

CTBA

Center for Tax and
Budget Accountability

70 East Lake Street
Suite 1700
Chicago, IL 60601
www.ctbaonline.org

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

**Subject Hearing on Tax and Tax Incentive Policies
February 27, 2014
Room 115, State Capitol Building**

**Presented by:
Amanda Kass, Budget Director and Pension Specialist**

FY2014 Enacted General Fund Appropriations as Passed by the 98th General Assembly (\$ Millions)

2

Category		Appropriation
(i)	Total General Fund Appropriation for Capped Items (Net)	\$35,696
(ii)	Total Hard Costs	\$11,123
	Debt Service (Pension & Capital Bonds)	\$2,182
	Statutory Transfers Out	\$2,878
	Pension Contributions	\$6,063
(iii)	Repayment of Bills	\$50
	FY13/FY14 Backlog Payment Fund	\$50
(iv)	General Fund Service Appropriations (Gross)	\$25,023
	Healthcare (including Medicaid)	\$7,171
	PreK Education	\$300
	K-12 Education	\$6,386
	Higher Education	\$1,991
	Human Services	\$4,995
	Public Safety	\$1,648
	Group Health Insurance	\$1,346
	Other	\$1,185
(v)	“Unspent Appropriations”	\$500
(vi)	Net General Fund Service Appropriations	\$24,523

FY2014 Accumulated Deficit (\$ Billions)

3

Category		HR-389 Revenue
(i)	Projected FY2014 Revenue	\$35.45
(ii)	Projected FY2014 Hard Costs	\$11.12
(iii)	Projected Deficit Carry Forward from FY2013	\$7.76
(iv)	Projected Net FY2014 General Fund Revenue Available for Services	\$16.56
(v)	Projected Net General Fund Service Appropriations	\$24.52
(vi)	Estimated Minimum FY2014 General Fund Deficit	(\$7.96)
(vii)	Estimated Deficit as a Percentage of General Fund Service Appropriations	-32.46%

Source: Appropriations from FY2014 CTBA analysis SB 2555, SB 2556, HB 206, HB 208, HB 213, HB 214, HB 215, passed by the 98th General Assembly; and hard costs from COGFA, *State Budget of Illinois Budget Summary: FY2014* (Springfield, IL: August 1, 2013), 26.

This is the 23rd consecutive fiscal year with a General Fund deficit

That Huge Shortfall is a Real Problem Because.....Over \$9 out of \$10 of G.F. are Spent on:

4

- Education
(PreK-12 plus Higher Ed) 35%
- Healthcare 30%
- Human Services 21%
- Public Safety 5%
91%

Illinois General Fund Spending by Major Public Service Category, FY2014 Enacted Budget Compared to FY2000, and FY2000 Adjusted for Inflation and Population Growth (\$ Millions)

