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Speaker Madigan: "Hannig in the Chair."

Speaker Hannig: "The Chair recognizes the Majority Leader Representative Currie."

Currie: "Thank you, Speaker. I move that the House of Representatives now resolve itself into the Committee of the Whole for the purpose of a subject matter hearing on the Governor's proposal for a Gross Receipts Tax and that the Committee of the Whole operate in accordance with guidelines established by the Speaker."

Speaker Hannig: "Is there any discussion? Then all in favor of the Motion say 'aye'; opposed 'nay'. The 'ayes' have it. The Motion is adopted. And the House hereby resolves into a Committee of the Whole and we will proceed under the agenda referenced by the Lady's Motion. Is there leave for the Attendance Roll Call to ac... to be accepted for purposes of establishing a quorum in the committee? There being no objections, leave is granted and a quorum is established. Representative Bradley is appointed as the chair of the committee and he is recognized for the purposes of conducting the hearing. Representative..."

Chairman Bradley, J.: "Thank you, Mr. Speaker, Majority Leader Currie. My fellow colleagues in the House of Representatives, the state is in fiscal crisis. For the last four months, the House Revenue Committee, in a bipartisan, policy-driven manner, has conducted a series of subject matter hearings on the issue of the taxing structure of the State of Illinois, the state indebtedness, the

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sources of revenue and general taxing principles. Today we continue those hearings with this extraordinary and historic Committee of the Whole to study and consider Senate Bill 1, the Governor's Gross Receipts Tax. Let me reiterate, this hearing... these hearings are policy-driven. This is not the time for political speeches or rhetoric. As the old saying goes, 'just the facts' that is what Representative Biggins and myself, who have conducted these hearings, are interested in. Shining light on the issues, giving the people of the State of Illinois the information they need to make a reasoned decision through their elected officials, us, and so we conduct this hearing today with those ideas and notions in mind. As for the structure, witnesses will be invited in panels. They will be limited in time. Each caucus will be given equal time to ask questions. Floor manager Representative Biggins will oversee the questions on the Republican side and floor manager Representative Mautino, my vice chairman, will organize the questions on the Democratic side. We intend to conclude at 5:00. Let me say that again, we intend to conclude at 5:00. This will take everyone's cooperation. In a time when government inefficiency is well documented, let's surprise everyone and conduct this hearing in an expeditious and timely manner. We do have witnesses that are on the agenda. Anyone who is not on the agenda is welcome to fill out witness slips which are at the front of the chamber or provide written testimony and that will be conducted and considered by the Body. At

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this time, it is my honor and privilege to recognize the Speaker of the House of Representatives, the Honorable Michael J. Madigan for comments."

Speaker Madigan: "Mr. Chairman, Ladies and Gentlemen of the House, thank you very, very much. Thank you for being here this morning. Our purpose today is to give a full and fair hearing to the Governor's proposal for the imposition of the Gross Receipts Tax upon the State of Illinois. First, let me applaud the Governor for taking the initiative and showing the courage to recommend significant action so as to put the fiscal condition of the State of Illinois on a firm footing and to position the state in the future to be responsive to the needs of the people of the State of Illinois. Not everyone has shown that kind of courage, that kind of initiative, for that he should be commended. We're doing a Committee of the Whole today because given an issue of this significance we simply don't wanna relegate this to one committee of the House and one small group of Members in the House who happen to serve on that particular committee. And so, our purpose is to make this testimony, this discussion, this debate, available to all of us in this forum for a very long period of time so that all pertinent questions can be asked and hopefully answered. In addition, let me announce that today I will file a Resolution and I've asked Minority Leader Tom Cross if he would join me in cosponsoring this Resolution. The Resolution would simply put the question, after today's hearing and after today's

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opportunity to educate oneself on this issue, the Resolution would simply ask, 'are you for or against the imposition of a Gross Receipts Tax in the State of Illinois?' The Resolution has been drafted in a very neutral fashion. This was done so as not to bring any bias to the language of the Resolution and that Resolution will be called before the House of Representatives tomorrow. So, again, today I will introduce the Resolution that will express the will of this Body, drafted in a very neutral fashion. It will be called tomorrow. We'll all have an opportunity to express our opinions on the Governor's proposal for the imposition of a Gross Receipts Tax upon the State of Illinois. Mr. Chairman, thank you for recognizing me. Good luck to you. I hope you can stand there for the remainder of the day."

Chairman Bradley, J.: "Thank you, Speaker Madigan. At this time, I would like to recognize my friend and colleague, Representative Bob Biggins."

Biggins: "Well... Thank you, thank you, Mr. Chairman and Mr. Speaker, thank you for your comments and the House Republicans are here in the spirit of the intent of this meeting here today and to allow and hear from people throughout the state and groups representing them, what they think of the Gross Receipts Tax. As you may know that the House Republicans have had numerous hearings throughout the state and hearing from constituents, I think, over sixty-three (63) different events and allowing public input on the Gross Receipts Tax and as a Legislator to... while building

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consensus is what we do when we do these things and the opposition to it has really been pretty much unanimous. There has not been one group that came forward and asked us to proceed and enact this tax, but we are open-minded and we also have drafted House Resolution 344 in opposition to the Gross Receipts Tax and several, I believe, it's nine Democrats have joined us in that creating a majority in opposition to the Gross Receipts Tax. And we're here today because you called the meeting and we're here to participate and listen to what the... those participating will have to say and we do remain united and open-minded and... willing to listen to what they have to say. And thank you for bringing this issue to the Committee of the Whole and we're ready to go. Let's go."

Chairman Bradley, J.: "Thank you, Representative Biggins. At this time, I will call the first panel, panel #1, the Honorable Governor of the State of Illinois, Governor Rod Blagojevich. We're gonna swear in witnesses you... If I could have the witnesses face the outer doors and raise their right hand, I will administer the oath. In the testimony you're about to give, do you swear to tell the truth, the whole truth and nothing but the truth, so help you God?"

Panel - et al: "I do."

Chairman Bradley, J.: "Thank you very much, gentlemen. You may have a seat. On the first panel I have, of course, the Honorable Governor Rod Blagojevich and we very much

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appreciate him being here, Bob Greenlee, Ginger Ostro, Joseph Persky, Sheila Nix, Bill Quinlan, Doug Kane, Ken Thorpe, and John Filan. So, Governor, I will turn it over to you and I would ask that before the other members offer remarks, if they could identify themselves for the purpose of the record. Thank you very much for being here."

Governor Blagojevich: "Thank you, Representative Bradley and Ladies and Gentlemen of the House. Thank you so much for giving us a chance to address you and talk to you about the purpose of the Gross Receipts Tax. Let me say that I think that now that all of us are back in business this is the season and the year where we can actually do big things for the people of Illinois and the question is, if you're gonna do big things to the people of Illinois, what are the means that you're gonna use to do that. The GRT, the Gross Receipts Tax is a means to an end. It's a means to provide health care to all the citizens of our state. I believe health care is a fundamental human right. I believe health care is something that was promised to us by the founding fathers in Philadelphia in July of 1776 when they said that we believe in an inalienable right to life and liberty and the pursuit of happiness. I believe the pursuit of happiness clause is inherently about giving people an equal opportunity to be able to stay healthy and be healthy. I believe health care is a moral imperative. I believe that when every day goes by and we don't address the health care crisis in Illinois we're just compounding a problem that

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will not be solved at the national level. Harry Truman, in 1948, was the first American President to say that all Americans should be covered with health care and yet today the situation is worse not better than it was in 1948. When I was sworn in as Governor in January of 2003, forty-three million (43,000,000) Americans didn't have health care. After 4 years of working together and thank you that so many of you in this chamber who helped us pass All Kids, increased investments in family care, increased investments in breast and cervical cancer screenings, increased investments in AIDS funding, thanks to you nearly six hundred thousand (600,000) men, women and children have gotten health care in Illinois who 4 years ago didn't have it. We're making progress in our state, but still there are one point four million (1,400,000) of our fellow citizens who can't afford to see a doctor. Nationally, the trend is worse, forty-six million (46,000,000) Americans don't have health care. So, while we've been giving more people health care in Illinois, across the country the trend is getting worse not better. I believe the health care issue will only be solved if the states act. It took the states to pass public education. We take for granted the right to go to a public school today, but it was Massachusetts in the 1840s that finally provided a free public education to its kids and then all the other states followed. We take it for granted today, but it was the states that started it. There was a time, right about the time my dad was born in the

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early 20th century, when there were kids as young as eight years old working in factories and in sweatshops, that was lawful and legal. They would work eight, ten, twelve hours a day, six, seven days a week. The Federal Government didn't act. It took states to act and now we have child labor laws because the states stepped up and acted. It took the states to do something on welfare reform and I believe if we're gonna solve the health care crisis in our country, it's not enough to simply point fingers and blame Washington. For those of us on this side of the aisle, the easiest thing for us to do is to blame President Bush for the health care crisis. I believe it's partly his responsibility and it's not something he's made a priority of, but it's easy to just blame and point fingers. We've been given a responsibility by the nearly thirteen million (13,000,000) people who live in Illinois to do something about issues like this. So, the Gross Receipts Tax is a means to give us health care for all of the citizens of our state and to provide health care to middle-class families across Illinois. Nine point seven million (9,700,000) middle-class families who have health care, who have health insurance, but our employer-based health care system is increasingly providing less and less opportunity for them to get the guaranteed security they deserve. Copays are high, deductibles are high, premiums are going up, employers are dropping employees from their health care and as a result the middle-class, the families that work and pay the taxes

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that fund the things that we do here, are finding themselves making it more difficult to be able to keep themselves healthy and afford to see a doctor. This Gross Receipts Tax is a means to provide health care coverage to our citizens and provide guarantees and securities to health care for families across our state whether you have it or whether you don't, but there's a price tag to it and if we're gonna do it, we have to have the revenue to get it done. We have an opportunity now to solve the school funding problem. The Gross Receipts Tax is a means to give us the funding we need to finally, to finally address the school and funding inequities that people here in Springfield have been talking about since I was in school in the public schools in Chicago in the 1970s. Mayor Daley's father came here in 1975 and spoke right up here about the need to reform school funding. We have now an opportunity to finally do it in the year 2007. The Gross Receipts Tax is a means to get that done and it's a means that provides not just preschool for three and four year olds but full-day kindergarten for all of our schools, smaller class sizes, improved teacher quality, a better recruitment for teachers so they can join the profession that's so important so we can teach our kids. The importance of special education is recognized in our education plan. The way to educate our kids is largely determined by the fact that we can have a sustainable, reliable source of revenue that school districts can rely on from one year to the next, that they know will be there so

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they can make the long-term plans to educate our kids. We can provide middle-class families and working families property tax relief by passing the Gross Receipts Tax. It's a means to ease the burden on middle-class families. We can free up the resources we need so we can have a capital program and build roads and build schools and fund mass transit, but we need new revenue to be able to.. sustainable revenue and give us the opportunity to do that. All of the things I just talked about are ends, the Gross Receipts Tax is the means to address that, but the Gross Receipts Tax is also a means and an end to address something else that is really bad for the State of Illinois and that is a regressive tax system that puts too much of the burden on people and doesn't put enough responsibility on big corporations who don't pay their fair share. In 1979, the people of Illinois paid 79 percent of the income taxes that came to our state, 21 percent was paid by corporations. Today, in the 21st century, corporations pay 12 percent; the people are stuck with 88 percent of the bill. This is at a time when the average CEO in America makes four hundred (400) times more than the average working person. It takes the average working person a whole year to make.. in a whole year what his or her boss... his or her CEO makes in one day. We have a regressive tax system that puts too much of a burden on middle-class and working families and doesn't ask enough of the big corporations who are making money. We have a chance to solve that regressive income tax.

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Individuals in Illinois pay fifteen hundred dollars (\$1500) a year on average in taxes; that's what our constituents pay every year, give or take, depending upon your income or your salary, but the average individual pays fifteen hundred dollars (\$1500) a year in income taxes, but twelve thousand five hundred and twenty-one (12,521) of the biggest corporations in Illinois that had gross sales of more than two hundred and sixty-three billion dollars (\$263,000,000,000) paid on average one hundred and fifty-one dollars (\$151) in corporate income taxes. There were nearly ten thousand (10,000) corporations in our state with gross sales of more than two hundred and fifty-six billion dollars (\$256,000,000,000) who paid no corporate income taxes. The system is not fair. It puts too much of a burden on middle-class families and doesn't ask enough of big corporations. So, we propose this Gross Receipts Tax as a way to address the needs and the ends that I just talked about and that's why this in my judgment is the best way to go. Now, an alternative is out there. The corporate business community in Chicago suggested that we raise the income tax or sales tax. They want us to raise the income tax by 66 percent and they support a plan to increase the sales tax on more than one hundred and twenty-five services (125) that people pay. Services ranging from getting a haircut or going to the drycleaners or taking your kids to the zoo, a sales tax on when you go to the health club and workout or in the North Shore if you visit the Botanical Gardens, they wanna put a

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sales tax on that. More than one hundred and twenty-five (125) services that they would ask people to pay a sales tax. And if you come from Chicago and Cook County, that sales tax is nearly 10 percent, a burden on working families that is unfair. And I appreciate the corporate business communities' position. They know that if you raise the personal income tax you also, by constitutional requirement, have to raise the corporate income tax. There's an 8 to 5 ratio between the personal income tax and the corporate income tax, but when 48 percent of businesses that earn more than fifty million dollars (\$50,000,000) in sales paid no corporate income taxes, when 20 percent of the businesses paid 96 percent of the corporate income taxes and 80 percent of the corporations paid little or nothing, from their point of view it's not very magnanimous to say raise my corporate income tax. Some of these guys can tell ya to raise the corporate income tax to 99 percent. Ninety-nine percent out of nothing is still nothing. They are not paying their fair share. They are avoiding their responsibilities to fund health care, to provide funding for our schools, to pay for the police protection that keep all of us safe and to pay for the things that government is required to do to solve problems for people. I oppose an income tax and a sales tax. If you pass it, I won't sign it; if you pass it, I will veto it. It's an unfair burden on people. It's regressive and people already are paying too much. Bad for the economy, taking more money out of the pockets of

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consumers, making it more difficult for them to afford the things that they need. We have an income tax that's flat; it's not progressive and so it puts more of a burden on working and middle-class families than it does on others who can afford to pay it. It also means less money in the pockets of consumers, so I'm against it because it's bad for the economy. I'm also against it because it will hurt the very people who aren't here, but the people that we all represent. Every single time they go to the store and buy something they'll feel the income tax increase or the sales tax increase. Every time your constituent goes to the barbershop or the bowling alley or goes and works out at the gym or takes their kids to the zoo or takes their suits to the drycleaners they'll remember that you raised their income taxes and their sales taxes. They will remember that and you'll be hearing that and the silent majority that we're supposed to be working for won't be silent for long and if you don't doubt that, just ask Representative Bradley about the things he's hearing from his constituents on Ameren, and ComEd and the high utility rates. Just think about all the phone calls you're getting when the people got socked by the big utility companies with their bills, but in that case you can at least say the big utility companies did it to you. If you raise taxes on people, if you raise their income tax by 66 percent and put a sales tax on their haircuts, you won't have the big utility companies to blame, they'll blame you and you'll be hearing it from your

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constituents all across the state. I will not raise taxes on people. I won't do it today; I won't do it tomorrow; I won't do it next week, next month, next year, the third year or the fourth year. I won't do it, not because I made a promise not to do it but because I believe it's wrong. I believe it's wrong and this is not an issue I'm prepared to horse trade. I have a philosophical objection to burdening middle-class and working families who already are being hit with high utility rates, high gas prices and havin' a hard time payin' the health care that they try to get and all those other families who can't get the health care they oughta have. So, I will veto an income tax increase if you pass one. The alternative then is, what do we do? We can have a no-growth, status quo, do-nothing budget. We can have a budget this year like we had last year, pretty much run in place, except the world we live in is dynamic, it's not static, it doesn't just stand still. If we have a zero-growth, no-growth, do harm, status quo budget, we will have to reduce spending by a billion dollars (\$1,000,000,000). That means devastating cuts in the programs your constituents care about. It means cuts in education and in health care and in police protection. It means cuts in mass transit. It means cuts in areas of funding roads and bridges, the sorts of things that matter to people. Hot meals for senior citizens in Carbondale will have to be cut if we have a zero-growth, do-nothing budget. Job training grants that workers in Galesburg will have to be cut, if we

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have a zero-growth, do harm, do-nothing budget. We will hurt people. School teachers will have to be laid off because school districts won't have the money they need to be able to fund our schools. Textbooks, new textbooks won't come because the school districts won't have the money they need. Football teams might not get the uniforms at their high school football games because we don't have the money that we oughta have for our schools. I believe in football and I believe in high school football. I'd like to see those kids have those uniforms. A do-nothing budget means pain to your constituents. And so, that's one of the alternatives we have and I believe all of us will hear from the people across our state if we give 'em a budget like that. We'll hear from our seniors and from our veterans. We'll hear from our teachers. We'll hear from parents because we didn't get the job done for the people of our state and they will be right because we will have failed to meet our responsibilities to them. Now, I know what I'm asking for is not an easy thing to do. I know you're getting' calls from people all across your districts. I know that when you walk out this little chamber here, you're gonna have all those lobbyists out there putting their arm on you. I know the phone calls and the pressure you're getting, I'm getting it. I've gotten calls from contributors and from different business owners, but you need to know there's a lot of misinformation on the GRT. I took my daughter to the playground the other day on Sunday

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and I had a guy come up to me and tell me about his business and how he didn't like the GRT and I asked him a couple of questions. I said, how big's your business? He said, 'Four million dollars (\$4,000,000).' I thought we could cover him on a two million dollar (\$2,000,000) threshold which incidentally now is up to five million dollars (\$5,000,000) based upon the actions of the Senate last night and by the way, we are eager to work with you to adjust it, improve it and make it better which is what we've been doin' in the Senate and we wanna work with you guys, if you're interested, in trying to get a constructive way to provide revenue to fund education and health care and other things. But this guy came up to me and said, 'Four million dollars (\$4,000,000).' So, I said, okay. What do you do? And he said he makes a product. And so I said if you're a manufacturer, you're payin' 1 percent or less. Then I asked him, how much of your business is exports? And he said, 'Ninety percent of my business is exports.' And then I told him, we exempt exports from the GRT which essentially means he won't pay anything on the Gross Receipts Tax. More than 90 percent of the businesses are exempt under our plan. Our plan exempts more than 90 percent of businesses. We exempt exports so we can keep our businesses in a competitive position. We have lower rates for manufacturing and the retail sale of products. We exempt food and medicine, consistent with our sales tax and we have a threshold now of up to five million dollars (\$5,000,000) which provides

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property tax relief for families and exempts most businesses, better than 90 percent of businesses, across our state. I also wanna disabuse some of you on the argument that this is gonna cost us jobs. When you exempt exports, you're essentially protecting the industries in your state. If you make a product, or provide a service and it's shipped to India or Indiana we exempt that product or service from the Gross Receipts Tax. Any business that chooses to leave a one trillion dollar (\$1,000,000,000,000) marketplace like Illinois is crazy. Every transaction that takes place, depending upon the nature of the transaction, whether it comes from some other state or whether it's generated in state would be subject to the GRT so long as your business makes more than five million dollars (\$5,000,000) in gross sales. And by the way, the change in the Senate also means that every single business, big and small, a one point two billion dollar (\$1,200,000,000) Fortune 100 company or the small business making widgets for two million dollars (\$2,000,000) gets a pass on the first five million dollars (\$5,000,000) of what would be generated, so every business gets a break on the first five million dollars (\$5,000,000). Any business subject to the GRT would also see the corporate income tax abolished; it would be replaced by the GRT so there wouldn't be a corporate income tax for those businesses. Now, some say this will be passed on to consumers, but I'm here with these three doctors and they're not really medical doctors, they're economists and they're

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here to tell ya what they believe is the case with regard to consumers. But I was always led to believe, and my life experience certainly tells me, that the marketplace decides what prices are. Whatever we do will be constrained by the forces of the marketplace. The marketplace is what keeps prices in line today. There is nothing to stop a business from raising prices today, just look at the gas companies, just look at the utilities, just look at the oil industry. We're now facing the possibility of gasoline at five dollars (\$5) a gallon this summer; that's before GRT and they're raising prices on people anyway. The marketplace will decide whether or not this is passed on to consumers. Now, another approach is that we should do an incremental budget, maybe do a little bit here and a little bit there, but I believe we have a unique opportunity right now. All of us are back in business; all of us have time now to do the hard and necessary things to get our state in the fiscal position it oughta be to solve the problems that are facing people and to not shirk away from a tough decision that we have to make and I know it's difficult to say 'no' to some of these guys who put their arm on all of us. So, let me conclude by sayin' we really have three options, three options. Number one, we can raise the income tax or the sales tax, but take that option off the table because I won't sign that; I will veto that. I'm against it; I think it's wrong and therefore, that option doesn't exist and imagine if you did that. Imagine if you raised the income tax or the sales

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tax. Imagine if you raised the income tax by 66 percent and then every time your constituents go to the barbershop or mom goes to the supermarket or dad goes and takes his son to the zoo or they go and work out, imagine every time they do that they'll remember you put that tax on 'em, and they're gonna remember that during this long, hot summer as their air conditioning is costing them all kinds of money because the utility companies are gouging their constituents and imagine doing that at a time when gas prices may very well go up to five dollars (\$5) a gallon. Imagine goin' back home and tellin' your constituents, well, we're done now, hope you have a nice summer; I just raised your income tax and sales tax, see ya next year. I'm not gonna sign any Bill that does that because it's wrong. It's wrong and it puts an unfair burden on families. The other alternative is that we do nothing. We have a status quo, do-nothing budget that would do great harm to the people we were hired to represent. Now, all of you represent thousands of people in your district; I've been hired to represent nearly thirteen million (13,000,000) people in our state. They expect us to get the job done for them; they expect us to solve issues like health care, to fund our schools, to make sure that we build schools and provide for mass transit. They expect us to start building bridges, and roads and get our economy moving. They don't expect us to sit back and do nothing and yet if we don't pass the GRT, if we don't pass a new revenue source that's fair to people, we are gonna find ourselves in

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a position where we're gonna face devastating cuts that will require at least one billion dollars (\$1,000,000,000) less in the budget that we have today. We're proposing the Gross Receipts Tax. It's a low rate tax; it's broad-based; it's fair. Everybody above five million dollars (\$5,000,000) would be asked to make a contribution, but if you're making less than five million dollars (\$5,000,000), you wouldn't. If you're makin' fifty million dollars (\$50,000,000), you get a pass on the first five million dollars (\$5,000,000). Of all the options, it seems to me the most fair that we can find. Now, Benjamin Franklin said there are two things that are certain in life, that you're gonna die someday and that you have to pay taxes. Now, I'd like to think that when it comes to the first part we can live as long and as well as we possibly can and when it comes to the second part, you can have taxes that are as low as they can possibly be, as fair as they possibly can be and as broad based as they possibly can be. Of all the bad options when it comes to that, this seems to be the one that addresses those concerns and it's one that gives us a chance to be able to address issues like health care and education. I know this is a hard thing for all of us to do, but I also know your constituents will appreciate if you give everybody access to health care. Your constituents will reward all of us if we finally fund the school... finally solve the school funding problem, if we bring full-day kindergarten to our schools and have smaller class sizes. I think our constituents will

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appreciate the fact that we will have built the schools necessary to house our kids in smaller class sizes with all the modern equipment that's necessary so they can have an equal chance in the race of life. We can do this and do big things for the people of our state or we can sit back and do nothing, throw up our hands and keep pointing fingers and blaming. I want us to get this done. We have a unique chance to do it; we can do it together. I know it's hard; I know it's tough, but of all the options available to us, this is the only way we can solve the problems that face the people of our state in a way that doesn't make them pay for the price of solving these problems. Thank you very much."

Chairman Bradley, J.: "My... my apologize... my apologies to the remaining members of the panel: Dr. Ken Thorpe from Emory University, Dr. Doug Kane from Program Analysis, Inc. and Dr. Joseph Persky from the University of Illinois/Chicago. Proceed, gentlemen."

Ken Thorpe: "Good morning. My name is Ken Thorpe. I'm a professor of health economics at Emory University. It's a pleasure to be here with you. I'm just gonna follow up on some of the comments the Governor... the Governor just made about the GRT. The way I view the GRT is that it's an investment and it's investing in trying to address the biggest economic challenge that this state and the country faces, which is rising health care costs. And as the Governor just outlined, you really do have two choices. The first choice is to do nothing which means you don't reform

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health care, you don't deal with these issues and if you don't, something for sure is gonna happen. Health care costs is a share of premiums... or a share of payroll which will continue to rise, households will spend another seven billion dollars (\$7,000,000,000) over the next 4 years on health care. Health care premiums will account for about ten and a half percent of business payroll within 4 years. The number of uninsured will rise; that generates about three billion dollars (\$3,000,000,000) a year in health care services that aren't paid for that are built into the cost of health insurance. That is an option, but it is an option that has I think, at the end of the day, potential... tremendously bad adverse economic impact and it will continue to deteriorate our health care system. So, that's the first option. A second option is to use this investment to reform health care and I think the Governor's plan on covered choices reforms health care in two really important ways. The first way is that it takes the biggest economic challenge that this state is facing head on, by having very specific means for reducing what people with health insurance pay for their coverage. And it does that by two means: one is through the roadmap to health which is a very innovative and bold approach for restructuring how we deliver health care services to patients with multiple chronic diseases, how we pay physicians and the use of modern health information technology. All of which have been shown in a variety of settings to reduce what people

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pay for health insurance. That in addition to reducing the cost shift that's built into the price of health insurance, and, in addition, the healthy choices or the covered choices and covered rebate plan which would both reduce what small businesses and individuals pay for health insurance directly. So, these GRT dollars are directly used as investments to restructure the health care delivery system in this state and to reduce the cost of what small businesses pay for health insurance. I think what... the only way to really think about this is that, what is the return that you're getting on this investment? As the Governor mentioned, if we're gonna reform health care and if we're gonna expand health insurance to the one point four million (1,400,000) adults that don't have coverage, it's gonna cost us some money for the state to make that initial investment. It is a reasonable question to ask, what is the return on that investment? And the return on that investment is twofold. One, is that people with private health insurance in the state, the nine million-plus (9,000,000-plus), will pay less for health care compared to doing nothing. Two, you will make a great stride towards moving towards universal coverage, those one point four million (1,400,000) people that, let's face it, you're paying for the health care services of the uninsured anyways through local taxes and through their cost being built into the cost of health insurance. So, the investment is really paying off in those two directions. One is the reduction in the cost of health

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insurance and two is by expanding health insurance to the uninsured. If you look at the next 4 years, the health care components of the GRT between 2008 and 2011 it's gonna cost about seven point two billion dollars (\$7,200,000,000). Now, that's the investment. On the other hand, if you look at the return, which is how much less will people, families, businesses, in particular small businesses pay for health care as a result of this health care reform proposal and I calculated it's about fifteen point six billion dollars (\$15,600,000,000) less. So, if you look at this as a return on investment, a state expenditure through the GRT that is generating specific savings to people that currently have health insurance in this state, so families and businesses can retain those policies and make it more affordable, you're getting a 2 to 1 investment on return. That ain't bad. So, I think you've gotta look at this in the context of what the GRT is buying. It's buying a very bold, innovative health care proposal that is designed largely to reduce what families and businesses in this state pay for health care and secondly, it's also designed to extend health insurance coverage to the extent possible to all residents of the state. I think as you think about this in your mind, you really are left with these two options. One is to not to put in place a GRT-type investment. I think if you do not do that the flipside in terms of the economic impact is the... is worse, is far worse. Rising health care costs are the biggest economic challenge that businesses in

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this country face. Rising health care costs are the biggest challenge that families and households in this country face. If we go 3 and 4 more years of having health care costs rise at three, four times higher than what people are bringing home in wages, that's not sustainable. So, this investment, as I look at it, is something that is not only worthwhile but it is imperative and it's something that, I think that this state's Leadership could really play a major national role in getting other states and getting this country to really deal with the issue of health care costs and coverage in a very effective way. Thank you and I appreciate the opportunity to be here with you this morning."

Doug Kane: "My name is Douglas Kane. I'm president of Program Analysis, Incorporated. I was once a Member of this House and it's an honor to be back here and to recognize, at least, a few faces that I served with some 20, 25 years ago. There are a number of economic issues connected with the Gross Receipts Tax that I would like to address briefly this morning. The major strengths of the Gross Receipts Tax are 1) it is simple, 2) it has a very broad base, and 3) because of its broad base it can have a low rate. The Gross Receipts Tax is conceptually a simple tax. It's simple to understand and it's simple to enforce. And because of its simplicity it's difficult to avoid and this addresses one of the problems of the corporate income tax where taxable income is often an accounting definition and is not readily verifiable by individual State Revenue Departments. The

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Gross Receipts Tax has a broad base in that it applies to all sectors of the economy and to all economic activity regardless of how it is organized. In the three states that have adopted Gross Receipts Taxes in the past 2 years, Ohio, Texas and Kentucky, did so largely because their existing tax structures no longer reflected their underlying economies. Their economies had changed but their tax structures had not, leaving the tax structure to fall far too heavily on some sectors and not on others. As Robert Tannenbaum, the vice president of the Federal Reserve Bank in Boston has written, state and local revenue systems are rapidly becoming obsolete. The Texas Tax Reform Commission perhaps said it best in recommending a Gross Receipts Tax for that state. 'The tax system must provide a level playing field that is essential for a healthy, free-market competition. Those who benefit from Texas's resources and services must pay their share.' The application of the tax to all sectors also insures that if the tax is passed on to consumers, as some have assumed, it'll be less regressive than the broadest of sales taxes. Some people have pointed to the regressivity of the Washington state's whole tax structure and blame the Gross Receipts Tax in that state for the regressivity, rather the blame should be placed on that state's high sales tax, its state property tax and the absence of any state income tax. The low rate of the Gross Receipts Tax which was made possible by its application to all economic sectors minimizes the tax's negative effects.

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And the primary negative effect of the Gross Receipts Tax is pyramiding in the built-in incentives for companies to integrate vertically. Is this a theoretical problem? Yes. Is it a practical problem likely to actually cause distortions in economic activity? Probably not at the rates proposed by the Governor. The discussion usually ends at this level of theory, pyramiding is bad; therefore, the Gross Receipts Tax is bad and you will hear that a lot today. The answer isn't quite that simple. The negative effects of any tax depend on the rate in which it is levied and it is the very broad base of the Gross Receipts Tax and the resulting low rate that led the Ohio Tax Study Commission to recommend the Gross Receipts Tax saying if the tax base is broadened then the result is a more level playing field, fewer decisions and choices and allocations are based on taxes. Pyramiding of the Gross Receipts Tax is more than offset by the low rate. Even after pyramiding, the accumulative rate of the Gross Receipts Tax will be less than the rate that would be required of any alternative tax that raises the same amount of revenue. Economists from the University of Oklahoma and Oklahoma State University made this point succinctly in a study they did for the Governor and the Legislative Leaders of that state. 'The broad base of this Gross Receipts Tax permits the levying of a low rate... low tax rate and promotes greater efficiency and horizontal equity relative to a narrower base coupled with a higher rate. There will be some pyramiding of this tax, but

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it should not be significant if the rates are kept low.' How much pyramiding is there actually? There's been only one full-scale economic study done of an existing Gross Receipts Tax and that was done in 2002 by the Washington State Tax Structure Committee which is why the State of Washington comes up so often in discussions about the Gross Receipts Tax. The Washington study estimated that its Gross Receipts Tax pyramids an average of two and a half times; the amount of pyramiding however did not seem to translate directly into substantially higher effective tax rates. Revenue from the tax comes to approximately 1 percent of gross state product and the Governor's proposal here in Illinois, including whatever pyramiding occurs, translates into an effective rate of approximately 1.4 percent of gross state product despite the nominal rates being a dollar (\$1) on the goods sector and two dollars (\$2) on service sectors. The data from Washington also shows that the Gross Receipts Tax does not hurt small and new businesses. In a study of ten major sectors of the Washington economy, the average difference in effective tax rates between new and established firms was five hundredths of 1 percent of gross revenue and the effective rate on small firms averaged 16.3 percent less than on larger firms. On the other hand, the study found that the property tax in Washington fell 11 to 12 times more heavily on new and small firms than on established and large firms in the same sector. And the lesson from Washington State is clear, if you want to do

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something to help new and small firms, do something about the property tax. The study also looked at business start-ups and failures and found that business start-ups in Washington averaged 8 percent higher than the national average and also that business failures averaged 8 percent higher than the national average and so the ratio between start-ups and failures was similar... similar to the national average. Every tax has its negative economic effects. It's easy to attack... attack any tax in isolation as many have done with the Gross Receipts Tax, but what is the alternative, either to do nothing or to choose another tax that produces the same amount of revenue which in turn will have its own negative effects. And the strength of the Gross Receipts Tax and the strength of the Governor's proposal is that it adds up, it balances, it produces the required revenue; it gets the job done. Most of those attacking the Gross Receipts Tax present no alternative and most of the alternatives don't add up to a program. In many of the attacks on the Gross Receipts Tax are based on assumptions and some of them are contradictory. People have told me in the same sentence, this is going to cut profit margins and hurt businesses and it's gonna get passed on to consumers and hurt low-income families. Choose one of those assumptions, but you can't choose both. If profit margins are cut, consumers won't be affected and if the tax is passed on to consumers, profit margins won't be affected. Well, what do economists know about what actually happens to

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taxes on businesses? Very little really and some humility is in order here. As William Oakland of Tulane University and William Testa, vice president of the Federal Reserve Bank in Chicago, wrote in Economic Development Quarterly, 'The actual incidence of business taxes remains unknown.' The strength of the Gross Receipts Tax lies in its simplicity, its broad base, its low rate and these strengths mitigate its negative effects. What about the size of the increase? There is much evidence that Dr. Sims of the... and Dr. Sims of the Sierra Institute, who will be testifying later today, has some interesting statistics, but the evidence says that businesses attracted by such things as the quality of education, health care, transportation systems, infrastructure, clean environment, good housing, low crime rates, all public goods that are purchased with taxes. Illinois has historically been a low tax state. The latest available data from the census shows that when it comes to total state and local government revenues including taxes, fees and interest per one thousand (1,000) of personal income, Illinois ranks forty-seventh of the 50 states and below all of our neighboring states. And with passage of the Governor's proposal, Illinois will still rank in the bottom half of all states and below all but one of our eight neighboring states. Thank you."

Joseph Persky: "Good morning. I'm Joe Persky from the University of Illinois in Chicago. Mr. Chair, Members of the Legislature, thank you for this opportunity to address

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you. I'm gonna try and wrap up what the basic message of the other members of the panel has been. No one likes the idea of taxes. There's no such thing as a perfect tax, we know that. Every tax changes incentives, every tax creates an excess burden on taxpayers. But what of today's burden on people who don't have health insurance here in our state? What of the burden on kids in schools in dire need of improvement? If the state is to finance vital services in health care and education, we must expand tax revenue. We don't wanna expand tax revenues. We must expand them if we wanna do these things. While the state should continue to pursue other steps such as closing tax loopholes and reducing waste in expenditures, such efforts cannot make a plausible dent in our needs. Under the circumstances, the Gross Receipts Tax is the best ready option available to Illinois. Of course, if one is convinced that an expansion of health and educational services isn't a priority, then there's no problem. If working people in Illinois can easily afford the health care they need, if the school systems of Illinois have more than enough resources to provide a high quality education for the global age, then we don't have to talk about taxes, but these needs are every day more obvious. Of course, it is responsibility of you in the Legislature to weigh these pressing claims, but I suspect it's time to take on our responsibilities and to talk seriously about how to generate new revenues. Taking as given the proposed programs, if these programs aren't

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appropriate then there's no talk about taxes, but taking that these proposed programs are fundamental, how are we going to find the money to fund them? We've heard the arguments. What are the realistic alternatives to the Gross Receipts Tax? They come down to four. Let me again summarize. We can go with the personal income tax; we could go with the corporate income tax; we could raise the sales tax; we could introduce a value-added tax. That is a Gross Receipts Tax that subtracts out costs of materials. Let me review each in turn just to drive home the points that have already been made. If the state was in the position to completely overhaul the personal income tax, to put it on a graduated basis to get a real progressive income tax in the state, then the burden would be more fairly shared among the citizens of Illinois. However, we know that to do that requires a Constitutional Amendment. That's not gonna happen this year; it's not gonna happen next year; it's not gonna happen the year after. In the meanwhile, the burden of those health needs still is there. If we wanna address those now, in a fair way, we can't turn to the income tax. Raising the income tax will simply raise the burden on working families; it will fall unfairly across the board, raising this flat tax will only exacerbate the problem. The corporate income tax; we've heard it already. The corporate income tax is broke; it's not working. There's something wrong with it. It can't be fixed easily. It, too, would require Constitutional Amendments for change. We've heard

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the statistics. Thirty-seven of ninety-nine Fortune 100 companies... think about this... Fortune 100 companies that filed Illinois tax returns, paid no state income tax in 2004, that's despite the fact they average one point two billion (1,200,000,000)... I wasn't gonna put in any numbers... I know we glaze over, but one point two billion (1,200,000,000) in sales during that year. They paid no income taxes. I'll skip the other numbers; you've heard them. And let me say, if the business community is upset about the Gross Receipts Tax, and we're all upset about having to raise taxes, but if the business community is upset about the Gross Receipts Tax, how many more lobbyists would be here if we were seriously reforming the corporate income tax? The third possibility is the sales tax. Conceivably, we could raise sales tax rates, not we, you could raise sales tax rates, but the base of the sales tax is embarrassingly narrow. The vast majority of services aren't taxed at all. Yet, these are the fastest growing sectors of the economy. There's a disconnect between the tax and what's growing in the economy; it makes no sense. Much of the output of the service sector also is purchased by high-income households who avoid the sales tax when they do so. It's the low-income families that spend more on goods that are paying most of that tax. A value-added tax, this is the favorite of the economists. You can see, we all have gray hair here. This is the favorite of us economists, but it is not practical. It's not gonna happen in the short

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run. It complicates excluding exports from the tax base; moreover, it will generally generate a huge efforts by business to avoid the tax. Like the corporate income tax, it's subject to all the problems of accounting, of moving profits around, moving costs around, the national and the international system that we're in. This may be good for accountants, but it leaves the state in a difficult position. Which brings us back to the Gross Receipts Tax. If this pleases no one, and nobody wants a new tax, indeed what tax does? It's broad-base and low-rate structure, I can't say that too many times, broad-base, low-rate structure should make it the least objectionable tax to just about everyone that is looking at our problem. Here's a tax that's the least objectionable, uniquely among the alternatives it's able to generate large revenues with only a modest rate. It's put forward in the Governor's proposal and exemptions for small business now raise virtually five million (5,000,000), by the Senate's action, will keep the tax from being a nuisance. As proposed, the Gross Receipts Tax directly addresses the question of services in the economy, the growing part of the economy, by charging a differentially higher rate on such purchases, 2 percent instead of 1 percent. The Gross Receipts Tax protects the state's competitive position by excluding goods and services sold to markets outside of Illinois; it builds the competitive position of the state. This is a key argument in favor of this tax. Illinois firms selling outside the

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state will not be taxed on their value-added. The Gross Receipts Tax does tax imports. Firms in the state and out of the state who wanna market in Illinois will have to pay this tax. Overall, the proposed Gross Receipts Tax amounts to about one and a half percent of the state's total product. That estimate includes the so-called pyramiding, we just learned about pyramiding. Yes, pyramiding is a theoretical problem, but in practice, it will not add considerably to the tax we're talking about. We have evidence from that already from the State of Ohio. This is not a theoretical observation on my part; it's an empirical observation from observing what's going on in Ohio today as we speak. Will some of the tax be shifted on to consumers in Illinois? Undoubtedly, a portion will be. We can't be Pollyannaish. Just as a portion of the corporate income tax is shifted on to consumers. As always, business will deal with increases in their costs by passing some on to consumers, some back to suppliers and workers, but also by accepting some of... as a burden on their earnings. And that includes the corporations that currently are paying no tax on their income in Illinois. The point is that the Gross Receipts Tax keeps the cost increases small and manageable. Given our serious needs, is any alternative approach more attractive than the Governor's Gross Receipts proposal? I think not. This plan is pragmatic and workable. It can generate large amounts of revenues with little complexity. This is a fair and minimally invasive approach to fund an

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ambitious and much needed public agenda. If you decide we need this expansion, it's your responsibility. If you decide we need this expansion of health care, education and other key programs, the Gross Receipts Tax is a sensible and pragmatic source of funds. Thank you."

Chairman Bradley, J.: "Thank you very much, Doctor. Governor, you got about three minutes and twenty seconds left in your time. You ready to go to questions?"

Governor Blagojevich: "Sure."

Chairman Bradley, J.: "Okay."

Governor Blagojevich: "Well, do you want questions or do you want me just... I'll take questions happily."

Chairman Bradley, J.: "Well, I'm gonna direct the questions. I have a quick question though just so we can frame the debate here and make sure that we have the policy understanding. The taxing rate under this proposal is what, currently?"

Governor Blagojevich: "It's, I believe, the Senate's action yesterday means it's 2 percent for the service economy and 1 percent for manufacturing and the retail economy, excluding food and medicines sold at the retail level."

Chairman Bradley, J.: "Okay. And it exempts exports."

Governor Blagojevich: "Pardon me?"

Chairman Bradley, J.: "It exempts exports."

Governor Blagojevich: "It does exempt exports, yes, it does."

Chairman Bradley, J.: "And there's a five million dollar (\$5,000,000) threshold?"

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Governor Blagojevich: "That's correct. They arrive at it in a different way through a variety of tax credits and the like, but the net result is the first five million dollars (\$5,000,000) of any business is exempt."

Chairman Bradley, J.: "And any business that pays under the Gross Receipts Tax does not pay corporate income tax?"

Governor Blagojevich: "That's correct."

Chairman Bradley, J.: "And there's a property tax swap in the Bill now, as well?"

Governor Blagojevich: "Yes. There's more than a billion dollars (\$1,000,000,000) in property tax relief."

Chairman Bradley, J.: "Do we know the exact number, anyone?"

Governor Blagojevich: "I..."

Chairman Bradley, J.: "I think that's important."

Governor Blagojevich: "Yeah."

Chairman Bradley, J.: "One billion dollars (\$1,000,000,000)."

Governor Blagojevich: "One billion (1,000,000,000)."

Chairman Bradley, J.: "Are there any other key components of it in terms of the revenue side that I didn't mention?"

Governor Blagojevich: "I..."

Chairman Bradley, J.: "Okay, okay. Thank you very much. Let's go to questions."

Governor Blagojevich: "Thank you."

Chairman Bradley, J.: "I'll recognize Representative Biggins with 26 minutes of questions."

Biggins: "Well, 26. Thank you very much. And Governor, welcome and appreciate your comments and the job you're doin' and

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the gentlemen that testify... that have testified with you. Now, one, Dr. Kane, you mentioned if profit margins are cut, consumers won't be affected. Could you expound on that?"

Doug Kane: "Well, yeah. I think your... is..."

Biggins: "If profit margins are cut, consumers won't be affected. And... what companies have you run?"

Doug Kane: "Several."

Biggins: "Good."

