

**CTBA** | Center for Tax and  
Budget Accountability

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# House Revenue & Finance Committee Joint Hearing With State Government Administration Committee

**Friday, January 17, 2014**

Presented by:  
Ralph M. Martire, Executive Director

## Impact of the Temporary Tax Increase on the Accumulated Deficit

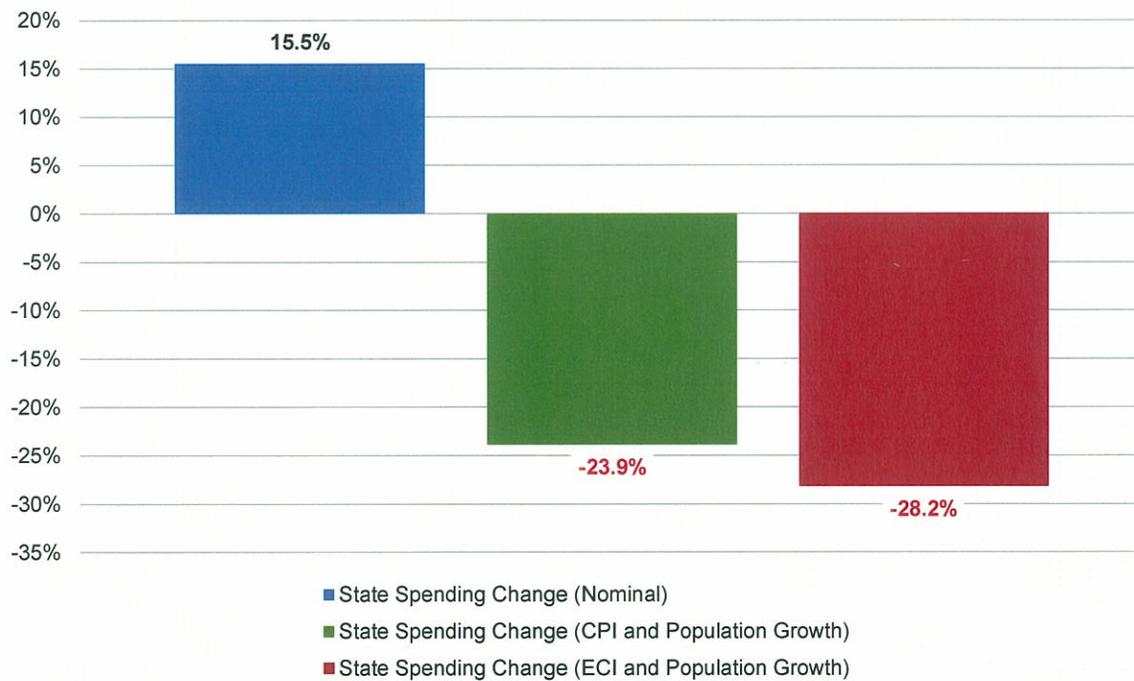
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Sources: CTBA calculations using total spending figures for FY2011 and FY2012 as reported in GOMB, *FY2013 Budget Book* (Springfield, IL: February 2012 2013), Ch. 2-18 and GOMB, *FY2014 Budget Book* (Springfield, IL: March 2013), Ch. 2-16.; total spending for FY2013 includes all supplementals; and spending for FY2014 as reported in GOMB, *FY2014 Budget Book* (Springfield, IL: March 2013) for hard costs and PA 98-34, PA 98-35, PA 98-17, PA 98-33, PA 98-27, PA 98-64, PA 98-50; actual revenue for FY2011-FY2012 as reported by COGFA; FY2013 from COGFA, *State of Illinois Budget Summary: Fiscal Year 2014* (Springfield, IL: August 1, 2013), 50).

## Appropriations Relative to FY2000, in Nominal Dollars and Adjusted for Inflation and Population Growth (excluding Group Health)

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Sources: FY2000 unadjusted appropriations from Governor's final budget summary for FY2000; and FY2014 CTBA analysis SB 2555, SB 2556, HB 206, HB 208, HB 213, HB 214, HB 215, passed by the 98<sup>th</sup> General Assembly. Inflation for healthcare inflated by Midwest Medical Care CPI; all other appropriations adjusted using ECI-C and Midwest CPI from the BLS as of January 2014, and population growth from the Census Bureau as of January 2014.

Compared to the rest of the nation, Illinois is a very low spending and small government state. Consider that:

- In calendar year 2012, Illinois had the fifth largest population (Census Data), fifth highest overall state Gross Domestic Product (**GDP**) (BEA Data), and 12<sup>th</sup> highest state GDP per capita in the nation.
- Despite that, in FY2012 Illinois ranked 28<sup>th</sup> in General Fund spending on services per capita, and 36<sup>th</sup> in General Fund spending on services as a share of GDP.
- In 2011, (the most recent year for which there is data) Illinois ranked 49<sup>th</sup>, next to last among all 50 states, in number of state workers per 1,000 residents.

\*Data for preceding analysis comes from U.S. Census, U.S. Bureau of Economic Analysis, National Association of State Budget Officers, and the final, enacted General Fund Budgets of all 50 states.

## Total State and Local Tax Burden as a Percentage of Income in 2010

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Midwest States	%	National Rank
Iowa	17.0%	10 <sup>th</sup>
Michigan	16.9%	12 <sup>th</sup>
Wisconsin	16.6%	16 <sup>th</sup>
Indiana	16.6%	17 <sup>th</sup>
Ohio	16.1%	26 <sup>th</sup>
<b>Illinois</b>	<b>14.2%</b>	<b>42<sup>nd</sup></b>
Missouri	13.5%	47 <sup>th</sup>

Source: Federation of Tax Administrators. Includes all state and local taxes and fees.

## Total State and Local Tax Burden as a Percentage of Income in 2010, with Temporary Tax Increase

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Midwest States	%	National Rank
Iowa	17.0%	10 <sup>th</sup>
Michigan	16.9%	12 <sup>th</sup>
Wisconsin	16.6%	16 <sup>th</sup>
Indiana	16.6%	17 <sup>th</sup>
Ohio	16.1%	26 <sup>th</sup>
<b>Illinois</b>	<b>15.6%</b>	<b>32<sup>nd</sup></b>
Missouri	13.5%	47 <sup>th</sup>

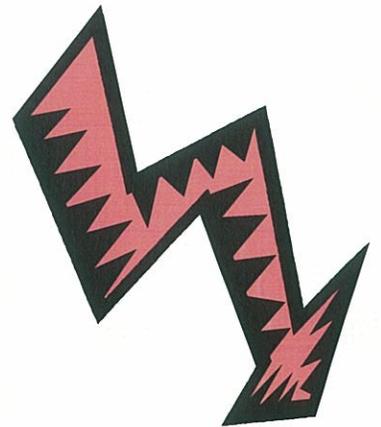
Source: Federation of Tax Administrators. Includes all state and local taxes and fees; and CTBA calculation.

