

CRAIN'S

CHICAGO BUSINESS.

When 'closing corporate loopholes' goes wrong

If you don't believe jacking up taxes on Illinois companies will drive away business, ask the people whose job it is to help companies pick locations.



Greg Hinz – February 25, 2021



I heard a pretty hot rumor the other day. On checking, it proved to be wrong, or at least premature. But it nonetheless contained a gold nugget of truth at its core.

The rumor was that Chicago mortgage mogul Victor Ciardelli, concerned about soaring taxes and other matters, had quietly moved to Miami and soon will take with him the headquarters of his company, Guaranteed Rate. Ciardelli's response when I got him on the phone: No. Although he

has been spending time in Florida lately, neither he nor the company has moved there and doing so would involve a lot of trouble. But, he added, if Chicago's crime rate keeps soaring and people keep fleeing the city, then, "the mismanagement of government is a real problem."

I'd call that a warning. And that's the context of that big \$932 million tax hike on business Gov. J.B. Pritzker is pushing as part of his proposed 2022 budget.

Pritzker calls the proposal "closing corporate loopholes." Arguably that's true, at least in the sense that any tax break I don't receive must be someone else's undeserved loophole. But the proposal comes at the very time when population and jobs have begun to drop not only statewide but in the metropolitan area, and at a time when the state refuses to confront its ever-rising pension debt. Not to mention Chicago's murder and car-jacking wave. Or what Cook County Assessor Fritz Kaegi is up to.

Outside experts I talked to pretty much said the same thing. Pritzker's proposal, taken in the wake of the defeat of his vaunted graduated income-tax amendment last November, is just one more straw on the back of an already staggering camel.

"My very strong recommendation to the governor is table these (tax) changes," says Dennis Donovan, the "D" in WDG Consulting, a New Jersey-based corporate location firm. "Illinois has been suffering from a negative business climate for years. I think this will make some companies think twice about moving there." In fact, one of them is his client, said Donovan, referring to a manufacturer who had been eyeing Illinois for an expansion. Now, "I think they'll end up in southern Wisconsin."

The tax hike only adds to the "ticking (fiscal) bomb" that is Illinois' \$144 billion in unfunded pension liability here, says another relocation consultant, Boyd Co.'s Jack Boyd. Combined, his clients, including some now in Illinois, increasingly are looking at places such as Texas, he says.

In fairness to Pritzker, Illinois is not the only state to be moving its tax structure in his proposed direction, at least in part. For instance, according to the Tax Foundation, a Washington research group that's fairly conservative but also frequently cited in economic circles, only 16 states grant the full accelerated depreciation that's now in federal tax code. Pritzker's proposed change there is worth \$214 million a year.

On the other hand, the largest change the governor wants—capping deductions of corporate losses at \$100,000 a year for three years, worth \$314 million a year—would absolutely make Illinois an outlier relative to other states, says Taxpayers Federation of Illinois President Carol Portman. Such unpredictability is what really irks business, she says. Beyond that, according to the Tax Foundation, Pritzker's changes overall would reduce Illinois' business-tax-climate rating from a weak 36th of the 50 states to an even sadder 39th.

What in some ways is most concerning about all of this is the aura of payback Pritzker and his aides seem to have embraced. The message seems to be: Hey, business, you beat my graduated tax amendment, so now you have to pay.

Pritzker ought to know better. The graduated tax would have been paid strictly by individuals. His proposed loophole closings—including a couple he signed off on himself just a couple of years ago—will affect not the rich but where companies add and move jobs.

Perhaps this is just a bargaining position, designed to force his foes to the bargaining table. Perhaps the governor will end his snit and figure out a better way. I hope so. What's on the table now just isn't very smart.