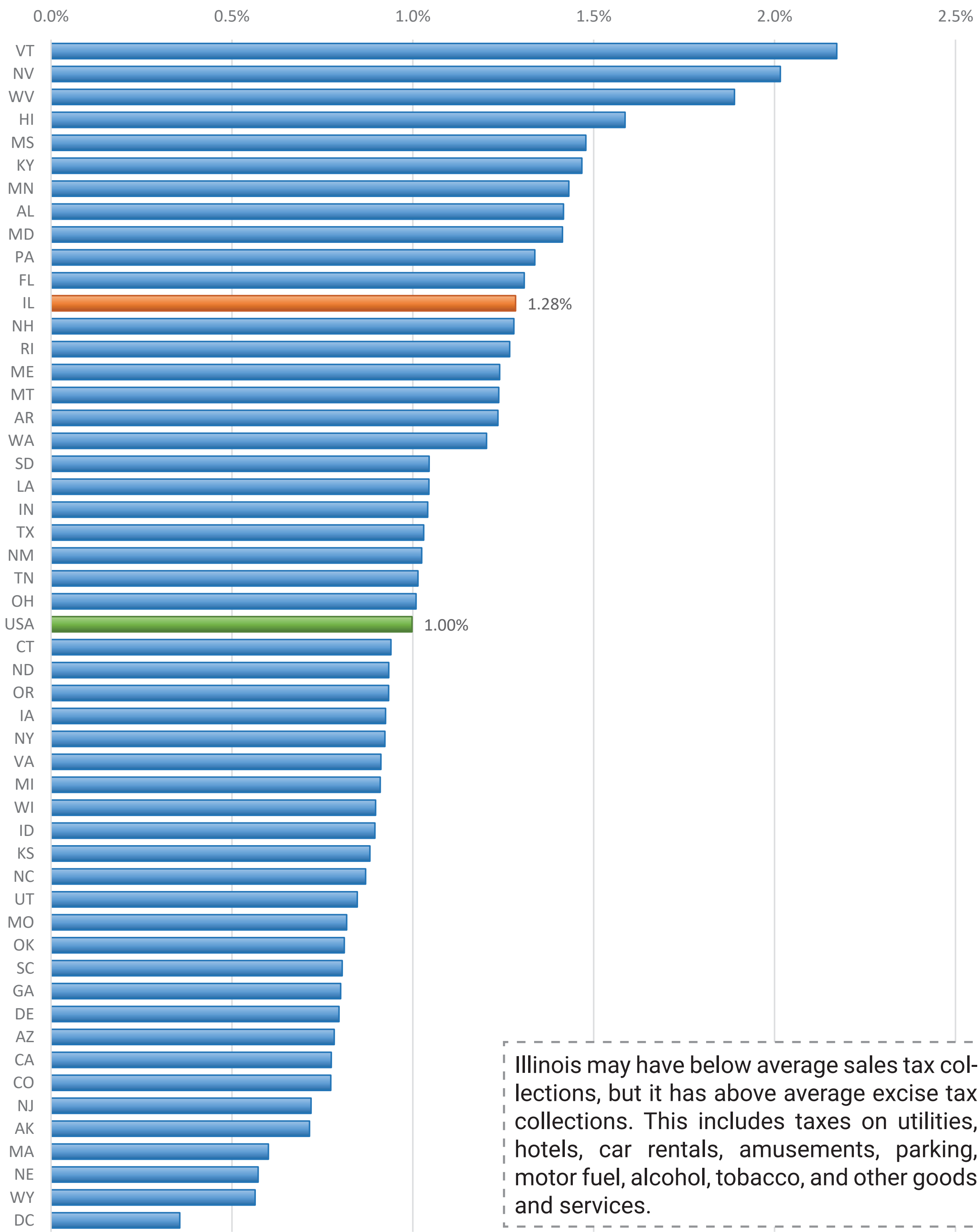
Illinois' Sales Tax Rate is Above Average



Source: Tax Foundation

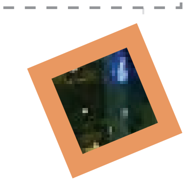
Illinois' Excise Collections are Above Average

State and Local Government Excise Tax Revenue of the 50 States as a Percentage of State Gross Product (FY 2016)



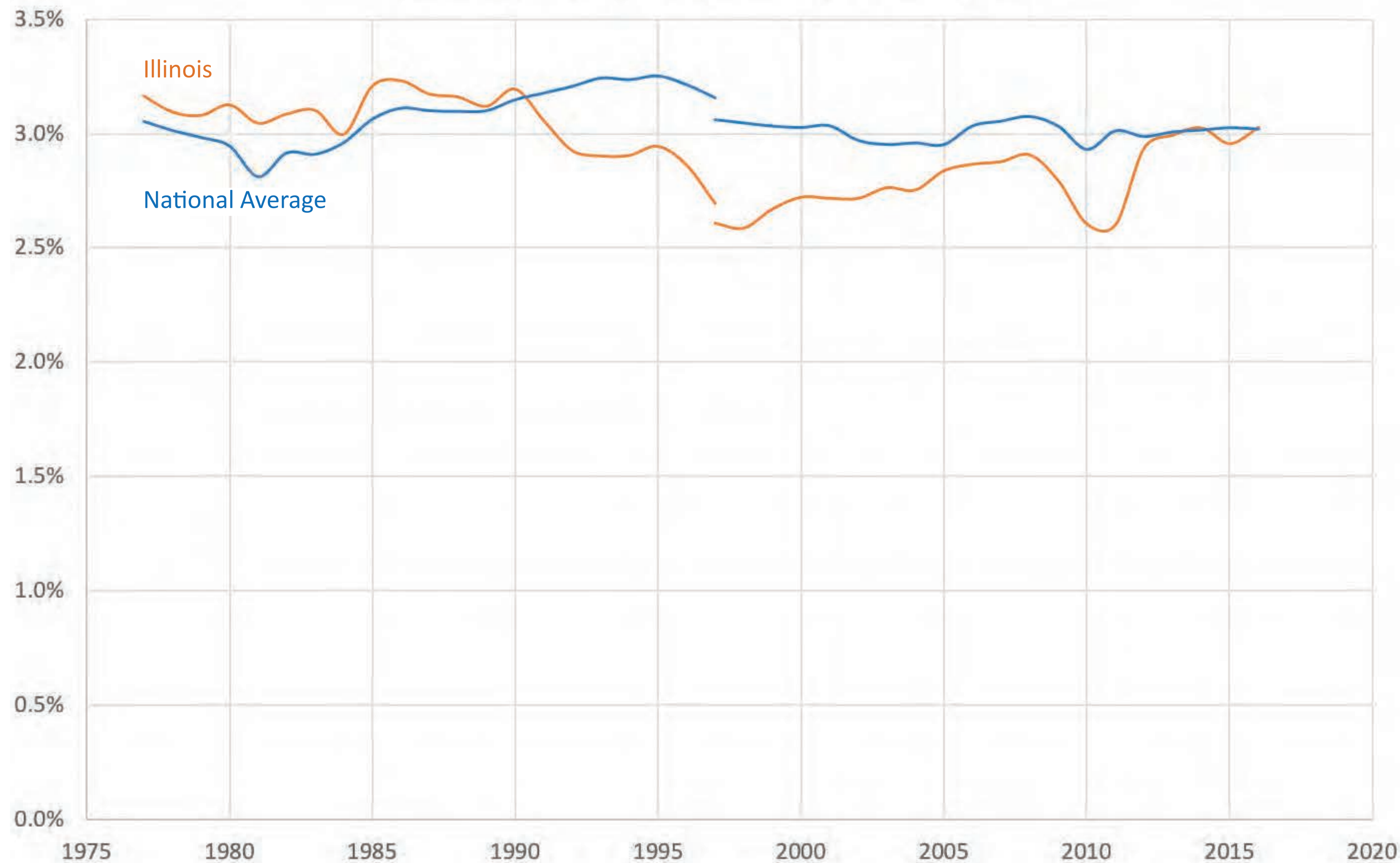
Illinois may have below average sales tax collections, but it has above average excise tax collections. This includes taxes on utilities, hotels, car rentals, amusements, parking, motor fuel, alcohol, tobacco, and other goods and services.

