

# TAX FACTS



Taxpayers' Federation of Illinois

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## ILLINOIS' RELATIVE TAX BURDEN JUMPS AFTER THE 2011 INCOME TAX RATE INCREASES

By Kurt Fowler and Mike Klemens

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With the approach of the January 1, 2015, rollback of the 2011 income tax rate increases, now is the appropriate time to analyze how those increases (67 percent for individuals and 46 percent for corporations) have affected the Illinois tax burden and the state's competitive position. Because the national data is not yet available for 2012, the first full year for the rate increases, TFI has had to make some assumptions.

The analysis that follows takes the most recent national data from the Census Bureau - FY2011 figures - and adjusts them to assume the higher rates were in place for all of FY2011. The result is a picture for 2011 "as if" the rate increases were in effect for the full year. According to our "as if" scenario,

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## NOTES FROM THE INSIDE. . .

By Carol S. Portman

In this edition of Tax Facts we examine the effect of the 2011 Income Tax rate increases on the overall amount of state and local taxes paid in Illinois. It should come as no surprise, given the magnitude of the rate increases, that Illinois' relative tax burden ranking has likewise increased.

There is no shortage of state tax burden studies. Our analysis, in keeping with TFI's long-standing tradition, attempts to provide accurate and credible information to policymakers and the public. We think it is critical to look at both state and local tax burden because taxpayers pay both. Studies that look solely at state tax burden underreport the burden in Illinois with its high local taxes. We also use state Gross Domestic Product (also called Gross State Product) as a measure of how much of Illinois' economic output goes toward paying taxes. Our methodology, which has changed little since our previous tax burden study, is explained in the article, as are the sources for our data.

Our second article examines how the Education Expense Credit has changed over time. We conclude that the credit – originally implemented to provide a break for parents who were paying out for both school property taxes and private school tuition – has increasingly been claimed by parents of public school students. It's an example of the rule of unforeseen consequences, and the need to periodically review tax provisions to evaluate whether they are serving their original purpose. Look for future issues of Tax Facts to address other aspects of Illinois' tax structure.

the rate increases boosted from 8.51 percent to 9.53 percent the share of Illinois' economic output that goes to pay state and local taxes. Illinois' state and local tax burden was 28th highest among the states before the income tax increases and 15th highest after the increases.

Illinois' National Ranking for State and Local Taxes as a Percentage of Gross State Product			
2009	2010	2011	2011 "as if" full year
29th	28th	23rd	15th

### Methodology

The TFI analysis differs from some other state tax rankings in two significant aspects:

- First we look at state and local taxes together, because taxpayers pay both and often have difficulty distinguishing between the two. Combining state and local taxes more accurately represents relative tax burden because different states have different responsibilities at the state level. The best known example is Illinois' high reliance on local property taxes to fund elementary and secondary education.
- Second, we look at taxes as a percentage of State Gross Domestic Product (sometimes called Gross State Product and labeled GSP in this document), a number calculated by the U.S. Bureau of Eco-

conomic Analysis. GSP represents the value of goods and services produced within a state. Comparing the state and local tax burden to GSP determines the share of economic activity that must go to pay state and local taxes. This comparison takes into account that Illinois has a larger economy than many states.

Compiling the study is a three-step process:

1 – We start with data on FY2011 tax collections by state from the Census Bureau’s Survey of State and Local Government Finances which collects and publishes the data. However, the Census Bureau will publish the FY 2012 data – the first full year of the Illinois tax increases – in the summer of 2014, just months before the increases are scheduled to be rolled back.

2 – We divide the figures reported by the census bureau by the GSP figures compiled by the Bureau of Economic Analysis to get the percentage of GSP for each revenue source.

3 – We rank the states from high to low based on the percentage of State GDP represented by each revenue source.

## Analysis

### Property Tax

In FY 2011, Illinois property taxes represented 3.61 percent of GSP, well above the U.S. average of 2.96 percent of GSP.

<b>Property Tax as a Percent of GSP, FY2011</b>			
<b>Rank</b>	<b>State</b>	<b>Property Tax / GSP</b>	
1	New Hampshire	5.24%	
2	Vermont	5.18%	
3	New Jersey	5.17%	
4	Rhode Island	4.60%	
5	Maine	4.57%	
6	Connecticut	4.09%	
7	New York	3.88%	
8	Wisconsin	3.88%	
<b>9</b>	<b>ILLINOIS</b>	<b>3.61%</b>	
10	Michigan	3.52%	
11	Florida	3.47%	
12	Montana	3.44%	
13	Massachusetts	3.42%	
14	Wyoming	3.22%	
15	Colorado	3.14%	
16	Texas	3.00%	
17	Iowa	2.99%	
18	Nebraska	2.99%	
19	Minnesota	2.92%	
20	Alaska	2.91%	
21	Kansas	2.91%	
22	Pennsylvania	2.86%	
23	South Carolina	2.85%	
24	California	2.80%	
25	Arizona	2.78%	
26	Maryland	2.76%	
27	Ohio	2.68%	
28	Oregon	2.67%	
29	Mississippi	2.61%	
30	Virginia	2.56%	
31	Georgia	2.48%	
32	Washington	2.43%	
33	Idaho	2.40%	
34	Missouri	2.36%	
35	South Dakota	2.35%	
36	Nevada	2.33%	
37	Indiana	2.22%	
38	West Virginia	2.16%	
39	Utah	2.05%	
40	North Carolina	1.98%	
41	Tennessee	1.93%	
42	Hawaii	1.89%	
43	North Dakota	1.83%	
44	Kentucky	1.79%	
45	New Mexico	1.72%	
46	Arkansas	1.70%	
47	Louisiana	1.49%	
48	Alabama	1.45%	
49	Oklahoma	1.43%	
50	Delaware	1.03%	
51	DC	0.59%	
	<b>Nat'l Avg.</b>	<b>2.96%</b>	

Source: Census Bureau and Bureau of Economic Analysis

This number reflects Illinois' historic high reliance on local property taxes to fund schools and the large number of local governments in Illinois.

