



BDO Seidman, LLP  
Accountants and Consultants

April 2007

## Subject:

### Illinois Gross Receipts Tax

# State and Local Tax Alert

The Tax Practice at **BDO Seidman, LLP** is among the largest tax advisory practices in the United States. With 34 offices and more than 300 independent alliance firm locations in the United States, BDO Seidman has the bench strength and coverage to serve you.

For more information, please contact:

#### **Jon Zefi**

360 Madison Ave  
New York, NY 10017  
Phone: 212-885-7488  
[jzefi@bdo.com](mailto:jzefi@bdo.com)

#### **Wallace Truesdale**

360 Madison Ave  
New York, NY 10017  
Phone: 212-885-7227  
[wtruesdale@bdo.com](mailto:wtruesdale@bdo.com)

#### **Jamie DeVincenzo**

360 Madison Ave  
New York, NY 10017  
Phone: 212-885-7481  
[jdevincenzo@bdo.com](mailto:jdevincenzo@bdo.com)

#### **Jack Frame**

330 Madison Ave  
New York, NY 10017  
Phone: 212-885-8125  
[jframe@bdo.com](mailto:jframe@bdo.com)

During his 2007 budget address, Illinois Governor Rod R. Blagojevich announced his intention to replace the current corporate income tax with a gross receipts tax ("GRT") effective January 1, 2008. The GRT is expected to generate over \$6 billion in new revenue each year by eliminating the tax loopholes that currently exist in the state's corporate income tax structure.

In addition, the Governor also proposed a new payroll tax on businesses, which is scheduled to take effect July 1, 2008.

#### **GRT Overview**

The GRT would be imposed on a company's gross receipts, without deduction for the cost of goods sold or other expenses incurred. The GRT would be an entity level tax that must be paid by the company and can not be separately billed or invoiced to another person (i.e., a customer). The general rate would be 1.8% on service businesses, and 0.5% on manufacturers, wholesalers, retailers, and construction firms.

The introduction of the GRT is intended only to replace the corporate income tax. The proposed legislation would not impact the current personal property replacement income tax, the franchise tax on paid-in capital, and the sales and use tax laws.

#### **GRT Exemptions**

The following industries/transactions would be exempt from the GRT:

##### *Small Businesses*

Small businesses that have gross receipts of less than \$1 million annually would be exempt from the GRT. It is anticipated that over 75% of Illinois businesses will qualify for this exemption.

### ***Export Sales***

Illinois exports would be exempt from the GRT. As such, goods and services made in Illinois and sold to other states or countries would not be subject to the GRT. The Governor noted in his address that this exemption will ensure there is no competitive disadvantage for Illinois export businesses.

### ***Related-Party Transactions***

Sales between affiliated companies would also exempt from the GRT. Therefore, companies that conduct transactions with their affiliates will not be taxed on that activity.

### ***Other Exemptions***

- Retail food and drugs
- Medicaid payments to doctors and hospitals
- Gaming establishments - Gaming revenue would be exempt from the GRT but continue to be subject to tax on the same basis as it is currently taxed.
- Insurance products - Insurance products would be exempt from the GRT but continue to be subject to tax on the same basis as they are currently taxed.
- Not-for-profit organizations

As part of the governor's plan, the corporate income tax would be phased out over a to-be-determined period. Businesses would get a 100% credit for corporate income tax paid during the phase-out period.

### ***Payroll Tax***

The governor has also proposed a new payroll tax levied on businesses, which is scheduled to take effect July 1, 2008. The payroll tax would be imposed at a rate of 3% on the wages paid to Illinois employees by the employer during the taxable year. This tax is imposed on the employer and can not be withheld from wages paid to employees. A credit would be available to employers whose healthcare costs exceed 4% of wages paid.

*To ensure compliance with Treasury Department regulations, we wish to inform you that any tax advice that may be contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or applicable state or local tax law provisions or (ii) promoting, marketing or recommending to another party any tax-related matters addressed herein.*

*Material discussed in this tax alert is meant to provide general information and should not be acted on without professional advice tailored to your firm's individual needs.*