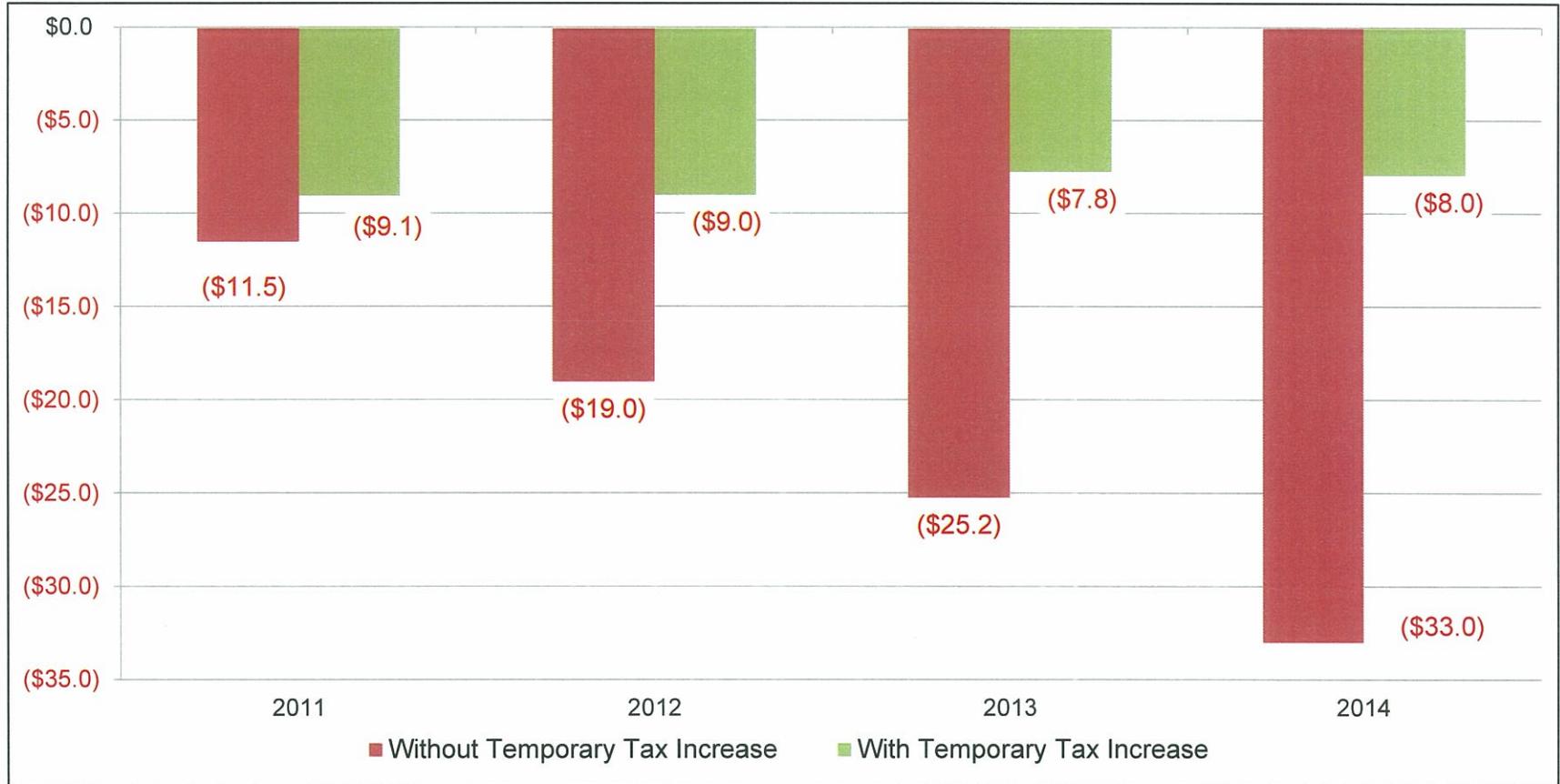
5

Category	FY2000 Enacted	FY2014 GOMB	FY2000, Enacted Adj for Infl (ECI) and Pop Growth	\$ Diff FY2014 – FY2000 Adj (ECI and Pop Growth)	% Change
Net General Fund (excluding Group Health)	\$20,064	\$23,178	\$32,285	(\$9,107)	-28.2%
PreK-12 Education	\$4,844	\$6,686	\$7,480	(\$794)	-10.6%
Higher Education	\$2,152	\$1,991	\$3,323	(\$1,332)	-40.1%
Healthcare (excluding Group Health)	\$5,022	\$7,171	\$9,056	(\$1,885)	-20.8%
Human Services	\$4,599	\$4,996	\$7,102	(\$2,106)	-29.7%
Public Safety	\$1,350	\$1,648	\$2,085	(\$437)	-20.9%

Sources: :FY2000 unadjusted appropriations from Governor's final budget summary for FY2000; and FY2014 CTBA analysis PA 98-34, PA 98-35, PA 98-17, PA 98-33, PA 98-27, PA 98-64, PA 98-50, passed by the 98th General Assembly. Appropriations adjusted using ECI and Midwest Medical Care CPI (for Healthcare) from the BLS as of January 2014, and population growth from the Census Bureau as of January 2014.

Impact of the Temporary Tax Increase on the Accumulated Deficit

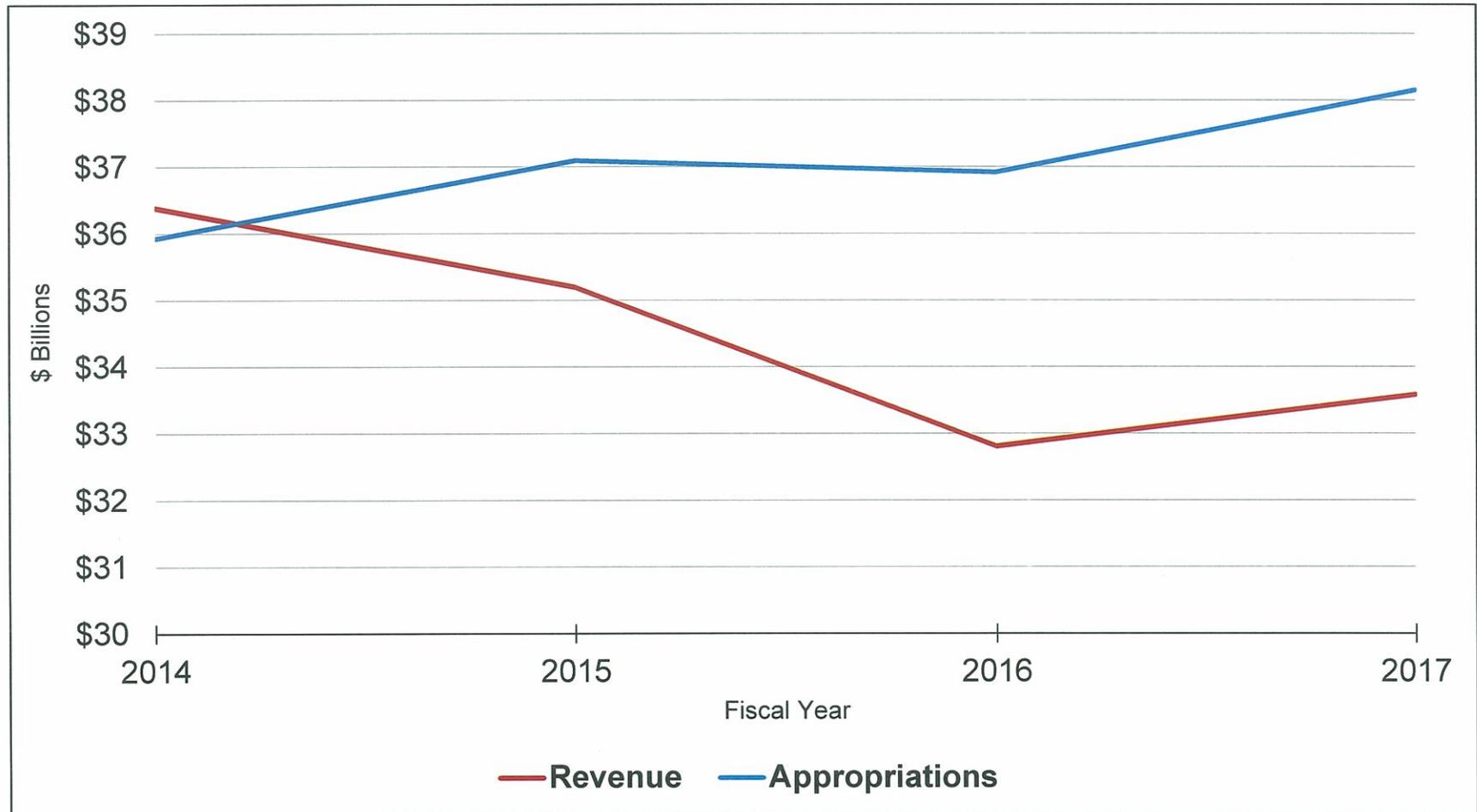
6



Sources: CTBA calculations using total spending figures for FY2011 and FY2012 as reported in GOMB, *FY2013 Budget Book* (Springfield, IL: February 2012), 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; FY2014 from HR-398

Illinois' Fiscal Cliff

7



Source: GOMB, 2014 Three Year Projection (Springfield, IL: January 1, 2014).

