

**CTBA**

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# *The Revenue Side: What are Current and Potential Revenue Options?*

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**Friday, January 15, 2016;  
Health and Medicine Policy Research Group  
Loyola University Chicago School of Law  
25 East Pearson, Room 1040, Chicago, IL**

Presented by:  
**Ralph M. Martire, Executive Director**

# How We Got Here: The Illinois General Fund

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FY2015  $\approx$  \$35 B Overall

| <b>Two Primary Elements:</b> |  |                           |
|------------------------------|--|---------------------------|
| <b>(i)</b>                   | <b>Hard Costs—No Discretion ( Approx. \$11 B)</b>                      | <b>Approx. % of Total</b> |
|                              | Debt Service   | 26%                       |
|                              | Pension Contributions  | 56%                       |
|                              | Statutory Transfers Out  | 18%                       |
| <b>(ii)</b>                  | <b>Current Service Expenditures—Discretion Varies (Approx. \$24 B)</b> |                           |
|                              | Education (PreK, K-12, Higher-Ed)                                      | 35%                       |
|                              | Healthcare   | 30%                       |
|                              | Human Services   | 21%                       |
|                              | Public Safety  | 5%                        |
|                              |  | 91%                       |
|                              | +Group Health  | 5%                        |
|                              | +Everything Else   | 4%                        |
|                              |  | 100%                      |

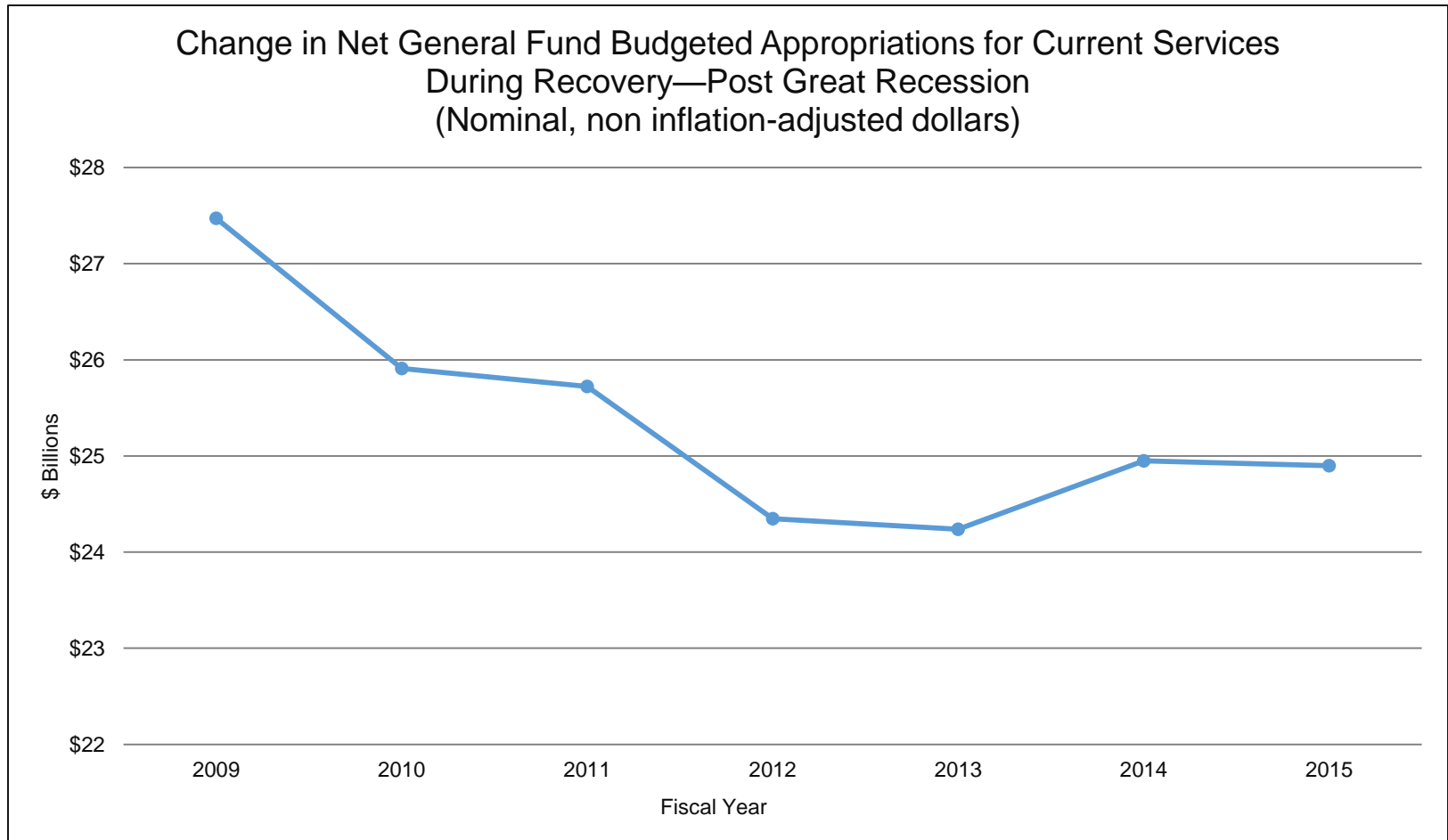
# FY2016 Governor's Proposed General Fund Deficit Walk-Down (\$ Billions)

