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Emanuel and Chico gloss over fine print on taxes

By Bob Sexter, Tribune reporter

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With city finances in shambles and fiscal straight talk at a premium, one of the final skirmishes of the race for mayor is centering on charges of distortions and misstatements over a tax plan floated by front-runner Rahm Emanuel.

Ahead of Tuesday's vote, the former White House chief of staff is mounting a TV advertising blitz promoting a plan to slice the city sales tax and claiming it would save working-class families up to \$200 a year.

Rival Gery Chico, who has taken to ridiculing Emanuel's plan as "the Rahm tax," says the math it is based on is bunk and it would lead to higher — not lower — sales tax costs for most families. Not so, says Emanuel.

This much is clear: Both are exaggerating.

What Emanuel's commercial doesn't say is that a family would have to spend a quarter of its income on purchases subject to the sales tax — an unrealistically high figure, tax experts say. The commercial also doesn't say that some of the predicted savings would come from a separate tax on natural gas, as well as a proposed cut in the Cook County sales tax that Chicago has no control over.

If there are savings to be realized from Emanuel's proposed city sales tax cut, they are likely to amount to little more than pocket change for most consumers, based on previous sales tax research from think tanks.

Analysis from the Institute on Taxation and Economic Policy, a nonpartisan research group in Washington, shows Illinois families with a \$47,000 annual income would likely spend only 2.5 percent of their income on taxable goods. That's one-10th of Emanuel's prediction for a family with similar income and would translate into about \$30 a year in sales tax savings.

That's equivalent to six hours of street parking in the Loop under the city's controversial parking meter deal, or less than one-third the cost of a \$100 red light camera ticket.

As for Chico, his assertion that the plan would actually drain pocketbooks is based on the notion that it would extend the sales tax to a broad array of popular consumer services — from haircuts

to gym memberships — not currently subject to the levy.

The problem with that analysis is that Emanuel has said no such thing, acknowledging that the plan was sketched out on the back of an envelope and keeping critical details so vague that it's nearly impossible to tell what he would and wouldn't tax. In essence, Chico has chosen to fill in his own blanks.

Experts say the argument obscures a far more serious debate about the way Illinois — and by extension Chicago — has clung to an antiquated sales tax formula that ignores the trend toward spending more on services and less in brick and mortar stores. Illinois is the rare state that doesn't tax at least some common services like dry cleaning, household repair or hair care.

The 9.75 percent sales tax tacked on to retail purchases in Chicago is actually an amalgam of several levies for the state, city, Cook County and the RTA. The city portion of that figure is 1.25 percent, and Emanuel proposes to cut it to 1 percent while replacing the lost revenue by extending the tax to luxury services only.

Emanuel has offered a limited list of luxury services, including tanning parlors, limo rides, private club memberships and pet grooming.

Illinois lawmakers have rejected proposals to broaden the sales tax to cover services, and Emanuel would need legislative approval to put the core of his proposal into place. That caveat is not mentioned in his TV ads.

Emanuel's ads cut other corners as well in their attempt to portray him as a pocketbook champion who could save \$200 for the little guy.

To reach its calculations, his campaign assumed that a Chicago family with an income of \$46,000 would spend 25 percent of its income in Chicago on goods subject to the sales tax. That in itself is a reach, since groceries and medicine are exempt from the Chicago portion of the sales tax and many city residents do at least some of their shopping outside the city or on the Internet, where purchases are often exempt from sales tax.

Even using Emanuel's assumptions, it's hard to make his math add up.

The campaign says the savings for its model family would add up to about \$135 from a cut in both the city and county sales tax — that's still considerably higher than what simple number-crunching on a calculator would suggest. The campaign says they get to nearly \$200 in savings by adding in a projected savings on the city's natural gas tax — though that would only come if prices soared beyond current levels.

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