

# LEGISLATIVE RESEARCH UNIT

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## TAX STRUCTURES OF ILLINOIS AND SURROUNDING STATES

asked \_\_\_\_\_ for information on the tax structures of Illinois and its surrounding states. On December 2, \_\_\_\_\_ forwarded to us detailed questions on property taxes; personal and corporate income taxes; sales taxes (including exemptions); utility taxes; and gaming taxes. We describe below information on each of those taxes, and on motor fuel and tobacco taxes, in Illinois and the six states bordering it by land or water (Indiana, Iowa, Kentucky, Michigan, Missouri, and Wisconsin).

We start with an overview of state tax structures and a list of the current tax burdens in each of those states. Next is a description of each state's tax rates; we also include a discussion of any widely recognized problems or issues with some of the taxes. Appendices A and B show those states' collections of seven types of taxes, in amounts and as percentages of total tax revenue, as reported by the Census Bureau. Neither public utility taxes nor gambling taxes are included as separate taxes in the appendices, because they were not reported by the Census for all surveyed states.

*Governing* magazine works with the Pew Center on the States to issue periodic reports to evaluate state governments. A 2003 report entitled "The Way We Tax—A 50-State Report" evaluated each state's tax structure. A 2008 report analyzes outdated state tax systems and offers suggestions for improvement. We enclose copies of both reports. The 2003 report has a page-long description for each state; we enclose copies of the pages for each surveyed state.

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Also enclosed is a publication from the National Conference of State Legislatures called "Principles of a High-Quality State Revenue System." It is intended as a guide for evaluation and modification of state and local revenue systems, and was last updated in June 2007.

### **Tax Structure Overview**

Most states get most of their state revenue by taxing sales, personal income, and (to a lesser extent) corporate income. Property taxes provide the bulk of local government revenues.<sup>1</sup> Nationally, in fiscal year 2006 personal income taxes provided 35% of all state tax revenues; sales taxes 32%; and corporate income taxes 7%.<sup>2</sup> Property taxes provided 72% of all local tax revenues.<sup>3</sup> Although property taxes are unpopular, they tend to be stable revenue sources. Personal and corporate income taxes tend to be unstable sources; sales taxes are in between.<sup>4</sup>

The Tax Foundation has estimated each state's state and local tax burden in 2008. This number approximates the percentage of income that taxpayers in each state pay in state and local taxes.<sup>5</sup> It is figured by dividing state and local taxes paid per capita by income per capita.

Table 1 shows projected figures for 2008 for state and local taxes per capita paid, income per capita, tax burden, and national ranking for each of the surveyed states. (The lower the rank number, the higher the tax burden.) The national average tax burden for 2008 is projected to be 9.7%, and the average income per capita \$44,254.

**Table 1: Projected Taxes and Income Per Capita, and Tax Burdens in Seven States (2008) (highest to lowest burden)**

<i>State</i>	<i>State and local taxes per capita</i>	<i>Income per capita</i>	<i>Tax burden</i>	<i>National rank by tax burden</i>
Wisconsin	\$4,194	\$40,953	10.2%	9
Kentucky	3,243	34,339	9.4	25
Michigan	3,694	39,273	9.4	27
Indiana	3,502	37,279	9.4	28
<b>Illinois</b>	<b>4,346</b>	<b>46,693</b>	<b>9.3</b>	<b>30</b>
Iowa	3,589	38,636	9.3	31
Missouri	3,508	38,084	9.2	32

Source: Tax Foundation, "State and Local Tax Burdens: All Years, One State, 1977-2008" (downloaded from Tax Foundation Internet site).

## Personal Income Taxes

Illinois, Indiana, and Michigan have flat-rate personal income taxes. The other four surveyed states have graduated rates for personal income tax. Revenues from graduated rates tend to be less stable than with flatter tax. On the other hand, flat taxes are often criticized because under them the poor pay the same percentage of their income in tax as the affluent.<sup>6</sup> State graduated tax rates vary greatly. Missouri's rates are graduated only up to \$9,000; all income over that is taxed at 6%. Its brackets have not changed since 1931.<sup>7</sup> By contrast, Iowa and Wisconsin index their brackets for inflation.<sup>8</sup>

Table 2 below lists each of the seven states' personal income tax rate(s). For states with graduated rates, it lists the number of brackets; the lowest and highest rates; and the income levels that define them. The lowest bracket applies to income up to the "Low" dollar amount, and the highest bracket applies to income over the "High" amount.