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| Step  | Revenue  | \$ Billions     | Spending  | \$ Billions | Remaining Revenue (Revenue – Spending) |
|---|--|-----------------|---|-------------|--|
| (i)   | FY2016 Revenue   | \$31.65         | FY2016 Hard Costs                                       | \$11.37     | \$20.28                                |
| (ii)  | Revenue After Hard Costs   | \$20.28         | Estimated Accumulated Deficit Carry Forward from FY2015 | \$5.94      | \$14.34                                |
| (iii)   | Projected Net FY2016 General Fund Revenue Available for Services | \$14.34         | Projected Net General Fund Service Appropriations       | \$22.74     | (\$8.40)                               |
| (iv)  |  | (\$8.40)        | Backlog of Group Health                                 | \$0.77      | (\$9.17)                               |
| <b>Projected Accumulated FY2016 General Fund Deficit</b>                        |  | <b>(\$9.17)</b> |   |             |  |
| <b>Projected Deficit as a Percentage of General Fund Service Appropriations</b> |  | <b>-40.3%</b>   |   |             |  |

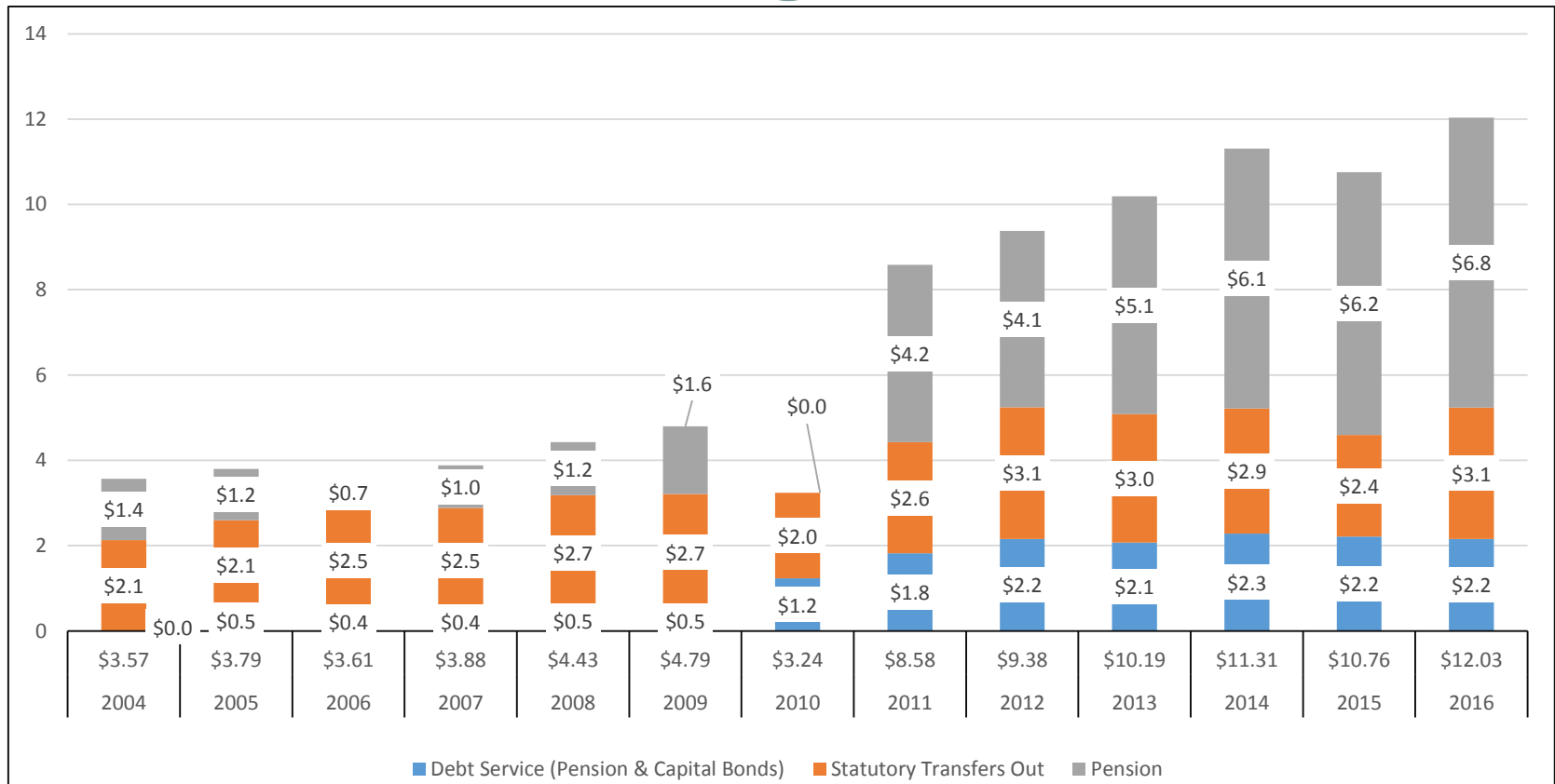
# Change in Net General Fund Budgeted Appropriations

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# Hard Costs (Appropriations/Budgeted Figures)

