

ISACo POLICY BRIEF

The Local Government Distributive Fund (LGDF)

June 18, 2021

OVERVIEW

The Local Government Distributive Fund (LGDF) was established in 1969 as part of the then newly-enacted state income tax. Counties and municipalities are allocated a percentage of the total state income tax revenues through this fund. The local share is distributed on a per capita basis. LGDF revenue is an important funding source for local governments and is a successful partnership between the state and eligible local governments.

Historical Trends for the Local Share

Until January 2011, counties and municipalities received 10% of total state income tax revenues through LGDF. Following a temporary increase in state income tax rates in 2011, the percentage of tax revenue allocated to LGDF for distribution to local counties and municipalities declined to 6%.

Although the state decreased the percentage of LGDF revenue shared with counties and municipalities, local governments continued to receive approximately the same dollar amount they had been receiving as a result of increased tax revenues brought about by the higher income tax rates.

In January 2015, the local share of the state income tax increased to 8% when the higher income tax rates declined according to a predetermined schedule established by law. Revenues distributed to counties and municipalities from LGDF remained about the same as the amount collected before the income tax rates declined.

The state income tax was permanently increased in 2017 and the local government share was reduced to 5.45% for individual income tax collections and 6.16% for corporate income tax collections for State Fiscal Year (SFY) 2018. The LGDF share was increased within the SFY 2021 state budget to 6.06% for individual income tax collections and 6.845% for corporate income tax collections. The SFY 2022 state budget retained this distribution percentage.

QUICK FACTS

- LGDF plays an important role in funding everyday essential local services for Illinois citizens.
- LGDF revenue is the result of a partnership between the state and local governments.
- Recent years have seen reductions to the percentage of income tax revenues allocated to local governments through LGDF.
- The state has kept for itself 100% of additional income tax revenue raised from higher tax rates.

