

Presented to:

HOUSE REVENUE/STATE GOVERNMENT ADMINISTRATION COMMITTEE

Tax Incentives in Illinois



Presented by:

Commission on Government Forecasting and Accountability
703 Stratton Office Building; Springfield, Illinois 62706

January 17, 2014

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<http://cgfa.ilga.gov>

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CGFA Background & Responsibilities

- Bi-Partisan, 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.
- Preparation of annual revenue estimates with periodic updates;
- Analysis of the fiscal impact of revenue bills;
- Preparation of State Debt Impact Notes;
- Periodic assessment of capital facility plans;
- 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;
- Implement the provisions of the State Facility Closure Act;
- Annual estimates of public pension funding requirements and preparation of pension impact notes.

BUSINESS TAX INCENTIVES

- Businesses in Illinois benefited from \$1.15 billion business related tax incentives. The breakdown is as follows:
 - Sales Tax Incentives: \$523.7 million
 - Individual Income Tax Incentives : \$28.6 million
 - Corporate Income Tax Incentives : \$310.9 million
 - Other Tax Incentives: \$290.6 million

SOURCE: Comptroller's FY 2012 Tax Expenditure Report

BUSINESS TAX INCENTIVES

- The business tax incentives with the largest cost in the FY 2012 report were:
 - Illinois Net Operating Loss Deduction (CIT): \$219.0 M
 - Manufacturing and Assembling Machinery and Equipment Exemption (Sales Tax): \$183 M
 - Retailers Discount (Sales Tax): \$121 M
 - Sales for Use Other Than In Motor Vehicles Exemption (Other Tax): \$116 M
 - Rolling Stock Sales Tax Exemption (Sales Tax): \$74 M

SOURCE: Comptroller's FY 2012 Tax Expenditure Report

HIGH IMPACT BUSINESSES IN ILLINOIS

HIGH IMPACT BUSINESSES (HIB) IN ILLINOIS

as of November 2013

HIB DESIGNATED COMPANIES

Business	Location
Abbott Laboratories	Lake Forest, Abbott Park
AbbVie Inc.	North Chicago
Caterpillar	Mossville, Pontiac, Aurora
Hospira	Lake Forest
Navistar, Inc. and Subsidiaries	Joliet, Lisle, Melrose Park
NB Holdings Corporation	Chicago
OfficeMax Incorporated	Naperville
TACT Holding, Inc. & Affiliates	Minooka
Takeda	Deerfield
UBS AG	Chicago
Walgreens Corporation and Subsidiaries	Bannockburn, Buffalo Grove, Chicago, Deerfield, Lincolnshire, Mount Prospect, Northbrook, and Northlake

HIB WIND FARM DESIGNATIONS

Company Name	Project Name	Location
California Ridge Wind Energy, LLC	California Ridge Wind Energy Center	Champaign/Vermilion Co.
California Ridge Wind Energy II, LLC	California Ridge Wind Energy Center II	Vermilion County
FPL Energy Illinois Wind, LLC and Lee North, LLC	Lee/DeKalb Illinois Wind Energy Project	Lee/DeKalb County
GSG 6, LLC	Shady Oaks Wind Farm	Lee County
Heartland Wind, LLC	Otter Creek Wind Farm	LaSalle County
K4 Wind Farm, LLC	K4 Wind Farm	Kankakee/Ford/Iroquois Co.
Lexington Chenoa Wind Farm, LLC	Bright Stalk Wind Farm	McLean County
Minonk Wind, LLC	Minonk Wind Farm	Livingston/Woodford Co.
Pioneer Trail Wind Farm, LLC	Pioneer Trail Wind Farm, LLC	Ford/Iroquois Co.
Settlers Trail Wind Farm, LLC	Settlers Trail Wind Farm	Iroquois County

SOURCE: DCEO

RECENTLY ENACTED LEGISLATION IMPACTING TAX INCENTIVES

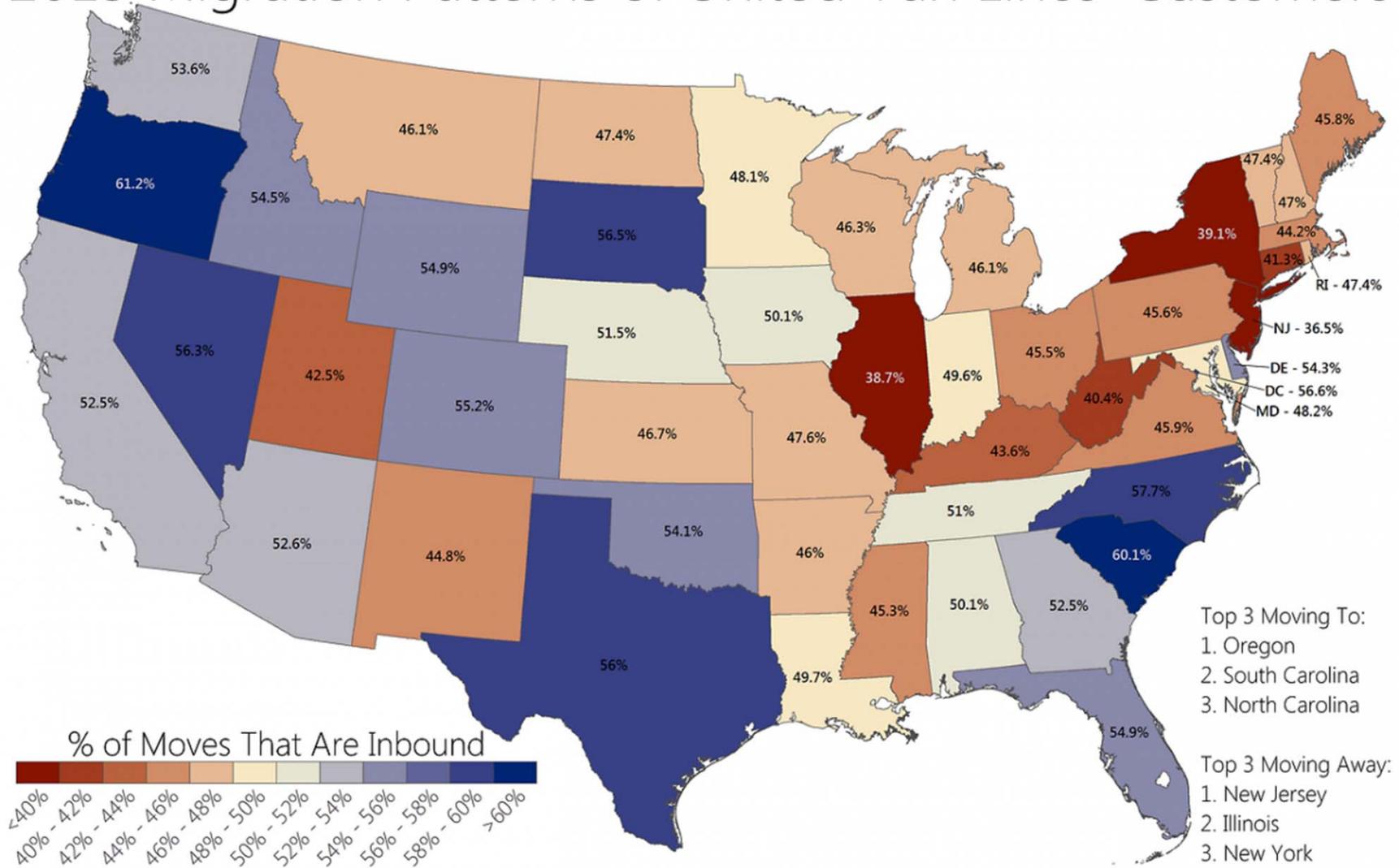
- **Chicago Mercantile Exchange (CME):** P.A. 97-0636 (SB 0397) amended the Illinois Income Tax Act to provide that business income of a federally-regulated exchange shall, at the option of the federally-regulated exchange, be apportioned to this State based on a new formula. It was reported that the estimated cost of this change would be approximately **\$100 million per year** under full implementation (\$80 million – State, and \$20 million – Local).
- **Sears:** P.A. 97-0636 (SB 0397) amended the Economic Development for a Growing Economy Tax Credit Act by offering the EDGE credit to Sears. In addition, an extension of the 1992 Economic Development Agreement (EDA) in Hoffman Estates was offered. According to various sources, the cost of the tax incentives for Sears is approximately **\$15 million per year**.
- **Champion Laboratories, Inc.:** P.A. 97-0636 (SB 0397) amends the Economic Development for a Growing Economy Tax Credit Act by offering the EDGE credit to Champion Laboratories, Inc. in Albion, Illinois. According to estimates from the Department of Commerce and Economic Opportunity, the cost of this EDGE credit is estimated to be approximately **\$0.35 million per year** for ten years for a cumulative total of \$3.5 million.

