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ROD R. BLAGOJEVICH - GOVERNOR

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Gov. Blagojevich signs law closing corporate tax loopholes that only benefit special interests

Move would generate an additional $250 million in state revenue to fund important priorities including education and healthcare

SPRINGFIELD – Governor Rod R. Blagojevich today signed legislation closing corporate tax loopholes that only benefit business and special interests in order to invest the revenue generated in priorities that help working families – including expanded access to healthcare and education. Closing the tax loopholes is expected to generate an estimated $250 million. During his 2007 budget address in March, Gov. Blagojevich argued that the Illinois tax code is riddled with loopholes that allowed major corporations to pay little or nothing to the state for the money they earn from Illinois business.

"For too long, working families have shouldered more and more of the tax burden while big business pays less and less. By saying 'no' to special interests and closing these corporate tax loopholes, we can make key investments in our schools and expand access to healthcare for more middle class families," said Gov. Blagojevich.

In 2004, the average individual tax filer paid $1,500 in taxes, while 12,500 businesses, representing some of the largest corporations in Illinois, with billions in annual revenue paid an average of $151 in corporate income tax.

Senate Bill 1544, sponsored by Rep. Barbara Flynn Currie (D-Chicago) and Sen. Ricky Hendon (D-Chicago), goes into effect immediately.

The changes in corporate income tax will reduce the opportunity for companies making money in Illinois to hide or transfer income to subsidiaries doing business in other states. Often, a business that could be operated within a single corporation will break into numerous subsidiaries that are then spread throughout tax havens in other states or Bermuda to avoid tax liabilities. In essence, each of these subsidiary businesses are performing their role for the larger parent company and has only been separated on paper, for tax purposes. With the changes in the income tax code, funds can no longer be transferred to other subsidiaries solely to reduce the corporate taxes owed in Illinois.

A variety of accounting moves will also be disallowed including: the transfer of interest, royalties and insurance premiums to another state to avoid payment of taxes in Illinois. The law will prohibit multi-state companies doing business in Illinois from reducing their Illinois income tax liability by creating affiliated corporations in tax havens and paying interest, insurance premiums, royalty payments to those companies. These arrangements, which create artificial deductions, cost the state tens of millions of dollars every year.

The law will also modify the apportionment rules for multi-state corporations to ensure that gross receipts for the sale or use of property (real and intangible) will be taxed in the state in which that property is located. For example, if a company leases patented programming technology for stores in Illinois, the benefit of that technology is experienced in Illinois and taxes will be due in Illinois.

For insurance and financial companies, the law ensures that revenue earned through business done for Illinois customers (premium payments and interest income) is included as taxable income when these firms pay their Illinois corporate taxes. It bans the practice of insurance companies using special rules to avoid payment of taxes for Illinois premium income. Financial service companies will be required to pay income taxes for all revenues earned from Illinois residents. If a loan is made for Illinois property or interest is paid on credit cards by Illinois residents the income taxes would be paid in Illinois.

The franchise and license tax amnesty program is estimated to generate a one-time $25 million in unpaid back taxes in FY 08 as businesses that had not paid these taxes in the past would now participate in the amnesty program and begin to file their taxes in a timely manner. The amnesty program will run for 45 days from February 1 through March 15, 2008. Participants in the amnesty program will pay taxes for only the four most recent years that are due and no penalties or interest will be charged. However, if identified by the Secretary of State after refusing to take part in the program, the last seven years of tax liability will be due, plus penalties, fees and interest and the possibility of criminal charges.

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