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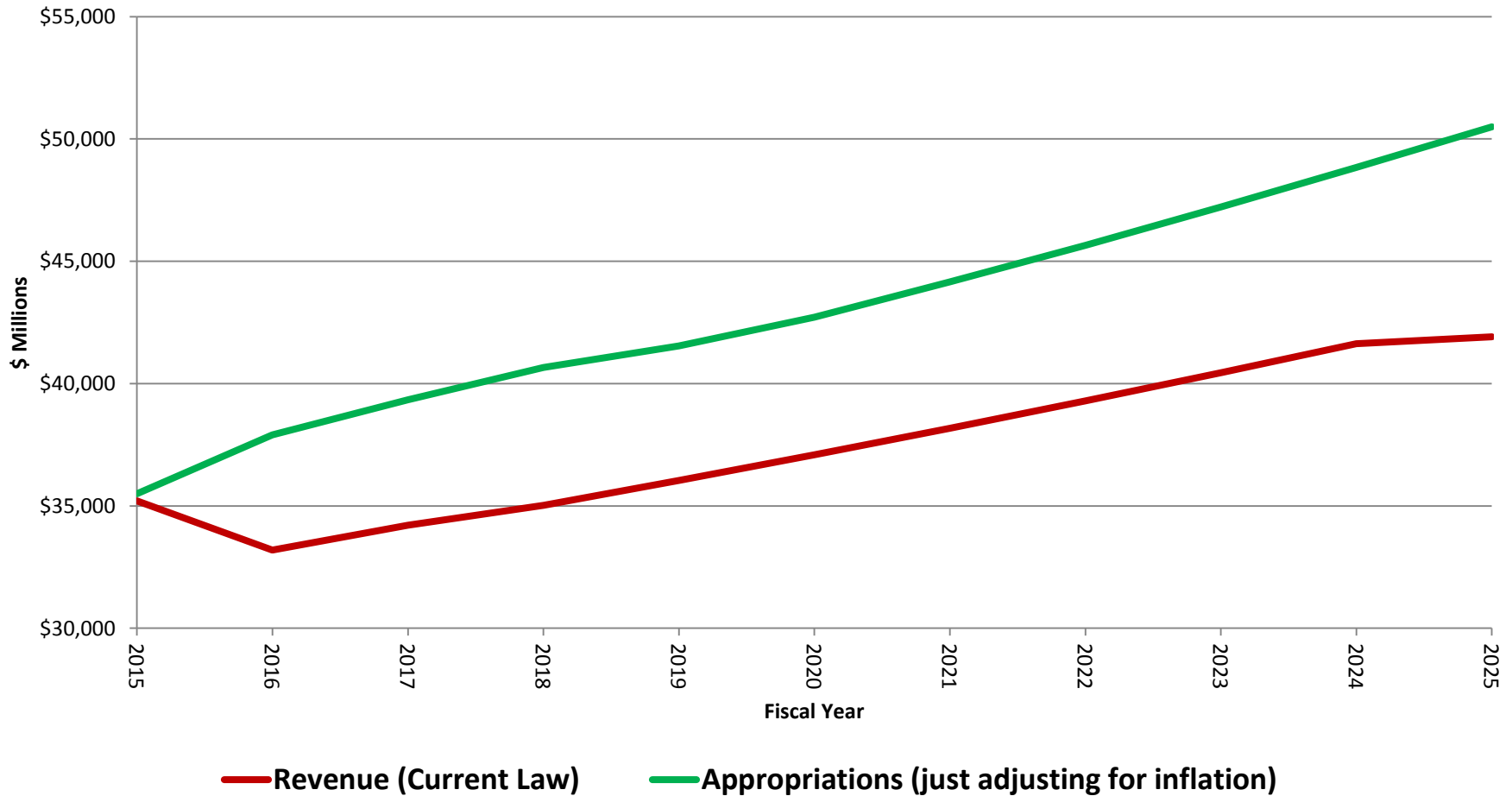


Notes:

- Legislation passed in 2005 cut the state's pension contributions for fiscal years 2006 and 2007
- In 2010 the state used Pension Obligation Bonds to pay its pension contribution
- In 2011, the state also used Pension Obligation Bonds. AS such, while the state budgeted for \$4.2 billion in General Fund pension contributions the *actual* General Fund pension contribution in 2011 was \$0
- 2015 statutory transfer is artificially low because it exclude \$600 million Healthcare Provider Relief Fund transfer, which took place in 2014 instead (that \$600 million IS NOT reflected in the 2014 figure)
- 2016 statutory transfer does NOT reflect the \$650 million repayment of inter-fund borrowing that will take place in 2015

