TAXPAYERS' FEDERATION OF ILLINOIS

TAX FACTS

ISSUE 78 • 1 ■ FEBRUARY 2025

AN ILLINOIS CHARTBOOK: How Does Illinois Compare?

People frequently ask how Illinois taxes compare to those in other states. The story of the six blind men and the elephant comes to mind. In the story, each man touches a different part of the elephant—its side, trunk, tusk, leg, ear, and tail. Each has a different experience based on the part they touch. An accurate picture of the elephant emerges only when they combine their experiences. Similarly, no single chart or figure fully captures the complexity of taxes in Illinois.

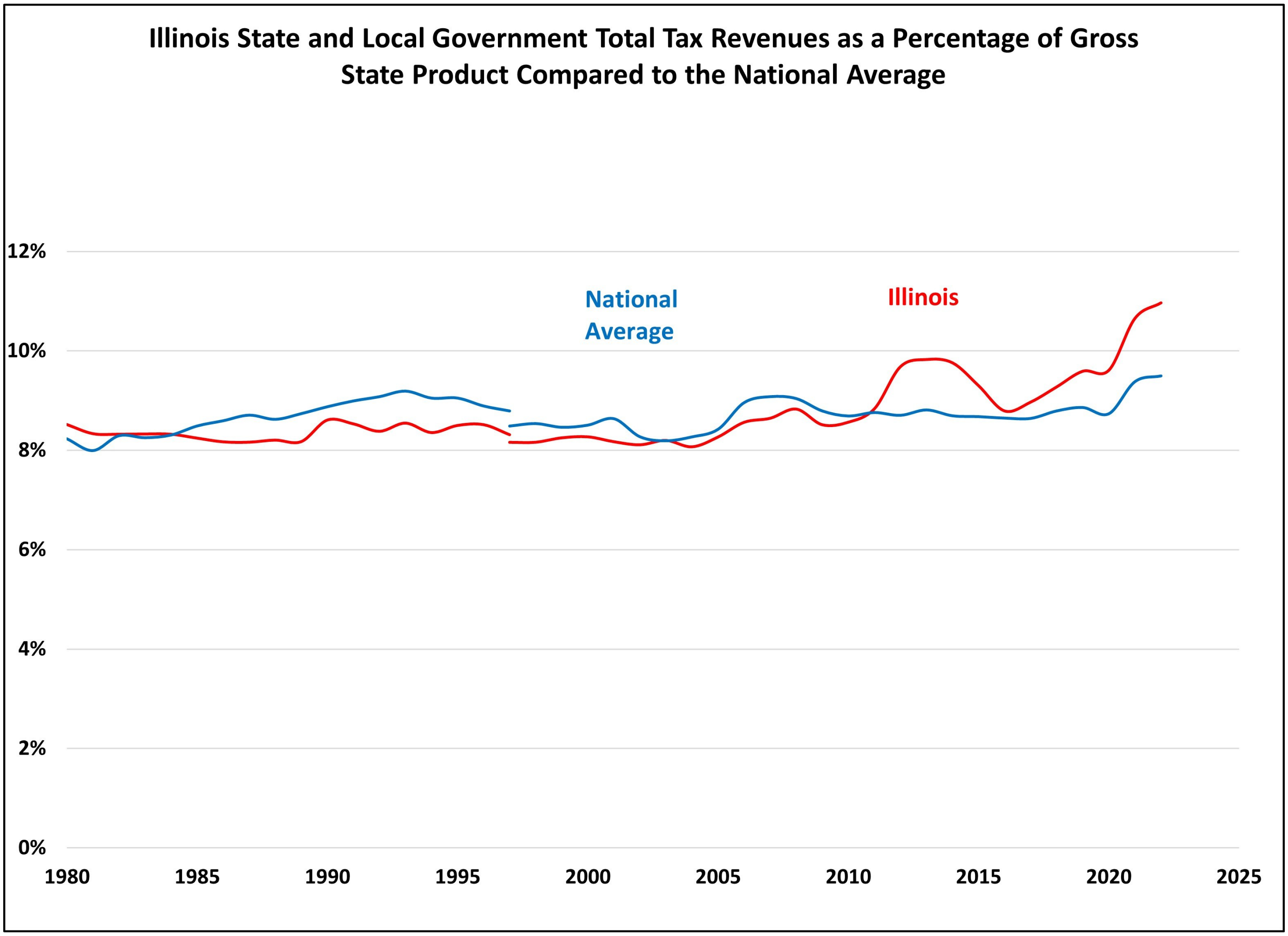
In this article, and throughout the series of articles we are publishing this year comparing Illinois taxes to those in other states, we will offer a variety of perspectives to provide a more complete picture. A few notes on the data we use, before we begin:

- To present an accurate comparison, we examine state and local taxes **combined**. Some states fund services primarily through state taxes, while others rely on local governments and local taxes. Additionally, when a person buys $100 worth of groceries and household goods, they typically do not know (or care) which level of government imposes the sales tax and which receives the proceeds.

