+ ITEF COMMENT +

Volume 13, Issue 3 Report on Current Public Policy March 8, 2007

BLAGO'S PROPOSED TROJAN HORSE TAX A BLUEPRINT FOR DISASTER

By Jim Tobin

I have been fighting taxes since 1976—thirty one years—and each time, when I think I have seen it all, the tax-raising politicians in Springfield come up with a new scheme to raise taxes on your personal income or on the business you have worked so hard to develop.

On Wednesday March 7, 2007, Gov. Blagojevich delivered his annual budget address, and announced a new tax-hike plan to finance his most ambitious project yet…bringing socialized medicine to Illinois.

I call his new plan a Trojan Horse, because he will sucker Illinois taxpayers into thinking that they will get a broad-based, low-tax-rate plan, when in fact, his health plan will likely bankrupt the state and your business, and force businesses that can survive to move out of state.

Details are still coming in, but the Governor's plan would put in effect a broad-based tax on gross receipts of 0.5% on products and 1.8% on services and a new 3% payroll tax paid by employers, while lowering the state corporate income tax from 7.3% to 2.5%. A gross receipts tax is much worse than a corporate income tax on profits, because every transaction through the supply chain would be hit by the tax, resulting in hidden taxes and higher prices for consumers. Contrary to the Governor's selective statistics, Illinois business does pay its fair share of state and local taxes. More than the national average as a matter of fact.

Companies with high sales volume but low profit margins like retailers and wholesalers will be squeezed out of business or will be forced to move to other states. Ordering many products that will not have a gross receipts tax built into the price is only a few computer mouse clicks away for many. Products manufactured in Illinois will be at a disadvantage when a gross receipts tax is built into material costs.

A gross receipts tax and new 3% payroll tax will push up costs for corporations, service providers, and ultimately the consumer. It is a recipe for disaster because when business costs go up, prices go up, wages and benefits go down, unemployment goes up, small businesses move or go under, and our average standard of living takes a hit. This plan will raise taxes on everybody in Illinois by at least $6 billion per year to begin with, the biggest tax hike in Illinois history!

You can be sure that when medical costs escalate, as they always do, the "low" gross receipts tax rate will be raised and expanded, just as the "low" state sales tax created in the 1930s, at ½ percent, rose to its current rate of 6.25 percent. The state of Illinois is usually months behind on health care payments and that has already contributed greatly to rising medical costs in the state as will a new 1.8% tax on healthcare services.

Declaring war on Illinois big business is empty rhetoric when nothing is being done to contain run-away pension obligations partly caused by government employee pensions far surpassing $100,000 and even $200,000 per year. Illinois does not need the additional albatross of socialized medicine, and the state's economic future will hinge on lowering state taxes to make Illinois, now a high-tax state, more competitive with states thriving because of lower taxes.

###

Jim Tobin is President of Illinois Taxpayer Education Foundation.

Illinois Taxpayer Education Foundation 407 S. Dearborn, Suite 1170 Chicago, IL 60605
TEL: 312.427.0087 FAX: 312.427.5139 E-Mail: ITEF@ntui.org Web: www.ntui.org