Responsible Budget Coalition

We support closing corporate tax loopholes and decoupling from unwise federal tax provisions. Yet, Illinois continues to run a structural deficit of almost $4 billion each year. Instead of postponing our response to these annual deficits, we should use our resources today to prevent them from becoming worse in the future. To best position our state for success in FY 2022 and beyond, the General Assembly should adopt some of the progressive revenue measures proposed below.

Revenue Raising Options

Tax Expenditures

Governor Pritzker's proposed FY22 budget calls for raising $932 million by curtailing or eliminating a set of corporate loopholes. These include:

- Decoupling from 2017 federal tax change that created more favorable tax treatment for foreign-sourced dividends by treating them for state tax purposes in the same manner as domestic dividends: Impact $107 million.
- For state tax purposes, ignoring a 2017 federal tax law change allowing a business to take a 100% depreciation deduction in the year it purchases a qualifying asset: Impact $214 million.
- Capping the net operating loss, a corporation can take on state taxes to $100,000 per year for the next three years: Impact $314 million.
- Eliminating a new add-on state income tax credit for construction job payroll expenses, eliminating the corporate franchise tax repeal, and removing production-related tangible personal property from a sales tax exemption: Impact $102 million.
- Accelerating the current rollback of sales tax exemptions on biodiesel: Impact $107 million.
- Capping the amount of money retailers can retain for remitting sales taxes to the state to $1,000 a month: Impact $73 million.
- Limiting a state income tax credit to individuals and businesses that contribute to scholarship funds for private schools to 40% (now 75%): Impact $14 million.
- According to the state comptroller, these are some of the remaining larger tax expenditures: Farm Chemicals Exemptions $222 million Trade-In Property Exemption $215 million Machinery and Equipment Exemption $141 million Farm Machinery and Equipment Exemption $104 million

Corporate Income Tax Increase rate from 7% to 7.92%.
Estimated New Revenue: $300 million (August 2020 estimate COGFA)

Service Tax

Illinois taxes 17 services (as determined by a 2017 survey from the Federation of Tax Administrators) which is significantly lower than most states. Iowa taxes over 80 additional services, while Wisconsin taxes an additional 14 services.
Estimated New Revenue: $200 million to $1.2 billion (2017 estimate COGFA)

Other legislation filed to enhance revenue:

HB 283: Creates the Financial Transaction Tax Act.
Beginning January 1, 2022, imposes a tax ($1 per transaction) on the privilege of engaging in a financial transaction on any of the following exchanges or boards of trade: the Chicago Stock Exchange, the Chicago Mercantile Exchange, the Chicago Board of Trade, or the Chicago Board Options Exchange.
Estimated New Revenue: $6 billion *Contact:* Abbie Illenberger, The Grassroots Collaborative,
abbie@thegrassrootscollaborative.org

SB2127 / HB3424 Rolls Back a Tax Break for Chicago Monetary Exchange and Board of Trade
Illinois can repeal a tax break extended to the Chicago Monetary Exchange (CME) and Chicago Board of Exchange (CBOE) in 2011 that changed the share of electronic trading income apportioned to the state from 100% to 27.54%, which results in a loss of $85 million annually. IL should restore the rate to 100%. CME achieved record-high volumes and saw strong, double-digit growth in 2020 despite a global pandemic.
Estimated New Revenue: $85+ million *Contact:* Naomi Runder, The People's Lobby, naomi@thepeopleslobbyusa.org

HB 3476: Closes the Carried Interest Loophole.
Address lost state income due to a federal provision allowing investment managers to declare a share of profits earned as a management fee for a fund as carried interest versus wage compensation.
Estimated New Revenue: $1 billion *Contact:* Abbie Illenberger, The Grassroots Collaborative
abbie@thegrassrootscollaborative.org

SB2457 / HB3478 Reduces Offshore & Domestic Tax Shelters
The 2017 federal tax overhaul slashed the corporate income tax rate but also enacted new anti-abuse provisions targeted at corporate tax planning that shifts reported profits to foreign tax havens or other foreign low-tax jurisdictions. One such provision is known as "GILTI," which stands for Global Intangible Low-Taxed Income. GILTI uses a formula to identify suspiciously high foreign returns. 12 states have already conformed to GILTI.
Estimated New Revenue: $250+ million *Contact:* Anna Gaebler, ONE Northside, agaebler@onenorthside.org

SB2483/HB3426 Sales Tax Loophole Repeal
These bills would cap the amount of money retailers can retain for remitting sales taxes to the state to $1,000 a year.
Contact: Anna Gaebler, ONE Northside, agaebler@onenorthside.org

SB2449/HB3425 Decouples State and Federal Opportunity Zones Tax Breaks
Illinois can decouple its individual and corporate income taxes from the opportunity zone capital gains breaks to avoid subsidizing investments in opportunity zone projects located outside the state.
Contact: Anna Gaebler, ONE Northside, agaebler@onenorthside.org

HB 3427: Amends the Illinois Estate and Generation-Skipping Transfer Tax Act.
Provides that the exclusion amount is $2,000,000 for persons dying on or after January 1, 2022 (currently, $4,000,000).
Contact: Naomi Runder, The People's Lobby, naomi@thepeopleslobbyusa.org

HB 3475: Creates the Extremely High Wealth Mark-to-Market Tax Act.
Contains provisions concerning gains/losses of assets for individual taxpayers with net assets worth $50 million or more.
Contact: Abbie Illenberger, The Grassroots Collaborative, abbie@thegrassrootscollaborative.org

SB2126 / HB3477 Shifts from Joyce to Finnigan model of combined reporting to combat domestic income shifting
Illinois currently uses the Joyce method of combined reporting, where nexus is determined separately for each member of a corporate group for certain purposes. This means a corporate group that is operating as one business could choose to organize its affairs to artificially depress the amount of income apportioned to Illinois. The Finnigan method treats the corporate unitary group as a single taxpayer for all purposes, which closes this loophole. 16 states already have the Finnigan method, which is more than half of the states that have combined reporting.
Contact: Anna Gaebler, ONE Northside, agaebler@onenorthside.org

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