TAX FACTS

Taxpayers' Federation of Illinois 64 • 3 ■ May/June 2011

ILLINOIS TAX BURDENS

Where do Illinois Taxes Come from and Who Pays?

By Joe Sculley

Joe Sculley is a graduate student in the practical track of political science at the University of Illinois at Springfield. He served as a Legislative Intern for Taxpayers' Federation of Illinois during the spring legislative session and has continued as a Research Assistant over the summer months.

INSIDE THIS ISSUE

The Federation is often asked the question "what part of the state bears the greater tax burden of Illinois?" To address this concern we gathered information from the Illinois Department of Revenue regarding the state's "big three" taxes, which consist of personal income, sales, and property tax. We also collected the recently released population data from the United States Census Bureau. By using a comparative analysis of population to tax collections we are able to present the geographical tax distribution of the burden of these three tax sources across all 102 counties. To truly understand tax "burden" one must also understand the wealth and income of the different areas of the state. For our examination of tax burden we used the

CONTACT US:
430 East Vine Street, Suite A
Springfield, IL 62703
V. 217.522.6818
F. 217.522.6823
www.taxpayfedil.org
tfi@iltaxwath.org

NOTES FROM THE INSIDE. . .

By J. Thomas Johnson

This issue of Tax Facts presents information on the geographical distribution of major components of Illinois' tax burden. Joe Sculley, a graduate student in Political Science at the University of Illinois-Springfield, served as our legislative intern this spring. He compiled the analysis in this paper when he had spare time from learning about the Illinois legislative process. The impetus of this analysis is the oft stated question about whether we are getting our "fair" share of state resources. I think the analysis may do away with some of the myths on the subject. His next project will be to start an analysis of the ways the state distributes funds to Illinois' many local governments to support their programs. According to the Bureau of the Census, 2007 Census of Government Finance, 33.7% of the revenue that supports Illinois' local governments comes from state resources. In Illinois, the sources of those revenues are derived from many different "revenue sharing" programs all with different distribution mechanisms. We are hopeful that putting more sunshine on these programs will enlighten our policy makers and help them with the challenges they face in putting forth a state fiscal plan where each program complements overall state policy goals. The Chicago Metropolitan Agency on Planning (CMAP) is undergoing a like analysis of how these programs impact the Chicago Metropolitan region. We are working closely with the agency and serve on its project advisory committee. In future issues of TAX FACTS we will continue to provide more information on how our state and its local governments raise, share, and spend government resources.

Bureau of Economic Analysis' data for per capita income to determine personal income. We separated the counties into three different geographical areas, Cook County, the collar counties[1] and Downstate. We further separated Chicago from suburban Cook County to isolate the data for Illinois' largest city.