Source: Census Bureau, *State and Local Government Finances* and Bureau of Economic Analysis, Regional Economic Analysis



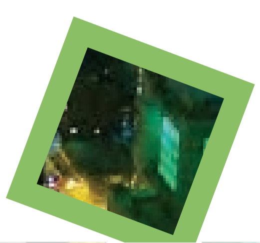
Over Time, Illinois' Sales & Excise Collections Have Been Near Average

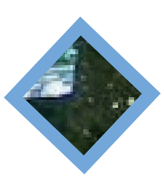
Illinois State and Local Government Sales & Excise Tax Revenue as a Percentage of State Gross Product Compared to the National Average (1977-2016)



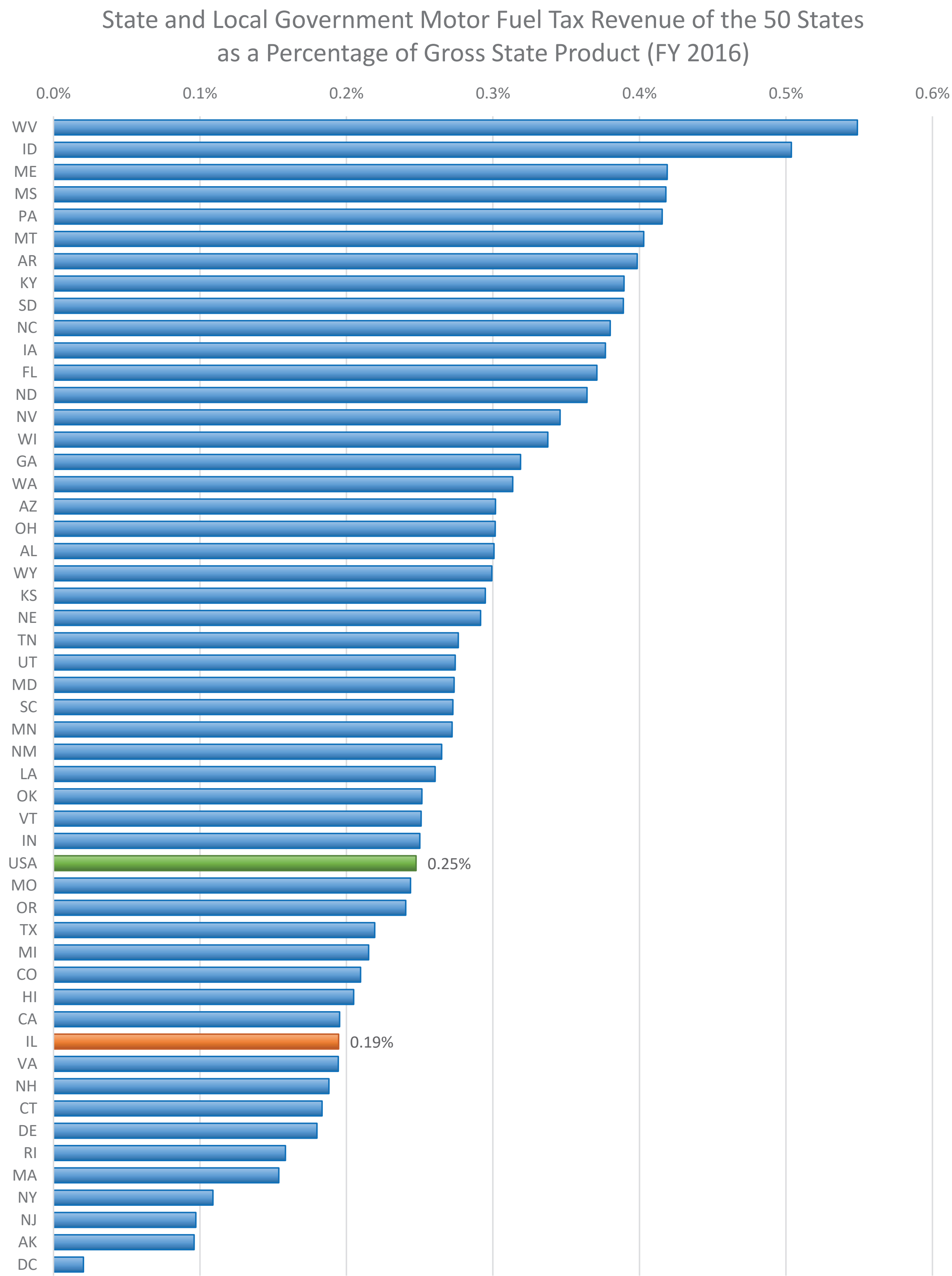
Source: Census Bureau, *State and Local Government Finances* and Bureau of Economic Analysis, Regional Economic Analysis

It looks like Illinois lowered sales and excise taxes dramatically in 1991. However, this reduction reflects a sales tax reporting error in the Census Bureau data that began in 1991 and persisted until 2012, and not an actual reduction in taxes collected. The census data for Illinois sales tax between these years is, as a result, inaccurate. After the correction was made, Illinois has been much closer to the national average.





