# ILLINOIS TAX INCENTIVES

JANUARY 2014

COMMISSION ON GOVERNMENT FORECASTING & ACCOUNTABILITY

**_Commission on Government Forecasting and Accountability_**

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# *Illinois Tax Incentives*

## *January 2014*

# EXECUTIVE SUMMARY

It now has been five years since the "Great Recession" hit our country. And while the recovery has been sluggish, financial markets over the last couple of years have slowly climbed to surpass their pre-recession levels. But despite the notable increases in the financial markets, employment levels have been slow to follow. This has been especially true in Illinois as the State's employment levels remain well below levels experienced in the past

States throughout the nation continuously look for ways to bring employment into their areas, especially during challenging 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 and retain 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 employer.

Many times the incentives used to entice a potential business are tax-related. While these tax-based incentives are successful in reducing the tax burden of companies, they often come at the expense of much-needed State revenue. 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.

The following report takes a closer look at Illinois tax incentives and is a follow-up to a July 2009 report which was created to do the following:

1) Examine Illinois' current tax incentives and economic growth programs;
2) Examine the State's business tax climate; and
3) Analyze the importance and effectiveness of tax incentives for Illinois businesses.

As expected, the findings in this report are very similar to the 2009 edition.

With over $1.15 billion in business-related tax incentives currently offered, the cost of these job-enticing dollars are significant. But as the demand for additional jobs and revenues grows, any expenditure used for the intent of providing economic growth for the state of Illinois tends to be an accepted method of doing business. The difficult question becomes, are these tax incentives really worth the cost?

As summarized in the previous report, the Commission's literature review of tax incentives and their effectiveness are mixed. Some studies conclude 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 shows that tax incentives and corporate tax rates appear to be of secondary importance compared to other factors.

Proponents of these types of policies, however, point to individual companies who indeed benefit from these types of policies and suggest 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.

A **goodjobsfirst.org** article discussed in the report sums it up well,

> *"…state and local taxes are a very small share of business costs – less than two percent – and we know from decades of research that other, non-tax consideration dominate most business location decisions…*
>
> *…All that said, one size does not fit all: the variables that matter most in any given project differ greatly depending on what a company makes or does and what part of the company will reside in the proposed facility."*

In the end, it is difficult to render an opinion as to whether certain tax incentives in Illinois should be eliminated. It also cannot be easily determined which types of companies should be offered tax incentives and which should not. In addition, while this report does not necessarily address political or policy implications of tax incentives, they cannot be ignored.

When evaluating tax incentive programs, the Council of State Governments in a 2013 Chairman Report entitled "State Business Incentives" states that one of their biggest concerns with tax incentives is that State policymakers "don't have an accurate accounting of the most basic information about their state's incentive programs – the cost." Because of this and because reliable evaluation of the performance of existing programs is not available, the "lack of evaluative information inhibits policymakers from making informed decisions about continuing or expanding existing programs".

This unfortunately leaves lawmakers, in a time of struggling budgetary conditions where additional jobs are needed, the unenviable task of deciding which tax incentive is important enough to keep, which new tax incentives should be offered, and which incentive can be sacrificed as a target of much-needed revenues for the State. And this all must be done with limited available information to make these decisions.

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" or prevent Illinois from obtaining new businesses? Again, this is difficult to determine without looking at each business and their incentives on a case-by-case basis. Arguments can no doubt be made from either viewpoint.

This report provides a summary of information related to the types of incentives offered in Illinois, how Illinois' taxation and incentives compare to other states, and provides sources where additional information and viewpoints can be obtained. In doing so, it is the hope that lawmakers and policymakers can use this report to make a better-informed decision on issues relating to this highly contentious subject.

The highlights of the report are as follows:

- According to the latest information from the Comptroller's Tax Expenditure Report, businesses in Illinois benefited from over $1.15 billion business related tax incentives.

- The largest tax incentives reported in the FY 2012 issue were:
    1. Sales Tax Incentives:
        - Manufacturing and Assembling Machinery and Equipment Exemption ($183 M)
        - Retailer's Discount ($121 M)
        - Rolling Stock Exemption ($74 M)

    2. Corporate Income Tax Incentives:
        - Illinois Net Operating Loss Deduction ($219 M)
    3. Other Tax Incentives:
        - Sales for Use Other than in Motor Vehicles Exemption ($116 M)

- According to a Department of Revenue report, in 2012, Enterprise Zone, High Impact Business, and River Edge Redevelopment Zone tax incentives resulted in the State foregoing approximately $115 million in tax revenue. In the aggregate, businesses receiving tax incentives reported creating 4,671 jobs and investing approximately $3.7 billion in 2012.

- 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, AbbVie Inc., Caterpillar, Hospira, Navistar, NB Holdings Corporation, OfficeMax, TACT Holding, Inc., Takeda, UBS AG, and Walgreens. Over the last several years numerous Wind Farm Companies have also been designated as High Impact Businesses.

- Recent enacted legislation has created millions of dollars in tax incentives that have benefited several companies including the Chicago Mercantile Exchange, Sears, and Champion Laboratories, Inc. Several other prominent companies, including Archer Daniels Midland Co., Univar, and OfficeMax/Office Depot currently have legislation seeking their own tax incentive deals. In December 2013, OfficeMax/Office Depot has since announced that they have decided to move their headquarters from Naperville, Illinois to Florida.

- In 2013, Illinois had 32 companies in the "Fortune 500", a list of America's 500 largest corporations. The top five Illinois companies and their national rank was Archer Daniels Midland (27th), Boeing (30th) Walgreens (37th), Caterpillar (42nd), and State Farm Insurance (44th).

- Illinois has been shown to be in the bottom half of the rankings in some of the most prominent studies that rank states according to their business tax climate. Although, some question whether the entire enterprise of measuring an overall business tax climate for a state can be valid or useful, below are some of Illinois' rankings based on the most popular methods of comparison:

    1. State Business Tax Climate Index – 31st
    2. Small Business Policy Index – 35th
    3. State Competitiveness Report – 38th
    4. Economic Outlook – 48th

- Illinois rankings in the area of business tax climate have fallen over the last several years. Much of this falloff can be tied to increase in the personal income tax rates (from 3% to 5%) and corporate income tax rates (from 4.8% to 7%), which became effective for tax year 2011.

- Business site selection surveys indicate that labor costs, highway accessibility, and availability of skilled labor are the most important factors in site selection decision making. A state's corporate tax rate (7th), tax exemptions (9th), and State and local incentives (13th) also scored relatively high but were ranked lower than several other factors.

- Some 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. But other studies suggest that incentives are the key factor in location decision making.

- A 2013 report on State Business Incentives by the Council of State Governments had the following observations:

    1. State policymakers don't have an accurate accounting of the most basic of information about their state's incentive programs—the cost.
    2. 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.
    3. 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.
    4. Given the potentially negative effects of bidding wars, finding alternatives should be a goal of state leaders.
    5. 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.
    6. 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.

# I. INTRODUCTION

Every state throughout this country is constantly seeking to add more jobs for its communities. The desire for these additional jobs has become even more pronounced in the years following the Great Recession. While improvement in the financial markets has been made in recent years, employment levels have yet to return to the levels of the past. This is especially true in Illinois, as the State's unemployment rate currently stands at 8.7% (November, 2013, seasonally adjusted), which is well behind the national rate of 7.0%. In fact, only three states (Michigan, 8.8%; Rhode Island, 9.0%; and Nevada, 9.0%) currently have a higher unemployment rate than Illinois.

Adding additional jobs in Illinois is important from a State Government perspective because of the impact that these jobs have on State government-related finances. If employment figures improve, so likely does tax revenues from the State's major revenue sources: the personal income tax, the corporate income tax, and the State's sales tax. An improvement in revenues in these areas would help alleviate some of the budgetary pressures that continue to plague the State of Illinois.

The need for additional jobs is clear. And not only is it important to obtain new jobs, it is perhaps even more important to hold on to the ones you already have. While there are numerous reasons for why a company chooses to establish itself in a particular location, one of the most publicized, and perhaps most scrutinized ways of attracting a company to a location (or keeping a business in Illinois) is through the use of corporate tax incentives.

At the end of 2011, Sears and the Chicago Mercantile Exchange (CME) received an abundance of media attention over the millions of dollars in tax incentives that they received from Illinois officials to keep their companies and their jobs in Illinois. In the months that have followed, several other companies have come forward seeking their own deal. This has made things difficult for lawmakers as they must decide when providing additional tax incentives are appropriate and when it is not.

Illinois already offers a wide variety of incentives that encompass several different taxes affecting Illinois businesses. In FY 2012, the Comptroller reported that Illinois businesses benefited from over $1.15 billion 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.

For years, there has been a large debate over the use of tax incentives. During years of budgetary pressure, lawmakers must seek ways to cut costs. While there are a number of possible areas where spending could be curtailed, when observing the amount of money spent on tax incentives, 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, which could cause them to leave the State altogether. This is why the topic of tax incentives is such a sensitive subject.

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 being in the lower half of the national rankings. Brief synopses of the studies, which are included in the report, identify where Illinois is considered strong and where they suggest improvement should be made.

There is much debate on how important tax incentives are to the decision making process of where to locate a business. In one 2012 study, State and local incentives were ranked as only the 13$^{th}$ most important factor in choosing a business location. Factors that were rated the highest were labor costs, highway accessibility, and availability of skilled labor. (The corporate tax rate (ranked 7$^{th}$) and tax exemptions (9$^{th}$) were also factors that were discussed in the study). But 54% of the companies in the survey stated they had received and utilized incentives in the past.

Again, 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."

Before these various opinions on the importance and effectiveness of incentives are shown, the report opens with a detailed description of Illinois' current tax incentives and economic growth programs, followed by an examination of the business tax climate using different studies and methodologies, and a closer look at the site selection survey.

# II. BUSINESS TAX INCENTIVES

According to the Comptroller's FY 2012 *Tax Expenditure Report* (released July 2013), the latest data shows that businesses in Illinois benefited from over $1.15 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 2009 thru FY 2012 as defined by the Comptroller's Office. It should be emphasized that these figures are not necessarily expenditures for the fiscal year shown, but rather the latest data available. For example, the Department of Revenue reports that due to normal lags in the collection and reporting of income tax data, corporate tax incentives labeled as FY 2012 are likely from tax year 2010. Individual income tax data labeled as FY 2012 is likely from tax year 2011.

**Business Expenditures**
**($ in thousands)**

| | FY 2009 Annual Impact | FY 2010 Annual Impact | FY 2011 Annual Impact | FY 2012 Annual Impact |
|---|---|---|---|---|
| **Sales Tax** | | | | |
| Manufacturing and Assembling Machinery and Equipment Exemption | $183,000 | $174,000 | $184,000 | $183,000 |
| Retailer's Discount | $112,000 | $109,000 | $116,000 | $121,000 |
| Rolling Stock Exemption | $47,000 | $27,000 | $47,000 | $74,000 |
| Sales of Vehicles to Automobile Rentors Exemption | $13,000 | $27,000 | $32,000 | $43,000 |
| Manufacturer's Purchase Credit | $29,000 | $33,000 | $37,785 | $37,500 |
| Newsprint and Ink to Newspapers and Magazines Exemption | $37,000 | $39,000 | $33,000 | $32,000 |
| Designated Tangible Personal Property within Enterprise Zone Exemption | $26,000 | $21,000 | $20,000 | $20,000 |
| Graphic Arts Machinery and Equipment Exemption | $21,000 | $8,600 | $8,300 | $8,000 |
| Building Materials within Enterprise Zone Exemption | $4,700 | $4,400 | $4,100 | $4,100 |
| Interim Use Prior to Sale Exemption | $4,000 | $3,700 | $900 | $1,100 |
| **Total** | **$476,700** | **$446,700** | **$483,085** | **$523,700** |
| **Individual Income Tax** | | | | |
| Income Tax Credits | $11,623 | $6,877 | $16,354 | $21,506 |
| Income Tax Subtractions | $0 | $0 | $4,532 | $7,070 |
| **Total** | **$11,623** | **$6,877** | **$20,886** | **$28,576** |
| **Corporate Income Tax** | | | | |
| Illinois Net Operating Loss Deduction | $259,536 | $255,529 | $193,487 | $218,957 |
| Economic Development for a Growing Economy Tax Credit | $25,567 | $34,766 | $36,149 | $31,259 |
| Foreign Insurer Rate Reduction | $29,088 | $10,240 | $7,544 | $28,258 |
| Film Production Services Credit | $13,117 | $11,125 | $11,799 | $11,826 |
| Research and Development Credit | $23,182 | $19,135 | $13,200 | $11,476 |
| Enterprise Zone and River Edge Redevelopment Zone Investment Credit | $11,720 | $7,169 | $6,009 | $7,602 |
| Special Zone Dividend, Interest, and Charitable Contribution Subractions | $1,827 | $1,505 | $1,529 | $1,360 |
| Job Training Contribution Subtraction | $764 | $1,149 | $477 | $82 |
| High Economic Impact Business Dividend Subtraction | $5,537 | $4,810 | $1,181 | $61 |
| River Edge Redevelopment Zone Site Remediation Tax Credit | $0 | $0 | $15 | $28 |
| High Economic Impact Business Investment Credit | $272 | $96 | $3,104 | $21 |
| Other | $0 | $0 | $0 | $0 |
| **Total** | **$370,610** | **$345,524** | **$274,494** | **$310,930** |
| **Other Taxes** | | | | |
| Sales for Use Other Than in Motor Vehicles Exemption | $125,970 | $103,025 | $110,126 | $116,108 |
| Enterprise & Foreign Trade Zone High Economic Impact Business Exemption | $37,411 | $44,835 | $43,334 | $39,759 |
| Gas Used in Production of Electric Energy | $8,304 | $7,968 | $11,352 | $20,646 |
| Timely Filing and Full Payment Discount - MFT | $20,092 | $19,918 | $19,955 | $20,060 |
| Two Million Dollar Cap on Franchise Tax for Corporations | $15,238 | $17,510 | $17,934 | $18,374 |
| Enterprise & Foreign Trade Zone High Impact Business Exemption - Gas | $13,034 | $12,783 | $13,725 | $12,516 |
| Airport Exemption | $15,513 | $15,223 | $16,732 | $12,378 |
| Cost of Collection Discount - Cigarettes | $8,757 | $8,604 | $8,854 | $8,996 |
| Cost of Collection Discount - Telecommunications | $9,356 | $9,262 | $9,229 | $8,590 |
| Gas Used in Petroleum Refinery Operation | $8,353 | $8,020 | $8,328 | $8,123 |
| Cost of Collection Discount - Hotels | $3,800 | $3,600 | $3,900 | $4,100 |
| New Markets Development Program | $0 | $0 | $1 | $3,817 |
| Rail Carrier Exemption | $4,025 | $2,967 | $2,982 | $3,103 |
| Real Estate Tax Credit | $3,725 | $3,632 | $2,881 | $3,064 |
| Gas Used in Production of Fertilizer | $2,700 | $2,700 | $2,700 | $2,544 |
| Cost of Collection Discount - Liquor | $1,300 | $1,253 | $2,199 | $2,290 |
| Purchase of Electricity Generated by Solid Waste Energy Facility Credit | $1,762 | $3,174 | $2,184 | $1,709 |
| Enterprise & Foreign Trade Zone High Impact Business Exemption - Telecom | $2,133 | $2,196 | $2,254 | $1,261 |
| Timely Filing and Full Payment Discount - UST | $1,222 | $1,220 | $1,217 | $1,224 |
| Exemption for Vessels Conducting Interstate Commerce on Border Rivers | $495 | $485 | $583 | $603 |
| Timely Filing and Full Payment Discount - ART | $516 | $500 | $600 | $600 |
| Cost of Collection Discount (Gas Use Tax) | $721 | $679 | $682 | $580 |
| Business Reorganization Preferential Tax Rate | $72 | $58 | $58 | $52 |
| Aviation Purposes Exemption | $47 | $45 | $41 | $42 |
| Enterprise Zone Revenue Exemption | $44 | $18 | $26 | $17 |
| **Total** | **$284,590** | **$269,675** | **$281,877** | **$290,556** |
| **TOTAL BUSINESS EXPENDITURES** | **$1,143,523** | **$1,068,776** | **$1,060,342** | **$1,153,762** |

***Source: State Comptroller's Tax Expenditure Report, FY 2003 thru FY 2012.***

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 data labeled as "FY 2012", the largest incentives come from sales tax related incentives at $523.7 million. Corporate income tax related tax incentives amounted to $310.9 million, individual income tax related incentives cost $28.6 million, and all other business related tax incentives cost a total of $290.6 million for the grand total of $1.15 billion.

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.

Much of the detail provided with each description comes from the following Comptroller website:

http://www.apps.ioc.state.il.us/Office/ResearchFiscal/PublicTaxExpSQL/Report/PublicReportMenu.cfm

# Sales Tax

## *Manufacturing Machinery and Equipment Exemption*

*Comptroller's Tax Expenditure Report Description:* 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 is expanded to include purchases of production related tangible personal property for the period from 7/1/2007 to 6/30/2008. The total amount claimed cannot exceed $10 million.

*Citation:* 35 ILCS 105/3-5(18), 110/2(5), 115/2(e), 120/2-5(14)
*Effective Year:* 1979

*FY 2009 Reported Impact: $183.0 M* *FY 2010 Reported Impact:* $174.0 M
*FY 2011 Reported Impact: $184.0 M* *FY 2012 Reported Impact:* $183.0 M

## *Retailer's Discount*

*Comptroller's Tax Expenditure Report Description:* Except as provided, a retailer filing a return shall, at the time of filing such return, pay to the Department the amount of tax imposed by the Acts less a discount of 1.75%, or $5 per calendar year, whichever is greater, which is allowed to reimburse the retailer for the expenses incurred in keeping records, preparing and filing returns, remitting the tax and supplying data to the Department on request.

*Citation:* 35 ILCS 105/9, 110/9, 115/9, 120/3
*Effective Year:* 1960

*FY 2009 Reported Impact: $112.0 M* *FY 2010 Reported Impact:* $109.0 M
*FY 2011 Reported Impact: $116.0 M* *FY 2012 Reported Impact:* $121.0 M

## *Rolling Stock Exemption*

*Comptroller's Tax Expenditure Report Description:* Receipts from sales of tangible personal property sold to, or purchases by, interstate carriers for hire for use as rolling stock moving in interstate commerce or to lessors under leases of one year or more or longer executed or in effect at the time of purchase by interstate carriers for hire for use as rolling stock moving in interstate commerce, are exempt from the State's sales tax.

Proceeds from sales to, or purchases by owners, lessors, or shippers of tangible personal property that is utilized by interstate carriers for hire for use as rolling stock moving in interstate commerce, are also exempt. Receipts from the sale, transfer, or purchase of tangible personal property as an incident to the rendering of service for interstate carriers for hire for use as rolling stock moving in interstate commerce or lessors under leases of one year or longer, executed or in effect at the time of purchase, to interstate carriers for hire as rolling stock moving in interstate commerce, are exempt. Proceeds from the sale, transfer, or purchase of tangible personal property as an incident to the rendering of service for owners, lessors, or shippers of tangible personal property which is utilized by interstate carriers for hire for use as rolling stock moving in interstate commerce are exempt. The rolling stock exemption applies to rolling stock used by an interstate carrier for hire, even just between points in Illinois, if the rolling stock transports, for hire, persons whose journeys or property whose shipments originate or terminate outside Illinois.

*Citation:* 35 ILCS 105/3-55(b)(c), 110/3-45(b), 115/2(d)(d-1), 120/2-5(12)(13)
*Effective Year: 1968*

*FY 2009 Reported Impact: $47.0 M* *FY 2010 Reported Impact:* $27.0 M
*FY 2011 Reported Impact: $47.0 M* *FY 2012 Reported Impact:* $74.0 M

***Sales of Vehicles to Automobile Rentors Exemption***

*Comptroller's Tax Expenditure Report Description:* Sales of motor vehicles of the first division, certain self-contained recreational motor vehicles of the second division, and vans which transport 7 to 16 passengers, are exempt from sales tax when used for automobile renting, as defined in the Automobile Renting Occupation and Use Tax Act.

The Exemption has been in effect since 1988. However, the exemption was eliminated from the retailers' occupation tax in September 2007, but was reinstated in January 2008.

*Citation:* 35 ILCS 105/3-5(10) & 120/2-5(5)
*Effective Year:* 1988

*FY 2009 Reported Impact: $13.0 M* *FY 2010 Reported Impact:* $27.0 M
*FY 2011 Reported Impact: $32.0 M* *FY 2012 Reported Impact:* $43.0 M

***Manufacturer's Purchase Credit***

*Comptroller's Tax Expenditure Report Description:* Manufacturers, purchasing machinery & equipment qualifying for the 100% sales tax exemption, earn an additional use tax credit to offset sales tax due on purchases of production related tangible personal property. Credit is earned at the rate of 6.25% of 15% of the tax that would otherwise have been due on 100% exempt purchases between 1/1/95 -- 6/30/95;

25% on purchases between 7/1/95 -- 6/30/96; 40% on purchases between 7/1/96 -- 6/30/97; and 50% on purchases made 7/1/97 and after. The credit was eliminated for purchases after June 30, 2003. The purchasers had until September 30, 2003 to use accumulated credits. The manufacturer's purchase credit (MPC) was reinstated effective September 1, 2004. Any remaining MPC earned prior to that date still cannot be used. MPC earned on or after September 1, 2004 can only be used for qualified purchases of tangible personal property made on or after September 1, 2004.

