

A Statement from AHEAD

A Coalition of Construction Industry Associations In Opposition to the Proposed Gross Receipts Tax

Written Testimony Before the Illinois House Committee of the Whole Governor's Proposed Gross Receipts Tax Subject Matter Hearing

Wednesday, May 9, 2007

The AHEAD Coalition is a group of over 30 construction-related statewide and regional trade associations representing construction businesses and employers. Many of our member firms are small businesses and family-owned companies.

AHEAD, its member organizations, and the contractors we represent have serious concerns with the proposed gross receipts tax (GRT). While it may be regularly argued in Springfield that any new fiscal or regulatory burden will endanger the livelihood of economic development in the State, the Governor's proposed tax will force some contractors we represent to close their doors.

The GRT will have serious negative consequences on our member firms, regardless of whether they make a profit or not. In fact, the gross receipts tax is particularly harmful to construction companies. The AHEAD Coalition opposes enactment of the GRT for the following reasons:

High Volume, Low Margin. Many construction firms are high volume, low margin businesses. Studies on GRT taxes in other states show that GRT is particularly burdensome for such businesses.

Small Business. Small businesses will have the most difficult time paying GRT. The U.S. Small Business Administration defines a small business in construction as between \$13-\$31 million depending on the nature of their work. No exceptions are made for such businesses in the Illinois proposal. Illinois businesses under \$2 million are currently exempt from GRT, but will likely be liable for it in four years once the corporate income tax is phased out.

Pyramiding. Because GRT applies to goods and services sold by one company to another, those taxes paid constitute a production cost to the purchasing company. The tax is paid several times as a product moves to the final consumer. Construction firms are hurt most by pyramiding because many different contractors perform each layer of service. Not only will the same project be taxed multiple times, but it will also dramatically increase the final cost for the consumer.

Materials. Construction firms purchase large amounts of supplies, raw materials and equipment for use on each job site (for example, the major cost to a mechanical contractor on many jobs are the physical mechanical systems themselves,

which are purchased from a vendor and then installed). These costly items will show up as gross receipts, even if little or no profit was earned, creating an additional disadvantage to industries like construction which purchase large supplies, raw materials and equipment.

Discourages Competition. GRT is non-neutral across products and industries, impacting industries like construction more than others. The GRT will put many construction firms out of business not only because it taxes receipts and not profits, but also because it encourages vertical integration of firms, cutting the number of production stages (i.e., subcontractors) and absorbing suppliers. The tax discriminates against contracting work with independent suppliers and the advantages of scale and necessary specialization that subcontractors bring.

Encourages Importing of Goods and Services. GRT favors firms which can import from or produce goods in other states. Construction cannot simply move to Wisconsin, Indiana, Iowa, Missouri or Kentucky.

Eliminates Construction Jobs. GRT discourages capital investment by adding to the cost of building, machinery and equipment and reduces competition. The bottom line is that there is simply no link between the goods or services received by the business and the profitability of a company or its officers.

On behalf of contractors and subcontractors across the State, we ask that you oppose the gross receipts tax. Thank you for the opportunity to submit short written comments to the members of the Illinois House of Representatives on behalf of the AHEAD Coalition. We are happy to provide additional detail or testify in person at your request.