- Illinois had the second lowest real GDP Growth in the entire Midwest in 2010

### Real GDP Growth 2010

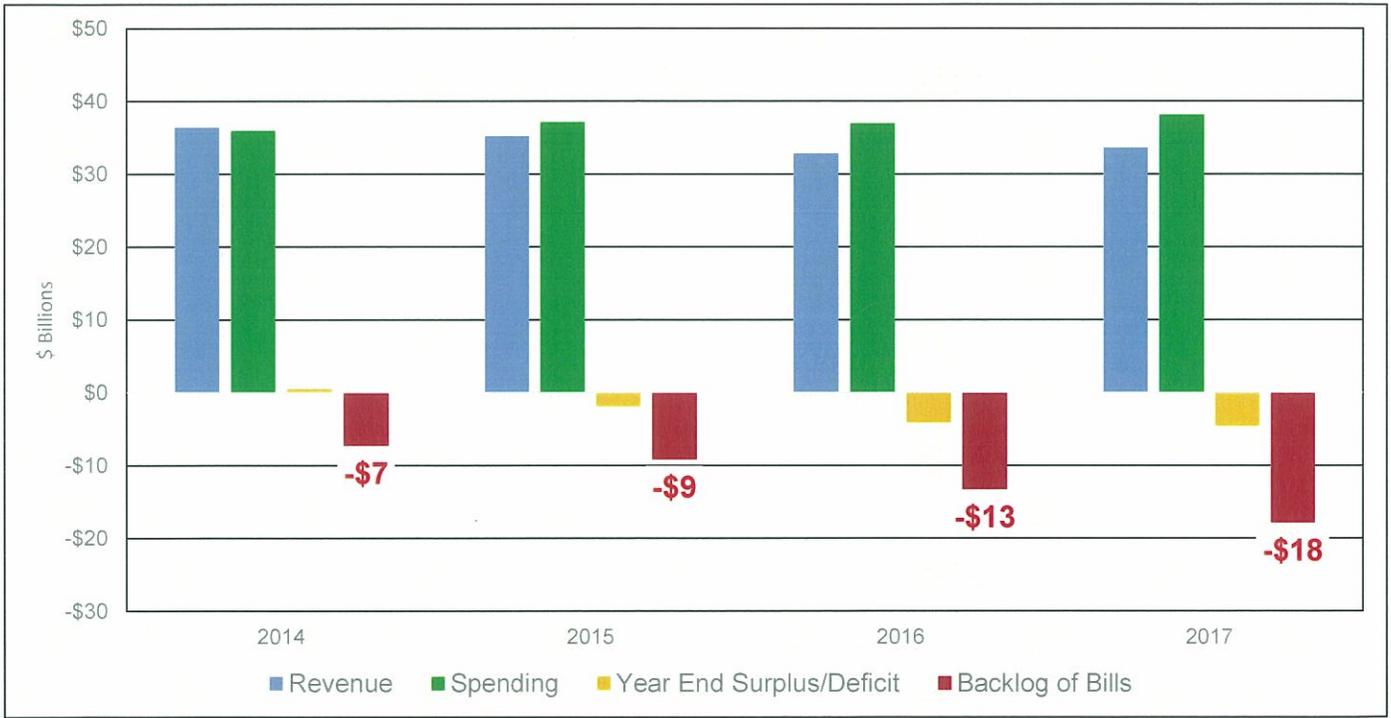
Indiana	4.6%
Iowa	3.1%
Michigan	2.9%
Wisconsin	2.5%
Ohio	2.1%
Illinois	1.9%
Missouri	1.4%

- National and Midwest Average was 2.6%



# Illinois' Fiscal Cliff

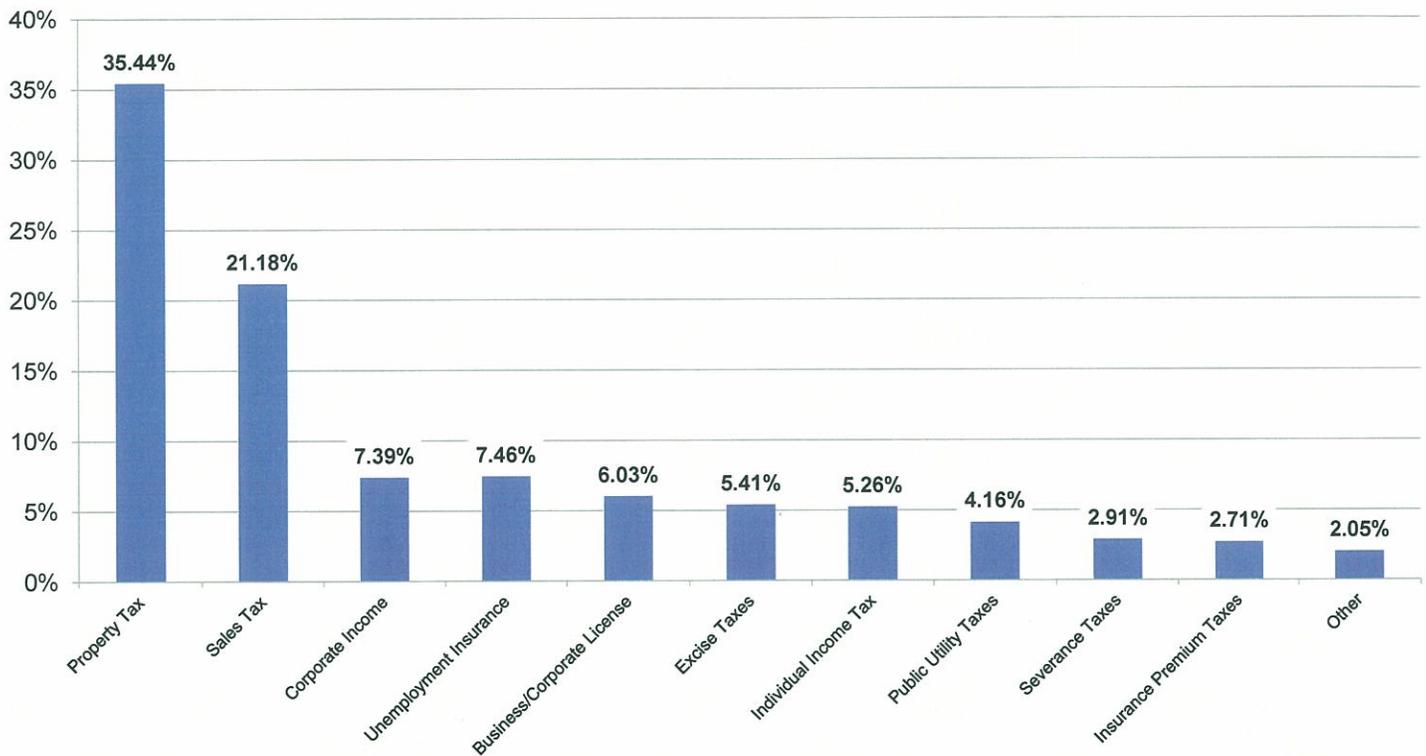
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Source: Governor's Office of Management & Budget, *Three Year Budget Projection (General Funds), FY15-FY17* (Springfield, IL: January 1, 2014).

