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**Center for Tax and Budget Accountability Releases New Report on How
Illinois Can Best Support Small Businesses**

The report, Good for Business: How Illinois Can Best Support Small Business, identifies best practices and policy initiatives decision makers can take to improve the state's economy and aid small businesses in Illinois.

SPRINGFIELD – Today, the Center for Tax and Budget Accountability (CTBA) released a new report, *Good for Business: How Illinois Can Best Support Small Business*, which highlights the best practices and policy initiatives decision makers could take to support small businesses in Illinois.

“The data is clear: If Illinois wants to support small businesses, income tax cuts aren’t the ticket. Instead, the state must build the fiscal capacity to invest adequately in core services, like education and infrastructure, if it really wants to promote small business growth specifically and its economic well-being generally,” said Ralph Martire, the organization’s executive director.

“The Report’s finding that there is no statistically meaningful correlation between a state’s tax policy and hiring or small business growth is spot on,” said Robert Starks, Professor Emeritus, Inner City Studies and Political Science, Jacob H. Carruthers Center for Inner City Studies, Northeastern Illinois University. Professor Starks was an independent peer reviewer of the report, along with Peter A. Creticos, Ph.D., President and Executive Director, Institute for Work and the Economy; Michael Mazerov, Senior Fellow, State Fiscal Project, Center on Budget and Policy Priorities; Robert Rich, Former Director, Institute of Government and Public Affairs, University of Illinois; and staff of the Illinois Department of Revenue.

Policy leaders across Illinois have identified supporting small businesses and entrepreneurship as key to reviving the state’s sluggish economy. And no wonder, given that over 99 percent of all businesses in Illinois are “small business” as defined by the Small Business Administration.

While various regulatory and other policies impact small businesses, the primary policy tools available to decision makers fall into two distinct categories. The first is reducing business and/or individual income taxes in the hope that the tax relief will incentivize hiring and business expansion. The second is making adequate investments in core public services and goods that businesses need to thrive, like education and infrastructure. Of the two primary policy choices available, the evidence overwhelmingly indicates that the latter is most effective for supporting small businesses.

Among the key findings in the report are:

- Implementing business tax cuts is not the best way for Illinois state government to support small businesses or economic growth. While business taxes play a role in explaining differences in economic activity among states, the effect is fairly small.
 - According to researchers Noah Berger and Peter Fisher at the Economic Analysis and Research Network, simply cutting business taxes and paying for those tax cuts with service cuts has been inefficient and ineffective at stimulating growth.
- State income taxes constitute a relatively minor portion of overall business tax burden to begin with, representing just 8 percent of the taxes businesses pay in Illinois, and a particularly immaterial burden for most small businesses, which are exempt from paying the corporate income tax assessed by Illinois.
 - According to the most recent data published by the Illinois Department of Revenue, of those businesses actually liable to pay the state's corporate income taxes, fully 92.7 percent that filed an Illinois corporate income tax return in 2010 paid \$5,000 or less in income taxes, with almost 70 percent having no state corporate income tax liability whatsoever.
- Since the end of the Great Recession through the third quarter of 2013, corporate profits grew by 35.3 percent nationally, while wages grew by just 5.9 percent and Gross Domestic Product growth was just 8.4 percent. Meanwhile, private sector job growth has lagged prior recovery periods and has yet to replace all the jobs lost during the Great Recession. Given that businesses are already highly profitable yet still not creating jobs, there is little reason to believe business income tax relief will stimulate job growth.
- Research conducted by the nonpartisan Congressional Budget Office noted that even cutting federal income taxes does not spur significant hiring by businesses because the real reason businesses hire more workers is to meet growing demand for the products or services they produce—not tax policy.
- Even if the desire is to reduce taxes paid by small businesses, focusing on corporate income taxes actually misses the primary tax paid by small businesses—the local property tax.
 - Property taxes represent almost 40 percent of the taxes businesses pay in Illinois, while corporate income taxes come in at just 8 percent and personal income taxes just 4.9 percent of overall business taxes.
 - Illinois is a tax outlier compared to other states in over-relying on property taxes to fund public services. Fully 51 percent of the business taxes paid in Illinois go to local governments, not the state, whereas nationally on average just 46 percent of business taxes go to local governments.
 - Indeed, after inflation, property taxes in Illinois grew by over 48 percent, while median income grew by just 2.7 percent over the 1990-2005 sequence. From 2005-2011, Illinois property taxes grew by just over 8 percent in real, inflation-adjusted terms, while median income declined by -9.2 percent.

- To support small businesses and stimulate economic growth, it is necessary to ensure that Illinois has the fiscal capacity to invest adequately in education, infrastructure, and other core services.
- The evidence shows that providing access to a high quality public education is more likely than tax incentives to improve a state's economy over time. An exhaustive academic study recently found that from 1963-1997, making real increases in public education funding at the state level had a statistically significant correlation to a state increasing personal income growth at a rate greater than other states.

Professor Starks concluded that, "I hope Governor Quinn and the Legislature read this report and take its findings seriously. If followed, the recommendations will lead to sound legislation."