Illinois

# TAX HANDBOOK
## for Legislators

22nd Edition
June 2006

Illinois General Assembly
LRU
LEGISLATIVE RESEARCH UNIT

The Legislative Research Unit is the central research agency for the General Assembly. A board of 12 legislators, appointed by the Joint Committee on Legislative Support Services, supervises its operations.

A staff of researchers handles inquiries from legislators, legislative committees, and partisan staff. The staff's areas of expertise include law generally, science and technology, taxation, education, local government, economics and fiscal affairs, and the political and social history of Illinois.

Prepared by
Nicole Lisk, Senior Research Associate
Layout by
Dianna Jones, Graphic Artist
Proofing by
Jennifer Ehlers, Office Administrator

# Illinois Tax Handbook for Legislators, 2006

*TWENTY-SECOND EDITION*

Legislative Research Unit
Springfield, Illinois
Publication 324

June 2006

# *Contents*

# Illinois Tax Handbook for Legislators, 2006

This publication gives information on every significant Illinois state tax. Each is described in a separate section listing its history, rates, statutory authority, revenue collected, and disposition of proceeds. The Tax Handbook also notes federal taxes (if any) that apply to the same transactions; taxes on similar transaction in selected states (usually those with the highest and lowest rates); and taxes on the same items or transactions that local governments in Illinois are authorized to impose.

The two largest sources of state revenue are the individual income tax and the sales tax. The state lottery, although not a tax, is also listed because it is a significant source of general state revenue. Figure 1 and Table 1 on pages 4 and 5 summarize state tax collections in fiscal years 2004 and 2005. The state also collected about $1.3 billion in personal property tax replacement taxes from businesses. But that money is all distributed to local governments, so it is not reflected in Figure 1 or Table 1. Nor do Figure 1 and Table 1 reflect assessments on hospitals and nursing homes to help cover the state's costs under the Medical Assistance (Medicaid) program. Those assessments brought in $1.6 billion in fiscal year 2005. The state also received $274.1 million from the tobacco lawsuit settlement involving Illinois and other states.

Most revenue figures in this publication show receipts as recorded by the Comptroller upon deposit into the State Treasury. In a few cases, due to lack of detail in the Comptroller's figures, actual tax collections as reported by the Department of Revenue are shown instead. The Comptroller's deposits into the State Treasury for a given fiscal year may differ from tax collections that year because some tax collections for a fiscal year may not be reported to the Comptroller until the next fiscal year. But the Comptroller's deposits into the Treasury give the more accurate view of revenue from each tax over a period of time.

**FY 2005 Receipts From Four Largest Taxes**

Receipts from the four largest taxes to the state's general funds (General Revenue Fund, Common School Fund, and Educational Assistance Fund) were $959.6 million (5.3%) higher in fiscal year 2005 than in fiscal 2004. The table at the top of the next page shows that individual income tax revenue rose 7.7%; corporate income tax revenue rose 8.6%; sales tax revenue rose 3.9%; and public utility tax revenue fell 5.0%. The FY

2004 figures included $424 million received under a tax amnesty program. It brought in $272 million in corporate income, $101 million in sales, $40 million in individual income, and $11 million in public utility taxes.

| *Tax* | *FY 04 (millions)* | *FY 05 (millions)* | *% Change* |
|---|---|---|---|
| Individual income tax | $8,236.1 | $8,872.5 | 7.7% |
| Sales tax | 6,922.6 | 7,190.3 | 3.9 |
| Corporate income tax | 1,426.0 | 1,548.1 | 8.6 |
| Public utility taxes | 1,330.3 | 1,263.7 | -5.0 |
| **Total, all four taxes** | **$17,915.0** | **$18,874.6** | **5.3%** |

**Trends in FY 2006**

In the first 6 months of FY 2006 (July through December 2005), general fund receipts from the four major taxes were nearly $8.2 billion—up 7.8% from $7.6 billion in the same part of FY 2005. Individual income tax receipts were $3.553 billion (up 6.5%) and corporate income tax receipts were $554 million (up 32.2%). Sales tax receipts were $3.541 billion (up 6.2%), and public utility tax receipts were $541 million (up 5.9%).

July-December 2005:

| *Tax* | *FY 04 (billions)* | *FY 05 (billions)* | *% change* |
|---|---|---|---|
| Individual income tax | $3.337 | $3.553 | 6.5% |
| Sales tax | 3.333 | 3.541 | 6.2 |
| Corporate income tax | 0.419 | 0.554 | 32.2 |
| Public utility taxes | 0.511 | 0.541 | 5.9 |
| **Total, all four taxes** | **$7.600** | **$8.189** | **7.8%** |

**Legal Authority for Taxes**

The Illinois Constitution of 1970 says that, except as otherwise provided, the General Assembly has exclusive power to raise revenue through taxation. The Constitution authorizes the General Assembly to levy property, sales, use, franchise, privilege, income, excise, inheritance, gift, severance, and all other kinds of taxes, subject to some restrictions. The

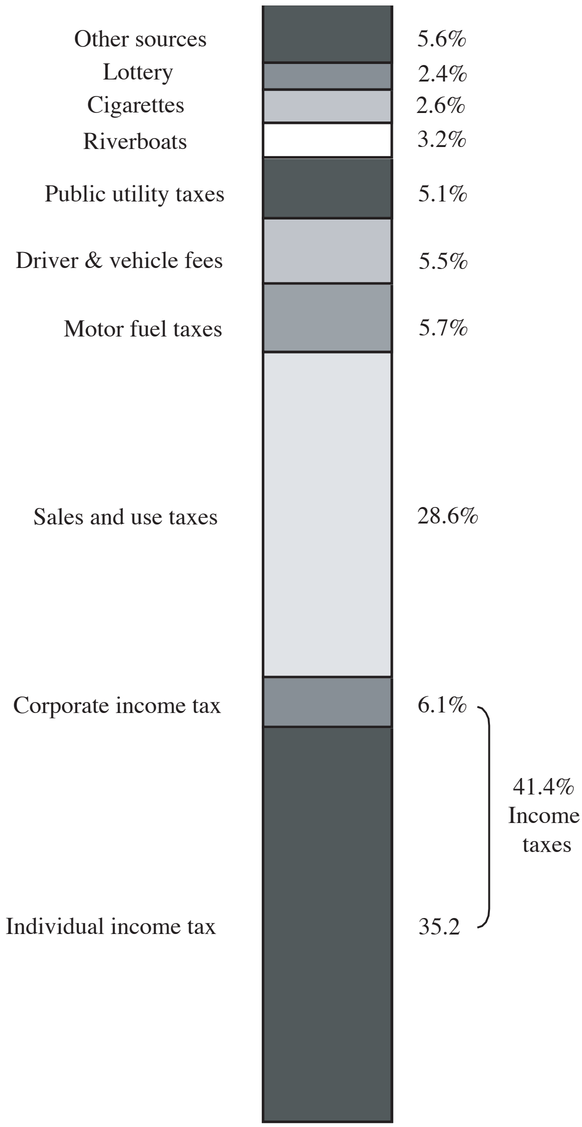
General Assembly may classify the subjects and objects of non-property taxes, but the classes must be reasonable and the subjects and objects in each class must be taxed uniformly. Exemptions, deductions, credits, refunds, and other allowances must be reasonable.

The constitutional authorization for income taxes limits the state to one income tax on individuals and one on corporations (not counting the tax to replace the corporate personal property tax). Tax rates cannot be graduated. The rate imposed on corporations cannot exceed that on individuals by a ratio of more than 8 to 5.

Local taxes in Illinois fall into two categories: those specifically authorized by statute, and those that home-rule units can impose without statutory authority. Home-rule units may impose any kind of tax not prohibited by the Constitution or specifically prohibited by law. Rate limits and procedural requirements in a law authorizing a local tax do not limit home-rule units unless that law explicitly says so. The Constitution specifically prohibits home-rule units from licensing for revenue, or imposing taxes on income or occupations, unless authorized by statute.

Note: In *People v. Olender*, decided Dec. 15, 2005, the Illinois Supreme Court struck down Public Act 88-669 (1994) for violating the single-subject requirement in the Illinois Constitution, article 4, subsection 8(d). That act had amended some revenue laws among other laws. But most of its amendments to revenue laws were minor, and the collection of state taxes does not appear to have been interrupted by the invalidations. Bills have been introduced in the 94th General Assembly to re-enact some or all of the provisions that were held invalid due to being combined into a single law.

**Figure 1: Percentages of Revenue Collected by Major State Taxes, FY 2005**



## Table 1: State Tax & Lottery Receipts, FYs 2004 & 2005

| | *FY 2004* | | *FY 2005* | | *% change* |
|---|---|---|---|---|---|
| | *Amount (millions)* | *% of total* | *Amount (millions)* | *% of total* | *FY 04-FY 05* |
| Individual income tax | $8,236.1 | 34.2% | $8,872.5 | 35.2% | 7.7% |
| Sales tax | 6,922.6 | 28.7 | 7,190.3 | 28.6 | 3.9 |
| Corporate income tax | 1,426.0 | 5.9 | 1,548.1 | 6.1 | 8.6 |
| Motor fuel tax | 1,423.8 | 5.9 | 1,434.6 | 5.7 | 0.8 |
| Driver's license & motor vehicle fees | 1,365.1 | 5.7 | 1,376.0 | 5.5 | 0.8 |
| Public utility tax | 1,330.3 | 5.5 | 1,295.7 | 5.1 | -2.6 |
| Riverboat wagering taxes & fees | 774.9 | 3.2 | 816.4 | 3.2 | 5.4 |
| Cigarette tax | 760.2 | 3.2 | 638.0 | 2.5 | -16.1 |
| State lottery | 570.1 | 2.4 | 614.0 | 2.4 | 7.7 |
| Insurance tax & fees | 431.7 | 1.8 | 399.8 | 1.6 | -7.4 |
| Estate tax | 221.7 | 0.9 | 310.4 | 1.2 | 40.0 |
| Corporation franchise tax & fees | 165.7 | 0.7 | 184.4 | 0.7 | 11.3 |
| Hotel operators' tax | 156.1 | 0.6 | 160.1 | 0.6 | 2.6 |
| Liquor tax & fees | 132.6 | 0.6 | 153.2 | 0.6 | 15.5 |
| Real estate transfer tax | 86.2 | 0.4 | 107.0 | 0.4 | 24.1 |
| Vehicle use tax | 40.3 | 0.2 | 37.1 | 0.1 | -7.9 |
| Automobile rental tax | 28.5 | 0.1 | 28.1 | 0.1 | -1.4 |
| Racing tax & fees | 12.0 | <0.1 | 11.7 | <0.1 | -2.5 |
| Pull tab & jar games tax & fees | 7.4 | <0.1 | 7.1 | <0.1 | -4.1 |
| Bingo tax & fees | 4.4 | <0.1 | 3.9 | <0.1 | -11.4 |
| Coin-operated amusement tax | 2.5 | <0.1 | 2.7 | <0.1 | 8.0 |
| Charitable games tax & license fees | 0.2 | <0.1 | 0.3 | <0.1 | 50.0 |

Note: < means "less than."

# Automobile Renting Occupation & Use Tax

The Automobile Renting Use Tax applies to the lessee of any automobile; van with capacity of 7-16 passengers; or recreational vehicle, for the privilege of using it on Illinois highways. This tax is collected by the lessor, who can be relieved of the duty of paying it by paying the Automobile Renting Occupation Tax on gross receipts from the transaction. These taxes apply only to rental agreements for periods up to 1 year, such as short-term rentals at airports, motels, etc. Administered by Department of Revenue. (35 ILCS 155/1 ff.)

**Rate and base:** 5% of automobile rental charge.

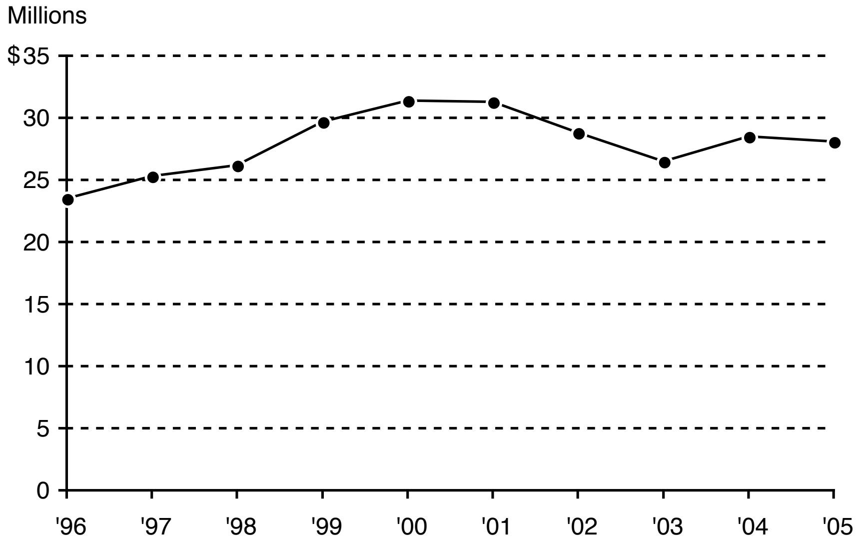
*Exemptions*

1. Rentals to governmental bodies, or charitable, religious, or educational organizations.
2. Rentals to nonprofit organizations created to provide recreation for persons over age 55.
3. Rentals in which the lessor retains possession of the automobile (such as limousine service).
4. Rentals of demonstrator cars by automobile dealers.

**History:** The state began collecting this tax at a 4% rate on January 1, 1982, simultaneously exempting vehicles that were bought for rental from sales taxation. The rate rose to 5% on July 1, 1985. A tax amnesty program in fiscal year 2004 allowed taxpayers to pay outstanding tax liabilities without penalty or interest; only $6,249 was collected.

**State revenue collected**

| *Fiscal year* | *Receipts (millions)* | *Change* | *Fiscal year* | *Receipts (millions)* | *Change* |
|---|---|---|---|---|---|
| 1996 | $23.5 | 10.3% | 2001 | $31.3 | -0.3% |
| 1997 | 25.3 | 7.7 | 2002 | 28.8 | -8.0 |
| 1998 | 26.2 | 3.6 | 2003 | 26.5 | -8.0 |
| 1999 | 29.7 | 13.4 | 2004 | 28.5 | 7.5 |
| 2000 | 31.4 | 5.7 | 2005 | 28.1 | -1.4 |




**Disposition of proceeds:** To the General Revenue Fund.

**Other taxes on same transactions**
*Federal*: None.

*Local*: Since 1982, municipalities, counties, and the Regional Transportation Authority (RTA) have been authorized to impose occupation and use taxes on automobile rentals (65 ILCS 5/8-11-7 and 5/8-11-8; 55 ILCS 5/5-1032 and 5/5-1033; and 70 ILCS 3615/4.03.1). The Metropolitan Pier and Exposition Authority imposes a 6% tax on automobile rentals in Cook County to finance McCormick Place expansion (70 ILCS 210/13(d)).

Such taxes imposed by non-home-rule municipalities and counties cannot exceed 1% of the rental charge. The RTA tax rate is limited to 1% in Cook County, and 0.25% in DuPage, Kane, Lake, McHenry, and Will Counties. (The RTA levies taxes at those maximum rates.) These taxes are collected by the state and paid to municipalities and counties. Home-rule units can impose taxes beyond these limits. Over 200 Illinois municipalities and 4 counties tax automobile rentals.

**Other states' taxes on automobile rentals**

| *State* | *Percentage* | | *Per day* |
|---|---|---|---|
| Alaska | 10.0% | | |
| Texas (up to 30 days) | 10.0 | | |
| Virginia (daily rental vehicles) | 10.0 | | |
| New Hampshire (up to 180 days) | 8.0 | | |
| North Carolina | 8.0* | | |
| Minnesota (up to 28 days) | 6.2 | | |
| Washington (up to 30 days) | 6.2† | | |
| Oklahoma (up to 90 days) | 6.1 | | |
| Florida | 6.0 | | |
| Mississippi (up to 30 days) | 6.0 | | |
| Nevada | 6.0◊ | | |
| New Jersey (up to 28 days) | 6.0 | + | $2 |
| Rhode Island (up to 30 days) | 6.0 | | |
| Arizona (up to 180 days) | 5.0 | | |
| Arkansas (up to 30 days) | 5.0 | | |
| Iowa (up to 60 days) | 5.0 | | |
| New Mexico | 5.0 | + | $2 |
| New York (up to 1 year) | 5.0 | | |
| South Carolina (up to 31 days) | 5.0 | | |
| Vermont (up to 1 year) | 5.0 | | |
| Nebraska (up to 31 days) | 4.5 | | |
| South Dakota (up to 28 days) | 4.5 | | |
| Georgia | 4.0 | | |
| Indiana (up to 30 days) | 4.0 | | |
| Montana (up to 30 days) | 4.0 | | |
| Wyoming (up to 29 days) | 4.0 | | |
| Kansas (up to 28 days) | 3.5 | | |
| Connecticut (up to 30 days) | 3.0 | + | $1 |
| Kentucky (up to 30 days) | 3.0 | | |
| Louisiana (up to 29 days) | 3.0 | | |
| North Dakota (up to 30 days) | 3.0 | | |
| Tennessee (up to 31 days) | 3.0‡ | | |
| Wisconsin (up to 30 days) | 3.0 | | |
| Utah (up to 30 days) | 2.5 | | |
| Pennsylvania (up to 29 days) | 2.0 | + | $2 |

| *State* | *Percentage* | *Per day* |
|---|---|---|
| Alabama | 1.5% | |
| Hawaii (up to 6 months) | - | $3 |
| West Virginia (up to 30 days) | - | $1 - $1.50 |

* Cities may levy an additional tax up to 1.5% as a substitute for property tax—which does not apply to vehicles being offered for short-term lease.

† Consists of 5.9% plus a 0.3% vehicle sales tax to fund transportation improvements.

◊ Some counties may add a 2% tax.

‡ Plus a 2% county surcharge.

In addition to those states, regular sales taxes apply to short-term automobile rentals in California (6.25%), Colorado (2.9% plus a 1% county short-term rental tax), Idaho (5.0%), Maine (10.0% on leases up to 1 year), Massachusetts (5.0%, plus a $10 surcharge in the cities of Boston and Revere), Michigan (6.0%), Missouri (4.225%), and Ohio (5.5%). Maryland imposes a tax of 23¢ per multiple of $2 (equaling as much as 11.5%) on automobile rentals up to 180 days.

# Bingo Tax and License Fees

Illinois gets two forms of revenue from licensed bingo games: license fees, and the bingo game receipts tax. Administered by Illinois Gaming Board in the Department of Revenue. (230 ILCS 25/1 ff.)

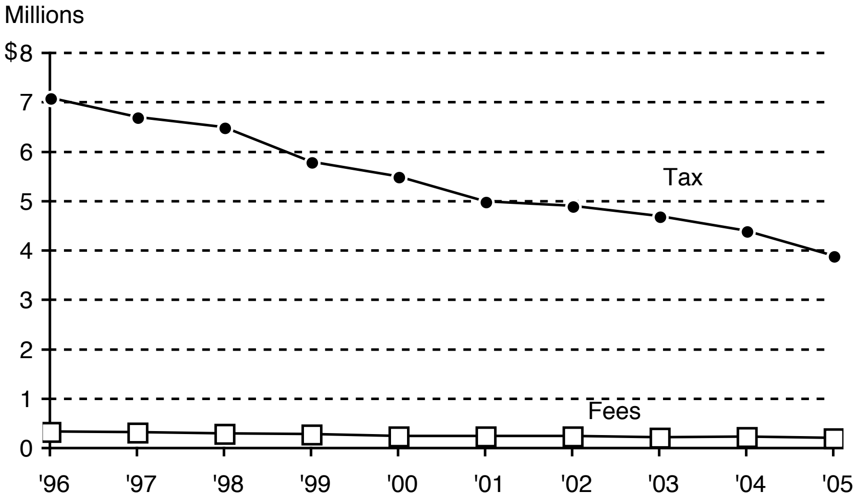
**Rate and base:**

1. Bingo license fees: (a) $200 fee for an annual or $600 for a three-year license for a nonprofit religious, charitable, labor, fraternal, educational, senior citizens', youth athletic, or veterans' organization to conduct bingo on one day per week, with up to 25 games on that day, throughout the year. (Bingo games at the Illinois State Fair or county fairs are not subject to the limits on games per day or days per week.) (b) $50 fee for a limited license ($150 for three years), issued to such an organization, for bingo games at up to two events per year, for a maximum of 5 days each time. (c) $200 fee for an annual license for anyone leasing out facilities or selling bingo equipment or supplies to licensed bingo organizations. (Municipalities that lease their facilities for bingo do not need the $200 license.)
2. Bingo game receipts tax: 5% of gross receipts from bingo games.

**History:** These taxes were enacted in 1971. The bingo game receipts tax was halved to 5% on January 1, 1979. A 2004 act allowed sales of three-year licenses. A tax amnesty program in fiscal year 2004 allowed taxpayers to pay outstanding tax liabilities without penalty or interest, but collected only $248.

**State revenue collected**

| | *License fees* | | *Bingo receipts tax* | |
|---|---|---|---|---|
| *Fiscal year* | *Receipts (thousands)* | *Receipts change* | *Receipts (millions)* | *Change* |
| 1996 | $332 | -1.2% | $7.1 | -2.7% |
| 1997 | 318 | -4.2 | 6.7 | -5.6 |
| 1998 | 300 | -5.7 | 6.5 | -3.0 |
| 1999 | 290 | -3.3 | 5.8 | -10.8 |
| 2000 | 252 | -13.1 | 5.5 | -5.2 |
| 2001 | 244 | -3.2 | 5.0 | -9.1 |
| 2002 | 246 | 0.8 | 4.9 | -2.0 |
| 2003 | 218 | -11.4 | 4.7 | -4.1 |
| 2004 | 235 | 7.8 | 4.2 | -10.6 |
| 2005 | 201 | -14.5 | 3.7 | -11.9 |




**Distribution:**
1. Bingo license fees: To the General Revenue Fund.
2. Bingo game receipts tax:
   (a) 50% to the Mental Health Fund.
   (b) 50% to the Common School Fund.

**Other taxes on bingo**
*Federal*: None.

*Local*: No tax is authorized by statute. Home-rule units apparently cannot collect license fees because of the restriction on licensing for revenue in the Illinois Constitution, art. 7, subsec. 6(e). A tax on gross receipts of bingo operators probably would also be invalid under that provision as an occupation tax.

**Other states' taxes**
Arizona, Kansas, Minnesota, Mississippi, Missouri, Montana, New Hampshire, Oklahoma, South Carolina, Texas, and Wisconsin appear to be the only states separately taxing operation of bingo games. Arizona imposes a tax of 2.5% on licensees with annual receipts up to $15,600; 1.5% on those with receipts of $15,601 to $300,000; and 1% on those with receipts over $300,000. Kansas imposes a 3% tax on bingo game licenses and a 1% tax on printed bingo cards sold to Kansas licensees. Minnesota taxes 8.5% of gross receipts minus prizes paid. The Mississippi tax on charitable bingo games ranges from 0.5% to 1% based on the classification of the charitable

organization; a separate tax of up to 2.5% of net proceeds applies to electronic bingo machines. Missouri imposes a tax of 0.2¢ per bingo card. Montana charges 1% of gross proceeds. Nebraska charges 3% of gross receipts. New Hampshire's tax is 7% of gross receipts. Oklahoma charges 1¢ per bingo card or "U-PIK-EM" game set, payable by licensed distributors and sellers of charitable games equipment. South Carolina charges either 5¢ or 16.5¢ per dollar of the face value of each bingo card, depending on the class of licensee. Texas levies a 2% tax on gross receipts from games, and 3% of gross receipts from renting facilities for bingo games. It also collects 3% of the amount or value of each prize. Wisconsin's tax is 2% of gross receipts, used to finance the state's regulatory costs.

# Charitable Games Tax and License Fees

The state gets two kinds of revenue from licensed charitable games: license fees, and the charitable games receipts tax. Charitable games covered include roulette, blackjack, poker, pull tabs, craps, bang, beat the dealer, big six, gin rummy, five-card stud poker, chuck-a-luck, keno, hold-em poker, and a merchandise wheel. No single bet at any game may exceed $10. Administered by Illinois Gaming Board in the Department of Revenue. (230 ILCS 30/1 ff.)

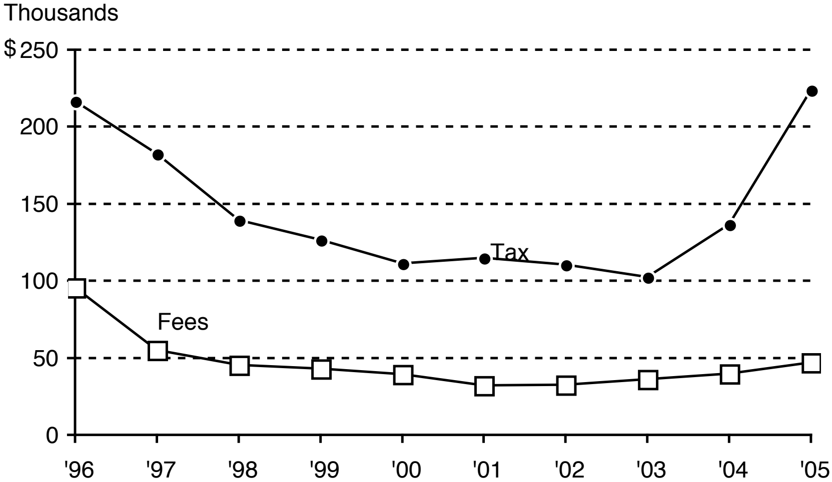
**Rate and base:**

1. Charitable games license fees: (a) $200 annual fee for a license to a nonprofit charitable, religious, fraternal, veterans', labor, or educational organization to hold up to 4 charitable-games nights per year (up to 8 per year in a county under 60,000 if there is no other suitable location for holding games within 5 miles of the premises). (b) $50 annual fee for a license issued to anyone leasing out facilities or selling supplies to licensed organizations holding charitable-games nights. (c) $500 annual fee for a license to make or supply equipment used for such games.
2. Charitable games receipts tax: 3% of gross proceeds from charitable-games nights.

**History:** The tax took effect September 1, 1986.

**State revenue collected**

| *Fiscal* | *License fees* | | *Charitable games tax* | |
|---|---|---|---|---|
| *year* | *Receipts* | *Change* | *Receipts* | *Change* |
| 1996 | $95,600 | 79.7% | $216,754 | -57.7% |
| 1997 | 55,150 | -43.3 | 182,608 | -15.8 |
| 1998 | 45,450 | -17.6 | 139,652 | -23.5 |
| 1999 | 43,000 | -5.4 | 126,436 | -9.5 |
| 2000 | 39,200 | -8.8 | 111,214 | -12.0 |
| 2001 | 32,350 | -17.5 | 114,927 | 3.3 |
| 2002 | 32,750 | 1.2 | 110,577 | -3.8 |
| 2003 | 36,200 | 10.5 | 102,521 | -7.3 |
| 2004 | 39,600 | 9.4 | 136,583 | 33.2 |
| 2005 | 47,200 | 19.2 | 224,002 | 64.0 |




**Disposition:** To the Illinois Gaming Law Enforcement Fund.

**Other taxes on charitable games**
*Federal*: None.

*Local*: No tax is authorized by statute. Home-rule units probably cannot collect license fees due to the restriction on licensing for revenue in the Illinois Constitution, art. 7, subsec. 6(e). A tax on the gross receipts of charitable-games operators probably would also be invalid under the same subsection as an occupation tax.

Counties and municipalities are authorized to license and regulate raffles held by nonprofit charitable, educational, religious, fraternal, veterans', labor, and some kinds of business organizations (230 ILCS 15/1 ff.).