# FY2012 State and Local Taxes/Fees Paid by Businesses in All States

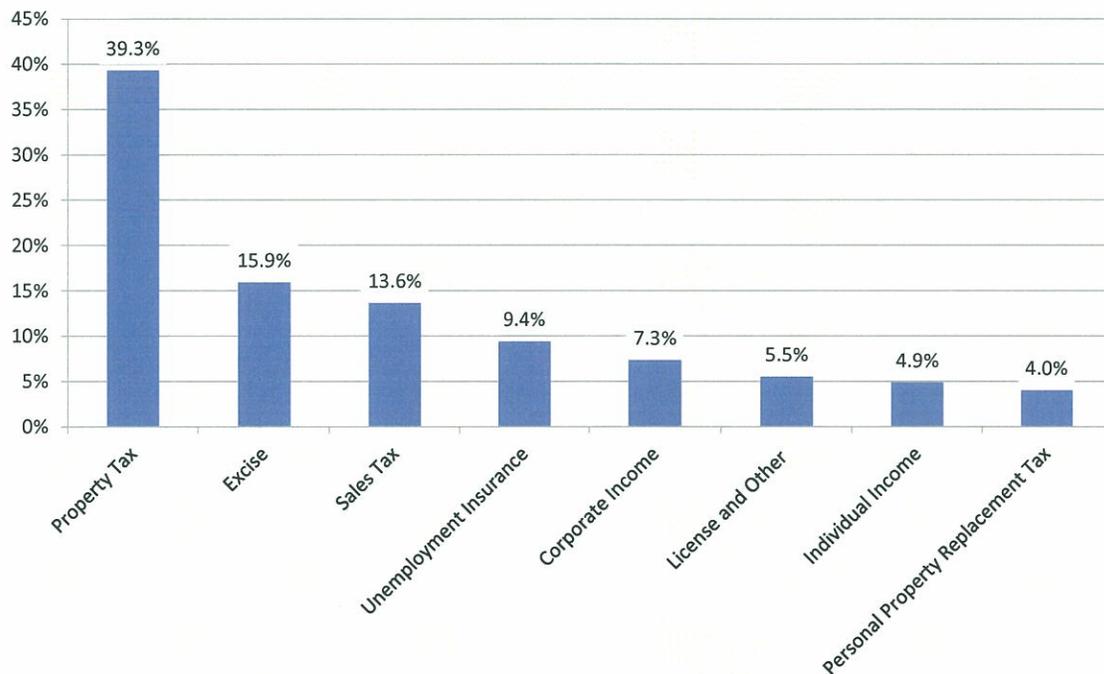
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Sources: Andrew Phillips, Robert Cline, Caroline Sallee, Michelle Klassen, and Daniel Sufranski, *Total State and Local Business Taxes: State-by-state estimates for fiscal year 2012* (Washington, DC: Earnst & Young and Council on State Taxation, July 2013), 3. Totals shown in figure adjusted from data source because Personal Property Replacement Tax revenue was grouped with the Corporate Income Tax, and thus was counted as a state revenue source. CTBA regrouped the revenue from the PPRT (\$1.2 billion), and re-categorized it as a local tax.

