

## Illinois Estate and Generation Skipping Transfer Tax

Commission on Government Forecasting and Accountability 703 Stratton Office Building Springfield, Illinois 62706 September 2006

# **Commission on Government Forecasting and Accountability**

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#### **EXECUTIVE SUMMARY**

Estate taxes, often referred to as death taxes, are administered by the Attorney General of the State of Illinois. Estate taxes and Generation Skipping Transfer Taxes generate approximately \$275 million per year in General Revenue for the State of Illinois. This report examines the Illinois Estate tax, focusing on general revenues as well as the geographic distribution of payable estates.

- The Illinois estate tax prior to 2003 was equal to the amount of the "state tax credit" allowed by the Internal Revenue Code. In 2001, Congress amended the Internal Revenue Code (the Economic Growth and Tax Reconciliation Act of 2001) and phased out the state tax credit over a four-year period thus eliminating the Illinois Estate tax by 2005. The Illinois General Assembly enacted legislation in 2003 that "decoupled" the Illinois estate tax from the federal tax restoring the tax to its levels prior to 2001. The Illinois General Assembly did adopt language consistent with the federal legislation allowing the maximum estate that can pass tax free of Illinois estate tax (formerly \$1 million) to rise to \$1.5 million in 2005 and \$2 million in 2006. The Federal law increases the maximum credit to \$3.5 million in 2009. However, in Illinois the maximum credit will stay at \$2 million.
- The Illinois generation skipping tax applies to bequests in which the transferer is at least two generations removed from the transferee (in most cases, the donor's grandchildren). However, because the Illinois estate tax only applies after the first \$2 million in transfers, it does not affect most families. In addition, the tax does not apply if given directly to a decedent's surviving spouse. Only the portion of the estate that passes to persons other than the surviving spouse is taxed.
- In FY 2006, the State of Illinois received \$272 million in estate tax revenues, down 12.3% or \$38 million from FY 2005. Since 2001, with the inception of the Economic Growth and Tax Reconciliation Act of 2001, Illinois has received an average of \$288 million per year.
- Not surprisingly, Cook County is the largest revenue source for estate tax collection. In fact, Cook County historically comprises over 50% of total estate tax revenues in a given year. The Collar Counties (Lake, Kane, DuPage, McHenry and Will) make for the second largest base in estate tax collections. Combined, Cook and the Collar Counties total 76.1% of total estate tax revenues.
- Since the maximum exemption has increased, the number of taxable estates has dropped considerably. However, at the same time, the value per taxable estate has increased significantly since FY 2003.

#### What are Death Taxes?

The term "death taxes" is used to refer to a number of taxes that are imposed upon the transfer of wealth or income, particularly at the time of an individual's death. Although these taxes are primarily levied at the time of death, additional taxes target transfers that occur in anticipation of death; those transfers made three years prior to death. The following paragraphs provide background regarding the various death taxes.

**Inheritance taxes** are generally regarded as taxes upon beneficiaries and, as such, are levied against the amount transferred by the decedent to the beneficiary. These taxes are levied at graduated rates based upon the amount of the bequest and upon the beneficiary's relationship to the decedent. Since the federal government does not impose inheritance taxes, they are strictly the domain of the states.

**Estate taxes** are generally regarded as taxes upon the decedent's estate. These taxes are levied at graduated rates based upon the value of the estate, with certain amounts exempted from taxation. Estate tax rates are imposed on the estate as a whole and do not vary based upon the relationship of the beneficiary to the donor. However, exceptions exist and many estate taxes exempt all portions of the estate transferred to a spouse.

The "pick-up" tax is a variation of the estate tax that is based on a link between federal and state death taxes. Federal law allows a dollar-for-dollar credit – up to a predetermined amount – against federal liability for state death taxes paid. Although the states may levy death taxes that exceed the federal credit, 38 states levy estate taxes using the same schedule utilized by the federal government when determining the state death tax credit. In these states, the "pick-up" tax does not affect taxpayer liability because the states are collecting revenue that would have otherwise gone to the federal government. All 50 states currently utilize the "pick-up" tax.

A **gift tax** is a levy on wealth given by living donors. The rates imposed and exemptions allowed under gift tax statutes are similar to rates and exemptions under the inheritance tax. But donors, rather than recipients, are liable for gift taxes. Gift taxes are imposed on the transfer of wealth so even tax-exempt property is subject to the tax.

### A History of Inheritance/Estate Taxes

A study released in 2003 by the Heritage Foundation details the origins of the estate tax. The collection of estate taxes date back almost three thousand years. In as early as 700 B.C there appears to have been a ten percent tax on the transfer of property in Egypt. Augustus Caesar imposed a tax on the transfer of property on everyone except close relatives of the deceased.

The first examples of the estate tax in the United States grew out of the Stamp Act of 1797. The revenues from the required stamping of wills were used to pay off debts incurred during the undeclared naval war with France. This tax was later repealed in 1802. The following example illustrates the rational behind the inheritance tax in a historical sense in early American history. Early estate taxes in the United States were temporary, used as a "sporadic, and temporary, way to finance wars, according to the Heritage Foundation. Even during the Civil War the Tax Act of 1862 imposed a federal inheritance tax. As in the past, after the need for additional revenue ceased, the tax was repealed.

The genesis of the modern day inheritance tax began in 1916 with the Revenue Act of 1916. This act is also notable because it created the modern day income tax. This Act also contained provisions that created an estate tax with many features that are still evident today. The Heritage study noted that the initial exemption was \$50,000 (over \$11 million in terms of today's wealth), and rates began at 1% and increased to 10% with the outbreak of World War I. Unlike preceding inheritance taxes that disappeared once additional revenue was no longer needed this tax was made permanent. In 1954 the federal estate tax was made to include life insurance proceeds, which would substantially raise an estates tax bill.

### **History of the Illinois Estate Tax**

From 1949 to 1983, Illinois imposed two "death taxes", an inheritance tax and estate tax. The inheritance tax was abolished in 1983. Starting in 1949 the State of Illinois imposed an estate tax based on the federal estate tax. This tax was originally set at 80% of the federal estate tax, minus state inheritance tax due. In 1955 an amendatory act was passed that set the amount of tax equal to the maximum state tax credit allowed under the federal tax. In 2002, Congress enacted a phase-out of the federal credit for state death taxes starting in 2002. In 2003, the Illinois General Assembly passed legislation that reverted the Illinois tax back to what it had been before the Federal legislation. Illinois was not the only State to decouple from the Federal tax credit. Table 1 illustrates other states that have "decoupled" from the Federal tax as well as states that collect an inheritance tax, and an estate tax.

