
Features:

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Illinois budget hurts printers, manufacturers; 'loopholes' eliminated

Illinois Gov. Rod Blagojevich signed into law a budget bill, SB842, eliminating exemptions which will raise the cost of doing business for printers and manufacturers. Though the legislation was touted as one which raised no taxes, these industries may see an increase of the bottom line in upwards of roughly 6% to 8%. Specifically, major sales tax exemptions eliminated include the manufacturer's purchase credit, the pollution control exemption and the graphic arts machinery exemption.

"It's actually a pretty big impact," says Diane Yetter, of Yetter Consulting Services Inc. in Chicago. "The industry that will be hit hardest is graphic arts."

That includes the state's many printers, large and small. The fallout of the budget bill could be printers forced to move to Indiana or Wisconsin, where more favorable tax laws exist. Essentially, the cost of advertising in Illinois just went up about 8% for any industry using those printers' service. That could mean many Illinois businesses looking to out-of-state printers to print advertising materials. Small printers could go under as a result, Yetter notes.

The manufacturer's purchase credit was originally created to level the playing field for Illinois manufacturers competing with those in more tax-friendly neighboring states, she adds. Manufacturers typically used the credit to pay the state level tax of 6.25% on research and development, shipping and receiving and consumable supplies.

"So in essence, if you bought enough manufacturing equipment, you eliminated the state level tax on other purchases," she says. One of her clients, a printer, after the graphic arts exemption and manufacturer's purchase credit, only paid tax on office supplies, office equipment and marketing, for example.

Purchases made after June 30, 2003, will no longer earn a manufacturer's purchase credit or graphic arts machinery and equipment exemption. No manufacturer's purchase credit may be used after Sept. 30, 2003, to satisfy a tax liability, regardless of when the credit was earned.

Read my lips

While the governor campaigned on not raising taxes, he in essence managed to raise taxes for manufacturers and printers without changing the rates, Yetter says. The governor's insistence that he was closing "loopholes" was only accurate for purchases of natural gas. Legislation added a complimentary use tax for customers buying natural gas outside Illinois, when title passed outside the state. No mechanism existed to pay the tax after the deregulation of the industry prior to this change.

"There was no need in the past to collect use tax before deregulation as all vendors were required to collect the tax," she says.

SB1733, effective Oct. 1, 2003, imposes the gas use tax on the use in Illinois of gas purchased out of state. Self-assessing purchasers must pay a gas use tax rate of 2.4 cents per therm or 5% of the purchase price for the billing period, whichever is lower. Payment is due on or before the 15th day of each month for the preceding calendar month.

Other exemptions, taxes

Also included in SB842 and effective July 1, 2003, the following items are no longer exempt: commercial, coin-operated amusement and vending machines; aggregate exploration, mining, processing and reclamation equipment; oil field exploration, drilling and production equipment; coal exploration, mining, processing and reclamation equipment; and distillation machinery and equipment for producing ethyl alcohol motor fuel for personal use.

The new aircraft use tax on any aircraft acquired, transferred or purchased after June 30, 2003 equals 6.25% of the selling price or fair market value. This does not affect aircraft used in interstate transportation for hire. Beginning July 1, 2003, an aircraft lessor who sells a used aircraft is considered a retailer for retailer occupation (sales) tax purposes.

SB841, also effective July 1, 2003, raised the threshold for motor vehicles, excluding aircraft and rail, qualifying for exemption as rolling stock moving in interstate commerce. Now, in order to qualify for the exemption, the vehicle must be used more than 51% of the time providing interstate transportation for hire. Under this new requirement, the vehicle must actually cross state lines. Under the prior law, equipment could qualify if it was used to transport goods solely within Illinois that originated outside Illinois.

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