The Gross Receipts Tax in Illinois

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Issues

- Structure of gross receipts tax
- Size of increase
- Use of funds

Gross Receipts Tax Structure

- What is purpose of tax?
  - A tax on business not people?
  - A disguised inefficient sales tax?
    - Why exempt food if it is a tax on business?
    - Why exempt exports if it is tax on business?
- Pyramiding issues
  - Randomness of impacts dependent on pyramiding
    - Vertical integration
    - Outsourcing
    - In-state vs. out-of-state
- Special provisions weaken the approach
  - 2-rate structure
  - $2 million threshold
- Correcting the defects of a gross receipts tax moves it toward either a sales tax or a value-added tax
- No federal deductibility

Size of Increase

- Huge increase in size of government
  - GRT a 25 % increase in GFR
  - Payroll tax in addition
  - Size of government and competitiveness
  - Distortions increase exponentially with size of tax
- Bigger than is necessary to address underlying fiscal problems

Use of funds

- Illinois has a need for additional revenue to address fiscal imbalance
- Are the new funds being used for this?
- Solve existing problems before program expansion
- Can such a large increase be digested in the short run?
- Increase funding for new programs gradually with excess used to erase existing problems such as pensions and unpaid bills

The Case for the Gross Receipts Tax: A Bad Idea Whose Time Has Come?

- A second-best argument
- A very low rate, broad-based GRT could address the perceived problems with the corporate income tax
- Two sayings:
  - "The perfect is the enemy of the good."
  - In Illinois: The mediocre is the enemy of the bad."
- There is a better way:
  - Income taxation rate increases
  - Sales tax base broadening