Doug Kane: "What I'm saying is that if the tax is absorbed by the business and is not passed on to consumers and is absorbed by reducing the profit margin, consumers will not be affected. If, on the other hand, you make the assumption that the tax gets passed on to consumers, then nothing changes for the business in terms of profit margin or... or anything sales or profit margin. But what I have heard from the same person, and that is that both of those arguments are made without distinction and the point I was making is, you can't make both assumptions. You can't assume that it's all going to come off of profit and also hurt consumers."

Biggins: "Now, the statements have been made about the fact that businesses don't pay something or other and usually it's in relation to an income tax, but... and that the Governor's gonna hold strongly to this. I don't even know why we've been talkin' about the income tax 'cause he said he'd veto that anyway and I respect your... your, Governor, your decision on that. But businesses create an income stream. Let's say a plant in a small town. They come in, they build

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something and they hire, let's say, a couple hundred people and... and they do generate... all those people will pay income taxes, they pay... they live somewhere, they probably pay property taxes, they go out and they spend money, pay sales taxes when they spend their... cash their paychecks. So, a corporation that... that probably pays a substantial property tax bill, if they have a large plant in Illinois, they pay taxes on that. So, a corporation that does not pay income taxes could be taking that money that they take in gross income and applying it against the expenses of the business. Such as, they could pay the cost of operating the business every day; they could build additions; they can employ people to build the expansion of the building that they're on; they could donate to local charities, most businesses donate to local charities throughout out their... their areas that they service. So, there's a lot of things that corporations can do beside paying an income tax. They're very beneficial particularly the employment part and therefore, isn't it okay for... I don't know who answers this... isn't it okay for some corporations to use the laws we have and expand plants, build the business, keep 'em going, and not pay an allowable income tax? Does anyone wanna answer that? Isn't it okay for corporations not to pay an income tax?"

Joseph Persky: "I think the point is that we wanna design the tax structure in which all segments of society pay their fair share of the responsible expenditures that this

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Legislature passes. Now, if these are important programs, it seems important that we all share the burden. And this program will guarantee that. Yes, businesses will pay more in taxes, individuals will pay somewhat in terms of what's passed on, but the notion that it's spread broadly and that we all pay something, if the businesses would give enough to charity, to all the hospitals, then we wouldn't need all this insurance, would we? So, I think the basic point is if we want this program, if we want the program, if you don't want the program, you don't need the money. But if we want this program, it should be paid for in a fair way that spreads the burden."

Biggins: "Well, thank you for your answers very much. And Governor, thank you for your appearance too. Representative Beaubien would like... I'd like to ask a question."

Chairman Bradley, J.: "For how long, Representative Biggins? How long will you yield to Representative Beaubien?"

Biggins: "I will yield to Representative Beaubien 'til he's done asking questions which he assured me..."

Chairman Bradley, J.: "Two min... two minutes. Very well."

Beaubien: "Thank you. That's more than enough. Governor, welcome to the committee. Just a simple question, a 'yes' or 'no'. Will the GRT tax in... increase costs to the consumers?"

Governor Blagojevich: "I don't believe it will. I believe because there are... It's a complicated answer, but I think ultimately the marketplace will decide it. I think there

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probably will be some cases where businesses will have to make a decision but if I'm a young entrepreneur and I see an opportunity to get into a marketplace, I'd take this opportunity to reduce prices because I'd see the chance that people would wanna get discounts and make a decision with regard of what's best for their financial situation. So, all I can tell ya is the marketplace will decide what prices are tomorrow like they do today whether we have the GRT or not. And I looked to Washington and the fact that from 1980 to 2000 wage and job growth increased by 64 percent in the State of Washington. That's 50 percent better than the national average and they have a GRT and have had a GRT since the 1930s. I think this will make businesses more competitive and then when we reinvest the money in health care and education, it'll have a multiplier effect on our economy and create jobs. That was not a simple 'yes' or 'no'. I'm sorry."

Beaubien: "Yeah. It was not. You made a statement earlier there's a 8 to 5 ratio on sales to corporate tax and that's a constitutional law. With all due respect, I'd ask you to review that. I believe it can't be any higher than that. You could raise the individual income tax, which I'm not advocating, and not have to raise the corporate tax. I would... think you might wanna look into that. Thank you very much."

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Chairman Bradley, J.: "... you much... very much, Representative Beaubien. Representative Biggins, who do you yield time to now?"

Biggins: "Thank you, Mr. Chairman. I would like to yield some time to Representative Mulligan for three minutes."

Chairman Bradley, J.: "Representative Mulligan's recognized for three minutes."

Mulligan: "Thank you, Mr. Chairman. Thank you, Governor and your panel for appearing before us today. I'm gonna make this real simple, that way we'll save time because a lot of people want this and with due reference to the press, I will provide anything that you respond to me. I'd like my answers in a written form from you, hopefully, within a short length of time, say a week, so that we can consider them. In your opening statement, you made a statement about that we are providing up... six hundred thousand (600,000) more people with health care that didn't have it before 2003. Considering the expansion that was in the works for FamilyCare and programs for children that were already being expanded every year, could you give us a breakdown of those six hundred thousand (600,000) people and who they are that we're providing health care to? Also, what is the effect of one billion dollars (\$1,000,000,000) in property tax relief on a property tax bill? How much relief will that one billion (1,000,000,000) actually provide and who and what property tax owners will receive that relief? We'd like that broken down because that's a big component of anything

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that we would like to do here. I... we have a sheet here that I presume is... are you... the one economist on the end is Dr. Ken Thorpe. You're from Emory?"

Ken Thorpe: "Yes, Ma'am."

Mulligan: "Could you provide those... A lot of us work on health care, particularly health care and budget. I'm a budget person for this side of the aisle. Could you please provide us with what your assumptions were for the facts that you... and how they were based and what your estimates are for your increase? You have several increases in here: one of them was the amount on payroll, where that was gonna go and the other thing how much it would save small business. Only under the proposed health care plan small business can eliminate their health care plan for individuals for 1 year otherwise they'll have to be... their employees would have to be without insurance for 1 year, so certainly that doesn't solve a problem for them. And also, any good plan, tax plan, is supposed to have transparency and obviously, the way this is a moving target on the GRT, there is ob... no transparency. It's very difficult for us to discover what your plan's actually gonna cover since it seems to be changing weekly or daily according to whoever the certain lobbyist is that has access or whatever. I'd like the definition of what you consider 'transparency' under the GRT. And also, with all due respect to all the panelists, anybody that gives regular testimony in court or wherever is compensated. Could you tell us what compensation you have

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received to be, all of you, to be panelists here and to give us your opinions on what you think is happening here. I have several other questions, but with respect to other panelists, the reason I requested them in writing, which I will certainly forward to members of the press when we receive them..."

Chairman Bradley, J.: "Thank you, Representative Mulligan. Representative Biggins, you have used 10 minutes; you have 16 minutes remaining."

Biggins: "Sixteen?"

Chairman Bradley, J.: "Yeah."

Biggins: "Thank you very much, Mr. Chairman, for the evenhanded way you're doing the committee today and thank you, Representative Mulligan, for your questions. And now, I'd like to yield some time to Representative Chapin Rose."

Chairman Bradley, J.: "What amount of time?"

Biggins: "Two minutes."

Chairman Bradley, J.: "Two minutes to the... Representative Rose is recognized for two minutes."

Rose: "Thank you, Mr. Chairman, Governor. I simply don't understand this. The Champaign County Chamber of Commerce was over here a week ago and I have many constituents that work at Kraft, which is the world's largest Kraft facilities, is right there in Champaign on Bradley and Mattis Avenue. A box of Kraft Macaroni and Cheese is taxed 25 different times before it gets to market, 25 times. The grain, the input... the crop input, the seed that goes into

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the ground is taxed. The combine that's bought to bring that out of the ground is taxed. The seed planter that put it in the ground is taxed. The grain elevator that stores the grain is taxed. On and on and on and on. Now, I will readily admit I don't know what the effect of your Amendment last night in the State Senate is, but how is it anyone can possibly say that consumers won't pay this? They will clearly pay this. Clearly pay it. And that's not from me, Chapin Rose, that's from Kraft and the employees that I represent at Kraft. That's my first question. My second question is, we have a small business insurance pool in Champaign County that serves all of east central Illinois. It has clients all over my district down at Coles County, Douglas County, all over and that small business insurance pool is actually providing insurance cheaper, according to them, after accounting for deductibles and everything else, than this plan does, Illinois Covered does, after you account for the state tax subsidy that go into it, after this is over. Those are my two questions. I don't know how much time I have left, but I'd like to hear the answers."

Governor Blagojevich: "Yeah, can I address 'em? Representative Rose, thank you very much for the question. First of all, about Kraft. Let me say, it's difficult to say what they're paying in taxes and this goes to one of the questions that Representative Mulligan asked about transparency. Did you know that the law prohibits the public from knowing what corporations pay or don't pay in state taxes? The law does

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not allow the people of Illinois to know whether or not Kraft as a corporation is paying corporate income taxes. I'm not allowed to know from the Department of Revenue director who is or isn't paying corporate income taxes and that may be something you guys may wanna consider doin'. Passin' a transparency law so we can actually answer your question, Representative Rose, on what Kraft is paying or not paying with regard to taxes. Now, with regard to passing it on to the consumers, this argument has been made by the business community every single time ya try to do somethin' for people. We raised the minimum wage twice and I wanna thank the Members of the General Assembly here and maybe some of you there, for raisin' the minimum wage twice over the last couple of years here in Illinois. We didn't wait for Washington to act, we'd help people. Every time we did that the business community said, oh, this is gonna cost us business; it's gonna be passed on to the consumers. This is the argument they make all the time. The reality is that the very business group that are making this argument are posing as the friends of consumers, but their alternative is to stick it to the working person with an income tax or sales tax increase. Their answer is, don't tax me, but make the people out there pay more in sales taxes and in income taxes. That's what the corporate business community wants. Raise taxes on people. And ultimately this decision that we're all gonna make is really very simple. Do we stand still and move backward by doing nothing in areas of

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education and health care? Do we raise revenue and if we do, who pays? Do the people pay or do the big businesses pay? And it really is a decision on whose side we're on. Now, the business community..."

Chairman Bradley, J.: "Governor, I'm... I'm sorry, but mis... I think..."

Governor Blagojevich: "Okay."

Chairman Bradley, J.: "Hey, ya got your two minutes back."

Governor Blagojevich: "I did. Thank you, Representative. Thanks. I'll get it in later."

Chairman Bradley, J.: "I apologize. Representative Biggins."

Biggins: "Yeah. Thank you, Mr. Chairman. I'd like to yield a minute of time to Representative Froehlich."

Chairman Bradley, J.: "Represen... Representative Froehlich is recognized for one minute."

Froehlich: "Thank you, Mr. Speaker. Governor, welcome to the House. Good to have you here. You've... you've addressed the House Bill 750 issue and you've been crystal clear about it. There was a published report last week though that even took it one step further and reportedly you told a Senator that not only would you veto it, but if the Legislature were to override your veto on the 750-styled Bill, you'd call us back into Special Session every day until we repealed it. Would you care to confirm that that is your position?"

Governor Blagojevich: "Let me say this. I'm not interested in a wink and a nod, phony baloney. You guys pass an income tax increase with a lot of fanfare. I call a press conference,

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look at me. I'm standing up for the people and I veto it and then I quietly whisper to you guys, go ahead, override my veto. The kind of baloney that sometimes happens in government. No. I have a principled objection to raising taxes on people at a time when they're payin' more than their fair share already. It bothers me that a guy makin' fifty thousand dollars (\$50,000) a year would have to pay another one thousand dollars (\$1,000) just in the income tax portion before ya have to charge him for the barber, when he goes and gets his haircut or the movie he goes to or the zoo when he takes his kids. It bothers me to take another thousand dollars (\$1,000) out of the pocket of a guy making fifty thousand dollars (\$50,000) a year when 48 percent of corporations earning more than fifty million dollars (\$50,000,000) pay nothing. So, I will do everything in my power to not just veto an income tax increase, I'll do everything in my power to roll it back and if it means we're here all summer tryin' to relieve the pressure of people who are payin' five dollars (\$5) a gallon for gasoline and are gettin' gouged by the big utility companies with electric bills that are way too high, if it means we're gonna have to roll that back, I'm determined to do that. Thank you."

Chairman Bradley, J.: "Representative Biggins."

Biggins: "Yes. Thank you, Mr. Chairman. And I'd like to yield some time to Representative Reis."

Chairman Bradley, J.: "What... what per... what amount of time?"

Biggins: "One minute."

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Chairman Bradley, J.: "One minute to Representative Reis."

Reis: "It's been said that you don't feel that this tax is gonna be passed on to consumers. Why did you exempt food and medicine?"

Governor Blagojevich: "Very simple because we have a... we have a sales tax policy in Illinois that exempts food and medicine. I think that's a good policy because those are both necessities and in many cases senior citizens, already struggling to be able to afford their food or their medicine and have to make that choice, so it seemed like a consistent approach to protect seniors and consumers and..."

Reis: "The fact of the..."

Governor Blagojevich: "Pardon me?"

Reis: "The fact of the matter is that it's probably gonna get passed on, so it's a good exemption but I wanna make my point is, if we're gonna pass on seven and point six billion dollars (\$7,600,000,000) on to the consumer, you talked about tax credits. How will these tax credits work? You're still keepin' the threshold at two bil... or two million (2,000,000) and then they're gonna get a tax credit on the income tax that they would owe. What if they don't owe any income tax? So, they won't get any rebate then, they'll still have to pay the GRT? So, really there's no five million dollar (\$5,000,000) threshold."

Chairman Bradley, J.: "Time's up, Representative."

Joseph Persky: "No, there's a two million (2,000,000) exemption to start with, so no one pays on the... yes?"

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Chairman Bradley, J.: "Do you wanna yield additional time to Representative Reis to finish, Representative Biggins? Yield additional one minute?"

Biggins: "Thank you, Mr. Chairman. We would like to yield to Representative Reis another minute."

Chairman Bradley, J.: "Okay."

Reis: "I'm just trying to clarify what took place yesterday with the Senate Amendment. The threshold's still two million (2,000,000), but you're saying you're gonna get a tax credit if you're under five million (5,000,000). But if that company didn't make a profit, if they're a small start-up, then they won't get any rebate so, in fact, they're still gonna be payin' the GRT."

Doug Kane: "It's a credit against the GRT not against the corporate income tax."

Reis: "Okay."

Doug Kane: "And it... it's a job credit against the Gross Receipts Tax."

Reis: "Well... It's... it's difficult... What we're fundamentally trying to do here is change how we tax in Illinois from taxing profit to taxing revenue and I've got a long list of questions that I'll forward on to you, but ya know, if a business sells something at a loss or if they're a young start-up, they're still gonna have to pay this GRT. And that's what we're fundamentally changin' and that's what our concerns are that we're hearin' about in the districts. So, thank you."

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Chairman Bradley, J.: "Thank you, Representative Reis and also, let me remind Members, there will be additional opportunities for questioning at the end of the day, assuming that we stay on time. Representative.. Representative Biggins, do you have additional speakers?"

Biggins: "We do, Mr. Chairman. How much time might this side of the aisle have left?"

Chairman Bradley, J.: "We started at 10:16.. 10:19, is that right, 10:16.. 10:16. So, you have an additional seven minutes."

Biggins: "Thank you. I'd like to yield some time to Representative Sacia, one minute."

Chairman Bradley, J.: "Representative Sacia is recognized for one minute."

Sacia: "Thank you. Governor, thank you for being here, gentlemen. Ten years ago, Governor, I retired. I started a small business. In that time frame, the past 10 years, I have created 14 good jobs. Every one of them gets health care, 50 percent of their dependents, they all have a 401(k). Last year we had five point two million (5,200,000) in sales and according to your description, Governor, that makes me a corporate fat cat. It.. it's been very, very troublesome for me because, watching the media frenzy for the past however many weeks since the GRT was proposed, we have your folks saying one thing and the business community saying quite another. I like to look at myself as a working man much like I'm sure you like to look at yourself and

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there seems to be a great deal of discussion out here of corporate fat cats versing... versus the working person. A question, Governor. Would it not be much wiser for us to sit down with your leadership, with corporations and perhaps, labor involved, and hammer something out that makes a lot of practical sense rather than attacking the business community? I, myself, am an S corporation meaning my corporation pays no..."

Chairman Bradley, J.: "Do you wish to yield an additional minute to Representative Sacia? Okay. Thank you. Sorry."

Governor Blagojevich: "Thank you."

Sacia: "Thank you. My corporation pays no taxes, Governor, as you know because it's an S-corp, but Jim Sacia gets to pay it. My point is, Governor, it seems to me and I'm not offering it as a suggestion I'm asking it as a question of you, would you consider sitting down with the business community, the labor community and the legislative community in an effort to work out something that's palatable and refreshing to each of us?"

Governor Blagojevich: "Thank you, Representative Sacia. First of all, thanks for the question. We're more than happy to sit down with anybody who wants to try to improve on our idea as a means to get us health care for everybody and fund education. So, the answer is 'yes' to your question. Second, let me thank you for creating jobs and I appreciate you in your business end and you are certainly not a fat cat you're a good cat 'cause you created jobs. Under our plan,

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you would be exempt on the first five million (5,000,000) of the five point two million (5,200,000) and then at that point, that little Gross Receipts Tax would start kicking in. And again, I'd say, when you consider all the options.. I was in my business as a lawyer... Representative Bradley, how much time do I have? Am I running out?"

Chairman Bradley, J.: "About 15 seconds."

Governor Blagojevich: "Fifteen seconds. Well, anyway, let me just say... I'll give ya my answer later. But we'd like to sit down with you. Thanks for creating jobs and businesses and you're probably among the many who are put at a competitive disadvantage 'cause some of these big businesses that compete against the little guy aren't payin' their fair share."

Chairman Bradley, J.: "Representative Biggins, four minutes left."

Biggins: "Mr. Chairman, thank you. We have two Members left who wish to ask a question. We'll start with Representative Winters and then conclude with Representative Stephens."

Chairman Bradley, J.: "Representative Winters is recognized for two minutes."

Winters: "Thank you, Mr. Chairman. Governor, in the proposal, one of the papers that you handed out this morning, I would quote from it, 'All out-of-state business that import their goods in Illinois will have to pay the GRT.' That's an attempt, I believe, to equal the playing field so that Illinois businesses selling within the state would not have

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a competitive disadvantage. I understand that you have language that was introduced last night that establishes a nexus if the good will be used in Illinois. My question to you then is, does our Department of Rev... how will the Department of Revenue enforce this when out-of-state corporations are not filing any income tax with the State of Illinois? I believe the interstate commerce clause of the U.S. Constitution would preclude us from taxing out-of-state corporations."

Governor Blagojevich: "My answer is twofold. Number 1) Brian Hamer from the Department of Revenue will be here shortly, so you can ask him the specifics in terms of how they would enforce it. Second, there's all kinds of taxes that are collected all the time in interstate commerce from different states and these economists can certainly verify that and they're a lot better put... better off telling me. You wanna give us an example, Doctor Persky."

Joseph Persky: "Well, the question is this issue of nexus that you raise and I think that... that will be discussed later in the day."

Winters: "Well, let... let me give a real example."

Joseph Persky: "And... and the exception... and the exception to that, we certainly have corporations that do business in Illinois who aren't taxed. I mean, they..."

Winters: "Well, let... let me give you a good example. I live in a border community along the Wisconsin border. If I go into Wisconsin and buy a good at a hardware store that I may use

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on my farm, I don't pay Illinois state taxes on that purchase, I pay whatever Wisconsin requires. How, then, if I go across into Wisconsin and I buy a wagonload of anhydrous ammonia for my farm, how are you going to tax it because they're selling it in Wisconsin, and whether I use it on a Wisconsin farm or an Illinois farm is immaterial to them. I don't see how you can enforce it."

Joseph Persky: "My understanding is that we have arrangements with neighboring states for the sales tax and that the question of what will happen with the Gross Receipts Tax is still somewhat open, but there will be an effort made to enforce the law."

Chairman Bradley, J.: "Thank you... thank you very much, Representative Winters. Representative Stephens is recognized for seven seconds. Two minutes."

Stephens: "I'll yield five seconds to Representative Black. And because of the restraints of time, Governor, I appreciate you being here. I would like your responses in writing and we will share them with the press. First of all, if you... if you're not allowed because of transparency laws to know how much an income tax a corporation pays, where did you get your information on how much income tax corporations weren't paying? I also... it was remarkable that you and several of your panel said that this was a broad-based and because of that it was fair and yet you're saying that individuals don't pay this tax and 90 percent of corporations pay it. So, how can you be broad-based and so limited in the scope

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of the tax? And Governor, you talked about it's time to stand still or to go backwards and I think that many times in this country we have... we have faced similar situations and I don't think that it's al... that it's fair to say that it's government that's going to stand still or go backwards. I think it's the individuals who wind up paying the cost and with that in mind, you say that we're going to exempt food and drugs because senior citizens pay that and yet you stand here before this Body and say, no individual is going to be affected. And so, I would like your written response to that and finally, in a technical question, if a portion of your business is service and a portion is sales, are you going to be taxed... is the Gross Receipts Tax broken out percentage, 2 percent on the sales or service and 1 percent on the sales or as we interpret it, if you have any portion of your business being service, will all of your receipts be taxed at the higher rate? I'd appreciate responses in writing. Thank you."

Chairman Bradley, J.: "You wanna try to answer those verbally real quickly?"

Governor Blagojevich: "Oh yeah. Thanks for the opportunity. First of all, Representative Stephens, your question about the role the government of whether we should address some of these problems, you remind me of my big brother who, like you, is a Republican. I just believe government in some cases is here to solve problems. Abraham Lincoln said, 'the legitimate object of government... it is the legitimate object

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of government to do for a community of people what they can't do by themselves or can't do so well in their separate and individual capacities.' And so, we have people all across Illinois who by themselves are getting priced out of the market to get health care, so we have a plan to address it in the Lincoln-kind of philosophy. To answer your question about... about the corporate income tax information, the Illinois Department of Revenue gave us that information. The law prohibits us from saying specifically the company that pays or doesn't pay. Their shareholders know; they can get that information but the public and the rest of the taxpayers are not allowed to know whether or not AT&T is paying any corporate income taxes, whether or not the big drug companies, Pfizer is paying any income taxes or General Dynamics or some of these big, big companies that are makin' all kinds of money. The law protects us... protects them from letting the public know, so if we want transparency, a good place to start would be to pass a law to say we have a right to know whether they're paying their fair share or not."

Chairman Bradley, J.: "Thank you, Governor Blagojevich. Representative Biggins, I wanna commend you for the... the efficiency of your caucus. Representative Mautino."

Mautino: "And I hope at the end of it, you can commend me for the efficiency of our caucus too."

Chairman Bradley, J.: "You have 26 minutes for Democrats."

Mautino: "And I'd like to yield the first three minutes to Representative Jack Franks."

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Chairman Bradley, J.: "Representative Franks, three minutes."

Franks: "Thank you, Mr. Chairman. Mr. Governor, thank you for being here. The first what... is more of a statement and then I wanna ask you two questions. For your lawyers, I was reading the Bill last night and Section 201-d is a severability clause which concerns me, because if business groups challenge this tax in court and are granted an injunction, wouldn't that still require the state to be on the hook for the seven billion dollars (\$7,000,000,000) in revenue even though we may not have a revenue source if the injunction is granted."

Governor Blagojevich: "Do you want me to answer that now, Jack?"

Franks: "Can we wait to the end. I'm gonna ask two other questions. But I think that's an important one to look at and also, you also have debts forgiven under Section 202-a. And I'm wondering if people who go bankrupt whether they're still gonna be required to pay the tax and how that's gonna jive with the federal bankruptcy laws? So, that's something else I think the lawyers have to look at. But on a different measure I wanna look at the structural changes. I was wondering with all these changes we're trying to do in the State of Illinois, would you be willing to change the budget system and go to a zero-based budget and require state agencies to have to defend their line items?"

Governor Blagojevich: "Okay. With regard to the last question, ya know, we're happy to discuss that with ya; I haven't really thought about it. I have been advocating for the

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last 4 years a balanced budget Act that says that we pay as we go for every item that we propose that cost money we have a corresponding way to pay for it. So, we'd be happy to talk to you about your idea."

Franks: "I'd like to go farther. I understand that and I agree with that, but I also think we need to farther with it. I think we need to have the agencies defend every one of their line items which I don't think they've had to do in the past. So, that's one issue. I also wanna talk to you about your comment about the zero-based, no-growth budget... do-nothing budget. I would respectfully disagree and the Comptroller indicates that we're supposed to have between eight hundred and nine million... nine hundred million dollars (\$800,000,000 and \$900,000,000) in revenue growth this year. If we went to a managed care system, we'd save approximately six hundred million dollars (\$600,000,000) as well, which is a billion five (1,500,000,000), if you add those two together. We also have about a billion two (1,200,000,000) owed to the State of Illinois by companies doing business with this state that are not paying their taxes which we have to go after those folks. If we could bring our collection efforts up without raising any taxes, we'd have an additional two and point five billion dollars (\$2,500,000,000). Don't you think we could do a lot with that money and accomplish a lot of your goals without having to raise taxes on anybody?"

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Governor Blagojevich: "Well, I like what you're suggesting in terms of going after those people and make 'em pay their fair share. If that's true, let's pursue that. But I don't know that those numbers are exactly what they are and I... ya know, you hear... this is not at all a reflection on you it's just the information that you get. The Comptroller also tells us, time after time, that there's this structural deficit that's out there that we have to address and again, this proposal addresses all of these outstanding issues that have accrued over the last 30 years."

Franks: "I'd like to work with you on those numbers."

Governor Blagojevich: "Yes, thank you, same here."

Franks: "I'd also like to request... if we're at a standstill, if you would consider calling a Special Session of the Legislature dealing only with school funding reform because I understand what you're trying to do here, but you haven't really changed the school funding formula which is archaic and it's not working in this state. So, if you would consider doing that, I think we might be able to come to a..."

Chairman Bradley, J.: "That's getting a little bit off the subject and we appreciate your comments Representative Franks. Representative Mautino."

Mautino: "I can... thank you. And I'd like to yield two minutes to Representative Gordon."

Chairman Bradley, J.: "Two minutes to Representative Gordon."

Gordon: "Thank you, Mr. Chairman. Good morning. Governor, the Supreme Court, United States Supreme Court, has ruled on

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several occasions that states cannot tax out-of-state companies unless there's a physical presence. You and I both know this is first day, civil procedure, but yet your administration has said the Gross Receipts Tax will... will deal with that. When there is a constitutional challenge... and there will be one... what are... what are the defenses to that so that that part isn't thrown out? And I'm very glad Representative Franks brought up the severability clause. And secondly, how are you going to make up for that loss that... when that specific section of the GRT is tossed out?"

Governor Blagojevich: "Thank you and I appreciate your question. Don't be so pessimistic. We're cautiously optimistic it won't be and our lawyers have been constructing this in such a way to be very, very careful. In a perfect world, and this is the frustration that I sometimes go through because we have all these lawyers, we'd like to just raise these thresholds to protect more small businesses. We'd like to be able to go straight from zero to ten million (10,000,000), for example, but some of the questions you raise, very legitimately, are reasons that have us do it a different way. Now, Bill Quinlan is here. He can address it now or when our lawyers testify later. Are you testifying, Bill? If the Chair's okay, if Representative Bradley's okay, I'd like Bill..."

Gordon: "Either that or I'd be... I'd be happy to get direct answers from him later, but if he could also put that in writing, I would appreciate it."

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Governor Blagojevich: "Okay. Okay."

Gordon: "And then my next question, in reading through Senate Bill 1, I notice there's an Enterprise Zone credit, a River's Edge credit for the remediation sections, personal property tax replacement income credit. There's other one: training for employees, educational expenses. Have you looked at the surrounding states in the Midwest as well as the rest of the country and will those credits only keep us competitive so that businesses don't leave to go someplace else to set up their business?"

Governor Blagojevich: "Yes, Representative, thank you. The Senate made some of those adjustments on their own. We invite you guys to add your thoughts on this proposed GRT and make it better and improve it as the Senate, I think, has. But again, I'm confident that our businesses are gonna be protected because it's a very simple dynamic. A business has as chance to participate in a one trillion dollar (\$1,000,000,000,000) marketplace. That's what the State of Illinois is. It's like a big poker game. And every time a hand is dealt by the dealer, a little bit for the house in health care and education comes off the top and you would be crazy to not wanna play in this one trillion dollar (\$1,000,000,000,000) marketplace. And so there's no reason for any business to leave. Now, if we'd have done what the Chicago Tribune suggested back in the wintertime, that we have a Gross Receipts Tax that does not exclude exports, then I think you'd have a pretty good argument and say that

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we're hurting our businesses, but we protect our businesses.  
We exempt exports from this so there's no reason for any  
business to leave and then when we get..."

Chairman Bradley, J.: "Governor, I'm sorry."

Governor Blagojevich: "...a billion dollars (\$1,000,000,000) in  
property tax relief, businesses will benefit. It's a reason  
to stay."

Chairman Bradley, J.: "I'm sor... I'm sorry, Governor."

Governor Blagojevich: "No, no, my fault."

Chairman Bradley, J.: "May... maybe gambling analogies aren't the  
best to use in front of this chairman, but..."

Governor Blagojevich: "Not in front of you. I was thinking of  
Representative Lang."

Chairman Bradley, J.: "Representative Mautino."

Mautino: "I yield two time... two minutes to Representative  
Harris."

Chairman Bradley, J.: "Two minutes to Representative Harris."

Harris: "Thank you. One question, Governor, I'd like to ask  
your staff to give me in writing since it's too complicated  
for here, but if they could provide a list of what the  
loopholes and exemptions that these major corporations are  
using to avoid taxes and what they believe those aggregate  
amounts are I'd be very grateful."

Governor Blagojevich: "Thank you."

Harris: "If I could get that today, that would probably be very  
helpful. Then the two questions I had. Is... ya know, is a  
family farm is one of the most important industries in

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Illinois for a variety of reasons, yet under the Gross Receipts Tax their inputs could conceivably rise while their ability to sell is limited by the commodities exchanges and what those prices are fixed at and the cost of transportation. One question is, was there any consideration into exempting family agriculture from the Gross Receipts Tax? And the second question was, you've mentioned how the Gross Receipts Tax could benefit mass transit which is critically important up in Chicago. If you could address those two issues."

Governor Blagojevich: "Yes. With regard to the family farms, those are, ya know, ideas that have been coming to us from various Members of the Legislature, have an open mind to take a look at the numbers. Happy to do that. With regard to mass transit, I believe, if we're gonna be able to do the things that are necessary to fund the things that are important for the people of Illinois, we need a new revenue source. I can't support an income tax or sales tax, so that's on... that's off the table. So, then it becomes whether this is the vehicle to do it. If we can do this and provide health care to families and fund our schools, it frees up all kinds of other options to be able to have a capital Bill that would then provide us the necessary money for mass transit. It all is sort of linked together in our budget and I think in the big scheme of things, unless you have a sustainable source of revenue nothing is possible, but if you have it, all things are possible. And let me

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just say again, something like the lottery, for example, it makes no sense for us to privatize the lottery, lease it or sell it and get the ten to twelve billion dollars (\$10,000,000,000 to \$12,000,000,000), if we don't have somethin' to replace the six hundred and fifty million dollars (\$650,000,000) that goes to the Common School Fund, with the lottery, that's why we need a new source of revenue. If we don't get that source of revenue, we can't move the lottery to deal with our pension issues or address it other areas. So, it's all linked together."

Chairman Bradley, J.: "Thank you very much. Representative Mautino."

Mautino: "Thank you, Mr. Chairman. And I'd yield two minutes to Representative Scully."

Chairman Bradley, J.: "Two minutes to Representative Scully who also asked that this committee last 'til 2:00 and I declined."

Scully: "Thank you, Mr. Chairman. Mr. Governor, thank you very much for joining us. I'd like my responses in writing primarily because I don't wanna tie up this time with the answers. First of all, I'd like to know what the revenue projections are for the first 3 years of the Gross Receipts Tax. I haven't seen those projections. Second, I would like to know what assumptions... what were the assumptions upon which those revenue projections were based. Third, I'd like to know what assumptions were made within those projections for tax avoidance. By tax avoidance, I

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specifically mean businesses using perfectly legal techniques to avoid paying the tax. Finally, based upon your statement that the GRT would extend to products imported into the State of Illinois and would specifically exclude products exported out of the State of Illinois, it now appears to me that the Gross Revenue Tax is functionally a tax on products and goods that are consumed within the State of Illinois. I'd ask you to tell me... explain to me where my logic is wrong. And if you'd like to respond to any of those during the remaining 45 seconds, I'd be happy otherwise I'd ask for your responses in writing."

Governor Blagojevich: "Great."

Scully: "Mr. Governor, thank you."

Governor Blagojevich: "Thank you, Representative Scully. No, your logic is right. It's within the State of Illinois. You're right. Excellent, yes."

Chairman Bradley, J.: "Okay. So, we'll... Scully's has asked that that be... Representative Scully's asked that that be responded to in written form and there's no way we can get all that in in the next 27 seconds. Representative Mautino, next speaker."

Mautino: "Representative Lang for two minutes."

Chairman Bradley, J.: "Representative Lou Lang is recognized for two minutes."

Lang: "Thank you, Mr. Chairman. Good morning, gentlemen. Governor, good morning. I, for one, was impressed with your boldness and creativity in the plan whether or not it's

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something we're for is a separate question, but I... I think it was good that you stepped forward and proposed something to deal with the priorities of the state. The first thing is a request and then I'm gonna ask a question after that. At no time since you proposed the Gross Receipts Tax have we actually seen any indication, a shred of paper, any evidence at all about how it's worked in the other states that have the GRT. We... There are, what, I think seven other states that have it. We haven't seen how it's worked, what its impact has been on business, what its impact has been on consumers, what kind of taxes have been passed along to consumers. There must be studies out there that do that. I would request on behalf of all of us here that we get in writing from your office lots of detail about whether it works or doesn't work in these other states so we're not working in the blind. Is that something we can do?"

Governor Blagojevich: "With great enthusiasm."

Lang: "All right."

Governor Blagojevich: "Excellent."

Lang: "So, we would like to see that because so far all we have is great plan; it's gonna work, but we don't see what's happened in other states. So, I think we'd all like to see that to read through. The other thing is... is more of a rhetorical question, but I hope you'll answer it. You... you've come here and you say you're here in the spirit of compromise and there are all kinds of options for raising revenue for the State of Illinois, but periodically

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throughout your comments today and your comments over the last weeks, you've shut all of those other options down. And you said, 'Well, I'm here to compromise, but the only thing I'll talk about is the GRT.' So, we're here in a Committee of the Whole, why don't you tell us how we can compromise with you if there's only one thing left on the table."

Governor Blagojevich: "I'd be happy to answer that. Well, I proposed the budget on March the 7th. It pays for all the different things: health care for everybody, ten billion dollars (\$10,000,000,000) for our schools over the next 4 years. We showed you a way to be able to bring the pension liability down from forty-one billion dollars (\$41,000,000,000) down to fifteen billion dollars (\$15,000,000,000) by the use of the pension... the lottery and then a pension... a refinancing of the... of our pension obligations. I proposed my budget. Now, if you guys have ideas and you got some alternative ideas, happy to hear 'em. The only one I'm takin' off the table is the income tax or sales tax on people. But if you've got ideas, and I have a sneaking suspicion you do, Representative Lang, we'd like to hear 'em and we'll have an open mind. But I will say this, unless you have that big, sustainable source of revenue that can keep things goin', all these other things are collateral and ancillary. They're not gonna solve the big problems in our state. And I know you've got some ambitions and they're legitimate, but that alone won't solve it either. Ya need

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something first to be able to get our fiscal house in order and move towards the health care for everybody and education funding. Some of your ideas fit in perfectly if ya get that first step done and that's... there I am. But having said that, be happy to hear your ideas."

Chairman Bradley, J.: "Thank you, Representative Lang and Governor Blagojevich. Let me also remind the Members that the Governor's Office will be back in the afternoon and some of these questions that are more complicated hopefully could be addressed to some degree at that time. So, I don't mean to be curt in terms of some of the answers, but some of these will require a little bit of time. Hopefully, they can be addressed to some degree at that point. Representative Mautino."

Mautino: "Thank you, Chairman. At this time I'd like to yield two minutes to Representative Hamos."

Hamos: "Thank you."

Chairman Bradley, J.: "Repre..."

Hamos: "Thank you, Governor. Nice to see you, Doug."

Chairman Bradley, J.: "Representative Hamos is recognized for two minutes."

Hamos: "Thanks. I have two questions. Maybe to Doug Kane, who I'm pleased to see here. So, business groups tell us that the GRT would push Illinois into a top tier of states with the greatest tax burden. Our issue, we... if we agree with all of the premises of the Governor, which I do, certainly in terms of tax fairness, in terms of what we're trying to

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fund, our major concern should really be about our business climate and not hurting our business climate and we equally... we care about that equally. So, what evidence would we have, I mean, where are we now in terms of our ranking in te... as to tax fair... tax burden. Where would this place us with the GRT? That's my first question. And the second question is, so, I've never owned a business, I will confess to that, and I've listened to some of our colleagues there, it seems to me that when a company plants itself in Illinois, it might pay property taxes, it will theoretically pay sales taxes on the goods that it buys, it pays, hopefully, a corporate income tax. Aren't those taxes also passed on somehow, it's the cost of doing business, but don't they in fact get incorporated in the prices they charge, their... sell... at their consumers? And so why is the GRT unique in that? That's what I'm sort of really trying to sort out."

Doug Kane: "In terms of... of where Illinois is in total tax burden and I... and the latest actual data that we have is from 2004, the Department of the Census and if you look at the public sector as a whole, general revenue from owned sources for state and local governments in the state which would include taxes and fees and interest, Illinois ranks 47th of the 50 states, well below the median of the 50 states. If taxes are increased by seven billion dollars (\$7,000,000,000) in Illinois, Illinois will still be below the median of the 50 states; it will be in the bottom half

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and will be below all... will be below seven of the eight neighboring states. The Tax Foundation puts out a number saying that Illinois is 22nd, but if you look at the small print in their definition of what tax burden is, they're looking at the tax burden that Illinois residents pay in taxes from all 50 states. So, they include the casino taxes from Nevada the share that Illinois people pay, the severance taxes on coal to Wyoming that Illinois residents pay, the severance taxes on oil to Alaska and to Texas that Illinois residents pay. So, when you look at the Tax Foundation number and they're saying that the state and local tax burden in Illinois is 22nd of all 50 states, they're not just talking about Illinois taxes."

Chairman Bradley, J.: "Okay."

Doug Kane: "They're talking about taxes from all of those states."

Chairman Bradley, J.: "Thank you, Mr. Kane and Representative Hamos. Representative Mautino."

Mautino: "Thank you, Mr. Chairman. I'd like to yield two minutes to Representative Molaro."

Chairman Bradley, J.: "Representative Molaro is recognized for two minutes."

Molaro: "Thank you, Mr. Chairman. You did a great Clinton last night, by the way. Hopefully, that gets me another minute, so..."

Chairman Bradley, J.: "I thought I might bring back memories..."

Molaro: "Well..."

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Chairman Bradley, J.: "...to Dr. Thorpe if I did that today."

Molaro: "Here's what we'll do. I'm gonna... If I have a question or two, Governor, I'm gonna answer for you so this way you don't take up my time. Ya know, let me say this. You said something today, I don't know, maybe... maybe in Springfield we don't listen to anybody, that's the biggest problem. Representative Lang asked something and you answered it and if we actually listened to both of you and what you had to say, we're gonna be out of here May 31, no doubt about it. I mean... I heard you say, if I'm wrong... Lou said, ya know, if you're not gonna bend on the GRT, where we goin'? And you said something interesting. You didn't say I gotta have the GRT. I'll read what you said. You said, 'The only thing I'm not gonna do is raise the income tax or the sales tax.' Well, how much more of a compromise can we ask of you? I mean, you come out here and say, give me a budget, just don't raise the income tax or the sales tax and we got something to work with. Now, ya did say, I'd like to do health care and I'd love to do ten billion (10,000,000,000) for education, but if we do that kind of stuff, it's gonna cost us money and the only thing you have to go first, the Constitution and you came up with the GRT. So, let me ask you these questions. I... I don't know if you were listening earlier, but a little bird told us that maybe tomorrow we're gonna be voting on some Resolution about the GRT, right? Let me... I'll answer it. First of all, I think you said it already. The GRT that was passed by the Senate Committee,

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whatever it was, obviously, that's a starting point. We can have our own negotiations; we can pass any form of the GRT we want, right? And you will look at it no matter what it says. And if we come up and say, well maybe ten billion (10,000,000,000) is ambitious for education and we wanna knock it three or four you're not gonna be happy, but we'll deal with the IAA and the IFT and everything else. The health care part, ya know, it's gonna be hard to knock that down and have the health care you're looking for, but if we do have ways to streamline your presentation, you'll certainly look at that. So, you'll look at it if we come up with health care that's a little streamlined, education that's streamlined, a GRT that may be greatly streamlined, maybe we might raise it to four bil... bil... million as an exemption or that kind of stuff, but I guess what I'm getting at is..."

Chairman Bradley, J.: "Thank you, Representative Molaro."

Governor Blagojevich: "What was the last part?"

Chairman Bradley, J.: "I've always wanted to do that. I'm teasin'. Thank you. Thank you. Representative Mautino, you have ten minutes left. Who do you yield time to?"

Mautino: "Representative Mary Flowers for two minutes."

Chairman Bradley, J.: "Representative Flowers is recognized for two minutes."

Flowers: "Thank you, Mr. Chairman. Good morning, Governor and members of the panel. Governor, I don't know anything about this since I don't own a business, but I'm just curious and

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I hope someone can help me with this. A business is in business to... and it takes capital to start a business... and in order for them to stay in business they must make a profit on the capital. Am I correct?"

Governor Blagojevich: "I think that's good business sense."

Flowers: "Okay. So now and if the businesses that's in... that use the capital and it's makin' a profit, and they are employing people that's paying taxes to the State of Illinois, that's good business practice. Am I correct?"

Governor Blagojevich: "That's a good thing for all of us when they employ people."

Flowers: "Absolutely. And so as a result of what you're doing and I'm not against closing up loopholes, if that's what should happen. But it appears to me that we will be doin' ourselves a disservice. I was just readin' this magazine, the Illinois Manufacturers magazine that was talkin' about how many jobs that Illinois has lost since 2000 and how, instead of expanding the tax base, we are creating and expanding the Medicaid base because realistically speaking when you think about the fees that you charge the... the state, for instance, like the license plate fees on senior citizens, that was really a tax on senior citizens without raising the tax that you say you don't want to raise on the senior citizens and I think we've collected like seven billion dollars (\$7,000,000,000) as a result of those fees. And what I'm trying to get at, Governor, is that all these little taxes... all these little fees, I'm sorry, are taxes

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that we, the government, is puttin' on the people as well as the businesses are puttin' on the people. And I think the fairest thing that we should do is to... for the CEOs that you were enunciating earlier that's making billions and billions of dollars, we should tax their income."

Chairman Bradley, J.: "Thank you, Representative Flowers. Representative Mautino, who do you yield time to? Representative Mautino."

Mautino: "The next... Monique Davis."

Chairman Bradley, J.: "Representative Monique Davis recognized for two minutes."