Table 1: Other States Inheritance/Estate Tax Policies				
States that have kept estate tax after	States that impose an inheritance tax in			
federal repeal	addition to estate taxes.			
Kansas	Connecticut			
Maine	Indiana			
Maryland	Iowa			
Massachusetts	Kentucky			
Minnesota	Maryland			
Nebraska	Nebraska			
New Jersey	New Hampshire			
New York	New Jersey			
North Carolina	North Carolina			
Ohio	Pennsylvania			
Oregon	Tennessee			
Rhode Island				
Vermont				
Virginia				
Washington				
Wisconsin				
Source: Legislative Research Unit				

## A Summary of the Economic Growth and Tax Reconciliation Act of 2001

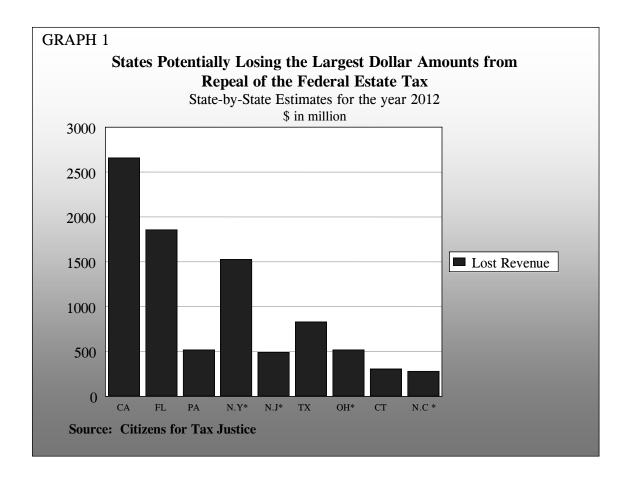
In 2001, Congress passed the Economic Growth and Tax Relief Reconciliation Act, that phased out the state tax credit by 2010. Many states collected estate tax at a rate equal to the maximum allowable credit under federal law. The tax relief package eliminated the federal credit that many states tied their estate tax collections to. Therefore, many states like Illinois, decoupled from the federal tax credit in order to preserve the revenue stream from estate tax collections.

The legislation passed by the Federal Government in 2001 reduced the allowable credit in increments. The credit was reduced by 25% for 2002 decedents, by 50% for 2003 decedents, by 75% for 2004, and finally eliminated for decedents dying on or after January 1, 2005. Table 2, on the following page illustrates the phase out of the inheritance tax under H.R 1836.

Table 2: H.R 1836 Implementation Schedule				
Calendar Year	Exemption Amount	Top Estate Tax Rate	State Death Tax Rate Reduction	
2002	\$1.0 million	50%	25%	
2003	\$1.0 million	49%	50%	
2004	\$1.5 million	48%	75%	
2005	\$1.5 million	47 %	Repealed	
2006	\$2.0 million	46%	Repealed	
2007	\$2.0 million	45%	Repealed	
2008	\$2.0 million	45%	Repealed	
2009	\$3.5 million	45%	Repealed	
2010	Repealed	Repealed	Repealed	

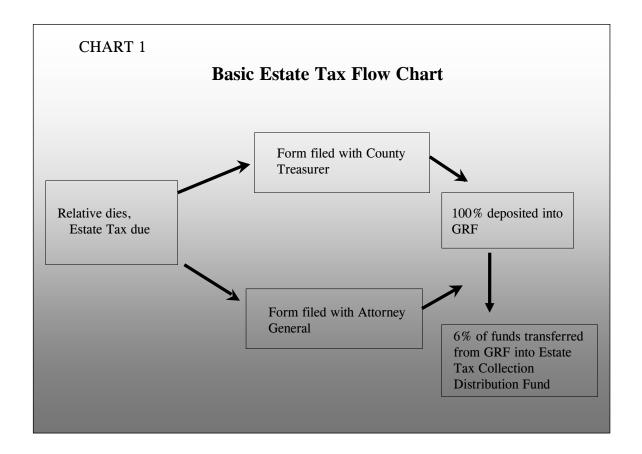
Many experts predicted that the gradual phase-out of the federal estate tax credit would cost states \$15 to \$18 billion in revenue by 2012. Had the State not decoupled from the federal provisions, Illinois would have lost approximately \$300 million per year in revenue.

Illinois was not the only state set to lose millions as a result of the Economic Growth and Tax Relief Reconciliation Act. Graph 1, on the following pages details States that were potentially set to lose substantial revenue from the repeal of the estate tax.



#### **Estate Taxes in Illinois**

The Illinois Attorney General administers the Illinois estate tax. Form 700 (attached in appendix) is used to file estate taxes in Illinois. The form is filed with the County Treasurer and the Attorney General. Persons filing estate taxes in Illinois file them in the county in which they reside. Non-residents file in the county where their property has the greatest value. The tax is due nine months after death. Estate taxes collected are distributed into the General Revenue Fund and the Estate Tax Collection Distribution Fund. Chart 1, on the next page illustrates the distribution of estate tax revenues.



#### **Illinois Estate Tax Revenues**

Illinois decoupled from the Federal law in order to preserve the revenue flow that is normally collected from the estate tax. This section examines historical estate tax revenue in order to identify the potential revenue loss that would have resulted from following the Federal elimination of the state tax credit.

In FY 2001, the State of Illinois collected a total of \$361 million in estate taxes. Historically, the estate tax has generated \$100 million to over \$350 million in revenues for the State of Illinois. Table 3 details historic estate tax collections going back to 1990.

Table 3: Historic Estate Tax Collections				
Fiscal Year	Amount of Estate Tax (in millions)	% change over previous year		
1990	\$108			
1991	\$113	4.6%		
1992	\$123	8.8%		
1993	\$169	37.4%		
1994	\$159	-5.9%		
1995	\$182	14.5%		
1996	\$187	2.7%		
1997	\$199	6.4%		
1998	\$250	25.6%		
1999	\$347	38.8%		
2000	\$348	0.02%		
2001	\$361	3.7%		
2002	\$329	-8.9%		
2003	\$237	-27.9%		
2004	\$222	-6.3%		
2005	\$310	39.6%		
2006	\$273	-11.9%		

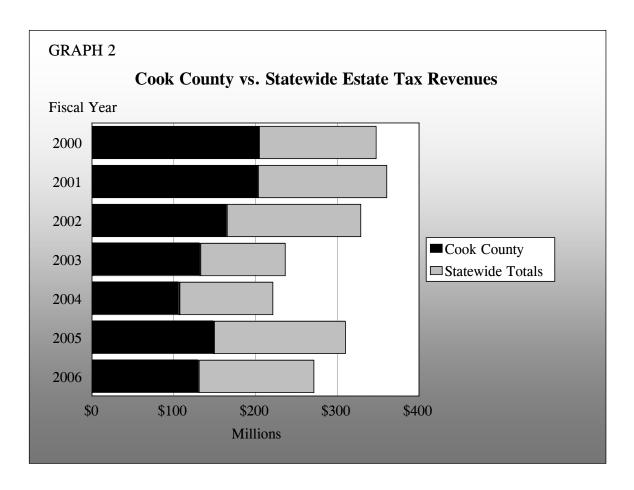
Source: Comptroller

As shown, estate tax revenues have only declined five times since 1990. Historically, estate tax revenues have grown on average 8.3%. Estate tax revenues grew at a solid pace during the mid-nineties until fiscal year 2000.

