

Saturday March 31, 2007

From: Steve Morrill

Subject: **GRT and Payroll Tax Update**

Dear Friends,

On Friday, Mar. 30, the Senate adjourned for the two-week spring recess (the House had adjourned the day before). Both chambers reconvene on Wednesday, April 18. On a procedural note, the Senate extended its Third Reading deadline for all SBs on the Senate calendar to the end of session (the House Third Reading deadline for HBs remains April 27).

Today several significant developments took place related to the Governor's tax and spending initiatives:

1. The Governor agreed to raise the GRT exemption level from businesses with up to \$1.0 million, to now \$2.0 million, in gross receipts. According to the Governor's office, fully 85% of Illinois corporations would be exempt under this higher threshold. But remember, the corporate income tax will remain in place initially, and as it is phased out over four years, the expectation remains that the exemption threshold will be lowered, and ultimately eliminated altogether, to replace the lost revenue (and then some).
2. The Governor also agreed to incorporate into his plan \$1.0 billion in property tax relief.
3. To pay for this property tax relief (and then some), the Governor added \$1.3 billion in annual revenue to be derived from his GRT proposal (his total new-tax revenue goes from \$6.3 billion to \$7.6 billion). He did this by INCREASING the new-tax rates: (a) the GRT rate for services goes from 1.8% to 1.95%; and (b) the GRT rate for goods and construction goes from .5% to .85%. This will, of course, only compound the problems with "pyramiding."
4. As the Governor prepares to embark on a state-wide bus tour to promote his tax/spending increase plans, and in response to criticism that he has not provided the legislature or public with specific legislative language, key components of his plan were filed late yesterday in the Senate:

(a) Amendment #1 to SB 1 contains the education funding plan, the GRT, and the property tax relief plan;

<http://www.ilga.gov/legislation/95/SB/09500SB0001sam001.htm>

(b) Amendment #1 to SB 2 contains bond authorization for the \$1.5 billion school construction plan, \$150 million for school maintenance grants, and \$30 million for early childhood capital expansions;

<http://www.ilga.gov/legislation/fulltext.asp?DocName=09500SB0002sam001&GA=95&SessionId=51&DocTypeId=SB&LegID=26956&DocNum=2&GAID=9&Session=>

(c) Amendment #1 to SB 5 contains the Governor's "universal health insurance" plan; and <http://www.ilga.gov/legislation/95/SB/09500SB0005sam001.htm>

(d) Amendment #1 to SB 1090 contains language eliminating road fund transfers for health care and pensions of certain state employees involved in patrolling/maintaining state roads, with the funds being redirected to support a \$3.0 billion bonded road construction program.

<http://www.ilga.gov/legislation/fulltext.asp?DocName=09500SB1090sam001&GAID=9&Session=9&SessionId=51&DocTypeId=SB&LegID=29130&DocNum=1090>

No doubt there will be a great deal of media coverage in the coming days. One interesting dynamic here is that, in retooling his ambitious proposals, the Governor INCREASED rather than DOWNSIZED his new-tax plans.