SNG-Nowlan-Too important to lose-11-21-11 REVISED 11-14-11 (690 words)

Businesses too important to lose

By Jim Nowlan

Two major businesses that have been identified with Illinois since the 1800s are threatening to leave the state unless they receive big tax reductions. They have Illinois lawmakers over a barrel and will ultimately get what they want. It's the price of a poor business climate.

The CME Group is a combination of the Chicago Mercantile Exchange and the Chicago Board of Trade plus a New York exchange. CME is the heart of what has made Illinois a leading global financial center; it sets world prices for scores of commodities like corn and beans as well as financial instruments. The CME is too important to lose, much as some New York banks are too big to fail.

Sears Holdings is the former Sears Roebuck and Company, now based in suburban Hoffman Estates. Though diminished from its glory days, the company employs several thousand people in Illinois. Sears is also seen as too big to lose, given the state's weak business climate.

CEO magazine's 2010 survey of business leaders ranked Illinois as the 46th poorest of 50 states in which to do business. This was before Illinois increased its corporate income tax this year from 7.3 percent to 9.5 percent, one of the highest rates in the nation.

This creates the present situation in which big Illinois companies can hold the state hostage for tax breaks.

Businesses view taxes simply as a cost of doing business, and anything that can lower costs is good for a company. States see big business as new jobs, so they offer huge tax and infrastructure incentives for companies to move. On the defensive, Illinois tries to hold onto companies with incentives of its own. Motorola, another business that started in Illinois, recently received tax breaks to stay in Illinois.

The CME cries foul about its present tax liabilities because it is taxed on business that comes from other states, whereas Illinois corporations are taxed only on sales of products and services made within the state. Sears simply says it needs corporate income and property tax breaks or it will move to one of several states that have offered big buck incentives to move.

States, including Illinois, are using much or all of their corporate income tax receipts in give-backs and incentives to keep or attract businesses. This is a zero sum game, as no new jobs are created nationwide.

Legislative leaders have suggested they will respond favorably to the demands made by the CME and Sears, but they are having trouble coming up with a package saleable to lawmakers in Springfield.

Gov. Pat Quinn thinks the little guy should also get some breaks, so he has insisted upon an increase in the Earned Income Tax Credit for low-income earners and inflation-based increases in the individual exemption from the income tax. There are other tax benefits for business in the proposed bill, which has become what they call a "Christmas tree" of various benefits.

All of these benefits cost money the state doesn't have.

Illinois lawmakers are coming back after Thanksgiving to wrestle with the breaks demanded by the CME and Sears. I predict a limited bill that will address the issues for these two companies and little more.

In the long run it might be better simply to eliminate the Illinois corporate income tax, which generates only a small fraction of total revenues, much of which is eaten up in incentives to companies. This way, Illinois could declare itself truly business friendly.

As it is, 80 percent of Illinois corporations today do not pay any income tax because of the way they are organized or because of deductions from the income tax.

This is a time when the tried and true "blue ribbon commission" of thoughtful Illinois leaders and lawmakers is needed to come up with a comprehensive program of business taxes and incentives that would create an attractive business climate. That would counter efforts by other states to prey on Illinois and limit the capacity of big business in the state to hold lawmakers hostage.