## FY2012 State and Local Fees Paid by Businesses in Illinois

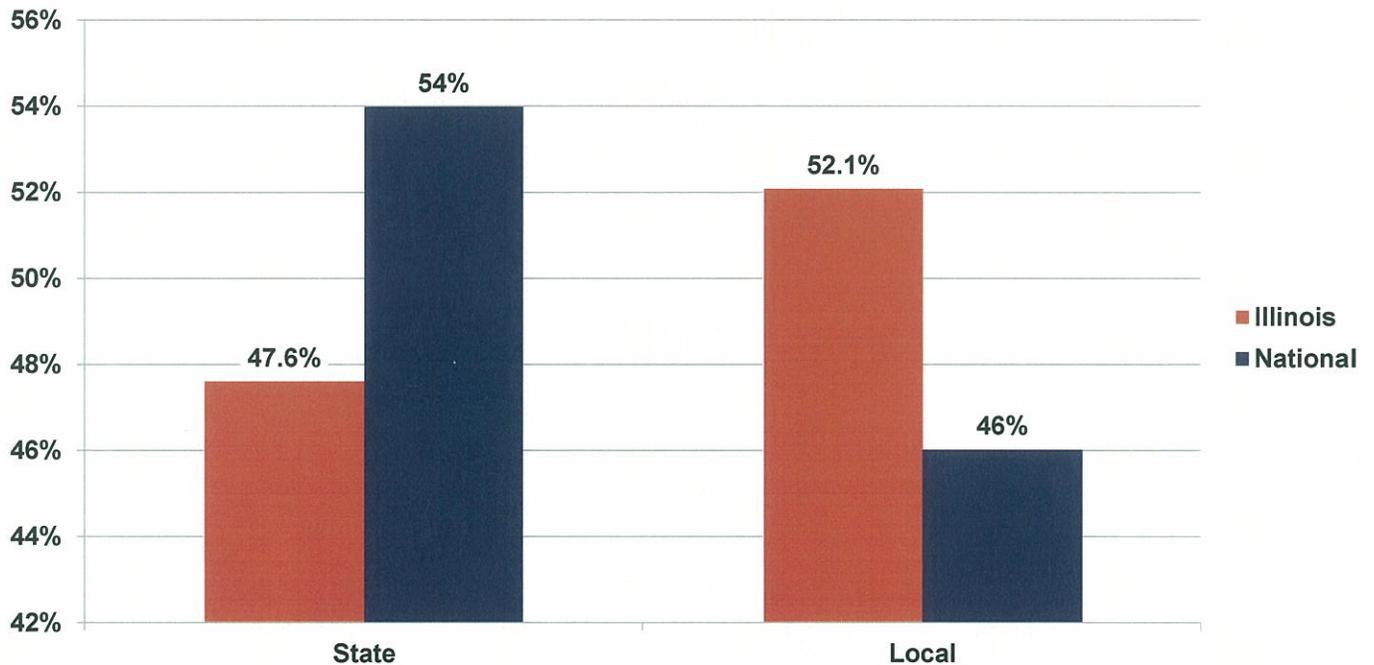
10



Sources: Andrew Phillips, Robert Cline, Caroline Sallee, Michelle Klassen, and Daniel Sufranski, Total State and Local Business Taxes: State-by-state estimates for fiscal year 2012 (Washington, DC: Ernst & Young and Council on State Taxation, July 2013), 10; Illinois Department of Revenue, Annual Report of Collections and Distributions 2012 (Springfield, IL: December 31, 2012), <http://www.revenue.state.il.us/Publications/AnnualReport/Annual-Report-2012-Table-1.pdf>

## FY2012 Taxes/Fees Paid by Businesses Breakdown of Distribution to State and Local Governments

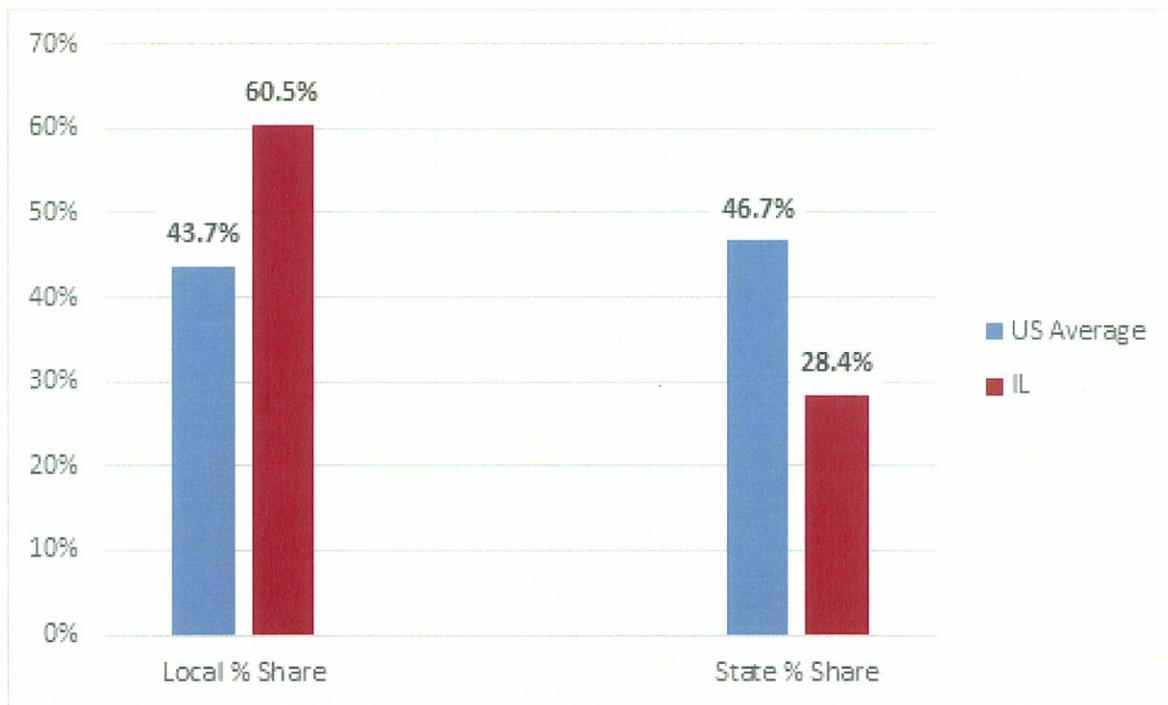
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Sources: Andrew Phillips, Robert Cline, Caroline Sallee, Michelle Klassen, and Daniel Sufranski, Total State and Local Business Taxes: State-by-state estimates for fiscal year 2012 (Washington, DC: Ernst & Young and Council on State Taxation, July 2013).