Davis, M.: "Thank you very much. Thank you. Mr. Governor, it appears to me that the largest tax cheats are those businesses that stick their headquarters in a PO box out of the State of Illinois or out of our country in a tax haven or... and then they make their money off the people in Illinois without having to pay taxes for the services that's provided by the state. Exactly what does your plan do to address this problem?"

Governor Blagojevich: "Yes. Well, thank you. First of all, let me say a couple quick things. Businesses are pursuing what their legal options are when they avoid their corporate taxes. They form subchapter S corporations, they form LLCs, they headquarter in other states. they do everything possible to avoid paying taxes. This is what you're supposed to do in business, maximize profits and make more money for your shareholders. They're meeting their

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responsibilities. They're getting away with what the laws are, what we allow them to do. We were hired by the people to look after their interests and when they don't pay their fair share, we underfund our schools, we shortchange health care and we have these pension problems in the State of Illinois where we can't fund pensions for teachers and retired state employees. So, they're not tax cheats per se; they're simply following the rules, but the rules are unfair to working people."

Davis, M.: "But what does your Bill do to..."

Governor Blagojevich: "Our...our Bill says that any transaction that takes place within the borders of the State of Illinois at different rates, depending upon the activity, is subject to a low-rate, broad-based Gross Receipts Tax. You can't have a corporate loophole or avoid it. The reason there's so much opposition to this is because they know, these corporate guys, they can't avoid this tax. This one has to be paid. Just like we don't avoid our taxes when it comes to our income taxes and this would provide the money for schools and health care and all the things we Democrats say we care about."

Davis, M.: "All the things that you're gonna respond in writing to, I would ask that you respond to the committee as a whole."

Governor Blagojevich: "Happy to do that. Thank you."

Davis, M.: "Thank you, Sir."

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Chairman Bradley, J.: "Thank you, Representative Davis.  
Representative Mautino."

Mautino: "Thank you, Chairman. I'd like to yield two minutes to  
Representative Riley."

Chairman Bradley, J.: "Representative Riley is recognized for  
two minutes."

Riley: "Thank you, Mr. Governor. Thank you, the panel, for  
coming especially Joe Persky representing the University of  
Illinois at Chicago that we've all spent some time at. A  
couple of things, Mr. Governor. I think in this debate,  
which I think is an important debate, especially in the  
media and just really a lot of other places, it seems as  
though we're really gotten into semantics and shibboleths  
being thrown and so forth. I mean, all taxes at some point,  
ultimately, are passed on to the consumer, all of them. So,  
ya know, I would hope that, ya know, in the debate people  
would sort of come clean with that and say that ultimately  
everybody is going to pay. It's just that, ya know, it is  
the benefit from these different programs for the payment of  
these taxes. One thing I wanna know from the panel, do you  
have any projections of any future rate hikes in the  
proposed GRT because we really wanna know what they are. It  
seems as though if future hikes are not controlled, if  
there's not a control on future hikes, we really have a  
problem even with this model, number 1. Number 2) under  
this proposal what would prohibit some business or industry,  
that has some influence, from cutting their own deal with

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regard to what their taxation level is. If that happens, it kinda flies in the face of, ya know, the invisible hand of the marketplace, as you've said, ya know, taking care of things. It would be a situation normal, taxation would be skewed all over the state and we, ya know, we would, ya know, have the same kind of situation we have now. Could you explain those?"

Joseph Persky: "I'd just like to make one comment on the question of rate hikes. One of the arguments that is taxed is precisely that it has the broad base that represents the entire state economy with the exception of exports. To the extent the state grows, revenues will grow but it won't require an increase in the rate. One of the problems with our tax structure now is that except for the income tax, many of the bases, the sales tax, the corporate income tax, just aren't growing with the state's economy. So, hopefully, it would not require increases in the rate because the base now would be more reflective of the economic activity going on in the state."

Chairman Bradley, J.: "Thank you very much. Representative Mautino recognizes Representative Miller for two minutes. Representative Miller."

Miller: "Thank you, Mr... thank you, Mr. Speaker. First off, Governor, thank you for coming. I think we all in this chamber have the same passion as you do for education, health care and such, but I do disagree with you in regards to options on the table. There is a bipartisan option on

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the table, House Bill... Senate Bill 750. It still is a work in progress that was... that had... that is still being considered and still being worked on. It is your respons... our responsibility as... as officers to pass a Bill. It's your constitutional right to veto it. It's our constitutional right to override a veto and that is the process that we deal with in Illinois. So, I do respect your opinion. I just disagree with you on that point. My question, quickly, is, in the mix already we've heard through the 750 process was that one of the questions asked was, what if the lottery and other revenue sources and we find out that we don't need to raise the income tax as much as proposed, could we make changes? And so, using that same methodology, you've already, in the Senate chamber, have increased it to five million dollars (\$5,000,000) as a... as a floor, there's been talk about a alternative minimum tax, what other changes need to be made and how does the revenue gel particularly with your first comments when GRT was first introduced as one million dollars (\$1,000,000), I believe, with 85 percent of those corporations paying tax. So, the numbers have to gel in consideration with even the lease part, lease of the lottery, has to be part of the quest... the equation. Second point is there's no commitment after year one on where moneys and revenues, as I've seen, are gonna go. As we know, we had a lottery. Most citizens in the State of Illinois know that the lottery system, when it was first proposed years ago, was a shell game. What assurances

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even in GRT is that the money will be targeted towards the..  
and actually I wanna hear from some of the experts too."

Governor Blagojevich: "Do you want me to answer that, David,  
some of it or... Okay."

Chairman Bradley, J.: "As briefly as possible, Governor."

Governor Blagojevich: "I'll be brief. Let me just reiterate."

Chairman Bradley, J.: "We gotta get this..."

Governor Blagojevich: "Any income tax or sales tax on people,  
I'll veto that. You have every right to pass it and then  
we'll do whatever you gotta do, the override and all the  
rest, and if you can do all of that. And then, ya know,  
what my intention is to roll that back. I can't imagine why  
you'd wanna go back to your district this summer with gas  
prices up to five dollars (\$5) a gallon, when ComEd and  
Ameren are price gouging your constituents and then throw a  
66 percent increase on taxes on those same people that are  
getting price gouged by these big utility companies and then  
tell the local... the local barbershop in Roseland, we're  
puttin' sales taxes on the haircut, it's just wrong; it's  
against the peoples' interest and I can't be for that.  
Having said that the GRT and some of the questions you  
asked, let these economists answer some of those questions,  
but you guys'll have... help make the decision on what the  
rate is, what the changes are and the investments in where  
the money would go. And that's certainly where we wanna  
work with you guys."

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Chairman Bradley, J.: "Will the economists be back this afternoon to answer questions?"

Governor Blagojevich: "Yeah. Sure. Whatever you want."

Chairman Bradley, J.: "Okay. Let's do that. Representative Mautino recognizes Representative Dunkin for two minutes. And I apologize; we've gotta keep movin'."

Dunkin: "Thank you, Mr. Governor and your panel here. My question is, if we don't get this education, this health care, at least the increase in the foundation level, what's our alternative plan, let's say, for some reason this doesn't work? And before you answer, I just wanna say I genuinely admire the spirit of this debate and how you have put this in front of us, how it's really forcing a lot of us to really think out of the box and to look at some of these areas where corporations have not been payin' their fair share. Yet, all of us better pay our fair share or else. I'm... so I admire that fact. The spirit of this debate as it relates to health care and insuring all the... all Illinoisans, in trying to do our best, our damndest as it relates to increasing the foundation towards education. So, let's keep this conversation goin', but the question is, if we don't get what we want, as it relates to this particular proposal, what's the alternative for increasing the foundation level of education and access to health care for all Illinoisans?"

Governor Blagojevich: "I think it's as I said. I think we have pretty much three options. We do this new source of revenue

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which is sustainable and reliable and that the education groups support; we do an income tax or sales tax which I'll veto so take that option off the table, or we do nothing. It's just that simple. And some of these other ideas that raise revenue are not nearly enough to address this foundation level. These are the only two options that we have available to us. And so the choice is really, do we do this or do we do nothing. And a do-nothing budget is a do harm budget. It does a lot and it's all bad. It cuts education; it cuts health care; it cuts mass transit; it cuts fee... meals to senior citizens, job training grants and all the rest. It's a hardship budget and people will let us know we didn't do our jobs if we end up in a place like that."

Dunkin: "Thank you."

Chairman Bradley, J.: "Thank you very much. The last speaker for the Democratic Caucus is Representative Washington. He is recognized for one minute."

Washington: "Thank you, Mr. Speaker. Governor, two quick questions. Could you answer some of the concerns I've been getting around the pension problem that we've been havin' how indirectly or directly this would help with that? And also, being if we have a shortage of certain workers in certain disabled centers, how will the GRT fix that problem where we can get more people in and get less overtime?"

Governor Blagojevich: "And the first question, Eddie, was what? Your first part of the question."

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Washington: "With the pension problem..."

Governor Blagojevich: "Yeah."

Washington: "...how will it indirectly or directly deal with that as well as getting some other workers in some of the disabled centers to cut down on the overtime?"

Governor Blagojevich: "The unfunded pension liability which took 30 years to make was forty-three billion dollars (\$43,000,000,000) in 2003. We got it down to thirty-seven billion dollars (\$37,000,000,000) in November of 2006. It's back up to over almost... more than forty-one billion dollars (\$41,000,000,000) now because the interest payments are out of control. If you're gonna really address that and not waste taxpayers' money on interest payments, you gotta put a big payment towards the principal. If we have a sustainable source of revenue, we can then privatize and sell or lease the lottery which gets us ten to twelve billion dollars (\$10,000,000,000 to \$12,000,000,000). You can't do that unless you have money to make up for the Common School Fund which is about six hundred and fifty million dollars (\$650,000,000). If we get the GRT, we can take that lottery and put the ten to twelve billion dollars (\$10,000,000,000 to \$12,000,000,000) right towards the principal on those pension payments, bring that down by ten to twelve billion (10,000,000,000 to 12,000,000,000) and then if we can get you guys to support a pension obligation bond refinancing at lower interest rates like we did in 2003, we can bring that liability down to fifteen billion dollars (\$15,000,000,000),

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twenty-six billion dollars (\$26,000,000,000) less than what it is which frees up all kinds of interest payments for education and for health care, for disa... developmentally disabled programs for disabled workers and all the rest. We need revenue."

Chairman Bradley, J.: "Governor..."

Governor Blagojevich: "We need revenue if we're gonna do things and the choice is pretty much the GRT or you guys pass an income tax or sales tax which I'll veto and I don't believe that'll happen."

Chairman Bradley, J.: "Governor, we will treat that as your closing remark."

Governor Blagojevich: "Okay."

Chairman Bradley, J.: "I wanna commend both caucuses for their brevity and efficiency. And I also think it's a remarkable and extraordinary set of circumstances to have the Governor here and answer questions. And regardless of what anyone may think of this specific proposal, I think we all have respect for the office and your willingness to come here this morning. Thank you very much. Okay. Our next panelist will be Lieutenant Governor Pat Quinn. Lieutenant Governor, if you could face the chamber and raise your right hand. In the testimony you're about... in the testimony that you're about to give, do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?"

Lt. Governor Quinn: "I do."

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Chairman Bradley, J.: "Lieutenant Governor, you're recognized for five minutes."

Lt. Governor Quinn: "I appreciate the opportunity to be here, it's an honor to be here, I commend everyone in this chamber, the Speaker of the House, for having this hearing. My name is Pat Quinn, Lt. Governor of Illinois. I was reelected last November. Prior to that, I served as State Treasurer of Illinois. I've also been Revenue Director of the City of Chicago. I was elected by the voters of Cook County to be the Tax Appeal... Property Tax Appeal Commissioner of Cook County and I heard thousands and thousands of tax appeal cases in the biggest tax appeal agency in the United States. There's a long saying, I heard the Governor awhile back this morning talk about it. Ben Franklin, one of the founders of our country, said there are two things inevitable in life, death and taxes, but Ben Franklin did not say that it's inevitable to be taxed to death, and that is the problem we have here today. No matter how many times you say it, and as Harry Truman once said, it sounds good if you say it fast, but unfortunately for us, the taxpayers of Illinois, the Gross Receipts Tax is a consumer tax. It's a soak the middle-class tax. Indeed, the Gross Receipts levy will be levied on the sale of gasoline, the purchase of electricity, the purchase of heat in the winter on rents across Illinois. That is not the way to go for our state. There is a principle as old as the Bible; taxes should be based on ability to pay. And

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unfortunately the proposal that we just heard on the Gross Receipts Tax will smash to smithereens that fundamental principle of taxation based on ability to pay. What we have to do, and I believe very strongly in what the Governor outlined in his speech, his budget address. There are loopholes in the Illinois Tax Code. Many of them have been placed by powerful interests that don't want to pay their fair share. We have to end loophole mania in Illinois. We have to reform the Tax Code. We need to close down the loopholes. If in 1979 corporations were paying 21 percent of the overall tax burden, we should do everything possible to maintain that level in the year 2007 and beyond. We should not allow big corporate entities to use their political power to shift the tax burden onto ordinary people, where they get the tax breaks, and we get the tax bills. So, I completely agree with the Governor's analysis of the shortcomings in the Illinois Corporate Revenue Code. We have a hundred and five (105) degree fever in Illinois with respect to an unfair corporate tax structure, but the way you remedy that problem after diagnosing it, is you don't take that hundred and five (105) degree fever and put a cast on your leg. That is the wrong way to go. I totally disagree with the Governor and his assistants with respect to the remedy to get out of this particular problem. I think we need in Illinois to invest in health care, need to invest in education, and we need to invest in equity in the tax system. There's something wrong in Illinois where those

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who raise thoroughbred horses get more tax breaks and more tax relief than parents raising children. In our state we have not kept the personal exemption on the Illinois Income Tax current with the cost of living. When the Illinois Income Tax began in 1969, the philosophy was that there would be a personal exemption that would shield family income from excessive taxation. Unfortunately, that personal exemption has not been indexed of inflation, if it was..."

Chairman Bradley, J.: "Can we have some order in here please for the Lt. Governor."

Lt. Governor Quinn: "...it would be five thousand five hundred and forty-four dollars (\$5,544) today; instead it's two thousand dollars (\$2,000). I cannot, in any way, see a tax fairness plan in our state that does nothing whatsoever about taking the personal exemption in Illinois which is for everyday people, those very people the Governor talked about, the people who are the heart and soul of Illinois, and indexing and increasing the personal exemption for the people of our state. A matter of fact, when I was State Treasurer in 1993, this chamber did indeed raise the personal exemption and Governor Blagojevich, then Representative Blagojevich, was Sponsor of that measure. But unfortunately, his tax fairness plan today has nary a mention of indexing the personal exemption or improving the value of the earned income tax credit, and that's a serious shortcoming."

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Chairman Bradley, J.: "Lt. Governor, could you bring your remarks to a close?"

Lt. Governor Quinn: "I will bring my remarks to an end. I would say this, on behalf of everyone in Illinois, this tax, the Gross Receipts Tax, is a consumption tax. It is not a tax that we can afford in Illinois. It will not improve the tax fairness of our state. If we're concerned about five (\$5) dollar a gallon gasoline and skyrocketing utility bills, I would urge you not to go back to your constituents after the adjournment of this Session saying we brought forward a Gross Receipts Tax that will be levied on your purchase of gasoline, in addition to the gas tax, the sales tax on gasoline, and now a new Gross Receipts Tax."

Chairman Bradley, J.: "Thank you, Lieutenant..."

Lt. Governor Quinn: "That's the wrong way to go."

Chairman Bradley, J.: "Thank you, Lt. Governor. Representative Biggins, you're recognized for two minutes."

Biggins: "And thank you, Mr. Chairman. I would like to relinquish two minutes of my time to Representative Froehlich."

Chairman Bradley, J.: "Representative Froehlich's recognized for two minutes."

Froehlich: "Thank you, Lt. Governor Quinn; it's good to see you here. I appreciate your point about the personal exemption, how it's lost its value. You said it would be, if it had kept its value from the inception it would be over five thousand dollars (\$5,000) today, on the personal exemption?"

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And if... and if we had it there, then the income tax would not be as regressive as it is?"

Lt. Governor Quinn: "Well, that's the point. The only way you keep a fair system is you must have a personal exemption every year annually indexed to inflation. If it had been done properly, it would be five thousand five hundred and forty-four dollars (\$5,544). The failure to do that has resulted in a stealth tax on the people of Illinois, the middle-class citizens of our state and poor citizens of over four hundred dollars (\$400)."

Froehlich: "Could you give us... what's your opinion of the competing proposal out there, House Bill 750?"

Lt. Governor Quinn: "I do not favor the service tax elements of that proposal. I do believe that any kind of fundamental reform of the Illinois tax system should really be done by Constitutional Amendment. This chamber and the Senate have an opportunity, I think a once in a lifetime opportunity, to put forward to the people of Illinois next year in the General Election, a Constitutional Amendment that will reform our tax system, improve investment in education and health care, and cut taxes on the great majority of taxpayers in Illinois. That can be done in a prudent, progressive way. There is something wrong in our state where the Tax Code where the Governor talks about these big corporate executives making four hundred (400) times the average worker, their tax rate in Illinois is 3 percent, the same as the cleaning lady in their corporate suite. That

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violates the principle of ability to pay, and I think we ought to look at that and refer something to the voters that makes sense for everybody."

Froehlich: "Thank you very much."

Chairman Bradley, J.: "Thank you, Representative Froehlich. Representative Mautino recognizes Representative Hoffman for two minutes."

Hoffman: Thank you, Mr. Chairman. Lt. Governor, you indicated in your remarks that you are in favor of many of the spending priorities of the Governor. I know that you've long been a proponent of health care, a reform, as a matter of fact, I think you walked across the state with a renowned expert of... on health care."

Chairman Bradley, J.: "Mautino on the Chair."

Hoffman: "Is that correct? You do favor some type of universal access to health care?"

Lt. Governor Quinn: "I favor decent health care for everyone. Cardinal Bernadine, who lived in our state, we miss him every day, said that that's something that all of us in our society should..."

Hoffman: "In addition, you had indicated that you favored educational expanding. I assume you support our friends in organized labor who would provide infrastructure improvements. And I've heard and I've read some of your comments and you have indicated that you would pay for all of this by closing loopholes. Well, we've closed some loopholes here in the General Assembly, and I believe it was

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May 26 exactly of 2004, we actually had a proposal to close fifteen (15) other loopholes, many of them that you've talked about, that total amount that that would've brought in and incidentally, only twenty-three (23) of us on this side of the aisle supported, none on that side of the aisle, that would have brought in around three hundred million dollars (\$300,000,000). Now, if we want to provide health care education, infrastructure improvements, address the forty-one billion dollar (\$41,000,000,000) spending problem, our unfunded liability problem that we have with pensions, you're not gonna do it with three hundred million dollars (\$300,000,000). So, I would just ask you, what else would you do in order to provide for these laudable goals other than provide a task force to look at loopholes which you have suggested?"

Lt. Governor Quinn: "Well, I've outlined a specific way to close loopholes. I think it's an effective way, it's called the Taxpayer Action Board. Essentially, it would follow the principles of the Federal Base Closing Commission, where there'd be an analysis of loopholes, tax expenditures in the Illinois Tax Code and this commission would propose closure of those that are inefficient and obsolete. The resulting revenue would be used one-third for health, one-third for education, one-third for tax relief for people who need it the most. I think we should, in the course of that analysis, take a look at what the Federal Government does with respect to the corporate expenses that are used by

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corporations on the Illinois Income Tax. We do not have to follow every rule of the Federal Government, especially given the current Congress that has, in my opinion, been overly generous with giving out deductions, credits, exemptions to powerful multinational corporations. So, I think that analysis would produce far more revenue than you outlined, but I do believe that is the best way to start. I think that's what taxpayers want rather than having a new levy, a consumption levy, a middle-class tax on the people of Illinois in the name of Gross Receipts Tax. Harry Truman said the most sensitive nerve in the body is the pocketbook nerve. If you want to hear from the pocketbooks of everyday people in Illinois, just try levying the Gross Receipts Tax."

Chairman Mautino: "Lt. Governor, I'd like to ask you to bring your remarks to a close. Sorry for the interruption. Thank you, Lt. Governor. And seeing no further questions on here, we'll go on to our next panel. Representative Boland has yielded one minute."

Boland: "Well, I thought, Mr. Speaker, I was gonna get two minutes. But that's all right, I'll try to make it as fast as possible. First of all, thank you, Lt. Governor Quinn for not only being here today, but for your leadership over your lifetime really, of fighting for tax justice and for those taxpayers, particularly those middle- and lower-income taxpayers that really need a tax break, not a tax increase. I've wondered a couple of things; one, if you would be

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supportive of a minimum corporate alternative tax so that these corporations that are escaping the tax, the corporate income tax, right now, that that would be an alternative that you could support?"

Lt. Governor Quinn: "I definitely support that. I think that there should be mechanisms in place, one of them we... several of them we just mentioned, but anything that can be used the minimum alternative corporate tax to make sure that those business firms that benefit from police protection and fire protection and all the services of the State of Illinois, highways, and water, and roads, and so on, pay their fair share. I think it's important that we have that kind of structure in Illinois, and I think this chamber together with your colleagues in the Senate, can come up with a reasonable plan. I do think any plan of tax reform should and must include tax relief to ordinary people in the form of a more generous personal exemption against the income tax as well as a more generous earned income tax credit. So, by closing down loopholes and having a minimum alternative corporate income tax, we can provide revenue necessary to do the most important thing. The test of a decent society is how fair its tax system is. Illinois has one of the most unfair tax systems today. If the Gross Receipts Tax is enacted, it'll make the current system even more regressive, more unfair, and I think the proposal of an alternative corporate income tax is a step in the right direction towards more fairness."

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Chairman Mautino: "Thank you, Representative Boland, your time has expired. One minute to Representative Rose..."

Rose: "Mr. Chairman..."

Chairman Mautino: "...and then we'll move to the next panel."

Rose: "Thank you, Mr. Chairman. Lt. Governor, I had asked the Governor this question and he spent my two minutes talking around it so, the question is this; do rural people pay the tax under the GRT?"

Lt. Governor Quinn: "In my opinion the Gross Receipts Tax, the incidence of that tax, who pays it, is borne by the ultimate consumer at the checkout counter, at the gasoline pump. This is a consumer tax. In my opinion..."

Rose: "It's a regressive tax on people."

Lt. Governor Quinn: "...it's a 'soak the middle-class' tax in my opinion."

Rose: "And I guess what I'm suggesting is that the... that to say that one tax or another tax doesn't affect people, they all affect people, and you agree with that."

Lt. Governor Quinn: "No one likes taxes. April 15th is not my favorite day. I think the best way to deal with this issue is to follow that principle, as old as the Bible, that taxes should be based on ability to pay. The Gross Receipts Tax is not based on ability to pay. If you look at the history of the income tax in our country, that Abraham Lincoln levied during the Civil War, the concept was we don't wanna have consumption in excise in taxes that aren't based on

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ability to pay, as a way to fund government. We should use the income tax mechanism as the fairest way to go."

Rose: "Thank you."

Chairman Mautino: "Thank you, Lt. Governor for joining us today. Our next panel is the AFL-CIO, and is our labor organization president Michael Carrigan, Laborers' International Union midwest regional manager Ed Smith, SEIU head organizer Keith Kelleher, AFSCME research director Hank Scheff, and for the purpose of announcement, Representative Reis."

Reis: "Thank you, Mr. Chairman. Just want to let the folks on the House Floor know and staff that it's been a long morning and an even longer afternoon, and I have homemade fudge from a local fudge maker in my district for everyone to enjoy. Thank you."

Chairman Mautino: "Thank you. Thank you. If I can have everyone's attention, I'd like to go to our... our next panel and at this time introduce AFL-CIO President Michael Carrigan for some brief remarks and then we'll go to questions from Members. Gentlemen, I'd ask you to all rise, face the front, and raise your right hand. Do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God? Thank you. Have a seat. Mr. Carrigan."

Michael Carrigan: "Good morning and thank you for the opportunity to come and speak. I'm Michael Carrigan, President of the Illinois AFL-CIO. The Illinois AFL-CIO is... has been a long-time supporter of tax fairness to deliver needed services to the residents of Illinois. The Gross

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Receipts Tax is a new tax on the largest profitable corporations that will benefit Illinois working families. Over the years, many of these corporations have reaped profits through paying little or no taxes and soaking up the tax breaks while shifting the burden to working families who are already being hit with budget busting costs at the gas pump and electric rates. Between 1997 and 2004, nearly half of the all the corporations that made fifty million dollars (\$50,000,000) or more paid no income tax. These same large corporations benefit from services provided by the state and its citizens, like an educated workforce, roads, airports, police, and fire protection, but the shift in the tax burden in the last 20 years shows these corporations are not paying their fair share. The Gross Receipts Tax will level the playing field so that working families will now have partners in the corporate community sharing the sacrifice and paying for vital services, health care, public education, and capital investment. The nearly one million (1,000,000) members of the Illinois AFL-CIO have a long and proud history of fighting for comprehensive and affordable health care coverage for all working families and their children, a vital public schools, transit and corporation investment, as well as public works constructions that benefits all of the CEOs to the lowest paid echelons of our society. Working families understand that rising taxes is never easy... excuse me, raising taxes is never easy. However, we recognize that it must be done to keep Illinois

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moving. Over the past few years, working families in both the private and public sector have been doing more for less. A basic tenet of organized labor is for all workers, regardless of age, race, gender, or religion, are treated fairly in the workplace. The Illinois AFL-CIO is supporting the Gross Receipts Tax to ensure all taxpayers are treated fairly. We consider this a defining moment and this is a time for action and we'll be watching this process very closely. Thank you."

Chairman Bradley, J.: "Bradley back in the Chair. Laborers' International Uni... Union-Midwest Regional Manager, Edward M. Smith."

Edward Smith: "Mr. Speaker, Leader Cross, Chairman Bradley, Members of the House, my name is Edward Smith. I'm vice president of the Laborers' International Union. The Legislature has several options in meeting the current and future needs of our great state. One option is simply doing nothing. Letting our education system limp along, ignoring our ever growing constitutional obligation to fund our pension systems, allowing our roads, bridges, and mass transit systems to continue to decline, and failing to provide protection to the increasing number of Illinois families who cannot meet the cost of health care. I cannot believe that such inaction would be either an acceptable or responsible alternative to any Member of this Body. It is certainly unacceptable to members of the labor community. Another option is to use Illinois's traditional revenue

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sources to address these problems, increasing, for example, the income tax, the sales tax, the gas tax, or any combination thereof. But each of these are limited, whether by political reality or simple mathematics, in what they can raise. And by... and more importantly, each of these taxes are disproportionately paid by individual taxpayers, the working families who are your constituents. Let's take the gas tax, for example. We need more money for roads and the gas tax is the primary funding source for them. Does anyone in this chamber believe that raising the gas tax, at a time when price... gas prices already range from three dollars (\$3) to three dollars and fifty cents (\$3.50) per gallon making a bad situation worse, is the right thing to do? We believe another option of the Gross Receipts Tax is the best option. Most of the attention given to the Gross Receipts Tax has been on the perceived impact on Illinois businesses. But what we are now hearing is how any of the proposed and yet-to-be proposed alternatives to the Gross Receipts Tax will affect the hundreds of thousands of partnerships and sole proprietorships known as Illinois's working families. At this stage, who is better suited to absorb a tax increase: a company that takes in no less than fifty-five hundred dollars (\$5,500) a day or a family earning fifty-five thousand dollars (\$55,000) a year? Which is more burdensome: a two million dollar (\$2 million) business paying seventeen thousand dollars (\$17,000) a year in Gross Receipts Tax or a working family paying one thousand dollars

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(\$1,000) more in income tax? I would submit to you that as a matter of fairness to working people, our business community could take up more of that slack, and the Gross Receipts Tax is the best approach to meet the needs of everyone. The business community argument against the Gross Receipts Tax in many ways is doubletalk. They say that the Gross Receipts Tax will force businesses to leave the state. But you know as well as they do that the Gross Receipts Tax only applies to sales made in Illinois. So, no matter where a company is located, whether it is in Illi.."

Chairman Bradley, J.: "Repres... Leader Smith, if you can keep... bring your remarks to a conclusion. Mr. Smith, if you can bring your remarks to a conclusion. I'm sorry."

Edward Smith: "Another minute? Okay. Thank you. The big business is also threatening that they will pass the tax on to consumers. The argument begs a question. If that were truly the case wouldn't their opposition be a little less strenuous? The fact of the matter is big business is so vocal about this proposal because they know it is a tax that they cannot simply pass along to consumers. As indicated earlier today, the invisible hand of the marketplace will diminish their ability to do so as soon as one company passes along less of the tax to gain an edge. Their competition will pass along a bit less to stay ahead and so on. And speaking of passing costs along to consumers, I submit that the General Assembly should do all it possibly can to minimize any additional tax burden it places on

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working families. Making businesses pay their fair share through the Gross Receipts Tax is a far better option than placing additional stress on the already overburdened budgets of working families. If the Legislature wants to jumpstop... jumpstart the Illinois economy, we need to pass a capital program, which the Gross Receipts Tax will pay for. It has been 8 years since the passage of the last jobs Bill. Since that time, the cost of construction materials has skyrocketed. If we wait any longer, those increases will continue. To address the needs of the state we require an addit... we require a revenue stream capable of meeting those demands. The best option is the Gross Receipts Tax. Let's pass it and put it to work. Show your support for working families by voting 'yes'. Thank you."

Chairman Bradley, J.: "Thank you, President Smith. Keith Kelleher from the... the head organizer with SEIU is recognized for four minutes."

Keith Kelleher: "Good morning, everyone. My name is Keith Kelleher and I'm the head organizer of SEIU Local 880. I'm proud to be here today representing more than one hundred and fifty thousand (150,000) working women and men in the State of Illinois. SEIU wholeheartedly supports the proposal before you today on the Gross Receipts Tax. There is widespread agreement in the state that we need new revenue sources, both for the programs that are currently underfunded, like education and long-term care for seniors and people with disabilities, but also to address as of yet

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unmet needs by launching new programs, chiefly providing affordable, quality health insurance to Illinois residents. Quite simply... quite simply, the GRT is the only proposal on the table that addresses both these needs. Today we are hearing a lot about what is fair and what is not a fair tax. But this debate over the Gross Receipts Tax is really about health care. Opponents may try to muddle the issue and to take the focus away from how to best provide accessible, affordable, quality health care to every Illinois resident. This is not just an opportunity to bring needed revenue to the Illinois budget, but also to address the mounting problem of tens of thousands of uninsured and underinsured Illinois families. Health care is the one cost to business and working families alike that is exerting the most pressure on our state's economy. Health care costs are growing one and a half times faster than the economy and double the price of wages. As union... unions and businesses agree that double digit increases in health insurance premium every year are unsustainable. This is an issue that SEIU members confront in the negotiations with their employers. How can a responsible employer afford to provide a fair wage increase when their health care costs are ballooning unpredictably from one year to another. SEIU local member Sharon Woods embodies the struggle of uninsured working people in Illinois. Sharon is a homecare worker in Peoria, Illinois. She works more than 12 hours per day helping seniors with everything from laundry, cooking, and

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grocery shopping to bathing, dressing, and making sure her consumers make it to their doctors' appointments. She has no health insurance. Her employer doesn't provide the benefits. She provides health care herself but she has no health insurance for her family or herself. Though she routinely works more than 50 hours per week, she can still barely cover her living expenses. She makes too much to qualify for programs like Medicaid and paying for health care out of pocket is simply out of the question. She suffered a stroke that left her unable to work for a year, which was devastating to her financially. Sharon still goes without needed doctors' visits and medication to maintain health because without insurance she can't afford it. As I said before, SEIU supports the Gross Receipts Tax proposal because it is the only revenue generating plan that includes at its core a vision of covering all Illinois residents. Finding the revenue sources and meeting working families' health care needs are two parts of an extremely important package for charting Illinois's future course. When it comes to our future, doing nothing is not an option. By taking action now we can make a significant investment in our state's future economic health. A recent study by health care economist Dr. Ken Thorpe shows that enacting Illinois Covered will produce fifteen point six billion dollars (\$15,600,000,000) in savings for Illinois families over the next four years. Fifteen point six billion dollars (\$15,600,000,000) in savings for Illinois families over the

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next four years. In other words, every dollar invested in improving health care system in Illinois would generate two dollars (\$2) in savings for businesses and for working families across this state. We understand that there's a Resolution on the GRT that's gonna come before you tomorrow and we support it 1,000 percent. The Illinois General Assembly has the opportunity to set now.."

Chairman Bradley, J.: "Bring your remarks to a close, Mr. Kelleher."

Keith Kelleher: "Okay. I'm bringing it.. I'm bringing it home right now. The Illinois General Assembly has the opportunity to act now to make Illinois a model state by passing the GRT, and in doing so ensuring that we meet the current and future health care needs of working families. We urge you to support the Resolution tomorrow and the GRT. Thank you very much."

Chairman Bradley, J.: "Thank you very much. Apologize for cutting you off. We're trying to bring it home by 5. From the AFSCME Labor Union, Research Director Hank Scheff is recognized for five minutes."

Hank Scheff: "Thank you very much, Representative. It's a pleasure to be here this morning. Thank you for inviting us. I'm speaking on behalf of the seventy-five thousand (75,000) state and local government and public service employees represented by AFSCME Council 31 here in Illinois and we're here as proponents of the Gross Receipts Tax. As most of you know, AFSCME has long supported measures to

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raise new revenues for Illinois State Government in order to address our growing public pension liabilities, to restore adequate frontline staffing levels in state agencies, to provide equitable funding for public education, to provide reasonable cost of doing business increases to human service providers, and to pay for our existing health care programs for the poor and the disabled on a current basis. And there is virtually universal agreement that our current revenue structure can't support any of these urgent priorities the way they're currently structured, and this is referred to by economists as a structural deficit and you'll be hearing about this this afternoon I'm sure. We can never cut our way out of this crisis and we... if we try we won't be able to do it without harming vital services and vital populations. So, as I said, we're here today to support the Gross Receipts Tax. Properly spent, the GRT would raise enough revenue to seriously address these problems. And this is, I think, my most important point today. Because we here in Illinois have ignored this structural deficit problem and avoided the hard political decisions that we must make of how we raise additional revenue, the structural deficit has become an urgent problem. It's not just a large problem, it's an urgent problem that must be addressed in this Session of the Illinois General Assembly because if we wait for some future General Assembly to address it the problem is only gonna get worse and the solutions are gonna be more difficult. Much attention has been paid on the state's

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repeated failure to properly fund pensions. That's one symptom of the structural deficit. Equally deserving of our attention, the state is operating with some fourteen thousand (14,000) fewer employees than they were six thousand... six years ago. You all received a copy of our study, 'Beyond the Breaking Point', which documents this. It provides very compelling accounts of the continued crisis in state agencies that result from severe understaffing. We're not making this up, Members. Illinois ranks 50th out of the 50 states in state employees per capita and their consequences for under-resourcing State Government in terms of staff. Let me turn to the Gross Receipts Tax briefly. We do believe that the establishment of the Gross Receipts Tax on commercial activities is a viable proposal to address the revenue problems and the spending problems that I have just outlined. It's a very stable revenue source because commercial activity generally grows year by year, enabling the state to count on an expanding revenue source. It targets corporations, many of which have managed to avoid paying state income taxes despite being profitable. We believe that the GRT would bring greater fairness to the system. According to the Illinois Department of Revenue, 37 of the 99 Fortune 100 companies that file taxes in Illinois paid no state income taxes. On average, 48 percent of corporations that generated fifty million (50,000,000) or more in annual sales in Illinois paid no income taxes from 1997 through 2004. And, as we've testified previously,

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Illinois is not a high tax burden state, neither in the Midwest or ranked nationally, particularly as a proportion of our personal income. We're the 5th or 6th wealthiest state but we rank 29th in state and local tax burden as proportion of personal income. So, as a state we can afford to raise more revenue, the real question is how to do it. Among the virtues of the GRT is the broad base and low rates, attributes which many economists like. And several states, as the Governor's pointed out, Washington, Delaware, and Hawaii, have had a GRT for years. Recently, Ohio and Texas joined those states in adopting GRTs. So we think it's a very viable revenue source. I have a few other points that I'd like to make very briefly. You have our written testimony. I'd be happy to answer questions. You're gonna no doubt here from representatives of the business community later today. Many, but not all, of these organizations now finally, belatedly recognize the need for the state to raise additional revenue though they oppose the GRT. Now, some of these businesses are..."

Chairman Bradley, J.: "If you could bring your remarks to a close, Mr. Scheff."

Hank Scheff: "We believe that some of their reforms... their research is pretty... pretty slipshod and full of mistakes. We can address that in the question and answer. So, again, in conclusion, we think it's an urgent matter that the state does need new revenue and we think the Gross Receipts Tax is

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a very viable way to address the underlying structural deficit that we have here in Illinois. Thank you."

Chairman Bradley, J.: "Thank... thank you very much. Representative Biggins."

Biggins: "Yeah. Thank you, Chairman. I would like... the House Republicans would like to yield two minutes of time to Representative Bill Mitchell."

Chairman Bradley, J.: "Two minutes to Representative Bill Mitchell."

Mitchell, B.: "Thank you. Thank you, Representative. I had a question for the gentleman from AFSCME. I'm sorry, I didn't get your name."

Hank Scheff: "Hank."

Mitchell, B.: "But the question is... and, ya know, I have four prisons in or near my district: Taylorville, Decatur, and two in Logan County. We've seen less and less correction officers at all of those facilities. The Governor in his budget doesn't have any more money for corrections officers. Yet, if I understand you right, you want... you support GRT, therefore you support more revenue, but you don't support the Governor's spending plans. So he has all these other great ideas, health insurance for everybody, more money for this and this and this, but no money for your staff, the staff that I represent, the people that are doing the jobs that are protecting the people of Illinois. So I'm a little bit... you're trying... you're buying a pig in a poke. You say I want the GRT; we want the revenue. How do you make the

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Governor spend the money to have more corrections officers? You can't do it. Once you... once you sell the thing.. you know, I want... all four gentlemen there, they're all union folks, I'd love to see we have more union memberships in the State of Illinois. Good paying jobs, I'd love to see that. The problem with GRT is I think that this is going to drive good paying jobs out of the State of Illinois. To the question is you endorse the revenue but the Governor says he doesn't endorse your spending plans. Is there not a problem there?"

Hank Scheff: "Well, there's always a problem when we disagree with..."

Biggins: "It's a big problem."

Hank Scheff: "...with the Go... with the Governor's budget proposal. But traditionally, you know, how we raise money is one issue and how we spend it is another issue. So we don't find any inconsistency in supporting the need for more revenues. One way to get it is through a Gross Receipts Tax. We... we agree with the Governor in some aspects of his spending program, particularly in the area of public education, but we do not agree with the whole budget. And we, in fact, do believe that the current budget should add two thousand (2,000) jobs and we think that the Governor doesn't... you know, he proposes a budget but the General Assembly enacts it, and we've been urging the General Assembly to take a close look at state staffing, not just to add jobs..."

Biggins: "Okay. Thank you."

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Hank Scheff: "...but to see if you can come up with some way..."

Biggins: "Right."

Hank Scheff: "...to make sure that the positions actually get filled."

Biggins: "Thank you."

Hank Scheff: "That's a problem we have right now is not even the budgeted positions are always filled in State Government."

Chairman Bradley, J.: "Thank you very much, Representative Biggins. Any additional speakers?"

Biggins: "Thank you, Mr. Chairman. We would like to yield time to Representative Eddy."

Chairman Bradley, J.: "Representative Eddy is recognized for two minutes."

Eddy: "Thank you very much. Gentlemen, you've made a case here for your support of GRT. Let's just... let's consider the possibility that GR... GRT doesn't make it. Are your organizations then prepared to support other types of plans or is it... is this it?"

Hank Scheff: "We're... we're prepared to support other types of plans. We think the GRT is one very viable way to raise the necessary revenue but there are other viable ways as well. Again, the urgent priority in our mind is that we have to address the structural deficit. We have to start paying for State Government on a responsible basis. So, we're open-minded on..."

Eddy: "Well, the answer to my question... and you're taking a lot of time to answer a 'yes' or 'no' question."

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Hank Scheff: "Yes."

Eddy: "And we've got two minutes so..."

Hank Scheff: "Yes."

Eddy: "The answer 'yes'."

Hank Scheff: "Our... our position as SEIU, we are supporting the GRT because it brings health insurance..."

Eddy: "I understand that. You've already said that. My question is..."

Hank Scheff: "We support... let me answer then. We support both the GRT and 750."

Eddy: "Okay."

Hank Scheff: "So we're supporting both of those officially."

Eddy: "Thank you."

Edward Smith: "We support... we support the GRT."

Eddy: "You don't support any other possible..."

Edward Smith: "No."

Michael Carrigan: "The AFL-CIO supports GRT. When the Governor was here earlier today I think he made it quite clear that..."

Eddy: "I've got 40 seconds left. I... that was the answer to the question. Do you support an alternative to any other? That's my question."

Michael Carrigan: "No."

Eddy: "Okay. Do you... do your organizations at all consider the property tax reform an important part of a discussion regarding new revenue?"

Hank Scheff: "Yes."

Eddy: "Thank you."

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Michael Carrigan: "We consider the GRT is more comprehensive. It... it covers transportation, schools, it covers health care, and it covers dollars that are needed by the state."

Eddy: "So property tax is important as well then you're saying? Okay."

Edward Smith: "Property tax is important. We support the GRT because... 'cause a whole number of items. The income tax, sales tax, gas tax, all those things. Ultimately, the GRT is the way to go."

Keith Kelleher: "Same with us. The GRT is our main... our main Bill and that's why we support it, because it's the only way you're gonna get property tax relief that we see."

Chairman Bradley, J.: "Thank you, Rep.."

Keith Kelleher: "Or else there will be rises in property taxes."

Chairman Bradley, J.: "Thank you, Representative Eddy. Representative Mautino recognizes Representative Washington for one minute."

Washington: "Thank you, Mr. Speaker. Gentlemen, in light of... of Lieutenant (sic-Lieutenant Governor) Quinn's comments and the strong credibility that the Lieutenant Governor has across the state, I mean, with his work with CUB and other advocacy groups for consumers, I think he stated that in his estimation this was like a consumer Bill that it was not as friendly as... as is being proposed. Basically, he was sayin' it was a Trojan horse. Would you care to respond to his opinion? I'm sure you've taken some of what he's had to say into consideration. And one of the stronger things I think

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Carrigan just mentioned because of the broadness of GRT, but what are the strong motive that you would support in spite of a person like the Lieutenant Governor saying what he said?"

Michael Carrigan: "We were... we were in the holding chamber so I can't address..."

Washington: "Oh, you didn't hear it. Okay."

Edward Smith: "Let me respond to Representative Washington. I think the Lieutenant Governor offers new solutions. This is a solution that fits right now today. And when you look at the other alternatives, income tax, sales tax, gas tax, all those traditional revenue streams, working people that the Lieutenant Governor said he's here to represent cannot afford to pay any of those additional... traditional revenue streams. This is why the Gross Receipts Tax is so critical to find the state the money that it needs and also not put an additional burden on working families."

Chairman Bradley, J.: "Representative Mautino recognizes Representative Flowers. Thank you, Representative Washington. ...For a period of one minute."