Capitalist Tax Policy Should Be:

8

FAIR



PROGRESSIVE

RESPONSIVE



TO MODERN ECONOMY

STABLE



DURING POOR
ECONOMIES

EFFICIENT



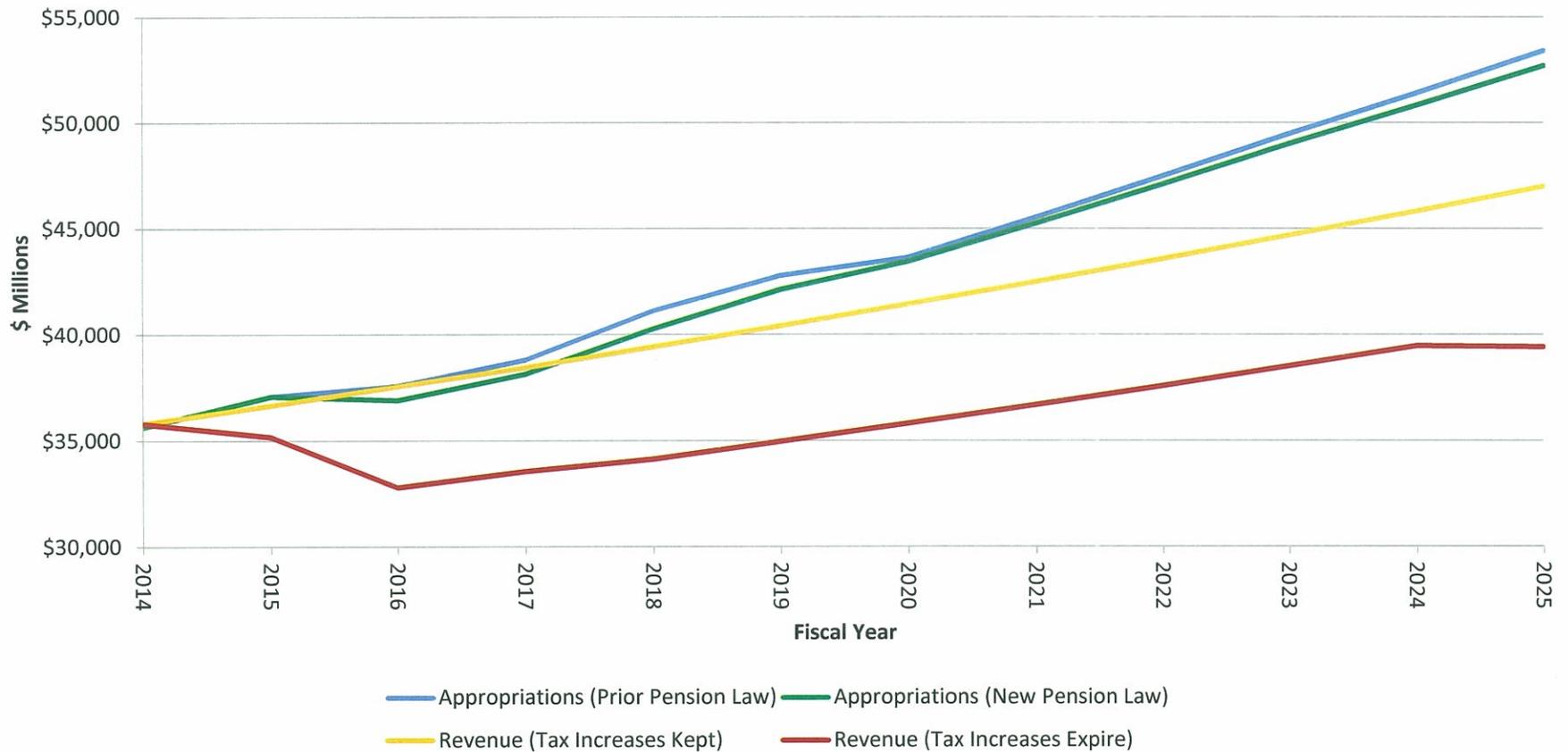
DOESN'T DISTORT
PRIVATE MARKETS

ILLINOIS IS 0 FOR 4

Which Creates a Structural Deficit

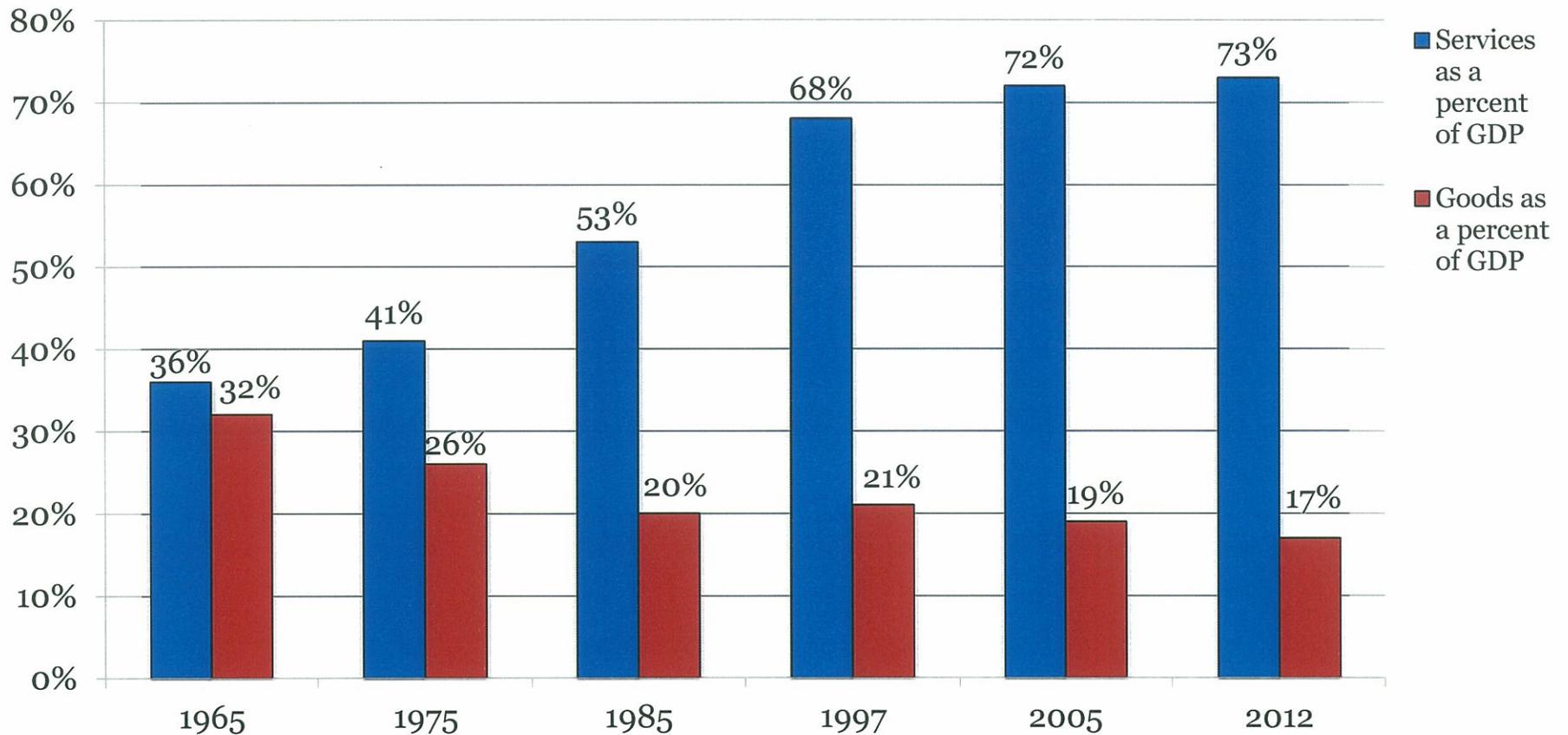
9

General Fund Revenue and Appropriations



Revenues of Goods and Services as a Percent of Gross Domestic Product: Illinois (SIC 1965-1985, NAICS: 1997-2012)

10



Private producing industries
Source: Bureau of Economic Analysis

Adam Smith, the father of modern capitalism, contended that for a tax system to be fair it has to be progressive