## Local and State Share of Education Funding Spending

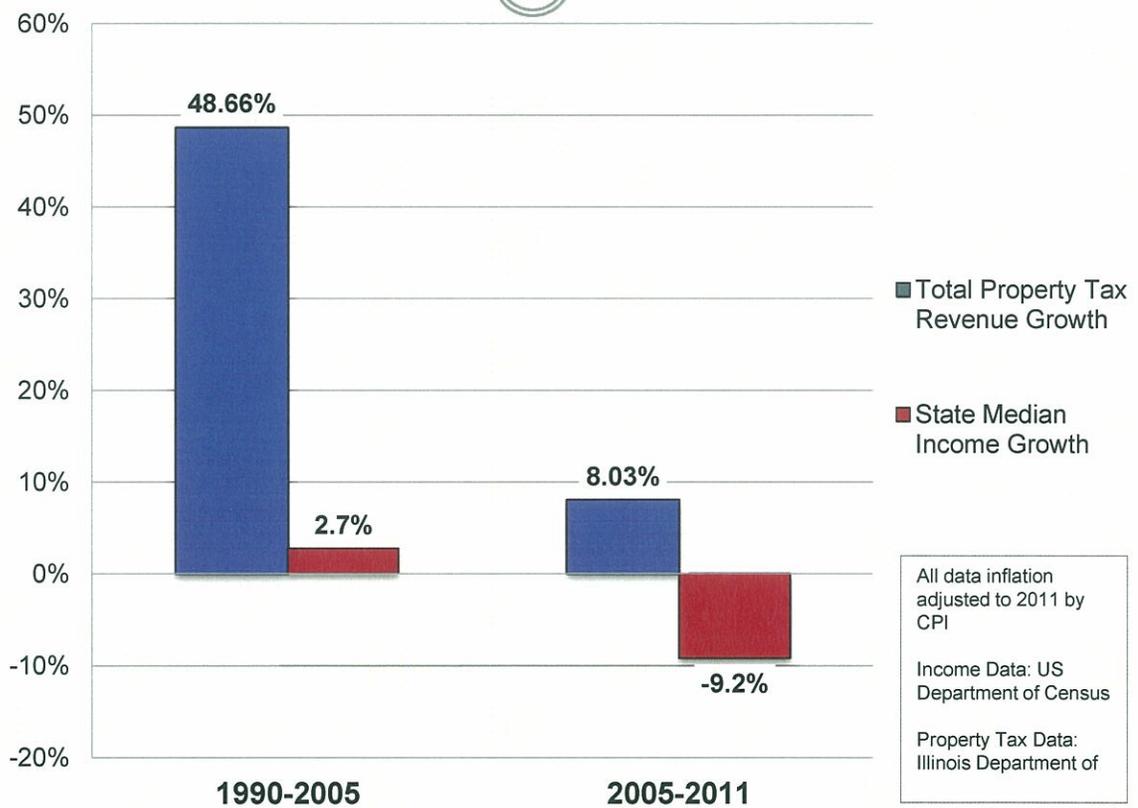
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Source: National Center on Education Statistics, 2011. "Revenues and Expenditures for Public Elementary and Secondary Education: School Year 2008-2009 (Fiscal Year 2009)."

# Illinois Total Property Tax Revenue Growth vs. State Median Income Growth

13



- How does Illinois stack up from an Income Tax policy standpoint:
  - 44 states have a corporate income tax
  - 7 states impose it on S-Corps
  - 14 states are graduated

# State Corporate Income Tax Policy

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Illinois: 7% until 2015, then 5.25%

## Midwest

Iowa: 6% – 12% (12% @ \$250,000)

Indiana: 8.5%

Wisconsin: 7.9%

Missouri: 6.25%

Kentucky: 4% - 6% (6% @ \$100,000)

Michigan: 4.9%

## Other Big States

Pennsylvania: 9.99%

New Jersey: 9%

California: 8.84%

New York: 7.1%

Florida: 5.5%

## Illinois Corporate Income Tax Liability Tax Year 2010

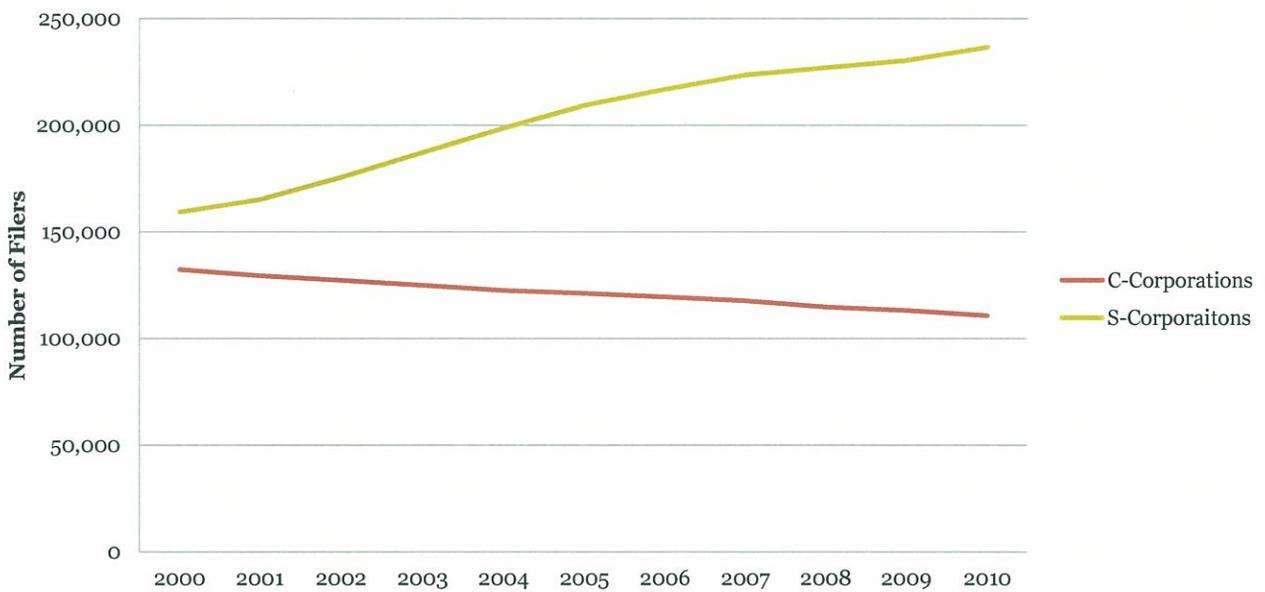
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Liability Range (\$ thousands)	Total Filers	Percent of Filers	Percent of Liabilities
0	76,868	69.52%	0.00%
0 > 5	25,604	23.15%	1.45%
5 > 10	2,517	2.28%	0.97%
10 > 50	3,106	2.81%	3.93%
50 > 100	796	0.72%	3.11%
100 > 500	1,143	1.03%	14.09%
500 > 1,000	234	0.21%	8.96%
1,000 or More	309	0.28%	67.49%
Totals	110,577	100.00%	100.00%
<b>Corporations with any tax liability</b>	<b>33,709</b>	<b>30.48%</b>	100.00%

Source: CTBA analysis of data provided by the Illinois Department of Revenue (May 2013).

