

The Illinois Report 2009

Chapter 3: The Illinois Economy- Taxing Business

Transcript of video interview with author Nathan B. Anderson

“Well, attracting and retaining business is crucial to Illinois’ economic performance, both in the short term, as we’re in a recession right now both in Illinois and nationally, and also in terms of the long term, making sure that there’s viable employment for citizens in Illinois. One of the main ways that policymakers can affect, try to attract and retain businesses is the corporate tax system.

“Illinois has a fair amount of this, in terms of tax incentives, so it’s important that we evaluate the corporate tax system in our efforts to attract and retain businesses in terms of equity, efficiency and simplicity. So, by efficiency we mean economic performance in Illinois, is the economy growing? By equity we mean is the tax system fair, and then simplicity just means is it simple? So, when a corporation wants to locate itself in Illinois, is it relatively simple for them to file their taxes, or is it unduly complicated, compared to other states?

“So, we found that the Illinois tax system is certainly not simple, but neither are other states’, so we’re not at a huge disadvantage there. What most states and Illinois have done is to have various amounts of relief programs to corporations. Often what these do is provide temporary advantages. S

“So, the way it works is that Illinois will develop a program, for example the Edge program, which provides incentives for businesses to create new jobs in Illinois or to retain jobs in Illinois. But then, you now, a year later Michigan will create the same program, or Indiana will create a program that’s very similar. So, you can’t patent these programs, so, often if they provide any advantage, which it’s likely they do, these advantages are short term.

“So, maybe one or two years, and then other states copy them, and then you have no advantage relative to your neighbors. Though, when you provide these tax incentives to businesses, in some ways you’re reducing tax revenue for Illinois, and so you either have to replace that revenue via some other source, or you have to cut spending, or whatnot, to do that. And there aren’t really any easy solutions. If it’s really important for you, as the economy in Illinois to attract business, you might want to consider lowering the corporate income tax more. Which would be difficult to do in Illinois, because of the constitution and whatnot, but hypothetically, you could eliminate the corporate income tax as an extreme example.

“Now, this would probably enhance efficiency, in that it would create a huge incentive for businesses to locate in Illinois. One of the consequences of this is that it could make the tax system less fair in the minds of many people. So,

businesses are paying fewer taxes. This means that some taxpayers will pay more.

“Now, most economists would point out that there’s a flaw in this reasoning, and we’d say that businesses don’t pay taxes, people pay taxes. So, even when you tax a business, someone in that business is going to bear the ultimate burden of the taxes. It might be the owners of the corporation who enjoy lower profits, it might be workers who take home lower wages, or it might be consumers who then pay more for the goods. So, it really depends.

“But a direct way to replace the corporate income tax would be an increase in the individual income tax. And the most fair way to do this, if you’re concerned with equity and replacing lost corporate tax revenue, would be to have a progressive income tax, which is again difficult to achieve with the Illinois constitution, but it might be possible with a series of exemptions that the state could offer to lower-income taxpayers.”