

# Belleville News-Democrat

## Fairness is issue in business tax push

### Companies spar with Blagojevich

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SPRINGFIELD - The situation certainly sounds unfair.

Giant companies paying nothing while working families fork over thousands of dollars in state income taxes. Law firms and accounting firms exempt from income taxes. More state revenues coming from individuals instead of corporations.

To Gov. Rod Blagojevich, it's clear that Illinois businesses are getting off easy.

"For decades, it's been the middle class and the working families of Illinois that have shouldered more and more of the tax burden," he said last month as he proposed a new tax on businesses' gross receipts to raise \$7 billion.

But businesses dispute the governor's claims and say they pay almost half of all taxes in Illinois.

Here's a look at some questions raised by the tax system and Blagojevich's proposal:

**Q: Is the governor right about big companies not paying Illinois income tax?**

A: Yes. Many corporations wind up owing little or nothing. The state Revenue Department can't reveal which ones, but officials say dozens of the nation's biggest companies pay nothing.

**Q: Is this driving up my tax bill?**

A: Not directly. The state income tax rate hasn't gone up in nearly 20 years. Many smaller taxes and fees have been increased, but they apply more to businesses than individuals.

Still, if money is tight, state support for education and other services can suffer. Local governments might make up the difference by raising property taxes.

**Q: Are businesses paying more or less than they used to?**

A: More. But Blagojevich says corporate income tax revenue hasn't climbed as fast as revenue from individuals. In the 1970s, individual taxpayers paid \$4 for every \$1 from business. In this decade, individuals are paying \$7.12 for every \$1 from business.

**Q: How can a major company wind up owing no income taxes?**

A: One way is to lose money. Some businesses -- car companies and airlines, for instance -- might be known around the world and have billions in sales but still not make a profit.

Even if a company is profitable overall, Illinois taxes apply only to the company's Illinois activities. If a company has a lot of expenses here but relatively low sales, it might end up without taxable income.

**Q: So companies making money in Illinois must pay income taxes?**

A: Not necessarily. A company could be making money this year but still be allowed to write off losses from previous years. A company also can choose to plow money into new equipment, a bigger building or some other form of expansion. "As your profit's reduced, so is your income tax. But it may be because you've done some things that are very positive for the economy of the state," said Connie Beard, executive director of the State Chamber of Commerce's tax institute.

**Q: Do big law firms avoid paying taxes?**

A: Yes and no. Partnerships, such as law firms and accounting firms, often don't pay income taxes because they're set up so that profits go to the individual members of the firm. Those members then pay taxes at the lower individual rate, so the state does get a cut of the money.

That's one reason individuals account for a bigger share of state tax revenue -- these "pass through" corporations are growing more common, so more tax money is coming from the partners instead of the business.

**Q: Is there anything illegal about companies using credits, write-offs or partnerships to lower their tax bills?**

A: No. In fact, Blagojevich has led the creation of some tax credits, such as one encouraging movies to film in Illinois. But he says businesses are abusing the process.

David Merriman, an economics professor at Loyola University, agrees that companies manipulate their operations and use every loophole to minimize their tax bill. But he says they would still try to do that under the “gross receipts tax” that Blagojevich wants to create.

“The governor speaks in his rhetoric as if only wealthy people will bear the burden of the tax,” Merriman said. “I don’t think that’s likely. Some of the tax will fall on consumers and on workers.”

**Q: If these companies pay little or no income tax, does that mean they’re not helping pay for government services?**

A: No. Even companies that don’t owe any income tax wind up paying other taxes -- sales, payroll, unemployment insurance and workers comp taxes, to name a few. They also pay lots of local taxes.

A study for the Chamber of Commerce found that all the state and local taxes collected in Illinois for fiscal 2006 added up to \$58.4 billion. Businesses paid just under half of that total.

**Q: How much money does the state lose through various income tax breaks offered to businesses?**

A: The state comptroller put the cost of these tax breaks at \$200 million for fiscal 2005. That was actually 14 percent lower than the year before. The governor’s office says the cost is at least \$400 million.

**Q: How would the governor’s proposal fix the fairness issue he’s worried about?**

A: Blagojevich would get rid of the corporate income tax and replace it with a new tax on business transactions. Essentially, every time a business takes in money, it would pay 1.8 percent to the state -- no loopholes, no maneuvers to avoid paying taxes.

But there are some wrinkles even in that plan.

**Q: Such as?**

A: Businesses with less than \$1 million in annual revenues would be exempt from the gross receipts tax; they’d continue paying income taxes. Some types of business, such as manufacturers and retailers, would pay only 0.5 percent. Revenue on goods sold outside Illinois would be exempt, an attempt to keep the tax from hurting national sales for Illinois businesses.

**Q: If the new tax is approved, would business end up paying a bigger share of government expenses?**

A: Yes, but businesses might turn around and pass that along to others by raising prices or cutting jobs.

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