State Tax Incentives for Illinois Businesses

Commission on Government Forecasting and Accountability
703 Stratton Office Building
Springfield, Illinois 62706
January 2007

Commission on Government Forecasting and Accountability

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EXECUTIVE SUMMARY

A crucial part of improving Illinois' business climate comes from the various tax incentive programs that the State has initiated in an attempt to sustain or enhance Illinois' position in the business world. These incentives are often a determining factor for businesses trying to decide whether to locate in Illinois or look elsewhere. This report takes a close look at these incentives and the details behind this important economic tool.

The report opens by comparing Illinois with other states in the State Business Tax Climate Index, a measuring stick developed by the Tax Foundation to find out which states have tax systems that are the most competitive in attracting new businesses and the most effective at generating economic and employment growth. This is followed by a section listing the many business tax incentives that the State of Illinois offers to encourage economic development. Included with each description is the amount of money that it costs the State to offer these tax incentives, as reported by the Comptroller's Office in its *Tax Expenditure* report.

This section is followed by a detailed look at Enterprise Zones, the High Impact Business Program, Tax Increment Financing, and the latest findings from the Department of Commerce and Economic Opportunity in response to the Corporate Accountability for Tax Expenditure Act. Tables comparing Illinois and other states in the areas of financial assistance for industries and tax incentives available for businesses are also included.

The report then looks at the latest employment figures and displays the current trend of employment in Illinois. This is followed by a look at the State's corporate income tax and provides a discussion and statistics on who is paying this tax. Listings of the largest revenue producing companies in Illinois, as well as the State's largest employers, are included in this section. The report then illustrates how Illinois' corporate income tax rate and its apportionment formula compare to the rest of the nation. Highlights of the report are summarized below.

- A study by the Tax Foundation reports Illinois as having the 25th best State Business Tax Climate in the nation in FY 2007. Illinois ranked in the top half in the individual income tax index (13th), but was in the lower half of the rankings for the corporate tax index (30th), sales tax index (32nd), unemployment tax index (36th), and property tax index (40th).

- In FY 2005, the numerous business tax incentives offered by the State cost Illinois over $960 million. Of that amount, $514 million was through sales tax incentives, $209 million through income tax incentives, and $237 million through various other tax incentives.

- The highest tax incentive was the Manufacturing and Assembling Machinery and Equipment Exemption ($164.7 million), followed by the Net Operating Loss Deduction ($163.2 million) and the Retailer's Discount ($118.7 million).

- The purpose of Enterprise Zones is to stimulate economic growth and neighborhood revitalization in economically depressed areas of the state. Over $70 million in State tax incentives were provided in FY 2005 due to the tax relief provided through the Enterprise Zone Act.

- The High Impact Business Program provides investment tax credits, sales tax exemptions, and an exemption from state tax on utilities for businesses meeting certain requirements. As of August 2006, there were 14 companies in Illinois that are certified as High Impact Business designated facilities.

- On August 20, 2003, the Corporate Accountability for Tax Expenditure Act was signed into law. This law requires any recipient that receives economic development assistance from a state granting body to report annually on the progress of the development and employment commitments for the project.

- Among the findings from the Corporate Accountability for Tax Expenditure's latest report was that 101 Illinois companies have received an EDGE (Economic Development for a Growing Economy) credit between January 1, 2004 and December 31, 2005.

- As of January 2006, there were 998 Tax Increment Financing (TIF) districts in Illinois located in 77 of the 102 counties. Examples of the benefits of TIF include an increase in private investment and development, the creation/retention of jobs, the creation of job training programs, and a stronger economic tax base.

- Historically, the corporate income tax has been a volatile revenue source. Over the last ten years, corporate income tax receipts have ranged from $1.011 billion in FY 2003 to $1.784 billion in FY 2006. Annual percentage changes have ranged from a sharp decline of 18.5% in FY 2002 to a 36.4% increase just two years later.

- According to the Department of Revenue, there were 123,195 corporate income tax filers in tax year 2003. However, only 39,377 of the corporate filers had a corporate income tax liability. Therefore, 68% of corporate filers had a tax liability amount of $0.

- Of the nearly $1.2 billion in corporate tax liability in 2003, 95.5% of the liability came from only 4.1% of the corporate income tax filers. This shows that the volatility of corporate income tax receipts is directly attributed to a small percentage of the corporations.

- In 2006, Illinois had the 4th most Fortune 500 companies in the nation, trailing only New York, California, and Texas. The largest Illinois company, in terms of revenue, was State Farm Insurance (Bloomington headquarters), followed by Boeing (Chicago), Sears Roebuck (Hoffman Estates), and Walgreen (Deerfield).