**Table 2: Personal Income Tax Rates and Brackets in Seven States (2008) (highest to lowest minimum rates)**

State	Tax rates		Brackets	Income brackets	
	Low	High		Low	High
Wisconsin	4.6 %	6.75%	4	\$9,700*	\$145,460*
Michigan	4.35	-	-	-	-
Indiana	3.4	-	-	-	-
<b>Illinois</b>	<b>3.0</b>	-	-	-	-
Kentucky	2.0	6.0	6	3,000	75,000
Missouri	1.5	6.0	10	1,000	9,000
Iowa	0.36	8.98	9	1,379	62,055

\* Wisconsin amounts are for individual filers. For married couples filing jointly, the low and high amounts are \$12,930 and \$193,950.

Sources: Commerce Clearing House, *State Tax Guide* (looseleaf to date); Federation of Tax Administrators, "State Individual Income Taxes" (January 1, 2008, downloaded from Federation of Tax Administrators Internet site).

### Corporate Income Taxes

Five of the surveyed states have flat-rate corporate income rates, and two have graduated rates. See Table 3.

**Table 3: Corporate Income Tax Rates and Income Brackets in Seven States, 2008 (highest to lowest "low" rate)**

State	Tax rates		No. of brackets	Income brackets	
	Low	High		Low	High
Indiana	8.5%	-	-	-	-
Wisconsin	7.9	-	-	-	-
Missouri	6.25	-	-	-	-
Iowa	6.0	12.0%	4	\$25,000	\$250,000
Michigan	4.95*	-	-	-	-
<b>Illinois</b>	<b>4.8†</b>	-	-	-	-
Kentucky	4.0	6.0	3	50,000	100,000

\* Michigan also levies a gross receipts tax of 0.8%, and a 21.99% surcharge on state business tax liability before credits (applying to the first \$6 million in such liability per year).

† Illinois also levies a 2.5% Personal Property Tax Replacement Income tax for local governments. Thus its total rate on corporate income is 7.3%.

Sources: Commerce Clearing House, *State Tax Guide* (looseleaf to date); Federation of Tax Administrators, "Range of State Corporate Income Tax Rates" (January 1, 2008, downloaded from Federation of Tax Administrators Internet site).

Corporations doing business in more than one state must apportion their incomes among them for tax purposes. Illinois, Iowa, Michigan, and Wisconsin make each firm's sales in that state the only determinant of how much of its total income the state taxes. Indiana uses a formula that bases the allocation as follows: 70% on sales in the state and 15% each on payroll and real property in the state. It is phasing in a system that will consider only a firm's sales in the state, with the phase-in to be complete in 2011. Kentucky allocates income based 50% on sales in the state and 25% each on property and payroll in the state. Missouri permits corporations to choose between (1) using only sales in Missouri and (2) using a formula giving equal weights to sales, payroll, and property in the state.<sup>9</sup> Firms that have more of their property and payroll in-state in relation to where they sell their products

benefit from using sales as the main determinant of taxes due; firms with little in-state employment and property in comparison to the amount they sell in Missouri benefit from the opposite choice.<sup>10</sup>

Illinois and Michigan are the only two surveyed states that use combined reporting, which requires corporate parents and their subsidiaries to combine their profits when calculating income tax. Under this system, a state taxes the percentage of an out-of-state subsidiary's profits that can be attributed to the corporate parent's operations in that state.<sup>11</sup>

### State Sales Tax

These states' sales tax rates are as follows:<sup>12</sup>

Indiana	7 %
Illinois	6.25
Iowa, Kentucky, Michigan	6.0
Wisconsin	5.0
Missouri	4.225

Illinois' sales tax rate for food and drugs is 1%. Missouri's rate for food is 1.225%; prescription drugs are exempt. The other five surveyed states exempt food and prescription drugs from sales tax.<sup>13</sup> Each state has a number of other sales tax exemptions. We enclose several charts from the 2008 *All States Tax Handbook* (published by Thomson Reuters, a tax and accounting organization), which covers changes in tax laws through November 6, 2007. The charts list common sales tax exemptions in each state.