Illinois' Motor Fuel Taxes are Below Average

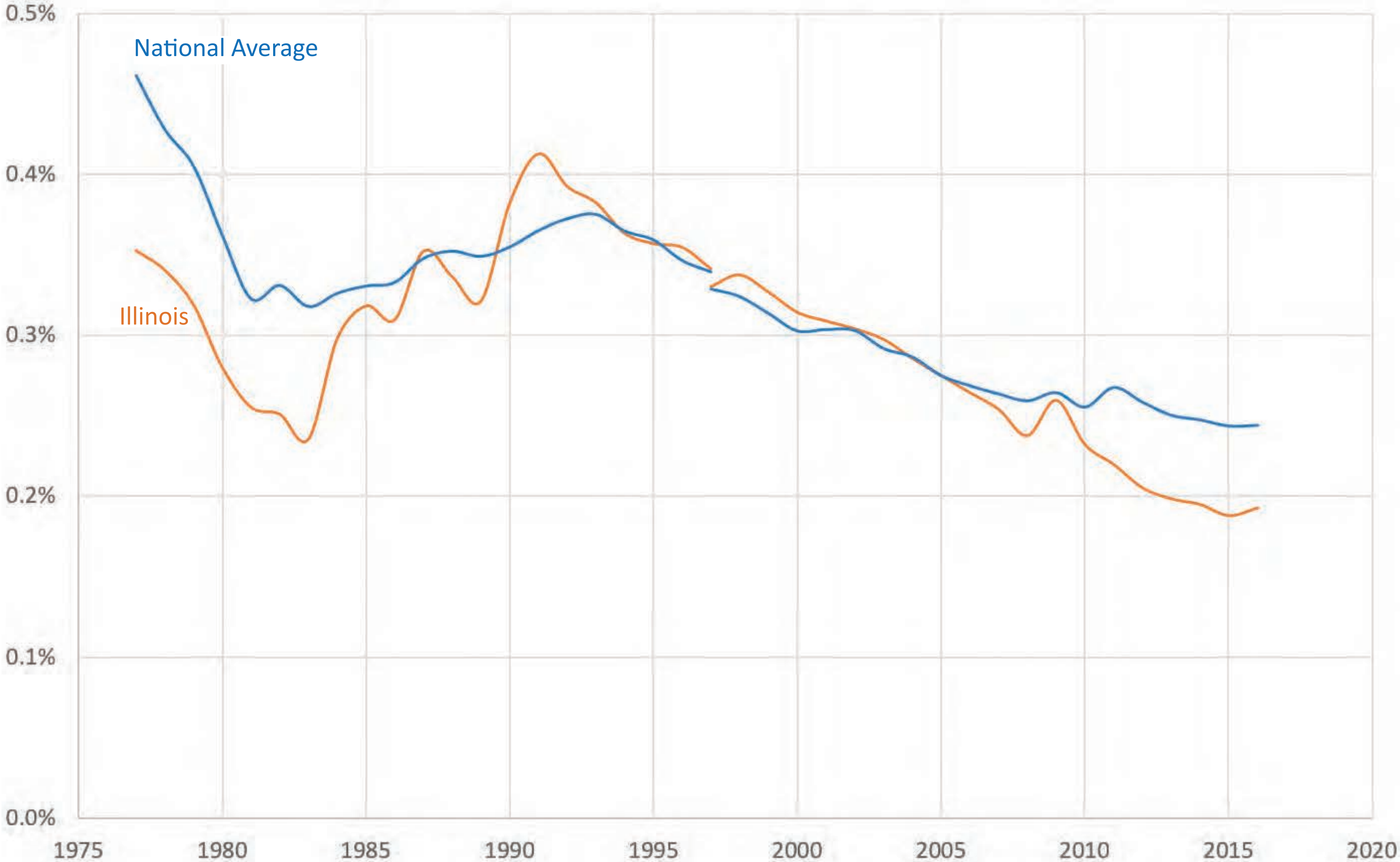


Source: Census Bureau, *State and Local Government Finances* and Bureau of Economic Analysis, Regional Economic Analysis

Illinois' collection of motor fuel tax, as a percentage of gross state product, is below average. However, Illinois just increased its motor fuel tax by $0.19 per gallon. The national average is noticeably below the median. (Average collections for most taxes tend to be closer to the midpoint.) Several large states have below average motor fuel tax collections, bringing the average down (low collections as a percentage of gross state product, but generally higher per gallon tax rates). This chart only looks at the motor fuel excise tax; it does not include sales taxes that some states (such as Illinois) impose on motor fuel, as that is a separate tax.

Motor Fuel Taxes Have Decreased Over Time

Illinois State and Local Government Motor Fuel Tax Revenue as a Percentage of Gross State Product Compared to the National Average (1977-2016)



Source: Census Bureau, *State and Local Government Finances* and Bureau of Economic Analysis, Regional Economic Analysis

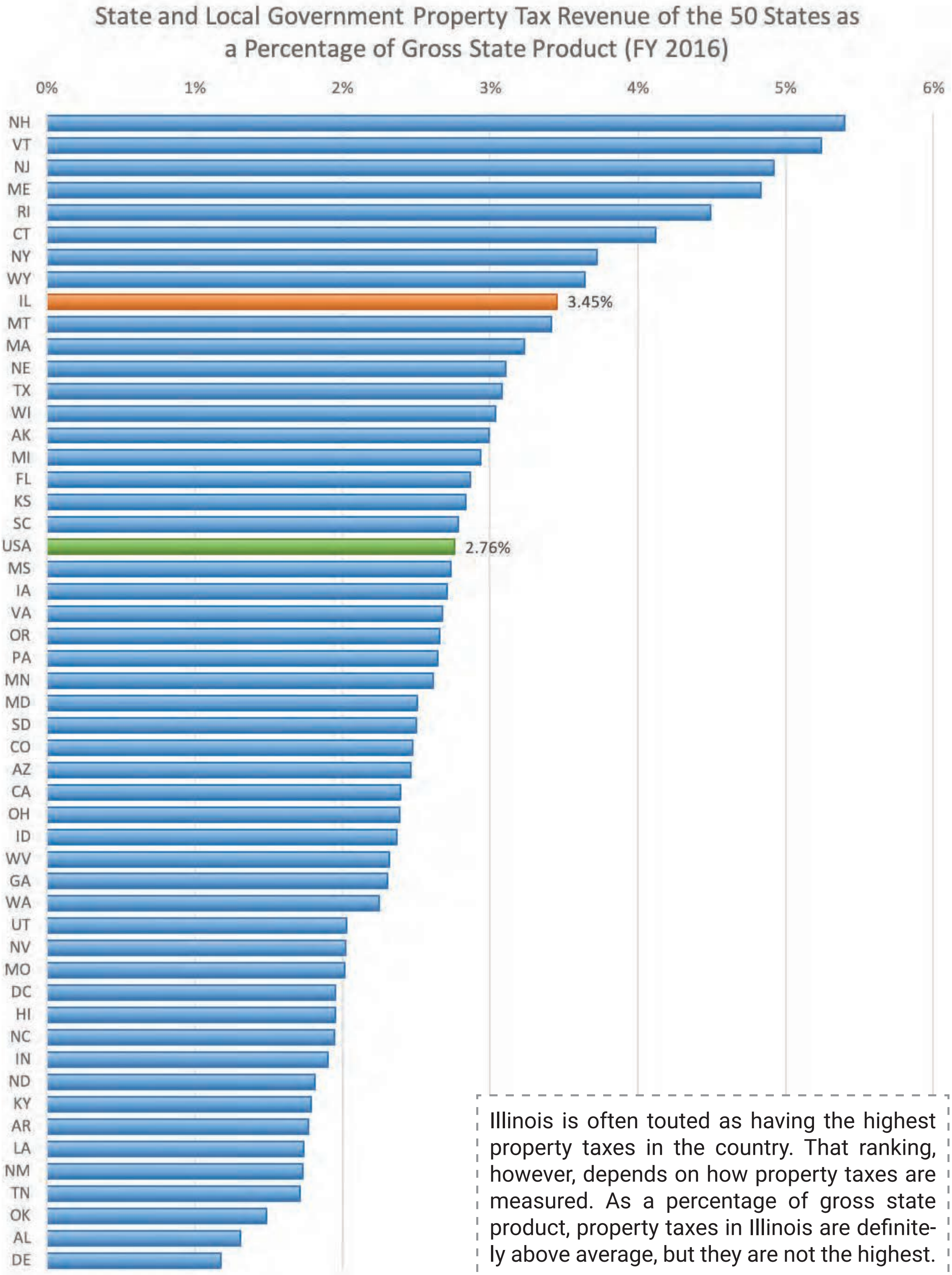
Over time, the national average and Illinois' collections as a percentage of gross state product have both decreased, although in recent years the national average has been steady as a number of other states have increased their motor fuel taxes.