**Other states' taxes**
At least eight states tax proceeds of charitable games. Colorado imposes a tax at a rate set by regulation, but limited to 40% of adjusted gross proceeds (receipts minus payments to players). Gross receipts of charitable games are also taxed by New Mexico (10%), Minnesota (8.5%), and Kentucky (0.4%). Oklahoma charges a tax of 10% on the price paid for all charity game equipment except bingo faces, U-PIK-EM bingo game sets, and break-open ticket games. Nebraska has three rates: 3% of gross receipts from bingo; 1% of definite profit from pickle cards; and 2% of gross receipts from keno, small lotteries, and raffles. North

Dakota taxes charitable games at four rates: 5% of gross receipts up to $200,000; 10% of receipts from $200,001 to $400,000; 15% of receipts from $400,001 to $600,000; and 20% of receipts over $600,000. New Hampshire imposes a tax of 40% of the wholesale cost of "lucky seven" tickets sold by charitable organizations.

# Cigarette and Other Tobacco Taxes

A matching pair of taxes applies to cigarettes: the cigarette tax, and the cigarette use tax. Wholesale distributors collect the cigarette tax from retailers, who collect the use tax from customers. Retail sellers are relieved of paying the use tax if they pay the cigarette tax to distributors. Ultimately, distributors are responsible for sending the money to the state. Administered by Department of Revenue. (Cigarette tax, 35 ILCS 130/1 ff.; cigarette use tax, 35 ILCS 135/1 ff.)

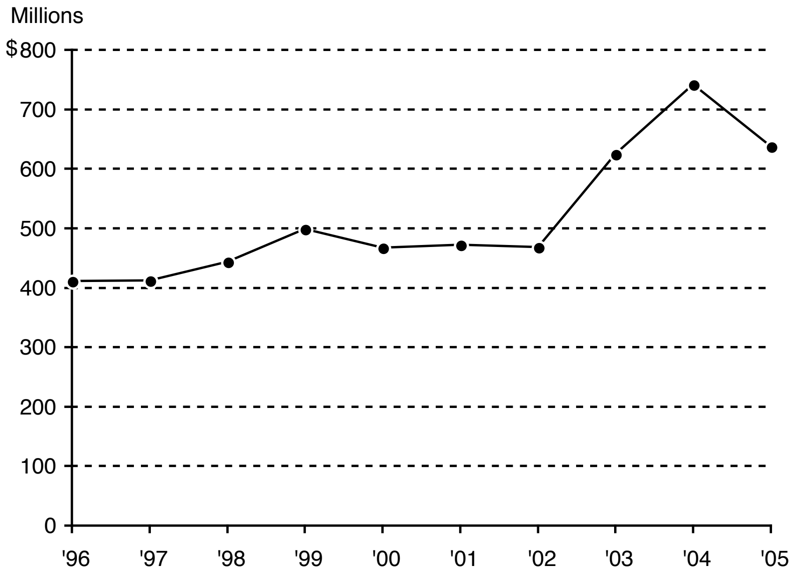
**Rate and base:** 4.9¢ per cigarette (98¢ per package of 20).

**History:** The cigarette tax was enacted in 1941 at a rate of 0.1¢ per cigarette (2¢ per package of 20). The use tax was added in 1951. Rate changes since then are shown below. (The rate increase from 2.9¢ to 4.9¢ per cigarette took effect July 1, 2002—the start of fiscal year 2003.) In fiscal year 2004, a tax amnesty program allowed taxpayers to pay outstanding tax liabilities with no penalties or interest, but it collected only $26.

| *Year* | *Per cigarette* | *Per pack of 20* | *Year* | *Per cigarette* | *Per pack of 20* |
|---|---|---|---|---|---|
| 1941 | 0.10¢ | 2¢ | 1969 | 0.6¢ | 12¢ |
| 1947 | 0.15 | 3 | 1985 | 1.0 | 20 |
| 1959 | 0.20 | 4 | 1989 | 1.5 | 30 |
| 1960 | 0.15 | 3 | 1993 | 2.2 | 44 |
| 1961 | 0.20 | 4 | 1997 | 2.9 | 58 |
| 1965 | 0.35 | 7 | 2002 | 4.9 | 98 |
| 1967 | 0.45 | 9 | | | |

**State revenue collected**

| *Fiscal year* | *Receipts (millions)* | *Change* | *Fiscal year* | *Receipt (millions)* | *Change* |
|---|---|---|---|---|---|
| 1996 | $411.7 | -1.8% | 2001 | $472.6 | 1.1% |
| 1997 | 412.7 | 0.2 | 2002 | 468.8 | -0.8 |
| 1998 | 443.7 | 7.5 | 2003 | 624.9 | 33.3 |
| 1999 | 499.1 | 12.5 | 2004 | 741.8 | 18.7 |
| 2000 | 467.3 | -6.4 | 2005 | 638.0 | -14.0 |




**Distribution:**

1. Beginning in 2006, 1¢ per pack of 20 cigarettes (.05¢ per cigarette) to the General Revenue Fund.
2. $9 million per month of the amount resulting from the increase enacted in 1985, to the Common School Fund.
3. All additional revenue from the 1997 increase of 14¢ per pack, to the Common School Fund.
4. An amount that when added to the amount paid into the Common School Fund equals $33.3 million, to the General Revenue Fund.
5. Remainder:
   (a) any unpaid amounts required to be paid into the General Revenue Fund for past months;
   (b) $5 million per month to the School Infrastructure Fund beginning April 1, 2003;
   (c) any unpaid amounts required to be paid into the School Infrastructure Fund for past months;
   (d) any unpaid amounts required to be paid into the Long-Term Care Provider Fund.

**Other taxes on cigarettes**

*Federal*: The federal tax is 39¢ per pack of 20 cigarettes.

*Local*: State law authorizes a municipal cigarette tax of 1¢ per package of 20, but it cannot be imposed by municipalities in which the state already collects a municipal home-rule retailers' occupation (sales) tax (65 ILCS 5/8-11-3). Home-rule units can collect their own taxes on cigarettes. Chicago collects 68¢ per pack of 20 (raised from 48¢ on January 10, 2006), and Cook County $2.00 (up from $1.00 on March 1, 2006). The Cook County tax is collected in both Chicago and its suburbs. Combined rates are:

| | *Chicago* | *Cook County suburbs* | *Rest of state* |
|---|---|---|---|
| City | $ .68 | - | - |
| County | 2.00 | $2.00 | - |
| State | .98 | .98 | $ .98 |
| Federal | .39 | .39 | .39 |
| Totals | $4.05 | $3.37 | $1.37 |

**Other states' taxes**
States' taxes per pack of 20 cigarettes on January 1, 2006 were:

| | | | |
|---|---|---|---|
| Rhode Island | $2.46 | Kansas | $.79 |
| New Jersey | 2.40 | Wisconsin | .77 |
| Washington | 2.025 | Utah | .695 |
| Maine | 2.00 | Nebraska | .64 |
| Michigan | 2.00 | Arkansas | .6025† |
| Montana | 1.70 | Wyoming | .60 |
| Alaska | 1.60 | Idaho | .57 |
| Connecticut | 1.51 | Indiana | .555 |
| Massachusetts | 1.51 | Delaware | .55 |
| New York | 1.50 | West Virginia | .55 |
| Minnesota | 1.485* | South Dakota | .53 |
| Hawaii | 1.40 | North Dakota | .44 |
| Pennsylvania | 1.35 | Alabama | .425 |
| Ohio | 1.25 | Texas | .41 |
| Vermont | 1.19 | Georgia | .37 |
| Arizona | 1.18 | Iowa | .36 |
| Oregon | 1.18 | Louisiana | .36 |
| Oklahoma | 1.03 | Florida | .339 |
| Maryland | 1.00 | Kentucky | .301† |
| **Illinois** | **.98** | North Carolina | .30◊ |
| New Mexico | .91 | Virginia | .30 |
| California | .87 | Tennessee | .2005† |
| Colorado | .84 | Mississippi | .18 |
| Nevada | .80 | Missouri | .17 |
| New Hampshire | .80 | South Carolina | .07 |

* Rate is $1.23 per pack plus 25.5¢ sales tax added to the wholesale price for tax stamp.
† Includes an additional $12.50 per 1,000 cigarettes (1.25¢ per cigarette) in Arkansas, and additional enforcement and administrative fees of 0.1¢ per pack in Kentucky and 0.005¢ per pack in Tennessee.
◊ North Carolina's rate rises to 35¢ on July 1, 2006.

**Other Tobacco Products**
Illinois taxes other tobacco products including cigars; cheroots; stogies; perique, granulated, plug cut, crimp cut, ready rubbed, and other smoking tobacco; snuff or snuff flour; cavendish; plug and twist tobacco; fine-cut and other chewing tobaccos; and other forms of tobacco usable for chewing or smoking in a pipe or otherwise. (35 ILCS 143/1 ff.)

**Rate and base:** 18% of wholesale price (distributor's cost price for the products).

**History:** The tax was enacted in 1993. In January 1995 a trial judge held that it violated the U.S. Constitution's Commerce Clause because the law defined the distributor's cost price for these products in such a way that an Illinois manufacturer might have a lower cost price (and thus a lower tax base) than a distributor of the products from out of state. That tax was repealed in 1995 and replaced with a new tax avoiding the defects in the 1993 law. The rate was reduced from 20% to 18% of the wholesale price of these tobacco products.

A trial judge then held that the 1995 law violated the single-subject requirement of the Illinois Constitution (article 4, subsec. 8(d)). The Department of Revenue ceased collecting the tax, and no revenue was collected in fiscal year 1999. But the Illinois Supreme Court on July 1, 1999 reversed that decision and upheld the 1995 law (*Arangold v. Zehnder*, 187 Ill. 2d 341, 718 N.E.2d 191 (1999)). All revenues for fiscal years 1999 and later were held in a special account. A total of $74.9 million (the amount collected since FY 1999) was deposited into the Long-Term Care Provider Fund in fiscal year 2003.

**State revenue collected**

| *Fiscal year* | *Receipts (millions)* | *Change* | *Fiscal year* | *Receipts (millions)* | *Change* |
|---|---|---|---|---|---|
| 1996 | $ 9.9 | 120.0% | 2001 | $17.3 | -1.1% |
| 1997 | 15.8 | 59.6 | 2002 | 17.8 | 2.9 |
| 1998 | 12.5 | -20.9 | 2003 | 18.3 | 2.8 |
| 1999 | 0.0 | -100.0 | 2004 | 18.4 | 0.5 |
| 2000 | 17.5 | ∞ | 2005 | 18.4 | 0.0 |

Note: The infinity symbol (∞) for FY 2000 reflects the fact that collections rose from zero the preceding year.


**Disposition:** Long-Term Care Provider Fund.

**Other taxes on other tobacco products**

*Federal:*

| *Class* | *Rate* |
|---|---|
| Cigars | |
| small (under 3 lbs. per 1,000) | $1.828 per 1,000 cigars |
| large (over 3 lbs. per 1,000) | 18.063% of wholesale price (limited to $48.75 per 1,000) |
| Smokeless tobacco | |
| snuff | 58.5¢ per pound |
| chewing tobacco | 19.5¢ per pound |
| Pipe tobacco | 1.0969¢ per pound |

*Local*: None.

**Other states' taxes**

All states except one (Pennsylvania) tax forms of tobacco other than cigarettes. Among the 40 states that tax all tobacco products at a fixed percentage of price (as Illinois does for non-cigarette products), the range is from 3% in North Carolina to 75% in Alaska and Washington. States' taxes on other tobacco products on January 1, 2006 are shown below.

**Uniform rate on all non-cigarette tobacco products**

Key:
WP = wholesale price
MP = manufacturer's price
PV = product value

| | | | | | |
|---|---|---|---|---|---|
| Alaska | 75% | WP | Iowa | 22 % | WP |
| Washington | 75 | WP | Connecticut† | 20 | WP |
| Minnesota | 70 | WP | Nebraska | 20 | WP |
| Oregon | 65 | WP | Wyoming◊ | 20 | WP |
| Montana | 50 | WP | New Hampshire | 19 | WP |
| California* | 46.76 | WP | **Illinois** | **18** | **WP** |
| Vermont | 41 | MP | Indiana | 18 | WP |
| Hawaii | 40 | WP | Ohio | 17 | WP |
| Idaho | 40 | WP | Delaware | 15 | WP |
| Rhode Island | 40 | WP | Maryland | 15 | WP |
| Colorado | 40 | MP | Mississippi | 15 | MP |
| New York | 37 | WP | Kansas | 10 | WP |
| Utah | 35 | MP | South Dakota | 10 | WP |
| Michigan | 32 | WP | Virginia | 10 | WP |
| Arkansas | 32 | MP | Missouri | 10 | MP |
| Nevada | 32 | WP | Kentucky | 7.5 | WP |
| New Jersey | 30 | WP | West Virginia | 7 | WP |
| Florida | 25 | WP | Tennessee | 6.6 | WP |
| New Mexico | 25 | PV | South Carolina | 5 | MP |
| Wisconsin | 25 | MP | North Carolina | 3 | WP |

* California's rate is adjusted each July 1.
† Snuff tobacco is taxed at 40¢ per ounce.
◊ Or 10% of retail price.

**Rates vary by type of product**

| | | |
|---|---|---|
| Alabama | Cigars* | 4.0-40.5¢ per 10 cigars |
| | Tobacco and snuff | 0.6-5.25¢ per ounce |
| Arizona | Cigars* | 26.3¢-$2.60 per 20 cigars |
| | Tobacco and snuff | 13.3¢ per ounce |
| Georgia | Little cigars | 2.5¢ per 10 cigars |
| | Other cigars | 23% of WP |
| | Tobacco | 10% of WP |
| Louisiana | Cigars | 8-20% of MP |
| | Tobacco and snuff | 33% of MP |
| Maine | Chewing tobacco and snuff | 78% of WP |
| | Smoking tobacco and cigars | 20% of WP |
| Massachusetts | Smokeless tobacco | 90% of WP |
| | Smoking tobacco and cigars | 30% of WP |
| North Dakota | Tobacco/Cigars | 28% of WP |
| | Chewing tobacco and snuff | 16-60¢ per ounce |
| Oklahoma | Cigars* | 27-90¢ per 10 cigars |
| | Tobacco and snuff | 30-40% of factory list price |
| Texas | Cigars* | 1-15¢ per 10 cigars |
| | Tobacco and snuff | 35.213% of MP |

* The rate on cigars varies with their selling prices.

# Coin-Operated Amusement Device and Redemption Machine Tax

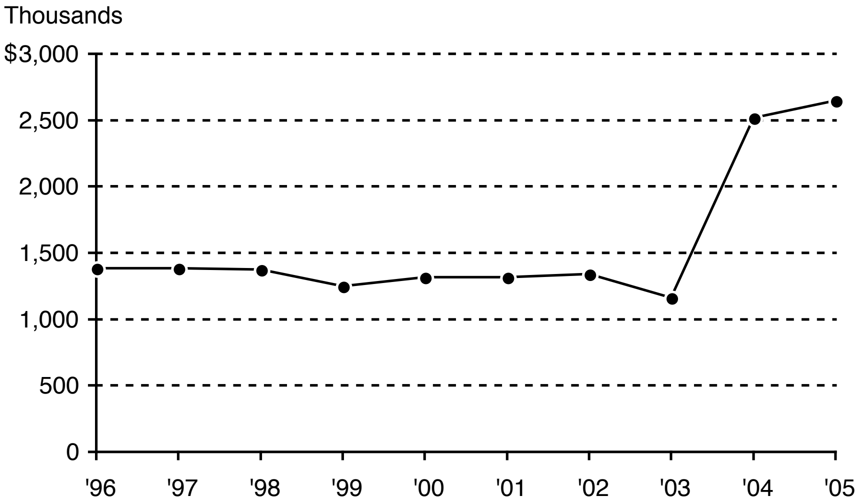
The tax is imposed on the privilege of operating coin-operated amusement devices (video games, jukeboxes, pinball and redemption machines, and the like) that use coins, tokens, chips, or similar objects. Administered by Department of Revenue. (35 ILCS 510/1 ff.)

**Rate and base:** $30 per machine per year. All licenses expire each July 31.

**History:** The tax was enacted in 1953 at rates of $10 to $50 for each machine depending on its type. In 1963 that was simplified into a privilege tax of $10 per coin-receiving slot. In 1989 it was briefly changed to $25 (then reduced to $15) per machine. In 1992, "redemption machines" (devices involving throwing, rolling, shooting, etc., a ball into a hole or at a target to win a prize valued at no more than $5, or 7 times the cost of a single play) were legalized and added to the tax base. In 2003 the rate was doubled to $30 per machine. (That increase took effect June 20, 2003—10 days before the end of fiscal year 2003—so very little of it is reflected in the revenue collections shown below for that fiscal year.)

**State revenue collected**

| *Fiscal year* | *Receipts (thousands)* | *Change* | *Fiscal year* | *Receipts (thousands)* | *Change* |
|---|---|---|---|---|---|
| 1996 | $1,384.4 | 4.4% | 2001 | $1,316.4 | 0.0% |
| 1997 | 1,384.9 | 0.0 | 2002 | 1,339.9 | 1.8 |
| 1998 | 1,374.7 | -0.7 | 2003 | 1,164.1 | -13.1 |
| 1999 | 1,249.8 | -9.1 | 2004 | 2,519.6 | 116.4 |
| 2000 | 1,316.4 | 5.3 | 2005 | 2,650.3 | 5.2 |




**Disposition:** To the General Revenue Fund.

**Other taxes on coin-operated amusement machines**
*Federal*: None.

*Local*: Illinois law permits municipalities to impose taxes or license fees on amusement devices (65 ILCS 5/11-55-1). Counties can impose such taxes and fees in unincorporated areas (55 ILCS 5/5-1076).

**Other states' taxes**
Five states impose annual taxes on each coin-operated amusement device; six states tax gross receipts from these devices. Arkansas and South Dakota do both.

| *State* | *Rate per machine* | *State* | *Percent of gross receipts* |
|---|---|---|---|
| Oklahoma | $40 | West Virginia | 6.0% |
| Nebraska | 25 | Connecticut | 6.0 |
| Massachusetts | 20 | Iowa | 5.0 |
| South Dakota | 12 | Arkansas | 3.0 |
| Arkansas | 5 | Florida | 4.0 |
| | | South Dakota | 4.0 |

In addition to taxes on gross receipts and per machine, Arkansas charges a license fee of $500 for operators of up to three devices and $1,000 for operators of more than three devices. Virginia allows local taxes to be imposed on coin-operated amusement devices. The tax is limited to $200 for 10 or more machines (it is less than $200 for fewer than 10 machines). Localities may also impose gross receipts taxes on amusement device operators within their territory. New Hampshire allows towns to set licensing fees for coin-operated amusement devices.

# Corporation Franchise Taxes and Fees

Each corporation doing business in Illinois, whether it is domestic (incorporated in Illinois) or foreign (incorporated elsewhere), must pay an annual franchise tax. The tax is also imposed when a corporation starts doing business in Illinois. An additional franchise tax is due when a corporation changes its capital structure or engages in merger or consolidation activity. Administered by Secretary of State. (805 ILCS 5/15.05 ff.)

**Rate and base:** Rates are based on a corporation's paid-in capital (the total amount paid to the corporation by initial buyers of shares):

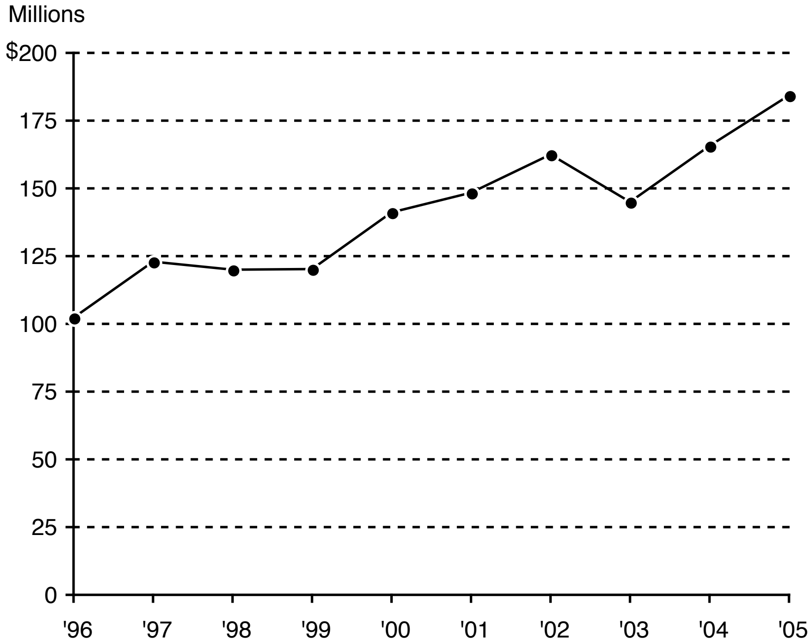
1. Initial franchise tax: 0.15% of paid-in capital.
2. Additional franchise tax: 0.15% of any increases in paid-in capital during the year.
3. Annual franchise tax: 0.1% of paid-in capital each year.

**History**

1. Initial franchise tax: From 1934 through 1966 the rate was 0.05% of stated capital and paid-in surplus. In 1967 it was doubled to 0.1%, and in 1991 it rose again to 0.15%.
2. Additional franchise tax: From 1934 to 1966 the rate was 0.05% of the increase in the sum of stated capital and paid-in surplus. In 1967 it was doubled to 0.1%. In 1991 the rate rose again to 0.15%.
3. Annual franchise tax: From 1934 to June 30, 1983 the rate was 0.05% of stated capital and paid-in surplus. On that date it was doubled to 0.1%.

**State revenue collected**

| *Fiscal year* | *Receipts (millions)* | *Change* | *Fiscal year* | *Receipts (millions)* | *Change* |
|---|---|---|---|---|---|
| 1996 | $102.3 | -2.2% | 2001 | $148.3 | 5.1% |
| 1997 | 122.9 | 20.1 | 2002 | 162.4 | 9.5 |
| 1998 | 120.1 | -2.3 | 2003 | 144.9 | -10.8 |
| 1999 | 120.2 | 0.1 | 2004 | 165.7 | 14.4 |
| 2000 | 141.1 | 17.4 | 2005 | 184.4 | 11.3 |




**Distribution:**
1. 98% to the General Revenue Fund.
2. 2% to the Corporate Tax Refund Fund.

**Other corporate franchise taxes**

*Federal*: None.

*Local*: Local taxation of invested capital of large corporations would be impractical.

**Other states' taxes**

All states impose a variety of initial and annual franchise taxes on corporations based on their capital stock and paid-in surplus. Tax schedules vary considerably among states.

# Driver's License and Vehicle Fees

The state imposes a wide variety of fees on operators of motor vehicles. Administered by Secretary of State. (625 ILCS 5/2-119, 5/3-801 to 5/3-834, and 5/6-118)

**Rates and bases:** Some fees are flat amounts per driver or vehicle; others vary by vehicles' maximum load capacity. Fees are annual except as otherwise noted.

| | |
|---|---|
| **Driver's License Fees** | |
| Original driver's license (4 years) | $ 10 |
| Renewal (4 years) | 10 |
| License or renewal—age 69 to 80: | 5 |
| age 81 to 86 (2 years) | 2 |
| age 87 or over | 0 |
| Original driver's license or renewal— | |
| age 18, 19, or 20 (lasts 3 months past age 21) | 5 |
| Instruction permit—original: | 20 |
| age 68 or below, previously licensed in | |
| Illinois but not now licensed | 10 |
| age 69 or over | 5 |
| Changing driving classification | 5 |
| Restricted driving permit | 8 |
| Duplicate or corrected license or permit | 5 |
| Reinstatement fees after: | |
| DUI suspension | 250 |
| other suspension | 70 |
| revocation | 500 |

| | |
|---|---|
| **Vehicle Registration Fees** | |
| Passenger car | $78 |
| Delinquent vehicle registration renewal | 20 |
| Person receiving a "circuit breaker" grant | 24 |
| Electric vehicle (2 years) | 35 |
| Antique Vehicle (2 years) | 13 |
| Duplicate plate (without sticker) | 6 |
| Duplicate plate lost with sticker | 26 |
| Pair of duplicate plates with sticker | 29 |
| Duplicate sticker | 20 |

**Charges for special plates (in addition to regular fee)**

| | |
|---|---|
| Personalized plates | $47 |
| Annual renewal | 7 |
| Vanity plate | 94 |
| Annual renewal | 13 |
| Custom Vehicle or Street Rod plate | 15 |
| Gold Star plate,* WWII, Korean War, Vietnam War, and Universal veteran plate | 15 |
| Annual renewal | 0 |
| September 11, collegiate, environmental, Illinois-Michigan Canal, Pet Friendly, Route 66, sporting series, Wildlife Prairie Park, violence prevention, youth park district, Lewis and Clark Bicentennial, Public Broadcasting Stations, and Pan Hellenic plates | 40 |
| Annual renewal | 27 |
| Mammogram, Master Mason, Organ Donor, Police Memorial, Knights of Columbus, Hospice, Chicago and Northeast District Council of Carpenters, and Stop Neuroblastoma plates | 25 |
| Annual renewal | 25 |
| Illinois Firefighters memorial plate | 27 |
| Annual renewal | 17 |
| Marine Corps plate | 20 |
| Annual renewal | 20 |
| Mayor/Village President, POW/MIA, West Point Bicentennial and Deceased Police Officer or Firefighter plate | 15 |
| Annual renewal | 2 |
| Education plate | 40 |
| Annual renewal | 40 |
| D.A.R.E. plate | 45 |
| Annual renewal | 29 |
| Amateur radio (first issuance) plate | 4 |
| Illinois Congressional Delegation Retired Member plate | 15 |
| Annual renewal | 2 |

* Beginning in registration year 2007 (calendar year 2006 for vehicles registered annually), there is no additional fee for a Gold Star Plate; only regular registration fees apply.

Vehicle Registration Fees (cont'd)

| | |
|---|---|
| **Motorcycles** (in addition to regular fee) | |
| Vanity plate | $ 50 |
| Personalized plate | 25 |
| | |
| **Trailers only** | |
| Up to 3,000 lbs. | 18 to |
| to 40,000 lbs. | 1,502 |
| | |
| **Vehicles with permanently mounted equipment** | |
| (trucks with mounted facilities, cranes, etc.) | |
| Up to 10,000 lbs. | 45 to |
| to 80,000 lbs. | 385 |
| | |
| **Recreational Vehicles** | |
| Up to 8,000 lbs. | 78 to |
| to 10,000 lbs. or more | 102* |
| | |
| **Camping or travel trailers** | |
| Up to 3,000 lbs. | 18 to |
| to 10,000 lbs. or more | 50* |
| | |
| **Farm trucks** | |
| Up to 16,000 lbs. | 150 to |
| to 80,000 lbs. | 1,490 |
| | |
| **Farm trailers** | |
| Up to 10,000 lbs. | 60 to |
| to 36,000 lbs. | 650 |
| | |
| **Commercial vehicles—bus, truck, or truck trailers** | |
| Up to 8,000 lbs. | 78 to |
| to 80,000 lbs. with 5 or more axles | 2,790 |

* A person getting a "circuit breaker" grant can register one vehicle up to 8,000 pounds for half the fee shown.

The owner of a commercial vehicle has the option of buying a license based on how far the vehicle travels per year. A $10 registration fee is added to the following rates by vehicle weight:

| *Gross weight of vehicle and load* | *Minimum guaranteed mileage weight tax* | *Maximum mileage under guaranteed tax* | *Mileage weight tax for mileage over guaranteed mileage* |
|---|---|---|---|
| **Bus, truck, or truck tractor** | | | |
| Up to 12,000 lbs. to 80,000 lbs. | $ 83 to 1,425 | 5,000 to 7,000 | 2.6¢ to 27.5¢ |
| **Trailer** | | | |
| Up to 14,000 lbs. to 40,000 lbs. | $ 85 to 760 | 5,000 to 7,000 | 3.1¢ to 15.0¢ |

A commercial distribution fee equal to 36% of total taxes is charged for use of the public highways, state infrastructure, and state services. That fee declined to 21.5% for registrations from July 1, 2005 until July 1, 2006, and is to decline to 14.35% on July 1, 2006. The fee applies to commercial vehicles over 8,000 lbs., and to any under 8,000 lbs. that have claimed the sales and use tax exemption for rolling stock.