Many states tax only a few services although services have become a major part of the U.S. economy. Only seven states (none of them in the surveyed group) tax professional services, such as those of accountants or lawyers; and many states tax fewer than half the roughly 143 services that could be taxed. Aside from unpopularity with service providers, one reason that states are reluctant to tax services is that it could put them at a competitive disadvantage to neighboring states that do not tax services. Also, taxing some services could result in double or even triple taxation of the same payment. For example, if someone hires a lawyer, who brings in an accountant to help with the case, the tax on the accounting fees would be built into the legal fee, on which tax would be levied again.<sup>14</sup>

A 2007 survey of state tax officials by the Federation of Tax Administrators reported how many services each state taxed. The Federation grouped the results into eight categories. Table 4 shows the number of services taxed in each category as reported by each of the surveyed states. Iowa and Wisconsin taxed many more services than the other surveyed states.

**Table 4: Number of Services Taxed in Seven States, by Category (July 2007)**

<i>Category</i>	<u>Iowa</u>	<u>Wis.</u>	<u>Ky.</u>	<u>Mich</u>	<u>Mo.</u>	<u>Ind.</u>	<u>Ill.</u>
Utilities	13	11	11	12	8	7	12
Personal services	15	11	2	2	1	4	1
Business services	18	8	4	7	2	3	1
Computer services	1	3	0	1	2	2	1
Admissions/amusements	14	14	6	1	10	3	0
Professional services	0	0	0	0	0	0	0
Fabrication, repair, and installation	13	14	4	1	0	1	1
Other services	20	15	1	2	3	4	1
<b>Totals</b>	<b>94</b>	<b>76</b>	<b>28</b>	<b>26</b>	<b>26</b>	<b>24</b>	<b>17</b>

Source: Federation of Tax Administrators, "FTA Survey of Services Taxation—Update" (July 2008, downloaded from Federation of Tax Administrators Internet site).

Many states exclude a large number of items from the sales tax base, reducing their sales tax revenue. Wisconsin has a Joint Survey Committee on Tax Exemptions, comprised of six legislators, two agency employees, and a member of the general public. A bill in either house proposing a new law, or an amendment to an existing law, relating to the exemption of any property or person from any state or local taxes or special assessments must be referred to the Committee. It must report with an opinion on the legality of the bill; its fiscal effect on the state and local governments; and its desirability as a matter of public policy. The report must be attached to the bill before it can be considered.<sup>15</sup> The 2003 *Governing* report on state tax structures says this procedure has helped Wisconsin avoid creating problematic exemptions.<sup>16</sup>

Sales tax revenues are also reduced by exempting sales through the Internet. Under two U.S. Supreme Court decisions, a state cannot require sellers with no physical presence in it (called "remote sellers") to collect taxes on sales to buyers in the state.<sup>17</sup> One of those cases said that only Congress can authorize states to force businesses to collect taxes in such cases.<sup>18</sup> The Streamlined Sales and Use Tax Agreement (SSUTA) is a multistate agreement intended to simplify sales and use tax laws and administration in participating states. It is an effort to persuade Congress to let states that comply with the SSUTA require remote sellers to collect sales tax on sales to their residents, by showing Congress that SSUTA's uniformity requirements make such collection much easier and reduce burdens on interstate commerce.<sup>19</sup> Among the seven states we surveyed, Indiana, Iowa, Kentucky, and Michigan are in full compliance with SSUTA; Illinois, Missouri, and Wisconsin are not.<sup>20</sup>

### Utility Taxes

States' public utility taxes are complex, and often have many exemptions and special rates applying in specific circumstances. We describe below the major public utility taxes in each surveyed state. The information on states other than Illinois comes from Commerce Clearing House's *State Tax Guide*.