- Tax collection rankings should account for the differing economies of each state, which often reflect variations in the cost of living and income levels. For example, assume States A and B both have a flat income tax rate of 5%, but in State A, the median personal income is $50,000, while in State B, it's $55,000. As a result, the median resident of State A would pay $2,500 in income taxes, while the median resident of State B would pay $2,750. Despite having the same tax rate, the State B resident pays more in absolute terms, but also has more after-tax income. So, do State B residents face higher taxes? While they pay more in absolute terms, proportionally they pay the same. To address this issue, we look at taxes as a percentage of **gross state product** (GSP)—the total value of all goods and services produced in the state. This measure reflects the portion of economic output devoted to taxes and does not require adjustments for inflation or changes in population.

- We use the most recent data released by the Census Bureau, which covers FY 2022 (July 1, 2021 – June 30, 2022). This is the second fiscal year fully impacted by COVID-19, which had a substantial effect on state and local taxes.

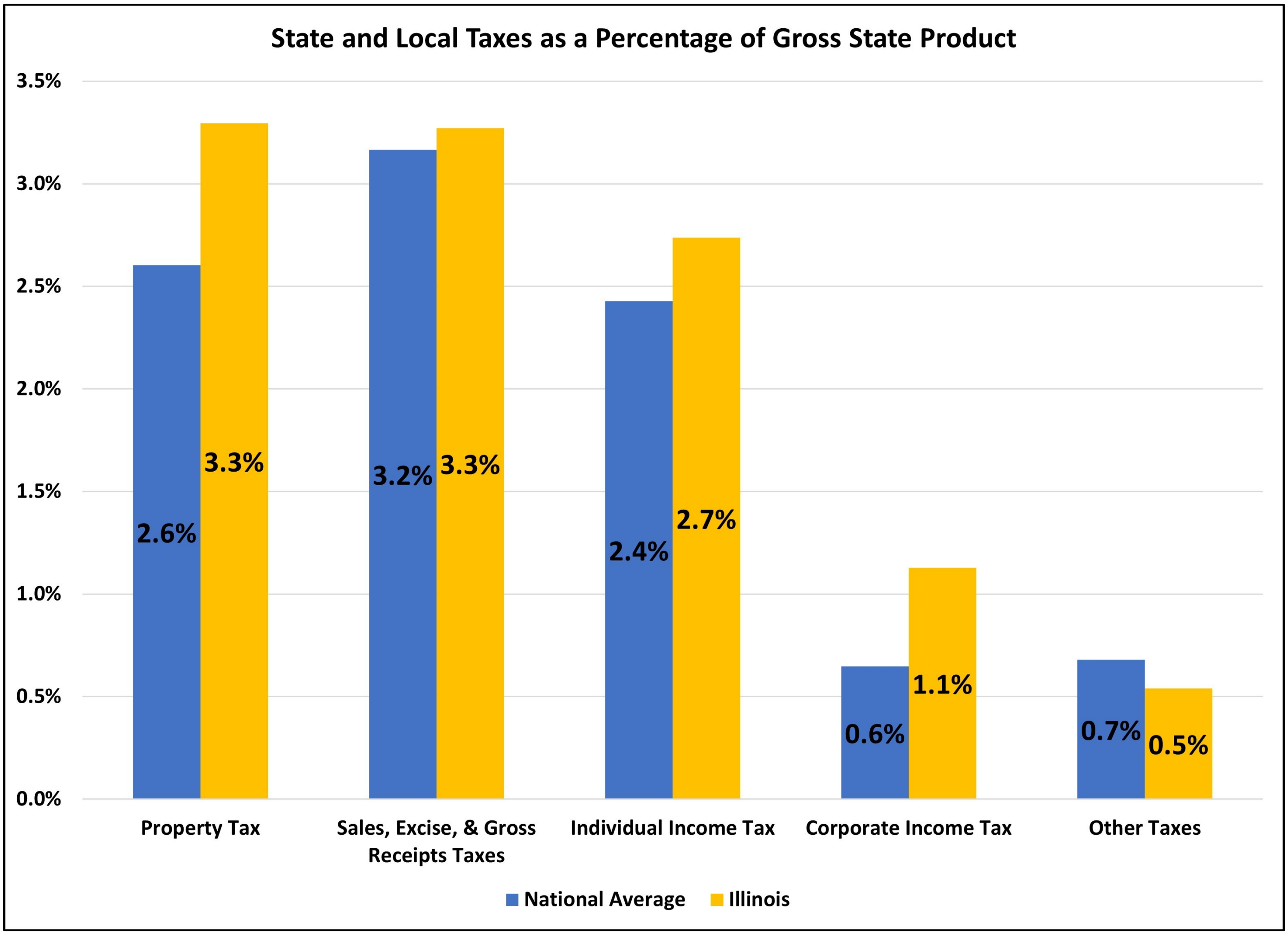
ILLINOIS CONTINUES TO SEE HIGHER TAXES OVER HISTORICAL AVERAGES



Source: U.S. Census Bureau, *State and Local Government Finances* and Bureau of Economic Analysis, TFI Calculations

Illinois' tax collections have continued to increase in recent years. Historically, Illinois' total state and local tax collections as a percentage of gross state product has been slightly below the national average. However, Illinois started to be significantly higher than the national average due to the income tax increases in 2011 and 2017. The divergence seems to be increasing, possibly because a large number of states have been reducing taxes while Illinois has not.