*Citation:* 35 ILCS 105/3-85, 110/3-70
*Effective Year:* 1995

*FY 2009 Reported Impact: $29.0 M* *FY 2010 Reported Impact:* $33.0 M
*FY 2011 Reported Impact: $37.8 M* *FY 2012 Reported Impact:* $37.5 M

***Newsprint and Ink to Newspapers and Magazines Exemption***

*Comptroller's Tax Expenditure Report Description:* The purchase, employment and transfer of such tangible personal property as newsprint and ink for the primary purpose of conveying news (with or without other information) is not a purchase, use or sale of tangible personal property.

*Citation:* 35 ILCS 105/2, 120/1
*Effective Year:* 1965

*FY 2009 Reported Impact: $39.0 M* *FY 2010 Reported Impact:* $37.0 M
*FY 2011 Reported Impact: $33.0 M* *FY 2012 Reported Impact:* $32.0 M

***Designated Tangible Property Enterprise Zone Exemption***

*Comptroller's Tax Expenditure Report Description:* 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.

*Citation:* 35 ILCS 105/12, 110/12, 115/12, 120/5L
*Effective Year:* 1986

*FY 2009 Reported Impact: $26.0 M* *FY 2010 Reported Impact:* $21.0 M
*FY 2011 Reported Impact: $20.0 M* *FY 2012 Reported Impact:* $20.0 M

***Graphic Arts Machinery and Equipment Exemption***

*Comptroller's Tax Expenditure Report Description:* Sales and purchases of graphic arts machinery and equipment, including repair and replacement parts, both new and used, and including that manufactured on special order or purchased for lease, certified by the purchaser to be used primarily for graphic arts production, are exempt. This tax expenditure is abolished effective FY 04. The tax expenditure was reinstated effective 9/1/04.

*Citation:* 35 ILCS 105/3-5(6), 110/3-5(5), 115/3-5(5), 120/2-5(4)
*Effective Year:* 1981

*FY 2009 Reported Impact: $21.0 M* *FY 2010 Reported Impact:* $8.6 M
*FY 2011 Reported Impact: $8.0 M* *FY 2012 Reported Impact:* $8.0 M

***Building Materials within Enterprise Zone Exemption***

*Comptroller's Tax Expenditure Report Description:* 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, river edge redevelopment zone, or intermodal terminal facility redevelopment project area; provided the retailer's place of business is located within the county or municipality which has established the enterprise zone are exempt.

*Citation:* 35 ILCS 120/2-6, 105/12, 110/12, 115/12, 120/5k, 120/2-54
*Effective Year:* 1982

*FY 2009 Reported Impact: $4.7 M* *FY 2010 Reported Impact:* $4.4 M
*FY 2011 Reported Impact: $4.1 M* *FY 2012 Reported Impact:* $4.1 M

***Interim Use Prior to Sale Exemption***

*Comptroller's Tax Expenditure Report Description:* Purchases for "Use" does not mean the interim use of tangible personal property and such purchases are exempt.

*Citation:* 35 ILCS 105/2, 110/2
*Effective Year:* 1955

*FY 2009 Reported Impact: $4.0 M* *FY 2010 Reported Impact:* $3.7 M
*FY 2011 Reported Impact: $0.9 M* *FY 2012 Reported Impact:* $1.1 M

# Individual Income Tax

There are several business tax incentives classified by the Department of Revenue under the personal income tax. These include enterprise zone and foreign trade zone dividends and job training contribution related incentives. Descriptions for these incentives 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 can vary from year to year. Here is a history of these incentives over the last four years of available data:

*FY 2009 Reported Impact: $11.6 M* *FY 2010 Reported Impact:* $6.9 M
*FY 2011 Reported Impact: $20.9 M* *FY 2012 Reported Impact:* $28.6 M

# ***Corporate Income Tax***

## ***Net Operating Loss (NOL) Deduction***

*Comptroller’s Tax Expenditure Report Description:* Taxpayers may have a negative base income after applying all the various modifications in section 203(b). 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. This deduction was temporarily suspended from January 1, 2011 to December 31, 2014.

The net operating loss deduction is reinstated for years ending between December 31, 2012 and December 31, 2014. The reinstatement is capped at $100,000 per year per taxpayer and the loss carryforward is extended one year for each year the deduction is suspended or capped.

*Citation:* 35 ILCS 5/207 (a) & (b)
*Effective Year:* 1986

*FY 2009 Reported Impact: $259.5 M* *FY 2010 Reported Impact:* $255.5 M
*FY 2011 Reported Impact: $193.5 M* *FY 2012 Reported Impact:* $219.0 M

***Illinois EDGE (Economic Development for a Growing Economy) Credit***

*Comptroller's Tax Expenditure Report Description:* The economic development for a growing economy tax credit is effective for tax years beginning on or after January 1, 1999. The amount and duration of the credit is determined by the Department of Commerce and Economic Opportunity. The duration of the credit may not exceed 15 tax years. Excess credit amounts can be carried forward 5 tax years. Credits may be increased under the Business Location Efficiency Incentive Act effective 1/1/2007.

*Citation:* 35 ILCS 5/211
*Effective Year:* 2000

*FY 2009 Reported Impact: $25.6 M* *FY 2010 Reported Impact:* $34.8 M
*FY 2011 Reported Impact: $36.1 M* *FY 2012 Reported Impact:* $31.3 M

***Foreign Insurer Rate Reduction***

*Comptroller's Tax Expenditure Report Description:* 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 1.75% 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.

*Citation:* 35 ILCS 5/201(d-1)
*Effective Year:* 2000

*FY 2009 Reported Impact: $29.1 M* *FY 2010 Reported Impact:* $10.2 M
*FY 2011 Reported Impact: $7.5 M* *FY 2012 Reported Impact:* $28.3 M

***Film Production Services Credit***

*Comptroller's Tax Expenditure Report Description:* Film production services credit. For tax years beginning on or after January 1, 2004, a taxpayer who has been awarded a tax credit under the Film Production Services Tax Credit Act is entitled to a credit against the taxes imposed under subsections (a) and (b) of Section 201 of this Act in an amount determined by the Department of Commerce and Economic Opportunity under the Film Production Services Tax Credit Act.

A transfer of this credit may be made by the taxpayer earning the credit within one year after the credit is awarded in accordance with rules adopted by the Department of Commerce and Economic Opportunity.

*Citation:* 35 ILCS 5/213
*Effective Year:* 2004

*FY 2009 Reported Impact: $13.1 M* *FY 2010 Reported Impact:* $11.1 M
*FY 2011 Reported Impact: $11.8 M* *FY 2012 Reported Impact:* $11.8 M

***<u>Research and Development Credit</u>***

*Comptroller's Tax Expenditure Report Description:* 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. Any unused credit amounts cannot be carried forward. The credit was re-instated effective for tax years ending on or after December 31, 2004.

*Citation:* 35 ILCS 5/201 (k)
*Effective Year:* 1991

*FY 2009 Reported Impact: $23.2 M* *FY 2010 Reported Impact:* $19.1 M
*FY 2011 Reported Impact: $13.2 M* *FY 2012 Reported Impact:* $11.5 M

***<u>Enterprise Zone and River Edge Redevelopment Zone Investment Credit</u>***

*Comptroller's Tax Expenditure Report Description:* This tax credit is provided to taxpayers that invest, and place in service, qualified property in an Illinois enterprise zone or river edge redevelopment zone. 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. An additional .5% river edge redevelopment zone credit is available for taxpayers who increase base employment by at least 1%.

*Citation:* 35 ILCS 5/201 (k)

*Effective Year:* 1991

*FY 2009 Reported Impact: $11.7 M* *FY 2010 Reported Impact:* $7.2 M
*FY 2011 Reported Impact: $6.0 M* *FY 2012 Reported Impact:* $7.6 M

***Special Zone Dividend, Interest, and Charitable Contribution Subtractions***

*Comptroller's Tax Expenditure Report Description:* 1) The Enterprise Zone and River Edge Redevelopment 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 River Edge Redevelopment Zone or zones.

2) The Enterprise Zone and River Edge Redevelopment 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 or River Edge Redevelopment Zone Investment credit.

3) The Enterprise Zone and River Edge Redevelopment 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 or River Edge Redevelopment Zone. The contribution must be used for a project approved by the Illinois Department of Commerce and Economic Opportunity.

*Citation:* 35 ILCS 5/203 (b)(2)(K), 35 ILCS 5/203 (b)(2)(M), 35 ILCS 5/203 (b)(2)(N)
*Effective Year:* 1983, 2007

*FY 2009 Reported Impact: $1.8 M* *FY 2010 Reported Impact:* $1.5 M
*FY 2011 Reported Impact: $1.5 M* *FY 2012 Reported Impact:* $1.4 M

***Job Training Contribution Subtraction***

*Comptroller's Tax Expenditure Report Description:* This subtraction modification is "equal to any contribution made to a job training project established pursuant to the Tax Increment Allocation Redevelopment Act."

*Citation:* 35 ILCS 5/203 (b) (P)
*Effective Year:* 1986

*FY 2009 Reported Impact: $0.8 M* *FY 2010 Reported Impact:* $1.1 M
*FY 2011 Reported Impact: $0.5 M* *FY 2012 Reported Impact:* $0.1 M

***High Economic Impact Business Dividend Subtraction***

*Comptroller's Tax Expenditure Report Description:* 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.

*Citation:* 35 ILCS 5/203 (b) (L)
*Effective Year:* 1986

*FY 2009 Reported Impact: $5.5 M* *FY 2010 Reported Impact:* $4.8 M
*FY 2011 Reported Impact: $1.2 M* *FY 2012 Reported Impact:* $0.1 M

***River Edge Redevelopment Zone Site Remediation Tax Credit***

*Comptroller's Tax Expenditure Report Description:* Taxpayers are allowed a credit for certain amounts paid for unreimbursed eligible remediation costs. The credit allowed is 25% of the amount of unreimbursed eligible remediation costs in excess of $100,000/site. Excess credit amounts can be carried forward 5 years.

*Citation:* 35 ILCS 5/201(n)
*Effective Year:* 2007

*FY 2009 Reported Impact: $0 M* *FY 2010 Reported Impact:* $0 M
*FY 2011 Reported Impact: $0.02 M* *FY 2012 Reported Impact:* $0.03 M

***High Economic Impact Business Investment Credit***

*Comptroller's Tax Expenditure Report Description:* 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.

*Citation:* 35 ILCS 5/201(h)
*Effective Year:* 1986

*FY 2009 Reported Impact: $0.3 M* *FY 2010 Reported Impact:* $0.1 M
*FY 2011 Reported Impact: $3.1 M* *FY 2012 Reported Impact:* $0.02 M

# *Other Tax Related Business Incentives*

## *Sales for Use Other Than in Motor Vehicles Exemption*

*Comptroller's Tax Expenditure Report Description:* Special fuel sold and distributed tax-free to other qualified users is exempt. No amendments have occurred since the expenditure's effective date.

*Citation:* 35 ILCS 505/6,505/6a
*Effective Year:* 1940

*FY 2009 Reported Impact: $126.0 M* *FY 2010 Reported Impact:* $103.0 M
*FY 2011 Reported Impact: $110.1 M* *FY 2012 Reported Impact:* $116.1 M

## *Enterprise & Foreign Trade Zone High Economic Impact Business Exemption*

*Comptroller's Tax Expenditure Report Description:* 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.

*Citation:* 220 ILCS 5/9-222.1
*Effective Year:* 1986

*FY 2009 Reported Impact: $37.4 M* *FY 2010 Reported Impact:* $44.8 M
*FY 2011 Reported Impact: $43.3 M* *FY 2012 Reported Impact:* $39.8 M

## *Gas Used in Production of Electric Energy*

*Comptroller's Tax Expenditure Report Description:* Gas used in a petroleum refinery operation is exempt from the Gas Use Tax.

*Citation:* 35 ILCS 173/5-50(3)
*Effective Year:* 2004

*FY 2009 Reported Impact: $8.3 M* *FY 2010 Reported Impact:* $8.0 M
*FY 2011 Reported Impact: $11.4 M* *FY 2012 Reported Impact:* $20.6 M

## *Timely Filing and Full Payment Discount – Motor Fuel Tax*

*Comptroller's Tax Expenditure Report Description:* Distributors and suppliers are allowed a 1.75% discount for timely filing and full payment. No amendments have occurred since the expenditure's effective date.

*Citation:* 35 ILCS 505/6,505/6a
*Effective Year:* 1930

*FY 2009 Reported Impact: $20.1 M* *FY 2010 Reported Impact:* $19.9 M
*FY 2011 Reported Impact: $20.0 M* *FY 2012 Reported Impact:* $20.1 M

***Two Million Dollar Cap on Franchise Tax for Corporations***

*Comptroller's Tax Expenditure Report Description:* 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.

*Citation:* 805 ILCS 5/15.45
*Effective Year:* 2004

*FY 2009 Reported Impact: $15.2 M* *FY 2010 Reported Impact:* $17.5 M
*FY 2011 Reported Impact: $17.9 M* *FY 2012 Reported Impact:* $18.4 M

***Enterprise & Foreign Trade Zone High Economic Impact Business Exemption - Gas***

*Comptroller's Tax Expenditure Report Description:* 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.

*Citation:* 35 ILCS 615/1, 35 ILCS 173/5-50(1)
*Effective Year:* 1986

*FY 2009 Reported Impact: $13.0 M* *FY 2010 Reported Impact:* $12.8 M
*FY 2011 Reported Impact: $13.7 M* *FY 2012 Reported Impact:* $12.5 M

***Airport Exemption***

*Comptroller's Tax Expenditure Report Description:* 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).

*Citation:* 35 ILCS 505/2a
*Effective Year:* 1990

*FY 2009 Reported Impact: $15.5 M* *FY 2010 Reported Impact:* $15.2 M
*FY 2011 Reported Impact: $16.7 M* *FY 2012 Reported Impact:* $12.4 M

***Cost of Collection Discount – Cigarettes***

*Comptroller's Tax Expenditure Report Description:* Distributors are allowed a discount for collecting the cigarette tax. The current discount (effective FY86) is 1.75% of the first $3 million paid and 1.5% of any additional amount paid.

*Citation:* 35 ILCS 130/2, 135/3
*Effective Year:* 1942

*FY 2009 Reported Impact: $8.8 M* *FY 2010 Reported Impact:* $8.6 M
*FY 2011 Reported Impact: $8.9 M* *FY 2012 Reported Impact:* $9.0 M

***Cost of Collection Discount – Telecommunications***

*Comptroller's Tax Expenditure Report Description:* Effective January 1, 2003, 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 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.

*Citation:* 35 ILCS 630/6
*Effective Year:* 2004

*FY 2009 Reported Impact: $9.4 M* *FY 2010 Reported Impact:* $9.3 M
*FY 2011 Reported Impact: $9.2 M* *FY 2012 Reported Impact:* $8.6 M

***Gas Used in Petroleum Refinery Operation***

*Comptroller's Tax Expenditure Report Description:* Gas used in a petroleum refinery operation is exempt from the Gas Use Tax.

*Citation:* 35 ILCS 173/5-50(4)
*Effective Year:* 2004

*FY 2009 Reported Impact: $8.4 M* *FY 2010 Reported Impact:* $8.0 M
*FY 2011 Reported Impact: $8.3 M* *FY 2012 Reported Impact:* $8.1 M

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

*Comptroller's Tax Expenditure Report Description:* 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.

*Citation:* 35 ILCS 145/6
*Effective Year:* 1988

*FY 2009 Reported Impact: $3.8 M* *FY 2010 Reported Impact:* $3.6 M
*FY 2011 Reported Impact: $3.9 M* *FY 2012 Reported Impact:* $4.1 M

***New Markets Development Program***

*Comptroller's Tax Expenditure Report Description:* Economic development with a qualified equity investment in, or long term debt security issued by a qualified community development entity as certified by the Department of Commerce and Economic Opportunity, is exempt from the insurance privilege tax.

*Citation:* 215 ILCS 5/409(6)
*Effective Year:* 2009

*FY 2009 Reported Impact: $0* *FY 2010 Reported Impact:* $0
*FY 2011 Reported Impact: $1,000* *FY 2012 Reported Impact:* $3.8 M

***Rail Carrier Exemption***

*Comptroller's Tax Expenditure Report Description:* 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.

*Citation:* 35 ILCS 505/2a
*Effective Year:* 1990

*FY 2009 Reported Impact: $4.0 M* *FY 2010 Reported Impact:* $3.0 M
*FY 2011 Reported Impact: $3.0 M* *FY 2012 Reported Impact:* $3.1 M

***Real Estate Tax Credit***

*Comptroller's Tax Expenditure Report Description:* 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.

*Citation:* 230 ILCS 5/32.1
*Effective Year:* 2000

*FY 2009 Reported Impact: $4.0 M* *FY 2010 Reported Impact:* $3.0 M
*FY 2011 Reported Impact: $3.0 M* *FY 2012 Reported Impact:* $3.1 M

***Gas Used in Production of Fertilizer***

*Comptroller's Tax Expenditure Report Description:* Gas used in production of anhydrous ammonia and downstream nitrogen fertilizer products for resale are exempt from the Gas Use Tax.

*Citation:* 35 ILCS 173/5-50(6)
*Effective Year:* 2004

*FY 2009 Reported Impact: $2.7 M* *FY 2010 Reported Impact:* $2.7 M
*FY 2011 Reported Impact: $2.7 M* *FY 2012 Reported Impact:* $2.5 M

***Cost of Collection Discount – Liquor***

*Comptroller's Tax Expenditure Report Description:* The cost of collection discount 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.

*Citation:* 235 ILCS 5/8-2
*Effective Year:* 2003

*FY 2009 Reported Impact: $1.3 M* *FY 2010 Reported Impact:* $1.3 M
*FY 2011 Reported Impact: $2.2 M* *FY 2012 Reported Impact:* $2.3 M

***Purchase of Electricity Generated by Solid Waste Energy Facility Credit***

*Comptroller's Tax Expenditure Report Description:* This provision of the Public Utilities Act compels utilities to purchase power generated by solid waste energy facilities*. To the extent that the purchase price exceeds the utilities costs, it may request a tax credit on its electricity taxes. The tax credit may eventually be repaid to the state. *The purchase of power from incinerators is currently under litigation.

*Citation:* 220 ILCS 5/8-403.1
*Effective Year:* 1987

*FY 2009 Reported Impact: $1.8 M* *FY 2010 Reported Impact:* $3.2 M
*FY 2011 Reported Impact: $2.2 M* *FY 2012 Reported Impact:* $1.7 M

***<u>Enterprise & Foreign Trade Zone High Economic Impact Business Exemption - Telecom</u>***

*Comptroller's Tax Expenditure Report Description:* 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.

*Citation:* 35 ILCS 630/2
*Effective Year:* 1986

*FY 2009 Reported Impact: $2.1 M* *FY 2010 Reported Impact:* $2.2 M
*FY 2011 Reported Impact: $2.3 M* *FY 2012 Reported Impact:* $1.3 M

***<u>Timely Filing and Full Payment Discount – Underground Storage Tank Tax</u>***

*Comptroller's Tax Expenditure Report Description:* Receivers are allowed a 2% discount for timely filing and full payment of tax. No amendments have occurred since the expenditure's effective date.

*Citation:* 35 ILCS 505/2b (UST); 415 ILCS
*Effective Year:* 1990

*FY 2009 Reported Impact: $1.2 M* *FY 2010 Reported Impact:* $1.2 M
*FY 2011 Reported Impact: $1.2 M* *FY 2012 Reported Impact:* $1.2 M

***<u>Exemption for Vessels Conducting Interstate Commerce on Border Rivers</u>***

*Comptroller's Tax Expenditure Report Description:* 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.

*Citation:* 35 ILCS 505/2a
*Effective Year:* 1997

*FY 2009 Reported Impact: $0.5 M* *FY 2010 Reported Impact:* $0.5 M

*FY 2011 Reported Impact: $0.6 M* *FY 2012 Reported Impact:* $0.6 M

***<u>Timely Filing and Full Payment Discount – Auto Renting Occupation and Use Tax</u>***

*Comptroller's Tax Expenditure Report Description:* Automobile renting businesses are allowed a 1.75% discount for timely filing and full payment. The original discount was 2.0% in FY82. The rate was increased to 2.1% in FY85 and was reduced to the current 1.75% in FY90.