Illinois' electricity excise tax is 0.33¢ per kilowatt-hour used for the first 2,000 kilowatt-hours per month. It declines with additional amounts used, to a minimum rate of 0.202¢ per kilowatt-hour for amounts over 20 million kilowatt-hours per month.<sup>21</sup> The telecommunications excise tax, imposed on persons who send or receive interstate and/or intrastate telecommunications, is 7% of gross charges by businesses for transmitting messages in interstate or intrastate commerce.<sup>22</sup> Illinois' natural gas revenue tax is imposed on companies distributing natural gas in Illinois; its rate is the lesser of 2.4¢ per therm of gas sold to each customer, or 5% of gross revenue from each customer.<sup>23</sup> Finally, the intrastate gross revenue 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 Commission may charge up to 0.1% of a company's gross revenue from intrastate business.<sup>24</sup>

Indiana imposes a utility services use tax of 1.4% of gross revenue from retail provision of utility services (including electricity, natural gas, water, steam, sewage, or telecommunications services). Public utilities subject to state regulation must also pay 0.0015% of gross revenues.<sup>25</sup>

In Iowa, anyone delivering electricity or natural gas must pay a tax equal to the amount of electricity or gas delivered times the sum of (a) the state tax rate for the service area

(set by the state Department of Revenue) plus (b) any municipal tax rate for the service area. Public utilities must also pay up to 0.3% of total gross operating revenues to fund the state Utilities Board.<sup>26</sup>

Kentucky charges 3% of amounts received for utility services, cable services, and satellite broadcast services. Other taxes are 2.4% of gross revenues from providing multichannel video programming services, and 1.3% of gross revenues from providing communication services. Each regulated utility is also assessed in proportion to its earnings or receipts from intrastate business to fund the Public Service Commission, at a rate up to 0.2% of receipts.<sup>27</sup>

Michigan has no state public utility taxes. But companies regulated by the state Public Service Commission are assessed to pay for regulating public utilities in amounts proportional to each utility's share of revenues from intrastate service.<sup>28</sup>

Missouri express companies (which convey goods by express on contract with a railroad or steamboat company) must pay \$2.50 per \$100 of gross receipts. An assessment to fund the state Public Service Commission is levied on public utilities regulated by it, limited to 0.25% of their gross intrastate operating revenues.<sup>29</sup>

In Wisconsin, utility property is normally subject to property taxes; but some public utilities pay special excise taxes or license fees in lieu of property tax. For example, utilities with gross annual operating revenues over \$100 million from producing electricity are subject to an assessment for stray voltage regulation, education, inspection, and investigation, in lieu of property taxes on their operating property (non-operating property is still subject to property taxation). Each utility is assessed in proportion to its gross operating revenues from intrastate electric production. Light, heat, and power companies are subject to license fees imposed on gross revenue in lieu of all other property taxes.<sup>30</sup>

### **Gambling Taxes**

Illinois taxes riverboat gambling, horse racing, bingo, charitable games, and coin-operated amusement devices, as do some of the surveyed states. We enclose a copy of our *Illinois Tax Handbook for Legislators* for 2008, which describes those taxes in each state. The only changes since its publication are as follows:

- (1) Iowa collects 6% of gross bingo receipts instead of 5%.<sup>31</sup>
- (2) Michigan collects 40% of proceeds from sales of charity game tickets (defined as tickets for pull-tab games).<sup>32</sup>



- (3) Missouri voters in November approved a referendum raising the riverboat gambling tax from 20% of adjusted gross receipts to 21%.<sup>33</sup>

### Motor Fuel Tax

Motor fuel tax rates are adjusted annually in Iowa based on fuel distribution, and quarterly in Kentucky based on the average wholesale price of fuel. The other five surveyed states tax motor fuel at fixed rates per gallon. Illinois, Indiana, and Michigan also charge sales tax on motor fuel sales. Table 5 lists gasoline and diesel fuel tax rates in the surveyed states.

**Table 5: Motor Fuel Tax Rates in Seven States (2008) (from highest to lowest per gallon of gasoline)\***

<i>State</i>	<i>Gasoline</i>	<i>Diesel fuel</i>
Wisconsin	32.9 ¢	32.9 ¢
Kentucky	22.5	19.5
Iowa	22.0	23.5
<b>Illinois</b>	<b>20.1</b>	<b>22.6</b>
Michigan	19.875	15.875
Indiana	19.0	17.0
Missouri	17.55	17.55

\* Rates consist of basic tax rates on motor fuel, plus applicable fees and surcharges, but exclude sales taxes.

