



Legislative Update #1 By Gary Dowty

Proposed Gross Receipts Tax - Springfield is heating up and anybody who has read a newspaper or listened to a news report knows that Gov. Blagojevich is looking for money to fund education and health care improvements. And he thinks he has found it – in your bank account. Much has been said about the Gross Receipts Tax (GRT) and it is still a bit confusing. To put it in some perspective, consider the following example. (Please remember that I am not an accountant or lawyer – just using common sense in the following examples. I do have a degree in Mathematics and can say – as an expert – the multiplication is correct!)

Assume a contractor (or any other “goods” producing business) books \$10,000,000 a year in gross income. And assume the net profit for this contractor after all expenses is 5% - quit laughing, someone makes 5%! Currently you would pay 7.5% of your net income or 7.5% of \$500,000 = \$37,500. Under Gov. Blagojevich’s proposal the contractor would owe .5% of \$10,000,000 = \$50,000 or a 33% increase. And what happens when you have a bad year and your “profit” is zero? You still owe the \$50,000 in taxes.

And you know the state is licking their chops when they think of applying the GRT to the construction industry since so many levels are booking the same income. Here is a simple example. A \$500,000 piece of equipment sold by a manufacturer to a HVAC contractor who has the \$500,000 in his bid to the general contractor who has the same \$500,000 in his bid to the owner. In the past, only the net profit of the manufacturer, subcontractor and general would be taxed. Now the equipment will be taxed at full value three times! At 5% profit on the equipment, the manufacturer, sub and general would pay a total of \$750 in taxes. With the GRT in place, the taxes paid by all three would jump to \$7,500!

The Governor is also proposing a new payroll tax on top of the GRT. This tax would apply to all businesses that pay less than 4% of their payroll for health care. Generally that would not be an issue for union contractors since you pay about 22% of a journeyman carpenters payroll to the Health & Welfare Fund. But this would be a major burden to smaller companies not providing healthcare or asking employees to pay a share of the coverage provided.

For LCCA members in a service business, the news is worse. You will be taxed at 1.8% of gross receipts.

According to one report I read, the proposed tax increase would be the largest in US history. As a percentage of State Gross Domestic Product (GDP), the proposed GRT and payroll tax will increase 1.227%. The next largest increase was Indiana’s 2003 .446% increase. And if you think this is just a political ploy, CBS 2’s Political Editor, Mike Flannery reports that the Gov. Blagojevich says he is “on the side of the Lord.” He has called his campaign a “crusade,” declaring that he is on the side of God offering Illinoisans more access to medical insurance and better schools. If you were the average voter, who would you believe - a Governor promising health care and better schools at no cost to the taxpayer, or “big business” who, according to a Blagojevich press release, use loopholes in the Corporate Income Tax law “to legally avoid paying a penny in state taxes.” This will be an uphill fight.

What can you do? Let your legislator know you cannot stand for this kind of tax increase. To find out who represents you, go to ICIC’s website www.illinoisconstruction.org Click on “Legislative Center” and look under “Find Your Legislator.” More information on the proposed tax is available from the Illinois Chamber site www.largesttaxincreaseever.com. There will also be a special program hosted by the GLMV Chamber of Commerce at the American Hotel Register Offices in Vernon Hills on April 2 at 7:30 a.m. that will feature a panel of experts in every facet of this bill. If you are interested in attending, call the LCCA Office. For those who are really depressed, I also have the name of a good realtor in Wisconsin. If Not-For-Profits were not excluded from coverage, we might be looking also!