### Sales Tax

In FY 2011 Illinois' state and local sales tax represented 2.26 percent of Illinois GSP, below the U.S. average of 2.65 percent.

This ranking, despite relatively high tax rates, reflects the narrowness of the Illinois sales tax base under which a number of services that are taxed in other states escape taxation under Illinois' Retailers' Occupation Tax.

### Personal Income Tax

In FY 2011, a year of partial receipts under the tax rate increase, Illinois personal income taxes represented 1.67 percent of Illinois GSP, below the national average of 1.90 percent.

This number reflects the low-rate, flat income tax that was increased only for six months of FY 2011.

### Business Income Tax

In FY 2011, a year of partial receipts under the tax rate increase, Illinois business income taxes represented 0.36 percent of Illinois GSP, above the national average of 0.24 percent.

This number reflects the relatively high, flat rate corporate income tax. The Census Bureau numbers include both the general corporate

Sales Tax as a Percent of GSP, FY2011		
Rank	State	Sales Tax / GSP
1	Hawaii	4.55%
2	Washington	4.34%
3	New Mexico	4.08%
4	Arkansas	3.96%
5	Nevada	3.92%
6	Mississippi	3.79%
7	Florida	3.79%
8	Tennessee	3.62%
9	Arizona	3.56%
10	Louisiana	3.54%
11	Alabama	3.18%
12	West Virginia	3.14%
13	South Dakota	3.02%
14	Wyoming	2.91%
15	Michigan	2.88%
16	New York	2.85%
17	Oklahoma	2.80%
18	North Dakota	2.78%
19	Kansas	2.76%
20	California	2.74%
21	Vermont	2.73%
22	Indiana	2.71%
23	Texas	2.69%
24	Missouri	2.59%
25	Kentucky	2.57%
26	Minnesota	2.56%
27	Pennsylvania	2.48%
28	Maine	2.45%
29	Rhode Island	2.45%
30	Georgia	2.43%
31	Iowa	2.41%
32	Ohio	2.41%
33	Utah	2.38%
34	Colorado	2.37%
35	South Carolina	2.36%
36	Idaho	2.36%
37	DC	2.29%
38	North Carolina	2.28%
39	<b>ILLINOIS</b>	<b>2.26%</b>
40	Wisconsin	2.18%
41	New Jersey	2.15%
42	Nebraska	2.10%
43	Connecticut	2.04%
44	Maryland	2.02%
45	Virginia	1.60%
46	Massachusetts	1.55%
47	Alaska	0.96%
48	New Hampshire	0.78%
49	Montana	0.57%
50	Oregon	0.39%
51	Delaware	0.38%
	<b>Nat'l Avg.</b>	<b>2.65%</b>

Source: Census Bureau and Bureau of Economic Analysis

Personal Income Tax as a % of GSP, FY2011		
Rank	State	Income Tax / GSP
1	New York	3.81%
2	Maryland	3.47%
3	Massachusetts	2.98%
4	Oregon	2.91%
5	Connecticut	2.87%
6	Maine	2.71%
7	Kentucky	2.68%
8	Minnesota	2.67%
9	Ohio	2.67%
10	California	2.65%
11	Wisconsin	2.54%
12	West Virginia	2.52%
13	Pennsylvania	2.40%
14	North Carolina	2.26%
15	Virginia	2.20%
16	Indiana	2.18%
17	New Jersey	2.15%
18	Arkansas	2.13%
19	Vermont	2.09%
20	Montana	2.09%
21	Rhode Island	2.06%
22	Idaho	2.05%
23	Iowa	2.02%
24	Kansas	2.00%
25	Missouri	1.94%
26	Delaware	1.91%
27	Utah	1.85%
28	Georgia	1.83%
29	Nebraska	1.79%
30	Hawaii	1.78%
31	Michigan	1.77%
32	South Carolina	1.72%
33	Colorado	1.72%
34	<b>ILLINOIS</b>	<b>1.67%</b>
35	Alabama	1.63%
36	Oklahoma	1.53%
37	Mississippi	1.43%
38	New Mexico	1.38%
39	District of Columbia	1.22%
40	Arizona	1.12%
41	North Dakota	1.08%
42	Louisiana	1.01%
43	New Hampshire	0.13%
44	Tennessee	0.07%
0	Alaska	None
0	Florida	None
0	Nevada	None
0	South Dakota	None
0	Texas	None
0	Washington	None
0	Wyoming	None
	<b>United States</b>	<b>1.90%</b>