11

- According to Smith:

"The subjects of every state ought to contribute toward the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state ... [As Henry Home (Lorde Kames) has written, a goal of taxation should be to] 'remedy inequality of riches as much as possible, by relieving the poor and burdening the rich.'"

Was Adam Smith Right?

12

The long-term trends in income distribution in America demonstrate that his reasoning was solidly on target.

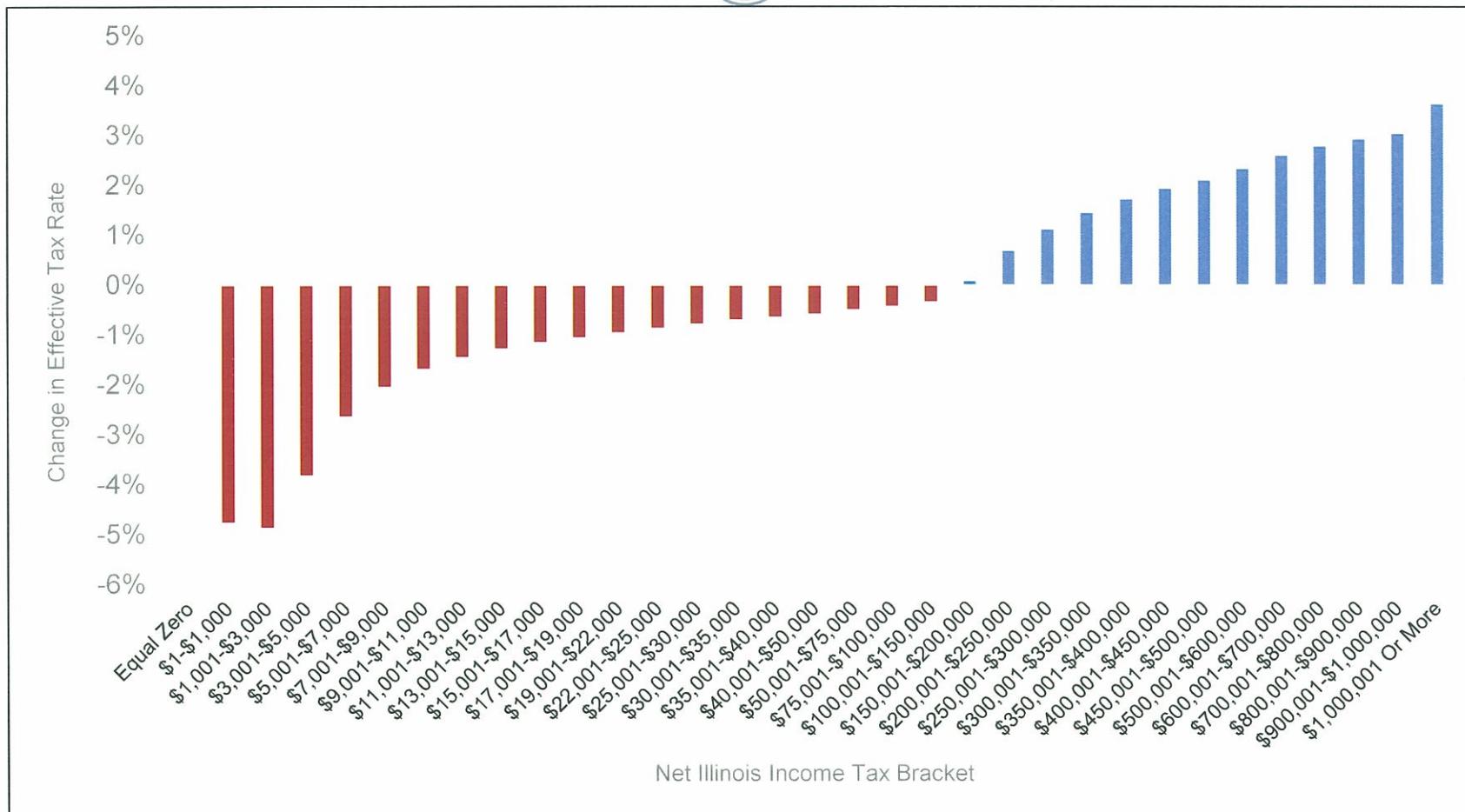
Change in Average US Income Accounted For By Income Group	
Income Group	1947— 1979
Top 10%	34.1%
Bottom 90%	65.9%

