Taxpayers’ Federation of Illinois
Presentation to
Ed-Red

Illinois State and Local Tax Recap 2011
January 6, 2012

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Illinois’ Fiscal Crisis
Total Liabilities of the State and its Pension Funds

FY2011 Cumulative Liabilities of $170 Billion

Retirement-related liabilities account for $140+ Billion – more than 80% of the total

Source: Preliminary Official Statement for 2011 Pension Bonds (January 21, 2011); Taxpayers’ Federation of Illinois; Commission on Government Forecasting and Accountability; Illinois Comprehensive Annual Financial Report; Financial Audit of the Teacher Health Insurance Security Fund; Financial Audit of the Community College Health Insurance Fund; Comptroller’s Quarterly
Illinois’ Fiscal Crisis
Worst-Funded Pensions in the Nation

Pension Funded Ratio 2008

Figure 1: Projected Pension Obligations as a Percent of "Big Three" General Funds Revenue

- 2000: 5.97% (Red) 2.26% (Blue)
- 2010: 10.06% (Red) 17.88% (Blue)
- 2020: 7.15% (Red) 26.31% (Blue)
- 2030: 45.16% (Red) 40.82% (Blue)
- 2040: 54.60% (Red) 54.39% (Blue)
- 2045: 60.59% (Red) 61.64% (Blue)

- Pension Debt
- Normal Cost
- Total Pension Obligation
Pension Restructuring
SB 512

- Benefit changes for current employees – choice of:
  - Keep Current Plan – Higher Employee Cost
  - Reformed Defined Benefit Plan – Lower Employee Cost
  - Self Managed Plan – Lower Employee Cost
- New Employees given the latter 2 choices
- State’s portion of cost – 6% of salary
- Higher State Contributions for amortization of Current Unfunded Pension Liability.
# The Jumbo Income Tax Increase

<table>
<thead>
<tr>
<th>Year</th>
<th>Individual</th>
<th>Corporate*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>3.0 %</td>
<td>7.3 %</td>
</tr>
<tr>
<td>2011 - 2014</td>
<td>5.0</td>
<td>9.5</td>
</tr>
<tr>
<td>2015 - 2024</td>
<td>3.75</td>
<td>7.75</td>
</tr>
<tr>
<td>2025</td>
<td>3.25</td>
<td>7.3</td>
</tr>
</tbody>
</table>

* Inclusive of Personal Property Replacement Tax
Revenue Produced from Tax Increase

<table>
<thead>
<tr>
<th>($ Billions)</th>
<th>Individual Income Tax</th>
<th>6.0</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Corporate Income Tax</td>
<td>1.0</td>
</tr>
<tr>
<td>(Including NOL Suspensions)</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Estate Tax Reinstatement</td>
<td>.3</td>
</tr>
</tbody>
</table>

$7.3 *

* 25% Increase in Own Source Revenue
Where Did it Go?

- Replaced FY 2011 Borrowing
  - Pension Bonds $3.7
  - Tobacco Settlement Securitization 1.3
  - Inter-fund Borrowing 1.0
  - Short Term Borrowing 1.3

$7.3
Governor Quinn’s 2012 Fiscal Plan

$35.4 Billion General Funds Operating Budget

• $1.45 Billion Deficit Borrowing
• $600 Million – New Revenue
  • De-couple from Bonus Depreciation

$8.75 Billion Debt Consolidate Bonding

• $1.45 Billion FY12 – Deficit Funding
• $7.30 Billion – Pay outstanding bills
  • Vendors
  • Local Governments/Public Universities
  • Corporate Income Tax Refunds
  • Employee Healthcare Insurance
A Balanced Budget & No Borrowing
Well Not Quite

- $1.4 billion of 2012 Medicaid Funding Pushed to 2013
- Federal Revenue Overstated by $700 million due to Medicaid Deferral
- Budget Required
  - No Salary Increases
  - Layoffs and Facility Closures
## Where Does it all Go? (Billions)