*Citation:* 35 ILCS 173/5-40
*Effective Year:* 2004

*FY 2009 Reported Impact: $0.5 M* *FY 2010 Reported Impact:* $0.5 M
*FY 2011 Reported Impact: $0.6 M* *FY 2012 Reported Impact:* $0.6 M

***<u>Cost of Collection Discount – Gas Use Tax</u>***

*Comptroller's Tax Expenditure Report Description:* The discount is 1.75% of collections resulting from incorporation of applicable use tax statutes.

*Citation:* 35 ILCS 173/5-40
*Effective Year:* 2004

*FY 2009 Reported Impact: $0.7 M* *FY 2010 Reported Impact:* $0.7 M
*FY 2011 Reported Impact: $0.7 M* *FY 2012 Reported Impact:* $0.6 M

***<u>Business Reorganization Preferential Tax Rate</u>***

*Comptroller's Tax Expenditure Report Description:* 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.

*Citation:* 625 ILCS 5/3-1001
*Effective Year:* 1988

*FY 2009 Reported Impact: $72,000* *FY 2010 Reported Impact:* $58,000
*FY 2011 Reported Impact: $58,000* *FY 2012 Reported Impact:* $52,000

***Aviation Purposes Exemption***

*Comptroller's Tax Expenditure Report Description:* Gasoline sales used for aviation purposes are exempt. No amendments have occurred since the expenditure's effective date.

*Citation:* 35 ILCS 505/6,505/6a
*Effective Year:* 1956

*FY 2009 Reported Impact: $47,000* *FY 2010 Reported Impact:* $45,000
*FY 2011 Reported Impact: $41,000* *FY 2012 Reported Impact:* $42,000

***Enterprise Zone Revenue Exemption***

*Comptroller's Tax Expenditure Report Description:* 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.

*Citation:* 220 ILCS 5/3-121
*Effective Year:* 1988

*FY 2009 Reported Impact: $44,000* *FY 2010 Reported Impact:* $18,000
*FY 2011 Reported Impact: $26,000* *FY 2012 Reported Impact:* $17,000

# Illinois Incentive Program Summaries

***Department of Revenue's Report on Enterprise Zone, River Edge Redevelopment Zone and High Impact Business Tax Incentives***

In accordance with the Illinois Enterprise Zone Act, on August 1, 2013, the Illinois Department of Revenue released their 2013 Report on Enterprise Zone, River Edge Redevelopment Zone and High Impact Business Tax Incentives. This report "details the tax incentive, job creation and capital investment data for the calendar year 2012 disclosed to IDOR by those receiving the tax incentives, with corroborating reports submitted by zone administrators and utility service providers".

This report can be found at:

http://www.revenue.state.il.us/Businesses/Incentives/2012-Tax-Incentives.pdf

Under the Act, these affected businesses were required to detail the tax incentives they received in 2012. The Department reports that 526 businesses located in an Enterprise Zone and 10 High Impact Businesses filed reports. Each report disclosed "the total Enterprise Zone or High Impact Business tax benefits received by the business broken down by incentive category and enterprise zone". Businesses in River Edge Redevelopment Zones were also required to identify the incentives that they received.

The Act required providers of utility services to identify the amount of the deduction taken as part of the tax incentives offered. It also provides that businesses must report to the Department "job creation, retention, and capital investment numbers". The Department reports that 70 of the 96 active Enterprise Zone and River Edge Redevelopment Zone Administrators and all ten of the High Impact Businesses submitted reports with this information.

The report summarizes the data as follows:

> *In 2012, Enterprise Zone, High Impact Business, and River Edge Redevelopment Zone tax incentives resulted in the State foregoing approximately $115 million in tax revenue. The largest two components of these tax expenditures were (a) the exemption from sales tax on the purchase of building materials, and (b) the electricity excise tax exemption, accounting for approximately 46% of the total State tax expenditures. The value of the building materials exemption in lost sales tax to the State was approximately $29 million, while the reported value of the electricity excise tax exemption was $25 million.*
>
> *In the aggregate, businesses receiving tax incentives reported creating 4,671 jobs and investing approximately $3.7 billion in 2012.*

A summary of the data provided in the report is provided on the following page. For details of the data by zone, please see the original report.

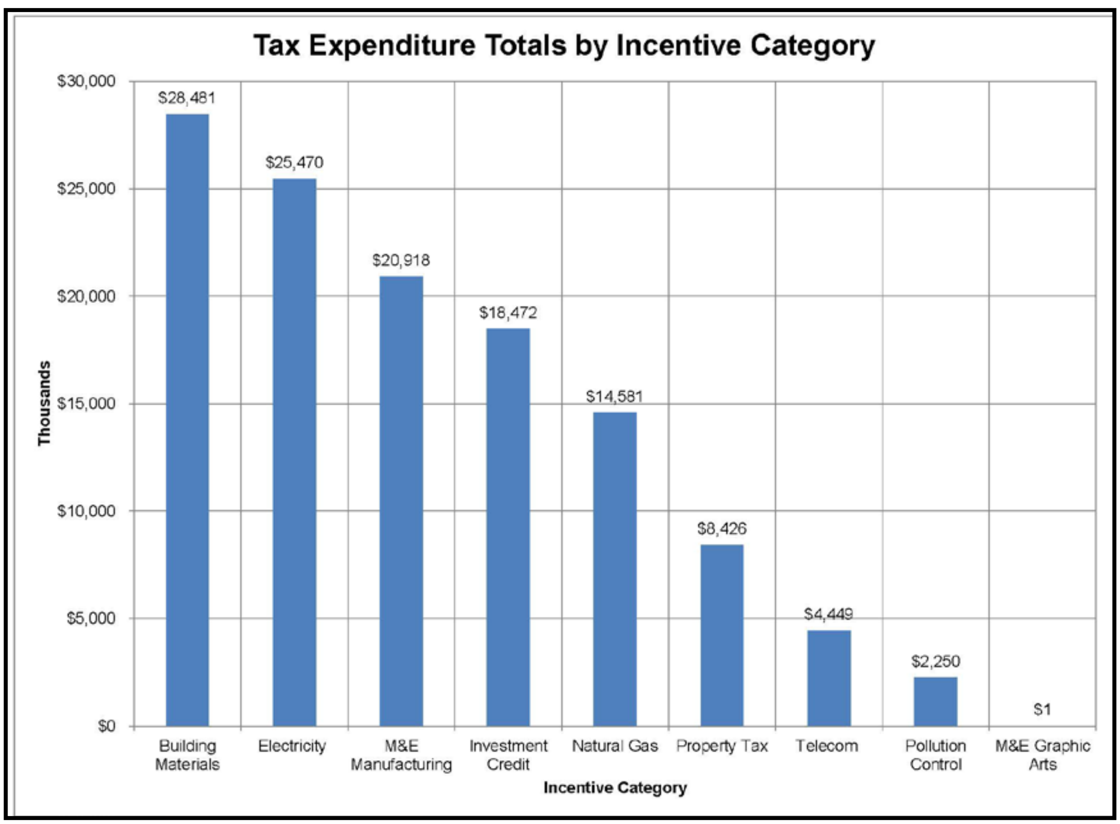
| Incentives Reporting 2012 - Tax Expenditures (all $ in thousands) | | | | | |
|---|---|---|---|---|---|
| | *Sales Tax* | | | | |
| | **Building Materials** | **M&E Manufacturing** | **Pollution Control** | **M&E Graphic Arts** | **Other Sales Tax** |
| **Enterprise Zone Incentive** | $23,782 | $18,608 | $2,250 | $1 | $0 |
| **River Edge Redevelopment Zone** | $117 | $0 | $0 | $0 | $0 |
| **High Impact Business Incentive** | $4,699 | $2,310 | $0 | $0 | $0 |
| | *Utility Taxes* | | | *Income Tax* | |
| | **Telecom** | **Natural Gas** | **Electricity** | **Investment Credit** | **State Tax Expenditures** |
| **Enterprise Zone Incentive** | $3,643 | $13,929 | $23,573 | $17,307 | **$103,093** |
| **River Edge Redevelopment Zone** | $0 | $0 | $0 | $14 | **$131** |
| **High Impact Business Incentive** | $806 | $652 | $1,897 | $1,165 | **$11,529** |

Source: http://www.revenue.state.il.us/Businesses/Incentives/2012-Tax-Incentives.pdf

| Incentives Reporting 2012 - Jobs and Investment (all $ in thousands) | | | | | |
|---|---|---|---|---|---|
| | **State Tax Expenditures** | **2012 Employment** | **Jobs Created/Lost** | **Jobs Retained** | **Capital Investment** |
| **Enterprise Zone Incentive** | $103,093 | 129,685 | 4,671 | 54,401 | $3,225,149 |
| **River Edge Redevelopment Zone** | $131 | 96 | 26 | - | $10,667 |
| **High Impact Business Incentive** | $11,529 | 21,170 | (931) | 6,424 | $443,179 |

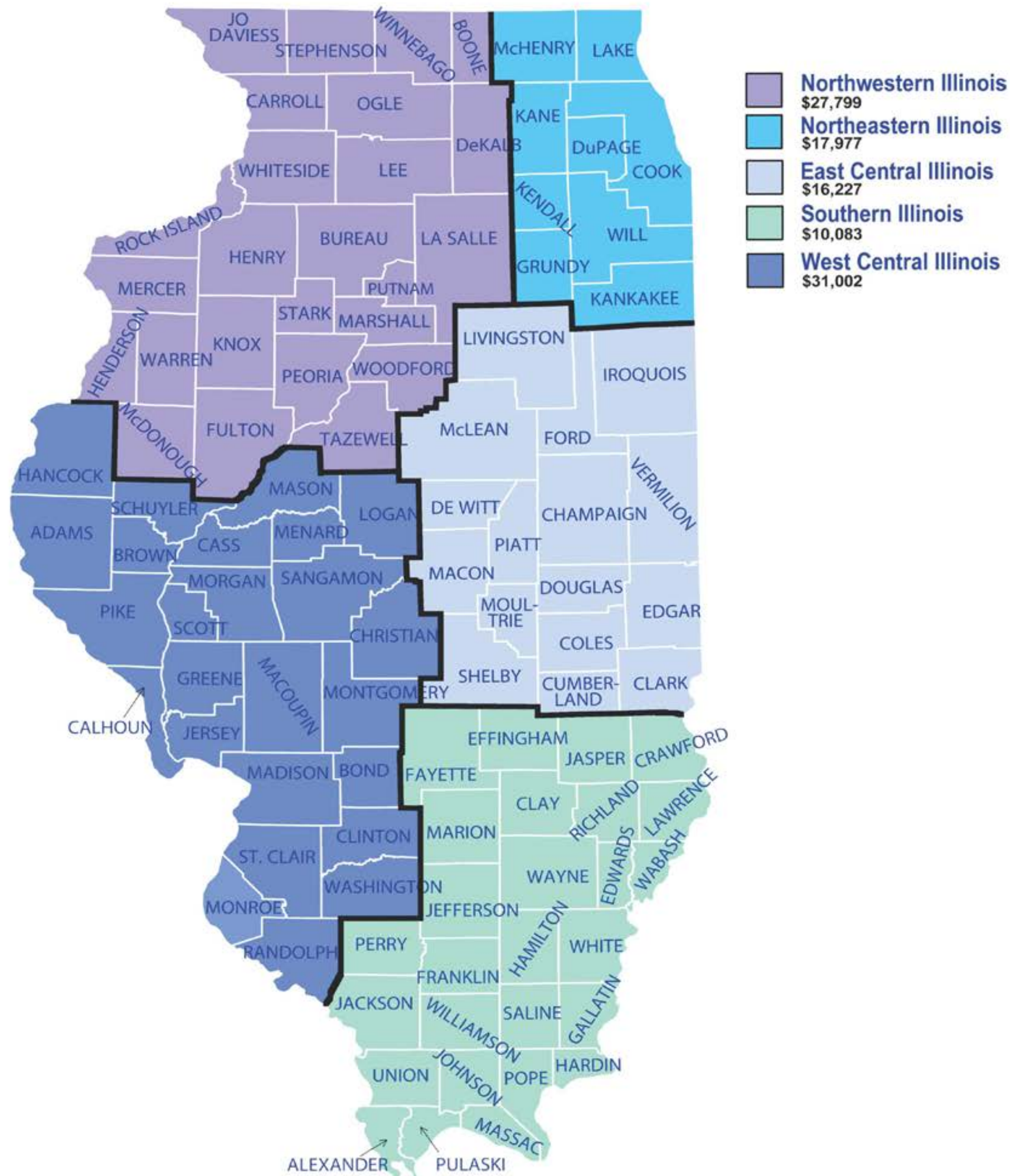
Source: http://www.revenue.state.il.us/Businesses/Incentives/2012-Tax-Incentives.pdf

The below graph is from the Department of Revenue's *Report on Enterprise Zone, River Edge Redevelopment Zone and High Impact Business Tax Incentives*.



# Enterprise Zone Tax Expenditures by Geographic Region

(All $ in thousands)




SOURCE: http://www.revenue.state.il.us/Businesses/Incentives/2012-Tax-Incentives.pdf

## ***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 described as follows:

> *The HIB 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.*
>
> *Businesses may qualify for: investment tax credits, a state sales tax exemption on building materials, an exemption from state sales tax on utilities, a state sales tax exemption on purchases of personal property used or consumed in the manufacturing process or in the operation of a pollution control facility.*
>
> *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 1500 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.*
>
> *In 2009, the program was further expanded to include wind energy facilities. The designation as a Wind Energy/High Impact Business is contingent on the business constructing a new electric generation facility or expanding an existing wind power facility. "New wind power facility" means a newly constructed electric generation facility, or a newly constructed expansion of an existing electric generation facility, placed in service on or after July 1, 2009, that generates electricity using wind energy devices. "New wind energy device" means any device, with a nameplate capacity of at least 0.5 megawatts, that is used in the process of converting kinetic energy from the wind to generate electricity.*

SOURCE: http://www.commerce.state.il.us/dceo/Bureaus/Business_Development/Tax+Assistance/HIB.htm

Below is a list of areas designated as High Impact Businesses as of November 2013. Currently, there are eleven High Impact Business designated companies throughout Illinois and ten High Impact Business Wind Farm designations.

**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, Melorose 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 |

***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, 2012, which can be found at *https://www.ilcorpacct.com/corpacct/RecaptureProvisions.aspx*.

## Annual Report of Recapture by Program

### For Jan. 1, 2004 to Dec. 31, 2012
### Published Jun. 1, 2013

***Report Year 2012***

**Business Development Public Infrastructure Program**

| | |
|---|---|
| Total number of companies that have received benefits as defined within the Act since Jan. 1, 2004 | 10 |
| Total number of recipients in violation of the terms of the development agreement as of Dec. 31, 2012 | 1 |
| Total number of completed recapture efforts since Jan. 1, 2004 | 1 |
| Total number of recapture efforts initiated since Jan. 1, 2004 | 2 |
| 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 | 484 |
| Total number of recipients in violation of the terms of the development agreement as of Dec. 31, 2012 | 3 |
| Total number of completed recapture efforts since Jan. 1, 2004 | 0 |
| Total number of recapture efforts initiated since Jan. 1, 2004 | 3 |
| 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 | 235 |
| Total number of recipients in violation of the terms of the development agreement as of Dec. 31, 2012 | 5 |
| Total number of completed recapture efforts since Jan. 1, 2004 | 92 |
| Total number of recapture efforts initiated since Jan. 1, 2004 | 97 |
| 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 | 22 |
| Total number of recipients in violation of the terms of the development agreement as of Dec. 31, 2012 | 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 | 37 |
| Total number of recipients in violation of the terms of the development agreement as of Dec. 31, 2012 | 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 | 18 |
| Total number of recipients in violation of the terms of the development agreement as of Dec. 31, 2012 | 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 | 49 |
| Total number of recipients in violation of the terms of the development agreement as of Dec. 31, 2012 | 3 |
| Total number of completed recapture efforts since Jan. 1, 2004 | 16 |
| Total number of recapture efforts initiated since Jan. 1, 2004 | 19 |
| Total number of waivers granted since Jan. 1, 2004 | 0 |

## River Edge Redevelopment

| | |
|---|---|
| Total number of companies that have received benefits as defined within the Act since Jan. 1, 2004 | 1 |
| Total number of recipients in violation of the terms of the development agreement as of Dec. 31, 2012 | 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 |

# Recent Legislation Impacting Tax Incentives

## ***Recently Enacted Legislation***

Over the past couple of years, there has been a lot of focus on businesses seeking to benefit from new tax incentives in Illinois. Some come from out-of-state businesses looking to relocate to Illinois, but it seems that the majority of the companies are Illinois businesses looking for an incentive to "stay" in Illinois. While some have suggested the request as a "threat" or even "corporate blackmail", the bottom line is if these larger Illinois companies were to leave, this would result in a significant negative impact on jobs and corresponding tax revenues.

Illinois lawmakers are often faced with the task of offering a tax incentive plan that is competitive enough that would prevent a company from locating/relocating to another state. But just like a mother handing out cookies to her children, once you hand that cookie out to one child, you had better be ready for others to quickly follow. This seems to have been the case in Illinois, as once the State offered companies like Sears and the Chicago Mercantile Exchange a tax incentive in 2011, several other companies have followed seeking tax incentives for their companies as well, with many more likely to follow if these tax breaks continue to be handed out.

The following is a quick glance at some of the most prominent pieces of legislation dealing with tax incentives that have been acted upon over the past couple of years in Illinois followed by a glance at recent proposals discussed in the last legislative session.

***Chicago Mercantile Exchange***: 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. This change impacted the Chicago Mercantile Exchange (CME). It was reported that the estimated cost of this change in the tax structure would be approximately $100 million under full implementation ($80 million – State, and $20 million – Local). From a State fiscal revenue perspective, the impact in first four years was estimated to be approximately $0 in FY 2012, $43 million in FY 2013, and $85 million in FY 2014 and FY 2015.

***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.

***Recent Tax Proposals***

Several pieces of legislation arose during the 2013 Spring/Fall Session which would have offered tax incentives to as many as three companies to entice them to remain/relocate their headquarters in Illinois: Archer Daniels Midland Co. (ADM), Univar, and OfficeMax/Office Depot. Legislation dealing with these tax breaks include SB 1227, SB 1448, HB 2536, and HB 3271.

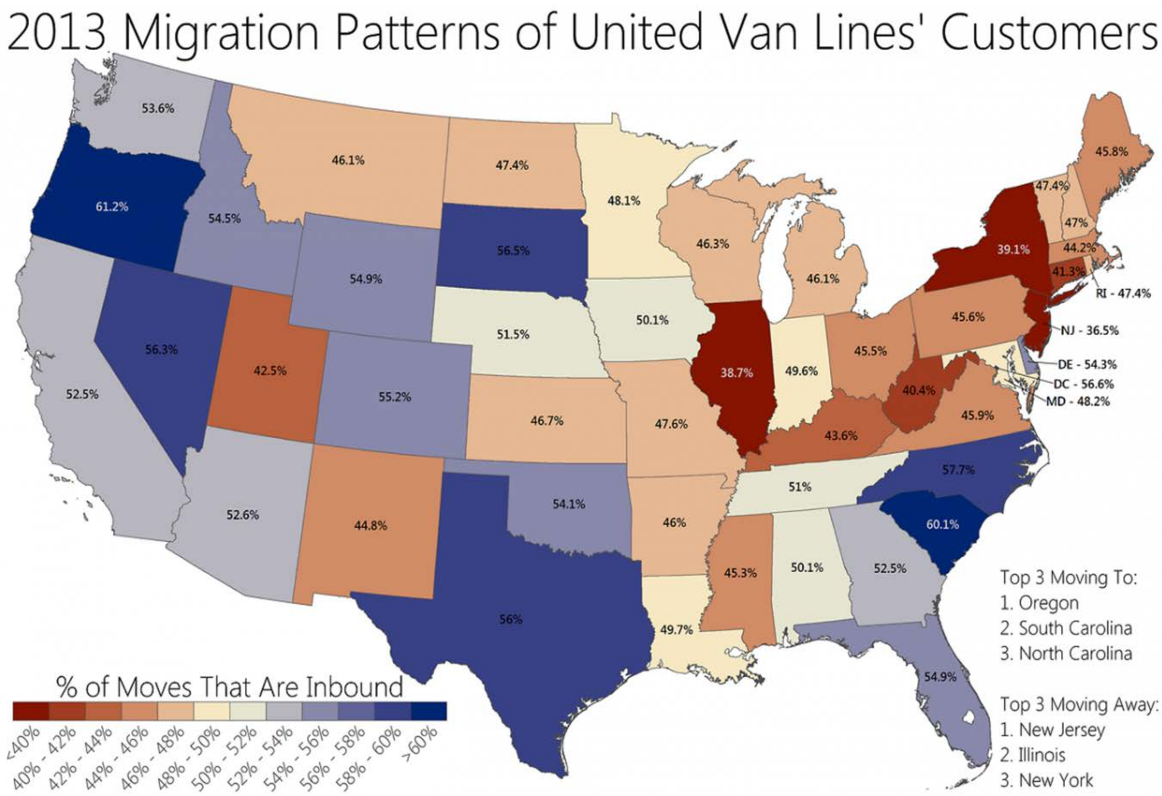
Each company is seeking to receive the Economic Development for a Growing Economy (EDGE) Tax Credit and the ability to claim the EDGE credit against their withholding tax obligations if they meet certain requirements. Although these proposals did not obtain legislative approval during these sessions, 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. *(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. Therefore, it appears that this legislation portion would no longer be necessary).*

# III. ILLINOIS BUSINESS RELATED STATISTICS

## Illinois Employment

A January 2014 article from businessinsider.com discussed a recent report entitled, "The 2013 Migration Patterns of United Van Lines' Customers". In the report, which looks at data on the number of people moving to and from certain states, the study found that the top three states that people are "moving to" are Oregon, South Carolina, and North Carolina. But, as shown in the graph below, the study also identifies Illinois as one of the top three "moving away" states along with New Jersey and New York. The data shows that 38.7% of moves impacting Illinois are "inbound" which means most (61.3%) are "outbound".