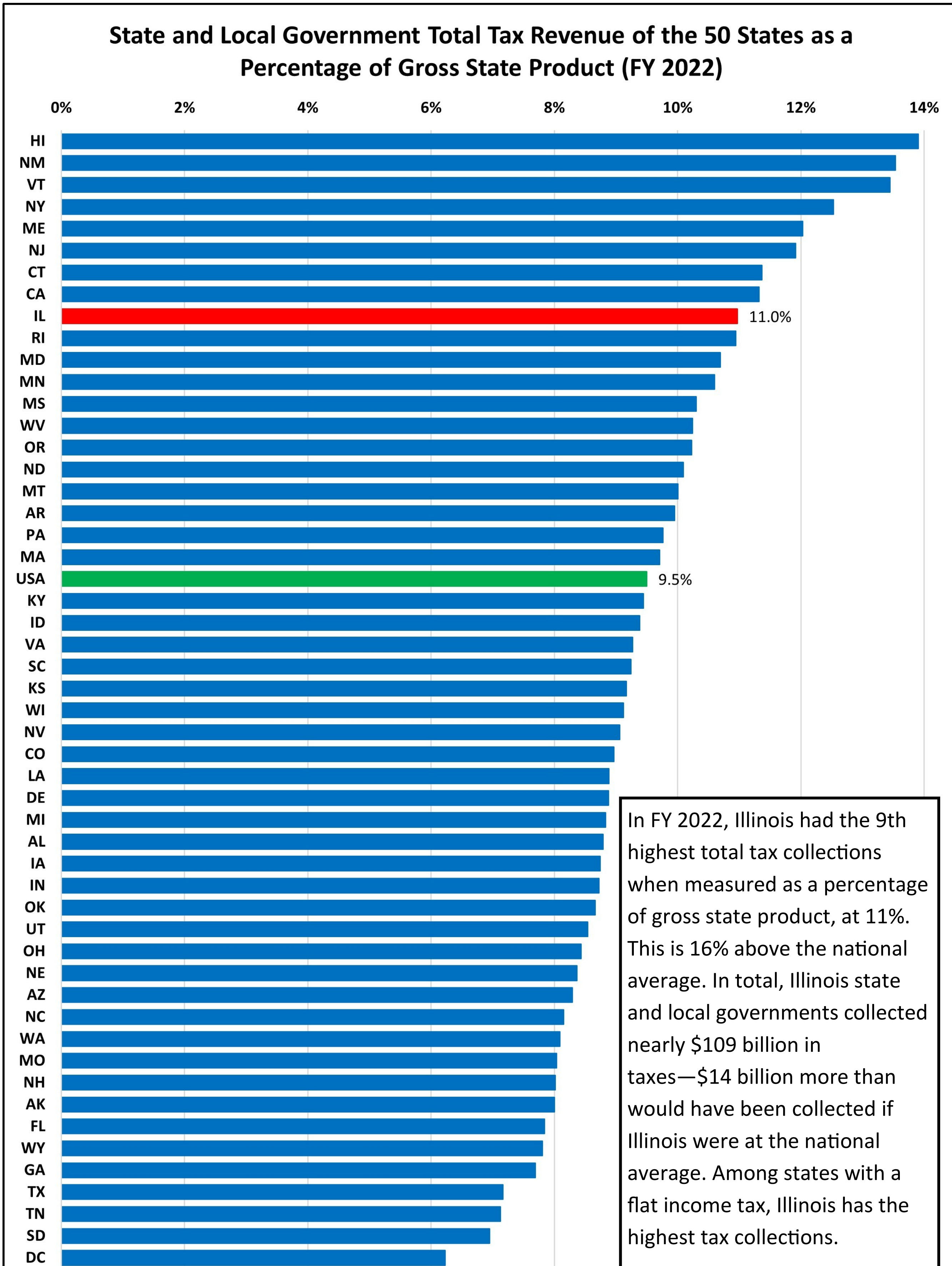
MOST TAX TYPES IN ILLINOIS ARE HIGHER THAN THE NATIONAL AVERAGE



Source: U.S. Census Bureau, *State and Local Government Finances* and Bureau of Economic Analysis, TFI Calculations

Illinois is above average in almost all of the U.S. Census tax categories, with the exception of “other taxes.” Property taxes in Illinois are 27% higher than the national average. Individual income taxes are only 13% higher than the national average. However, corporate income taxes are 75% higher. This is primarily due to Illinois’ high corporate income tax rate and the personal property replacement tax.