Notes on each state:

- Illinois: Rates include a tax of 0.3¢ per gallon and an environmental impact fee of 0.8¢ per gallon. Sales tax is imposed on fuels.
- Indiana: Rates include an oil inspection fee of 1¢ per gallon. Sales tax is imposed on fuels.
- Iowa: Rates are adjusted annually. They include an environmental protection charge of 1¢ per gallon.
- Kentucky: Rates are adjusted quarterly. The rates shown, for the fourth quarter of 2008, include a petroleum environmental assurance fee of 1.4¢ per gallon.
- Michigan: Rates include an environmental protection fee of 0.875¢ per gallon. Sales tax is imposed on fuel sales.
- Missouri: Rates include a petroleum products surcharge of 0.5¢ per gallon and a petroleum inspection fee of 0.05¢ per gallon.
- Wisconsin: Rates include a petroleum inspection fee of 2¢ per gallon.

Sources: Commerce Clearing House, *State Tax Guide* (looseleaf to date) and state revenue department Internet sites.

## Tobacco Taxes

Table 6 shows each of the surveyed states' taxes on cigarettes and other tobacco products. Taxes on other tobacco products are set as a percentage of either the wholesale price (WP) or manufacturer's price (MP).

**Table 6: Taxes on Cigarettes and Other Tobacco Products in Seven States (2008) (highest to lowest cigarette tax)**

<i>State</i>	<i>Cigarettes (pack of 20)</i>	<i>Other tobacco products Percentage of price</i>	
Michigan	\$2.00	32.0%	WP
Wisconsin	1.77	50.0*	MP
Iowa	1.36	50.0†	WP
Indiana	0.995	24.0	WP
<b>Illinois</b>	<b>0.98</b>	<b>18.0</b>	<b>WP</b>
Kentucky	0.301	7.5	WP
Missouri	0.17	10.0	MP

\* Wisconsin's tax cannot exceed 50¢ per cigar. Moist snuff is taxed at \$1.31 per ounce.

† Iowa taxes little cigars at the same rate as cigarettes (up to 50¢ per cigar), and snuff at \$1.19 per ounce.

Sources: Commerce Clearing House, *State Tax Guide* (looseleaf to date) and state revenue department Internet sites.

## Property Taxes

States generally tax one or more of three types of property:

- (1) Real property (land and improvements to it).
- (2) Tangible personal property (all tangible property other than real property—such as vehicles).
- (3) Intangible personal property (financial assets).

Every state taxes real property that is not exempt. Illinois and Iowa are the only surveyed states that do not tax tangible or intangible personal property. (Illinois voters in November 1970 approved an amendment to the Illinois Constitution of 1870 abolishing personal property taxes on individuals. The Constitution of 1970, ratified in December 1970, required that all remaining personal property taxes be abolished by 1979.<sup>34</sup>)

Now, all businesses pay income taxes, and utilities pay taxes based on invested capital, electricity distribution, and charges for telecommunications services to replace the lost property taxes.)<sup>35</sup> Indiana, Michigan, Missouri, and Wisconsin tax tangible personal property; Kentucky taxes both tangible and intangible personal property.<sup>36</sup>

In each of the surveyed states, units of local government levy property taxes; three of those states also have state property taxes. Michigan levies a state tax for education on all real, or tangible personal, property that is not exempt at a rate of 60¢ per \$100 of "taxable value."<sup>37</sup> (Michigan law says property is to be assessed at 50% of market value, so that rate corresponds to 30¢ per \$100 of market value.<sup>38</sup>) Kentucky levies a state property tax on all types of property; the 2008 rate on real property is 12.2¢ per \$100 of value.<sup>39</sup> In Wisconsin, the state collects a property tax to support forestry programs of 1.92¢ per \$100 of full value.<sup>40</sup> Fiscal year 2006 collections of these state property taxes were as follows: Michigan, \$1.9 billion;<sup>41</sup> Kentucky, \$502.5 million;<sup>42</sup> and Wisconsin, \$80.3 million.<sup>43</sup>

Table 7 shows fiscal year 2006 total property tax collections; collections per capita and per household; and each surveyed state's national ranks by each measure (lower rank numbers indicate more money collected).

