



HB 174 Analysis

Senate Amendment Sponsor: John Cullerton
(Revised as of January 11, 2010)

This bill is a modified version of SB 750, first introduced by Senator James T. Meeks and Representative David Miller. It effectively changes the Illinois tax structure in a number of ways. It would raise anywhere from \$5.0 billion to \$5.2 billion in new, recurring tax revenues, provide tax relief to homeowners and low income families, and provide additional funding for public schools, health and human services.

HB 174 is based on but differs from SB 750 in a number of ways. While the personal income tax rate increase remains the same as in SB 750, the sales tax base expansion is smaller, as is the increase in the corporate income tax rate. HB 174 increases the standard exemption an individual can claim against the state's personal income tax by \$1,000, which SB 750 did not do. HB 174 also redirects (in FY 2010 only) \$20.8 million per month into the Common School Fund from the Local Government Distributive Fund (state income tax funds which otherwise would flow to local governments, like municipalities). Local governments still benefit under HB 174, however, gaining an additional \$222 million from the Local Government Distribution Fund in FY 2010.

Following are highlights of HB 174:

- The Illinois individual income tax rate increases from 3% to 5%.
- The Illinois corporate income tax rate increases from 4.8% to 5%.
- The standard exemption an individual taxpayer can claim against the state income tax increases from \$2,000 to \$3,000.
- Property tax relief is provided by doubling the state personal income tax credit individuals may claim for the local property taxes paid on their principal residence in Illinois, from 5% to 10%. The value of this credit is capped at \$1,500 (the \$1,500 cap is then indexed to CPI in subsequent years). The bill also makes the tax credit for property taxes paid refundable (i.e., a homeowner will receive the full, \$1,500 maximum value of the credit, even if it exceeds his or her state income tax liability, ensuring low and middle income families get the maximum property tax relief intended). HB 174 also clarifies that the Illinois income tax credit for property taxes paid only applies to a taxpayer's principal residence.
- Tax fairness for low income working families comes from a tripling of the state's Earned Income Tax Credit (EITC) from 5% to 15% of the federal EITC claimed.
- The Illinois sales tax base is expanded to include 39 different consumer services that previously were untaxed, such as travel agent services and scenic & sightseeing transportation. All 39 specific services that would be taxed are listed in HB 174. Most of the services Illinois will tax under HB 174 are already taxed by one or more of our neighboring states.

- Education funding will be enhanced starting in Fiscal Year 2011 and continuing thereafter, with 33 and 1/3% of all new revenues generated from the tax increases in HB 174 annually going to the Common School Fund (this new revenue for education must be *added to* the appropriation amount from the previous year). Similarly, commencing in FY 2011 and continuing each year thereafter, 16 and 2/3% of all new revenues generated from the tax increases in HB 174 are allocated to the Higher Education Fund. The rest of the new revenue from HB 174 will go to the State General Revenue Fund (GRF).

THE FY 2010 NET FROM HB 174

Revenue Source/Adjustment All \$ in Millions	Quinn At 4.5% (personal rate) and 7.2% (corporate rate)	HB174 At 5% (personal rate) and 5% (corporate rate)
Individual Income Tax (net of refund fund)	\$4,721	\$6,422
Local Government Distributive Fund LGDF	-\$327	-\$222*
Personal Exemption Cost	-\$872	-\$1,047
Total Personal Income	\$3,522	\$5,153
Corporate Income Tax (net of refund fund)	\$366	\$31
LGDF	-\$36	-\$3
Total Corporate Income	\$330	\$27
Sales Tax Base Expansion	\$0	\$515 - \$723
Double Residential Property Tax Credit from 5% to 10%	-\$493**	-\$493***
Increase State EITC from 5% to 15% of Federal	-\$83	-\$167
Net Revenue to State General Fund (minus refund fund, Personal Exemption and tax relief)	\$3,6836	\$5,035 - \$5,243

* In FY 2010 (only), \$20.8 million per month will be diverted from the LGDF to the Common School Fund. Hence the LGDF cost will increase by \$249 million starting in FY 2011.

** \$500 cap not modeled.

*** \$1,500 cap not modeled.

Source: Center for Tax and Budget Accountability calculation based on final FY 2010 revenue assumptions by the Illinois Commission on Government Forecasting and Accountability, obtained August 23, 2009; and Illinois Department of Revenue's LGDF and sales tax expansion estimates obtained 9/2009 and 10/2009.

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