★ Illinois Tax Incentives ★

A report on Illinois Tax Incentives compiled by the:

Commission on Government Forecasting & Accountability
Illinois General Assembly

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Commission on Government Forecasting and Accountability

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EXECUTIVE SUMMARY

As the national economy struggles amid the most severe recession in at least a quarter century, states throughout the country are seeing their businesses struggle to the point that layoffs have become an unfortunate reality. Unemployment figures are approaching levels not seen in decades. As a consequence, tax revenues are faltering, and states are finding it very difficult to balance their budgets. Illinois is no different.

States throughout the nation continuously look for ways to bring employment into their areas, especially during difficult economic times. Job creation is vital because it increases economic activity, allows income levels of individuals to rise, which in turn, brings desired tax revenues back into State coffers. The desire to obtain these jobs creates a competition among states to have the best business climate available to persuade business to locate into their areas.

In lieu of this competition, states are forced to reevaluate their business climate to see how their tax structure, their tax incentives, and business-related programs compare to the areas around them. If a state appears weak in any area, changes may need to be implemented that would cause a state to become more competitive for the highly sought after employment provider.

Many times the incentives used to entice a potential business are tax-related incentives. While these tax-based incentives are successful in reducing tax burden of companies, they often limit the amount of much-needed State revenue that could be generated. Some would suggest that these tax incentives are worth the cost of lost revenues, while others would contend that tax incentives are unnecessary and a waste of tax dollars.

In January 2007, the Commission took a look at the State's business tax incentives and how Illinois' business climate compared to other states in its report entitled "State Tax Incentives for Illinois Businesses". This report is an update and expansion of that effort and includes: a detailed description of Illinois' current tax incentives and economic growth programs; an examination of the business tax climate based on different methodologies; and, a discussion of the importance of tax incentives in business site selection.

There are numerous different tax incentives currently available for Illinois businesses. These incentives assist in lowering the tax burden on businesses in a variety of different areas including sales taxes, income taxes, and multiple other taxes. Some suggest that these tax incentives help shape the business climate of Illinois. From a national perspective, based on numerous methodologies, Illinois' business tax climate has been quantified as an average state, ranking between 25th and 35th in the nation in the more prevalent studies on this subject.

The importance of tax incentives to businesses throughout the country has different viewpoints. The Commission's research into tax incentives shows that while tax incentives are popular within the business community, they do not appear to be a cost-efficient way of producing jobs according to academic studies and are usually not a primary factor in business location decision making. However, while maybe not the primary factor, other studies suggest that it could be the determining factor that persuades businesses to stay or relocate to Illinois. This, of course, depends on the tax incentive and/or the business in question.

Some highlights of the report are:

- In FY 2008, businesses in Illinois benefited from over $1.18 billion business related tax incentives.

- The biggest tax incentives in FY 2008 (preliminary data) were:
  1. Sales Tax Incentives:
     - Manufacturing and Assembling Machinery and Equipment Exemption ($200 M)
     - Retailer's Discount ($127 M)
     - Rolling Stock Exemption ($52 M)
  2. Corporate Income Tax Incentives:
     - Illinois Net Operating Loss Deduction ($254 M)
  3. Other Tax Incentives:
     - Sales for Use Other than in Motor Vehicles Exemption ($134 M)

- Illinois has designated 97 enterprise zones since the introduction of the program in 1982. Enterprise zone administrators reported investment of over $4.6 billion that resulted in the creation of 21,606 jobs and the retention of 17,240 jobs.

- The High Economic Impact Business Program provides tax incentives for companies that make a substantial capital investment that will create or retain an above average number of jobs. Companies that have participated in this program include Abbot Laboratories, Caterpillar, Hospira, LaSalles Street Capital, Inc., Motorola, OfficeMax Inc., Takeda, Target, Triumph Foods, and UBS AG.

- Illinois would be considered average compared to other states on topics of business tax climate. Below are some of Illinois' rankings based on various methods of comparison:

  1. Per Capita State Government Tax Revenue in 2007 – 32nd
  2. State Business Tax Climate Index – 23rd
  3. Small Business Survival Index – 24th
  4. State Competitiveness Report – 33rd
  5. U.S. Freedom Index – 27th

- Business site selection surveys from 1997 to 2008 indicated that highway accessibility, labor costs, and the availability of skilled labor are the most important factors in site selection decision making. State and local incentives, corporate tax rate, and tax exemptions scored highly also but were ranked lower than these first three factors.

- Academic research suggests that economic development incentives play a limited role in influencing company location decisions and usually only when other factors are equal among competing states.

- Tax incentives are most effective when the targeted prospects are highly mobile, the incentives are tailored to the company's specific priorities, and the incentives are front loaded.

I. INTRODUCTION

In December 2007, the country fell into one of the worst recessions in decades. Some have compared the current recession to the recessions of the early 1980s, while others claim this is the worst recession since the Great Depression. Whatever the case may be, states throughout the country are experiencing declining revenues and are finding it very difficult to balance their budgets. Illinois is no different. Like other states, Illinois lawmakers are seeking ways to cut costs. While there are a number of possible areas where spending could be curtailed, many suggest that eliminating business tax incentives is a viable cost-cutting option that should be pursued. Others argue that this option would be a severe detriment to Illinois businesses.

In February of 2009, the Commission on Government Forecasting and Accountability, by request of the House Revenue and Finance Committee, was given the task of putting together a detailed description of Illinois' current tax incentives and economic growth programs, an examination of the business climate of the State, and a discussion of tax incentives importance in business site selection. This report represents the Commission's work related to that request, which became an update and expansion of the Commission's 2007 *Corporate Tax Incentive* report.

The debate over the importance of tax incentives often depends on the specific tax incentive in question. Illinois offers a wide variety of incentives that encompass several different taxes affecting Illinois businesses. In FY 2008, the Comptroller reported that Illinois businesses benefited from over $1.18 billion (preliminary information) in business related tax incentives. A detailed description of these tax incentives and their cost to the State is described in the opening portions of this report.

The cost of these tax incentives to the State becomes scrutinized in times of economic struggle like Illinois is currently experiencing. The latest employment figures show that Illinois is currently enduring its largest drop in employment in recent history. Businesses are laying off workers due to falling sales and the declines in their investments. The struggles of these businesses directly impact the amount of tax revenues generated from Illinois' leading revenue sources. When revenues fail to come in as expected, a search for ways to balance the budget begins, and the tax incentive programs are often the focus for cost-cutting measures.

The evaluation over the importance of a tax incentive often depends on the existence of that incentive in comparison to other states. For example, if Illinois was the only state to offer a particular tax incentive, the removal of that incentive may not provoke a business to relocate. However, if Illinois were to remove a tax incentive that is provided in other states, this change could persuade businesses to relocate their business if that tax incentive was valuable enough to that business' existence. This scenario exemplifies the importance of evaluating the business climate of other states when assessing the significance of tax incentive programs.

There are numerous ways that the business tax climate of states can be compared. This could be done by simply comparing the tax structure of states and their tax rates, comparing the overall tax burden of states, or by comparing the actual tax incentives offered by each state. A discussion of these different methods is provided in the report. However, due to the various taxing formats used in states throughout the country and because incentive rates can vary, it is often difficult to compare tax burden and the different tax incentives accurately. Because of this, a number of studies have been conducted that try to quantify the numerous aspects that go into a business climate of different states into a single index.

Four of the more well-known national studies relating to a state's business tax climate rank Illinois as an average state, between 25th and 35th in the nation. These studies show where Illinois is considered strong (personal income tax rates, capital gains tax rates, openness, regulatory sector) and where the State is considered weak (property taxes, gas taxes, infrastructure, fiscal sector). However, some express caution when reading these rankings because they say the real audience for these indexes is often state policy makers seeking to promote a particular political agenda.

There is much debate on how important tax incentives are to the decision making process of where to locate a business. In one 2008 study, tax exemptions were ranked as only the 4th most important factor in choosing a business location trailing highway accessibility, labor costs, and occupancy/construction costs. State and Local incentives were ranked 7th. In fact, state and local incentives were considered "very important" by only 43.6% of the respondents, while both tax exemptions and the corporate tax rate were both just below 40% in this category.

Opinions differ on the effectiveness and importance of tax incentives. Some studies show that "state and local tax incentives do not work because state and local taxes are not a significant cost of doing business and do not substantially affect profits", and that they "are not necessary to maintain competitiveness and they fail to promote large-scale saving and investment." Others contend that "incentives not only influence decisions regarding alternative locations for investments, but may also be the determining factor as to whether an investment with a single location option goes forward."

The Commission found that other states who have evaluated this same subject found both positives and negatives when investigating their tax incentive programs. In some instances they found no relationship between economic activity and financing, while in other areas they felt some incentive programs should be expanded. One study found that tax incentives were most effective when the targeted prospects were highly mobile, the incentives were tailored to a company's specific priorities, and the incentives were front loaded.

The following report offers detailed information regarding these subject matters and provides sources where further information can be obtained. The report opens with a look at the tax incentives currently offered to Illinois businesses.

II. BUSINESS TAX INCENTIVES

In FY 2008, businesses in Illinois benefited from over $1.18 billion in business related tax incentives. These incentives helped reduce the payment of sales taxes, income taxes, and various other taxes for hundreds of companies across Illinois. The table below provides a listing of Illinois' business tax incentives for FY 2005 thru FY 2008 as defined by the Comptroller's Office in their latest *Tax Expenditure Report*. The FY 2008 figures shown below are preliminary.

Business Expenditures
($ in thousands)

	FY 2005 Annual Impact	FY 2006 Annual Impact	FY 2007 Annual Impact	Preliminary FY 2008 Annual Impact
Sales Tax				
Manufacturing and Assembling Machinery and Equipment Exemption	$164,666	$175,020	$260,785	$200,000
Retailer's Discount	$118,671	$126,084	$126,065	$126,903
Rolling Stock Exemption	$49,981	$68,415	$108,337	$52,112
Newsprint and Ink to Newspapers and Magazines Exemption	$43,263	$41,600	$37,823	$39,000
Designated Tangible Personal Property within Enterprise Zone Exemption	$25,344	$24,077	$36,921	$36,900
Manufacturer's Purchase Credit	$24,998	$29,444	$28,797	$28,400
Graphic Arts Machinery and Equipment Exemption	$0	$3,561	$3,587	$23,000
Sales of Vehicles to Automobile Rentors Exemption	$34,487	$52,364	$51,440	$15,817
Interim Use Prior to Sale Exemption	$6,952	$6,721	$6,424	$7,257
Building Materials within Enterprise Zone Exemption	$4,249	$4,419	$5,780	$6,700
Commercial Distribution Fee (CDF) Exemption	$41,600	$0	$0	$0
Total	**$514,211**	**$531,705**	**$665,959**	**$536,089**
Individual Income Tax				
Income Tax Credits	$8,686	$2,496	$8,528	$10,771
Total	**$8,686**	**$2,496**	**$8,528**	**$10,771**
Corporate Income Tax				
Illinois Net Operating Loss Deduction	$163,186	$248,064	$248,592	$254,112
Research and Development Credit	$0	$645	$35,807	$29,457
Economic Development for a Growing Economy Tax Credit	$9,082	$13,614	$24,862	$23,534
Foreign Insurer Rate Reduction	$17,083	$28,623	$18,382	$16,151
Enterprise Zone and River Edge Redevelopment Zone Investment Credit	$0	$0	$7,442	$10,281
Film Production Services Credit	$0	$0	$1,402	$9,735
High Economic Impact Business Dividend Subtraction	$6,363	$6,638	$3,956	$5,292
Job Training Contribution Subtraction	$157	$204	$337	$4,530
Enterprise Zone Dividend, Interest, and Charitable Contribution Subractions	$2,460	$1,678	$4	$1,888
High Economic Impact Business Investment Credit	$1,562	$3,145	$984	$1,425
Other	$137	$946	$164	$0
Total	**$200,030**	**$303,557**	**$341,932**	**$356,405**
Other Taxes				
Sales for Use Other Than in Motor Vehicles Exemption	$116,891	$120,519	$121,842	$133,669
Enterprise & Foreign Trade Zone High Economic Impact Business Exemption	$36,853	$39,196	$45,675	$52,009
Timely Filing and Full Payment Discount - MFT	$20,971	$21,272	$21,438	$21,120
Airport Exemption	$12,612	$12,799	$12,427	$12,203
Cost of Collection Discount - Telecommunications	$8,759	$8,597	$8,169	$9,635
Cost of Collection Discount - Cigarettes	$9,944	$9,850	$9,442	$9,296
Gas Used in Production of Electric Energy	$0	$0	$14,300	$8,151
Two Million Dollar Cap on Franchise Tax for Corporations	$4,743	$6,466	$6,294	$7,008
Gas Used in Petroleum Refinery Operation	$0	$0	$4,500	$4,500
Cost of Collection Discount - Hotels	$4,910	$5,254	$4,289	$4,475
Real Estate Tax Credit	$3,940	$3,911	$4,502	$3,944
Rail Carrier Exemption	$2,992	$3,219	$3,638	$3,838
Gas Used in Production of Fertilizer	$0	$0	$2,700	$2,700
Enterprise & Foreign Trade Zone High Economic Impact Business Exemption	$31	$29	$33	$2,060
Enterprise & Foreign Trade Zone High Economic Impact Business Exemption	$1,700	$1,661	$1,445	$1,514
Timely Filing and Full Payment Discount - UST	$1,310	$1,285	$1,305	$1,389
Cost of Collection Discount - Liquor	$1,031	$780	$871	$1,010
Purchase of Electricity Generated by Solid Waste Energy Facility Credit	$0	$0	$7,734	$754
Cost of Collection Discount (Gas Use Tax)	$705	$669	$689	$670
Timely Filing and Full Payment Discount - ART	$498	$529	$554	$604
Exemption for Vessels Conducting Interstate Commerce on Border Rivers	$496	$594	$548	$520
Business Reorganization Preferential Tax Rate	$72	$71	$93	$78
Aviation Purposes Exemption	$43	$44	$45	$44
Enterprise Zone Revenue Exemption	$13	$16	$20	$18
Commercial Distribution Fee Exemption	$8,756	$0	$0	$0
Total	**$237,270**	**$236,761**	**$272,553**	**$281,209**
TOTAL BUSINESS EXPENDITURES	**$960,197**	**$1,074,519**	**$1,288,972**	**$1,184,474**

Source: State Comptroller's Tax Expenditure Report, FY 2003 thru FY 2007. FY 2008 Preliminary Data is from the Office of the Comptroller.

The previous table shows the tax incentives for Illinois businesses in four categories: Sales Tax Related Incentives, Personal Income Tax Related Incentives, Corporate Income Tax Related Incentives, and business incentives from “Other Taxes”. Under this categorization, using FY 2008 data, the largest incentives come from sales tax related incentives at over $536 million. The manufacturing machinery and equipment exemption is the largest tax expenditure costing the State $200 million.

The following section takes a closer look at these tax expenditures assisting Illinois businesses. The focus of this portion of the report is not to identify which tax expenditure “works” or “does not work”, but rather lay out basic information for each tax incentive program. Each tax incentive is listed by the category of expenditure and according to the cost of the expenditure in the latest year available. A brief description of the tax incentive is included along with the latest statistics available for that tax expenditure.

Sales Tax

Manufacturing Machinery and Equipment Exemption

Sales or purchases of machinery and equipment that will be used by the purchaser, or a lessee of the purchaser, primarily in the process of manufacturing or assembling tangible personal property for wholesale or retail sale or lease, whether the sale or lease is made directly by the manufacturer or by some other person, whether the materials used in the process are owned by the manufacturer or some other person, or whether the sale or lease is made apart from or as an incident to the seller's engaging in the service occupation of producing machines, tools, dies, jigs, patterns, gauges, or other similar items of no commercial value on special order for a particular purchaser, are exempt. This exemption has been in effect since 1979. The FY 2007 exemption totals are higher than other recent year totals likely due to the timing of the last business cycle peak.

FY 2007 Impact: $260.8 million FY 2008 (Prelim.) Impact: $200.0 million

Retailer’s Discount

When sales tax returns are timely filed and paid, the retailer is authorized to take and retain a discount equal to 1.75% of the tax being paid or $5 per year, whichever is greater. The purpose of the discount is to reimburse the retailer for the expenses incurred in keeping records, preparing and filing returns, remitting the tax and supplying data to the Department of Revenue on request. This discount has been in effect since 1960.

FY 2007 Impact: $126.1 million FY 2008 (Prelim.) Impact: $126.9 million

Rolling Stock Exemption

For purposes of the exemption, "rolling stock" means any transportation vehicle used to transport passengers or freight for hire by any interstate carrier for hire. "Interstate carrier for hire" means any carrier so recognized by the Interstate Commerce Commission or some other federal regulatory agency and it includes railroads, bus lines, airlines and trucking companies. "Rolling stock" also means all transportation vehicles, such as rail cars, locomotives, buses, airplanes, trucks, tractors and trailers and includes freight containers that are loaded onto transportation vehicles and repair parts for transportation vehicles. Only rolling stock used by interstate carriers for hire to transport passengers or freight in interstate commerce for hire qualifies for the exemption. This exemption has been in effect since 1968. Based on discussions with the Department of Revenue, FY 2007 had a much higher average taxable price compared to the previous or subsequent years, suggesting more expensive rolling stock purchases.

FY 2007 Impact: $108.3 million FY 2008 (Prelim.) Impact: $52.1 million

Newsprint and Ink to Newspapers and Magazines Exemption

Certain sales of newspapers and magazines are exempt from the State sales tax. According to the Department of Revenue, in determining whether a publication qualifies as a magazine for the purpose of the newsprint and ink exemption, there is one test that must be met and several other factors to be considered. The test that must be met for a publication to qualify as a magazine is that it must be published periodically in the form of newsprint and ink. Periodically means at least two times per year.

The other factors to be considered are whether a member of the public can subscribe to the publication, whether the publication is one that has the basic format of a magazine, including soft covers, individual pages and indexed articles, whether it contains articles and items that have value to the general public, and whether it contains general advertising. A publication that has one or more of these characteristics would be considered to be a magazine, assuming the initial test of periodic publication is met.

Tangible personal property that conveys news by media other than newsprint and ink does not qualify for the exemption because Section 1 of the Retailers' Occupation Tax Act limits the exemption to news and information conveyed only by means of newsprint and ink. For example, the exemption does not extend to the transfer of news by film, microfilm or CD-Rom discs. This exemption has been in effect since 1965.

FY 2007 Impact: $37.8 million FY 2008 (Prelim.) Impact: $39.0 million

Designated Tangible Property Enterprise Zone Exemption

All tangible personal property used or consumed within an enterprise zone, including any High Impact Business, in the process of the manufacturing or assembling of tangible personal property for sale or lease by any producer of graphic arts so certified by DCEO as located in a county of more than 4,000 but less than 45,000 persons; as well as all tangible personal property used or consumed by these same designates in the operation of a pollution control facility; including sales or purchases of building materials to or by a High Impact business and sales or purchases of machinery and equipment to or by a High Impact Service facility, are exempt. This exemption has been in effect since 1985.

FY 2007 Impact: $36.9 million FY 2008 (Prelim.) Impact: $36.9 million

Manufacturer's Purchase Credit

The manufacturer's purchase credit is earned by manufacturers when they purchase machinery that qualifies for the manufacturing machinery and equipment exemption. The amount of the credit is determined as a percentage of the State sales tax that would have been due on the purchase of manufacturing machinery had the manufacturing machinery and equipment exemption not been applicable to the transaction. Currently, when a manufacturer purchases a machine that qualifies for the exemption, that manufacturer earns a credit equal to 50% of the State sales tax that would have been due on the purchase of that machine if the transaction had been taxable. The manufacturer's purchase credit was phased in between January 1995 and July 1997 and has no application to local sales taxes. This exemption has been in effect since 1995.

FY 2007 Impact: $28.8 million FY 2008 (Prelim.) Impact: $28.4 million

Graphic Arts Machinery and Equipment Exemption

This sales tax exemption is for machinery and equipment that is used in graphic arts production. The exemption includes repair and replacement parts for qualifying machinery and equipment. Graphic arts production means printing, including ink jet printing, by any of the processes described in the industry's classification system. This exemption has been in effect since 1981. This tax expenditure was abolished effective FY 04, but was reinstated effective September 2004.

FY 2007 Impact: $3.6 million FY 2008 (Prelim.) Impact: $23.0 million

Sales of Vehicles to Automobile Rentors Exemption

The occupation tax is imposed on automobile rental businesses based on their charges for automobile rentals in Illinois for periods of one year or less. The use tax is imposed on persons renting automobiles in Illinois based on the rental price. Rentors collect the use tax from rentees and in turn meet their occupation tax liability by remitting the tax to the Department of Revenue. If the use tax is not paid to the rentor, the person using the automobile in Illinois must pay the tax directly to the Department. This exemption has been in effect since 1988.