## A Geographic Examination of Illinois Estate Tax Revenues

#### **Cook County**

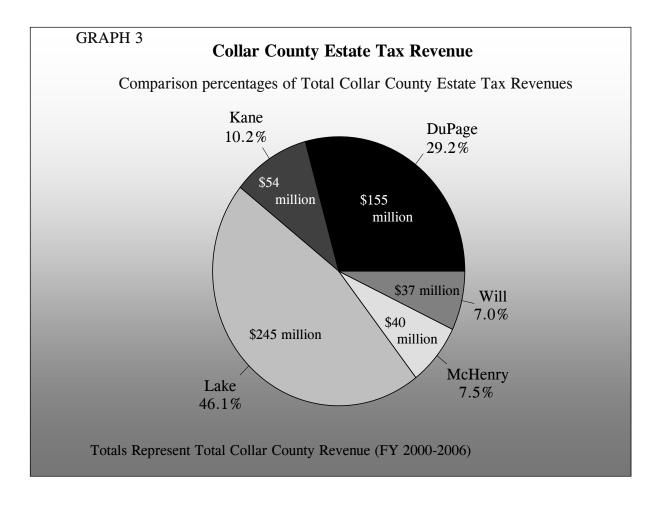
Cook County makes up 41.6% of the State population. Not surprisingly, an overwhelming portion of Illinois Estate tax revenues come from Cook County. In 2000, Cook County inheritance tax revenues totaled \$204.4 million. This represents 59% of the total overall revenue collected via the estate tax (\$348 million). In FY 2006, Cook County estate tax collections were \$130.7 million or 48.1% of total statewide estate tax revenue. Graph 2, on the following page shows Cook County inheritance tax revenues as they relate to the total amount of estate tax revenue collected since FY 2000.



Since FY 2000, the State of Illinois has collected \$2.1 billion in inheritance tax revenue. During the same time period, Cook County estate tax revenues have totaled \$1.1 billion or 53.5 % of total estate tax revenues.

#### The Collar Counties

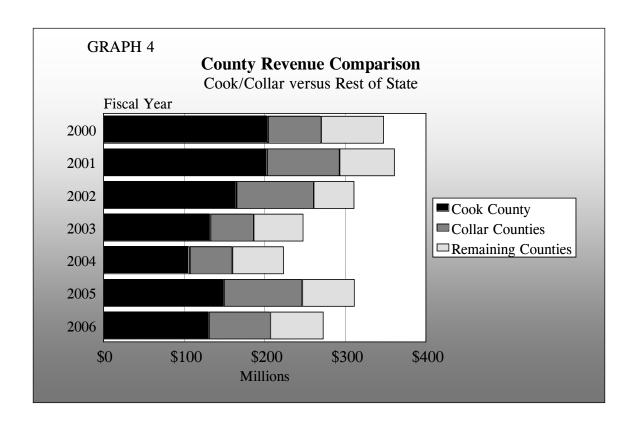
The second largest amount of estate tax revenue comes from the "Collar Counties", which include Lake, DuPage, Kane, McHenry and Will counties. The "Collar Counties comprise 23.9% of the State population and make up 28% of estate tax revenue collected. Lake County is by far the largest collector of estate tax compared to the other collar counties. Since FY 2000, Lake County has collected 46.3% of the estate tax revenues collected by the five collar counties. Graph 3, on the following page, shows the average percentage of revenues collected by "collar counties" compared to the total estate tax revenues of the five counties since FY 2000.



As noted in Graph 3, DuPage and Lake County account for a majority of "Collar County" estate tax revenues with around \$400 million collected in estate tax revenue since FY 2000 or (75.5%). Kane, McHenry and Will comprise the remaining 24.5% of "Collar County" estate tax revenues. In FY 2006, the "Collar Counties" collected \$76.3 million in estate tax revenues, or 28% or state wide estate tax collections.

#### **Cook and Collar Counties**

Since FY 2000, Cook County combined with the "Collar Counties" have brought in estate tax revenues \$1.6 billion of the total \$2.1 billion collected statewide or 76.1%. Graph 4 on the following page shows the proportion of estate tax revenue that is collected in Cook, DuPage, Kane, Lake, McHenry and Will Counties verse the rest of the state since FY 2000.



#### **Remaining Counties**

While Cook and the Collar Counties comprise a majority of estate tax revenues, other counties in the State still contribute a significant amount to the total tax collected. In order to get a complete comparison, the other 96 counties in the State have been studied to determine their contributions in estate tax revenues. FY 2006 data was used to create Table 4 on the following page, which ranks all counties in order of total estate tax collections and percentage of grand total estate tax amounts.

Table 4: County Estate Tax Revenue Rankings				
County	Total	Percentage of Total	Population	
Cook	\$130,721,775	48.08%	5,303,683	
Lake	\$37,253,579	13.70%	702,682	
DuPage	\$19,019,029	7.00%	929,113	
Kane	\$8,244,738	3.03%	482,113	
Will	\$7,541,615	2.77%	642,813	
St Clair	\$4,360,682	1.60%	260,067	
Mclean	\$4,206,256	1.55%	159,013	
McHenry	\$4,192,052	1.54%	303,990	
Vermillion	\$3,933,409	1.45%	82,344	
Winnebago	\$3,903,709	1.44%	288,695	
Sangamon	\$3,649,608	1.34%	192,789	
Marion	\$2,684,837	0.99%	40,144	
Madison	\$2,526,438	0.93%	264,309	
DeKalb	\$2,182,284	0.80%	97,665	
Kendall	\$2,078,633	0.76%	79,514	
Champaign	\$1,909,117	0.70%	184,905	
Macon	\$1,833,156	0.67%	110,167	
Coles	\$1,808,231	0.67%	51,065	
Rock Island	\$1,796,853	0.66%	147,808	
Morgan	\$1,682,630	0.62%	35,722	
Adams	\$1,234,352	0.45%	67,040	
Peoria	\$1,193,067	0.44%	182,328	
Boone	\$1,131,980	0.42%	50,483	
LaSalle	\$1,117,078	0.41%	112,604	
Christian	\$1,110,188	0.41%	35,176	
Knox	\$986,751	0.36%	53,309	
Jackson	\$979,001	0.36%	57,954	
Tazewell	\$932,430	0.34%	129,999	
Monroe	\$905,198	0.33%	31,040	
Warren	\$904,326	0.33%	17,558	
Iroquois	\$796,184	0.29%	30,677	
Kankakee	\$773,276	0.28%	107,972	
Mason	\$763,677	0.28%	15,741	
Edgar	\$675,939	0.25%	19,157	
Henry	\$661,856	0.24%	50,591	
Ogle	\$620,555	0.23%	54,290	
Whiteside	\$589,081	0.22%	59,863	
Pike	\$520,506	0.19%	17,099	
Perry	\$463,205	0.17%	22,815	

