

Wednesday, May 9, 2007

From: Steve Morrill  
Subject: GRT Update

Hi All,

This has been an active week in Springfield on the Governor's GRT proposal.

On Thursday May 10, the last day of the session week, a House vote may occur on House Resolution 402 (Madigan-Cross). A "yes" vote on the resolution indicates support for the GRT, while a "no" vote indicates opposition. This promises to be a lopsided vote, with the "yes" votes probably numbering in the single digits (there are 118 Representatives).

On Wednesday May 9, the House has been conducting a Committee of the Whole hearing, lasting from 9:00am to 5:00pm, on the GRT.

Yesterday, Tuesday May 8, the Senate Executive Committee advanced the Governor's GRT language onto the Senate floor by a vote of 7-6-0.

Below is a more detailed update.

### **I. House Committee of the Whole —Wednesday May 9**

Attached, in PDF format, is the list of speakers from today's House Committee of the Whole on the GRT. The schedule for the Committee of the Whole was tightly scripted in terms of the amount of time. From the onset, the Speaker and Chairman Bradley reminded the members and witnesses that the House will "run a tight ship," ending the committee at 5:00 pm. The House Committee of the Whole ended on time with every panel of witnesses given their assigned time allotment.

At the very beginning of the hearing, Madigan stated that the House will vote tomorrow on a resolution that asks members to identify whether they are for or against the GRT. That resolution will not be HR 344 (Cross), which was debated late last week. Speaker Madigan filed HR 402 (Madigan-Cross), which expressly states that those voting in favor of the resolution support the GRT, while those who vote against the resolution do not. The roll call vote on May 10 on HR 402 will be a clear signal regarding the support for the GRT in the House.

The Senate Republicans introduced their own resolution this afternoon opposing the GRT (SR 167 – Watson); presently, there currently are no Senate Democrat sponsors.

During his testimony, the Governor warned of a billion dollars in budget cuts if nothing is done this session. He also reiterated his pledge to veto a tax increase on “people,” meaning an increase in the sales or income tax. While the Governor stated he is open to compromise, he was chastised by some of the House membership because the Governor continues to consider raising the income or sales tax as alternatives. Before leaving the committee, the Governor stated that he is willing to keep the legislature in session all summer in order to pass his initiatives.

The Illinois Association of Realtors (“IAR”) were the first group to testify regarding actual numbers of Illinois jobs would be lost if the GRT were to be enacted. According to a new study released by the IAR that morning, the GRT would take a huge bite out of construction employment in Illinois, as slower growth in the state’s economy due to the new levy would cause a projected permanent loss of 13,968 jobs in the sector. The study finds that housing construction employment alone would fall by more than 1,700 jobs under the weight of the proposed gross receipts tax (GRT).

The Taxpayers’ Federation of Illinois stated that the GRT could violate the Illinois Constitution; in that the GRT is essentially a form of income tax, and therefore potentially violates the state’s Constitution in two ways: (i) the GRT would create a second, distinct income tax, or (ii) would violate the ratio limit of corporate to personal income taxes.

Lt. Governor Pat Quinn and Treasurer Alexi Giannoulias testified against the Governor’s current GRT proposal. Treasurer Giannoulias welcomed the possibility of a compromise, stating: “I could easily spend all of my time bashing the governor’s plan and make headlines as the new guy. The last thing you want to hear is a ‘let’s hug it out’ ideal from a 31 year old. Let’s work together and not squander this opportunity to achieve greatness...all or nothing approaches to solving problems are counterproductive.”

John Filan was the committee’s final speaker. He stated his usual remarks highlighting the GRT’s “broad base” benefit, complaining about the flaws in the current corporate income tax system, and highlighting the success of other states with the GRT.

## **II. Senate Executive Committee — Tuesday May 8**

On Tuesday (5/8), in an apparent effort to preempt Speaker Madigan’s Committee of the Whole, Senate President Emil Jones convened the Senate Executive Committee to pass a modified version of the GRT. Before the Senate Executive Committee were SA#1, the original GRT proposal, and SA#2, the new modifications proposed by the Governor and President Jones. Senate Amendment #2 to SB 1 was filed only one hour before the Senate Executive Committee began its hearing. Senate Amendment #2 increased the GRT rates to 2.0% on services and 1.0% on goods, created a new tax credit for employers to claim against the GRT. The exemption for businesses that have less than \$2 million in gross receipts was left unchanged.

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Opponents spoke first and pointed out the pyramid effect the GRT would have on products such as food and prescription drugs. It was pointed out that, according to HBAI, the cost of the average home would go up 4%—averaging \$8000 per house. During debate, Sen. Jones asked the opponents what type of business tax they would not oppose and what particular individuals might do if he/she were governor. Those questions were vaguely answered by the opponents with talk of not initiating new programs as well as living within a budget.

Sen. Radogno pointed out that the GRT would raise taxes nearly \$150 million annually per Senate district. Sen. Radogno asked what would happen if the bill became law and was challenged in court. She then asked what would happen if the spending side were to go forward while the tax liability side remained static. The representative from the Governor's office answered this by saying that he did not believe that it would be challenged in court and if it were, he said it is not clear if all or only some of the revenue portion will be enjoined. President Jones followed this discussion by saying that if the money is not available to appropriate, then it would not be spent and that this bill and appropriations were two separate things.

During the Senate Executive Committee, President Jones stated again that businesses will pass the GRT onto consumers just as they pass on other business taxes. The Senate Executive Committee is tightly controlled by the Senate President, since the majority of Senate Democrat members on the committee are also part of the Senate Majority leadership. Each amendment was voted on separately. Senate Amendment #1 to SB 1, containing the original GRT language, was recommended for adoption by a vote of 7-6-0 along partisan lines with the exception of Senator Viverito voting "no;" Rich Miller's Capitol Fax pointed out that Sen. Viverito is Speaker Madigan's state senator and that Sen. Viverito wants to keep the Speaker happy so that his daughter can take over his seat when he retires.

Senate Amendment #2 to SB 1, which raised the rates to 2% and 1% respectively, was recommended for adoption by a vote of 8-6-0, with all Senate Democrats voting "yes" and all Senate Republicans voting "no."

Also on Tuesday (5/8), the Senate Public Health Committee met concurrently with the Senate Executive Committee to debate the payroll tax and the universal health care proposals within Senate Amendments #1 and #2 to SB 5. Senate Amendment #2 to SB 5 also was filed only one hour before the Senate Public Health Committee convened. However, Senate Amendment #2 only created an additional health benefit choice, and did not change any of the language regarding the structure of the payroll tax. Senate Amendments #1 and #2 were recommended for adoption by a vote of 7-3-0, with all Senate Democrats voting "yes" and all Senate Republicans voting "no."

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### **III. Conclusion**

While the Senate (under the guidance of President Emil Jones) this week sought to demonstrate viability of the GRT, the House activities were effectively designed to go in the other direction. With three weeks remaining in the non-overtime session, no negotiations have occurred on the budget. To get closer to resolution of fiscal issues, the Governor must back off his GRT proposal, or the General Assembly must begin to embrace the GRT, or all parties must find some alternative pathway. And right now, nobody appears to be backing down.

The Governor, together with his allies (including the public employee labor unions and the hospital community), remain committed to the GRT... despite its evident lack of support in the Illinois General Assembly.

Opponents of the GRT will need to keep up the drumbeat of opposition, and monitor events closely to guard against new variations of the GRT that may be objectionable.

Best regards,  
Steve

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