**History:** When Illinois motor vehicle laws were codified in 1919, license fees for cars ranged from $8 to $25 depending on horsepower (as calculated by a formula). Fees for commercial vehicles ranged from $12 to $60 depending on weight. The fees rose over the years, but did not change from 1967 until 1984.

A revised fee schedule took effect January 1, 1984. License fees for small cars rose from $18 to $36 initially, and to $48 the next year. The fee for large cars rose from $30 to $48 immediately. Graduated fees for large commercial vehicles rose by as much as 66% (for semitrailers up to 40,000 pounds), and fees for recreational vehicles weighing over 10,000 pounds rose 44%.

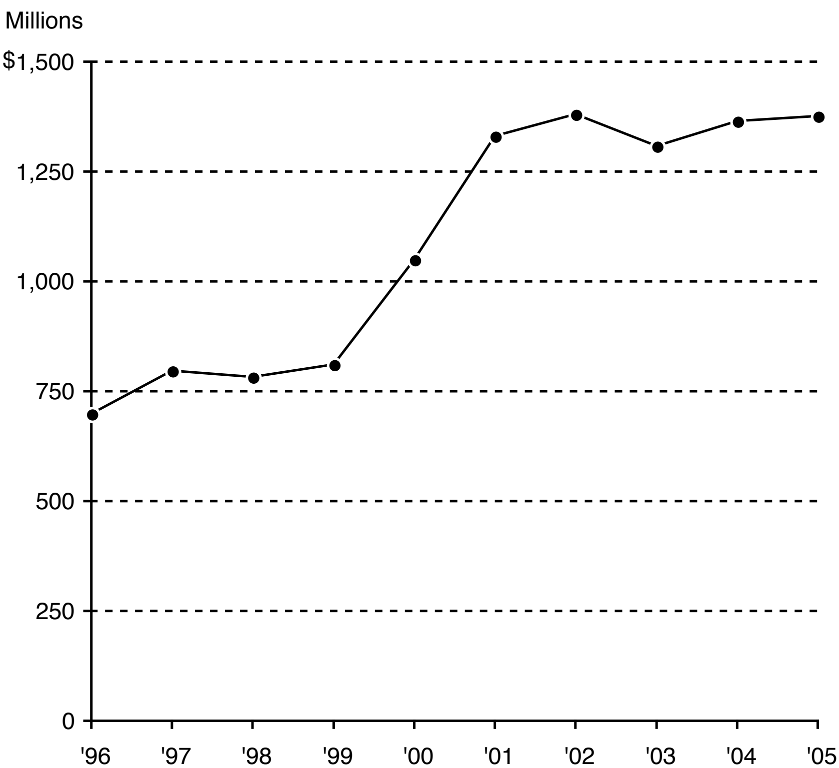
In 1999, motor vehicle fees were again significantly raised. The annual passenger car registration fee rose from $48 to $78. Another 1999 law substantially raised annual registration fees for commercial vehicles.

In 2003, P.A. 93-32 significantly raised motor vehicle license reinstatement fees. It also added several special plates. Also in 2003, P.A. 93-23 added a commercial distribution fee equal to 36% of total taxes owed for commercial vehicles. (As noted above, that percentage is set to decline to 21.5% in July 2005 and 14.35% in July 2006.) A delinquent registration fee of $20 was added by P.A. 93-840 (2004).

The original driver's license fee was $1. The current fee of $10 for a 4-year license was enacted in 1983.

**State revenue collected**

| *Fiscal year* | *Receipts (millions)* | *Change* | *Fiscal year* | *Receipts (millions)* | *Change* |
|---|---|---|---|---|---|
| 1996 | $ 699.1 | -4.8% | 2001 | $1,330.7 | 26.8% |
| 1997 | 796.4 | 13.9 | 2002 | 1,380.1 | 3.7 |
| 1998 | 782.9 | -1.7 | 2003 | 1,307.8 | -5.2 |
| 1999 | 811.0 | 3.6 | 2004 | 1,365.1 | 4.4 |
| 2000 | 1,049.2 | 29.4 | 2005 | 1,376.0 | 0.8 |



**Distribution:**

1. 37% of all registration fees and taxes received by the Secretary of State to the State Construction Account Fund.
2. Beginning January 1, 2005, $20 from each delinquent registration fee to the General Revenue Fund.
3. Of new revenues from additional personalized plate fees:
   (a) 50% to Special License Plate Fund.
   (b) 50% to General Revenue Fund.
4. $16 from each original driver's instruction permit, $5 from each original driver's license, $5 from each driver's license renewal, and $4 from each restricted driving permit to the Driver's Education Fund.
5. All money from salvage certificates to the Common School Fund.
6. 27% of each annual motorcycle registration fee (or 27% of each semiannual fee) to the Cycle Rider Safety Training Fund.
7. $6 of each original commercial driver's license, renewal license, or instruction permit fee to the Commercial Driver's License Information System/American Association of Motor Vehicle Administrators Network Trust Fund.
8. $20 of the total fee for a commercial driver's license or commercial driver's instruction permit to the Motor Carrier Safety Inspection Fund.
9. To the Drunk and Drugged Driving Prevention Fund:
   (a) $30 of each $250 reinstatement fee after suspension due to DUI.
   (b) $190 of each $500 reinstatement fee for a second or subsequent revocation.
10. To the General Revenue Fund:
    (a) $190 of each $250 reinstatement fee after suspension due to DUI.
    (b) $440 of each $500 reinstatement fee for a first revocation.
    (c) $310 of each $500 reinstatement fee for a later revocation.
    (d) $40 of each $70 reinstatement fee for other suspensions.
11. $30 of each $70 reinstatement fee for other suspensions under the Family Financial Responsibility Law, to the Family Financial Responsibility Fund.
12. From each certificate of title, and each duplicate and corrected certificate:
    (a) $48 to the Road Fund.
    (b) $4 to the Motor Vehicle License Plate Fund.
    (c) $2 to the Park and Conservation Fund.

13. Custom Vehicle, Street Rod, Bronze Star, Universal Charitable Organization, Mayor/Village President, Deceased Police Officer or Fire Fighter, Vietnam Veteran, and West Point Bicentennial license plate fees to the Secretary of State Special License Plate Fund.
14. Korean War Veteran license plate: $13 to the State Special License Plate Fund and $2 to the Korean War Memorial Construction Fund.
15. Initial Illinois Congressional Delegation Retired Member license plate fee ($15) to the Secretary of State Special License Plate Fund. Annual renewal ($2) to the Retired Members of the Illinois Congressional Delegation Fund.
16. Pet Friendly license plate: $25 from initial plate and $25 from annual renewal to Pet Population Control Fund.
17. Master Mason plates: $10 from initial registration and $23 from annual renewal to the Master Mason Fund.
18. Knights of Columbus plates: $10 from initial registration and $23 from annual renewal to the Knights of Columbus Fund.
19. Mammogram license plate: $10 from initial registration and $23 from annual renewal to the Mammogram Fund.
20. Illinois Police Memorial license plate: $10 from initial registration and $23 from annual renewal to the Police Memorial Committee Fund.
21. Organ Donor Awareness license plate: $10 from initial registration and $23 from annual renewal to the Organ Donor Awareness Fund.
22. Hospice license plate: $10 from initial registration and $23 from annual renewal to the Hospice Fund.
23. Chicago and Northeast Illinois District Council of Carpenters license plate: $10 from initial registration and $23 from annual renewal to the Chicago and Northeast Illinois District Council of Carpenters Fund.
23. Education license plate: $25 from initial registration and $38 from annual renewal to the Illinois Future Teacher Corps Scholarship Fund.
24. U.S. Marine Corps license plate: $5 from initial registration and $18 from annual renewal to the Marine Corps Scholarship Fund.
25. D.A.R.E. license plate: $10 from initial registration and $9 from annual renewal to each of the following funds: the State D.A.R.E. Fund, County D.A.R.E. Fund (if the county in which the applicant lives has a D.A.R.E. program—otherwise to the State D.A.R.E. fund), and Municipal D.A.R.E. fund (if the municipality in which the applicant lives has a D.A.R.E. program—otherwise to the County D.A.R.E. program).

26. Illinois and Michigan Canal Plates: $25 from initial plate and $25 from annual renewal to the Illinois and Michigan Canal Fund.
27 Lewis and Clark Bicentennial license plate: $25 from initial plate and $25 from annual renewal to the Lewis and Clark Bicentennial Fund.
28. September 11 license plate: $25 from initial plate and $25 from annual renewal to the September 11th Fund.
29. Illinois Route 66 license plate: $25 from initial plate and $25 from annual renewal to the Illinois Route 66 Heritage Project Fund.
30. Illinois Public Broadcasting System Stations license plate: $25 from initial plate and $25 from annual renewal to the Public Broadcasting Fund.
31. Park District Youth Program license plate: $25 from initial plate and $25 from annual renewal to the Park District Youth Program Fund.
32. Pan Hellenic license plate: $25 from initial plate and $25 from annual renewal to the Pan Hellenic Trust Fund.
33. Stop Neuroblastoma license plate: $10 from initial plate and $23 from annual renewal to the Stop Neuroblastoma Fund.
34. Collegiate license plate: $25 from initial plate and $25 from annual renewal to State College and University Trust Fund or University Grant Fund.
35. Environmental license plate: $25 from initial plate and $25 from annual renewal to State Parks Fund.
36. Illinois Fire Fighters Memorial plate: $12 from initial plate and $15 from annual renewal to Illinois Fire Fighters Memorial Fund.
37. Violence Prevention plate: $25 from initial plate and $25 from annual renewal to Violence Prevention Fund.
38. Sportsmen Series plate: $25 from initial plate and $25 from annual renewal plate to Illinois Habitat Fund.
39. Wildlife Prairie Park plate: $25 from initial plate and $25 from annual renewal to Wildlife Prairie Park Fund.
40. Professional Sports Teams: $25 from initial plate and $25 from annual renewal to the Professional Sports Teams Education Fund.

(For all special plates listed in items 16 through 40 above, $15 from the initial plate and $2 from each annual renewal go to the Secretary of State Special License Plate Fund.)

41. $17 from the $30 fee for a certificate of title for an off-highway, all-terrain vehicle, or off-highway motorcycle to the Off-Highway Vehicle Trails Fund.

42. All money from the commercial distribution fee to the General Revenue Fund.
43. All other money from certificates of title and filing of security interests to the General Revenue Fund.
44. All other money received by the Secretary of State from driver's license and motor vehicle registration fees to the Road Fund.

**Other vehicle taxes**

*Federal*: A federal tax applies only to trucks (including trailers) weighing over 55,000 lbs., at the following rates:

| *Taxable gross weight* | *Tax rate* |
|---|---|
| 55,000 to 75,000 lbs. | $100 + $22 per 1,000 lbs. over 55,000 |
| Over 75,000 lbs. | $550 |

*Local*: State law allows any municipality to tax motor vehicles owned by its residents at rates set by its governing body (65 ILCS 5/8-11-4). Home-rule units can tax motor vehicles that are registered in their jurisdictions, and some do.

**Other states' taxes**

Drivers' license fees range from $4 in Montana to $50 in New Hampshire (for 4 years in each case). A flat fee for vehicle registration is charged in 23 states:

| *State* | *Fee* | *State* | *Fee* |
|---|---|---|---|
| **Illinois** | **$78** | Georgia | $20 |
| Wisconsin | 55 | Nebraska | 20 |
| Vermont | 52 | North Carolina | 20 |
| Alaska | 50* | Oregon | 19* |
| Connecticut | 35* | Wyoming | 15 |
| California | 31 | Mississippi | 13 |
| Rhode Island | 30 | Kentucky | 11.50 |
| Washington | 30 | Arizona | 8◊ |
| West Virginia | 30 | | |
| Maine | 25 | | |
| Tennessee | 25 | | |
| South Carolina | 24† | | |
| Alabama | 23 | | |
| Indiana | 20.75 | | |
| Delaware | 20 | | |

* The charge is actually twice the amount listed in the table, but is imposed biennially.

† $20 if 65 or older, or disabled.

◊ $8.25 in Phoenix and Tuscon.

Six states base registration fees on vehicle weight: Arkansas ($17-$30), Florida ($100 initial registration, then $27.60-$45.60), Maryland ($76-$103), Montana ($13.75-$18.75), Utah ($21-$49.50+), and New York ($20.50-$112). Two states charge flat registration fees plus additional weight taxes: Colorado ($10-$17.50 plus 20¢-60¢ per 100 lbs.) and Hawaii ($20 plus 0.75¢-1.25¢ per pound). Two states base registration fees on both the age and weight of the vehicle: South Dakota ($30-$65) and Texas ($40.50-$61+). Oklahoma's fee, based solely on the age of the vehicle, ranges from $22 to $92. Idaho charges $35 to $60 based on vehicle age and county of residence. Iowa's registration fee is based on a percentage of value as determined by the Department of Motor Vehicles plus 40¢ per 100 pounds of vehicle weight. In Massachusetts, car owners pay a $30 one-time registration fee plus an excise tax. Missouri's fee is $18 to $51 based on horsepower. Michigan bases its registration fees on the list price of the vehicle, ranging from $33 to $148. In Minnesota the fee is $10 plus 1.25% of the vehicle's base value (no more than $189 the first year and $99 in later years). Nevada's registration fees, based on the number of vehicles registered, range from $33 each for the first four cars to $8 each for 9 or more cars. Graduated fees for commercial vehicles vary considerably by state.

# Estate and Generation-Skipping Transfer Tax (Death Taxes)

The Illinois estate tax is imposed on a decedent's estate before distribution to the heirs. Until 2003, the amount of this tax was equal to the "state tax credit" allowed by the Internal Revenue Code against each estate's federal estate tax liability (if any); if there was no federal estate tax liability, there was no Illinois estate tax liability. But Congress had amended the Code in 2001 to phase out that credit over the following 4 years, which would effectively have eliminated Illinois' estate tax by 2005. In 2003 the General Assembly responded by 'decoupling' the Illinois estate tax from the federal tax, restoring it to its levels before the 2001 change. But the General Assembly did follow Congress' 2001 changes in one respect: It allowed the maximum estate that can pass free of Illinois estate tax (formerly \$1 million) to rise to \$1.5 million in 2004 and \$2 million in 2006.

The Illinois generation-skipping transfer tax applies to bequests in which the transferor is at least two generations removed from the transferee (typically, the transferor's grandchildren). It is not often levied, because the federal and state generation-skipping taxes do not apply to the first \$2 million of such transfers. Administered by Attorney General and county treasurers. (35 ILCS 405/1 ff.; see also 26 U.S. Code secs. 2001, 2010, 2602, 2604, and 2631)

The federal estate tax exempts all property given directly to a decedent's surviving spouse—including the decedent's interest in any property that the spouses owned jointly. Only the part of an estate that passes to persons other than the surviving spouse is taxed. For all estate assets going to such other persons due to a death in 2006, the first \$2 million is free of federal (and Illinois) estate tax. The federal estate tax rate is 46% (dropping to 45% for persons dying in 2007 through 2009) on the excess over \$2 million—subject to a deduction mentioned later.

Effective Illinois estate tax rates (now based on the federal credit as it was in 2001) are:

| *If amount given at death is* *Over* | *But not over* | *Illinois tax is** | *plus* | *of excess over* |
|---|---|---|---|---|
| $ 2,000,000 | $ 2,256,701 | $ 0 | 46.0% | $ 2,000,000 |
| 2,256,701 | 2,600,000 | 118,082 | 8.0 | 2,256,701 |
| 2,600,000 | 3,100,000 | 145,546 | 8.8 | 2,600,000 |
| 3,100,000 | 3,600,000 | 189,546 | 9.6 | 3,100,000 |
| 3,600,000 | 4,100,000 | 237,546 | 10.4 | 3,600,000 |
| 4,100,000 | 5,100,000 | 289,546 | 11.2 | 4,100,000 |
| 5,100,000 | 6,100,000 | 401,546 | 12.0 | 5,100,000 |
| 6,100,000 | 7,100,000 | 521,546 | 12.8 | 6,100,000 |
| 7,100,000 | 8,100,000 | 649,546 | 13.6 | 7,100,000 |
| 8,100,000 | 9,100,000 | 785,546 | 14.4 | 8,100,000 |
| 9,100,000 | 10,100,000 | 929,546 | 15.2 | 9,100,000 |
| 10,100,000 | - | 1,081,546 | 16.0 | 10,100,000 |

* This table reflects a federal $60,000 reduction in the value of the taxable estate for purposes of the (former) credit for state death taxes. Also, the amount of the Illinois tax on a taxable estate between $2,000,000 and $2,256,701 is equal to the federal tax, because there was no state tax credit in 2001 (so no state tax is owed) on amounts up to the latter number.

*Example*: If a person dying in 2006 leaves a taxable estate (beyond gifts to a surviving spouse) of $2.5 million, only $500,000 of it will be taxed, because the Internal Revenue Code allows a credit that in 2006 protects the first $2 million from federal estate tax. Under section 2001 of the Code, that $500,000 will be taxed at 46%; thus if no other credit or tax applies, the estate's federal estate tax liability will be $230,000.

Illinois will impose a tax of $137,546 on that estate (calculated from the table above). That is because the General Assembly has decoupled the Illinois estate tax from the federal credit for state death taxes. Thus the total federal and state taxes on this estate will be $230,000 + $137,546 = $367,546.

The federal credit for state death taxes was replaced in 2005 by a deduction. This did not affect the rates of Illinois estate tax, which remain at 2001 levels.

**History:** From 1949 until 1983, Illinois imposed two “death taxes”—an inheritance tax and an estate tax. The inheritance tax was abolished as to persons dying after 1983.

Illinois imposed an estate tax based on the federal estate tax starting in 1949. It was initially set at 80% of the federal estate tax, minus state inheritance tax due. A 1955 amendatory act set the amount of the estate tax at the maximum credit against estate taxes allowed by the federal government for state death taxes (minus any inheritance tax due to the state—which since 1983 has been zero). Congress enacted a 4-year phaseout of the federal credit for state death taxes starting in 2002, reducing Illinois collections in calendar years 2002 and 2003. The General Assembly in 2003 made the rates of Illinois estate tax revert to their levels before the phaseout.

**State revenue collected**

| *Fiscal year* | *Receipts (millions)* | *Change* | *Fiscal year* | *Receipts (millions)* | *Change* |
|---|---|---|---|---|---|
| 1996 | $187.3 | 2.8% | 2001 | $361.0 | 3.7% |
| 1997 | 199.4 | 6.5 | 2002 | 329.2 | -8.8 |
| 1998 | 250.4 | 25.6 | 2003 | 236.9 | -28.0 |
| 1999 | 347.0 | 38.6 | 2004 | 221.7 | -6.4 |
| 2000 | 348.0 | 0.3 | 2005 | 310.4 | 40.0 |

**Distribution:**
1. 94% to the General Revenue Fund.
2. 6% to the Estate Tax Collection Distributive Fund for distribution to the county of residence of the decedent.

**Other taxes on estates**
*Local*: None are authorized by statute. Home-rule units probably could impose inheritance taxes, but they might be avoided by moving outside the unit imposing them before death.

**Other states' taxes**
Sixteen other states retained their estate taxes after repeal of the federal estate tax credit:

| | | | |
|---|---|---|---|
| Connecticut | Minnesota | Oregon | Wisconsin |
| Kansas | Nebraska | Rhode Island | |
| Maine | New Jersey | Vermont | |
| Maryland | New York | Virginia | |
| Massachusetts | North Carolina | Washington | |

Ten states impose their own inheritance taxes in addition to estate taxes:

| | |
|---|---|
| Indiana | Nebraska |
| Iowa | New Jersey |
| Kansas | Oregon |
| Kentucky | Pennsylvania |
| Maryland | Tennessee |

Alaska, Florida, and Nevada would have to amend their constitutions, and California law requires voter approval, to decouple from the federal tax.

# Health-Care Assessments

Assessments are collected from medical providers to help fund the state's participation in Medical Assistance (Medicaid), thus qualifying it for the maximum amount of federal matching funds. The pool of federal plus state money obtained by this process goes to the providers to treat patients. The providers that receive those payments (and are subject to these assessments) are hospitals, nursing homes, and facilities for the developmentally disabled. (305 ILCS 5/5A-1 ff., 5/5B-1 ff., 5/5C-1 ff., 5/15E-1 ff., and 5/15-1 ff.)

**Rates and Bases**

1. Hospital provider assessment: 2.5835% of adjusted gross hospital revenue for inpatient and outpatient services.
2. Developmentally disabled care provider assessment: 6% of the provider's adjusted gross developmentally disabled care revenue for the preceding fiscal year.
3. County hospital provider assessment (applies to Cook County Hospital): an amount equal to 71.7% of the difference between total payments made to the Cook County Hospital from federal Medicaid funds and $108.8 million, not to exceed the amount paid to the hospital in state Medicaid funds.
4. Nursing home license fee: $1.50 per licensed nursing bed-day.

**History:** The original assessments became law in July 1991 and have changed considerably over the years.

1. Hospital services assessment: Initially this was equal to the positive difference between a hospital's anticipated annualized spending and its total Medicaid base-year spending. This was replaced by hospital provider assessment fees that declined over time from 2.5% in July 1992 to 1.25% (adjusted for Cigarette Tax contributions and changes in statewide hospital revenues) from July 1995 until July 1996, when the formula was changed again. Collection of these fees ceased in April 1997.

   A 2004 act imposed a hospital services assessment of $84.19 per occupied bed-day for fiscal years 2004 and 2005, beginning February 3, 2004. This assessment is reflected in the revenue collections shown on the next page for fiscal year 2005 (the first deposit reportedly was in March 2005).

A 2005 act imposed a hospital services assessment of 2.5835% of each provider's adjusted gross hospital revenue for inpatient and outpatient services in fiscal years 2006, 2007, and 2008, beginning August 1, 2005. This assessment is not reflected in the revenue collections below.

2. Long-term-care assessment (nursing homes): 15% of each facility's gross receipts for services provided in the last state fiscal year. This was replaced by a long-term-care provider assessment fee from July 8, 1992 through June 30, 1993. This fee was abolished July 1, 1993 and replaced by the Nursing Home License Fee.
3. Developmentally disabled assessment: 15% of a facility's gross receipts for services provided in the last state fiscal year. This was replaced by a developmentally disabled care provider assessment fee of 13% from July 8, 1992 through July 13, 1993.
4. County hospital services assessment (on Cook County Hospital): An amount equal to 60% of the difference between total payments to the Cook County Hospital for federal Medicaid assistance funds and $78 million. The percentage was 63% from July 8, 1992 through July 13, 1993.

**State revenue collected**

| | *Hospital services** | | *County Hospital services* | |
|---|---|---|---|---|
| *Fiscal year* | *Receipts (millions)* | *Change* | *Receipts (millions)* | *Change* |
| 1996 | $203.7 | -36.0% | $373.9 | 40.4% |
| 1997 | 161.9 | -20.5 | 403.2 | 7.8 |
| 1998 | 4.5 | -97.2 | 464.1 | 15.1 |
| 1999 | 0.0 | - | 473.6 | 2.0 |
| 2000 | - | - | 571.7 | 20.7 |
| 2001 | - | - | 606.2 | 6.0 |
| 2002 | - | - | 592.9 | -2.2 |
| 2003 | - | - | 736.7 | 24.3 |
| 2004 | - | - | 827.0 | 12.3 |
| 2005 | 637.0 | ∞ | 895.8 | 8.3 |

Notes

The infinity symbol (∞) for FY 2000 reflects the fact that collections rose from zero the preceding year.

* No assessments were collected from April 1, 1997 until February 3, 2004. The 1998 collections were on assessments made before that date. The 2005 collections reflect the tax of $89.14 per occupied bed-day.

| *Nursing home license fee* | | | *Developmentally disabled* | | |
|---|---|---|---|---|---|
| *Fiscal year* | *Receipts (millions)* | *Change* | *Fiscal year* | *Receipts (millions)* | *Change* |
| 1996 | $54.8 | -3.2% | 1996 | $15.8 | 1.3% |
| 1997 | 55.5 | 1.3 | 1997 | 16.4 | 3.8 |
| 1998 | 57.6 | 3.8 | 1998 | 17.0 | 3.7 |
| 1999 | 58.0 | 0.7 | 1999 | 17.0 | 0.0 |
| 2000 | 57.7 | -0.5 | 2000 | 17.0 | 0.0 |
| 2001 | 54.4 | -5.7 | 2001 | 17.4 | 2.4 |
| 2002 | 45.2 | -16.9 | 2002 | 17.8 | 2.3 |
| 2003 | 62.3 | 37.8 | 2003 | 19.0 | 6.7 |
| 2004 | 54.1 | -13.2 | 2004 | 20.0 | 5.3 |
| 2005 | 57.9 | 7.0 | 2005 | 20.6 | 3.0 |

| *Total, all health-care provider fees* | | |
|---|---|---|
| *Fiscal year* | *Receipts (millions)* | *Change* |
| 1996 | $ 648.2 | -1.3% |
| 1997 | 637.0 | -1.7 |
| 1998 | 543.2 | -14.7 |
| 1999 | 548.6 | 1.0 |
| 2000 | 646.4 | 17.8 |
| 2001 | 678.0 | 4.9 |
| 2002 | 655.9 | -3.3 |
| 2003 | 818.0 | 24.7 |
| 2004 | 901.1 | 10.2 |
| 2005 | 1,611.3 | 78.8 |

**Distribution**

1. Hospital services assessment fee: Hospital Provider Fund
   (a) For FY's 2004 and 2005: 20% of total assessments transferred to the Health and Human Services Medicaid Trust Fund.
   (b) For FY's 2006, 2007, and 2008: Up to $130 million of total assessments to the Health and Human Services Medicaid Trust Fund.
2. Nursing home license fee: Long-Term Care Provider Fund.
3. Developmentally disabled assessment fee: Developmentally Disabled Care Provider Fund.

4. County hospital services assessment (Cook County Hospital): County Hospital Services Trust Fund.

**Other taxes on medical providers**
*Federal*: None.

*Local*: None.

**Other states' taxes**
Medicaid costs have ballooned in recent decades. Other states, like Illinois, have tried to reduce effects on their budgets by adopting a variety of assessments and fees. Some tax each provider's gross receipts; others compute each provider's assessment based on its portion of Medicaid disbursements in the state; still others tax the number of licensed beds in the facility by patient day, month, or year. It is impossible to summarize the broad and constantly changing pattern accurately, but the following description is the best available as of April 2006.

Hospital-care assessments are imposed by 15 states, at rates ranging from 1% of gross patient services revenue in New York to 6.25% of such revenue (to short-term, acute care, and children's hospitals) in Connecticut. New York also imposes an assessment based on each hospital's proportion of costs reported by all general hospitals statewide, limited to 0.1% of those statewide total costs. South Carolina's rate is based on each hospital's total expenditures as a percentage of statewide total hospital expenditures; Ohio's assessment is limited to 2% of total facility costs; and Rhode Island's hospital licensing fee is 3.56% of net patient revenue. Minnesota imposes an assessment of 2.0% of gross revenues and a surcharge of 1.56% of net patient revenue minus Medicare revenue. New Hampshire's rate, legislatively adjusted every 2 years, is now 6.0% of gross patient services. Texas imposes a rate of 1.25% of non-Medicaid gross revenue. Both Kentucky and West Virginia have rates of 2.5% of gross receipts. Maine's rate is 2.23% of net operating revenue; Kansas' is 1.83% of such revenue. New Mexico's rate is determined annually by the Human Services Department and cannot exceed 6% of annual gross revenue or $8.82 per occupied bed-day. Oregon's tax is set annually by the Director of Human Services and cannot exceed 3% net revenue; the current rate is 0.95%. Vermont imposes an assessment of 4.02% gross inpatient revenue.