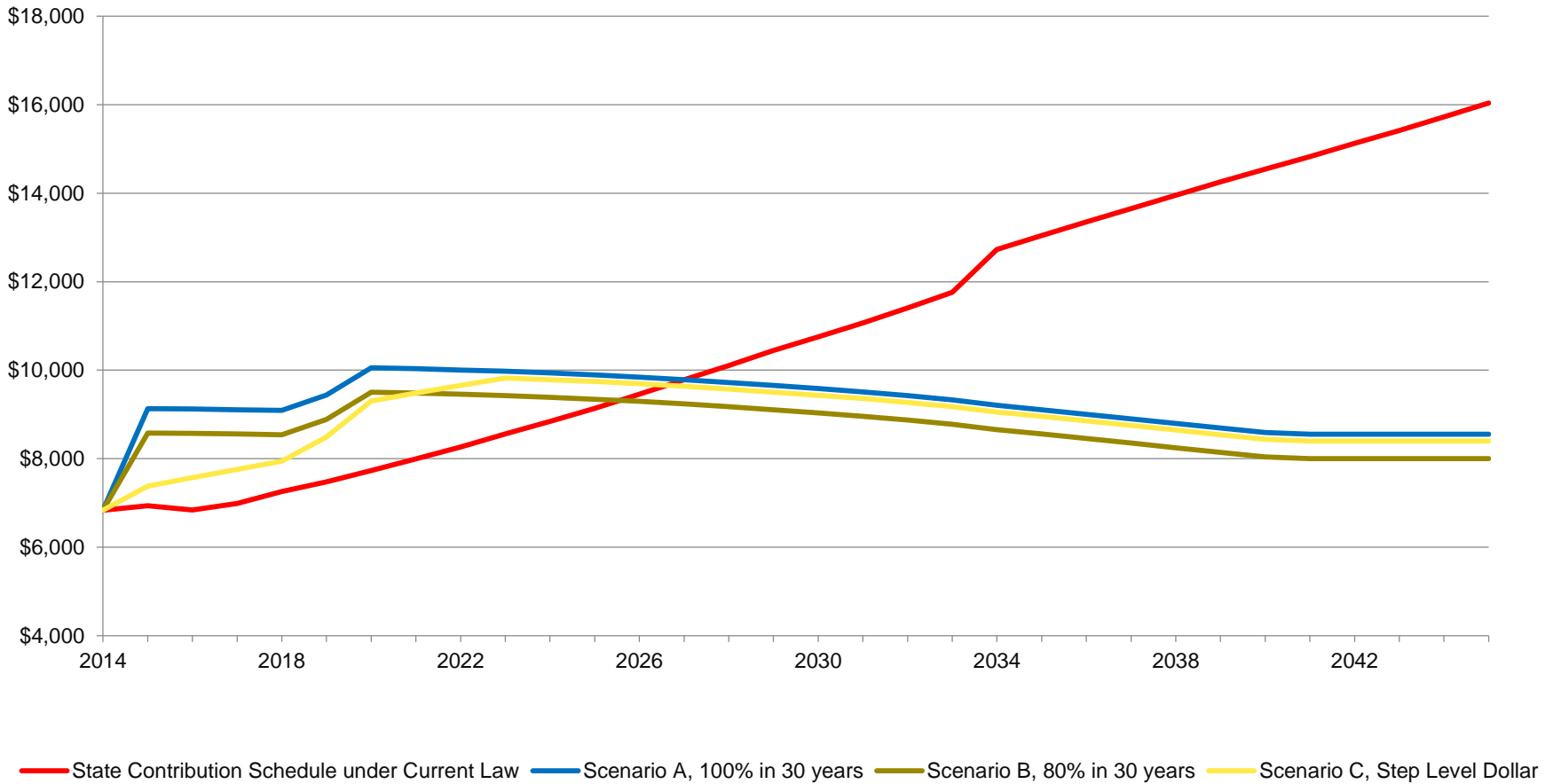
# The Problem: Illinois Has a Structural Deficit