PROPOSED LEGISLATION IMPACTING TAX INCENTIVES

- **Several pieces of legislation arose during the 2013 Spring/Fall Session which would provide certain companies with the opportunity to receive the Economic Development for a Growing Economy (EDGE) Tax Credit and the ability to claim the EDGE credit against their withholding tax obligations if they meet certain requirements. Although these proposals did not obtain legislative approval during these sessions, the estimated reported cost of each company's proposal is provided below.**
 - **ADM:** During questioning in a November 2013 Senate Executive Committee, it was stated that the State cost of providing these proposed EDGE tax credits to ADM would be approximately **\$1.5 million per year**. A December 2013 news report stated that the incentive could be worth \$24 million over 10 years.
 - **Univar:** It was reported in numerous news outlets that Univar asked for a total of \$5 million in EDGE credits. These credits would be claimed over numerous tax years, so the annual cost would be much less (approximately **\$0.5 million per year** if, for example, spread over 10 years).
 - **OfficeMax/Office Depot:** It was reported in numerous news outlets that the newly merged companies were asking for a total of \$53 million in EDGE credits spread over 15 years. However, other news reports stated the value of \$63 million over 10 years. This would put the annual cost **between \$3.5 million and \$6.3 million per year**. (It should be noted that in December 2013, OfficeMax/Office Depot announced that they were moving their headquarters from Naperville, Illinois to Boca Raton, Florida).

ILLINOIS IS IN TOP 3 OF "MOVING AWAY" STATES

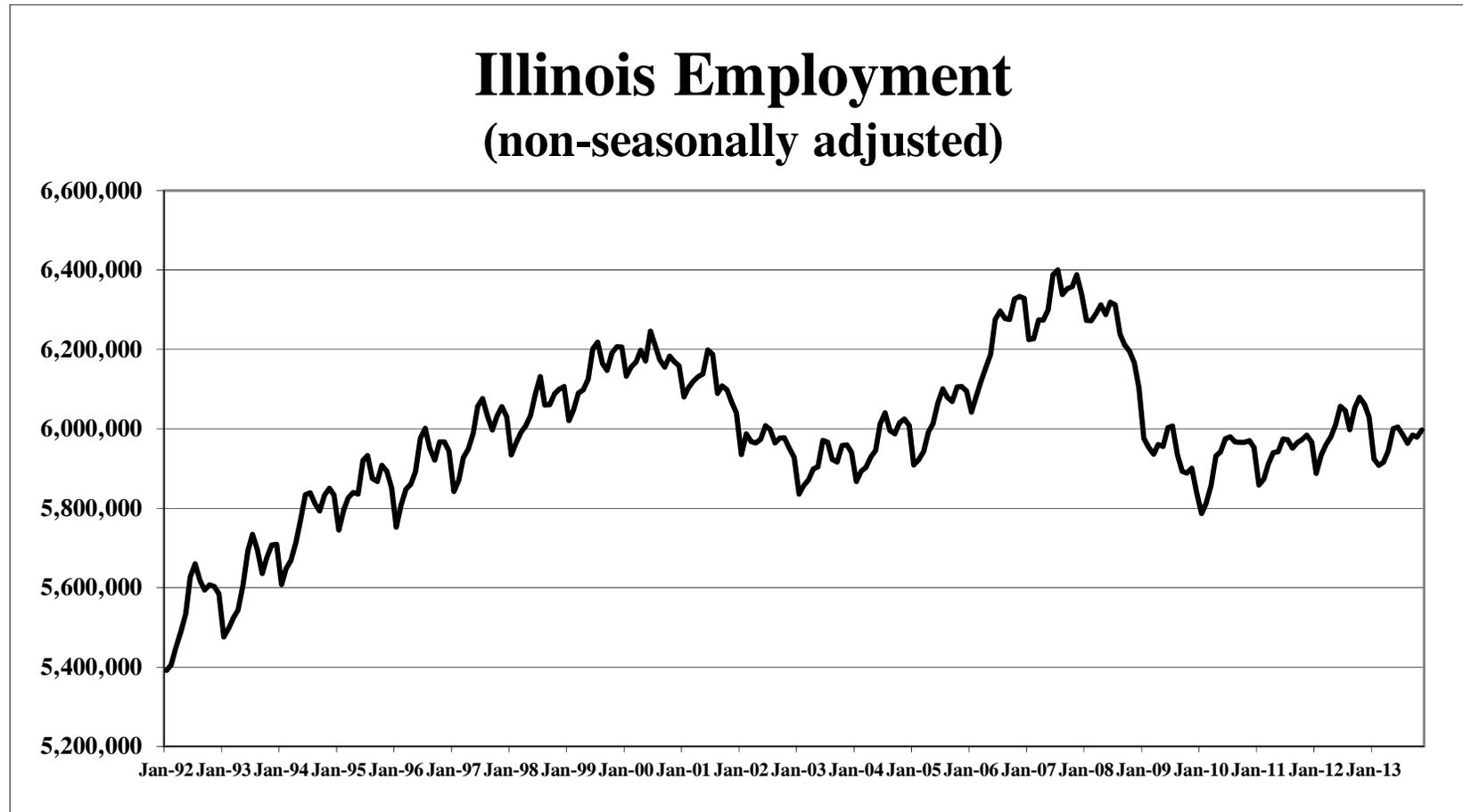
2013 Migration Patterns of United Van Lines' Customers