According to the Department of Revenue, the following automobile rentals are exempt from tax:

- Automobiles rented for more than one year.
- Receipts received by automobile dealers from a manufacturer or service contract provider for the use of "loaner" vehicles while the dealer is making a warranty or service contract repair on the person's vehicle.

- Vehicles rented by exempt organizations that provide a copy of the organization's active Illinois exemption number issued by the Department.

FY 2007 Impact: $51.4 million FY 2008 (Prelim.) Impact: $15.8 million

Interim Use Prior to Sale Exemption

According to the Department of Revenue, tangible personal property purchased by a retailer for resale, and used by the retailer or his agents prior to its ultimate sale at retail, is exempt from Use Tax, provided that the tangible personal property is carried as inventory on the books of the retailer or is otherwise available for sale during the interim use period. This exemption has been in effect since 1955.

FY 2007 Impact: $6.4 million FY 2008 (Prelim.) Impact: $7.3 million

Building Materials within Enterprise Zone Exemption

Sales of qualified building materials by a retailer to be incorporated by remodeling, rehabilitation, or new construction into real estate which is located in an enterprise zone; provided the retailer's place of business is located within the county or municipality which has established the enterprise zone are exempt.

FY 2007 Impact: $5.8 million FY 2008 (Prelim.) Impact: $6.7 million

Individual Income Tax

There are several business tax incentives classified by the Department of Revenue under the personal income tax. These include: Enterprise Zone Investment Credit; Jobs Tax Credit; High Impact Business Investment Credit; Research and Development Credit (repealed 12/31/2003 & reinstated 04/05); "TECH-PREP" Youth Vocational Programs; Economic Development for a Growing Economy (EDGE) Tax Credit; Film Production Services Credit; and the River Edge Redevelopment Zone Site Remediation Tax Credit. Descriptions for most of these credits are provided in other sections.

An "S" Corporation is an example of how business tax incentives can be paid through the individual income tax. In general, an S Corporation passes through income and expenses to its shareholders, who then report them on their own income tax returns. To qualify for S Corporation status, a corporation must meet several requirements, one of which limits the number of shareholders. An S Corporation is not required to pay the State's corporate income tax.

As shown below, the cost of individual income tax related business incentives, based on preliminary information, increased from $8.5 million to $10.8 million in FY 2008.

FY 2007 Annual Impact: $8.5 million FY 2008 (Prelim.) Impact: $10.8 million

Corporate Income Tax

According to preliminary information from the Department of Revenue, there were a total of 706 unique firms (C-Corporations) earning a 1299-D (corporate income tax) credit in 2007. Many firms earned more than one credit in 2007, so the sum of the number of credits earned exceeds this 706 figure. Where known, the number of firms claiming a certain credit is shown in the tax incentive description that follows.

Net Operating Loss (NOL) Deduction

Taxpayers may have a negative base income after applying all the various modifications in section 203(b) of the Illinois Income Tax Act. This negative base income is apportioned and is a net operating loss (NOL) allocable to Illinois. Effective for tax years ending on or after December 31, 2003 NOLs can be carried forward 12 tax years. For tax years beginning on August 6, 1997 through December 30 2003, NOLs could be carried back 2 years and forward 20 years. Prior to August 6, 1997, NOLs could be carried back 3 years and forward 15 years. The net operating loss deduction has been in effect since 1986.

FY 2007 Impact: $248.6 million FY 2008 (Prelim.) Impact: $254.1 million

Research and Development Credit

This tax credit is provided to taxpayers for increasing research activities in Illinois. The credit is 6.5% of qualifying expenditures, as defined in IRC section 41, for increasing research activities in Illinois. If the credit amount exceeds tax liability, then the excess credit amount can be carried forward five tax years.

The credit ended on December 30, 2003. However, the credit was re-instated effective for tax years ending on or after December 31, 2004. The credit first began in 1991. According to preliminary data from the Department of Revenue, 252 firms claimed this credit in Tax Year 2007.

FY 2007 Impact: $35.8 million FY 2008 (Prelim.) Impact: $29.5 million

Illinois EDGE (Economic Development for a Growing Economy) Program

The EDGE program is designed to offer a special tax incentive to encourage companies to locate or expand operations in Illinois when there is active consideration of a competing location in another State. The program can provide tax credits to qualifying companies, equal to the amount of state income taxes withheld from the salaries of employees in the newly created jobs. The non-refundable credits can be used against corporate income taxes to be paid over a period not to exceed 10 years.

To qualify a company must provide documentation that attests to the fact of competition among a competing state, and agree to make an investment of at least $5 million in capital improvements and create a minimum of 25 new full time jobs in Illinois. For a company with 100 or fewer employees, the company must agree to make a capital investment of $1 million and create at least 5 new full time jobs in Illinois.

The amount of the Tax Credit is calculated on a case-by-case basis. The tax credits could be as high as the amount of tax receipts collected from the Illinois income taxes paid by newly hired and/or retained employees of the firm as pertaining to the project. As a tax credit, the EDGE program allows a firm to reduce the costs of doing business in Illinois when compared with similar costs in other states where it could have located its operation.

The credits would be available to a company for up to a total of 10 years for each project. While each annual tax credit amount cannot be larger than the company's state income tax liability (the income tax credits would not be refundable), the credit can be carried forward for up to five years.

Each company receiving competitive credits would have to maintain the jobs created and/or retained along with the capital investment concurrent with the period in which it claims the credits. According to preliminary data from the Department of Revenue, 52 firms claimed this credit in Tax Year 2007.

FY 2007 Impact: $24.9 million FY 2008 (Prelim.) Impact: $23.5 million

Foreign Insurer Rate Reduction

In the case of a foreign insurer, the sum of the rates of the corporate income tax and the personal property tax replacement income tax shall be reduced to the rate of tax imposed on and measured by net income by the state or country in which the insurer is domiciled. The reduction may not reduce the corporate income tax and personal property tax replacement income tax to an amount that causes the total amount of taxes due from a foreign insurer for any taxable year to be less than 1.25% of the net taxable premiums written in Illinois. Those taxes are the sum of taxes collected for: the income and property replacement taxes (Section 201 of the Income Tax Act); privilege taxes (Section 409 of the Insurance Code); fire insurance company tax (Section 12 of the Fire Investigation Act); and the fire department tax (Section 11-10-1 of the Municipal Code). In the case of an insurer taking a reduction, the corporate income tax will be reduced first, with only the excess reduction, if any, reducing the personal property replacement tax.

Public Act 93-0029 increased "the floor" of the rate reduction from 1.25% of premiums to 1.75% of premiums effective for tax years ending on or after December 31, 2003.

This deduction has been in effect since 2000.

FY 2007 Impact: $18.4 million FY 2008 (Prelim.) Impact: $16.2 million

Enterprise Zone and River Edge Redevelopment Zone Investment Credit

A taxpayer is allowed an income tax credit for the investment of qualified property in an Enterprise Zone (created pursuant to the Illinois Enterprise Zone Act) or a River Edge Redevelopment Zone (created pursuant to the River Edge Redevelopment Zone Act). The credit is equal to .5% of the qualified property placed in service in the

Enterprise Zone or River Edge Redevelopment Zone during the tax year. An additional .5% River Edge Redevelopment Zone credit is available for taxpayers who increase base employment by at least 1%. The credit has been in effect since 1983. According to preliminary data from the Department of Revenue, 438 firms claimed the Enterprise Zone Investment Credit in Tax Year 2007.

FY 2007 Impact: $7.4 million FY 2008 (Prelim.) Impact: $10.3 million

Film Production Services Credit

The Department of Commerce and Economic Opportunity (DCEO) can award an income tax credit under the Film Production Services Tax Credit Act. The credit amount is determined by DCEO. The credit is for tax years beginning on or after January 1, 2004. According to preliminary data from the Department of Revenue, 6 firms claimed this credit in Tax Year 2007.

FY 2007 Impact: $1.4 million FY 2008 (Prelim.) Impact: $9.7 million

High Economic Impact Business Dividend Subtraction

This subtraction modification is equal to those dividends paid by a corporation that conducts business operations in a federally designated Foreign Trade Zone or Sub-Zone that is designated a High Impact Business located in Illinois. This subtraction has been in effect since 1986.

FY 2007 Impact: $4.0 million FY 2008 (Prelim.) Impact: $5.3 million

Job Training Contribution Subtraction

This subtraction modification is "equal to any contribution made to a job training project established pursuant to the Tax Increment Allocation Redevelopment Act." The subtraction has been in effect since 1986.

FY 2007 Impact: $0.3 million FY 2008 (Prelim.) Impact: $4.5 million

Enterprise Zone Dividend, Interest, and Charitable Contribution Subtractions

1) The Enterprise Zone Dividend subtraction modification is equal to those dividends paid by a corporation that conducts substantially all of its business operations in an Illinois Enterprise Zone or zones.

2) The Enterprise Zone Interest subtraction is designated for financial organizations that make loans to borrowers that secure loans with property that are eligible for the Enterprise Zone Investment credit. The subtraction modification allows interest earned from the eligible loans to be excluded from base income.

3) The Enterprise Zone Charitable Contribution subtraction permits corporate taxpayers to deduct twice the contribution amount made to a charitable organization (as defined

by IRC section 170) in a designated Illinois enterprise zone. The contribution must be used for a project approved by the Illinois Department of Commerce and Economic Opportunity.

These subtractions have been in effect since 1986.

FY 2007 Impact: $4,000 FY 2008 (Prelim.) Impact: $1.9 million

High Economic Impact Business Investment Credit

This tax credit is provided to taxpayers that invest, and place in service, qualified property in a federally designated Foreign Trade Zone or Sub-Zone and designated as a High Impact Business by the Department of Commerce and Economic Opportunity. The credit is equal to .5% of the property placed in service during the taxable year. The tax credit cannot reduce income tax liability below zero. If the credit amount exceeds tax liability, then the excess credit amount can be carried forward five tax years. This credit has been in effect since 1986. According to preliminary data from the Department of Revenue, 13 firms claimed this credit in Tax Year 2007.

FY 2007 Impact: $1.0 million FY 2008 (Prelim.) Impact: $1.4 million

Other Tax Related Business Incentives:

Sales for Use Other Than in Motor Vehicles Exemption

Special fuel sold and distributed tax-free to other qualified users is exempt from the State’s motor fuel tax. No amendments have occurred since the expenditure's effective date. This exemption first began in 1940.

FY 2007 Impact: $121.8 million FY 2008 (Prelim.) Impact: $133.7 million

Enterprise & Foreign Trade Zone High Economic Impact Business Exemption

Electricity Excise Tax receipts received from business enterprises certified under Section 9-222.1 of The Public Utilities Act are exempt during the period of time specified by the Department of Commerce and Economic Opportunity. No amendments have occurred since the expenditure's effective date. This exemption has been in effect since 1986.

FY 2007 Impact: $45.7 million FY 2008 (Prelim.) Impact: $52.0 million

Timely Filing and Full Payment Discount – Motor Fuel Tax

Distributors and suppliers are allowed a 2% discount for timely filing and full payment of the motor fuel tax. No amendments have occurred since the expenditure's effective date. This discount began in 1930.

FY 2007 Impact: $21.4 million FY 2008 (Prelim.) Impact: $21.1 million

Airport Exemption
Sales of aviation fuels and kerosene at airports with over 300,000 operations per year, located in a city of more than 1,000,000 inhabitants (O'Hare and Midway airports) are exempt from the Underground Storage Tank Tax. On January 1, 1996, this exemption was extended to the new Environmental Impact Fee (EIF). This exemption began in 1990.

FY 2007 Impact: $12.4 million FY 2008 (Prelim.) Impact: $12.2 million

Cost of Collection Discount – Telecommunications
Effective January 1, 2003, telecommunications retailers may receive a 1% discount which is to reimburse the retailer for the expenses incurred in keeping records, billing the customer, preparing and filing returns, remitting the telecommunications tax, and supplying data to the Department on request. No discount may be claimed by a retailer on returns not timely filed and for taxes not timely remitted.

FY 2007 Impact: $8.2 million FY 2008 (Prelim.) Impact: $9.6 million

Cost of Collection Discount – Cigarettes
Distributors are allowed a discount for collecting the cigarette tax. The current discount (effective FY 1986) is 1.75% of the first $3 million paid and 1.5% of any additional amount paid. This discount began in 1942.

FY 2007 Impact: $9.4 million FY 2008 (Prelim.) Impact: $9.3 million

Gas Used in Production of Electric Energy
Gas used for the production of electric energy is exempt from the Gas Use Tax.

FY 2007 Impact: $14.3 million FY 2008 (Prelim.) Impact: $8.2 million

Two Million Dollar Cap on Franchise Tax for Corporations
Illinois corporations are also subject to a franchise tax. The tax is based on the share of a corporation's paid-in capital in the state of Illinois. The initial franchise tax is imposed at the beginning of the corporation's first year doing business in the state. The initial franchise tax rate is 0.15% of the share of paid-in capital in Illinois. The franchise tax must be no less than $25.00 and no more than $2 million. After a corporation's first year, the franchise tax is due annually at a rate of .10%, again with a minimum of $25.00 and a maximum of $2 million.

FY 2007 Impact: $6.3 million FY 2008 (Prelim.) Impact: $7.0 million

Gas Used in Petroleum Refinery Operation
Gas used in a petroleum refinery operation is exempt from the Gas Use Tax.

FY 2007 Impact: $4.5 million FY 2008 (Prelim.) Impact: $4.5 million

Cost of Collection Discount – Hotel Operators' Occupation and Use Tax

Hotel operators are allowed a discount of 2.1% or $25 per calendar year, whichever is greater, when they file on time and pay in full. The discount is reimbursement for expenses incurred in keeping records, preparing and filing returns, and remitting and supplying data to the Department on request. This discount began in 1988.

FY 2007 Impact: $4.3 million FY 2008 (Prelim.) Impact: $4.5 million

Real Estate Tax Credit

Effective January 2000, the licensees affiliated or associated with each racetrack (horse racing) that has been awarded live racing dates in the current year shall receive an immediate pari-mutuel tax credit in an amount equal to the greater of (i) 50% of the amount of the real estate taxes paid in the prior year attributable to that racetrack, or (ii) the amount by which the real estate taxes paid in the prior year attributable to that racetrack exceeds 60% of the average real estate taxes paid in the prior year for all racetracks awarded live horse racing meets in the current year.

FY 2007 Impact: $4.5 million FY 2008 (Prelim.) Impact: $3.9 million

Rail Carrier Exemption

Diesel fuel sold to rail carriers which use it in railroad operations is exempt from the Underground Storage Tank Tax. No amendments have occurred since the expenditure's effective date. This exemption first began in 1990.

FY 2007 Impact: $3.6 million FY 2008 (Prelim.) Impact: $3.8 million

Gas Used in Production of Fertilizer

Gas used in production of anhydrous ammonia and downstream nitrogen fertilizer products for resale are exempt from the Gas Use Tax.

FY 2007 Impact: $2.7 million FY 2008 (Prelim.) Impact: $2.7 million

Enterprise & Foreign Trade Zone High Economic Impact Business Exemption

Telecommunications Tax receipts received from business enterprises certified under Section 9-222.1 of The Public Utilities Act are exempt during the period of time specified by the Department of Commerce and Economic Opportunity. No amendments have occurred since the expenditure was enacted. This exemption has been in effect since 1986.

FY 2007 Impact: $33,000 FY 2008 (Prelim.) Impact: $2.1 million

Enterprise & Foreign Trade Zone High Economic Impact Business Exemption
Gas Use Tax receipts received from business enterprises certified under Section 9-222.1 of The Public Utilities Act are exempt during the period of time specified by the Department of Commerce and Economic Opportunity. No amendments have occurred since the expenditure was enacted. This exemption has been in effect since 1986.

FY 2007 Impact: $1.4 million FY 2008 (Prelim.) Impact: $1.5 million

Timely Filing and Full Payment Discount – Underground Storage Tank Tax
Receivers are allowed a 2% discount for timely filing and full payment of tax. No amendments have occurred since the expenditure's effective date. This discount first began in 1990.

FY 2007 Impact: $1.3 million FY 2008 (Prelim.) Impact: $1.4 million

Cost of Collection Discount – Liquor
The cost of collection discount, which began in 2003, is for electric filing liquor retailers and is 1.75% of collections up to $1,250 for 1/03 to 9/03 due dates, 2% up to $3,000 for 10/03 to 9/04 due dates, and 2% up to $2,000 for 10/04 and following due dates.

FY 2007 Impact: $0.9 million FY 2008 (Prelim.) Impact: $1.0 million

Purchase of Electricity Generated by Solid Waste Energy Facility Credit
An electricity excise tax credit is offered to taxpayers purchasing electricity generated by a solid waste energy facility.

FY 2007 Impact: $7.7 million FY 2008 (Prelim.) Impact: $0.8 million

Cost of Collection Discount – Gas Use Tax
The discount is 1.75% of collections resulting from incorporation of applicable use tax statutes. This discount began in 2004.

FY 2007 Impact: $0.7 million FY 2008 (Prelim.) Impact: $0.7 million

Timely Filing and Full Payment Discount – Auto Renting Occupation and Use Tax
Automobile renting businesses are allowed a 1.75% discount for timely filing and full payment. The original discount was 2.0% in FY 1982. The rate was increased to 2.1% in FY 1985 and was reduced to the current 1.75% in FY 1990. This discount began in 1982.

FY 2007 Impact: $0.6 million FY 2008 (Prelim.) Impact: $0.6 million

Exemption for Vessels Conducting Interstate Commerce on Border Rivers

Effective January 1, 1997, diesel fuel sales to qualifying ships, barges, and vessels are exempt from the Underground Storage Tank (UST) tax and the Environmental Impact Fee (EIF) if the fuel is delivered by a licensed receiver and consumed in the operation of ships, barges and vessels used primarily in the transportation of property in interstate commerce for hire on rivers bordering Illinois.

FY 2007 Impact: $0.5 million FY 2008 (Prelim.) Impact: $0.5 million

Business Reorganization Preferential Tax Rate

The tax rate is $15 for each motor vehicle acquired when the vehicle, which has once been subjected to the Illinois retailers' occupation tax or use tax, is transferred in connection with the organization, reorganization, dissolution or partial liquidation of an incorporated or unincorporated business wherein the beneficial ownership has not changed. This incentive has been in effect since 1988.

FY 2007 Impact: $93,000 FY 2008 (Prelim.) Impact: $78,000

Aviation Purposes Exemption

Gasoline sales used for aviation purposes are exempt from the motor fuel tax. No amendments have occurred since the expenditure's effective date. This incentive has been in effect since 1956.

FY 2007 Impact: $45,000 FY 2008 (Prelim.) Impact: $44,000

Enterprise Zone Revenue Exemption

In 1982, customers in Enterprise Zones no longer had to pay gross revenue taxes to utilities. In 1988, the Public Utilities Act was revised to allow utility companies to deduct revenues received from Enterprise Zone customers from their gross receipts reported on their Gross Revenue Tax Returns.

This tax expenditure amounts to approximately .1% of total gross revenue tax receipts. This tax expenditure reduces the bills of the utility customers who are located in enterprise zones.

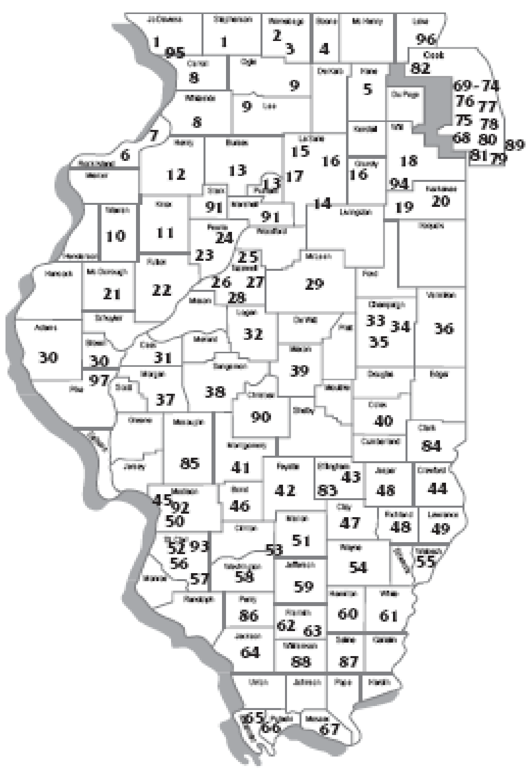
FY 2007 Impact: $20,000 FY 2008 (Prelim.) Impact: $18,000

Economic Programs

Enterprise Zones – A Detailed Look

The Illinois Enterprise Zone Act was signed into law December 7, 1982. According to the Department of Commerce and Economic Opportunity's Fiscal Year 2008 "Enterprise Zone Annual Report", the purpose of the Act is to "stimulate economic growth and neighborhood revitalization at the local level. This is accomplished through state and local tax incentives, regulatory relief and improved government services." A description of these incentives was provided in the previous section.