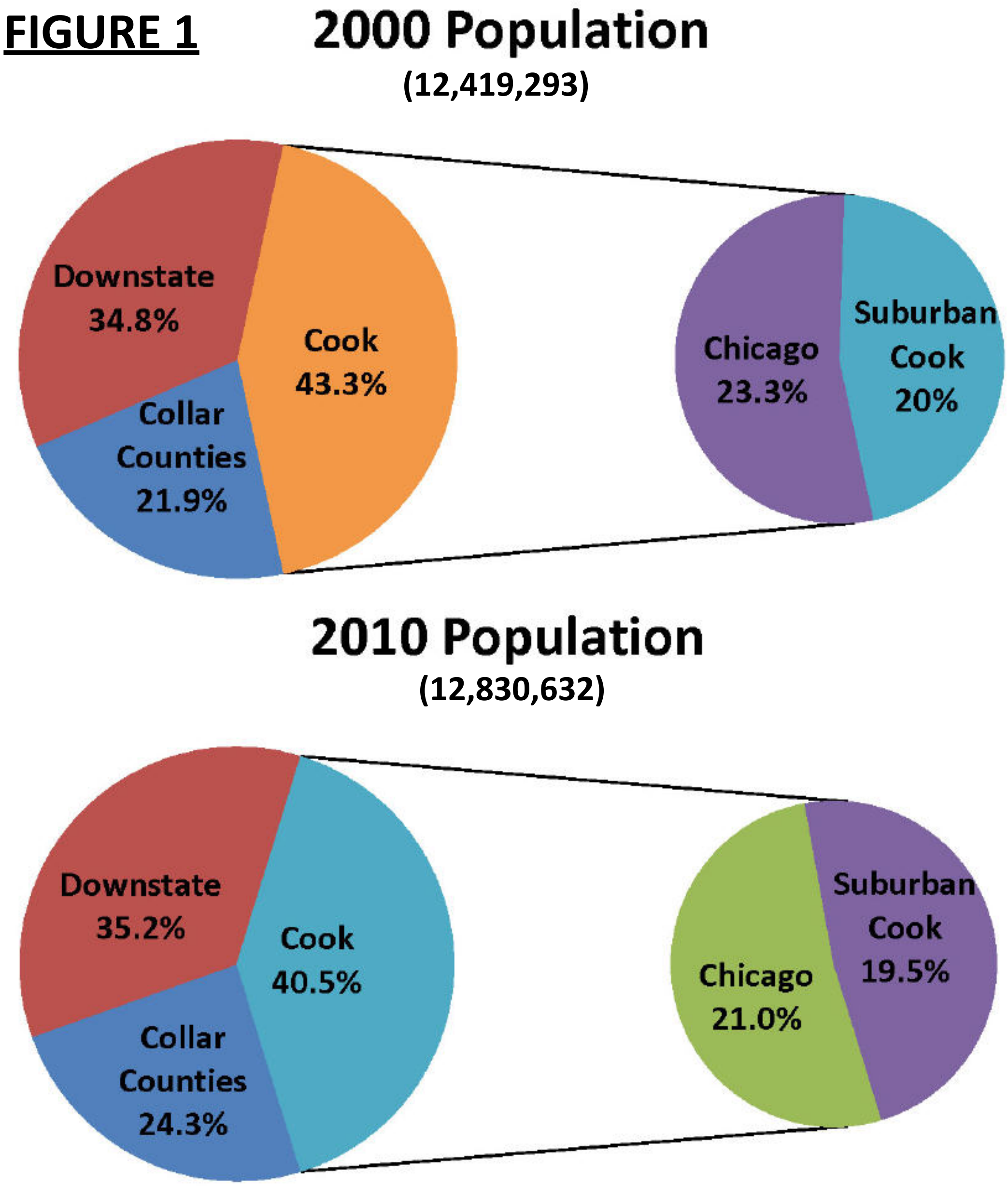
Population

The 2010 US Census allowed us to have the most recent measurement of population distribution to compare the most current information on tax collections. According the US Census Bureau, in 2010, there were 12,830,632 residents in Illinois. Cook County has 40.49% of the total state population, with 21.01% residing in Chicago and 19.48% residing in suburban Cook. The collar counties have 24.33% of the total state population and the rest of Illinois is home of the remaining 35.18%. There have been some notable population shifts since the last census was taken in 2000. See **Figure 1** for US Census Chart for 2000 and 2010.

In 2000, 43.29% of the total population of Illinois resided in Cook County, 23.32% living in Chicago and 19.97% from suburban Cook. The

[1] Collar counties are the counties that surround Cook County and include Lake, McHenry, Kane, Will and DuPage counties.

FIGURE 1



Source: 2000 and 2010 data taken from U.S. Census Bureau

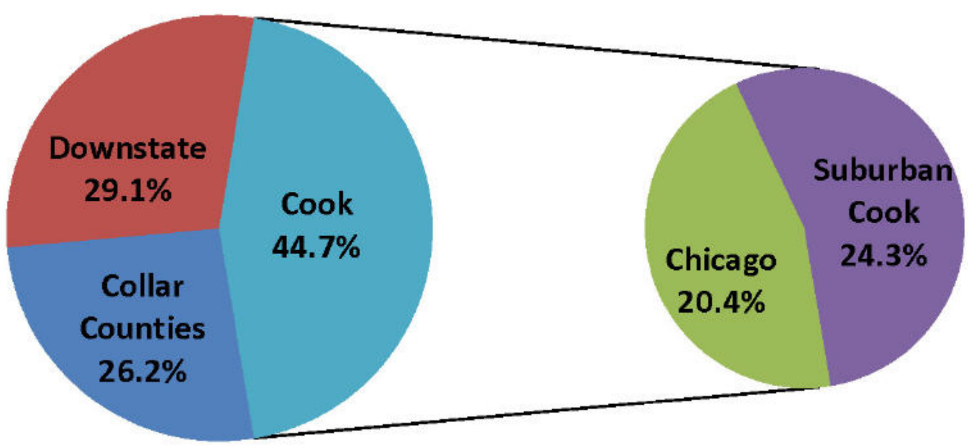
collar counties were composed of 21.86% of the total population and the rest of Illinois represented the remaining 34.85%. Since 2000 there have been population shifts away from Chicago and towards suburban Cook and the collar counties. The rest of Illinois lost a percentage over the ten years, but their downstate population actually increased. In short, the largest noticeable shift of population took place in the collar counties with an increase of 406,996 residents.