CHAPTER FIVE

Property Taxes

Property tax is one of the oldest taxes. It is also one of, if not the most vilified taxes. People don't like it because often they generally have to pay it in two yearly installments, rather than spread out over time like other taxes. The tax is also based on the value of property and ability to pay the tax is generally irrelevant. And of course, in Illinois, it is a high tax.

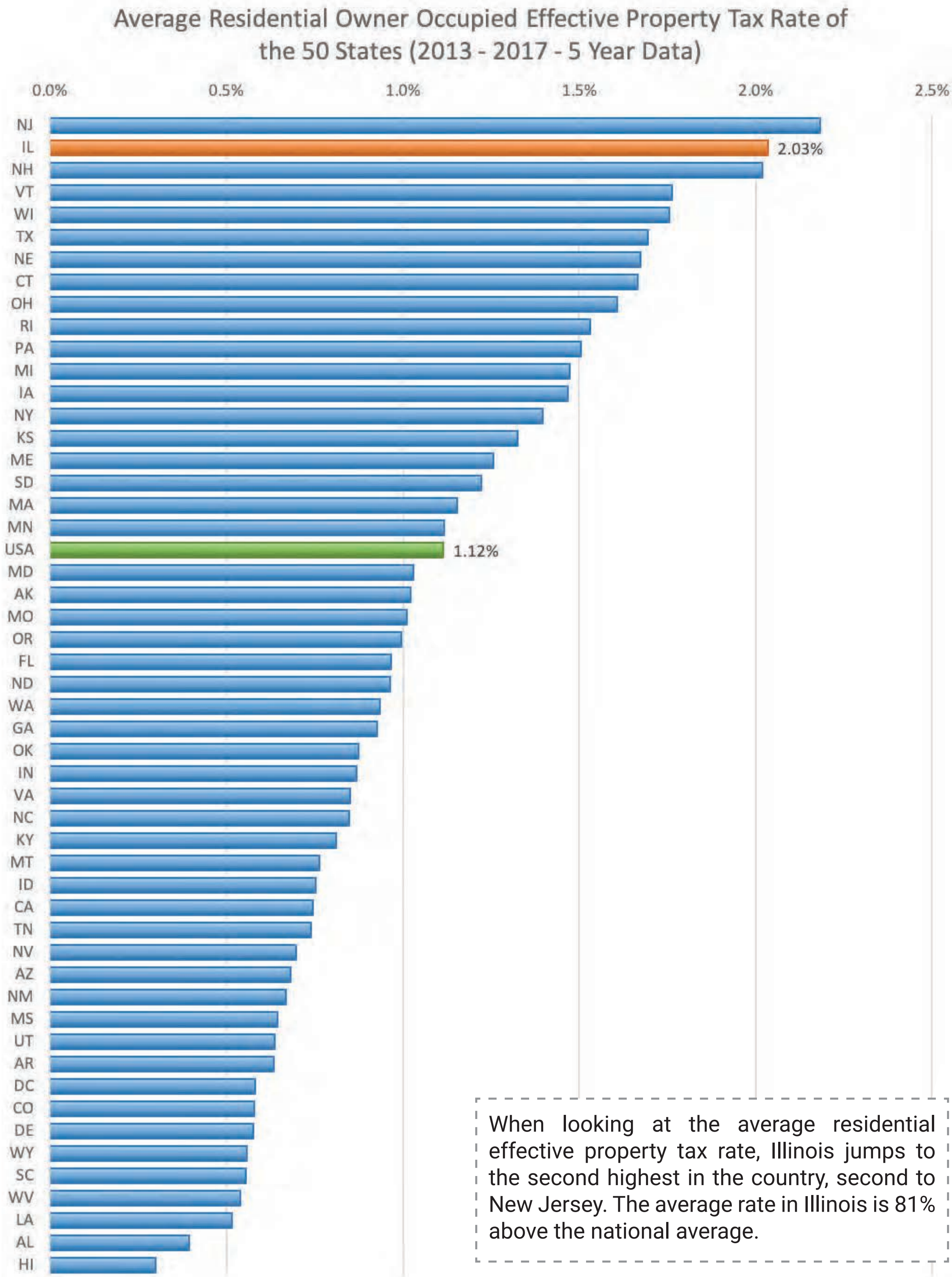
Property Taxes in Illinois are High



Illinois is often touted as having the highest property taxes in the country. That ranking, however, depends on how property taxes are measured. As a percentage of gross state product, property taxes in Illinois are definitely above average, but they are not the highest.

Source: Census Bureau, *State and Local Government Finances* and Bureau of Economic Analysis, Regional Economic Analysis