Bureau	\$460,383	0.17%	35,330
Grundy	\$441,026	0.16%	43,838
Clinton	\$410,308	0.15%	36,095
Piatt	\$407,023	0.15%	16,680
JoDaviess	\$403,257	0.15%	22,580
Stark	\$396,663	0.15%	6,169
Jersey	\$394,442	0.15%	22,456
Clark	\$382,071	0.14%	16,976
Menard	\$360,400	0.13%	12,738
Ford	\$343,113	0.13%	14,157
Fayette	\$337,179	0.12%	21,713
Livingston	\$334,309	0.12%	39,186
Hamilton	\$265,006	0.10%	8,301
Moultrie	\$250,003	0.09%	14,510
McDonough	\$249,986	0.09%	31,966
Stephenson	\$249,176	0.09%	47,965
Calhoun	\$249,163	0.09%	5,163
Macoupin	\$241,006	0.09%	49,111
Montgomery	\$240,621	0.09%	30,396
Franklin	\$229,790	0.08%	39,723
Saline	\$229,340	0.08%	26,072
Lee	\$221,503	0.08%	35,669
Logan	\$217,269	0.08%	30,603
Crawford	\$208,388	0.08%	19,898
Woodford	\$203,212	0.07%	37,448
Lawrence	\$187,806	0.07%	15,930
Williamson	\$185,953	0.07%	63,617
Mercer	\$177,453	0.07%	16,912
Richland	\$173,885	0.06%	15,798
Cass	\$171,870	0.06%	13,898
White	\$164,199	0.06%	15,284
Jefferson	\$153,745	0.06%	40,434
Wayne	\$151,393	0.06%	16,796
Marshall	\$119,356	0.04%	13,217
Shelby	\$119,120	0.04%	22,322
Effingham	\$110,964	0.04%	34,581
Douglas	\$84,260	0.03%	19,950
Clay	\$82,792	0.03%	14,122
Henderson	\$78,540	0.03%	7,972
Randolph	\$64,186	0.02%	33,122
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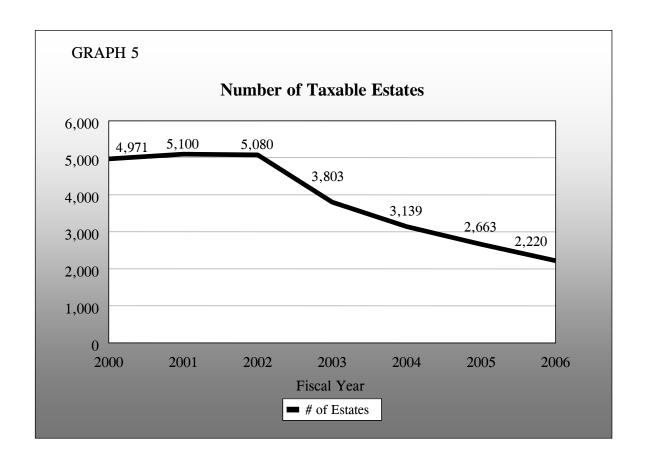
Fulton	\$59,044	0.02%	37,708
Dewitt	\$58,721	0.02%	16,617
Hancock	\$31,249	0.01%	19,153
Cumberland	\$24,128	0.01%	10,973
Putnam	\$16,541	0.01%	6,094
Greene	\$14,878	0.01%	14,581
Jasper	\$11,787	0.00%	10,020
Scott	\$5,043	0.00%	5,412
Gallatin	\$2,505	0.00%	6,152
Alexander	\$2,304	0.00%	8,927
Bond	<b>\$0</b>	0.00%	18,027
Brown	<b>\$0</b>	0.00%	6,835
Carroll	<b>\$0</b>	0.00%	16,086
Edwards	<b>\$0</b>	0.00%	6,784
Hardin	<b>\$0</b>	0.00%	4,718
Johnson	<b>\$0</b>	0.00%	13,169
Massac	<b>\$0</b>	0.00%	15,348
Pope	<b>\$0</b>	0.00%	4,211
Pulaski	<b>\$0</b>	0.00%	6,794
Schuyler	<b>\$0</b>	0.00%	7,073
Union	<b>\$0</b>	0.00%	18,202
Wabash	<b>\$0</b>	0.00%	12,570
Washington	<b>\$0</b>	0.00%	14,922

Source: Comptroller/Revenue/FY 2006

Population Information Data from U.S Census Bureau

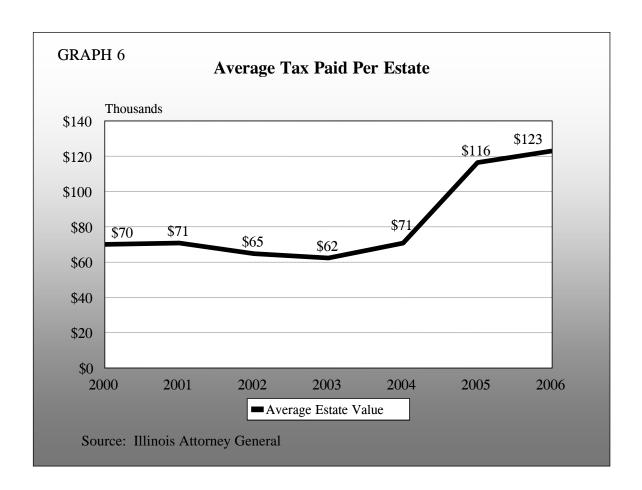
Information provided to the Commission from the Attorney General of the State of Illinois shows that the number of estates taxed per year has dropped considerably since FY 2000. In FY 2000, there were 4,971 estates that paid tax in Illinois. In FY 2006, only 2,220 estates owed estate taxes to the State. This represents a -55% decrease in the number of taxable estates. This downward movement in revenue can be attributed to the phase-out of the State estate tax credit at the Federal level. Also, the maximum allowable credit has increased from \$1 million to \$2 million since FY 2002 resulting in a reduced number of estates paying the tax.

As the maximum exemption has increased, the number of paying estates has decreased significantly since FY 2000. Graph 5 below shows the decline in taxable estates since FY 2000.



It is apparent by looking at Graph 5, that after FY 2002, the number of taxable estates (5,080) began to drop significantly to 2,220 in FY 2006. In fact, since FY 2002 the average number of taxable estates has dropped on average 18.6% every year.

As the number of estates dropped so did the total amount of revenue being received by the State each fiscal year. However, during the overall revenue decline, tax paid per estate rose. Graph 6 on the following page shows the average tax paid per estate.



The rise of average tax paid per estate is no coincidence. Since the maximum exemption has increased, only estates that are worth over \$2 million are responsible for estate tax payment. The maximum exemption in Illinois will remain at \$2 million, until 2010, unless there is a change in the law. In October of 2010 the Federal law goes back to its original form and Illinois follows suit by "recoupling" to the Federal estate tax guidelines. At that time, the maximum allowable exemption will decrease back down to \$675 thousand. This change will increase estate tax revenues.

#### **Other State Inheritance/Estate Tax Revenues**

According to the Census Bureau, in 2005, nearly every State collected some form of death or gift tax. New York State collected \$898 million in estate taxes and gift taxes in calendar year 2005, amounting to a per capita rate of \$46.66 per person. Illinois ranks fourth among states in the collection of death and gift taxes. Illinois residents, per capita, pay \$23.62 for death and gift taxes. In the State of Washington, according to the Census Bureau, there were no death or gift taxes collected in calendar year 2005. Using estimates from the Centers for Disease Control and the Census Bureau, Table 5 examines Per Capita tax estimates as well as estate taxes paid per death. The table is based on the assumption that the current U.S death rate is approximately 817 per 100,000.