Nursing-home care assessments, levied by 15 states, range from $1 per bed-day in Ohio to $6.92 per bed-day in Tennessee. Rhode Island and Utah impose a tax of 6.0% of gross patient revenue; Maine's is 6.0% of net operating revenue, and Kentucky's is 2.5% of gross revenue from non-Medicare patients. West Virginia imposes a fee of 0.7% of gross receipts for nursing services and 5.95% of gross receipts to nursing facilities. Alabama imposes an assessment of $999.96 per bed-year and a supplemental privilege tax of $200.04 per bed-year (total $1,200), limited to 6% of gross revenues. Louisiana's fee is $10 per occupied bed-day; Vermont's is $1,000 per licensed bed-year ($2.74 per bed-day); and Wisconsin's is up to $75 per licensed bed per month (about $2.50 per bed-day). Arkansas charges a "nursing facility quality assurance fee" of 6% of statewide gross receipts for services; Washington imposes a quality maintenance fee of $5.25 per patient-day (except for Medicare patients) in fiscal years 2006 and 2007, scheduled to fall to $3 in fiscal years 2008 and 2009 and $1.50 in fiscal years 2010 and 2011. Minnesota imposes a nursing home license surcharge of $625 per licensed bed per year ($1.71 per bed-day). Oregon's assessment, set annually by its Director of Human Services, cannot exceed 6% of gross revenue; the current rate is $8.85 per occupied bed-day. In addition, programs of all-inclusive care for the elderly are subject to a tax equal to 5% of the total capitalization rate paid by its Department of Human Services.

Health-care assessments for services to the developmentally disabled are imposed in 14 states. Minnesota charges 2.0% of gross receipts; Kentucky 4%; West Virginia 5.5%; and Maine, Nebraska, New York, Tennessee, Vermont, and Washington 6% each. Rhode Island charges 25% of gross patient revenue. Wisconsin may charge up to $445 per licensed bed-month ($1.22 per bed-day); Louisiana charges $30 per occupied bed-day; and South Carolina charges $8.50 per patient day. New Mexico's rate is set annually by the Human Services Department and cannot exceed 6% of annual gross revenue or $8.82 per occupied bed-day.

Four states tax pharmacy services. Three of them collect fixed amounts per prescription (10¢ in Alabama and Louisiana and 15¢ in Kentucky). Minnesota collects 1.5% of the price.

Three states tax physicians' services. West Virginia charges 0.8%, Minnesota charges 2%, and Kentucky charges 2.5% of gross physician revenue.

Other health-care assessments include a medical service transportation providers' fee of $7.50 per trip in Louisiana; a tax on ambulatory care facilities at the lesser of 3.5% of gross receipts or $200,000 in New Jersey; and amounts ranging from 0.7% to 5% of gross receipts (varying by kind of provider) in West Virginia. Kansas charges 5.9% of all non-Medicare premiums collected by an HMO if it has a state Medicaid managed care contract. Minnesota imposes a health-care tax of 2% of gross revenue on surgical centers, wholesale drug distributors, hearing aid sales and repairs, and prescription eyewear; and a surcharge of 0.6% of total premium revenues on HMOs and Community Integrated Service Networks. Kentucky charges 2.5% of gross revenue for HMO services, 4% of gross revenue for community mental health services, and 5.5% of gross revenue for psychiatric residential treatment and Medicaid managed care organization services. Maryland imposes an annual assessment on all medical practitioners except pharmacists, and on self-insured health-care groups based on the ratio of their premiums to total earned premiums of all payors in the state. The total of all fees may not exceed $10 million per fiscal year. Oregon imposes a tax on prepaid managed health services organizations, set annually by the Director of Human Services. It cannot exceed 6% of the managed care premiums, and its current rate is 5.8%.

Federal law and regulations restrict what kinds of assessments states can use to match federal Medicaid payments. In general, the federal government does not allow a state to guarantee that each health-care provider will get back, in higher Medicaid payments, the entire amount it pays in assessments.

# Hotel Operators' Tax

This tax is a percentage of each operator's gross receipts from operating a hotel or motel. Administered by Department of Revenue. (35 ILCS 145/1 ff.)

**Rate and base:** The tax is the sum of two rates: (a) 5% of 94% of gross rental receipts from transient guests, plus (b) 1% of 94% of gross rental receipts from such guests. (The additional 1% is earmarked for the Build Illinois Fund.) Receipts from permanent residents of a lodging place are exempt.

**History:** The hotel operators' occupation tax was enacted in 1961 at the rate of 3% of 97% of gross receipts from transient guests. From 1969 to 1984 the rate was 5% of 95% of gross receipts. The current rates were enacted in 1984 to help pay for a planned 1992 World's Fair. When that fair was canceled, the revenue was earmarked for the Build Illinois program. A tax amnesty program in fiscal year 2004 allowed taxpayers to pay outstanding tax liabilities without penalties or interest. Amnesty collections totaled $223,211.

**State revenue collected**

| *Fiscal year* | *Receipts (millions)* | *Change* | *Fiscal year* | *Receipts (millions)* | *Change* |
|---|---|---|---|---|---|
| 1996 | $112.4 | 10.2% | 2001 | $169.2 | 6.9% |
| 1997 | 125.5 | 11.7 | 2002 | 154.5 | -8.7 |
| 1998 | 139.5 | 11.2 | 2003 | 145.6 | -5.8 |
| 1999 | 155.5 | 11.5 | 2004 | 156.1 | 7.2 |
| 2000 | 158.3 | 1.8 | 2005 | 160.1 | 2.6 |


**Distribution:**

1. 5% tax: (a) 40% to Build Illinois Fund, (b) 60% to General Revenue Fund. Of that, (i) $13 million per fiscal year is transferred to the Illinois Sports Facilities Fund, (ii) 8% is deposited into the Local Tourism Fund, (iii) 4.5% is deposited into the International Tourism Fund, and (iv) 21% of net revenue from the tax is transferred from the General Revenue Fund to the Tourism Promotion Fund for use by the Department of Commerce and Economic Opportunity. (20 ILCS 665/4a)
2. Additional 1% tax: To the Build Illinois Fund.

**Other taxes on hotels**

*Federal*: None.

*Local*: State law permits Chicago to levy a tax up to 1% of gross rental receipts of hotel operators. The Illinois Department of Revenue collects the tax for Chicago (65 ILCS 5/8-3-13).

Other municipalities can impose taxes up to 5% of gross rental receipts of hotel operators. The money must be spent to promote tourism (65 ILCS 5/8-3-14). At least 48 cities collect such taxes, at rates ranging from 1% to 5%. A county may impose a tax up to 5% of the gross rental receipts of hotels outside any municipality that imposes such a tax. The money must be spent to promote tourism (55 ILCS 5/5-1030). These taxes are administered and collected by those municipalities and counties. Home-rule units are not bound by these limits (North Chicago collects 6%). A Chicago hotel accommodations tax of 3% of the gross rental or base charge is collected by the city.

The Illinois Sports Facilities Authority imposes a tax of 2% of 98% of gross rental receipts of hotel operators in Chicago to construct the new White Sox baseball park (70 ILCS 3205/19). The tax is collected by the Illinois Department of Revenue and paid to the Authority.

The Metropolitan Pier and Exposition Authority imposes a tax of 2.5% of gross receipts of hotel operators in Chicago to finance construction of the McCormick Place expansion project (70 ILCS 210/13(c)). The tax is collected by the Illinois Department of Revenue for the Authority.

The total effective tax rate on hotels and motels in Chicago is just over 14%:

| | |
|---|---|
| State tax (6% of 94%) | 5.64% |
| Chicago Municipal Tax (1% of 99%) | 0.99 |
| City tax | 3.00 |
| Illinois Sports Facilities Authority (2% of 98%) | 1.96 |
| Metropolitan Pier and Exposition Authority | 2.50 |
| Total | 14.09% |

**Other states' taxes**

Twelve other states impose taxes on hotel operators:

| *State* | *Percentage* | | |
|---|---|---|---|
| Vermont | 9.0 % | | |
| Delaware | 8.0 | | |
| New Hampshire | 8.0 | | |
| Hawaii | 7.25 | | |
| Texas | 6.0 | | |
| Massachusetts | 5.0 | + | 14% surtax |
| Alabama | 4.0* | | |
| Arizona | 3.0 | | |
| Arkansas | 2.0 | | |
| Idaho | 2.0 | | |
| Nebraska | 1.0 | | |
| Oklahoma | 0.1 | | |

* 5% in 15 counties.

Ten states allow localities to impose taxes at various rates.

| *State* | *Low* | *High* |
|---|---|---|
| Alaska | 3 % | 10 % |
| Florida | 7 | 12 |
| Georgia | 3 | 8 |
| Maryland | 3 | 8 |
| Minnesota | 1 | 6 |
| Mississippi | 1 | 3 |
| New York | 4 | 8.5 |
| North Carolina | 1 | 6 |
| Pennsylvania | 2 | 7 |
| Tennessee | 1.5 | 10 |

Ten states allow localities to impose rates up to stated limits:

| *State* | *Limit* |
|---|---|
| Iowa | 7% |
| Kentucky | 3 |
| Michigan | 5 |
| New Jersey | 6 |
| North Dakota | 2 |
| Ohio | 3 |
| Utah | 3* |
| Virginia | 2† |
| Washington | 2◊ |
| Wisconsin | 8 |

* 3.5% in 1st Class counties.

† 4% in one county.

◊ 7% in Seattle and 2.8% in surrounding county.

In Colorado, the rate may not exceed 2% in 24 counties and is 9.75% in Denver. Louisiana parishes may impose hotel taxes up to 2%, with two exceptions: The rate is 3% in Orleans Parish, and in New Orleans it is 75¢ per occupied room per day if the hotel has less than 300 rooms, and $1 per occupied room per day if it has 300 or more rooms. Michigan has an additional Convention Facility Development Tax, ranging from 1.5% to 6% for convention hotels based on total number of rooms. Two cities in Mississippi impose a daily charge—Jackson, 75¢ per occupied room per day and Newton, $1 per occupied room per day. Missouri localities may impose two taxes with voter approval: a tourism sales tax up to 4% and a lodging tax up to 5%. Montana localities can impose a limited sales and use tax on lodgings. In Nevada, counties of up to 400,000 must impose a 1% lodgings tax, and counties of 400,000 or more a 2% lodgings tax. West Virginia counties may impose a 3% tax, and cities may impose a 6% tax.

# Income Tax (Corporate)

This tax is imposed on the taxable income of corporations, associations, joint-stock companies, and cooperatives. (See also "Personal Property Tax Replacement Taxes" on page 77.) Most states use apportionment formulas to tax the income of firms doing business in more than one state (as Illinois once did). Now, sales in Illinois are the only determinant of how much of a multistate firm's income Illinois taxes. Administered by Department of Revenue. (35 ILCS 5/101 ff.)

**Rate and base:** 4.8% on the tax base, which is the corporation's federal taxable income with several modifications listed below.

The amount of tax otherwise due is reduced by credits of:

1. \$500 per eligible employee hired during the tax year to work full-time in an Illinois enterprise zone or federal Foreign Trade Zone.
2. 0.5% of amounts invested in qualified property in an enterprise zone (can be carried forward for 5 years).
3. 0.5% of amounts invested in a qualified property by a high-impact business.
4. 20% of direct payroll costs for cooperative Tech-Prep vocational programs for students in high school—including services rendered by a Tech-Prep student or instructor that would otherwise be subject to withholding and are not claimed by another taxpayer.
5. 5% of expenses to operate a day-care facility for employees' dependents at a factory (may be carried forward for 2 years).
6. 5% of the annual costs of a child-care facility for employees. This credit is unavailable if the company claims a credit under the preceding item for on-site dependent care.
7. A credit negotiated between the taxpayer and the Department of Commerce and Economic Opportunity, based on the economic growth potential of a business project that provides capital improvements and new jobs, under the Economic Development for a Growing Economy (EDGE) Tax Credit Act. Credit for a project authorized under the Corporate Headquarters Relocation Act cannot be used more than 15 years. A firm with up to 100 employees can qualify if it plans a project involving investment of at least \$1 million in capital improvements and hiring of at least five new Illinois employees.

8. 50% of amounts donated to an affordable housing project authorized under the Illinois Housing Development Act (20 ILCS 3805/7.28). This credit is to continue through 2011.
9. 25% of an employer's Illinois labor expenditures for a motion picture or television production approved by the Department of Commerce and Economic Opportunity under the Film Production Services Tax Credit Act (35 ILCS 15/1 ff.) (may be carried forward 5 years). A 10% added credit is offered for productions employing residents of geographic areas of high poverty or high unemployment. These credits are to expire January 1, 2007.
10. 6.5% of qualifying costs for increased research and development activities in Illinois (credits earned after tax year 2002 can be carried forward 5 years).

**History:** The corporate income tax was enacted in 1969 at a rate of 4%. The rate was temporarily increased to 4.8% from January 1, 1983 to June 30, 1984; it reverted to 4% on July 1, 1984; and it rose again to 4.8% on July 1, 1989. It was scheduled to revert to 4.4% later; but on July 1, 1993 the 4.8% rate became permanent. Under the Illinois Constitution, the corporate income tax rate cannot exceed the individual rate by a ratio of more than 8 to 5. A phase-in of using sales within Illinois as the only determinant for allocating income among states began in 1998 and was complete at the end of 2000. In 2003 Illinois decoupled from the federal "bonus depreciation" (30% of the cost of some capital assets bought between September 10, 2001 and September 11, 2004). Illinois taxpayers must add back the 30% federal bonus depreciation to their Illinois returns, but can deduct the bonus depreciation amount over the following years. A 2004 act expanded the definition of "business income" (for all taxpayers that receive such income) to include all income that may be treated as apportionable business income under the U.S. Constitution, net of allowable deductions. A tax amnesty program in fiscal year 2004 allowed taxpayers to pay outstanding tax liabilities without penalty or interest. Amnesty collections totaled $271,613,123.

**State revenue collected**

| *Fiscal year* | *Receipts (millions)* | *Change* | *Fiscal year* | *Receipts (millions)* | *Change* |
|---|---|---|---|---|---|
| 1996 | $1,208.4 | 9.5% | 2001 | $1,279.1 | -16.3% |
| 1997 | 1,361.4 | 12.7 | 2002 | 1,042.7 | -18.5 |
| 1998 | 1,402.0 | 3.0 | 2003 | 1,011.6 | -3.0 |
| 1999 | 1,384.7 | -1.2 | 2004 | 1,426.0 | 41.0 |
| 2000 | 1,527.4 | 10.3 | 2005 | 1,548.1 | 8.6 |


**Distribution:**

1. 24% of gross receipts were to be deposited in the Income Tax Refund Fund in FY 2005. The Department of Revenue adjusts this percentage annually under a statutory formula. The percentage has been set at 20% for FY 2006. Any surplus in the Refund Fund at the end of a fiscal year goes to the General Revenue Fund.
2. Of the remainder:
   (a) 10% to the Local Government Distributive Fund.
   (b) 7.3% to the Education Assistance Fund.
   (c) The remainder (82.7%) to the General Revenue Fund.

**Other taxes on corporate income**

*Federal*: The federal corporate income tax has a graduated schedule. There are eight brackets, with rates of 15% on taxable income up to $50,000; 25% on taxable income from there to $75,000; 34% from there to $100,000; 39% from there to $335,000; 34% from there to $10,000,000; 35% from there to $15,000,000; 38% from there to $18,333,333; and 35% on taxable income over $18,333,333.

*Local*: No local tax is authorized by statute. The Illinois Constitution prohibits even home-rule units from imposing income taxes without statutory authorization.

**Other states' taxes**
Illinois is among 30 states that tax corporate income at flat rates. Their rates for 2006 are:

| State | Rate | State | Rate |
|---|---|---|---|
| Pennsylvania | 9.99 % | Oregon | 6.6 % |
| Minnesota | 9.8 | Alabama | 6.5 |
| Rhode Island | 9.0 | Tennessee | 6.5 |
| West Virginia | 9.0 | Missouri | 6.25 |
| California | 8.84 | Georgia | 6.0 |
| Delaware | 8.7 | Oklahoma | 6.0 |
| Indiana | 8.5 | Virginia | 6.0 |
| New Hampshire | 8.5 | Florida | 5.5 |
| Wisconsin | 7.9 | South Carolina | 5.0 |
| Idaho | 7.6 | Utah | 5.0 |
| Connecticut | 7.5 | **Illinois** | **4.8** |
| Maryland | 7.0 | Colorado | 4.63 |
| Arizona | 6.968 | Texas | 4.5 |
| North Carolina | 6.9 | Kansas | 4.0 |
| Montana | 6.75 | Michigan | 1.9 |

Thirteen states tax corporate income at graduated rates. Nevada, South Dakota, Washington, and Wyoming do not tax corporate income. Massachusetts imposes a tax at the greater of (a) \$2.60 per \$1,000 in value of taxable tangible property plus 9.5% of income, or (b) \$456. New York's rate is 7.5% of federal net income, 2.5% of entire net income, or \$.00178 per \$1 of allocated capital—whichever is highest. Ohio imposes a franchise tax and a Commercial Activity Tax.

Illinois' corporate income tax rate is sometimes listed as 7.3%. That rate includes the 2.5% Personal Property Tax Replacement Income Tax collected for local governments, described on page 77.

# Income Tax (Individual)

This tax is imposed on the taxable income of individuals, trusts, and estates. A $2,000 personal exemption applies to each taxpayer, spouse, or dependent. An additional exemption of $1,000 applies to any taxpayer or spouse who is at least 65 or blind ($2,000 if both). Administered by Department of Revenue. (35 ILCS 5/101 ff.)

**Rate and base:** 3% on the taxpayer's base income, defined as federal adjusted gross income with the modifications below.

The following items are **added** to adjusted gross income:

1. Any interest, dividends, and capital gains that were excluded from federal adjusted gross income.
2. Distributive shares of additions from partnerships, estates, and trusts.
3. Any previously deducted property taxes if later refunded.
4. Any money withdrawn from a medical care savings account, plus interest on the account earned in the year of withdrawal. (Medical care savings accounts were first authorized in Illinois in 1994.)
5. Unreimbursed costs of site remediation that were deducted in calculating federal adjusted gross income and are claimed for an Environmental Remediation Tax Credit.
6. Distributions from tuition programs other than the College Savings Pool or the Illinois Prepaid Tuition Trust Fund.

The following items are **subtracted** from adjusted gross income:

1. Interest received on Treasury bonds and notes.
2. In the case of property acquired before August 1, 1969 (when the Illinois income tax took effect) but sold after that date, appreciation in the property before that date.
3. Benefits from employee benefit and retirement plans, to the extent such plans are taxed under federal law.
4. Military and National Guard pay, and compensation to a government employee who was a prisoner of war.
5. State income tax refunds.
6. Distributive shares of subtractions from partnerships, estates, and trusts.

7. Dividends paid by corporations doing substantially all their business in an enterprise zone or foreign trade zone.
8. Recoveries from bad debts, prior taxes, and delinquency accounts.
9. Any amortizable bond premium disallowed as a federal deduction, and any expenses and interest costs incurred in earning federally tax-exempt income and disallowed as a federal deduction.
10. Any contribution made to a job training project established under the Real Property Tax Increment Allocation Redevelopment Act.
11. Other income exempted by the Illinois Constitution or federal law.
12. Social Security and railroad retirement benefits.
13. Interest from Puerto Rican bonds, some kinds of Illinois bonds, and Illinois college savings bonds.
14. Payment of life, endowment, or annuity benefits to the taxpayer as an advance indemnity for a terminal illness.
15. Any federal or state bonus paid to veterans of the 1991 war in the Persian Gulf area.
16. Any amount included in a taxpayer's federal gross income as a result of the taxpayer's conversion of a traditional IRA to a Roth IRA.
17. Up to $10,000 per tax year contributed to a College Savings Pool account or the Illinois Prepaid Tuition Trust Fund, if included in federal adjusted gross income.
18. Any amount received by a driver in a ridesharing arrangement using a motor vehicle.

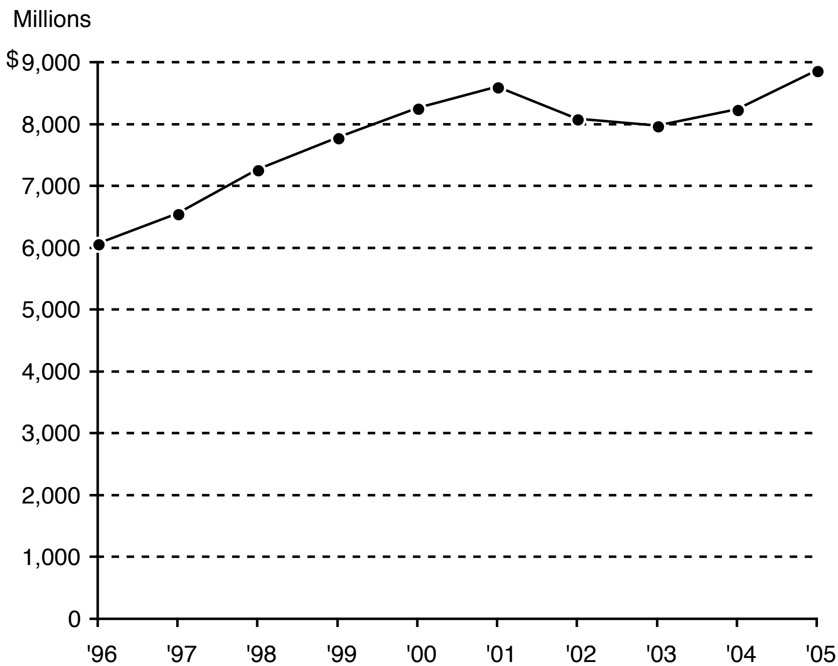
The amount of tax otherwise due is reduced by **credits** of:

1. $500 per eligible employee hired during the tax year to work full-time in an Illinois enterprise zone or federal Foreign Trade Zone.
2. 0.5% of amounts invested in qualified property in an enterprise zone (can be carried forward for 5 years).
3. 0.5% of amounts invested in qualified property by a high-impact business.
4. 5% of property taxes paid on the taxpayer's principal residence.
5. 25% of qualified educational expenses (limited to tuition, book fees, and lab fees) exceeding $250 at any public or private elementary or secondary school. The maximum credit is $500.
6. 5% of the amount of the federal earned income tax credit.
7. 50% of donations to an affordable housing project authorized under the Illinois Housing Development Act (20 ILCS 3805/7.28). This credit lasts through 2011.

**History:** The individual income tax was enacted in 1969 at a rate of 2.5%. The rate was temporarily increased to 3% from January 1, 1983 to June 30, 1984; it reverted to 2.5% on July 1, 1984; and it rose again to 3% on July 1, 1989. It was scheduled to revert to 2.5% later; but on July 1, 1993 the 3% rate became permanent. A tax amnesty program in fiscal year 2004 allowed taxpayers to pay outstanding tax liabilities without penalty or interest. Amnesty collections totaled $40,156,054.

**State revenue collected**

| *Fiscal year* | *Receipts (millions)* | *Change* | *Fiscal year* | *Receipts (millions)* | *Change* |
|---|---|---|---|---|---|
| 1996 | $6,069.8 | 6.3% | 2001 | $8,606.9 | 4.1% |
| 1997 | 6,551.5 | 7.9 | 2002 | 8,085.9 | -6.1 |
| 1998 | 7,268.4 | 10.9 | 2003 | 7,979.3 | -1.3 |
| 1999 | 7,778.0 | 7.0 | 2004 | 8,236.1 | 3.2 |
| 2000 | 8,264.2 | 6.3 | 2005 | 8,872.5 | 7.7 |




**Distribution:**

1. 10.0% of gross receipts were deposited into the Income Tax Refund Fund for FY 2005. The Department of Revenue adjusts this percentage annually under a statutory formula. This percentage has been set

at 9.75% for FY 2006. Any surplus in the Refund Fund at the end of the fiscal year goes to the General Revenue Fund.

2. Of the remainder:
   (a) 10% to the Local Government Distributive Fund.
   (b) 7.3% to the Education Assistance Fund.
   (c) The remainder (82.7%) to the General Revenue Fund.

**Other taxes on personal income**

*Federal*: The federal tax law has 6 brackets, with rates of 10%, 15%, 25%, 28%, 33%, and 35%.

*Local*: No local tax is authorized by statute. The Illinois Constitution prohibits even home-rule units from imposing income taxes without statutory authorization.

**Other states' taxes**

Individual income taxes are levied at graduated rates in 34 states, and as a percentage of federal income tax liability (thus effectively graduated) in two others. Illinois is among seven states that impose individual income taxes at flat rates. Seven states have no income tax: Alaska, Florida, Nevada, South Dakota, Texas, Washington, and Wyoming.

The six other states with flat rates are:

| *State* | *Rate(s)* | *Base* |
|---|---|---|
| Massachusetts | 12.0 % | Net capital gains; interest and dividends on accounts over $100,000 |
| | 5.3 | Other income |
| Tennessee | 6.0 | Stock dividends; interest on nonfederal bonds and other obligations |
| New Hampshire | 5.0 | Interest and dividend income |
| Michigan | 4.0 | Taxable income (as described in statute) |
| Indiana | 3.4 | Adjusted gross income |
| Pennsylvania | 3.07 | Specified classes of income |

# Insurance Taxes and Fees

The state imposes a number of taxes and fees on insurance companies. Foreign companies (those not incorporated in Illinois) pay a privilege tax. All companies writing fire or fire-related policies, including domestic companies, pay a fire marshal's tax. Insurance brokers writing nonstandard policies (such as coverage for amusement parks) with companies not licensed to do business in Illinois pay a surplus line producer's tax. Administered by Department of Insurance. (215 ILCS 5/408 to 5/416 and 5/445; 425 ILCS 25/12)

Various fees are also imposed on the activities of insurance companies. The fee collecting the most revenue is based on the amount of life insurance that domestic companies have in force in the state.

**Rate and base:**

1. Privilege tax on insurers and HMOs:
   (a) 0.4% of net taxable written premiums for accident and health insurance.
   (b) 0.5% of net taxable written premiums for all other types of insurance.
2. Fire marshal's tax: 1% of premiums on fire or fire-related insurance policies.
3. Surplus line producers' tax: 3.5% of gross insurance premiums from policies issued in Illinois.
4. Industrial Commission Operations Fund Surcharge: 1.5% of direct written premium for workers' compensation liability insurance.
5. Numerous other fees on particular types of insurance activities.

**History:** A 2% privilege tax on foreign companies was enacted in 1853, and retained in 1937 when the state's insurance laws were consolidated into the Illinois Insurance Code. That tax was held unconstitutional by the Illinois Supreme Court in 1997. A new privilege tax, on all insurance companies, was enacted in 1998.

The fire marshal's tax was enacted in 1909 at a rate of 0.5% of all fire and fire-related insurance premiums paid in Illinois. The rate dropped to 0.25% in 1931, reverted to 0.5% in 1941, and doubled again to 1% in 1979.

