

WHY THE PROPOSED GROSS RECEIPTS TAX (GRT) HARMS CONSTRUCTION FIRMS

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 high volume, low margin 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 small business in the current Illinois proposal. Illinois businesses under \$2 million are currently exempt from GRT, but will 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.