Flowers: "Thank you, Mr. Chairman. I would like for someone to please explain to me why is it that we keep saying that the working people of the State of Illinois cannot afford the... the regular tax, the state income tax, but yet you think we can afford all of these little bitty taxes that's adding up and eating up, which is adversely affecting poor people more. And why is that we can't just tax the higher

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echelons' income? And do you really know how much money is going to be gathered from the Gross Receipts Tax? But more importantly, I hear you say about health care. What... what access to health care would benefit the constituents in which we serve if the money's going to the insurance company and not going to the providers?"

Chairman Bradley, J.: "If we could have someone answer?"

Flowers: "Stop the clock, Mr. Chairman. I have three seconds."

Chairman Bradley, J.: "Yeah, I know. Sorry about that."

Michael Carrigan: "Today, the AFL-CIO supports GRT. These are... we're talking about our core values, health care. Whenever labor sets and talks in meetings, conferences, informal gatherings, education, health care, is all part of that. We see GRT as a tax fairness plan. We see it taxing corporations who are not stepping up to the plate and paying their fair share."

Chairman Bradley, J.: "Gentlemen... Representative Flowers, thank you. Gentlemen, it is an honor and a privilege to have people of your stature in the labor movement here today. And we very much appreciate it. Thank you very much for coming. Okay, our next panel is the business organizations. At the table we will have from the Retail Merchants Association, President Dave Vite; from the Illinois Manufacturers' Association, President Greg Baise; from the Illinois Chamber of Commerce, President Doug Whitley; and from the Civic Committee of the Commercial Club of Chicago, President Eden Martin. Gentlemen, if you would stand up and

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face the door and raise your right hands for the purpose of administering the oath. The testimony you are about to be... give, you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?"

Panel et-al: "I do."

Chairman Bradley, J.: "Thank you, gentlemen. President Vite is recognized for a period of five minutes for opening remarks."

David Vite: "Thank you, Mr. Chairman. It is truly an honor to be in front of the Illinois House of Representatives on a historic day like today in the Committee of the Whole. It is also interesting to learn today that the debate is... doesn't seem to be any longer about tax fairness, but rather about a tax increase to fund new and expanded government programs. Over the last several weeks and months, it has been portrayed that the Illinois business community is not paying their fair share of taxes, in a guise to hide the real mission which is to increase substantially taxes on Illinois citizens and all Illinois taxpayers. The Gross Receipts Tax which has been proposed in total revenues equals more than five times the revenues generated by the corporate income tax. By the Lieutenant Governor's calculations of three hundred million dollars (\$300,000,000) of so-called loopholes, it will generate 28 times the revenues from closing his so-called cooperate loopholes. So, it's good to know that the decisions that you're going to make will be based on facts and policy, not rhetoric.

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So, let's be sure that you know the facts. The corporate income tax is and has not grown at the same pace as the individual income tax. There are reasons for that. From 1987 to 1997, there was an average growth rate of 10.7 percent in the filings of subchapter S, LLCs, and the other corporate structures to get away from being a C corporation. From 1997 to '03, another one-third increase in the number of people who are taking advantage of those legal corporate structures. That means that the ratio of those paying corporate taxes to individual taxes has changed dramatically. That accounts for a good portion of the reductions in corporate income tax receipts. Contrary to previous speakers' assertions, this tax is not broad-based. It can only be described as broad-based if you believe, which I believe, that this tax will be paid by Illinois citizens and not just by the businesses who are lending the money to the state. Fact, small business is not exempt. Irrespective of whether you believe that the two million dollar (\$2,000,000) exemption, which was the second proposal, or the described five million dollar (\$5,000,000) exemption is applicable, small business will still pay. They will still pay for the raw products which go into their ultimate products. They will still pay in the form of the purchases of goods that they purchase to sell to their consumers. And let me give you a couple of stark examples. If you are an independent grocery store in Waukegan and you are purchasing your goods from central grocers, you will

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have a 1 percent competitive disadvantage under the Gross Receipts Tax when compared with your counterparts at Jewel or other food retailers who do not have that distribution layer of costs. If you are a hardware store, Ace Hardware, True Value, and you are purchasing your goods through those co-ops, you will be at a 1 percent disadvantage in your cost of goods sold to the Home Depot or the Lowe's. That means that small business is penalized harshly by the Governor's Gross Receipts Tax proposal. Fact, food and pharmacy are not exempt in this proposal. They are only exempt at the point of sale. All of the inputs to the manufacturing of those products, all of the inputs to the delivery of those products will be taxed and will cause food and prescription medicines and nonprescription medicines to cost more for your constituents. Fact, gasoline will cost between seven (.07) and fifteen (.15) cents more per gallon for your consumers, for your constituents. That equates to more than a quarter of a billion dollars (\$250,000,000) of increased costs to Illinois consumers. Fact, if you are in Danville and you competing against the automobile..."

Chairman Bradley, J.: "I'm sorry. President Vite, can you bring your remarks to a... to a conclusion?"

David Vite: "The auto dealer is a three hundred dollar (\$300) disadvantage; the... from the dealer will be at a two thousand dollar (\$2,000) disadvantage with their border customers. My only hope is you'll recognize that Illinois consumers are ultimately gonna pay this tax or jobs are gonna be lost to

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ensure that businesses can operate profitably and effectively in Illinois. Thank you. I'll answer questions later."

Chairman Bradley, J.: "Thank you, President Vite. At this time we'll recognize Illinois Manufacturers' Association, President Greg Baise for five minutes."

Greg Baise: "Mr. Chairman, thank you very much for the opportunity to be here today representing the four thousand (4,000) manufacturers that belong to the IMA. May I begin by reading a letter that one of our members, Jim Hawkins from the Kenall Manufacturing Company in Gurnee, Illinois, received on May 2nd of this year. It's from the Governor of Wisconsin. And it begins, 'Wisconsin is a great location for growing businesses. And you owe it to yourself and your company to take a serious look at the benefits of doing business and investing in Wisconsin. As Governor, I remain committed to providing Wisconsin employers with a competitive business cost, a favorable business climate, and well-trained employees. As many other states raise taxes to balance their budgets, I've held the line on taxes and cut costs in my last two state budgets.' He goes on to say, 'A member of my economic development team would like to speak to you about the many reasons of doing business in Wisconsin. My economic development team called Forward Wisconsin will be in Chicago on June 20th and 21st to schedule meetings. We hope to see you there.' Does anybody in this room believe that these letters are only coincidence

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or that every other Midwestern state is licking its chops to benefit from the short-sighted approach of attacking our employers, both with enormous taxes and through an onslaught of verbal abuse and disrespect? Clearly, Illinois finds itself at a critical crossroads. We are faced with many questions of funding education, pension reforms, health care. And yet, this administration wants to increase tax burden on employers by more than seven billion dollars (\$7,000,000,000). If we wait a few hours, the proposal may go up. Perhaps the most frustrating part of our state of affairs is that Illinois is being left behind when it comes to competitive opportunities for manufacturers both large or small. Last year it was Honda that briefly looked at Illinois and turned to Indiana where costs are lower in doing businesses. The town that won the day, Greensburg, Indiana, offered a better package than we did here in Illinois. Greensburg, a population of ten thousand two hundred and sixty (10,260) people, will gain those benefits. And recently, the church bells rang in Tupelo, Mississippi, to celebrate the decision by Toyota to locate there. As a side note, Mr. Chairman, Tupelo is the birthplace of the real Elvis. Mr. Chairman and the Members of this committee, when do the bells start to ring for 50 in Illinois that lost out to the Honda plant, that lost out to the Toyota decision? When do the bells ring for southern Illinois where an exodus of young people to try to find jobs are leaving our state and going across the border? When will we

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be able to see the corridors in Harvey or Calumet City or other industrial corridors of Illinois that have been turned away and lost over the past few years, when will they start to see and realize a growing economy? Illinois manufacturers share your concern on health care issues and education. But for this Governor to suggest as he did this morning that Illinois employers are not paying their fair share is just wrong. To suggest that Illinois employers and manufacturers are not providing health care opportunities is just wrong. In fact, in a survey of our membership shows that over 98 percent of our members provide health care plans. But we should remember some startling statistics. Since 2000, Illinois has lost nearly two hundred thousand (200,000) manufacturing jobs. Imagine for a moment a city the size of Rockford just disappearing. Those jobs as they left represent personal tragedies for families, for communities and we need to be thinking about the economic climate that will stop and turn that tide. When will we take the time to understand that our State Government should under... that they should understand that Illinois companies look at other states? Manufacturers wonder why they're paying more for unemployment insurance in this state than others, why they're paying higher utility taxes, and why they're paying higher workers' compensation packages. A handful of jobs, especially in manufacturing, have moved offshore to Mexico or Southeast Asia. But thousands of high-paying manufacturing jobs have moved to our neighboring

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states which I think the letter from the Governor of Wisconsin represents a trend that will continue. Ladies and gentlemen, there are two ways to get businesses to fund a greater share of health care and education, a point that the Governor was making this morning. One is to tax them like with the Governor's proposal at a higher rate, a tax that makes no economic sense whatsoever, which is a prescription for longer term economic disaster. The other is to do it through prosperity, making the Illinois economic engine attractive so that we can keep good jobs, broaden the tax base, provide its workers with quality health care coverage through a private sector answer, not another expensive government program, with good wages, pension plans, and most important an economy that promotes..."

Chairman Bradley, J.: "Thank you, President. Chamber President Doug Whitley for five minutes."

Doug Whitley: "Good morning, Mr. Chairman and Members of the House of Representatives. I've traveled the state a great deal over these last nine weeks since the Governor stood here and called for a Gross Receipts Tax. I wish to assure you that every business owner regardless of size, every manager, and every investor understands what the Gross Receipts Tax is and what it may mean to their business and the future of their business in the State of Illinois. Most specifically, they understand tiering of cost. They do not think that the so-called exemption which may keep them from filing a return is in any way going to keep them from having

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to pay Gross Receipts Taxes that pass through the economic supply chain. Secondly, the Governor would have you believe that the rates that he has proposed and increased twice are low rates. They are no... by no means low rates. And in fact, I'm willing to stand here today and say that the revenue estimates that the Bureau of the Budget, Office of Management and Budget, and others have put forth from the administration are low-balled estimates and that the State of Illinois is in fact, that this tax proposal is all about big taxes, big revenues, big spending, and hidden from the public. Transparency is fundamental in tax policy. This GRT proposal is not transparent. I also would argue to you that the mere fact that the Governor has called for billions of dollars of new Gross Receipts Tax implementation in Illinois has already put a chill on the state's economy. There are decisions that are being deferred today. There are gov... business restructuring going on. There are people looking to see whether they can have new suppliers, that are non-Illinois suppliers. Measures that are being taken to hold down cost or defer choices that might otherwise be made because in Illinois we cannot depend on a stable, predictable, reliable, or friendly Illinois government. Business owners are paying their fair share. We know that the business community is already paying more than one half of prop... almost one half of the total state and local taxes collected in Illinois. It is terribly misleading for the administration to only focus on the corporate income tax as

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a revenue source. My partners here at the panel have already talked about some of the limitations on the corporate income tax growth over the last few years because of restructuring. I'd like to say something about what the Governor calls loopholes and some of us would call exemptions. The Comptroller issues a report that's called the Tax Expenditure Report, the loopholes that... that Lieutenant Governor Quinn referred to, in total talking about two hundred, my number, or three hundred, his number, million dollars (\$200,000,000 or \$300,000,000). Obviously, the Governor's decision to remove exemptions will not capture billions of dollars to pay for health care. His concern is that he wants business owners, employers if you will, to absorb most of the cost of operating and running government in the State of Illinois. The three major tax expenditures that exist in our Illinois corporate income tax are number one, net operating losses. That is about a hundred and seventy million dollars (\$170,000,000) of the two hundred million (\$200,000,000) I'm talking about. And what it says is if you're still operating, if you're still employing people and you're trying to survive an economic downturn, you do... you have the advantage of carrying that loss forward. That is a reasonable tax policy provision that exists in most states and in the Federal Code. Secondly, research and development tax credit which is tomorrow's jobs, the future jobs and third, the EDGE tax credit which is a credit for employing people. Now, you may

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repeal all of those if you wish. The Governor might call them loopholes. I would suggest they are very fundamental tax policy elements that if the state were to choose to repeal would come back to us later for competitive reasons. Stability and predictability is fundamental. Your constituents know that the Gross Receipts Tax proposal that the Governor has offered is absolutely a detrimental proposal for future growth. The majority of the states in the United States are running surpluses, talking about tax relief, setting money aside in rainy day funds, and we're talking about tax increases. I think there's two things that need to be focused on. We're either overspending and not living within our means or secondly, we have an economy that is not generating the kind of growth and prosperity that we all want to have so that we don't have to talk about raising taxes. The economy itself is gen..."

Chairman Bradley, J.: "President, bring your remarks to a close, please."

Doug Whitley: "...is generating the kind of revenue that we... that we all would expect and appreciate for the future of this great state. This proposal is a severe threat to employers. I suggest that it should be put to bed soon."

Chairman Bradley, J.: "Now, I'd like to recognize from the Civic Committee of the Commercial Club of Chicago, President Eden Martin for five minutes."

Eden Martin: "Thank you very much. My name is Eden Martin, president of the Civic Committee of the Commercial Club of

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Chicago. Businesses and business groups don't always agree about everything. They may not agree about whether there should be a tax increase or how much there should be or what you should do with the revenue, but I think it is very significant that we all agree on one thing and that is that the Gross Receipts Tax is a bad idea for Illinois. All taxes burden the economy. Now, our organization recognized the need for an increase in taxes and we suggested the income tax and broadening the sales tax. I think probably you all have copies of the report that we produced to that effect. The Governor referred to our organization, our report, this morning as being a business group in Chicago that recognized the need for a tax increase. So, why are we opposed to the Gross Receipts Tax? The answer is that the Gross Receipts Tax has two features that make it particularly hurtful to the Illinois economy. One is that it would increase the cost of producers of goods and services directly. And the second is that other nearby competing states don't have it. Put those two together and you've got a real problem. Now, there was some confusion this morning about whether the Gross Receipts Tax would cause prices to consumers to go up or not. And the answer is if you think about it, it depends on the market that the producers are in. Some producers operate in markets that are not so competitive. They could perhaps pass on all or part of the tax to consumers. And the prices that people pay would go up. Other producers operate in markets that

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are very competitive, highly competitive. Prices cannot go up. Economists describe these situations as places where the producers are price-takers. They have no control over the price set by the market. In these highly competitive markets, when costs go up prices cannot go up, the businesses cannot recover all of their costs and production drops. Production drops. And that means employment drops. That is the iron law of market economics. We can ignore it, but we can't repeal it. Now, a producer may try to shift production to another state which doesn't have a Gross Receipts Tax. I gather having talked to some people that there's skepticism about that argument at some places because you heard it before. People probably come down here for years, decades and said if you pass this law or that law or this tax or that tax, we're leaving. So, I can understand the skepticism. I was on a program with a Member of the Senate a couple of weeks ago and he said, 'let them leave' which struck me as a little cavalier. But my point today is many of them will leave. But whether they leave or not doesn't alter the conclusion, because even if they cannot move or don't move, if they're in highly competitive markets and their costs go up, and they surely will through the Gross Receipts Tax, then their production has to fall. And that means that over time they're gonna lose employment. Jobs in Illinois will be lost. You can count on it. Now, I've heard it said that politically the Gross Receipts Tax is more attractive because it's easier to attract producers

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than consumers. But economically, it's the worst form of tax for the Illinois economy because it directly increases the cost to producers and that's got to be reflected either in higher prices to consumers or in reduced production and jobs or both. You don't have to be a PhD in economics to understand this point. You folks know the employers and businesses in your districts better than anybody. You should ask them, 'Are you in a highly competitive market or markets? Can you raise prices without losing business?' If they say to you, 'Yes, I'm in competitive markets. Yes, prices will affect our sales.' Then you can count on the conclusion that the Gross Receipts Tax would affect jobs in your district. There simply isn't any other alternative. Now, the Governor this morning said, 'I won't raise taxes on people.' The Governor says he thinks that people won't bear the burden of the Gross Receipts Tax. But he's entitled to his own argument, but he isn't entitled to his own facts. Either the prices will go up, and who will pay them? Consumers. Or production will come down, and who will bear the burden of that? Employees. And/or corporate profits will come down, dividends will come down, stock prices will come down and peoples' savings and retirement plans will be worthless. One way or another, all taxes burden people. Corporations are simply flow through mechanisms. The ultimate bearer of the burden of any tax.."

Chairman Bradley, J.: "President, if you could bring your remarks to a close."

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Eden Martin: "...will be on people. Thank you."

Chairman Bradley, J.: "Well, you took that literally. Thank you very much. Representative Krause, have ten minutes."

Krause: "Thank you, Mr. Chairman. And we will divide that ten minute among several of our Members. I appreciate the panel here today. And maybe, Mr. Martin, because your ...the report from the Commercial Club has been well-established."

Chairman Bradley, J.: "Representative, how much time would you like for yourself so I..."

Krause: "Give me 3 minutes."

Chairman Bradley, J.: "Okay. I apologize."

Krause: "That's all right. Mr. Martin, on your report of the Commercial Club does it also say that before the organization would endorse taxes that you look first to efficiencies in the governments and accountabilities, some streamlining, and that unless that takes place then you would not support taxes until there are a number of steps that have to be taken by government to control spending?"

Eden Martin: "Thank you for the compliment and thank you for having read the report. You're exactly right. Thank you."

Krause: "Well, I think that's important because I think the entire panel has stressed that. That before, and I think all the business groups, before there's any discussion of taxes there has to be first a streamlining and accountability that indeed there is a lot in our state budget that in fact can be adjusted and that you look at that before any taxes. And I appreciate your report having

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brought that out. Just really quick to Mr. Baise on the issue of new businesses. Even if it's a five million dollar (\$5,000,000) profit, what do you feel, even if we raised the exemption up to five million (5,000,000), what will be the effect upon new businesses with the GRT?"

Greg Baise: "I think the effect will be that they will look upon Illinois as a much more difficult place to remain competitive. Illinois is a high cost of doing business state. And those costs have been well documented by reports on that... that the State Chamber has done and others. You have utility taxes, you have higher unemployment insurance, you have a higher WC cost. All those would make Illinois along with this increased tax the idea of just holding the dollar (\$1) for a moment and having to share part of that less competitive..."

Krause: "Okay."

Greg Baise: "...in being able to be established."

Krause: "Okay, I appreciate that. And Mr. Vite, we've talked about GRT, income tax, sales tax, payroll tax, service tax, all of those. On your organization that you represent, do they... what is their view about the state first looking at our expenditure side before we ever get to a view of taxes? Have they looked at that?"

David Vite: "The answer is 'yes', we have. We believe that the state always needs to be efficient just the same as our businesses are. But more importantly, you have to determine what your spending priorities are and make sure that the

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revenues meet those spending priorities and that the public is willing to pay for it, not saddle someone who is easy to vote to tax. Let's make sure everybody recognizes that this is a tax on people."

Krause: "Okay. I appreciate that. If I could have 30 more seconds. And then Mr. Whitley, through the chamber, and I know they've done a lot of reports in the past on revenues versus expenditures, but really have they done a report that would show..."

Chairman Bradley, J.: "Thirty seconds."

Krause: "If the state were to emphasize more in the area of job growth and that those jobs produced income tax, they're the ones who grow sales versus all this eight, nine billion (\$8,000,000,000-\$9,000,000,000)? Have you done any studies like that that would show job growth versus taxes?"

David Vite: "Businesses already pay almost half the taxes in the State of Illinois. If the Gross Receipts Tax were to be applied, as the Governor's proposed, it would be well over half of all the taxes in the state. It's particularly detrimental to small or entrepreneurial businesses and family businesses that tend to reinvest money into their own business rather than... than having a profit for which they might pay income taxes on. So, the entrepreneurial spirit that is alive and well will be greatly snuffed out. If we were to go to a Gross Receipts Tax, it will bear on those smaller businesses first."

Krause: "Thank you, Mr. Chairman."

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Chairman Bradley, J.: "Thank you, Representative Krause. You have six minutes remaining. Who would you like to designate, Representative Biggins? Representative Biggins..."

Biggins: "Yes."

Chairman Bradley, J.: "...six minutes... six minutes remaining."

Biggins: "Mr... Mr. Chairman, thank you. We'd like to shift over to Representative Reis. David Reis, please."

Chairman Bradley, J.: "For one minute or two minutes? Three minutes?"

Reis: "Three minutes, they said."

Chairman Bradley, J.: "Okay, three minutes."

Reis: "Thank you, gentlemen, for coming in and... and I didn't get a lot of my questions answered this morning. You can't do much in a minute. But yesterday they were talking about this tax credit for people that earn up to five million dollars (\$5,000,000). Have you got any more details on how that would work? Would they still pay the GRT and then get it back if they qualified for it, if they made a profit? Do you know how that works?"

David Vite: "Yes, Representative. The answer is it would be a credit against their liability. To... to my knowledge, it would not be a... you have to apply for the credit. You would apply that against your liability on your quarterly returns or monthly returns, depending on your size."

Reis: "So, if you make over two million (\$2,000,000), you're gonna pay the GRT two million (\$2,000,000) in gross sales."

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But if you don't make any profits, you're not gonna get any of that back."

David Vite: "No."

Reis: "So, really they're not raising the threshold from two to five million (\$2,000,000-\$5,000,000), are they?"

David Vite: "In... in fairness, Representative, I don't know that it has anything to do with profit. You would get a credit against the Gross Receipts Tax for up to two thousand dollars (\$2,000) per employee and up to, I believe, it's 25 employees if you're two hundred... you're one... two million (\$2,000,000) and less. I'm sorry. If you're paying the service tax... the retail tax and... and 50 employees if you pay the... the service tax."

Reis: "Okay. I'm still a little unclear on that. When the Governor talks about taxing out-of-state corporations... or not taxing exports, excuse me, how do you go about doing that? I mean, is it up to the individual business owner? Say they export 70 percent of their sales and 30 percent go to Illinois people. Who... who regulates that? Who controls that? Who enforces that?"

David Vite: "Well, in the first place, you can't. You can't do what he's saying. The problem with the Gross Receipts Tax that everybody keeps coming back to is it pyramids. You get it at one, two, three, five, six, eight stages of production. And what they said this morning is true. The very last transaction where you have a sale to an out-of-

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state purchaser may be exempt, but buried in the costs are the earlier six stages of... of the GRT. So..."

Reis: "I mean just regards to..."

David Vite: "... the premise... the premise of the argument is wrong."

Reis: "Just in regards to you got XYZ Company. They make widgets, 70 percent of them go out of state. Does the IRS come in and... and audit that? How can you regulate that and enforce that?"

David Vite: "We... we would presume the Illinois Department of Revenue would be the enforcer on those... on the Gross Receipts Tax payments that would be made."

Reis: "Would there be incentives for them to set up out-of-state corporations to sell to get around that?"

David Vite: "I think there would definitely be incentives for out-of-state corporations to try to sell into Illinois. And I believe that Illinois corporations who are currently buying from Illinois suppliers would look to out-of-state corporations as an alternative to buying from Illinois bases. I've already heard that proposal offered up to me in testimony."

Reis: "Okay, thank you."

Chairman Bradley, J.: "Thank you, Representative Reis. Representative Biggins, you have three minutes remaining."

Biggins: "Yes. Representative Bellock, please."

Chairman Bradley, J.: "For three minutes? Representative Bellock is recognized for three minutes."

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Bellock: "Thank you very much and thank you for joining us today. I think for the last 4 years that this... the business community has really been on defense in Illinois rather than on offense and I hope that we'll be able to turn that around, but it's not looking like that right now. The Governor's spoke about when we would all go back to our districts and hear from our constituents if we didn't vote for some of these things. And I just wanna let you know, and I wanna thank you for your support, that I have received over close to two thousand (2,000) e-mails and letters regarding the GRT Tax from specifically my constituents that are business owners. And all but 30 of those demanded that I vote 'no' on the GRT Tax. So, I just wanted to let you know that. I wanted to ask Mr. Vite, if you think that by raising the cost of business in Illinois with the GRT Tax if that will have a net... negative effect on health care in Illinois?"

David Vite: "Well, as Mr. Martin said, there... there are at least just two options for a business to maintain its viability. One is to increase prices. The other is to reduce cost or production. It's the same depending on what kind of business you're in. And that is one of the ways that a business can reduce their cost, by increasing the employer... the employee share of the health care cost, by reducing benefits, by cutting benefits. There are only two options: raise prices, consumer pays; reduce costs, employees pay."

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Bellock: "Thank you. Oh, Mr. Martin, 'cause I was gonna ask you..."

Eden Martin: "I'd like to respond to your question in this way. Ya know, you talked about corporations being on the defensive. I'm not here because I'm looking out for the interests of corporations. I'm not here because I'm looking out for the interests of big business in Chicago, although I'm a member of the Civic Committee. I'm here because I really believe this tax would be a bad thing for the entire economy of Illinois, and that includes employees and labor just as much as it does the companies."

Bellock: "Right. And what I meant by that was not big business at all 'cause the majority of the phone calls, e-mails, and letters I have received are people that are just right within the ratio of what the Governor has proposed in this. Very few have been from major, major huge corporations. But I just wanted to ask you, for your committee, I know the Civic (sic-Taxpayers) Federation had commented on the Illinois Covered program itself. Did your committee pro... comment specifically on that program, whether they were for it or against it?"

Eden Martin: "No. Our report came out in December. We hadn't seen the Governor's health insurance program at the time. The basic point of our report, when you cut through everything else, is that there is a huge gap between the revenues and the costs and obligations that we incur each year in the range of five and a half billion dollars

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(\$5,500,000,000) a year. That's built... been built up to say ninety to a hundred billion (90,000,000,000-100,000,000,000). It's been built up over years and years, different administrations. It's not a Party thing. It's gone on for a long time, and the burden is huge. The snowball is huge and it's rolling down the hill right now and it's got to stop. That's the recommendation. And the basic problem that I have with the Governor's proposal is that it would make the snowball bigger. It wouldn't stop the problem."

Chairman Bradley, J.: "Thank you, President Martin. Thank you, Representative Bellock. Representative Mautino recognizes Representative Monique Davis for one minute."

Davis, M.: "Thank you very much. I have just one question. I'd like to ask the Chamber of Commerce that since the Black Chamber of Commerce and the Hispanic Chamber of Commerce have endorsed the GRT, how can your position be so terribly different than theirs?"

Douglas Whitley: "Representative, there are over 450 Chambers of Commerce in the State of Illinois, a hundred and fifty (150) Chambers of Commerce in the City of Chicago alone. Each of those entities are separate and independently financed and have independent governing boards. And they do as they so choose. The Illinois Chamber of Commerce does not hold forth as speaking for every individual local Chamber of Commerce. They have the right to say whatever they... whatever they want to say."

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Davis, M.: "But shouldn't their interests be similar?"

Douglas Whitley: "Obviously, we do not have the same opinion regarding this. I have not had a communication with either one of those Chambers of Commerce. And now that you've brought it to my attention, I would like very much to do so."

Davis, M.: "Thank you very much."

Chairman Bradley, J.: "Thank you, Representative Davis. Representative Mautino recognizes Representative Dugan for one minute."

Dugan: "Thank you, gentlemen. I just... I really have a question for... it could go for the Governor, but I didn't get to talk the first time, I'll ask him again when we come back, but I wanted to check with you. From what I see in the legislation, there's... there's a part in that that specifically prohibits companies from showing the costs of the Gross Receipts Tax on their... on their bill or their receipt. Is that true? I mean, am I looking at that correctly?"

Douglas Whitley: "Don't you find that offensive?"

Dugan: "Well..."

Douglas Whitley: "I mean, that... that's as blatantly offensive as anything in the legislation, just that..."

Dugan: "So, I... I'm assuming that that is correct. I'm reading that correctly?"

Douglas Whitley: "That is correct. That's the way it's in the Bill right now."

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Dugan: "Right. And.. and again, I just wanna say I mean of course this.. this whole thing is supposed to be about transparency. As the Governor continues to say, we need to be transparent with the people of the State of Illinois. Yet, this legislation and his plan is to make sure that the people of the State of Illinois, if this Gross Receipts Tax would go into place, would never know because, of course, the Governor and.. and many.."

Chairman Bradley, J.: "Representative Dugan, thank you. Representative Jefferson for one minute."

Jefferson: "Thank you, Mr. Speaker. I've got a couple questions. First question directed at Greg Baise. Rockford has been a major player in the manufacturing industry over the years. In recent years we've lost a lot of jobs. What are we doing as Illinois... the State of Illinois to attract new businesses to make sure we're competing with people around us? Second question is to Mr. Martin. February 27th, you said the GRT would cause a pyramid of taxes and would dramatically increase the final price paid by consumers. What evidence do we have to support that? And third, many corporations today pay their CEOs millions of dollars in salaries and bonuses. Would you say that the GRT should be able to tax some of those dollars of the corporations that still have the ability to pay those people hundreds of thousands of dollars in pensions and salaries and bonuses without having to pay anything into education?"

Greg Baise: "Representative..."

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Chairman Bradley, J.: "You can respond to that briefly."

Greg Baise: "Representative, as far as the attraction of business, a major part of my concern over the last several years, not just to this administration but previous administrations, that Illinois is not doing enough to remain competitive. I hear often from my members about operations they have in other states. In fact, this morning a Forger.. Forge Company out of Blue Island called to talk about the facility they have in Tennessee that will allow.. cause them to move portions of their work to that facility because of this increased cost. Rockford has suffered. And I think by the letter that I pointed to from Governor Doyle in Wisconsin, it'll be an easy trip down from Madison to be talking to some of your businesses to come north."

Chairman Bradley, J.: "Okay. Thank you very much. Representative Flowers is recognized for one minute."

Flowers: "Thank you, Mr. Chairman. Mr. Baise, I was quoting from your magazine earlier."

Greg Baise: "I heard that."

Flowers: "And I thought it was really fantastic and I've kept it at my desk for such a time as this. And I was really amazed when you were talking about how we are expanding the Medicaid base. Now, I, for one, represent parts of Englewood, so you know I have very few businesses in my district and I would love to expand businesses. So, it would be right... really easy for me to support the Governor's GRT Tax. But quite frankly, I do know it's not fair. I do

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know the... the negative impact that it would have on the community. And I agree with what you said. Illinois cannot continue on its current path. It must embark on new directions and that encourage the entrepreneur spirit. And the government, the business, and the labor people should put aside their differences and work together to bring jobs to Illinois because, as you stated earlier, we've lost so many jobs. And two hundred thousand (200,000) jobs... 200... I'm sorry. In..."

Greg Baise: "Two hundred thousand (200,000)."

Chairman Bradley, J.: "Give her another five seconds. Okay. Thank you very much, Representative Flowers. Representative Chapa LaVia for the purpose of one minute."

Chapa LaVia: "Thank you. I'm a small business owner. I received the letters in the mail from the Governor and the postcard. All that's great, but what are you willing to accept? And I'd like it in writing, some kind of a written format. What is the business community in the state willing to accept? And that's my..."

Greg Baise: "My members were in town last week at a board meeting around the table and I think the Members here have heard the same thing, asking, can first State Government tighten its belt? Can it look for ways to save money? Can it look for ways to do a better job in its pension system? Can it look for ways to improve the delivery of medical care to those citizens who most need it? When they see that kind of activity, I think the support for additional spending,

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whether it be in transit, whether it be roads, or whether it be education, is the kind of thing our organization will examine. But they wanna see the kind of belt-tightening things that they've had to do to stay competitive first."

Eden Martin: "I'd like to answer that too. We issued our report in December. We basically said there's this embedded gap. We should cut expenses significantly; we should reform the programs that created much of the mess which is pensions and retiree health care from state employment. We should fully fund foundation education funding. Having cut expenses significantly, you're still gonna have to have a revenue increase if you're not gonna have this snowball continuing to roll down the hill. We recommended about five million dollars (\$5,000,000) a year, including increase in the income tax rate and a broadening of the sales tax to cover the service area of the economy to consumers that presently isn't subject to the tax."

Chairman Bradley, J: "Thank you very much. Okay. Again, it's an honor of the Illinois House of Representatives to have the captains of industry here today. We very much appreciate your time. Apologize for the brevity but we are on a schedule. Thank you very much, gentlemen. Okay, our next panel are teachers organizations. Again, we're privileged to have here from the Illinois Federation of Teachers, President James Dougherty, and from the Illinois Education Association, President Ken Swanson. And they will each be recognized for a period of five minutes. Gentlemen,

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if you would face the door... stand up, face the door, and raise your right hand. In testimony you are about to give, do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?"

James Dougherty: "I do."

Ken Swanson: "I do."

Chairman Bradley, J.: "Thank you very much. Have a seat. President James Dougherty, IFT, you're recognized for five minutes."

James Dougherty: "Thank you very much. I'm James Dougherty, president of the Illinois Federation of Teachers, here on behalf of ninety thousand (90,000) members of the Illinois Federation of Teachers, which includes over thirty thousand (30,000) members from our largest single union, Chicago Teachers Union. The IFT and the CTU are supporting the Gross Receipts Tax for several reasons. First and foremost, the GRT, as proposed by the Governor, provides the most funding for education in the fastest time frame. The revenue provided by GRT will help hundreds of K-12 schools and higher education solve a fiscal crisis that gets worse year after year. These educational needs are real. Class sizes are growing, positive programs are being cut. Every election local property taxes... taxpayers are being asked to bear a greater share of the burden. Second, higher education funding from Springfield is stagnant. Rising tuition costs are shifting to families and the dream of a college degree fades for too many potential students in

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every age group. Third, the GRT modernizes our state revenue system for the first time in nearly 40 years, adapting it to a new service-based economy. We will no longer rely on revenue from products and wages. Fourth, the GRT creates a sustainable revenue stream that will grow with the economy to fund education, state services, and public pension obligations into the future. It is critically important that this revenue reform plan pay down the massive pension debt caused by decades of underfunding by State Government. Employees have always paid their share. Teachers, professors, support staff, state employees have never missed a pension contribution and the pension debt is a direct result of the budget decisions that have made... been made in this building since the 1970s. And beyond paying down the debt, we need to fund normal pension costs going forward so we don't build a new debt. We think the GRT can help solve both these needs. GRT revenue will reverse the trend of corporations paying a lower and lower share of overall revenue for public education and state services. The IFT supports GRT as our first choice for comprehensive reform of the revenue system that funds State Government. But the IFT has not closed the door on other revenue options. The Governor has said he would work with the Legislature on a modified form of GRT to address some of the concerns of business. And the IFT is open to multiple revenue streams to achieve our funding goals. We can support a shift to a modified GRT. We can support higher

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income taxes and expansion of sales taxes on to services as contained in House Bill 750. We agree that closing corporate tax loopholes or an alternative corporate minimum tax are viable options. We support legislation that will streamline Internet sales and make the Tax Code more fair to our hometown businesses that already help pay for our schools at the local level. And we think gaming, including the lottery, sin taxes, and pension obligation bonds can be part of the mix of revenues needed to meet health care and construction and pension needs. The bottom line is this, we must modernize the state's revenue system to grow with the new economy. Failure to modernize it should not be an option. If this House, Senate, and Governor fail to reach an agreement to do something, then the educational failures of the future will be on your shoulders. If you do not find a solution, you'll fail the citizens of this state who have told us through polls that they will accept some new forms of revenue as long as they believe the money is spent wisely to achieve positive results. To that end, we have begun serious discussions with groups and coalitions about new accountability measures to improve public education throughout Illinois. One thing is certain, if you do not reach an agreement on a modern revenue system our schools and the State Government services provided by the General Assembly will steadily deteri..."

Chairman Bradley, J.: "Mr. President, if you could bring your remarks to a close."

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James Dougherty: "...and that will harm all twelve million (12,000,000) citizens of Illinois. Thank you for allowing me to speak and I will address any questions you may have."

Chairman Bradley, J.: "Thank you very much. The president of the IEA, Ken Swanson, for five minutes."

Ken Swanson: "Thank you, Mr. Chairman, and thank you, Members of the House for this opportunity. I'm Ken Swanson, a sixth grade teacher who has the honor of serving as president of the Illinois Education Association. I appreciate this opportunity to speak with you about a proposal for addressing a problem that has and continues to injure children throughout our state. It's gone on for generations and it has done tremendous economic damage to communities in every part of Illinois. The polling data, not just ours but others as well, tells us the public feels three things about this: 1) the crisis is real; 2) a bold, comprehensive solution is needed; and 3) the public is willing to pay to bring this solution to reality. Every day in every part of Illinois our members are nurturing students, helping them to reach their full potential. What our members do in school buildings today will have a tremendous impact on the future of our state. It is a responsibility our members gladly accept. The passion and dedication of our members informs and guides our organization's work and our goals as we advocate for sound public policy that will help our members achieve their goals. In the spring of 2006, our members embarked on a campaign to make fair school funding a reality

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in Illinois. Our Invest in Excellence campaign is guided by five principles. In order to gain IEA support, proposed funding legislation must: increase student achievement by improving the public education system; it must provide truly adequate resources to all preK-12 public schools; it must provide adequate resources to all public higher education institutions in ways that will keep tuition affordable for all students; it must provide a long-term solution for pension funding stability and long-term viability; and it must do no harm to any public education entity, that is no public school should receive less money than it is currently receiving. It is with these principles in mind that IEA supports Senate Bill 1 and the Gross Receipts Tax. We have said from the beginning that the best proposal for addressing the Illinois school funding crisis is a proposal that aligns with these principles and is capable of becoming a law. You have the ability to pass the GRT with a simple Majority vote. The GRT calls for ten billion (10,000,000,000) in new preK-12 and higher education funding over the next 4 years, calls for induction and mentoring programs for new teachers and administrators, along with smaller class sizes. The GRT can provide crucial relief to school districts that have been financially crushed by the state's failure to adequately reimburse them for special education spending. The GRT includes substantial increases for Illinois colleges and universities. The Governor has also proposed a major infusion of funding into the pension

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systems addressing the state's structural deficit. This will help ensure that thousands of retirees from education and State Government will continue to receive the benefits they are owed and promised while saving taxpayers tens of millions of dollars. Members of the committee, Members of the House, the economic future of Illinois hinges on the quality of education in our public schools. For more than a year, IEA has been calling for the State of Illinois to invest in excellence. We believe the GRT plan does exactly that. Now is the time for bold action. We would suggest to you that the greatest risk to the economic vitality of Illinois is an underfunded public school system. On behalf of the one hundred twenty-eight thousand (128,000) members of the IEA, I urge you to support the GRT proposal. Thank you."

Chairman Bradley, J.: "Thank you, Mr. President. Representative Biggins, you're recognized for five minutes."

Biggins: "Thank... thank you, Mr. Chairman. And I'd like to recognize Representative Eddy for a few minutes of our total."

Chairman Bradley, J.: "Okay. I will set it at five minutes and then Representative Eddy can yield whatever time he doesn't use."

Eddy: "Okay. Thank you very much, Mr. Chairman. Gentlemen, I think I heard during your presentation that... at least from Mr. Dougherty that revenue is the issue. And if GRT doesn't make it past tomorrow's vote and appears to be DOA are you

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prepared to support other specific revenue enhancements to fund the... the programs that you described?"

James Dougherty: "I think I made it perfectly clear that we are interested in solving the problem. We think the GRT is the best way about it. But as is modified by the General Assembly and/or whatever else the General Assembly decides to do instead, the problem has to be solved. The problem is there's insufficient revenue coming into the State of Illinois to solve its problems."

Eddy: "Ken, do you feel the same way?"

Ken Swanson: "We're on record as also having testified in favor of 750. But as a sixth grade math teacher, I'm looking at a simple Majority versus a two-thirds, and I know one number's lower than the other. But, yes, the bottom line is we need a long-term systemic solution."

Eddy: "What... what accountability... specific accountability measures are you prepared to support related to the... the thought that four additional funds to be pumped into education, that there be some accountability. What types of things are you prepared to support?"

Ken Swanson: "We're prepared to talk about making sure that some of this money is earmarked specifically to smaller class sizes, Early Childhood, full-day kindergarten, a quality induction and mentoring program in every district in the state, targeted moneys for those schools that are... are situated in demographic areas where children come through the doors with a myriad of challenges beyond our control,

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and to bring additional resources to those schools that.. that desperately need those. We would like to see a more rigorous induction, mentoring, and professional development program, not just for our members but for administration as well, because we truly need and want to partner with quality administrators in every building and every district. And we would also like to see Illinois work toward more of a growth model system of assessment, which we believe can more meaningfully measure student achievement, guide our members in providing the help and assistance those students need, and it would be a better measurement system. And if we could get some cooperation from the federal level we could modify AYP to be something that better serves students, parents, and schools."

Eddy: "Okay. Mr. Dougherty. Same?"

James Dougherty: "Yes. That's right. We've been working on many of the same issues."

Eddy: "And... and as far as other issues related to more sensitive topics, for example, teacher compensation redesigned to try and come up with programs that.. we used to call it merit pay, but we kinda dance around that with other words now... you're also interested in exploring situations where there's agreement between locals and administration for pilot programs in that regard?"

James Dougherty: "We've been... we've been open to that and across the country we're looking at plans that operate in order to do things like that. I do not believe that that is one of

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the major ways in which we're going to improve education is through merit plan, but..."

Eddy: "But you're open to the concept or dismissing..."

James Dougherty: "Open to the concept."

Eddy: "Okay. All right. Thank you very much. I'd like to yield some time. I believe we have a couple other Members, Mr. Chairman."

Chairman Bradley, J.: "One minute left. Who would you like to yield to?"

Biggins: "Moffitt. Moffitt. Representative Moffitt."

Chairman Bradley, J.: "Representative Moffitt for one minute."

Moffitt: "Thank you very... thank you very much, Mr. Chairman. Appreciate both of you being here. One of the first questions that was asked on... whether it's this or 750, you've addressed that. That was one of my questions. How much does GRT do for pension deficit, to funding the deficit or the debt that's there? Do you have a commitment of so many dollars? To addressing the pension deficit."

Ken Swanson: "I... I believe part of the answer is the GRT provides an adequate revenue stream to address the underfunding so that it then, coupled with the Governor's proposal around the lottery privatization and the pension obligation bonds, as a collective solution we believe it... it puts those pensions in a better place?"

Moffitt: "You don't have a definite figure? You don't have a commitment of a definite figure per year?"

James Dougherty: "I believe to address this problem, which is..."

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Moffitt: "I wanna pose another question. We're about out of time. My... another concern I had was that each year the health insurance could increase, there are some projections that the estimate is low. If... if we... I'm not sure there's gonna be enough left over to..."

Chairman Bradley, J.: "I think they heard the question since you're only six feet away. If you could answer that, gentlemen, we'll move on. Okay. Any response? Okay. Okay."

Ken Swanson: "We'd certainly would hope so. We believe it can be."

Chairman Bradley, J: "Thank you, Representative Moffitt. Representative Mautino recognizes Representative Lisa Hernandez for one minute."

Hernandez: "Thank you, Chairman. In the past decade, schools have received record amounts of funding increases from both Governor Ryan and Governor Blagojevich. However, test scores and other accountability measures have not increased. This would seem to conclude that mo... the money alone is not the answer. Would you agree?"