The report states that since the Act was passed in 1982, DCEO has designated 97 enterprise zones throughout the State. During FY 2008, enterprise zone administrators reported investments over $4.6 billion that resulted in the creation of 21,606 jobs and the retention of 17,240 jobs. A map displaying the Enterprise Zones in Illinois as of July 2007 is shown below.



ILLINOIS ENTERPRISE ZONES

April 2007

Altamont (83)
American Bottoms (57)
Bartonville/Peoria County (23)
Beardstown (31)
Belleville (56)
Belvidere/Boone County (4)
Benton/Franklin County (62)
Bloomington/Normal/McLean County (29)
Bureau/Putnam Area (13)
Cairo/Alexander County (65)
Cal-Sag (80)
Calumet Region (78)
Canton/Fulton County (22)
Carmi/White County (61)
Greater Centralia Area (53)
Champaign/Champaign County (35)
Chicago I (69)
Chicago II (70)
Chicago III (71)
Chicago IV (72)
Chicago V (73)
Chicago VI (74)
Chicago Heights (79)
Cicero (77)
Clark County (84)
Coles County (40)
Danville/Tilton/Vermilion County (36)
Decatur/Macon County (39)
Des Plaines River Valley (18)
Dixon/Lee County/Ogle County (9)
East Peoria (26)
East St. Louis/Washington Park (52)
Effingham/Effingham County (43)
Elgin (5)
Fairfield/Wayne County (54)
Flora/Clay County (47)
Ford Heights/Sauk Village (89)
Freeport/Stephenson County/Jo Daviess County (1)
Galesburg (11)
Gateway Commerce Center (92)
Greenville/Smithboro (46)
Harvey/Phoenix/Hazel Crest (81)
Hoffman Estates (82)
Illinois Valley (17)
Jackson County (64)
Jacksonville/Morgan County (37)
Jo-Carroll (95)
Joliet Arsenal (94)
Kankakee County (Manteno) (19)
Kankakee River Valley (20)
Kewanee (12)
Lawrenceville/Lawrence County (49)
Lincoln/Logan County (32)
Macomb/McDonough County (21)
Macoupin County (85)
Marshall County/Stark County (91)
Massac County (67)
Maywood (76)
McCook/Hodgkins (68)
McLeansboro/Hamilton County (60)
Mendota (15)
Monmouth (10)
Montgomery County (41)
Morton (27)
Mound City/Pulaski County (66)
Mt. Carmel/Wabash County (55)
Mt. Vernon/Jefferson County (59)
Nashville/Washington County (58)
Olney/Richland County/Jasper County (48)
Ottawa/LaSalle County/Grundy County (16)
Pekin/Tazewell County (28)
Peoria (24)
Perry County (86)
Quad Cities (7)
Quincy/Adams County/Brown County (30)
Rantoul (33)
Riverbend (45)
Robinson/Crawford County (44)
Rockford (3)
Rock Island (6)
Salem/Marion (51)
Saline County (87)
South Beloit/Rockton/Winnebago County (2)
Southwestern Madison County (50)
Springfield (38)
St.Clair County Mid America (93)
Streator Area (14)
Summit/Bedford Park (75)
Taylorville/Christian County (90)
Urbana (34)
Vandalia/Fayette County (42)
Washington (25)
Waukegan/North Chicago (96)
Western Illinois Economic Develop. Authority (97)
West Frankfort (63)
Whiteside County/Carroll County (8)
Williamson County (88)

Source: Illinois Department of Commerce and Economic Opportunity

High Economic Impact Business Program – A Detailed Look

According to the Department of Commerce and Economic Opportunity's website, the High Economic Impact Business program is designed to encourage large-scale economic development activities, by providing tax incentives (similar to those offered within an enterprise zone) to companies that propose to make a substantial capital investment in operations and will create or retain above average number of jobs.

To obtain high economic impact status, the project must involve a minimum of $12 million investment causing the creation of 500 full-time jobs or an investment of $30 million causing the retention of 1,500 full-time jobs. The investment must take place at a designated location in Illinois outside of an Enterprise Zone. The program has been expanded to include qualified new electric generating facility, production operations at a new coal mine or, a new or upgraded transmission facility that supports the creation of 150 Illinois coal-mining jobs, or a newly constructed gasification facility as a "Coal/Energy High Impact Businesses".

A qualifying High Impact Business may be eligible to receive the following: sales tax exemption on building materials, an investment tax credit, an exemption from state gas and electric tax, and a state sales tax exemption on personal property used or consumed in the manufacturing process or in the operation of a pollution control facility. The Coal/Energy High Impact Business may qualify for sales tax exemption on building materials, an investment tax credit, an exemption from state gas tax on utilities and excise tax on electricity.

A designated High Impact Business located in a foreign trade zone or sub-zone is eligible for additional incentives including an income tax credit for a minimum of five new eligible hires, an exemption from municipal tax on utilities, an exemption from the telecommunications excise tax, and an income tax deduction for financial institutions receiving interest from loans secured by property eligible for the High Impact Business Investment Tax Credit. Below is the list of areas designated as High Impact Businesses as of March 2009.

High Impact Businesses

Business	Illinois Location
Abbot Laboratories	Abbot Park
Caterpillar	Mossville
Hospira	Lake Forest
LaSalles Street Capital, Inc.	Chicago
Motorola	Libertyville
OfficeMax Inc.	Naperville
Takeda	Deerfield
Target	DeKalb
Triumph Foods	East Moline
UBS AG	Chicago

Source: DCEO (3/16/09)

Corporate Accountability for Tax Expenditures Act

On August 20, 2003, the Corporate Accountability for Tax Expenditure Act was signed into law. According to the Department of Commerce and Economic Opportunity (DCEO), this law "requires any recipient that receives economic development assistance from a state granting body, as defined by the Act, to report annually on the progress of the development and employment commitments for the project." This report must be submitted to DCEO each year starting in 2005 and for each subsequent year as required by the applicable development agreement with the DCEO, the Illinois Department of Transportation or the Illinois State Treasurer's Office. The following is a synopsis of DCEO's findings for the period January 1, 2004 to December 31, 2008, which can be found at *www.corpacctportal.illinois.gov*.

Annual Report of Recaptures Provision by Program

For Jan.1, 2004 to Dec. 31, 2008
Published June 1, 2009

Business Development Public Infrastructure Program	
Total number of companies that have received benefits as defined within the Act since Jan. 1, 2004	8
Total number of recipients in violation of the terms of the development agreement as of Dec. 31, 2007	1
Total number of completed recapture efforts since Jan. 1, 2004	0
Total number of recapture efforts initiated since Jan. 1, 2004	1
Total number of waivers granted since Jan. 1, 2004	0
EDGE Tax Credit	
Total number of companies that have received benefits as defined within the Act since Jan. 1, 2004	225
Total number of recipients in violation of the terms of the development agreement as of Dec. 31, 2007	2
Total number of completed recapture efforts since Jan. 1, 2004	0
Total number of recapture efforts initiated since Jan. 1, 2004	2
Total number of waivers granted since Jan. 1, 2004	0
Employee Training Investment Program	
Total number of companies that have received benefits as defined within the Act since Jan. 1, 2004	161
Total number of recipients in violation of the terms of the development agreement as of Dec. 31, 2007	7
Total number of completed recapture efforts since Jan. 1, 2004	30
Total number of recapture efforts initiated since Jan. 1, 2004	37
Total number of waivers granted since Jan. 1, 2004	0
Enterprise Zone Expanded M&E Sales Tax Exemption	
Total number of companies that have received benefits as defined within the Act since Jan. 1, 2004	14
Total number of recipients in violation of the terms of the development agreement as of Dec. 31, 2007	0
Total number of completed recapture efforts since Jan. 1, 2004	0
Total number of recapture efforts initiated since Jan. 1, 2004	0
Total number of waivers granted since Jan. 1, 2004	0
Enterprise Zone State Utility Tax Exemption	
Total number of companies that have received benefits as defined within the Act since Jan. 1, 2004	22
Total number of recipients in violation of the terms of the development agreement as of Dec. 31, 2007	0
Total number of completed recapture efforts since Jan. 1, 2004	0
Total number of recapture efforts initiated since Jan. 1, 2004	0
Total number of waivers granted since Jan. 1, 2004	0
High Impact Business Designation	
Total number of companies that have received benefits as defined within the Act since Jan. 1, 2004	5
Total number of recipients in violation of the terms of the development agreement as of Dec. 31, 2007	0
Total number of completed recapture efforts since Jan. 1, 2004	0
Total number of recapture efforts initiated since Jan. 1, 2004	0
Total number of waivers granted since Jan. 1, 2004	0
Large Business Development Assistance Program	
Total number of companies that have received benefits as defined within the Act since Jan. 1, 2004	45
Total number of recipients in violation of the terms of the development agreement as of Dec. 31, 2007	1
Total number of completed recapture efforts since Jan. 1, 2004	10
Total number of recapture efforts initiated since Jan. 1, 2004	11
Total number of waivers granted since Jan. 1, 2004	0

Source: http://www.corpacctportal.illinois.gov/RecaptureProvisions.aspx

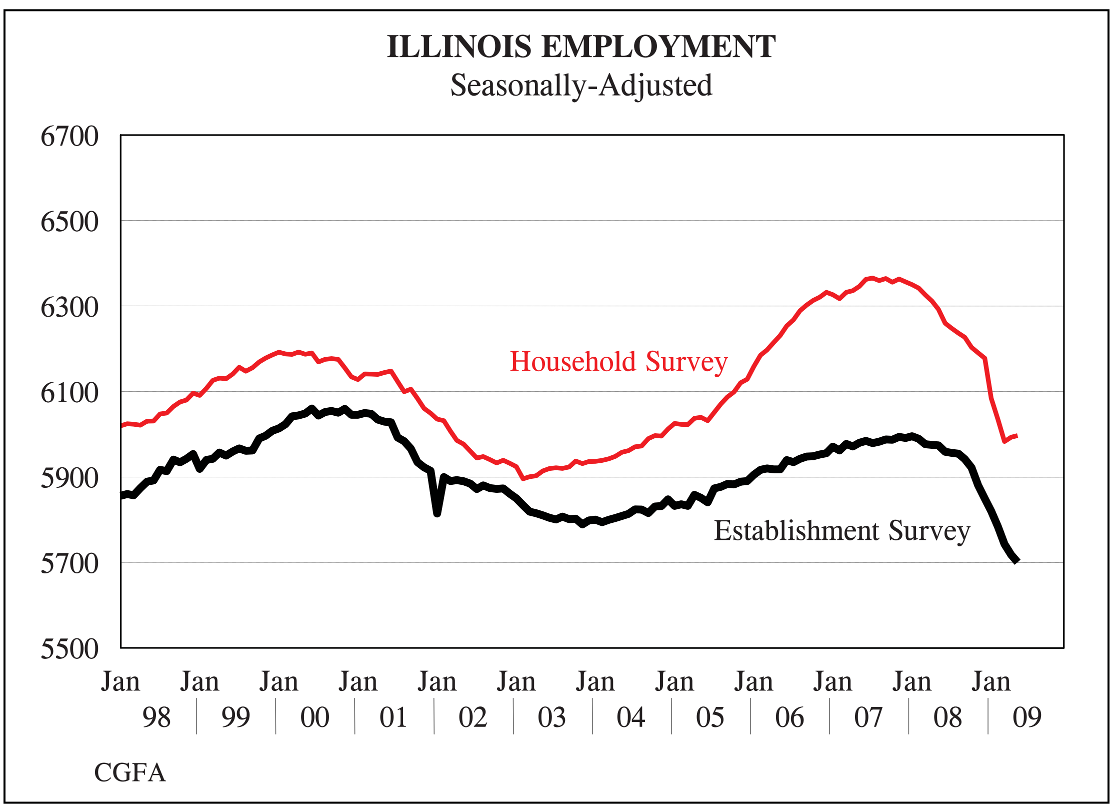
III. ILLINOIS BUSINESS RELATED STATISTICS

Illinois Employment

One of the major reasons that Illinois offers business tax incentives is the hope that fewer taxes will lead to the creation of more jobs in the State. Consequently, one way of tracking the success of these incentives is to look at Illinois' employment figures. The graph below displays Illinois' employment data (seasonally adjusted) over the last eleven years.

The graph shows that employment in Illinois was on an upward trend in the late 90s and then hit a plateau at the start of the century. Employment dropped between 2000 and 2003 as a result of the country's recession. At the end of this mild recession in 2003, Illinois began an upward trend in employment that lasted through the end of 2007. The highest point was reached in the summer of 2007. Even into the beginning stages of 2008, Illinois' employment levels remained solid. However, the later stages of 2008 are where the falloff in employment levels began and where they have continued throughout the first half of 2009.

Illinois' non-farm employment, as measured by the Establishment Survey, fell in May to slightly below 5.7 million, the 16^{th} consecutive monthly decline. Historically, the Illinois economy tends to lag the nation in economic cycles. Therefore, when the nation's upturn in the economy begins, it may be several months before Illinois experiences any improvement in their employment levels. Only time will tell how many more months of declining employment numbers will take place before Illinois' employment figures turn around.



Illinois Fortune 500 Companies

Fortune Magazine recently released their 2009 edition of the "Fortune 500", a list of America's 500 largest corporations. Their rankings included 32 Illinois-based companies. A listing of the Illinois companies that made the list is shown below. In large part, the employment levels and the amount of corporate tax revenues generated in Illinois will continue to rely heavily on the success of these businesses.

The 32 Illinois Companies in 2009's "Fortune 500"

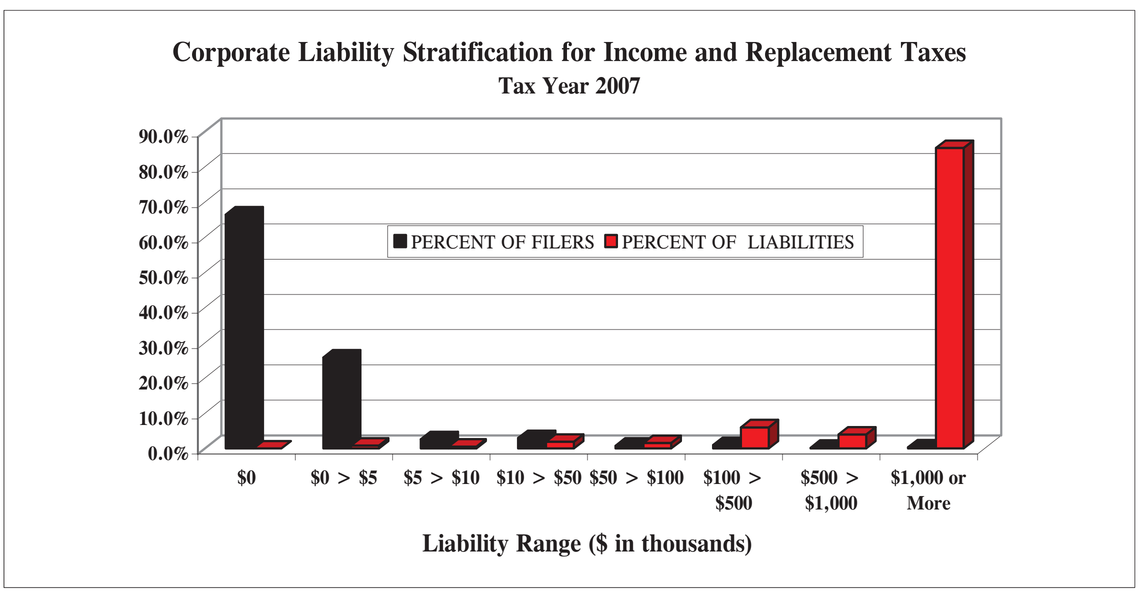
Illinois Rank	U.S. Company	U.S. Rank	Location	Revenue ($ millions)	Industry
1	Archer Daniels Midland	27	Decatur	$69,816	Food Production
2	State Farm Insurance	31	Bloomington	$61,343	Insurance (Mutual)
3	Boeing	34	Chicago	$60,909	Aerospace & Defense
4	Walgreen	36	Deerfield	$59,034	Food and Drug Stores
5	Caterpillar	44	Peoria	$51,324	Industrial and Farm Equipment
6	Sears Holdings	49	Hoffman Estates	$46,770	General Merchandise
7	Kraft Foods	53	Northfield	$42,867	Products
8	Motorola	78	Schaumburg	$30,146	Network & Other Communications Equipment
9	Abbott Laboratories	80	Abbott Park	$29,528	Pharmaceuticals
10	Allstate	81	Northbrook	$29,394	Insurance (Stock)
11	Deere	87	Moline	$28,438	Industrial and Farm Equipment
12	McDonald's	107	Oak Brook	$23,522	Food Services
13	UAL	123	Chicago	$20,194	Airline
14	Exelon	134	Chicago	$18,859	Utilities
15	Illinois Tool Works	148	Glenview	$17,218	Industrial and Farm Equipment
16	Navistar International	175	Warrenville	$14,724	Truck and Engine Corporation
17	Integrys Energy Group	185	Chicago	$14,048	Utilities
18	Sara Lee	199	Downers Grove	$13,450	Food Consumer Products
19	Baxter International	219	Deerfield	$12,348	Medical Products and Equipment
20	R.R. Donnelley & Sons	233	Chicago	$11,582	Publishing, Printing
21	Aon	307	Chicago	$8,406	Diversified Financials
22	OfficeMax	313	Naperville	$8,267	Specialty Retailer
23	Fortune Brands	351	Deerfield	$7,105	Furnishings
24	Discover Financial Svcs.	352	Riverwoods	$7,088	Credit Card, Financial Services
25	Smurfit-Stone Container	356	Chicago	$7,042	Packaging
26	W.W. Grainger	366	Lake Forest	$6,850	Wholesale Distribution
27	Anixter International	404	Glenview	$6,136	Wholesalers: Diversified
28	Tenneco	416	Lake Forest	$5,916	Motor Vehicles and Parts
29	Northern Trust Corp.	430	Chicago	$5,678	Commercial Bank
30	Telephone & Data Systems	465	Chicago	$5,092	Telecommunications
31	United Stationers	475	Deerfield	$4,987	Electronics and Office Equipment
32	Brunswick	491	Lake Forest	$4,709	Transportation Equipment

http://money.cnn.com/magazines/fortune/fortune500/2009/states/IL.html

Corporate Liability Stratification

Corporate Liability Stratification for Income & Replacement Taxes: Tax Year 2007					
LIABILITY RANGE	**TOTAL FILERS**	**PERCENT OF FILERS**	**LIABILITIES ($ in Millions)**	**PERCENT OF LIABILITIES**	**AVERAGE LIABILITY**
$0	73,213	66.4%	$0.0	0.0%	$0
$0.01 > $5,000	28,472	25.8%	$30.7	0.8%	$1,077
$5,000 > $10,000	2,869	2.6%	$19.9	0.5%	$6,925
$10,000 > $50,000	3,272	3.0%	$73.2	1.9%	$22,366
$50,000 > $100,000	809	0.7%	$57.8	1.5%	$71,430
$100,000 > $500,000	1061	1.0%	$229.9	6.0%	$216,680
$500,000 > $1 Million	216	0.2%	$150.3	3.9%	$695,897
$1 Million or More	345	0.3%	$3,272.7	85.4%	$9,485,973
TOTALS	**110,257**	**100.0%**	**$3,834.4**	**100.0%**	**$34,777**
LIABILITY ONLY	**37,044**	**33.6%**	**$3,834.4**	**100.0%**	**$103,509**
Source: Illinois Department of Revenue					

The availability of corporate tax incentives allows many businesses to lower their tax liability. So what portion of Illinois businesses actually has a tax liability? According to the Department of Revenue's latest figures, there were 110,257 corporate income tax filers in tax year 2007. However, only 37,044 or 33.6% of the corporate filers had a corporate income tax liability. In fact, of the nearly $3.8 billion in corporate tax liability in this year (including corporate replacement liability) 99.2% of the liability came from only 7.8% of the corporate income tax filers. Broken down even further, 345 Illinois corporations had a liability of over $1.0 million. While they made up only 0.3% of all filers, their tax liability made up 85.4% of total corporate income tax liabilities in tax year 2007. These statistics are shown above and displayed below.

