



Wrong Time to Implement New Tax Breaks

November 30, 2011

Representative John Bradley (D-117) introduced an Amendment to Senate Bill 397 that would provide about \$250 million in tax breaks to various businesses in FY2012. The full text of the legislation is available at <http://www.ilga.gov/legislation/97/SB/09700SB0397ham003.htm>.

The primary provisions of this Amendment would:

- Provide roughly \$85 million in total tax breaks to the CME Group (which owns the Commodities Mercantile Exchange and Chicago Board of Trade) and another \$15 million per year over ten years to Sears Holding Company;
- Partially reinstate the Net Operating Loss carry forward for corporations which had been deferred until 2014, to allow businesses to take up to \$100,000 Net Operating Loss carry forward in FY2012 and FY2013;
- Raise the estate tax deduction from \$2 million to \$3.5 million over two years;
- Increase the Earned Income Tax Credit (EITC) for low and middle-income working families from its current value of 5% of the Federal EITC to 7.5% of the Federal credit, at a reported cost of \$55 million; and
- Adjust the personal income tax exemption for inflation in FY2013, so, for example if inflation is 2.5%, the personal exemption would increase from \$2,000 to about \$2,050.

It is simply not the right time to implement any of these tax breaks, given: (i) the size of the state's deficit in its General Fund is currently around \$8.5 billion; (ii) the profitability of the businesses receiving these tax breaks; and (iii) the small number of very wealthy individuals who would benefit from the aforesaid estate tax changes. This is especially the case considering the significant cuts to services already implemented in the FY2012 General Fund budget. For instance, in the last year alone General Fund support of human services, which care for the most vulnerable among us, was cut by \$454 million from FY2011 levels. Illinois also cut its investment in Pre-K -12 education for FY2012 by over \$286 million, despite consistently ranking among the very bottom in the nation in the portion of education funding covered by state resources. Moreover, by FY2012 it will owe over \$8.3 billion in unpaid bills and tax refunds remaining from FY2011. The state's failure to pay these bills is tantamount to forcing vendors and providers to lend billions to the state. From the taxpayer's standpoint, this forced borrowing is doubly troubling because under current law the state must pay a very high interest rate on the overdue bills it owes providers (1% a month) (See: CTBA report on FY2012 Enacted Budget at: www.ctbaonline.org).

Cutting its investment in public services is nothing new for the state of Illinois. In fact after adjusting for inflation (using the Employment Cost Index) and population growth, the FY2012 General Fund budget was approximately 22% less than the General Fund budget in FY2000. This is a real problem because over \$9 out of \$10 dollars the state spends through its General Fund goes to the four core services of education, healthcare, human services and public safety.

This is not time for the state to voluntarily give away revenue through tax breaks at the expense of funding essential public services. It is particularly questionable that the state should single out CME for favorable tax treatment. According to CME's own financial statements, it had \$951million in profits and an average profit margin of 31.7% in

2010. The CME claims that the 2011 Illinois corporate income tax increase will increase its Illinois tax payments by \$50 million. If all of this increase were taken out of profits, it would have reduced its profit rate to 30.1%, the envy of most corporations in the world.

Moreover the \$50 million appears to be an inflated number. Applying the 2.2% corporate income tax rate increase Illinois passed in January of 2011 to CME's \$951 million after-tax income, and deducting the state corporate income taxes from federal corporate income taxes (at the applicable rate of 35% for large companies), would generate a net increased Illinois tax liability of roughly \$19.2 million, not the \$50 million CME claims. Based on this estimate, the \$85 million CME tax break is more than four times greater than its increased corporate income tax bill.

The primary reason the CME pays such a large share of Illinois corporate income tax is because it is so profitable, not that it is paying an overly burdensome rate. It also doesn't help that two-thirds of Illinois corporations pay no income tax (See IDOR latest published 2007 corporate income tax data).

Similarly, there is no evidence that the estate tax has ever impacted a significant number of small businesses. According to the most recent (2009) CBPP analysis, <http://www.cbpp.org/files/estatetaxmyths.pdf>, only 80 small businesses and farms in the entire country owed any estate tax in 2009 (when THE exemption was \$3.5 million), which is 0.003% of all estates, or 3 out of 10,000.

More importantly, these tax breaks are not paid for, despite press reports to the contrary. Sun setting of the Federal Bonus Depreciation legislation does not provide additional revenue to Illinois. It merely restores revenue that would not have been lost if that state had decoupled from Federal law changes in FY2011 (See CTBA's analysis of the Illinois FY2012 Enacted Budget at: www.ctbaonline.org).

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