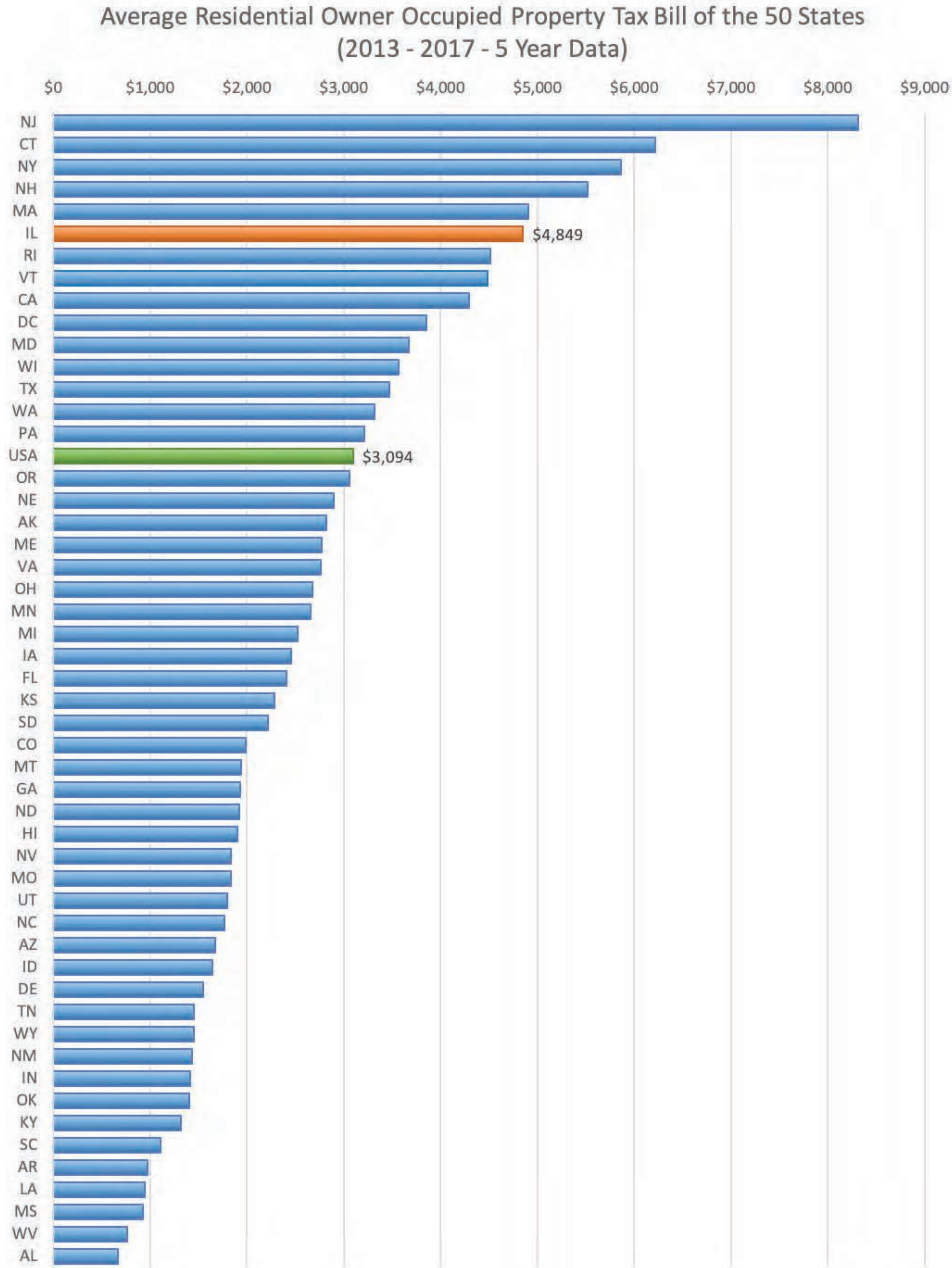
Illinois Average Effective Tax Rates are Second Highest in the Country



When looking at the average residential effective property tax rate, Illinois jumps to the second highest in the country, second to New Jersey. The average rate in Illinois is 81% above the national average.

Source: Census Bureau, *American Community Survey*

Average Property Tax Bills in Illinois are High

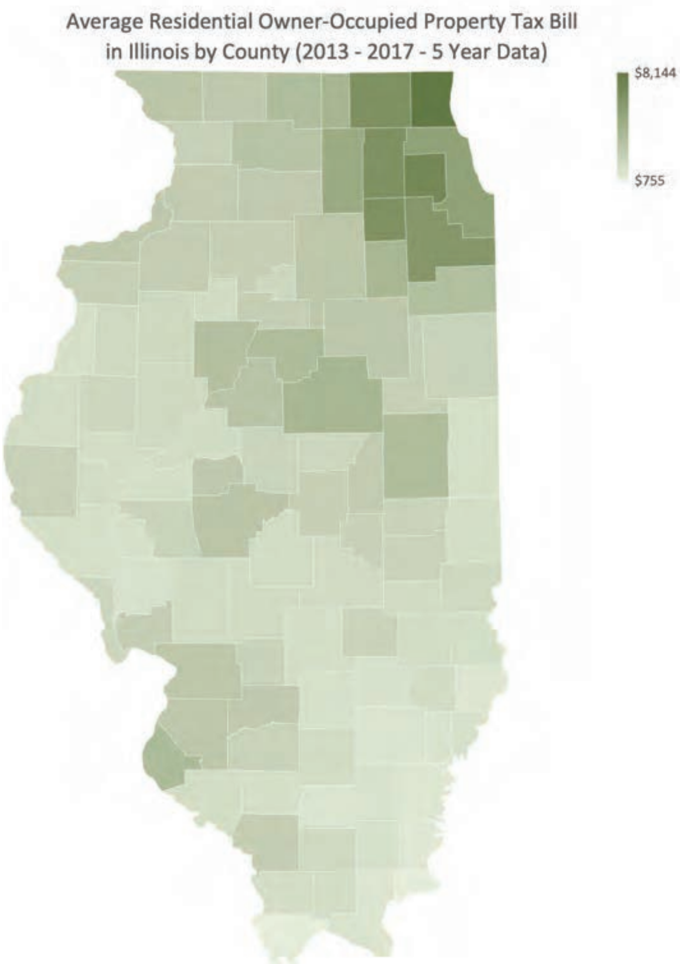


Source: Census Bureau, *American Community Survey*

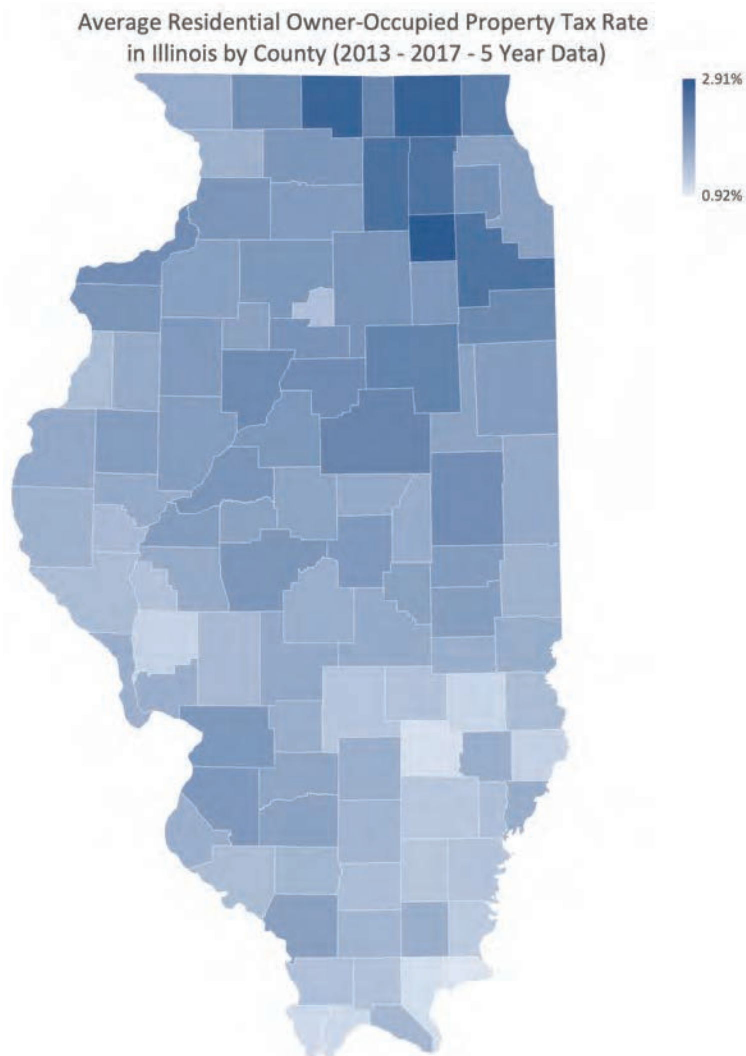
The average homeowner cares more about how much they pay in property taxes, rather than the total property tax collections in the state. Looking at the average property tax bill for owner-occupied residential real estate, Illinois is again significantly above average (by 57%), but not the highest. For all of these measurements, it's important to realize we are looking at a state-wide average. Within Illinois, these amounts can vary greatly from one community to another.