Change in Average US Income Accounted For By Income Group	
Income Group	1979 — 2011
Top 10%	139.8%
Bottom 90%	-39.8%

Source: Economic Policy Institute's website: <http://stateofworkingamerica.org/who-gains/> Data used is from Piketty and Saez, "Income Inequality in the United States, 1913-1998", *Quarterly Journal of Economics*, 118(1), 2003, 1-39 (Tables and Figures Updated to 2011 in Excel format, January 2013), <http://elsa.berkeley.edu/~saez/> .

Potential Effective Tax Rate Changes in Illinois with Graduated Individual Income Tax Structure

13



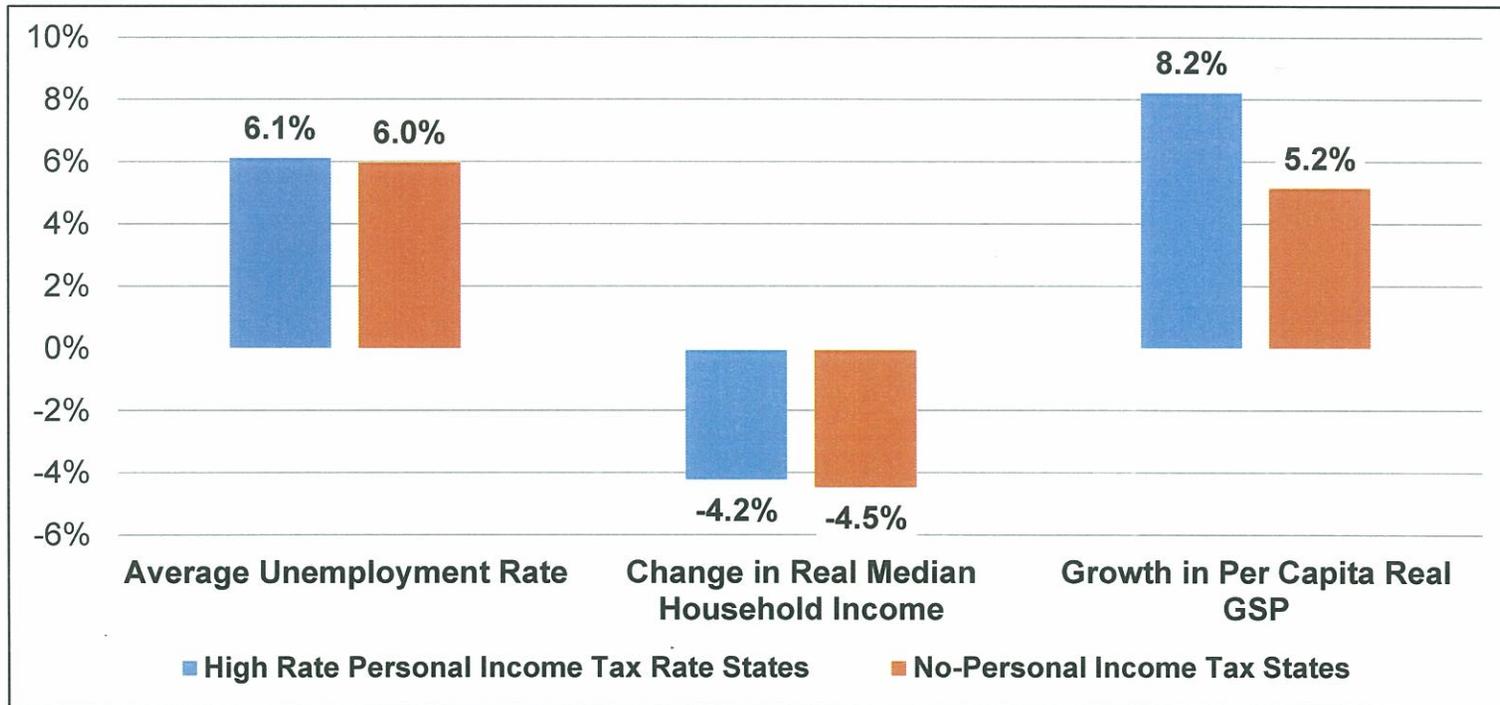
- All incomes at below \$200,000 would see a tax decrease, as compared to the current, 5% flat rate.
- 95% of all filers would see a tax cut.
- Estimate done using 2011 preliminary tax data.