SOURCE: <http://www.businessinsider.com/2013-moving-map-2014-1>

ILLINOIS EMPLOYMENT DATA

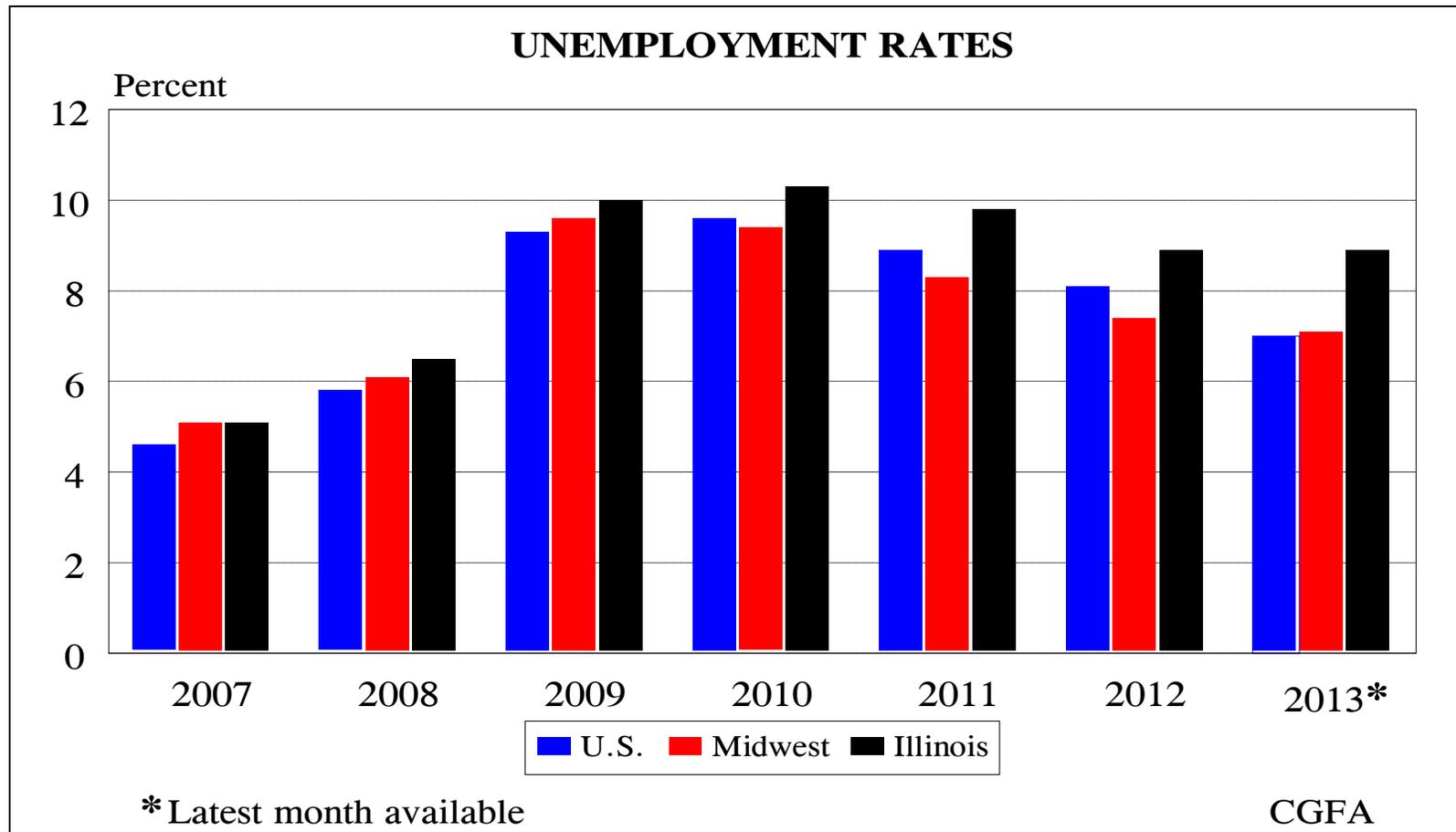
The graph below displays Illinois' employment data since the early 90s. Since the falloff in jobs as a result of the "Great Recession", employment in Illinois has made very little improvement.



SOURCE: Illinois Department of Employment Security

ILLINOIS EMPLOYMENT DATA

Illinois' latest unemployment rate of 8.7% is well above the national rate of 7.0% (November 2013, seasonally adjusted). Currently, only three states (Michigan at 8.8%, Rhode Island at 9.0%, and Nevada at 9.0%) have a higher unemployment rate than Illinois.



SOURCE: Bureau of Labor Statistics

EXPECTED JOB GROWTH IN 2014

- Fastest Job Growth in 2014:
 - 1) North Dakota, 3.57%
 - 2) Arizona, 3.08%
 - 3) Texas, 2.75%
 - 4) Colorado, 2.67%
 - 5) Florida, 2.34%

- Bottom States for Job Growth in 2014:
 - 46) Alaska, 1.15%
 - 47) New York, 1.12%
 - 48) Vermont, 1.11%
 - 49) Maine, 1.02%
 - **50) Illinois, 0.98%**

SOURCE: Moody's Analytics

<http://www.pewstates.org/projects/stateline/headlines/which-states-will-generate-jobs-in-2014-85899531072>

ILLINOIS FORTUNE 500 COMPANIES

2013 Illinois Companies in "Fortune's 500"

Illinois Rank	U.S. Company	U.S. Rank	Location	Revenue (\$ billions)	Industry
1	Archer Daniels Midland	27	Decatur	\$89.0	Food Production
2	Boeing	30	Chicago	\$81.7	Aerospace & Defense
3	Walgreens	37	Deerfield	\$71.6	Food and Drug Stores
4	Caterpillar	42	Peoria	\$65.9	Equipment
5	State Farm Insurance	44	Bloomington	\$65.3	Insurance (Mutual)
6	Abbott Laboratories	70	Abbott Park	\$39.9	Pharmaceuticals
7	Sears Holdings	71	Hoffman Estates	\$39.9	General Merchandise
8	United Continental Holdings	79	Chicago	\$37.2	Airline Industry
9	Deere	85	Moline	\$36.2	Industrial and Farm Equipment
10	Mondelez International	88	Deerfield	\$35.0	Food Consumer Products
11	Allstate	92	Northbrook	\$33.3	Insurance (Stock)
12	McDonald's	111	Oak Brook	\$27.6	Food Services
13	Exelon	129	Chicago	\$23.5	Utilities
14	Kraft Foods	151	Northfield	\$18.3	Products
15	Illinois Tool Works	155	Glenview	\$18.1	Industrial and Farm Equipment
16	Baxter International	193	Deerfield	\$14.2	Medical Products and Equipment
17	Navistar International	216	Lisle	\$12.9	Motor Vehicles and Parts
18	R.R. Donnelley & Sons	264	Chicago	\$10.2	Publishing, Printing
19	CDW	267	Vernon Hills	\$10.1	Information Technology Services
20	Hillshire Brands	288	Chicago	\$9.3	Food Consumer Products
21	Discover Financial Services	294	Riverwoods	\$9.0	Financial Services
22	W.W. Grainger	295	Lake Forest	\$9.0	Wholesaler: Diversified
23	Motorola Solutions	304	Schaumburg	\$8.7	Network & Other Communications Equipment
24	Dover	308	Downers Grove	\$8.5	Manufacturing
25	Tenneco	349	Lake Forest	\$7.4	Parts
26	OfficeMax	367	Naperville	\$6.9	Specialty Retailer
27	Ingredion	386	Westchester	\$6.5	Food Production
28	Anixter International	405	Glenview	\$6.3	Wholesaler: Diversified
29	CF Industries Holdings	419	Deerfield	\$6.1	Chemicals
30	Telephone & Data Systems	468	Chicago	\$5.3	Telecommunications
31	United Stationers	484	Deerfield	\$5.1	Wholesalers: Electronics and Office Equipment
32	Old Republic International	496	Chicago	\$5.0	Insurance: Property and Casualty (Stock)

