

Joseph R. Oldani
23465 Eastern Ave.
Manhattan, ILL 60442

Subject: Testimony given on March 27, 1984 to the Illinois Senate Revenue Committee on bills aimed at alternatives to local school financing.

I would like to thank the senate revenue committee for an opportunity to offer testimony on a series of bills aimed at shifting the tax base for support of schools from property to income. I have been interested and I have done research on this issue for approximately three years. Also I have been instrumental in testing public support for this issue through the use of advisory referendums.

I am in favor of bills that are intended to be or can be modified to be a total replacement of the real estate property tax with a local income tax, preferably refined to a county level as a school-funding source such as the educational fund. Based on my conversations with hundreds of citizens I can say people are generally in favor of an income tax but they do not want both taxes property and income for the same fund or taxing authority. Furthermore, a bill that does not eliminate the property tax does not address the inherent problem with the property tax. Since people do pay property taxes with their income we can calculate what percent of our income we pay in property taxes. Under the property tax we are all paying different or varying percents of our income even within the same taxing district. This results in an unequal sharing of the tax "burden when we compare with each other what percent of our income our property tax takes. Therefore, I urge you not to support any bills that are only to abate property taxes.

In this testimony there is information included as outlined below to show that an income tax to replace property taxes to fund schools and local government is a fairer, economically feasible, and administratively realistic and practical alternative to property taxes.

1. Fairer in terms of the treatment of individual taxpayers and the distribution of the tax burden created by schools and local government.
2. A feasible funding source based on state reports.
3. Practical in terms of administration and collection based on it's use in other states and ideas for implementation.

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2. [Additional Testimony: Comments regarding the Illinois Department of Revenue Position Paper](#) on related problems of a local income tax. Dated 4-28-82. Illinois Department of Revenue Position Paper attached.
3. Illinois Studies:
 - a. [Illinois Comptroller Roland W. Burris requested by Joseph R. Oldani](#): Examination of the ratio of individual and corporate property taxes paid to the average percent of their respective net income as defined by the State of Illinois. Dated 6-10-81.
 - b. [Financing Local Government Through the State Income Tax by the Illinois Legislative Council](#). Dated 2-16-81. Report analysis by Joseph R. Oldani appears after this report.
4. Appendix:
 - a. [Reference Material: Wisconsin Dept. of Revenue reference publication "State and Local Finance"](#).
 - b. Reference Material: [Table showing State and Local Finance in other states](#)
 - c. Example Copy: Local Income Tax form used by Springfield, Ohio. (Not on Web at this time.)
 - d. Example Copy: Regulations of a local income tax used by Canton, Ohio. (Not on Web at this time.)

1. Fairness to Taxpayers

I would like to share some observations with you.

People create the need for more schools and government services not property. The world hasn't gotten any larger but the need for schools, government services, and the population has increased.

The controlling factor is the population. By using property as a tax base we are using a relatively speaking constant tax base to fund schools and local government. Sure we have divided it up into smaller pieces and made improvements to it. We have used this criterion to squeeze more tax dollars out of the same amount of property for a given geographic area. This has been done it seems with the only justification being to raise more revenue without looking at how it affects the individual taxpayer.

Under the property tax the assumption is made if all property is assessed at the same percent of market value it will turn out to be an equitable system. Everyone will pay his or her fair share of the tax burden.

This brings to mind two questions:

1. What is a fair share of the tax burden?
2. How should we determine a person's fair share?

I suppose ideally if everyone would pay the same dollar amount to fund schools and local government services that would make it simple but that is not a feasible or realistic possibility. The cost of some things such as a tuition fee to educate children or to maintain a police and fire department would be prohibitive to many people. So we are faced with the fact that some people will pay more or less than others to support schools and local government.

Another thing is our responsibility for funding them is not dependent on whether or not we use these services. This is because society or all people benefit directly or indirectly by their existence. Given these criteria can we equitably distribute the tax burden? Tax burden concerns the amount people are paying in taxes. It is not the absolute dollar amount however! I will use the following example to illustrate this point. Two people pay \$800.00 in taxes. The first earns \$40,000.00 and the second earns \$20,000.00. Obviously the burden of paying the \$800.00 is more severe on the \$20,000.00 wage earner. The first is only paying 2% of his income and the second 4% of his income. For comparison the tax burden to each of us can be measured as the percent of our income we are paying in taxes. In the example the tax burden is not distributed equitably. Both the property tax and an income tax are based on the assumption that the more you earn the more you can afford to pay. That whatever tax system we use we cannot all expect to pay the same dollar amount. And, it is a logical thought that if you earn more you can afford to pay more. But, this is where the similarity ends. An income tax such as the State of Illinois taxes us on the money we earn. It takes into consideration our ability to pay taxes. It does distribute the tax burden equitably and relative to each of us. We all pay the same percent.

