

## Highlights of Governor Blagojevich 2008 Budget Proposal

The administration espouses what they deem to be four major components in the Governor's budget proposal:

**Tax Fairness**  
**Healthcare**  
**Education**  
**Pensions**

### **Tax Fairness**

- 1.8 % gross receipts tax on services
- .5 % gross receipts tax on transfer of personal property including construction

Exemptions:

- Businesses with less than \$1 million in gross receipts
- Export Sales
- Sales of Food for other than immediate consumption
- Drugs
- Sales of Services to Medicaid Patients
- Gaming
- Insurance subject to premiums tax
- Not-for Profit organizations

Regular corporate income tax is creditable against the gross receipts tax. The corporate income tax will ultimately be eliminated in possibly(?) four years. It is unclear what happens to the personal property replacement tax. It is unknown what happens to existing corporate income tax credits. Unitary filings with inter-company eliminations.

The changes would be effective January 1, 2008. Fiscal 2008 revenue estimate of \$2.6 Billion (5 months of revenue impact.) Full year annualized revenue estimate of \$6.3 Billion net of the corporate income tax credit. (\$7.8 Billion gross less \$1.5 Billion CIT credit.)

The legislation to effectuate this major tax change is still in the drafting stage. We are told that it is the intention to provide a draft for public distribution soon.

### **Healthcare**

"Illinois Covered" -- Affordable Healthcare for All. Three program components to be phased in over the next two years. Financed in part by the gross receipts tax and a payroll tax.

## Payroll Tax

3% on all Illinois wages (no wage limit). Credits against tax for employer covered health insurance costs. Credit will be the full tax if employer's health insurance costs meets or exceeds 4% of wages. If insurance costs are less than 4% but more than 3% costs the credit will be 1½%. If insurance costs are less than 3% but more than 1½ % the credit will be phased down to 0%.

The payroll tax would be effective July 1, 2008. Annual revenue estimate is \$1.1 billion. IDOR will administer this tax but it is unclear whether the tax will be based off of unemployment or withholding tax reporting. Legislative language to implement the plan is still in progress.

## Pensions

Increase pension funding by an infusion of \$26 Billion of assets. Pension funding level will be increased to 83% of actuarial liability. Assets come from the Licensing of the Lottery (\$10 Billion estimate) and the issuance of \$16 Billion of Pension Obligation Bonds. The timeframe that the pensions will be funded at the 90% level will be reduced from 2045 to 2040. The benefit of the asset infusion will be taken ratably over the life of the current pension funding plan adjusted to 2040.

It appears there are no changes proposed in the pension or healthcare benefit structures for employees or retirees.

## Education

\$1.5 Billion of new funding in 2008. \$10 Billion planned over four years. \$800 million will be used to increase the foundation level funding of the general state aid formula by approximately 12%. The remainder of the funding will be invested in various mandated categorical programs, including special education, transportation, pre-school, full day kindergarten and various other programs.