



cutting through complexity

Relative Tax Burden on Residents and Businesses in Chicago, Peer Cities, and Regional Municipalities

EXECUTIVE SUMMARY

September 2015

Within this report, KPMG undertakes no role or view that could be considered public policy advocacy.



Introduction

In July 2015, World Business Chicago (WBC) engaged KPMG to conduct a thorough analysis of the tax burden on businesses relative to national peer cities and regional municipalities. Members of KPMG's Economic & Valuation Services (EVS) Practice in conjunction with KPMG's State and Local Tax (SALT) Practice undertook a fact based analysis.

To conduct a valid comparative analysis of this type, it is necessary to make assumptions and hold specific variables constant. Where this has been done, KPMG has aimed to have these clearly stated. Within this report, KPMG undertakes no role or view that could be considered public policy advocacy.

A summary of our analysis and results are presented in this Executive Summary document.

Comparison Locations

The tax burden on Chicago residents and businesses were compared against the following U.S. cities and regional municipalities.

U.S. Peer Cities

- New York City
- Los Angeles
- Boston
- San Francisco
- Atlanta
- Dallas
- Denver
- Indianapolis
- Milwaukee
- Philadelphia

Regional Municipalities

- Aurora
- Evanston
- Glen Ellyn
- Highland Park
- Joliet
- Naperville
- Orland Park
- Rosemont
- Schaumburg

Methodology

Since businesses and residents are subject to multiple taxes and these taxes are calculated on different bases calculating tax burden is not simply additive. To derive an estimate of tax burden, it is necessary to generate model business profiles and model resident profiles against which taxes can be applied. The model business profiles were derived from KPMG’s biannual Competitive Alternatives study and assumed uniform business costs and revenues across cities. Residential profiles were generated using Bureau of Labor Statistics (BLS) data among other assumptions.

Business Type	Assumed Profile
Professional Services	A financial services business with 50 employees, primarily sales and administration function, located in 14,000 sq. feet of leased downtown Class A office space
Manufacturing	A precision manufacturing shop, located within city limits. Includes 70 employees, primarily machine operators, located in a 30,000 sq. foot owned facility on 2 acres of land.

Resident Type	Assumed Profile
Single	Single person with an annual income of \$50,000.
Couple	Couple (household with 2 people) with an annual income of \$100,000
Family	Family (household with 4 people) with an annual income of \$200,000

Taxes Considered

KPMG sought to identify all relevant taxes for both commercial and residential profiles in the calculation of tax burden. The table below shows those taxes considered for each. The analysis of residential tax burden does not include federal income tax. This is done to be consistent with prior work, in particular, an annual study by the Office of the CFO of Washington D.C. ^[1]