And it Won't Hurt the Economy

14

2002-2011 Comparison:

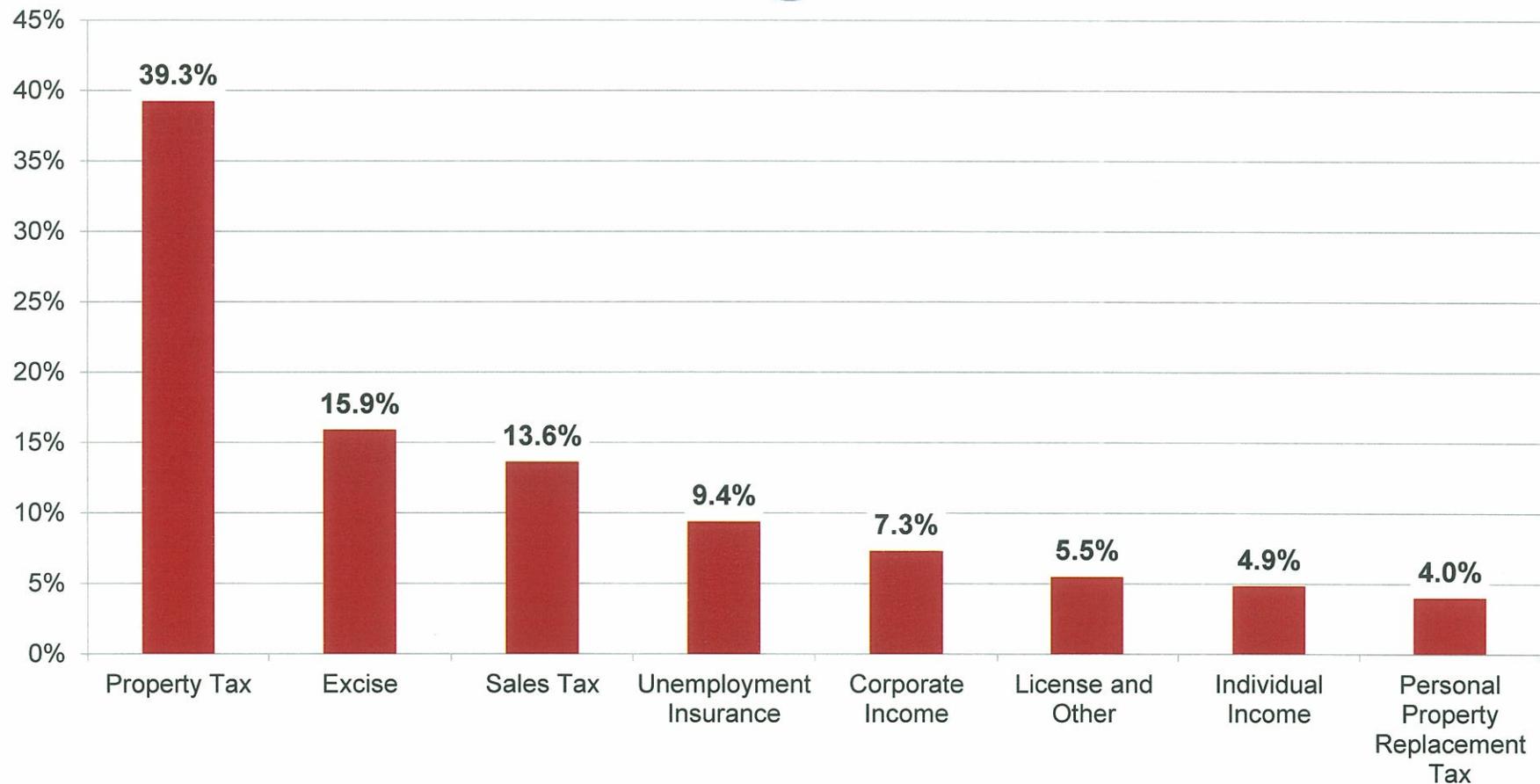
9 States with Highest Graduated Income Tax Rate vs. 9 States with No Income Tax



Source: Institute on Taxation and Economic Policy, *States with "High Rate" Taxes are Still Outperforming No-Tax States* (Washington, DC: February 2013). Figures 2,3 & 4