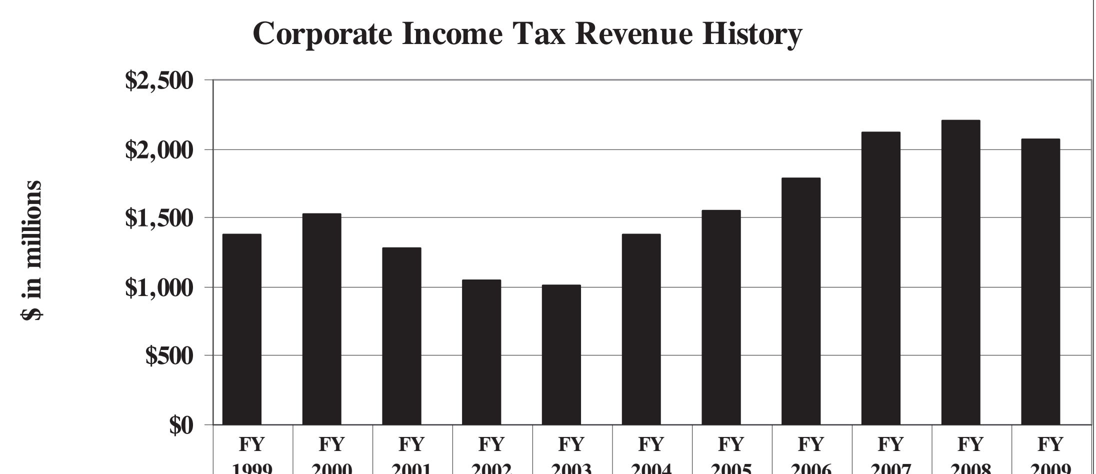


Corporate Revenue History

As stated previously, the Comptroller's *Tax Expenditure Report* states that tax incentives relating to the corporate income tax totaled $356.4 million in FY 2008. By using these incentives to reduce the amount of taxes owed by Illinois businesses is part of the reason that many businesses had a State income tax liability of zero. While these incentives appear to negatively affect State revenues due to lower corporate income tax totals, many believe that without these tax incentives Illinois would risk losing businesses and, thus, essential tax receipts from other areas of the tax spectrum including sales taxes, utility taxes, and the income taxes of the business' employees.

Secondly, the data suggests that the volatility of corporate income tax receipts is directly attributed to only a small percentage of the corporations. If Illinois' largest companies struggle financially, so likely will the State's receipts from the corporate income tax.

Historically, the corporate income tax has been a very volatile revenue source. For example, over the last ten years, corporate income tax receipts have ranged from $1.011 billion in FY 2003 to $2.201 billion in FY 2008. The current struggles of the economy reduced tax receipts to $2.073 billion in FY 2009. The graph and chart below show this volatility. Annual percentage changes have been dramatic over the past decade ranging from a sharp decline of 18.5% in FY 2002 (although the anticipated fall of FY 2010 receipts may surpass this mark) to a 36.4% increase just two years later. Tax changes are partly to blame for this volatility, but, as discussed previously, due to the significant percentage that the largest companies make up of total tax liability, much of this fluctuation in corporate income tax receipts is directly related to the performance of Illinois' largest companies.



	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
■ Corp. Inc. Tax Receipts	$1,384	$1,527	$1,279	$1,043	$1,011	$1,379	$1,548	$1,784	$2,121	$2,201	$2,073
□ Annual % Change	-1.3%	10.3%	-16.2%	-18.5%	-3.1%	36.4%	12.3%	15.2%	18.9%	3.8%	-5.8%

IV. COMPARING ILLINOIS TO OTHER STATES

The question of whether Illinois' corporate tax structure should be altered or left alone has been an issue of debate for decades. The amount of the costs associated with corporate tax incentives each year makes these programs an annual target for tax changes as a way of recapturing desired revenues. But the question that is often asked is what would happen if these tax incentives were removed. How would Illinois' business environment compare to other states if this incentive was eliminated? Would this change put Illinois at such a competitive disadvantage that a business would consider relocating?

The answer to these questions is difficult because it ultimately depends on the type of tax incentive offered, the importance of that incentive to a specific company, and how Illinois actually compares to other states. However, to allow for a better understanding of how Illinois' business tax environment compares to other states, the following section looks at four different methods of measuring competitiveness: by comparing tax rates, overall tax burden, tax incentives offered, and the overall tax climate of each state. These methods are discussed briefly below.

Tax Rates. From a macro sense, a comparison can be made my simply looking at the overall tax structures of the state. States with lower comparable taxes often use this fact as an argument for swaying companies to headquarter within their borders. Comparing the major taxes, such as the corporate income tax, the personal income tax, the sales tax, and the motor fuel tax are often ways that initial comparison discussions begin. A state like Illinois that borders multiple states must continuously monitor the tax structure of their neighbors to see how their rates compare.

Tax Burden. Often, having a higher tax rate for one revenue source allows for a lower tax rate in another revenue source. Therefore, to get a true comparison of the tax structure of a state as a whole, it is sometimes helpful to look at the overall tax burden of a state. This is often done on a per-capita basis to allow larger populated states like Illinois to be compared with lesser populated locations.

Tax Incentives. Another method of comparison is looking at the specific tax incentives offered by each state. This is one of the more difficult comparisons because of the various taxing formats used in states throughout the country (flat-based taxes, graduated taxes, broad based taxes, specific taxes, etc.), which makes any comparison complex. An income tax deduction for one state with higher income tax rates may not mean the same as a similar deduction in a lower-taxed state. However, sometimes the mere existence of a certain tax incentive, no matter the extent of the tax break, could be the arguing point used in persuading a business to relocate or stay situated in a state. The question that has to be asked by Illinois lawmakers is if a State tax incentive is eliminated, would this give other states with that tax incentive a competitive advantage over Illinois?

Tax Climate Rankings. In an effort to provide a true comparison between the business climate of different states, a number of studies have been conducted that try to quantify the various aspects of business decision-making variables into a single index. While the goal of these studies is to provide a true comparison of the business climate of states, it is interesting how the same goal can have different results. These results are often dependent on the interpretation of a particular study and their views on which variables offer the best atmosphere for businesses. Are these complex studies the best way to judge the business climate of a state? This also is a topic of debate.

The following pages look further at these various state comparison methods. Much of this is purely informational, allowing readers to make their own conclusions on whether or not a ranking is beneficial or detrimental to Illinois. However, at the conclusion of this section is the opinion of one organization on how these national rankings should be viewed.

Comparison of Tax Rates

For many, a comparison can be made between Illinois and other states by simply looking at the tax rates of certain revenue sources. On the following pages are listings of the tax rates for four of the larger state government tax sources affecting businesses: the corporate income tax, the personal income tax, the sales tax, and the motor fuel tax and a brief discussion on how Illinois compares.

The Corporate Income Tax and the Single Sales Factor

One of the factors that companies look at before choosing a location is the State's corporate income tax rate. On the following page is a listing of each state's corporate income tax rate throughout the country. As shown, Illinois is one of thirty-two states with a flat tax. Illinois' rate of 7.3%, which includes the State's rate of 4.8% and the corporate replacement tax rate of 2.5%, is near the middle of the pack of the rates imposed throughout the country.

Under the Illinois Constitution, the corporate income tax rate cannot exceed the individual income tar rate by a ratio of more than 8 to 5.

Prior to tax year 2001, Illinois used a three-part formula in which a company's in-state sales, the value of a corporation's property, and its payroll in Illinois were weighed in determining how much of that company's income was subject to the State's corporate income tax and the personal property replacement tax. Public Act 90-0613 changed the law to state that in tax year 2001 and thereafter, corporate income taxable in Illinois would be determined solely on the basis of a company's in-state sales.

RANGE OF STATE CORPORATE INCOME TAX RATES

(For tax year 2008 -- as of January 1, 2008)

State	Tax Rates	Tax Brackets		# of Brackets	State	Tax Rates	Tax Brackets		# of Brackets
ALABAMA	6.5	----Flat Rate----		1	MISSOURI	6.25	----Flat Rate----		1
ALASKA	1.0 - 9.4	10,000	90,000	10	MONTANA	6.75	----Flat Rate----		1
ARIZONA	6.968	----Flat Rate----		1	NEBRASKA	5.58 - 7.81	50,000		2
ARKANSAS	1.0 - 6.5	3,000	100,000	6	NEW HAMPSHIRE	8.5	----Flat Rate----		1
CALIFORNIA	8.84	----Flat Rate----		1	NEW JERSEY	9	----Flat Rate----		1
COLORADO	4.63	----Flat Rate----		1	NEW MEXICO	4.8 - 7.6	500,000	1 million	3
CONNECTICUT	7.5	----Flat Rate----		1	NEW YORK	7.5	----Flat Rate----		1
DELAWARE	8.7	----Flat Rate----		1	NORTH CAROLINA	6.9	----Flat Rate----		1
FLORIDA	5.5	----Flat Rate----		1	NORTH DAKOTA	2.6 - 6.5	3,000	30,000	5
GEORGIA	6.0	----Flat Rate----		1	OHIO	5.1 - 8.5	50,000		2
HAWAII	4.4 - 6.4	25,000	100,000	3	OKLAHOMA	6.0	----Flat Rate----		1
IDAHO	7.6	----Flat Rate----		1	OREGON	6.6	----Flat Rate----		1
ILLINOIS*	7.3	----Flat Rate----		1	PENNSYLVANIA	9.99	----Flat Rate----		1
INDIANA	8.5	----Flat Rate----		1	RHODE ISLAND	9	----Flat Rate----		1
IOWA	6.0 - 12.0	25,000	250,000	4	SOUTH CAROLINA	5.0	----Flat Rate----		1
KANSAS	4	----Flat Rate----		1	SOUTH DAKOTA	6.0-0.25	(banks only)		
KENTUCKY	4.0 - 7.0	50,000	100,000	3	TENNESSEE	6.5	----Flat Rate----		1
LOUISIANA	4.0 - 8.0	25,000	200,000	5	TEXAS	**			
MAINE	3.5 - 8.93	25,000	250,000	4	UTAH	5	----Flat Rate----		
MARYLAND	8.3	----Flat Rate----		1	VERMONT (b)	6.0 - 8.5	10,000	250,000	3
MASSACHUSETTS	9.5	----Flat Rate----		1	VIRGINIA	6.0	----Flat Rate----		1
MICHIGAN	4.95	----Flat Rate----		1	WEST VIRGINIA	8.5	----Flat Rate----		1
MINNESOTA	9.8	----Flat Rate----		1	WISCONSIN	7.9	----Flat Rate----		1
MISSISSIPPI	3.0 - 5.0	5,000	10,000	3	DIST. OF COLUMBIA	9.975	----Flat Rate----		

Source: Compiled by the Federation of Tax Administrators (FTA) from various sources
Note: Nevada, Washington, and Wyoming do not have state corporate income taxes.
* Illinois' rate ncludes a 2.5% personal property replacement tax.
** Texas imposes a Franchise Tax, known as the margin tax.

The intent of P.A. 90-0613 was to encourage the growth of manufacturing industries in the State. The single-sales factor reduces the income tax burden on firms that have a relatively large share of their property and payroll in Illinois, while making most of their sales out of state. However, some feel that the positive effect that this move has had on manufacturing industries may be offset by other factors.

One factor is that for each corporation that benefits from the single-sales factor, because most of its sales are out of Illinois, there are other corporations that are punished by the factor because their sales are mostly in the State. Large multinational companies are the largest beneficiaries of the tax break, while small mom and pop shops, who make most, if not all, of their sales in the State, receive no benefit from this tax law change.

Another offsetting factor is that every other neighboring state now applies a higher weight to the sales factor. (A listing of each state's apportionment of income is shown on the following page). As more and more states move toward the same single-sales factor that Illinois imposes, the incentive generated by the single-sales factor disappears. Because the other states are offering this same incentive, Illinois now has reduced corporate income tax revenues, but enjoys few of the locational incentives the single-sales factor was intended to offer.

Some argue that there is no compelling evidence that the single-sales factor has resulted in any economic growth. However, others argue that had Illinois not changed to the single sales factor, the State would have risked losing additional corporations to other states that now have the single-sales factor incentive.

STATE APPORTIONMENT OF CORPORATE INCOME

(Formulas for tax year 2008 -- as of January 1, 2008)

ALABAMA *	3 Factor	MONTANA *	3 Factor
ALASKA *	3 Factor	NEBRASKA	Sales
ARIZONA * (2)	70% Sales, 15% Property & Payroll	NEVADA	No State Income Tax
ARKANSAS *	Double wtd. sales	NEW HAMPSHIRE	Double wtd. Sales
CALIFORNIA *	Double wtd. sales	NEW JERSEY (1)	Double wtd. Sales
COLORADO *	3 Factor/Sales & Property	NEW MEXICO *	Double wtd. sales/3 Factor
CONNECTICUT	Double wtd. sales/Sales	NEW YORK (3)	Sales
DELAWARE	3 Factor	NORTH CAROLINA *	Double wtd. sales
FLORIDA	Double wtd. sales	NORTH DAKOTA *	3 Factor
GEORGIA	Sales	OHIO *	60% Sales, 20% Property & Payroll
HAWAII *	3 Factor	OKLAHOMA	3 Factor
IDAHO *	Double wtd. sales	OREGON *	Sales
ILLINOIS *	**Sales**	PENNSYLVANIA *	70% Sales, 15% Property & Payroll
INDIANA (3)	70% Sales, 15% Property & Payroll	RHODE ISLAND	3 Factor
IOWA	Sales	SOUTH CAROLINA (4)	Double wtd. sales/Sales
KANSAS *	3 Factor	SOUTH DAKOTA	No State Income Tax
KENTUCKY *	Double wtd. sales	TENNESSEE *	Double wtd. sales
LOUISIANA	Sales	TEXAS	Sales
MAINE *	Sales	UTAH *	3 Factor/Double wtd. sales
MARYLAND	Double wtd. sales/Sales	VERMONT	Double wtd. sales
MASSACHUSETTS	Double wtd. sales	VIRGINIA	Double wtd. sales
MICHIGAN	Sales	WASHINGTON	No State Income Tax
MINNESOTA (3)	81% Sales,9.5% Property & Payroll	WEST VIRGINIA *	Double wtd. sales
MISSISSIPPI	Accounting/3 Factor	WISCONSIN *	Sales
MISSOURI *	3 Factor/sales	WYOMING	No State Income Tax

Source: www.taxadmin.org.

Note: The formulas listed are for general manufacturing businesses. Some industries have special formula different than those reported. A slash separating two formula's indicate taxpayer option.

* State has adopted substantial portions of the Uniform Division of Income for Tax Purposes Act (UDITPA).
(1) A 3-factor formula is used for corporations not subject to the corporation business franchise tax.
(2) Corporations using this formula must release financial data to the Legislative Budget Committee, otherwise use double weighted sales.
(3) State is phasing in a single sales factor. Weightings will change each year until 100% sales factor in 2011 for Indiana, and 2013 for Minnesota.
(4) Taxpayers are allowed only 40% of the reduced taxes from a single sales factor (60% in 2009).

The Personal Income Tax

Illinois has had a flat personal income tax rate of 3% since it was increased from 2.5% in July 1993. Currently, it is one of seven states that impose a flat income tax (most have graduated rates). Of the states with a flat tax, Illinois has the lowest rate. Seven states have no income tax and in two states, the income tax is limited to dividends and interest income only. Below is a listing of the different personal income tax rates throughout the country.

STATE INDIVIDUAL INCOME TAXES

(Tax rates for tax year 2008 -- as of January 1, 2008)

	---Tax Rates---		# of	--Income		---Personal Exemption---		
State	**Low**	**High**	**Brackets**	**Low**	**High**	**Single**	**Married**	**Child.**
ALABAMA	2.0	5.0	3	500	3,000	1,500	3,000	300
ALASKA				No State Income Tax				
ARIZONA	2.59	4.54	5	10,000	150,000	2,100	4,200	2,300
ARKANSAS (a)	1.0	7.0	6	3,699	31,000	23	46	23
CALIFORNIA (a)	1.0	9.3	6	6,827	44,815	94	188	294
COLORADO	4.63		1	---Flat rate---			-----------None-----------	
CONNECTICUT	3.0	5.0	2	10,000	10,000	12,750	24,500	0
DELAWARE	2.2	5.95	6	5,000	60,000	110	220	110
FLORIDA				No State Income Tax				
GEORGIA	1.0	6.0	6	750	7,000	2,700	5,400	3,000
HAWAII	1.4	8.25	9	2,400	48,000	1,040	2,080	1,040
IDAHO (a)	1.6	7.8	8	1,237	24,736	3,500	7,000	3,500
ILLINOIS	**3.0**		**1**	**---Flat rate---**		**2,000**	**4,000**	**2,000**
INDIANA	3.4		1	---Flat rate---		1,000	2,000	1,000
IOWA (a)	0.36	8.98	9	1,379	62,055	40	80	40
KANSAS	3.5	6.45	3	15,000	30,000	2,250	4,500	2,250
KENTUCKY	2.0	6.0	6	3,000	75,000	20	40	20
LOUISIANA	2.0	6.0	3	12,500	25,000	4,500	9,000	1,000
MAINE (a)	2.0	8.5	4	4,849	19,450	2,850	5,700	2,850
MARYLAND	2.0	5.5	7	1,000	500,000	2,400	4,800	2,400
MASSACHUSETTS (a)	5.3		1	---Flat rate---		4,125	8,250	1,000
MICHIGAN (a)	4.35		1	---Flat rate---		3,300	6,600	3,300
MINNESOTA (a)	5.35	7.85	3	21,800	71,591	3,500	7,000	3,500
MISSISSIPPI	3.0	5.0	3	5,000	10,000	6,000	12,000	1,500
MISSOURI	1.5	6.0	10	1,000	9,000	2,100	4,200	1,200
MONTANA (a)	1.0	6.9	7	2,500	14,900	2,040	4,080	2,040
NEBRASKA (a)	2.56	6.84	4	2,400	27,001	113	226	113
NEVADA				No State Income Tax				
NEW HAMPSHIRE		State Income Tax is Limited to Dividends and Interest Income Only.						
NEW JERSEY	1.4	8.97	6	20,000	500,000	1,000	2,000	1,500
NEW MEXICO	1.7	5.3	4	5,500	16,000	3,500	7,000	3,500
NEW YORK	4.0	6.85	5	8,000	20,000	0	0	1,000
NORTH CAROLINA	6.0	7.75	3	12,750	60,000	2,000	4,000	2,000
NORTH DAKOTA (a)	2.1	5.54	5	31,850	349,701	3,500	7,000	3,500
OHIO (a)	0.618	6.24	9	5,000	200,000	1,450	2,900	1,450
OKLAHOMA	0.5	5.5	7	1,000	8,701	1,000	2,000	1,000
OREGON (a)	5.0	9.0	3	2,900	7,300	169	338	169
PENNSYLVANIA	3.07		1	---Flat rate---			-----------None-----------	
RHODE ISLAND	25.0% Federal tax liability				---	---	---	---
SOUTH CAROLINA (a)	0	7	6	2,670	13,350	3,500	7,000	3,500
SOUTH DAKOTA				No State Income Tax				
TENNESSEE		State Income Tax is Limited to Dividends and Interest Income Only.						
TEXAS				No State Income Tax				
UTAH	5		1	---Flat rate---				
VERMONT (a)	3.6	9.5	5	32,550	357,700	3,500	7,000	3,500
VIRGINIA	2	5.75	4	3,000	17,000	930	1,860	930
WASHINGTON				No State Income Tax				
WEST VIRGINIA	3	6.5	5	10,000	60,000	2,000	4,000	2,000
WISCONSIN (a)	4.6	6.75	4	9,700	145,460	700	1,400	700
WYOMING				No State Income Tax				

(a) 16 states have statutory provision for automatic adjustment of tax brackets, personal exemption or standard deductions to the rate of inflation. Massachusetts, Michigan, Nebraska and Ohio index the personal exemption amounts only.

Source: The Federation of Tax Administrators from various sources.

The Sales Tax

Illinois' sales tax rate is 6.25%, in which 5% goes to the State and the remaining 1.25% goes to local governments (the 1.25% portion is split 1.00% to municipalities, 0.25% portion to counties, unless unincorporated then entire 1.25% is sent to the county government). The sales tax consists of two matching pairs of taxes: the retailers' occupation tax, and the use tax; and the service occupation tax, and the service use tax. The last State sales tax rate increase (from 4% to 5%) occurred in 1984.

A rate of only 1% applies to food to be consumed off the premises; modifications to automobiles used by disabled persons; and medicines and medical appliances. This 1% goes to local governments.