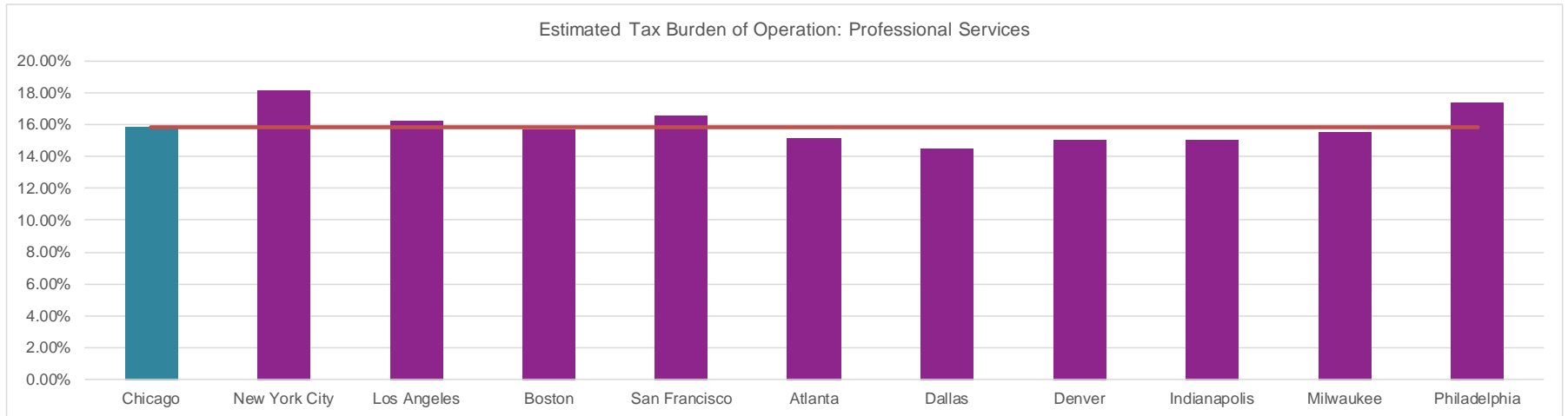
Analysis	Taxes Considered
Commercial	<ul style="list-style-type: none"> • Federal, State & Local Corporate Income Tax • Property Taxes • Sales Taxes • Statutory Plans • Gross Receipts • Local Business Taxes • Capital Taxes
Residential*	<ul style="list-style-type: none"> • State & Local Personal Income Tax • Property Taxes • Sales Taxes • Automobile Taxes • Utility Taxes

[1] <http://cfo.dc.gov/page/tax-burdens-comparison>

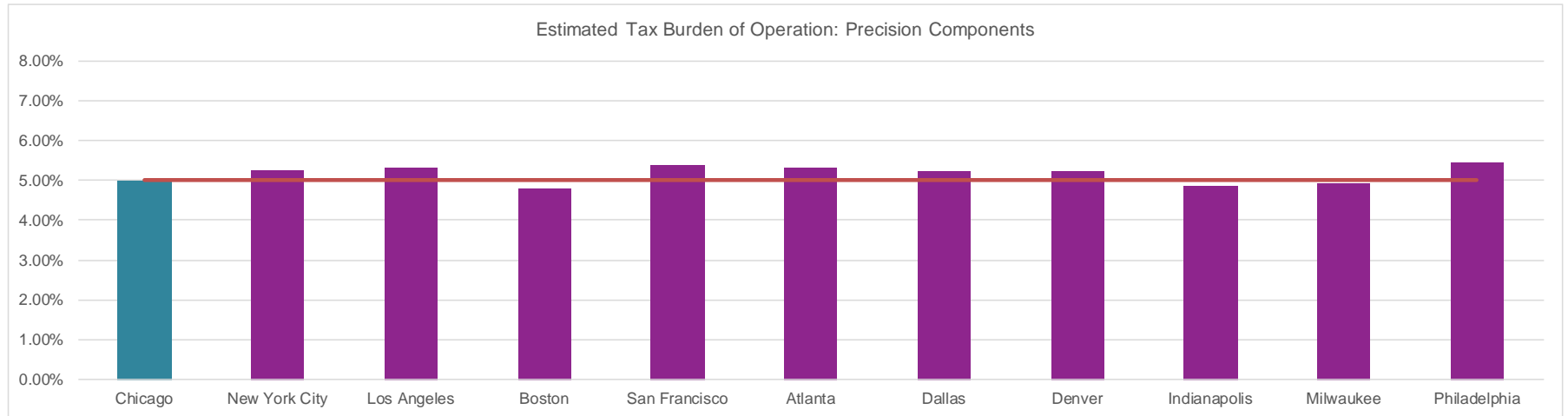
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Results – Commercial Analysis

Chicago v/s Peer Cities (Estimated tax burden as a percentage of sales)