Personal Wealth

Before delving into the source of tax revenue streams in Illinois it is important to determine the "wealth" of an area. Knowing the wealth of the geographical areas examined will help us understand differences in tax burdens that cannot be accounted for strictly on a population basis. We used the Bureau of Economic Analysis (BEA) estimates of per capita personal income as the measure of relative wealth. We took these estimates for per capita income and then multiplied them by the population of an area to determine the areas' total personal income. The BEA does not have separate income data for Chicago so we used a different formula to measure wealth in Chicago and suburban Cook.[2] See **Figure 2** for wealth distribution charts.

FIGURE 2. 2009 Personal Income

($536.1 billion)



Personal income is determined by taking the 2009 Bureau of Economic Analysis' measure per capita income and multiplying by the 2010 U.S. Census Bureau Population estimate.

Cook County and the collar counties have a higher proportion of income compared to population than the rest of the state. 44.73% of the state's personal income is earned in Cook County but only 40.49% of the state's population resides there. Chicago has 20.40% of total state income and 21.01% of the population, while suburban Cook has 24.33% of the state's total personal income and 19.48% of the population. The collar counties register 26.22% of the total income in Illinois and 24.33% of the total population. The BEA data shows that Lake County and DuPage County earned approximately 125% of the statewide average as measured by our formula, far exceeding the average. The rest of the collar counties, surprisingly, are lower than the statewide average. Downstate Illinois represents 29.05% of the total income and 35.18% of the total population. The wealthiest areas in Illinois are found in or around Cook County due to income differences in metropolitan areas and those of more rural areas, but are the geographical tax revenues similar to the geographical wealth and income distributions?

[2] We used income tax data for Chicago from IDOR to determine a +/- percent of the average of Cook County. We then applied the +/- percent to the BEA's estimates of Cook County's per capita income.

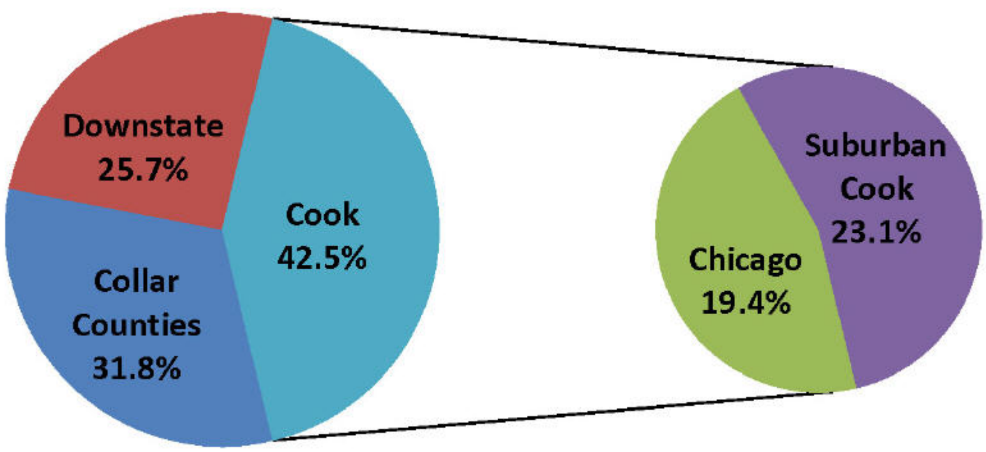
State Personal Income Tax Collection

Geographical distribution of income tax collections in the state is influenced by the distribution of population and wealth. Cook County has 42.49% of the income tax liability, and as noted earlier 40.41% of the state's population. The collar counties have 31.80% of the income tax liability compared to only 24.33% of the population, a significant difference due to its higher income per capita in Lake and DuPage Counties. Downstate Illinois only pays 25.71% of the income taxes, while its income is measured at 29.05% and its population is 35.18% of the state's total. When Cook is separated into its subcategories we find that Chicago and suburban Cook's share of the income tax burden is 19.38% and 23.11%, respectively.

State income tax collections throughout Illinois follow the measure for personal wealth we would expect. The more someone makes, the more they pay in taxes. Wealth and population have the greatest impact on income tax collections as is observable in every regional category, most notably in the collar counties, where they pay far more in income tax compared to its population and adversely in Downstate where their lack of income is having a negative impact on income tax revenue. See **Figure 3** for geographical state income tax collections.

FIGURE 3. 2008 Income Tax Liabilty

(Total: $9.83 billion) (Illinois residents: $9.25 billion)



Source: Illinois Department of Revenue

Can we observe the same trends in property tax and state sales tax collections that we do for income tax collections?

