

CENTER FOR TAX AND BUDGET ACCOUNTABILITY

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PROPERTY TAX/SCHOOL FUNDING REFORM - LEGISLATIVE OUTLINE HB750, Senate Amendment 1

1. TOTAL COST OF REFORM:

- \$2.4 billion in property tax relief: 25% of property taxes currently used to fund education
- \$1.8 billion to increase the foundation level as provided in EFAB/Augenblick & Myers
- \$2.0 billion to eliminate structural deficit
- \$900 million refundable credit to bottom 60% of all taxpayers

School Funding Reform Cost: \$4.20 billion
Total Cost: \$7.10 billion
Net Tax Increase after Property Tax Relief: \$4.70 billion

2. POSITIVE OUTCOMES OF TAX REFORM:

- State of Illinois assumes 51% of the cost of funding education, the national average
- Bottom 60% of all taxpayers realize no tax increase from the changes, while the bottom 20% actually realize a net tax decrease
- Direct state taxation of businesses decreases
- After implementation of tax reform, Illinois remains a low-tax state, but gains a fairer, more sound and sustainable fiscal system, while improving school funding fairness

3. REVENUE ENHANCEMENTS:

| <u>Enhancement</u> | <u>Amount Generated</u> |
|--|-------------------------|
| (a) Increase Personal Income Tax to: <ul style="list-style-type: none">• 5.0%• This will tie Illinois with Mississippi for the 7th lowest income tax rate nationally | \$5.0 billion |
| (b) Include Retirement Income in Personal Income Tax base, for seniors with annual Adjusted Gross Incomes in excess of: <ul style="list-style-type: none">• \$75,000 (wealthiest 23% of taxpayers) | \$359.0 million |
| (c) Increase Corporate Income Tax commensurate with personal income tax to: <ul style="list-style-type: none">• 8.0% | \$491 million |
| (d) Expand Sales Tax Base to include: <ul style="list-style-type: none">• All personal services, entertainment and other consumer services (e.g. home cleaning & maintenance). Does NOT include food. (Increased tax burden on low-income families must be off-set with a refundable tax credit) | \$900 million |
| (f) Eliminate Corporate Tax Expenditures | \$500 million |
| (g) Total Revenue Generated | \$7.25 billion |

4. Eliminate Regressive Impact of Tax Increases through a refundable credit, which costs a revenue loss of approximately \$900 million.

5. All increased school funding (foundation level and property tax relief) provided to local school districts should go through General State Aid. This ensures no loss of local control to Springfield, while enhancing flexibility to meet local needs.

- 6. Provides supplemental state aid for school districts experiencing rapid growth in enrollment over any two consecutive school years.
- 7. Implement continuing appropriation for education that mandates new funding from dedicated sources "shall be in addition to" base of total FY 2004 General Funds funding of education for: (i) Distributive Grants; (ii) Mandated Categoricals; (iii) Standards, Assessments & Accountability; (iv) Ensuring Quality Education Personnel; (v) Reading & Mathematics; (vi) Birth to Eight; (vii) Academic Difficulty; (viii) Learning Technologies; (ix) Career Preparation; (x) Regional Services; (xi) Administration; and (xii) Targeted Initiatives, and adjust said total amount annually thereafter by increases in the Employment Cost Index. Include recourse language allowing ISBE (if it still exists) the right to go directly to the Comptroller for this funding if the General Assembly appropriates a lesser amount.
 - Purposes - Eliminates "lottery shell game" concern by requiring appropriation of specific amounts from a dedicated source in addition to a defined base, and increases voter confidence that new tax revenues will be used for schools.

8. Implementation of Property Tax Relief:

- Structure 25% Property Tax Relief as an abatement, with a guaranteed minimum per school district, e.g., each school district will receive at least 20% property tax relief, but some in poorer areas would receive a greater percentage. Differential will be allocated taking into account poverty and tax effort.
- Structuring as an abatement ensures no school district loses any funding, because they continue to assess as if no relief is coming from Springfield. When relief comes, property tax bills are adjusted showing the relief on the bill before transmission to taxpayers. A line would be added to local property tax bill, such as "Amount of your property taxes paid by the state of Illinois - \$X".

Sample Property Tax Bill

| Individual Property Tax Bill – River Forest, Illinois | |
|--|-----------------|
| Total assessed property tax | \$13,000 |
| = > Portion of assessed property tax used to fund education | \$10,000 |
| = > Portion of assessed property tax <i>paid by State of Illinois</i> (20% of education portion) | (\$ 2,000) |
| Net property tax bill | \$11,000 |

- Having a guaranteed minimum amount of relief with a float ensures all school districts receive significant relief, while maintaining flexibility to provide poor school districts with greater relief.

- Advantages - Transparent to taxpayers, addresses public skepticism that property tax relief will actually materialize. Provides greater dollar relief to affluent districts and greater percentage relief to poor districts. No school district can lose any funding.
 - Can implement a two-tiered approach, with a different range of property tax relief for individuals than businesses (e.g. individuals could receive 20%-25% in the aggregate while businesses could receive 15%-20%). Providing greater property tax relief to businesses that locate in poor areas could be used/sold as an economic development incentive (it also reduces inefficiencies of the current state tax system).

9. Create Property Tax Abatement Fund:

- Purpose - Dedicated fund that uses an identified portion of the newly raised state-based revenue to reduce 25% of the property taxes currently used to fund education.
- Administration - Uses last, complete year's assessments, require DOR to issue implementing regulations.
- Political Advantage - Receives mandatory funding from the new revenue enhancements, addresses voter concerns that Springfield will not live up to property tax relief promises, addresses some of the "lottery & shell game" concerns.

10. Make Accountability a Key Feature of Reform.

***For further information, please contact Ralph Martire, Executive Director, at 312/332.1049
or visit our website: www.ctbaonline.org***

Mission Statement

The Center for Tax and Budget Accountability is a bi-partisan 501(c)(3) non-profit research and advocacy think tank that promotes fair, efficient and progressive tax, spending and economic policies.