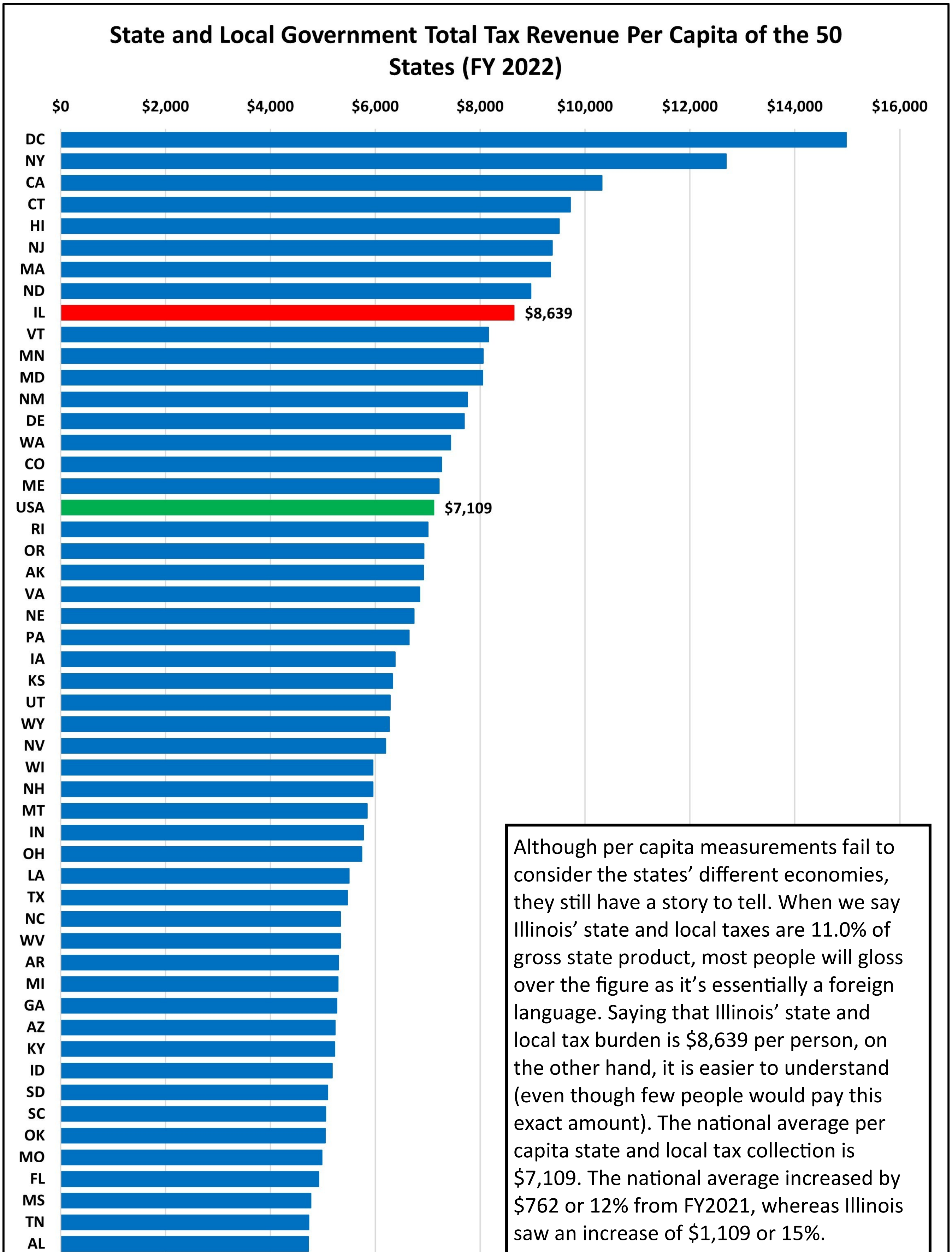
TAXES IN ILLINOIS ARE ABOVE AVERAGE



In FY 2022, Illinois had the 9th highest total tax collections when measured as a percentage of gross state product, at 11%. This is 16% above the national average. In total, Illinois state and local governments collected nearly $109 billion in taxes—$14 billion more than would have been collected if Illinois were at the national average. Among states with a flat income tax, Illinois has the highest tax collections.

Source: U.S. Census Bureau, *State and Local Government Finances* and Bureau of Economic Analysis, TFI Calculations