Illinois law also authorizes local governments to impose additional local sales taxes. Chicago has one of the highest combined sales tax rates for any city in the nation at 10.25% (combining State, municipal, county, RTA, and city sales taxes). A list of the sales tax rates for all the states is shown below.

State Sales Tax Rates

As of January 1, 2008

		--------------------Exemptions--------------------		
State	Tax Rates	Food	Prescription Drugs	Non-prescription Drugs
ALABAMA	4		*	
ALASKA	none			
ARIZONA	5.6	*	*	
ARKANSAS	6	3% (4)	*	
CALIFORNIA (3)	7.25 (2)	*	*	
COLORADO	2.9	*	*	
CONNECTICUT	6	*	*	*
DELAWARE	none			
FLORIDA	6	*	*	*
GEORGIA	4	* (4)	*	
HAWAII	4		*	
IDAHO	6		*	
ILLINOIS	**6.25**	**1%**	**1%**	**1%**
INDIANA	6	*	*	
IOWA	5	*	*	
KANSAS	5.3		*	
KENTUCKY	6	*	*	
LOUISIANA	4	* (4)	*	
MAINE	5	*	*	
MARYLAND (5)	6	*	*	*
MASSACHUSETTS	5	*	*	
MICHIGAN	6	*	*	
MINNESOTA	6.5	*	*	*
MISSISSIPPI	7		*	
MISSOURI	4.225	1.225%	*	
MONTANA	none			
NEBRASKA	5.5	*	*	
NEVADA	6.5	*	*	
NEW HAMPSHIRE	none			
NEW JERSEY	7	*	*	*
NEW MEXICO	5	*	*	
NEW YORK	4	*	*	*
NORTH CAROLINA (6)	4.25	* (4)	*	
NORTH DAKOTA	5	*	*	
OHIO	5.5	*	*	
OKLAHOMA	4.5		*	
OREGON	none			
PENNSYLVANIA	6	*	*	*
RHODE ISLAND	7	*	*	*
SOUTH CAROLINA	6	*	*	
SOUTH DAKOTA	4		*	
TENNESSEE	7	5.5%	*	
TEXAS	6.25	*	*	*
UTAH	4.65	1.75% (4)	*	
VERMONT	6	*	*	*
VIRGINIA	5 (2)	2.5% (2)	*	*
WASHINGTON	6.5	*	*	
WEST VIRGINIA	6	4% (8)	*	
WISCONSIN	5	*	*	
WYOMING	4	* (7)	*	

* - indicates exempt from tax, blank indicates subject to general sales tax rate.

(1) Some state tax food, but allow a rebate or income tax credit to compensate poor households. They are:HI, ID, KS, OK, SD, and WY.

(2) Includes statewide local tax of 1.0% in California and 1.0% in Virginia.

(3) Tax rate may be adjusted annually according to a formula based on balances in the unappropriated general fund and the school foundation fund.

(4) Food sales are subject to local sales taxes.

(5) Sales tax rate increased from 5% to 6% on 1/3/2008.

(6) Sales tax rate is scheduled to increase to 4.5% on 10/1/2008.

(7) Food sales exempt through 6/30/2008.

(8) Tax rate on food is scheduled to fall to 3% on 7/1/08. Food subject to local tax.

Source: www.taxadmin.org.

Motor Fuel Taxes

As shown below, as of January 1, 2008, Illinois had the 28th highest tax rate on motor fuel in the nation at 20.1 cents per gallon (which includes 1.1 cents in environmental fees). Across the nation, motor fuel tax rates ranged from 8 cents per gallon in Alaska to 36 cents per gallon in Washington. Illinois is one of 10 states that also collect general sales taxes on motor fuel.

Motor Fuel Excise Tax Rates

as of January 1, 2008

	----Gasoline----			----Diesel Fuel----			----Gasohol----			
State	**Excise Tax**	**Add'l Tax**	**Total Tax**	**Excise Tax**	**Add'l Tax**	**Total Tax**	**Excise Tax**	**Add'l Tax**	**Total Tax**	**Notes**
Washington /8	36.0		36.0	36.0		36.0	36.0		36.0	0.5% privilege tax
Wisconsin	30.9	2.0	32.9	30.9	2.0	32.9	30.9	2.0	32.9	/5 Petroleum Inspection fee
West Virginia	20.5	11.7	32.2	20.5	11.7	32.2	20.5	11.7	32.2	Sales tax added to excise
Pennsylvania	12.0	19.2	31.2	12.0	26.1	38.1	12.0	19.2	31.2	Oil franchise tax
Rhode Island	30.0	1	31.0	30.0	1	31.0	30.0	1	31.0	LUST tax
North Carolina	29.9	0.25	30.15	29.9	0.25	30.15	29.9	0.25	30.15	/4 Inspection tax
Ohio	28.0		28.0	28.0		28.0	28.0		28.0	Plus 3 cents commerical
Maine	27.6		27.6	28.8		28.8	27.6		27.6	/5
Montana	27.0		27.0	27.75		27.75	27.0		27.0	
Idaho	25.0	1.0	26.0	25.0	1.0	26.0	22.5	1.0	23.5	Clean water tax /7
Connecticut	25.0		25.0	37.0		37.0	25.0		25.0	
Utah	24.5		24.5	24.5		24.5	24.5		24.5	
New York	8.0	16.4	24.4	8.0	14.65	22.65	8.0	16.4	24.4	Sales tax applicable, Petrol. Tax
Nevada /1	24.0	0.055	24.055	27.0		27.0	24.0	0.055	24.055	Inspection fee
Kansas	24.0		24.0	26.0		26.0	24.0		24.0	
Oregon /1	24.0		24.0	24.0		24.0	24.0		24.0	
Nebraska	23.0	0.9	23.9	23.0	0.3	23.3	23.0	0.9	23.9	Petroleum fee /5
Maryland	23.5		23.5	24.25		24.25	23.5		23.5	
Delaware	23.0		23.0	22.0		22.0	23.0		23.0	Plus 0.5% GRT
North Dakota	23.0		23.0	23.0		23.0	23.0		23.0	
Colorado	22.0		22.0	20.5		20.5	22.0		22.0	
South Dakota /1	22.0		22.0	22.0		22.0	20.0		20.0	
Arkansas	21.5		21.5	22.5		22.5	21.5		21.5	
Tennessee /1	20.0	1.4	21.4	17.0	1.4	18.4	20.0	1.4	21.4	Petroleum Tax & Envir. Fee
Kentucky	19.6	1.4	21.0	16.6	1.4	18.0	19.6	1.4	21.0	Environmental fee /4 /3
Massachusetts	21.0		21.0	21.0		21.0	21.0		21.0	
Iowa	20.7		20.7	22.5		22.5	19.0		19.0	
Illinois /1	19.0	1.1	20.1	21.5	1.1	22.6	19.0	1.1	20.1	Sales tax add., env. & LUST fee /3
Louisiana	20.0		20.0	20.0		20.0	20.0		20.0	
Minnesota	20.0		20.0	20.0		20.0	20.0		20.0	
Texas	20.0		20.0	20.0		20.0	20.0		20.0	
Vermont	19.0	1.0	20.0	25.0	1.0	26.0	19.0	1.0	20.0	Petroleum cleanup fee
Dist. of Columbia	20.0		20.0	20.0		20.0	20.0		20.0	
New Hampshire	18.0	1.625	19.625	18.0	1.625	19.625	18.0	1.625	19.625	Oil discharge cleanup fee
Michigan	19.0		19.0	15.0		15.0	19.0		19.0	Sales tax applicable
New Mexico	17.0	1.875	18.875	21.0	1.875	22.875	17.0	1.875	18.875	Petroleum loading fee
Georgia	7.5	11.0	18.5	7.5	12.3	19.8	7.5	11.0	18.5	Sales tax added to excise
Mississippi	18.0	0.4	18.4	18.0	0.4	18.4	18.0	0.4	18.4	Environmental fee
Alabama /1	16.0	2.0	18.0	19.0		19.0	16.0	2.0	18.0	Inspection fee
Arizona	18.0		18.0	18.0		18.0	18.0		18.0	/3
California	18.0		18.0	18.0		18.0	18.0		18.0	Sales tax applicable
Indiana	18.0		18.0	16.0		16.0	18.0		18.0	Sales tax applicable /3
Missouri	17.0	0.55	17.55	17.0	0.55	17.55	17.0	0.55	17.55	Inspection fee
Virginia /1	17.5		17.5	17.5		17.5	17.5		17.5	/6
Hawaii /1	17.0		17.0	17.0		17.0	17.0		17.0	Sales tax applicable
Oklahoma	16.0	1.0	17.0	13.0	1.0	14.0	16.0	1.0	17.0	Environmental fee
South Carolina	16.0		16.0	16.0		16.0	16.0		16.0	
Florida /2	4.0	11.6	15.6	16.8	12.2	29.0	4.0	11.6	15.6	Sales tax added to excise /2
New Jersey	10.5	4.0	14.50	13.5	4.0	17.50	10.5	4.0	14.50	Petroleum fee
Wyoming	13.0	1	14.0	13.0	1	14.0	13.0	1	14.0	License tax
Alaska	8.0		8.0	8.0		8.0	8.0		8.0	
Federal	**18.3**	**0.1**	**18.4**	**24.3**	**0.1**	**24.4**	**13.0**	**0.1**	**13.1**	**/7 LUST tax**

Note: The tax rates listed are fuel excise taxes collected by distributor/supplier/retailers in each state. Additional taxes may apply to motor carriers. Carrier taxes are coordinate by IFTA.

SOURCE: www.taxadmin.org

/1 Tax rates do not include local option taxes. In AL, 1 - 3 cents; HI, 8.8 to 18.0 cent; IL, 5 cents in Chicago and 6 cents in Cook county (gasoline only); NV, 4.0 to 9.0 cents; OR, 1 to 3 cents; SD and TN, one cent; and VA 2%.
/2 Local taxes for gasoline and gasohol vary from 10.2 cents to 18.2 cents. Plus a 2.07 cent per gallon pollution tax.
/3 Carriers pay an additional surcharge equal to AZ-8 cents, IL-6.3 cents (g) 6.0 cents (d), IN-11 cents, KY-2% (g) 4.7% (d).
/4 Tax rate is based on the average wholesale price and is adjusted quarterly. The actual rates are: KY, 9%; and NC, 17.5¢ + 7%.
/5 Portion of the rate is adjustable based on maintenance costs, sales volume, cost of fuel to state government, or inflation.
/6 Large trucks pay an additional 3.5 cents.
/7 Tax rate is reduced by the percentage of ethanol used in blending (reported rate assumes the max. 10% ethanol).
/8 Tax rate scheduled to increase to 37.5 cents on July 1, 2008.

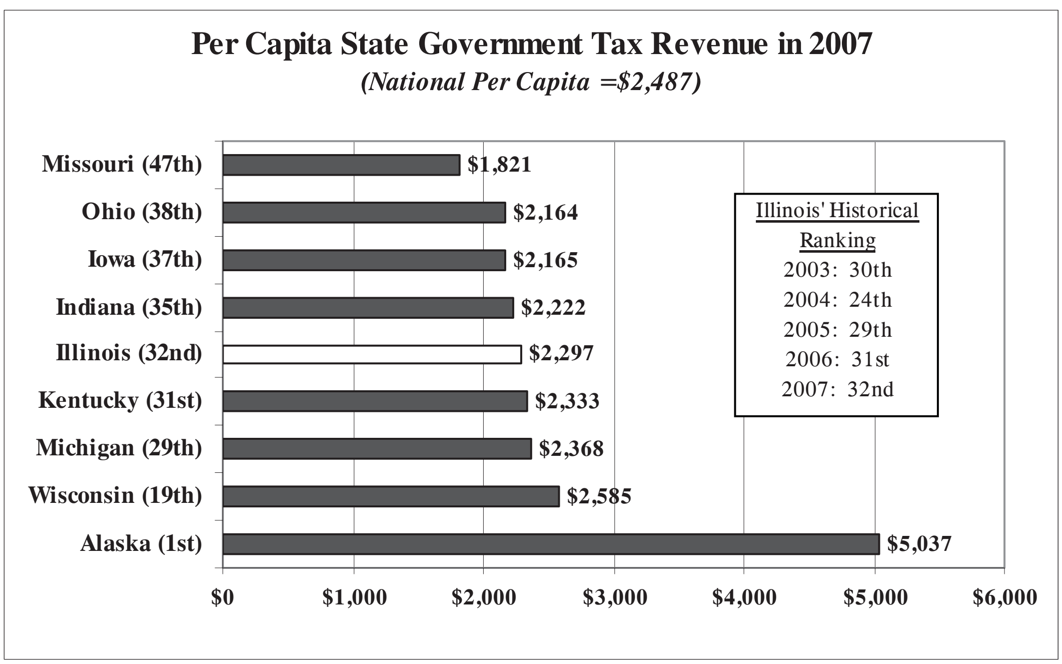
Overall State Government Tax Burden

While the rates of single taxes are important, many are not as concerned with one tax, as much as they are with the impact of all State taxes combined. This is where looking at the overall state government tax burden can be a desired comparative method.

According to tax revenue statistics from the U.S. Census Bureau, in the category of state government tax revenue, Illinois had the 6th highest amount of revenues collected in 2007 and was the highest ranked state in the Midwest Region in total dollars. California had the highest dollar amount overall. But on a per-capita basis, Illinois ranked 32nd in the nation with an amount of $2,297 per capita. Illinois' ranking in this category has fallen over the last several years from 24th in 2004 to its current ranking of 32nd. The national per-capita rate was $2,487.

Whether it is better for a state to be ranked high or low is open to interpretation. When observing revenue-related rankings on a per-capita basis, some believe that if a state is able to financially survive on tax rates that create relatively low per-capita figures, the better the financial situation for the people of that state. Others, however, would view low per-capita figures as missed opportunities for revenue growth, and subsequent program spending.

A chart displaying Illinois' ranking in the category of state government tax revenue on a per-capita basis is shown below. The Commission provides a more detailed look at per-capital collections for specific revenue sources in its 2008 edition of "Illinois National Rankings in State Government Financing", which can be obtained at: http://www.ilga.gov/commission/cgfa2006/Resource.aspx?id=227.



Tax Incentive Programs Offered by States

On the following two pages are tables from the November 2008 edition of *Site Selection* Magazine that provide a glance of various business tax incentives throughout the nation.

The first table summarizes the different programs states offer for financial assistance for industries throughout the country. The second table summarizes the state tax incentives available for businesses. These tables allow for a quick comparison between the types of incentives that Illinois and other states offer.

The website for the provided material is shown below. Any questions regarding the data used in these tables can be addressed through this website.

http://www.siteselection.com/issues/2008/nov/State-Incentives/State-Incentives.pdf/

Below is an excerpt from *Site Selection* and their discussion on State tax incentives. While understandably biased, this provides a look at what kinds of incentives that the magazine states that businesses are seeking.

> *Job creation incentives tools must evolve along with the trends in the marketplace. Over the past few years, we have found an increasing willingness among senior state officials and legislatures to listen to the merits of a more flexible and market-based approach to incentives, resulting in changes in statutes, regulations and contract terms. States that have updated their incentives programs have become more competitive, and have enabled many companies to obtain incentives for their non-traditional workers.*

CHART 1: Financial Assistance for Industry*

* See Chart 1 Footnotes

	State-Sponsored Industrial Development Authority	Privately Sponsored Development Credit Corporation	State Authority or Agency Revenue Bond Financing	State Authority or Agency General Obligation Bond Financing	City and/or County Revenue Bond Financing	City and/or County General Obligation Bond Financing	State Loans for Building Construction	State Loans for Equipment, Machinery	City and/or County Loans for Building Construction	City and/or County Loans for Equipment, Machinery	State Loan Guarantees for Building Construction	State Loan Guarantees for Equipment, Machinery	City and/or County Loan Guarantees for Building Construction	City and/or County Loan Guarantees for Equipment, Machinery	State Financing Aid for Existing Plant Expansion	State Matching Funds for City and/ or County Industrial Financing Programs	State Incentive for Establishing Industrial Plants in Areas of High Unemployment	City and/or County Incentive for Establishing Industrial Plants in Areas of High Unemployment
ALABAMA	•	•	•		•	•	•	•	•	•					• 2, 12		•	•
ALASKA	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
ARIZONA					•	•	•	•			•	•			•		• 22	•
ARKANSAS	•	•	•	•	•	•	•	•	•	•	•	•			•		•	•
CALIFORNIA	•	• 5	•	•	•	•	•	•	•	•	•	•	•	•	•		•	•
COLORADO	•	• 4			•		•	•	•	•	•	•	•	•	•	•	•	•
CONNECTICUT	•	•	•	•			•	•	•	•	•	•			•		•	•
DELAWARE	•	•	•		•		•	•	•	•					•	•	•	•
FLORIDA			• 32		•	•	• 20	• 20	•	•			•	•	• 20		• 8	•
GEORGIA	•	•	• 23		•	•			•	•							•	•
HAWAII	•		•	•	•	•	• 15	• 15							• 15		• 8	• 8
IDAHO		•			•	•			• 1	• 1								
ILLINOIS	•	•	•		•		•	•	•	•		• 37			•		•	•
INDIANA	•	•	•		•	•	•	•	•	•	•	•	•	•	•	•	•	•
IOWA	•	•	•		•	•	• 18	• 18	•	•	•	•			•	• 18	•	•
KANSAS			•	•	•	•			•	•		•			•	•	•	•
KENTUCKY	•	•	•	•	•	•	•	•	• 11	• 11					•	•	•	• 8
LOUISIANA		• 4	• 2	• 2	•	•	• 25	• 25	• 26	• 26	• 6	• 6	•	•	• 25	• 19	•	•
MAINE	•		•		•	•	•	•	•	•	•	•			•		•	•
MARYLAND	•	•	•	•	•	•	•	•	•	•	•	•	•	• 31	•	•	•	•
MASSACHUSETTS	•	•	•		•		•	•	•	•	•	•	•	•	•	•	•	•
MICHIGAN	•	•	•		•	•	•	•	•	•					•	•	•	• 30
MINNESOTA	•	•	•	• 13	•	•	•	•	• 9	• 9			•	•	•	•	•	•
MISSISSIPPI	•	•	•	•	•	•	• 15	• 15	•	•	• 15	• 15			• 2		•	•
MISSOURI	•	• 4	•		•	•	•	•	•	•	•	•			•		•	•
MONTANA		•	•	•	•	•	•	•	•	•	•	•	•	•	•			
NEBRASKA	•	•	•	•		•	•	•	•	•	•	•	•	•	• 2	•	•	•
NEVADA	•	•	•	•													•	•
NEW HAMPSHIRE	•	•	•		• 21	• 21			• 21	• 21	•	•	• 21	• 21	•			
NEW JERSEY	•		•		• 10	• 10	•	•	•	•	•	•			•		•	•
NEW MEXICO	•	•	•	•	•	•	•	•	•	•	•	•			•		•	•
NEW YORK	•	•	•	•	•		•	•	•	•	•	•			•		•	•
NORTH CAROLINA	•				•	•			•	•							•	
NORTH DAKOTA		•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
OHIO	•	•	•		•		•	•	•	•					•	•	•	•
OKLAHOMA	•		•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
OREGON	•	•	•	•	•	•	•	•	•	•	•	•	• 11	• 11	•	•	•	•
PENNSYLVANIA	•	•	•	•	•	•	• 14	•	•	•	•	•	•	•	•	•	•	•
RHODE ISLAND	•	•	•	•	•		•	•	•	•	•	•			•	•	•	•
SOUTH CAROLINA	•	•	•		•										•		•	• 7
SOUTH DAKOTA	•		•	•	•	•	•	•	• 1	• 1					•	•		
TENNESSEE			•	•	•	•	•	• 27	• 11	• 11	• 33	• 33			•	• 34	•	
TEXAS	•	•	•	•	•	•	•	•	•	•	•	•	• 11	• 11	•	•	•	•
UTAH	•	•			•	•			•	•							• 22	
VERMONT	•	•	•		•	•	•	•	•	•	•	•			•	•		
VIRGINIA	•	•	• 35		•	•	•	•	• 24	• 24		• 35			•	• 36	•	•
WASHINGTON	•	•	•		•			•				•				•	•	
WEST VIRGINIA	•	•	•		•		•	•	•	•	• 3	• 3			•	•		
WISCONSIN	•		•		•	• 16	•	•	•	•			• 28	• 28	•		• 29	
WYOMING	•	•	•		•	•	•	•	•	•	•	•			•	•		
STATE TOTALS	**42**	**39**	**45**	**24**	**47**	**38**	**41**	**42**	**45**	**45**	**30**	**34**	**18**	**18**	**44**	**27**	**43**	**38**

Notes for this table can be found at www.siteselection.com/issues/2008/nov/State-Incentives/State-Incentives.pdf.