	Table 5: Other Stat	te Death and	Gift Tax Co	llections	
State	Death and Gift Tax Amount (thousands)	Population (thousands)	Per Capita (thousands)	Deaths (thousands)	Amount Per Death
New York	898,483.0	19,255.0	\$46.66	157	\$5,713.52
Pennsylvania	695,334.0	12,430.0	\$55.94	102	\$6,849.51
New Jersey	520,776.0	8,716.0	\$59.75	71	\$7,315.96
ILLINOIS	310,000.0	12,763.0	\$24.29	104	\$2,980.77
Florida	294,889.0	17,790.0	\$16.58	145	\$2,029.64
Connecticut	264,795.0	3,510.0	\$75.44	29	\$9,237.19
Massachusetts	255,127.0	6,399.0	\$39.87	52	\$4,881.82
California	213,036.0	36,132.0	\$5.90	295	\$721.94
Maryland	183,084.0	5,600.0	\$32.69	46	\$4,003.13
North Carolina	154,108.0	8,683.0	\$17.75	71	\$2,173.17
Virginia	149,962.0	7,567.0	\$19.82	62	\$2,426.58
Indiana	143,950.0	6,272.0	\$22.95	51	\$2,810.24
Wisconsin	112,346.0	5,536.0	\$20.29	45	\$2,484.84
Texas	101,674.0	22,860.0	\$4.45	187	\$544.59
Michigan	101,473.0	10,121.0	\$10.03	83	\$1,227.62
Tennessee	85,597.0	5,963.0	\$14.35	49	\$1,757.65
Iowa	77,003.0	2,966.0	\$25.96	24	\$3,178.88
Oklahoma	75,708.0	3,548.0	\$21.34	29	\$2,612.74
Minnesota	68,952.0	5,133.0	\$13.43	42	\$1,644.80
Kentucky	63,175.0	4,173.0	\$15.14	34	\$1,853.68
Ohio	60,381.0	11,464.0	\$5.27	94	\$644.91
Oregon	56,852.0	3,641.0	\$15.61	30	\$1,911.89
Kansas	51,853.0	2,745.0	\$18.89	22	\$2,312.96
Georgia	42,657.0	9,073.0	\$4.70	74	\$575.67
Missouri	39,399.0	5,800.0	\$6.79	47	\$831.75
Arizona	32,812.0	5,939.0	\$5.52	49	\$676.48
<b>Rhode Island</b>	32,436.0	1,076.0	\$30.14	9	\$3,691.07
Maine	32,258.0	1,322.0	\$24.40	11	\$2,987.74
Louisiana	30,401.0	4,524.0	\$6.72	37	\$822.82
Colorado	22,763.0	4,665.0	\$4.88	38	\$597.47
Nevada	20,516.0	2,415.0	\$8.50	20	\$1,040.19
South Carolina	19,135.0	4,255.0	\$4.50	35	\$550.64
Vermont	18,863.0	623.0	\$30.28	5	\$3,707.32
Alabama	14,462.0	4,558.0	\$3.17	37	\$388.50
Arkansas	13,802.0	2,779.0	\$4.97	23	\$608.12
Nebraska	13,566.0	1,759.0	\$7.71	14	\$944.33
Hawaii	12,712.0	1,275.0	\$9.97	10	\$1,220.79
Mississippi	11,597.0	2,921.0	\$3.97	24	\$486.13
New Hampshire	11,269.0	1,310.0	\$8.60	11	\$1,053.30
Idaho	8,822.0	1,429.0	\$6.17	12	\$755.91
Delaware	6,180.0	844.0	\$7.32	7	\$896.57
New Mexico	4,925.0	1,928.0	\$2.55	16	\$312.78
West Virginia	4,797.0	1,817.0	\$2.64	15	\$323.26
South Dakota	4,442.0	776.0	\$5.72	6	\$700.90
Montana	4,191.0	936.0	\$4.48	8	\$548.25
Wyoming	3,182.0	509.0	\$6.25	4	\$765.46
Utah	2,962.0	2,470.0	\$1.20	20	\$146.83
North Dakota	2,051.0	637.0	\$3.22	5	\$394.24
Alaska	1,539.0	664.0	\$2.32	5	\$283.80
Washington	0.0	6,288.0	\$0.00	51	\$0.00

#### **Conclusion**

Illinois has collected an estate tax since 1949. At that time the State collected both an inheritance tax and an estate tax. The State abolished the inheritance tax in 1983. Originally, the tax rate was set at 80% of the Federal estate tax, minus state inheritance tax due. In 1955, the law was changed and the payment rate was set at an amount equal to the maximum state tax credit allowed under federal law.

In 2001, Congress passed the Economic Growth and Tax Relief Reconciliation Act. Under this new law, the state tax credit was phased out by calendar year 2005. Illinois, as a result of this law change, was set to lose approximately \$300 million a year in estate tax revenue. Illinois decoupled from the federal state tax credit in order to preserve the estate tax revenue stream. Illinois, when decoupling, did allow the maximum exemption, or the amount that could pass tax free to increase in accordance with the Federal law up to \$2 million.

Illinois residents file estate tax claims with the Office of Attorney General, either in Chicago or Springfield. Monies collected as a result of the estate tax is placed into the General Revenue Fund. Six percent of that total is then transferred into the Estate Tax Collection Distribution Fund and paid back to the counties in which the claim was filed.

Cook County is the largest county in the State making up roughly 41.6% of the population. Not surprisingly, Cook County also generates a majority of estate tax revenues. Historically, Cook County collects around 50% of total estate tax revenue, and since FY 2000, has collected \$1.1 billion in estate tax revenue.

The second largest estate tax revenue source is the "Collar Counties" which includes DuPage, Lake, Kane, McHenry and Will Counties. The Collar Counties comprise 23.9% of the State's population and approximately 28% of overall estate tax revenues. Lake County collects the most estate tax of the Collar Counties.

While Cook and the Collar Counties together account for 76.1% of total estate tax revenues, other counties in the State contribute a significant amount to overall estate tax revenues annually. The remaining counties outside Cook and the Collar Counties generally bring an average of \$63 million per year in estate tax revenues.

Since the implementation of the Economic Growth and Tax Relief Reconciliation Act the number of taxable estates required to pay the estate tax has dropped significantly. In fact, since FY 2002 the number of taxable estates has dropped an average of 18.6% per year. The reduction in the number of taxable estates is due to the maximum credit increasing from \$1million in FY 2002 to \$2 million currently. Because the current law allows the first \$2 million to pass without tax, only estates with higher values (more

than \$2 million) will be required to pay the tax. According to the Federal guidelines, the maximum credit will go up to \$3.5 million in 2009, however, Illinois law sets the maximum credit at \$2 million. This should stabilize estate tax revenues.

With the maximum credit increasing to \$2 million, the amount of tax paid per estate has increased. Estates valued at less than \$2 million are exempt from paying the estate tax making lower valued estates no longer a factor in estate tax revenue. The tax per estate in FY 2002 was \$65,000. In FY 2006 the average tax paid per estate was \$123,000, a 75.7% increase since FY 2000. Since the maximum allowable exemption now statutorily stays at \$2 million until October 2010, estate tax revenues should become more consistent over the next four years. The way the current law is written, Illinois in October 2010, will "recouple" with the Federal estate tax guidelines. With the State re-attaching itself to Federal estate tax guidelines the maximum exemption decreases to \$675 thousand. Therefore, unless the law is changed, Illinois should see an increase in estate tax revenues in FY 2011.