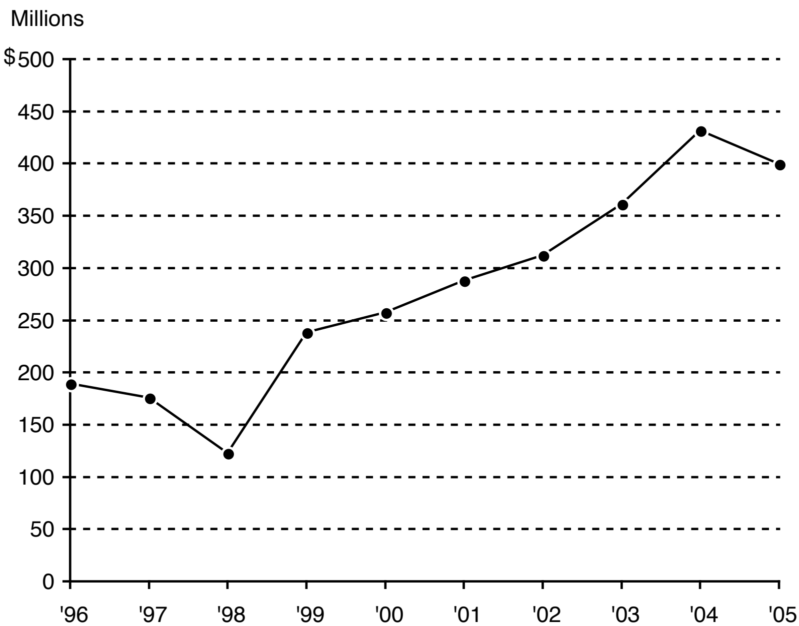
The surplus line producers' tax was enacted in 1937 at the rate of 2% of gross insurance premiums on policies in Illinois. It rose to 3% in 1963. A 2003 law increased this rate to 3.5%.

A life insurance policy fee on domestic companies of 3¢ per $1,000 of direct life insurance policies in force was enacted in 1979, but abolished in 1998.

The Industrial Commission Operations Fund Surcharge was enacted in 2003 at a rate of 1.5% of direct written premiums for employers' liabilities under the Workers' Compensation Act (820 ILCS 305/1 ff.) or Workers' Occupational Diseases Act (820 ILCS 310/1 ff.). The surcharge was reduced to 1.01% in 2004. It is imposed on every company licensed or authorized by the Department of Insurance.

**State revenue collected**

| *Fiscal year* | *Receipts (millions)* | *Change* | *Fiscal year* | *Receipts (millions)* | *Change* |
|---|---|---|---|---|---|
| 1996 | $189.4 | 1.2% | 2001 | $287.9 | 11.8% |
| 1997 | 176.1 | -7.0 | 2002 | 312.4 | 8.5 |
| 1998 | 122.8 | -30.3 | 2003 | 361.5 | 15.7 |
| 1999 | 238.5 | 94.2 | 2004 | 431.7 | 19.4 |
| 2000 | 257.6 | 8.0 | 2005 | 399.8 | -7.4 |



**Distribution:**
1. Insurance taxes and fees to the General Revenue Fund.
2. Insurance fees imposed under 215 ILCS 5/408 to the Insurance Financial Regulation Fund. If the Fund exceeds $100,000 at fiscal yearend, the excess goes to the General Revenue Fund.
3. Fire marshal's tax to the Fire Prevention Fund.
4. Fees collected from companies writing workers' compensation and employers' liability insurance policies to the Insurance Producers' Administration Fund.
5. A percentage (set annually by the Department of Insurance) of privilege tax and retaliatory tax revenue to the Insurance Premium Tax Refund Fund.

**Other taxes on insurance companies**
*Federal*: Insurance companies incorporated in other states but operating in Illinois pay taxes at these rates:

1. 4% of premiums on casualty insurance and indemnity bonds.
2. 1% of premiums on life insurance, sickness and accident policies, and annuity contracts.
3. 1% of premiums on reinsurance under policies listed above.

*Local*: Fire insurance companies headquartered outside Illinois pay a tax of 2% of their gross receipts from premiums on fire insurance policies in force in municipalities or fire protection districts. The tax is paid directly to the fire protection district or municipal treasurer (who, in cities of under 250,000, must pay it directly to the treasurer of the fire department to be used "upon the order of the fire department for the maintenance, use and benefit of the department"). (65 ILCS 5/11-10-1 and 11-10-2)

Other taxes by non-home-rule units are prohibited by statute. Home-rule taxation probably is prohibited by the Illinois Constitution, art. 7, subsec. 6(e) as a tax on occupations.

**Other states' taxes**
All states impose a variety of privilege taxes and fees on insurers. Eleven states have rates under 2%; 32 have rates between 2% and 3%; and three have rates over 3%. Louisiana imposes a $140 minimum tax if a company's total annual premiums are $7,000 or less, and adds $225 per $10,000 of premiums over $7,000. Oregon has phased out its insurance taxes but included insurance companies in its corporate excise tax.

Insurance tax rates are complicated by "retaliatory" taxes that nearly every state has enacted. These impose higher rates on insurers from any state that taxes out-of-state insurers at a higher rate than its own insurers.

# Liquor Taxes and Fees

A tax is imposed on the privilege of making or distributing alcoholic beverages in Illinois, based on the number of gallons. Also, the Illinois Liquor Control Commission imposes a variety of annual fees on each manufacturer, distributor, and retail seller. Administered by Department of Revenue. (235 ILCS 5/8-1 ff.)

**Rate and base** (per gallon): 18.5¢ on beer and cider with 0.5% to 7% alcohol; 73¢ on wine (excluding cider with up to 7% alcohol); $4.50 on distilled liquor. Annual Liquor Control Commission fees are $500 for retail sellers, and $25 to $3,600 on some manufacturers.

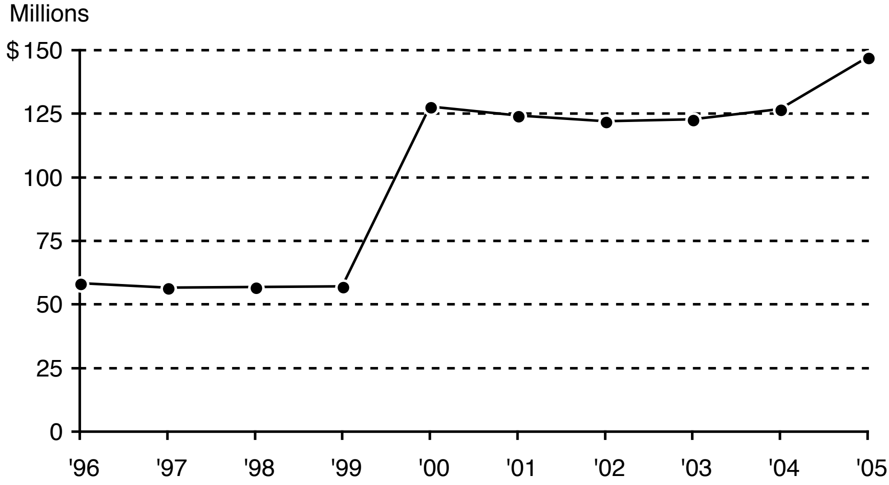
**History:** The present liquor tax was enacted in 1934. Rates since then are shown below.

| | *Rate per gallon* | | | |
|---|---|---|---|---|
| *Year* | *Beer and cider* | *Wine up to 14% alc.* | *Wine over 14% alc.* | *Distilled liquor* |
| 1934 | 2 ¢ | 10¢ | 25¢ | $0.50 |
| 1941 | 4 | 15 | 40 | 1.00 |
| 1959 | 6 | 23 | 60 | 1.52 |
| 1969 | 7 | 23 | 60 | 2.00 |
| 1999 | 18.5 | 73 | 73 | 4.50 |

A tax amnesty program in fiscal year 2004 allowed taxpayers to pay outstanding tax liabilities without penalty or interest. Amnesty collections totaled $16,669.

**State revenue collected**

| | *Taxes* | | *License fees* | |
|---|---|---|---|---|
| *Fiscal year* | *Receipts (millions)* | *Change* | *Receipts (millions)* | *Change* |
| 1996 | $ 58.3 | 2.6% | $4.0 | -2.4% |
| 1997 | 56.6 | -2.9 | 4.4 | 10.0 |
| 1998 | 57.0 | 0.7 | 4.2 | -4.5 |
| 1999 | 57.2 | 0.4 | 4.1 | -2.4 |
| 2000 | 127.9 | 123.6 | 4.2 | 2.4 |
| 2001 | 124.3 | -2.8 | 4.0 | -4.8 |
| 2002 | 122.0 | -1.9 | 4.1 | 2.5 |
| 2003 | 122.8 | 0.7 | 4.1 | 0.0 |
| 2004 | 126.8 | 3.3 | 5.9 | 43.9 |
| 2005 | 147.2 | 16.1 | 5.9 | 0.0 |




**Collections by Type of Beverage**

When reporting liquor tax revenue to the Comptroller, the Department of Revenue lists only total revenue, not classified by type of beverage. The data below, obtained directly from the Department, show collections by beverage class.

| *Fiscal year* | *Beer (millions)* | *Change* | *Liquor 20% or more (millions)* | *Change* |
|---|---|---|---|---|
| 1996 | $19.4 | 1.0% | $31.9 | 2.6% |
| 1997 | 18.9 | -2.6 | 31.3 | -1.9 |
| 1998 | 19.2 | 1.6 | 30.7 | -1.9 |
| 1999 | 19.4 | 1.0 | 30.8 | 0.3 |
| 2000 | 48.1 | 147.9 | 63.2 | 105.2 |
| 2001 | 52.1 | 8.3 | 69.9 | 10.6 |
| 2002 | 52.6 | 1.0 | 70.4 | 0.7 |
| 2003 | 53.0 | 0.8 | 69.8 | -0.9 |
| 2004 | 51.9 | -2.1 | 80.6 | 15.5 |
| 2005 | 51.5 | -0.8 | 78.4 | -2.7 |

| Fiscal year | Wine or Liquor up to 14% (millions) | Change | Wine or liquor over 14% but less than 20% (millions) | Change |
|---|---|---|---|---|
| 1996 | $ 5.1 | 2.0% | $1.7 | 0.0% |
| 1997 | 5.3 | 3.9 | 1.6 | -5.9 |
| 1998 | 5.4 | 1.9 | 1.6 | 0.0 |
| 1999 | 5.1 | -5.6 | 1.5 | -6.3 |
| 2000 | 14.7 | 188.2 | 2.1 | 40.0 |
| 2001 | 16.3 | 10.9 | 1.7 | -19.0 |
| 2002 | 16.7 | 2.5 | 1.7 | 0.0 |
| 2003 | 16.9 | 1.2 | 1.7 | 0.0 |
| 2004 | 18.1 | 7.1 | 1.7 | 0.0 |
| 2005 | 18.5 | 2.2 | 1.6 | -5.9 |

**Distribution:**

1. Liquor tax revenue to the General Revenue Fund.
2. Retailer's license fee:
   (a) $250 to the Dram Shop Fund;
   (b) $250 to the General Revenue Fund;
3. All other license fees to the Dram Shop Fund.

**Other taxes on alcoholic beverages**

*Federal*: The federal tax on distilled liquor is based on the number of "proof gallons" sold. A proof gallon is a gallon of liquor containing 50% alcohol (equivalent to one-half gallon of pure alcohol). The rate has been $13.50 per proof gallon since January 1, 1991. An 80-proof beverage (40% alcohol) is taxed at $10.80 per gallon of beverage; 100-proof at $13.50; and 120-proof at $16.20.

| Class of beverage | | Tax per gallon |
|---|---|---|
| Beer | | $ .58 |
| Wine | Up to 14% alcohol | 1.07 |
| | 14% to 21% alcohol | 1.57 |
| | 21% to 24% alcohol | 3.15 |
| | Artificially carbonated | 3.30 |
| | Sparkling | 3.40 |
| Distilled liquor (per 100-proof gallon) | | 13.50 |

*Local*: Municipalities and counties collect liquor fees. Home-rule units can impose taxes. Cook County collects 6¢ per gallon on beer, 16¢ per gallon on wine of up to 14% alcohol, 30¢ per gallon on wine over 14% alcohol, and $2 per gallon on distilled liquor. Chicago collects 16¢ per gallon on beer, 20¢ per gallon on alcoholic liquor up to 14% alcohol, 50¢ per gallon on alcoholic liquor over 14% but less than 20% alcohol, and $1.50 per gallon on distilled liquor or wines with over 20% alcohol.

**Other states' taxes**

Taxes on alcoholic beverages vary greatly among the 32 states, including Illinois, that license sellers of alcoholic beverages (rather than selling them from state-run stores). The approximate ranges of rates are:

| *Beverage class* | *Rates per gallon* | | | | |
|---|---|---|---|---|---|
| Beer | $0.02 | (Wyoming) | to | $ 1.07 | (Alaska) |
| Wine up to 14% | 0.11 | (Louisiana) | to | 2.50 | (Alaska) |
| Wine over 14% | 0.20 | (California) | to | 5.68 | (New Mexico) |
| Spirits | 1.50 | (Maryland) | to | 12.80 | (Alaska) |

The 18 liquor monopoly states are:

Alabama
Idaho
Iowa
Maine
Michigan

Mississippi
Montana
New Hampshire
North Carolina
Ohio

Oregon
Pennsylvania
Utah
Vermont
Virginia

Washington
West Virginia
Wyoming

# Lottery

The Illinois State Lottery was authorized in 1974. It gets revenues from ticket sales for games; agent fees; and interest on funds held. After paying prizes, agent commissions, and administrative costs, net receipts go to the Common School Fund. Administered by Department of Revenue. (20 ILCS 1605/l ff.)

**Rate and base:** The lottery law initially provided that "net lottery revenue" could never be less than 40% of total revenue from lottery ticket sales. That made it difficult to finance the startup costs of a daily game. An exception authorizing net revenue to fall below 40% was enacted for fiscal years 1979, 1980, and 1981 to allow operation of a daily game. The 40% requirement was repealed in 1981.

**History:** Total lottery revenue and net receipts to the state were substantial in fiscal years 1975 and 1976, but by fiscal year 1979 had dropped almost 62%. Variations of the 50¢ and $1.00 games were tried, but none brought in revenue at levels matching those of fiscal year 1976.

A "Daily" on-line game (Pick 3) was started in 1980, bringing a significant sales increase (for fiscal year 1981 they were about 24% higher than for 1976). A second "Daily" game (Pick 4) was added in 1984. Although several years had flat or slightly declining sales, the overall sales trend has been upward, with gross sales exceeding $1.8 billion in fiscal year 2005.

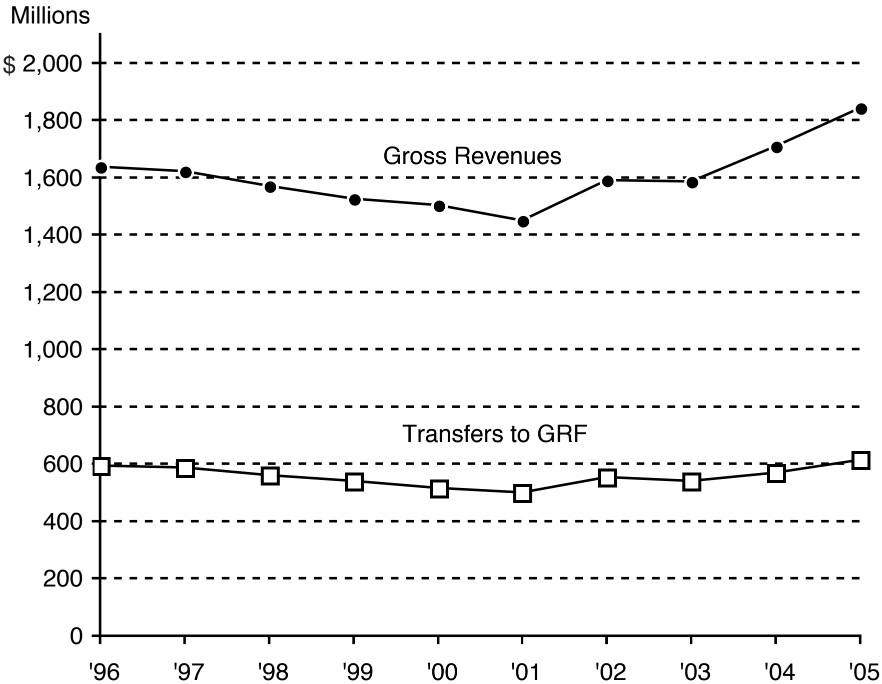
A weekly "Lotto" game was added in 1983. A second weekly "Lotto" game was added in 1986 but replaced with a "Lotto 7" game in 1987. "Lotto 7" was replaced in 1988 with a game now called "Little Lotto," and the Lotto game returned to its twice-weekly drawing format in 1990. Current lottery games include the two daily games (Pick 3 and Pick 4), with drawings twice each day on Monday through Saturday, and once on Sunday; "Little Lotto" with seven drawings per week; "Lotto" with 2 drawings per week; and some 65 instant games. What is now called "Mega Millions"—a multistate lotto game conducted jointly with 10 other states—began in September 1996 with drawings on Tuesdays and Fridays.

Net revenues for state use, after paying prizes, advertising, and administrative expenses, did not exceed $100 million until fiscal year 1982, when they were $137.6 million. Net revenue reached about $500 million in fiscal year 1985, and has remained between $500 and $610 million per year since then. It declined in recent years to a low of $501 million in fiscal year 2001, but recovered to $555 million in fiscal year 2002, and set a new record of $614 million in fiscal year 2005.

A 1985 law requires that net lottery revenue (after the expenses listed above) be deposited into the Common School Fund, with three exceptions: net proceeds from a game designated by the Department for the Illinois Land Grant Collegiate Athletics Fund are distributed to the University of Illinois Athletic Association (20 ILCS 1605/21.2); net revenue from a special instant scratch-off game called "Ticket for the Cure" goes to the "Ticket for the Cure" Fund to fund breast cancer research and provide services for breast cancer victims (20 ILCS 1605/21.5); and net revenue from the a special instant scratch-off game to benefit Illinois Veterans goes to the Illinois Veterans Assistance Fund for research or services related to veterans' post-traumatic stress disorder, homelessness, health insurance costs, disability benefits, and long-term care (20 ILCS 1605/21.6). The first transfer of net proceeds to the "Ticket for the Cure" Fund, in February 2006, was $441,000. The Veterans' lottery game was begun in February 2006. Its total sales through mid-May were $3,932,572, and total transfers to the Veterans Assistance Fund were $1,060,086.

**State revenue collected**

| *Fiscal year* | *Gross revenues (millions)* | *Transfers to Common School Fund (millions)* | *Change* | *Transfers as % of gross revenues* |
|---|---|---|---|---|
| 1996 | $1,637.4 | $594.1 | 6.5% | 36.3% |
| 1997 | 1,622.7 | 587.1 | -1.2 | 36.2 |
| 1998 | 1,570.0 | 560.0 | -4.6 | 35.7 |
| 1999 | 1,526.0 | 540.0 | -3.6 | 35.4 |
| 2000 | 1,503.9 | 515.2 | -4.6 | 34.3 |
| 2001 | 1,449.8 | 501.0 | -2.8 | 34.6 |
| 2002 | 1,590.0 | 555.1 | 10.8 | 34.9 |
| 2003 | 1,585.8 | 540.3 | -2.7 | 34.1 |
| 2004 | 1,709.2 | 570.1 | 5.5 | 33.4 |
| 2005 | 1,843.0 | 614.0 | 7.7 | 33.3 |




**Disposition:** Net revenue (about 36% of gross) to the Common School Fund. (About 54% of gross revenue goes for prizes, 6% for agents' commissions, and 4% for other operating expenses.)

**Other revenue from lotteries**

*Federal*: Lotteries authorized by state laws are exempt from federal gambling taxes.

*Local*: Lotteries are illegal except as authorized by Illinois law. All municipalities and counties are authorized to license raffles and charge license fees to be set by their governing bodies (230 ILCS 15/l ff.).

**Other states' lotteries**

Thirty-nine other states operate lotteries. Those with net receipts over $200 million are listed on the next page.

| *State* | *Net receipts (millions)* FY 2004 | *FY 2005* | *Change* |
|---|---|---|---|
| New York | $1,907.4 | $2,062.7 | 8.1% |
| California | 1,044.1 | 1,148.8 | 10.0 |
| Florida | 1,051.7 | 1,103.6 | 4.9 |
| Texas | 1,051.0 | 1,070.3 | 1.8 |
| Massachusetts | 912.0 | 936.1 | 2.6 |
| Pennsylvania | 817.3 | 851.8 | 4.2 |
| New Jersey | 795.0 | 812.1 | 2.1 |
| Georgia | 782.7 | 802.2 | 2.5 |
| Michigan | 644.9 | 667.6 | 3.5 |
| Ohio | 655.6 | 645.1 | -1.6 |
| **Illinois** | **570.1** | **614.0** | **7.7** |
| West Virginia | 512.1 | 563.3 | 10.0 |
| Maryland | 458.4 | 477.1 | 4.1 |
| Virginia | 407.7 | 423.5 | 3.9 |
| Oregon | 380.6 | 401.6 | 5.5 |
| Rhode Island | 281.1 | 307.6 | 9.4 |
| Delaware | 283.9 | 297.9 | 4.9 |
| South Carolina | 286.8 | 279.7 | -2.4 |
| Connecticut | 280.8 | 268.5 | -4.4 |
| Tennessee | 123.3 | 234.3 | 90.1 |
| Missouri | 229.4 | 218.6 | -4.7 |

# Motor Fuel Taxes

The motor fuel tax is imposed on the privilege of operating motor vehicles on public highways or waterways in Illinois. It is paid by distributors and suppliers, who include it in the retail price. Aircraft fuels are exempt. Administered by Department of Revenue. (35 ILCS 505/l ff.) The Department also collects a tax of 0.3¢ per gallon, and an environmental impact fee of 0.8¢ per gallon, to fund cleanup of underground storage tanks (35 ILCS 505/2a and 415 ILCS 125/301 ff.). Finally, Illinois' sales tax applies to motor fuel; see "Sales and Use Taxes" beginning on page 106.

**Rates and base:**

1. Gasoline: 19¢ per gallon.
2. Special fuel (mostly diesel fuel): 21.5¢ per gallon.
3. Additional levies for the Underground Storage Tank Fund on gasoline, special fuel, aviation fuel (unless sold at O'Hare or Midway Airports), kerosene, and home heating oil:
   (a) 0.3¢ per gallon tax (until 2013);
   (b) 0.8¢ per gallon environmental impact fee (until 2013).

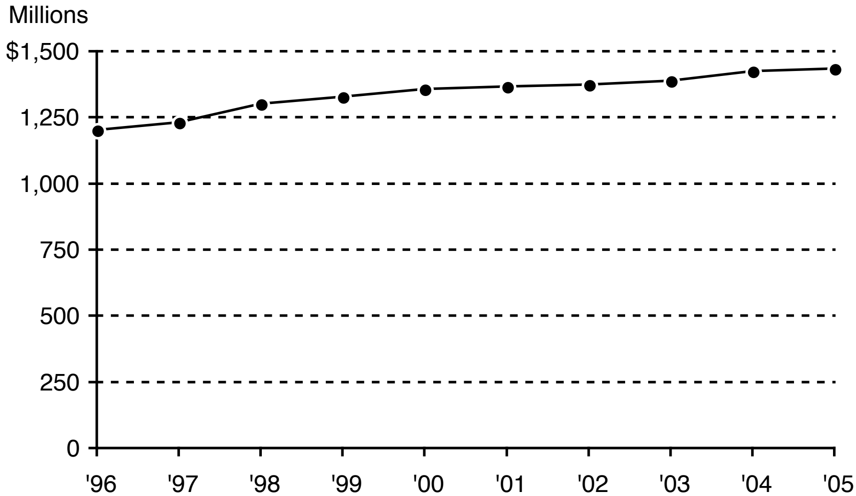
**History:** A motor fuel tax was enacted in 1927 at 2¢ per gallon. Rates since then are shown below.

| | *Tax per gallon* | | | *Tax per gallon* | |
|---|---|---|---|---|---|
| *Year* | *Gasoline* | *Diesel fuel* | *Year* | *Gasoline* | *Diesel fuel* |
| 1927 | 2.0¢ | 2.0¢ | 1983 | 11.0¢ | 13.5¢ |
| 1929 | 3.0 | 3.0 | 1984 | 12.0 | 14.5 |
| 1951 | 4.0 | 4.0 | 1985 | 13.0 | 15.5 |
| 1953 | 5.0 | 5.0 | 1989 | 16.0 | 18.5 |
| 1967 | 6.0 | 6.0 | 1990 | 19.3 | 21.8 |
| 1969 | 7.5 | 7.5 | 1996 | 20.1 | 22.6 |

A leaking underground storage tanks tax of 0.3¢ per gallon was added in 1990, and the 0.8¢ environmental impact fee in 1996. A tax amnesty program in fiscal year 2004 allowed taxpayers to pay outstanding tax liabilities without penalty or interest. Amnesty collections totaled $1,964,758.

**State revenue collected**

| *Fiscal year* | *Receipts (millions)* | *Change* | *Fiscal year* | *Receipts (millions)* | *Change* |
|---|---|---|---|---|---|
| 1996 | $1,201.9 | 4.6% | 2001 | $1,366.6 | 0.8% |
| 1997 | 1,232.3 | 2.5 | 2002 | 1,373.5 | 0.5 |
| 1998 | 1,300.7 | 5.6 | 2003 | 1,388.3 | 1.1 |
| 1999 | 1,328.7 | 2.2 | 2004 | 1,423.8 | 2.6 |
| 2000 | 1,356.3 | 2.1 | 2005 | 1,434.6 | 0.8 |




**Distribution:** All motor fuel tax revenue goes on the Motor Fuel Tax Fund. Distributions from the Fund are as follows:

1. 2.5¢ per gallon from collections on special fuel to the State Construction Account Fund.
2. $5,040,000 per year to the State Boating Act Fund.
3. $27 million per year to the Grade Crossing Protection Fund.
4. $30 million per year (through June 30, 2006) to the Vehicle Inspection Fund to administer the Vehicle Emissions Inspection Law of 1995.
5. Sufficient amounts to:
   (a) the Department of Revenue for administrative expenses and refunds; and
   (b) the Department of Transportation to:
   - administer motor fuel tax distribution to local governments;
   - pay motor fuel tax refunds to other states under reciprocal agreements; and
   - pay Illinois Court of Claims judgments.

6. Of the remainder:
   (a) 45.6% is apportioned as follows:
   - 37% to the State Construction Account Fund;
   - 63% to the State Road Fund ($15 million is reserved for bridge construction in townships and road districts); and

   (b) 54.4% is apportioned as follows:
   - 49.10% to municipalities, distributed by population;
   - 16.74% to Cook County;
   - 18.27% to the other 101 counties based on motor vehicle license fees collected in each county; and
   - 15.89% to townships and road districts, distributed among counties in proportion to township and road district mileage, and redistributed within each county in proportion to road mileage in each township or road district.

All revenue from the tax of 0.3¢ per gallon and the fee of 0.8% per gallon for underground storage tank cleanup goes to the Underground Storage Tank Fund.