**Table 7: State Plus Local Property Tax Collections (Total, Per Capita, and Per Household) in Seven States (FY 2006) (highest to lowest total collections)**

<i>State</i>	<i>Total collections (billions)</i>	<i>Rank</i>	<i>Per capita</i>	<i>Rank</i>	<i>Per household</i>	<i>Rank</i>
Illinois	\$19.6	6	\$1,534	10	\$4,161	10
Michigan	13.5	8	1,338	15	3,509	14
Indiana	8.4	13	1,339	14	3,473	15
Wisconsin	8.0	14	1,444	11	3,619	13
Missouri	5.0	22	858	36	2,174	39
Iowa	3.4	26	1,144	21	2,820	26
Kentucky	2.4	31	578	45	1,474	45

Sources: Legislative Research Unit calculations based on data from U.S. Department of Commerce, Bureau of the Census, "State and Local Government Finances by Level of Government and by State: 2005-6" (downloaded from Census Bureau Internet site) and Tax Foundation, "State and Local Property Tax Collections Per Capita and Per Household, Fiscal Year 2006" (downloaded from Tax Foundation Internet site).

In all seven surveyed states, property taxes provided over half of all local government tax revenues in fiscal 2006, and about one-third of combined state and local tax revenues. Table 8 shows those figures.

**Table 8: Property Tax Revenues as Percentages of Local Tax Revenues and of State Plus Local Revenues in Seven States (FY 2006) (highest to lowest collections)**

<i>State</i>	<i>Property tax* as % of all local tax revenues</i>	<i>Property tax† as % of state plus local tax revenues</i>
Wisconsin	93.0%	36.0%
Michigan	91.7	37.6
Indiana	90.1	36.6
Iowa	82.0	33.1
<b>Illinois</b>	<b>81.2</b>	<b>37.5</b>
Missouri	61.0	27.2
Kentucky	53.1	17.9

\* Property tax revenues in this column are from local property taxes only.

† Property tax revenues in this column are from state and local property taxes combined.

Sources: Legislative Research Unit calculations based on data from U.S. Department of Commerce, Bureau of the Census, "State and Local Government Finances by Level of Government and by State: 2005-6" (downloaded from Census Bureau Internet site).

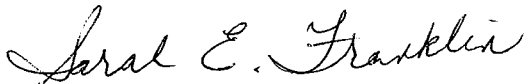
A 2008 report by the National League of Cities says all of the surveyed states have constitutional or statutory limits on property tax extensions or on growth of assessments.<sup>44</sup> In Illinois, the Property Tax Extension Limitation Law (PTELL) requires that, with some exceptions, the annual increase in the total property tax extension of any local non-home-rule taxing district that is subject to PTELL cannot exceed the lesser of (1) 5% or (2) the increase in the Consumer Price Index for All Urban Consumers in the year preceding the levy year.<sup>45</sup> PTELL applies to Cook County, the collar counties, and any other county that votes to adopt it.<sup>46</sup> Wisconsin also limits increases in municipal property tax extensions.<sup>47</sup>

In Iowa, increases in assessed values for homes and farms are subject to assessment limitations. If the annual statewide increase in values of homes and farms exceeds 4% due to revaluation, their values are "rolled back" to limit the total increase statewide in any year to 4%.<sup>48</sup> The Kentucky, Michigan, and Missouri Constitutions limit municipal property tax rates, with some exceptions.<sup>49</sup>

More recently, Indiana in 2007 and 2008 enacted property tax reform laws limiting homestead property taxes in 2008 to 2% of gross assessed value (assessed value after all allowable exemptions<sup>50</sup>).<sup>51</sup> Rates for later years are as follows: for homesteads, 1.5% in 2009 and 1% in 2010; for residential property and agricultural land, 2.5% in 2009 and 2% in 2010; and for nonresidential and personal property, 3.5% in 2009 and 3% in 2010.<sup>52</sup> The property tax revenue reductions are to be replaced mostly by a 1% increase in the state sales tax on April 1, 2008.<sup>53</sup>

We hope this information is helpful. Please let us know if you need anything further.