#### APPENDIX I

Adams County Treasurer 521 Vermont Quincy, Illinois 62306

Boone County Treasurer 601 North Main Street Belvedere, Illinois 61008

Calhoun County Treasurer P.O. Box 187 Hardin, Illinois 62047

Champaign County Treasurer 204 East Elm Street Urbana, Illinois 61801-3324

Clay County Treasurer P.O. Box 80 Louisville, Illinois 62858

Cook County Treasurer 118 North Clark St., Room 402 Chicago, Illinois 60602

DeKalb County Treasurer 133 West State Street Sycamore, Illinois 60178

DuPage County Treasurer 421 North County Farm Road Wheaton, Illinois 60189

Effingham County Treasurer 101 North 4th Street Effingham, Illinois 62401

Franklin County Treasurer Franklin County Courthouse Benton, Illinois 62812

Greene County Treasurer 519 North Main Street Carrollton, Illinois 62016-1033

Hancock County Treasurer P.O. Box 248 Carthage, Illinois 62321

Henry County Treasurer 100 South Main Street Cambridge, Illinois 61238

Jasper County Treasurer 100 West Jourdan Street Newton, Illinois 62448

JoDaviess County Treasurer 330 North Bench Street Galena, Illinois 61036

Kankakee County Treasurer 189 East Court Street Kankakee, Illinois 60901

Lake County Courthouse 18 North County Street Waukegan, Illinois 60085

Lee County Treasurer P.O. Box 329 Dixon, Illinois 61021 Alexander County Treasurer 2000 Washington Avenue Cairo, Illinois 62914

Brown County Treasurer Brown County Courthouse Mt. Sterling, Illinois 62353

Carroll County Treasurer 301 North Main Street Mt. Carroll, Illinois 61053

Christian County Treasurer P.O. Box 647 Taylorville, Illinois 62568

Clinton County Treasurer Clinton County Courthouse Carlyle, Illinois 62231

Crawford County Treasurer P.O. Box 204 Robinson, Illinois 62454

DeWitt County Treasurer 201 West Washington Clinton, Illinois 61727

Edgar County Treasurer 115 W. Court Street Paris, Illinois 61944-1785

Fayette County Treasurer 221 South 7th Street Vandalia, Illinois 62471

Fulton County Treasurer 100 North Main Street Lewistown, Illinois 61542

Grundy County Treasurer 111 East Washington Street Morris, Illinois 60450

Hardin County Treasurer P.O. Box 187 Elizabethtown, Illinois 62931

Iroquois County Treasurer 1001 East Grant Street Watseka, Illinois 60970

Jefferson County Treasurer 100 S. 10th Street Mt. Vernon, Illinois 62864

Johnson County Treasurer P.O. Box 38 Vienna, Illinois 62995

Kendall County Treasurer 111 West Fox Street Yorksville, Illinois 60560

LaSalle County Treasurer 707 Etna Road Ottawa, Illinois 61350

Livingston County Treasurer 112 West Madison Street Pontiac, Illinois 61764 Bond County Treasurer 200 W. College Greenville, Illinois 62246

Bureau County Treasurer 700 S. Main Street Princeton, Illinois 61356

Cass County Treasurer Cass County Courthouse Virginia, Illinois 62691

Clark County Treasurer Clark County Courthouse Marshall, Illinois 62441

Coles County Treasurer P.O. Box 227 Charleston, Illinois 61920

Cumberland County Treasurer P.O. Box 70 Toledo, Illinois 62468

Douglas County Treasurer 401 S. Center Street Tuscola, Illinois 61953

Edwards County Treasurer Edwards County Courthouse Albion, Illinois 62806

Ford County Treasurer 200 West State Street Paxton, Illinois 60957

Gallatin County Treasurer Gallatin County Courthouse Shawneetown, Illinois 62984

Hamilton County Treasurer Hamilton County Courthouse McLeansboro, Illinois 62859

Henderson County Treasurer P.O. Box 578 Oguawka, Illinois 61469

Jackson County Treasurer Jackson County Courthouse Murphysboro, Illinois 62966

Jersey County 201 West Pearl Street Jerseyvilel, Illinois 62052

Kane County Treasurer 719 South Batavia Avenue Geneva, Illinois 60134

Knox County Treasurer Knox County Courthouse Galesburg, Illinois 61401

Lawrence County Treasurer Lawrence County Courthouse Lawrenceville, Illinois 62439

Logan County Treasurer P.O. Box 400 Lincoln, IL 62656

Macon County Treasurer 141 South Main Street Decatur, Illinois 62523

Marion County Treasurer P.O. Box 907 Salem, Illinois

Massac County Treasurer P.O. Box 429 Metropolis, Illinois 62960

McLean County Treasurer 104 West Front Street Bloomington, Illinois 61702

Monroe County Treasurer 100 South Main Street Waterloo, Illinois 62298

Moultrie County Treasurer Moultrie County Courthouse Sullivan, Illinois 61951

Perry County Treasurer P.O. Box 438 Pinckneyville, Illinois 62274

Pope County Treasurer Pope County Courthouse Golconda, Illinois 62938

Randolph County Treasurer P.O. Box 328 Chester, Illinois 62233

Saline County Treasurer Saline County Courthouse Harrisburg, Illinois 62946

Scott County Treasurer Scott County Courthouse Winchester, Illinois 62694

St. Clair County Treasurer 10 Public Square Belleville, Illinois 62220

Union County Treasurer P.O. Box H Jonesboro, Illinois 62952

Warren County Treasurer 100 West Broadway Monmouth, Illinois 61462

White County Treasurer P.O. Box 339 Carmi, Illinois 62821

Williamson County Treasurer 200 West Jefferson Street Marion, Illinois 62959 Macoupin County Treasurer Macoupin County Courthouse Carlinville, Illinois 62626

Marshall County Treasurer P.O. Box 328 Lacon, Illinois 61540

McDonough County Treasurer P.O. Box 348 Macomb, Illinois 61455

Menard County Treasurer P.O. Box 465 Petersburg, Illinois 62675

Montgomery County Treasurer P.O. Box 596 Hillsboro, Illinois 62049

Ogle County Treasurer P.O. Box 337 Oregon, Illinois 61061

Piatt County Treasurer 101 West Washington St. Monticallo, Illinois 61856

Pulaski County Treasurer Box 109 Mound City, Illinois 62963

Richland County Treasurer 1504 Third Avenue Olney, Illinois 62450

Sangamon County Treasurer 200 South 9th Street Springfield, Illinois 62701-1629

Shelby County Treasurer Shelby County Courthouse Shelbyville, Illinois 62565

Stephenson County Treasurer 15 North Galena Avenue Freeport, Illinois 61032

Vermilion County Treasurer 6 North Vermilion Danville, Illinois 61832-5879

Washington County Treasurer St. Louis Street Nashville, Illinois 62263

Whiteside County Treasurer 200 East Knox Street Morrison, Illinois 61270-2698

Winnebago County Treasurer P.O. Box 1216 Rockford, IL 61105-1216 Madison County Treasurer 157 North Main Street Edwardsville, Illinois 62025