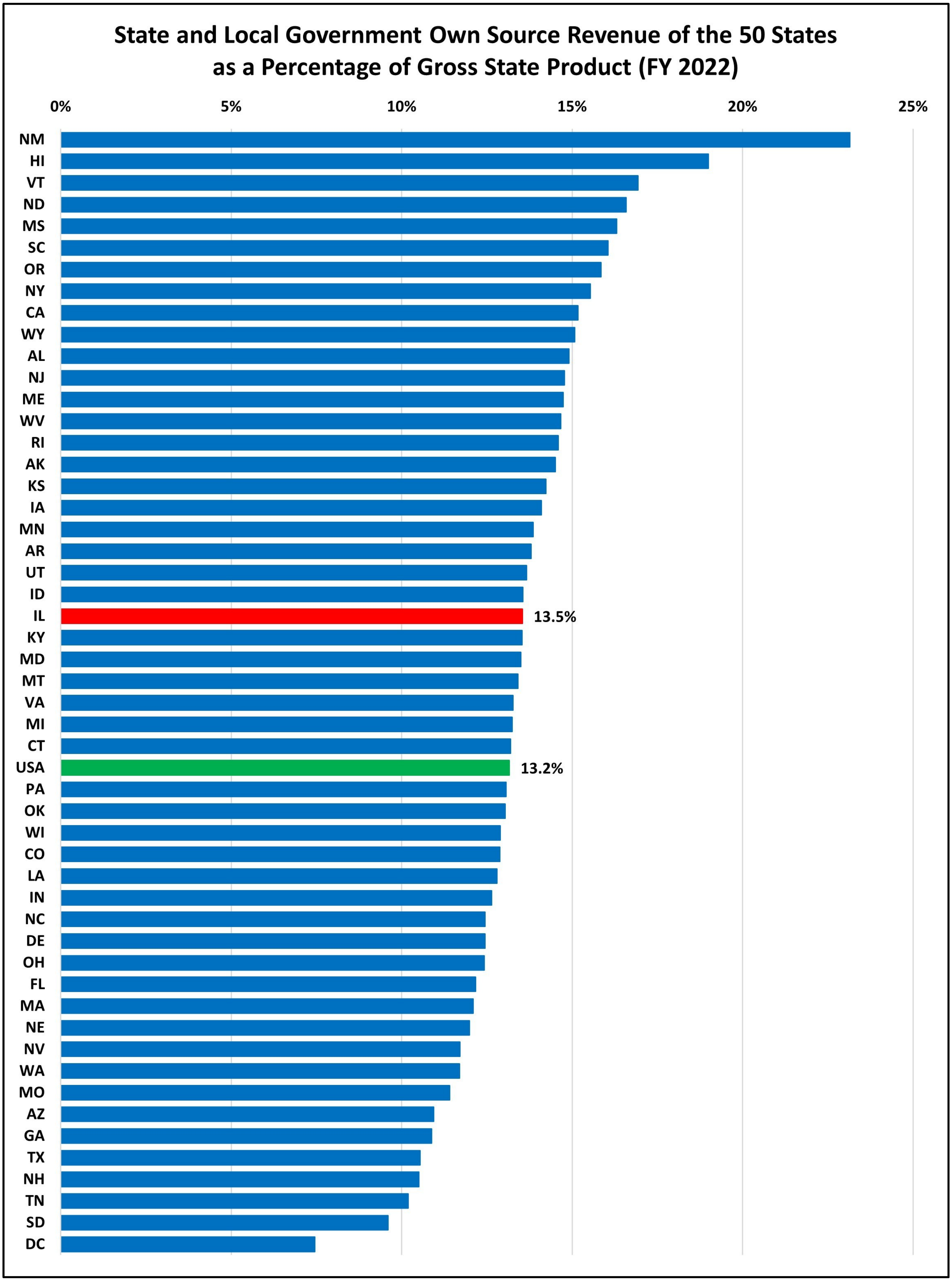
PER CAPITA TAXES IN ILLINOIS ARE HIGH



Although per capita measurements fail to consider the states' different economies, they still have a story to tell. When we say Illinois' state and local taxes are 11.0% of gross state product, most people will gloss over the figure as it's essentially a foreign language. Saying that Illinois' state and local tax burden is $8,639 per person, on the other hand, it is easier to understand (even though few people would pay this exact amount). The national average per capita state and local tax collection is $7,109. The national average increased by $762 or 12% from FY2021, whereas Illinois saw an increase of $1,109 or 15%.

Source: U.S. Census Bureau, *State and Local Government Finances* and Bureau of Economic Analysis, TFI Calculations

OWN SOURCE REVENUES SEEM TO TELL A DIFFERENT STORY



Source: U.S. Census Bureau, *State and Local Government Finances* and Bureau of Economic Analysis, TFI Calculations