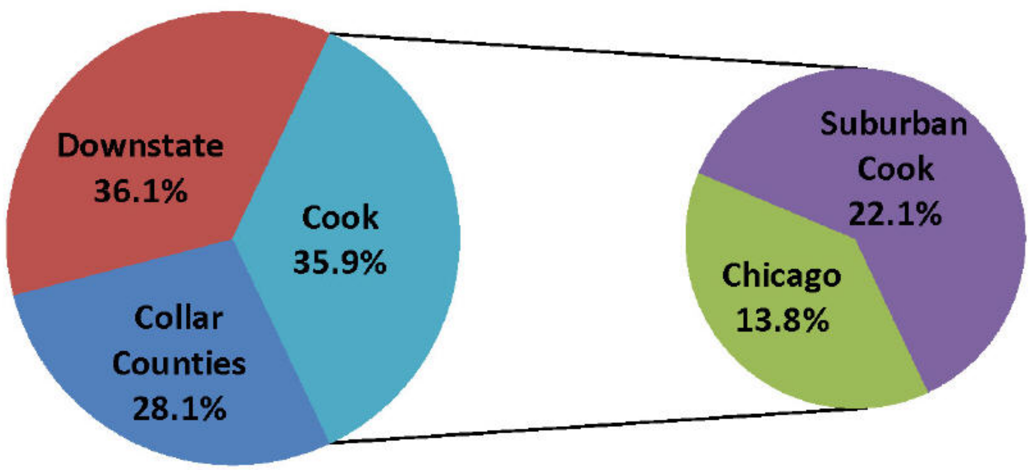
State Sales Tax Collection

State sales tax collections should also be affected by population and wealth, in that places that are heavily populated should have a larger taxable base, and the wealthier a place is the more goods they tend to purchase. Cook

County's portion of total state sales tax collection is 35.87% compared to its population of 40.41%. The collar counties collect 28.06% of the total state sales tax and have only 24.33% of the population. Downstate pays 36.07% of the state sales tax and has 35.18% of the state population. These numbers are counterintuitive because they are not really indicative of the geographical distribution of wealth or population, at least not as much as we observed with income taxes. See **Figure 4** for state sales tax collections.

FIGURE 4. 2009 State Sales Tax

($5.94 billion)



Source: Illinois Department of Revenue

We were a bit surprised to find that Chicago, with its major shopping areas in downtown Chicago, registers only 13.78% of the state's sales tax receipts whereas it represents 21.01% of state population and has 20.40% of the total personal income. There may be several reasons for this disparity. One factor lies in the higher income level in suburban Cook outside Chicago. Another reason is because motor fuel and automobile purchases represent about 25% of the total state sales tax base, which is partly due to the state's relatively narrow sales tax base. This helps explain Chicago's low state sales tax revenue because Chicago has significantly fewer registered motor vehicles (12.22% of the state's total) than other parts of Illinois compared to its population share (21.01%). Further, Cook County and Chicago have an additional tax on motor fuel of 6 cents and 5 cents per gallon, respectively. Due to the total price of motor fuel, drivers in Chicago may divert their gasoline purchases until they are in less expensive jurisdictions. Also, the lack of "big box" retailers and "food deserts" that are often cited as a concern in parts of Chicago may also have an impact. Having fewer choices as to where to purchase goods is bound to have an impact on the shifting sales tax collections to other areas. The Chicago Metropolitan Agency for Planning (CMAP) has developed the map (see