Mason County Treasurer Mason Co. Courthouse Havana, Illinois 62644

McHenry County Treasurer 2200 N. Seminary Avenue Woodstock, Illinois 60098

Mercer County Treasurer P.O. Box 66 Aledo, Illinois 61231

Morgan County Treasurer 300 West State Street Jacksonville, ilinois 62650

Peoria County Treasurer 324 Main Street Peoria, Illinois 61602

Pike County Treasurer Pike County Courthouse Pittsfield, Illinois 62663

Putnam County Treasurer Putnam County Courthouse Hennepin, Illinois 61327

Rock Island County

Rock Island, Illinois 61201

Schuyler County Treasurer P.O. Box 80 Rushville, Illinois 62681

Stark County Treasurer 103 West Main Street Toulon, Illinois 61483

Tazewell County Treasurer 4th and Court Streets Pekin, Illinois 61554

Wabash County Treasurer 4th and Market Streets Mt. Carmel, Illinois 62863

Wayne County Treasurer P.O. Box 187 Fairfield, illinois 62837

Will County Treasurer 302 North Chicago Street Joliet, Illinois 60432

Woodford County Treasurer 115 North Main, Suite 202 Eureka, Illinois 61530

#### **APPENDIX II**

FORM 700

## STATE OF ILLINOIS ESTATE & GENERATION SKIPPING TRANSFER TAX RETURN

#### FOR DECEDENTS DYING ON OR AFTER JANUARY 1, 2005

Estate of:		Date of Death
Decedent's Address:	No. & Street	
City	State	Zip Code
Decedent's Social Security Numb	er: Name of Illinois Cour	nty with Jurisdiction over Estate:
Name of Personal Representative	e or Person Filing Return:	Telephone:
Address:	No. & Street	
City	State	Zip Code
Name of Preparer:		Telephone:
Address:	No. & Street	
City	State	Zip Code
a) Assets with taxab     b) Assets with taxab     c) TOTAL Gross Val  Attach itemized schedu	Return is not required to be filed, but ole situs in Illinois	\$
The second second second second	Return is attached, but no Illinois Es	
A Certificate of Disc	Return is attached, and an Illinois Es harge is requested. lation and Schedule A or B, whicheve	

4. This is an Amended or Supplemental Return.  (Complete Recapitulation and Schedule A or B, whichever is applicable, and attach copy of amended Federal Estate Tax Return or other applicable documents.)				
5. This is a Generation Skipping Transfer Tax Return.  (Attach copy of Federal Return and Supporting Documents.)				
Decedent was:				
a) a resident of Illinois, Year residency established	a)			
b) a non-resident of Illinois, Year residency established	b)			
c) an alien, State of residence	c)			
Due date of this Return:				
6. If due date determined by extension of time to file Federal Estate Tax Return, c a copy of the extension request. File a copy of approved extension request who and extension request should be filed within 9 months.				
The undersigned declare, under penalties of perjury, that they have examined this return accompanying schedules or attachments, and that they believe the same to be true and material matter and further verify that any attached Federal Estate Tax Return and any of tax documents are true and corrected copies of the originals filed with the Internal Reversity	correct as to every other applicable Federal			
The undersigned further certify that the attached Will (if decedent died testate) is a true of the Will of the decedent.	and correct copy			
Signature of decedent's personal representative Title	e Date			
Signature of preparer Title	e Date			
NOTE: All attachments must be filed with the Attorney General's copy of the return. If a is requested, a copy of the Form 700 must be filed with the appropriate County				
SCHEDULE A - Resident Decedent's Estate - (See instructions	below.)			
Total amount calculable from State Death Tax Credit Table     (See instructions on Page 4.)     Gross value for Federal Estate Tax purposes of decedent's estate	1. \$			
having taxable situs in Illinois (Identify on attached Federal Estate Tax Return.)	2. \$			
Gross value of decedent's estate for Federal Estate Tax purposes wherever located	3. \$			
4. Percent of estate having taxable situs in Illinois (Line 2 divided by line 3.)  (Line 2 divided by line 3.)	4. %			
Amount of tax attributable to Illinois	5 0			

STATE OF ILLINOIS ESTATE & GENERATION SKIPPING TRANSFER TAX RETURN - PAGE 2

With respect to the estate of a deceased resident of this State, all property included in the gross estate of the decedent for Federal Estate Tax purposes shall have a taxable situs in this State for purposes of this Section, excepting real estate and tangible personal property physically situated in another state (including any such property held in trust).

(Line 1 multiplied by line 4. Also enter on line 1 in Recapitulation.) . . . . . . . . .

SCHEDULE B - Non-Resident or Alien Decedent's Estate - (See	instructions below.)
<ol> <li>Gross Value for Federal Estate Tax purposes of decedent's estate having taxable situs in Illinois         (Identify on attached Federal Estate Tax Return.)</li> <li>Gross value of decedent's estate for Federal Estate Tax purposes, wherever located</li> <li>Percent of estate having taxable situs in Illinois         (Line 2 divided by line 3.)</li> <li>Tax payable to Illinois         (Line 1 multiplied by line 4. Also enter on line 1 in Recapitulation.)</li> <li>With respect to the estate of a decedent not a resident of this State but a resident of and United States, the property having a taxable situs in this state for purposes of this Section tangible personal property physically situated in this State (including any such property having a taxable situs in this State (including any such property having a taxable situs in this State (including any such property having a taxable situs in this State (including any such property having a taxable situs in this State (including any such property having a taxable situs in this State (including any such property having a taxable situs in this State (including any such property having a taxable situs in this State (including any such property having a taxable situs in this State (including any such property having a taxable situs in this State (including any such property having a taxable situs in this state (including any such property having a taxable situs in this state (including any such property having a taxable situs in this state (including any such property having a taxable situs in this state (including any such property having a taxable situs in this state (including any such property having a taxable situs in this state (including any such property having a taxable situs in this state (including any such property having a taxable situs in this state (including any such property having a taxable situs in this state (including any such property having a taxable situs in this state (including any such property having a taxable situs</li></ol>	5. \$ other state or territory of the on is only real estate and held in trust.)
With respect to the estate of a decedent who is not a resident of a state or territory of the having taxable situs in this State for purposes of this Section is real estate and tangible por having a business situs in this State (including any such property held in trust) and inthe having a business situs in or evidenced by instruments physically situated in this State.	personal property situated
1. Maximum allowable credit for certain state taxes pursuant to Section 2604, Internal Revenue Code. (Attach Federal Estate and Generation Skipping Transfer Tax Return and computations.)  2. Allowable generation skipping transfer state tax credit paid to other states. (Attach explanation and schedule of assets identifying property which is non-taxable in Illinois.)  3. Illinois Generation Skipping Transfer Tax (Line 1 minus line 2.)	1. \$ 2. \$ 3. \$
RECAPITULATION	
<ol> <li>Amount of tax payable to Illinois         (Schedule A line 5 or Schedule B line 5 and/or Schedule C line 3.)</li> <li>Late filing penalty         (5% of tax for each month or portion thereof - maximum penalty 25%.)</li> <li>Late payment penalty (1/2 of 1% of tax for each month or portion thereof - maximum penalty 25%.)</li> <li>Interest at 10% per annum from 9 months after death until date of payment</li> <li>Total Tax, penalties and interest payable         (Total of lines 1, 2, 3 and 4.)</li> <li>Prior Payment         (Attach explanation.)</li> <li>Balance due         (Line 5 minus line 6.)</li> </ol>	1. \$ 2. \$ 3. \$ 4. \$ 5. \$ 7. \$
The estate elects to pay \$ of line 1 in installments under 35 IL acceptance by Internal Revenue Service when available of Sec. 6166 election and file IL	.CS 405/6 (supply proof of -4350a).