By contrast the property tax does not tax us on the money we earn but on how we have spent the money we have earned. Whether we bought a big house, a little house, or added to our home. The property tax does not take into consideration that people make varying degrees of sacrifice to buy the home of their choice. It is a false assumption that people with the same income buy homes of similar value. Furthermore, it can be shown that the property tax forces people to pay varying rates or

percents of their income regardless of the amount they earn to support schools and local government. The property tax taxes people according to their individual lifestyles.

Let's assume for a moment we had an income tax to fund schools and local government. Now assume someone dictates to us what percent each of us were going to pay but not according to our income.

But, by what kind of car we owned and what accessories were on it for example. Wouldn't this be absurd? It would even be unconstitutional.

The property tax is taxing people similar to this example when you examine it. I believe that this methodology has become out-dated for today's society. That the tax burden is no longer being applied equitably or to all those who can contribute to fund schools and local government. Yet the schools and local services are there for everyone. If you think about it the level of service we get from schools and local government is not relevant to the size of our house or it's site. What does the size of our house or the value of it have to do with our individual responsibility to fund schools and local government?

As proof of how the property tax disproportionately distributes the tax burden we only have to look at what percent of our income we are paying in property taxes and compare with others in the community. From comparisons I have done in my own community the range for homeowners is generally between 2 to 6 percent of their gross income. I have heard of some retired homeowners paying as high as 11% and they are many who don't own property that pay less than 2%. Where is the justice in this system? The property tax is really an income tax in disguise because people do pay property taxes with their income. When it is analyzed it becomes apparent how it is unfair. Consider the following examples.

1. Two people who earn the same wage - If the first bought the nicest home he could afford and the second chooses a more modest home, apartment, or trailer. The first would pay a greater amount of taxes and a greater percent of his income just by his life style. Under an income tax they would be taxed the same.
2. How people spend their extra money - If a person decides to add something to his home such as a recreation room, fireplace, or anything that might add to his family's enjoyment. He not only pays the sales tax on the material but the assessed value of his property will go up and increase his tax burden to fund schools and local government. By comparison if someone goes out and spends their extra money on drinking, gambling, or whatever their tax burden to fund schools and local government is not increased. Why should the homeowner be penalized in this way? Under an income tax people would have the freedom to spend their extra money how they choose without additional tax penalties.
3. Retired persons - They are being stripped of their future security. As the market value of their home increases so does their tax burden because they are on a fixed income. Many will not be able to keep homes that took a lifetime to pay for. Under an income tax they would have a tax they could afford.
4. Business or industry - The property tax does not allow for the diversification of business or industry. Why should one business or industry have to pay a greater percent of it's revenue in taxes to fund schools and local government simply because it needs a little more land or a larger building to conduct it's business. Who knows how inequitable their ranges of percents are?

The property tax is inflationary because the increases in assessed value are involuntary and beyond the control of the taxpayer. That the market value of houses has risen much faster than people's personal income and it is no longer a true measure of their ability to pay taxes. Did you ever stop to think we are being taxed on borrowed money? Most homeowners are only co-owners with the lending institutions. Yet we are faced with paying the taxes on the full amount.

The idea of replacing the property tax with an income tax can be thought of as shifting the tax base from property to income. Here are two good reasons for doing it.

1. Income is a larger tax base. There are more people in today's society who earn an income besides those who also own property.
2. The tax burden would be distributed equitably according to the monetary society we have today.

I recognize that they are mechanical problems in making the switch but there also are many similarities that can be shown. Many of the same mechanics can be used if adjusted for an income base.

2. A Feasible Funding Source

Since people do pay property taxes with their income, the property tax can be looked at in terms of an income tax to look at the economic feasibility of the concept. In any given area such as a township, county, or state the average percent of income that individuals and corporations are paying in property taxes can be calculated. To calculate an equivalent flat rate of income tax divide the total property taxes paid from individuals and corporations for a geographic area by their respective income bases for the same area for a given year. These average percents would generate the same amount of money as the property tax but the difference is in how it affects the individual or corporation. All would pay their respective average percent and have the same proportional tax burden rather than some paying above or below the average.

I will submit in evidence a [letter from Comptroller Roland W. Burris](#) who put together a study for me. This study indicates for the year 1977 the average percent of net income individuals and corporations would have to pay to totally replace all property taxes paid.

There were two other studies done both with the idea of replacing the property tax with the Illinois State Income Tax.

1. [Financing Local Government Through the State Income Tax](#). Done by the Illinois Legislative Council February 16, 1981 (File # 81-119). This study uses data from the years 1978 and 1979. Retired United States Representative and former State of Illinois Senator The Honorable George Sangmeister requested the study.
2. Research Memorandum done for the Local Government Finance Study Commission. Completed by the Public Policy Research Institute of Western Illinois University (December 1980). This study uses data from the years 1978 and 1979.