Source: Census Bureau and Bureau of Economic Analysis

Pers. Income Tax as % of GSP, "As if" Full Year, FY2011		
Rank	State	Income Tax / GSP
1	New York	3.81%
2	Maryland	3.47%
3	Massachusetts	2.98%
4	Oregon	2.91%
5	Connecticut	2.87%
6	Maine	2.71%
7	Kentucky	2.68%
8	Minnesota	2.67%
9	Ohio	2.67%
10	California	2.65%
11	Wisconsin	2.54%
12	West Virginia	2.52%
13	Pennsylvania	2.40%
14	North Carolina	2.26%
15	<b>ILLINOIS</b>	<b>2.22%</b>
16	Virginia	2.20%
17	Indiana	2.18%
18	New Jersey	2.15%
19	Arkansas	2.13%
20	Vermont	2.09%
21	Montana	2.09%
22	Rhode Island	2.06%
23	Idaho	2.05%
24	Iowa	2.02%
25	Kansas	2.00%
26	Missouri	1.94%
27	Delaware	1.91%
28	Utah	1.85%
29	Georgia	1.83%
30	Nebraska	1.79%
31	Hawaii	1.78%
32	Michigan	1.77%
33	South Carolina	1.72%
34	Colorado	1.72%
35	Alabama	1.63%
36	Oklahoma	1.53%
37	Mississippi	1.43%
38	New Mexico	1.38%
39	District of Columbia	1.22%
40	Arizona	1.12%
41	North Dakota	1.08%
42	Louisiana	1.01%
43	New Hampshire	0.13%
44	Tennessee	0.07%
0	Alaska	None
0	Florida	None
0	Nevada	None
0	South Dakota	None
0	Texas	None
0	Washington	None
0	Wyoming	None
	<b>Nat'l Avg.</b>	<b>1.90%</b>

Source: Census Bureau and Bureau of Economic Analysis

income tax and the Personal Property Tax Replacement Income Tax.

*Note - TFI found some inconsistencies in the census data involving business income taxes and made the data consistent over the period to represent corporate and personal property tax replacement income tax collections, net of deposits in the Refund Fund.*

### **Total State and Local Tax Burden**

In FY 2011, a year of partial receipts under the income tax rate increases, Illinois state and local government tax burden represented 8.89 percent of Illinois GSP, close to the national average of 8.95 percent. Illinois ranked 23<sup>rd</sup> in FY 2011, after ranking 28<sup>th</sup> in FY 2010 and 29<sup>th</sup> in FY 2009.

The higher income tax rates nudged Illinois' state and local tax burden closer to the national average.

### **The remaining question: What happens with a full year of tax rate increases?**

While state and local tax burden clearly increased after the income tax rate increases, we still do not have a clear picture of the full impact of the tax rate hike because the increases were not in effect for all of FY 2011. To try to get a clearer picture of where Illinois' relative state and local tax burden stands today, we recalculated the income taxes and total state and local taxes analyses "*as if*" the higher rates had been in effect for all of FY 2011. This gives us an estimate of where the

tax burden would have stood had the higher rates been in effect for all of FY 2011.

We did this by backing out from the FY 2011 income tax receipt numbers the amount attributed to the tax rate increases for FY 2011 (from the Commission on Government Forecasting and Accountability's FY 2014 Economic Forecast and Revenue Estimate) and then multiplying the individual receipts by 5/3 and the corporate portion of the business receipts by 7/4.8. (The Census data includes both the basic corporate income tax rate that was increased and the Personal Property Tax Replacement Income Tax rate that was left unchanged, but we adjusted only the corporate income tax component.)

The resulting analysis estimates where Illinois would have ranked in FY 2011 relative to other states. We found--

**Personal income taxes** would have been 2.22 percent of Illinois GSP, above the national average of 1.90 percent, and 15<sup>th</sup> highest.

**Business income taxes** would have been 0.54 percent of Illinois GSP, well above the national average of 0.32 percent and the 4<sup>th</sup> highest overall.

**Total state and local taxes** would have been 9.53 percent of Illinois GSP, above the national average of 8.95 percent and 15<sup>th</sup> highest overall.



<b>Business Income Tax as % of GSP, FY2011</b>		
Rank	State	Business Tax / GSP
1	Alaska	1.41%
2	New Hampshire	0.92%
3	New York	0.87%
4	Delaware	0.54%
5	California	0.50%
6	Massachusetts	0.50%
7	West Virginia	0.46%
8	<b>ILLINOIS</b>	<b>0.45%</b>
9	New Jersey	0.45%
10	Tennessee	0.41%
11	North Dakota	0.40%
12	Maine	0.40%
13	Vermont	0.40%
14	Pennsylvania	0.39%
15	Kentucky	0.37%
16	Minnesota	0.36%
17	Mississippi	0.36%
18	Arkansas	0.35%
19	Wisconsin	0.34%
20	Montana	0.32%
21	Rhode Island	0.30%
22	Connecticut	0.30%
23	Idaho	0.30%
24	New Mexico	0.29%
25	Oregon	0.27%
26	Maryland	0.25%
27	Indiana	0.25%
28	Florida	0.25%
29	North Carolina	0.25%
30	Oklahoma	0.23%
31	Arizona	0.22%
32	Utah	0.20%
33	Michigan	0.19%
34	Virginia	0.18%
35	Kansas	0.18%
36	Iowa	0.17%
37	Alabama	0.17%
38	Nebraska	0.16%
39	Georgia	0.16%
40	Missouri	0.16%
41	Colorado	0.14%
42	South Carolina	0.13%
43	Hawaii	0.10%
44	Louisiana	0.08%
45	Ohio	0.07%
46	South Dakota	0.04%
47	DC	0.00%
48	Nevada	0.00%
49	Texas	0.00%
50	Washington	0.00%
51	Wyoming	0.00%
	<b>Nat'l Avg.</b>	<b>0.32%</b>

