

HB 174 – A Fair Solution to Illinois’ Budget Crisis

HB 174, which would raise the Illinois state income tax and expand the sales tax base to select consumer services, passed the Illinois Senate in May and is pending in the Illinois House of Representatives. *It is the only framework currently alive in the Illinois General Assembly that raises sufficient revenues to support a fair, responsible budget for FY 2010. It is the only measure that provides much-needed fiscal relief to Illinois cities and counties. Moreover, it is the only measure that addresses the state’s long-term structural deficit, providing for permanent revenue increases and a modernized tax structure that will allow Illinois to adequately finance both public education and state government in future years.*

Why we support HB 174:

- HB 174 is the responsible solution to the state’s current fiscal crisis and a long overdue modernization of our tax structure. By raising \$6.4 billion in new revenue, it is the only measure currently pending that would allow the State of Illinois to avert draconian budget cuts and provide a permanent solution to our State’s structural deficit.
- The individual income tax rate would amount to just two cents on the dollar. This is a rate that is very reasonable and comparable to other states.
- Because the bill increases the personal exemption to \$3,000, many working families will not see higher income taxes at all.
- Lower income residents would be helped with a tripling of the current earned income tax credit—so they may actually pay less than they do now.
- The impact of HB 174 is very positive on Illinois business. The new 5.0% corporate income tax rate is a tiny increase from the current 4.8% rate.
- HB 174 is an important first step in modernizing our antiquated sales tax base to add 39 consumer services commonly taxed by other states. Our economy is now, more than ever, a service economy.
- Illinois homeowners are afforded significant property tax relief. A homeowner with a \$6,000 property tax bill will see their property tax credit double to \$600, an increase of \$300 per year.
- It will bring hundreds of millions of dollars in new revenues to local governments facing their own fiscal crises. Some examples of new revenues that will flow to local governments in FY 2010 include: Chicago (\$130 million); Aurora (\$7.7 million); Rockford (\$7 million); Peoria (\$5.1 million); Springfield (\$5.2 million);

Waukegan (\$4.1 million); Decatur (\$3.5 million); Champaign (\$3.3 million); Rock Island (\$1.7 million).

- After the state digs out of the current budget hole, HB 174 puts fully half of the new revenue where the public wants it, toward public education, thereby relieving budget pressure on the General Revenue Fund and making more dollars available for other essential state services.

Key provisions of HB 174:

- Individual Income Tax Rate Increases from 3% to 5%
- Corporate Income Tax Rate Increases from 4.8% to 5%
- Sales Tax Expanded to a Limited Number of Services – expands the state sales tax base to include 39 different consumer services that previously were untaxed, such as travel agent services and scenic & sightseeing transportation. All of these services are commonly taxed in many states and already taxed by one or more of our neighboring states. (See attached list)
- Doubles the property tax credit homeowners now claim on their Illinois tax return, from the current 5% of property taxes, to 10%.
- Increases the current \$2,000 personal exemption for Illinois income taxes to \$3,000.
- Triples the amount of the earned income tax credit (EITC) to low-income earners, from 5% to 15% of the federal EITC they claim.
- Provides dedicated revenue to public education.
- Provides an estimated \$541 million to Illinois cities and counties in FY 2010 through the Local Government Distributive Fund. This amount increases to \$691 million in FY 2011.