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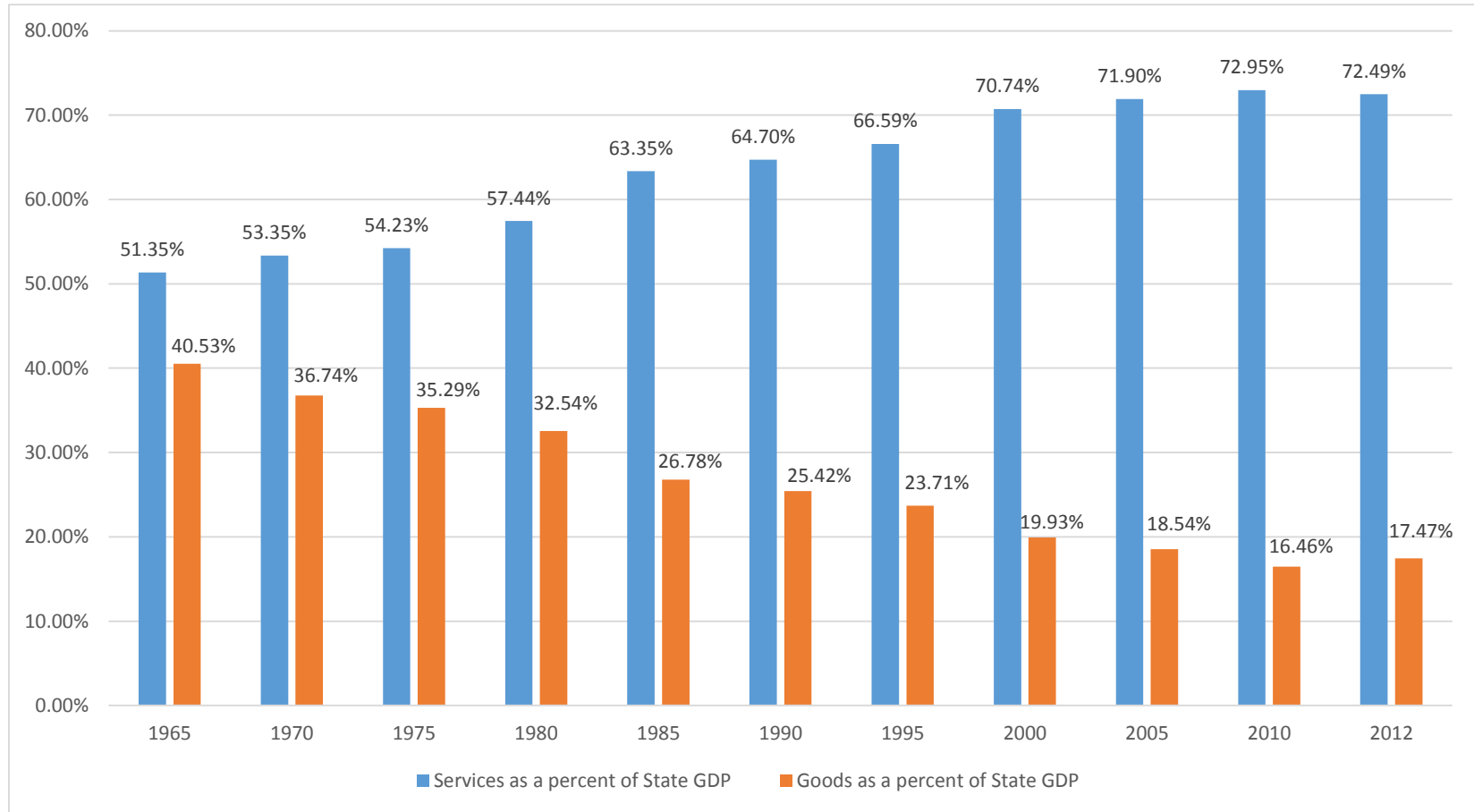
# Pension Re-Amortization and Current Law Comparisons (\$ Millions)

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

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Source: Bureau of Economic Analysis



# Personal Income Tax Revenue at 4.75% Compared to 3.75% (\$ Millions)

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|  | COGFA<br>estimate at<br>3.75% | CTBA estimate<br>at 4.75% | Difference (\$<br>Millions) |
|--|-------------------------------|---------------------------|-----------------------------|
| Personal Income Tax (gross)            | \$14,766.0                    | \$18,703.6                | \$3,937.6                   |
| Personal income tax refund amount      | \$1,476.6                     | \$1,870.4                 | \$393.8                     |
| Fund for Advancement of Education      | \$459.0                       | \$561.1                   | \$102.1                     |
| Commitment to Human Services Fund      | \$459.0                       | \$561.1                   | \$102.1                     |
| <b>Net Personal Income Tax Revenue</b> | <b>\$12,371.4</b>             | <b>\$15,711.0</b>         | <b>\$3,339.6</b>            |

Source: CTBA analysis of COGFA data

# One Issue with Responsiveness is a Base Problem—the Exclusion of all Retirement Income

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- Illinois is one of three states that does not tax retirement income
- Illinois would raise **\$1.2 billion** in revenue if some retirement income was subject to the income tax