In these studies they did not look at the property tax in its present form to find the average percents of income individuals and corporations are paying. Because of a clause in the State of Illinois Constitution the percents quoted in these reports were dictated by a mandatory 8 to 5 ratio. This is like trying to compare apples to oranges. You cannot really make a true comparison of the facts by choosing an entirely new set of rules to make a study of the concept of replacing property taxes with an income tax. I might point out that a local income tax would not have the 8 to 5 ratio restriction. Perhaps if the state income tax is used there could be an amendment added to allow the percent rates to reflect the true average percents being paid now by individuals and corporations under the property tax system.

I have included [Mr. Roland W. Burris's letter](#) and the first report with my analysis of it for evidence.

In the report done by Western Illinois University they failed to define tax burden. Because of it I believe the report is biased against the idea of replacing property taxes with an income tax. The Western Illinois University Study stated at least six times throughout the report that the tax burden would be shifted to renters and property owners would receive windfall gains. In my opinion the idea of everyone paying the same percent of income cannot be interpreted as shifting the tax burden to anyone. If it did why do we have a state income tax? The homeowners who are paying over the average percent and would benefit do not consider this a windfall gain but justice due after all the years of paying the larger share of the tax burden. Besides all individuals having the same tax burden with a flat rate income tax, it may help stabilize rents and give renters a way to deduct local taxes that they don't have now.

The study by Comptroller Roland W. Burris dated 6-10-81 shows some impressive statistics. In the study year the average percent of income individuals would have to pay to totally replace all property taxes collected in the state was 2.8% of net income. The average homeowner pays well over this percent of their income in property taxes. The results clearly show that income is a much larger tax base and that many more people would be paying taxes to support schools and local government compared to the property tax system. The report is not intended to dictate rates but only to show the potential of an income tax as a funding source. This is a state average and additional studies would have to be done for specific taxing bodies such as schools in local areas. Also the report percentage quoted for corporations is inflated. This is because of the income figure used in computing the average percent of income corporations paid in property taxes. The corporations' income base figure used is lower than it would actually be, had they not paid property taxes or personal property tax as in the study year. Both of these taxes can be deducted as the cost of doing business resulting in a lower net income figure and therefore a higher percent.

In the studies using the state income tax with the 8 to 5 ratio criteria to determine the percent of income for individuals and corporations to replace the total property taxes paid, it appears that individuals would pay some of the taxes paid now by corporations. This fact becomes apparent when you look at the discrepancy between the individual's average percent quoted in Comptroller Burris's report 2.8% and the percent quoted in the reports using the 8 to 5 ratio 4.4%. That is 6.9% as quoted minus 2.5% the present state income tax rate equals an additional 4.4% for property tax replacement. If this pretension were true and a compromise could be reached for individuals to offset some of the taxes paid by corporations it ultimately could have a good effect. It may help attract more business and industry into our state and create more jobs. This probable consequence would increase the tax base and produce more income tax revenue. Perhaps the rates calculated initially could be reduced upon further analysis.

3. Practical in Terms of Administration and Collection

I have included two articles that present additional information about the idea implementing a local income tax.

1. [Local Tax District Income Tax presented by Illinois Department of Revenue](#) suggested structure features and related problems for a local tax district income tax (Dated 4-23-82). In addition to the Illinois Department of Revenue's Position Paper I have attached and my comments that reference the issues as stated by IDOR. See link.
2. Material from the [Wisconsin Department of Revenue's reference publication "State and Local Finance"](#).

The Wisconsin Department of Revenue's reference publication documents other states and to what degree they use an income tax. Two of the more progressive states not listed in our own department of revenue's position paper are Ohio and Pennsylvania. In Ohio about 65% of the state uses a local income tax. As an example of how versatile it is in some areas of the state it applies only to individuals and in other areas to corporations and individuals. The city of Canton in Ohio excluding the schools and the county but the municipality does not have a property tax. A city that can be compared in size to Joliet uses a local income tax as it's main revenue for it's needs police, fire protection, and etc. The tax rate or percent of income is voter referendum approved. It was adopted in 1955 at .6% the current rate is 2%. All increases have to be voter referendum approved. This is just one example of a local income tax system that works. The actual tax laws used to cover every situation of administration and collection for individuals and corporations in these other states can be modified or used directly in Illinois.

I realize there is not much support for a total replacement of property taxes in the Illinois General Assembly but there is growing support for shifting school funding to an income tax. This would be an excellent start in the right direction since school funding is approximately two thirds of a property tax bill.

In conclusion I feel that all of the proposed legislation to date has three main deficiencies:

1. The tax percent should be fixed to be a total replacement of all or whatever funds are selected. A change in the tax rate should require a referendum by the voters.
2. There should be spending limitations incorporated so if a surplus is generated in good economic times it will not be squandered. One suggestion is not to allow budgets to increase over a given percent from the previous year. The surplus money could be invested to help in poor economic times.
3. The tax revenue generated for a specific purpose should not be transferable to other funds and has legal language that prohibits it.