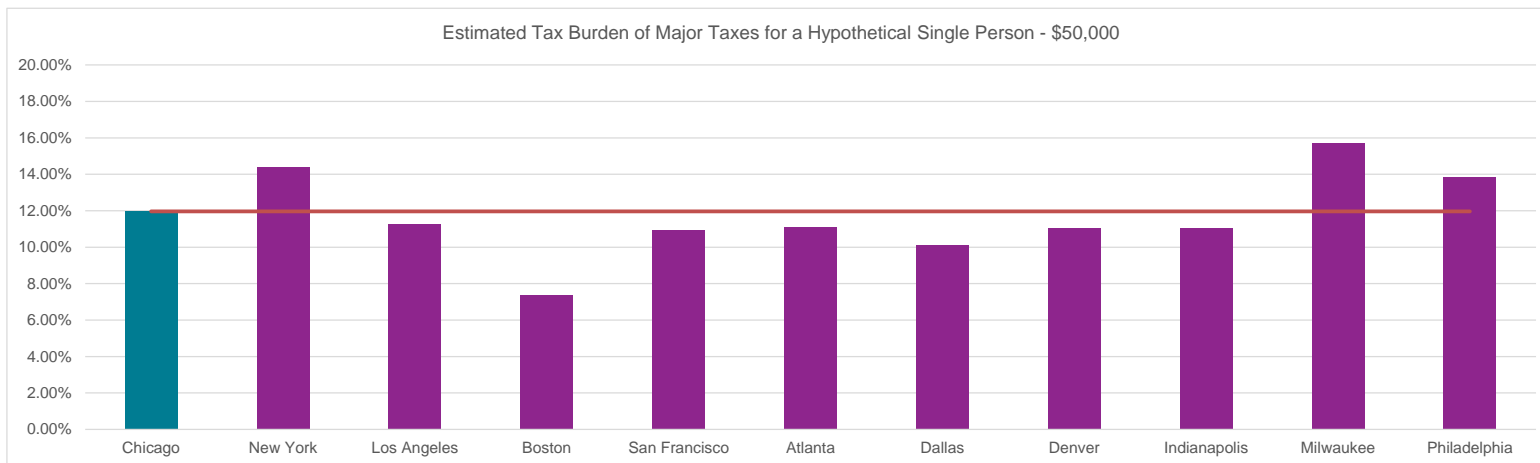
Chicago v/s Peer Cities (Estimated tax burden as a percentage of sales)



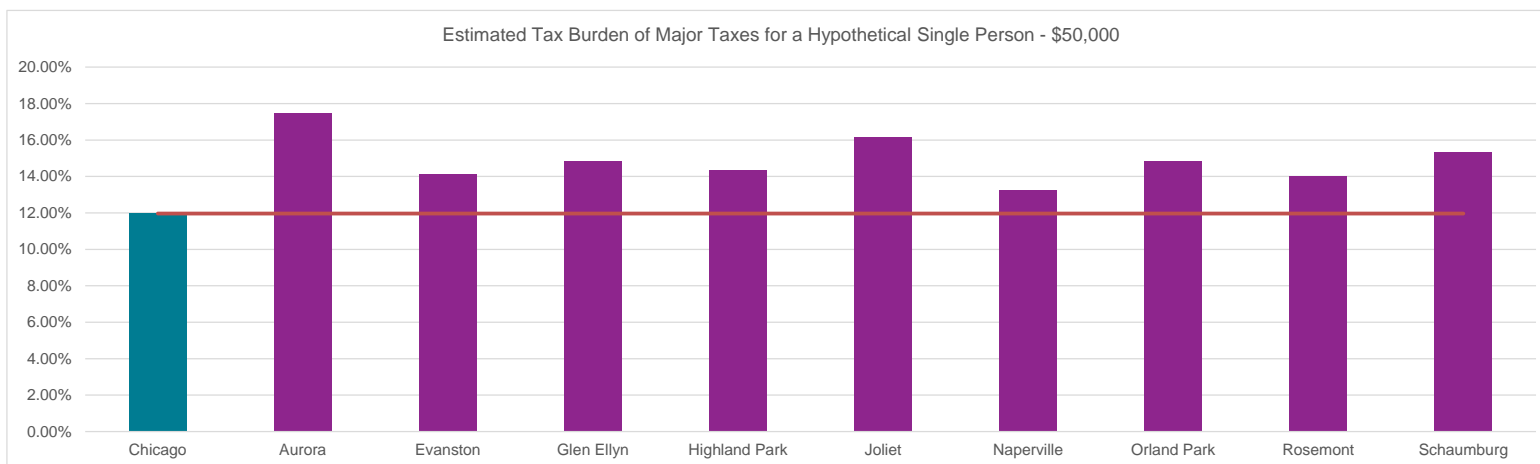
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Results – Residential Analysis