CHART 2: Tax Incentives for Industry*

* See Chart 2 Footnotes

	Corporate Income Tax Exemption	Personal Income Tax Exemption	Excise Tax Exemption	Tax Exemption or Moratorium on Land, Capital Improvements	Tax Exemption or Moratorium on Equipment, Machinery	Inventory Tax Exemption on Goods in Transit (Freeport)	Tax Exemption on Manufacturers' Inventories	Sales/Use Tax Exemption on New Equipment	Tax Exemption on Raw Materials Used in Manufacturing	Tax Incentive for Creation of Jobs	Tax Incentive for Industrial Investment	Tax Credits for Use of Specified State Products	Tax Stabilization Agreements for Specified Industries	Tax Exemption to Encourage Research and Development	Accelerated Depreciation of Industrial Equipment
ALABAMA	•	•	•	•	•	•	•	•	•	•	•			•	•
ALASKA		•	•	•				•	•			•			• 59
ARIZONA	•	•		• 30	•	•	•	•	•	•	• 74			•	•
ARKANSAS	• 17		•	• 11	• 11	•	• 66	•	•	•	•	• 20		•	
CALIFORNIA		•	•	•	•	•	•	•	•	•	•			•	• 10
COLORADO	•		•		•	•	•	• 93	•	• 21	•				
CONNECTICUT	•		•	•	• 23	•	•	• 21	•	• 12	• 12		•	• 12	• 1
DELAWARE	•	• 65	• 24	•	• 65	• 65	• 65	• 65	•	•	•			•	•
FLORIDA	•	• 25	• 24	• 31	• 31	•	•	• 57	•	•	•			• 9	• 18
GEORGIA				•	•	•	•	•	•	•	•			•	•
HAWAII	• 94	• 94, 95	• 21, 66		•	•	•	•	• 38	• 21	• 96		•	•	• 59
IDAHO	•				•	•	•	•	•		•			•	•
ILLINOIS	•	•	• 21a	•	•	•	•	•	•	•	•			•	• 59
INDIANA	•	•		• 36	•	• 7	• 7	•	•	• 21	• 36			•	•
IOWA	• 27	• 53	•	• 8	• 4	•	•	• 29	•	•	•			•	• 59
KANSAS	• 2	• 2, 53		• 30	• 30	•	• 5	• 19	• 6	•	•			•	• 59
KENTUCKY	• 88	• 89		•	• 72	• 72	• 72	•	•	•	•	•		•	• 59
LOUISIANA	• 32	• 53		• 33	•	•	•	• 107	• 6	• 13	•		• 108	• 109	• 59
MAINE	•	• 118		• 119	•	•	•	•	• 34	•	•			•	• 59
MARYLAND	• 63	•	•	• 31	•	•	•	•	•	•	•			• 37	•
MASSACHUSETTS	• 22	•	• 22	• 28	• 42	•	•	• 35	•	• 43	• 22		•	• 49	•
MICHIGAN	•	•		•	•	•	•	•	•	• 87	•		•	•	• 59
MINNESOTA	• 69		•	• 10	•	•	•	• 40	•	• 69	• 69		•	•	• 59
MISSISSIPPI	•	•		•	•	•	• 73	•	•	•	•			•	• 59
MISSOURI	•	•	• 24	•	• 6	•	•	•	•	•	•			• 84	•
MONTANA	•	•		• 64	• 64	•	•	•	•	•	•	•	• 39	•	•
NEBRASKA		•		• 67	• 67	•	•	• 50	•	•	•				• 59
NEVADA	• 25	• 25	• 24			•	•	•	• 60	•					
NEW HAMPSHIRE		• 25			•	•	•	• 41	• 41						•
NEW JERSEY	• 56	•		•	•	•	•	•	•	•	•			•	
NEW MEXICO	•	•		•	•	•	•	•	•	•	•			•	• 59
NEW YORK	• 46, 47	• 46	• 24	•	• 48	• 48	• 48	•	•	• 46	• 46			• 47	
NORTH CAROLINA	• 114		• 115	• 116	• 117	•	•	•	•	•	•			•	•
NORTH DAKOTA	•		•	• 51	• 48	• 48	• 48	•	•	•	•			• 37	
OHIO	• 76	• 76		• 21	• 77	•	• 78	• 77	• 79	• 80	•			• 81	• 59
OKLAHOMA	• 86	•	• 45	• 8	•	•	•	•	•	•	•	• 26	• 14	•	• 59
OREGON			• 52	• 51	• 51	• 85	•	• 41	•		•			•	•
PENNSYLVANIA	• 68, 113	• 68	• 54	• 111	• 111	• 55	• 55	• 110	• 6, 111	• 68	•	•	•	• 68	• 112
RHODE ISLAND			•	•	•	•	•	•	•	•	•	•	•	•	• 59
SOUTH CAROLINA	•			•	•	•	•	•	•	•	•			•	•
SOUTH DAKOTA	• 25	• 25	•	•		•	•	•	•	• 25	• 25			• 25	• 25
TENNESSEE	•	• 71	•	• 31	• 70	•	•	•	• 3	• 97	• 15			•	•
TEXAS	• 25	• 25		• 58	• 58	•		• 82	•	• 21	•			•	
UTAH					•	•	•	•	•	•					•
VERMONT			•			•	•	•	•	•	•		•		•
VIRGINIA	• 68	•		• 31	• 31	• 44	• 44	•	•	• 90	• 91		• 92	•	•
WASHINGTON	• 25	• 25	•			•	•	• 82	•	•	•			• 82	
WEST VIRGINIA	• 98	• 99	• 100	• 101	• 102	•		•	•	• 103	• 104	•		• 105	• 106
WISCONSIN	• 62	75•			•	•	•	•	•	• 83	• 83			•	•
WYOMING	• 25	• 25				•	•		•						
STATE TOTALS	**41**	**37**	**28**	**40**	**44**	**49**	**47**	**49**	**50**	**45**	**45**	**8**	**12**	**42**	**41**

Notes for this table can be found at www.siteselection.com/issues/2008/nov/State-Incentives/State-Incentives.pdf.

Business Climate Rankings by State

For Illinois to succeed in attracting and retaining businesses, the State must continuously evaluate their business climate and compare itself to other states across the country. This means reviewing policies, tax structures, and various other factors in the business industry to see how Illinois compares to the nation. If Illinois is perceived inadequate in any area, changes may be necessary to keep the State competitive in the business world. On the other hand, areas where Illinois is shown to be comparatively strong could be looked at as the focus for promoting Illinois to the business community or as an opportunity for revenue growth through the adjustments of perhaps over-zealous tax incentives.

So how does Illinois compare to other states? This is a difficult question to answer because there are numerous factors that could affect the business climate of a state. What may be important to one state may not be as important to another state in attracting jobs. The importance also depends on the type of company that is doing business in a particular area. While difficult, several studies throughout the country have attempted to answer this question of how states compare by quantifying factors that they consider important to businesses. By quantifying these factors, these studies are able to provide rankings that help compare the business climate of one state to another.

This portion of the report will focus on four of these national studies, the *State Business Tax Climate Index*, *The Small Business Survival Index*, *Beacon Hill's Competitiveness Reports*, and the *Economic Freedom Index*. Each of these studies has their own ways of evaluating the business climate of a state. Sometimes the same variables are used in each study, while some studies utilize unique variables in their evaluation. And even if the same variable is used, the weight that each variable holds in comparison to other variables in the study may differ. Because of these factors, the rankings of each state can vary to the point where one state may rank high in one study, but rank poorly in another.

The following pages provide a summary of each study and displays how Illinois ranks in comparison to the rest of the nation. For each of these studies, the overall rankings are shown along with a short synopsis of how these rankings were conceived. Following these summaries is an evaluation of the rankings and a discussion of what some believe these rankings actually tell us. The first study that will be discussed will be the *State Business Tax Climate Index*.

State Business Tax Climate Index

There are numerous factors that go into a company's decision to headquarter in a particular location. An article from *taxfoundation.org* emphasizes this point, "Companies will locate where they have the greatest competitive advantage. States with the best tax systems will be most competitive in attracting new businesses and be the most effective at generating economic and employment growth." For Illinois to be able to land and then keep corporations in Illinois, they must compare favorably with surrounding states.

While it is difficult to know what each business's deciding factor is for making a decision where to locate, a study by the Tax Foundation attempts to compare the business climate of the fifty states by quantifying several factors into a single index. This index, called the *State Business Tax Climate Index* (SBTCI), is, in their words, "designed to measure the competitiveness of each state's tax system so lawmakers, the media and the public alike can gauge how their state compares to other states".

The SBTCI places 112 different variables into five component indexes that each measures a different sector of a state's business tax climate. The five component indexes are the Corporate Tax Index, Individual Income Tax Index, Sales Tax Index, Unemployment Tax Index, and Property Tax Index. The total score for each state is calculated based on the scores for each of the five component indexes.

The results of the study are shown on the following two pages. The study ranked Illinois as having the 23rd best State Business Tax Climate in the nation for FY 2009. The highest ranked states were Wyoming, South Dakota, and Nevada. The lowest ranked states were New Jersey, New York, and California. Rankings of states surrounding Illinois include Indiana (14th), Missouri (16th), Wisconsin (38th), Kentucky (34th), and Iowa (44th). Illinois' ranking of 23rd was a slight improvement from their FY 2007 ranking of 25th.

Looking at each component of the index individually, Illinois ranked in the top half in the individual income tax index (10th), but was in the lower half of the rankings for the corporate tax index (28th), sales tax index (39th), unemployment insurance tax index (43rd), and property tax index (41st). For more information regarding the findings of this study, please see the Tax Foundation's website at *www.taxfoundation.org*.

State Business Tax Climate Index, 2008-2009

	FY 2009 State Business Tax Climate Index		FY 2008 State Business Tax Climate Index		Change from 2008 to 2009	
State	Score	Rank	Score	Rank	Score	Rank
U.S.	5.00	-	5.00	-		
Alabama	5.33	21	5.38	20	-0.05	-1
Alaska	7.33	4	7.28	4	0.05	0
Arizona	5.27	22	5.30	21	-0.03	-1
Arkansas	4.90	35	4.90	37	0.00	2
California	4.15	48	3.99	48	0.16	0
Colorado	5.93	13	5.94	12	-0.01	-1
Connecticut	4.84	37	4.95	36	-0.11	-1
Delaware	6.02	10	6.05	10	-0.03	0
Florida	6.93	5	6.93	5	0.00	0
Georgia	5.19	27	5.21	26	-0.02	-1
Hawaii	5.24	24	5.26	22	-0.02	-2
Idaho	5.12	29	5.19	29	-0.07	0
Illinois	**5.27**	**23**	**5.23**	**23**	**0.04**	**0**
Indiana	5.91	14	5.99	11	-0.08	-3
Iowa	4.37	44	4.42	45	-0.05	1
Kansas	5.10	31	5.03	33	0.07	2
Kentucky	4.98	34	4.97	34	0.01	0
Louisiana	5.01	33	4.95	35	0.06	2
Maine	4.71	40	4.68	40	0.03	0
Maryland	4.33	45	5.23	24	-0.90	-21
Massachusetts	5.03	32	5.05	31	-0.02	-1
Michigan	5.34	20	5.22	25	0.12	5
Minnesota	4.64	41	4.68	41	-0.04	0
Mississippi	5.37	19	5.39	19	-0.02	0
Missouri	5.60	16	5.61	15	-0.01	-1
Montana	6.29	6	6.32	6	-0.03	0
Nebraska	4.58	42	4.53	43	0.05	1
Nevada	7.38	3	7.38	3	0.00	0
New Hampshire	6.17	8	6.27	7	-0.10	-1
New Jersey	3.92	50	3.84	50	0.08	0
New Mexico	5.19	26	5.19	28	0.00	2
New York	4.02	49	4.06	47	-0.04	-2
North Carolina	4.76	39	4.64	42	0.12	3
North Dakota	5.10	30	5.03	32	0.07	2
Ohio	4.16	47	4.11	46	0.05	-1
Oklahoma	5.44	18	5.41	18	0.03	0
Oregon	6.06	9	6.06	9	0.00	0
Pennsylvania	5.17	28	5.18	30	-0.01	2
Rhode Island	4.20	46	3.98	49	0.22	3
South Carolina	5.24	25	5.20	27	0.04	2
South Dakota	7.51	2	7.51	2	0.00	0
Tennessee	5.47	17	5.49	17	-0.02	0
Texas	6.28	7	6.21	8	0.07	1
Utah	5.98	11	5.53	16	0.45	5
Vermont	4.55	43	4.44	44	0.11	1
Virginia	5.73	15	5.78	14	-0.05	-1
Washington	5.94	12	5.91	13	0.03	1
West Virginia	4.88	36	4.84	38	0.04	2
Wisconsin	4.79	38	4.76	39	0.03	1
Wyoming	7.53	1	7.64	1	-0.11	0
District of Columbia	4.55	-	4.49	-	0.06	

Note: The higher the score the better, the more favorable a state's tax system is for business.
Source: Tax Foundation: http://www.taxfoundation.org/files/bp58-es.pdf

Major Components of the State Business Tax Climate Index, FY 2009

State	Overall Rank	Corporate Tax Index Rank	Individual Income Tax Index Rank	Sales Tax Index Rank	Unemployment Insurance Tax Index Rank	Property Index Rank
Alabama	21	21	17	33	14	13
Alaska	4	27	1	4	47	27
Arizona	22	24	23	45	2	4
Arkansas	35	34	31	35	23	18
California	48	45	49	43	16	15
Colorado	13	15	14	12	19	6
Connecticut	37	18	25	25	21	49
Delaware	10	49	28	2	7	8
Florida	5	13	1	21	3	19
Georgia	27	8	30	16	20	36
Hawaii	24	11	38	29	11	9
Idaho	29	17	32	32	45	3
Illinois	**23**	**28**	**10**	**39**	**43**	**41**
Indiana	14	23	11	19	13	7
Iowa	44	46	46	26	35	33
Kansas	31	37	21	17	8	32
Kentucky	34	38	36	7	48	20
Louisiana	33	19	24	46	10	22
Maine	40	43	40	8	40	40
Maryland	45	14	50	10	31	34
Massachusetts	32	47	16	9	49	44
Michigan	20	48	15	11	46	25
Minnesota	41	44	39	40	38	17
Mississippi	19	10	18	34	5	29
Missouri	16	5	27	22	4	11
Montana	6	16	22	3	18	10
Nebraska	42	32	33	42	12	48
Nevada	3	1	1	44	42	16
New Hampshire	8	50	9	1	39	39
New Jersey	50	39	48	41	24	50
New Mexico	26	35	19	47	17	1
New York	49	22	43	49	44	45
North Carolina	39	26	37	38	6	37
North Dakota	30	30	35	27	34	5
Ohio	47	33	47	36	15	46
Oklahoma	18	7	26	31	1	23
Oregon	9	20	34	5	30	14
Pennsylvania	29	41	12	24	26	47
Rhode Island	46	40	42	30	50	46
South Carolina	25	9	29	13	41	26
South Dakota	2	1	1	37	37	12
Tennessee	17	12	8	48	32	38
Texas	7	42	7	28	9	30
Utah	11	6	13	23	27	2
Vermont	43	31	45	15	22	42
Virginia	15	4	20	6	29	28
Washington	12	36	1	50	36	21
West Virginia	36	25	41	20	33	24
Wisconsin	38	29	44	18	25	31
Wyoming	1	1	1	14	28	35

Note: Rankings do not average across to total. States without a given tax rank equally as number 1.
Source: Tax Foundation

The Small Business Survival Index

In December 2008, the Small Business and Entrepreneurship Council released its 13th edition of the "Small Business Survival Index". This report ranks the 50 states according to some of the major government-imposed or government-related costs affecting investment, entrepreneurship, and business. The Index ranks the states according to their public policy climates for entrepreneurship by tying together 34 major government-imposed or government-related costs impacting small businesses and entrepreneurs across a broad spectrum of industries and types of businesses. The Council believes that the "Small Business Survival Index manages to capture much of the governmental burdens affecting critical economic decisions—particularly affecting investment and entrepreneurship—state by state."

Under the Small Business Survival Index (SBSI), the authors state that the lower the index number, the lighter the governmental burdens, and the better the environment for entrepreneurship. They report the SBSI as "a measure by which states can be compared according to how the state and local governments treat small business and entrepreneurs. In essence, it is a comparative measure of economic incentives relating to government policies: the lower the "Small Business Survival Index" number, the greater the incentives to invest and take risks in that particular state."

Overall, Illinois ranked 24th in the nation in the SBSI. The below table shows how Illinois fared in each of the main categories that make up the overall ranking.

Small Business Survival Index (SBSI) 2008: State Rankings
(How Illinois Ranked in each of the Major Categories of the Index)

Category of SBSI	Rank
Personal Income Tax Rates	10th
Individual Capital Gains Tax Rates	12th
Corporate Income Tax Rates	28th
Corporate Capital Gains Tax Rates	29th
State and Local Property Taxes	40th
State and Local Sales, Gross Receipts and Excise Taxes	23rd
Adjusted Unemployment Taxes	20th
Number of Health Insurance Mandates	29th
Electric Utility Costs	29th
Workers' Compensation Benefits Per $100 of Covered Wages	28th
Crime Rate	22nd
Number of Government Employees per 100 Residents	7th
State Gas Taxes	49th
State Diesel Taxes	48th
State and Local Government Six-Year Spending Trends	18th
State and Local Government Expenditures	27th
Highway Cost Effectiveness	34th
OVERALL RANKING	24TH

Source: http://www.sbecouncil.org/uploads/sbsi%202008%5B1%5D1.pdf

While Illinois ranks near the middle of the pack in most categories, their ranking is relatively high in the areas of "personal income tax rates" and "number of government employees per 100 residents", but relatively low in categories relating to motor fuel taxes and in the category of "State and Local Property Taxes."

It should be noted that if Illinois increased their individual income tax rate from 3% to 4.5%, as proposed by Governor Quinn, Illinois' ranking in that specific category would drop from 10th to 16th (of course, depending on what other states do). Similarly, the proposal to increase the corporate income tax rate from 4.8% to 7.2% (or 7.3% to 9.7% if including the corporate replacement tax) would drop Illinois' ranking under this index category from 28th to 48th). It is not clear what these proposals would do to the overall ranking.

Below are the overall 2008 rankings of the Small Business Survival Index for all 50 states. As shown, Illinois ranks 24th overall in this index.

Small Business Survival Index (SBSI) 2008: State Rankings
(Ranked from the Friendliest to the Least Friendly Policy Environments for Entrepreneurship)

Rank	State	SBSI	Rank	State	SBSI
1	South Dakota	26.357	26	Wisconsin	57.601
2	Nevada	30.447	27	Louisiana	57.752
3	Wyoming	37.255	28	New Hampshire	57.795
4	Florida	43.824	29	New Mexico	58.054
5	Washington	44.325	30	Arkansas	58.511
6	Texas	45.543	31	Kansas	58.965
7	South Carolina	48.012	32	Oregon	60.420
8	Alabama	48.807	33	Montana	60.625
9	Virginia	49.073	34	Delaware	60.856
10	Colorado	50.170	35	Idaho	61.514
11	Tennessee	51.310	36	Nebraska	62.359
12	Georgia	52.330	37	Connecticut	62.685
13	Arizona	52.535	38	Maryland	63.289
14	Missouri	52.880	39	North Carolina	63.930
15	Utah	53.028	40	West Virginia	65.384
16	Alaska	53.228	41	Hawaii	67.395
17	Mississippi	53.367	42	Iowa	68.354
18	Ohio	53.853	43	Vermont	70.316
19	Michigan	54.180	44	Massachusetts	71.239
20	Indiana	54.325	45	New York	71.835
21	Oklahoma	54.551	46	Minnesota	71.910
22	North Dakota	56.206	47	Rhode Island	72.671
23	Kentucky	56.373	48	Maine	74.553
24	**Illinois**	**56.404**	49	California	77.358
25	Pennsylvania	57.108	50	New Jersey	78.130

Source: http://www.sbecouncil.org/uploads/sbsi%202008%5B1%5D1.pdf

The State Competitiveness Report

Another report comparing the business climate of states across the country comes from the Beacon Hill Institute at Suffolk University with their release of its Eighth Annual Competitiveness Report. The Institute claims that their report offers a "measure of the microeconomic foundations of prosperity at the state level" and offers a "compelling measure of economic success or failure."

