

THE GROSS RECEIPTS TAX (GRT)

A QUICK OVERVIEW

Gross Receipts Tax

The Gross Receipts Tax (“GRT”) will apply to all business entities in Illinois, including pass-through entities such as partnerships, Sub-S corporations, LLC’s & LLP’s, effective January 1, 2008. The plan is to eliminate the corporate income tax in approximately four years. Until that time, the corporate income tax will run concurrently with the GRT. Taxpayers will be liable for both and will take a credit for their corporate income tax paid on their GRT return.

[The long range plan is to eliminate other excise taxes, in addition to the corporate income tax, suggesting that the rate will be adjusted upward as other taxes are eliminated.]

The GRT rates are:

- 1.95% of all gross receipts from services;
- .85% of gross receipts from the transfer of personal property.

If you sell services and tangible personal property, you will be responsible for reporting the 1.95% on your gross receipts from services and .85% on your gross receipts from product sales.

Businesses with gross receipts of less than \$2 million annually will not be subject to the GRT, but will remain subject to the corporate income tax and personal property replacement tax. When the corporate income tax is phased out (in approximately four years) a determination will be made as to how to tax small businesses (*i.e.*, the exemption for businesses with gross receipts of less than \$2 million will likely be eliminated). The GRT will raise \$7.6 billion a year.

Practical Impact upon Industry

If the GRT is implemented as proposed (1.95% on services and .85% on goods sold), it will have a dramatic impact on construction firms. Please remember that this tax will be charged regardless of whether you make a profit or not. It presently appears that most construction firms will pay GRT at the 1.95% service rate, which not only includes labor, but likely also includes subcontractor charges to the contractor.

The GRT is particularly harmful to high volume, low margin businesses, to small businesses, to businesses who work on multiple layers of the same project (pyramiding), and to companies that have high material costs. Unfortunately, many construction firms meet most, if not all, of the above criteria. The real practical impact of the GRT will be to force companies, particularly small firms, out of business, reduce competition, eliminate jobs, encourage development in neighboring states and depress the state’s overall economy.

Besides the GRT, businesses pay numerous other taxes, including the Governor’s proposed 3% payroll tax, the State’s 4.8% corporate income tax (details on how a phase-out will work are unclear), 2.5% personal property replacement tax, and numerous others.

To review how the GRT is particularly harmful to construction, read the document “Why GRT Harms Construction” on <http://www.Building-Illinois.com>.