James Dougherty: "No. First of all, when you talk about record amounts, are you talking about in an economy that continues to inflate... in a state that continues to grow and you actually spend some more money and then call that a record? I have a different way of looking at things. As far as test scores are concerned, there have been improvements, increases in average scores. But one of the things we have

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to understand is that that is not the only measure of a school system. We have to measure that the Federal Government imposes on the State of Illinois and on the schools there. All right? But it is by no means the only way in which you can measure school quality and what's going on."

Chairman Bradley, J.: "Okay. Thank..."

James Dougherty: "The question is, are we doing the things that we need to do to address the issues that schools have to face? And the schools that... or the issues that schools have to face are daunting. The number of students, especially from poverty homes, who come to kindergarten unprepared for school is increasing. And the Governor's attempt previously to address this through Early Childhood Education are laudable. But the fact of the matter is that under current funding there's... money is not there to expand these programs as they need to be expanded."

Chairman Bradley, J.: "Thank you, Mr. President. Thank you, Representative Hernandez. Representative Gordon is recognized for one minute."

Gordon: "Thank you, Mr. Chairman. Gentlemen, over here. How are ya? My question... it seems... we know that House Bill 750 came out of committee and as soon as that happened both the IFT and the IEA said, you know what, it's not good enough anymore. We're going with the GRT because it gives us more money. However, my concern is what the actual number for more is. So if you could please provide me with the amount

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of money you need, and there's a difference between need and want, need to help the education system in this state for this budget year, I'd like to know the actual number as well as the breakdown of the percentage amounts of that number and where you would put it. Because it's gonna be much easier for me to talk to my constituents to say this is where the money is going, this is how much is needed, instead of just saying we want more. So if you could provide me with that information I would truly, truly appreciate it. I want a number."

Chairman Bradley, J.: "Is that a written request?"

Gordon: "I would ask that that be put in writing and I would love to share it with my colleagues in the House, Mr. Chairman."

Chairman Bradley, J.: "Thank you, Representative Gordon. Representative Lang is recognized for one minute."

Lang: "Thank you, Mr. Chairman. Gentlemen, we're all obviously concerned about funding schools. You guys are friends of mine, you have a lot of relationships here. What... have you... have you studied what the impact of the Gross Receipts Tax has been in other states on whether it's actually helped fund schools, whether it's had an impact on pension funds, whether it's had an impact on teachers and teacher rights? What impact has the GRT had, in the several other states that have it, on the issues that bring you here today?"

Ken Swanson: "It is my understanding that, in the macro sense, where the GRT has been utilized it has provided greater

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revenue. Now, different states have used that increased revenue for different priorities that may have had. For example, they..."

Lang: "I hate to interrupt you but I'm running out of time. Can you just get us that information? 'Cause you start by saying, 'It's my understanding that...' Can we find out what they're really doing with the GRT money in other states and if it's improved schools? Can you get that to us?"

Ken Swanson: "Yes, we can get that to you."

Lang: "Thank you very much."

Chairman Bradley, J.: "Thank you, Representative Lang. Representative Miller is recognized for one minute."

Miller: "Thank you, Mr. Speaker. Thanks for all the help with helping with House Bill 750 over the past, guys. Real quick question. I asked the first panel about a census of where we're going from year two, three, four, and five. Have you guys looked at any of those projections and has there been language on... on where moneys will be targeted for and how much?"

Ken Swanson: "It's my understanding that the GRT proposal would generate ten billion dollars (\$10,000,000,000) that would then be allocated for the 4-year period of time this year and the next 3. And that as... as the Bill goes through the process I'm assuming you and your colleagues would want to nail down some of those specifics in more detail."

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Miller: "So you haven't seen any language in regards to its specifics on teacher mentoring, the dollar amount that would go based on the GRT projections?"

Ken Swanson: "Yes, we've seen estimates but I don't have them all with. If you'd like us to give us some detail we can get that to you in writing."

Miller: "Thank you."

Chairman Bradley, J.: "Thank you, Representative Miller. Representative Monique Davis, final questioner. One minute."

Davis, M.: "Thank you, Sir. I just feel that the Illinois Commerce Commission is scaring small businesses by making them think that they will be so harmed when in fact 80 percent of all the revenue will be paid by the larger corporations that make over fifty million (50,000,000) in Illinois. Do you believe that this tactic is harmful to the educators in our state?"

James Dougherty: "Harmful to educators?"

Davis, M.: "The tactic of using the scare tactic..."

James Dougherty: "Yes."

Davis, M.: "That 85 percent... I mean, even though 85 percent of the businesses are exempt and only those making about fifty million (50,000,000) are gonna be affected. We're... we're..."

James Dougherty: "We're... we're... every time a question of improving workers' lives, like raising the minimum wage you brought up or changing the tax structure comes up, it's always portrayed as being a disaster for the state. In

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fact, the state is doing economically fairly well. The difficulty with the State of Illinois is that it does not tax enough to do its business. We... I believe in the bottom quarter, as far as tax rates... overall tax rates for the states. And we're attempting to run a high class state. We're attempting to be top tier when it comes to education and attracting businesses, but we're trying to do it with a bottom fifth type of revenue. And that's damaging to all the citizens of the state."

Ken Swanson: "We believe this state can absorb a reasonable tax increase and still be a reasonably taxing state, competitive with all of our neighbors."

Chairman Bradley, J.: "Thank you, Representative Davis. And presidents, I'll accept that as your closing statements. We very much appreciate you being here. My mom and dad are teachers and they're actually here today and we're honored to have you with us."

Ken Swanson: "Thank you."

Chairman Bradley, J.: "Thank you very much."

James Daugherty: "Thank you very much."

Chairman Bradley, J.: "Okay. Next panel is business organizations, our second panel of business organizations. From the Illinois Farm Bureau, we have President Phil Nelson. From the Illinois Business Roundtable, President Jeff Mays. From the Illinois Coalition for Jobs Growth & Prosperity, Chairman Ron Gidwitz. And from the Illinois Realtors Association, Senior Economist, RCF Economic and

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Financial Consulting, Mr. Donald Jones. Gentlemen, would you please rise, raise your right hand, face the doors. In the testimony you're about to give, do you swear to tell the truth, the whole truth, and nothing but the truth, so help you God?"

Phillip Nelson: "I do."

Jeff Mays: "I do."

Ronald Gidwitz: "I do."

Donald Jones: "I do."

Chairman Bradley, J.: "Thank you very much, gentlemen. Have a seat. Illinois Farm Bureau President Phil Nelson, you are recognized for five minutes."

Phillip Nelson: "First of all, I'd like to thank Speaker Madigan, Leader Cross, Chairman Bradley, and Members of the House of Representatives for this unique opportunity today. My name is Phillip Nelson. I'm a grain and livestock producer and president of the Illinois Farm Bureau. I am here representing not only Farm Bureau members but the largest industry in this state, that being agriculture. Illinois Farm Bureau is opposed to the Gross Receipts Tax in any form. It is often stated that farmers buy retail, sell wholesale, and pay the freight both ways. A Gross Receipts Tax would have producers paying the tax both ways. That very statement succinctly summarizes why GRT is of such deep concern to Illinois farmers. We are price takers. Farmers do not set the price they receive for their produced commodities. Farmers take what the market will give them.

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As a result of passing on the increased costs for input, services and consumer goods is not possible. Therefore, much like the impact of GRT would have on the consumer, the buck stops with the farmer. A GRT in any form simply compounds this fact. A farmer's input costs will increase at the same time that commodity prices will decrease at Illinois grain elevators and meat processing facilities. The farmer and consumer will get squeezed by the GRT with higher input costs and low... lower locally available market prices. Much has been made about big business paying their fair share. Many people think that that sounds like a good idea. One problem is agriculture business will not make its home in Illinois. Several potential renewable fuel plants looking to locate in this state have already indicated to us they will not build in Illinois if we go forward with this GRT. We've also heard from numerous agribusinesses, like implement dealers, grain elevators, and others that will be forced to relocate outside of Illinois or simply close their doors. This will do nothing but drive up costs of goods and services for farmers and impair the already delicate rural economic structure. Another problem with GRT is the increased production costs borne by companies that will get passed on to the farmer and small agribusinesses throughout the state. It only makes sense, as production costs go up the costs of goods and services will need to go up in order to cover the additional costs. Whether individual farmers have their Gross Receipts Tax directly or not, or in... the

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indirect impact will be significant. Based on Senate Amendment #1 to Senate Bill 1, profit margins would be decreased 42 percent for Illinois pork producers, 63 percent for Illinois beef producers, and 25 percent for corn and soy bean farmers in this state. The total impact on corn and soy bean producers alone would be a hundred and ninety-five million dollars (\$195,000,000). Make no mistake about it, agriculture is a high-cost business with low return rates. The GRT will undoubtedly inhibit the state's largest industry. So, for farmers in Illinois any GRT will impact them. Not only will farmers' operations be impacted but every aspect of life in Illinois will be impacted. This tax proposal is a hidden tax that will compound with every transaction and service provided. Every resident in Illinois will see it in the end. Others have seen what GRT will do. The State of Indiana, for an example, saw this and removed its GRT. Our Hoosier neighbors think that this tax plan is a good idea. 'It's pretty cool for Indiana,' says John Mikesell, the professor of public finance at Indiana University. 'A lot of us our rooting for Illinois to pass this thing because there'll be so many opportunities to study the adverse impact on Illinois's economy.' The land we farm, the homes we live in, and the communities we invest in are right here in Illinois. Illinois farmers want to keep farming in Illinois and we want to be afforded the opportunity to run our businesses in a state that wants our business. Please oppose the GRT in any form and help

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Illinois farmers remain a driving force in rural communities throughout this state. Again, thank you for the opportunity for these remarks and to address each and every one of you. Thank you."

Chairman Bradley, J.: "Thank you, President. Our next speaker, Illinois Business Roundtable, President Jeff Mays."

Jeff Mays: "Thank you very much, Mr. Chairman. Mr. Speaker, Leader Cross, Members of the Illinois House, my name is Jeff Mays and I'm president of the Illinois Business Roundtable, a statewide organization of chief executives with primary focus to advance public policy that grows jobs and investment in Illinois. While the focus of my remarks will be to education, our executive committee is on record opposed to the GRT and we also believe that prior... thank you... that prior to embarking on significant spending expansions, our current spending base growth must be brought into line with natural revenue growth rates. As I said, a major focus of our organization over the years has been to improve public education in Illinois, with particular focus on kindergarten through high school. Our education foundation is invested heavily in developing a statewide cadre of national board teachers. Our foundation's invested heavily in development of two school improvement Web sites that brings student performance data to the classroom teacher. Our foundation is invested heavily in identifying best practices in our education system in training teachers and principals in our schools to use these practices to

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improve instruction and student performance. Last year, our foundation funded a study by Northern Illinois University to determine how well our schools in Illinois were preparing their students in math and science. We did this as a result of no less than 40 national studies released since 2000 that cited critical skill shortage that have emerged that truly threaten our country's ability to innovate and remain competitive on the world scene. The compelling findings from the Illinois-specific study were as follows: academic achievement in a stem of subjects do not prepare all students for college success or living wage jobs; curriculum in our school systems are not aligned to 21st century knowledge and skills; and many math and science teachers lack the qualifications in their given subject areas. It is with this backdrop and the spirit of working together to build something better in our education system that we come to the podium today. Our goal is not to advocate for increased spending for education but rather to ad... advocate for specific changes in education, and in some cases very nominal investments that will yield a much better prospect for improved student learning. When IBRT study last fall examined the last major spend-up of state funds for education from 1995-2002 we wanted to determine the impacts of state funding on some key assertions. Will schools exit a spend-up such as that period stronger or weaker? Will the spending gaps between the richer and the poorer districts narrow with more state spending? And most importantly, will

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students' learning improve? The results showed that schools exited that period in significantly worse shape financially than they entered it; that the spending gap between the highest and the lowest spending districts did not close, in pure dollar terms it actually broadened as the rich districts spent at an even higher rate than the state; and there was no measurable improvement in student learning during that period. A review of the current proposed expansions in school funding under either the GRT or the income tax/sales tax expansions will, in our opinion, raise the spending base for education beyond its current unsustainable levels without significantly impacting student learning. As an alternative, we suggest that the following high impact, relatively low-cost investments be made. I should note, it will take time to ramp up each and every one of these. We should create a P-20 Council that aligns all education systems in constituencies. A Bill doing that has passed this chamber. We should implement a core curriculum for all kids that ensures they get the classes they need to be successful in college or work. This will align high school graduation requirements with public university entrance requirements, something we tried to do about 2 years ago. We should create a value-added statewide assessment system for all kids all years with student and teacher identifiers. We should implement performance pay for teachers based on experience, credentials, school setting, and improved student learning. We should probably

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reconstitute EFAB, require actual school building cost reporting in relation to school performance and shine a very bright light on the process by which schools were used to determine the adequacy figure and how their costs were determined. We should also require mandatory after-school tutoring and summer school for students below grade level in core subjects and we should eliminate the charter school cap. These modest changes, in our opinion, will improve system alignment and drive better student learning. They are system investments and performance expectations that will put Illinois in a league with the best of states across our country. They are worthy of doing, whether additional money is forthcoming or not."

Chairman Bradley, J.: "Thank you very much, Mr. President. Our next speaker is Chairman Ron Gidwitz with the Illinois Coalition for Jobs Growth & Prosperity. You're recognized for five minutes."

Ronald Gidwitz: "Thank you, Mr. Chairman. As most realize, the economic climate is constantly changing. Illinois used to be the center for school service and agricultural equipment. We were number one convention venue for the nation. Twenty-five percent of all candy was manufactured in Illinois. Today, much of the steel processing has moved offshore and while John Deere continues to do well, International Harvester left the ag business long ago. Las Vegas has taken our number one position in conventions and Canada is now home base for many of our cand... candy manufacturers.

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Because of our geographic location, we have built a major position in the service industries. Our financial services have grown to international scale. Change in the economic environment in our state is inevitable, not all of it good and not all of it bad. And determining economic impact is never a one-size-fits-all formula, so we must not look only at taxes when we evaluate our state's ability to compete. The total cost of doing business with is what ultimately drives location decisions, whether you're talking about coming or going. Today, Illinois is in the middle of the pack in terms of overall tax burden on business. In terms of the cost of doing business, we are far behind. Unfortunately, according to the Milken Institute, Illinois is too expensive relative to our neighbors. We are 24 percent more expensive than Iowa, 16 percent more expensive than Indiana, 18 percent more expensive than Missouri and our neighbor in Wisconsin, a high tax state, has a cost of doing business 9 percent lower than ours. Instead of having 25 percent of the candy business today, we have 25 percent of the nation's asbestos litigation. Our health care costs per capita exceed those of our neighbors. Workers' comp, while improved as a result of recent actions of this Body, is still high compared to the rest of the Midwest. The difference between now and 30 or 40 years ago is the nature of Illinois business for... for manufacturing businesses, technology, obsolesces equipment and processes far more quickly. This shortened investment cycles opens job

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locations decisions more frequently. Our economy has also become much more of the service-oriented business. The danger there is that those jobs can get on a plane and move, and don't think for a minute they won't. Many leaders of business groups here today have heard empirical evidence that Illinois companies are choosing elsewhere to expand and too many are looking at neighboring states for their headquarters. I served for 20 years as a Fortune 500 CEO employing fifteen hundred (1,500) Illinoisans at any point in time who received good benefits and health care coverage. In addition, I spent 7 years as the chairman of the Chicago Economic Development Commission. It's clear to me that what drives job location decisions, what drives the placement and retention of offices and factories are two things: cost and workforce quality, but it's not just today's costs and workers' skills levels. These decisions will influence a company's competitive position for 5 or 10 years. Therefore, it's not just a cost of doing today's business and it's not today's workforce it controls, it's the perception of what the future will bring in terms of these business drivers. Unfortunately, here in Illinois, the future equation does not look promising. We're a state with already a high cost of doing business and we're faced with the need to pay off extraordinarily large, unfunded public pension and health care costs. We have a Governor who's anxious to make his mark by driving these costs even higher, further eroding Illinois's ability to attract and retain

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jobs. All the while, he excoriates its private sector leaders. Frankly, just introducing the tax... the Gross Tax Receipt... the Gross Receipts Tax measure he's done damage to this state. Illinois has a growing reputation as a state losing its ability to compete. The GRT encourages that reputation. Make no mistake about it, the Illinois business community is in favor of health care and better education for our families. It's going to take a broader view of the economy than the state has taken before and opening our collective minds to the Economic 101 principles that seem to get lost in the political morass, things like: the best way to get business to pay for health care is to set economic policies that will help create high paying, high quality jobs that offer good wages and benefit packages. The more people who work these high paying jobs the more tax dollars flow into the state coffers to help pay for those who need our assistance the most. We need to pay for our current programs and services in a timely manner and in an adequate rate, taking precedent over new spending programs. We need to get control of the state..."

Chairman Bradley, J.: "Can you bring your remarks to a close, please."

Ronald Gidwitz: "We invite you to work with us, the employer community, to work together to figure out how we can reform education and health care. I think you will be surprised how willing we are to work together to make our schools

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accountable, to make our health care viable, and to make Illinois's economy better. Thank you very much."

Chairman Bradley, J.: "Thank you. Our next speaker is Donald Jones, senior economist on behalf of the Illinois Realtors Association (sic-Illinois Association of Realtors). You're recognized for five minutes."

Donald Jones: "Thank you, Mr. Chairman, Members of the House. The Illinois Association of Realtors asked my firm, RCF Economic and Financial Consulting in Chicago, to prepare some quantitative estimates of several impacts of the proposed Gross Receipts Tax in Illinois. I'm going to summarize our findings for you right now in four areas: the price cascade effect on the new housing, the impact on employment in construction, the effect on labor productivity in construction, and the overall effect on housing prices by income of homeowner groups. To estimate the price cascade effect we used information on the cost composition of building construction obtained through interviews with contractors and developers and from published and private sources on cost components. We considered six steps of transactions: from manufacturing, wholesaling, subcontracting, general contracting, the developer, and finally, the consumer. The estimate of the price cascade effect we used with the tax rates two days ago was 2.84 percent. I did a recalculation last evening with the new rates and without any ability to try to allow for the offsets, I estimated it at around 3.3 percent. It's not

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clear that allowing for the offsets would make much difference as long as lower productivity firms were substituted for higher productivity firms in construction subcontracting. The estimate of the employment impact in construction in the state would be tied to a slow down in the growth rate of gross state product and an attendant slow down in the population growth rate. We estimated a permanent reduction in construction employment of some thirteen thousand nine hundred (13,900) jobs. That would be permanent. Forever. For labor productivity, we examined the productivity per worker in firms above and below the previous two million dollar (\$2,000,000) cutoff level. The firms above labor productivity in the higher revenue firms were 59 to 88 percent higher than labor productivity in the firms in the smaller revenue categories. More construction work would be shifted to the smaller revenue firms, decreasing labor productivity in construction. Finally, the assessment of the 2.84 percent price cascade on housing prices would imply increases in a house price, ranging from a little over five thousand dollars (\$5,000) for people making over... just over twenty thousand dollars (\$20,000) a year up to twelve thousand dollars (\$12,000) per house at the maximum. People in the range... in the income range from twenty thousand (20,000) to fifty thousand (50,000) dollars per year would find themselves paying from fifty-one hundred (5,100) to fifty-nine hundred (5,900) dollars more per house. Since I have another minute, I noticed a couple

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observations in the discussion this morning. Representative Scully suggested that the reduction of... the exclusion of exports from the tax seemed to eliminate one of the mechanisms for exporting the tax to other states, which is always a nice thing to do if you can figure out how to do it at the level of state taxation. He was absolutely right. The exclusion of exports eliminates the primary mechanism... one of the primary mechanisms for Illinois exporting its taxes to other states. As far as the broad base of the tax, it seems like we keep reducing the number of firms and the percent of revenue that is subject to the tax. Right now, we've got 10 percent of the firms probably contributing 30 to 35 percent of revenue. Those firms probably have the greatest interstate mobility and..."

Chairman Bradley, J.: "If you could bring your remarks to a close."

Donald Jones: "Thank you. I forgot where I was."

Chairman Bradley, J.: "That's very literal. Thank you. Okay, we're gonna go to questions. The Republican Caucus is recognized for ten minutes. Representative Biggins."

Biggins: "Thank you. Thank you again, Mr. Chairman. From... any of the members of the panel can answer a couple questions I have."

Chairman Bradley, J.: "How long... do you want me to set the timer at ten or do you want to designate time to yourself?"

Biggins: "You can set the timer. Just like everybody else."

Chairman Bradley, J.: "Okay."

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Biggins: "Three hours. Three minutes... two minutes, okay. Is it true that the Governor stated in his address this morning when we started that the first five million dollars (\$5,000,000) is exempt from the Gross Receipts Tax. Is that you're understanding, anybody?"

Ronald Gidwitz: "That was my understanding from what the Senate passed out of committee... out of Exec Committee yesterday."

Biggins: "Oh. Okay."

Jeff Mays: "That... that's my understanding of how the Governor has extrapolated a couple different figures to get there, really stretching it. Bottom line is it's still two million (2,000,000). If you don't have the employees you don't get the credit and also the corporate income tax is not abolished, period. In... in the Amendment or in the Bill."

Biggins: "I think he implied that that could be abolished, but I don't think he said really that it was, but... And can the Illinois... can we tax out-of-state sellers? I'm not sure I got that question right."

Unknown: "(Inaudible.)"

Biggins: "All right. And what about the Gross Receipts... what about the Gross Receipts Tax rates in other states, like Ohio, for comparison to Illinois's proposed? Does anyone know that?"

Jeff Mays: "The Gross Receipts Tax rate in Ohio is .2 or .25, one of those two. Very, very low rate. Very broad based. The Ohio Business Roundtable actually supported that 2 years ago when it passed because overall they took the tangible

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personal property tax down at the local level, they did a number of other major budget cuts..."

Biggins: "Oh."

Jeff Mays: "...and in the end, the Ohio state budget was smaller that year than it was before the Ohio... the Gross Receipts Tax passed."

Biggins: "I didn't know."

Jeff Mays: "Big, big difference."

Biggins: "That's sounds rather impressively... All right, Representative Krause, you yield some time to Representative Cole, one minute."

Cole: "Thank you. This question's probably for Mr. Mays or Mr. Gidwitz. It seems... my husband and I own an 'S' corporation and it seems like there's a great deal of misconception as to the fact that 'S' corporations just get out of paying income tax on a corporate level. And in fact, we do pay on a personal level. In addition to our salary that's taxed on our personal income tax, the partnership splits up their... their profit and also pays an additional on their personal income tax. And my question to you is this. In all the analysis that's been done comparing personal income tax and corporate income tax and the state apparently, according to the Governor, is very high on the personal income tax level, has... has the 'S' corporation dollars be extrapolated from the personal income tax number so that that could be added to the corporate..."

Ronald Gidwitz: "No."

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Cole: "...business tax that everyone in the state pays?"

Ronald Gidwitz: "No. The answer is 'no'. And that's... as Mr. Vite said this morning, a good rea... a good part of the reason why there is this difference between what was paid in 1972 or 3 (sic-1973) in terms of personal income tax and what's being paid now because there's a much higher reliance on 'C' corps and 'S' corps and LLCs today than there was then when they didn't exist."

Chairman Bradley, J.: "Representative Biggins. Representative..."

Biggins: "Thank you, Mr. Chairman. Now, I'd like to yield one minute of time to Representative Lindner."

Chairman Bradley, J.: "Representative Lindner is recognized for one minute."

Lindner: "Thank you very much, Mr. Chairman. This is for Mr. Mays. I heard you testify a couple weeks ago at a budget hearing. You are for not expanding the budget base."

Jeff Mays: "That's correct."

Lindner: "And do you feel that we could address the Medicaid and pension problems and still have money left over for health.. health and education if we, ya know, kept our budget base?"

Jeff Mays: "I feel that if you don't take that first step to control your budget base and then control the growth rates of that base going forward, then no matter what tax you pass here will be unsustainable going forward. It may be 3 or 4 years before it bites ya, but your revenue growth right now grows roughly 4 to 4.5 percent a year, pretty robustly since 2003. Your spending growth has gone faster than that and

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that's, in part, the problem. The only time this state actually cut spending was in 2002, I believe, fiscal 2002 when we were seeing the revenues just go in the toilet. And the state... a lot of you folks here in this room actually made some major cuts, and that was the first time in a long time that that's happened."

Chairman Bradley, J.: "Thank you, Representative Lindner. Representative Biggins."

Biggins: "Thank you, Mr. Chairman. I yield to one minute of time to Representative Bassi."

Chairman Bradley, J.: "Representative Bassi is recognized for one minute."

Bassi: "Thank you, Mr. Chairman. A few questions, actually. I may need two minutes, if I may. You talked about national revenue growth, Mr. Mays. Can you tell me what the growth rate is nationally and what it is in Illinois?"

Jeff Mays: "No, I can't tell you nationally. But I know the State of Illinois's aggregate growth rate is about 4 to 4.5 percent."

Bassi: "Four to 4.5 percent."

Jeff Mays: "Our general funds, yes."

Bassi: "But you're saying that ours is not matching the national growth rate."

Jeff Mays: "No, I was saying our spending actually exceeds... the growth rate of our spending exceeds the growth rate of our revenues."

Bassi: "Ah. Thank you, okay, for the clarification."

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Jeff Mays: "Thank you."

Bassi: "You talked about districts were spending more money than they had before. Can you tell me what that money is going for at this point in time?"

Jeff Mays: "As a brand new school board member, I can tell you about 80 percent..."

Bassi: "Congratulations."

Jeff Mays: "Yeah, right. About 80 percent of the dollars in our district is going for personnel costs, and that's staffing driven. Certified teachers roughly get about... oh, about 40 percent of that total pot."

Chairman Bradley, J.: "Representative Bassi, you're recognized for an additional minute."

Bassi: "Thank you. You had mentioned a list of accountability measures. One of the things that I was interested in would be... would appreciate it if you'd give us a list of them that you had read in the midst of your speech so that we could talk again about the accountability measures that need to be put in place before we exacerbate the spending issue or even talk about additional spending."

Jeff Mays: "Yes. The P-20 Council, which you guys already passed, is a real opportunity to start aligning data systems all through your school systems here in Illinois, and I think that could yield a great deal of information as well as a great deal of future strategies for student learning. Core curriculum, a number of states have gone forward with that. Indiana is implementing... the 9th graders going into

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this class in this fall by 2011 will have to have 40 hours..  
40 credit hours of math, science, English, and things like  
that. They've aligned their entrance requirements through  
their high school graduation requirements and so on. Yes?  
I'll get you a lot.. I've got that. I'll e-mail it to ya."

Chairman Bradley, J.: "Okay. Thank you very much.  
Representative Biggins, any additional?"

Biggins: "Mr. Chairman, one more wishes to speak.  
Representative Pritchard has a question."

Chairman Bradley, J.: "Two minutes or one minute?"

Biggins: "That'll be fine."

Chairman Bradley, J.: "Which... one minute. Okay."

Biggins: "One minute... one minute's fine."

Chairman Bradley, J.: "All right. Thanks."

Pritchard: "Okay. In one minute let me then just raise several  
questions for the panel. We've heard from a number of other  
business organizations that have talked about the impact of  
this tax and the Governor's comments this morning that we  
need to look at solutions and there's only three or so  
solutions. Could you share with us, perhaps in writing,  
what you feel are some of the acceptable solutions to deal  
with the major structural deficit that we have in this  
state. I know you've mentioned we can control spending but  
that doesn't get to the real issue of the structural  
deficit. I would ask for a comment from Mr. Nelson. We  
certainly have talked about businesses being able to move  
out of the state. Agriculture represents about 20 percent

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of the jobs in the State of Illinois. They seem to be landlocked. So, what is going to be the impact and how are farmers going to react to this kind of tax?"

Phillip Nelson: "Well, I think it's a good question and farmers have certainly raised their eyebrow when this was presented because, as you pointed out, you just can't pick up the land and move it across the state line. And our big concern is the companies that we do business with, in more ways than one, will pass those taxes back on to the farmer who cannot control or set his price. He's a price taker, as I said in my testimony. And our fear is we're going to really hinder the infrastructure of Illinois if this goes through in any form. And by that, I mean the equipment dealer to the meat processing facilities that we have in this state. And as a good example right now, we have the potential to site a number of ethanol and biodiesel plants in this state. We have received a couple phone calls on a hundred billion (100,000,000,000) gallon facility, this tax will be an additional one million dollars (\$1,000,000) a year. And to our knowledge, a couple of these facilities will not break ground in Illinois 'til they see what we do with this proposal that's on the table, because they'll be able to locate that in Iowa or Missouri or Indiana without that tax in place."

Chairman Bradley, J.: "Representative Biggins, any additional questions?"

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Biggins: "Thank you, Mr. Chairman. Yes, Representative Moffitt with a question."

Chairman Bradley, J.: "One minute."

Biggins: "One minute."

Moffitt: "Thank you, Mr. Chairman. Thank the panel. A question I have, and any one of you can respond. We keep hearing about raising the threshold. It started out at a million dollars (\$1,000,000), then two million (2,000,000), now today it's five million (5,000,000). Is there... isn't that a false security that that's making this all right? Because a large volume corporation, pick your number, fifty million (50,000,000), a hundred million (100,000,000), could still be operating on a very, very small margin: one, one and a half, two, whatever. Perfect example, I think railroad margin is pretty small, yet it's a large industry, and there are others. So isn't that a little bit of a false security that raising this is okay? 'Cause if we put on a 1 percent or 2 percent tax on a company that's... maybe their threshold's..., is that a problem? Is that a concern?"

Ronald Gidwitz: "For sure. I mean, a lot of the wholesale businesses... and it's not just limited to the food business, which is exempt... but the wholesalers, generally speaking, work on very narrow margins across the board. And so, anybody doing business as a wholesaler in Illinois is going to have a problem."

Moffitt: "Regard... okay. I... I... okay."

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Chairman Bradley, J.: "Thank you very... thank you very much. Go ahead. Did someone have a question they wanna follow up with real briefly... or an answer they want to follow up with real briefly? Jeff, you had something."

Jeff Mays: "I... I was just gonna say, ya know, watching this whole thing go through the process, I would be concerned as you've seen it go from initial speech to legislation to Amendment. You know, those same groups that have received cutouts or favor to try to get it passed are the ones that are gonna be on the block the next time there's a financial crisis that hits ya. That's what I would be thinking if I was a Legislator representing a constituency that just got out... cutout."

Chairman Bradley, J.: "Okay. Thank you."

Phillip Nelson: "Just a follow up to that from agriculture's standpoint. No matter where you put that threshold, Representative, it's gonna have an impact on every farmer because of who they do business with."

Chairman Bradley, J.: "Okay. Thank you very much. Gonna move to Representative Mautino. Representative Mautino recognizes Representative Flowers for two minutes."

Flowers: "Thank you, Mr. Chairman. Former Representative Mays, such a pleasure to see you again. And I was really amazed at the... your testimony in regards to education. Last week, a lot of us went to a dint... a dinner and there was a board there talking about education and you just stated, and

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please correct me if I'm wrong, that our students are worse coming out of the system than they were going in?."

Jeff Mays: "What we looked at, Representative, and I'm glad you asked the question."

Flowers: "Gee whiz."

Jeff Mays: "We looked at the... the last great spend-up of state dollars for education, and it was from 1995 to 2002, and we asked three questions... and we've not had a spend-up like that since, okay. We asked three questions. Did districts going into that period exit that period financially better off? Because the premise is that more state money will take care of districts' financial problems. And the answer is 'no'. In 1995, nine hundred (900) school districts, thirty million dollar (\$30,000,000) total debt they were carrying at that time. By 2002, it was one point nine nine two billion (1,992,000,000). Then we looked at did the gap between the rich and the poor close? Because that's another assertion that's always made with more state money. And the fact is the rich districts have the capacity to spend faster and more than the state does, so the gap did not close. And in terms of performance, there was no notable performance increase."

Flowers: "Just for the sake of time, why would I as a business person want to continue to invest my hard earned dollars into a broken down system that's not fixable and someone is not trying to fix it? And as a business person, we need to be concerned, because it is a broken system, in order to

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prepare people to work in your businesses and to keep Illinois viable."

Jeff Mays: "Have I told ya how much I miss ya?"

Flowers: "I miss you too. Thank you."

Jeff Mays: "The... the long and short of it is businesses fully understand investing in human capital. And we are willing and ready to invest in a system that is willing and ready to take responsibility."

Chairman Bradley, J.: "Okay. Thank you. Representative Mautino."

Mautino: "Thank you, Chairman. Just wanted to also clarify the record that earlier it was stated in testimony that the St. Louis Chamber of Commerce was in favor of the GRT. Kevin Riggs of the St. Louis Chamber has called back."

Chairman Bradley, J.: "You have one minute to Representative Mautino. I'm sorry. Go ahead."

Mautino: "Oh, this is actually a correction of the record."

Chairman Bradley, J.: "Okay."

Mautino: "And the St. Louis Chamber of Commerce is unalterably opposed. And so, the testimony... I'd like that to be corrected in the record and I yield one minute of time to Representative Scully."

Chairman Bradley, J.: "Representative Scully is recognized for one minute."

Scully: "Thank you. Mr... Mr. Jones, you made reference earlier to a question I had raised. I want to ask the question very specifically. In the Governor's testimony this morning he

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specifically stated that the tax... products exported out of the State of Illinois would be exempt from the tax and products imported into the State of Illinois would be subject to the tax. That being the case, it appears to me that the tax is functionally imposed upon product that is actually consumed in the State of Illinois."

Donald Jones: "Yes."

Scully: "Which to me sounds like a sales tax."

Donald Jones: "Yes. Exactly."

Scully: "Mr. Gidwitz, apparently you disagree. Would you please state your position."

Ronald Gidwitz: "Thank you, Representative. At the... at the sale level, you're correct. But if you look at the inputs, the people that are selling to the person that's exporting, it'll be almost impossible to disaggregate those costs, even if you... if it were exempt. But my understanding of the legislation, if I have a... I am the manufacturer and I'm gonna export product out but I'm buying... buying goods as part of the process, I'm gonna be paying taxes to the people that supply me and then I'm not gonna be paying taxes on goods that I export but I will have already experienced an increased cost because of raw materials and the sub processors that I'm using will be more expensive."

Chairman Bradley, J.: "Thank you... thank you, gentlemen, for your answers."

Ronald Gidwitz: "Thank you."

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Chairman Bradley, J.: "Representative Washington, you're recognized for one minute."

Washington: "Thank you, Mr. Chairman. My question is to Mr. Gidwitz. You said that you... you managed fifteen hundred (1,500) people in Illinois?"

Ronald Gidwitz: "Yes."

Washington: "As a... as a top CEO for 500 (sic-Fortune 500)? How much taxes did you all pay? Did you pay your fair share of taxes in retrospect of what the Governor is saying?"

Ronald Gidwitz: "We paid our fair share every year."

Washington: "How much taxes did you... do you know you paid?"

Ronald Gidwitz: "Well, it's been about 11, 12 years since I ran the company, so I can't tell you quite frankly."

Washington: "So... but the Governor referring to top 500 (sic-Fortune 500) companies... nine out of ten, your company wouldn't have been one that didn't pay their fair share."

Ronald Gidwitz: "Helene Curtis paid its fair share of taxes."

Washington: "Thank you."

Chairman Bradley, J.: "Thank you, Representative. Gentlemen, again, I'm honored to have you here at this committee hearing. I appreciate ya'll being here. At this time we will excuse you and thank you for your service here today. We're gonna go a little bit out of order. Gonna recognize policy organizations at this time. We have from the Taxpayers Federation of Illinois, President Tom Johnson, and from the Center for Tax and Budget Accountability, Executive Director, Ralph Martire. Gentlemen, if you would stand and

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rise, face the audience, raise your right hand. Is the testimony you're about to give to be the truth, the whole truth, and nothing but the truth, so help you God?"

Panel - et al: "Yes."

Chairman Bradley, J.: "Thank you very much. You may be seated. President Johnson, you may proceed. You have five minutes on the clock."

Tom Johnson: "Thank you. I'm here to testify on several issues regarding the Governor's proposal on the Gross Receipts Tax. First of all, we are, of course concerned about a hidden tax that is pyramided through the production and distribution chain on goods and services produced here in Illinois versus elsewhere. We are also concerned about creating a unique tax structure that is different than most others... states, and specifically our neighboring states. Investors and job creators have to think twice about the impact unique tax structures has on the return on their investments. Finally, the tax cost incidents... companies that have very different margins, is a special concern. We believe in visible tax structures where taxpayers see and feel the amount of tax burden the government imposes upon them. Visible taxes make government more accountable because taxpayers know what their government programs are costing them. We are... also believe visible tax structures can be structured to deal with the regressivity of a tax more so than a tax that is buried in multiple transactions through a production and distribution chain. I'd like to point out one point that I

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think is often overlooked. Today's... Illinois's collection from business profits taxation today is greater than it was in 1980. In 2001, it represented 22 percent of total income tax collections. In 1980, it represented 21 percent. The only difference is how we account for it. In 1980, 4 percent of personal income represented businesses' profits. In 2007, 8 percent of personal income represents business profits. The bottom line is business profits taxation contributes more today than it did in 1980. A couple of other points I'd like to make. Does the Illinois Constitution permit the imposition of a Gross Receipts Tax and still retain a corporate or personal income tax? Article 9, Section 3A states: 'A tax on, or measured by income, shall be at a graduated rate. At any time there may be no more than one such tax imposed for state purposes on individuals and one such tax imposed on corporations.' We believe the Gross Receipts Tax is effectively an income tax allowing all deductions, and therefore would be a second tax on income, and therefore unconstitutional with the retainage of both the personal and corporate income tax. Finally, the Gross Receipts Tax proposal also prohibits the business from billing or invoicing the tax to another person. I'd like to make you aware that there are two U.S. District Court decisions out of the Eastern District of Kentucky that just were released at the end of February of this year, which basically held that a prohibition of this nature infringed on a business's First Amendment rights to communicate with

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their taxpayers. And we would suggest that that would cause a constitutional problem at the federal level on prohibition of that nature. I'd be glad to answer any questions you may have regarding the Gross Receipts Tax and how this specific proposal will work here in Illinois."

Chairman Mautino: "Thank you. We'll next hear from Ralph Martire, Center for Tax Accountability."

Ralph Martire: "Thank you, Mr. Chairman. My name is Ralph Martire, I'm executive director of the Center for Tax and Budget Accountability. We are a bipartisan nonprofit organization committed to ensuring the state's tax system is fair, able to support essential public services, and allow Illinois State Government to make the necessary investments in infrastructure that'll keep our state competitive in a global economy. To be very clear, we have reviewed the Gross Receipts Tax over a course of a number of years, and determined it would not be the best option for the State of Illinois to pursue to raise the revenue we agree needs to be raised (sic-raised) to invest in education and health care. Number 1) there is no question that a Gross Receipts Tax is a highly regressive tax. It has a disproportionately negative impact on low- and middle-income working families. For proof of that, you just need look at what the most regressive taxing state is in the nation today, it is the State of Washington, which has the longest-standing Gross Receipts Tax. Second, Illinois, which has the fifth largest economy of any state in the nation, there are five hundred

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billion dollar (\$500,000,000,000) plus economy has not seen this economy grow at that level over the last 15 years. In fact, over the last 15 years, Illinois has seen its economic growth lag both the Midwest region, in specific, and the U.S. generally, ranking thirty-fifth (35). It would be a very questionable public policy decision to impose a new, significant tax on business at the very time when our state economy has been lagging the rest of the Midwest and, in fact, the nation. Third, if the tax is not fully passed on by those businesses that can't afford to pay it, if in fact they have price sensitivity in their industry and they must absorb some of the cost, the way they will absorb that cost is by controlling their internal label costs as their number one option. That means either firing employees, and/or keeping down their compensation. While I don't agree that businesses will just run out of the state by the droves, I do think a Gross Receipts Tax will significantly impede the growth of the labor base in our state, and particularly for higher-paying good-benefit jobs in the manufacturing sector. We agree with Tom Johnson's comments completely about the lack of transparency of this tax. Low- and middle-income families will bear the brunt of it, and they won't know it or see it. We don't believe that that's an appropriate way to design tax policy. We think the state ought to raise revenue in a transparent way that tracks the modern economy and allows us to remain competitive. Enhancing the state sales tax base to include consumer services, not business

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services, not health care services, just consumer services, and increasing the corporate income tax are very transparent. They allow us to know who exactly will bear the brunt of any tax increase, and allow the state to further design the kind of targeted relief necessary to take burden off of hardworking low- and middle-income families. We think that that's the better approach to raise the revenue Illinois truly needs to fund essential services like education and health care. Thank you."

Chairman Bradley, J.: "All right. Thank you, gentlemen. At this time we'll take questions from the Republican Caucus. Representative Biggins, ten minutes."

Biggins: "Thank you, Mr. Chairman. I'd like to yield a minute of time to Representative Bassi."

Chairman Bradley, J.: "Representative Bassi, one minute."

Bassi: "Thank you, Mr. Chairman. You talked about the transparency of the tax, or lack thereof. Am I right that we... that there is some reason why this tax is so untransparent, but it's legally not able to show it?"

Ralph Martire: "Yeah. What happens, Representative Bassi, is the tax gets passed on at every input cycle throughout a business transaction resulting in price inflation as the final product or service is built through the economy."

Bassi: "But it's not recorded as it goes through?"

Ralph Martire: "It's not recorded as a tax, it's just passed on as an increased price, and then a tax gets laid on top of the tax. So, at the end of the day, if there's five or six

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or seven inputs in the State of Illinois, each of those businesses gets taxed."

Bassi: "Okay. Well, I got it. I got it. One quick question before I'm out of time. Is there or is there not a structural deficit of three billion dollars (\$3,000,000,000) in this year's budget?"

Ralph Martire: "Yes, there is."

Bassi: "Thank you."

Chairman Bradley, J.: "We'd... I'd heard that number as high as six billion (6,000,000,000), is that... so at least three, maybe six?"

Ralph Martire: "It's at least three."

Chairman Bradley, J.: "Okay. Thank you. Okay. Representative Biggins."

Ralph Martire: "Yes, yes."

Biggins: "Thank you, Mr. Chairman. Will the Committee yield a minute of time for Representative Pritchard?"

Chairman Bradley, J.: "Of course. Representative Pritchard, one minute."

Pritchard: "Gentlemen, I would raise the same questions that I have raised of a previous panel. We are faced with solutions to the problem, could you give us a better idea of what you see the solutions are? The Governor has said there is no way that we can cut expenses. Do you agree with that phenomenon?"

Tom Johnson: "I'd be glad to answer that. I believe that there's at least a billion dollars (\$1,000,000,000) worth of

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cost containment that could be achieved out of the current spending plan, primarily focused on pension reform to lower that cost over future employment, as well as cost containment that could be achieved in health care for retirees as well as current employees to make those health care programs more comparable to the private sector. And finally, that there could be more savings achieved by moving more of our health care beneficiaries under our Medicaid program to greater risk-based managed care initiatives."

Pritchard: "Thank you."

Chairman Bradley, J.: "Thank you. Representative Biggins?"

Biggins: "Thank you again, Mr. Chairman. Could we yield a minute of time to Representative Eddy?"

Chairman Bradley, J.: "Representative Eddy, one minute."

Eddy: "Thank you very much. Mr. Martire, can you give us an estimate in the GRT as to what type of property tax relief that might be achieved with one billion dollars (\$1,000,000,000)?"