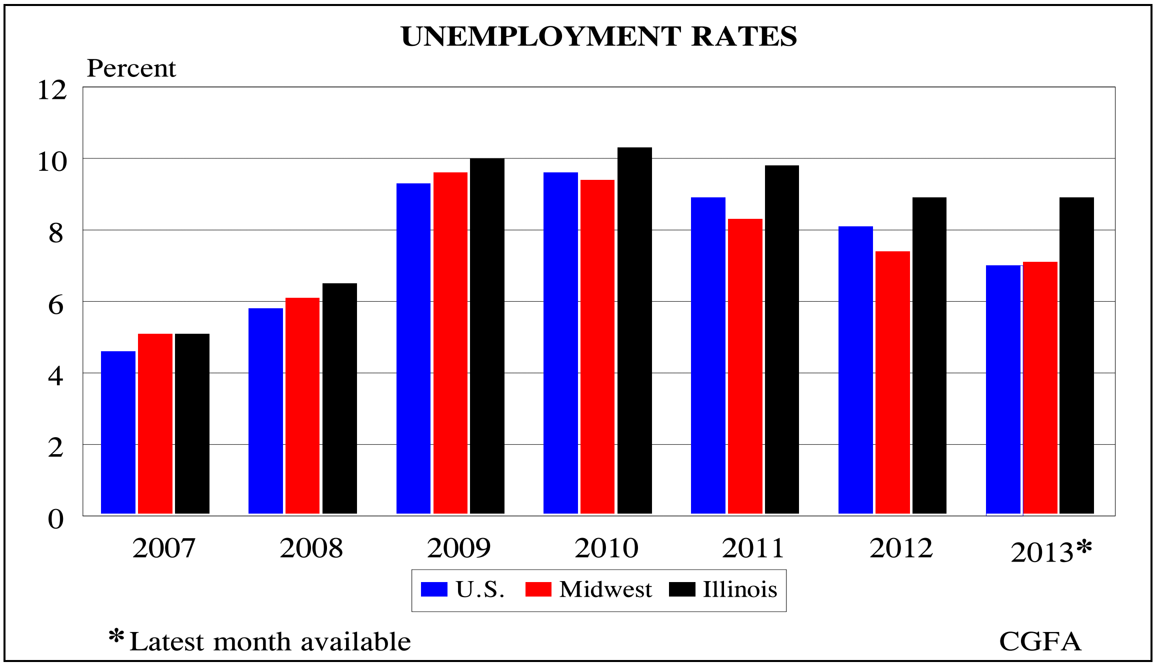

While there are numerous reasons why people would move from one state to another, one of the main reasons is, of course, due to employment. The data in the map above would suggest that Illinois may be struggling in this area. Recent employment data from the Illinois Department of Employment Security and the Bureau of Labor Statistics would confirm this suggestion.

The graph on the following page displays Illinois' employment data (nonseasonally adjusted) since the early 90s. It shows that employment in Illinois was on an upward trend in the late 90s and then hit a plateau at the start of the new 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, in the later stages of 2008, the "Great Recession" hit, resulting in a significant decline in jobs that lasted until the middle of 2010. Employment levels slowly increased thru 2012. But, in 2013, job levels have stagnated, with November 2013 figures actually 1% lower than they were a year ago, according to the latest data from the Illinois Department of Employment Security.


Illinois' stagnant job picture is a scenario that has not been necessarily repeated throughout the nation. For example, Illinois' latest unemployment rate (seasonally adjusted) of 8.7% (November 2013 – seasonally adjusted) is well below the national unemployment rate of 7.0%. Currently, according to the Bureau of Labor Statistics, only three states (Michigan at 8.8%, Rhode Island at 9.0%, and Nevada at 9.0%) have a higher unemployment rate than Illinois.

What may be equally alarming is how Illinois' unemployment rates compare with the rest of the Midwest. As shown on the graph on the following page, starting in 2007, prior to the beginning of the recession that began at the end of that year, unemployment rates were low with the Midwest and Illinois rates slightly higher than the nation but on a par with each other. By 2010, however, unemployment in the Midwest actually fell below the national rate and this continued through 2012, in part as manufacturing in the "rust belt" showed resurgence. But, unemployment in Illinois as represented by its unemployment rate, began to exceed both the national and Midwest rates and the gap has increased further through 2013.




To make matters worse, the job situation in Illinois in 2014 does not look any brighter. According to a January 2014 report from Moody's Analytics, Illinois' job growth is only expected to increase 0.98% in 2014. This rate of increase ranks Illinois 50th in the nation for job growth. In fact, only the District of Columbia's estimated growth rate of 0.75% (due to an expected "shrinking" fiscal government) is shown to be lower.

The fastest job growth states in the study were North Dakota (3.57%), Arizona (3.08%), Texas (2.75%), Colorado (2.67%), and Florida (2.34%). The bottom five states for job growth in 2014 were Alaska (1.15%), New York (1.02%), Vermont (1.11%), Maine (1.02%), and Illinois (0.98%).

Illinois' bleak employment numbers and projections is why some feel that business-related tax incentives are so important for the State. One of the major reasons that Illinois offers business tax incentives is the hope that less taxes for these businesses will lead to the creation of more jobs, or if necessary, the retention of jobs in the State.

# Illinois Fortune 500 Companies

*Fortune Magazine* recently released their 2013 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.

**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/

*The top ten U.S. headquartered companies overall were:*

1. *Walmart ($469.2 billion)*
2. *Exxon Mobil ($449.9 billion)*
3. *Chevron ($233.9 billion)*
4. *Phillips 66 ($169.6 billion)*
5. *Berkshire Hathaway ($162.5 billion)*
6. *Apple ($156.5 billion)*
7. *General Motors ($152.3 billion)*
8. *General Electric ($146.9 billion)*
9. *Valero Energy ($138.3 billion)*
10. *Ford Motor ($134.3 billion)*

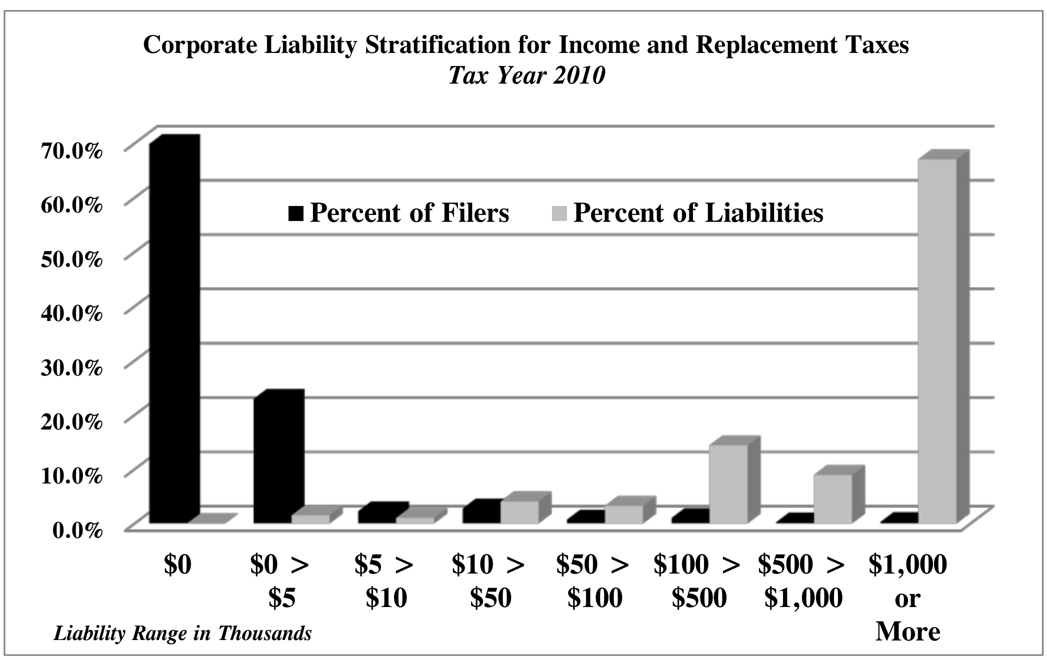
# Corporate Liability Stratification

| Corporate Liability Stratification for Income and Replacement Taxes<br>*Tax Year 2010** | | | | | |
|---|---|---|---|---|---|
| **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 |

* 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 requrire additional time to process and compile tax data.

*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 final figures, there were 111,519 corporate income tax filers in tax year 2010. However, only 33,619 or 30.1% of the corporate filers had a corporate income tax liability. In fact, of the nearly $1.8 billion in corporate tax liability in this year, 98.5% of the liability came from only 7.2% of the corporate income tax filers. Broken down even further, 303 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 67.0% of total corporate income tax liabilities in tax year 2010. These statistics are shown above and displayed below.



# Corporate Income Tax Revenue History

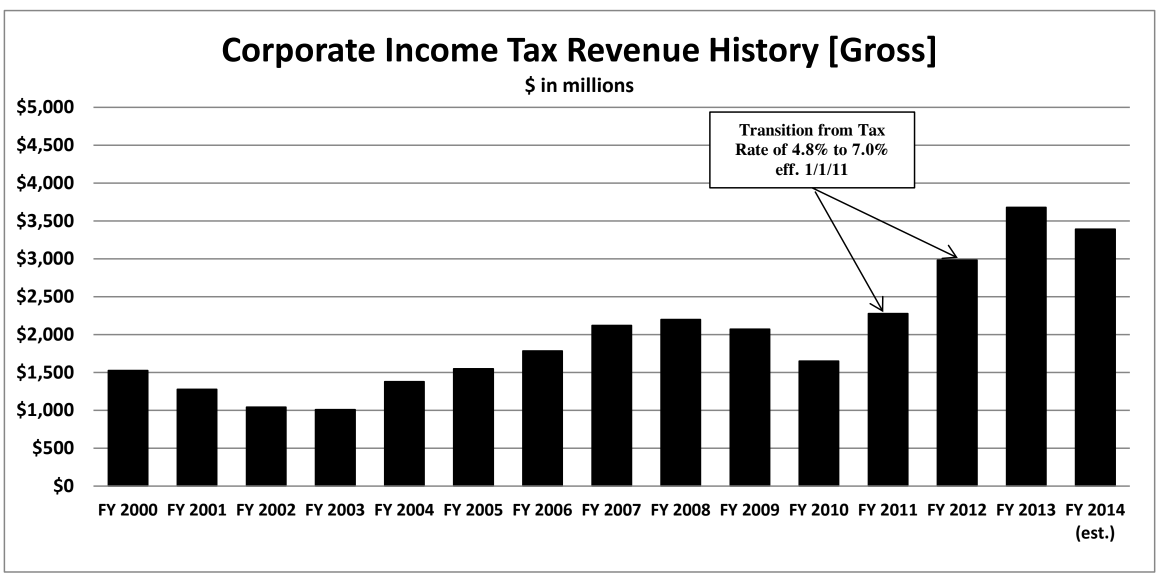
As shown on the previous chart, tax data from the Department of Revenue suggests that the volatility of corporate income tax receipts is primarily attributed to only a small percentage of the corporations. If Illinois' largest companies struggle financially, so likely will the State's receipts from the corporate income tax.

Historically, as shown in the graph below, the corporate income tax has been a very volatile revenue source. For example, in FY 2000, corporate income tax receipts totaled $1.527 billion. But after three years of declining revenues, the tax's total in FY 2003 was only $1.011 billion. Receipts did bounce over the following five years, reaching $2.201 billion in FY 2008. But the impact of the "Great Recession" took its toll on subsequent fiscal years as revenues fell to $1.649 billion in FY 2010.

Over the last three years, receipts have increased significantly, growing by an average rate of 30.8% between FY 2011 and FY 2013. 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.

The impact of the higher tax rates has masked the performance of base receipts over the last three years. But once the corporate tax rate stabilizes, as is anticipated under current law, the behavior and extent of the fluctuation of corporate income tax receipts will again be dependent on the performance of Illinois' largest companies, and not as much on the tax rate imposed.



# 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 by 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

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. Included is a brief discussion on how Illinois compares nationally for each of these taxing sources.

### *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 9.5%, which includes the State's current rate of 7.0% and the corporate replacement tax rate of 2.5%, is among the highest rates imposed throughout the country.**

Statutorily, Illinois' corporate income tax rate is set to fall to 5.25% in January 2015 (or to 7.75% when including the corporate replacement tax). When this occurs, Illinois' rate will be "in the middle of the pack" compared to other states with flat corporate income tax rates

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

## 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.

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.

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 2013 as of January 1, 2013)**

| | | | |
|---|---|---|---|
| ALABAMA * | Double wtd. sales | MONTANA * | 3 Factor |
| ALASKA * | 3 Factor | NEBRASKA | Sales |
| ARIZONA * | Double wtd. Sales/80% Sales, 10% Property and 10% Payroll | NEVADA | No State Income Tax |
| ARKANSAS * | Double wtd. sales | NEW HAMPSHIRE | Double wtd. sales |
| CALIFORNIA * | Sales | NEW JERSEY | 90% Sales, 5% Payroll, & 5% Prop. (1) |
| COLORADO * | Sales | NEW MEXICO * | 3 Factor |
| CONNECTICUT | Double wtd. Sales / Sales | NEW YORK | Sales |
| DELAWARE | 3 Factor | NORTH CAROLINA * | Double wtd. sales |
| FLORIDA | Double wtd. sales | NORTH DAKOTA * | 3 Factor |
| GEORGIA | Sales | OHIO | Triple Weighted Sales (3) |
| HAWAII * | 3 Factor | OKLAHOMA | 3 Factor |
| IDAHO * | Double wtd. sales | OREGON | Sales |
| **ILLINOIS *** | **Sales** | PENNSYLVANIA | Sales |
| INDIANA | Sales | RHODE ISLAND | 3 Factor |
| IOWA | Sales | SOUTH CAROLINA | Sales |
| KANSAS * | 3 Factor | SOUTH DAKOTA | No State Income Tax |
| KENTUCKY * | Double wtd. sales | TENNESSEE | Double wtd. sales |
| LOUISIANA | Sales/3 Factor | TEXAS | Sales |
| MAINE * | Sales | UTAH | Sales |
| MARYLAND | Sales/Double wtd. sales | VERMONT | Double wtd. sales |
| MASSACHUSETTS | Sales/Double wtd. sales | VIRGINIA | Double wtd. Sales / Triple wtd Sales (1) |
| MICHIGAN | Sales | WASHINGTON | No State Income Tax |
| MINNESOTA (1) | 96% Sales, 2% Property & Payroll (1) | WEST VIRGINIA * | Double wtd. sales |
| MISSISSIPPI | Sales/Other (2) | WISCONSIN * | Sales |
| MISSOURI * | 3 Factor | 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 or specified by state rules.

* State has adopted substantial portions of the Uniform Division of Income for Tax Purposes Act (UDITPA).
(1) Minnesota, New Jersey, and Virginia (certain manufacturers) are phasing in a single sales factor which will reach 100% in 2014.

(2) Mississippi provides different apportionment formulas based on specific type of business. A single sales factor formula is required if no specific business is specified.
(3) Formula for franchise tax shown.

### *The Personal Income Tax*

Illinois increased its flat income tax rate from 3% to 5% in January 2011. It is statutorily set to fall back to 3.75% in January 2015. Currently, Illinois is one of seven states that imposes a flat income tax (most have graduated rates). At the 3% rate, Illinois had the lowest tax rate of those with a flat tax. However, at the 5% rate, only Massachusetts (5.25%) has a higher flat 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 each state's individual income tax rate structure.

**STATE INDIVIDUAL INCOME TAX RATES**

**(Tax rates for tax year 2013 -- as of January 1, 2013)**

| | ---Tax Rates--- | | # of | --Income Brackets-- | | ---Personal Exemption--- | | |
|---|---|---|---|---|---|---|---|---|
| **State** | **Low** | **High** | **Brackets** | **Low** | **High** | **Single** | **Married** | **Child.** |
| ALABAMA | 2.0 | 5.0 | 3 | 500 | 3,001 | 1,500 | 3,000 | 500 |
| ALASKA | | | | No State Income Tax | | | | |
| ARIZONA | 2.59 | 4.54 | 5 | 10,000 | 150,001 | 2,100 | 4,200 | 2,100 |
| ARKANSAS (a) | 1.0 | 7.0 | 6 | 3,899 | 32,700 | 23 | 46 | 23 |
| CALIFORNIA (a) | 1 | 12.3 | 6 | 7,316 | 48,029 | 104 | 208 | 321 |
| COLORADO | 4.63 | | 1 | ---Flat rate--- | | 3,900 | 7,800 | 3,900 |
| CONNECTICUT | 3.0 | 6.7 | 6 | 10,000 | 250,000 | 13,000 | 24,000 | 0 |
| DELAWARE | 2.2 | 6.75 | 6 | 5,000 | 60,001 | 110 | 220 | 110 |
| FLORIDA | | | | No State Income Tax | | | | |
| GEORGIA | 1.0 | 6.0 | 6 | 750 | 7,001 | 2,700 | 5,400 | 3,000 |
| HAWAII | 1.4 | 11.0 | 12 | 2,400 | 200,001 | 1,040 | 2,080 | 1,040 |
| IDAHO (a) | 1.6 | 7.4 | 7 | 1,380 | 10,350 | 3,900 | 7,800 | 3,900 |
| **ILLINOIS** | **5.0** | | **1** | **---Flat rate---** | | **2,000** | **4,000** | **2,000** |
| INDIANA | 3.4 | | 1 | ---Flat rate--- | | 1,000 | 2,000 | 2,500 |
| IOWA (a) | 0.36 | 8.98 | 9 | 1,494 | 67,230 | 40 | 80 | 40 |
| KANSAS | 3 | 4.9 | 2 | 15,000 | | 2,250 | 4,500 | 2,250 |
| KENTUCKY | 2.0 | 6.0 | 6 | 3,000 | 75,001 | 20 | 40 | 20 |
| LOUISIANA | 2.0 | 6.0 | 3 | 12,500 | 50,001 | 4,500 | 9,000 | 1,000 |
| MAINE (a) | 0 | 8 | 3 | 5,200 | 20,900 | 3900 | 7800 | 3900 |
| MARYLAND | 2.0 | 5.75 | 8 | 1,000 | 250,000 | 3,200 | 6,400 | 3,200 |
| MASSACHUSETTS (a) | 5.25 | | 1 | ---Flat rate--- | | 4,400 | 8,800 | 1,000 |
| MICHIGAN (a) | 4.25 | | 1 | ---Flat rate--- | | 3,763 | 7,526 | 3,763 |
| MINNESOTA (a) | 5.35 | 7.85 | 3 | 24,270 | 79,730 | 3,900 | 7,800 | 3,900 |
| MISSISSIPPI | 3.0 | 5.0 | 3 | 5,000 | 10,001 | 6,000 | 12,000 | 1,500 |
| MISSOURI | 1.5 | 6.0 | 10 | 1,000 | 9,001 | 2,100 | 4,200 | 1,200 |
| MONTANA (a) | 1.0 | 6.9 | 7 | 2,700 | 16,400 | 2,240 | 4,480 | 2,240 |
| NEBRASKA (a) | 2.46 | 6.84 | 4 | 2,400 | 27,001 | 126 | 252 | 126 |
| NEVADA | | | | No State Income Tax | | | | |
| NEW HAMPSHIRE | | | State Income Tax of 5% on 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 | 4.9 | 4 | 5,500 | 16,001 | 3,900 | 7,800 | 3,900 |
| NEW YORK | 4.0 | 8.82 | 8 | 8200 | 1,029,250 | 0 | 0 | 1,000 |
| NORTH CAROLINA | 6.0 | 7.75 | 3 | 12,750 | 60,000 | 1,150 | 2,300 | 1,150 |
| NORTH DAKOTA (a) | 1.51 | 3.99 | 5 | 36,250 | 398,350 | 3,900 | 7,800 | 3,900 |
| OHIO (a) | 0.587 | 5.925 | 9 | 5,200 | 208,500 | 1,650 | 3,300 | 1,650 |
| OKLAHOMA | 0.5 | 5.25 | 7 | 1,000 | 8,701 | 1,000 | 2,000 | 1,000 |
| OREGON (a) | 5.0 | 9.9 | 4 | 3,250 | 125,000 | 188 | 376 | 188 |
| PENNSYLVANIA | 3.07 | | 1 | ---Flat rate--- | | | -----------None----------- | |
| RHODE ISLAND | 3.75 | 5.99 | 3 | 58,600 | 133,250 | 3,750 | 7,500 | 3,750 |
| SOUTH CAROLINA (a) | 0 | 7 | 6 | 2,850 | 14,250 | 3,900 | 7,800 | 3,900 |
| SOUTH DAKOTA | | | | No State Income Tax | | | | |
| TENNESSEE | | | State Income Tax of 6% on Dividends and Interest Income Only. | | | | | |
| TEXAS | | | | No State Income Tax | | | | |
| UTAH | 5 | | 1 | ---Flat rate--- | | | | |
| VERMONT (a) | 3.55 | 8.95 | 5 | 35,350 | 388,350 | 3,900 | 7,800 | 3,900 |
| VIRGINIA | 2 | 5.75 | 4 | 3,000 | 17,001 | 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 | 7.75 | 5 | 10,750 | 236,600 | 700 | 1,400 | 700 |
| WYOMING | | | | No State Income Tax | | | | |

(a) 17 states have statutory provision for automatically adjusting to the rate of inflation the dollar values of the income tax brakets, standard deductions, and/or personal exemptions. Massachusetts, Michigan, and Nebraska 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. 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, which can result in the sales tax being significantly higher than the base rate of 6.25%. A list of the sales tax rates for all the states is shown below.

