

The Taxing Question

Written by

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When discussing business climate, the one issue that affects companies across the board is taxation. And however you cut that issue, Iowa has a better business climate than Illinois.

According to the Tax Foundation (<http://www.taxfoundation.org>), Illinois' state and local tax burden is 14th highest in the United States. Iowa's is 26th highest. When federal taxes are included, Illinois is 10th highest, and Iowa is 36th.

In both Iowa and Illinois, businesses bear a disproportionate share of the tax burden. According to a 2006 study by Ernst & Young for the Council on State Taxation (COST), nationally businesses paid 43.6 percent of state and local taxes; individuals paid the remainder. In Iowa, businesses account for 44.1 percent, while in Illinois the number is 45.4 percent.

The gap between taxation in Iowa and Illinois might seem small, but in the Quad Cities, they can make a big difference, said Rick Baker, president of the Illinois Quad City Chamber of Commerce. In a border community such as the Quad Cities, he said, "any differences are very magnified."

And those differences could be getting bigger soon.

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There are indications that Illinois Governor Rod Blagojevich will try to replace the state's corporate income tax with a "gross-receipts tax." (See Rich Miller's column on page 4 for some of the political obstacles a gross-receipts proposal would face.)

Aside from the merits or drawbacks of the proposal, Baker said, the Illinois legislature has made a habit of being unpredictable. "Every year when our legislature goes into session," Baker said, "you just don't know what's going to happen. They [businesses] really need a climate that's predictable."

Blagojevich is considering the gross-receipts tax, by all accounts, because of the number of large corporations in the state that pay no state income tax. A gross-receipts tax would theoretically spread the tax burden more evenly among businesses.

The Cook County Assessor put forward a gross-receipts proposal that would generate \$6.5 billion in additional revenue annually, most of which would come from the gross-receipts tax.

But Baker said it's unfair to claim that businesses aren't paying their share. "The state's not taking into account the property taxes businesses are paying," he said.

The Illinois Quad City Chamber of Commerce supports a state capital bill, Baker said, but a "capital budget that has a fair and equitable funding source." He said a gross-receipts tax would not amount to fair and equitable because it doesn't spread the burden to individuals.

In the Quad Cities, a capital bill from Illinois might provide funding for a new riverfront campus for Western Illinois University or transportation projects such as an Interstate 74 bridge or passenger rail. Baker said that the state should be spending its money on projects that are investments - that are anticipated to generate a return to the state.

Business groups typically oppose higher taxes, but there's a growing realization that the state needs to increase its revenue. The Civic Committee of the Commercial Club of Chicago (<http://www.civiccommittee.org>)

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) put the issue simply in a December report: "Illinois is headed toward financial implosion."

The organization does not support a gross-receipts tax, but concedes that the state must cut costs and raise revenue to meet its long-term financial obligations. (For more information on proposed alternatives and the organization's preferred option, download the report at <http://www.civiccommittee.org/initiatives/StateFinance/FacingFacts.pdf>

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There is no equivalent major issue facing the Iowa legislature; most of the talk about generating new revenue centers around a proposed increase in the tobacco tax.

But the issue of property taxes in Iowa is paramount for businesses - even if it's unlikely that any serious reform is on the horizon. Because residential property taxes are tied to the value of agricultural property in Iowa, their assessed valuations are artificially low, said Bettendorf Chamber of Commerce President and CEO Scott Tunncliff. "Somebody has to pick up the slack for that," he said, and that means business.

A further problem for a bedroom community such as Bettendorf is that the community's tax base can't grow. The high percentage of residential property combined with the statutory limit on residential-property-tax assessments means that the tax base is depressed.

While the two different tax climates might be seen as confusing, Tunncliff said that the community could sell it as an advantage. "That can be positioned as an asset of the Quad Cities," he said of the tax policies and climates of a two-state area. "You have a choice."