NAPIER'S NOTES:

A Couple Minutes Is All It Takes.

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EXODUS

Just got home from Illinois, lock the front door, oh boy!

—Lyrics of John Fogerty in Creedence Clearwater Revival's song "Looking Out My Back Door"

Just over one year ago, Illinois raised its individual income tax rate to 5%, part of a $7 billion tax increase on its residents. Since then, you have undoubtedly read about the numerous Illinois employers that have fled or threatened to flee the state. Many of those employers were given financial incentives to keep them here.

Regrettably, families are also acting like employers — voting with their feet and fleeing Illinois. Perhaps it is simply a coincidence, but property values along parts of the west coast of Florida, a popular retirement destination for Illinoisans, began to appreciate the same month the Illinois tax increase became effective.

In an attempt to stem the exodus, Illinois recently increased its state estate tax exemption. The new state estate tax exemption is $3.5 million, up from only $2 million last year. The state estate tax exemption in 2013 will be $4 million. While an increased exemption is welcome, many are surprised to learn that Illinois actually imposes an estate tax of about 9% (the state estate tax rates vary, so the above is an average effective tax rate).

Unlike the income tax, leaving Illinois may not avoid the Illinois state estate tax. If an Illinois family moves out of state and keeps a home here, will it still pay an Illinois estate tax? Yes, those families most certainly will. Why? Because only Illinois residents get the benefit of the Illinois state estate tax exemption.

And, on the income tax side, Illinois is getting more aggressive. For those who claim to be a resident of another state but still earn income in Illinois, the Illinois Department of Revenue recently increased the number of auditors by nearly 40% to search out these folks and to tax them.

Many of our clients live out of state, primarily in Florida. But, as the above indicates, Illinois does not want to let its people go. Nor does it want to let its trusts go.

Irrevocable trusts created by people when they were Illinois residents will be treated as Illinois trusts — and subject to Illinois income tax — for as long as the trusts exist. Illinois will tax (or at least try to!) any assets former residents leave behind in trust.

So, one year after our $7 billion tax increase, Illinois has 81,000 fewer members of its labor force and the worst bond rating of any state in the union. Greece could teach our leaders about fiscal prudence. Perhaps the governor better lock the front door to keep the rest of us here.

"Gov. Quinn, let my Illinoisans go!"