The average owner-occupied property tax bill in Illinois is $4,849. Interestingly, the median owner-occupied property tax bill is $4,157, which is 14% lower than the average. This suggests that a few high value (and therefore high taxed) properties raise the average, even though the "typical" tax bill is not as high. This average-median difference can be found around the country, to varying degrees. Illinois ranks 6th highest under both measures.

Property Taxes in Illinois Vary Widely Across the State



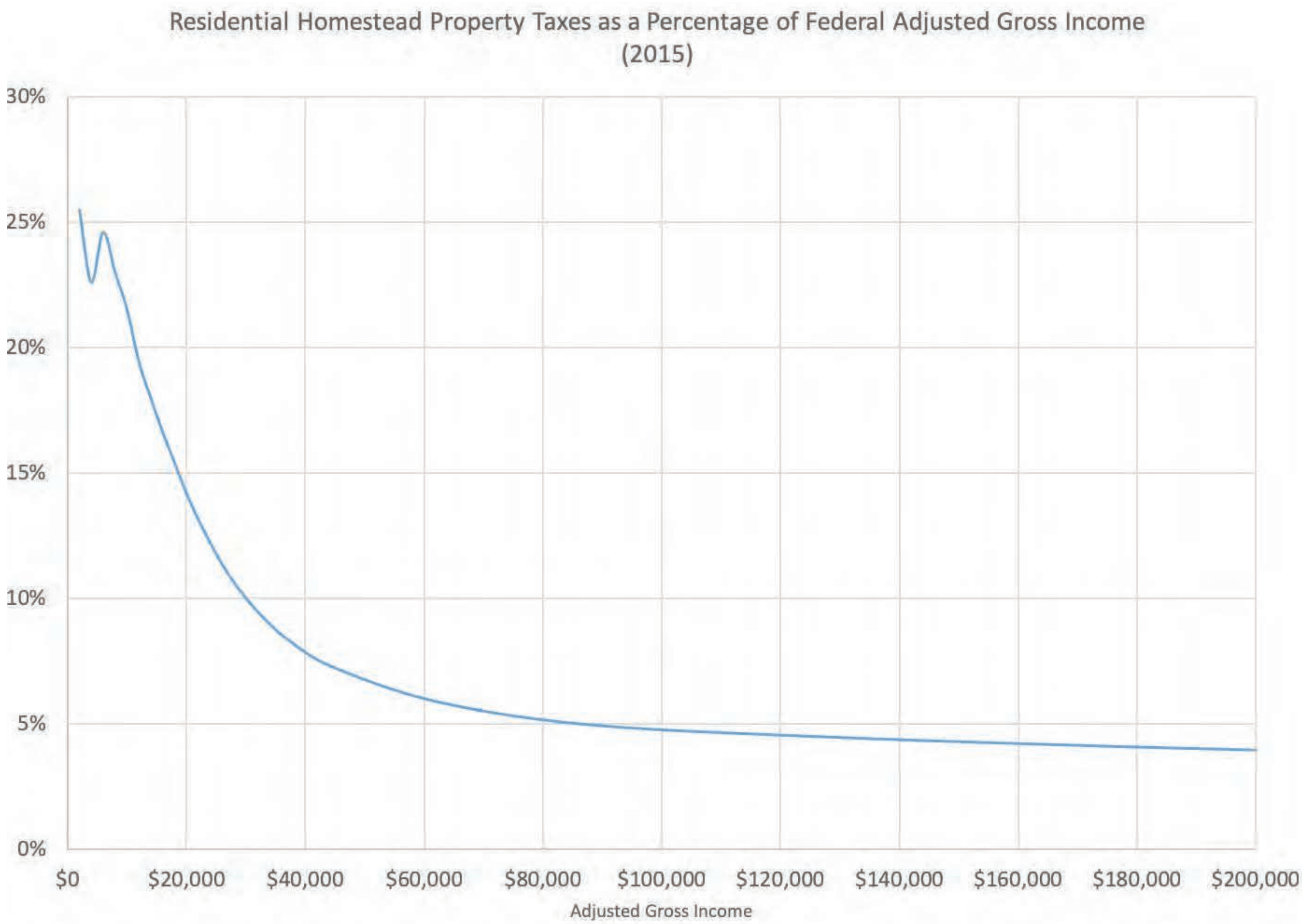
The average residential property tax bill varies significantly throughout the State. The lowest average is $755 in Hardin County. The highest is Lake County with an average bill of $8,144, almost ten times higher than Hardin County and 68% higher than the statewide average (which is $4,849). The average property tax bill has a lot to do with housing values. Hardin County also has the lowest average home value of $81,952. Lake County has the second highest with a value of $344,506 (DuPage County is slightly higher with an average value of $345,113).



The county with the highest average effective property tax rate (taxes divided by property value) for owner-occupied property is Kendall County with a rate of 2.91%, which is 43% higher than the statewide average of 2.03%. The lowest average rate is in Hardin County with a rate of 0.92%. Just as averages can differ significantly by county in Illinois, they can vary just as much within the same county.

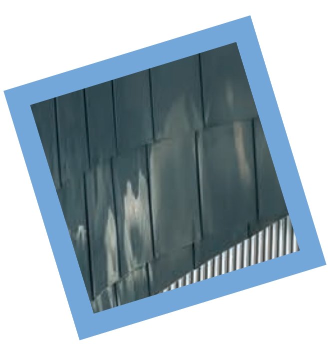
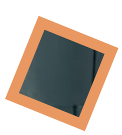
Source: Illinois Department of Revenue

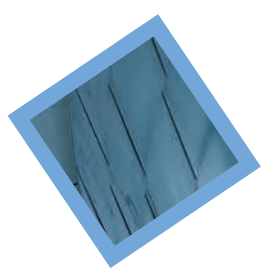
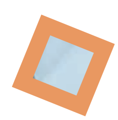
Property Taxes are Regressive