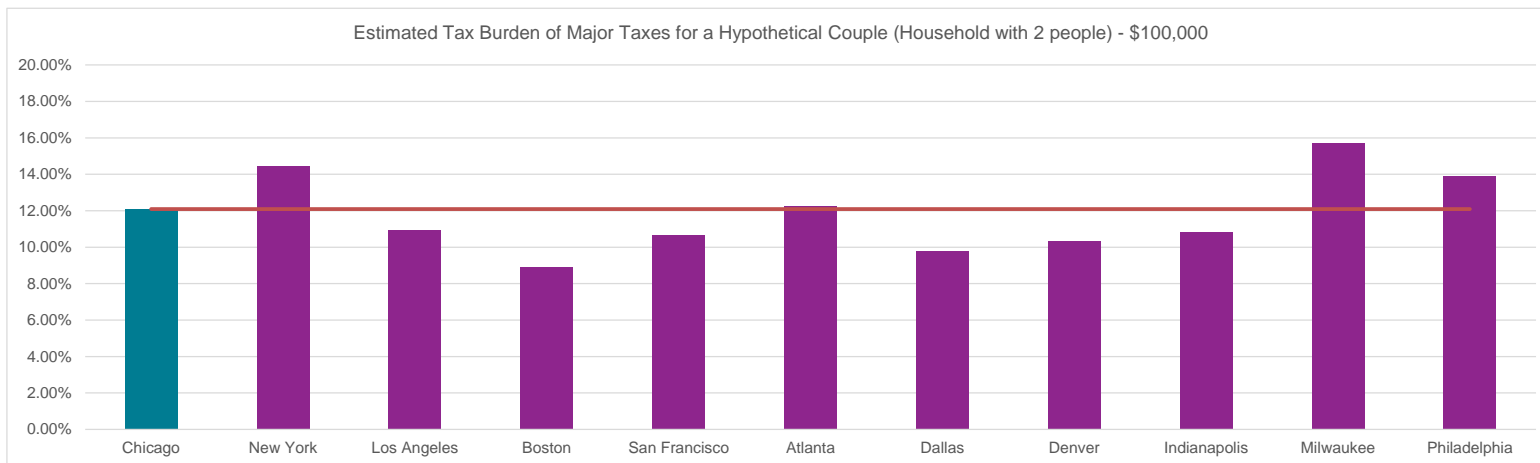
Chicago v/s Peer Cities (Estimated tax burden as a percentage of income)