Source: Census Bureau and Bureau of Economic Analysis

<b>Business Income Tax as % of GSP, "As if" Full Year, FY 2011</b>		
Rank	State	Business Tax / GSP
1	Alaska	1.41%
2	New Hampshire	0.92%
3	New York	0.87%
4	<b>ILLINOIS</b>	<b>0.54%</b>
5	Delaware	0.54%
6	California	0.50%
7	Massachusetts	0.50%
8	West Virginia	0.46%
9	New Jersey	0.45%
10	Tennessee	0.41%
11	North Dakota	0.40%
12	Maine	0.40%
13	Vermont	0.40%
14	Pennsylvania	0.39%
15	Kentucky	0.37%
16	Minnesota	0.36%
17	Mississippi	0.36%
18	Arkansas	0.35%
19	Wisconsin	0.34%
20	Montana	0.32%
21	Rhode Island	0.30%
22	Connecticut	0.30%
23	Idaho	0.30%
24	New Mexico	0.29%
25	Oregon	0.27%
26	Maryland	0.25%
27	Indiana	0.25%
28	Florida	0.25%
29	North Carolina	0.25%
30	Oklahoma	0.23%
31	Arizona	0.22%
32	Utah	0.20%
33	Michigan	0.19%
34	Virginia	0.18%
35	Kansas	0.18%
36	Iowa	0.17%
37	Alabama	0.17%
38	Nebraska	0.16%
39	Georgia	0.16%
40	Missouri	0.16%
41	Colorado	0.14%
42	South Carolina	0.13%
43	Hawaii	0.10%
44	Louisiana	0.08%
45	Ohio	0.07%
46	South Dakota	0.04%
47	DC	0.00%
48	Nevada	0.00%
49	Texas	0.00%
50	Washington	0.00%
51	Wyoming	0.00%
	<b>Nat'l Avg.</b>	<b>0.32%</b>

Source: Census Bureau and Bureau of Economic Analysis

Total State & Local Taxes as % of GSP, FY 2011		
Rank	State	S&L / GSP
1	Alaska	14.23%
2	New York	12.38%
3	Vermont	11.83%
4	North Dakota	11.78%
5	Maine	11.53%
6	New Jersey	10.78%
7	West Virginia	10.55%
8	Rhode Island	10.28%
9	Wisconsin	10.11%
10	Connecticut	10.10%
11	California	9.70%
12	Wyoming	9.62%
13	Pennsylvania	9.59%
14	Minnesota	9.58%
15	Maryland	9.51%
16	Mississippi	9.50%
17	Hawaii	9.39%
18	Michigan	9.37%
19	Arkansas	9.34%
20	Massachusetts	9.22%
21	Ohio	9.20%
22	New Mexico	9.11%
23	<b>ILLINOIS</b>	<b>8.89%</b>
24	Montana	8.82%
25	Florida	8.74%
26	Kansas	8.72%
27	Kentucky	8.66%
28	Iowa	8.66%
29	Arizona	8.46%
30	New Hampshire	8.39%
31	Idaho	8.25%
32	Colorado	8.23%
33	South Carolina	8.15%
34	Indiana	8.14%
35	Nebraska	8.11%
36	Washington	7.96%
37	Nevada	7.89%
38	Missouri	7.87%
39	Alabama	7.77%
40	North Carolina	7.73%
41	Oklahoma	7.70%
42	Oregon	7.47%
43	Georgia	7.46%
44	Virginia	7.42%
45	Utah	7.28%
46	Tennessee	7.24%
47	Louisiana	7.00%
48	Texas	6.87%
49	South Dakota	6.48%
50	Delaware	6.33%
51	DC	2.10%
	<b>Nat'l Avg.</b>	<b>8.95%</b>

Source: Census Bureau and Bureau of Economic Analysis

Total State & Local Taxes as % of GSP, "As if" Full Year, FY2011		
Rank	State	S&L / GSP
1	Alaska	14.23%
2	New York	12.38%
3	Vermont	11.83%
4	North Dakota	11.78%
5	Maine	11.53%
6	New Jersey	10.78%
7	West Virginia	10.55%
8	Rhode Island	10.28%
9	Wisconsin	10.11%
10	Connecticut	10.10%
11	California	9.70%
12	Wyoming	9.62%
13	Pennsylvania	9.59%
14	Minnesota	9.58%
15	<b>ILLINOIS</b>	<b>9.53%</b>
16	Maryland	9.51%
17	Mississippi	9.50%
18	Hawaii	9.39%
19	Michigan	9.37%
20	Arkansas	9.34%
21	Massachusetts	9.22%
22	Ohio	9.20%
23	New Mexico	9.11%
24	Montana	8.82%
25	Florida	8.74%
26	Kansas	8.72%
27	Kentucky	8.66%
28	Iowa	8.66%
29	Arizona	8.46%
30	New Hampshire	8.39%
31	Idaho	8.25%
32	Colorado	8.23%
33	South Carolina	8.15%
34	Indiana	8.14%
35	Nebraska	8.11%
36	Washington	7.96%
37	Nevada	7.89%
38	Missouri	7.87%
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41	Oklahoma	7.70%
42	Oregon	7.47%
43	Georgia	7.46%
44	Virginia	7.42%
45	Utah	7.28%
46	Tennessee	7.24%
47	Louisiana	7.00%
48	Texas	6.87%
49	South Dakota	6.48%
50	Delaware	6.33%
51	DC	2.10%
	<b>Nat'l Avg.</b>	<b>8.95%</b>

Source: Census Bureau and Bureau of Economic Analysis



## **Conclusion**

Unsurprisingly, Illinois' significant 2011 rate increases have raised the overall percentage of the state's economic activity devoted to state and local taxes. The most significant change was in Illinois historically low ranking among states in personal income tax collections, and the increases in the two rates, under TFI's projections, have raised Illinois ranking in total state and local tax collections from 28<sup>th</sup> overall to 15<sup>th</sup>.