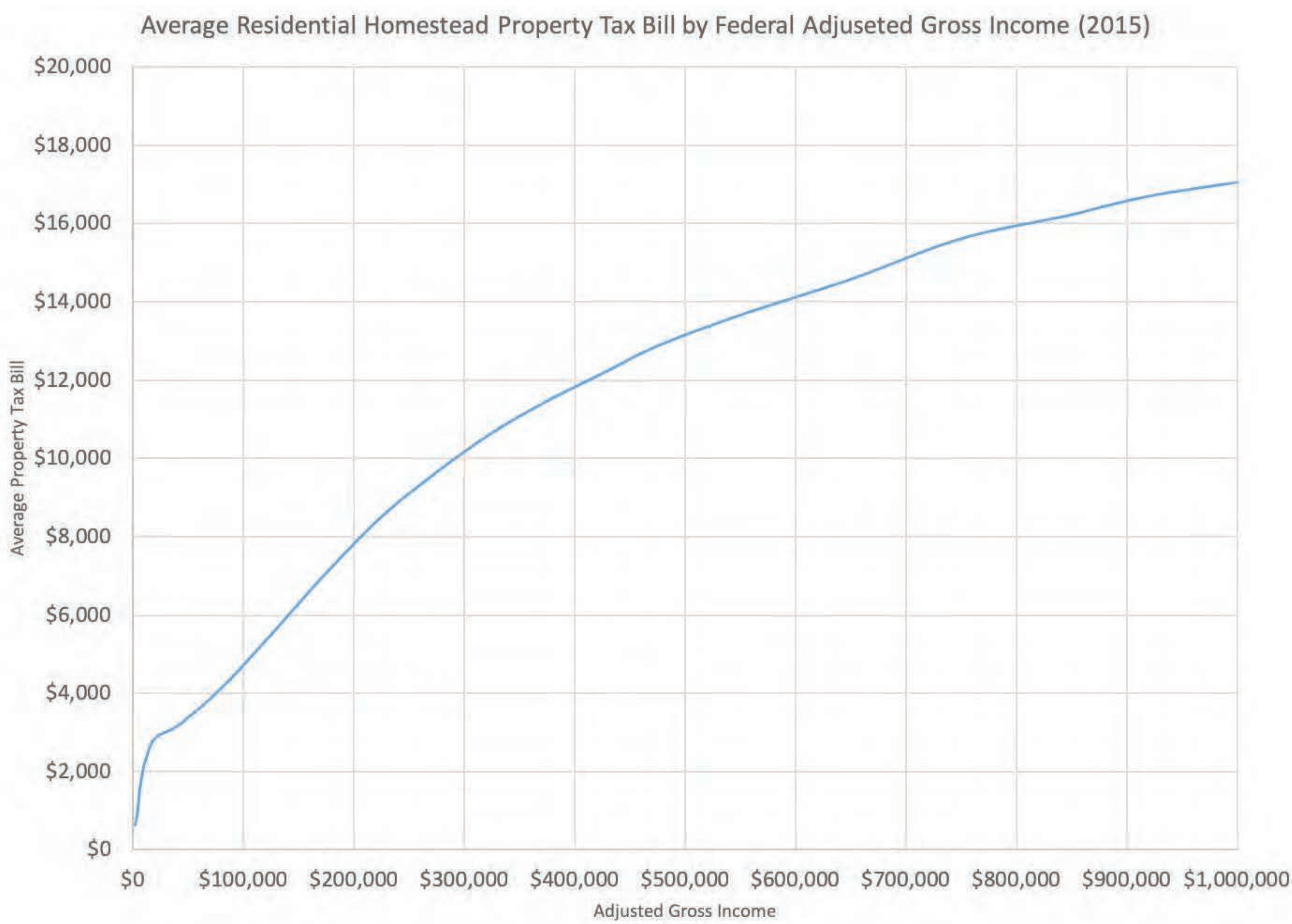
Source: Illinois Department of Revenue

Property tax is a regressive tax. While people with higher incomes tend to have houses that are worth more, the increase in home value (and tax liability) does not generally increase at the same rate as incomes. Here we can see the average percentage of income that goes to property taxes. As a family earns more money, less goes to property taxes. This data only reflects homestead property taxes, so it does not include secondary homes and the property taxes associated with those properties.

As Incomes Rise, So Does the Average Property Tax Bill



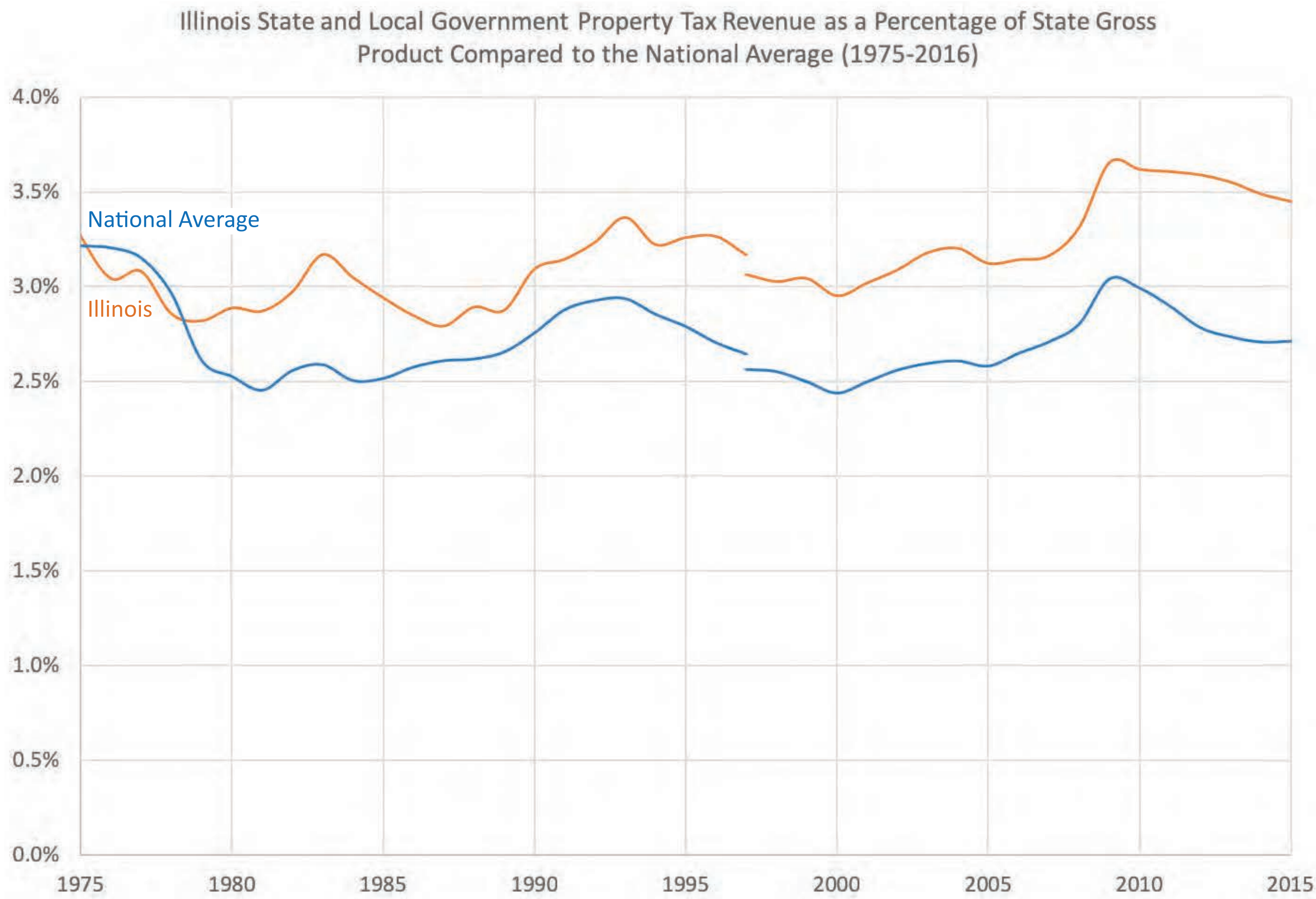
Source: Illinois Department of Revenue

As one would imagine, the more a family makes, the higher their property tax bill is likely to be. A family earning $300,000 on average has a property tax bill of $10,000. It is important to remember that these are state averages. Page 48 illustrates the dramatic differences in tax bills and rates within Illinois.