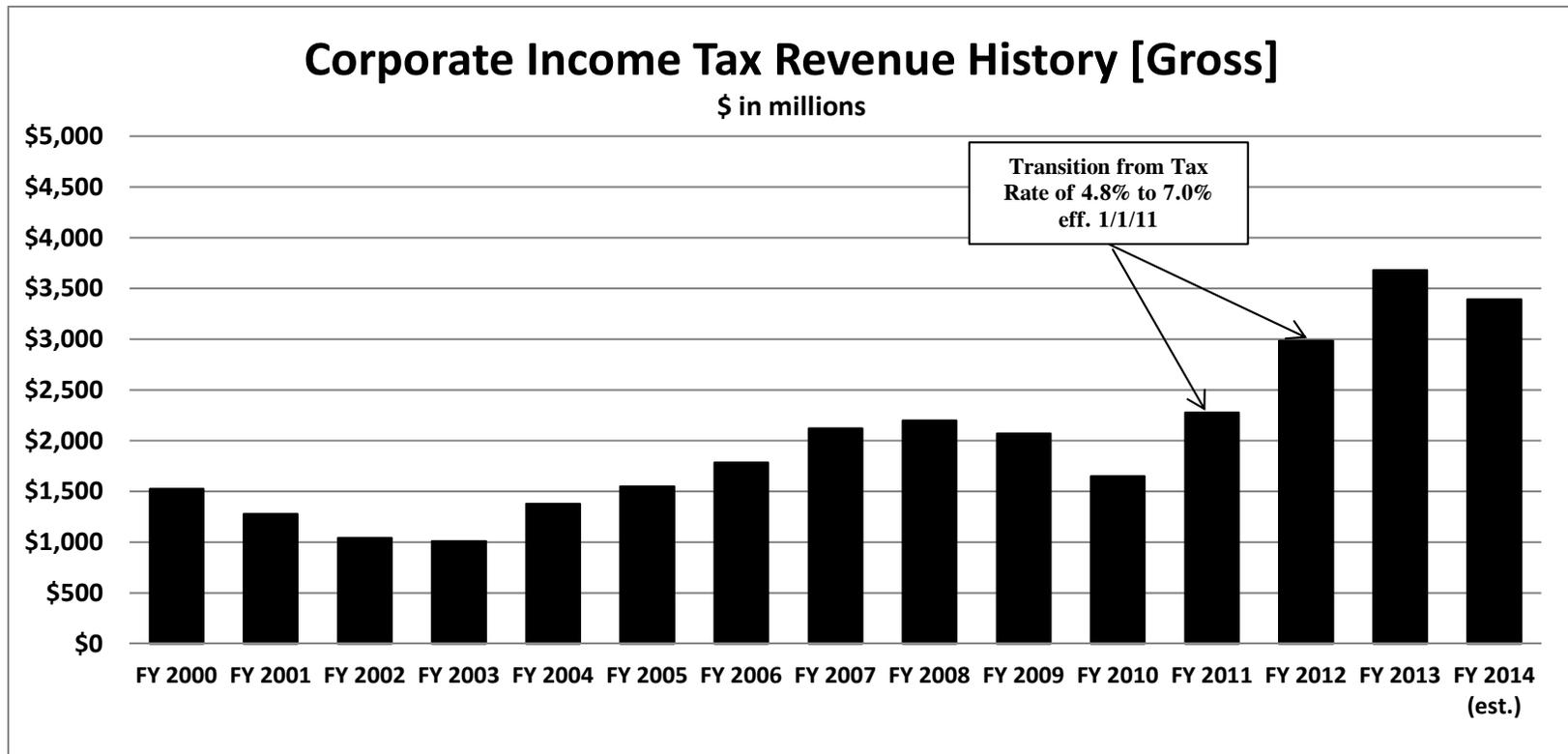
Source: <http://money.cnn.com/magazines/fortune/fortune500/>

CORPORATE LIABILITY STRATIFICATION

Corporate Liability Stratification for Income and Replacement Taxes					
<i>Tax Year 2010*</i>					
Liability Range (thousands)	Total Filers	Percent of Filers	Total Liabilities (\$ in millions)	Percent of Liabilities	Average Liability
\$0	77,900	69.9%	\$0	0.0%	\$0
\$0 > \$5	25,591	22.9%	\$26	1.5%	\$1,023
\$5 > \$10	2,512	2.3%	\$18	1.0%	\$6,993
\$10 > \$50	3,071	2.8%	\$71	4.0%	\$23,047
\$50 > \$100	794	0.7%	\$56	3.2%	\$71,121
\$100 > \$500	1,122	1.0%	\$252	14.4%	\$224,603
\$500 > \$1,000	226	0.2%	\$156	8.9%	\$691,264
\$1,000 or More	303	0.3%	\$1,177	67.0%	\$3,883,388
Totals	111,519	100.0%	\$1,756	100.0%	\$15,745
Corporations with tax liability	33,619	30.1%	\$1,756	100.0%	\$52,229
<p>* As stated in DoR's Annual Report, corporate income tax data lags individual income tax data by one year because many corporations do not file returns until the extended due date. The corporate returns are complex and require additional time to process and compile tax data.</p> <p><i>Source: Illinois Department of Revenue</i></p>					

CORPORATE INCOME TAX REVENUE HISTORY

- Historically, the corporate income tax has been a very volatile revenue source. Over the last three years, following the negative revenue impacts of the “Great Recession”, receipts have increased at an average rate of 30.8%. While some of this increase can be attributed to the recovery of Illinois businesses from the recession, the primary reason for this growth is the increase in the corporate income tax rate.
- On January 1, 2011, the corporate income tax was increased from a 4.8% flat rate to a flat rate of 7.0%. This “temporary” rate increase is statutorily set to be reduced to a rate of 5.25% on January 1, 2015. If this tax reduction is allowed to occur, revenues will fall in FY 2015 and FY 2016.