**Other taxes on motor fuels**
*Federal*: 18.4¢ per gallon (gasoline) and 24.4¢ per gallon (diesel fuel).

*Local*: Home-rule units can tax motor fuels. Cook County collects 6¢ per gallon, and Chicago 5¢. DuPage, Kane, and McHenry Counties can impose taxes up to 4¢ per gallon without referendum (55 ILCS 5/5-1035.1). DuPage and McHenry Counties collect 4¢, and Kane collects 2¢. Any city of over 100,000 can also impose a tax of 1¢ per gallon by referendum (65 ILCS 5/8-11-15). Rockford imposes a tax under that provision. In addition, 18 home-rule cities impose taxes. Local taxes are summarized in the following table. (Amounts in the “Total” column include the 19¢ state tax.)

| | *County* | *City* | *Total* |
|---|---|---|---|
| Cook County | 6.0¢ | - | 25.0¢ |
| Chicago | 6.0 | 5.0¢ | 30.0 |
| Evergreen Park | 6.0 | 3.0 | 28.0 |
| Berwyn, Burbank, Cicero, Rosemont | 6.0 | 2.0 | 27.0 |
| Des Plaines, Dolton, Park Ridge | 6.0 | 1.0 | 26.0 |
| DuPage County | 4.0 | - | 23.0 |
| Bolingbrook | 4.0 | 5.0 | 28.0 |
| Naperville | 4.0 | 2.0 | 25.0 |
| Kane County | 2.0 | - | 21.0 |
| McHenry County | 4.0 | - | 23.0 |
| Other localities | | | |
| Pekin | - | 4.0 | 23.0 |
| Carbondale, Peoria | - | 2.0 | 21.0 |
| Channahon | - | 1.0 | 20.0 |
| Galesburg, Joliet, Rock Island | - | 1.0 | 20.0 |
| Moline | - | 0.5 | 19.5 |

**Other states' taxes**

Forty-two states tax motor fuel at fixed rates per gallon, ranging from 8¢ in Alaska to 32.9¢ in Wisconsin for gasoline and gasohol, and from 8¢ in Alaska to 38.1¢ in Pennsylvania for diesel fuel. Seven other states reset rates per gallon periodically based on the retail or wholesale price of motor fuel, or other factors. Their latest available rates were:

| *State* | *Variable rate* | *Adjusted each* | *Amount per gallon (Jan. 2006)* |
|---|---|---|---|
| Wisconsin | 29.9¢ (2005)* | year | 32.9 ¢ |
| North Carolina | 17.5¢ per gal. plus the greater of 7% or 3.5¢ | year | 30.15 |
| Ohio | 17¢ + fixed rate† | year | 28.0 |
| Nebraska | 12.1¢ + fixed rate | 6 months | 27.0 |
| Delaware | Based on avg. wholesale price | year | 23.0 |
| Kentucky | 9% of avg. wholesale price | quarter | 18.5 |
| Florida | Based on CPI | year | 14.9 |

* Wisconsin's rate is indexed to changes in the nationwide Consumer Price Index for All Urban Consumers.

† Varies with highway maintenance costs and fuel consumption.

**Sales Taxes on Motor Fuel**

Illinois is among 10 states that collect general sales taxes on motor fuels:

| | |
|---|---|
| California | Indiana |
| Florida | Michigan |
| Georgia | New York |
| Hawaii | Virginia* |
| **Illinois** | West Virginia |

* A 2% sales tax applies only in areas served by mass transit.

# Personal Property Tax Replacement Taxes

The Illinois Constitution of 1970 required that all ad valorem (value-based) personal property taxes be abolished by 1979. The personal property tax was already limited to businesses, because a 1970 amendment to the former (1870) Constitution had abolished it as to individuals. In 1979 the General Assembly replaced the personal property tax on businesses with an income tax on corporations and an invested capital tax on public utilities. A 1997 law repealed the invested capital tax as to electricity distributors (except electric cooperatives) and telecommunications distributors. Electricity distributors now pay a personal property tax replacement tax based on amounts of electricity delivered in Illinois; telecommunications distributors pay a telecommunications infrastructure maintenance fee. Electric cooperatives still pay the invested capital tax. These taxes are administered by the Department of Revenue. (35 ILCS 635/1 ff. (telecommunications companies); 615/2a.1 (gas distribution companies); 620/2a.1 (electric companies); and 625/3 (water companies))

### 1. Personal Property Tax Replacement Income Tax

This tax is imposed on the net income of corporations, business partnerships, trusts, and “S” corporations. Administered by Department of Revenue. (35 ILCS 5/201(c))

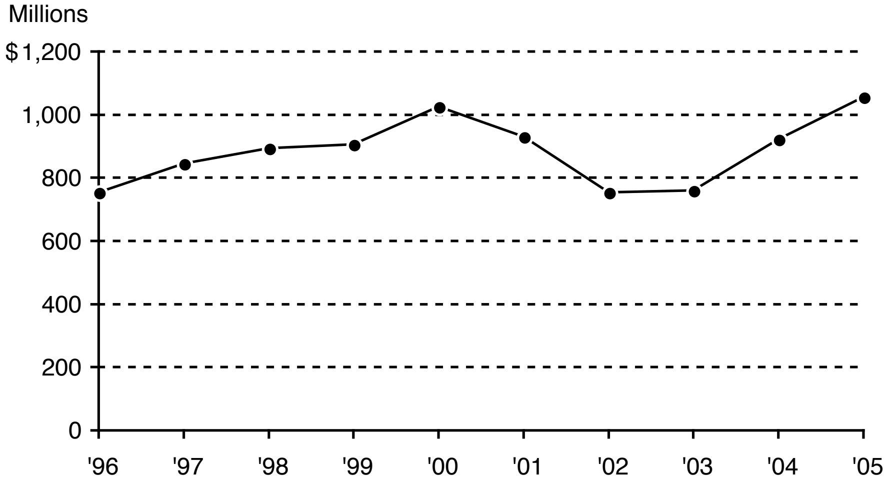
**Rate and base:**
1. Corporations: 2.5% of federal taxable income.
2. Partnerships, trusts, and “S” corporations: 1.5% of federal taxable income.

Since July 1, 1984 an investment tax credit of 0.5% has been allowed against this tax liability for buying equipment used in manufacturing, mining, or retailing. A further 0.5% credit is allowed if the company’s Illinois employment base expanded 1% over the preceding year’s. The latter credit can be carried forward up to 5 years, but will not apply to property acquired after 2008.

**History:** The tax took effect July 1, 1979 at 2.85%. On January 1, 1981 its rate dropped to 2.5%.

**State revenue collected**

| *Fiscal year* | *Receipts (millions)* | *Change* | *Fiscal year* | *Receipts (millions)* | *Change* |
|---|---|---|---|---|---|
| 1996 | $ 753.5 | 7.2% | 2001 | $ 930.4 | -9.3% |
| 1997 | 845.7 | 12.2 | 2002 | 754.5 | -18.9 |
| 1998 | 894.7 | 5.8 | 2003 | 759.9 | 0.7 |
| 1999 | 905.3 | 1.2 | 2004 | 921.7 | 21.3 |
| 2000 | 1,025.6 | 13.3 | 2005 | 1,055.2 | 14.5 |




**Distribution:** From Personal Property Tax Replacement Fund: 51.65% to local governments in Cook County based on their shares of personal property tax collections in 1976; 48.35% to local governments in the other 101 counties based on their shares of personal property tax collections in 1977.

**Other taxes in lieu of personal property taxes**

*Federal*: None.

*Local*: None.

**Other states**

No other state imposes a tax based on the invested capital of public utility companies, or an income tax specifically designated to replace a personal property tax.

## 2. Invested Capital Tax

This tax is imposed on the invested capital of rural electric cooperatives and businesses that sell gas, electric, or water services. It does not apply to municipally owned electric and water companies, or to telephone cooperatives. (35 ILCS 615/2a.1, 620/2a.1(b), and 625/3)

**Rate and base:** The rate is 0.8% of capital invested in gas, electric, and water facilities in service during the taxable period. Invested capital is defined as the average of the totals at the beginning and end of the taxable period of shareholders' equity and long-term debt attributable to Illinois, minus investments in and advances to all corporations, as set forth on the balance sheets in the company's annual report to the Illinois Commerce Commission for the taxable period.

**History:** The tax took effect July 1, 1979.

**Distribution:** Same as Personal Property Tax Replacement Income Tax.

## 3. Electricity Distribution Tax

This tax is imposed on electricity distributors except electric cooperatives. Annual revenue from this tax is limited to an amount that was set in 1998 at $145.3 million, increased each year as follows: revenue for the preceding year is multiplied by the lesser of (a) the percentage increase in the Consumer Price Index for All Urban Consumers, All Items (CPI-U) for that year, or (b) 5%. If that limit is exceeded, the Department of Revenue will issue credit memoranda to reduce all taxpayers' future liability. (35 ILCS 620/2a.1)

**Rate and base:**

| *Kwh distributed per month* | | | *Tax per kwh* |
|---|---|---|---|
| First | 500 | million | 0.031¢ |
| Next | 1 | billion | 0.050 |
| Next | 2.5 | billion | 0.070 |
| Next | 4 | billion | 0.140 |
| Next | 7 | billion | 0.180 |
| Next | 3 | billion | 0.142 |
| Over | 18 | billion | 0.131 |

**History:** The tax took effect January 1, 1998.

**Distribution:** Same as Personal Property Tax Replacement Income Tax.

### 4. Telecommunications Infrastructure Maintenance Fee

This state tax is imposed on telecommunications services, including provision of messages or information through local, toll, and wide-area telephone services; channel, telegraph, teletypewriter, computer exchange, private line, and specialized mobile radio services; and any other transmission of messages or information by electronic or similar means, between or among points by wire, cable, fiber optics, laser, microwave, radio, satellite, or similar methods. (35 ILCS 635/10, 635/15, and 635/25b)

**Rate and base:** 0.5% of the retailer's gross charges for telecommunications services.

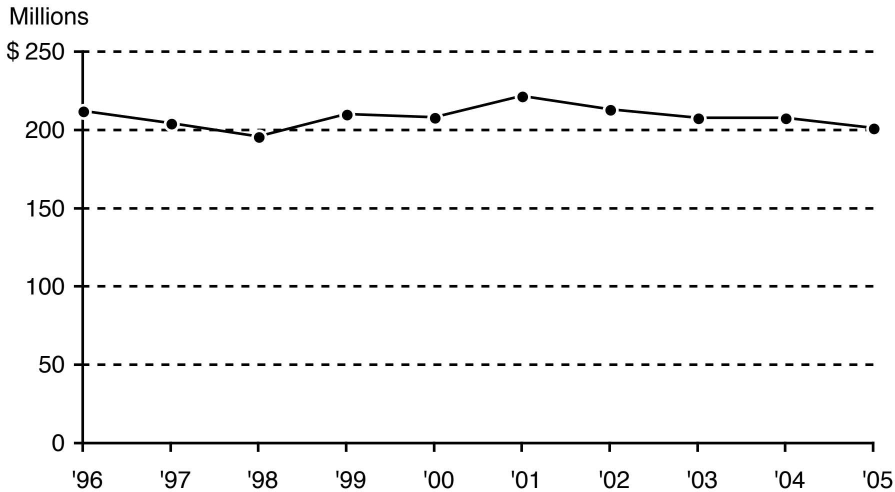
**History:** The tax took effect January 1, 1998. A tax amnesty program in fiscal year 2004 allowed taxpayers to pay outstanding tax liabilities without penalty or interest. Amnesty collections totaled $442,627.

**Distribution:** Same as Personal Property Tax Replacement Income Tax.

Public utility companies report liability for the Invested Capital Tax, Electricity Distribution Tax, and Telecommunications Infrastructure Maintenance Fee to the Department of Revenue on the same tax form. The Department of Revenue does not separately tabulate amounts collected for these three taxes.

**State revenue collected** (from the Invested Capital Tax, Electricity Distribution Tax, and Telecommunications Infrastructure Maintenance Fee)

| *Fiscal year* | *Receipts (millions)* | *Change* | *Fiscal year* | *Receipts (millions)* | *Change* |
|---|---|---|---|---|---|
| 1996 | $212.1 | 3.5% | 2001 | $221.6 | 6.5% |
| 1997 | 204.3 | -3.7 | 2002 | 213.2 | -3.8 |
| 1998 | 195.8 | -4.2 | 2003 | 207.6 | -2.6 |
| 1999 | 210.2 | 7.4 | 2004 | 207.6 | 0.0 |
| 2000 | 208.0 | -1.0 | 2005 | 201.3 | -3.0 |



# Public Utility Taxes

There is one tax each on companies selling electricity, communications, and natural gas. In addition, communications and gas companies must pay an intrastate gross revenue tax to help finance the Illinois Commerce Commission. (Part of the Electric Excise Tax discussed below also funds the Commission.)

## 1. Electricity Excise Tax

Until August 1, 1998 the Public Utilities Revenue Tax was based on gross revenue of companies distributing and selling electricity in Illinois. Such companies were authorized to pass the tax on to consumers through a charge equal to the tax. On that date the tax was replaced by a new Electricity Excise Tax on electric users in Illinois. Electric suppliers add this tax to residential customers' bills. Nonresidential customers can register as "self-assessing purchasers" and pay the tax directly to the Department of Revenue. Both the old and new laws exempt electricity used by municipalities to operate public transportation systems they own. Administered by Department of Revenue. (35 ILCS 640/2-1 ff.)

**Rate and base:**

Residential customers:

| *Kwh used per month* | | *Tax per kwh* | *Kwh used per month* | | *Tax per kwh* |
|---|---|---|---|---|---|
| First | 2,000 | 0.330¢ | Next | 2,000,000 | 0.270¢ |
| Next | 48,000 | 0.319 | Next | 2,000,000 | 0.254 |
| Next | 50,000 | 0.303 | Next | 5,000,000 | 0.233 |
| Next | 400,000 | 0.297 | Next | 10,000,000 | 0.207 |
| Next | 500,000 | 0.286 | Over | 20,000,000 | 0.202 |

Self-assessing (nonresidential) purchasers: 5.1% of purchase price.

Customers of municipal electric systems and rural electric cooperatives pay the lesser of (a) 0.32¢ per kilowatt-hour or (b) 5% of purchase price.

See "Note on Abatement of Public Utility Taxes" on page 91.

**Exemption:** A business enterprise classified by the Department of Commerce and Economic Opportunity as a "high impact business," if it intends either (a) to make a minimum investment of $12 million and create 500 full-time jobs, or (b) to make a minimum investment of $30 million and retain at least 1,500 full-time jobs at an Illinois location, is partly or fully exempt from this tax for up to 20 years as determined by the Department.

**History:** A 3% tax on public utilities' (electric) gross revenue was enacted in 1937. The rate was changed three times in the 1960s, eventually settling in 1967 at 5% of gross revenue. In 1985 it was set at the lesser of 5% or 0.32¢ per kilowatt-hour sold to each customer. That tax was repealed by a 1997 law deregulating the electric industry, and replaced by the new excise tax on August 1, 1998. On that date the excise tax also replaced the intrastate gross (electric) revenue tax of 0.08% used to fund the Illinois Commerce Commission. The General Assembly intended the excise tax to raise substantially the same amount of revenue as the gross revenue taxes it replaced.

To encourage alternative energy production, electric utilities are required to buy electricity from new qualified solid-waste-to-energy facilities (QSWEFs) in their service areas for 10 years (20 years if fueled by methane from a forest preserve district's landfill). QSWEFs use methane generated by landfills as their primary fuel. Such a facility can take a credit against the Electricity Excise Public Utility Tax until the full capital costs incurred to develop the facility are paid. At that time, the QSWEF must reimburse the Public Utility Fund for the amount of credit taken. (220 ILCS 5/8-403.1) The table below lists such repayments, which are also included in the table on page 89.

QSWEFs' Repayments of Credits

| *Fiscal year* | *Receipts (thousands)* |
|---|---|
| 2002* | $2,217.7 |
| 2003 | 850.0 |
| 2004 | 700.0 |
| 2005 | 601.6 |

* FY 2002 deposits represent several years of repayments.

A tax amnesty program in fiscal year 2004 allowed taxpayers to pay outstanding tax liabilities without penalty or interest. Amnesty collections totaled $246,969.

**Distribution:**
1. Of the 3% of funds received, $416,667 monthly ($5,000,004 annually) to the General Revenue Fund.
2. Remainder to Public Utility Fund.

**Other taxes on electric utilities**
*Federal*: None.

*Local*: Each municipality can impose a tax on the privilege of using electricity in its territory. Rates decline with increasing electricity use by each customer, from 0.61¢ per kwh on the first 2,000 kwh per month to 0.30¢ per kwh on monthly usage over 20 million kwh. On request by a municipality, the Commerce Commission can approve alternative maximum rates. This tax was authorized by the 1997 electric deregulation law, replacing the tax of 5% of electric companies' gross revenue. The new tax was allowed to be imposed on nonresidential customers that choose alternative electric suppliers (65 ILCS 5/8-11-2). By June 2005, 97 municipalities had elected to use alternative rates issued by the Illinois Commerce Commission. Additionally, Chicago now charges rates equivalent to 8% of gross receipts (65 ILCS 5/8-11-2(2a)).

Municipalities can also charge deliverers of electricity a fee for using public rights of way. Such a fee would be based on monthly usage by each customer, declining from 0.53¢ per kwh on the first 2,000 kwh to 0.26¢ per kwh on monthly amounts over 20 million kwh. (35 ILCS 645/5-5)

**Other states' taxes**
Taxes on gross receipts of electric companies vary widely. Their rates range from under 1% to as high as 8.2%.

## 2. Telecommunications (Messages) Excise Tax

This tax is imposed on persons who send or receive interstate and/or intrastate telecommunications—including telephone, telegraph, private line, channel, teletypewriter, computer exchange, mobile radio and telephone, and paging services. The tax applies to the transmission of messages or information between or among points by wire, cable, fiber optics, laser, microwave, radio, satellite, and other methods. Telecommunications providers collect the tax from customers. Administered by Department of Revenue. (35 ILCS 630/1 ff.)

**Rate and base:** 7% of gross charges by businesses for transmitting messages in interstate or intrastate commerce.

See "Note on Abatement of Public Utility Taxes" on page 91.

**History:** The original messages tax was enacted in 1945 at 3% of gross receipts. Rate changes are shown below.

| *Year* | *Rate* | *Year* | *Rate* |
|---|---|---|---|
| 1945 | 3 % | 1967 | 5% |
| 1965 | 4 | 1985* | 5 |
| 1966 | 3.92 | 1998 | 7 |

* In 1985 the tax was expanded to cover new telecommunications services and interstate messages; its rate stayed at 5%.

A tax amnesty program in fiscal year 2004 allowed taxpayers to pay outstanding tax liabilities without penalty or interest. Amnesty collections totaled $11,154,187.

**Distribution:** Of the original 5% tax:
(a) $12 million per year to the Common School Fund;
(b) remainder to the General Revenue Fund.

Of the additional 2 percentage points added in 1998:
(a) 50% to the School Infrastructure Fund;
(b) 50% to the Common School Fund.

**Other taxes on telecommunications providers**
*Federal*: 3% on amount billed (26 U.S. Code sec. 4251).

*Local*: Through 2002, each municipality could impose an occupation tax of up to 5% of gross receipts of businesses transmitting messages (65 ILCS 5/8-11-2, subd. 1). A municipality not imposing that tax could levy a 5% municipal telecommunications tax (65 ILCS 5/8-11-17). Any municipality could also impose a local telecommunications infrastructure maintenance fee of up to 1% of gross charges by providers of telecommunications to addresses in its area (2% in Chicago).

On January 1, 2003, authority for the above taxes was replaced with authority for a Simplified Municipal Telecommunications Tax on gross retail charges for telecommunications. Each municipality that imposed any of the taxes described in the preceding paragraph automatically imposed the new tax, at a rate equal to the sum of (1) 70% of its rate for the first tax described in that paragraph, plus (2) its actual rates for the other two taxes—each rounded to the nearest 0.25%. Any municipality can change the rate of this tax in 0.25% increments, subject to a limit of 6% (7% in Chicago). (35 ILCS 636/5-1 ff.)

**Other states' taxes**
Taxes on gross receipts of telephone and telegraph companies vary widely among states, with rates ranging from under 1% to 8.2%.

### 3. Natural Gas Revenue Tax and Gas Use Tax

The Natural Gas Revenue Tax is imposed on companies distributing natural gas in Illinois, which can pass it on to customers. Administered by Department of Revenue. (35 ILCS 615/1 ff.)

A Gas Use Tax was added in 2003. It is imposed, at the same rates as the Natural Gas Revenue Tax, on gas bought out of state for use in Illinois. (35 ILCS 173/5-1 ff.) Exemptions from the Gas Use Tax include gas used:

(a) by businesses in enterprise zones;
(b) by governmental bodies or any corporation, society, association, foundation, or institution organized and operated exclusively for charitable, religious, or educational purposes;
(c) in producing electricity;
(d) in a petroleum refinery;
(e) for use in liquefaction and fractionation processes to make value-added natural gas byproducts for resale; and
(f) in producing anhydrous ammonia and downstream nitrogen fertilizer products for resale.

**Rate and base:** The lesser of:
(a) 2.4¢ per therm of gas sold to each customer or
(b) 5% of gross revenue from each customer.

See "Note on Abatement of Public Utility Taxes" on page 91.

**History:** The gas revenue tax was enacted in 1945 at 3%. Rate changes since then are shown below.

| *Year* | *Rate* | *Year* | *Rate* |
|---|---|---|---|
| 1945 | 3.00% | 1967 | 5.00% |
| 1965 | 4.00 | 1985 | 5.00% or 2.4¢ per therm |
| 1966 | 3.92 | | |

A tax amnesty program in fiscal year 2004 allowed taxpayers to pay outstanding tax liabilities without penalty or interest. Amnesty collections totaled $44,680.

**Disposition:** To General Revenue Fund.

**Other taxes on natural gas utilities**
*Federal*: None.

*Local*: A municipality can impose an occupation tax based on the gross receipts of businesses that provide natural gas for consumption within its territory, at a rate up to 5% (8% in Chicago) (65 ILCS 5/8-11-2).

**Other states' taxes**
Taxes on gross receipts of natural gas distribution companies vary widely among states. Rates range from under 1% to as high as 8.2%.

## 4. Intrastate Gross Revenue Tax

This tax is imposed on public utility companies (except electric companies) that are regulated by the Illinois Commerce Commission, for the privilege of doing business in the state. (The law excludes municipally operated utilities and mutual telephone companies.) Proceeds of the tax pay the expenses of the Commission. Administered by Department of Revenue. (220 ILCS 5/2-202)

**Rate and base:** Up to 0.1% of a company's gross revenue from intrastate business for the calendar year.

**History:** The tax was first imposed in 1963 at a rate of 0.08%. Up to $3 million per biennium could be used to pay the Commission's expenses. That maximum transfer was increased to $3.5 million in 1967 and $5.5 million in 1970. A 1977 law abolished the limit on transfers to the Commission. In 1987 the Commission was authorized to raise the rate to as much as 0.1%. The 1997 law deregulating Illinois electric suppliers exempted them from this tax but provided for 3% of Electric Excise Tax revenue to go to the Public Utility Fund for this purpose.

If the balance in the Public Utility Fund exceeds $5 million in October of an odd-numbered year, the Commission issues a memorandum of credit to each company for its proportionate share of the fund balance, and its tax liability is reduced by that amount.

**Disposition:** To the Public Utility Fund.

**Other taxes on public utility companies**
*Federal*: None.

*Local*: See previous entries on other public utility taxes.

**Other states' taxes**
Forty-one states impose separate taxes on public utility companies to fund state regulatory bodies' administrative expenses. Rates vary, but all are below 1% of gross intrastate revenue.

**State revenue collected from utility taxes:**

**Total, all utility taxes**

| *Fiscal year* | *Receipts (millions)* | *Change* | *Fiscal year* | *Receipts (millions)* | *Change* |
|---|---|---|---|---|---|
| 1996 | $ 848.6 | 12.1% | 2001 | $1,384.3 | 5.2% |
| 1997 | 888.7 | 4.7 | 2002 | 1,355.0 | -2.1 |
| 1998 | 987.1 | 11.1 | 2003 | 1,231.8 | -9.1 |
| 1999 | 1,213.1 | 22.9 | 2004 | 1,330.3 | 8.0 |
| 2000 | 1,316.4 | 8.5 | 2005 | 1,295.7 | -2.6 |

**Public Utilities (Electricity) Revenue Tax**

| *Fiscal year* | *Receipts (millions)* | *Change* | *Fiscal year* | *Receipts (millions)* | *Change* |
|---|---|---|---|---|---|
| 1996 | $320.5 | 9.2% | 2001 | $397.3 | -4.5% |
| 1997 | 312.1 | -2.6 | 2002 | 402.4 | 1.3 |
| 1998 | 332.8 | 6.6 | 2003 | 399.5 | -0.7 |
| 1999 | 370.6 | 11.4 | 2004 | 418.7 | 4.8 |
| 2000 | 416.1 | 12.3 | 2005 | 418.8 | <0.1 |

**Telecommunications (Messages) Tax**

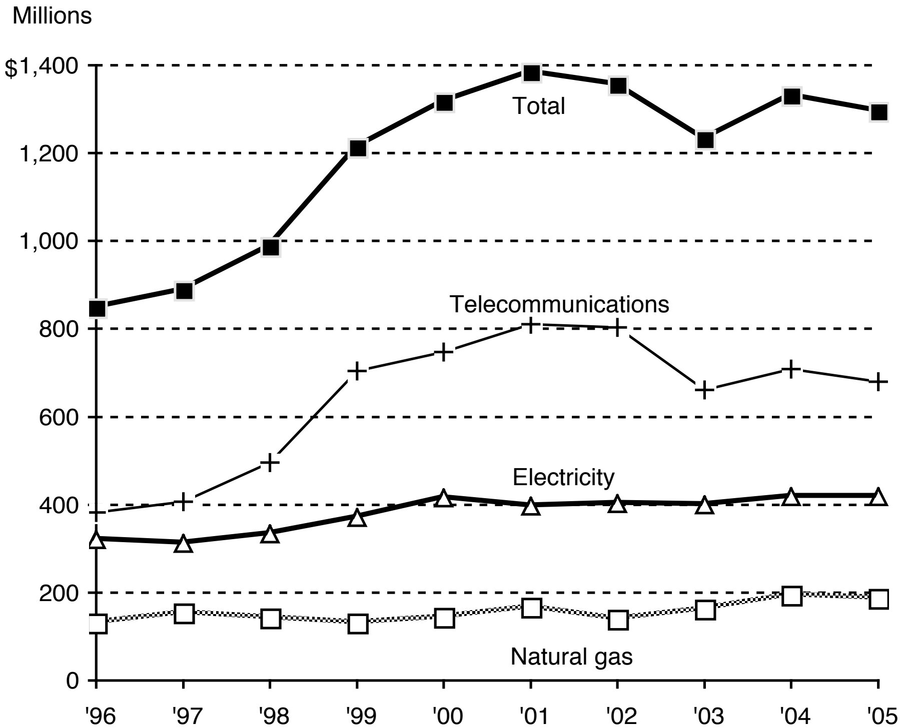
| *Fiscal year* | *Receipts (millions)* | *Change* | *Fiscal year* | *Receipts (millions)* | *Change* |
|---|---|---|---|---|---|
| 1996 | $382.0 | 18.3% | 2001 | $810.4 | 8.4% |
| 1997 | 407.3 | 6.6 | 2002 | 802.9 | -0.9 |
| 1998 | 495.5 | 21.7 | 2003 | 661.7 | -17.6 |
| 1999 | 704.0 | 42.1 | 2004 | 708.8 | 7.1 |
| 2000 | 747.9 | 6.2 | 2005 | 680.4 | -4.0 |

**Natural Gas Revenue Tax**

| *Fiscal year* | *Receipts (millions)* | *Change* | *Fiscal year* | *Receipts (millions)* | *Change* |
|---|---|---|---|---|---|
| 1996 | $130.6 | 3.2% | 2001 | $166.5 | 15.5% |
| 1997 | 153.1 | 17.2 | 2002 | 139.8 | -16.0 |
| 1998 | 142.6 | -6.9 | 2003 | 162.7 | 16.4 |
| 1999 | 130.9 | -8.2 | 2004 | 194.5 | 19.5 |
| 2000 | 144.2 | 10.2 | 2005 | 187.0 | -3.9 |

**Intrastate Gross Revenue Tax**

| *Fiscal year* | *Receipts (millions)* | *Change* | *Fiscal year* | *Receipts (millions)* | *Change* |
|---|---|---|---|---|---|
| 1996 | $15.5 | 9.9% | 2001 | $10.1 | 23.2% |
| 1997 | 16.2 | 4.5 | 2002 | 9.9 | -2.0 |
| 1998 | 16.2 | 0.0 | 2003 | 7.9 | -20.2 |
| 1999 | 7.6 | -53.1 | 2004 | 8.3 | 5.1 |
| 2000 | 8.2 | 7.9 | 2005 | 9.5 | 14.5 |


Millions
$1,400
1,200
1,000
800
600
400
200
0
Total
Telecommunications
Electricity
Natural gas
'96
'97
'98
'99
'00
'01
'02
'03
'04
'05

## Note on Abatement of Public Utility Taxes

State and/or municipal public utility taxes on a business can be abated if the Department of Commerce and Economic Opportunity certifies that:

(1) the business has (a) made investments that created at least 200 full-time-equivalent jobs in Illinois; (b) invested at least $175 million to create at least 150 jobs in Illinois; or (c) kept at least 1,000 full-time jobs in Illinois; and
(2) the business is either (a) in an Illinois Enterprise Zone or (b) in a federally designated Foreign Trade Zone or Subzone and designated by the Department as a High Impact Business.