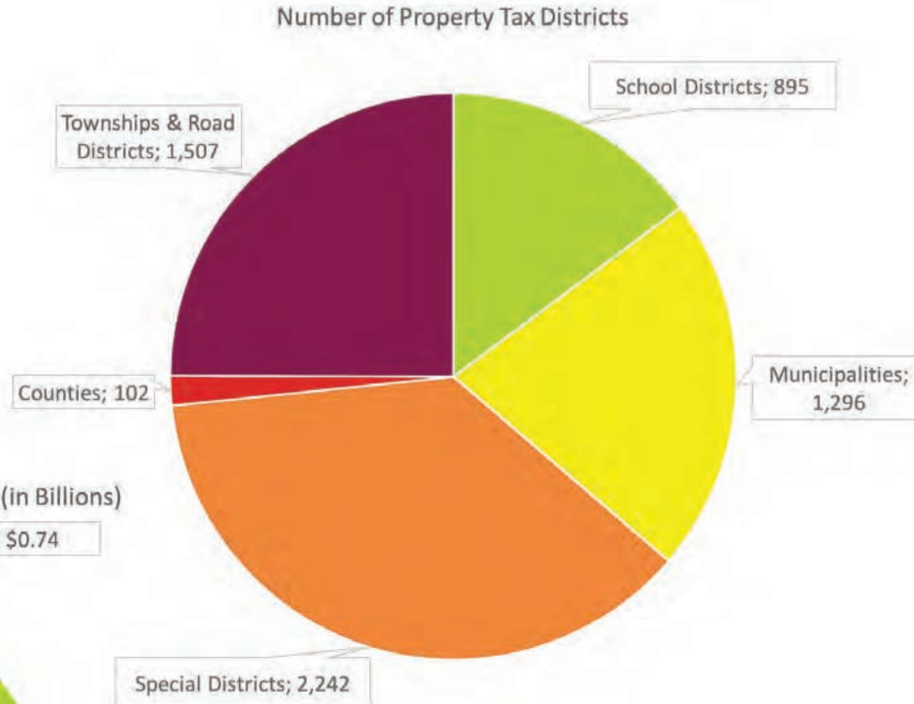

Property Taxes in Illinois Have Consistently Been Above Average

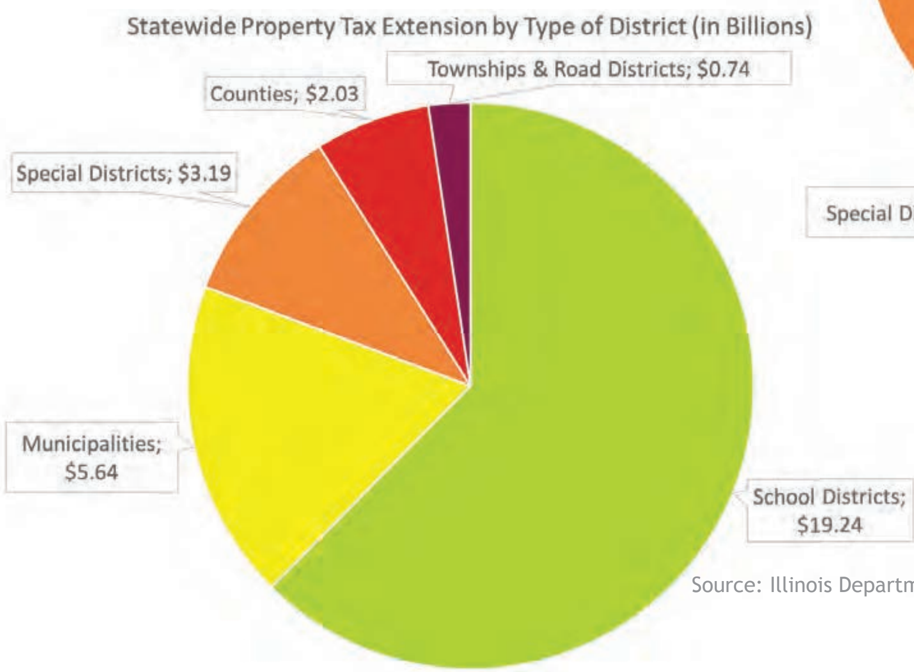


Source: Census Bureau, *State and Local Government Finances* and Bureau of Economic Analysis

Historically, Illinois has consistently had higher than average property tax revenue. Since 2008, the difference between Illinois and the national average has grown.

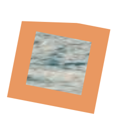
While Special Districts are the Most Common Property Tax District, Schools Receive the Majority of Property Taxes





Source: Illinois Department of Revenue (2017)

It is well known that Illinois has more units of local government than any other state. There are often attempts to consolidate local governments as a way to save money, but there has not been a significant drop in the total number of local governments. Special districts, townships, and road districts make up 62% of local government units that levy property taxes. However, they only levy 13% of all property taxes. In contrast, school districts make up 15% of the taxing districts, but receive 63% of the taxes. If half of the taxes collected by special districts, townships, and road districts could be saved through consolidation or other efficiency efforts (probably too high of a figure), statewide, property taxes would only decrease by 6.4%.



Methodology

The charts in this book consistently rely on census data, specifically, the Annual Survey of State and Local Finances. Some states have taxes which don't fit neatly into a category, such as Washington's Business and Operations Tax. It a gross receipts tax on businesses. Some might think it should be classified as a corporate income tax. However, the census classifies it as a sales tax. There are other instances where the Census guidelines and classifications may not be intuitive. As was noted earlier, the sales tax data for Illinois was incorrect for approximately twenty years. These charts rely on the accuracy of the underlying data. The Census did not perform the survey in 2001 and 2003 so data is unavailable for those years. While there are faults with the Census data, it is the best data source that exists to compare state and local government taxes.

Data from the Illinois Department of Revenue was obtained from their website or through a Freedom of Information request.

In 1997, the U.S. Bureau of Economic Analysis changed how gross domestic product and state gross product were calculated which resulted in a slightly higher value. In 1997, state gross product was calculated under both the new and old method. This is why there is a break in the historical charts that utilize this figure.