The focus of this report is to identify the qualities that allow some areas to excel in income generation and the qualities that inhibit other areas from attaining the same level of competitiveness. A state is considered competitive if it "has in place the policies and conditions that ensure and sustain a high level of per capita income and continues growth." The Institute states, "To achieve this, a state should be able both to attract and incubate new businesses and to provide an environment that is conducive to the growth of existing firms."

Components of Sub-Indexes for the Competitiveness Report

Sub-Index	Compettititiveness Indicators Index ("objective")
Government & Fiscal Policy	State and local taxes per capita/income per capita (-) Workers' compensation premium rates (-) Bond rating (composite of S&P's and Moody's, scal 1-25 (+) Budget surplus as % of Gross State Product (+) Average benefit per first payment for unemployed (-) Full-time-equivalent state and local government employees per 100 residents (-)
Security	Crime index per 100,000 inhabitants (-) % Change in crime index, 2005-2006 (-) Murders index per 100,000 inhabitants (-) The BGA Integrity Index (+)
Infrastructure	Telephone pnetration (combined Fed/state/local taxes as % of price) (+) High=speed lines per 1000 (+) Air passengers per capita (+) Travel time to work (-) Electricity prices per million BTU (-) Median monthly housing costs (-)
Human Resources	% of population without health insurance (-) % of population aged 25 and over that graduated from high school (+) Unemployment rate, not seasonally adjusted (-) % of students enrolled in degree-granting institutions per 1000 (+) % of adults in the labor force (+) Infant mortaility rate in deaths per 1000 live births (-) Non-federal physicians per 100,000 inhabitants (+) % of students at or above proficient in mathematics, Grade 4 public schools (+)
Technology	Academic R&D per $1,000 GSP (+) NIH support to instititions in the state, per capita (+) Patents per 100,000 inhabitants (+) Science and engineering graduate students per 100,000 inhabitants (+) Science and engineering degrees awarded per 100,000 inhabitants (+) Scientists and engineers as % of labor force (+) Employment in high-tech industry as a % of total employment (+)
Business Incubation	Deposits in commercial banks and savings institutions, per capita (+) Venture capital available per capita (+) Employer firm births per 100,000 inhabitants (+) IPO (A weighted measure of the value and number of initial public Stock offerings of companies as a share of Gross State Product) (+) % of labor force that is represented by unions (-) Minimum wage (-)
Openness	Exports per capita, $ (+) Incoming foreign direct investment per capita, $ (+) % of population born abroad (+)
Environmental Policy	Toxic release inventory, pounds/1000 sq. miles (-) Carbon emission per 1000 sq miles (-) Air quality (% good average days)(+)

Source: www.beaconhill.org

As shown to the left, in an effort to quantify the level of competitiveness, the Institute classifies indicators into eight groups: Government and fiscal policies, security, infrastructure, human resources, technology, business incubation, openness, and environmental policy. These indicators are used to create a competitiveness indicator index.

The report emphasizes that the central goal of this report is to, "engage everyone in thinking about how best to improve long term economic growth, while expanding and maintaining high levels of personal income."

Illinois' ranking in the study and how it compares nationally are shown on the following page.

Overall, Illinois ranked 33rd in the nation for this competitiveness index. Its highest ranking in the sub indexes came in the area of "openness" (ranked 10th), which is defined as "how connected the firms and people in a state are with the rest of the world…based on the level of exports, as well as the percent of the population born abroad." The lowest ranking came in the sub index of infrastructure. Further details of these rankings can be found at the Institute's homepage at www.beaconhill.org.

	Overall		Subindexes, Rank in 2008															
			Govt & Fiscal Policy		Security		InfrStrc		Human Resources		Tech		Biz Incub.		Openness		Enviro Plcy	
	Index	Rank	I	R	I	R	I	R	I	R	I	R	I	R	I	R	I	R
Alabama	3.39	48	4.97	29	3.01	48	4.97	28	3.72	46	4.55	33	4.45	37	4.66	36	4.67	34
Alaska	4.82	24	2.72	50	4.97	28	5.37	16	4.50	34	4.11	38	3.26	50	7.08	1	5.68	11
Arizona	5.10	22	6.20	8	4.45	36	5.03	27	4.81	32	4.69	32	5.44	12	5.23	16	4.46	39
Arkansas	4.03	43	5.23	23	3.95	43	4.84	32	4.01	43	3.58	49	5.35	14	4.37	45	5.70	10
California	4.70	25	3.19	47	5.61	18	3.31	48	4.18	37	5.92	6	5.19	18	6.03	4	4.87	32
Colorado	6.73	4	4.97	30	6.92	1	5.67	9	5.42	20	6.21	4	6.09	6	4.71	34	5.73	9
Connecticut	5.16	21	4.01	43	6.22	2	4.32	38	5.74	13	5.86	7	4.54	36	5.33	12	4.42	41
Delaware	5.37	19	5.05	24	4.40	38	4.80	33	5.10	25	5.50	14	8.53	1	5.27	14	2.92	50
Florida	4.58	32	6.74	1	3.80	45	3.64	47	4.23	36	3.99	43	5.61	11	5.28	13	5.07	26
Georgia	4.28	37	5.88	9	2.89	49	5.21	20	3.70	47	4.45	36	6.45	4	4.80	28	4.50	38
Hawaii	3.94	45	3.14	48	5.34	25	4.00	43	5.46	18	4.51	34	3.53	48	4.97	21	5.41	19
Idaho	6.58	5	5.33	20	5.75	13	6.88	3	5.13	24	5.20	19	6.29	5	4.70	35	5.89	7
Illinois	4.45	33	4.68	35	4.56	33	4.27	40	4.81	31	5.01	24	4.37	39	5.34	10	4.91	30
Indiana	4.37	36	6.33	6	4.56	34	5.32	18	4.85	30	4.48	35	4.36	40	4.98	20	3.45	48
Iowa	5.74	12	5.37	19	5.73	14	6.19	6	6.32	5	5.00	25	3.79	46	4.64	37	5.52	16
Kansas	5.62	18	4.97	31	4.84	30	5.60	12	5.82	12	5.03	23	4.88	25	4.85	25	5.91	6
Kentucky	4.21	38	3.96	44	5.49	20	5.42	15	4.06	42	3.97	44	4.65	34	5.02	19	4.81	33
Louisiana	3.30	49	4.74	33	1.87	50	4.93	29	3.21	49	3.93	45	4.89	24	5.54	7	4.90	31
Maine	4.70	26	3.84	45	6.11	5	4.50	35	5.64	14	3.87	46	4.73	28	4.49	43	5.92	5
Maryland	4.66	28	4.98	28	4.51	35	3.11	49	5.61	15	7.29	2	5.35	15	4.79	29	3.72	46
Massachusetts	7.33	1	4.71	34	6.16	3	4.21	41	7.09	1	8.83	1	6.95	3	5.39	9	4.28	43
Michigan	4.60	30	5.02	26	4.82	31	5.33	17	4.53	33	5.28	18	3.36	49	5.08	18	5.13	24
Minnesota	6.17	7	5.01	27	5.80	12	5.69	8	6.54	2	5.79	10	4.72	30	4.84	26	5.48	18
Mississippi	3.12	50	5.88	10	4.23	42	3.99	44	2.30	50	3.77	48	4.61	35	4.25	48	5.21	22
Missouri	4.61	29	6.20	7	4.37	40	4.60	34	4.90	27	4.86	28	4.68	32	4.48	44	4.99	29
Montana	5.88	10	4.77	32	6.09	6	6.98	2	5.27	22	4.81	29	5.15	19	4.18	50	5.98	4
Nebraska	5.68	14	5.51	16	5.92	10	5.13	25	6.08	8	4.96	26	4.73	29	4.53	42	5.57	14
Nevada	5.64	15	6.57	2	4.44	37	7.22	1	4.06	41	3.34	50	5.75	8	5.33	11	5.11	25
New Hampshire	5.63	17	5.39	18	5.63	16	4.41	36	6.24	6	5.76	11	4.87	26	4.60	38	5.38	20
New Jersey	4.15	42	2.91	49	6.01	8	3.90	46	5.39	21	4.89	27	5.11	20	5.66	6	3.28	49
New Mexico	4.39	34	5.03	25	3.67	46	5.16	22	4.17	38	5.45	15	4.80	27	4.57	40	5.34	21
New York	4.38	35	3.21	46	5.62	17	2.13	50	5.45	19	5.57	13	4.66	33	5.74	5	5.04	27
North Carolina	4.68	27	5.55	15	4.24	41	5.59	13	4.15	39	5.04	22	5.66	9	4.72	33	4.36	42
North Dakota	6.75	3	6.39	5	6.14	4	6.00	7	6.48	4	5.20	20	4.93	23	4.54	41	6.13	1
Ohio	3.95	44	4.18	40	5.59	19	5.64	10	4.89	28	4.73	31	3.82	45	4.77	31	3.49	47
Oklahoma	4.17	40	4.34	38	4.60	32	5.13	23	4.39	35	4.10	39	5.06	21	4.33	47	5.60	13
Oregon	5.97	8	5.78	12	5.38	21	6.52	5	4.88	29	5.40	17	4.18	42	5.25	15	5.49	17
Pennsylvania	4.18	39	4.48	36	5.38	22	4.40	37	5.48	17	5.44	16	4.17	43	4.58	39	3.95	45
Rhode Island	4.58	31	4.21	39	5.64	15	3.91	45	5.15	23	5.96	5	4.39	38	4.87	24	4.66	35
South Carolina	3.93	46	5.71	13	3.92	44	5.11	26	3.50	48	4.00	42	4.97	22	4.92	23	4.51	37
South Dakota	5.75	11	5.87	11	5.37	23	5.57	14	5.84	11	4.12	37	5.61	10	4.23	49	6.12	2
Tennessee	4.16	41	6.49	3	3.53	47	5.24	19	3.75	45	4.04	41	5.29	17	4.77	30	4.43	40
Texas	4.94	23	5.25	21	4.38	39	4.02	42	3.87	44	4.78	30	5.38	13	6.11	3	5.15	23
Utah	6.79	2	6.45	4	4.99	27	5.60	11	6.18	7	5.70	12	7.56	2	4.95	22	4.64	36
Vermont	5.69	13	4.03	42	4.94	29	4.85	31	6.48	3	6.45	3	3.99	44	5.10	17	6.07	3
Virginia	5.64	16	5.62	14	5.01	26	5.13	24	5.03	26	5.80	9	5.85	7	4.80	27	5.01	28
Washington	6.57	6	5.24	22	6.02	7	4.30	39	5.53	16	5.83	8	4.68	31	6.49	2	5.80	8
West Virginia	3.70	47	5.47	17	6.00	9	4.89	30	4.13	40	3.79	47	3.66	47	4.35	46	4.11	44
Wisconsin	5.33	20	4.41	37	5.81	11	5.19	21	5.97	10	5.08	21	4.33	41	4.75	32	5.57	15
Wyoming	5.94	9	4.04	41	5.36	24	6.78	4	5.98	9	4.07	40	5.34	16	5.42	8	5.64	12

U.S. Economic Freedom Index

In September 2008 the Pacific Research Institute released the 2008 edition of the U.S. Economic Freedom Index. The Index self-proclaims itself as "an important tool for measuring how friendly, or unfriendly, each state government is toward free enterprise and consumer choice."

In order to create an index to quantify "economic freedom", the study collected and ranked 143 indicators comprised of 209 underlying variables from five sectors for each state. These five sectors are the fiscal sector, the regulatory sector, the judicial sector, the government-size sector, and the welfare-spending sector. Specifics of the components of each sector can be found at the report's website at www.pacificresearch.org.

Below is a copy of the overall rankings from the 2008 report. As shown, Illinois ranks 27th overall, which is an improvement from their ranking of 46th in 2004. The highest ranked state was South Dakota. The report states that some of the main reasons that South Dakota received this ranking was because it has no corporate income tax, no personal income tax, no personal property tax, no business inventory tax, no inheritance tax, and was ranked as having the best business climate for entrepreneurs by the Small Business Survival Foundation.

U.S. Economic Freedom Index

2008 Rank	State	Score	2004 Rank	1999 Rank	2008 Rank	State	Score	2004 Rank	1999 Rank
1	South Dakota	14.54	15	5	26	Minnesota	20.92	44	43
2	Idaho	14.81	4	1	**27**	**Illinois**	**21.16**	**46**	**36**
3	Colorado	14.91	2	14	28	Florida	21.16	22	30
4	Utah	15.16	5	3	29	Tennessee	21.18	26	19
5	Wyoming	15.39	9	4	30	Oregon	21.24	29	41
6	Nevada	15.70	12	20	31	Texas	21.32	17	8
7	Oklahoma	16.74	6	18	32	Louisiana	21.36	40	31
8	New Hampshire	17.07	7	6	33	Massachusetts	21.72	41	47
9	Virginia	17.99	3	2	34	Maryland	21.73	27	35
10	Kansas	18.06	1	10	35	Maine	21.81	30	42
11	Georgia	18.22	19	12	36	North Carolina	21.87	24	17
12	North Dakota	18.56	18	21	37	Washington	21.92	31	40
13	Montana	18.56	21	26	38	West Virginia	22.55	32	32
14	Arkansas	18.82	23	15	39	Connecticut	22.669	48	46
15	Missouri	18.90	10	13	40	Kentucky	22.71	39	29
16	Alabama	19.03	25	11	41	New Mexico	22.82	37	28
17	South Carolina	19.08	13	16	42	Vermont	22.87	36	34
18	Wisconsin	19.15	38	37	43	Michigan	23.08	34	27
19	Mississippi	19.28	28	9	44	Ohio	23.34	43	33
20	Delaware	19.61	8	7	45	Alaska	23.38	33	38
21	Arizona	19.78	11	25	46	Pennsylvania	23.88	45	45
22	Iowa	19.88	16	24	47	California	23.89	49	44
23	Indiana	19.92	14	22	48	New Jersey	23.94	42	48
24	Hawaii	19.92	35	39	49	Rhode Island	24.18	47	49
25	Nebraska	19.93	20	23	50	New York	27.39	50	50

Source: http://liberty.pacificresearch.org/publications/us-economic-freedom-index-2008-report-2

In contrast, the lowest ranked states were Pennsylvania, California, New Jersey, Rhode Island, and New York. The report points out that the states with the biggest improvements in the index were Minnesota, Illinois, and Wisconsin (compared to their ranking in 2004). Commenting on this fact, the report reads, "There is an economic-freedom renaissance in the Upper Midwest and it is no accident that they are all neighbors – when one state reforms, it puts pressure on it neighbors to improve or be at a competitive disadvantage for attracting people and capital."

The table below is a listing of the State rankings by sector. Illinois scores the highest in the area in the regulatory sector (8th). The state scores in the middle of the pack in the welfare spending (26th), judicial (30th), and government size (34th) sectors. Finally, Illinois had its lowest ranking in the fiscal sector (ranked 40th). For the purposes of this index, the report states that, "the higher the tax rates and tax revenues, the more that government is violating economic freedom." Again, questions and answers regarding these rankings can be obtained at the study's website.

Sector Scores and Rankings of the 2008 Economic Freedom Index

	Fiscal		Regulatory		Judicial		Government Size		Welfare Spending	
State	Score	Rank	Score	Rank	Score	Rank	Score	Rank	Score	Rank
Alabama	17.83	2	12.22	15	12.07	19	29.29	36	26.56	27
Alaska	24.63	30	12.89	24	12.07	19	26.57	31	38.78	49
Arizona	21.46	14	15.98	43	14.67	32	20.43	11	25.22	23
Arkansas	20.54	10	13.78	31	15.73	37	21.86	13	22.56	17
California	25.63	35	17.76	48	15.93	38	23.29	18	34.22	46
Colorado	19.17	6	12.47	18	10.67	11	16.71	6	15.44	4
Connecticut	29.11	45	13.27	29	17.47	44	21.86	13	29.33	35
Delaware	27.43	41	10.44	4	23.33	50	15.29	3	19.56	13
Florida	28.54	44	17.36	45	11.80	15	25.29	26	22.78	18
Georgia	18.57	3	10.76	6	11.93	17	30.71	38	23.22	20
Hawaii	21.34	13	14.49	38	14.87	34	16.14	5	29.22	33
Idaho	23.74	26	11.62	10	8.27	3	20.00	10	11.67	2
Illinois	27.17	40	11.18	8	14.33	30	28.29	34	26.11	26
Indiana	20.86	11	15.31	39	13.73	25	24.71	22	25.56	25
Iowa	23.06	23	12.44	17	11.73	14	29.14	35	25.22	23
Kansas	22.66	20	11.82	13	11.87	16	31.57	40	17.33	8
Kentucky	23.09	24	13.40	30	13.93	28	32.43	42	32.67	43
Louisiana	24.11	28	19.09	50	14.80	33	22.86	16	25.11	22
Maine	25.60	33	12.60	20	15.53	36	22.43	15	31.00	41
Maryland	28.11	43	13.22	28	19.87	47	25.29	26	22.89	19
Massachusetts	25.89	36	10.20	3	22.60	49	23.00	17	26.67	28
Michigan	25.60	33	13.84	32	14.33	30	33.00	45	30.78	40
Minnesota	26.20	38	14.24	36	10.13	10	27.86	33	26.78	29
Mississippi	18.94	4	11.82	13	8.33	4	34.00	48	27.44	30
Missouri	20.26	9	14.24	36	11.67	13	32.86	44	20.44	14
Montana	22.66	20	9.96	1	9.53	8	19.71	8	28.78	32
Nebraska	29.63	46	13.07	25	13.80	26	20.86	12	21.11	15
Nevada	26.71	39	11.64	11	10.07	9	10.71	1	15.67	5
New Hampshire	19.77	8	12.71	22	13.07	22	24.57	21	17.78	9
New Jersey	31.46	50	16.64	44	13.07	21	32.57	43	27.44	30
New Mexico	22.26	18	15.47	41	18.20	46	23.86	19	33.00	44
New York	30.17	48	14.04	35	17.47	43	37.71	50	39.22	50
North Carolina	26.09	37	13.89	33	16.27	39	31.71	41	24.44	21
North Dakota	19.43	7	11.51	9	7.67	1	25.14	25	29.22	33
Ohio	29.94	47	15.62	42	8.20	2	33.71	47	30.56	39
Oklahoma	21.51	15	12.40	16	8.40	5	29.71	37	16.11	6
Oregon	25.43	32	15.33	40	9.40	7	23.86	20	30.44	38
Pennsylvania	27.69	42	12.56	19	18.13	45	33.14	46	30.22	37
Rhode Island	23.83	27	17.56	46	21.80	48	13.57	2	37.56	48
South Carolina	22.80	22	13.89	33	13.93	28	25.00	24	21.22	16
South Dakota	16.57	1	10.89	7	12.00	18	17.14	7	16.56	7
Tennessee	23.69	25	10.64	5	13.60	24	26.29	29	31.56	42
Texas	24.51	29	18.67	49	13.87	27	37.43	49	18.44	10
Utah	20.86	11	10.13	2	8.73	6	15.57	4	19.00	12
Vermont	24.66	31	12.87	23	17.00	42	25.71	28	33.22	45
Virginia	22.09	17	12.67	21	16.93	41	31.14	39	13.11	3
Washington	21.91	16	11.67	12	13.47	23	27.43	32	34.89	47
West Virginia	22.31	19	17.56	46	16.73	40	26.29	29	29.89	36
Wisconsin	31.37	49	13.11	27	11.13	12	19.86	9	18.78	11
Wyoming	19.09	5	13.07	25	15.47	35	24.71	22	9.22	1

Source: http://liberty.pacificresearch.org/publications/us-economic-freedom-index-2008-report-2

What do the Rankings Tell Us?

For each of the studies shown in this report, Illinois' overall ranking was near the middle of the pack. On page 46 is a summary of all of the final rankings discussed in this report including their average ranking. As shown, Illinois' average ranking was 26.8 for the four studies, which made them the 28th highest ranked state overall.

When combining all of the rankings together, there are several states that rank high in each study. South Dakota, Wyoming, Nevada, Colorado, and Utah all score in the top 15 of each study. Conversely, New Jersey, New York, and West Virginia all score in the bottom 15 of each study. Illinois scores are also consistent, ranking in the middle of the pack (between 23rd and 33rd) in all four rankings.

However, the results also present some noticeable differences. For example, although Illinois' ranking stayed relatively consistent, Massachusetts had very diverse results. In the Small Business Survival Index, Massachusetts ranked 44th. However, in the Competitiveness Report, Massachusetts ranked 1st. The other two studies ranked the state 23rd and 27th. Idaho ranked 2nd in the Economic Freedom Index, but ranked 29th in the State Business Climate Index and 35th in the Small Business Survival Index.