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# **ILLINOIS EDUCATION EXPENSE CREDIT**

**By Sonia Vasdev and Mike Klemens**

*Sonia Vasdev is a Research Assistant for the Taxpayers' Federation of Illinois. She graduated from the University of Illinois at Springfield with a Master of Public Health and Master of Public Administration.*

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## **Introduction**

The Illinois Education Expense Credit has provided families an Illinois Income Tax credit to partially offset the cost of their children's school expenses since 2000. Between 2000 and 2010 (the latest year for which the Illinois Department of Revenue has data) there have been significant changes, namely increases in total numbers of credits claimed and decreases in the average credit claimed, which together net to modest annual growth in the total cost of the credit. Within income ranges, the first decade saw a significant shift toward the credit being claimed by higher income taxpayers.

The Education Expense Credit is 25 percent of the amount paid annually over \$250 for tuition, book fees, and lab fees for a child (or children) attending grades K-12 at a private or public school. The credit may not exceed \$500 per family in any year, regardless of number of qualifying students. Both the parent or legal guardian and the child must be Illinois residents. A qualifying school is a private or public elementary, middle school, junior high school, high school or home school where a student's attendance fulfills Illinois' compulsory education requirement under Section 26-1 of the school code.

## **Background: The Debate**

Efforts to pass the Education Expense Credit into law started in 1972, and the legislation was finally enacted in 1999. During the 1999 debate the issues were whether Illinois was supporting secular education and whether the credit favored higher income taxpayers over those with lower incomes. Opponents pointed out that very low income families would not be helped because they had no income tax liability against which to take the full credit. Despite these concerns the bill passed both houses and became law.

The Education Expense Credit survived two legal challenges in lawsuits filed by the Illinois Federation of Teachers and the Illinois Education Association, along with other associated organizations and interest groups. In each case the law was upheld first by the circuit court and then by the appellate court against complaints that the Education Expense Credit was an illegal expenditure

by the State--a payment of public funds for secular purposes and that the law provided aid

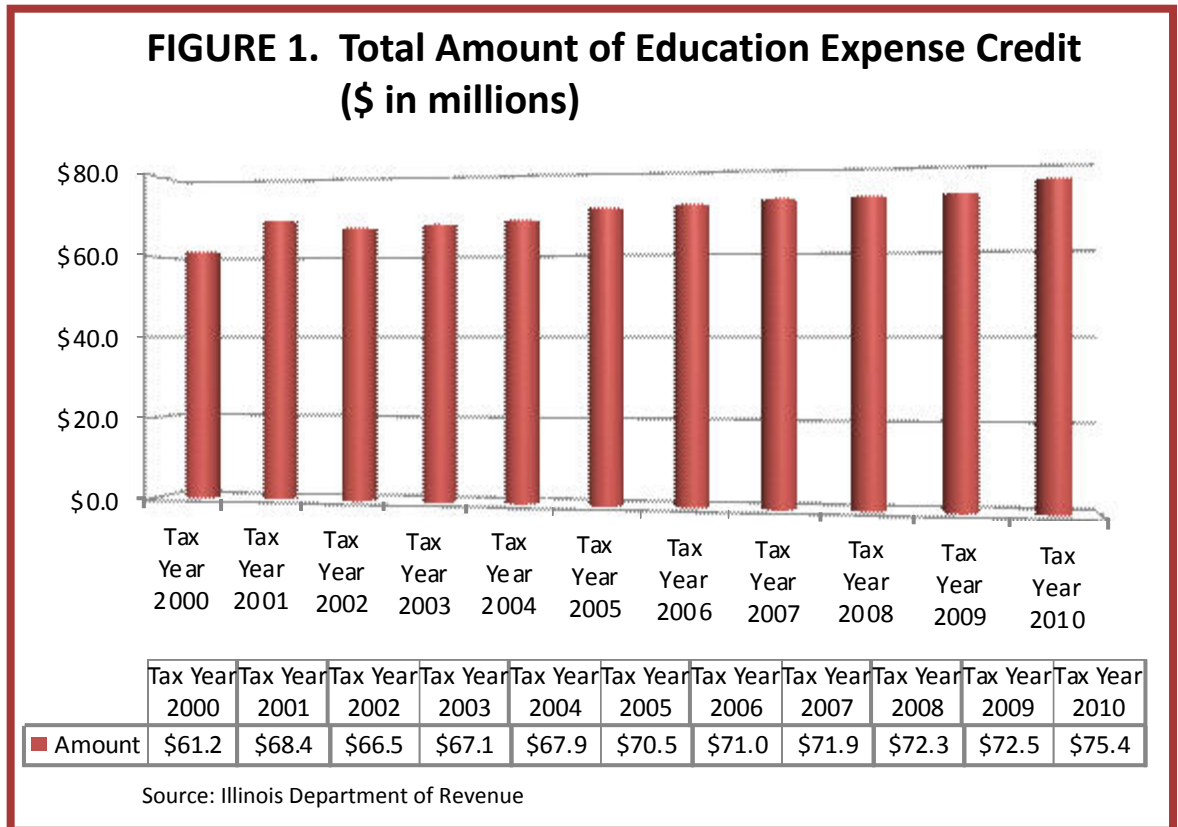
to children in religious schools. The decisions are available at:

<http://www.state.il.us/court/opinions/appellatecourt/2001/4thdistrict/february/html/4000401.htm>,

