

The Governor's New Tax Plans In A Nutshell

Most economists agree that the least disruptive tax on business is one with a broad base and a low rate – with the idea being the bigger the pool of businesses being taxed, the lower the tax rate can be to achieve revenue targets. Governor Blagojevich is proposing to overhaul our state's corporate tax system by adopting such a tax – the Gross Receipts Tax (GRT). This tax will treat all businesses in Illinois fairly by applying low rates with a broad base, just as economists recommend.

Governor Blagojevich's **Tax Fairness** plan will ensure that all Illinoisans and businesses are treated fairly under our state's income tax system. All businesses, not just some, will then contribute their fair share towards state services, including education and healthcare, while the burden on individuals will decline. The GRT will achieve these goals.

- **The base is broad and has low rates** . The whole economy shares the responsibility in contributing to the cost of state services through low rates. All businesses are taxed equally within their industry sector, so no business has an unfair economic advantage over another.
- **The GRT is applied fairly to all businesses in the same industry.** There are no deductions, offsets or loopholes that some businesses can access, but others cannot. What you see is what you get.
- **The GRT is predictable.** Traditional Illinois "goods"-producing businesses, including manufacturers, wholesalers, retailers and construction, will pay a .5% rate on their total revenue (\$5,000 in taxes for every \$1 million in annual Illinois sales). All other businesses, primarily service-based businesses, will pay a 1.8% rate on their total revenues.
- **The GRT will generate more than \$6 billion per year in net revenues** . The GRT will take effect January 1, 2008. The first full year of implementation will be tax/calendar year 2008. These new revenues will pay for investment in critical areas including: *Illinois Covered* healthcare plan, P-12 Education and debt service for the capital program.
- **The CIT will be eliminated after a phase-out period** . During this period, businesses will receive a 100% tax credit against CIT taxes paid, so that no company will pay more than once.
- **All small businesses with less than \$1 million in annual Illinois sales** will be exempt from the GRT.
- **Specific Industries will be Exempt from GRT** .
 - Insurance – Insurance products will be exempt.
 - Retail Food and Drugs products – will be exempt
 - Gaming – gaming privilege taxes will remain in effect.
 - Securities/Commodities Trading – Only gains on trades will be counted as receipts.
 - Medicaid Payments – Medicaid payments to doctors and hospitals will be exempt.
 - Not-for-Profits – Churches, charitable organizations, museums, and not-for-profit healthcare providers will not be subject to the GRT.

- **Safeguards are included to reduce the impact on large manufacturers and traditional Illinois businesses, including “Pyramiding”**
 - **Exports will not be taxed** . Illinois goods that are sold regionally and globally will be exempt. Fifty percent of manufacturing in Illinois is made for export, according to Moody’s. Imports will be subject to the GRT.
 - **Affiliate transactions will not be taxed** . Transactions between divisions of a company will not be subject to the GRT. In the same manner, transactions between related companies (such as a subsidiary and its parent company) will not be subject to the GRT.
 - **Sales of goods are taxed at a lower rate, which helps to mitigate “Pyramiding”**. The imposition of a lower .5% rate mitigates the cost of any tax on unfinished or “intermediate” goods used during the creation of a finished product. Goods usually have multiple steps during the production process where a GRT could be applied. The lower rate applied to “goods” producers, such as manufacturers, wholesalers and retailers, will offset the taxes applied during these multiple steps in the production process. Service-based businesses generally have one taxable step in their transaction. They will be subject to a low 1.8% rate.
- **GRT will hold local governments harmless** . Local governments will continue to receive their share of corporate income tax revenue after the imposition of the GRT, and after the GRT is phased out, will continue to receive CIT revenue that they currently receive (which is the highest amount they have ever received from the state). They will also continue to receive revenues generated by the Personal Property Tax Assessment.
- **Other states have adopted GRT-type tax systems**. Ohio and Texas recently adopted GRTs, while Washington State, Hawaii and Delaware have had the GRT for several decades. When Ohio and Texas adopted their GRTs, they were embraced by their local business communities because the tax base is broad and the rates are low.