Sincerely,



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SEF:mf

#### Enclosures

1. Barrett et al., "The Way We Tax—A 50-State Report," *Governing*, Feb. 2003, p. 20.
2. Barrett and Greene, "Growth & Taxes," *Governing*, Jan. 2008, p. 20.
3. National Conference of State Legislatures, "Principles of a High-Quality State Revenue System" (June 2007, downloaded from NCSL Internet site).
4. 2008 *All States Tax Handbook* (published by Thomson Reuters), pp. 202 to 221.
5. Legislative Research Unit, *Illinois Tax Handbook for Legislators* (24th ed., May 2008).

#### Notes

1. Barrett et al., "The Way We Tax—A 50-State Report," *Governing*, Feb. 2003, p. 25.
2. U.S. Department of Commerce, Bureau of the Census, "State Government Finances: 2006" (downloaded from Census Bureau Internet site).

3. U.S. Department of Commerce, Bureau of the Census, "Table 1: State and Local Government Finances by Level of Government and by State: 2005-06" (downloaded from Census Bureau Internet site).
4. "The Way We Tax—A 50-State Report" at 25.
5. Tax Foundation, "Tax Data—Tax Burdens" (downloaded Nov. 3, 2008 from Tax Foundation Internet site).
6. Froomkin, "Tax Policy: Ripe for Reform?" *Washington Post*, April 28, 1998 (downloaded from *Washington Post* Internet site).
7. Missouri Senate Joint Committee on Tax Policy, "Missouri Income Tax Report" (downloaded Oct. 30, 2008 from Missouri Senate Internet site).
8. Tax Foundation, "State Individual Income Tax Rates, 2008" (downloaded from Tax Foundation Internet site).
9. Federation of Tax Administrators, "State Apportionment of Corporate Income" (Jan. 1, 2008, downloaded from Federation of Tax Administrators Internet site).
10. Institute on Taxation and Economic Policy, "Corporate Income Tax Apportionment and the "Single Sales Factor" (July 23, 2004, downloaded from Institute on Taxation and Economic Policy Internet site).
11. Barrett and Greene, "Growth & Taxes," *Governing*, Jan. 2008, p. 20.
12. Commerce Clearing House, *State Tax Guide* (looseleaf to date).
13. Federation of Tax Administrators, "State Sales Tax Rates" (Jan. 1, 2008, downloaded from Federation of Tax Administrators Internet site).
14. "Growth & Taxes" at 25.
15. Wis. Stat., sec. 13.52.
16. "The Way We Tax—A 50-State Report" at 96.
17. *National Bellas Hess, Inc. v. Department of Revenue of Illinois*, 386 U.S. 753, 87 S. Ct. 1389 (1967); *Quill Corp. v. North Dakota*, 504 U.S. 298, 112 S. Ct. 1904 (1992).
18. *Quill Corp. v. North Dakota*, 504 U.S. 298, 112 S. Ct. 1904 (1992).
19. NCSL, "Testimony of Steven Rauschenberger . . . Regarding H.R. 3396: The Sales Tax Fairness and Simplification Act" (Dec. 6, 2007, downloaded from NCSL Internet site).
20. Streamlined Sales Tax Project, "SST State Status Map" (downloaded Nov. 3, 2008 from Streamlined Sales Tax Project Internet site).
21. 35 ILCS 640/2-4.
22. 35 ILCS 630/3.
23. 35 ILCS 615/2.
24. 220 ILCS 5/2-202.