**Sales and Use Taxes**
**(as of January 1, 2014)**

| | Tax Rate | Food | Prescription Drugs | Non-prescriptions drugs |
|---|---|---|---|---|
| Alabama | 4.00% | | Exempt | |
| Alaska | None | | | |
| Arizona | 5.60% | Exempt | Exempt | |
| Arkansas | 6.50% | 1.50% | Exempt | |
| California | 7.50% | Exempt | Exempt | |
| Colorado | 2.90% | Exempt | Exempt | |
| Connecticut | 6.35% | Exempt | Exempt | |
| Delaware | None | | | |
| Florida | 6.00% | Exempt | Exempt | Exempt |
| Georgia | 4.00% | Exempt | Exempt | |
| Hawaii | 4.00% | | Exempt | |
| Idaho | 6.00% | | Exempt | |
| **Illinois** | **6.25%** | **1.00%** | **1.00%** | **1.00%** |
| Indiana | 7.00% | Exempt | Exempt | |
| Iowa | 6.00% | Exempt | Exempt | |
| Kansas | 6.15% | | Exempt | |
| Kentucky | 6.00% | Exempt | Exempt | |
| Louisiana | 4.00% | Exempt | Exempt | |
| Maine | 5.50% | Exempt | Exempt | |
| Maryland | 6.00% | Exempt | Exempt | Exempt |
| Massachusetts | 6.25% | Exempt | Exempt | |
| Michigan | 6.00% | Exempt | Exempt | |
| Minnesota | 6.875% | Exempt | Exempt | Exempt |
| Mississippi | 7.00% | | Exempt | |
| Missouri | 4.225% | 1.225% | Exempt | |
| Montana | None | | Exempt | |
| Nebraska | 5.50% | Exempt | Exempt | |
| Nevada | 6.85% | Exempt | Exempt | |
| New Hampshire | None | | | |
| New Jersey | 7.00% | Exempt | Exempt | Exempt |
| New Mexico | 5.125% | Exempt | Exempt | |
| New York | 4.00% | Exempt | Exempt | Exempt |
| North Carolina | 4.75% | Exempt | Exempt | |
| North Dakota | 5.00% | Exempt | Exempt | |
| Ohio | 5.75% | Exempt | Exempt | |
| Oklahoma | 4.50% | | Exempt | |
| Oregon | None | | | |
| Pennsylvania | 6.00% | Exempt | Exempt | Exempt |
| Rhode Island | 7.00% | Exempt | Exempt | |
| South Carolina | 6.00% | Exempt | Exempt | |
| South Dakota | 4.00% | | Exempt | |
| Tennessee | 7.00% | 5.00% | Exempt | |
| Texas | 6.25% | Exempt | Exempt | Exempt |
| Utah | 5.95% | 1.75% | Exempt | |
| Vermont | 6.00% | Exempt | Exempt | Exempt |
| Virginia | 5.30% | 2.50% | Exempt | Exempt |
| Washington | 6.50% | Exempt | Exempt | |
| West Virginia | 6.00% | Exempt | Exempt | |
| Wisconsin | 5.00% | Exempt | Exempt | |
| Wyoming | 4.00% | Exempt | Exempt | |

***Source: Federation of Tax Administrators***

## *Motor Fuel Taxes*

As shown below, as of January 1, 2013, Illinois had the 32nd highest tax rate on gasoline in the nation at 20.1 cents per gallon (which includes 1.1 cents in environmental fees; diesel is 2.5 cents higher at 22.6). Across the nation, motor fuel tax rates ranged from 8 cents per gallon in Alaska to 43 cents per gallon in Washington. Illinois is one of 9 states that also collect general sales taxes on motor fuel.

**Motor Fuel Excise Tax Rates**
**as of January 1, 2013**

| | ----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 |
| Alabama /1 | 16.0 | 2.0 | 18.0 | 19.0 | | 19.0 | 16.0 | 2.0 | 18.0 | Inspection fee |
| Alaska | 8.0 | | 8.0 | 8.0 | | 8.0 | 8.0 | | 8.0 | |
| Arizona | 18.0 | 1.0 | 19.0 | 26.0 | 1.0 | 27.0 | 18.0 | 1.0 | 19.0 | /9 LUST Tax |
| Arkansas | 21.5 | 0.3 | 21.8 | 22.5 | 0.3 | 22.8 | 21.5 | 0.3 | 21.8 | Environmental fee |
| California | 36.0 | 7.0 | 43.0 | 10.0 | 29.0 | 39.0 | 36.0 | 7.0 | 43.0 | Includes prepaid sales tax /8 |
| Colorado | 22.0 | | 22.0 | 20.5 | | 20.5 | 22.0 | | 22.0 | |
| Connecticut | 25.0 | | 25.0 | 51.2 | | 51.2 | 25.0 | | 25.0 | Plus a 7% Petroleum tax |
| Delaware | 23.0 | | 23.0 | 22.0 | | 22.0 | 23.0 | | 23.0 | Plus 0.9% GRT |
| Florida /2 | 4.0 | 12.9 | 16.9 | 4.0 | 27.0 | 31.0 | 4.0 | 12.9 | 16.9 | Sales tax added to excise /2 |
| Georgia | 7.5 | 12.0 | 19.5 | 7.5 | 14.5 | 22.0 | 7.5 | 12.0 | 19.5 | Sales tax added to excise |
| Hawaii /1 | 17.0 | | 17.0 | 17.0 | | 17.0 | 17.0 | | 17.0 | Sales tax additional |
| Idaho | 25.0 | 1.0 | 26.0 | 25.0 | 1.0 | 26.0 | 25.0 | 1.0 | 26.0 | Clean water tax /7 |
| **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** |
| Indiana | 18.0 | | 18.0 | 16.0 | | 16.0 | 18.0 | | 18.0 | Sales tax additional /3 |
| Iowa | 21.0 | 1.0 | 22.0 | 22.5 | 1.0 | 23.5 | 19.0 | 1.0 | 20.0 | Environmental fee |
| Kansas | 24.0 | 1.0 | 25.0 | 26.0 | 1.0 | 27.0 | 24.0 | 1.0 | 25.0 | Environmental & Inspection fees |
| Kentucky | 28.5 | 1.4 | 29.9 | 25.5 | 1.4 | 26.9 | 28.5 | 1.4 | 29.9 | Environmental fee /4 /3 |
| Louisiana | 20.0 | 0.1 | 20.1 | 20.0 | 0.1 | 20.1 | 20.0 | 0.1 | 20.1 | Inspection fee |
| Maine | 30.0 | | 30.0 | 31.2 | | 31.2 | 30.0 | | 30.0 | /5 |
| Maryland | 23.5 | | 23.5 | 24.3 | | 24.3 | 23.5 | | 23.5 | |
| Massachusetts | 21.0 | | 21.0 | 21.0 | | 21.0 | 21.0 | | 21.0 | |
| Michigan | 19.0 | | 19.0 | 15.0 | | 15.0 | 19.0 | | 19.0 | Sales tax additional |
| Minnesota | 28.5 | 0.1 | 28.6 | 28.5 | 0.1 | 28.6 | 28.5 | 0.1 | 28.6 | Inspect fee /5 |
| Mississippi | 18.0 | 0.4 | 18.4 | 18.0 | 0.4 | 18.4 | 18.0 | 0.4 | 18.4 | Environmental fee |
| Missouri | 17.0 | 0.3 | 17.3 | 17.0 | 0.3 | 17.3 | 17.0 | 0.3 | 17.3 | Inspection fee |
| Montana | 27.0 | | 27.0 | 27.8 | | 27.8 | 27.0 | | 27.0 | |
| Nebraska | 24.6 | 0.9 | 25.5 | 24.6 | 0.3 | 24.9 | 24.6 | 0.9 | 25.5 | Petroleum fee /5 |
| Nevada /1 | 23.0 | 0.8 | 23.8 | 27.0 | 0.8 | 27.8 | 23.0 | 0.8 | 23.8 | Inspection & cleanup fee |
| New Hampshire | 18.0 | 1.6 | 19.6 | 18.0 | 1.6 | 19.6 | 18.0 | 1.6 | 19.6 | Oil discharge cleanup fee |
| New Jersey | 10.5 | 4.0 | 14.5 | 13.5 | 4.0 | 17.5 | 10.5 | 4.0 | 14.5 | Petroleum fee |
| New Mexico | 17.0 | 1.9 | 18.9 | 21.0 | 1.9 | 22.9 | 17.0 | 1.9 | 18.9 | Petroleum loading fee |
| New York | 8.0 | 18.6 | 26.6 | 8.0 | 16.9 | 24.9 | 8.0 | 18.6 | 26.6 | Petroleum Tax, Sales tax aditional |
| North Carolina | 37.5 | 0.3 | 37.8 | 37.5 | 0.3 | 37.8 | 37.5 | 0.3 | 37.8 | /4 Inspection tax |
| North Dakota | 23.0 | | 23.0 | 23.0 | | 23.0 | 23.0 | | 23.0 | |
| Ohio | 28.0 | | 28.0 | 28.0 | | 28.0 | 28.0 | | 28.0 | Plus 3 cents commerical |
| Oklahoma | 16.0 | 1.0 | 17.0 | 13.0 | 1.0 | 14.0 | 16.0 | 1.0 | 17.0 | Environmental fee |
| Oregon /1 | 30.0 | | 30.0 | 30.0 | | 30.0 | 30.0 | | 30.0 | |
| Pennsylvania | 12.0 | 19.2 | 31.2 | 12.0 | 26.1 | 38.1 | 12.0 | 19.2 | 31.2 | Oil franchise tax |
| Rhode Island | 32.0 | 1.0 | 33.0 | 32.0 | 1.0 | 33.0 | 32.0 | 1.0 | 33.0 | LUST tax |
| South Carolina | 16.0 | 0.8 | 16.8 | 16.0 | 0.8 | 16.8 | 16.0 | 0.8 | 16.8 | Inspection fee & LUST tax |
| South Dakota /1 | 22.0 | 2.0 | 24.0 | 22.0 | 2.0 | 24.0 | 22.0 | 2.0 | 24.0 | Inspection fee |
| Tennessee /1 | 20.0 | 1.4 | 21.4 | 17.0 | 1.4 | 18.4 | 20.0 | 1.4 | 21.4 | Petroleum Tax & Envir. Fee |
| Texas | 20.0 | | 20.0 | 20.0 | | 20.0 | 20.0 | | 20.0 | |
| Utah | 24.5 | | 24.5 | 24.5 | | 24.5 | 24.5 | | 24.5 | |
| Vermont | 19.0 | 7.7 | 26.7 | 25.0 | 4.0 | 29.0 | 19.0 | 7.7 | 26.7 | Cleanup Fee & Trans. Fee |
| Virginia /1 | 17.5 | | 17.5 | 17.5 | | 17.5 | 17.5 | | 17.5 | /6 |
| Washington | 37.5 | | 37.5 | 37.5 | | 37.5 | 37.5 | | 37.5 | 0.5% privilege tax |
| West Virginia | 20.5 | 14.2 | 34.7 | 20.5 | 14.2 | 34.7 | 20.5 | 14.2 | 34.7 | Sales tax added to excise |
| Wisconsin | 30.9 | 2.0 | 32.9 | 30.9 | 2.0 | 32.9 | 30.9 | 2.0 | 32.9 | Petroleum Insp. Fee |
| Wyoming | 13.0 | 1.0 | 14.0 | 13.0 | 1.0 | 14.0 | 13.0 | 1.0 | 14.0 | License tax |
| Dist. of Columbia | 23.5 | | 23.5 | 23.5 | | 23.5 | 23.5 | | 23.5 | |
| **Federal** | **18.3** | **0.1** | **18.4** | **24.3** | **0.1** | **24.4** | **13.0** | **0.1** | **13.1** | **/7 LUST tax** |

**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 & 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 10.8 cents to 19.1 cents. Plus a 2.071 cent per gallon pollution tax.

/3 Carriers pay an additional surcharge equal to IL-21.0 cents (g) 19.5 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 Califonia Gasoline subject to 2.25% sales tax. Diesel subject to a 9% sales tax.

/9 Diesel rate specified is the fuel use tax rate on large trucks. Small vehicles are subject to 18 cent tax rate.

## 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 4th highest amount of revenues collected in 2012 (most recent year of data available) and was the highest ranked state in the Midwest Region in total dollars. California had the highest dollar amount overall.

On a per-capita basis, Illinois ranked 16th in the nation with an amount of $2,816 per capita. Illinois' ranking in this category has risen over the last several years from 34th in 2010 to 25th in 2011 to its current ranking of 16th. The recent income tax rate increases are the primary reasons for this increase in the per-capita ranking. A table displaying Illinois' ranking in the category of state government tax revenue is shown below.

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.

**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*

## Tax Incentive Programs Offered by States

On the following two pages are tables from the November 2013 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/2013/nov/incentives-chart.cfm

Below is an excerpt from *Site Selection* and their discussion on the importance of State tax incentives.

> *Public financial support for business is a common practice in most parts of the world as governments try to encourage corporate behavior that is beneficial to the economy and society at large. While there is disagreement about the economic benefits of government incentives, there is no doubt that these have an influence on corporate investment activity.*
>
> *This influence is particularly strong — and sometimes controversial — in the case of incentives designed or used to affect corporate location decisions. Particularly in the United States but also in many other areas of the world where competition among locations for corporate investment is strong, incentives have become an established part of the location selection process. Many companies value the financial benefits provided by governments and have incorporated these in their decision making for selecting new locations.*
>
> *Source:http://www.siteselection.com/issues/2013/nov/incentives-update.cfm*

The following excerpt 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.*
>
> SOURCE: http://www.siteselection.com/issues/2008/nov/Incentives/

# CHART 1: Financial Assistance for Industry*

| | 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 | • | • | • | • | • | • | | | • | • | | | • 38 | • 38 | • 2, 12 | • | • | • |
| ALASKA | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • |
| ARIZONA | | | • | | • | • | • | • | | | • | • | | | • | | | • |
| ARKANSAS | • | • | • | • | • | • | • | • | • | • | • | • | | | • | | • | • |
| CALIFORNIA | • | • 5 | • | • | • | • | • | • | • | • | • | • | • | • | • | | • | • |
| COLORADO | • | • 4 | | | • | | • | • | • | • | • | • | • | • | • | • | • | • |
| CONNECTICUT | • | • | • | • | | | • | • | • | • | • | • | | | • | | • | • |
| DELAWARE | • | • | • | | • | | • | • | • | • | | | | | • | • | • | • |
| FLORIDA | • 32 | | • 32 | | • | • | • | • | • | • | • | • | • | • | • | | • 8 | • |
| GEORGIA | • | • | • 23 | | • | • | • 49 | • 49 | • | • | • | • | | | • 50 | | • | • |
| HAWAII | • | | • | • | • | • | • 15 | • 15 | | | | | | | • 15 | | • 8 | • 8 |
| IDAHO | | • | | | • | • | | | • 1 | • 1 | | | | | | | | |
| ILLINOIS | • | • | • | | • | | • | • | • | • | | • 37 | | | • | | • | • |
| INDIANA | • | • | • | | • | • | • | • | • | • | • | • | • | • | • | • | • | • |
| IOWA | • | • | • | | • | • | • 18 | • 18 | • | • | • | • | | | • | • 18 | • | • |
| KANSAS* | | | • | • | • | • | • 51 | • 51 | • | • | | • | | | • 51 | • 51 | • | • |
| KENTUCKY | | • | • | • | • | • | • | • | • 11 | • 11 | | | | | • | | • | • |
| LOUISIANA | | • 4 | • 2 | • 2 | • | • | • 25 | • 25 | • 26 | • 26 | • 6 | • 6 | • | • | • 25 | • 19 | • | • |
| MAINE | • | | • | | • | • | • | • | • | • | • | • | | | • | | • | • |
| MARYLAND | • | • | • | • | • | • | • | • | • | • | • | • | • | • 31 | • | • | • | • |
| MASSACHUSETTS | • | • | • | | • | | • | • | • | • | • | • | • | • | • | • | • | • |
| MICHIGAN | • | • | • | | • | • | • | • | • | • | | | | | • | • | • | • 30 |
| MINNESOTA | • | • | • | • 13 | • | • | • | • | • 9 | • 9 | | | • | • | • | • | • | • |
| MISSISSIPPI | • | • | • | • | • | • | • | • | • | • | | | | | • 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 | • 39 | | • 40 | • 13, 41 | • 42 | • 42 | • 43 | • 44 | • 45 | • 45 | | | | | • 46 | • | • 47 | • 48 |
| NORTH DAKOTA | | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • |
| OHIO | • | • | • | | • | | • | • | • | • | | | | | • | • | • | • |
| OKLAHOMA | • | | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • | • |
| OREGON | • | • | • | • | • | • | • | • | • | • | • | • | • 11 | • 11 | • | • | • | • |
| PENNSYLVANIA | • 52 | • | • | • | • | • | • 14 | • 53 | • | • | • | • | • | • | • | • | • | • |
| RHODE ISLAND | • | • | • | • | • | | • | • | • | • | • | • | | | • | • | • | • |
| SOUTH CAROLINA | • | • | • | | • | | | | | | | | | | • | | • | • 7 |
| SOUTH DAKOTA | • | | • | • | • | • | • | • | • 1 | • 1 | | | | | • | • | | |
| TENNESSEE | • | • | • | • | • | • | • 27 | • 27 | • | • | • 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** | **41** | **40** | **47** | **27** | **47** | **38** | **43** | **44** | **45** | **45** | **31** | **35** | **19** | **19** | **46** | **28** | **42** | **39** |

Notes for this table can be found at http://www.siteselection.com/issues/2013/nov/incentives-chart.cfm.

# CHART 2: Tax Incentives for Industry*

| | 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 | • | • | • 74 | • 30 | • | • | • | • | • | • | • | | | • | • |
| 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 | • | • | • | | | • | • 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* | • | • 53 | | • 134 | • 134 | • | • 5 | • 19 | • 6 | • | • | | | • | • 59 |
| KENTUCKY | • 88 | • 89 | | • 136 | • 72 | • 72 | • 72 | • 137 | • 72 | • | • | • 135 | | • 138 | • 59 |
| LOUISIANA | • 32 | • 53 | | • 140 | • | • | • | • 107 | • 139 | • 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 | • 126 | • | • 116 | • 117 | • 127 | • 127 | • 129 | • 130 | • 131 | • 131 | | • 132 | • 132 | • 133 |
| NORTH DAKOTA | • | | • | • | • 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 | • | • | • | • 141 | • 112 |
| RHODE ISLAND | | | • | • | • | • | • | • | • | • | • | • | • | • | • 59 |
| SOUTH CAROLINA | • 68 | • 68, 120 | • 68 | • 121 | • 121 | • | • | • | • | • | • | | | • | • |
| 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 | | • 101 | • 102 | • 100 | • 123 | • 124 | • 125 | • 103 | • 104 | | | • 105 | • 106 |
| WISCONSIN | • 62 | • 75 | | | • | • | • | • | • | • | • | | | • | • |
| WYOMING | • 25 | • 25 | | | • | • | • | | • | | | | | | |
| **STATE TOTALS** | **41** | **39** | **29** | **40** | **45** | **49** | **48** | **49** | **50** | **47** | **46** | **7** | **13** | **42** | **41** |

Notes for this table can be found at http://www.siteselection.com/issues/2013/nov/incentives-chart.cfm.