FIGURE 5

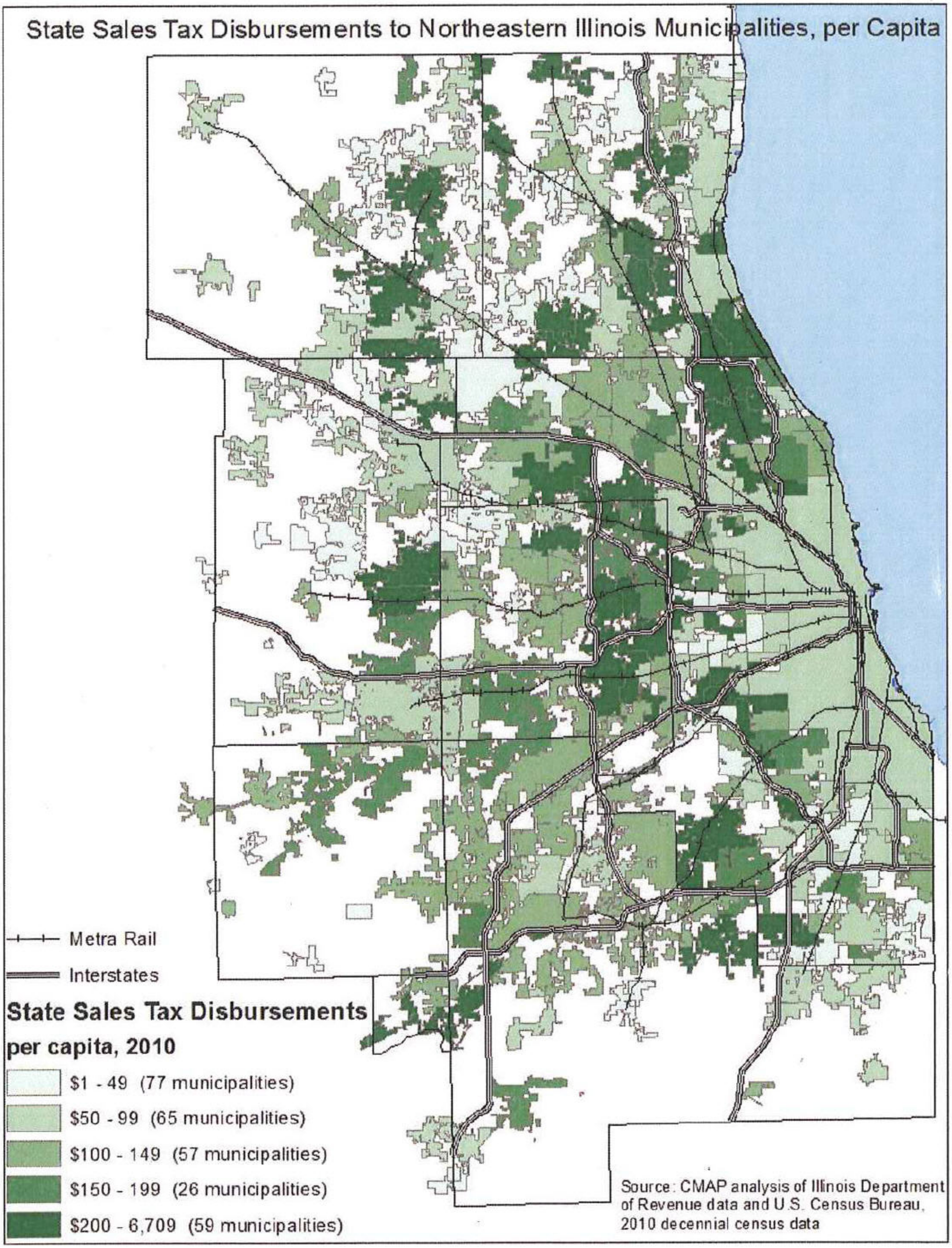
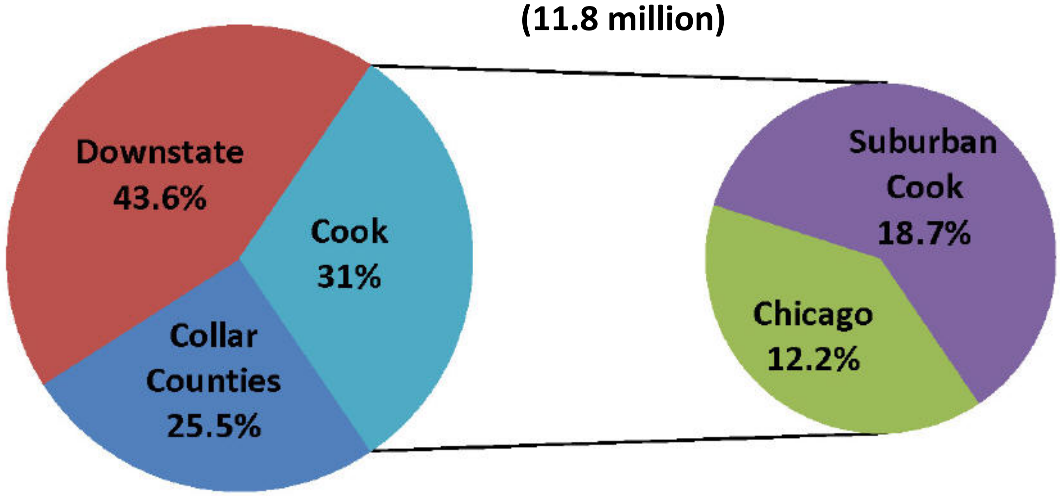

State Sales Tax Disbursements to Northeastern Illinois Municipalities, per Capita
Metra Rail
Interstates
State Sales Tax Disbursements per capita, 2010
$1 - 49 (77 municipalities)
$50 - 99 (65 municipalities)
$100 - 149 (57 municipalities)
$150 - 199 (26 municipalities)
$200 - 6,709 (59 municipalities)
Source: CMAP analysis of Illinois Department of Revenue data and U.S. Census Bureau, 2010 decennial census data

Figure 5 on page 7) which shows that municipalities close to Chicago generate significantly higher sales tax revenue per capita than does Chicago.