CORPORATE INCOME TAX RATES BY STATE

RANGE OF STATE CORPORATE INCOME TAX RATES							
(For tax year 2013 -- as of January 1, 2013)							
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	9,999 90,000	10	MONTANA	6.75	---Flat Rate---	1
ARIZONA	6.968	---Flat Rate---	1	NEBRASKA	5.58 - 7.81		2
ARKANSAS	1.0 - 6.5	3,000 100,001	6	NEW HAMPSHIRE	8.5	---Flat Rate---	1
CALIFORNIA	8.84	---Flat Rate---	1	NEW JERSEY	9.0	---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	7.1	---Flat Rate---	1
DELAWARE	8.7	---Flat Rate---	1	NORTH CAROLINA	6.9	---Flat Rate---	1
FLORIDA	5.5	---Flat Rate---	1	NORTH DAKOTA	1.7 - 5.2	25,000 50,001	3
GEORGIA	6.0	---Flat Rate---	1	OHIO	***		
HAWAII	4.4 - 6.4	25,000 100,001	3	OKLAHOMA	6.0	---Flat Rate---	1
IDAHO	7.4	---Flat Rate---	1	OREGON	6.6 - 7.6	250,000	2
ILLINOIS*	9.5	---Flat Rate---	1	PENNSYLVANIA	9.99	---Flat Rate---	1
INDIANA**	7.5	---Flat Rate---	1	RHODE ISLAND	9.0	---Flat Rate---	1
IOWA	6.0 - 12.0	25,000 250,001	4	SOUTH CAROLINA	5.0	---Flat Rate---	1
KANSAS	4	---Flat Rate---	1	SOUTH DAKOTA	6.0-0.25	(banks only)	
KENTUCKY	4.0 - 6.0	50,000 100,001	3	TENNESSEE	6.5	---Flat Rate---	1
LOUISIANA	4.0 - 8.0	25,000 200,001	5	TEXAS	****		
MAINE	3.5 - 8.93	25,000 250,000	4	UTAH	5	---Flat Rate---	
MARYLAND	8.25	---Flat Rate---	1	VERMONT (b)	6.0 - 8.5	10,000 25,000	3
MASSACHUSETTS	8.0	---Flat Rate---	1	VIRGINIA	6.0	---Flat Rate---	1
MICHIGAN	6.0	---Flat Rate---	1	WEST VIRGINIA	7	---Flat Rate---	1
MINNESOTA	9.8	---Flat Rate---	1	WISCONSIN	7.9	---Flat Rate---	1
MISSISSIPPI	3.0 - 5.0	5,000 10,001	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 includes a 2.5% personal property replacement tax.

** Indiana's Adjusted Gross Income Tax on general corporations and non-financial institutions was lowered from 8.5% to 8% on July 1, 2012 and to 7.5% on July 1, 2013. It is set to further decrease to 7% on July 1, 2014 and finally to 6.5% on July 1, 2015.

*** Ohio does not levy a tax based on income, but imposes a Commercial Activity Tax (CAT) equals \$150 for gross receipts between \$150,000 and \$1 million, plus 0.26% of gross receipts over \$1 million.

**** Texas imposes a Franchise Tax, known as the margin tax.

STATE GOVERNMENT TAX REVENUE IN 2012

In the category of state government tax revenue collections, Illinois had the 4th highest amount (\$36.3 B) in total dollars in 2012 and the 16th highest amount on a per-capita basis (\$2,816 per capita). The per-capita ranking is notable higher than the 2010 ranking of 34th. The recent income tax rate increases are the primary reasons for this increase.

State Government Tax Revenue in 2012									
\$ in billions									
	State Government Tax Revenue	Total Dollars Ranking	Amount Per Capita	Per Capita Ranking		State Government Tax Revenue	Total Dollars Ranking	Amount Per Capita	Per Capita Ranking
United States	\$798.2	-	\$2,543	-	United States	\$798.2	-	\$2,543	-
Alabama	\$9.0	25	\$1,877	42	Montana	\$2.5	48	\$2,447	25
Alaska	\$7.0	33	\$9,638	1	Nebraska	\$4.3	41	\$2,335	30
Arizona	\$13.0	20	\$1,980	39	Nevada	\$6.8	35	\$2,456	24
Arkansas	\$8.3	29	\$2,809	17	New Hampshire	\$2.2	49	\$1,672	49
California	\$115.1	1	\$3,025	12	New Jersey	\$27.5	7	\$3,097	11
Colorado	\$10.3	24	\$1,976	40	New Mexico	\$5.1	40	\$2,442	26
Connecticut	\$15.4	19	\$4,290	5	New York	\$71.5	2	\$3,656	8
Delaware	\$3.3	44	\$3,650	9	North Carolina	\$22.7	11	\$2,329	32
Florida	\$33.0	5	\$1,708	47	North Dakota	\$5.6	37	\$8,033	2
Georgia	\$16.6	16	\$1,671	50	Ohio	\$25.9	8	\$2,246	34
Hawaii	\$5.5	38	\$3,962	6	Oklahoma	\$8.8	27	\$2,317	33
Idaho	\$3.4	43	\$2,115	37	Oregon	\$8.7	28	\$2,231	35
Illinois	\$36.3	4	\$2,816	16	Pennsylvania	\$32.9	6	\$2,582	20
Indiana	\$15.7	18	\$2,402	28	Rhode Island	\$2.8	45	\$2,692	19
Iowa	\$7.8	31	\$2,548	23	South Carolina	\$8.0	30	\$1,701	48
Kansas	\$7.4	32	\$2,571	21	South Dakota	\$1.5	50	\$1,826	45
Kentucky	\$10.5	23	\$2,398	29	Tennessee	\$12.0	21	\$1,856	44
Louisiana	\$9.0	26	\$1,954	41	Texas	\$48.6	3	\$1,865	43
Maine	\$3.8	42	\$2,842	15	Utah	\$5.8	36	\$2,035	38
Maryland	\$17.0	15	\$2,895	13	Vermont	\$2.8	46	\$4,405	4
Massachusetts	\$22.8	10	\$3,431	10	Virginia	\$18.1	13	\$2,216	36
Michigan	\$23.9	9	\$2,420	27	Washington	\$17.6	14	\$2,555	22
Minnesota	\$20.6	12	\$3,822	7	West Virginia	\$5.3	39	\$2,849	14
Mississippi	\$7.0	34	\$2,329	31	Wisconsin	\$16.0	17	\$2,793	18
Missouri	\$10.8	22	\$1,794	46	Wyoming	\$2.6	47	\$4,426	3

Source: U.S. Census Bureau, 2012 Annual Survey of State Government Tax Collections

Grey Areas= Midwest Region

BUSINESS CLIMATE IMPORTANT?