Comparing Illinois with the Other States

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

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

The SBTCI places 113 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 on 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 25th best State Business Tax Climate in the nation for FY 2007. The highest ranked states were Wyoming, South Dakota, and Alaska. The lowest ranked states were New Jersey, Ohio, and Rhode Island. Rankings of states surrounding Illinois include Indiana (12th), Missouri (15th), Wisconsin (38th), Kentucky (39th), and Iowa (43rd). Illinois' ranking of 25th was a slight improvement from their FY 2006 ranking of 26th.

Looking at each component of the index individually, Illinois ranked in the top half in the individual income tax index (13th), but was in the lower half of the rankings for the corporate tax index (30th), sales tax index (32nd), unemployment tax index (36th), and property tax index (40th). For more information regarding the findings of this study, please see the Tax Foundation's website at www.taxfoundation.org.

State Business Tax Climate Index, 2006 and 2007

State	FY 2007 State Business Tax Climate Index		FY 2006 State Business Tax Climate Index		Change from 2006 to 2007	
	Score	Rank	Score	Rank	Score	Rank
U.S.	5.00	-	5.00	-		
Alabama	5.47	20	5.60	16	-0.13	-4
Alaska	7.23	3	7.29	3	-0.06	0
Arizona	5.14	28	5.13	29	0.01	1
Arkansas	4.88	35	4.87	35	0.01	0
California	4.51	45	4.64	42	-0.13	-3
Colorado	5.67	14	5.70	13	-0.03	-1
Connecticut	4.83	37	4.66	41	0.17	4
Delaware	6.08	9	6.10	9	-0.02	0
Florida	6.86	5	6.85	5	0.01	0
Georgia	5.48	19	5.52	20	-0.04	1
Hawaii	5.24	24	5.28	24	-0.04	0
Idaho	5.03	32	5.08	30	-0.05	-2
Illinois	**5.23**	**25**	**5.22**	**26**	**0.01**	**1**
Indiana	5.79	12	5.86	12	-0.07	0
Iowa	4.56	43	4.62	44	-0.06	1
Kansas	5.04	31	4.99	33	0.05	2
Kentucky	4.76	39	4.75	38	0.01	-1
Louisiana	5.04	30	5.05	32	-0.01	2
Maine	4.67	42	4.64	43	0.03	1
Maryland	5.13	29	5.23	25	-0.10	-4
Massachusetts	4.88	36	4.87	36	0.01	0
Michigan	5.15	27	5.20	28	-0.05	1
Minnesota	4.68	41	4.71	39	-0.03	-2
Mississippi	5.57	17	5.57	19	0.00	2
Missouri	5.65	15	5.68	14	-0.03	-1
Montana	6.20	8	6.16	8	0.04	0
Nebraska	4.53	44	4.59	45	-0.06	1
Nevada	7.12	4	7.07	4	0.05	0
New Hampshire	6.21	7	6.45	6	-0.24	-1
New Jersey	3.92	48	3.63	48	0.29	0
New Mexico	5.31	23	5.30	23	0.01	0
New York	4.16	47	3.60	49	0.56	2
North Carolina	4.72	40	4.70	40	0.02	0
North Dakota	4.98	33	5.06	31	-0.08	-2
Ohio	3.82	49	3.82	47	0.00	-2
Oklahoma	5.45	21	5.41	21	0.04	0
Oregon	6.04	10	6.02	10	0.02	0
Pennsylvania	5.36	22	5.31	22	0.05	0
Rhode Island	3.47	50	3.47	50	0.00	0
South Carolina	5.22	26	5.21	27	0.01	1
South Dakota	7.57	2	7.56	2	0.01	0
Tennessee	5.49	18	5.58	18	-0.09	0
Texas	6.45	6	6.41	7	0.04	1
Utah	5.63	16	5.67	15	-0.04	-1
Vermont	4.42	46	4.57	46	-0.15	0
Virginia	5.68	13	5.58	17	0.10	4
Washington	5.95	11	5.93	11	0.02	0
West Virginia	4.92	34	4.93	34	-0.01	0
Wisconsin	4.78	38	4.77	37	0.01	-1
Wyoming	7.66	1	7.64	1	0.02	0
District of Columbia	4.06	-	4.41	-	-0.35	

Note: The higher the score the better, the more favorable a state's tax system is for business.
Source: Tax Foundation

Major Components of the State Business Tax Climate Index, 2007

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

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

Business Tax Incentives

A major component to being perceived as a business-friendly state comes from the many tax incentives that a state offers. Below is a table listing Illinois' tax expenditures relating to business tax incentives for FY 2002 thru FY 2006 as defined by the Comptroller's Office in their latest *Tax Expenditure Report*. In FY 2006, these business tax expenditures were valued at over $960 million. On the following pages are brief synopses of these tax incentives in the order that they appear in this table.