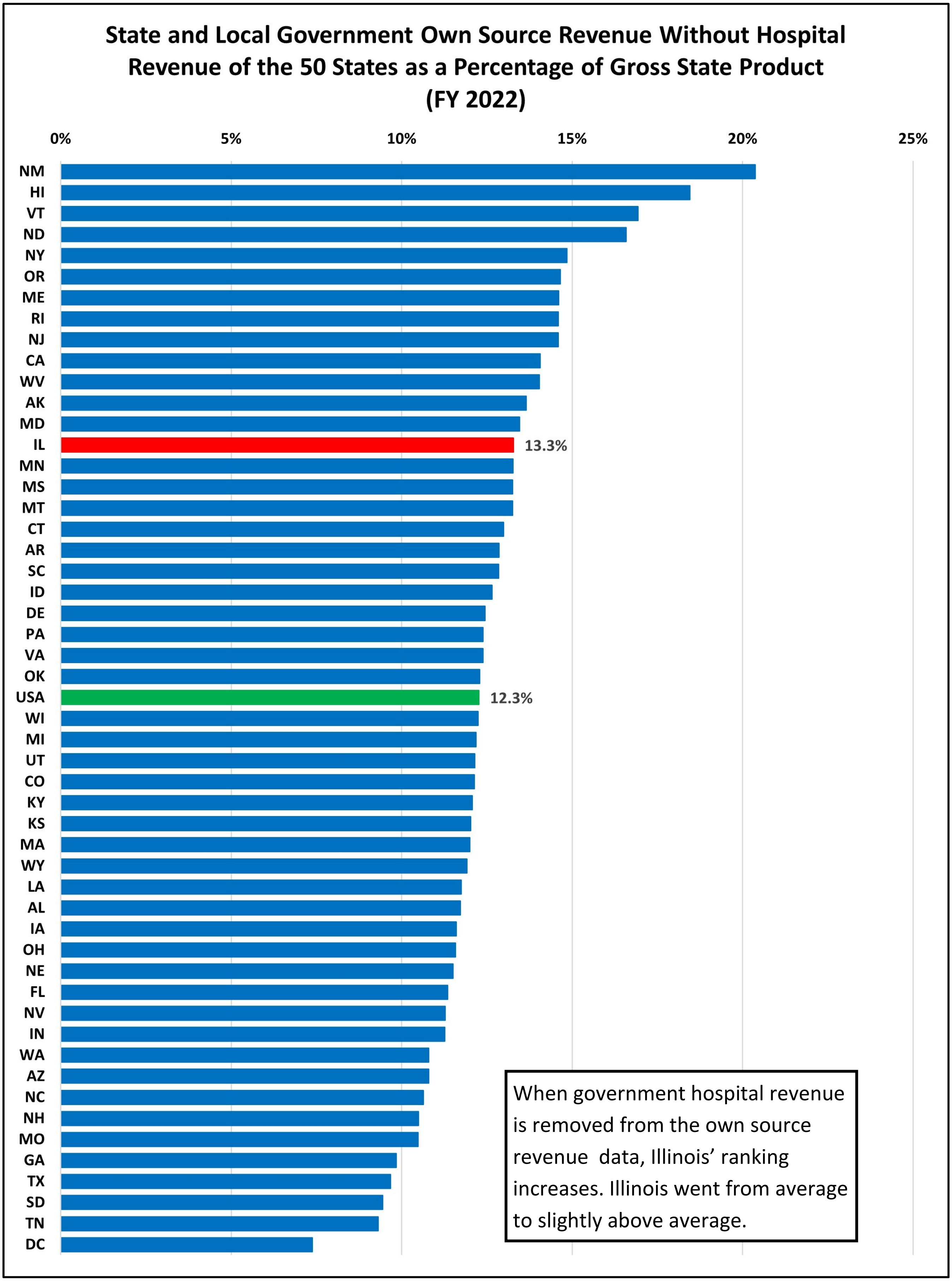
So far, we've compared total tax collections in Illinois (which includes income, sales, property, excise, utility, and other miscellaneous taxes, all categories used by the U.S. Census) to collections in other states. We have not yet looked at other revenues that state and local governments receive, such as fines, fees, college tuition, tolls, and similar sources. Some argue that a more inclusive figure—one that includes both taxes and fees (referred to as "own-source revenue" by the U.S. Census)—is a better benchmark, since a person doesn't typically distinguish between a fee and a tax; both are paid to the government. However, most fees are for a specified service (or should be), such as students paying tuition to attend a state university or a driver paying a highway toll. Revenues from these fees are generally earmarked to fund the specific service (e.g., the university or the highway) rather than for general government purposes. Even so, it can be useful to examine this broader measure, which shows that Illinois is only slightly above the national average.

Tax revenues are above average, as shown in the previous charts, but total own-source revenues are about average. What accounts for this difference? Own-source revenue includes revenue from government-run hospitals. Illinois' state and local governments collect only $210 per capita from government-run hospitals, while the national average is $671 per capita. Nationally, 18% of hospitals are run by state and local governments, while in Illinois, that figure is just 12%. This explains Illinois' figure. If Illinois were at the national average for government-run