- In a survey of businesses, when asked the question: “How important is a state’s business climate when first evaluating potential locations for a project?”
 - **87% of the respondents said either “very important” (25%) or “somewhat important” (62%).**
 - Only 13% of the respondents replied that a state’s business climate was not important.

SOURCE: Site Selection Magazine (Jan 2014), “What Makes a Business Climate Good?”

THE TAX FOUNDATION

FY 2014 State Business Tax Climate Index

- Illinois Rankings in the Index:
 - Overall Rank: 31st
 - Corporate Tax Index Rank: 47th
 - Individual Income Tax Index Rank: 11th
 - Sales Tax Index Rank: 33rd
 - Unemployment Insurance Tax Index Rank: 43rd
 - Property Tax Index Rank: 44th

 - Illinois' Overall Ranking History (FY 2011 – FY 2014):
 - FY 2014: 31st
 - FY 2013: 30th
 - FY 2012: 28th
 - FY 2011: 23rd

SOURCE: Tax Foundation

THE SMALL BUSINESS and ENTREPRENEURSHIP COUNCIL's 2013

Small Business Policy Index

Small Business Policy Index (SBPI) 2013: State Rankings (How Illinois Ranked in each of the Major Categories of the Index)	
Category of SBSI	Rank
Personal Income Tax Rates	20th
Individual Capital Gains Tax Rates	23rd
Individual Dividends and Interest Tax Rates	35th
Corporate Income Tax Rates	47th
Corporate Capital Gains Tax Rates	47th
State and Local Property Taxes	40th
State and Local Sales, Gross Receipts and Excise Taxes	15th
Adjusted Unemployment Taxes	25th
State Gas Taxes	45th
State Diesel Taxes	45th
Wireless Taxes	46th
Number of Health Insurance Mandates	32nd
Electric Utility Costs	34th
Workers' Compensation Compensation Employer Costs Per \$100 of Payroll	33rd
Crime Rate	21st
Number of Government Employees per 100 Residents	8th
State and Local Government Six-Year Spending Trends	36th
State and Local Government Expenditures	31st
Per Capita State and Local Government Debt	44th
Revenue from Fed Govt as a Share of State and Local Revenue	8th
Highway Cost Effectiveness	34th
OVERALL RANKING	35TH

Source: <http://www.sbecouncil.org/wp-content/uploads/2013/12/SBPI2013FINAL.pdf>

BEACON HILL INSTITUTE'S STATE COMPETITIVENESS REPORT

Illinois' Rankings in the 12th Annual Competitiveness Report (April 2013)

Illinois' Overall National Ranking: 38th

Competitive Advantages

Competitive Disadvantages

Variable

Rank

Variable

Rank

Government and Fiscal Policy Subindex Ranking: 46th

Budget deficit, % of GSP	2	State and local taxes per capita/income per capita	39
Full-time-equivalent state & local govt employees per 100 residents	9	Workers' compensation premium rates	47
		Bond rating: composite	49
		Average weekly payment to insured unemployed	34

Security Subindex Ranking: 30th

The BGA Integrity Index	11	Murder index, per 100,000 inhabitants	39
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Infrastructure Subindex Ranking: 19th

Mobile Phones per 1000	8	Average travel time to work	47
High-speed lines per 1000	17	Average rent of 2 bedroom apartment	34
Air passengers per capita	9		

Human Resources Subindex Ranking: 32nd

% of population enrolled in degree-granting institutions	19	Unemployment Rate, non seasonally adjusted	41
Rate of active physicians per 100,000 inhabitants	17	% of students at or above proficient in mathematics, grade 4 - public schools	32

Source: <http://www.beaconhill.org/Compete12/Compete12.pdf>

BEACON HILL INSTITUTE'S STATE COMPETITIVENESS REPORT

Illinois' Rankings in the 12th Annual Competitiveness Report (April 2013)			
Illinois' Overall National Ranking: 38th			
Competitive Advantages		Competitive Disadvantages	
<i>Variable</i>	<i>Rank</i>	<i>Variable</i>	<i>Rank</i>
Technology Subindex Ranking: 23rd			
Patents per 100,000	17	Academic Science and engineering R&D per \$1,000 GSP	33
Science & Engineering grad students per 100,000 inhabitants	12	Scientists and engineers as % of labor force	33
S&E degrees awarded per 100,000 inhabitants	16		
Business Incubation Subindex Ranking: 49th			
Total deposits (Commercial banks and Savings institutions) per capita	12	Employer firm births per 100,000 inhabitants	32
Venture capital per capita	12	% of labor force that is represented by unions	41
IPO volume, in \$ per capita	17	Minimum Wage	46
		Pacific Research Institute Tort Index	47
		Cost of Labor Adjusted for Educ. Attainment	37
Openness Subindex Ranking: 10th			
Exports per capita, dollars	10		
Employment in majority-owned U.S. Affiliates in State / Total employment in State	16		
% of population born abroad	9		
Environmental Policy Subindex Ranking: 38th			
		Toxic release inventory, pounds per sq. miles	41
		Carbon emission per 1000 sq. miles	39
Source: http://www.beaconhill.org/Compete12/Compete12.pdf			

**2013 AMERICAN LEGISLATIVE EXCHANGE COUNCIL -
LAFFER STATE ECONOMIC COMPETITIVENESS INDEX**

- **Illinois Rankings:**
 - **Overall Economic Performance Rank: 47th**
 - State Gross Domestic Product Rank: 42nd
 - Absolute Domestic Migration Rank: 48th
 - Non-Farm Payroll Employment Rank: 48th

 - **Overall Outlook Rank: 48th**
 - Historical Rankings: 43rd in 2008; 44th in 2009; 47th in 2010; 44th in 2011; 48th in 2012

SOURCE: <http://www.alec.org/wp-content/uploads/IL.pdf>

**2013 AMERICAN LEGISLATIVE EXCHANGE COUNCIL -
LAFFER STATE ECONOMIC COMPETITIVENESS INDEX**

- **Components of the Outlook Rank of 48th**
 - Top Marginal Personal Income Tax Rate Ranking: 17th
 - Top Marginal Corporate Income Tax Rate Ranking: 44th
 - Personal Income Tax Progressivity Ranking: 14th
 - Property Tax Burden Ranking: 10th
 - Remaining Tax Burden Ranking: 38th
 - Estate/Inheritance Tax Levy Ranking: 50th
 - Recently Legislated Tax Changes Ranking: 50th
 - Debt Service as a Share of Tax Revenue Ranking: 44th
 - Public Employees per 10,000 Ranking: 9th
 - State Liability System Survey Ranking: 46th
 - State Minimum Wage Ranking: 45th
 - Average Workers' Compensation Costs Ranking: 47th
 - Right-to-Work State Ranking: 50th
 - Number of Tax Expenditure Limits Ranking: 34th

SOURCE: <http://www.alec.org/wp-content/uploads/IL.pdf>

WHAT DO THE RANKINGS TELL US?