## Business Climate Rankings by State

In a January 2014 article in Site Selection Magazine entitled "What Makes a Business Climate Good?", 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.

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 if a business climate is important to most businesses, how does Illinois compare to other states in this area? 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 provide rankings intended to 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 Policy Index*, *Beacon Hill's Competitiveness Reports*, and the *American Legislative Exchange Council's Economic Competitiveness 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 why some believe these rankings should be viewed with much caution.

The first study that will be discussed is 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. But in an October 2013 background paper promoting their *2014 State Business Tax Climate Index*, the Tax Foundation stresses how important it is for states to have a welcoming business tax climate.

> *The modern market is characterized by mobile capital and labor, with all types of business, small and large, tending to locate where they have the greatest competitive advantage. The evidence shows that states with the best tax systems will be the most competitive in attracting new businesses and most effective at generating economic and employment growth. It is true that taxes are but one factor in business decision-making. Other concerns, such as raw materials or infrastructure or a skilled labor pool, matter, but a simple, sensible tax system can positively impact business operations with regard to these very resources. Furthermore, unlike changes to a state's healthcare, transportation, or education systems which can take decades to implement changes to the tax code can quickly improve a state's business climate.*
>
> *Source: taxfoundation.org*

While it is difficult to know what each business's deciding factor is for making a decision where to locate, this 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 over 100 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 31$^{st}$ best State Business Tax Climate in the nation for FY 2014. 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 (10$^{th}$), Missouri (16$^{th}$), Wisconsin (43$^{rd}$), Kentucky (27$^{th}$), and Iowa (40$^{th}$). Illinois' ranking of 31$^{st}$ was a slight drop from their FY 2013 ranking of 30$^{th}$. Before the recent income tax increases, Illinois was ranked as high as 23$^{rd}$, according to the 2011 report.

Looking at each component of the index individually, Illinois ranked in the top half in the individual income tax index (11$^{th}$), but was in the lower half of the rankings for the corporate tax index (47$^{th}$), sales tax index (33$^{rd}$), unemployment insurance tax index (43$^{rd}$), and property tax index (44$^{th}$). For more information regarding the findings of this study, please see the Tax Foundation's website at *www.taxfoundation.org*.

| Major Components of the State Business Tax Climate Index FY 2014 | | | | | | |
|---|---|---|---|---|---|---|
| **State** | **Overall Rank** | **Corporate Tax Index Rank** | **Individual Income Tax Index Rank** | **Sales Tax Index Rank** | **Unemployment Insurance Tax Index Rank** | **Property Tax Index Rank** |
| **Alabama** | 21 | 19 | 22 | 37 | 15 | 10 |
| **Alaska** | 4 | 28 | 1 | 5 | 29 | 25 |
| **Arizona** | 22 | 26 | 18 | 49 | 1 | 6 |
| **Arkansas** | 35 | 39 | 26 | 42 | 11 | 19 |
| **California** | 48 | 31 | 50 | 41 | 16 | 14 |
| **Colorado** | 19 | 21 | 15 | 44 | 28 | 22 |
| **Connecticut** | 42 | 35 | 33 | 32 | 23 | 49 |
| **Delaware** | 13 | 50 | 28 | 2 | 2 | 13 |
| **Florida** | 5 | 13 | 1 | 18 | 6 | 16 |
| **Georgia** | 32 | 8 | 41 | 12 | 24 | 31 |
| **Hawaii** | 30 | 4 | 35 | 16 | 38 | 12 |
| **Idaho** | 18 | 18 | 23 | 23 | 47 | 3 |
| **Illinois** | **31** | **47** | **11** | **33** | **43** | **44** |
| **Indiana** | 10 | 24 | 10 | 11 | 13 | 5 |
| **Iowa** | 40 | 49 | 32 | 24 | 36 | 38 |
| **Kansas** | 20 | 37 | 17 | 31 | 12 | 29 |
| **Kentucky** | 27 | 27 | 29 | 10 | 48 | 17 |
| **Louisiana** | 33 | 17 | 25 | 50 | 4 | 24 |
| **Maine** | 29 | 45 | 21 | 9 | 33 | 40 |
| **Maryland** | 41 | 15 | 46 | 8 | 40 | 41 |
| **Massachusetts** | 25 | 34 | 13 | 17 | 49 | 47 |
| **Michigan** | 14 | 9 | 14 | 7 | 44 | 28 |
| **Minnesota** | 47 | 44 | 47 | 35 | 41 | 33 |
| **Mississippi** | 17 | 11 | 20 | 28 | 5 | 32 |
| **Missouri** | 16 | 7 | 27 | 26 | 9 | 7 |
| **Montana** | 7 | 16 | 19 | 3 | 21 | 8 |
| **Nebraska** | 34 | 36 | 30 | 29 | 8 | 39 |
| **Nevada** | 3 | 1 | 1 | 40 | 42 | 9 |
| **New Hampshire** | 8 | 48 | 9 | 1 | 43 | 42 |
| **New Jersey** | 49 | 41 | 48 | 46 | 32 | 50 |
| **New Mexico** | 38 | 40 | 34 | 45 | 17 | 1 |
| **New York** | 50 | 25 | 49 | 38 | 45 | 45 |
| **North Carolina** | 44 | 29 | 42 | 47 | 7 | 30 |
| **North Dakota** | 28 | 22 | 38 | 21 | 19 | 2 |
| **Ohio** | 39 | 23 | 44 | 30 | 10 | 20 |
| **Oklahoma** | 36 | 12 | 39 | 39 | 3 | 11 |
| **Oregon** | 12 | 32 | 31 | 4 | 34 | 15 |
| **Pennsylvania** | 24 | 46 | 16 | 19 | 39 | 43 |
| **Rhode Island** | 46 | 43 | 36 | 27 | 50 | 46 |
| **South Carolina** | 37 | 10 | 40 | 22 | 30 | 21 |
| **South Dakota** | 2 | 1 | 1 | 34 | 37 | 18 |
| **Tennessee** | 15 | 14 | 8 | 43 | 27 | 37 |
| **Texas** | 11 | 38 | 7 | 36 | 14 | 35 |
| **Utah** | 9 | 5 | 12 | 20 | 18 | 4 |
| **Vermont** | 45 | 42 | 45 | 13 | 22 | 48 |
| **Virginia** | 26 | 6 | 37 | 6 | 35 | 26 |
| **Washington** | 6 | 30 | 1 | 48 | 20 | 23 |
| **West Virginia** | 23 | 20 | 24 | 25 | 26 | 27 |
| **Wisconsin** | 43 | 33 | 43 | 15 | 25 | 36 |
| **Wyoming** | 1 | 1 | 1 | 14 | 31 | 34 |

**Note: A rank of 1 is more favorable for business than a rank of 50. Rankings do not average to total. States without a tax rank equally as 1. Report shows tax systems as of July 1, 2013 (the beginning of Fiscal Year 2014).Rankings do not average across to total. States without a given tax rank equally as number 1.**

***Source: Tax Foundation. Full report can be found at www.taxfoundation.org.***

## Major Components of the State Business Tax Climate Index
## Overall Rank: FY 2009 - 2014

| State | Overall Rank FY 2014 | Overall Rank FY 2013 | Overall Rank FY 2012 | Overall Rank FY 2011 | Overall Rank FY 2010 | Overall Rank FY 2009 |
|---|---|---|---|---|---|---|
| Alabama | 21 | 20 | 20 | 28 | 19 | 20 |
| Alaska | 4 | 4 | 4 | 2 | 3 | 4 |
| Arizona | 22 | 27 | 27 | 34 | 28 | 24 |
| Arkansas | 35 | 32 | 30 | 39 | 40 | 35 |
| California | 48 | 48 | 48 | 49 | 48 | 49 |
| Colorado | 19 | 19 | 17 | 15 | 13 | 13 |
| Connecticut | 42 | 43 | 41 | 47 | 38 | 37 |
| Delaware | 13 | 13 | 12 | 8 | 8 | 10 |
| Florida | 5 | 5 | 5 | 5 | 5 | 5 |
| Georgia | 32 | 35 | 32 | 25 | 29 | 27 |
| Hawaii | 30 | 31 | 34 | 22 | 24 | 22 |
| Idaho | 18 | 18 | 18 | 18 | 18 | 29 |
| **Illinois** | **31** | **30** | **28** | **23** | **30** | **23** |
| Indiana | 10 | 11 | 11 | 10 | 12 | 14 |
| Iowa | 40 | 40 | 40 | 45 | 46 | 44 |
| Kansas | 20 | 26 | 25 | 35 | 32 | 31 |
| Kentucky | 27 | 25 | 26 | 19 | 20 | 34 |
| Louisiana | 33 | 33 | 33 | 36 | 35 | 33 |
| Maine | 29 | 29 | 37 | 31 | 34 | 40 |
| Maryland | 41 | 41 | 43 | 44 | 45 | 45 |
| Massachusetts | 25 | 24 | 23 | 32 | 36 | 32 |
| Michigan | 14 | 14 | 19 | 17 | 17 | 21 |
| Minnesota | 47 | 45 | 45 | 43 | 43 | 41 |
| Mississippi | 17 | 17 | 16 | 21 | 21 | 19 |
| Missouri | 16 | 16 | 15 | 16 | 16 | 16 |
| Montana | 7 | 7 | 7 | 6 | 6 | 6 |
| Nebraska | 34 | 34 | 35 | 29 | 33 | 42 |
| Nevada | 3 | 3 | 3 | 4 | 4 | 3 |
| New Hampshire | 8 | 8 | 8 | 7 | 7 | 7 |
| New Jersey | 49 | 49 | 50 | 48 | 50 | 50 |
| New Mexico | 38 | 38 | 38 | 33 | 23 | 26 |
| New York | 50 | 50 | 49 | 50 | 49 | 47 |
| North Carolina | 44 | 44 | 44 | 41 | 39 | 39 |
| North Dakota | 28 | 28 | 29 | 20 | 25 | 30 |
| Ohio | 39 | 39 | 39 | 46 | 47 | 48 |
| Oklahoma | 36 | 36 | 31 | 30 | 31 | 18 |
| Oregon | 12 | 12 | 14 | 14 | 14 | 8 |
| Pennsylvania | 24 | 22 | 21 | 26 | 27 | 28 |
| Rhode Island | 46 | 47 | 46 | 42 | 44 | 46 |
| South Carolina | 37 | 37 | 36 | 24 | 26 | 25 |
| South Dakota | 2 | 2 | 2 | 1 | 1 | 2 |
| Tennessee | 15 | 15 | 13 | 27 | 22 | 17 |
| Texas | 11 | 10 | 10 | 13 | 11 | 9 |
| Utah | 9 | 9 | 9 | 9 | 10 | 11 |
| Vermont | 45 | 46 | 47 | 38 | 41 | 43 |
| Virginia | 26 | 23 | 24 | 12 | 15 | 15 |
| Washington | 6 | 6 | 6 | 11 | 9 | 12 |
| West Virginia | 23 | 21 | 22 | 37 | 37 | 36 |
| Wisconsin | 43 | 42 | 42 | 40 | 42 | 38 |
| Wyoming | 1 | 1 | 1 | 3 | 2 | 1 |

**Note: A rank of 1 is more favorable for business than a rank of 50. The 2011 edition states that Illinois rose from 30th to 23rd from FY 2010 to FY 2011 by "gridlocking" while several states that ranked higher - Arizona, Alabama, New Mexico, and Tennessee - enacted taxes that pushed their scores beneath Illinois. The ranking drop from 23rd to 28th in FY 2012 can be attributed to the income tax rate increases which became effective 1/1/11.**

***Source: Tax Foundation. Full report can be found at www.taxfoundation.org.***

## The Small Business Policy Index

In December 2013, the Small Business and Entrepreneurship Council released its 18th edition of the "Small Business Policy 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 Council summarizes their comparison tool by stating that "the Index ranks the states according to their public policy climates for the risk taking that drives economic growth and job creation". The Index involves 47 different measuring tools. Of these, 22 are taxes or tax related, 14 relate to regulation, five deal with government spending and debt issues, with the remainder "gauging the effectiveness of various important government undertakings".

Under the Small Business Policy Index (SBPI), the authors state that the lower the index number, the lighter the governmental burdens, and the better the environment for entrepreneurship. They report the SBPI 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 Policy Index" number, the greater the incentives to invest and take risks in that particular state."

Overall, Illinois ranked 35th in the nation in the SBPI. The below table shows how Illinois fared in each of the main categories that make up the overall ranking.

**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

While Illinois ranks near the middle of the pack in most categories, their ranking is relatively high in the areas of "number of government employees per 100 residents" and "revenue from the federal government as a share of State and local revenue", but relatively low in categories relating to corporate income taxes, motor fuel taxes, and in the category of "Per Capita State and Local Government Debt".

In previous editions of this Index, Illinois' ranking in the indexes related to the individual income tax rate, were very favorable for the State. But sense Illinois has increased its individual income tax rate from 3% to 5%, Illinois' ranking has fallen from 10th (2008) to its current ranking of 20th. Similar, Illinois' ranking for the corporate income tax has fallen from 28th (2008) to 47th. It is not known how these rankings would be effected if Illinois allows the statutory rates for tax year 2015 to take effect (personal 3.75%, corporate 5.25%).

Below are the overall 2013 rankings of the Small Business Policy Index for all 50 states. As shown, Illinois ranks 35th overall in this index.

**Small Business Policy Index (SBPI) 2013: State Rankings**
**(Ranked from the Friendliest to the Least Friendly Policy Environments for Entrepreneurship)**

| Rank | State | SBSI | Rank | State | SBSI |
|---|---|---|---|---|---|
| 1 | South Dakota | 34.627 | 26 | Missouri | 73.703 |
| 2 | Nevada | 37.537 | 27 | New Mexico | 76.799 |
| 3 | Texas | 39.520 | 28 | West Virginia | 79.011 |
| 4 | Wyoming | 44.415 | 29 | Wisconsin | 80.024 |
| 5 | Florida | 48.863 | 30 | Kentucky | 80.061 |
| 6 | Washington | 54.500 | 31 | North Carolina | 80.777 |
| 7 | Alabama | 57.758 | 32 | Idaho | 80.782 |
| 8 | Indiana | 58.138 | 33 | Montana | 81.169 |
| 9 | Ohio | 61.372 | 34 | Delaware | 81.452 |
| 10 | Utah | 62.740 | **35** | **Illinois** | **83.047** |
| 11 | Michigan | 62.782 | 36 | Arkansas | 83.462 |
| 12 | North Dakota | 63.490 | 37 | Maryland | 84.491 |
| 13 | Arizona | 64.590 | 38 | Massachusetts | 86.408 |
| 14 | Colorado | 65.500 | 39 | Nebraska | 88.476 |
| 15 | Virginia | 65.538 | 40 | Rhode Island | 94.255 |
| 16 | Mississippi | 66.713 | 41 | Connecticut | 94.632 |
| 17 | South Carolina | 66.808 | 42 | Oregon | 94.952 |
| 18 | Tennessee | 68.081 | 43 | Iowa | 97.002 |
| 19 | New Hampshire | 68.789 | 44 | Maine | 103.264 |
| 20 | Alaska | 69.487 | 45 | Minnesota | 103.486 |
| 21 | Louisiana | 70.051 | 46 | Hawaii | 107.070 |
| 22 | Georgia | 70.307 | 47 | New York | 107.213 |
| 23 | Kansas | 71.645 | 48 | Vermont | 107.221 |
| 24 | Oklahoma | 73.392 | 49 | New Jersey | 109.265 |
| 25 | Pennsylvania | 73.685 | 50 | California | 113.637 |

http://www.sbecouncil.org/wp-content/uploads/2013/12/SBPI2013FINAL.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 12th Annual Competitiveness Report (released April 2013). The Institute claims that their report has "increasingly drawn the attention of policy makers, economists and public officials seeking to identify the strengths and weaknesses in their state's ability to promote economic growth." The author discusses what distinguishes this study from other business climate studies:

> *The BHI Index is different from most state business climate indices. It goes beyond tax policy and regulatory analysis which are important barometers but not the complete narrative…The BHI Index identifies how well a state performs in its ability to cultivate, for example, a solid base of scientists and engineers or how well a state is doing in protecting its environment while holding down utility costs. It also underscores the importance of human capital suggesting that the overall health and educational attainment of its workers is as important as fiscal rectitude or natural endowments. The index can also point to whether a state can improve the productivity of its workers by having local economies open to immigrants and foreign investment.*

**Table A1**
**Components of Sub-indexes for States 2012**

| Sub-index | Competitiveness Indicators Index ("objective") |
|---|---|
| Government & Fiscal Policy | State and local taxes per capita /income per capita(-)<br>Workers' compensation premium rates (-)<br>Bond rating (composite of S&P's and Moody's, scale 1-25) (+)<br>Budget surplus/deficit as % of Gross State Product (+)<br>Average weekly payment to insured unemployed (-)<br>Full-time-equivalent state and local government employees per 100 residents (-) |
| Security | Crime index per 100,000 inhabitants (-)<br>% Change in crime index, YoY(-)<br>Murders index per 100,000 inhabitants (-)<br>The BGA Integrity Index (+) |
| Infrastructure | Mobile Phones per 1000) (+)<br>High-speed lines per 1000 (+)<br>Air passengers per capita (+)<br>Average travel time to work (-)<br>Electricity Prices per kWh (-)<br>Average rent of 2 bedroom apartment (-) |
| Human Resources | % of population without health insurance (-)<br>% of population aged 25 and over that graduated from high school (+)<br>Unemployment rate, not seasonally adjusted (-)<br>% of students enrolled in degree-granting institutions per 1000 (+)<br>% of adults in the labor force (+)<br>Infant mortality rate in deaths per 1,000 live births (-)<br>Total active physicians per 100,000 inhabitants (+)<br>% of students at or above proficient in mathematics, Grade 4 public schools (+) |
| Technology | Academic Science and Engineering R&D per $1,000 GSP (+)<br>NIH support to institutions in the state, per capita (+)<br>Patents per 100,000 inhabitants (+)<br>Number of S&E graduate students per 100,000 residents (+)<br>S&E degrees awarded per 100,000 residents (+)<br>Individuals in science and engineering occupations as % of the labor force (+)<br>Employment in high-tech industry as a % of total employment(+) |
| Business Incubation | Deposits in commercial banks and savings institutions, per capita (+)<br>Venture capital investment dollars per worker (+)<br>Employer firm births per 100,000 inhabitants (+)<br>IPO volume, in $ per capita (+)<br>% of labor force that is represented by unions (-)<br>Minimum wage (-)<br>Pacific Research Institute's Tort Liability Index (-)<br>Cost of labor adjusted for educational attainment (-) |
| Openness | Exports per capita, $ (+)<br>Employment in majority-owned U.S. Affiliates in State/Total employment in State, (+) (proxy for Foreign Direct Investment)<br>% of population born abroad (+) |
| Environmental Policy | Toxic release inventory, on-site and off-site, total (new and original industries), pounds/sq. miles (-)<br>Greenhouse Gas Emissions (million metric tons of carbon equivalent (MTCE) per 1000 Sq. Miles) (-)<br>Air quality (% good average days) (+) |

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.