The extent and length of abatement are decided by the state and local government. Abatement may last up to 30 years or the certified term of the enterprise zone, whichever is less. If the state and/or local government decide to abate the public utility tax for a particular firm, each public utility serving that firm is excused from collecting public utility tax on service provided to it, and from paying the tax to the government imposing the tax. Also, a municipality that taxes a public utility may exempt a unit of local government or school district within the utility's territory from paying the tax. (20 ILCS 655/5.3; 65 ILCS 5/8-11-2, paragraphs (e) and (f); 220 ILCS 5/9-222.1; and 35 ILCS 640/2-3(d), last paragraph)

# Pull Tab and Jar Games Tax and Fees

The state gets two kinds of revenue from pull tabs and jar games: license fees, and the pull tab and jar games receipts tax. Pull tabs and jar games use single-folded or banded tickets, or a card whose face is initially covered from view to conceal a number, symbol, or set of symbols. Each player chooses one of the tickets or positions on a card, then learns whether it is a winner. Pull tabs are played by pulling a tab from a board to reveal a number corresponding to the number for a given prize. The cost of a single ticket may not exceed $2, and no prize for a single game may exceed $500. No more than 6,000 tickets may be sold for a single game. Organizations with charitable-games licenses may conduct pull tab and jar games; such games may also be conducted at bingo locations. Administered by the Gaming Board in the Department of Revenue. (230 ILCS 20/1 ff.)

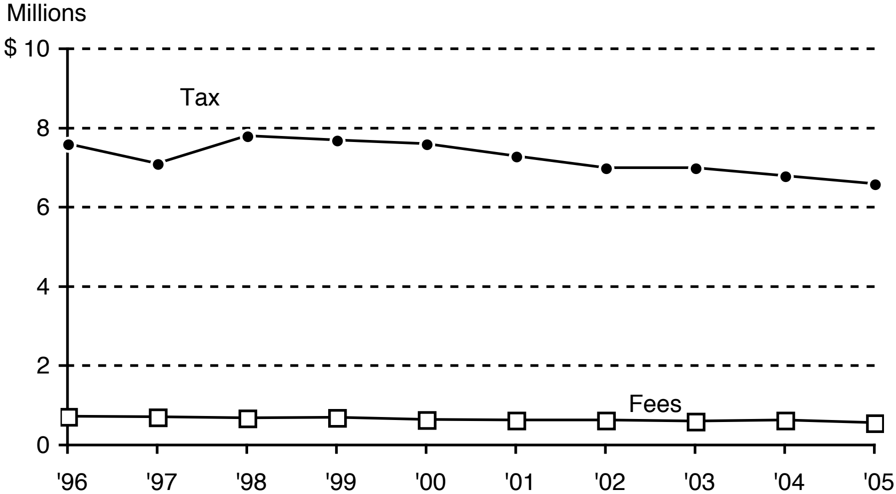
**Rate and base:**

1. Licenses offered and fees:
   - (a) A $500 annual license for a nonprofit charitable, educational, religious, fraternal, veterans', labor, youth athletic, or senior citizens' organization to hold games at a single location.
   - (b) A $50 special permit for such an organization to hold games on up to 2 occasions per year for up to 5 days each.
   - (c) A $5,000 annual license for suppliers and manufacturers of pull tab and jar games materials and equipment.
2. Pull tab and jar games receipts tax: 5% of gross receipts.

**History:** The tax took effect July 1, 1988. A tax amnesty program in fiscal year 2004 allowed taxpayers to pay outstanding tax liabilities without penalty or interest. Amnesty collections totaled $1,955.

**State revenue collected**

| | *License fees* | | *Tax* | |
|---|---|---|---|---|
| *Fiscal year* | *Receipts (thousands)* | *Change* | *Receipts (millions)* | *Change* |
| 1996 | $722.4 | -1.3% | $7.6 | 5.5% |
| 1997 | 709.8 | -1.7 | 7.1 | -6.6 |
| 1998 | 692.4 | -2.5 | 7.8 | 9.9 |
| 1999 | 694.6 | 0.3 | 7.7 | -1.3 |
| 2000 | 646.0 | -6.9 | 7.6 | -1.3 |
| 2001 | 632.3 | -2.1 | 7.3 | -3.9 |
| 2002 | 638.0 | 0.9 | 7.0 | -4.1 |
| 2003 | 599.5 | -6.0 | 7.0 | 0.0 |
| 2004 | 628.4 | 4.8 | 6.8 | -2.9 |
| 2005 | 564.9 | -10.1 | 6.6 | -2.9 |




**Distribution:**
1. 50% to the Common School Fund.
2. 50% to the Illinois Gaming Law Enforcement Fund.

**Other taxes on similar wagering**
*Federal*: A federal tax of 0.25% is imposed on the amount of any wager permitted by state law. But drawings, punchboards, and similar devices are exempt if operated by an organization that is exempt from taxation under section 501 of the Internal Revenue Code (26 U.S. Code secs. 4401, 4421, and 501). A federal license fee of $50 is also imposed on persons accepting wagers authorized by state law.

*Local*:  No tax is authorized by statute.  Even home-rule units probably cannot collect license fees due to the restriction on licensing for revenue in the Illinois Constitution, art. 7, subsec. 6(e).  A tax on the gross receipts of game operators probably would also be invalid under that provision as an occupation tax.

Counties and municipalities are authorized to license and regulate raffles held by nonprofit charitable, educational, religious, fraternal, veterans', labor, and some kinds of business organizations (230 ILCS 15/1 ff.).

**Other states' taxes**

At least five states separately tax proceeds of pull tabs and jar games. Taxes on gross receipts from such games are 10% in Oklahoma, 4.5% in North Dakota, and 1.7% in Minnesota.  Mississippi imposes a tax of 2.5% on net proceeds.  Missouri imposes a tax of 2% of the pull tabs' retail sales value.  Some states authorize local governments to tax pull tabs and jar games.

# Racing Taxes

The pari-mutuel tax is imposed on daily racing receipts of racetrack operators. Smaller amounts of revenue come from the state's racetrack admission tax (15¢ per person) and license fees for racing organizations and racetrack personnel. Administered by Department of Revenue. (230 ILCS 5/25 ff. and 5/32.1)

**Rate and base:**

1.5% of daily pari-mutuel handle (total amount bet).

The tax on the licensees of any track holding live racing dates during a tax year is reduced by credits equaling the greater of:

(a) half the property tax paid on the racetrack in the preceding year, or
(b) the amount by which the property tax paid on the racetrack in the preceding year exceeds 60% of the average property taxes paid in the preceding year by all racetracks awarded live horse racing meets in the tax year.

The tax is not levied on winning wagers made in Illinois on races held outside of Illinois.

**History:** The Horse Racing Act of 1927 had different privilege tax schedules for thoroughbred and harness racing wagers. The Horse Racing Act of 1975 established a single privilege tax schedule for wagers on both types of racing. The 1975 Act based the tax on the daily wagering handle, rather than on the cumulative handle at a race meeting as under the 1927 Act. In 1979 the graduated tax rate on daily wagers was reduced by percentages ranging from 53.3% for amounts wagered up to $200,000 per day, to 20.5% for amounts over $3 million per day. The Downstate tax rates were enacted in 1985.

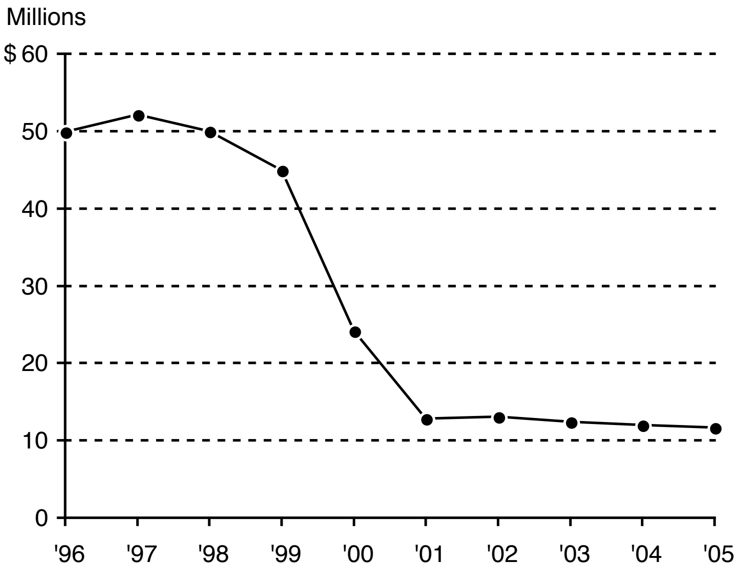
A 1986 law phased out the graduated racing privilege tax rates. Since 1988 the privilege tax rate has been a flat 2% at Cook County tracks (Arlington, Hawthorne, Sportsman's, and Maywood). At Downstate tracks (Balmoral, Fairmont, and Quad City Downs) the tax rate is 1% of the first $400,000 wagered each day and 2% on the excess over $400,000. The Quad City Downs in Rock Island closed in 1994. Arlington was closed for the 1998 racing season.

Off-track betting was organized beginning July 1, 1987. Each of the state's 6 racetrack organizations is authorized to operate 4 OTB locations (except Fairmont Park near East St. Louis, which has 5). The 16 locations for the four Cook County tracks cannot be more than 90 miles from their respective sponsoring tracks. The nine locations of the two Downstate tracks cannot be more than 135 miles from their sponsoring tracks. Neither kind of location can be within 5 miles of an existing track without written permission from the track owner.

The graduated privilege tax was abolished in 1999 and replaced by a flat-rate pari-mutuel tax.

**State revenue collected**

| | *Pari-mutuel tax* | | *Admission tax and fees* | |
|---|---|---|---|---|
| *Fiscal year* | *Receipts (millions)* | *Change* | *Receipts (millions)* | *Change* |
| 1996 | $49.9 | 8.0% | $0.7 | 0.0% |
| 1997 | 52.1 | 4.4 | 0.7 | 0.0 |
| 1998 | 50.0 | -4.0 | 0.7 | 0.0 |
| 1999 | 44.9 | -10.2 | 0.6 | -14.3 |
| 2000 | 24.2 | -46.1 | 0.1 | -83.3 |
| 2001 | 12.8 | -47.1 | 0.1 | 0.0 |
| 2002 | 13.1 | -2.3 | 0.1 | 0.0 |
| 2003 | 12.4 | -5.3 | 0.1 | 0.0 |
| 2004 | 12.0 | -3.2 | 0.0 | 0.0 |
| 2005 | 11.7 | -2.5 | 0.0 | 0.0 |



**Distribution:**

1. 8.5% of pari-mutuel tax collected for quarter-horse racing to the Illinois Quarter Horse Breeders Fund. (230 ILCS 5/30.5(b))
2. All other pari-mutuel tax to the Horse Racing Fund. Part of the money going to the Fund is transferred to the General Revenue Fund—but most is then used to support activities related to racing. Any remainder is available for general state spending.

**Other taxes on race wagering**

*Federal:* The federal tax of 0.25% of the amount of any wager allowed by state law does not apply to wagers made with a pari-mutuel wagering enterprise licensed under state law (26 U.S. Code subsec. 4402(1)).

*Local:* A municipality or township hosting a race licensed by the Illinois Racing Board may charge an admission tax up to 10¢ per person. A township may do so only if the racetrack is in an unincorporated area. Imposition by a home-rule unit of such a tax before it was authorized by statute has been held invalid. A municipality and a county with an OTB facility may each impose an admission fee up to $1 per admission; thus admission fees may total $2 (230 ILCS 5/27 (f)).

An OTB licensee must pay 1% of the pari-mutuel handle at each OTB location to the municipality and 1% to the county. If the OTB location is in an unincorporated area, the county gets 2% (230 ILCS 5/26(h)(10.1)).

**Other states' taxes**

In states allowing wagers on horse racing, each track is allowed to retain a percentage of the money wagered each day to pay state taxes, compensate track management, and pay the purses of winning horses. This percentage, commonly called the "take," is regulated to state law. Most other money wagered is distributed among winning bettors.

The "take" may vary by type of race (thoroughbred or harness) or type of wager. A regular wager involves a bet on a single horse for a single race. Multiple wagers involve bets on more than one horse in a single race: quinella (first and second horses regardless or order); perfecta (first and second horses in that order); trifecta (first, second, and third horses in that order); or a combination of races (daily double).

At least 20 other states tax bets on horse races:

| | |
|---|---|
| Florida | New York |
| Idaho | North Dakota |
| Kentucky | Ohio |
| Maryland | Oklahoma |
| Massachusetts | Pennsylvania |
| Minnesota | Rhode Island |
| Montana | Virginia |
| Nebraska | Washington |
| New Hampshire | West Virginia |
| New Mexico | Wisconsin |

Many states also impose taxes on intertrack, simulcast, televised, and rebroadcast wagering at off-track facilities.  Some states' rates vary during the year.

In addition, Kentucky collects a license tax on race operators based on the average daily mutuel handle—up to $2,500 for a daily average of at least $900,000.  Ohio imposes a racing permit tax of 3% of total daily wagers, plus 0.1% if total wagers are below $5 million and 0.15% if they are at least $5 million.  At least 9 states tax admissions to racetracks, in amounts ranging from 10¢ in Minnesota to 50¢ in Wisconsin.  Nebraska imposes an admissions tax of 0.4% of gross wagers the preceding year. States collecting admissions taxes as percentages of admission charges include New York (4%), Oklahoma (10%), and Pennsylvania (15%). Florida's rate is the greater of 10¢ or 15% of the admissions charge. Rhode Island's rate is 20%.

Several states also collect similar taxes on dog racing and jai alai games. Florida and Rhode Island impose a tax on the handle for jai alai.  At least seven states impose racing taxes on dog racing:  Arkansas, Florida, Idaho, Massachusetts, New Hampshire, Rhode Island, and West Virginia.

# Real Estate Transfer Tax

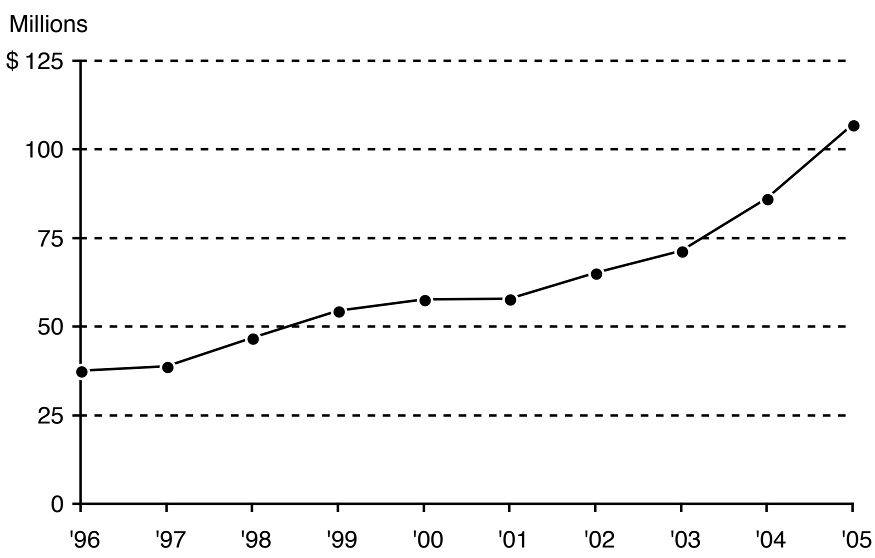
This tax is imposed on sellers of real estate when they transfer title. Administered by Department of Revenue. (35 ILCS 200/31-1 ff.)

**Rate and base:** 50¢ per $500, or fraction thereof, in market value of property transferred. If the property transferred is subject to a mortgage, only the excess of value of the property over the amount owed (owner's equity) is taxed.

**History:** The tax was enacted in 1967 at the current rate. The rate was reduced to 25¢ per $500 in 1979, then restored to 50¢ per $500 in 1989. Effective June 1, 2004, a transfer of a controlling interest in a "real estate entity" that owns property in Illinois also became subject to this tax.

**State revenue collected**

| *Fiscal year* | *Receipts (millions)* | *Change* | *Fiscal year* | *Receipts (millions)* | *Change* |
|---|---|---|---|---|---|
| 1996 | $37.5 | 13.6% | 2001 | $57.8 | 0.2% |
| 1997 | 38.9 | 3.7 | 2002 | 65.2 | 12.8 |
| 1998 | 46.9 | 20.6 | 2003 | 71.4 | 9.5 |
| 1999 | 54.5 | 16.2 | 2004 | 86.2 | 20.7 |
| 2000 | 57.7 | 5.9 | 2005 | 107.0 | 24.1 |



**Distribution:**
1. 50% to the Illinois Affordable Housing Trust Fund.
2. 35% to the Open Space Lands Acquisition Development Fund.
3. 15% to the Natural Areas Acquisition Fund.

**Other taxes on transfers of real estate**

*Federal*: None. A federal tax of 50¢ per $500 of the value of property transferred was repealed in 1967.

*Local*: Counties can impose a tax of 25¢ per $500 of value (55 ILCS 5/5-1031). Some home-rule municipalities also impose real estate transfer taxes. The governing body of a home-rule municipality or county must hold a public hearing and referendum to impose or increase a local real estate transfer tax.

**Other states' taxes**

Twenty-eight states impose real estate transfer taxes, at rates ranging from 1¢ per $100 of sale price in Colorado to $4.56 per $1,000 (nearly 0.5%) in Massachusetts. Tax rates stated as percentages of price include Maryland (0.5%), Connecticut (0.75%), Pennsylvania (1.0%), Vermont (1.25%), Washington (1.28%) and Delaware (2.0%). Rhode Island charges $2 per $500 of sale price (0.4%); Arizona charges $2 per deed. Georgia's rate is 0.1%. New Jersey charges $1.55 per $500 plus additional fees based on the total value of the property.

# Riverboat Gambling Taxes and Fees

Illinois gets three kinds of revenue from licensed riverboat gambling: wagering taxes, license fees, and an admission tax (part of the proceeds of that tax are distributed to the locality where a gambling boat docks). State law authorizes a total of 10 riverboat licenses. Administered by Illinois Gaming Board in the Department of Revenue. (230 ILCS 10/1 ff.)

**Rates and base:**

1. Wagering tax:

| *Adjusted gross receipts* | *Rate* |
|---|---|
| Up to $25 million | 15.0% |
| 50 million | 22.5 |
| 75 million | 27.5 |
| 100 million | 32.5 |
| 150 million | 37.5 |
| 200 million | 45 |
| Over 200 million | 50 |

2. License fees:
   (a) $25,000 nonrefundable application fee.
   (b) $5,000 annual operator's fee.
   (c) $50,000 fee for background investigation costs.
   (d) $5,000 annual gambling device supplier's fee.
3. Admission fee:
   (a) $2 per person if admissions in preceding calendar year were up to 1 million.
   (b) $3 per person if admissions in preceding calendar year were over 1 million.

**History:** The tax was enacted in 1990 at a flat rate of 20% of adjusted gross receipts. In 1997 that was changed to a graduated system with 5 rates. On July 1, 2003 the number of rates was expanded to 7.

A 2005 act required any riverboat with over 1 million admissions in calendar year 2004 to pay an additional amount determined by how much its statutory "base amount" exceeds the tax liability. The obligation to pay this additional amount will continue until (a) July 1, 2007, (b) one of the riverboats becomes dormant, or (c) additional licenses are authorized. Base amounts are:

| *Location* | *Base amount (millions)* |
|---|---|
| Alton | $ 31.0 |
| East Peoria | 43.0 |
| Empress in Joliet | 86.0 |
| Metropolis | 45.0 |
| Harrah's in Joliet | 114.0 |
| Aurora | 86.0 |
| East St. Louis | 48.5 |
| Elgin | 198.0 |

Riverboats were first allowed to conduct gambling while docked in 1999.

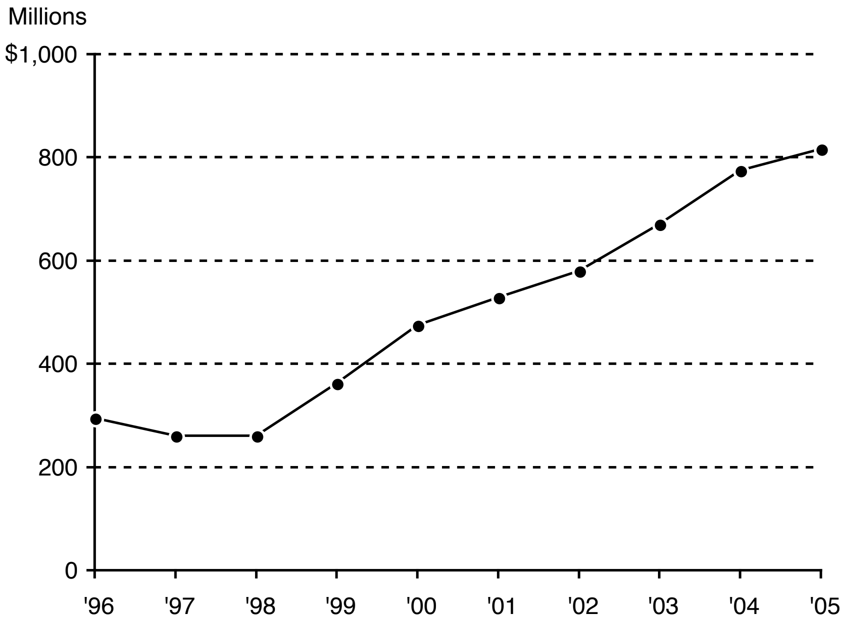
Illinois has 9 riverboats still operating. They are listed below by their opening months:

| *Location* | *Year and month opened* | |
|---|---|---|
| Alton | 1991 | September |
| Peoria | 1991 | November |
| Rock Island | 1992 | March |
| Empress in Joliet | 1992 | June |
| Metropolis | 1993 | February |
| Harrah's in Joliet | 1993 | May |
| Aurora | 1993 | June |
| East St. Louis | 1993 | June |
| Elgin | 1994 | October |

A boat opened at Galena in June 1992 but closed in July 1997.

**State revenue collected**

| *Fiscal year* | *Receipts (millions)* | *Change* | *Fiscal year* | *Receipts (millions)* | *Change* |
|---|---|---|---|---|---|
| 1996 | $295.0 | 10.9% | 2001 | $529.1 | 11.3% |
| 1997 | 261.1 | -11.5 | 2002 | 580.2 | 9.7 |
| 1998 | 261.0 | 0.0 | 2003 | 670.5 | 15.6 |
| 1999 | 362.1 | 38.7 | 2004 | 774.9 | 15.6 |
| 2000 | 475.5 | 31.3 | 2005 | 816.4 | 5.4 |




**Distribution:**

1. Amount above what would have been collected under the previous graduated rates to the Common School Fund.
2. All regular wagering taxes and fees to the State Gaming Fund for distribution as follows:
   (a) 5% of each boat's monthly receipts to the local government where the boat docks.
   (b) The amount appropriated to the Departments of Revenue and State Police for administering and enforcing the Riverboat Gambling Act, and to the Department of Human Services to administer programs to treat problem gambling.

(c) Of receipts from (i) a riverboat that was licensed but not operating on January 1, 1998 and moves to a new location or (ii) a riverboat newly licensed after June 25, 1999 (whichever occurred first):
- 15% to the Horse Racing Equity Fund, and an equal amount to the Education Assistance Fund.
- 2% of adjusted gross revenue (AGR) to home-rule county of over 3 million to improve criminal justice programs; equal amount to Education Assistance Fund.
- 2% of AGR to the State Universities Athletic Capital Improvement Fund.

(d) Remainder of all regular taxes to Education Assistance Fund.

3. Fines and penalties to Education Assistance Fund.
4. Admission tax:
   (a) $1 to the municipality where the riverboat docks (or to the county if it docks in an unincorporated area).
   (b) Remainder to the state.

**Other taxes on riverboat gambling**

*Federal*: A federal tax of 0.25% applies to any wager allowed by state law. But the tax does not apply to a game in which all participants are present during the wagering, determination of winners, and distribution of prizes (26 U.S. Code secs. 4401 and 4421).

*Local*: None are authorized.

**Other states' taxes**

Indiana, Iowa, Louisiana, Mississippi, and Missouri are the only other states with riverboat gambling taxes. Iowa's gross-receipts tax is 5% of the first $1 million wagered; 10% of the next $2 million; and 20% of any excess over $3 million. Iowa also requires riverboats to collect an admission fee of 50¢ per person. An Iowa city or county hosting a riverboat can charge an additional 50¢ admission fee by referendum. Mississippi imposes fees of 4% to 8% on gross receipts, and additional annual fees based on the number of games conducted, plus a gambling tax of 3% of payments or credits to patrons. Local governments in Mississippi can also tax monthly gross receipts from riverboat gambling, at rates ranging from 0.4% of the first $50,000 to 0.8% of any excess over $134,000.

Louisiana imposes a tax of 17% of net proceeds. Indiana imposes a tax of 20% of adjusted gross receipts of riverboats that have gambling at the dock, and 22.5% of those that do not. Indiana also imposes an admissions tax of $3 ($4 in some places). Missouri imposes taxes of 20% of adjusted gross receipts and $3 per admission.

# Sales and Use Taxes

The "sales" tax actually consists of two matching pairs of taxes:

- The retailers' occupation tax, and the use tax.
- The service occupation tax, and the service use tax.

The retailers' occupation tax is imposed on gross receipts of retailers from sales of tangible personal property in Illinois.

The use tax is imposed on persons who use tangible personal property in Illinois. If that property is bought from an Illinois retailer, the retailer collects the use tax and uses it to pay the retailers' occupation tax. A person who buys property out of state, paying a lower rate of sales tax than would be due here, and then uses it in Illinois is liable for the difference as use tax.

The service occupation tax and service use tax are similar to the retailers' occupation tax and use tax, but apply to tangible property received incident to buying a service. There is no tax on the charge for the service. For example, if a car is repaired, these taxes apply only to the prices of any replacement parts used, not labor.

If out-of-state sellers have offices or other facilities in Illinois, the Illinois Department of Revenue can require them to collect these taxes on their sales in Illinois. Administered by Department of Revenue. (35 ILCS 105/l ff. (use tax); 120/l ff. (retailers' occupation tax); 110/l ff. (service use tax); and 115/l ff. (service occupation tax))

**Rate and base:** 6.25% of the purchase price (except on food and drugs, gasohol, blended ethanol, biodiesel, and biodiesel blends, as described below). The state keeps 5% of the purchase price and pays the remaining 1.25% to local governments as described below.

**Retailers' occupation tax exemptions**
A rate of only 1% applies to food to be consumed off the premises (except alcoholic beverages, soft drinks, and food prepared for immediate consumption); modifications to automobiles used by disabled persons; and medicines and medical appliances. That 1% goes to local governments. Municipalities and counties can exempt food from this tax if it

is sold below retail cost, for off-premises consumption, by a nonprofit organization that requires buyers to do community service as a condition of buying.

