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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 Tax Incentive Policy
February 27, 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. You have asked today's witnesses to provide information about our organizations, so I will begin there.

The Taxpayers' Federation of Illinois was formed in late 1940 to act as a government watchdog and to promote "efficiency and economy" in state and local government. Our focus on research and sound tax policy was already well-established by the time one of my predecessors, Maurice Scott, was elected a delegate to the Constitutional Convention, and we have stayed true to Mr. Scott's model in the decades since. Our members range from a few individuals to large companies, cross all industries, and include accounting and law firms with tax practitioners. Many, but not all, are based in Illinois. Our revenue comes primarily from membership fees, and no single member accounts for more than 3% of our total revenues.

In my written submission to your January 17, 2014, hearing, I referred to the principles of good tax policy, and the need to evaluate our tax code as a whole, and its specific provisions, with those principles in mind. I won't repeat that portion of my testimony today, but I do want to reiterate TFI's support of this joint committee's work, particularly your desire to conduct a data-driven analysis.

Connie Beard of the Illinois State Chamber will be giving you a summary of a data-driven study we released just last week. The process used for that study can easily be replicated and used to evaluate provisions in the tax code, and we encourage you to consider doing so. Or let us know what provisions you would like for us to study, and we can and will.

We've been asked to talk about the strengths and weaknesses of Illinois' tax code, and for suggestions for improvements. As you might imagine, a group founded on the principle of promoting sound tax policy has quite a lot to say about that.

The following items are by no means a comprehensive list, but they reflect a number of aspects of Illinois' tax laws that are good tax policy, good for taxpayers, and good for the state:

- 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' use of an apportionment method based exclusively on a taxpayer's sales is a strong taxpayer-friendly provision. A company with 50% of its sales in Illinois will pay the same amount of tax no matter where it is headquartered.

There are other aspects of our tax code that are less favorable:

- Illinois does subject 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.
- 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.

My final thoughts are not based on specific provisions of the tax code. Our members are concerned about the rhetoric they frequently hear coming from our state's political leaders. Sound bites that may score a few political points but discourage businesses from expanding or locating here are, in the long-run, bad for everyone. For example:

- 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 an attempt to raise revenue on the backs of a particular industry or business segment. Those taxpayers not targeted in one round assume they will be next.
- Corporate disclosure proposals send a distinct message that the business community is not trusted. As the TFI/Chamber study makes clear, it is possible to evaluate tax provisions without resorting to such a desperate measure.

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