<table>
<thead>
<tr>
<th>Category</th>
<th>General Funds</th>
<th>Other State Funds</th>
<th>Total</th>
<th>% of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medicare/Employee Healthcare</td>
<td>$7.9</td>
<td>$10.1</td>
<td>$18.0</td>
<td>31.4</td>
</tr>
<tr>
<td>K-12 Education</td>
<td>6.8</td>
<td>3.5</td>
<td>10.3</td>
<td>18.0</td>
</tr>
<tr>
<td>Higher Education</td>
<td>2.1</td>
<td>.5</td>
<td>2.6</td>
<td>4.5</td>
</tr>
<tr>
<td>Human Services</td>
<td>4.7</td>
<td>2.8</td>
<td>7.5</td>
<td>13.1</td>
</tr>
<tr>
<td>Corrections</td>
<td>1.3</td>
<td>.1</td>
<td>1.4</td>
<td>2.4</td>
</tr>
<tr>
<td>Transportation</td>
<td>-</td>
<td>2.7</td>
<td>2.7</td>
<td>4.7</td>
</tr>
<tr>
<td>Pensions</td>
<td>4.3</td>
<td>.7</td>
<td>5.0</td>
<td>8.7</td>
</tr>
<tr>
<td>All Other</td>
<td>1.8</td>
<td>8.1</td>
<td>9.9</td>
<td>17.2</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$28.9</strong></td>
<td><strong>$28.5</strong></td>
<td><strong>$57.4</strong></td>
<td></td>
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</table>
What is Illinois’s Tax Capacity
State and Local Taxes as a % of Gross State Product

National Average 9.32%

Illinois Pre-Tax (Rank 27th) 9.08%

Illinois Post-Tax (Rank 7th) 10.35%

16th Place State 9.91%

*Illinois Ranks 16th in Per Capita GSP
# Illinois’ Tax Burden Rankings
(as measured by % of GSP)

<table>
<thead>
<tr>
<th>Tax Type</th>
<th>Before Tax Increase</th>
<th>After Tax Increase</th>
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</thead>
<tbody>
<tr>
<td>Business Income Taxes</td>
<td>10&lt;sup&gt;th&lt;/sup&gt;</td>
<td>5&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Personal Income Taxes</td>
<td>37&lt;sup&gt;th&lt;/sup&gt;</td>
<td>13&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>(as% of Personal Income)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales Tax</td>
<td>28&lt;sup&gt;th&lt;/sup&gt;</td>
<td>28&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Property Tax</td>
<td>11&lt;sup&gt;th&lt;/sup&gt;</td>
<td>11&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Overall</td>
<td>27&lt;sup&gt;th&lt;/sup&gt;</td>
<td>7&lt;sup&gt;th&lt;/sup&gt;</td>
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</tbody>
</table>
Joint Senate/House Revenue Committee on Business Tax Structure

- Created by Senate President Cullerton and Speaker Madigan
- Motivated by reaction to Corporate Tax Rate Increase
- Revenue Neutral Goal
- Four Public Hearings held this Summer
- Expect a Report and Legislative Program in the Spring
What Do We Want to See?

- Franchise Tax Repeal/Reform
- Independent Tax Tribunal
- Throwback/Throwout Relief
- Credit Utilization Improvements
- Repeal of Automatic Sunset Provisions
- Uniform Penalty and Interest Act Reform
- Refund Carryforward
Veto Session

Omnibus Tax Bill

- Creates Illinois Tax Tribunal
- Reinstates NOL Absorption - $100,000 Limit
- Increase Exemption of Estate Tax
- Extend all Sunsets expiring in 11, 12, & 13 for 5 years
- Extend R & D Credit
- Increase EITC
- Index Personal Exemption
- Alternative Apportionment for Federally Regulated Exchange
- Extend Sears Economic Development Agreement
- Edge Credit Utilization against withholding – Sears/Champion Lab
Re-Engineer
Illinois
Refund Exception for PTELL

1. What % of Your Property Tax Extension comes from your 25 largest “contributors”?
2. Do they think they are properly assessed?
3. Can you get the Valuation Resolved before the Board of Review?
4. If so, no need for a Refund Recovery Exception to PTELL.