The collar counties also reflect the pattern that higher personal income and population leads to higher tax revenues. Again, only the wealthiest collar counties of Lake and DuPage are collecting more in sales tax than their percentage of population, furthering our assessment that wealth is a driving factor in Illinois tax revenues.

FIGURE 6. Total Vehicle Registrations
(11.8 million)



Source: Illinois Secretary of State

However, if wealth is indicative of state sales tax revenues, then why do Downstaters pay so much in sales tax (36.07%), but rank much lower in personal wealth (29.05%)? The answer may lie, in part, to gasoline consumption and vehicle sales. Downstate has 35.18% of the total state population but represents 43.58% of all vehicle registrations (see **Figure 6**). This suggests that Downstaters are more dependent on motor vehicles than their counterparts in Metropolitan Chicago. More miles are traveled by vehicles in downstate Illinois per resident, as well as interstate travelers, than in the more geographically compact city and its suburbs. Our suggestion of sales tax on gasoline and motor vehicle purchases negatively affecting Chicago's share of sales tax distribution is reinforced with downstate's higher sales tax contribution.

Property Tax Collections

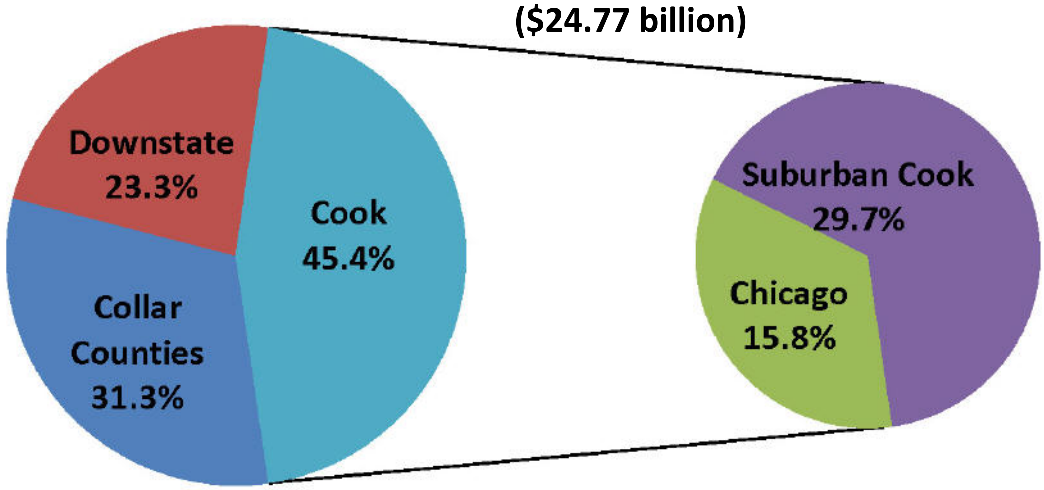
Property tax collections in Illinois are broken down as follows: Cook County – 45.44% with Chicago representing 15.75% and suburban Cook representing 29.70% of total state collections, while the collar counties represent

31.31% and Downstate represents 23.26% of the total state property tax collections (**See Figure 7**). Cook County, overall, pays more in property taxes than their percentage of the state's population (40.49%). Yet, we notice that Chicago is paying significantly lower property taxes (15.75%) compared to its population (21.01%) and its personal income (20.40%), while suburban Cook pays much more in property taxes (29.70%) compared its population and personal income (19.48% and 24.33%). Downstaters pay much less in property tax (23.26%) than their population (35.18%) and their personal income (26.43%).

Again, we observe that personal income seems to be the determining factor when assessing the distribution of property tax collections. Suburban Cook and the collar counties are paying far more in property taxes compared to their population, but they are also the wealthiest areas in Illinois. In 1999, the collar counties paid 26.47% of the total property taxes in Illinois, this has since increased to 31.31%. This increase is, in part, attributed to the population shifts that have occurred over this period of time. Downstate Illinois paid 23.55% of the total property taxes in 1999 and 23.25% in 2008. The 1999 data for Chicago and suburban Cook is not bifurcated, but Cook County property tax collections has changed from 49.98% to 45.44% of the total between 1999 and 2008 (see **Figure 8** on page 10).