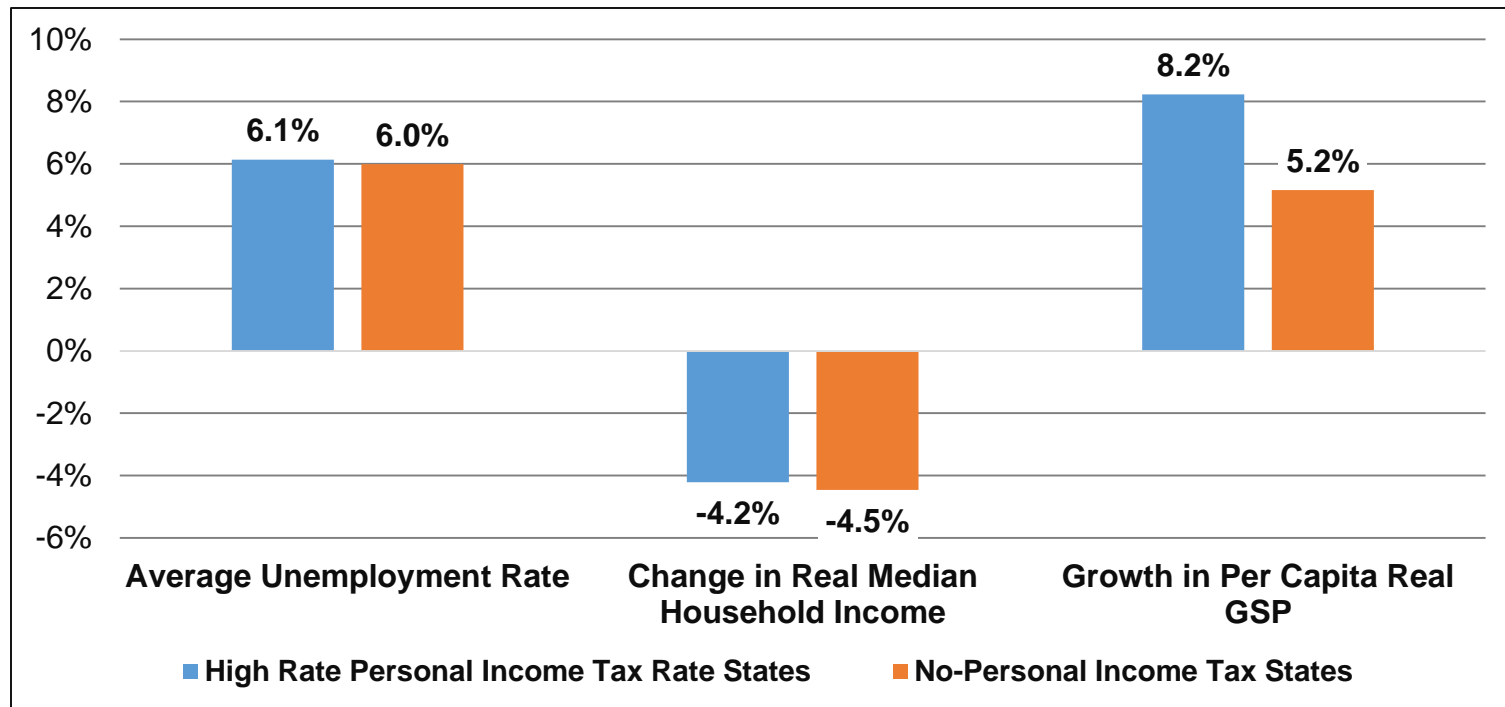
| AGI Bracket         | Portion of Retirement Income Added to Base | Revenue from Retirement Income |
|---------------------|--|--------------------------------|
| \$50,000 or LESS    | 0%   | \$0                            |
| \$50,001-\$75,000   | 25%  | \$99,057,446                   |
| \$75,001-\$100,000  | 50%  | \$190,998,341                  |
| \$100,001-\$150,000 | 75%  | \$341,199,479                  |
| \$150,001 or MORE   | 100%                                       | \$565,534,861                  |
| <b>TOTAL</b>        |  | <b>\$1,196,790,127</b>         |

Source: CTBA estimate using IDOR Illinois Individual Income Tax Returns with Retirement Subtractions: Tax Year 2012, <http://tax.illinois.gov/AboutIdor/TaxStats/2012/IIT-Retirement-2012-Final.pdf>

# Increasing Taxes the Right Way Won't Hurt the Economy

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## 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

# For More Information

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