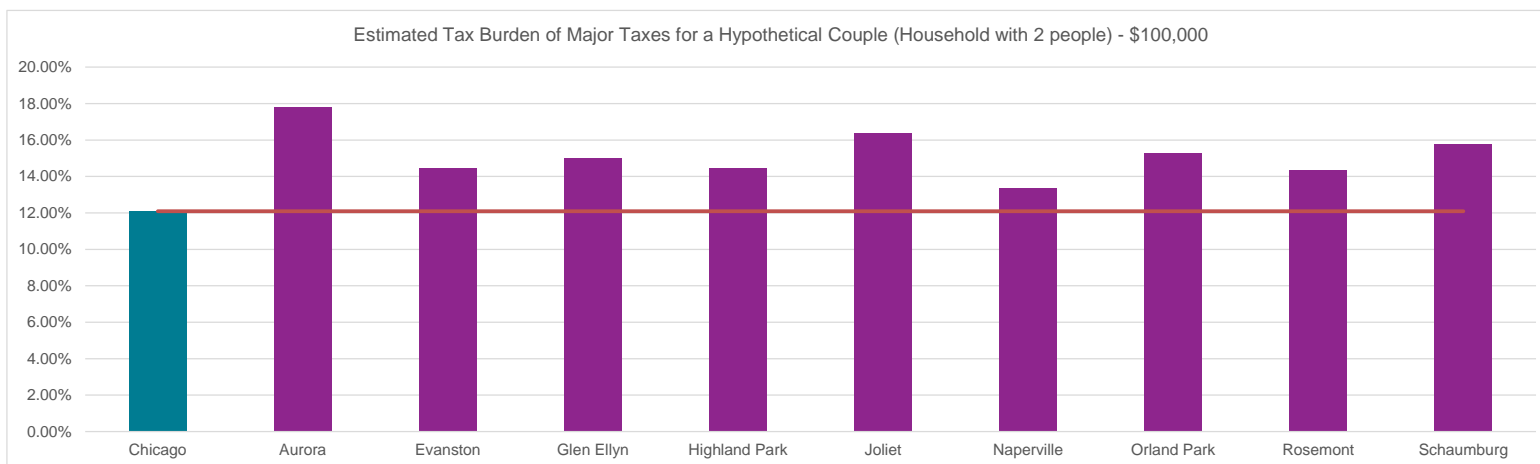
Chicago v/s Regional Municipalities (Estimated tax burden as a percentage of income)



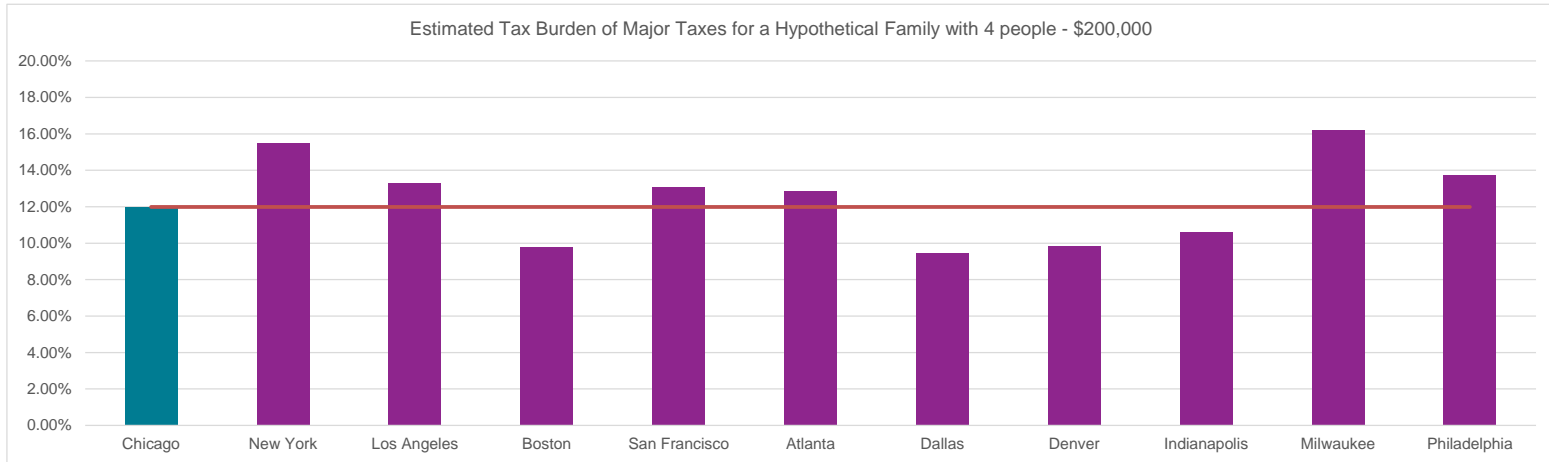
Chicago v/s Peer Cities (Estimated tax burden as a percentage of income)



