

Gross Receipts Tax Policy Position
Adopted by the Board of Directors, March 14, 2007

Policy Position: The Pekin Area Chamber of Commerce Board of Directors believes a gross receipts tax violates principles of transparency, fairness, economic neutrality and competitiveness, and that the imposition of a gross receipts tax in Illinois would negatively impact job creation and business prosperity. The Pekin Area Chamber of Commerce Board of Directors is opposed to any such tax that violates these principles of fair taxation. Regardless of whether the State needs funding for education, healthcare, pensions, infrastructure, or some other program, a gross receipts tax is not a viable source of revenue.

A gross receipts tax violates fundamental principles of tax policy. It would directly and negatively impact Illinois' economy by frustrating job growth and economic development. It would also increase the cost of goods sold to Illinois consumers.

Gross receipts taxes are not based on ability to pay, but are owed whether or not a business is profitable. As a result, marginal and start-up businesses would be more negatively impacted than profitable businesses. Significant tax liability could be incurred whether or not a business is operating at a profit. As a result, economic development of new businesses in Illinois would be more difficult, and sustainability of existing, less-profitable businesses, would be in question.

Gross receipts taxes "pyramid" the imposition of the tax. For example, a production process might involve six steps from the procurement of raw materials to the final sale to the consumer. If each step were performed by a different Illinois business, the final product would have been subjected to six levels of gross receipts tax. This pyramiding results in an effective tax rate that can be significantly more than the statutory tax rate.

Also as result of pyramiding, gross receipts taxes are not economically neutral and they tend to discriminate against producers that are not vertically integrated. If one business performed all six steps in the production process, the tax would be imposed only once, not six times. In addition, a gross receipts tax would place Illinois businesses that export products at a competitive disadvantage. If an exporter is not vertically integrated and purchases goods from Illinois suppliers, a significant level of tax would be imposed on the goods it produces for export, thus making the Illinois product more expensive and less competitive with goods produced in other states.

A gross receipts tax is also unfair because it discriminates against in-state wholesalers. Illinois retailers and manufacturers would be disadvantaged when purchasing products from Illinois wholesalers as the products purchased in state would not be competitively priced compared to products purchased from an out-of-state wholesaler where the product has not already been subjected to several layers of gross receipts tax. A gross receipts tax creates an in-state/out-of-state cost differential that will directly affect purchasing decisions to the disadvantage of Illinois businesses.

A gross receipts tax will make Illinois products and services more expensive for Illinois consumers. A gross receipts tax operates as a stealth tax since it taxes each level of production, i.e., the tax pyramiding results in a higher cost to consumers. A gross receipts tax is not transparent like a sales tax, which exempts goods purchased for resale.

Gross receipts taxes are widely understood to represent poor tax policy and are imposed in only a handful of states. They are called differing names, such as "commercial activity tax," "gross income tax," or "business and occupation" tax. Gross receipts taxes have been repealed over the years by other states after tax impact studies found that they pyramided taxes, created a competitive disadvantage for in-state businesses, raised prices for in-state consumers and produced a tax differential that encouraged purchasing from out-of-state retailers.

The Board urges Chamber members to take action and will soon communicate steps you can take.