hospitals, our state and local governments would collect an additional $6 billion in gross revenue from these facilities. (Given that government-run hospitals do not operate for profit, the revenue generated by these hospitals cannot be used to fund other government functions.)

While this own-source revenue comparison can be useful, understanding it requires examining what drives the difference: what fees or charges does Illinois collect less of compared to the national average, and whether Illinois provides those services with tax dollars or if they do not provide them at all.

In this case, Illinois' average ranking is primarily due to having fewer government-run hospitals, as shown in the following chart.

REMOVING HOSPITAL REVENUE RAISES ILLINOIS RANKING



Source: U.S. Census Bureau, *State and Local Government Finances* and Bureau of Economic Analysis, TFI Calculations

CONCLUSION

Are taxes in Illinois high? The answer is complicated, as is often the case when you ask a tax-related question.

When you look at the overall state and local tax burden, as we have done in this article, taxes in Illinois are above the national average, using most measuring sticks, and have trended higher in recent years. For those who believe taxes are too high, this shows that there is definite room for improvement. On the other hand, they aren't the highest in the nation, and for those who seek additional government spending for various projects, they can argue there is capacity to raise taxes instead. Holders of these differing viewpoints may not be blind, but they frequently choose to look at things from a singular perspective, much like the blind men in our opening story.