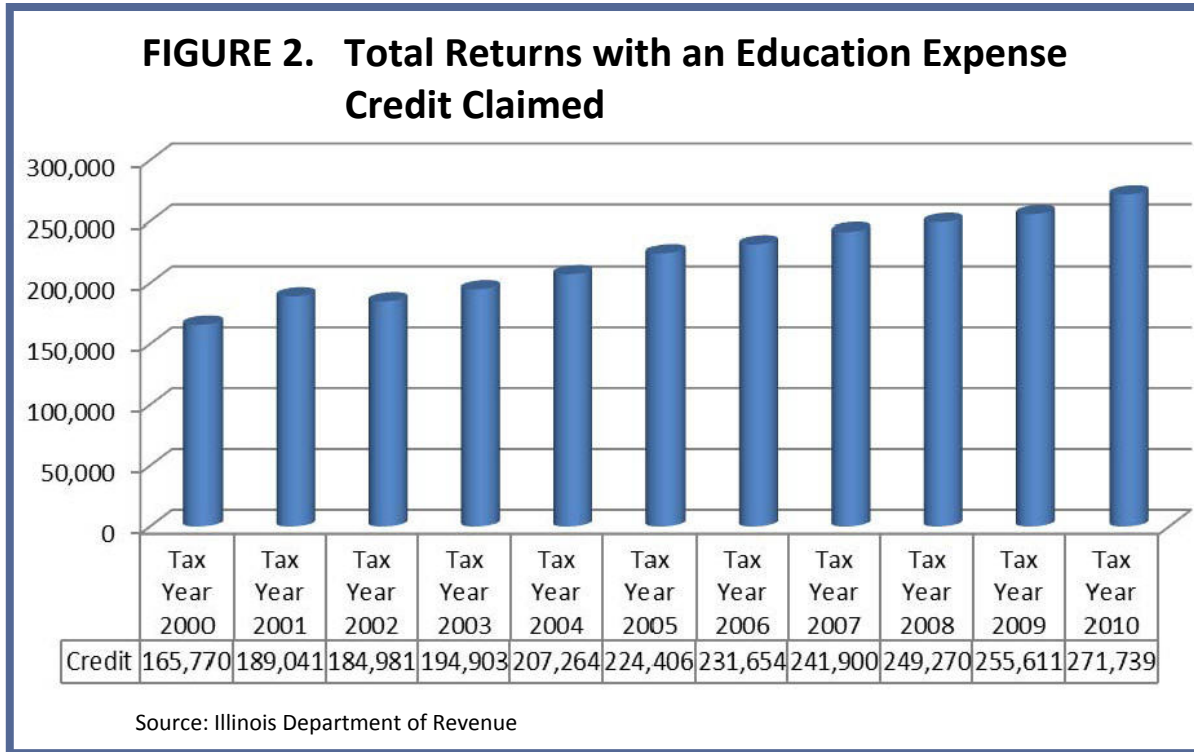
<http://www.state.il.us/court/opinions/appellatecourt/2001/5thdistrict/april/html/5990829.htm>)

## **Findings**

1. *Between Tax Year 2000 and Tax Year 2010 the total amount of credit claimed has increased from \$61,229,982 to \$75,429,596, an increase of 23.1 percent. (See figure 1)*



2. Between Tax Year 2000 and 2010 the total number of taxpayers claiming the credit has increased from 165,770 to 271,739 - an increase of 63.9 percent. (See figure 2)



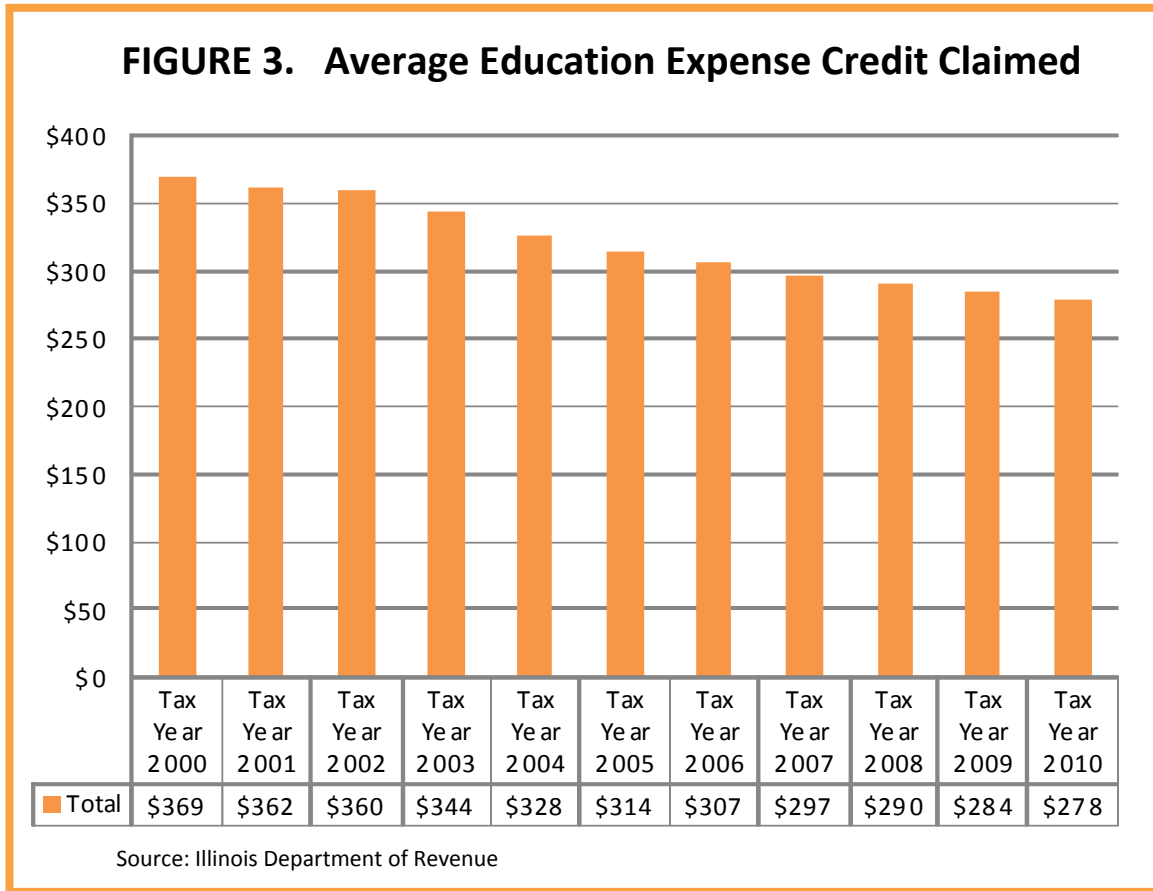
### How a Parent claims the Education Expense Credit