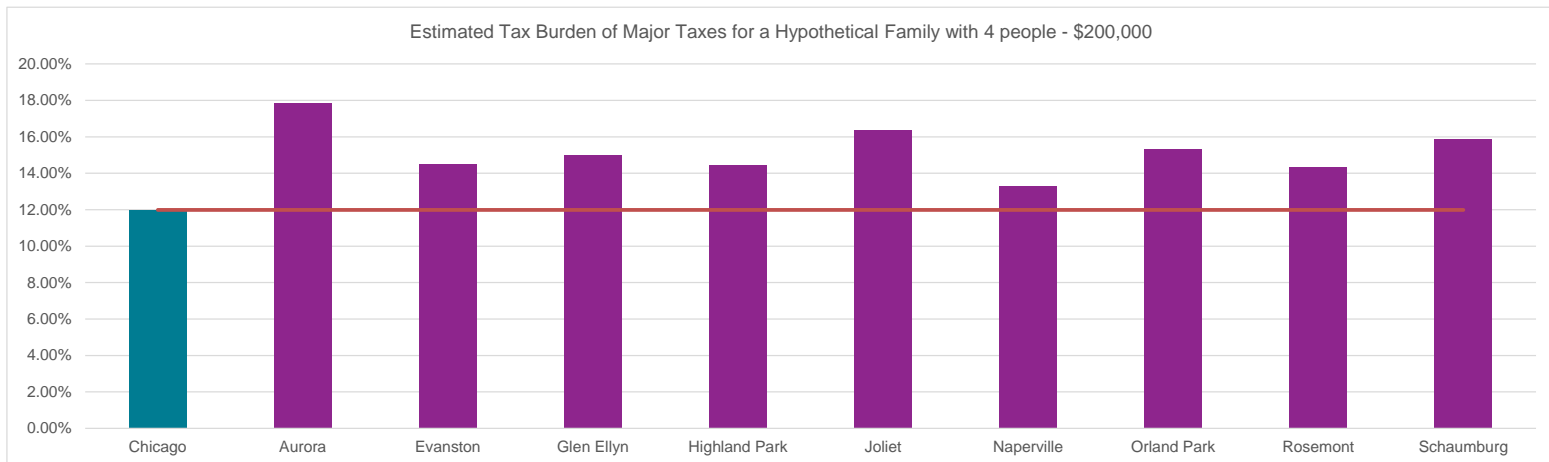
Chicago v/s Regional Municipalities (Estimated tax burden as a percentage of income)



Chicago v/s Peer Cities (Estimated tax burden as a percentage of income)



Chicago v/s Regional Municipalities (Estimated tax burden as a percentage of income)



Scenario Analysis

Scenario Analysis

Subsequent to the baseline analysis, KPMG conducted an analysis that compared Chicago's tax burden on business assuming an increase in property tax rates necessary to increase the property tax levy \$500, \$600 and \$750 million respectively. Each scenario also reflected an increase in the household exemption from \$7,000 to \$14,000. The scenario analysis also considers the 1% increase in the sales tax rate for Chicago and other Cook County municipalities effective January 1, 2016.

Using Cook County data, KPMG estimated that the nominal property tax rate for Chicago would need to rise to the levels shown in the table below to generate this additional revenue.

Scenario	Change in Property Tax Levy	Property Tax Rate	Difference from Base Case
Base Case	N/A	6.846%	N/A
1	+\$500MM	7.985%	1.14%
2	+\$600MM	8.146%	1.30%
3	+\$750MM	8.389%	1.54%



Tax Burden on Business

Summary of Scenarios - Commercial

Scenario Results

The tables below show the estimated tax burden for two model business types in Chicago and comparison locations under the base case and alternate scenarios.

