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Statement of Carol S Portman, President
To the House Revenue and Finance Committee
And the House State Government Administration Committee
Regarding Tax and Incentive Policy
January 17, 2014

Chairmen Bradley and Franks, members of the Committees, thank you for allowing me to appear before you this morning. My name is Carol Portman and I am the President of the Taxpayers' Federation of Illinois.

The subject matter of today's hearing, "tax incentives," is a broad one. Generally speaking, it is the point where tax policy and economic development intersect, or more often, collide.

There are a handful of commonly-agreed principles of sound tax policy, sometimes articulated as:

1. Predictability,
2. Simplicity,
3. Fairness
4. Adequacy, and
5. Neutrality

Proposed changes to the tax code should be viewed through the prism of these principles. They also come into play when considering how to improve Illinois' tax structure, and I will refer back to them as I cover a few of the specific topics we were asked to address today.

Before I move on to those specifics, however, I want talk briefly about the first principle on the list, predictability. Predictability is critical to the business community and to the government, in order to properly plan and budget for the future. "The most damaging thing you can do to any businessman in America is to keep him in doubt, and to keep him guessing, on what our tax policy is." That was true when President Lyndon Johnson said it in 1964, and it remains true today.

Economic development programs, and tax incentives in particular, are sometimes used to counteract failings elsewhere in a state's business climate. Tax policy purists will tell you that doing so violates another one of the principles of good tax policy—neutrality—and they're right, theoretically. Ideally, taxes should not reward certain behavior or drive decisions.

In reality, however, our state and federal tax codes have long varied from this ideal: governments support charitable organizations by exempting them from tax; home ownership is encouraged through the federal interest deduction; and just last spring the General Assembly passed a bill increasing the tax credit for hiring ex-offenders. Using the tax code as one of many tools in the economic development arsenal to encourage businesses to grow and build and hire here may violate neutrality, but it can be a very effective tool, particularly for industries that face other non-tax hurdles here.

There are many studies and surveys that rate states' overall business climates, business tax climates, and business tax burdens. We've done a state and local tax burden study ourselves, and it shows that our business income and property taxes are relatively high and our other taxes are generally closer to average.

One of the questions for today is what characteristics of Illinois' tax code enhance our business climate, and what aspects are less favorable. Here are a few thoughts along those lines:

- Illinois, like nearly every other state, closely follows the federal income tax code. This keeps things simple (one of the principles of good tax policy) for taxpayers and tax administrators alike.
- Similarly, Illinois follows the federal treatment of partnerships and other "flow-through" entities, taxing the owners and not the entities. Generally speaking, every other state with an income tax does this as well.
- Illinois, however, also subjects pass-through entities to a separate tax on their income—the personal property replacement tax. Few other states do this.
- Illinois, Alabama, and Mississippi will soon be the only three states that still impose an archaic franchise tax on corporations' paid-in capital.
- We are not aware of any other state that has an automatic sunset provision.
- The perennial and practically random declaration that long-standing (and usually well-reasoned) tax provisions have been deemed "loopholes" is seen by the business community nationwide as nothing more than a desperate attempt to raise revenue.
- Actions that attack the business sector, like the corporate disclosure bill, send a distinct message that the business community is not trusted and is unwelcome. This adds to the perception that Illinois is an unfriendly place to do business.
- When a business has taken the steps necessary to qualify for an incentive, the State should make good on the promised benefits, by making credits transferrable, refundable, or simply available to offset any tax liability.

"Predictability" does not mean that no tax law should ever be reviewed or evaluated, and we are excited about the prospect of engaging in a thorough process driven by the desire to do it right, not merely to fill a budget hole on the backs of a particular industry or business segment.

As always, the Taxpayers' Federation of Illinois looks forward to continuing this conversation.