- Illinois was in the lower half of all of these business climate rankings.
- **Illinois' average ranking for the four studies was 38.0, which make them the 44th ranked state overall and the lowest ranked state in the Midwest Region.**
 - The top five states were South Dakota, Wyoming, Utah, Texas, and Florida.
 - The bottom five states were Connecticut, Vermont, California, New York, and New Jersey.
- However, huge discrepancies for some states in the rankings raises caution in using these studies. For example:
 - In the Small Business Policy Index, Massachusetts ranked 38th. However, in the Competitiveness Report, Massachusetts ranked 1st.
 - Minnesota ranked 3rd in the Competitiveness Report, but ranked in the 40s in the other three indexes.
- Critics of these rankings argue that is extremely difficult to measure and rate a state's "business climate" because the needs of different businesses and facilities vary far too widely.
- **Regardless of the validity of these rankings, these results create a perception that Illinois is a below-average "business climate" state. This is a stigma that Illinois has to overcome to attract and retain new businesses.**

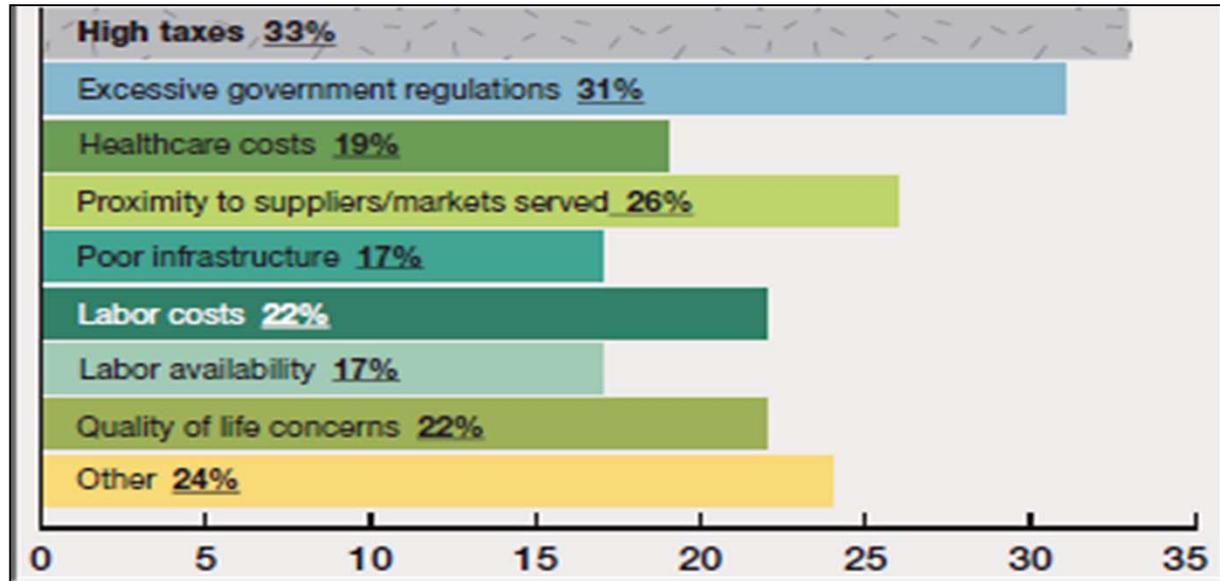
BUSINESS SITE SELECTION SURVEY

2012 rankings of site selection factors that businesses responded as either “very important” or “important”

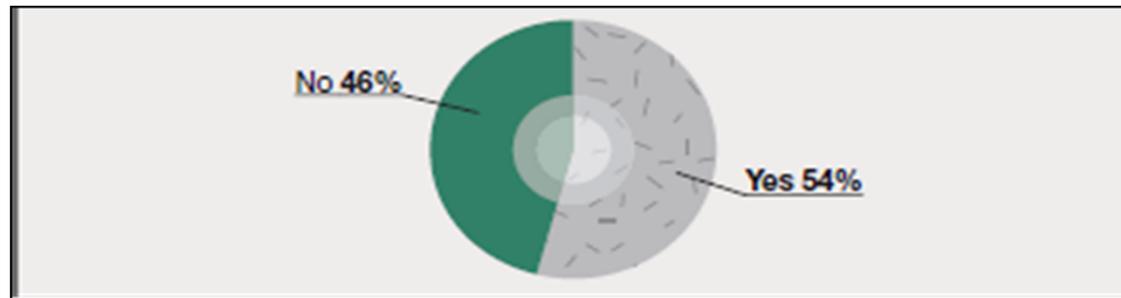
Ratings of 2012 Site Selection Factors		
2012 Ranking	Site Selection Factors	2012 Score*
1	Labor costs	90.8
2	Highway accessibility	90.1
3	Availability of skilled labor	89.4
4	Availability of advanced information technology services	85.1
5	Occupancy or construction costs	82.8
6	Energy availability and costs	81.3
7	Corporate tax rate	79.3
8	Available buildings	78.4
9	Tax Exemptions	75.4
10	Low union profile	73.5
11	Right-to-work state	72.6
12	Proximity to major markets	72.2
13 (Tie)	State and local incentives	71.1
13 (Tie)	Environmental regulations	71.1
15	Expedited or "fast-track" permitting	67.2
<p>* All figures are percentages and are the total of "very important" and "important" ratings of the Area Development Corporate Survey and are rounded to the nearest tenth of a percent.</p> <p>Source: http://cdn4.areadevelopment.com/static_images/article/2013Survey/large-fig30.png</p>		

BUSINESS SITE SELECTION SURVEY

Of Those with Plans, the Primary Reasons for Moving from Current Location



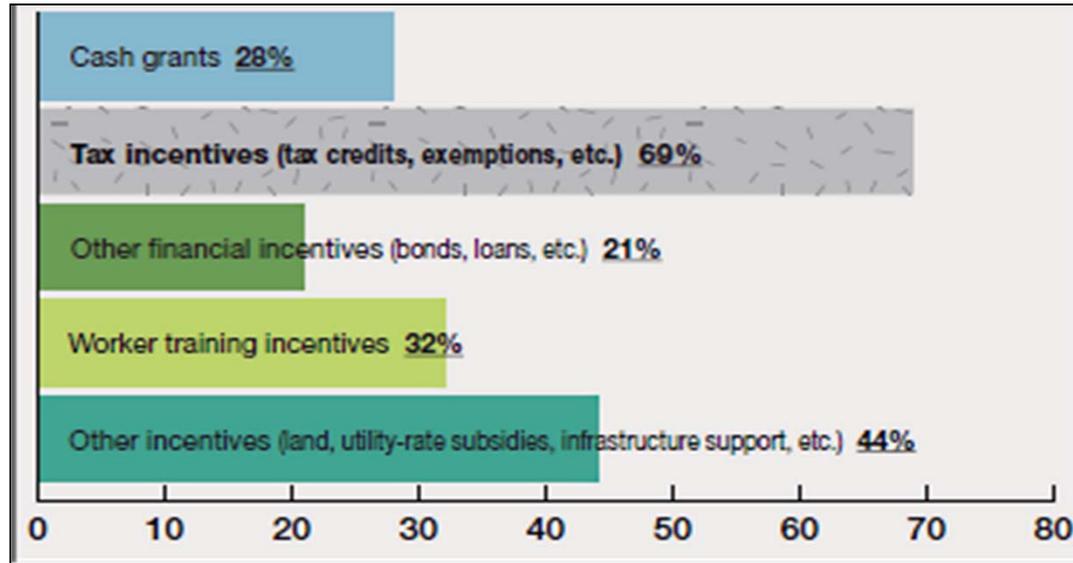
Company has Received and Utilized Incentives in the Past



