Illinois Tax Loopholes Cost Illinois Billions

by Dave Carroll, based on Greg Leroy's presentation at the IEA RA, March 16, 2012

The following article is a summary of a report given by Greg LeRoy, Executive Director from Good Jobs First, a taxation watchdog group that examines state tax waivers and subsidies.

Much of the political talk in Illinois has revolved around the state's growing liabilities. In particular, many people claim that the state's pensions, healthcare services, and infrastructure expenditures need to be cut in order for the state to balance its books. In fact, over the past three years, the state has made several cuts, many significant, to several important programs.

It is now time to say enough with the cuts. It is time to start looking at the growing revenue problem.

In particular, LeRoy has identified five wasteful tax loopholes that have a net drain of almost $2 billion per year to the state's economy. Consider that the state's normal pension payment to TRS (without interest) is only $870 million in an annual budget of over $56.9 billion (FY 2011.) With interest, the state's payment to TRS is about $2.1 billion. The savings below can go a long way to help balance our budget woes, and force Illinois' largest corporations to pay their fair share of taxes. Currently, the wealthiest 1% of Illinois companies receive 90% of the tax breaks. Many of Illinois' wealthiest companies pay no state taxes at all.

Tax Loophole #1: TIF (Tax Increment Financing) Districts – TIF districts were created to allow startup businesses in blighted, undeveloped, and underdeveloped land to keep ALL of their state taxes. This money in turn would be invested in the development of the business. Illinois currently has 1100 TIF districts.

The problem started with SEARS 22 years ago. When considering a move out of Chicago (the Sears Tower), Sears threatened to move out of state in 1989 unless it was granted TIF status in Hoffman Estates. SEARS chose an affluent, green field site for its new headquarters, which hardly qualified for TIF status. But Illinois obliged when faced with the threat of losing SEARS to another state, and created a TIF district specifically for SEARS in an area that should never have qualified for a TIF. SEARS blackmailed the state again in 2011 when the 23 year TIF was set to expire. Similar deals were made with Boeing, Navistar, Motorola, Caterpillar, and Mitsubishi.

TIF districts were meant to help develop blighted and depressed areas. The state needs to reevaluate TIF districts and eliminate TIF districts located in affluent areas. Note that in District 203, Cantera is a TIF district, and NO TAX MONEY from Cantera comes to District 203. In fact, they have not paid state taxes since 1988, and Cantera was just given a 12 year TIF extension.

Value - $1.2 Billion/year

Tax loophole #2: EDGE Tax Credits – This credit is given to large corporations as a "deal closing" incentive. It is based on worker's personal income tax withholdings over a ten year period. Under this program, these companies get to keep their workers' personal income taxes.

Value – $347 million/year

Tax loophole #3: Accelerated Depreciation – The (Federal) IRS allows companies to "write off" the depreciated value of all assets, such as older machinery and inventory, at a much faster rate than the actual life span of most products. For example, a jet aircraft with a life span of 30 years may be written off in only 8 years, allowing the company to deduct the losses from their income. Most states have "decoupled" themselves from the federal standard. However, Illinois is one of the few who have not.

Value - $333 million/year

Tax loophole #4: Single Sales Factor – In order to create jobs in a competitive multi-state environment, 20 states have introduced the SSF program. Under SSF, large corporations (only) simply get to claim the SSF credit, and they immediately get to cut their state taxes 80%-90%. The program may sound attractive except that the tax credit comes with no accountability, oversight, records, or any other evidence proving that the cost savings are actually creating jobs. Many multi-state corporations choose to report earnings in Illinois simply to take advantage of Illinois SSF system, thereby bypassing other states' higher taxes. Illinois is essentially subsidizing our neighbors' state-run services with this program.

Value – $96-217 million/year

Tax loophole #5: "Vender" Discount – During the great depression, several companies were allowed to keep an uncapped part of their state taxes as a "processing" fee. This system is still in place today. Wal-Mart alone kept over $50 million last year, and has kept over $1.5 billion in the last 10 years.

Value - $126 million/year

We need to let our legislators know that we need Illinois tax reform now. We must close these tax loopholes, and we must discuss a graduated income tax system so that our poorest working families are not saddled with the majority of the tax burden.

For more information on Illinois tax loopholes, please consult GoodJobsFirst.org.