Ralph Martire: "Well, we feel that the level of property tax relief given under the Gross Receipts Tax is not sufficient to have a measurable impact on property tax burden as it's been over imposed in the State of Illinois. The reason we are over reliant on property taxes in Illinois, Representative Eddy, is the state has for 30 or 40 years underfunded education pushing those costs primarily down to local property taxes. We feel that to offset that burden you'd need approximately 25 percent of the property taxes

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that currently fund education to be replaced with new state-based revenue and that's two point seven billion dollars (\$2,700,000,000)."

Eddy: "So, the two point seven billion (2,700,000,000) would do 25 percent of the education portion. One billion (1,000,000,000) would do a significantly smaller number and perhaps just become nothing within a short period of time?"

Tom Johnson: "To put it into perspective, Representative, one billion dollars (\$1,000,000,000) represents about 4 percent of total property tax collections. Property taxes grow at an average rate of 5 percent a year. So on average, there will be no relief. In fact, the taxpayers will see a tax increase on average, and certainly those who do not get the targeted benefit designed under Senate Bill 1 would get a significant increase when they were expecting a decrease in burden."

Chairman Bradley, J.: "Representative Biggins."

Biggins: "Thank you, Mr. Chairman. Could you please yield a... one minute of time to Representative Moffitt?"

Chairman Bradley, J.: "Representative Moffitt, one minute."

Moffitt: "Thank you, Mr. Chairman. To either one of you, the estimate of how much the first year would cost for health insurance I think is between two and three billion (2,000,000,000 and 3,000,000,000), or if you have a different figure. Is that... is that correct?"

Tom Johnson: "Well, because the program is phased in over time, it's difficult to say what the first year is. We know that

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about three hundred million (300,000,000) the first, but it's only a small portion of the program. It's when all programs are fully implemented and looking out..."

Moffitt: "And what do you see that figure being?"

Tom Johnson: "About four billion dollars (\$4,000,000,000) is what the Governor is reporting."

Moffitt: "Just for health insurance? Do you think that's a correct figure?"

Tom Johnson: "We believe that probably by the time that it's fully phased in that will be low; it will be higher across time."

Moffitt: "So will the seven or seven and a half billion (7,000,000,000 or 7,500,000,000) it generates be adequate to fund just the health insurance after 3 or 4 years?"

Tom Johnson: "It would, but over time it would diminish as to what other programs it could fund including the existing pensions obligations, health care obligations, and education as well."

Moffitt: "Property tax relief."

Tom Johnson: "And property tax relief, definitely."

Moffitt: "Could eat it all up?"

Ralph Martire: "Yeah, our analysis is similar to Tom's."

Chairman Bradley, J.: "Thank you very much. Representative Biggins."

Biggins: "Thank you, Mr. Chairman. Once again, I'd like to yield one minute of time to Representative David Reis."

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Chairman Bradley, J.: "Representative Reis is recognized for one minute."

Reis: "Thank you, Mr. Chairman. Have you, both of you gentlemen, done an analysis of... and we've asked this from the Governor's Office, but of the other states that have the GRT, is it pretty clear to assume that those states have a much lower rate and many of them don't have sales tax?"

Ralph Martire: "Yeah, that's entirely right, Representative. In fact, the states of Washington and Texas do not have an income tax, Delaware doesn't have a sales tax, Ohio, which recently passed a Gross Receipts Tax passed it at a point two six (0.26) percent rate, and they cut their state sales tax rate. They cut all tax brackets for their personal and... personal income taxes; they eliminated the corporate franchise tax; they eliminated their corporate tangible personal property tax, and they... their franchise taxes and their state taxes. So, they eliminated a number of taxes, in fact, the Gross Receipts Tax passed in Ohio was intended at most to be revenue neutral and probably to be a net revenue loser, the idea was to cut business tax burden, not increase it."

Chairman Bradley, J.: "Thank you, Representative. Representative Biggins."

Biggins: "Thank you, Mr. Chairman. Of the two panelists, do you have any further comments you wanted to make on the tax structure comments or how Illinois could be better off with the revised tax structure?"

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Tom Johnson: "Well..."

Chairman Bradley, J.: "You're asking these two if they have any further comments?"

Biggins: "Yes. Give me a chance."

Chairman Bradley, J.: "I'm teasing. Go ahead, gentlemen, we welcome your comments."

Tom Johnson: "I'd just like to provide some insight on this new tax credit that's been initiated, the two thousand dollar (\$2,000) per employee. It's presented as if it'll wipe out all tax liability associated with the business that has Gross Receipts less than five million dollars (\$5,000,000). In order to have it, you'd have to be a highly... a large number of employees; it will not eliminate it. A company that has low margins on their... and high cost of goods sold doesn't have fifty (50) employees associated with five million dollars (\$5,000,000) worth of Gross Receipts, they may have ten. It will not wipe out that liability at all, it may impact it slightly, but it's certainly... taxpayers that have five million dollars (\$5,000,000) of Gross Receipts will still have a liability, even with this new tax credit, in most cases. There are a couple of exceptions, but most companies will face tax liability."

Ralph Martire: "My one statement is the state's current fiscal system really doesn't work. We have the fifth-largest economy and fifth-largest population in the nation, our tax burden does rank forty-eighth as a percentage of income, our spending ranks forty-second. We need a tax and revenue

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enhancement if we're gonna do a better, fairer job of funding education, if we're gonna finally get rid of our pension problem and pay it off in a rational basis that doesn't backload costs for future generations. And if we're gonna make those important investments in infrastructure like transit, transportation, et cetera, that will actually drive businesses to this state. But if we're gonna do that, we would strongly urge the General Assembly to consider those tax changes that would make the state tax fairer for people using capitalist principles of public finance that would make our state system more fair, responsive, stable, and efficient, that would involve changes to the state's income and sales tax with targeted relief for low- and middle-income families. We think Illinois can maintain its tax competitiveness while still making the added investments that all the independent data indicate we need to make in education and infrastructure."

Chairman Bradley, J.: "All right. Thank you, gentlemen. Thank you, Representative Biggins. Representative Mautino asked that I recognize Representative Hamos, and my apologies to Representative Hamos, we were supposed to get you in the last panel. Representative Hamos recognized for three minutes."

Hamos: "Thank you. Thank you. Welcome, gentlemen, two people whose opinion I really respect. I wanted to ask you some questions about the Gross Receipts Tax because I know that you've pushed for income tax and sales tax, but you may have

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heard the Governor this morning again, reaffirm his own perspective on that. Is it possible... Well, first of all, have you seen the Center for Budget and Policy Priorities proposal to modify the Gross Receipts Tax, and do you have a perspective on some of their suggestions?"

Tom Johnson: "Right. First of all, we believe that the Gross Receipts Tax will fail constitutionals... Illinois constitutional standards as an additional income tax, and Article 9, Section 3A doesn't permit the Gross Receipts Tax. I think a Gross Margins Tax, which is a modification of a Gross Receipts Tax will even be more constitutionally challenged because it does provide a deduction from gross income. I think both taxes are... will be seriously challenged on constitutional grounds under the Illinois Constitution."

Hamos: "Well, getting beyond that for a minute, one of the Center's recommendations is that businesses be allowed to deduct various inputs for the cost of goods that they purchase. That makes it a little more like a VAT tax. What is your perspective on that?"

Tom Johnson: "Yes. Well, certainly it addresses the pyramiding issue on a purely theoretical basis. A VAT tax even does a better job of that because it allows for the deduction of all business inputs and only taxes the incremental value that's added at each production stage. A Gross Margins Tax does a better job at trying to address pyramiding than the

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Gross Receipts Tax, but not nearly as good a job as a VAT tax does."

Hamos: "Well, what did you call it, Gross Margins Tax?"

Tom Johnson: "Gross Margins Tax is what it's commonly referred to."

Hamos: "Okay."

Tom Johnson: "You're allowed to take your deduction per cost of goods purchased for resale."

Hamos: "So, would you be in support of us approaching that, or do you still think that has constitutional concerns?"

Tom Johnson: "I think it's got serious constitutional problems because the Constitution prohibits the imposition of two separate income taxes. I argue that a Gross Receipts Tax is an income tax; it's on gross income. The only difference between the Gross Receipts Tax and the net income tax is you disallow a lot of deductions. They're both income taxes; they're both problematic."

Hamos: "Do you agree, Ralph?"

Ralph Martire: "We agree with a lot of those constitutional concerns. Our biggest concern and we don't feel it was adequately addressed in the Center on Budget and Policy Priorities memorandum, is with the regressivity of the tax at the end of the day. Illinois currently is the sixth most regressive taxing state in the nation already, and a Gross Receipts Tax will, even if modified, end up being a significantly regressive tax worsening that situation. And the problem from a tax policy, pure tax policy standpoint,

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Representative Hamos, is that you cannot model out with any sense of exactitude the amount of tax that gets passed on through the economy down to the consumer, you just know that it's happening. So you can't even design relief to make the system less regressive that you have a high level of confidence in is effective. So, that from a tax policy standpoint, we find problematic. And we'd far prefer taxing at the final stage of the economic cycle when the private sector has set the price of the good, or income is set for a full year for an individual so we know exactly a complete world in which we're dealing with, and then the government's tax is far less interruptive or inefficient and far less distortive of the private sector economy."

Chairman Bradley, J.: "All right. Thank you very much. I think this would be an appropriate time after Representative... Representative Hamos, and I'm about to recognize Representative Howard, to congratulate and thank COWL last night for a wonderful performance. I think that we all enjoyed that very much. A round of applause. And on that, Representative Mautino recognizes Representative Howard for two minutes."

Howard: "We had a ball last evening. Thank you very much, Mr. Speaker. I have certainly a lot of paper that I have been given today, a lot of information that's come from a lot of different people, and excuse me if I have not heard an answer to this, I just don't remember. Tell me, we have gone from one million (1,000,000) to two million (2,000,000)

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and now we're at five million (5,000,000), is there a difference in the numbers of dollars that we're talking about? As we've gone, exempted a higher amount of money does that make the expectation much less, and if that's the case, will we not have enough money to do all that's been proposed to do?"

Ralph Martire: "Well, Representative Howard, my first answer to that is I wish I could give you an answer to that. We've asked for the backup data on these numbers, and we have not been able to get it. Our understanding is the Gross Receipts Tax numbers are predicated on gross economic activity in the state rather than anything drilled down to the taxpayer level, so it's hard for us to model out and give you an answer based on what the changes in the exemption level will do to the revenue stream because we don't know how the revenue stream or how the tax impacts different corporate taxpayers at different levels and we've not been able to get that data."

Tom Johnson: "We're told, Representative, that the increased rates that were put in over in the Senate yesterday was to compensate for the... a new credit that was put into place as well, so it's supposed to be revenue neutral. However, let me say, again, that that new credit does not exempt, effectively exempt, all businesses under five million dollars (\$5,000,000). It's only those businesses that have got an extraordinary number of employees based on those gross receipts. Most companies under five million dollars

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(\$5,000,000) do not have fifty (50) employees. You'd have to have fifty (50) employees to knock out the tax liability associated with that which is imposed between two million (2,000,000) and five million (5,000,000). It just doesn't work. It doesn't exempt businesses under five million (5,000,000), it exempts a few businesses under five million dollars (\$5,000,000) in gross receipts."

Howard: "Thank You."

Chairman Bradley, J.: "Thank you, Representative Howard. Our final questioner on the Democratic side, Representative Mautino recognizes Representative Osterman for two minutes."

Osterman: "Thank you, Mr. Chairman. Mr. Johnson, in your testimony you indicate that there are efficiencies that the administration could make to save dollars. My question to you is, do you acknowledge that this administration has made a significant amount of efficiencies in recent years to save the taxpayers of the state money?"

Tom Johnson: "Oh, absolutely, but I do believe that there's also more that we can do before we ask for a significant tax increase on Illinois's taxpayers."

Osterman: "Also though, at some point some of the cost measures are sometimes out of control, health care costs for one, so it's difficult to manage those. I also want to go to the issue of property taxes, and that is that in your handout and in your comments you indicate that under the Gross Receipts Tax the, I believe billion dollars (\$1,000,000,000)

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of property tax relief is not a significant one that will be felt by most homeowners, is that accurate?"

Tom Johnson: "I will say that the system designed under Senate Bill 1 is a very targeted system, so some taxpayers that have very high effected tax burdens will see some relief. The average taxpayer will see relief of 4 percent, and you have to compare that 4 percent to the normal growth rate of about 5 percent a year. So, on average, there will be no relief other than a control in the growth rate, but some taxpayers would get more relief than others."

Osterman: "Knowing philosophically your views on property tax and the relief, have you ever come up with a proactive plan on property tax relief 'cause there's many people that, ya know, in this Body that feels that there is a genuine need; we hear that from our constituents. So, have you or your organization come forward with a plan on that issue?"

Tom Johnson: "Well, we would certainly hope that the General Assembly would consider if they decide to increase the educational foundation level and also to increase significantly the reimbursement rates under categorical mandated programs that coupled with that would be some form of a tax freeze on the amount that can be extended by units of local government, specifically school districts who were the beneficiaries of that significant increase in funding. We believe that trying to provide a relief program will build significant expectations on the part of the taxpayers that will be very difficult to meet. And when you talk

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about a 25 percent relief of the educational rate, what taxpayers hear is, and expect is a 25 percent reduction in property taxes. What was really promised in that kind of relief program was really only 10 percent. My concern about a relief program is how will you ever meet taxpayers' expectations?"

Chairman Bradley, J.: "Thank you, Representative Osterman. I have two questions for the panel. First of all, is it your opinion that the Gross Receipts Tax results in an increase of the price of commodities?"

Tom Johnson: "Business has to recover their cost... all of their costs in their pricing structure, and the answer is 'yes'."

Ralph Martire: "Mr. Chairman, I was a business lawyer representing Fortune 5 companies and banks for 15 years before I did this job, and I never knew one business that would fritter its margin away if a fixed cost went up. They either passed it on or they cut their labor costs."

Chairman Bradley, J.: "So, the answer would be 'yes'?"

Tom Johnson: "Yes."

Chairman Bradley, J.: "And my next question is: Does the increased price of commodities as a result of the Gross Receipts Tax result in an increased sales tax revenue for the State of Illinois?"

Tom Johnson: "Yes. The measure of the Gross Receipts... the sales tax is gross receipts. You increase the price of goods; you increase the sales tax productivity from the existing sales tax structure."

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Chairman Bradley, J.: "Is that sales tax number calculated into the estimates that have been provided as a result of the Gross Receipts?"

Tom Johnson: "Not that I've seen."

Ralph Martire: "Not to our knowledge, Mr. Chairman."

Chairman Bradley, J.: "So, that's an additional... a separate additional income... or Gross Receipts Tax revenue?"

Tom Johnson: "Yes. And that tax absolutely will be borne by the consumer."

Chairman Bradley, J.: "And do we know... do we know what the total amount of that tax would be based upon the estimates the Governor's Office have provided on the Gross Receipts?"

Ralph Martire: "Mr. Chairman, the problems with the Gross Receipts Tax you can't model it down exactly like that in its impact per commodity of price."

Tom Johnson: "But studies have shown that basically when you put a Gross Receipts Tax into place, you have about a two and a half time pyramiding effect on the sale of goods. Because Illinois's sales tax rates is primarily the sale of goods, and because you're proposing a 1 percent rate on the sale of goods, you can expect the sales tax base to increase by two and a half percent and, therefore, produce two and a half percent more in collections from the existing sales tax structure."

Chairman Bradley, J.: "So, if the Gross Receipts Tax generated ten billion dollars (\$10,000,000,000) additional funds, we could estimate that the additional sales tax revenue from

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that would be around two hundred fifty million dollars (\$250,000,000)?"

Ralph Martire: "No. You need to take what is your current sales tax collections, and take two and a half percent of that, and so forth, 'cause the ten billion dollars (\$10,000,000,000) includes the taxation of services; we do not tax services under our sales tax. Just take the current sales tax collection and take two and a half percent of that, and that would be the increase generated from an expected pyramiding effect on the Gross Receipts Tax."

Chairman Bradley, J.: "Okay. Thank you, gentlemen. We're very much privileged and honored to have you here as well. Thank you for your time. We're gonna move on to the next organization. We have a couple of renowned economists here: Dr. Patricia Byrnes, University of Illinois-Springfield, economics professor and Dr. Fred Giertz, University of Illinois-Urbana/Champaign, economics professor. If you all would rise and face the audience and raise your right hand. In the testimony you're about to give, do you swear to tell the truth, the whole truth and nothing but the truth, so help you God?"

Panel - et al: "I do."

Chairman Bradley, J.: "Thank you very much. You may be seated. Professor Byrnes, if you'd like to proceed. You have five minutes."

Patricia Byrnes: "Okay. Thank you very much for inviting me today to talk about the Gross Receipts Tax. I did have a

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handout which I think most of you got, but what I would like to talk about is three issues: 1) that I do think it is time for reform of Illinois business taxes; 2) I'd like to talk a little bit about what people say are the pros and cons of the Gross Receipts Tax; and then finally, I'd like to make the case that it's really difficult to determine whether the Illinois Gross Receipts Tax will meet the benefits or if we can deal with the issues without further study of the tax. So, again, the case for a... Illinois business tax reform, I think, just looking on the revenue side there's lots of problems with the corporate income tax in terms of the dwindling base. Also, the volatility of the corporate income tax is well documented and always an issue with that tax. Again, while some of these problems with the corporate income tax can be attributed to the economy, we also know that we have certain policy changes that have affected the corporate tax base. A second reason for business tax reform is the obsolete nature of Illinois sales tax. I'm sure you've talked about this where because we've moved to a more service-based economy and Illinois exempts services this is a problem and there's a steady decrease in the sales tax base. And finally, there... a third motive to reform the Illinois business taxes is the perceived notion of unfairness, that businesses aren't paying their fair share. Part of this comes from the increase in tax expenditures and loopholes, but... are in the corporate income tax... but the needs to be addressed by the fairness issue. Okay. As you

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probably heard in other testimony, one important benefit of the Gross Receipts Tax is the relatively low rate. Now, this to economists means that choices or decisions made by businesses are less distorted with low rates, so that's an advantage. Also, it has a very broad base, taxing all revenues of companies and therefore, will provide... has the potential of providing adequate revenues for government services. On the negative side, there are some incentives for businesses to vertically integrate and it could discriminate against contracting work with independent contractors. In other words, businesses are more likely to do things in-house to avoid that receipt. On the fairness side, firms with the same profit could face very different, effective tax rates. Just depending on their profit margin, low margin, businesses are likely to have a much higher effective tax rate from the Gross Receipts Tax. One of the problems with the current proposal is I have not seen analysis of exactly who will pay the Gross Receipts Tax and we've had a lot of changes in the proposal as well, but what we need to figure out is what is the expectation of the Gross Receipts Tax in terms of its as a revenue source... the relative importance of it as a revenue source in the future. Is it just a onetime revenue increase or is it something that we're looking at replacing the sales tax and income tax. And also, we need to look at who the Gross Receipts Tax is gonna affect by type of firm, size of firm, industry the firm is in and that way we can determine who is really

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gonna bear the burden of the tax. And finally, I recommend that a study be done, I don't think it would be that difficult to do, but to analyze the Gross Receipts Tax and compare it to who pays the tax and we change the corporate income tax through reform of that tax or through broadening of the sales tax base. Thank you."

Chairman Mautino: "Thank you, Doctor. Representative Mautino in the Chair and if we can hold for just one second, I have an announcement from Representative McCarthy."

McCarthy: "Thank you, Mr. Chairman. I hate to interrupt, but the Higher Education Committee scheduled for 8:30 tomorrow morning is canceled. Higher Education is canceled tomorrow at 8:30. So, thank you and thank you for allowing..."

Chairman Mautino: "Thank you. Our next speaker... panelist is Dr. J. Fred Giertz of the University of Illinois-Champaign and he is the economics professor. Welcome, professor."

J. Fred Giertz: "Well, thank you very much. I'm very pleased to be here. I've been coming to Springfield almost every week for the last several weeks talking about taxes. I think this is probably the most crucial issue today that we've talked about so far. So, the issue basically is a Gross Receipts Tax and I might start off with sort of a question. A question that would be, I would characterize as a bad idea whose time has come. We need money, but is this the best way to raise the money. So, the good thing is that we actually have recognized the deficiency in state revenues; this is an attempt to deal with that. The question is, is

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it the best way to do that and I'm gonna suggest the answer very likely is 'no'. So, I'm gonna talk about two different... two different general issues: one is the structure of the tax; the second is the size of the tax. And there is a real problem with the structure of the Gross Receipts Tax. It's levied on the full value of every transaction between firms and between firms and consumers which you ultimately learned probably many times today has a pyramiding or cascading effect where the same thing is taxed again and again and again and you have random rates of taxation. If a process has several turnovers during the production process, you have high tax rates; if it's done internally, you have low tax rates. So, this is generally considered a... an inferior tax. For example, in most textbooks about public finance a Gross Receipts Tax is introduced and then dismissed as having very serious problems and then you go on to talk about some better taxes and in this area, the two taxes that you talked about, I heard earlier, are the sales tax which is well conceived and a value-added tax. The Gross Receipts Tax falls between and really doesn't... doesn't accomplish either goal very well. So, it's... first of all, it's distorting and is inefficient. Now, the second issue which echoes several other people I've heard today is that regardless of whether you say it's paid by business most of the burden ultimately is gonna be paid by individuals. So, it's basically similar in incidence to a sales tax, the burden falls disproportionately on low-

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income people and Illinois already has a problem with the high taxation rates for low-income people in our... our state. So, it doesn't, no matter what you say, it doesn't fall on business, for the most part, it falls on individuals. And another issue somewhat less important is that it does penalize in-state firms compared to out-of-state firms. If someone buys from an in-state firm, the tax is imbedded there; if they buy from out-of-state tax... out-of-state firm, most of the tax is not imbedded there and there also is some... some struc... institutional problems, some technical problems, for example, it's not always easy to tell a goods-producing firm from a service-producing firm. And we have an exemption, one thousand dollars (\$1,000) per employee for a goods firm, two thousand dollars (\$2,000) per employee for a service firm and there are many firms that do both of those things, it'd be very difficult to disentangle those. So, again, if you wanna tax consumption, the best way to do it is either through a sales tax or a value-added tax not through a Gross Receipts Tax. Now, in terms of the size, we're talking about an approximately a seven billion dollar (\$7,000,000,000) increase in taxes. That's approximately 25 to 30 percent of our General Funds' budget, so it's a huge increase pretty much carried by one tax which is pretty much an outlier, it's a tax that's not used by many other... other states. Now, the Governor correctly asserts that there has been a dimunition (sic-diminution) in business taxes. The corporate tax is down. If we'd go back 15 or 20 years and

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try to scale it to the same level, it's probably down about five hundred million dollars (\$500,000,000). And I think there's good reason to look at some ways of addressing that reduction, but do we wanna address a five hundred million dollar (\$500,000,000) decline with a seven billion dollar (\$7,000,000,000) tax increase. And it seems like that's the kind of disproportionate situation we'd have to look at very, very closely. And the second issue is that Illinois's proposed Gross Receipts Tax is huge by comparison to any other state. We're not talking about a small, insignificant tax; we're talking about a seven billion dollar (\$7,000,000,000) tax with a... now a 2 percent rate and those rates when they accumulate are gonna be very, very high for the state. So, let me close with an analogy now. Analogies don't prove anything but they may get ya to think about some important issues. This is sometimes called the convoy analogy. In World War I and World War II when we were shipping materials from the United States to Europe, we found that moving in a convoy, having ships staying together, has some real benefits for protection. And one of the rules about being in a convoy is you don't necessarily have to be in the middle, you don't wanna be far out in front, you don't wanna be far behind the convoy because you'll be picked off. Well, we're setting ourselves up, with a Gross Receipts Tax of this magnitude, to be an outlier compared to a bunch of other states and it's gonna create some real problems for the state. So, again, one

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better way would be a modest income tax increase, both corporate and individual; another increase would be a... an increase, not in the sales tax rate but the extension of the sales tax to include consumer services. So, I think those are better options than the Gross Receipts Tax. So, thank you very much."

Chairman Mautino: "Thank you for your comments, Doctor. We'll go now to Majority Leader Biggins or Minority Leader Biggins for..."

Biggins: "Well, keep goin'."

Chairman Mautino: "We're workin' on it."

Biggins: "We'll get there some... "

Chairman Mautino: "Ya got ten minutes."

Biggins: "...we'll get there someday."

Chairman Mautino: "Do your best."

Biggins: "We'd like to acknowledge Representative Mulligan for a question."

Unknown: "How many minutes?"

Mulligan: "Thank yous for coming and..."

Biggins: "Eleven minutes."

Mulligan: "...this information. About how... How long? I could do every one of it and you know it. How long does it take for an impact of a really bad tax, like a Gross Receipts Tax, to have businesses start either not growing business in Illinois or moving out of Illinois? How long do we get that before we get a bad effect in our economy?"

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J. Fred Giertz: "Well, I'd rather not be overdramatic. This is not gonna close up the state; it's not gonna be devastating to the state. It's gonna be... we have better ways to do this. So, I think it will have a modest impact in terms of.. of lower rates of growth; we'll grow less rapidly than we might otherwise. There may be a few firms that leave, but I don't think the stair... the state's gonna close down, honestly, it's simply that we have better ways to achieve the same goal."

Patricia Byrnes: "Yeah. I think that's true. I mean, one of.. one of the difficulties is, ya know, determining who, ya know, which businesses are growing, what their profit margins are and therefore, how... how it's gonna affect their bottom line. So, you... so, it's, ya know, could have an immediate impact, but again, as Professor Giertz said, it's not... we're not gonna see, ya know, droves leaving the state. Those are..."

Mulligan: "The Governor... the Governor characterizes his proposal after going the... against the big, bad guys who are not putting all their money in. But most of the people that I've talked to in my local area are people that are struggling to keep family-owned businesses in play. One corporation that is around different states, Illinois is just one of the major ones, it was a decision of a sixty-plus (60-plus)-year-old owner to go to an S corporation a year ago in order to keep what he has as a large technology. They do hardware. They sell it to universities and

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hospitals, and that would be us. In order to keep their employees employed that is, in selling it, they went to the S corporation so that they would get some benefits which to me would fit into what's going on in the country. We're not putting enough away for retirement, but they're all paying income taxes and will pay taxes later on and they lend the economy of our northwest suburban area. So, the Governor doesn't characterize these people, ya know, other people that come to us. A son that made a decision to leave a lucrative position, 'cause his father died, in order to keep a business open that does... amount of money because I think we all look at it as... as this is the amount of money that they make, it's not, it's the amount of money that goes through their business which is a much different thing. So, maybe he only has 20, 25 employees, but he gave up a lucrative business of his own to keep his family business going and we have a lot of corporations like that. That impact, I think, is the decision of whether you keep your business open, whether you sell it or whether you move. And I think those are a lot of jobs that the Governor has not put in there. How do you impact that? I mean, you have other ideas of how we could raise these dollars that you've come up with in prior years."

J. Fred Giertz: "Well, let me say something that nobody's, to my knowledge, has said and that is we should be concerned about small business and big business. There's nothing that says that big business automatically can accept high taxes, pass

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along, pay their tax without pain. So, I think we have to be worried about both the small and big to see... seems to be an unusual amount interest in small business but not enough interest in the general business climate. So, I think that's something that we have to look at. There's no assurance that big business is automatically profitable; it automatically will stay in Illinois and so on. So, I think we have to be broadly concerned about business not just the... the small business which has been the focus of most of the Act. I, too, would be... Now, in response to that question, I think the answer is that there's no painless way to raise revenue. If you want more revenue, we have to raise taxes. That's going to be painful, but I think the most fair way to do it is, again, the income tax with some low-income relief accompanying that and possibly the broadening of the base of the sales tax to include services."

Mulligan: "The Governor's plan discussed that he was going to put ten billion dollars (\$10,000,000,000) of this money into education over 4 years. I'm one of the budget people on our side so I was at the prebudget meeting and on the template of his ten million... ten billion dollars (\$10,000,000,000), which is also predicated on leasing the lottery, he sho... I asked about the education and how much money he's putting in and on the template that they showed that they... it said that part of the money would go into the pension plan, but then when I asked the question, they said 'no' that it wouldn't and then that template never showed up in the packet on the

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day of the budget message again. I think this is really interesting, ten billion (10,000,000,000) over 4 years is not a whole lot of money to put into education, particularly if you're gonna put money into pensions and I don't think it solves Illinois problem at all. Economy wise, what do you think the number of dollars needed to really solve the problem for education in Illinois would amount to per year?"

J. Fred Giertz: "Well, solving the problem is really not a easy answer. I actually think ten billion dollars (\$10,000,000,000) is a lot of money and we could do a lot of things with the ten billion dollars (\$10,000,000,000), including improving education including righting the pension system, so I'm not concerned about the size. In fact, I think we might wanna think about whether the size is too large or not. It's not gonna be enough money to do everything we'd like to do, but that's the... a fact of life. We have to make choices. So, I think one of the problems too is it's not well understood and I'm not sure exactly how the pension sys... problem is gonna be addressed. One way is to sell the lottery, use the lottery proceeds or lease the lottery, use the proceeds to reduce the pension debt but then we lose six hundred million dollars (\$600,000,000) a year that has been generated by the lottery which has to be replaced, so it's a complicated question I don't know the answer to."

Mulligan: "Well, selling assets or leasing assets detracts from your portfolio as far as going for bond money or doing

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anything and I think leasing the lottery, the only way anyone that would lease the lottery would make any money would be to go online gaming which would be the single largest expansion of gaming in Illinois and probably contribute to problem and compulsive gambling to the nth degree. I don't see that being a viable thing to pass in this Illinois General Assembly which detracts from his overall plan of putting ten billion (10,000,000,000) over 4 years which is two point five (2,500,000,000) per year not ten and some people are looking at it as ten infusion right now which it's not. But I... I think that would be a problem in how reliable is saying you're going to lease something or selling an asset. What does it do to the over... all impact of how we govern this state? I think it diminishes us personally from what we have at our disposal for other problems."

J. Fred Giertz: "Well, in regard to selling assets, I think we should be open if a private vendor can run the lottery more efficiently than this one for the State of Illinois. I think we should consider that, but we also have to consider the consequences. We get the money now; we make the lease; we lose the annual income from the lottery every year on into the future. So, we have to take into account the fact that we're getting money now and use that money to make up a loss in the future. So, I think I'm open to leases of assets like the lottery and it may be a way of solving our

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problem, but it's not a way of a general solution, it has to come along with some other revenue in addition to that."

Mulligan: "In states where they've passed major health care changes in the last several years, particularly states like Massachusetts, the number of overall people to be covered were much less. They already had massive insurance reform in that state which we don't have and they included everyone in the process of paying. The Governor's proposed plan does not make the... what we call the prime people that aren't going to be sick put their money in which means the pool is a lot less and they don't... they leave out anything for any kind of preexisting condition which means you're going to cover the sickest people for the least amount of money, plus the reform that was over a number of years say in Massachusetts has not occurred in Illinois. So, to suddenly dump this on our economy and to look at it as not an entitlement program over the long haul, particularly if this doesn't pass, is a really interesting concept from a Governor who has given the unions the ability to organize against health care to the nth degree and not acknowledge the fact that that will drive up the cost of health care. So, how do you present a plan, make it comparable to other states, not make the figures correct and then not give us an economic impact of what it's gonna cost the state for years to come? How can you even judge that? Is there any way... I mean, as far as I'm concerned with economists and both... I'm so happy you're both here... everybody has a different

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opinion, so who do we... and if you're right, then your wonderful this year and if you're wrong, your not as good the next year. So, how do you come up with this?"

Patricia Byrnes: "I think you're right though. We don't really have all the information we need to decide about the impact of the tax. Ya know, what we've talked about are the... the, ya know, benefits and problems with the tax and how... how we might be perceived by the business community and other people. So, I think, ya know, I think that the truth is that 'yes' we do need to do something with tax reform and I would say... I would suggest that the way to go about doin' it, take the proposals and compare the economic impact of each proposal, which we have not done."

Chairman Mautino: "Thank you. Appreciate those. Next I'd like to... for the Democratic Party, I'd like to yield two minutes to Representative Osterman."

Osterman: "Thank you, Chairman. This... Rep... Professor Giertz, I just wanna be clear. Your point was... and correct me if I'm wrong... that growth that's needed through revenues to deal with things like education funding and health care, the need potentially is there, you just feel that the GRT, as proposed, is not the ave... the direction to go. Is that fair...?"

J. Fred Giertz: "It's partially. I think that that's not the way to raise that much money. I think it's still an open question about exactly how much is needed, the total size of the package. We need some money. Do we need seven

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(7,000,000,000), eight (8,000,000,000), nine (9,000,000,000) billion or do we need three (3,000,000,000) or four (4,000,000,000) billion? I think that's still an open question."

Osterman: "Do you think at a minimum we need three (3,000,000,000) or four (4,000,000,000) billion?"

J. Fred Giertz: "Yes."

Osterman: "Okay. For education, health care, public transportation, other... other things like that?"

J. Fred Giertz: "Well, I would say let's solve our... our existing problems first, which would be to get rid of our existing deficit. Once we've done that, then move on to new activities. I think it's gonna take at least two billion dollars (\$2,000,000,000) to deal with our existing shortfalls."

Osterman: "And can you, if you can, walk through some of those other ideas one last time. I'd appreciate it, other ideas for revenue generation."

J. Fred Giertz: "Well, they're pretty straightforward. One is to raise the individual income tax rate and raise the corporate tax rate and provide some low-income relief along with that. And the second would be not to raise the sales tax rate; we'd expand it to consumer services. For example, if you buy an exercise machine for your house, you pay tax on that. If you join a health club, you don't. If you buy a washing machine and soap, you pay tax on that, if you go

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to a drycleaner, you don't. So, I would extend the... the existing sales tax to include consumer services."

Osterman: "Okay. Thank you."

Chairman Mautino: "Further questions? We have a question from Representative McCarthy."

McCarthy: "Thank you, Mr. Chairman. Dr. Giertz, you had mentioned in your remarks and it was kinda contrary to earlier panels about you had some question about if the implementation of this Gross Receipts Tax would be as simple as was kinda implied by the other panels. Was that based on, ya know, things you've heard from other states that have done it and do you know is this like a quarterly collection, a monthly collection, ya know, for our businesses and could you further expound on that?"

J. Fred Giertz: "Well, there are two answers about the implementation of the tax. A broad-based general tax could be implemented fairly easily. The problem areas that we don't know exactly how much revenue we would collect. These revenue estimates are very much open at this point because we're not building on the existing tax. If you asked me how much could we get from raising the income tax by half a percent, I can tell ya pretty... pretty precisely about that. If ya asked me how much we could get from a Gross Receipts Tax, I don't know because I have no Gross Receipts Tax to look at and very few other states use that. So, that's the first issue. That... that's not... that could be done though,

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the actual collecting of the tax there, it's pretty easy.  
Now, there's..."

McCarthy: "So, that makes it more difficult to determine revenue  
and projections."

J. Fred Giertz: "Right."

McCarthy: "Okay."

J. Fred Giertz: "The second issue though is the distinction we  
made in Illinois in this proposal between goods and  
services. We have a tax of 2 percent on services, 1 percent  
on... on goods. Then we have a credit now against employees.  
I think four thousand dollars (\$4,000) for service  
employees, two thousand dollars (\$2,000) for goods  
employees. So, what about someone working in an automobile  
dealership, they spent part of their time selling  
automobiles and they spent time... part of their time  
repairing automobiles? Are they a service employee? Are  
they a goods employee? So, there are issues like that would  
have to be resolved; they're not irresolvable."

McCarthy: "So, within one business there may be some part of  
their business that's under the 2 percent and some part of  
their business under the 1 percent."

J. Fred Giertz: "Right."

McCarthy: "And economically or mathematically, would it work out  
though, is at the end of the day if we have something that  
they say at the current projections, would raise  
approximately ten billion dollars (\$10,000,000,000), if we  
cut them like 80 percent back, we divided 'em by a factor of

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five to see if this thing's gonna work at all, understanding that we're only gonna get two billion dollars (\$2,000,000,000), would that work out just by mult... or dividing by five?"

J. Fred Giertz: "You'd probably actually get more because when you cut it back there won't be as many distorting effects, not as many people will try to avoid the tax, do kinds of rearranging their finances and things of that sort. So, I'd expect that if you cut it back to one-fifth you'd probably get more than one-fifth of revenue."

McCarthy: "Yeah. 'Cause something like that that would almost be like a pylot... pilot program, but at two billion dollars (\$2,000,000,000), it's a pretty expensive pilot program. But it would be a way to see whether this is gonna work, whether it's gonna negatively affect our businesses and be at a much less extent because of the... the lower numbers, so but..."

J. Fred Giertz: "Right. And you're wantin' to give up your old tax until you're sure about a new tax too, so I think..."

McCarthy: "We don't ever wanna give up any tax, so but..."

J. Fred Giertz: "Right."

McCarthy: "All right. Thank you."

Chairman Mautino: "Thank you, Representatives. Further questions? Representative Jakobsson."

Jakobsson: "Thank you. Thank you for being here this afternoon, very glad to see you come over. A lot of my questions have already been asked and... and you've answered them, so I

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apologize if I'm repeating some of them. But as we've seen the Gross Receipts Tax move along or whatever you call it, ya know, first starting at one million (1,000,000) and two (2,000,000) and not it's up to five (5,000,000) and I know you said you haven't a chance to really look at it, ya know, how much it was gonna bring in. But do you see that there's a big, ya know, difference in so far this proposal is and how much the state would receive from the earlier proposals to where we are now? How far can we keep going? I'll think..."

J. Fred Griertz: "I guess I... I would... to seriously entrust the Governor's Office. They're facing raising a rate and increasing the threshold level increasing the exemption, so I think their intent is to keep revenue the same. Now, I don't know whether that's true or not but I assume that's what they planned; that's what they hope. So, if you notice each time they take some low... low... small-size business out of the equation, they raise the rate. So, I think the increase in rate is supposed to make up for the loss at the lower end."

Jakobsson: "Right. And... and we do have a lot of service companies in Illinois and when we see that, ya know, that's at 2 percent now, I believe, and yet the Governor says he wouldn't serve... he wouldn't tax services. Ya know, I realize they're sort of different things, but it's still a way of getting at the service community."

J. Fred Giertz: "I agree."

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Jakobsson: "Well, thank you. As I said, you really answered a lot of my questions earlier with some of them, but I did wanna ask you if you had any opinion on that keep growing threshold."

Chairman Mautino: "Further questions? Representative Flider and the final Democratic questioner."

Flider: "Thank you, Mr. Chairman. A couple of questions. Ms. Byrnes, you had mentioned something unique and novel, somethin' that makes a lot of, to me, is common sense which we don't often use around here and that is conduct a study. Maybe a study about, ya know, tax reform, GRT, what direction we should head and then you outlined a tax study, you had a nice... nice outline here. How long would your study take, do you believe?"

Patricia Byrnes: "I don't think it would take that long assuming that the data was made available. But it is... it is a major study because if you wanted... especially if you wanted to compare tax liabilities for different businesses under the corporate income tax versus the tax liability under the GRT. So, it would... it would be a substantial study, but I don't think it would take, ya know, years. I think it would take, ya know, months."

Flider: "Longer than a couple months though?"

Patricia Byrnes: "Yeah."

Flider: "Okay. Mr. Giertz..."

Patricia Byrnes: "Minneso... Can I... Minnesota has... has done a really good study of their sorta value-added tax. They call

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it a business activity tax. And their... their study took, I think, about a half a year they... to do."

Flider: "Okay. Mr. Giertz, a question with regard to, you had said you thought it would be good for us to, perhaps, eliminate our debt or take care of our existing problems before, ya know, we take on any new expenses or new costs. With regard to the pension system, we know that for 30 years it's been a problem. It's like we haven't paid or made our mortgage payments so now the chickens have come home to roost. So, we owe forty billion dollars (\$40,000,000,000). In your estimation, does it make a difference if we would say borrow forty billion dollars (\$40,000,000,000) or sell forty billion dollars (\$40,000,000,000) in bonds at today's low interest rates and infuse the pensions, take care of it and then make payments on that or just continue our pay as you go type..."

J. Fred Giertz: "Well, on average, selling bonds and investing that money in the pension system is gonna be a good deal because the expected return on the pension system is about 8 percent per year. You can borrow money at 5 or 6 percent a year so there's an arbitrage gain there, but it comes with a risk. There's always a risk that the invested funds won't grow at the expected rate, so on average the plan you suggest is gonna be a plan that will benefit the state, but there's always the possibility that things will not work out as well and you end up borrowing money, investing it and

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investment returns will not be high enough to pay the... pay the interest."

Chairman Bradley, J.: "Thank you. Bradley back in the Chair. Representative Beiser is recognized by Representative Mautino for one minute."

Beiser: "Thank you, Mr. Chairman. This is for Dr. Giertz. First of all, I'd like to say I'm gonna be up in Champaign on Saturday for a graduation, my son with a degree in finance, so I... I appreciate all the... the great things about the program up there. But the question I'd like to ask you is dealing with the performance of corporate income tax. In two snapshots, I'd like for ya just to briefly reflect on. Could you compare say a snapshot like April of this year versus April of last and a window of say what is done over a period of 4 years?"

J. Fred Giertz: "Well, the corporate income tax is coming back now and as was previously mentioned, it's very cyclical in nature and the corporate income tax did very well during the late 1990s into 2000-2001 then the bottom fell out after that. But the last year or so the corporate tax had done very well, in fact, the April collections are the largest in the history of the State of Illinois, so we're on the up cycle again, but unfortunately, the good times are not good enough to deal with all the problems we have. So, that the corporate tax is doing well in a relative sense, but if you go back in a longer term kind of picture, the share of the corporate tax compared to overall tax revenue has fallen for

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a variety of reasons. Corporations are more adept at avoiding taxes. There are firms operating as subchapter S corporations who don't pay the corporate tax, limited liability corporations, things of that sort. So, over the long haul, the corporate tax has declined in relative importance, but just recently it's done very well compared to the last few years."

Chairman Bradley, J.: "Thank you. Thank you, Representative Beiser. Leader Hannig is recognized for one minute, a final witness... final questioner."

Hannig: "Yes, thank you very much. My question is and has to do with actually who... who would pay the tax. And so, I think you said earlier that this would just be passed on. But when I listened to this adamant opposition from the business community, it sort of intuitively seems to me that they're saying that they're gonna pay it. So, is it true that they're gonna pay the tax or is it true that it's gonna get passed on?"

J. Fred Giertz: "Well, I think that business to a certain extent has... has bought the Governor's argument that they'll bear the burden. I think in the long run most of the burden will borne by consumers in Illinois. They'll be some businesses that I think the..."

Hannig: "So... so, if that's the case, why wouldn't businesses simply say we don't care? Enact the tax; we'll pass it on; let it go. I sort of have the view that, they're gonna pay it and that's why they're down here today complainin'."

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J. Fred Giertz: "Right. Well, I think that it's not a painless process. Passing it on means that some firms will have to contract in size, some firms will have to readjust. So, it's not a kind of thing where you wake up one day and pass along the next day. It's gonna be a... a multimonth, maybe a year-long process, some firms will fall by the wayside, others not. So, I think in the long run most of the burden will be borne by individuals in Illinois, but there'll be some transitory burdens borne by business to get to that point."

