

## **LWVIL GOVERNMENT POSITION: STATE FISCAL POLICIES**

**Support for a diversified revenue system which principally relies on a combination of broad-based taxes and user fees, is equitable, progressive, stable, responsive and simple.**

**STATE FISCAL POLICY** (1977, 1980, 1981, modified 1987, revised 1994): The LWVIL supports a diversified revenue system which principally relies on a combination of broad-based taxes and user fees, is equitable, progressive, stable, responsive and simple.

**Criteria** The LWVIL supports a state revenue system which overall is based on the following criteria:

- 1) Equity - Imposes similar amounts of tax on taxpayers in like circumstances.
- 2) Progressivity - Is based on ability to pay so that those with greater ability pay a greater percentage of their income.
- 3) Stability - Provides a stable source of revenue.
- 4) Responsiveness - Is able to capture and reflect long-term economic growth.
- 5) Simplicity - Is easy and efficient to administer and is understandable to the taxpayer.

**Income Tax** The LWVIL supports a progressive income tax with a graduated rate schedule. Until the Illinois Constitution is amended to allow graduated rates, the flat rate income tax should be made more progressive.

**Sales Tax** The LWVIL supports a broad-based sales tax with exemptions for food and medicines to reduce the impact on low-income persons.

**Property Tax** The LWVIL supports the use of the property tax for partially financing education and local government and services. We support uniform, efficient and professional tax assessment procedures.

**User Fees** The LWVIL supports user fees structured and levied with a sensitivity to low-income persons.

**Deductions, Exemptions and Credits** The LWVIL supports achieving policy goals through direct expenditures rather than deductions, exemptions and credits. If deductions, exemptions and credits are used, they should:

- 1) decrease the tax burden on lower income persons and further overall progressivity.
- 2) be periodically reviewed to justify continuation.
- 3) be the most efficient means of achieving their intended purpose.

**Local Implications** Distribution of state revenues to local government is an appropriate source of local revenue. LWVIL opposes statutory limits on local government's ability to raise taxes and spend revenue. Local services mandated by the State should have state appropriations linked to the mandate.

**Background** Several positions on taxation and assessment were developed through land use and tax structure studies during the 1970's and combined into one item in 1977. The 1979 LWVIL Convention adopted a comprehensive study of financing state and local government that included revenue sources, expenditure procedures and limitations on taxing and spending. Partial consensus was reached in 1980 on tax and spending limitations.

A comprehensive study of the revenue system began in 1980. The state board determined that the local League participation (less than 60%) in the consensus process was not an adequate basis for developing a state position. However, there was substantial agreement among the participating Leagues and the state board recommended to the 1981 LWVIL Convention that individual Leagues concur with the position statement. The convention adopted the recommendation, and concurrence was reached in the fall of 1981. In 1993, the state board appointed a committee to review the LWVIL Fiscal Policy position. The 1994 Interim Council approved a revised position.

The 1991 LWVIL Convention adopted an action focus on fair and adequate school funding. Implicit in this item was a commitment to work for a constitutional amendment for a graduated income tax as the most equitable means of securing the revenues needed to end the disparity in educational opportunity for Illinois children.

The League had supported a graduated income tax at the time of the 1970 Constitutional Convention. A political compromise, however, resulted in the approval of a flat rate income tax that was perceived at that time to be a fairer tax than it is today. Since then, the League has worked steadily to improve the progressivity of the flat rate tax by urging an increase in the personal exemption (see LWVIL Constitutional Implementation and Amendments position, pg. 11).

The 1993 LWVIL Convention adopted an action campaign to reform the state's tax system, including an initial focus to work for a constitutional amendment for a graduated income tax as a foundation for a fairer and more productive tax structure.

The 1995 LWVIL Convention approved the formation of a Working Committee on State Tax and School Funding Reform, reflecting a strong commitment to continued League activity in these areas and the recognition that long-term solutions for school funding will require reform of the state's tax system.

**LWVIL action** A number of League positions have been enacted into law. In 1979, legislation was enacted to require training in assessment practices and procedures for township assessors and to establish multi-township assessment districts with a minimum population of 1,000 by January 1981. Property tax bills are now required to contain more information, and citizen awareness of the appeals process has resulted in many more challenges to inequitable assessments.

During 1982-83, the State's ability to adequately fund services was eroded by recession, federal funding decreases and tax relief legislation. The League worked to increase awareness of the State's financial dilemma and to increase the state income tax. In 1983, a temporary 18-month increase in the income tax was enacted. Attempts to secure a permanent increase were futile. The League therefore supported a 5 percent tax on interstate telecommunications and an increase in the cigarette tax to fund education in 1985.

In 1986, the financial condition of the State of Illinois became substantially worse. Increases in public aid grants were again vetoed, and the 1985 Education Reforms were not adequately funded.

