# Illinois: Population continues to decline, eroding the tax base


David M. Kall | Thursday, January 18, 2018

At the end of December, Pew Charitable Trusts reported on new U.S. Census Bureau estimates revealing that between July 2016 and July 2017, eight states lost population; "[i]f the estimates hold up, it would be the first time in 30 years that so many states lost residents in a single year." The states are Alaska, Hawaii, Illinois, Louisiana, Mississippi, North Dakota, West Virginia and Wyoming.

The December report follows a February 2017 piece pointing to population losses in Connecticut, Illinois, Mississippi, New York, Pennsylvania, Vermont, West Virginia and Wyoming between 2015 and 2016. This puts Illinois, Mississippi, West Virginia and Wyoming as the four states that have seen consistent population declines since 2015.

The February 2017 piece attributed population losses to a variety of factors, including national mortality and birth trends, an individual state's economy, and the fact that "Americans are moving again in more rapid numbers after hunkering down during the recession." The ease with which people can move from one state to another, which depends, at least in part, on personal finances and job prospects, "is now critical to whether a state gains or loses population."

During the 2015-2016 time frame, Pew highlighted Idaho, Nevada and Washington as three states that were "experiencing some of the fastest economic and job growth in the nation. And their populations are growing along with that, rising at more than twice the national growth rate."

Last week, the Tax Foundation, using United Van Lines' more recent data from 2017, offered similar revelations: along with Idaho and Nevada, Vermont, Oregon, and South Dakota had the most inbound migration last year. Illinois, New Jersey, New York, Connecticut, and Kansas had the highest outbound migration in 2017.

#### Illinois' population decline

Illinois Policy analyzed that new U.S. Census data and issued its own article, declaring that the population losses in the Land of Lincoln show "the severity of Illinois' people problem." In the July 2016-July 2017 period, Illinois lost about 1 person every 4.6 minutes, or 115,000 people. Since 2010, that number approaches 643,000 residents.

The state's eroding tax base makes the budget the "single most pressing" challenge. Illinois Policy underscored the state's extremely high property taxes, the "largest tax Illinoisans pay," as an area that lawmakers should, and could, act on by freezing actual tax bills, not just the local government levies, and requiring voter approval for property tax hikes. The group criticized lawmakers who, "[r]ather than tackle any of these issues...instead opted for massive tax hikes with no reform. And local governments across the state are following suit."

Illinois Policy is referring to the budget that passed last July after two years without one, when lawmakers overrode Gov. Bruce Rauner's veto. It set into motion the $5 billion tax increase that Illinois Policy criticized by way of a permanent jump in the personal tax rate, from 3.75 percent to 4.95 percent, and an expansion of the corporate tax rate, from 5.25 percent to 7 percent.

The Illinois property tax problem is even more prominent now because of the $10,000 cap on state and local taxes (SALT) that the new federal tax bill, the Tax Cuts and Jobs Act set forth in HR 1, put in place. The act limits the deduction for income, sales or property taxes to $10,000, or $5,000 in the case of a married individual filing a separate return, for tax years 2018 through 2025, as we discussed in our recent blog post.

Before President Donald Trump signed HR 1 into law in December, the *Chicago Tribune* quoted Gov. Rauner on the law, who hoped it would "give a boost to his call for freezing property taxes and rolling back a state income tax hike." He opined that the federal overhaul "would help the country become 'more supportive of businesses'….We're going to have faster economic growth and more job creation all across the United States. I think this is a very pro-growth bill. So that's the best element of it."

Gov. Rauner addressed these challenges again in a Jan. 3, 2017 radio interview, and a series of tweets, reported Bloomberg. The governor conceded the "punishing" nature of the SALT cap, and wants to "enact significant reforms to reap the rewards envisioned under the new federal tax law." To this end, he reiterated that he wants to roll back the $5 billion income tax increase, freeze local property taxes, and empower the local governments the power to "shave down rates through local referendums."

#### Is there a relationship between Illinois' high property taxes and population decline?

One question that we considered a number of times last year is whether high taxes cause people to move. In the past, research has cast doubt on this premise. However, the above-cited analyses suggest that there could be a closer relationship than researchers thought, or, that the Tax Cuts and Jobs Act will amplify any such relationship.

Although Illinois' property taxes are unwieldy, it has not been established that this is causing the out migration. Additionally, the Tax Foundation's 2018 State Business Tax Climate Index, issued in October 2017, puts Illinois in the middle of the pack, at number 29 overall. The group did take Illinois' new tax increases into account for these rankings, but this only caused the state to slip one level, from number 28 overall, in 2017. Also, the calculations factor in corporate, individual, sales, property and unemployment insurance tax types, so even including the state's poor performance in the property tax category, with a rank of 45, Illinois' tax climate is still more favorable than 21 others.

Even so, the federal cap on SALT deductions may give rise to a new propensity for moving, if states are unsuccessful in countering its adverse impacts. Time and more research may tell.

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