Parents or legal guardians claim the Education Expense Credit by completing schedule ICR, Illinois Credit, and carrying the calculated credit to Form IL 1040. The parent should include any receipt that was received from the school with calendar year, name and address of the school, name and social security number of each qualifying student, name and social security number of parent or guardian, grade in which each student was enrolled, and total expenses paid for each student (Schools are not required to provide a receipt). The credit cannot exceed the amount of tax owed.

### Expenses not covered by Education Expense Credit

Expenses paid- 1) for daycares, preschools, colleges, universities, independent tutoring services, and trade schools, 2) for kindergarten programs run by daycares or early childhood centers, 3) for students who turned 21, 4) for before and after school child care, 5) for any kind of supplies, books or equipment that are not significantly used up during the school year, 6) for use of supplies, books or equipment, material or instruments if the program does not result in a credit towards a school's education program, 7) directly to a business (e.g. renting a band instrument), or 8) paid for yourself or your spouse .

3. Between Tax Year 2000 and 2010 the average Education Expense credit a taxpayer claimed on a return has decreased from \$369 to \$278 – a decrease of 24.84 percent. (See figure 3)



### **Analysis**

Between 2000 and 2010 Individual Income Tax collections grew 14.4 percent, while the amount of Education Expense Credit grew more than 23 percent. The growth of the credit claimed was the result of an increasing number of taxpayers claiming the exemption partially offset by a declining average credit claimed. Data does not exist on the number of children attending school in each family that claims a credit, so we cannot tell if these changes are attributable to changes in family size. However, the increase in number of families claiming the credit is *not* because there are more children attending private school.

Over the last decade the number of children attending private schools in Illinois has declined from 317,198 to 241,323 (See figure 4). So it is not an influx of private school students that has caused the increase.

On the public school side there is evidence that public schools have increased the fees that they charge students, pushing many over the \$250 that each family must spend before it can claim the credit. Public Schools have increased fees for extracurricular activities, books and even parking spaces. According to a survey done by a newspaper, the Lake Zurich School system in-

**FIGURE 4. Public and Non-Public Pre-Kindergarten through Post-Graduate Fall Pupil Enrollment - 2001-2010**

School Year	Public	Non-Public	Total
2010-11	2,074,806	241,323	2,316,129
2009-10	2,105,779	243,680	2,349,459
2008-09	2,112,132	249,373	2,361,505
2007-08	2,113,435	265,276	2,378,711
2006-07	2,118,692	244,188	2,362,880
2005-06	2,111,706	267,651	2,379,357
2004-05	2,097,506	225,765	2,323,268
2003-04	2,100,961	312,891	2,413,780
2002-03	2,084,187	306,047	2,390,234
2001-02	2,071,391	317,198	2,388,589