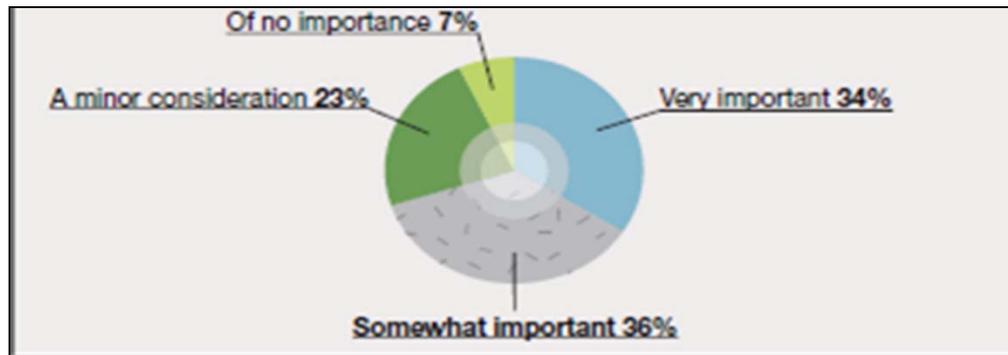
SOURCE: siteselection.com

BUSINESS SITE SELECTION SURVEY

Types of Incentives Considered Most Important When Making a Location Decision



Importance of Incentives to a Project Moving Forward in a Particular Location



SOURCE: siteselection.com

OPINIONS ON THE EFFECTIVENESS AND IMPORTANCE OF TAX INCENTIVES

- **Economic Policy Institute: “Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development”**
 - **“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”.**

OPINIONS ON THE EFFECTIVENESS AND IMPORTANCE OF TAX INCENTIVES

- **University of Vermont: “The Role of Taxes in Business Location Decisions”**
 - “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. ”.**

OPINIONS ON THE EFFECTIVENESS AND IMPORTANCE OF TAX INCENTIVES

- **Area Development Online: “Taxes and Incentives – Factor Into the Site Selection Equation”**
 - **“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 ”.**

OPINIONS ON THE EFFECTIVENESS AND IMPORTANCE OF TAX INCENTIVES

- **For the Council of State Governments' Chairman's Report: "State Business Incentives", a working group of state legislators, economic development practitioners, and private sector members were tasked with taking a closer look at how states use business incentives and where these incentives fit into a larger discussion about economic development. Here are the report's noted observations:**
 - **The cost of incentives—state leaders are in the dark:** State policymakers don't have an accurate accounting of the most basic of information about their state's incentive programs—the cost.
 - **Solid evaluation of existing programs is lacking:** In addition to comprehensive cost estimates, reliable evaluations of the performance of existing programs are not available to policymakers, which are needed to make informed, data-driven decisions.
 - **Missed opportunities:** While a well-designed and well-evaluated incentive program may be effective, relying on incentives as a primary economic development strategy could mean alternative methods are ignored.
 - **Bidding wars:** Is there a better way? Given the potentially negative effects of bidding wars, finding alternatives should be a goal of state leaders.
 - **Increasing inter-branch communication:** Regular conversations across the legislative and executive branches are needed to ensure that practitioners have the tools they need to effectively implement policies and so that legislators maintain real-time insight as to how their policies are functioning.
 - **Public Transparency:** Just as policymakers need information about business incentives to make informed decisions, the public needs information about how its government is functioning to remain engaged in the democratic process.

OPINIONS ON THE EFFECTIVENESS AND IMPORTANCE OF TAX INCENTIVES

- **Pew Center on the States: “Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth”**
 - “States spend billions of dollars annually on tax incentives for economic development, offering businesses credits, exemptions, and deductions to locate, hire, expand and invest within their borders. **But this report...finds that half the states have not taken basic steps to produce and connect policy makers with good evidence of whether these tools deliver a strong return on taxpayer dollars”.**
 - “This knowledge gap is particularly worrisome at a time of tight budgets and sluggish economic growth. **If policy makers do not base their decisions about tax incentives on good information, they could be spending scarce resources unwisely. On the other hand, if they do not use these incentives or use them well, they could be missing out on opportunities to create jobs and attract new businesses”.**

OPINIONS ON THE EFFECTIVENESS AND IMPORTANCE OF TAX INCENTIVES

- **Pew Center on the States: “Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth”**
 - **Four steps that states can take for effective evaluation of state programs:**
 1. **Inform policy choices:** Build evaluation of incentives into policy and budget deliberations to ensure lawmakers use the results.
 2. **Include all major tax incentives:** Establish a strategic and ongoing schedule to review all tax incentives for economic development.
 3. **Measure economic impact:** Ask and answer the right questions using good data and analysis.
 4. **Draw clear conclusions:** Determine whether tax incentives are achieving the state’s goals.

OPINIONS ON THE EFFECTIVENESS AND IMPORTANCE OF TAX INCENTIVES

- **Pew Center on the States: “Avoiding Blank Checks: Creating Fiscally Sound State Tax Incentives”**
 - **This report noted numerous cases of States creating tax incentives without reliable cost estimates and annual cost controls that led to higher risk of budget shortfalls and unplanned spending cuts or tax increases to close them in a December 2012 report.**
 - **Examples Given:**
 - A severance tax exemption for horizontal drilling in Louisiana that only cost \$285 thousand in FY 2007 but had skyrocketed to \$239 million by FY 2010 due to the explosion in horizontal drilling.
 - Renewable energy tax credits in Hawaii that were worth \$34 million in FY 2010 but were expected to cost \$260 million in FY 2013.

OPINIONS ON THE EFFECTIVENESS AND IMPORTANCE OF TAX INCENTIVES

- **Pew Center on the States: “Avoiding Blank Checks: Creating Fiscally Sound State Tax Incentives”**
 - **The report recommended following certain guidelines for getting accurate cost estimates and placing annual cost controls to lower the risk of these large increases in the cost of tax incentives. To better inform policy makers about the risks of a proposed tax incentive, the authors recommended that States:**
 - 1) project the economic impact with as reliable data as possible,
 - 2) warn about uncertainty,
 - 3) link cost estimates to policy making, and
 - 4) make the process professional and transparent.
 - **To ensure that tax incentive costs do not become a risk to future budgets, the report advises that policy makers should make up-front decisions avoid such situations. These decisions should include:**
 - 1) regularly budgeting for tax incentives,
 - 2) set annual caps, and
 - 3) ensure that incentives are reconsidered in future years.