Chairman Bradley, J.: "All right. Thank you very much. Okay. So, again, professors, you have been a vital part of our ongoing subject mater hearings. And we very much appreciate you being here today. Thank you very much. Okay. Our next panel is another Think Tanks/Policy Organization panel. And at this time I would like to recognize from the Heartland Institute, Director of Government Affairs Trevor Martin and from the Illinois Policy Institute, Executive Director Greg Blankenship. Gentlemen, if you would face the audience and raise your right hand. Do you swear that the... the testimony you're about to give is the truth, the whole truth, and nothing but the truth so help you God?"

Panel et-al: "I do."

Chairman Bradley, J.: "Thank you very much. You may be seated. Director Martin, you may proceed for a total of five minutes."

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Trevor Martin: "Thanks very much. And thank you all for having me here today. I'm Trevor Martin, director of government relations."

Chairman Bradley, J.: "If you could lean forward a little bit. We... So we make sure we can here ya."

Trevor Martin: "Sure. I'm Trevor Martin, director of government relations for the Heartland Institute. We're a 23-year-old nonprofit research and educational organization based in Chicago. Before detailing why a Gross Receipts Tax is such a bad idea, I thought that it would be necessary to mention what motivates ideas like that and it's increased spending. If it weren't for existing commitments, not to mention huge new spending proposals, there would be no talk of raising taxes by billions of dollars. Universal preschool, socialized health care, subsidized prescription drugs; the list of unfunded promises keeps getting added to and the state can barely manage its existing obligations. So, now I'll briefly discuss the Governor's Gross Receipts Tax proposal. Gross Receipts Taxes, generally speaking, apply to all transactions, including business-to-business supplies, purchases of supplies, raw materials, and equipment. Under other corporate tax systems, these expenses can all be deducted. And... but under a Gross Receipts Tax system, they can't. So, a Gross Receipts Tax is simply a tax on doing business, simply locating within the State of Illinois. And Illinois would become a state where business... businesses are taxed simply for the

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privilege of locating here and I don't think that that is the image that we want to project. Applying the tax to all transactions creates what is known as tax pyramiding. You've heard that word probably hundreds of times today. But it's the layering of taxes at each stage of production and this results in higher costs and hidden taxes. So, I'm not here to defend big business. I'm not here to defend little business. I'm here to defend the state's workers and the state's consumers. Gross Receipts Taxes get passed along to consumers and workers because businesses end up charging customers more or they reduce workers' wages and benefits, they hire fewer workers, they lay off existing workers, or they do any combination of all of those things. The Gross Receipts Tax is especially regressive. I'm here to defend low- and middle-income families in Illinois because they're the ones who are gonna pay the highest percentage of their income in Gross Receipts Taxes. And these are taxes they have no way to calculate because they're hidden in... in the process of getting from manufacturer to their kitchen table and they're buried in the final price of goods and services they buy. But yes, businesses also suffer heavily from this pyramiding effect. For example, manufacturers that buy component parts from outside suppliers would be at a disadvantage to companies that make their own parts or to companies based in states adjacent to Illinois that may not charge a Gross Receipts Tax. Furthermore, firms... firms with low margins like

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retailers and start-ups and restaurants, they pay a higher effective tax rate than do firms with high profit margins because the tax applies to Gross Receipts and not net. Obviously, you can't write off losses and losses the money.. excuse me, even the firm that loses money must end up paying the tax. Two firms in the same town can end up paying a radically different effective tax rate depending on profit margins. The Gross Receipts Tax is unfair. And the Governor's tax plan is not the right approach to restoring fiscal stability in our state. A new tax or a tax swap or tinkering with tax rates, none of these are gonna solve the state's fundamental problem and that is uncontrolled spending. Nearly everyone's recognized this, including the Governor himself when he accused you distinguished lawmakers of spending like drunken sailors. So, the Governor wants additional revenue for more spending proposals and more promises. And to get there, he's asking you to support his proposal to implement a fundamentally unfair and regressive tax system. It's time for everyone, including the Governor, to sober up. Thanks."

Chairman Bradley, J.: "Thank you very much. Our next speaker is from the Illinois Policy Institute, Executive Director Greg Blankenship. Five minutes."

Greg Blankenship: "I'd like to thank you... thank the Members of the committee for inviting me here today to share testimony on the Governor's proposal to impose what would become a seven billion dollar (\$7,000,000,000) Gross Receipt Tax on

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the taxpayers of Illinois. My name is Greg Blankenship, and I'm the executive director of the Illinois Policy Institute. We're a state-based free-market oriented think tank. We are a publicly supported charity based right here in Springfield and our mission is to promote the ideas of competitive free enterprise and limited government. While the Institute is admittedly biased against any and all tax hikes... You guys hearing me okay? Yeah, better? While the Institute is admittedly biased against any and all tax hikes, the Governor's proposed tax policy change is truly remarkable both in scope and its audacity. First, the scope of the proposal, seven billion dollars (\$7,000,000,000), amounts to taking approximately 1 percent of the gross state product and transferring it into state coffers. According to the Bureau of Economic Analysis, growth... growth in the real gross state product in the period 1997 to 2004, for example, grew at 2 percent in the State of Illinois. The following year, 2004 to 2005, we saw gross... real gross state product grow at about 2.1 percent which still ranks us about 37th in the nation as far as growth in state product. The impact of the Gross Receipts Tax would half that... would half that growth. And no matter how well-intentioned the purpose of that change in tax policy, the sheer magnitude of the proposal would be staggering. It's the largest tax increase in state history. According to the Washington, D.C., based tax foundation who examined 10 years of tax hike proposals across the United States, it could not find a larger state

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tax hike. Obviously, in nominal dollars, this would.. we're facing the largest state tax hike in U.S. history. With tax hikes, it's important to recognize that size matters. Any tax hike that takes billions of dollars out of a state economy is going to negatively impact that economy. Whether we take one hundred dollars (\$100) from your checking account, your savings account, your wallet, or even your boss's wallet, even if we just take a little out of each, you will be one hundred dollars (\$100) poorer when we walk away. And.. and that's exactly how the Gross Receipts Tax would work. Before we begin raising.. The main critique of the Governor.. of the Governor's against the current system is that corporations are not paying their fair share because of loopholes in the system. It has been mentioned earlier today and in other venues that there will be nothing stopping businesses for lobbying for more loopholes in the GRT. We saw a preview of that in the.. in the State Senate Executive Committee vote yesterday. And that while we berate Illinois business for not paying their fair share, the Department of Commerce and Economic Opportunity is currently doling out millions of dollars to many of those same businesses in the form of corporate welfare. A good first step would be to eliminate these special tax exemptions and grants and the other things that.. that we are doing in the form of corporate welfare. Illinois needs to repri... reprioritize how we spend money. If health care and education are the state's highest priorities, then we need

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to spend on them first instead of giving a million dollars (\$1,000,000) away to the... to corporations. Spending these dollars first and then going back to the taxpayer to ask for more from the taxpayers illustrated that in fact education and health care aren't our highest priorities. Otherwise, we wouldn't have to go back and ask for more money after we've spent fifty-six billion dollars (\$56,000,000,000) last year. Additionally, before implementing the GRT or any other tax increase we should take a... a look at serious Medicaid reforms. We've proposed at the Institute putting doctors and patients more in charge of health care and getting the bureaucrats and the large HMOs out as well as doing things like cutting waste through the imple... implementation of a... a Grace-like commission at the state level. I wanna thank you once again for this opportunity to speak and I look forward to any questions you might have."

Chairman Bradley, J.: "Thank you very much. Representative Biggins."

Biggins: "Yeah. Thank you, Mr. Chairman. I'd like to yield a minute of time to Representative Pritchard."

Chairman Bradley, J.: "Representative Pritchard, one minute."

Pritchard: "Yes. To follow up, Mr. Blankenship, on... on your comments. You comment that perhaps there are lots of ways that we could reform Medicaid or to have smart spending. Would you elaborate a little bit more on those?"

Greg Blankenship: "Often in the... often in the past when we talk about reducing st... state spending, we are... we often talk

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about across the board tax cuts and things of that nature, but really punish the good programs along with the bad programs. In the past, the Institute has proposed at doing things like closely examining say going through the state budget line by... item by or program by program and looking at the top 10 percent of performers or the bottom 10 percent of... of performing programs, looking at redundant programs and eliminating those."

Pritchard: "So, in the interest of time, could you give us any written comments about what the Institute might have viewed as the bottom ten performers? As we seem to have difficulty getting good analysis of how we're... we're not able to get results on the performance of state programs. So, if you have some solutions and suggestions and also the wisdom of selling state assets. I grew up with the notion that if a business starts selling its assets, it must mean it's in serious financial problems, yet you're suggesting that we sell state assets. So, I'd like an explanation of that. Thank you."

Greg Blankenship: "Sure. On the issue of... of selling state assets, there're... there're a number of assets in the states that actually could be better served in... in the private sector. We've seen that in Indiana, we've seen that with for example the selling of the Chicago... the Chicago Skyway between Illinois and Indiana. One rule of thumb that I would look at when we are looking at selling state assets or... or entering into competitive sourcing agreements would

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be if you can find the same service in the yellow pages,  
then government probably shouldn't be doing it."

Chairman Bradley, J.: "Representative Biggins."

Biggins: "Yes. Thank you, Mr. Chairman. No other Members on our  
side have sought recognition. So..."

Chairman Bradley, J.: "Okay."

Biggins: "... we'll turn it back to the Chair."

Chairman Bradley, J.: "Thank you very much. Representative  
Mautino. Representative Hamos is recognized for two  
minutes."

Hamos: "I... I guess I'd like to really just ask whether you  
believe that we have some spending priorities that are... are  
not... are not currently in the budget? Are there some issues  
that we should be raising revenues for?"

Greg Blankenship: "No."

Hamos: "Sir?"

Trevor Martin: "No."

Hamos: "Okay. Well, that I think explains your entire position  
because the whole issue here is that people have to believe  
we're raising revenues to accomplish some good goals of the  
state. And if you don't even believe that we should... we  
have any of such reasons to... to be spending money, then, of  
course, you're gonna be against every possible tax. And  
that's, I think, your entire position. Thanks."

Chairman Bradley, J.: "Representative Jefferson is recognized  
for three minutes."

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Jefferson: "Thank you, Mr. Chairman. I won't need three minutes, but thank you anyway. Well, this question is for Trevor Martin. Mr. Martin, on February 27th you actually were quoted in the editorial to say that the GRT would cause a pyramiding of taxes and would drastically.. dramatically increase the final prices paid by consumers. What evidence do you have to support that statement?"

Trevor Martin: "The... the evidence is that... that as businesses conduct business with each other putting... buying the component parts that go into final products and... in so much as those businesses then offer services as well, businesses generally pass along these costs to consumers in the form of... of higher retail prices."

Jefferson: "But real... in reality, that hasn't happened yet. So, what do you use to gauge that happens? Is this just your perception of that happening or?"

Trevor Martin: "I'd be happy to provide you actual hard research and analysis available from the Heartland Institute."

Jefferson: "If, in fact, this GRT is passed?"

Trevor Martin: "There... there are... In other states where the GRT has been implemented, there... there is a... there is available hard data indicating an increase in... in consumer costs available that we've assembled into a research and commentary packages for elected officials. And I'd be happy to... to... to get that... another copy of that information for you."

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Jefferson: "So, the information you're providing us with is an observation you have from other states that has a GRT imposed? Is that correct?"

Trevor Martin: "The... the information I'm providing you is based on that research, yes."

Jefferson: "Yes. Thank you."

Trevor Martin: "If... if I may, the Rio Ground... the Rio Grande Foundation in the state of New Mexico just recently issued a report on their Gross Receipts Tax. And I think they, for example, look... model two examples. One, I believe, is the... the added price of the GRT in that state for an automobile. And I think another compares a doctor's office within a large HMO between a similar doctor's office who was in a private practice. And that... The doctor in the private practice actually takes a bigger hit from the Gross Receipts Tax than the doctor looking in... in the larger HMO. So, there's... there are some examples out there of how that actually occurs. And there are number of state based think tanks in states with Gross Receipts Tax that have data on that information. And I'd be happy to get my hands on that for you."

Jefferson: "Thank you, gentlemen."

Chairman Bradley, J.: "All right. Thank you, Representative Jefferson. Okay. Representative Mautino. Okay, very well. Representative Mautino turns back in his time. Okay. Gentlemen, we appreciate you being here today and for tis... participating in our subject matter hearings that've been

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taking place this spring. Very much appreciate it. Thank you. Representative Nekritz for the purpose of an announcement."

Nekritz: "Thank you, Mr.. Mr. Chairman. I.. The Railroad Safety Committee scheduled for 11 a.m. tomorrow is canceled. And so, Railroad Safety at 11 a.m., canceled. Thank you."

Chairman Bradley, J.: "Very good. Okay. Also we have a stack of witness slips that I am not going to read, but will be made part of the official record. At this time I'd like to welcome to Illinois House chambers, the Treasurer of the State of Illinois, the Honorable Alexi Giannoulias. Treasurer, if you'd be so kind to stand and raise your right hand and face that way. Testimony you're about to give, do you swear to tell the truth, the whole truth and nothing but the truth, so help you God?"

Treasurer Giannoulias: "I do."

Chairman Bradley, J.: "Thank you very much. Okay. Treasurer Giannoulias, yield the floor to you for five minutes for the purposes of remarks."

Treasurer Giannoulias: "Thank you, Members of the House and distinguished guests. I know you have been inundated with information and long speeches today so I promise to make my remarks very brief. I am honored to be here as a guest in your chamber. I have accepted your invitation only because I believe it's my duty as a statewide public servant to show up when I am asked. I understand why I have been asked to speak, when I was invited here today to join the chorus of

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others who are speaking out against the Governor's GRT proposal, to add to the list of individuals and groups who are vehemently opposed to it. Well, I won't do that for two reasons. Number one, because I've made my position clear in public on numerous occasions and my review remains largely unaltered. I have serious concerns that the GRT would negatively impact businesses of all sizes, which I believe could and will result in job cuts and force companies to leave the state. I also don't see how businesses can avoid passing the cost of the GRT on to consumers in the form of higher prices. And number two, it's the easy thing to do. I could easily spend all of my time bashing the Governor's plan, make headlines as someone who is willing to fight his own Governor and go back to work. I know I'm the new guy and I know I've only been in office just over a hundred (100) days. And I know the last thing you want to hear is a 'let's hug it out' lecture from a 31-year-old, but I think the perspective is relevant. It's easy for me to stand up here and sound naïve, young and idealistic. Well, because I am young and idealistic, but I do know this much, that the kindness, acceptance, guidance and acts of friendship that I have received from everyone in this House and from my friends in the Senate on both sides of the aisle are to me inspirational. That is leadership, offering me guidance and support whenever I have asked. Sharing the time and experiences with me, that is leadership. How all of you have acted towards me and my administration has taught me

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about leadership and the type of public servant that I want to be. Democrats, Republicans, upstaters, downstaters, young and old, older, you have all worked hard to make sure I'm welcome because we want to make... help make... done in the State Treasurer's Office the most proactive State Treasurer's Office in the country. You have put aside partisanship, preconceptions and ego to make me feel welcome in this great town and among all of you, that is leadership. Leadership is disagreeing with others, but learning to work together. Leadership is making people feel like they're involved in the process. Leadership is listening to each other, remembering why we're all here and making sure we make the right discussions. Leadership is not unequivocally closing the door to other ideas when people are pleading for our help. We have a unique opportunity this year, more than any other year, to effectuate change, real change. Everyone knows what needs to get done. Almost everyone seems to agree that we essentially are operating under a budget deficit, that our underfunded pension liability has the potential to cripple the state financially and that our education system is flawed and needs more funding. So let's work together. Let's not squander this opportunity to achieve greatness because of petty bickering and the inability or unwillingness to listen to consensus. Let's not let egos and agendas obscure what's best for the people of our great state. All or nothing approaches to solving problems are counterproductive. Ignoring and opposing the

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viewpoints, an unwillingness to swallow one's pride, an inability to make concessions are all detrimental to the process. I'm the first to admit to that I certainly don't have all the answers, but I'm more than willing to provide assistance and advice where I can. More importantly, I will always listen to the viewpoints of others, and take them into consideration. Whenever someone asks for my opinion or asks me to get involved in any capacity you can be assured that I will do so. My intent is to work with you all, Members of the Illinois Senate and other constitutional officers, including the Governor, to find ways to meet the challenges we face in finding ways to fund education and to ultimately get Illinois back on solid financial footing. Now if we just treat each other and the process with the same respect, compassion, and friendship that you have all across the board treated me with then we can truly seize this incredible opportunity to fix the problems that ail this state and help the next generation have better lives. I believe in all of you. Thank you."

Chairman Bradley, J. "Thank you, Mr. Treasurer. Representative Biggins, five minutes."

Biggins: "Yes, Sir. Representative Eddy, please."

Chairman Bradley, J. "Representative Eddy, for how long?"

Biggins: "Two minutes."

Chairman Bradley, J. "Two minutes."

Eddy: "Thank you very much. Treasurer, my question, I live in a border area of the state. I represent five counties that

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are right on the Indiana, Illinois border. And you mentioned your concerns regarding potential job loss; I have that same concern. What aspects of GRT specifically caused that concern for you? Mine are simple; I'm on the border. I have an ethanol plant that was just built. I have a real concern that, you know, that's gonna survive when there are two ethanol plants being built just on the other side. What are your specific concerns related to that? I am on the border; that's my concern. Do you have concerns beyond those border counties?"

Treasurer Giannoulis: "And again, I have stated this on numerous... numerous occasions. I applaud the Governor for trying to put together a bold proposal, to find money for education, to pay our underfunded pension liability which I have serious concerns about. With regard to the GRT my concern is this, we have a lot of low-profit, high-volume businesses in this state. Car dealerships, for example, people who may have four (\$4,000,000) or five million dollars (\$5,000,000) in gross revenue who on some years make a profit, and some years don't, some years come even, and when they do make profits they put that money back in their business and my concern is that for those middle size, small businesses that they're gonna have trouble competing that there will not be enough of a return on a year-after-year basis to stay in business."

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Eddy: "The concern regarding their desire, if they usually can move across a border, you share that concern, in those border counties?"

Treasurer Giannoulis: "I'd share that... I'd share that concern for any business owner who has to deal with the challenges that the GRT proposes."

Eddy: "You also mention being willing to work on other solutions. Is there anything specific that you would offer to the Body as far as what you might think... what would be good alternatives?"

Treasurer Giannoulis: "And as I have stated in my opening statement, I don't have all the answers, if I did I would have give them to you along time ago, Representative. And I think there's tremendous merit to the argument that large corporations are getting away with not paying their fair share in taxes. I think that's something that needs to be looked at; I think that it's something that needs to be evaluated and we're here to find ways to combat that problem. My concern is that the GRT's impact on other size businesses. Thank you."

Chairman Bradley, J. "Thank you, Representative Eddy. Representative Biggins."

Biggins: "Thank you, Mr. Chair, and thank you, Mr. Treasurer, as well for appearing today. I don't have any other Members seeking to ask questions."

Chairman Bradley, J. "Okay, very well."

Biggins: "Thank you."

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Chairman Bradley, J. "Representative Mautino recognizes Representative Fritchey for two minutes."

Fritchey: "Thank you, Chairman. Believe it or not I won't even need the whole two minutes."

Chairman Bradley, J. "I don't believe that."

Fritchey: "And the reason for that is simple. Mr. Treasurer, your comments were superb, they truly were. And I had a question which was answered in your opening statement. I just wanna tell you and I hope that other people in this building learned a lesson. What you have learned in a hundred (100) days about engaging Members of the Legislature, about the process and about working within that process to achieve results is more than many people have learned in the numerous years that they've been down here. So I want to thank you on behalf of not only our caucus, but the House and the Senate Members I have talked to as well. The response has been universal that you have gone out of your way to get to know the Legislators, get to know their interests, to work with them, because the goals that you have are more often than not the goals that we have. And I hope that the other constitutional officers will learn from that as well. So thank you for being here when you didn't need to. Thank you for getting engaged in an issue which was truly not yours. And thank you for your comments and I hope people heed them. Thank you."

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Treasurer Giannoulas: "Thank you. And that... I can assure you that that relationship will hopefully continue throughout my term."

Chairman Bradley, J. "Okay. Next we will recognize Representative Osterman for two minutes."

Osterman: "Osterman."

Chairman Bradley, J. "Sorry, Harry. Representative Osterman for two minutes."

Osterman: "Thank you, Speaker Bradley. I wanna echo my comments of Representative Fritchey. Treasure Giannoulas, I think that unlike our Lieutenant Governor he didn't go for the cheap points today. And I think that that's refreshing to people on both side of aisle. You also, being new, are going to get a real education, as hopefully we all... unfortunately all of us are going to on what the month of May is like down in Springfield. And, I think... given your remarks, I think that you... young as you are, could play a critical role as we try to bridge the gap on trying to come up with some new revenues for children of the State of Illinois and for health care in the State of Illinois, balanced with insuring that we're not losing jobs. So I think that... you can be called upon to provide a leadership role and I think you should look for that opportunity, but again, I wanna applaud the work that you've done. And I think the people of your mom's community appreciate that as well."

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Treasurer Giannoulas: "Thank you. And as I have stated in my remarks, whenever I am called upon for feedback or an opinion I will be here. Thank you, Representative Dunkin (sic-Osterman)."

Chairman Bradley, J. "Thank you, Representative Osterman. Representative Monique Davis, two minutes."

Davis, M.: "Thank you very much, I appreciate that and again welcome, Mr. Treasurer. We all know that our exports, the retail food and drugs are exempt from the GRT. They will be exempt. And if that's true, is it true that 85 percent of the businesses will be exempt, and small businesses will not be paying for the GRT?"

Treasurer Giannoulas: "I... well... I don't know... I don't know the... whether or not that figure is accurate or not. I will tell you from my experiences in the private sector and dealing with a lot of businesses, there's this misconception that if you have two (\$2,000,000) or three (\$3,000,000) or four million dollars (\$4,000,000) in revenue that you're sitting on yacht somewhere drinking a margarita, and that's inaccurate. And you can have a business that generates... significant in revenue and not, as I stated earlier, necessarily turn a large profit. So again, that's where my concern lies."

Davis, M.: "Thank you. My understanding is that 80 percent of all revenue will be paid by corporations who are making at least 50 million dollars (\$50,000,000)."

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Treasurer Giannoulas: "You would probably have more data than I would, but I'd love to."

Davis, M.: "On that. So, my understanding is that all of the advertising and all the scare tactics that... that are being used, it's frightening the small business man, when actually the small business man at this point is exempt. And I don't know how we can fight that."

Treasurer Giannoulas: "Well, you know, you're also talking about, if I may speak freely, you're also talking about 80 percent of revenue in money. You're not talking about necessarily 80 percent of the population."

Davis, M.: "No, I'm not. Money."

Treasurer Giannoulas: "I mean, there might be one corporation, there may be three hundred (300) small business owners. So I think it's a... a challenging number to look at. And I think we have to take that... the volume of people affected into consideration and not just the amount of revenue."

Chairman Bradley, J. "Thank you, Representative Davis."

Treasurer Giannoulas: "Thank you."

Chairman Bradley, J. "Representative Flowers, Representative Mautino recognize you for one minute."

Flowers: "Thank you, Mr. Chairman, and thank you, Treasurer, for taking the time out of your busy schedule. And I would like to take this opportunity to concur with my colleagues in regards to the comments they made about your engagement. And I want to say the purpose of us being here is to advocate on behalf of our constituents and to do the right

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thing. We are a Body and the fact of the matter it is our job to negotiate and talk and do a little give and take to come up with the best solution, not that any one person have all the answers. And so we all know that businesses are in the business to make money in it, as I stated to the Governor earlier, it takes capital to start a business and in order to stay in that business you must make a profit in regards to that business that you're in. And we also know there is profit losses in businesses as well. But the most important thing is we want to keep businesses in Illinois. That's the most important thing and this is not the answer. Thank you."

Treasurer Giannoulis: "Thank you."

Chairman Bradley, J. "Thank you, Representative Flowers.  
Representative Miller for one minute."

Miller: "Thank you, Mr. Speaker (sic-Chairman), Treasurer Giannoulis. A question. Between both in 750 and some of the GRT proposals out there... there will be moneys earmarked for particular funds. I believe you... in some of the language is that the Treasurer's Office will establish a fund for education of small class size, things like that. In your capacity as Treasurer, do you see any problems or any issues in regards to those to make sure that citizens in the State of Illinois aren't witness to a shell game and there's some accountably that these funds are earmarked and how will your office handle that matter?"

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Treasurer Giannoulis: "You know, I haven't spent, frankly, a lot of time looking at that issue, but it seems like a commonsense approach to making sure money should go where it's earmarked."

Miller: "Are there any safeguards that all of a sudden that your office can put in place that... that are articulated in 750 or GRT that these funds will not be misappropriated for XY and Z? Will there need to be additional staff or there be any additional issues in terms of being the Treasurer?"

Treasurer Giannoulis: "Well, you know, we would follow the direction of the General Assembly. So if the General Assembly were to vote to not let... not allow that to happen, and I think with the... and I apologize for not being able to answer the question, because I always thought... my first time speaking and everyone one would be paying attention and it would be... I envisioned something different, people are whizzing by me talking on their cell phones. So it's tough for me to stay focused, Doctor. But I think, ya know, there was a legal battle between the previous Treasurer Judy Baar Topinka and the Governor over a similar issue. And I think in order to avoid those legal battles in the future the General Assembly, I'm assuming, have to pass something to tell us what to do. We would in the State Treasurer's Office abide by that direction."

Chairman Bradley, J. "Thank you, Representative Miller. Representative Eddie Washington, one minute."

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Washington: "Thank you, Speaker (sic-Chairman). Mr. Treasurer, how you doin' today?"

Treasurer Giannoulis: "I'm doing great, thank you, Representative."

Washington: "Good, Sir. Good. Mr. Chairman (sic-Treasurer), based on when the GRT was proposed and introduced, and I'm sure you reviewed it, compared to what the Governor said today and there were maybe a few new things that hadn't been talked about or disclosed. Were there any surprises in what he had to say today or did you get a chance to...?"

Treasurer Giannoulis: "I haven't... I haven't had a chance to... to read the Governor's remarks yet. We were..."

Washington: "Okay."

Treasurer Giannoulis: "...came down for this."

Washington: "Because I know... you know, early on they were saying that there was a million... million (1,000,000) mark start-up for businesses, then it was two million (2,000,000) and then it went up five million (5,000,000), so those were the noted changes that I noted. And I noticed that you concurred that he made very valid points to the number of big businesses that don't pay any taxes, so that we need to evaluate, I think you said. Was there anything else in what he said that you concurred with, as we try to tweak it?"

Treasurer Giannoulis: "Again, I haven't heard his comments today yet."

Washington: "Okay. Okay."

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Treasurer Giannoulis: "But I think it's encouraging to see them increase the low end of that threshold to keep the smaller businesses out of that challenging GRT predicament."

Washington: "Okay, thank you."

Treasurer Giannoulis: "Thank you."

Chairman Bradley, J. "Thank you, Representative Washington. Okay. The Republicans yielded back some time and we're gonna recognize Representative Mulligan for two minutes."

Mulligan: "Thank you. Thank you, Treasurer, for coming. I don't think it's inappropriate that you're here for the simple reason you still have to sign-off on short-term borrowing and other things like that, that are critical to our state. So I think it's your app... it's appropriate that you're here to comment on the business part of what's going on here. I'm curious, the Governor has characterized over the past several years that we've paid our pension... putting more in our pensions and paid them down, so that he's put more in the pension system. Yet, he neglects to mention the fact that we borrowed the money to pay it down. So, my question to you is can you look for us and get it back to us in writing what the actual amount of the debt is costing us long-term for the money that we have borrowed on the pensions. I would be curious to know that since he seems to exclude that. It's kind of like me paying my credit card and saying it's the most I've ever paid on credit cards, but my home equity loan is quite big. So I'm just curious, because we talk about that all the time and part of what

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he's telling the teachers' unions and other people is the GRT is going to be used to make their pension system better or whole, which I find inappropriate when we have taken all that money out there. So is that part of what you could do for us, could you find out that exact amount money?"

Treasurer Giannoulis: "Yes."

Mulligan: "I would appreciate that, that's why it's very valuable that you're here today, because my feeling is I'd like an independent Bureau of the Budget that's nonpartisan, but we don't have that. So the Treasury's Office whether you're a Republican or a Democrat at some point when you're elected you're elected to serve all the people and to give the people the answers. So I think it's very appropriate that you're here and make some comment, because the debt of this state is important to all of us. So I thank you very much for being here today."

Treasurer Giannoulis: "Thank you."

Chairman Mautino: "Seeing no further questions, I'd like to thank Treasurer Giannoulis for joining with us. Appreciate your comments, Sir."

Treasurer Giannoulis: "Thank you."

Chairman Mautino: "I'd like to introduce our final cal... pen... panel for the day and joining with us is Larry Ivory, President of the Illinois Black Chamber of Commerce, John Filan, Chief Operating Officer, State of Illinois. And we will have other members of the Governor's agencies on hand to answer questions."

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Chairman Bradley, J.: "Could we have all the people that might possibly provide testimony face the doors to the chamber and raise your right hand. Do you solemnly swear to tell the truth, the whole truth and nothing but the truth, so help you God?"

Panel - et al: "I do."

Chairman Bradley, J.: "Thank you very much. Have a seat. Okay. The president of the Illinois Black Chamber of Commerce, Mr. Larry Ivory with remarks for the Body."

Larry Ivory: "Again, thanks to the Speaker of the House and to this distinguished... distinguished House and all the people here. It's indeed a pleasure for me to come and speak to you today representing the Illinois State Black Chamber of Commerce and representing African-American business throughout the State of Illinois and we represent 21 chapters throughout the state and we have come to basically kinda give our opinion in terms of why we are supportive of this piece of the Gross Receipts Tax and why we think it's really time for us to take a real position as it relates to the Gross Receipts Tax and what the benefits to our members are. And obviously, we can't speak to other people member, but we can speak about our members. One of the most difficult challenges that we have throughout the state is helping to get minority business growth and development to happen throughout our communities. One of the biggest challenges that, when you talk to our members and we talk about some of the significant challenges that they have

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besides access to capital, one of the major things that happened to us is in reference to health insurance costs. And when you talk about small businesses and you take a look at increase in health insurance costs being anywhere from 30 to 45 percent, obviously, I don't have to say much that that has a significant impact upon our businesses. So, as we take a look and we examine some of the issues about health care, the Governor's plan, it's clear to us that this plan offers benefits to small businesses that we think is worth our time and our energy to try and ya know, and to speak to our distinguished friends across the board to make sure that they understand that we believe that this particular initiative is something that's important to black business across the State of Illinois. One of the other major issues that we've often talked about and always talk about is an educated workforce, ten billion dollars (\$10,000,000,000) invested into education is a wise investment. And so, we support that because one of our challenges is finding qualified individuals who work for our companies who can take the time and find the most qualified individuals and we think that investment into the African-American community and to the school districts across the board is something that is very needed within our communities. We take a look at a number of things when you talk about, ya know, what the impact of this Gross Receipts Tax would be. Some people have said to us is that this is gonna be anti-business and I guess we can debate that issue if you'd like, but I think

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it's clear to us that when we weigh the pros and cons of small business where we're at, not where everyone else is at, but where we're at today, it's clear to us that health insurance, education and also even unfunded pension is something that... is something that's been important to us. So, we would encourage the... the House to consider our position. We encourage our friends to take a serious look at this and support the Gross Tax Receipts and make sure that they understand that we believe that it is of utmost importance to our organization to make sure that this piece of legislation passes and that we can support it."

Chairman Bradley, J.: "Thank you, Mr. Ivory, for your testimony. It is the intention of the Chair that we allow remarks here until 4:00, at which time we will begin with questioning from the Body. So, gentlemen, you don't have to take all that time, but feel free to proceed. We have people joining the group. I believe that's Howard Peters from Illinois Hospital Association. Mr. Peters, could you stand up and be sworn in? Face the crowd. Do you swear to tell the truth, the whole truth, and nothing but the truth so help you God?"

Howard Peters: "I do."

Chairman Bradley, J.: "Thank you very much. Okay. Who would like to proceed at the table."

Howard Peters: "Mr. Speaker, Members of the Assembly. I'm Howard Peters here on behalf of hospitals all across the State of Illinois and I thank you for this opportunity to make some comments regarding the Gross Receipts Tax

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proposal. I know that you've had a long day and heard of a lot of words and so I won't prolong it unduly. Much of the testimony that you have heard today has attempted to focus your attention on the mechanics of the Gross Receipts Tax and raises the question, is this the best way to raise funds? What I would like to do in the brief time that I have with you is to refocus you on the purpose of raising funds. You see, the Gross Receipts Tax is neither good nor bad unto itself. The Gross Receipts Tax can only be reasoned in the context of purpose and I think you should favor this tax and indeed approve it in order to serve a high purpose. The Gross Receipts Tax represents a historic opportunity to insure for the first time in Illinois that everyone in Illinois has access to affordable, high quality health care which will make Illinois a better place to live, a better place to work, indeed, a better place to do business and to raise a family. Too many of our people, people who work hard every day, are without health care coverage and therefore, go without much needed health care. We don't allow people to die in the streets, but the lack of health care coverage really does reduce the quality of their lives. It literally diminishes the quality of their lives and in some instances it reduces the length of their lives. People do die for lack of adequate health care because they don't have health care coverage and the Gross Receipts Tax is an opportunity to make an important correction in this condition in our state. I could talk of, Mr... I could talk,

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Mr. Speaker, about the hundreds of millions of dollars in uncompensated care that hospitals provide each year, but it's not enough. You see, because people need, indeed, they deserve a primary care physician; they deserve preventative care and ongoing treatment for chronic illnesses, not just emergency room and hospital-based care in order that they might thrive. By the time people arrive in the emergency room, they have often suffered too much and the prospects of full recovery is much less and much more costly. And I would also want to remind you that free really isn't free. The system of health care delivery today functions on a massive transfer from those who cannot pay because of uni... because of their uninsured or underinsured status to those who have health care coverage and so businesses and people with coverage, because of this cost shift, are already paying the cost of care for the uninsured. The problem, however, is they're paying for it mostly on an emergency and hospital-based arrangement which as I've already tried to indicate is not the best way to provide care. And so, I would urge you to seriously take into consideration the plan that is before you. Someone has said that when you are confronted with complicated and difficult and hard problems, make no small plan and the plan before you to provide the Gross Receipts Tax in order to provide health care for everyone in Illinois and to... and to improve education for all of our children, is a bold plan. And we in the hospital community support this plan because it's broad-based, it's

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reliable and it's sufficient; it really can get the job done and it does not place additional new burdens on the health care providers who are already struggling mightily to provide care to the uninsured and the people across Illinois who need it. And so, I would... would urge you to roll up... let's get our sleeves rolled up and get hard to work to find a way to put... to pass this plan so that we really can move toward a day when every child in Illinois is assured a free, quality, public education and every person is insured access to quality, affordable health care. Thank you very much for givin' me your attention."

Chairman Bradley, J.: "Thank you, Mr. Peters. Mr. Quinlan and Mr. Filan, any additional comments?"

Bill Quinlan: "Before we get to John Filan to finish, my name's Bill Quinlan, I am the general counsel to the Governor and I will be very brief. But I came down and brought along with myself, Professor Allen Schoenberger who is a constitutional law professor at Loyola University in Chicago, along with Larry Blust who is a tax expert from Chicago, the law firm of Barnes & Thornburg. And what I wanted to do, just to sorta close or at least start the process, answer many of the questions that the Assembly has raised regarding the constitutionality of the GRT as an entity, kinda go through those and then, at the time there's questions and answers, we can all take further questions. So, without further ado I'm gonna let Professor Schoenberg (sic-Schoenberger) kinda go through the questions that were raised by Representative

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Franks and Representative Gordon and a few others and answer them for the Body and if there's any follow-up in the question and answer period, all of us would be happy to answer those. So, without further ado."

Chairman Bradley, J.: "Professor Schoenberg (sic-Schoenberger)."

Allen Schoenberger: "Good afternoon, Mr. Speaker and Members of the House. It's an..."

Chairman Bradley, J.: "Can I... can I ask you to get closer to the microphone. And can we have... I know it's been a long day, but can everyone please attempt to listen carefully and quietly."

Allen Schoenberger: "It's a pleasure to be here. Section 201-d of the Gross Receipts Tax Bill, pending in the Senate, is the severability clause. If business groups challenge this tax in court and acquire an injunction, would be... still be on the hook for spending, a question that Representative Franks proposed. The severability clause is designed to protect as much revenue as possible in the event of litigation. Senate Bill 1 is a substantive Bill, not an appropriations Bill. In reacting to any adverse holdings, adjustments to the state's appropriations are separate from revenue. If the revenue source is enjoined in whole or in part, then in order to have a balanced budget an appropriation would have to be reduced or another source of revenue would have to be found. The revenues in associative spending related to the Gross Receipts Tax would not be annualized until fiscal year 2009. Representative Franks

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also asked, will people who go bankrupt still be required to pay the tax? Obligations to states, such as state income taxes, are not subject to discharge in federal bankruptcy court because of the Eleventh Amendment problem which imposes restrictions upon the ability of Federal Courts to discharge state debts. However, Illinois would retain the right to work out a compromise with a taxpayer in such situations and would do so as it currently does for other distressed taxpayers. Representative Gordon asked, the Supreme Court has ruled that states cannot tax out-of-state companies. Your administration has said that the GRT will account for that. Well, there's a constitutional challenge on this issue and how do you make up for the loss when the GRT is thrown out? The answer is that the Bill provides that the state will tax to the constitutional limit and leaves the implementation to the Department of Revenue. In any event, the assertion that Illinois cannot tax out-of-state companies is incorrect. Any out-of-state company with a sufficient nexus to Illinois can be taxed and Illinois can audit that company and enforce its tax generally in Illinois courts. Any company having a physical presence in Illinois, such as an Illinois employee, an office or even inventory in Illinois can clearly be taxed. Last, a... a general comment. There's been, as the Governor noted, a lack of increase in the corporate tax revenue over the last 30 years. The net tax burden for corporations has decreased from 20 percent to 12 percent. Another way of stating the same thing is that

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corporations have benefited from an effective 40 percent decrease in net taxes, net corp.. net income tax. Thank you."

Chairman Bradley, J.: "Thank you, Professor Schoenberg (sic-Schoenberger). Mr. Quinlan, any additional testimony?"

Bill Quinlan: "No, Sir. I would turn it over to Mr. Filan."

Chairman Bradley, J.: "Director Filan."

John Filan: "Thank you very much, Ladies and Gentlemen of the House and Mr. Speaker. We appreciate very much the opportunity to come before you today and discuss the proposal on the Gross Receipts Tax as it currently evolving in the Senate with some changes that some of... some of which has been discussed today. I think one of the keys, as Professor Joseph Persky of the University of Illinois discussed this morning, is the very, very broad base of the Gross Receipts Tax brings the entire economy into our tax base and it really is the only effective way to bring the service economy which is not only the fastest growing part of our economy but also the dominant part of our economy into the tax base. So, if we are going to have a revenue that really moves with the economy, to support our state services, bringing the service economy into our tax base, we believe, is essential. The key to this is all sectors chip in so it is a level playing field where the whole economy takes part in tax payments and in view compared to the other choices, it is less disruptive and less imperfect. All taxes clearly are disruptive; all taxes are imperfect; they

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all disrupt the economy, but what we mean by having a broad.. a broad base, you have a very low rate and therefore, you minimize the disruption and minimize imperfection. One thing I'd point out that you may already know is that currently only 20 percent of our corporations pay 96 percent of our tax. So, as many of the economists said today, there is something drastically wrong with the corporate income tax, not just in Illinois, but throughout this country most state tax administrators, Federal Reserve Board in Boston, others have found that the corporate income tax is no longer enforceable because of the ability to move money across domestic and foreign borders causes misallocations of income and expenses. On the other hand, the Gross Receipts Tax 80 percent of it, over 80 percent of it, would come from businesses over fifty million dollars (\$50,000,000) of sales or more in Illinois. Ninety percent (90) of it would come from businesses of ten million dollars (\$10,000,000) of sales or more in Illinois, so you can see this is very much coming from the large business sector, not all, but many of which are not paying income taxes in Illinois and other states, to do so. So, we think this is an effective tax that very much supports the principle of tax fairness in getting very, very large companies that are able to allocate income and expenses outside of Illinois to pay their fair share in Illinois. This morning, Dr. Kane, Douglas Kane, also indicated the issues regarding other states that have a Gross Receipts Tax. And the ones that have had it the

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longest, the State of Washington, the State of Delaware, the State of Hawaii, have not experienced any of the indications people have raised regarding either business loss or businesses moving out at a job loss. So, the facts, in Washington for the last 7 years, in Delaware for almost 50 years, and Hawaii for a long period of time do not support either any job loss data or any business loss data. I think with the State of Washington and some of the most dynamic country.. companies in this country are out there. Boeing, Microsoft, Safeco, Costco, Starbucks, very diverse companies, very different companies, high-margin companies, low-margin companies that operate on slim margins but very, very successfully throughout Washington and Illinois. Further, if you look at the actual job data, Washington's wage and salary performances outperform substantially the U.S. average every year since 1980. Their wage and salary growth has been 64 percent in the same period that our country's job and salary growth has been 40 percent. So, it's a very, very substantial outperformance. In the case of Illinois, I think we've heard over the last few years when there's been discussions of loophole closings or fee increases or others, that there'd be job loss and business moving out, the evidence is quite the contrary. Illinois, since January of '04, each and every month, has outperformed not only the number of new jobs but the percent of job growth in the 12 Midwestern states and that's according to the U.S. Department of Commerce and the Bureau of Economic

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Analysis. In Illinois, for 3 years running, has been the jewel of the Midwest and outperformed 12 states once again in both number of jobs in percent of job growth and that was getting the size of the state. I also want us to touch on the proposal regarding job tax credits. We believe this is a very, very powerful tool not only to mitigate the overall tax effect but also to really, really stimulate job maintenance and job growth in our state. What it basically says is that if you have 25... if you're a goods company, you will receive a two thousand dollar (\$2,000) credit for each job that you have in the company up to 25 jobs for a total of a fifty thousand dollar (\$50,000) credit. If you're a service company, you also receive a two thousand (2,000) per do... two thousand (2,000) per job credit up to a maximum of a hundred thousand dollars (\$100,000). What that means is that small businesses, the main creator of jobs in our economy, who'll receive a very, very substantial incentive to continue to maintain and create jobs in Illinois, but it's also available to all businesses, large and small. But equally important it means that businesses below ten million dollars (\$10,000,000) will have very substantial reductions in the Gross Receipt Tax and in the case of businesses below five million dollars (\$5,000,000), the vast majority of them will pay little or no Gross Receipts as a result of this small business job incentive. Truly, this is a very, very powerful tool. I understand this afternoon somebody mentioned that the number of jobs we refer to is

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extraordinary for companies around five million (5,000,000). I can speak from personal experience. I was a senior partner in a CPA firm at the point in the time we were five million dollars (\$5,000,000); we did grow beyond that and we were at five million dollars (\$5,000,000), we had about thirty-five million (35,000,000) employees. So, we think these are very, very realistic job numbers, but even more importantly these numbers aren't cast in stone. The goal is to try to have job development, job maintenance and small business development and whether it's 25 or 50 jobs, the important thing is what we accomplish. But those are very realistic numbers from my own personal experience of managing a CPA firm for 25 years. The... Also the issue of pyramiding has come up quite a bit. I think it's very, very important to understand that in the goods industry and manufacturing in particular there's many different types of supply chains. Sometimes you have one or two suppliers, sometimes none, sometimes many, but all of their costs, all of the costs they incur, whether it's labor, materials, utilities, health care insurance, it increases from time to time. That is part of the cost of doing business. It may or may not pass the cost on but really prices are set by competition. Once again, I can speak from my own experience. I've been involved in a business that is supplied from the oil industry. We very often have very big increases in utilities and the cost of oil and the cost of health insurance, but every time we get one, we don't run

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out to the menu and raise the prices. Maybe every couple years we'll try to raise prices based on largely competition and what you can compete with. So, to say that every time there's a cost increase whether it's in taxes or whether it's in labor or materials or insurance or utilities, is gonna cause a pass-on in prices, simply isn't the real-world experience. In our country and most of the western world, it's driven by competition and efficiency and finding a better way to compete with your competitors. Finally, in closing, I'd like very much to say we, once again, very much appreciate the opportunity to be here with ya today. We look very... we look forward very much to working with you to continue to work and refine the Gross Receipts Tax so it works in Illinois, works for small business and works for health care and works for education. Thank you very much for your kind attention today."

