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Movin' on Up: Blagojevich Tax Increase Would Move Illinois into Top 10 on State and Local Tax Burden

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Governor Blagojevich's proposal to increase tax revenues by at least \$7.1 billion through two new business taxes would give Illinois taxpayers one of the highest tax burdens in the nation. Indeed, if the Governor's plan had already been fully implemented this year, Illinois taxpayers would be paying the 9th highest tax burden instead of the 22nd highest.

Two weeks ago the Tax Foundation released its annual estimate and ranking of state and local tax burdens.¹ That report revealed that Illinois citizens are paying a state-local tax burden that is middle-of-the-road: 10.8 percent of their income. That ranks Illinois 22nd highest among the 50 states. Among Midwestern states, Illinois has the second lowest tax burden, only bested by Indiana where taxpayers pay 10.7 percent of income in state and local taxes (see Table 1).

Table 1: State and Local Tax Burdens in the Midwest Region, 2007

State	State and Local Taxes as a Percentage of Income	50-State Rank (1 is highest)
Illinois	10.8%	22
Indiana	10.7%	25
Michigan	11.2%	14
Ohio	12.4%	5
Wisconsin	12.3%	7

Source: Tax Foundation calculations based on data from the Bureau of Economic Analysis and the Census Bureau in the U.S. Department of Commerce.

Governor Blagojevich's FY 2008 budget plan would raise this \$7.1 billion in new revenue by enacting new business taxes on gross receipts and payroll. The gross receipts tax would raise the bulk of the revenue with a large, hidden tax on all businesses² that would exceed any tax increase passed by any state this decade.³

What impact would the \$7.1 billion increase have on Illinois's rankings in the Tax Foundation's estimates of state and local tax burden? Table 2 shows that if the Governor's plan had been in place in 2007, Illinois's state and local tax burden would have equaled 12.1 percent of income instead of 10.8 percent, ranking 9th highest instead of 22nd.

Table 2: Illinois Would Have Been Among Top 10 in State-Local Tax Burdens with Governor's Plan

	Current System	System as Modified by Governor's Tax Plan
Per Capita Taxes	\$4,594	\$5,134
Per Capita Income	\$42,428	\$42,428
Tax Burden	10.8%	12.1%
Rank	22	9

Source: Tax Foundation calculations based on data from the Bureau of Economic Analysis and the Census Bureau in the U.S. Department of Commerce.

A move in the rankings from 22nd to 9th would have bumped 13 states down a notch. Nebraska would have finished 10th instead of 9th, and New Jersey would have finished out of the top ten despite numerous tax hikes in recent years (see Table 3).

Table 3: Top Ten State-Local Tax Burdens with Blagojevich Tax Increase Included, 2007

State	State and Local Taxes as a Percentage of Income	50-State Rank (1 is highest)
Vermont	14.1%	1
Maine	14.0%	2
New York	13.8%	3
Rhode Island	12.7%	4
Ohio	12.4%	5
Hawaii	12.4%	6
Wisconsin	12.3%	7
Connecticut	12.2%	8
<i>Illinois^a</i>	<i>12.1%^a</i>	<i>9^a</i>
Nebraska	11.9%	10

a) Hypothetical tax burden and ranking includes \$7.1 billion in additional tax collections.

Source: Tax Foundation calculations based on data from the Bureau of Economic Analysis and the Census Bureau in the U.S. Department of Commerce.

This would truly be uncharted tax territory for Illinois which, in the period 1970-2007, has never ranked among the ten most highly taxed states. Illinois's highest ranking in that 37 year period was 16th in 1973 (see Table 4). Indeed, Illinois's tax burden ranking is virtually the same in 2007

(22nd) as it was in 1970 (21st) even though its tax burden increased from 10.2 percent of income to 10.8 percent over that time span.⁴

Table 4: Highlights of Illinois's Tax Burden (1970-2007)

Ranking Highlights		Tax Burden Highlights	
Highest Rank	16th (1973)	Highest Tax Burden	10.8% (2005, 2007)
Lowest Rank	34th (1998)	Lowest Tax Burden	9.4% (1979)
Movement in Rankings (1970-2007)	Dropped 1 place (21st to 22nd)	Movement in Tax Burden (1970-2007)	.6 percentage point increase (10.2% to 10.8%)
Movement in Rankings (2000-2007)	Increased 8 places (30th to 22nd)	Movement in Tax Burden (2000-2007)	.7 percentage points increase (10.1% to 10.8%)

Source: Tax Foundation calculations based on data from the Bureau of Economic Analysis and the Census Bureau in the U.S. Department of Commerce.

Interestingly, Illinois's tax burden ranking dipped to 34th in 1998 and since then has steadily climbed to its current ranking of 22nd. In this decade alone Illinois jumped 8 places in the rankings, from 30th to 22nd. Only seven states jumped more in the rankings during this period.

This means that Illinois's tax burden is already on the rise, and lawmakers should be seriously considering options to reverse that trend. Instead, if lawmakers approve Governor Blagojevich's \$7.1 billion tax increase, they will only accelerate Illinois's advance into the upper echelon of high-tax states.

Notes

1. See Curtis Dubay, "State and Local Tax Burdens Hit 25-Year High," *Tax Foundation Special Repot*, No. 153 (April 2007).

2. See Chris Atkins, "The Hidden Tax for Sm(all) Business in Governor Blagojevich's Gross Receipts Tax," *Tax Foundation Fiscal Fact*, No. 81 (March 2007).

3. See Jonathan Williams, "Governor Blagojevich's Gross Receipts Tax Plan Represents Largest State Tax Increase This Decade," *Tax Foundation Fiscal Fact*, No. 79 (March 2007).

4. The overall state and local tax burden went from 10.0 percent of income in 1970 to 11.0 percent in 2007, which explains how the Illinois tax burden could increase but its ranking remain virtually unchanged.