



TAXPAYERS'
FEDERATION
OF ILLINOIS

Policy Statement

Disclosure of Confidential Tax Return Information

From time to time legislation is introduced that would require or allow public disclosure of information that is included in tax returns. Such legislation undermines the traditional notion of taxpayer privacy and business confidentiality. The Taxpayers' Federation of Illinois opposes legislation of this type as it hinders a key premise of our voluntary compliance tax system.

The federal government has occasionally considered disclosing tax returns or return information, but the idea has always been abandoned as unwise. In 2000, the Congressional Joint Committee on Taxation conducted a major study of tax disclosure measures and policies, and reached the following conclusions, equally applicable in Illinois today:

Taxpayers have a justifiable expectation of privacy in the extensive information they furnish to the IRS under penalty of fine or imprisonment....[Our] tax system is based on voluntary compliance. Many observers believe that the degree of voluntary compliance is directly affected by the degree of confidentiality given the information that is provided to the IRS....

If returns and return information were publicly available, it would invite a variety of intrusions into a taxpayer's privacy. Business competitors could use the information to gain economic advantage....A lack of confidentiality could also facilitate the use of return information for political gain. [Footnotes omitted] (JCS 00-1, Volume 1 of 3, pp 127-128)

The stated purpose of these "transparency" efforts is usually to evaluate specific tax provisions and to ensure equal treatment of all taxpayers, through legislative, public, or third-party analysis of the disclosed information. There are better and less invasive means to accomplish these goals. The Legislature should periodically evaluate the provisions of our tax code, but the information necessary to complete this task can be obtained from the Illinois Department of Revenue, which has access to *all* returns filed, and can provide aggregate or properly segmented data to the legislature (and the public) and can do so without violating taxpayer confidentiality.

Illinois' tax laws and returns are complicated, particularly for large and complicated businesses. Access to information from these companies' returns will not improve the public's perception or understanding of our State's taxes. The information will be confusing and potentially misleading.

Worse than the failure to accomplish their stated goals, these measures create new problems in a state with a tax code already considered unpredictable and burdensome:

- If public disclosure of tax information of some taxpayers is adopted in Illinois, smaller businesses and individuals are a logical next step.
- Illinois will become even more of an outlier in its tax policies and therefore an even less attractive state to invest and create jobs.

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- Businesses operating in Illinois will be at a nation-wide disadvantage; many of their competitors will not be subject to the disclosure requirements.
- Other states will use these provisions as examples of Illinois' taxpayer climate in order to gain economic advantage.
- The Illinois Department of Revenue's ability to obtain federal tax information from the IRS (in order to enforce our tax provisions) may be jeopardized—the information-sharing agreement between the federal government and state agencies is very protective of taxpayer privacy.

The Taxpayers' Federation of Illinois is prepared to work with those who are interested in evaluating specific Illinois tax provisions, to fashion inquiries of the Department of Revenue that will assist in that evaluation, while protecting confidential information. Such confidentiality is key to our voluntary tax system and should not be jeopardized.

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