Looking at all the studies, 23 different states could brag that they had a top ten ranking in one of the studies. Thirty-four different states could boast that they are in the top 20 of a study. Since the results of these states vary so much, the question becomes, which of these studies accurately show which state is best for business and do these rankings actually serve a useful purpose? These are questions that the Economic Policy Institute addressed in their article, *"Grading Places: What Do the Business Climate Rankings Really Tell Us?"*. The following is an excerpt from this article.

> *One might argue that disparities between the indexes is to be expected because they are attempting to measure different things. The overall business climate is not the same as a nurturing environment for small business, nor is "economic freedom" the same as the business tax climate. Yet all of the organizations creating these indexes assert that they are measuring something of critical importance to a state's economic future and its potential for growth. On that basis, they should produce roughly consistent results.*
>
> *The underlying problem with the (four) indexes, of course, is twofold: none of them actually do a very good job of measuring what it is they claim to measure, and they do not, for the most part, set out to measure the right things to begin with. The Small Business Survival Index is in fact almost entirely about tax burdens on upper-income residents rather than about state programs or policies to assist entrepreneurship or small business growth. The Economic Freedom Index is a sometimes bizarre collection of policies and laws libertarians love, or love to hate, but few have any plausible connection to a state's economic potential.*

The State Business Tax Climate Index is a large and complex undertaking but ends up generating a number that has little relation to the actual taxes falling on new business investment in a state. The Beacon Hill Competitiveness Index is a hopeless mishmash of causal and performance variables that render it useless as an overall predictor of anything.

…It is clear that the real audience for all four of these indexes is state policy makers. Some of the reports are broadcast widely to state legislators through the ideological ALEC, the American Legislative Exchange Council. None of the organizations are bashful about drawing conclusions for public officials; they argue, in so many words: "Our index is a guide to what you need to change in state policy in order for your state to prosper." And the factors that make up the indexes clearly are designed to promote a particular political agenda: in most cases, the agenda is limited government, low taxes, spending cuts, and less regulation.

Do the businesses making investment and location decisions pay any attention to these state rankings? Here it is instructive to look at the publications aimed at corporate location executives and site location consultants…(S)uch publications do indeed like to publish rankings of places. A striking difference, however, is that the business magazine rankings are much broader in scope. The two that are aimed at creating an index of growth potential or competitiveness look at the whole range of factors that are important to business and/or to employees, including labor costs, cultural and recreational amenities, climate, energy costs, transportation, educational attainment, school quality, and health care.

Tax levels are part of the equation, but only a small part. Most of the other, and more important, factors are either not amenable to change through legislation, or can be improved only through active government programs, which tends to mean increased spending and taxation. That is no doubt why we don't find them among the criteria of the limited government, anti-tax think tanks.

It is precisely because the competitiveness indexes produced by the ideological think tanks are aimed at promoting particular kinds of legislation that they do a poor job of predicting state economic growth: the measures used must pass an ideology screen, so the validity and relevance criteria go by the wayside. This is also why the indexes are probably ignored by the business people actually making the decisions. They should be ignored by policy makers for the same reason.

Overall Ranking of Each State for All Studies

State	State Business Tax Climate Index Rank	Small Business Survival Index Rank	Competitiveness Report Rank	Economic Freedom Rank	Overall Average Ranking	Overall Rank
South Dakota	2	1	11	1	3.8	1
Wyoming	1	3	9	5	4.5	2
Nevada	3	2	15	6	6.5	3
Colorado	13	10	4	3	7.5	4
Utah	11	15	2	4	8.0	5
Washington	12	5	6	18	10.3	6
Virginia	15	9	16	9	12.3	7
New Hampshire	8	28	17	8	15.3	8
Montana	6	33	10	13	15.5	9
North Dakota	30	22	3	12	16.8	10
Texas	7	6	23	31	16.8	10
Florida	5	4	32	28	17.3	12
Idaho	29	35	5	2	17.8	13
Missouri	16	14	29	15	18.5	14
Arizona	22	13	22	21	19.5	15
Oregon	9	32	8	30	19.8	16
Delaware	10	34	19	20	20.8	17
Oklahoma	18	21	40	7	21.5	18
Georgia	27	12	37	11	21.8	19
Alaska	4	16	24	45	22.3	20
Kansas	31	31	18	10	22.5	21
Alabama	21	8	48	16	23.3	22
Indiana	14	20	36	23	23.3	22
South Carolina	25	7	46	17	23.8	24
Tennessee	17	11	41	29	24.5	25
Wisconsin	38	26	20	18	25.5	26
Mississippi	19	17	50	19	26.3	27
Illinois	**23**	**24**	**33**	**27**	**26.8**	**28**
Iowa	44	42	2	22	27.5	29
Massachusetts	32	44	1	33	27.5	29
Michigan	20	19	30	43	28.0	31
Nebraska	42	36	14	25	29.3	32
Minnesota	41	46	7	26	30.0	33
Arkansas	35	30	43	14	30.5	34
New Mexico	26	29	34	41	32.5	35
Connecticut	37	37	21	39	33.5	36
Hawaii	24	41	45	24	33.5	36
Kentucky	34	23	38	40	33.8	38
Pennsylvania	29	25	39	46	34.8	39
Louisiana	33	27	49	32	35.3	40
North Carolina	39	39	27	36	35.3	40
Vermont	43	43	13	42	35.3	40
Maryland	45	38	28	34	36.3	43
Maine	40	48	26	35	37.3	44
Ohio	47	18	44	44	38.3	45
West Virginia	36	40	47	38	40.3	46
California	48	49	25	47	42.3	47
Rhode Island	46	47	31	49	43.3	48
New York	49	45	35	50	44.8	49
New Jersey	50	50	42	48	47.5	50

V. BUSINESS SITE SELECTION SURVEY

As the previous article from the Economic Policy Institute alluded to, tax levels are part of the equation for making investment and location decisions, but in reality, they may only be a small part of that equation. Of course, it is probably not fair to say that tax incentives are only a small factor in site selection for every company. This could be a crucial aspect to many companies across the state. However, from an overall standpoint, many studies suggest that tax incentives may not be as important as government officials are led to believe.

Recently, a survey entitled, "Area Development's 2008 Corporate and Consultants Surveys" was released. The 2008 survey looked at what businesses considered "very important" or "important" when considering site selection factors.

As shown on the right, the biggest factor for selection a site to do business was highway accessibility, where 95.4% of the firms considered this important. These factors were followed by labor costs and occupancy/construction costs.

In this survey, tax exemptions were ranked 4th with 88.6% of firms considering this factor as important. Ranked 7th was state and local incentives followed by the corporate tax rate as the 8th highest important factor in the study.

Corporate Survey 2008
Combined Ratings* of 2008 Factors

Ranking	Site Selection Factors	%
1	Highway accessibility	95.4
2	Labor costs	91.4
3	Occupancy and construction costs	90.4
4	Tax exemptions	88.6
5	Energy availability and costs	87.9
6	Availability of skilled labor	87.7
7	State and local incentives	87.2
8	Corporate tax rate	85.3
9	Low union profile	82.7
10	Available land	82.0
11	Availability of buildings	80.8
12	Proximity to major markets	78.7
13	Right-to-work state	76.6
14	Environmental regulations	76.1
15	Expedited or "fast-track" permitting	72.5
16	Proximity to suppliers	69.2
17	Availability of long-term financing	64.2
18	Availability of unskilled labor	62.9
19	Training programs	62.3
20	Raw materials availability	56.8
21	Availability of advanced ICT services	55.5
22	Accessibility to major airport	53.3
23	Proximity to technical university	38.4
24	Railroad service	27.2
25	Waterway or oceanport accessibility	15.7

**All figures are percentages and are the total of "very important" and "important" ratings of Area Development Corporate Survey and are rounded to the nearest tenth of a percent.*

Corporate Survey Results
Average Ranking from 1997 to 2008

Site Selection Factors	Average Ranking	2008 Ranking
Highway accessibility	1.8	1
Labor costs	2.3	2
Availability of skilled labor	3.3	6
Occupancy and construction costs	5.5	3
State and local incentives	5.5	7
Corporate tax rate	6.4	8
Energy availability and costs	7.2	5
Tax exemptions	7.3	4
Availability of advanced ICT services	9.5	21
Available land	10.3	10
Proximity to major markets	10.8	12
Environmental regulations	11.5	14
Low union profile	12.3	9
Right-to-work state	15.4	13
Proximity to suppliers	16.8	16
Availability of long-term financing	17.8	17
Availability of unskilled labor	17.9	18
Raw materials availability	18.8	20
Training programs	20.2	19
Accessibility to major airport	20.4	22
Proximity to technical university	22.5	23
Railroad service	23.3	24
Waterway or oceanport accessibility	24.4	25
Availability of buildings **	N/A	11
Expedited or "fast-track" permitting**	N/A	15

**All figures are percentages and are the total of "very important" and "important" ratings of Area Development Corporate Survey and are rounded to the nearest tenth of a percent.*

*** Averages for these factors are unavailable due to the limited amount of years thate these factors were included in the survey.*

Looking at Area Development's Corporate Survey since 1997, the results are somewhat different after the first two factors when comparing the 2008 results to long term averages.

Highway accessibility and labor costs were the two most important factors for site selection over this time period similar to the 2008 survey. However, the availability of skilled labor and state and local incentives have been more important factors to site selection in the past than in 2008.

The availability of skilled labor was the third most important factor, while occupancy and construction costs and state and local tax incentives were the next most important factor, each averaged a ranking of 5.5.

Corporate tax rate was the sixth most important factor. Tax exemptions, which were the fourth highest rated factor in 2008, averaged a ranking of 7.3 from 1997 to 2008. This placed tax exemptions as the eighth most important factor.

It must be noted that while over 11 of these factors were "very important" or "important" in 2008, only three factors, highway acessiblity (63.6%), low union profile (53.6%), and labor costs (53.0%), were seen as "very important" by more than 50% of the respondants. The availability of skilled labor almost made this threshold at 49.4%. State and local incentives were "very important" to 43.6% of the respondants, while both tax exemptions and the corporate tax rate were both just below 40%.

VI. OPINIONS ON THE EFFECTIVENESS AND IMPORTANCE OF TAX INCENTIVES

Like most economic-related subjects, the importance of tax incentives for businesses has a wide variety of viewpoints. For example, an article from the Economic Policy Institute entitled, "Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development" states the following:

> *Studies that examine why firms locate where they do show that state and local taxes play only a minor role in investment decisions and that lower taxes fail to generate a significant number of new jobs. State and local tax incentives do not work because state and local taxes are not a significant cost of doing business and do not substantially affect profits. Nor are state and local taxes the only or the most important determinant of a state's business climate. Furthermore, tax incentives are not necessary to maintain competitiveness and they fail to promote large-scale saving and investment.*
>
> *In short, state and local tax cuts and incentives are not effective for stimulating economic activity or creating jobs in a cost-efficient manner. On the contrary, by forcing reductions in public services, tax cuts and incentives may retard economic and employment growth...*
>
> *....Of course, the purpose of state and local government is not only to promote economic growth. So, even if there were instances when the positive economic effects of tax cuts equaled or outweighed the negative economic effects of public-services cutbacks, a policy of state and local tax and spending cuts would not necessarily be justified. After all, a principal motive for state and local public spending is to provide direct benefits to citizens through public services in order to improve their quality of life. People benefit directly from public educational institutions, recreational facilities, parks, museums, cultural facilities, public health services, fire protection, police protection, foster care services, child protection services, roads, bridges, airports, port facilities, job training programs, snow removal, environmental protection programs, wildlife protection programs, weather prediction services, labor laws, emergency and disaster relief, and consumer protection programs. The positive economic effects of public spending come in addition to these direct benefits. Hence, while policy makers must consider both tax and public-services effects on business and economic growth, they should also consider the effects of public services on the quality of life of the citizens they represent.*

A University of Vermont study also was conducted on this subject and echoed the viewpoint of many other studies, lessening the importance of tax incentives:

> *In general, the extant literature on business decisions suggests that state and local taxes (and, conversely, tax incentive packages, including capital gains exemptions) are but one of a number of factors that businesses consider when deciding where to locate or relocate. Furthermore, while state and local tax burdens are considered when businesses move, they are usually rated by the business decision makers as being of secondary importance in such decisions. According to one published study, "cost factors" in location decisions are not limited to quantitative analysis but also include the measurement of intangible and qualitative factors, such as*
>
> > *risks associated with the costs or demand estimates, business climate of locations, education of the labor force, attitudes of the workforce toward productivity, change, unionization, cultural attributes of the location, local and state government attitudes, commuting distances for workers and managers, and impact of other businesses in the area (Journal of Urban Economics).*

While the previous articles have dismissed tax incentives as a strong tool for obtaining businesses, an article from area.development.com, entitled, "Taxes and Incentives - Factor Into the Site Selection Equation" has a much different opinion:

> *Whether the impact of incentives is short term in offsetting the up-front costs of an investment or longer term in reducing operating costs, the effects of inducements can have a significant impact upon the competitiveness of operations at alternative sites. We have seen numerous occasions where a company's initial preferable location for investment was upended by the impact of incentives upon start-up and operational costs. In some cases, the impact has been significant enough to reverse decisions that were far along in the corporate approval process.*
>
> *Incentives not only influence decisions regarding alternative locations for investment, but may also be the determining factor as to whether an investment with a single location option goes forward. We have seen instances in which the return on investment required by an approving corporate board has been substantially influenced by incentives. In other words, the shorter-term return on the investment does not allow management to justify the investment without the financial benefit of incentives.*
>
> *State and local taxes and incentives will continue to be a key factor in location decision-making. Taxes will likely grow as a component of operating costs, while businesses will view incentives as a viable means to reduce these costs and increase return on investment. For states and*

> *communities, tax structures and tax incentives will both be scrutinized to determine the fiscal and economic impacts upon their economies and upon the competitiveness of these jurisdictions in attracting new investment.*

As the previous articles have shown, many see tax incentives as, "overrated" and perhaps a waste of taxpayer's money, while others believe that tax incentives can be the difference in the relocation decisions of companies. This inconsistency may be because it depends on the type of tax incentive in question.

For example, in 2007, the Center for Business and Economic Research at the University of Kentucky looked at the importance of tax incentives, and submitted to the Kentucky Cabinet of Economic Development a paper entitled, "An Examination of Incentives to Attract and Retain Businesses in Kentucky". The authors, in their examination, came to the following main conclusions:

- *Given that we find no evidence of a relationship between economic activity and financing, the recent decline in this program seems appropriate.*

- *Based on our evidence showing that training incentives are positively related to economic activity in an area, and given that relatively little is spent on this program, the Legislature may want to consider increasing the amount spent on training incentives.*

- *While the tax incentive program is associated with an increase in economic activity in an area, before recommending the program be expanded we need to examine in more detail the impacts of the separate tax incentive programs.*

- *Addressing the question of whether business incentives affect a firm's location decision requires data on both the incentives offered to the firm by Kentucky as well as incentives offered by other states trying to attract the firm. Since it is unlikely that data on other states' incentives will ever be available, we are unable to examine this question.*

A draft version of a 2008 study on North Carolina's tax incentives by the University of North Carolina Center for Competitive Economies had similar mixed findings. This study found:

- *Companies taking job creation tax credits had a generally positive average employment slope but the credit did not appear to impact the rate of job creation.*

- *Companies that only took a Machinery and Equipment tax credit in 2004 demonstrated an employment loss in subsequent years,* *which may illustrate that companies taking the M&E credit were more susceptible to economic downturns or that these companies are engaging in capitalization- the substitution of labor with capital (i.e. machinery and equipment).*

- *An examination of research and development tax credits for 2004 revealed positive employment growth.*
- *Statutory tax credits are having little to no effect on employment growth and or a limited impact on company expansion/location decisions in North Carolina.*
- *The State's discretionary programs are better targeted to the State's targeted industry clusters and are more likely to influence a company's location or expansion decision.*
- *Tax incentives are most effective when the targeted prospects are highly mobile, the incentives are tailored to the company's specific priorities, and the incentives are front loaded.*

Finally, an article from the W.E. Upjohn Institute for Employment Research provides an opinion on the benefits vs. costs of incentives:

> *(T)he average incentive program does not make sense in a low-unemployment area. If unemployment is low, local residents can easily find jobs, and the earnings benefits from greater employment rates will overstate the social benefits of new jobs.*
>
> *Economic development incentive programs are more likely to pass a benefit cost test if (1) local unemployment is high, so the new jobs are needed by local residents; (2) the jobs pay higher wages; (3) more of the jobs go to local residents...*
>
> *...The issue isn't whether economic development incentives can work; empirical evidence suggests they can. The issues are whether benefits of incentives outweigh costs, and how benefits and costs are affected by local conditions and incentive design.*

Source: http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=3667

VII. CONCLUSION

At the request of the House Revenue and Finance Committee, the Commission was asked to examine Illinois' current tax incentives and economic growth programs, examine the State's business tax climate, and analyze the importance and effectiveness of tax incentives for Illinois businesses.

Nearly two decades ago, the Commission took on a similar assignment. In June 1990, the Commission, then known as the Illinois Economic and Fiscal Commission, produced a comprehensive report entitled, "Report to the Illinois General Assembly on Economic Development." A review of the literature at that time led the Commission to the following conclusions:

- *Despite the fact that the number of states offering programmatic and financial incentives to business and industry, there is no statistical evidence that business incentives actually create jobs.*
- *The presence or absence of such incentives is not a primary influence in a business location decision.*
- *Incentives do appear to have a psychological and political influence.*

Interestingly, these conclusions appear to still hold true today. The Commission's literature review of tax incentives and their effectiveness concluded that "*state and local tax cuts and incentives are not effective for stimulating economic activity or creating jobs in a cost-efficient manner.*" An examination of corporate survey data related to business site selection continues to point to the fact that while tax incentives and corporate tax rates do affect site selection, they are of secondary importance.

Proponents of these types of policies, however, point to individual companies who indeed benefit from these types of policies and state that "*Incentives not only influence decisions regarding alternative locations for investment, but may also be the determining factor as to whether an investment with a single location option goes forward.*" Other studies have found positive results from tax incentives especially when the prospective recipients are highly mobile and the incentives are tailored to the company's specific priorities.

In the end, it is difficult to render an opinion as to whether certain tax incentives in Illinois should be eliminated. While this report has not addressed political or policy implications of tax incentives, they cannot be ignored. This leaves lawmakers, in a time of struggling budgetary conditions, the unenviable task of deciding which tax incentive is important enough to keep, and which can be sacrificed as a target of much-needed revenues for the State. Tax incentives obviously are very important for those companies that are benefiting from these incentives. But would the removal of these incentives cause these companies to leave Illinois for "greener pastures"? Again, this is difficult to surmise without looking at each business and their incentives on a case-by-case basis. Arguments can no doubt be made from either viewpoint.

BACKGROUND

The Commission on Government Forecasting and Accountability (CGFA), a bipartisan, joint legislative commission, provides the General Assembly with information relevant to the Illinois economy, taxes and other sources of revenue and debt obligations of the State. The Commission's specific responsibilities include:

1) Preparation of annual revenue estimates with periodic updates;
2) Analysis of the fiscal impact of revenue bills;
3) Preparation of "State Debt Impact Notes" on legislation which would appropriate bond funds or increase bond authorization;
4) Periodic assessment of capital facility plans;
5) Annual estimates of public pension funding requirements and preparation of pension impact notes;
6) Annual estimates of the liabilities of the State's group health insurance program and approval of contract renewals promulgated by the Department of Central Management Services;
7) Administration of the State Facility Closure Act.

The Commission also has a mandate to report to the General Assembly ". . . on economic trends in relation to long-range planning and budgeting; and to study and make such recommendations as it deems appropriate on local and regional economic and fiscal policies and on federal fiscal policy as it may affect Illinois. . . ." This results in several reports on various economic issues throughout the year.

The Commission publishes several reports each year. In addition to a Monthly Briefing, the Commission publishes the "Revenue Estimate and Economic Outlook" which describes and projects economic conditions and their impact on State revenues. The “Bonded Indebtedness Report" examines the State's debt position as well as other issues directly related to conditions in the financial markets. The “Financial Conditions of the Illinois Public Retirement Systems” provides an overview of the funding condition of the State’s retirement systems. Also published are an Annual Fiscal Year Budget Summary; Report on the Liabilities of the State Employees’ Group Insurance Program; and Report of the Cost and Savings of the State Employees’ Early Retirement Incentive Program. The Commission also publishes each year special topic reports that have or could have an impact on the economic well being of Illinois. All reports are available on the Commission’s website.

These reports are available from:

Commission on Government Forecasting and Accountability
703 Stratton Office Building
Springfield, Illinois 62706
(217) 782-5320 (217) 782-3513 (FAX)

http://www.ilga.gov/commission/cgfa2006/home.aspx