From 1986 - 1997, one of the League's top priorities was support for an increase in the state income tax in order to provide adequate funding for education and human services. The League formed CARE for Illinois, a coalition of over 100 organizations, which achieved partial success with the 1989 temporary income tax surcharge that was made permanent in two stages in 1991 and 1993.

The League continues to support increasing the amount of the personal exemption to reduce the burden on low-income families. LWVIL supported a sunset measure passed in 1994 for newly created exemptions, credits and deductions. The League has continued to oppose additional income tax exemptions and deductions that would further erode state revenue. The League opposed legislation enacted in 1991 to cap local property taxes for the collar counties and similar legislation enacted in 1995 for Cook County.

In the spring of 1991, the League began to promote discussion of a constitutional amendment for a graduated income tax as the best long-term solution to the State's persistent financial problems. These discussions led to the formation in 1993 of Progress Illinois, a statewide coalition of organizations chaired by the League, to spearhead a campaign to place a constitutional amendment for a graduated income tax on the November 1994 ballot. LWVIL and local Leagues mounted an extensive public education and lobbying campaign to generate support for a graduated income tax amendment. Although resolutions proposing a constitutional amendment were introduced in both houses of the General Assembly in the Spring 1993 legislative session, election year politics prevented the amendment from being called for a vote.

The League continued to work for progressive tax reform both in the context of its school funding efforts and in its work with Progress Illinois. As part of its public education and advocacy effort, the coalition commissioned two significant research projects from the University of Illinois Institute of Government and Public Affairs: (1) an analysis of Illinois' structural revenue deficit and (2) the development of computer models of Illinois' individual income and general sales taxes to analyze the impact of major tax reform proposals on the burden on taxpayers at different income levels and on revenue growth. Lawmakers, legislative staffs and others who analyze and evaluate both existing tax policies and a number of revenue proposals have used the models.

During the school funding debate in the spring 1997 legislative session, the League supported the Governor's failed call for an increase in the income tax and worked unsuccessfully to insert an increase in the personal exemption in the revenue package (see LWVIL Schools position, pg. 28). At the end of the spring 1998 legislative session, the General Assembly enacted a small, phased-in increase of the personal exemption.

The League opposed legislation passed in 1998 that allows income from multi-state corporations to be apportioned to Illinois by the sales factor. This narrowed the corporate tax base, at a time when the State has no long-term school funding solutions.

In June 2000, League spoke against the six-month suspension of the Illinois gas tax, stating that the projected two percent across the board reduction in state budgets would

adversely affect Illinois social services.

In 2001, LWVUS and LWVIL joined the "First Things First" coalition in advocating that the federal government put "first things first" and spend revenues on necessary government programs that the League supports, rather than tax cuts. League testified at a rally on April 11, 2002 and participated in a grassroots lobbying effort opposing the tax cuts.

The League advocated for progressive tax reform in the context of the school funding debate throughout the 1990s and during 2000-2009. Fiscal policy and school funding issues are closely connected because education is a large portion of the State budget. Other League positions are also affected because the State has insufficient revenues to provide for many of the needs which the League has identified. The League did prepare a statement in 1999 opposing gambling as a solution to Illinois' fiscal problems (see Appendix, page 81). The League joined A+ Illinois (which has ended after losing its funding), Better Funding for Better Schools, and a new coalition called the Responsible Budget Committee. These coalitions are working to raise state revenues in order to improve school funding and pay for necessary state services. The League promoted legislation which would increase the income tax, broaden the sales tax to include services, and provide some property tax relief. Ralph Martire from the Center for Tax and Budget Accountability and other informed presenters spoke at many state and local League meetings to educate citizens on the issues and to promote measures which would ensure that state tax, fiscal and spending policies are fair, provide adequate revenues and promote economic growth.

At the 2003, 2005, 2007, and 2009 LWVIL Conventions, Leagues voted to adopt an action focus on State Fiscal Policy and School Funding for the following biennia. From 2003-2009, LWVIL and local Leagues attended LWVIL Legislative Briefings, Lobby Days, and meetings with legislators. Local Leagues held public forums to educate League members, legislators, and the public on school funding and fiscal policy issues. League members attended rallies in Springfield, wrote letters and e-mails and made phone calls to legislators to urge the governor and legislators to pass legislation which would increase state spending on schools and social services and would increase state revenues by raising the income tax, broadening the sales tax, and providing property tax relief.

The 2007-2009 Biennium was a grim time to advocate for change in the way that the state of Illinois raised revenues. The deadlock between former Governor Blagojevich and the General Assembly meant that very little was accomplished. Governor Quinn and the General Assembly continued the disagreement over how to pay for the government and repair the structural deficit. The government continues to ration the funds on hand by delaying payments to schools and social service providers and by postponing payments to the state pension systems. The state's deficits for FY 09 and FY 10 are projected to total \$14 billion. The state's fiscal problems have been magnified by the national recession which caused state revenues to decline at the same time that the need for state programs increased. The federal stimulus money will provide some aid, but will not be enough to solve the state's problems.

(See also, LWVIL Schools position)