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

As shown below and on the following page, overall, Illinois ranked 38th 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 "business incubation" (ranked 49th), which is the idea that "businesses also need to be able to mobilize financing for investment, both internally and from the financial system". The areas where the study felt that Illinois had a competitive advantage and competitive disadvantages compared to the other states across the nation are laid out in the report, as shown below.

| 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 |
| **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 |
| **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. Attatinment | 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*** | | | |

# State Rankings 2012 by State

| | Overall | | Subindexes, Rank in 2012 | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Overall | | 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 | 3.36 | 49 | 5.26 | 15 | 3.68 | 50 | 4.86 | 32 | 3.97 | 47 | 4.82 | 29 | 4.82 | 33 | 4.79 | 34 | 4.79 | 30 |
| Alaska | 5.41 | 14 | 5.52 | 6 | 5.25 | 21 | 5.20 | 18 | 4.91 | 29 | 4.13 | 47 | 4.56 | 45 | 5.50 | 11 | 5.53 | 14 |
| Arizona | 4.67 | 31 | 5.39 | 10 | 4.61 | 38 | 4.81 | 35 | 4.91 | 30 | 5.23 | 17 | 5.09 | 19 | 4.84 | 30 | 4.42 | 41 |
| Arkansas | 4.11 | 41 | 4.96 | 31 | 4.37 | 44 | 5.25 | 10 | 4.31 | 42 | 3.98 | 49 | 5.35 | 11 | 4.20 | 44 | 5.31 | 21 |
| California | 5.09 | 24 | 3.99 | 49 | 5.26 | 20 | 4.54 | 46 | 4.35 | 41 | 5.70 | 6 | 5.89 | 2 | 6.08 | 3 | 4.61 | 37 |
| Colorado | 6.36 | 6 | 5.08 | 22 | 5.61 | 4 | 5.50 | 4 | 5.36 | 15 | 5.62 | 7 | 5.11 | 18 | 4.55 | 39 | 5.33 | 19 |
| Connecticut | 4.62 | 33 | 4.08 | 47 | 5.60 | 5 | 4.62 | 43 | 5.46 | 14 | 5.55 | 8 | 4.30 | 50 | 5.99 | 4 | 4.85 | 27 |
| Delaware | 5.32 | 17 | 5.35 | 12 | 4.52 | 42 | 4.90 | 30 | 5.07 | 25 | 4.91 | 28 | 5.51 | 5 | 5.90 | 7 | 4.06 | 46 |
| Florida | 5.04 | 25 | 5.60 | 1 | 4.81 | 33 | 5.03 | 24 | 4.37 | 40 | 4.36 | 39 | 5.05 | 22 | 5.28 | 15 | 5.17 | 22 |
| Georgia | 4.92 | 27 | 5.42 | 9 | 4.57 | 40 | 5.23 | 12 | 4.14 | 45 | 4.63 | 35 | 5.50 | 6 | 5.22 | 17 | 4.29 | 44 |
| Hawaii | 4.44 | 35 | 4.60 | 43 | 5.43 | 12 | 4.71 | 39 | 5.46 | 13 | 4.52 | 36 | 4.72 | 38 | 5.15 | 19 | 4.75 | 32 |
| Idaho | 5.38 | 16 | 5.24 | 17 | 5.03 | 29 | 5.02 | 26 | 4.62 | 34 | 4.81 | 30 | 5.42 | 7 | 4.37 | 42 | 5.84 | 6 |
| Illinois | 4.23 | 38 | 4.36 | 46 | 5.03 | 30 | 5.13 | 19 | 4.87 | 32 | 5.09 | 23 | 4.37 | 49 | 5.58 | 10 | 4.58 | 38 |
| Indiana | 4.06 | 43 | 5.52 | 5 | 4.52 | 41 | 4.82 | 34 | 4.90 | 31 | 4.75 | 32 | 4.99 | 25 | 5.17 | 18 | 3.26 | 50 |
| Iowa | 5.55 | 13 | 5.03 | 27 | 5.37 | 15 | 4.94 | 29 | 6.10 | 4 | 5.17 | 19 | 4.91 | 30 | 4.57 | 38 | 5.14 | 24 |
| Kansas | 5.77 | 10 | 4.85 | 35 | 5.17 | 23 | 5.37 | 7 | 5.33 | 16 | 4.97 | 26 | 5.05 | 20 | 4.97 | 27 | 5.59 | 12 |
| Kentucky | 3.91 | 44 | 4.82 | 36 | 4.80 | 34 | 5.01 | 27 | 4.50 | 36 | 4.30 | 43 | 4.79 | 34 | 5.11 | 20 | 4.57 | 39 |
| Louisiana | 4.24 | 37 | 5.17 | 18 | 3.96 | 48 | 5.52 | 3 | 3.94 | 48 | 4.31 | 42 | 5.12 | 17 | 5.63 | 9 | 4.19 | 45 |
| Maine | 4.69 | 30 | 4.65 | 42 | 5.20 | 22 | 4.45 | 48 | 5.52 | 12 | 4.09 | 48 | 5.13 | 16 | 4.82 | 31 | 6.06 | 3 |
| Maryland | 5.21 | 20 | 5.04 | 25 | 5.15 | 25 | 4.58 | 45 | 5.53 | 11 | 6.86 | 2 | 4.71 | 40 | 4.97 | 25 | 4.31 | 43 |
| Massachusetts | 7.77 | 1 | 4.91 | 33 | 5.72 | 3 | 4.85 | 33 | 6.51 | 1 | 7.91 | 1 | 5.31 | 12 | 5.83 | 8 | 4.81 | 28 |
| Michigan | 4.87 | 28 | 4.98 | 29 | 5.09 | 26 | 5.11 | 21 | 4.69 | 33 | 5.29 | 15 | 4.53 | 46 | 4.97 | 26 | 5.31 | 20 |
| Minnesota | 6.81 | 3 | 4.79 | 39 | 5.74 | 2 | 5.27 | 9 | 6.16 | 3 | 5.81 | 3 | 5.16 | 13 | 4.75 | 35 | 5.79 | 7 |
| Mississippi | 3.11 | 50 | 5.32 | 13 | 4.22 | 45 | 4.67 | 41 | 3.49 | 50 | 4.25 | 45 | 5.01 | 24 | 4.18 | 45 | 5.15 | 23 |
| Missouri | 4.64 | 32 | 5.53 | 4 | 4.64 | 37 | 5.23 | 13 | 4.98 | 28 | 4.92 | 27 | 4.72 | 39 | 4.25 | 43 | 4.75 | 33 |
| Montana | 5.19 | 21 | 4.98 | 30 | 5.49 | 9 | 5.28 | 8 | 5.17 | 23 | 4.65 | 34 | 5.04 | 23 | 3.69 | 50 | 5.72 | 10 |
| Nebraska | 5.75 | 11 | 5.07 | 23 | 5.29 | 18 | 5.21 | 16 | 5.64 | 7 | 5.00 | 25 | 4.94 | 28 | 4.52 | 40 | 5.68 | 11 |
| Nevada | 4.84 | 29 | 5.54 | 3 | 5.35 | 16 | 5.55 | 2 | 3.84 | 49 | 3.78 | 50 | 4.88 | 32 | 5.27 | 16 | 4.41 | 42 |
| New Hampshire | 5.67 | 12 | 5.13 | 19 | 5.09 | 27 | 4.45 | 49 | 6.02 | 5 | 5.52 | 10 | 4.92 | 29 | 5.39 | 14 | 5.48 | 15 |
| New Jersey | 3.60 | 47 | 3.85 | 50 | 5.48 | 11 | 4.60 | 44 | 5.23 | 19 | 4.74 | 33 | 4.63 | 42 | 6.27 | 2 | 3.26 | 49 |
| New Mexico | 3.67 | 46 | 5.12 | 21 | 3.86 | 49 | 4.78 | 37 | 4.47 | 38 | 5.15 | 21 | 4.90 | 31 | 4.07 | 46 | 5.41 | 17 |
| New York | 4.59 | 34 | 4.02 | 48 | 5.27 | 19 | 4.63 | 42 | 5.21 | 21 | 5.45 | 11 | 4.44 | 47 | 5.97 | 5 | 5.45 | 16 |
| North Carolina | 4.93 | 26 | 5.05 | 24 | 4.50 | 43 | 5.09 | 22 | 4.41 | 39 | 5.17 | 20 | 5.39 | 9 | 5.00 | 23 | 4.95 | 25 |
| North Dakota | 6.99 | 2 | 4.99 | 28 | 4.73 | 36 | 5.84 | 1 | 5.97 | 6 | 5.33 | 14 | 5.57 | 3 | 4.58 | 36 | 6.10 | 2 |
| Ohio | 4.14 | 40 | 5.04 | 26 | 4.59 | 39 | 5.22 | 14 | 4.99 | 27 | 5.00 | 24 | 4.75 | 36 | 4.80 | 33 | 3.79 | 48 |
| Oklahoma | 3.68 | 45 | 4.86 | 34 | 4.77 | 35 | 5.08 | 23 | 4.50 | 37 | 4.31 | 41 | 4.95 | 26 | 4.05 | 48 | 4.73 | 35 |
| Oregon | 5.15 | 22 | 5.12 | 20 | 4.91 | 32 | 5.13 | 20 | 5.00 | 26 | 5.18 | 18 | 4.59 | 44 | 4.82 | 32 | 5.76 | 8 |
| Pennsylvania | 4.16 | 39 | 4.74 | 40 | 5.03 | 28 | 4.89 | 31 | 5.28 | 17 | 5.39 | 13 | 4.62 | 43 | 4.88 | 28 | 3.90 | 47 |
| Rhode Island | 5.11 | 23 | 4.55 | 44 | 5.55 | 7 | 4.81 | 36 | 5.13 | 24 | 5.75 | 5 | 4.73 | 37 | 5.47 | 13 | 4.78 | 31 |
| South Carolina | 4.10 | 42 | 5.49 | 8 | 4.17 | 46 | 4.70 | 40 | 4.01 | 46 | 4.35 | 40 | 5.14 | 15 | 5.48 | 12 | 4.81 | 29 |
| South Dakota | 6.48 | 4 | 5.31 | 14 | 5.17 | 24 | 5.41 | 6 | 5.54 | 10 | 4.51 | 37 | 5.97 | 1 | 3.76 | 49 | 6.14 | 1 |
| Tennessee | 4.27 | 36 | 5.58 | 2 | 4.04 | 47 | 5.21 | 15 | 4.29 | 44 | 4.40 | 38 | 5.05 | 21 | 5.00 | 24 | 4.48 | 40 |
| Texas | 6.18 | 7 | 5.26 | 16 | 5.49 | 10 | 5.20 | 17 | 4.31 | 43 | 4.79 | 31 | 5.36 | 10 | 6.36 | 1 | 4.89 | 26 |
| Utah | 6.42 | 5 | 5.36 | 11 | 5.56 | 6 | 5.02 | 25 | 5.56 | 8 | 5.41 | 12 | 5.56 | 4 | 5.00 | 22 | 4.73 | 34 |
| Vermont | 5.25 | 19 | 4.81 | 37 | 5.02 | 31 | 4.34 | 50 | 6.19 | 2 | 5.76 | 4 | 4.68 | 41 | 5.10 | 21 | 5.72 | 9 |
| Virginia | 6.03 | 9 | 5.49 | 7 | 5.39 | 13 | 4.97 | 28 | 5.25 | 18 | 5.26 | 16 | 5.16 | 14 | 4.86 | 29 | 5.35 | 18 |
| Washington | 6.05 | 8 | 4.80 | 38 | 5.50 | 8 | 5.24 | 11 | 5.20 | 22 | 5.53 | 9 | 4.40 | 48 | 5.92 | 6 | 5.87 | 5 |
| West Virginia | 3.52 | 48 | 4.96 | 32 | 5.30 | 17 | 4.46 | 47 | 4.56 | 35 | 4.16 | 46 | 4.78 | 35 | 4.57 | 37 | 4.65 | 36 |
| Wisconsin | 5.26 | 18 | 4.72 | 41 | 5.75 | 1 | 4.76 | 38 | 5.54 | 9 | 5.11 | 22 | 4.95 | 27 | 4.46 | 41 | 5.53 | 13 |
| Wyoming | 5.40 | 15 | 4.46 | 45 | 5.38 | 14 | 5.49 | 5 | 5.22 | 20 | 4.29 | 44 | 5.41 | 8 | 4.05 | 47 | 5.95 | 4 |

*Source: http://www.beaconhill.org/Compete12/Compete12.pdf*

Further information regarding the details of these rankings can be found at the Institute's homepage at [www.beaconhill.org](http://www.beaconhill.org).

**American Legislative Exchange Council's "*Economic Competitiveness Index*"**

The American Legislative Exchange Council annually issues a publication entitled, "Rich States, Poor States". This publication is an annual economic competitiveness study which is designed to identify which policies can lead a state to economic prosperity. By using these identified policies, the study "makes sound research-based conclusions about which states are poised to achieve greater economic prosperity and those that are stuck on the path to a lackluster economy." From this, the authors created the State Economic Outlook Rankings (shown below), which is described by the authors as follows:

> *The Economic Outlook Ranking is a forecast based on a state's current standing in 15 state policy variables. Each of these factors is influenced directly by state lawmakers through the legislative process. Generally speaking, states that spend less—especially on income transfer programs, and states that tax less—particularly on productive activities such as working or investing—experience higher growth rates than states that tax and spend more.*
>
> *The Economic Performance Ranking is a backward-looking measure based on a state's performance on three important variables: State Gross Domestic Product, Absolute Domestic Migration, and Non-Farm Payroll Employment—all of which are highly influenced by state policy. This ranking details states' individual performances over the past 10 years based on this economic data.*

***ALEC-Laffer State Economic Outlook Rankings, 2013***

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

Source: http://www.alec.org/publications/rich-states-poor-states/

Below is the section on Illinois that is included in the report. Illinois' Economic Ranking of 48th is shown along with a list of the variables used to calculate this ranking. Also shown in this section is the study's ranking for Economic Performance between 2001 and 2011. Illinois is ranked 47th overall according to this index. The below-par ranking in this area is influenced by low rankings in the areas of State Gross Domestic Product (42nd), Absolute Domestic Migration (48th) and Non-Farm Payroll Employment (48th).

# Illinois

**2013 ALEC-LAFFER STATE ECONOMIC COMPETITIVENESS INDEX**

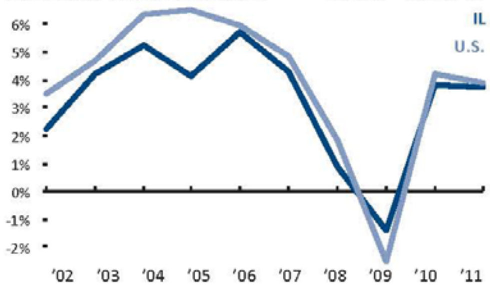
**47** Economic Performance Rank

**48** Economic Outlook Rank

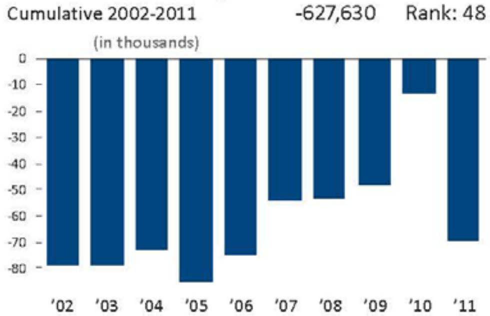
**Economic Performance Rank** (1=best 50=worst)

**A backward-looking measure based on the state's performance (equal-weighted average) in the three important performance variables shown below. These variables are highly influenced by state policy.**

State Gross Domestic Product
Cumulative Growth 2001-2011 37.7% Rank: 42




Absolute Domestic Migration
Cumulative 2002-2011 -627,630 Rank: 48




Non-Farm Payroll Employment
Cumulative Growth 2001-2011 -4.2% Rank: 48


**Economic Outlook Rank** (1=best 50=worst)

**A forward-looking forecast based on the state's standing (equal-weighted average) in the 15 important state policy variables shown below. Data reflect state and local rates and revenues and any effect of federal deductibility.**

| Historical Ranking Comparison ECONOMIC OUTLOOK RANK | 2008 | 2009 | 2010 | 2011 | 2012 |
|---|---|---|---|---|---|
| | 43 | 44 | 47 | 44 | 48 |

| Variable | Data | Rank |
|---|---|---|
| Top Marginal Personal Income Tax Rate | 5.00% | 17 |
| Top Marginal Corporate Income Tax Rate | 9.50% | 44 |
| Personal Income Tax Progressivity (change in tax liability per $1,000 of income) | $1.33 | 14 |
| Property Tax Burden (per $1,000 of personal income) | $44.43 | 41 |
| Sales Tax Burden (per $1,000 of personal income) | $16.19 | 10 |
| Remaining Tax Burden (per $1,000 of personal income) | $22.51 | 38 |
| Estate/Inheritance Tax Levied? | Yes | 50 |
| Recently Legislated Tax Changes (2010 & 2011, per $1,000 of personal income) | $13.86 | 50 |
| Debt Service as a Share of Tax Revenue | 11.6% | 44 |
| Public Employees Per 10,000 of Population (full-time equivalent) | 487.1 | 9 |
| State Liability System Survey (tort litigation treatment, judicial impartiality, etc.) | 51.3 | 46 |
| State Minimum Wage (federal floor is $7.25) | $8.25 | 45 |
| Average Workers' Compensation Costs (per $100 of payroll) | $2.83 | 47 |
| Right-to-Work State? (option to join or support a union) | No | 50 |
| Number of Tax Expenditure Limits (0= least/worst 3=most/best) | 0 | 34 |

***Source: http://www.alec.org/wp-content/uploads/IL.pdf***

***What do the Rankings Tell Us?***

**For each of the studies shown in this report, Illinois' overall ranking was in the lower half of the rankings.** On page 59 is a summary of all of the final rankings discussed in this report, including their average ranking. As shown, Illinois' average ranking was 38 for the four studies, which made them the 44$^{th}$ highest ranked state overall.

When combining all of the rankings together, there are several states that rank high in each study. South Dakota, Wyoming, Utah, and Texas all score in the top 15 of each study. New Jersey was the only state that scored in the bottom 15 of each study. But, Illinois was one of only eight states that ranked in the lower half of each of the studies.

It should be noted the results of each study present some noticeable differences. For example, although Illinois' ranking stayed relatively consistent, Massachusetts had very diverse results. In the Small Business Policy Index, Massachusetts ranked 38$^{th}$. However, in the Competitiveness Report, Massachusetts ranked 1$^{st}$. The other two studies ranked the state 25$^{th}$ and 29$^{th}$. Minnesota ranked 3$^{rd}$ in the Competitiveness Report, but ranked in the 40s in the other three indices.

Looking at all the studies, 23 different states could brag that they had a top ten ranking in one of the studies. Thirty-five 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 were addressed in the May 2013 article written by Greg LeRoy entitled, *"Grading Places: What Do the Business Climate Rankings Really Tell Us?"*. The following is an excerpt from this article, which can be found at www.goodjobsfirst.org.

> *Indeed, the underlying frame of these studies—that there is such a thing as a state "business climate" that can be measured and rated—is nonsensical. The needs of different businesses and facilities vary far too widely. Besides, states are not the meaningful unit of competition in economic development: metro areas are, and conditions can vary more among metro areas within a state than they do between states. Young tech start-ups need lots of engineers and venture capital. Server farms and mini-mills need cheap electricity. Warehouses need proximity to interstate highways. Headquarters need access to finance, marketing and industry-specific talent pools. Given these realities, "business climate" studies must be viewed for what they actually are: attempts by corporate sponsors to justify their demands for lower taxes and to gain public-sector help suppressing wages....*
>
> ... (W)*e question whether the entire enterprise of measuring an overall business tax climate for a state can be valid or useful. State tax systems are complex, and interact in complex ways with the asset structure and geographic characteristics of firms. The favorability of a state's tax*

*system to an economic development project can be measured accurately only when the details of the business and facility are taken into account.*

In response to the disparity in some of the rankings for some states, the author writes the following:

> *These disparate results are in part due to the inherent methodological difficulties involved and the different ways in which the groups addressed those difficulties. But they clearly also reflect the fact that the very concept of an average business tax level, or business tax climate, is suspect. Even within the same state, effective tax rates can vary dramatically depending on the financial characteristics of an industry, or the size and age of the firm. It also can depend crucially on whether one is considering an established firm or a new enterprise, or a branch plant expansion of a firm that already has a presence in the state or one previously located entirely outside the state, and whether the firm is multi-state or multi-national or operates only within the state. Finally, effective tax rates can vary enormously depending upon where a firm chooses to locate, because rents, property prices, and property tax rates vary enormously and local property taxes are the costliest taxes paid by businesses.*

The author concludes the article with the following:

> *We emphasize again: state and local taxes are a very small share of business costs—less than two percent—and we know from decades of research that other, non-tax considerations dominate most business location decisions. These factors include the availability of labor with the needed skills, wage rates, proximity to suppliers and markets, access to transportation hubs, and energy costs, as well as factors affecting the ability to hire, attract and retain workers and their families—the quality of public school systems, cultural and recreational amenities, and environmental quality.* ***All that said, one size does not fit all: the variables that matter most in any given project differ greatly depending on what a company makes or does and what part of the company will reside in the proposed facility.***
>
> *State and local governments have a great deal of power to affect the other 98+percent of companies' cost structures, particularly in the education and skill levels of the workforce, the efficiency of infrastructure, and the quality of public services generally. These critical roles of states and cities are often neglected in the single-minded pursuit of tax cutting as an economic development policy. The business tax rankings examined here, particularly the index rankings that ignore any constructive role for the public sector, are worse than meaningless – they distract policy makers from the most important responsibilities of the*

