

HIGHLIGHTS OF SENATE BILL 2288 (2/25/08)
SPONSORED BY SENATOR JAMES MEEKS

\$7.2B rev

- SB 2288 makes significant changes to tax and school funding laws.
- * • It mandates an annual property tax abatement of \$2.9 billion (indexed to inflation for each subsequent year) with every property owner seeing a minimum of 20% property tax relief on the portion of the bill designated to education.
- The Invest in Illinois Fund is created and funded with \$1 billion each year (indexed for inflation), to provide funding for debt service and fees on bonds for capital projects throughout the State.
- The bill also mandates a \$300 million annual appropriation (indexed for inflation) for grants to institutions of Higher Education.
- Increases for Early Childhood education are phased in, from \$45 million in 2009-2010 to \$180 million in 2012-2013.
- * • The personal income tax is increased to 5% (from 3%), and the corporate income tax is increased to 8% (from 4.8%).
- Family Tax Credits are provided to single taxpayers earning less than \$26,695 and married couples earning less than \$53,694.
- Increases to the Foundation Level are phased in, raising it from \$6,044 for the 2009-2010 school year (from \$5,734) up to \$6,974 for the 2012-2013 school year. The Foundation Level and Supplemental General State Aid (Poverty Grants) are automatically tied to increases to the Employment Cost Index to control for inflation.

DIFFERENCES BETWEEN SENATE BILL 2288 AND SENATE BILL 750

SB 2288:

- creates the Invest in Illinois Fund, which would receive an annual GRF appropriation of \$1 billion to fund capital projects throughout the State, and would be overseen by the newly-created Invest in Illinois Board;
- creates the Higher Education Operating Assistance Fund and provides a continuing appropriation of \$300 million for grants to institutions of Higher Education;
- provides \$45 million for Early Childhood education for the 2009-2010 school year, and increasing amounts up to \$180 million for the 2012-2013 school year;
- includes phased-in reimbursement increases for special education personnel from the current \$9,000 to \$19,765 for the 2012-2013 school year; and
- provides more explicit details on the amount of the Family Tax Refund entitled to taxpayers, though the income range for qualified recipients is similar to SB 750's levels.

SB 750:

- taxed retirement income in the Personal Income Tax for seniors with annual Adjusted Gross incomes over \$74,999; SB 2288 does not impose this tax;
- removed exemptions for corporate dividends paid by corporations operating in Enterprise Zones or in federally-designated Foreign Trade Zones or Subzones designated as High Impact Businesses; SB 2288 does not; and
- expanded the sales tax base to include numerous services; SB 2288 does not.

New funds created under the bill (with mandated continuing appropriations to each, adjusted for inflation):

<u>Fund</u>	<u>Purpose</u>	<u>FY10 Appropriation</u>
School District Property Tax Relief	Provides property tax relief of at least 20% to all homeowners, with additional reductions for property in districts in top 25% of tax rates	\$2.9 billion
Invest in Illinois	Serve as revenue source for paying debt service and fee for bond issuance for bonds issued for capital projects	\$1.0 billion
Higher Education Operating Assistance	Provides funding for institutions of Higher Education (75% to universities and 25% to community colleges) if the State appropriation is less than the previous year's	\$300 million
School Improvement Partnership Pool	Provides assistance to financially needy districts	\$75 million (to \$300 million in FY12)
Early Childhood	Supports Early Learning Standards for children from birth through age 8	\$45 million (to \$180 million in FY12)

Illinois has the lowest tax rate of the 41 states that impose an income tax.*

The income tax rates for other Midwestern States are:

Iowa –	8.98%
Minnesota –	7.85%
Ohio –	6.87%
Wisconsin -	6.75%
Missouri -	6.0%
Kentucky -	6.0%
Michigan -	3.9%
Indiana -	3.4%

The Center for Tax and Budget Accountability estimates that new revenues generated by the income tax increase over the 5-years phase-in period, expenditures under the bill, and remaining balance will be:

	Year 1	Year 2	Year 3	Year 4	Year 5
Revenue Generated	\$7,345	\$7,573	\$7,808	\$8,050	\$8,300
Expenditures	5,432	6,343	6,741	7,283	7,529
Remaining balance **	1,913	1,230	1,067	767	771

Some states with graduated rates have lower rates for very low-income individuals, but overall have higher tax rates than Illinois). Illinois is one of only six states to have a flat tax rate.

*Center for Tax and Budget Accountability

** Could be used to pay down pension obligation

Increases the Illinois Income Tax

Increases the income tax rate for individuals, trusts or estates to 5% (from 3%) beginning January 1, 2010.

Increases the income tax rate for corporations to 8% (from 4.8%) beginning January 1, 2010.

Family Tax Credit

Creates the Family Tax Credit to entitle each taxpayer who is reporting total annual income of less than \$26,847 or a married couple filing jointly that reports total annual income of less than \$53,694 to a refundable tax credit in each year beginning January 1, 2009.

Increases the eligibility caps by the CPI percentage increase for each tax year after December 31, 2009. Exempts the Family Tax Credit from sunseting.

Provides the following amounts of tax credit:

<u>Taxpayer status</u>	<u>Annual income</u>	<u>Credit</u>	
Single	Less than \$17,136	\$45	
	\$17,136 - \$19,419	\$60	
	\$19,420 - \$21,705	\$180	
	\$21,705 - \$26,847	\$240	
Married, filing separately	Less than \$11,424	\$45	
	\$11,424 - \$14,280	\$60	
	\$14,280 - \$17,136	\$120	
	\$17,136 - \$20,563	\$180	
Married, filing jointly	\$20,563 - \$26,847	\$240	
	Less than \$22,848	\$45	
	\$22,848 - \$28,560	\$60	
	\$28,560 - \$34,272	\$120	
Married, filing jointly	\$34,272 - \$41,126	\$180	
	\$41,126 - \$53,694	\$240	
	Head of Household	Less than \$22,848	\$45
		\$22,848 - \$28,560	\$60
\$28,560 - \$34,272		\$120	
\$34,272 - \$41,126		\$180	
	\$41,126 - \$53,694	\$240	

Foundation Level

The Education Funding Advisory Board's recommendation for General State Aid for Fiscal year 2008 was \$6,974. This level of support would be reached over a period of 4 years, adjusting for inflation during the phase-in period.

Stipulates the following foundation levels:

<u>School Year</u>	<u>Foundation Level</u>
2009-2010	\$6,044
2010-2011	\$6,147
2011-2012	\$6,354
2012-2013	\$6,974

Requires the foundation level in subsequent years to increase by the percent increase of the ECI.