STATE OF ILLINOIS ESTATE & GENERATION SKIPPING TRANSFER TAX RETURN - PAGE 3

#### FILING AND PAYMENT INSTRUCTIONS

For decedents dying on or after January 1, 2003, the Illinois Estate Tax is based upon the full amount calculable from the State Death Tax Credit Table as it existed in § 2011 of the Internal Revenue Code on December 31, 2001 (shown below). The Illinois Estate Tax is computed without recognizing the reductions or termination of the State Death Tax Credit under Internal Revenue Code §§ 2011(b)(2) and 2011(f) (as amended in 2001). However, the amount cannot be greater than an amount that would have reduced the Federal Estate Tax to \$0.

For decedents dying on or after January 1, 2005, the state death tax paid to any state is no longer a credit, in whole or part, against the Federal Estate Tax. The state death tax has become a deduction against the Federal Gross Estate (See 26 USC 2058). The Illinois Estate Tax is still computed with regard to the Federal Taxable Estate. However, the amount of the Federal Taxable Estate will appear after deductions allowed on the Federal Return resulting in an interrelated computation of the Illinois tax and corresponding deduction. The amounts on Lines 3 and 5 of the Federal Form 706 without the State Death Tax Deduction will be needed to compute the Illinois Estate Tax. The Attorney General's Office has acquired a computer program that will make that computation, rather than the preparer performing numerous trials to obtain a figure. The preparer may contact our Office by mail or phone (Chicago 312-814-2491 or Springfield 217-524-5095), or may access the program at our website (www.illinoisattorneygeneral.gov). To make the computation, the amounts of the Tentative Taxable Estate (Line 3a, Form 706) and the Taxable Estate with adjusted gifts (Line 5, Form 706) without the State Death Tax Deduction are required. Please contact our Office or website for further information.

This return must be filed within nine (9) months of the date of death.

For Cook, DuPage, Lake and McHenry Counties, file the original of the return with the Office of the Attorney General, Revenue Litigation Bureau, 100 West Randolph Street, 13th Floor, Chicago, Illinois 60601. For all other counties, file the original of the return with the Office of the Attorney General, Revenue Litigation Bureau, 500 South Second Street, Springfield, Illinois 62706. An additional copy of the return, without attachments, must also be filed with the County Treasurer of the County having jurisdiction over the estate.

ALL PAYMENTS OF ILLINOIS ESTATE TAXES, PENALTY AND INTEREST MUST BE MADE PAYABLE TO THE COUNTY TREASURER OF THE COUNTY HAVING JURISDICTION OVER THE ESTATE. IF THE DECEDENT IS A NON-RESIDENT AND HAS PROPERTY IN MORE THAN ONE COUNTY, PAYMENT OF ALL TAX SHOULD BE MADE TO THE COUNTY HAVING THE GREATEST VALUE OF PROPERTY.

ALL PAYMENTS MUST BE MAILED TO OR DEPOSITED WITH THE COUNTY TREASURER IN ORDER TO BE CREDITED WITH TIMELY PAYMENT. Please send a copy of the County Treasurer's receipt to: Office of the Attorney General, Revenue Litigation Bureau, 100 West Randolph Street, 13th Floor, Chicago, Illinois 60601, or the Office of the Attorney General, Revenue Litigation Bureau, 500 South Second Street, Springfield, Illinois 62706, as appropriate.



CREDIT FOR STATE DEATH TAXES

840,000

1,040,000

1,540,000

2,040,000 2,540,000

3,040,000

3,540,000

4,040,000

5,040,000

6,040,000

7,040,000

8,040,000

9,040,000

10,040,000

1,040,000

1,540,000

2,040,000

2,540,000

3,040,000

3,540,000

4,040,000

5,040,000

6,040,000

7,040,000

8,040,000

9,040,000

10,040,000

. . . . .

#### The table below is to be used in calculating the amount of the Illinois Estate Tax. Adjusted Taxable Estate\* At least But less than Credit = % Of excess over \$ 0 0 \$ 0 \$ 0 40,000 40,000 90,000 0 .8 40,000 90,000 140,000 400 1.6 90,000 2.4 140,000 240,000 1,200 140,000 3.2 240,000 240,000 440,000 3,600 440,000 640,000 10,000 4 440,000 4.8 640,000 840,000 18,000 640,000

27,600

38,800

70,800

106,800

146,800

190,800

238,800

290,800

402,800

522,800

650,800

786,800

930,800

1,082,800

5.6

6.4

7.2

8.8

9.6

10.4

11.2

12.8

13.6

14.4

15.2

16

12

8

840,000

1,040,000

1,540,000

2,040,000

2,540,000

3,040,000

3,540,000

4,040,000

5,040,000

6,040,000

7,040,000

8,040,000

9,040,000

10,040,000

<sup>\*</sup>The adjusted taxable estate is the taxable estate reduced by \$60,000.

## **BACKGROUND**

The Commission on Government Forecasting and Accountability (CGFA), a bipartisan, joint legislative commission, provides the General Assembly with information relevant to the Illinois economy, taxes and other sources of revenue and debt obligations of the State. The Commission's specific responsibilities include:

- 1) Preparation of annual revenue estimates with periodic updates;
- 2) Analysis of the fiscal impact of revenue bills;
- 3) Preparation of "State Debt Impact Notes" on legislation which would appropriate bond funds or increase bond authorization;
- 4) Periodic assessment of capital facility plans;
- 5) Annual estimates of public pension funding requirements and preparation of pension impact notes;
- 6) Annual estimates of the liabilities of the State's group health insurance program and approval of contract renewals promulgated by the Department of Central Management Services;
- 7) Administration of the State Facility Closure Act.

The Commission also has a mandate to report to the General Assembly "... on economic trends in relation to long-range planning and budgeting; and to study and make such recommendations as it deems appropriate on local and regional economic and fiscal policies and on federal fiscal policy as it may affect Illinois. ... " This results in several reports on various economic issues throughout the year.

The Commission publishes several reports each year. In addition to a Monthly Briefing, the Commission publishes the "Revenue Estimate and Economic Outlook" which describes and projects economic conditions and their impact on State revenues. The "Bonded Indebtedness Report" examines the State's debt position as well as other issues directly related to conditions in the financial markets. The "Financial Conditions of the Illinois Public Retirement Systems" provides an overview of the funding condition of the State's retirement systems. Also published are an Annual Fiscal Year Budget Summary; Report on the Liabilities of the State Employees' Group Insurance Program; and Report of the Cost and Savings of the State Employees' Early Retirement Incentive Program. The Commission also publishes each year special topic reports that have or could have an impact on the economic well being of Illinois. All reports are available on the Commission's website.

These reports are available from:

Commission on Government Forecasting and Accountability 703 Stratton Office Building Springfield, Illinois 62706 (217) 782-5320 (217) 782-3513 (FAX)