Professional Services Firm (Uniform Costs)

Professional Services	Chicago	New York	Los Angeles	Boston	San Francisco	Atlanta	Dallas	Denver	Indianapolis	Milwaukee	Philadelphia
Base Case	15.85%	18.12%	16.22%	15.72%	16.54%	15.11%	14.46%	15.06%	15.06%	15.58%	17.37%
Scenario 1	15.97%										
Scenario 2	15.98%										
Scenario 3	15.99%										

Manufacturing Firm (Uniform Costs)

Manufacturing	Chicago	New York	Los Angeles	Boston	San Francisco	Atlanta	Dallas	Denver	Indianapolis	Milwaukee	Philadelphia
Base Case	5.00%	5.27%	5.34%	4.79%	5.40%	5.34%	5.21%	5.24%	4.85%	4.94%	5.47%
Scenario 1	5.03%										
Scenario 2	5.03%										
Scenario 3	5.03%										



Tax Burden on Individuals

Summary of Scenarios - Residential

Single \$50,000 per Year	Chicago	New York	Los Angeles	Boston	San Francisco	Atlanta	Dallas	Denver	Indianapolis	Milwaukee	Philadelphia
Base Case	11.96%	14.37%	11.25%	7.39%	10.96%	11.11%	10.13%	11.04%	11.07%	15.70%	13.86%
Scenario 1	11.91%										
Scenario 2	11.99%										
Scenario 3	12.12%										

Single \$50,000 per Year	Chicago	Aurora	Evanston	Glen Ellyn	Highland Park	Joliet	Naperville	Orland Park	Rosemont	Schaumburg
Base Case	11.96%	17.48%	14.14%	14.86%	14.34%	16.16%	13.27%	14.82%	14.02%	15.33%
Scenario 1	11.91%	17.48%	14.43%	14.86%	14.34%	16.16%	13.27%	15.11%	14.31%	15.63%
Scenario 2	11.99%	17.48%	14.43%	14.86%	14.34%	16.16%	13.27%	15.11%	14.31%	15.63%
Scenario 3	12.12%	17.48%	14.43%	14.86%	14.34%	16.16%	13.27%	15.11%	14.31%	15.63%

Couple (Household with 2 people) - \$100,000 per Year	Chicago	New York	Los Angeles	Boston	San Francisco	Atlanta	Dallas	Denver	Indianapolis	Milwaukee	Philadelphia
Base Case	12.09%	14.46%	10.94%	8.91%	10.67%	12.23%	9.77%	10.33%	10.82%	15.72%	13.91%
Scenario 1	12.66%										
Scenario 2	12.77%										
Scenario 3	12.94%										

Couple (Household with 2 people) - \$100,000 per Year	Chicago	Aurora	Evanston	Glen Ellyn	Highland Park	Joliet	Naperville	Orland Park	Rosemont	Schaumburg
Base Case	12.09%	17.83%	14.47%	15.03%	14.48%	16.40%	13.37%	15.26%	14.32%	15.78%
Scenario 1	12.66%	17.83%	14.74%	15.03%	14.48%	16.40%	13.37%	15.54%	14.60%	16.06%
Scenario 2	12.77%	17.83%	14.74%	15.03%	14.48%	16.40%	13.37%	15.54%	14.60%	16.06%
Scenario 3	12.94%	17.83%	14.74%	15.03%	14.48%	16.40%	13.37%	15.54%	14.60%	16.06%

Family with 4 people - \$200,000 per Year	Chicago	New York	Los Angeles	Boston	San Francisco	Atlanta	Dallas	Denver	Indianapolis	Milwaukee	Philadelphia
Base Case	11.98%	15.49%	13.31%	9.78%	13.06%	12.88%	9.48%	9.85%	10.58%	16.21%	13.74%
Scenario 1	12.85%										
Scenario 2	12.97%										
Scenario 3	13.15%										