# Trends in Corporate Organization, 2000-2010

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Source: Illinois Department of Revenue, Supplement to Analysis of Selected Illinois Business Tax Incentives (Springfield, IL; February 2011), 1. <http://www.revenue.state.il.us/AboutIdor/TaxResearch/ILBusTaxIncentives.pdf>

## Number of Businesses in Illinois by Firm Size, as of 2010

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Employment Size	Number of Firms	Percent of Total
<b>Non-Employers</b>	<b>903,025</b>	<b>78.1%</b>
0-4	155,697	13.5%
5-9	39,988	3.5%
10-19	25,532	2.2%
<b>&lt;20</b>	<b>1,124,242</b>	<b>97.2%</b>
20-99	22,233	1.9%
100-499	5,799	0.5%
<b>&lt;500</b>	<b>1,152,274</b>	<b>99.6%</b>
500+	4,363	0.4%
<b>Total</b>	<b>1,156,637</b>	<b>N/A</b>

Sources: United States Census, *Statistic of U.S. Businesses* (Washington DC, 2010), <http://www.census.gov/econ/susb>; Non-employer from United States Census, *Nonemployer Statistics* (Washington DC, 2010), <http://www.census.gov/econ/nonemployer>.

## 2010 Illinois Personal Property Replacement Liability

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Business	Total Number of Filers	Number of Filers with Tax Liability	Total PPRT Liability (\$ Thousands)
C-Corp	110,577	33,359	\$633,599
S-Corp	236,425	124,082	\$238,812
Partnership	112,702	27,141	\$92,418.50
<b>Total</b>	<b>459,704</b>	<b>184,582</b>	<b>\$964,829.5</b>

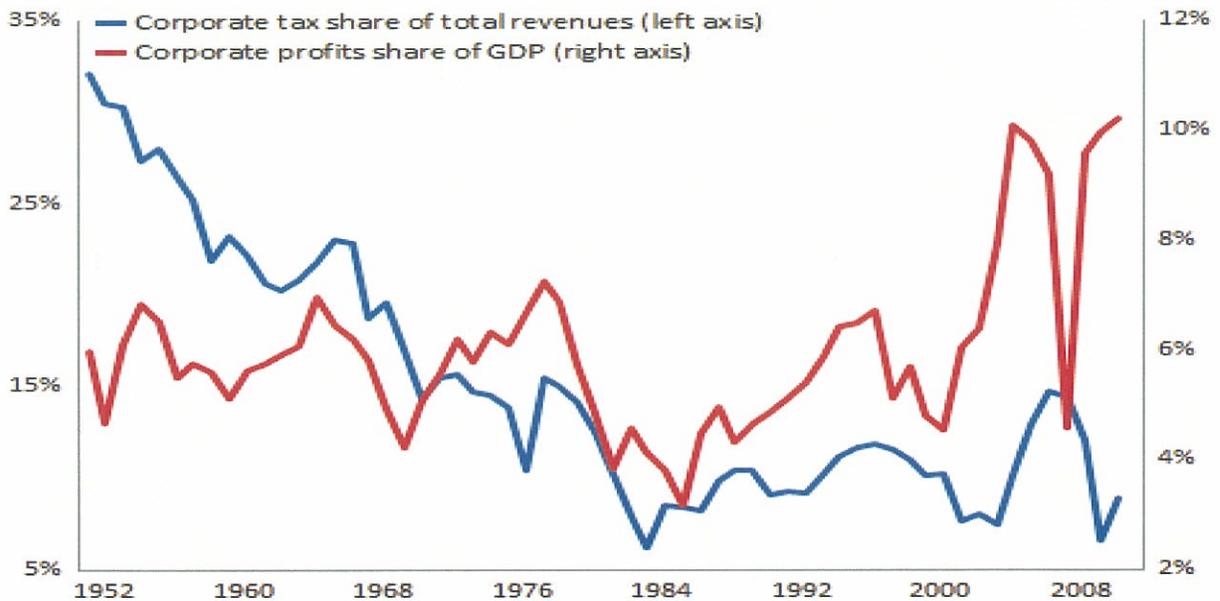
# Corporate Profits Are at an All Time High



## Corporations Are Also Paying Less as a Share of Total Taxed Paid

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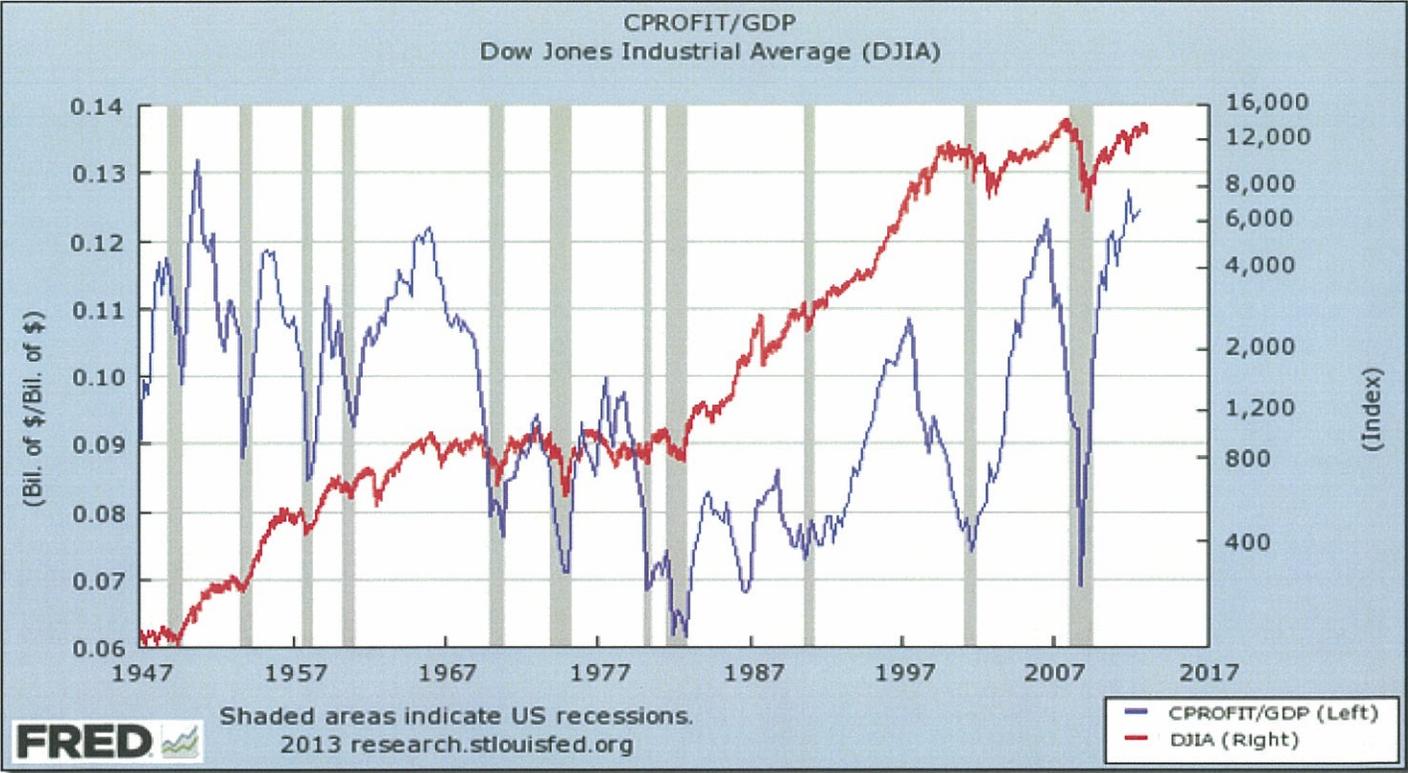
### U.S. corporations are earning higher profits but contributing less tax revenue



