ILLINOIS PARTNERS *for* HUMAN SERVICE

Illinois can't afford to lose $600 million in FY12 revenues

Now is not the time to speed-up state tax breaks for big businesses – forcing even deeper budget cuts in public services

Problem: Illinois will lose more than $600 million in needed revenue unless state leaders act to save it.

Background: Federal tax law allows businesses to gradually deduct the cost of machinery and equipment purchases from their federal gross income, over the course of several years. However, a new "bonus depreciation" rule allows companies to immediately claim a 100 percent deduction for capital purchases made between Sept. 8, 2010 and Dec. 31, 2011, as well as accelerated depreciation for 2012 purchases. This lowers companies' taxable income and their federal taxes.

The federal government does not need to balance its budget annually, so spending money on this stimulus does not necessarily force corresponding cuts to other vital, federal-level programs. Yet Illinois uses federal taxable income as the starting point for determining state taxable income.

The resulting reduction in state taxable income means less state revenues – and translates directly into deeper budget cuts in programs that already have suffered. The General Assembly's Commission on Government Forecasting and Accountability, using Department of Revenue data, estimates that the new, federal bonus depreciation rule means the loss of state revenues of

- $75 million in FY11, and
- $600 million in FY12.

Solution: Illinois can avoid this revenue loss through simple legislation "decoupling" state tax determinations from federal bonus depreciation. **Decoupling is a responsible, balanced way to preserve scarce state resources, because:**

- **Illinois businesses still will benefit generously from $5 billion in accelerated, <u>federal</u> tax breaks – while retaining their <u>state</u> tax deductions on the normal depreciation schedule**.

- **Small businesses are largely unaffected**. A separate and permanent provision of federal tax law already allows accelerated, bonus depreciation in federal (and thus state) tax calculations for businesses with capital purchases of less than $25,000 annually.

- **Illinois and other states have decoupled before – and in bipartisan manner**. Dozens of states stand to lose billions of dollars in state revenues this year. Idaho, North Carolina and Virginia already have decoupled from the federal rule this spring; many other states will do likewise, as they have done in the past regarding similar changes in federal tax law. In fact, a bipartisan decoupling vote by our General Assembly prevented Illinois from losing $360 million in FY03.

- **Decoupling does not involve raising taxes.** It only avoids the accelerated loss of current tax revenues that Illinois cannot afford to lose – forcing deeper cuts in the state budget for schools, children, seniors, people with disabilities and other important priorities.

- **Fairness dictates that businesses be treated no differently from families and wage-earners.** When enacting the recent income tax increase, Illinois did not strengthen such measures as tax credits for families and workers. It was said these are tough times, all must contribute, and all the new revenues are needed to help balance the budget. The same arguments should apply in this new, business stimulus program.