*public sector and help to undermine the long run foundations of state economic growth and prosperity.*

| Overall Ranking of Each State for All Studies | | | | | | |
|---|---|---|---|---|---|---|
| **State** | **State Business Tax Climate Index Rank** | **Small Business Policy Index Rank** | **Competitiveness Report Rank** | **Economic Outlook Rank** | **Overall Average Ranking** | **Overall Rank** |
| South Dakota | 2 | 1 | 4 | 3 | 2.5 | 1 |
| Wyoming | 1 | 4 | 15 | 4 | 6.0 | 2 |
| Utah | 9 | 10 | 5 | 1 | 6.3 | 3 |
| Texas | 11 | 3 | 7 | 12 | 8.3 | 4 |
| Florida | 5 | 5 | 25 | 9 | 11.0 | 5 |
| North Dakota | 28 | 12 | 2 | 2 | 11.0 | 5 |
| Nevada | 3 | 2 | 29 | 13 | 11.8 | 7 |
| Colorado | 19 | 14 | 6 | 16 | 13.8 | 8 |
| Virginia | 26 | 15 | 9 | 5 | 13.8 | 8 |
| Washington | 6 | 6 | 8 | 36 | 14.0 | 10 |
| Alaska | 4 | 20 | 14 | 21 | 14.8 | 11 |
| Kansas | 20 | 23 | 10 | 11 | 16.0 | 12 |
| New Hampshire | 8 | 19 | 12 | 27 | 16.5 | 13 |
| Arizona | 22 | 13 | 31 | 6 | 18.0 | 14 |
| Idaho | 18 | 32 | 16 | 7 | 18.3 | 15 |
| Michigan | 14 | 11 | 28 | 20 | 18.3 | 15 |
| Indiana | 10 | 8 | 43 | 14 | 18.8 | 17 |
| Tennessee | 15 | 18 | 36 | 18 | 21.8 | 18 |
| Georgia | 32 | 22 | 27 | 8 | 22.3 | 19 |
| Massachusetts | 25 | 38 | 1 | 29 | 23.3 | 20 |
| Mississippi | 17 | 16 | 50 | 10 | 23.3 | 20 |
| Alabama | 21 | 7 | 49 | 17 | 23.5 | 22 |
| Delaware | 13 | 34 | 17 | 30 | 23.5 | 22 |
| Missouri | 16 | 26 | 32 | 23 | 24.3 | 24 |
| Montana | 7 | 33 | 21 | 42 | 25.8 | 25 |
| Wisconsin | 43 | 29 | 18 | 15 | 26.3 | 26 |
| Ohio | 39 | 9 | 40 | 26 | 28.5 | 27 |
| Louisiana | 33 | 21 | 37 | 28 | 29.8 | 28 |
| Oregon | 12 | 42 | 22 | 44 | 30.0 | 29 |
| Iowa | 40 | 43 | 13 | 25 | 30.3 | 30 |
| Nebraska | 34 | 39 | 11 | 37 | 30.3 | 30 |
| Pennsylvania | 24 | 25 | 39 | 34 | 30.5 | 32 |
| North Carolina | 44 | 31 | 26 | 22 | 30.8 | 33 |
| Oklahoma | 36 | 24 | 45 | 19 | 31.0 | 34 |
| South Carolina | 37 | 17 | 42 | 31 | 31.8 | 35 |
| West Virginia | 23 | 28 | 48 | 32 | 32.8 | 36 |
| Maryland | 41 | 37 | 20 | 35 | 33.3 | 37 |
| Arkansas | 35 | 36 | 41 | 24 | 34.0 | 38 |
| Kentucky | 27 | 30 | 44 | 38 | 34.8 | 39 |
| Minnesota | 47 | 45 | 3 | 46 | 35.3 | 40 |
| Maine | 29 | 44 | 30 | 41 | 36.0 | 41 |
| New Mexico | 38 | 27 | 46 | 33 | 36.0 | 41 |
| Hawaii | 30 | 46 | 35 | 40 | 37.8 | 43 |
| **Illinois** | **31** | **35** | **38** | **48** | **38.0** | **44** |
| Rhode Island | 46 | 40 | 23 | 45 | 38.5 | 45 |
| Connecticut | 42 | 41 | 33 | 43 | 39.8 | 46 |
| Vermont | 45 | 48 | 19 | 50 | 40.5 | 47 |
| California | 48 | 50 | 24 | 47 | 42.3 | 48 |
| New York | 50 | 47 | 34 | 49 | 45.0 | 49 |
| New Jersey | 49 | 49 | 47 | 39 | 46.0 | 50 |

## V. BUSINESS SITE SELECTION SURVEY

In 2013, Area Development Magazine released their 27th Annual "Survey of Corporate Executives: Changing Site Selection Priorities". Conducted in the fall of 2012, over 200 firms participated in the study, which consisted of a wide range of companies, including manufacturing, logistics/distribution/warehousing establishments, and construction and engineering enterprises. *(Source: www.siteselection.com)*.

The survey asked the companies a variety of questions regarding factors that influence their business decisions. This included several questions relating to tax incentives. The following section provides a quick glance of some of the highlights of the survey, as it relates to tax incentives. The Commission utilizes the comments and tables/charts from Area Development Magazine for much of this section.

For the first table shown below, the respondents were asked to rate certain site selection factors in order of importance. The survey found that the biggest factor for selecting a site was "labor costs" where 90.8% of the firms considered this as either "very important" or "important". These factors were followed by highway accessibility and the availability of skilled labor.

**Ratings of 2012 Site Selection Factors**

| 2012 Ranking | Site Selection Factors | 2012 Score* |
|---|---|---|
| 1 | Labor costs | 90.8 |
| 2 | Highway accessability | 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 |

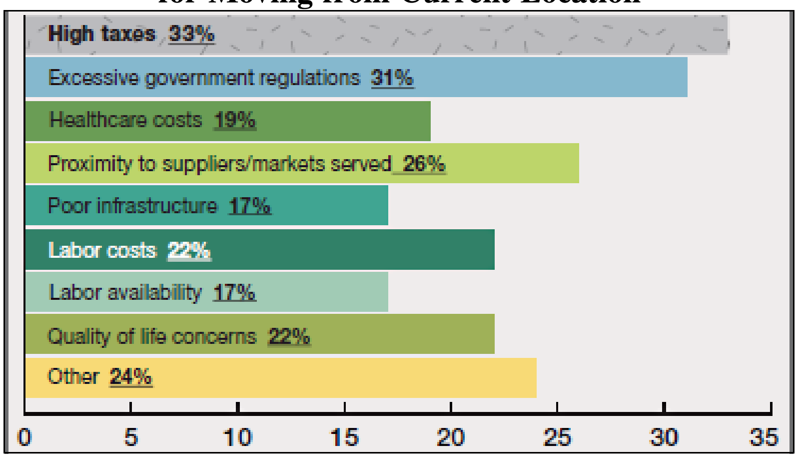
*** All figures are percentages and are the total of "very important" and "important" ratings of the Area Development Corporate Survey and are rounded to the nearest tenth of a percent.**

Source: http://cdn4.areadevelopment.com/static_images/article/2013Survey/large-fig30.png

In this survey, the corporate tax rate was ranked as the 7th biggest factor with 79.3% of firms considering this factor as either "very important" or "important". Ranked 9th was tax exemptions. State and local incentives were ranked as being the 13th most important factor in the study.

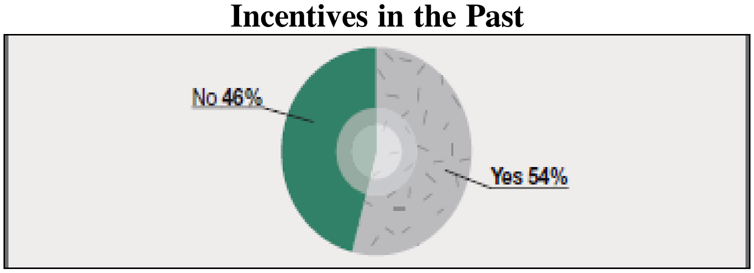
Of the companies with relocation plans, companies were asked what the primary reasons for moving their company from its current location. The top answer with 33% was high taxes. Excessive government regulations (31%) and proximity to suppliers/markets (26%) rounded out the top three answers. These results are shown below.

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



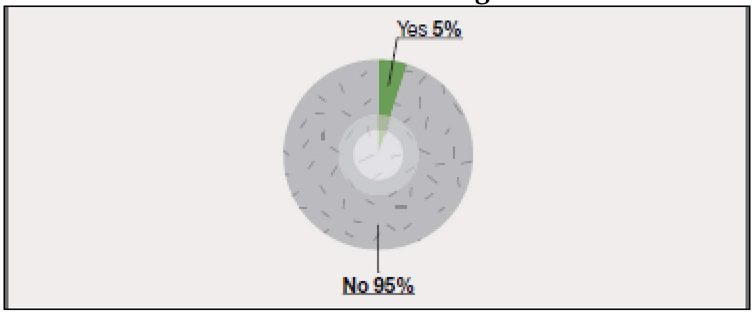

The next question shows that only slightly more than half of the respondents say they have received and utilized incentives in the past.

**Company has Received and Utilized Incentives in the Past**



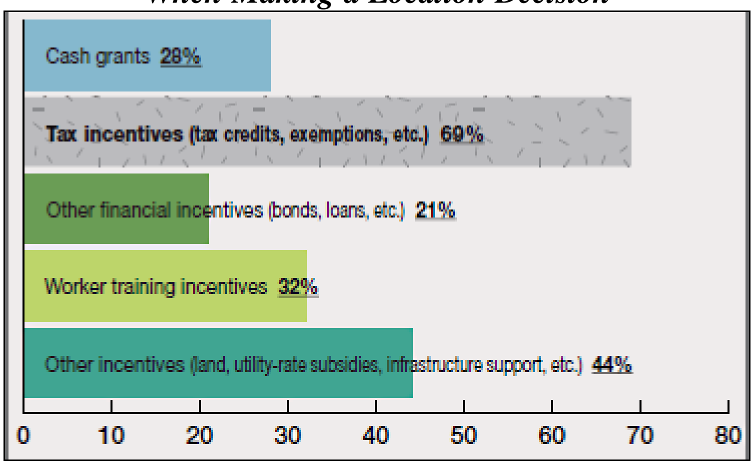
The survey shows that only 5 percent of the companies have had to repay incentives monies because investment or job creation obligations were not met.

***Company has had to Repay Incentives Monies because Investment and/or Job Creation Obligations Were Not Met***



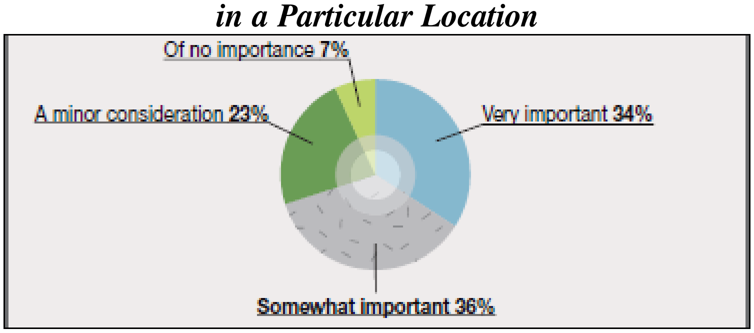

When considering all types of incentives, 69% of the respondents believe tax incentives are the most important type, while nearly half also prefer miscellaneous incentives such as free land, utility-rate subsidies, and infrastructure support.

***Types of Incentives Considered Most Important When Making a Location Decision***




When asked about the importance of incentives to a project moving forward in a particular location, 34% said it was "very important", with 36% saying "somewhat important". Only 7% responded "of no importance".

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



# VI. OPINIONS ON THE EFFECTIVENESS AND IMPORTANCE OF TAX INCENTIVES

As shown in the beginning of this report, the State of Illinois forgoes over a billion dollars each year in various tax incentives to Illinois businesses. And the trend to add new tax incentives seems to be growing each year. As Illinois continues to lag behind the nation in employment related categories, the pressure on the State to create more jobs continues to escalate. So when government officials are confronted by businesses to offer tax incentives to their companies or risk losing the business and its jobs and tax dollars to another state, lawmakers are finding themselves in a no-win situation. If they do not offer the tax incentive, the company may flee to another state. But if they do offer these tax benefits, many more companies will be standing in line waiting for their turn, which causes the amount spent on business incentives to grow even higher.

Illinois, along with many other states across the country, are challenged with trying to understand the effectiveness of these tax incentives. Are these tax incentives necessary? Do they really make a difference? Is offering these tax incentives worth the loss in tax revenues? Like most economic-related subjects, the question of whether these tax incentives are actually an effective tool in creating new jobs or helping existing companies expand is often answered with a wide variety of viewpoints. Some would see a particular tax incentive program as an important and necessary tool to grow businesses, while others will see that same tax incentive as a waste of taxpayer's money.

Because of the various viewpoints and because of the numerous types of incentives offered, it is extremely difficult to offer a "one size fits all" answer on the effectiveness of tax incentives. However, what can be offered are a collection of viewpoints on tax incentives from a variety of articles and studies across the country.

The following section provides a short excerpt from several articles pertaining to this complicated subject. If further information regarding a particular article is desired, the internet source of the article is provided.

**Economic Policy Institute: "Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development"**
**SOURCE: http://epi.3cdn.net/f82246f98a3e3421fd_o4m6iiklp.pdf**

An article from the Economic Policy Institute entitled, "Rethinking Growth Strategies: How State and Local Taxes and Services Affect Economic Development" has a mostly negative view of tax incentive programs:

> *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.*

**University of Vermont: "The Role of Taxes in Business Location Decisions"**
**SOURCE: http://www.uvm.edu/~vlrs/EconomicIssues/capitalgainstax.pdf**

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).*

**Area Development Online: "**Taxes and Incentives - Factor Into the Site Selection Equation**"**
**SOURCE: http://www.areadevelopment.com/corpSurveyResults/feb08/taxesAndIncentives.shtml**

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.*

**Center for Business and Economic Research:** **"**An Examination of Incentives to Attract and Retain Businesses in Kentucky**"**
**SOURCE:** **http://cber.uky.edu/Downloads/BusinessIncentives_Final%20Report_01182007.pdf**

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.*

**Federal Reserve Bank of San Francisco:** **"**State Investment Tax Incentives: A Zero-Sum Game**"**
**SOURCE:** *http://www.frbsf.org/economic-research/files/wp06-47bk.pdf*

A July 2008 study concerning state investment tax incentives by Robert S. Chirinko of the University of Illinois - Chicago and Daniel J. Wilson of the Federal Reserve Bank of San Francisco concluded that state tax incentives can lead to increases in own-state capital formation by reducing the price of capital within the State. They also concluded that a States capital formation could be substantially decreased by reductions in the cost of capital in competitor states.

The study confirmed that state tax incentives have empirically important interstate effects. The study could not reject the hypotheses that state tax policies are largely a zero sum game where the gain of one state is most likely the loss of another state. Another part of this study showed that "county manufacturing establishments counts around state borders are higher on the side of the border with the lower price of capital, but the difference is economically small, suggesting that establishments are much less mobile than overall capital."

**Anderson Economic Group: "**Effectiveness of Michigan's Key Business Tax Incentives**"**
**SOURCE:** *http://www.mea.org/investing/030410_MEA_Evaluating_TaxAbatements.pdf*.

A May 2009 report entitled "Effectiveness of Michigan's Key Business Tax Incentives" found that certain tax incentives were highly effective in encouraging jobs in Michigan, while others were less effective. The report was written by the Anderson Economic Group for The Michigan Education Association and the National Education Association. While the report had many Michigan specific conclusions, some of the more general results are listed below:

1. The study identified at least four purposes for tax abatements that could underlie a well-conceived business tax abatement program:
    a. Address Cost Disadvantages
    b. Revitalize Distressed Local Economies
    c. Encourage Beneficial Business Activity
    d. Pursue an Industrial Policy

2. Approvals and reported effects were deeply affected by self-interest.

    Data on the results were often self-reported by tax abatement recipients who had a vested interest in the effectiveness of the program to be seem as successful along with the state government often not challenging these results as it was in their own self-interest also for the program to be successful.

3. Michigan could encourage more jobs, and bring in the same or greater tax revenue, by properly reforming certain tax incentives.

    Some tax incentives were so widely used (an industrial property abatement incentive was the example illustrated) that the State was not really collecting tax revenue that would be assumed under a given tax rate. The report indicated that "In such cases, the State of Michigan seems to be getting the worst of both worlds: the poor public impression of high tax rates without the tax revenue that such would imply." They suggested that policy makers consider an across the board lower tax rate instead of a piecemeal but widely used basis.

4. Their evaluation of eight programs revealed a large variation in effectiveness often dependent upon the reliability and availability of data to measure the results of the programs

5. State and local governments were forgoing a significant but ultimately unknown, amount of revenue due to business tax incentives.

**The Council of State Governments' Chairman's Report: State Business Incentives**
**SOURCE: http://knowledgecenter.csg.org/kc/sites/default/files/State%20Business%20Incentives%202013_1.pdf**

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. The purpose of their 2013 report was not to advocate either for or against the use of business incentives, but to "encourage state leaders to take a thoughtful, open look at their own state incentive programs and look for ways to improve."

The noted observations from the report are as follows:

- ***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.*

**Pew Center on the States: "Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth"**
**SOURCE: http://www.pewstates.org/uploadedFiles/PCS_Assets/2012/015_12_RI%20Tax%20Incentives%20Report_web.pdf**

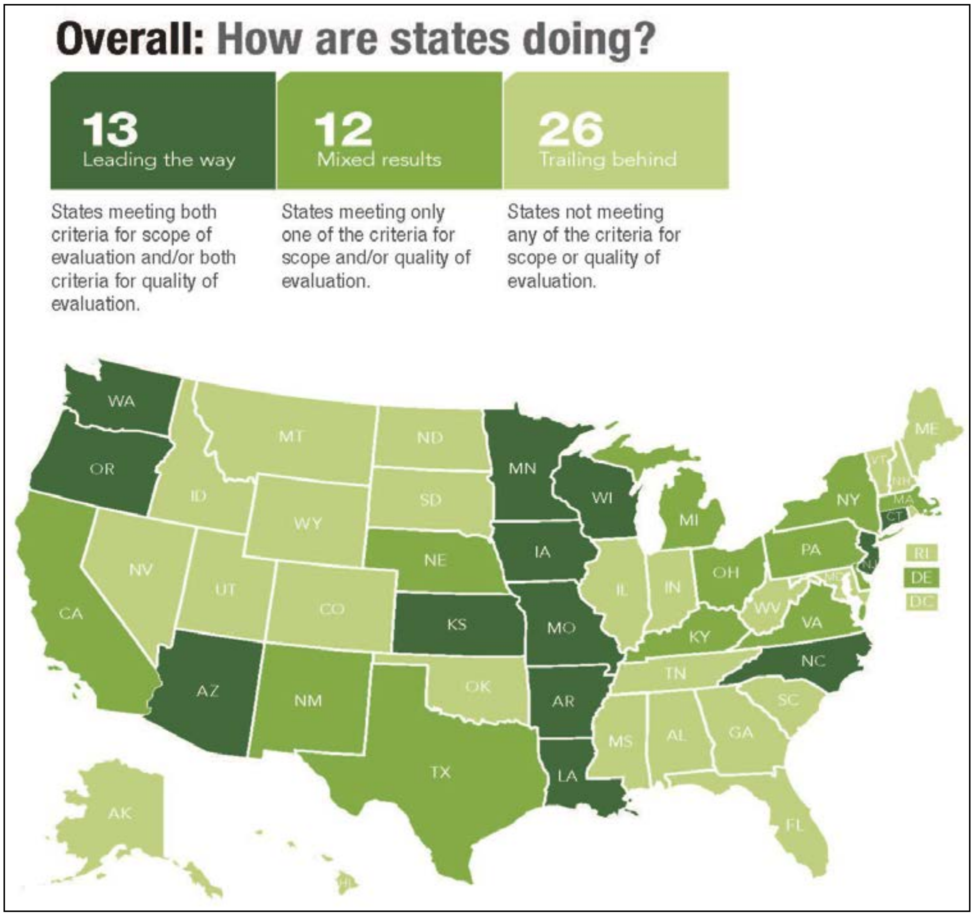
Included in the Council of State Government's 2013 report was a discussion on findings from a 2012 report from the Pew Center on the States. The following is an excerpt from this report:

*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, Evidence Counts, 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.*

The article rates each state on how the state is doing in evaluating state tax incentives for jobs and growth. As shown on the map on the following page, the article rates Illinois as one of 26 states that are "falling behind" in the evaluation of its tax incentive programs.

The article then discusses four steps that states can take for effective evaluation of state programs.

- ***Inform policy choices:*** *Build evaluation of incentives into policy and budget deliberations to ensure lawmakers use the results.*
- ***Include all major tax incentives:*** *Establish a strategic and ongoing schedule to review all tax incentives for economic development.*
- ***Measure economic impact:*** *Ask and answer the right questions using good data and analysis.*
- ***Draw clear conclusions:*** *Determine whether tax incentives are achieving the state's goals.*




**The Pew Center on the States:** **"**Avoiding Blank Checks: Creating Fiscally Sound State Tax Incentives**"**
**SOURCE:** *http://www.pewstates.org/uploadedFiles/PCS_Assets/2012/Pew_tax_incentives_report.pdf*.

Another report from the Pew Center on the States 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. The report highlighted 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. Another example was a renewable energy tax credits in Hawaii that were worth $34 million in FY 2010 but were expected to cost $260 million in FY 2013.

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.

**W.E. Upjohn Institute for Employment Research:** **"**Eight Issues for Policy Toward Economic Development Incentives**"**
**SOURCE:** *http://www.minneapolisfed.org/publications_papers/pub_display.cfm?id=3667*

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.*

# 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: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