Family with 4 people - \$200,000 per Year	Chicago	Aurora	Evanston	Glen Ellyn	Highland Park	Joliet	Naperville	Orland Park	Rosemont	Schaumburg
Base Case	11.98%	17.87%	14.47%	14.99%	14.43%	16.38%	13.31%	15.31%	14.32%	15.85%
Scenario 1	12.85%	17.87%	14.73%	14.99%	14.43%	16.38%	13.31%	15.57%	14.57%	16.11%
Scenario 2	12.97%	17.87%	14.73%	14.99%	14.43%	16.38%	13.31%	15.57%	14.57%	16.11%
Scenario 3	13.15%	17.87%	14.73%	14.99%	14.43%	16.38%	13.31%	15.57%	14.57%	16.11%

Office Lease Costs (\$/Square Foot)

As part of this exercise, Colliers International benchmarked office lease costs for Class A Downtown Office space for the U.S. peer cities in the study. The results of that research is shown below.

Office Lease Costs (\$/Square Foot)

	Downtown Office			
	Class A (10,000 - 20,000 SF) ONLY			
	<i>Gross</i>	<i>Taxes</i>	<i>CAM/Opex</i>	<i>Net</i>
Chicago	\$33.49	\$6.84	\$8.65	\$18.00
Chicago (Scenario 1)	\$34.63	\$7.98	\$8.65	\$18.00
Chicago (Scenario 2)	\$34.79	\$8.14	\$8.65	\$18.00
Chicago (Scenario 3)	\$35.03	\$8.38	\$8.65	\$18.00
NYC	\$77.48	\$20.14	\$16.00	\$41.33
LA	\$41.68	\$4.35	\$11.65	\$25.68
Boston	\$65.00	\$7.00	\$13.00	\$45.00
San Francisco	\$69.21	\$7.25	\$12.75	\$49.21
Atlanta	\$26.95	\$2.60	\$8.70	\$15.65
Dallas	\$29.40	\$3.75	\$6.75	\$18.90
Denver	\$32.50	\$5.00	\$9.00	\$18.50
Indianapolis	\$19.91	\$1.92	\$7.08	\$10.91
Milwaukee	\$27.96	\$4.13	\$7.97	\$15.86
Philadelphia	\$26.84	\$4.33	\$8.25	\$14.26

Source; Colliers International Custom Research



Tax Burden on Individuals

Summary of Scenarios – Residential Property Tax Burden

The tables below show the calculated property tax burden for residents in Chicago and Regional Municipalities. Note that for each resident profile, home ownership was assumed with home value equal to three times gross income (e.g. a couple with a combined \$100,000 income is assumed to own a \$300,000 residence.).

Single \$50,000 per Year	Chicago	Aurora	Evanston	Glen Ellyn	Highland Park	Joliet	Naperville	Orland Park	Rosemont	Schaumburg
Base Case	\$2,319	\$5,193	\$3,385	\$3,885	\$3,662	\$4,459	\$3,248	\$3,808	\$3,288	\$3,980
Scenario 1	\$2,146									
Scenario 2	\$2,190									
Scenario 3	\$2,255									

Couple (Household with 2 people) - \$100,000 per Year	Chicago	Aurora	Evanston	Glen Ellyn	Highland Park	Joliet	Naperville	Orland Park	Rosemont	Schaumburg
Base Case	\$5,118	\$11,095	\$7,468	\$8,299	\$7,823	\$9,526	\$6,939	\$8,404	\$7,256	\$8,783
Scenario 1	\$5,410									
Scenario 2	\$5,520									
Scenario 3	\$5,684									

Family with 4 people - \$200,000 per Year	Chicago	Aurora	Evanston	Glen Ellyn	Highland Park	Joliet	Naperville	Orland Park	Rosemont	Schaumburg
Base Case	\$10,715	\$22,898	\$15,636	\$17,127	\$16,146	\$19,660	\$14,320	\$17,595	\$15,192	\$18,389
Scenario 1	\$11,939									
Scenario 2	\$12,180									
Scenario 3	\$12,542									



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