Source: Federal Reserve, OMB

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# Wall Street is Doing Fine as Well



## Corporate Profits have Out Paced Wages & Salaries During the Recovery from the Great Recession (\$ Billions)

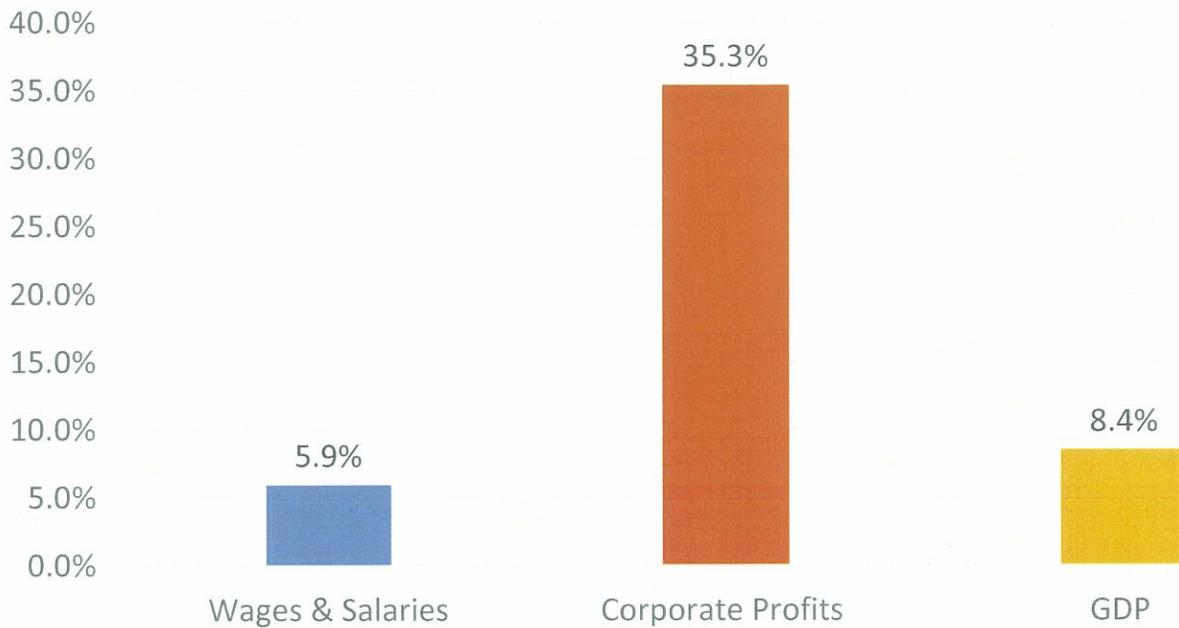
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	Growth (Real Dollars)	Growth as Percentage of GDP
Wages & Salaries	\$398.6	30.3%
Corporate Profits	\$555.0	42.1%
GDP	\$1,317.6	

Source: Bureau of Economic Analysis; Inflation Adjusted to CPI

## Percent Change in Growth Since the Great Recession—2009 (3rd Quarter) to 2013 (3rd Quarter)

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Source: Bureau of Economic Analysis; Inflation Adjusted to CPI

# Corporate Tax Liability Nationally (\$ Millions)

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	1998	2003	2007	2008	2009	2010
Total state corporate income taxes paid nationwide*	\$31,089	\$28,384	\$52,915	\$49,860	\$39,278	\$38,006
Net Income (before payment of income taxes) of corporations nationwide**	\$1,091,150	\$1,175,609	\$2,252,874	\$1,806,890	\$1,614,867	\$1,836,377
Effective Total State Income Tax Rate***	2.85%	2.41%	2.35%	2.76%	2.43%	2.07%

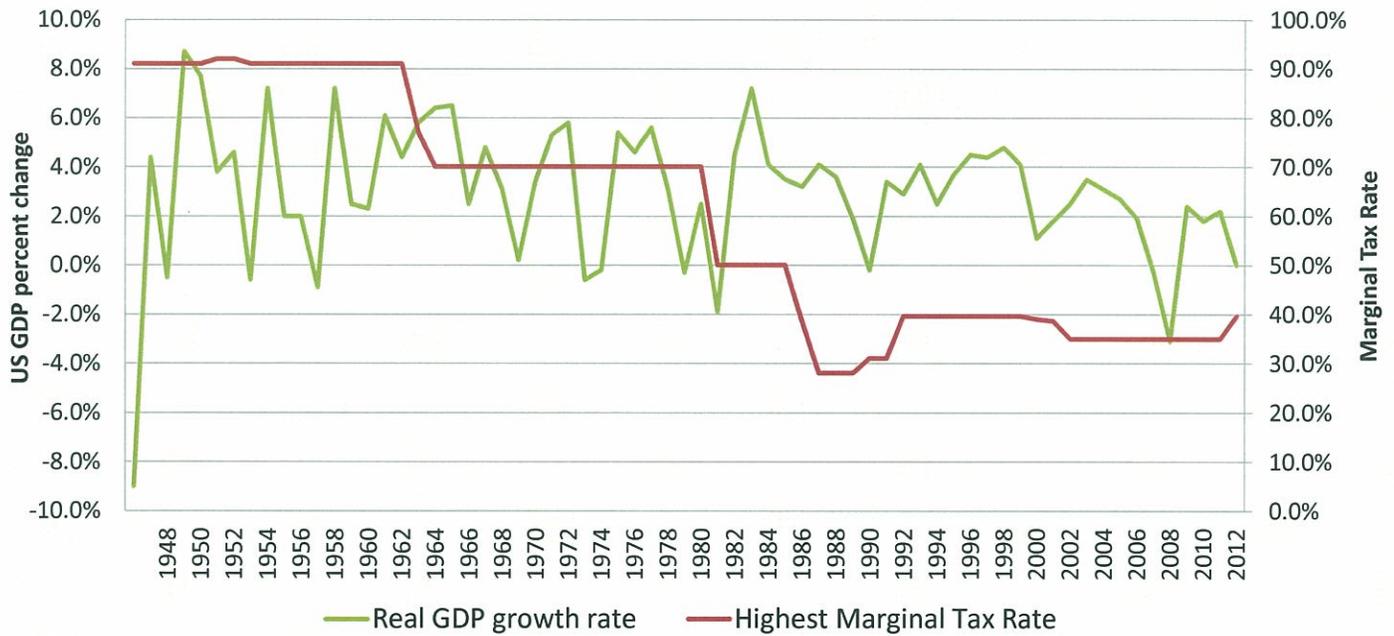
\*Annual Survey of State Government Tax Collections—U.S. Census Bureau