FY2012 State and Local Fees Paid by Businesses in Illinois

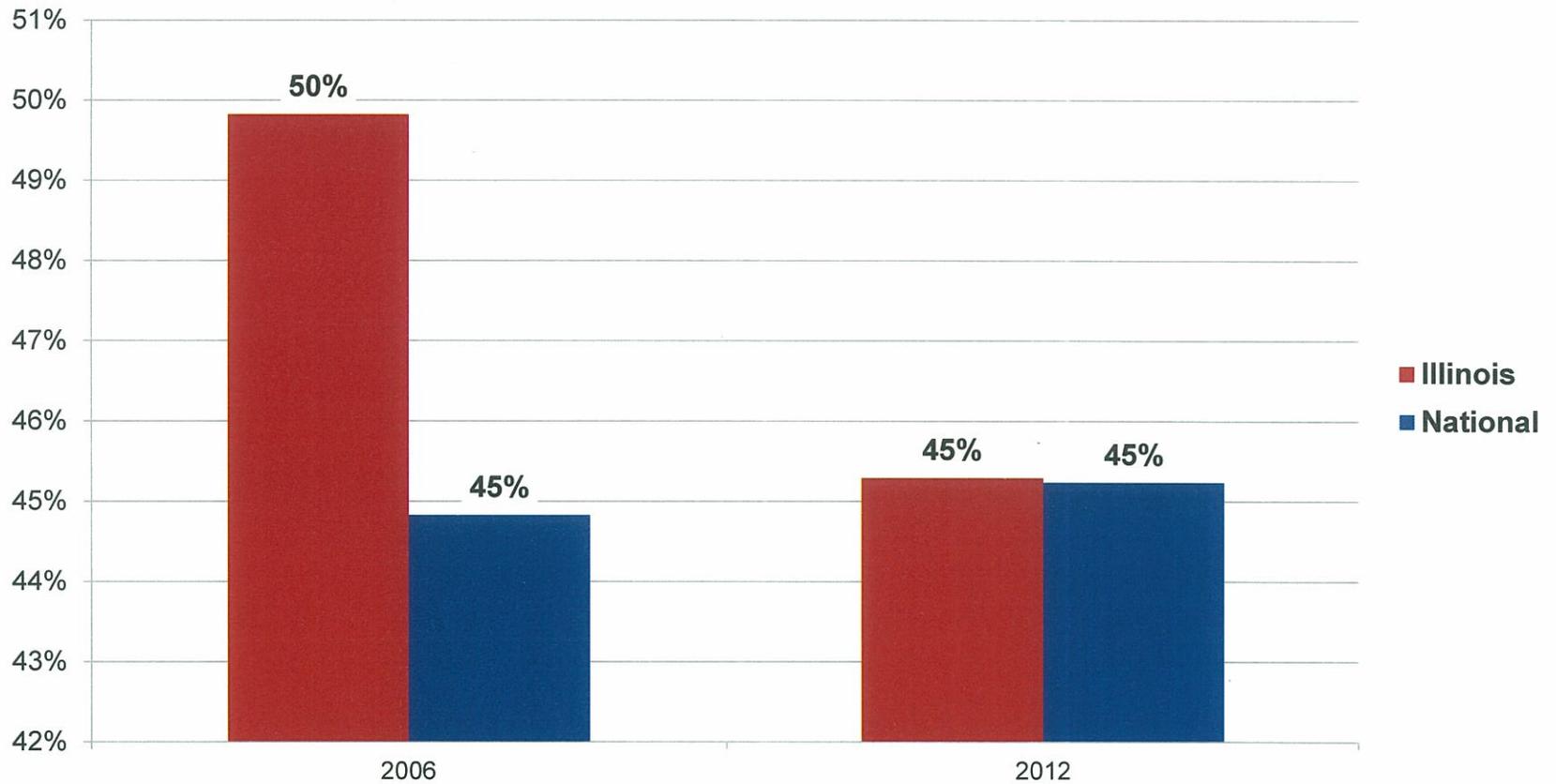
15



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>

Businesses' Share of Total State and Local Taxes Paid: Illinois and National Comparison