For gasohol, the retailers' occupation tax applies to only 80% of the sales price; no sales tax applies to fuel that is mostly ethanol. The tax applies to 80% of the sales price on biodiesel blends with 1% to 10% biodiesel content; no tax applies to blends with over 10% biodiesel content. These rates are to last through December 31, 2013. If the tax rate is reduced to the 1.25% for local governments (as it was from July 1 to December 31, 2003), 100% of the sale price of gasohol and blends with 10% to 99% biodiesel will be taxed.

The state sales tax (5%) on regular motor fuels and gasohol was suspended from July through December 2000, but resumed on January 1, 2001.

The following *classes of items* are completely exempt from retailers' occupation tax:

1. Mandatory service charges to the extent they cover tips for persons directly involved in preparing, serving, hosting, or cleaning after a function for which the charges are imposed.
2. Farm chemicals.
3. New and used farm machinery (including farm wagons, trailers, and similar vehicles with gross weight up to 36,000 pounds, and apparatus for transporting or spreading chemicals) for production agriculture, or for state or federal agricultural programs; facilities to propagate, grow, or overwinter plants; and precision farm equipment such as soil sensors, computers, global positioning systems for soil testing and mapping, and equipment to collect data to formulate animal diets and farm chemicals.
4. Motor vehicles, recreational vehicles, and vans designed to carry 7 to 16 people, if they are to be rented out by a leasing company (see "Automobile Renting Occupation & Use Tax" on page 6).
5. Motor vehicles sold in Illinois to nonresidents and not titled in Illinois, for which drive-away permits are issued—if the state in which they will be titled has such an exemption for motor vehicles sold in it to Illinois residents. If it has no such exemption, a tax is imposed at a rate equal to that other state's tax on tangible personal property, but limited to the Illinois tax that would have otherwise been imposed.

6. Newsprint and ink.
7. All machinery, equipment, structures, and associated apparatus of a coal gasification operation.
8. Legal tender, currency, medallions, or gold or silver coins issued by Illinois, the U.S., or any foreign country; or bullion.
9. Photoprocessing machinery and equipment, including repair and replacement parts.
10. Photoprocessing products sold for use in commercial motion pictures.
11. Semen used for artificial insemination of livestock for direct agricultural production.
12. Some kinds of thoroughbred and standardbred horses used for breeding and racing.
13. Equipment used for diagnosis, analysis, or treatment of hospital patients, and computers and communications equipment used for any hospital purpose, if bought by a lessor and leased for at least 1 year to a hospital having an active tax exemption number.
14. Game or game birds bought at a game breeding and hunting preserve.
15. Motor vehicles donated to a recognized educational organization (such transactions formerly were treated as taxable).
16. Motor vehicles weighing over 8,000 pounds and subject to the commercial distribution fee (see "Driver's License & Vehicle Fees" on page 28). This exemption formerly applied to repair and replacement parts if the vehicle qualifies for the rolling stock exemption described below. The exemption was repealed for transactions on or after July 1, 2005. But motor vehicles and trailers that previously qualified for the exemption will remain exempt if the taxpayer continues to pay the Commercial Distribution Fee in later registration years.
17. Graphic-arts machinery, equipment, and replacement parts, and chemicals that act directly on graphic-arts products.
18. Building materials when used for real estate in a redevelopment project within an intermodal terminal facility area (35 ILCS 120/1p). An intermodal terminal facility area may be designated by a municipality for the purposes of developing new intermodal terminal facilities, rehabilitating obsolete intermodal terminal facilities, or both. An intermodal terminal facility is a place where the receipt and transfer of goods between one mode of transportation and another occurs, if at least one such transportation mode is rail. (65 ILCS 11-74.4-3.1).

Sales in the following *kinds of situations* are also exempt:

1. Sales to government bodies; charitable, religious, and educational organizations; and nonprofit corporations organized to provide recreation to persons 55 or older.
2. Isolated or occasional sales by persons other than retailers.
3. Occasional dinners of charitable, religious, or educational organizations.
4. Sales of property to interstate carriers for hire for use as rolling stock (trucks or trailers) in interstate commerce, or to lessors under leases of at least 1 year executed or in effect at the time of purchase to interstate carriers for hire for use as rolling stock in interstate commerce. To qualify, over half of the vehicle's total trips must be to transport people or property in movement that is part of an interstate trip, and the vehicle (unless a trailer) must have a gross weight rating over 16,000 lbs.
5. Sales of fuel consumed or used in ships, barges, or vessels used primarily to transport persons or property on a river bordering Illinois, if the fuel is delivered while the ship, barge, or vessel is on that river.
6. Sales of jet fuel used in operating high-impact service facilities in enterprise zones where mail, freight, cargo, or other parcels are sorted, handled, and redistributed (until January 2008).
7. Sales of aviation fuel for flights beginning or ending outside the U.S.
8. Sales of petroleum products if federal law prohibits the seller from charging tax.
9. Sales of personal property to a nonprofit Illinois county fair association for fair use.
10. Sales of personal property by a teacher-sponsored student organization affiliated with a school.
11. Sales of machinery and equipment used for general maintenance and repair, or in-house manufacture, of exempt machinery and equipment.
12. Sales of machinery to operate other equipment in a computer-assisted design (CAD) or computer-assisted manufacturing (CAM) system.
13. Sales of repair and replacement parts, fuels, equipment, and supplies used in manufacturing processes bought by a business certified by the Department of Commerce and Economic Opportunity and located in an enterprise zone.

14. Sales of personal property by nonprofit organizations organized to benefit people over 65.
15. Sales to nonprofit arts or cultural organizations, including music and dramatic arts organizations, symphony orchestras and theatrical groups, local arts councils, visual arts organizations, and media arts organizations.
16. Sales of flowers by wire outside Illinois for delivery by Illinois florists.
17. Sales of tangible personal property to a railroad if transported out of Illinois for use elsewhere.
18. Purchases of personal property by a lessor if leased to a governmental body (with an active tax exemption number) for at least 1 year.
19. Sales of personal property used to make repairs to public infrastructure within 6 months after a state or federal disaster in Illinois or a bordering state, through 2004.
20. Personal property sold at school fundraising events sponsored by volunteer entities that are recognized by a school district.
21. Sales of property to be used for repair or rebuilding of aircraft at a maintenance facility operated by an interstate carrier, in a county of 150,000 to 200,000 that contained 3 enterprise zones at the end of 1990, if other criteria are met.

**Use tax exemptions**

The use tax does not apply to use of personal property that would be exempt from the retailers' occupation tax, or to the following kinds of property:

1. Property brought into the state for temporary use by a nonresident.
2. Property already taxed in another state, to the extent of the tax paid there.
3. Temporary storage in Illinois of property acquired and later used outside the state, or that is altered and, as altered, used outside the state.
4. Building materials temporarily stored in Illinois if acquired by a registered combination retailer and construction contractor, either inside or outside Illinois, and used outside Illinois by incorporating it into realty outside Illinois.
5. Property acquired outside the state by a nonresident and used for at least 3 months before being brought into Illinois for use here.

6. Used property moved to Illinois by a business formerly not operating in Illinois, if the property has been bought and used in the business outside Illinois for at least 3 months.
7. Motor fuel acquired outside Illinois and brought into the state in fuel supply tanks of locomotives engaged in freight hauling and passenger service in interstate commerce.
8. Food for human consumption off the premises where sold; and prescription and nonprescription medicines, medical appliances, and insulin, urine testing materials, syringes, and needles used by diabetics, if used by a person living on Medicaid in a licensed nursing home.
9. Motor vehicles weighing over 8,000 pounds and subject to the commercial distribution fee (see "Driver's License & Vehicle Fees" on page 28). This exemption also applies to repair and replacement parts, if the vehicle qualifies for the rolling stock exemption. This exemption ended for transactions after June 2005. But motor vehicles and trailers that previously qualified for the exemption remain exempt as long as the taxpayer continues paying the Commercial Distribution Fee in later registration years.

**Service tax exemptions**

Service transactions involving provision of the following kinds of property are exempt from the service use and service occupation taxes:

1. Personal property taxable under the retailers' occupation or use tax, and tangible personal property offered for resale.
2. Personal property that is essential for providing service for or by any governmental body or charitable, religious, or educational organization, or nonprofit corporation organized for the recreation of persons 55 or older.
3. Personal property that is essential for providing service by interstate carriers for hire for use as rolling stock in interstate commerce, or by lessors under leases of at least 1 year, executed or in effect at the time of purchase, to interstate carriers for hire as rolling stock moving in interstate commerce if 51% of the carrier's total trips are used for transporting people or property and cross the Illinois state border.
4. Property that is incorporated into other tangible personal property and sold in the regular course of business, or that is transported in interstate commerce to destinations outside Illinois.
5. Sales for the primary purpose of conveying news, with or without other information.

6. Property acquired outside the state and moved into Illinois for use as rolling stock in interstate commerce, if at least 51% of the carrier's total trips are used for transporting people or property and cross an Illinois state border.
7. Property that cannot be taxed under federal law.
8. Interim use of tangible personal property.
9. Property temporarily used in the state by nonresidents.
10. Property taxed in another state, but only to the extent of the tax paid there.
11. Property temporarily stored in the state for later use outside the state, or rented and used outside the state.
12. Property acquired outside the state at least 3 months before being used in Illinois.
13. Machinery and equipment primarily used for manufacture or assembly of tangible personal property for sale or lease.
14. Mandatory service charges to the extent they cover tips for persons directly involved in preparing, serving, hosting, or cleaning after a function for which the charges are imposed.
15. New or used farm machinery for production agriculture, or for state or federal programs.
16. All machinery, equipment, structures, and associated apparatus of a coal gasification operation.
17. Motor vehicles designed to carry up to 10 people, if they are to be rented out by a leasing company.
18. Property used for repairing railroad equipment that is transported outside Illinois for use elsewhere.
19. Sale or transfer of property made on special order for an interstate carrier for hire that is received in Illinois, but is transported to and used outside Illinois.
20. Personal property bought by a nonprofit Illinois county fair association for fair use.
21. Personal property sold by a teacher-sponsored student organization affiliated with an elementary or secondary school.
22. Legal tender, currency, medallions, or gold or silver coins issued by Illinois, the U.S., or any foreign country, and bullion.
23. Photoprocessing machinery and equipment, including repair and replacement parts.
24. Machinery and equipment used for general maintenance and repair, or in-house manufacture, of exempt machinery and equipment.
25. Machinery used to operate other equipment in a computer-assisted design (CAD) or computer-assisted manufacturing (CAM) system.

26. Proceeds from sales of personal property by nonprofit organizations organized to benefit people over 65.
27. Sales to nonprofit music or dramatic-arts organizations that present live performances on a regular basis.
28. Aviation fuels bought for flights outside the U.S.
29. Photoprocessing products used in commercial motion pictures.
30. Motor vehicles weighing more than 8,000 pounds and subject to the commercial distribution fee (see "Driver's License & Vehicle Fees" on page 28). This exemption also applies to repair and replacement parts, if the vehicle qualifies for the rolling stock exemption. But as stated under "Use tax exemptions" above, this exemption does not apply to new transactions after June 2005.
31. Graphic Arts machinery, equipment, and replacement parts.

A manufacturer's purchase credit may be earned for buying manufacturing machinery and equipment and construction materials that are incorporated into a manufacturing facility, and for graphic arts machinery and equipment. The credit may be used to offset sales tax liability for buying production-related personal property and construction materials that do not otherwise qualify for the exemptions of machinery, equipment, or materials. The credit is 50% of the price of manufacturing machinery or equipment to which that exemption did not apply.

**History:**

| | *Year* | *Rate* |
|---|---|---|
| A retailers' occupation tax was enacted in 1933 at a rate of 2%. | 1933 | 2 % |
| | 1935 | 3 |
| | 1941 | 2 |
| A use tax was added in 1955, and both rates were set at 2.5%. | 1955 | 2.5 |
| | 1959 | 3 |
| The service use tax and service occupation taxes were added in 1961. | 1961 | 3.5 |
| | 1967 | 4.25 |
| | 1969 | 4 |
| | 1984 | 5 |
| | 1990 | 6.25* |

*The 6.25% is a combined state-local rate. The state keeps 80% (the first 5¢ per $1), and pays the other 20% (1.25¢ per $1) to local governments. See "Distribution" on page 115.

Rates of sales and use taxes on food and drugs were reduced from 4% to 3% on January 1, 1980, and from 3% to 2% on January 1, 1981. All food not for consumption on the premises, and all drugs, were completely exempted from state sales and use taxation on January 1, 1984. When the combined state-local rate of 6.25% took effect in 1990, a 1% state tax was imposed on food and drugs; its proceeds are transferred to local governments.

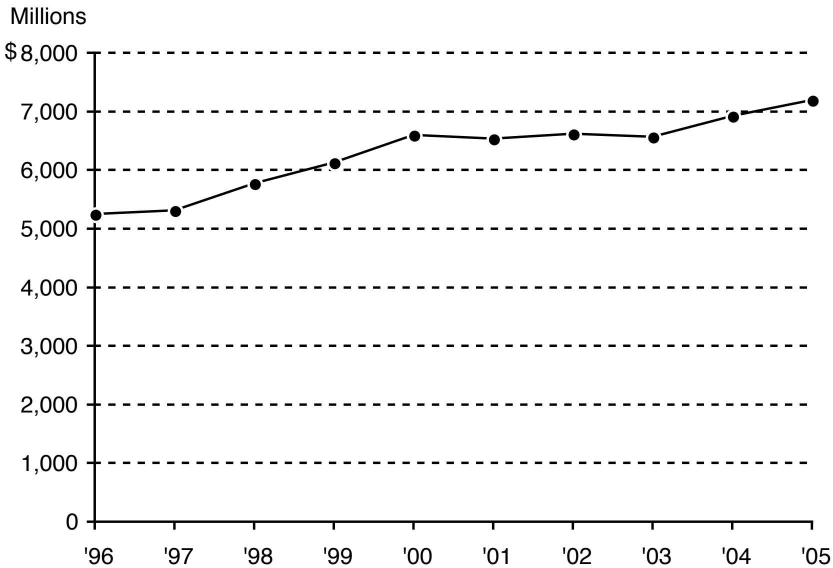
A 2003 act created the Aircraft Use Tax on the sale of airplanes (35 ILCS 157/10-1 ff.). The Aircraft Use Tax is 6.25% of the purchase price, of which 1.25% is deposited into the Local Government Distributive Fund and the rest to the General Revenue Fund.

A 2004 act created the Watercraft Use Tax (35 ILCS 158/15-1 ff.) at 6.25% of the price on watercraft acquired by gift, transfer, or purchase. Proceeds go 20% to the State and Local Sales Tax Reform Fund, and 80% to the General Revenue Fund. (Leased or rented watercraft are tangible personal property subject to the Retailers' Occupation Tax.)

A tax amnesty program in fiscal year 2004 allowed taxpayers to pay outstanding tax liabilities without penalty or interest. Amnesty collections totaled $101,358,086.

**State revenue collected**

| *Fiscal year* | *Receipts (millions)* | *Change* | *Fiscal year* | *Receipts (millions)* | *Change* |
|---|---|---|---|---|---|
| 1996 | $5,246.9 | 3.4% | 2001 | $6,531.8 | -1.1% |
| 1997 | 5,313.6 | 1.3 | 2002 | 6,617.0 | 1.3 |
| 1998 | 5,768.9 | 8.6 | 2003 | 6,563.4 | -0.8 |
| 1999 | 6,124.1 | 6.2 | 2004 | 6,922.6 | 5.5 |
| 2000 | 6,602.0 | 7.8 | 2005 | 7,190.3 | 3.9 |




**Distribution:**

1. 80% of net revenue from 6.25% sales tax as follows:
   - (a) 1.75% to Build Illinois Fund;
   - (b) 3.8% to Build Illinois Fund to retire bonds;
   - (c) 0.27% to Illinois Tax Increment Fund;
   - (d) 80% of net tax revenue on Illinois coal bought by a new electric generating facility that received state financial aid, to the Energy Infrastructure Fund (for the first 25 years that the facility buys Illinois coal).
   - (e) 25% reserved for transfor to Common Schools Special Account Fund;
   - (f) Remainder to General Revenue Fund, with three transfers out:
     - (i) 25% of net revenue collected from RTA sales tax, to Public Transportation Fund.
     - (ii) 1/16 of net revenue from counties and municipalities that have Downstate mass transit districts, to the Downstate Public Transportation Fund.
     - (iii) 1/16 of net revenue from Madison, Monroe, and St. Clair Counties to the Metro-East Public Transportation Fund.
2. 16% of net proceeds of the 6.25% sales tax to the Local Government Tax Fund.
3. 4% of net revenue from the 6.25% sales tax to the County and Mass Transit Fund.

**Other taxes on sales**

*Federal*: None.

*Local:*

<u>Goods other than food and drugs</u>:

Illinois law authorizes local governments to impose sales taxes, subject to the following requirements as to rates:

| | |
|---|---|
| Home-rule units | 0.25% or more in 0.25% increments (no statutory limit) |
| Non-home-rule municipalities | 0.25%, 0.50%, 0.75%, or 1.0% for property tax relief |
| Regional Transportation Authority (RTA) | 0.75% maximum in Cook County; 0.25% maximum in DuPage, Kane, Lake, McHenry, and Will Counties |
| DuPage County Water Commission | 0.25% maximum |
| Metro East Transit District | 0.25% maximum |
| Metro-East Park and Recreation District | 0.1% maximum |

Sauget imposes a tax of 1.50%, and Chicago, Rosemont, and Joliet impose taxes of 1.25%; 18 other home-rule units collect 1%; Cook County and 13 home-rule units, 0.75%; 23 home-rule units, 0.5%; and 10 home-rule units, 0.25%. The RTA, DuPage County Water Commission, and Metro East Transit Districts impose the maximum rates allowed. The Department of Revenue collects these local taxes along with the 6.25% statewide tax.

The Illinois Municipal Code authorizes non-home-rule municipalities by referendum to tax sales, except of food and drugs, for public infrastructure and/or property tax relief at rates of 0.25%, 0.5%, 0.75%, or 1.0%. The Illinois Department of Revenue collects those taxes for the municipalities that impose them (65 ILCS 5/8-11-1.1 and 5/8-11-1.3). Over 40 municipalities have imposed such taxes. A special provision allows East Peoria to impose a sales tax of 1.25% (65 ILCS 5/8-11-1.6).

Any county by referendum may impose a sales tax, except on food and drugs, for public safety or transportation purposes in 0.25% increments. The Illinois Department of Revenue collects those taxes (55 ILCS 5/5-1006.5). At least 24 counties have imposed them.

Food and drugs:

The state collects a 1% tax on sales of food for consumption off the premises; food served in hospitals and nursing homes incident to providing other services; prescription and nonprescription drugs; and medical appliances. This tax is collected by the Department of Revenue and paid into the Local Government Tax Fund for distribution to municipalities and counties. The state does not keep any of this revenue. In addition, Chicago is authorized to levy a tax on soft drinks, which the state collects; and the state collects sales taxes on food and drugs for two transit districts (both at the maximum rates allowed).

| | |
|---|---|
| Chicago (soft drinks only) | 0.25% or more in 0.25% increments (3.0% maximum) |
| Regional Transportation Authority (RTA) | 1.00% maximum in Cook County<br>0.25% maximum in DuPage, Kane, Lake, McHenry, and Will Counties |
| Metro East Transit District | 0.75% maximum |

Use Tax:

The increase in the general sales tax rate from 5% to 6.25% also increased collections of use tax by 25% (1.25 ÷ 5). The additional revenue is distributed as follows:

(a) 20% to Chicago.
(b) 10% to RTA Occupation and Use Tax Replacement Fund.
(c) 0.6% to Metro East Mass Transit District.
(d) $37.8 million to Build Illinois Bond Account Fund (through FY 2025).
(e) The rest to the Local Government Distributive Fund (distributed by population to local governments other than Chicago).

Restaurants

The Metropolitan Pier and Exposition Authority is authorized to impose a 1% retailers' occupation tax on restaurant and carry-out food in the area of Chicago bordered by the Stevenson Expressway on the south, Ashland Avenue on the west, Surf Street on the north, and Lake Michigan on the east; and at O'Hare and Midway Airports.

The following tables list rates collected in each locality or area of the state.

## Items except food and drugs

| | *Chicago* | *Suburban Cook Co.* | *DuPage* | *Other collar* | *Down-state* | *Metro East* |
|---|---|---|---|---|---|---|
| State | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| Municipal (county in unincorp. areas) | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| County | 0.25 | 0.25 | .25 | 0.25 | 0.25 | 0.25 |
| County home-rule | 0.75 | 0.75 | - | - | - | - |
| RTA | 0.75 | 0.75 | 0.25 | 0.25 | - | - |
| DuPage water | - | - | 0.25 | - | - | - |
| Metro East | - | - | - | - | - | 0.75 |
| City home-rule | 1.25 | 0.25-1.25 | 0.25-1.00 | 0.25-1.25 | 0.25-1.25 | 0.25-1.50 |
| Totals | 9.00% | 7.75-8.50% | 6.75-9.00% | 6.50-7.75% | 6.25-7.75% | 7.00-7.50% |

## Food and drugs

| | *Chicago* | *Suburban Cook Co.* | *DuPage* | *Other collar* | *Down-state* | *St. Clair* | *Madi-son* |
|---|---|---|---|---|---|---|---|
| State | - | - | - | - | - | - | - |
| Municipal (county in unincorp. areas) | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% | 1.00% |
| County (countywide) | - | - | - | - | - | - | - |
| County home-rule | - | - | - | - | - | - | - |
| RTA | 1.00 | 1.00 | 0.25 | 0.25 | - | - | - |
| DuPage water | - | - | - | - | - | - | - |
| Metro East Transit | - | - | - | - | - | 0.75 | 0.25 |
| Totals | 2.00% | 2.00% | 1.25% | 1.25% | 1.00% | 1.75% | 1.25% |

**Other states' taxes**

Only five states do not impose general sales taxes: Alaska, Delaware, Montana, New Hampshire, and Oregon.

Basic (statewide) rates in the states with such taxes are:

| *Rate* | *States* |
|---|---|
| 7.0 % | Mississippi, Rhode Island, Tennessee |
| 6.5 | Minnesota, Nevada, Washington |
| 6.25 | California, **Illinois**, Texas |
| 6.0 | Arkansas, Connecticut, Florida, Idaho, Indiana, Kentucky, Michigan, New Jersey, Ohio, Pennsylvania, Vermont, West Virginia |
| 5.6 | Arizona |
| 5.5 | Nebraska |
| 5.3 | Kansas |
| 5.0 | Iowa, Maine, Maryland, Massachusetts, New Mexico, North Dakota, South Carolina, Wisconsin |
| 4.75 | Utah |
| 4.5 | North Carolina, Oklahoma |
| 4.25 | New York |
| 4.225 | Missouri |
| 4.0 | Alabama, Georgia, Hawaii, Louisiana, South Dakota, Virginia, Wyoming |
| 2.9 | Colorado |

# Vehicle Use Tax

This tax is imposed on each motor vehicle given, transferred, or sold between private parties. Administered by Department of Revenue. (625 ILCS 5/3-1001 ff.)

**Rate and base**

(a) Vehicle valued under $15,000:

| *Years since model year* | *Tax* | *Years since model year* | *Tax* |
|---|---|---|---|
| Up to 1 | $390 | 7 | $80 |
| 2 | 290 | 8 | 65 |
| 3 | 215 | 9 | 50 |
| 4 | 165 | 10 | 40 |
| 5 | 115 | over 10 | 25 |
| 6 | 90 | | |

(b) Vehicle valued at $15,000 or more:

| *Sale price* | *Tax* | *Sale price* | *Tax* |
|---|---|---|---|
| $15,000-19,999 | $ 750 | $25,000-29,999 | $1,250 |
| 20,000-24,999 | 1,000 | 30,000+ | 1,500 |

(c) $15 for a motor vehicle sold or transferred among immediate family members in administering an estate (except transfer to a surviving spouse), or in reorganizing a business with no change in beneficial ownership.

(d) $25 for a motorcycle, motor-driven cycle, 3- or 4-wheel all-terrain vehicle, or motorized pedalcycle.

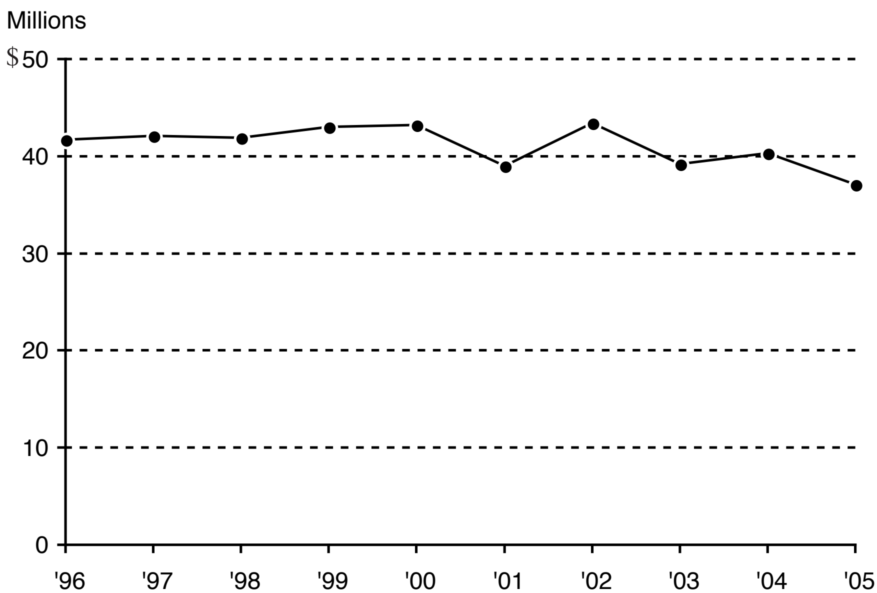
**Exemptions:**

1. Vehicles taxable under the use tax.
2. Vehicles bought and used by government agencies, or by a society, association, foundation, or institution organized and operated exclusively for charitable, religious, or educational purposes.
3. Vehicles sold after issuance of junking certificates.
4. Vehicles transferred to a surviving spouse.
5. Vehicles for on-farm use only.

**History:** The tax was enacted in 1979 at $30 per vehicle. In 1981 motor vehicles over 5 years old were exempted. In 1985 the rate was changed to 5% of the selling price for vehicles up to 10 years old. The current rates, based on vehicle age and selling price, took effect in 1988. The tax will be discontinued when there are enough proceeds to retire the Build Illinois Bonds. A tax amnesty program in fiscal year 2004 allowed taxpayers to pay outstanding tax liabilities without penalty or interest. Amnesty collections totaled $183,589.

**State revenue collected**

| *Fiscal year* | *Receipts (millions)* | *Change* | *Fiscal year* | *Receipts (millions)* | *Change* |
|---|---|---|---|---|---|
| 1996 | $41.7 | -4.1% | 2001 | $39.0 | -9.7% |
| 1997 | 42.1 | 1.0 | 2002 | 43.4 | 11.3 |
| 1998 | 41.9 | -0.5 | 2003 | 39.2 | -9.7 |
| 1999 | 43.0 | 2.6 | 2004 | 40.3 | 2.8 |
| 2000 | 43.2 | 0.5 | 2005 | 37.1 | -7.9 |




**Distribution:** $5 million per year to the Build Illinois Fund; remainder to the General Revenue Fund.

**Other taxes on vehicle use**
*Federal*: None.

*Local*: No local tax is authorized by statute, but a home-rule unit probably could impose one.

**Other states' taxes**
Other states usually tax sales of motor vehicles between private parties at the same rates as other sales.