FIGURE 7. 2008 Total Property Taxes

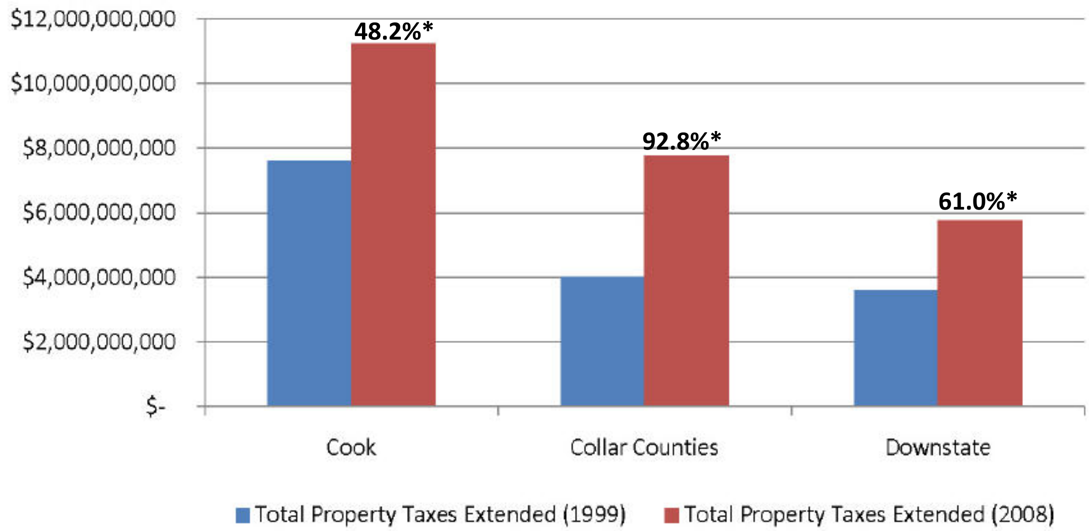
($24.77 billion)



Source: Illinois Department of Revenue

Another measurement of interest is the change of property tax wealth base. The equalized assessed valuation (EAV) of Cook County has increased by 120.95% between the years of 1999 and 2008. Prior to the property value decline, the collar counties' EAV has

FIGURE 8. Property Tax Collections, 1999-2008



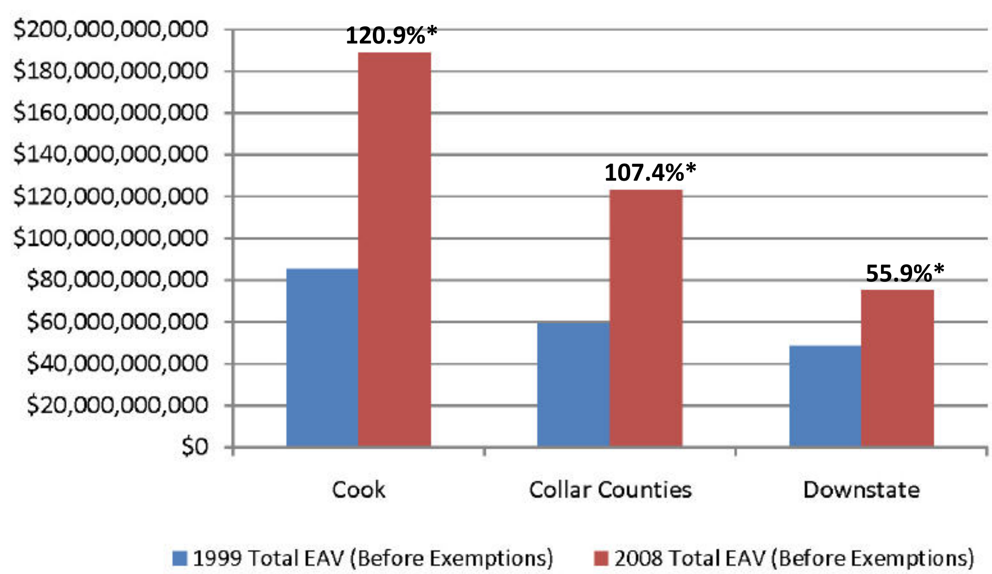
Source: Illinois Department of Revenue

* Percentages indicate growth over given time period.

increased by 107.41%. However, Downstate's EAV has increased by much less, at only 55.87% (see **Figure 9**). Property value changes over this period are attributed in large part to the increased value of residential property in the Chicago Metropolitan area and the percentage of the total value of the area in this class of property.