Chairman Bradley, J.: "Thank you, Director Filan. Any additional testimony on behalf of the administration? Okay. Thank you, gentlemen. Representative Biggins, 20 minutes questioning."

Biggins: "Yes. Thank you... thank you, Mr. Chairman and welcome panel. I'd like to first yield some time to Representative Tryon on my right."

Chairman Bradley, J.: "How long, Representative?"

Biggins: "One minute, one minute."

Chairman Bradley, J.: "One minute to Representative Tryon."

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Tryon: "One minute, oh. Thank you, Mr. Chairman, members of the panel, Ladies and Gentlemen of the House. We know that the mechanics of the GRT as it affects manufactured goods that are exported to other states, exported out of the country. If I make a product and I sell it in Indiana, I make it in Illinois, I'm an Illinois company, I sell it in Indiana, I don't pay the tax. Is that correct? Okay. What about if I am a... a engineering company and I gross eight million dollars (\$8,000,000) and I am located in McHenry, Illinois, and I bid on a Wisconsin contract, engineering contract, and I provide those services in Wisconsin out of my McHenry, Illinois, office. Do I pay the service tax?"

John Filan: "That's a very good question. And it's basically the benefits received rule which is primarily how it's also applied in Ohio when they adopted the Gross Receipts Tax. When it comes to services, the rule basically is benefits received, so if the customer receiving the benefit is in your example in Wisconsin that would be an export of that service and therefore, would be exempt in that particular example."

Tryon: "Okay. The second part of my question is, when we're talkin' about Illinois Covered, we're building in a component into the budget that normally inflates at 9 to 12 percent a year. So, once we start this program, how do we maintain it for the next 20 years or forever how long we're gonna have it, if it's actually inflating it 10 percent a year?"

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John Filan: "I think... that's a very good point and I think we've shown in our budget presentations taking the cost out to 2011 and we do apply both the medical inflation rate as well as an enrollment increase and a big part of this is that these are going into, particularly the increase of the population that's currently uninsured completely, are going into Medicaid managed care plans which we had put in place last year, primary case management system and particularly a disease management system for the chronic diseases that are so expensive like asthma and diabetes. So, over time part of the effort here, both in terms of buying catastrophic insurance to cover the high end and providing premium subsidy in management care is to bring those rates of inflation down. And that together with the tax like the Gross Receipts which is the only tax it will be gross of the whole economy. It's what allows us to have a structurally balanced budget in those years. The key is doing things to better control medical cost inflation."

Chairman Bradley, J.: "Representative Biggins."

Biggins: "One more minute to the Representative on my right."

Chairman Bradley, J.: "An additional minute for Representative Tryon."

Tryon: "I'll save my response for that inflationary aspect for our debate later. I guess for me and I think for every Member of the General Assembly the ultimate question may not be are we willing to support a Gross Receipts Tax, an income tax or what tax are we willing to support, as much as it is

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are we willing to grow the budget by eight billion dollars (\$8,000,000,000), almost a 30 percent increase in our spending. And when I look at that and I look at the fact that we're gonna take out a substantial amount of money from our citizens as consumers and give it to the state, what impact will that have on our ability to generate consumer-driven purchases, if we take that much money out of our economy in the private hands and put it in the government's hands?"

John Filan: "Well, I think one of the keys here is we're not putting this money into State Government and growing State Government. Roughly, half of the Gross Receipts Tax is going into health care. It's going to hospitals, physicians, individuals for premium subsidies and... and actually health care is the fastest growing job growth industry south of Springfield in Illinois. So, that's going into the economy, similarly to education. This is going to nine hundred (900) school districts around the country to 1) keep... by the state, pardon me, to keep property taxes down and invest in education. So, we feel this is going out into the economy and if you consider Dr. Ken Thorpe's study that he published a couple of weeks ago, from Emory University, he's here today, he indicated that the health care investment we're proposing would save Illinois's economy sixteen billion dollars (\$16,000,000,000) over 4 years. And I think the point you raise is on point regarding medical inflation, that if we don't do something, the medical

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inflation will continue and that we're paying for it, as Dr. Thorpe said, in our premiums already both business and personal in doing so. So, we're raising this tax in order to put money into the health care economy and the education economy which we think's critical to our growth and does have a payback to it both for the state's economy and the state treasury as well."

Chairman Bradley, J.: "Representative Biggins."

Biggins: "Yeah. Thank you, Mr. Chairman. I'd like to recognize Representative Winters for one minute."

Chairman Bradley, J.: "Representative Winters."

Winters: "The... one of the visions that you have in here is for taxing of out-of-state corporations that are delivering goods to Illinois. As I understand it, those corporations are not filing anything with our Department of Revenue. What is the mechanism to try to capture taxes on them or am I completely mistaken in..."

Larry Blust: "Well, I think, this is a... It's Larry Blust of Barnes & Thornburg. It's..."

Winters: "Speak into the mike, I can't hear."

Larry Blust: "It's very nice to see everybody here and greetings. The fact is that most of these corporations probably are filing something with the State of Illinois. They probably have registered to do business in the State of Illinois. They probably have filed various other things..."

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Winters: "If there's a hardware store in Wisconsin, he's not... they're not filing any kind of taxes with the State of Illinois."

Larry Blust: "Well, a hardware store in Wisconsin, unless they're shipping solely interstate commerce, probably isn't going to have any gross receipts in Illinois unless they're right on the border or something like that. The State of Illinois has the right to audit anybody who is doing business in Illinois or has a significant contract with the state. So, the state can determine what level of people they'd like to audit. Part of the reason why there's a cutoff here, however, a floor, is to avoid having to audit hardware stores in Wisconsin or somebody else who is not doing significant business in Illinois. So, I don't think you... you really have an issue whether somebody's gonna be auditing hardware stores, certainly somebody will be auditing somebody with a large amount of sales in Illinois."

Chairman Bradley, J.: "Representative..."

John Filan: "Yeah. If I could... I could just add to that very briefly. But in my prior life, in this... our clients in our CPA firm, we filed many state tax returns around the country for Illinois-based businesses based on business they did in Michigan, New York and elsewhere, any state that had a income tax or Gross Receipts Tax or whatever, we had to file taxes based on their allocation of sales throughout the country."

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Chairman Bradley, J.: "Representative Winters, do you wish to yield an additional minute to him? Representative Biggins?"

Biggins: "We'll move on to the other Members. Thank you."

Chairman Bradley, J.: "Okay. Okay, Representative Biggins, who would you care to recognize?"

Biggins: "Representative Munson."

Chairman Bradley, J.: "Representative Munson, one minute."

Munson: "Thank you, Mr. Chairman. I just wanna clarify the effects of the GRT on not-for-profit corporations. So, some of the not-for-profits are exempt from sales tax, currently, what would... would they also be exempt from the GRT and in what situations and it... just for an example, there are not-for-profits that contract out with business to do some assembly work or do some packaging work, would they be required or be affected by the GRT or would the businesses that hire these not-for-profits be affected?"

Larry Blust: "The answer to that really is 'no'. There's no change in the way not-for-profits who are doing charitable things are taxed in regard to this any different from if they were subject to the income tax."

Munson: "Well, they wouldn't... they aren't doing charitable things necessarily. They're perhaps doing training for their clients and so they contract out with business to do assembly work, the business pays the not-for-profit..."

Larry Blust: "Typically that is a charitable activity."

Munson: "Okay."

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Larry Blust: "You would not pay federal or state tax in general if you were creating opportunities to train people for jobs and it's... or disabled or handicapped people who are doing that, you don't pay tax on that, currently and you wouldn't under..."

Chairman Bradley, J.: "Time has expired, Representative Biggins, I'm sorry."

John Filan: "Yeah. Just had one quick clarification. It's all not-for-profit organizations whether civic, charitable, scientific or otherwise, so whether it's a labor union, whether it's the Chamber of Commerce, a manufacturing association or credit union or a church or a charitable group, they... they all would be exempt as they are currently under both State and Federal Law."

Chairman Bradley, J.: "Representative Biggins."

Biggins: "Yeah. Thank you. Representative Eddy for a question. Three minutes for Representative Eddy, please."

Chairman Bradley, J.: "Representative Eddy, three minutes."

Eddy: "Thank you very much. Mr. Filan, I'm intrigued by your comparisons of the GRT in other states and I understand that you recently, just a couple minutes ago, talked about Delaware. You didn't... you didn't mention the fact that Delaware has no sales tax or any property tax. And Hawaii was mentioned; Hawaii has no sales tax. We talk about Ohio as if this is going to be the same type of a... a GRT. The GRT's being phased in as tangible personal property and the corporate franchise taxes are being phased out during that

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time. In Texas, a state that does not collect a state income tax, we try to compare the GRT proposal here with that while we know that none of the other taxes that Illinois currently has are going to be eliminated and in these states those have and in fact, we mentioned the State of Washington. Washington's approach in GRT is much different. They charge fifteen (15) separate rates of tax on the different families of transactions. This has a flat 2 percent, I believe, the latest version for services and 1 percent for manufactured. I just don't see how, in any... any real way, we can compare what is being proposed here with what exists in these other states. There are tremendous differences in the way that those states tax in other areas. I just... I'd like your response to that, but before I do that, there's a second question that I have. I sat here this morning and I listened to the Governor talk about the fact that we need to really be careful if we're going to expand the sales tax base to services. Now, am I reading this wrong or doesn't the 2 percent service tax get expanded under GRT to the very areas that the Governor warned us that we need to be careful about expanding those service taxes to? Those are my two questions."

John Filan: "On the first question, I generally agree, it's always hard to compare any number of things, apples to apples, but those are the states that have adopted, in the case of Hawaii, Delaware, and Washington, Gross Receipts Taxes for many, many years. So, they are relevant because

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they have this kind of tax base. Having said that, you make a very good point that you have to look at states in totality. As an example, people often compare to Indiana abolished the Gross Receipts Tax, but they also should point out what they replaced it with; they replaced it with an increase in the sales tax, an increase in the personal income tax and putting back into place, a personal property tax that we abolished here. So, I think it is compari... important to do that. But when you look at comparisons from totality, as Doug Kane mentioned this morning, okay, Illinois ranks for total state and local tax burden, 47th in this country in total tax burden state and local level. Adopting this tax would still put Illinois below the median in this country as the result of it at an all-in basis. So, I think it is a valid comparison, but we recognize all states have differences in doing so. On your second question, I think the Governor's point was, if we impose a sales tax, particularly on consumer services, in the case of the City of Chicago, it'll add 9.25 percent required on to going to the museum, using the laundromat, drycleaning, haircuts, all of which are very personal services that middle lower-income people buy. The Gross Receipts Tax, on the other hand, applies a much lower rate and that was Dr. Persky's point on a very broad base so it spreads the responsibility through the entire economy and consequently, even if you take the maximum assumption of pyramiding, it

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becomes nowhere near a 9 percent increase in the price of those services."

Eddy: "Okay."

John Filan: "I think that's the point he was making. It's a much fairer tax 'cause it's much more broadly based."

Chairman Bradley, J.: "Representative Biggins."

Biggins: "And thank you... thank you, Mr. Chairman. My Representative Pritchard for a question, one minute."

Chairman Bradley, J.: "One minute."

Pritchard: "Yes, Mr. Ivory, you commented that the Black Chamber was in support of this idea. Could you elaborate a little bit on to how you determined that your members supported that and elaborate, even though they may wish they had better health care and could afford that, isn't there a risk that they're going to have less business and be less competitive and less able to survive under this kind of tax?"

Larry Ivory: "I thank you for the question. How we arrived at our support on... on the Gross Receipts Tax was debated intensely among all of the members and our chambers throughout the State of Illinois of which we have 21. And as we debated those issues, in terms of our membership, one of the key factors I think made a real difference for us as we talked about the two million dollar (\$2,000,000) threshold or the two million dollar (\$2,000,000) before you get hit, if you take a look at African-American businesses in the State of Illinois, what you'll find that is probably

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close to 90-something percent of our businesses aren't impacted by it. And if you ask our membership what is the most important thing that's impacting you besides access to capital you'll hear things like education training and health insurance costs because a lot of cases, ya know, even when you talk about the spirit of competition and you have people who are in the private sector who would like to go into the entrepreneur sector and create their own business one of the most determining factors that they have is health insurance costs and if they take a look at their business growing, they have to be able to make sure that they can afford to do that. So, I think, we arr... we arrived at our decision with an intense debate about the pros and cons of the Gross Receipts Tax and we also, obviously, we spent a lot of time talking about what was really right for the State of Illinois in terms of education because we understand education is a critical factor in terms of long-term growth by havin' a educated workforce. We looked at health insurance and a lot of African-American families don't get health insurance and sometimes you'll wait too late. We've all experienced that in our own families. So, we knew that those were issues beyond our own personal interest that was in the interest of our community and the commenture... and the interest of the people that we represented. And I think your second question, if you wouldn't mind repeating your second question."

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Chairman Bradley, J.: "Could you turn Representative Pritchard on, please."

Pritchard: "It has to do with their inability to afford health care coverage now because they're not making enough money; they're not making enough profit. Well, if they have to pay higher costs for the goods that they sell, doesn't that mean they're going to make even less profit?"

Larry Ivory: "Well, I think that that's a, ya know, that's a very good question. What I think happens when we talk about the Gross Receipts Tax and how we weighed in on that particular issue because that did come up in conversation with our people is that, ya know, we had... we believe that education, pension funding, those things, were important. The question was, how were we going to fund that and what was gonna be the fairest way by which to do it and when we talk about passing the cost on to small businesses is that, ya know, when you take a look if you have an increase and as far as goods and services, one of the things that we debated intensely was the fact that... say, for example, a company comes out and says, look, we're gonna raise the cost of goods and services that you buy as a small business from us and so, we're passing that cost on to you. What we debated was the fact that there's enough competition and that normally the free market system which is one of the greatest... I think we have one of the greatest markets in the world in terms of, ya know, the way our system works in terms of the free market system... that competition always, ya

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know, makes pricing, ya know, very attractive because if someone raises the price then I can go down the street and buy it from someone else, what I'm going to do is I'm going to buy it from someone else. What will happen to that company, the shareholders and the people who invest in that, will probably find a good reason even though the profit margin have gone up, they're probably gonna understand that they've priced themselves out of the market. So, we didn't think that was gonna be a significant impact on our businesses to the extent that some people are talkin' about, so we just didn't see to that as a significant impact at this point in time."

Chairman Bradley, J.: "All right. Thank you very much. Representative Biggins."

Biggins: "Thank you, again. Representative Mulligan for one minute."

Chairman Bradley, J.: "Representative Mulligan's recognized for one minute."

Mulligan: "Thank you, Director Filan and Members. I kinda call this the 'we want fried chicken on Sunday' tax proposal. You have the chicken and it lays the eggs and you can relate that to business. They lay the eggs; they hire the people; they do whatever. And the eggs, you make lots of good things with them. But on Sunday decide I have a hankering for fried chicken, so you kill the chicken and no longer do we get the eggs anymore, you've used it. You say you're holding out health care as the big carrot of why you want

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the gross revenue... receipts tax and so, when that comes down to it, you say it's gonna be for health care when up until the Governor decided that health care was the #1 issue, education was the #1 issue. And in your proposal there's ten billion dollars (\$10,000,000,000) over 4 years which is two point five (2,500,000,000). Of that two point five (2,500,000,000), is every year that going to be negotiable because I don't find it to be a plan that resolves education funding in Illinois at all and the Governor refuses to talk about any other plans."

John Filan: "On the... on the education part of your question, the commitment is as part of the revenue source and we show both in '08 and a 2011 allocation is ten billion dollars (\$10,000,000,000) for education. One and a half billion (1,500,000,000) in the first year which is spelled out in the budget book and it's one and a half billion (1,500,000,000) 'cause we only have a half a year of the Gross Receipts Tax in place in the first year, it starts in January. The remaining 3 years we're perfectly comfortable with the General Assembly to work through the second, third and fourth year allocation of those moneys and commit to that. But we wouldn't wanna do that without going through the General Assembly process to do so. So, we proposed an idea for the first year, but for the remaining eight and a half billion dollars (\$8,500,000,000) approximately over the 2000... fiscal '09, '10, and '11, we're perfectly comfortable

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with laying out a commitment on how that would be allocated over those 3 years."

Chairman Bradley, J.: "Representative Biggins, thank you."

Biggins: "And thank you, again. Representative Reboletti, one minute."

Chairman Bradley, J.: "Representative Reboletti, one minute."

Reboletti: "Thank you, Mr. Chairman. One of the things that I'm very concerned about, especially in my district, is the cost to local government and Representative Rose asked the Governor about a box of macaroni and cheese being taxed 26 times before it got into the grocery store. The Village of Addison, my largest municipality, told me last week that it would have cost 'em an additional five hundred thousand (\$500,000) to one million dollars (\$1,000,000) if the Gross Receipts Tax passed. If this were actually be, ya know, your unfunded mandate or a detriment to the community because now do they cut back police, do they not pave streets. What is your explanation for that that you said it's not gonna be passed on to the... to the communities?"

John Filan: "I'm sorry. Could you repeat the last part of the question?"

Reboletti: "How would you explain that it's not gonna be passed along to the communities? There's gonna be one additional tax, so as schools get additional resources now the community is losing money as far as taking care of infrastructural needs."

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John Filan: "I think that if the question is about... if I understand it... about passing on, ya know, the best thing I can do aside from my own view economically is look to my own personal experience and prices are very much set competitively. In any of the business I've been in, ya know, we have labor increases and right now, companies, like individuals, are experiencing very large utility increases. Dr. Thorpe mentioned this morning, we're havin' 10 percent increases or better in health care. When those prices go up to a employer, they don't or can't automatically say therefore I'm gonna increase my price of my product, they have to make a decision competitively, as Larry said, in our economy of what works. That's been my experience 100 percent of the time in my private life to do so. So, I think it's very much a competitive decision on how to allocate those expenses. Maybe you cut somewhere else, you allocate, but somehow you have to work in the world of competition. But ultimately, it is a cost of doing business and one of our concerns is, if 80 percent of the companies in the state are not paying the corporate income tax but are receiving State Police services, are using our university system which is three billion dollars (\$3,000,000,000) a year of state money, our school system and health care system, by not paying taxes we are, in effect, subsidizing their business on services they use in the state. We think there needs to be a fairness there that really is the cost

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of doing business when you rely on the State Police or rely on univers... on universities to graduate students."

Chairman Bradley, J.: "All right. Representative Biggins."

Biggins: "And... and thank you again. Mr... Representative David Reis."

Chairman Bradley, J.: "For one minute?"

Biggins: "One minute."

Chairman Bradley, J.: "Representative Reis for one minute. We have about two minutes left."

Reis: "Okay. I got for Director Filan I've got some real quick questions before I get to my... my final question. You don't pay on the first five million (5,000,000). I'm gonna use an example of a motorcycle dealership that grosses ten million dollars (\$10,000,000). They would not pay on the first five million (5,000,000). Is that right?"

John Filan: "The way it works is that's the effect of it, but they would not... they would get a reduction via a job cash credit based on the number of employees they have. So..."

Reis: "They could possibly still pay a... anything over two million (2,000,000)."

John Filan: "I'm sorry?"

Reis: "They possibly could pay on anything over two million (2,000,000)."

John Filan: "They... It's a job cash credit that we... we have recommended along with the Senate, the Senate brought it to us and how to structure it. The suggestion was two thousand dollars (\$2,000) per job."

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Reis: "Okay."

John Filan: "That would generate a job cash credit that in almost all cases would eliminate the GRT for a company with five million dollars (\$5,000,000) of sales and although.. it's available to all companies."

Reis: "My question has really not been able to have been answered today by any of the panelists is if you were part retail, they're sellin' the motorcycles; they're part service, would they pay the higher 2 percent Gross Receipts rate on the whole gross receipts or just on service and the lower rate on the retail?"

John Filan: "It's a good question. And on... on the items that are goods, they'd pay the lower rate; on the items that are services, they would pay the... the greater rate."

Chairman Bradley, J.: "Okay. Thank you very much. Representative Biggins."

Biggins: "One last question from Representative Mulligan, please. Then we're done."

Chairman Bradley, J.: "Representative Mulligan with one final question."

Mulligan: "I have to go back and figure out which one it was. By the time you're neduct... and this is for Director Filan or I'm sorry, I'm not sure what your new title is. By the time you're done negotiating this, the GRT tax will probably vary from year to year, but once we commit to health care we'll have that plan there. And I've asked you this before and I've asked this of Director Maram also. Don't you feel once

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we establish a health care plan it becomes an entitlement program and whether we take the money and on the tax or not the State of Illinois will be obligated to fund it and since we now can't pay our Medicaid bills, other things that we're obligated to, don't you find this to be problematic for the long range spending in Illinois?"

John Filan: "Well, I think, I'd go back once again to what happens if we don't and Dr. Thorpe clearly indicated not only the amount that's already being absorbed by all of us in health care premiums by not doing this because of the inefficient way people are getting health care, and if we do do this, his study indicated we would save sixteen billion dollars (\$16,000,000,000) in Illinois over 4 years. So, I think it's a question of what happens if we don't, not only a question of what we do, but ultimately it's up to the General Assembly and the Governor working together to determine that in the future years. But I think he pointed out very clearly that if we don't act, the cost will be much, much greater than if we do."

Chairman Bradley, J.: "Thank you very much. Thank you, Representative Biggins. Represe... We... I... I was given 'til 4:20. A quick comment, ten seconds. Representative Mulligan, a ten second comment."

Mulligan: "We looked up Mr. Thorpe on the Internet and he... and some of the information he's given us, he's paid for by the Campaign for Better Health. When you're paid by somebody, the outcome... depends on what you're paid."

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Chairman Bradley, J.: "Okay. Representative Biggins, thank you for your cooperation today. Representative Mautino recognizes Representative Will Davis for two minutes. Will, were you... Okay. Representative Mary Flowers for three minutes."

Flowers: "Thank you, Mr. Chairman. Mr. Ivory, did... have you read the report that was put out back in January in regards to the gold collar and how states jobs subsidize, in the Chicago region, favor the affluent suburbs. Have you read this report?"

Larry Ivory: "No, I'm not aware of it."

Flowers: "And there was an article in the Tribune newspaper stating about state subsidy studies and this is a reverse Robin Hood and it's... Let me just read excerpts, please. 'If you draw a map of the Chicago area communities where businesses have received state subsidies. Now, draw another map plagued by joblessness.' We have not gotten any state subsidies in regards to jobs being created in the minority community. That's another reason why I am against GRT. When I hear the debates on this floor talkin' about the marketplace, the marketplace, we don't have a market to place. We have no jobs to go to. Now, the report also says who the winners are. The winners are the affluent communities. That's who this... that's who government... government, not necessarily this Governor, but government has been giving the state subsidies to. That's where they've been giving the jobs. For... for instance, it goes on

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to say that the firm that moved to the airport corridor that would have moved there anyway received a hundred and ninety-eight million dollars (\$198,000,000) in state subsidies. How much have Englewood received? How much have Harley received? I introduced legislation to say that when you... the Governor or his agency would take into consideration, it's House Bill 407, it talks about economic development and grants policies. When awarding grants for any economic development purposes, the department must consider reserving targeted for... reserving moneys for targeted area in low-income parts of this state. In the rural areas, probably, the urban area. So, I am truly against this GRT. I'm tryin' to get some businesses in my area so we can have jobs and this is not the way to do so. This is truly not the way to do so and to you, Mr. Filan, you are subsidizing the rich. And so, I do understand the reason why you are going after businesses because of all the grants and the moneys that you have given them or the government, I should say, has given throughout the years. Thank you very much."

Chairman Bradley, J.: "Representative Hamos for two minutes is recognized by Representative Mautino. Can we have some order, please. Some order."

Larry Ivory: "Yeah. I'd like to respond to that comment 'cause I think it's a very important comment that you made because as a mission of our organization, ya know, to economically empower and sustain the African-American... (sic-communities) to entrepreneurship and capitalistic activities, that's our

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mission. When we talk about our role maximally in the impact that we've had not only in Illinois as Black Chambers but throughout the country, we deal with the real fact that if we really want to help our communities that what black business suffers from in the State of Illinois is the lack of access and if you're gonna grow business, if you're going to have employment and opportunity, you gotta grow black businesses. That's the only way 'cause the #1 employee of black people are black businesses. What we're suffering from, in my opinion, isn't the Gross Receipts Tax it's a lack of access, it's a lack of training, it's a lack of other things, but it's surely not the Gross Receipts Tax that hinders that growth and development."

Chairman Bradley, J.: "Representative Flowers, Representative Mautino, he yields you an additional one minute."

Flowers: "Thank you very much, Mr.. Representative Mautino and Mr. Chairman. Sir, my point to you is we.. we have a very small business. We need.. we would love to participate in the Gross Receipts Tax, but our funding is not there. I'm like you; you need more moneys from the government in order to expand your bus... our businesses in our community so we can participate. And my point to you because of lack of lack of businesses in our area, where the businesses are, we're gonna... we are gonna be the ones impacted the most because we're gonna be the first ones fired as a result, because that CEO is not gonna lose a moment of sleep or not one dollar of his income. He or she is gonna keep theirs

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and they're gonna get rid of us. So, that's my point.  
Thank you very much."

Chairman Bradley, J.: "Let's... let's move on to Representative  
Hamos is recognized for two minutes."

Hamos: "Thank you. I don't think I need two minutes, but I  
would like to ask a question of Bill Quinlan. Bill, a  
question's raised during the course of the day about the  
limitations in the Illinois Constitution or maybe even the  
federal taxation law or Constitution about whether we are  
legally allowed to approve a Gross Receipts Tax and what is  
this 8 to 5 ratio and what are the implications for this  
with respect to that?"

Bill Quinlan: "Okay. Thank you, Representative Hamos. I could  
start and then I would probably have the professors follow-  
up. But the 8 to 5 ratio in the Illinois Constitution rate...  
relates to income tax and the relationship between a  
corporate income tax and an individual income tax. What  
we're talkin' about here is a Gross Receipts Tax which is  
prevalent in Illinois law right now. The Riverboat Gaming  
Tax, one of 'em, is a Gross Receipts Tax. The Retailers'  
Occupation Tax is based upon gross receipts. And one issue  
this House is familiar with, there was a Utilities Tax that  
was 5 percent of gross receipts of utilities and that  
doesn't impact the 8 to 5 ratio and at the time that the  
Constitution was drafted in 1970, these taxes existed, not  
the Riverboat Gaming, but the Utility Tax as well as the  
Retail Occupation Tax. And when they made the provision,

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they knew of these taxes and basically, knew that it did not apply to an income tax. We weren't dealing with net income; we were dealing with gross receipts, so that would not apply to this. No, no. If you have anything to add."

Allen Schoenberger: "I'd like to add that at the time of the Constitutional Convention in Illinois there was specific statements at the Convention that they were not intending to stop the state from having other potential sources of revenue and one explicitly mentioned was the possibility of taxing additional services, services beyond those that were already taxed and there was a reference right then and there to the Retailers Tax that already existed. There was also a tax that went to the Illinois Supreme Court imposed upon the difference between... or imposed upon pari-mutuel betting on either trotters or thoroughbreds, that tax was sustained by the Illinois Supreme Court as a permissible tax at two different rates on the different entities."

Bill Quinlan: "I hope that answers your question."

Chairman Bradley, J.: "Thank you very much. Representative Dugan is recognized for two minutes."

Dugan: "Thank you, Mr. Chairman. Mr. Filan, and I wasn't able to answer this question prior when the Governor was here, but the Governor and many of his staff continue to keep sayin', of course, as we hear on many occasions that this will not impact the consumers. Also, about the transparency that, of course, the Governor and many of us wanna see in government. Yet, I had asked about this legislation where

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it prohibits, it specifically prohibits companies from showing the cost of the Gross Receipts Tax on their receipts. Is there a reason for that, I guess, as we try to clarify what is and is not going to happen, but then yet we see something like this that says they're not able to show it on the receipt. What would be the reason for that since we do want transparency and it's not gonna affect the consumers?"

John Filan: "Well, I believe the... the vast majority of taxes paid with... with a notable exception of primarily the sales tax are not taxes that are shown on a bill. If you think about property taxes, excise taxes, Social Security taxes, unemployment taxes, all those taxes, are costs of doing business like this is. It's a transaction tax and consequently, are not taxes you add on to the bill like a retail tax. In particular, because they're... they're not just at the retail level, but they're throughout the economy similar to those other taxes I mentioned; it's not a tax you add on."

Dugan: "And I understand... and I understand it's just a... in view of time. I'm just asking is there a reason why it was specifically prohibited in the legislation not to be able to show the GRT tax cost?"

John Filan: "I might ask Bill to add, but I think it was to make it clear that this was not a sales tax where a sales tax is added on as the end price and to distinguish it from being a sales tax as opposed... to distinguish it from being a sales..."

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from not being a sales tax rather than being a Gross Receipts Tax which is a... a different type of tax not the others."

Dugan: "And it... it wasn't done then as specifically prohibiting it, so in case there was a cost to consumer it wouldn't show up. That wasn't the intent of prohibiting it?"

Panel - et al: "No."

Larry Blust: "And you probably couldn't constitutionally prohibit that. There's a couple of cases that say you can't do that. This is the difference between stating it in the product cost versus stating it in addition to the product cost. It's separated from the sales tax. There's no prohibition in the Bill whatsoever against disclosing that you're paying as a... as a person selling something, the retailers' tax. Just like you see on your phone bill right now a whole hoard of gross receipt taxes that the Federal Government and state impose on telecommunications and separate."

Chairman Bradley, J.: "All right. Thank you very much. Representative Mautino recognizes Representative Howard for two minutes."

Howard: "Yes, thank you very much, Mr. Chairman. Gentlemen, thanks for coming. Very good to see you, Mr. Ivory. I asked this question earlier and was unable to get an answer from a previous panel, but I know that you're gonna be able to tell me. Given the fact that we're talkin' about going from one million (1,000,000) to two million (2,000,000) and

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now to five million (5,000,000) what is the impact on the revenue that's going to come in from that or not going to come in?"

John Filan: "That's a good question. And through the job cash credit that will apply to the biggest benefit to small business but also all businesses as well, the... the adjustment in the rate to 1 percent and 2 percent approximately adjusts for what we believe the job cash credit will be. So, we're still in the same vicinity of a net revenue of about seven and a half billion dollars (\$7,500,000,000) before we allow for the property tax credit of a billion dollars (\$1,000,000,000). So, the..."

Howard: "Okay. So, there's no one sizable loss."

John Filan: "Correct. That's correct."

Howard: "About the same."

John Filan: "That's correct with the adjustment of the rate. That is correct."

Howard: "Very good. I appreciate it. Thank you."

John Filan: "Thank you."

Chairman Bradley, J.: "Thank you, Representative Howard. Representative Mautino recognizes Representative Granberg for one minute."

Granberg: "You didn't offer in dereg. Thank you, Mr. Chairman and gentlemen. A question for the administration. First of all, I think you tax services differently than goods and what's the rationale for that? And secondly, being from southern Illinois, we're always concerned about being at a

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competitive disadvantage with Indiana, Kentucky and Missouri, in fact, I will thank John and the Governor. You saved five hundred (500) jobs in my district from going to Missouri 4 years ago. So, we are always faced with that concern. So, is this going to cause businesses to leave Illinois, very simply?"

John Filan: "I'm sorry. What was the last part of your question?"

Granberg: "Yeah, John. It's very simple. I'd just like to know from you, would you say this would cause businesses to leave Illinois?"

John Filan: "I... I'd refer in part to Doug Kane's comments earlier including studies that are out there. If you look at all the evidence over and over and each and every year in the State of Washington, the State of Delaware and Hawaii, all of who have this type of tax and do not see businesses lose it... businesses leaving and in fact, you see real job growth. The State of Washington has outperformed our U.S. economy considerably for the last 25 years. When we checked with the Bureau of Economic Analysis, both Washington and Delaware had greater personal income growth and growing growth... and greater growth state product growth than the rest of the country. Hawaii was a little bit less. So, all the evidence says to the contrary. The reason for the different rates between goods and services this goes back to the extent to which there are supply chains in goods services, some short, some medium, some long, and the State

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of Washington study bears this out. And that's why they have a differential rate is the... is the 1 percent on the goods industry is to allow for that and the 2 percent is for the services industry where by and large you have very minimal supply chains in those industries."

Chairman Bradley, J.: "Thank you very much. Leader Joe Lyons for two minutes."

Lyons: "Thank you, Chairman Bradley. Stage right, gentlemen, I'm over here around the corner. I know that the Governor's proposal for health care for Illinois was a best... a plan that was shown to us, but the Democrats had a caucus yesterday and we were shown... Mary Flowers and Mike Boland have House Bill 311 which is a single payer statewide health system for Illinois and Dr. Quentin Young put together quite an impressive overview of his plan versus what the Governor's proposing. So, my question and I'm not expecting you to answer me right now, but I would like to see your response to some of the criticism to the questions and some of the inadequacies that he shows in your plan versus a single payer plan. And I will wait for you to get to me something written that we can share with the Democratic Caucus and certainly with my Republican colleagues. And I've got something to show if somebody wants to pick this up, I'll be glad to share it with ya. Fair enough, John? Thank you."

Chairman Bradley, J.: "Thank you, Leader Lyons. Our next speaker is Representative Greg Harris for two minutes."

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Harris: "Thank you. A question for Mr. Filan. If I understand this, then a Mitsubishi or a Boeing, big, huge employers here in Illinois, if they delivered and sold their products outside of our borders, those would be exports and they would not be subject to these taxes?"

John Filan: "That's correct."

Harris: "So, Mitsubishi could manufacture its vehicles here, send them to Kentucky, Indiana, wherever and say.. they would therefore not be subject to this tax?"

John Filan: "Yes."

Harris: "The big ad agencies and the big consulting and financial firms in Chicago, the same, if they said their customers were in New York or Detroit or wherever and if the services were being delivered there, they would not be subject to this tax?"

John Filan: "That.. that's generally true. That is correct."

Harris: "So, again, the big people would be able to avoid this and the small people who do business in Illinois would still be paying it. Do your calculations about the total take from this take into account those kind of assumptions?"

John Filan: "I believe so. The determination that our Department of Revenue did worked closely with the Ohio Department of Revenue and Washington Department of Revenue to actually see what their actual experience was industry by industry and what they collected in Gross Receipts Taxes as compared to their gross state product and gross sales in the states. So, it does reflect, as an example, the export

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exemption that you're talking about. Ohio employed the same exemption in their state so that Ohio exports were on a level playing field around the world since there's so many different tax systems out there and doing so."

Harris: "And financial services would be subject to the same export exemption?"

John Filan: "I'm sorry?"

Harris: "A financial services would be subject to the same export exemption if the client were not a corporate or personal resident of Illinois?"

John Filan: "I'd say generally speaking, yes. That's correct."

Harris: "Thank you."

Chairman Bradley, J.: "Thank you very much. And our last speaker today is Representative Gordon for three minutes."

Gordon: "Thank you, Mr. Chairman. Hello, gentlemen, good to see you again. What I did when I knew that we were all going to have this Committee of the Whole, I talked to some of the businesses in my district and so I have three separate messages from them that I think cover the spectrum of... of everyone who were dealing with. One, I have a grain elevator and based upon their last year's numbers, if the GRT was in place, they would go... their income would go from a positive one million (1,000,000) to a negative two million (-2,000,000) so they would be operating two million (2,000,000) in the black completely done. I have a major chemical company in my district, there's also another plant in the state in another... in another part of the state, and

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they would go... their... but... they would have to pay another half million dollars (\$500,000) in taxes a year, but the impact on their purchased goods and services they don't know because of the people that they... that they deal with and there's... and there's no way to find out what purchases are sourced in Illinois. And the third one is someone who wouldn't be subject to the Gross Receipts Tax, just a small bowling alley, but based upon his numbers, he says that the... the companies that he buys from, the products, would be subject to the GRT and that could cost him ten thousand dollars (\$10,000) more in his expenses and then if he didn't raise his prices to cover the increases, he would have a twelve and a half percent net loss in his profits. These are numbers that are in the Bill; these are numbers from my businesses. And so, I'm gonna ask you, once again, if I'm the last person to get to answer a question today, do you still stand by the completely, in my opinion, illogical assertion that businesses will not either go bankrupt or leave the state or just completely shut down due to this tax? We have a major chemical company; we have a smaller business with the grain elevator and we have a business not subject to the GRT, but would still have increased costs because of it. Are businesses truly not going to be affected to the point where they either leave or shut down? Mr. Filan."

John Filan: "Thank you for the question. Ya know, the individual circumstances I'm, of course, not exactly

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familiar with, but what I will say is that when companies talk about net margin, particularly taxable income, that's a very, very different number from my professional experience that economic income or what their profit is. And there's plenty of examples of that of what companies report as taxable income versus what they report as their accounting income or economic income and part of that is because there's a flexibility on what they choose to spend money on and deduct to determine taxable income. I think, once again, when you look at the states that have had this for many, many years, there are many, many small companies and medium companies and large companies in the states we talked about and Doug Kane referenced that the evidence does not show major companies or small companies moving out of the state or shutting down or going out of business. This is the cost of doing business and other costs go up in a company, their supply costs, their labor costs by 3, 4, or 5 percent, that end up being as much or more than a 1 percent of gross sales. So, I think, individual restrictions are just that, but companies do compete. They incur cost increases in their businesses far greater than 1 percent of their gross sales and find a way to compete in the marketplace by being more efficient in one aspect or another, some costs they pass on, some they don't. It's really determined by the situation and the industry they're in, but once again, as Doug Kane pointed out, Delaware, Hawaii, Washington have had these tax for a very long time

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and there's no evidence in oi... no demonstration there's been that kind of effect and actually to the contrary so that the primary effect on small, emerging businesses was property taxes not the Gross Receipts Tax."

Chairman Bradley, J.: "All right. Thank you very much, Representative. Okay. I'm going to read in the witness slips very quickly and then I'm gonna give the Governor's Office an opportunity for a brief close. Julie Sullivan, Realtors, opponent; Bob Greenlee, Governor, proponent; Ginger Ostro, Governor, proponent; Sheila Nix, Deputy Governor, proponent; Michael Cornicelli, Building Owners and Managers Association, proponent; Tony Adolfs, Alliance to Help Employment and Development, opponent; Rob Carney, Caterpillar, opponent; Dan Eichholz, Petroleum Council, opponent; Brad Babcock, Chemical Industry, opponent; Donald Defoe, Midwest Equipment Dealers, opponent; Dan Vest, Growmark, opponent; Ireta Gasner, Ounce of Prevention, proponent; Maria Whelan, working families and their children!, proponent; Kim Maisch, state director NFIB, opponent; Scott Selinger, Bankers, opponent; John Bouman, original Bill, proponent; Brian Hamer, director Department of Revenue, proponent; Dr. Richard Sims, Illinois Education Association, proponent; Joyce Nardulli, Bankers, opponent; Joan Parker, Chicagoland Chamber of Commerce, opponent; Matt Hart, Mid-West Truckers, opponent; Chris Gamshaw, Tooling and Manufacturing Association, opponent; Jay Shattuck, Chamber Employment Law Council, opponent; Jay Shattuck,

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Associated Builders and Contractors, opponent; Jay Shattuck, Humana, opponent; Jay Shattuck, Automotive Parts and Services Association, opponent; John Gray, Health care Distribution Management Association, opponent; Pam Sullivan.. Pam Sutherland, Planned Parenthood, proponent; Jeff Adkisson, Grain and Feed Association, opponent; Jim Duffett, Campaign for Better Health Care, proponent; Robyn Gabel, Illinois Maternal and Child Health Coalition, proponent; Jill Hayden, Illinois Primary Health care Association, written statement; and John Peller, AIDS Foundation, proponent. Director Filan, your... your panel there, would you like to make some brief closing remarks? We have a couple of minutes."

John Filan: "Thank you very much, Mr. Chairman. Once again, we just wanna thank you for taking the time and the attention you provided today to discuss, ya know, not only this important proposal but also the effect of it on the state budget. Ya know, I'd emphasize once again that... that no taxes... all taxes are imperfect, they're all disruptive and I think the economists testified today that said that the key to this is that it's a very broad base and consequently you minimized that disruption. Once again, 90 percent of the Gross Receipts Tax does come from businesses ten million dollars (\$10,000,000) and more and that together with the job cash credit we think it's a very positive influence in the small business community that not only helps 'em with the tax cost but also addresses the very issue of job

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retention and job creation in Illinois now and going forward. So, thank you very much for your kind attention and appreciate your consideration and look forward to working with you to continue to refine this and perfect it throughout this Session. Thank you very much."

Chairman Bradley, J.: "Thank you very much, gentlemen. Thank you for being here today. Okay. While these gentlemen are making their way out of the chamber let me just say that as chairman of the Committee of the Whole today and as chairman of the House Revenue Committee that this has truly been a remarkable day, but I think that the Illinois House of Representatives in a bipartisan cooperative manner have demonstrated that we can be both efficient, deliberate and thoughtful. And... and I owe much of that today to the cooperation of Representative Biggins and Representative Mautino in coordinating the floor debate and I think you both deserve a round of applause for that today. I also wanna thank Leader Cross and Speaker Madigan for makin' all this possible. And I wanna commend the Members and apologize to all of you, any of you who got cut off or that I was short with, I apologize, but we're not gonna be here 'til 1:00 in the morning. Having said that, it's my honor and privilege to have served in this capacity and I recognize the Majority Leader of the House of Representatives, Representative Barbara Flynn Currie."

Currie: "Thank you, Mr. Chairman and I would just like to say that not only would I... would I echo your remarks, but I

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think we also owe you a debt of thanks and Representative Biggins and Representative Mautino for making this work so well. And... and having said that, I now move that the Committee of the Whole arise."

Chairman Bradley, J.: "All those in favor say 'aye'; all those opposed... The 'ayes' have it. The Committee of the Whole does now arise."