16

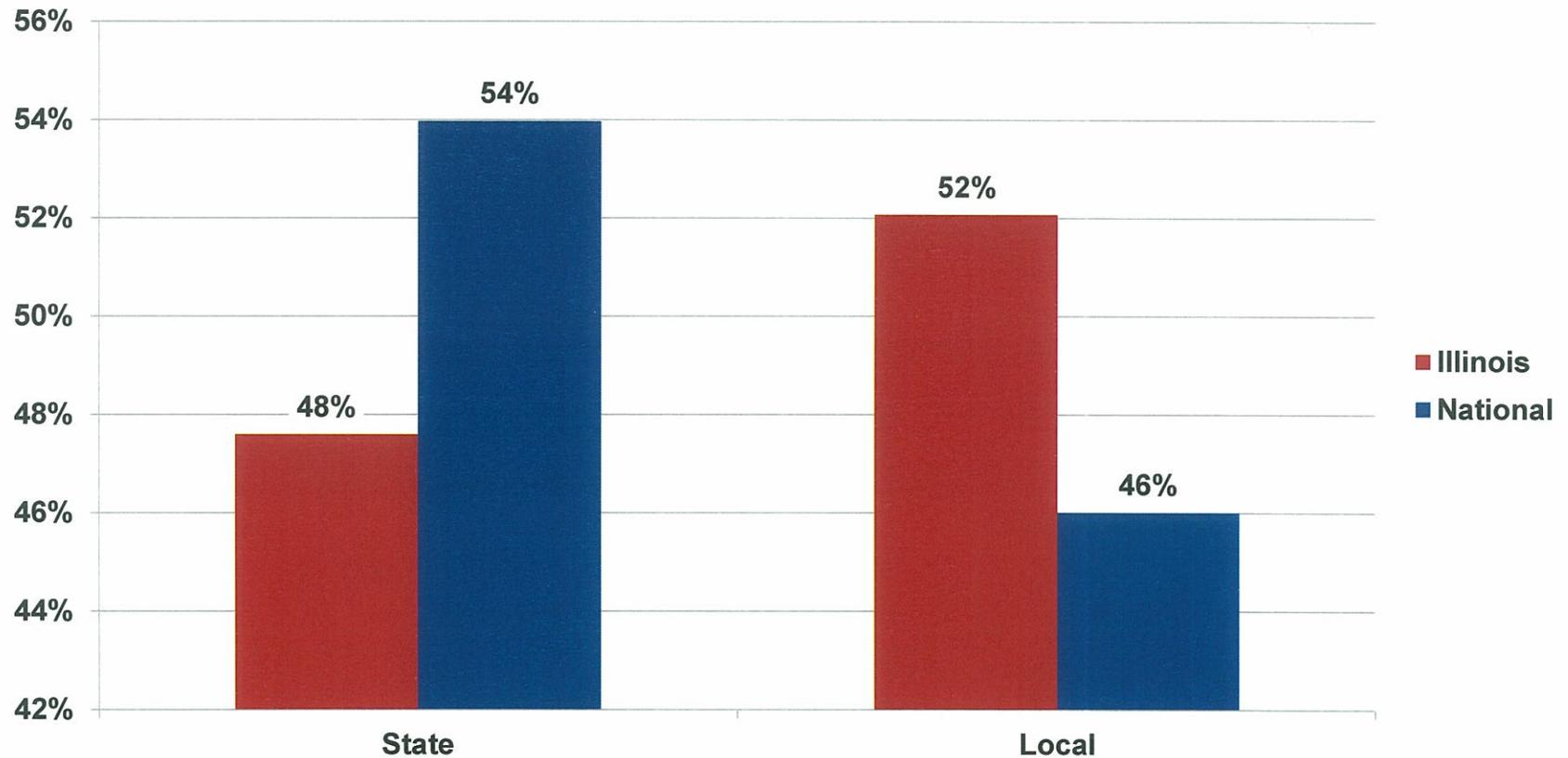


Sources: Andrew Phillips, Robert Cline, Caroline Sallee, Michelle Klassen, and Daniel Sufranski, *Total State and Local Business Taxes: State-by-state estimates for fiscal year 2012* (Washington, DC: Ernst & Young and Council on State Taxation, July 2013); Robert Cline, Thomas Neubig and Andrew Philips, *Total State and Local Business Taxes: 50-State Estimates for Fiscal Year 2006* (Washington, DC: Ernst & Young and Council on State Taxation, February 2007); and Ernst & Young, *2006 Illinois State & Local Business Tax Burden Study: Prepared for the Illinois Chamber of Commerce, the Chicagoland Chamber of Commerce, and the Illinois Business Roundtable* (March 16, 2007).

FY2012 Taxes/Fees Paid by Businesses

Breakdown of Distribution to State and Local Governments

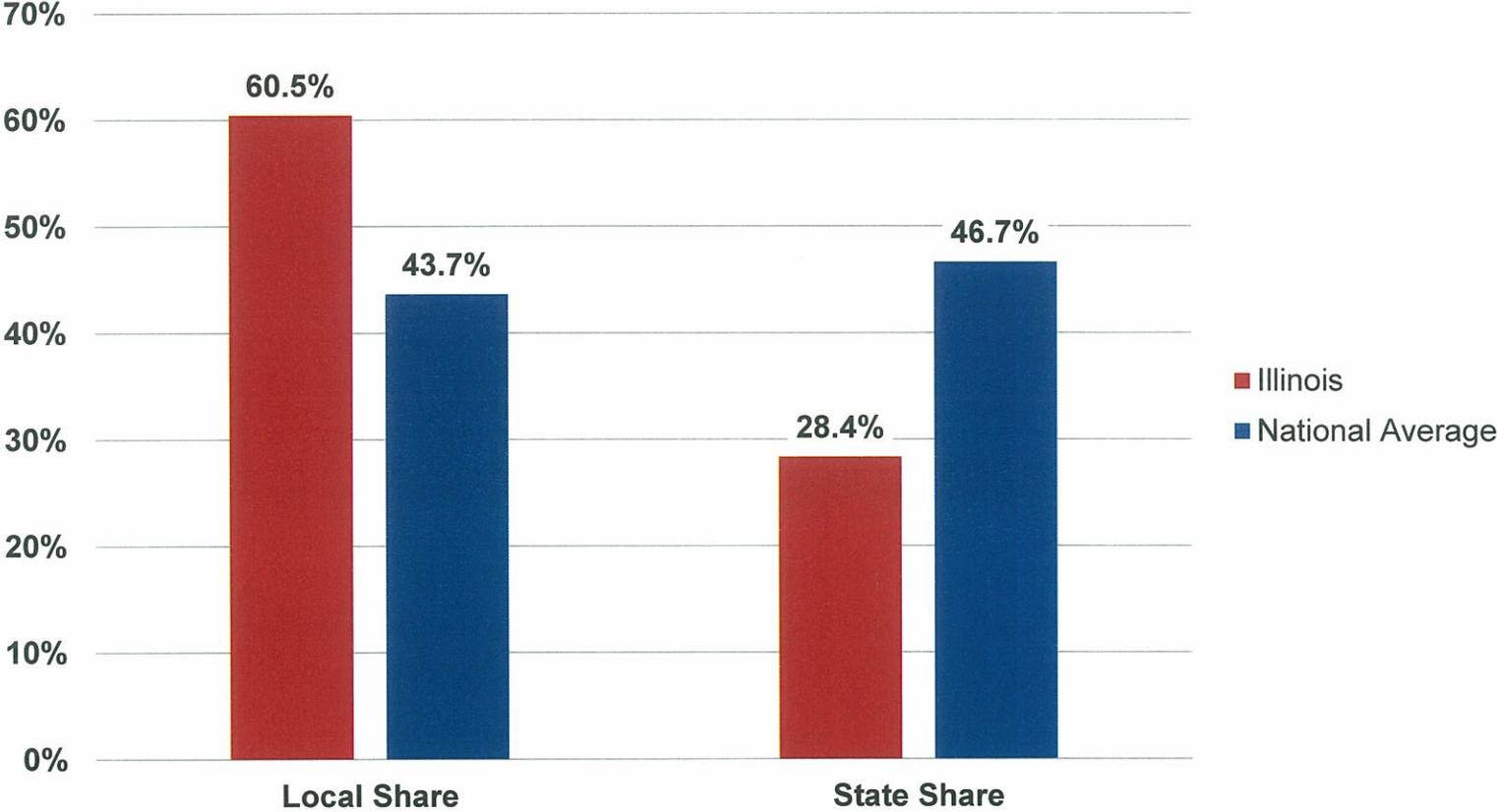
17



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

18



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

What Matters to Businesses?

19

- The Congressional Budget Office found that private sector demand for a business's products or services is what really motivates a business to hire additional workers.
- A survey of entrepreneurs found:
 - Low tax rates were unimportant
 - The two most important factors were: Access to a talented employee pool and access to customers and suppliers
- DCEO testified that, “while incentives provide a critical set of tools for economic development, it is important to note that the core drivers for economic growth are investments in human capital, physical infrastructure, and technological innovation.”
- Research shows investments in core public services and core public goods are important factors for economic growth.

For More Information

20

Center for Tax and Budget Accountability

www.ctbaonline.org

Ralph M. Martire
Executive Director
(312) 332-1049
rmartire@ctbaonline.org

Amanda Kass
Budget Director and Pension Specialist
(312) 332-1103
akass@ctbaonline.org