\*\*SOI Tax Stats—Returns of Active Corporations – Table 1 – IRS

\*\*\*Simple math—line 1 divided by line 2

# No Correlation whatsoever Between Tax Rates and GDP Growth

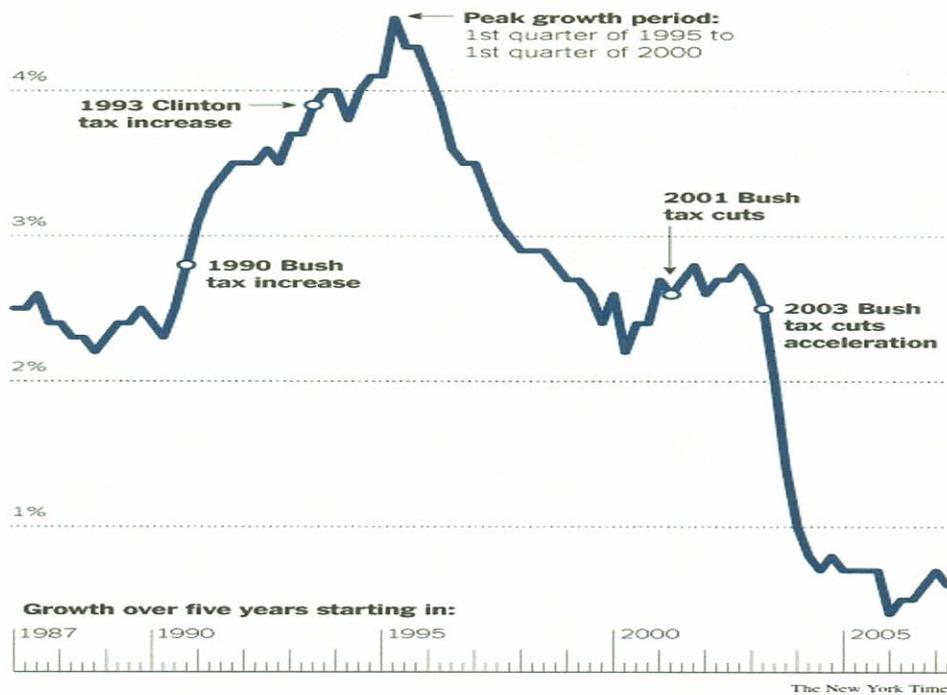
### US GDP Percent Change and Highest Marginal Personal Income Tax Rate 1947-2013



CTBA Analysis of BEA data.

## Economic Growth Rates Following Periods of Tax Increases and Tax Cuts

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Source: Bureau of Economic Analysis, via Haver Analytics

Henry Blodget, Bombshell: New Study Destroys Theory That Tax Cuts Spur Growth, September 21, 2012 <http://www.businessinsider.com/study-tax-cuts-dont-lead-to-growth-2012-9>

## Economic Growth

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- A rigorous 2012 study commissioned by the U.S. Small Business Administration (SBA) found:
  - “No evidence of an economically significant effect of state tax portfolios on entrepreneurial activity.”

*Can State Tax Policy be Used to Promote Entrepreneurial Activity Small Business Economics, 2012.*

- A 2006 study by libertarian Cato Institute reached the same conclusion as the 2012 SBA study – finding no statistically significant correlation between top personal income tax rates and the share of residents employed in their own businesses.
- “Even if there was a statistically significant correlation- it would have little economic significance . The highest and lowest rates of entrepreneurship along the curve differ by about 0.08 percentage points.”

Creating a Policy Environment for Entrepreneurs, CATO Journal, Fall 2006

## Economic Growth

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- U.S. Small Business Administration Study (2012) Found:
  - States with high personal income taxes create just as many small businesses as other states;
  - Having a progressive income tax did not reduce the share of taxpayers engaged in small business. Indeed it had a small positive impact.

## According to the SBA Study

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- Things that mattered most:
  - Short Term
    - Tailored worker training
    - Commercial transfers of R&D to continue exploration
  - Long Term
    - Strong schools
    - Cutting Edge research credits
    - Modern transportation/broadband networks
    - Efficient court systems
    - Funding public services that reduce business costs

## The Education/Growth Relationship

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The only public policy that had a statistically significant correlation to a state increasing personal growth at a rate greater than other states over the 1973-1999 sequence was increased real, inflation adjusted funding of public education

Source: Bensi, Black & Dowd

- Eric Spiegel, President and CEO of Siemens Corp. explains his company's decision to open a large plant in Charlotte, NC by pointing out: "The reasons you bring a plant like this to the U.S. are higher-skilled labor, access to the world's best research and development, and good sound infrastructure—if you read all the studies about what it's going to take for the U.S. to grow, it's really about two things. Modernizing the infrastructure and retooling the education system. Those are the two big keys to creating more productive, higher paying jobs."

## For More Information

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Center for Tax and Budget Accountability

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