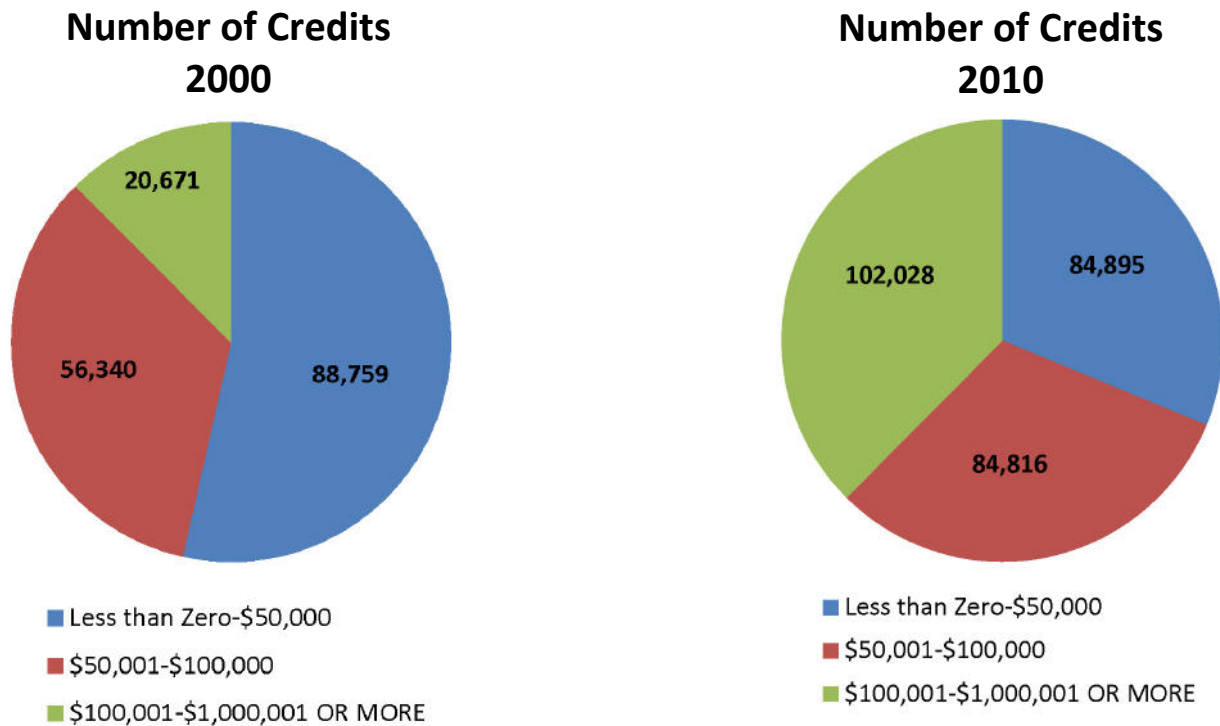
Source: State Board of Education

creased fees for playing football from \$70 to \$130, Barrington District boosted parking space cost from \$150 to \$300, and Maine Township students pay \$500 instead of \$150 for textbooks. Also, the fees for some courses have been raised: a Latin course at Naperville North High School jumped from \$10 to \$22, and the cost of an accounting course doubled from \$20 to \$40. (Rado, Diane. "Fees stacking up at Illinois schools." *Chicago Tribune* [Chicago] 01 08 2001, Featured Articles Web. 4 Jun. 2013. [http://articles.chicagotribune.com/2001-08-31/news/0108310350\\_1\\_user-fees-school-fees-high-school-students](http://articles.chicagotribune.com/2001-08-31/news/0108310350_1_user-fees-school-fees-high-school-students)). That would explain both the

increasing numbers and decreasing amount of the average credit.

The first 10 years' experience shows that the credit has increasingly been claimed by taxpayers with higher incomes. Using standard groupings reported by the Department of Revenue, the biggest shifts occurred out of the \$30,000 to \$50,000 bracket and into the \$100,000 and above bracket (See Figures 5 and 6). In the year 2000 the \$30,000 to \$50,000 bracket accounted for 40 percent of both the number of credits claimed and the total amount of credit claimed. By 2010 its share had fallen to 14 percent of credits claimed and 13 percent of the total

**FIGURE 5. Comparison of the Number of Education Expense Credits Claimed for the Year 2000 to 2010 in Given Annual Income Brackets**



Source: Illinois Department of Revenue

amount of credits. On the other hand, in 2000 the income bracket of \$100,000 and above accounted for 13 percent of all credits claimed and 15 percent of the total credit amount claimed. By 2010 those numbers had risen to 38 percent of all credits claimed and to 45 percent of total credit amount claimed.

Some of the shift can be accounted for by inflation and wage growth, i.e. families earned more in 2010 than they did in 2000. However, the shift toward the education credit being claimed by higher income families significantly exceeds the growth in the top tax bracket. Taxpayers in the \$100,000 plus AGI bracket accounted for 9 per-

cent of returns in 2000 and 15 percent in 2010. In terms of total tax liability the \$100,000 plus bracket accounted for 47 percent of all taxes in 2000 and 57 percent in 2010. The underlying income growth is dwarfed by the growth in Education Expense Credits claimed by these taxpayers.

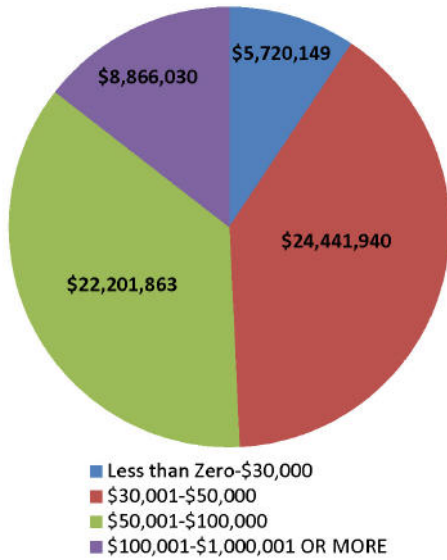
**Conclusion**

Looking back at the debates when the Education Expense Credit was passed, its use has changed in ways not contemplated. Even with a decline in private school attendance, the amount of the credit claimed has grown. That has happened as public schools have increased their fees and

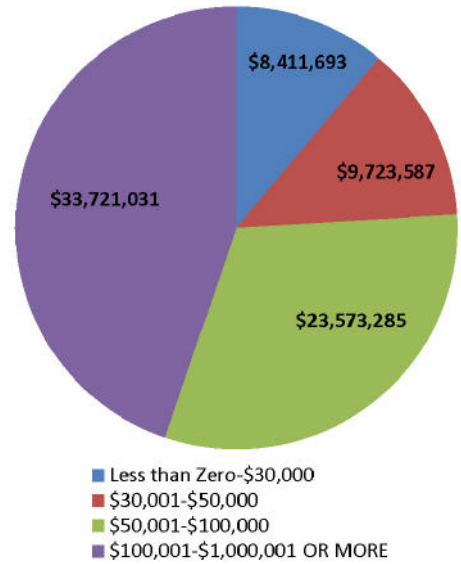


**FIGURE 6. Comparison of the Total Amount (\$ in millions) of Education Expense Credit Claimed for the Year 2000 to 2010 in Given Annual Income Brackets**

**Total Credit Taken in Year 2000**



**Total Credit Taken in Year 2010**



Source: Illinois Department of Revenue

more families have paid fees that exceed the \$250 minimum, increasing the number of credits claimed and decreasing the average credit.

**Taxpayers' Federation of Illinois**

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