Personal income seems to be the best indicator for property tax burdens in Illinois. The explanation varies, partly due to higher income in some areas willing to support a higher level of government services and therefore higher property taxes. Property taxes are deductible for federal income tax purposes and creditable for state income tax so part of property tax burden is offset by federal and state income tax benefits. In addition, the property tax rate in Chicago has dropped to historic lows, due in part to its rising property values, as well as extension limitations

FIGURE 9. Equalized Assessed Valuations, 1999 - 2008



Source: Illinois Department of Revenue

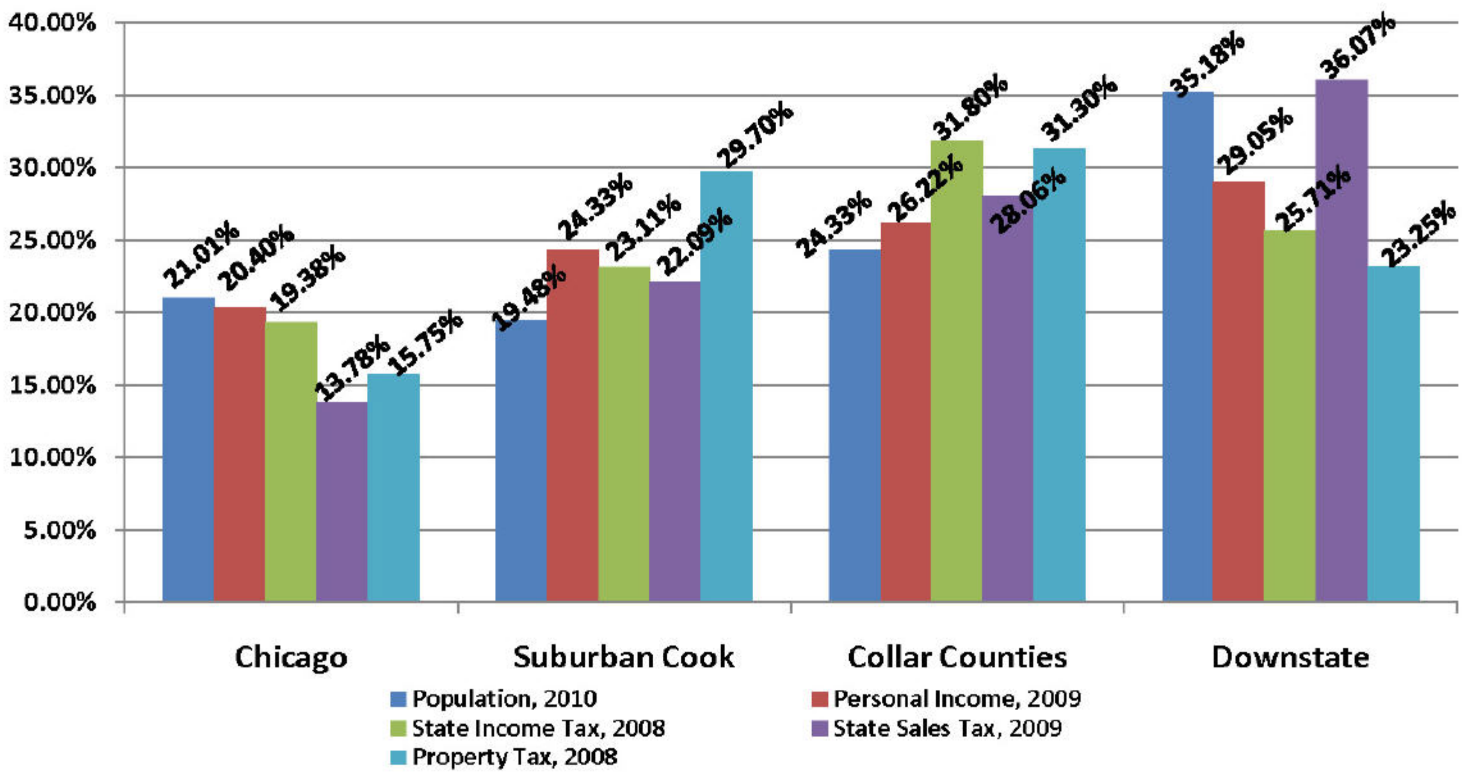
*Percentages indicate growth over given time period.

and its aversion to relying on property taxes to support its governmental services. (See **Figure 10** for a complete chart of geographical distribution of population and taxes.)

Conclusion

We know that personal income and population are a good way to understand tax burdens in Illinois by cross checking them with different streams of tax revenue. Our goal was to look at the numbers and answer the question "who bears the Illinois tax burden?" The facts are presented and are here for you to come to other conclusions and observations. The full spreadsheets of our data for 2000 and 2010, for each of the 102 counties, will be available at our website in the near future.

FIGURE 10. Geographical Distribution Population, Wealth and Tax Collections



Source: U.S. Census Bureau, Bureau of Economic Analysis, Illinois Department of Revenue

Taxpayers' Federation of Illinois
430 East Vine Street, Suite A
Springfield, IL 62703
V. 217.522.6818
F. 217.522.6823

Return Service Requested

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