In future issues of *Tax Facts*, we will take a deeper dive and show how Illinois compares to the rest of the country focusing on specific tax types: income, sales, and property taxes. And we will continue to present a variety of ways to answer the question: are taxes in Illinois high?

METHODOLOGY

Charts like these are only as good as the underlying data. To compare Illinois with other state we need to rely on data from the United States Census Bureau, specifically, the Annual Survey of State and Local Finances. Some states have taxes which do not fit neatly into one of the Census categories, such as Washington's Business and Operations Tax, 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 and excise tax. There are other instances where the Census guidelines and classifications may not be intuitive, but for simplicity and consistency, we follow the Census classifications.

We are aware of discrepancies in the Census data as it is extremely difficult to collect this information from every state and local government in the country. Recently, there has been an error with Illinois' individual and corporate income tax data. We continue to use corporate and individual income tax data from the Illinois Comptroller until the issue with the U.S. Census is resolved. For FY2022, the Department of Revenue misallocated $1 billion of individual income tax revenue as corporate income tax revenue. That mistake is reflected in this data and the correction will be reflected in the FY2024 data. In response to the state and local tax deduction at the federal level, a number of states enacted optional entity level taxes to allow taxpayers to get around the limitation. In some states, these taxes are considered a corporate income tax while in others, it is considered an individual income tax. Despite these faults with the Census data, it is the best data source of state and local government finances.

It should be noted that the Census did not perform the State and Local Government Survey in 2001 and 2003, so data is unavailable for those years.

Also note that in 1997, the U.S. Bureau of Economic Analysis changed how gross domestic product and gross state product were calculated, resulting in a slightly higher value and causing a break in the historical chart above.

STATEMENT OF PRINCIPLES

The Taxpayers' Federation of Illinois supports sound tax policy and fiscal practices that encourage economic growth in Illinois. The Federation evaluates Illinois' overall state and local tax structure and individual tax provisions using the following guideposts:

Adequacy. A tax structure must raise enough revenue to properly fund government operations. Decisions about the nature and level of government services are outside the scope of tax policy, except to the extent overall tax burdens become unsustainably high. Tax revenues need to reflect economic growth, which usually requires that tax collections be balanced across multiple tax types.

Stability/Predictability. From the taxpayer's perspective, tax liabilities should not fluctuate from year to year because of changes in the government's position. From the government's perspective, fluctuating revenues make it difficult to provide services consistently and effectively. Both taxpayers and governments function best when future tax liabilities and collections can be projected with some degree of confidence.

Equity/Fairness. Equity has two dimensions: horizontal equity and vertical equity. Horizontal equity compares similarly situated taxpayers. Vertical equity compares tax burdens across taxpayer income or wealth brackets. Identical houses situated side-by-side should have the same property tax bill; that is horizontal equity. A third, more valuable house should have a higher tax bill commensurate with the higher value; that is vertical equity. Both actual and perceived fairness are important.

Collectability/Transparency/Simplicity. These interrelated principles apply primarily to tax administration and are too often overlooked. Voluntary compliance is an essential ingredient in most state and local tax structures; these principles help maintain taxpayer confidence in and compliance with the system. In addition, if a tax is easy to comply with and administer it is also less costly to do so, and more funds are available for other business and government needs.

Efficiency. Taxes should not distort economic behavior. The notion of a broad base and low rate is a manifestation of the efficiency principle. Using the tax code to pick winners and losers, or to encourage or discourage certain actions, violates this principle.

Taxes matter. Individuals and businesses make decisions every day about where to live, to invest, to expand. Illinois' business climate and economic prospects are critical factors in those decisions. Our state's overall tax structure and each taxpayer's anticipated tax burden are certainly not the only pieces of the puzzle, but they play an important role. Accordingly, specific tax provisions and our tax code as a whole should adhere as closely as possible to the principles set forth above. The Taxpayers' Federation of Illinois supports those measures that do, and opposes those that do not comport with good tax policy.

Taxpayers' Federation of Illinois
430 East Vine Street, Suite A
Springfield, IL 62703
V. 217.522.6818

Return Service Requested

NONPROFIT
ORGANIZATION
U.S. POSTAGE
PAID
Springfield, IL
Permit No. 890

TAXPAYERS'
FEDERATION
OF ILLINOIS