25. Commerce Clearing House, *State Tax Guide* (looseleaf to date), p. 80-415.
26. Commerce Clearing House, *State Tax Guide* (looseleaf to date), p. 80-430.
27. Commerce Clearing House, *State Tax Guide* (looseleaf to date), p. 80-460.
28. Commerce Clearing House, *State Tax Guide* (looseleaf to date), p. 80-535.
29. Commerce Clearing House, *State Tax Guide* (looseleaf to date), p. 80-575.
30. Commerce Clearing House, *State Tax Guide* (looseleaf to date), p. 80-940.
31. Iowa Code, subsec. 423.2(4).
32. Mich. Comp. Laws, subsec. 432.107a(5).
33. Bowser, "The People Speak," *State Legislatures*, Dec. 2008, p. 20.
34. Ill. Const., Art. 9, subsec. 5(c).
35. Illinois Legislative Research Unit, *Illinois Tax Handbook for Legislators* (24th ed., May 2008), pp. 77 to 81.
36. Commerce Clearing House, *State Tax Guide* (looseleaf to date).
37. Mich. Comp. Laws, sec. 211.903 and Michigan Department of Revenue, "Property Tax—State Education Tax—Frequently Asked Questions—How is the SET calculated?" (downloaded Oct. 31, 2008 from Michigan Department of Revenue Internet site).
38. Mich. Comp. Laws, sec. 211.27a.
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50. Ind. Code, sec. 6-1.1-20.6-1.6.
51. Ind. Code, subsec. 6-1.1-20.6-7(a).
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**Appendix A: Collections of Major Taxes in Seven States (FY 2006) (millions)\***

<i>Type of tax</i>	<i>Illinois</i>	<i>Indiana</i>	<i>Iowa</i>	<i>Kentucky</i>	<i>Michigan</i>	<i>Missouri</i>	<i>Wisconsin</i>
Personal income	\$8,635.1	\$4,381.5	\$2,413.8	\$2,918.5	\$6,226.3	\$4,491.4	\$5,906.5
Corporate income	2,400.3	1,043.9	285.0	1,001.6	1,886.2	343.7	808.2
Sales	7,760.6	5,334.3	1,800.8	2,748.6	8,080.9	3,100.0	4,128.0
Motor fuel	1,445.8	838.3	441.9	533.5	1,061.7	738.7	975.6
Motor vehicle licenses	1,464.3	176.9	394.6	201.5	905.3	280.9	335.8
Tobacco†	640.3	355.5	98.9	193.2	1,171.9	111.3	317.9
Other	5,782.4	1,495.3	683.9	2,356.0	4,382.3	1,114.0	1,323.0
<b>Totals</b>	<b>\$28,129</b>	<b>\$13,626</b>	<b>\$6,119</b>	<b>\$9,953</b>	<b>\$23,715</b>	<b>\$10,180</b>	<b>\$13,795</b>

\* Amounts reported here are from U.S. Census Bureau data. They may differ slightly from amounts reported by each state or other sources due to differences in the ways taxes are categorized.

† The "Tobacco" category includes revenues from taxes on cigarettes and on other tobacco products.

Source: U.S. Department of Commerce, Bureau of the Census, "State and Local Government Finances by Level of Government and by State: 2005-06" (downloaded from Census Bureau Internet site).

**Appendix B: Collections by Type of Tax in Seven States as Percentages of Their Total Collections (FY 2006) \***

<i>Type of tax</i>	<i>Illinois</i>	<i>Indiana</i>	<i>Iowa</i>	<i>Kentucky</i>	<i>Michigan</i>	<i>Missouri</i>	<i>Wisconsin</i>
Personal income	30.7%	32.2%	39.4%	29.3%	26.3%	44.1%	42.8%
Corporate income	8.5	7.7	4.7	10.1	8.0	3.4	5.9
Sales	27.6	39.1	29.4	27.6	34.1	30.5	29.9
Motor fuel	5.1	6.2	7.2	5.4	4.5	7.3	7.1
Tobacco†	2.3	2.6	1.6	1.9	4.9	1.1	2.3
Motor vehicle licenses	5.2	1.3	6.4	2.0	3.8	2.8	2.4
Other	20.6	11.0	11.2	23.7	18.5	10.9	9.6
<b>Totals</b> ◇	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

\* Percentages are from U.S. Census Bureau data. They may differ slightly from amounts reported by each state or other sources due to differences in the ways that taxes are categorized.

† The "Tobacco" category includes revenues from taxes on cigarettes and on other tobacco products.

◇ Totals may not add exactly due to rounding.

Source: LRU calculations based on data from U.S. Department of Commerce, Bureau of the Census, "State and Local Government Finances by Level of Government and by State: 2005-06" (downloaded from Census Bureau Internet site).