

January 13, 2011 Thursday

**'OUR FISCAL HOUSE WAS BURNING': GOV**

By Dave McKinney

Springfield bureau chief

SPRINGFIELD - Gov. Quinn pledged to immediately sign the 66 percent income tax hike that passed the General Assembly during the wee hours Wednesday and denied that he misled voters by touting an income tax increase half its size during his gubernatorial run.

"The reason we had to do this is because we had a fiscal emergency. Our house was burning. Our fiscal house was burning," Quinn told reporters.

His statements came less than 12 hours after the Illinois Senate, in a 30-29 vote, approved raising the state's individual income tax rate from 3 percent to 5 percent and boosting the corporate income tax rate from 4.8 percent to 7 percent.

While the vote handed Quinn the biggest legislative victory of his 24 months in office, it also unleashed a public outcry and prompted Republican governors in surrounding states to ramp up efforts to woo tax-weary Illinois businesses to move away.

"It defies common sense that when faced with high unemployment and a distressed economy, our state would pass a tax hike that will keep companies from locating here and encouraging existing employers to consider a move across our borders," Republican state Comptroller Judy Baar Topinka said.

At City Hall, Mayor Daley said there's no denying the fact that Illinois needs revenue. But the lame-duck mayor argued that his fellow Democrats in the General Assembly should have cut the budget before asking hard-pressed Illinois taxpayers to dig deeper.

"Some way, they really believe that the taxpayers of Illinois have a lot of money in their pockets, and they're gonna spend it," the mayor said.

The revenue package awaiting Quinn's signature gives the governor a way to plug a budget shortfall that could have reached $15 billion and should improve the state's creditworthiness with Wall Street bond-rating agencies.

After four years, the tax hike would roll back to 3.75 percent for individuals unless the Legislature moved to keep the 5-percent rate permanent then. The plan wound up not including $325 property-tax rebates as proposed earlier and imposed 2 percent-a-year spending caps, which if exceeded would cause the tax rate to revert to its current levels.

For Illinois workers and business owners, the pinch will be immediate. Once signed by Quinn, the tax hike will take effect retroactively to Jan. 1 and cost $800 for someone now making $40,000 a year.

That means most workers could begin seeing smaller paychecks by late January and be on the hook for any taxes not withheld earlier in the month whenever they submit their 2011 tax returns to the state next year, said Kelly Kraft, a spokeswoman for Quinn's budget office.

During his gubernatorial campaign, Quinn advocated a 1 percentage point increase in the individual income tax rate and threatened to veto anything larger. Now, with a tax hike twice that size soon arriving on his desk, the governor was unapologetic for backing something much larger and said he simply had no choice.

"From the very onset of both campaigns, primary and general, I pointed out we needed more revenue in our state government. As the last couple of months ensued, it was pretty clear from talking to major entities that lent money to the State of Illinois that an opportunity to borrow was fast eclipsing, and we had to do some very serious things on an emergency and temporary basis in order to get our fiscal house in order," Quinn said.

"You have to do what is necessary at this moment, and that's what I did."