Business Expenditures
($ in thousands)

	FY 2002 Annual Impact	FY 2003 Annual Impact	FY 2004 Annual Impact	FY 2005 Annual Impact
Sales Tax				
Manufacturing and Assembling Machinery and Equipment Exemption	$155,000	$158,332	$161,816	$164,666
Retailer's Discount	$104,000	$107,300	$113,363	$118,671
Rolling Stock Exemption	$92,000	$104,133	$42,225	$49,981
Newsprint and Ink to Newspapers and Magazines Exemption	$40,000	$40,000	$40,880	$43,263
Commercial Distribution Fee (CDF) Exemption	$0	$0	$37,734	$41,600
Sales of Vehicles to Automobile Rentors Exemption	$24,500	$23,640	$29,034	$34,487
Designated Tangible Personal Property within Enterprise Zone Exemption	$30,100	$32,000	$26,678	$25,344
Manufacturer's Purchase Credit	$20,000	$28,000	$21,534	$24,998
Interim Use Prior to Sale Exemption	$5,000	$4,745	$7,018	$6,952
Building Materials within Enterprise Zone Exemption	$4,000	$4,087	$4,176	$4,249
Graphic Arts Machinery and Equipment Exemption	$4,000	$4,087	$0	$0
Coal, Oil, and Distillation Machinery and Equipment Exemption	$700	$715	$0	$0
Total	**$479,300**	**$507,039**	**$484,458**	**$514,211**
Individual Income Tax				
Income Tax Credits	$6,953	$7,551	$4,226	$8,686
Total	**$6,953**	**$7,551**	**$4,226**	**$8,686**
Corporate Income Tax				
Illinois Net Operating Loss Deduction	$144,651	$102,943	$162,938	$163,186
Foreign Insurer Rate Reduction	$10,343	$9,396	$12,055	$17,083
Economic Development for a Growing Economy Tax Credit	$190	$3,300	$5,200	$9,082
High Economic Impact Business Dividend Subtraction**	$0	$0	$0	$6,363
Enterprise Zone Dividend, Interest, and Charitable Contribution Subractions**	$7,363	$7,363	$2,431	$2,460
High Economic Impact Business Investment Credit	$510	$200	$1,540	$1,562
Job Training Contribution Subtraction	$256	$256	$417	$157
High Economic Impact Business Interest Subtraction**	$0	$0	$0	$131
Jobs Tax Credit	$10	$14	$6	$6
Training Expense Credit	$14,410	$12,700	$14,180	$0
Research and Development Credit	$15,000	$6,670	$8,180	$0
Enterprise Zone Investment Credit*	$4,420	$7,530	$6,520	$0
Standard Exemption	$5,093	$4,973	$5,021	$0
Life and Health Insurance Guarantee Association Tax Offset	$12,910	$6,150	$3,640	$0
TECH-PREP Youth Vocational Program Credit	$2	$1	$0	$0
Total	**$215,158**	**$161,496**	**$222,128**	**$200,030**
Other Taxes				
Sales for Use Other Than in Motor Vehicles Exemption	$121,319	$115,332	$117,220	$116,891
Enterprise & Foreign Trade Zone High Economic Impact Business Exemption	$22,645	$22,645	$34,875	$36,853
Timely Filing and Full Payment Discount	$23,511	$23,779	$21,545	$20,971
Airport Exemption	$16,204	$14,717	$13,965	$12,612
Cost of Collection Discount - Cigarettes	$7,289	$10,059	$10,155	$9,944
Cost of Collection Discount - Telecommunications	$0	$0	$8,544	$8,759
Commercial Distribution Fee Exemption	$0	$0	$6,821	$8,756
Cost of Collection Discount	$4,352	$4,550	$4,543	$4,910
Two Million Dollar Cap on Franchise Tax for Corporations	$8,600	$8,724	$6,474	$4,743
Real Estate Tax Credit	$4,924	$3,926	$3,853	$3,940
Rail Carrier Exemption	$2,474	$2,569	$2,759	$2,992
Enterprise & Foreign Trade Zone High Economic Impact Business Exemption	$1,597	$1,910	$1,748	$1,700
Timely Filing and Full Payment Discount	$1,378	$1,451	$1,311	$1,310
Cost of Collection Discount - Liquor	$0	$517	$792	$1,031
Cost of Collection Discount (Gas Use Tax)	$0	$0	$567	$705
Timely Filing and Full Payment Discount	$501	$501	$569	$498
Exemption for Vessels Conducting Interstate Commerce on Border Rivers	$482	$422	$492	$496
Business Reorganization Preferential Tax Rate	$57	$57	$68	$72
Aviation Purposes Exemption	$37	$38	$41	$43
Enterprise & Foreign Trade Zone High Economic Impact Business Exemption	$27	$33	$32	$31
Enterprise Zone Revenue Exemption	$55	$34	$26	$13
Life and Health Guaranty Assessments Credit	$15,422	$12,293	$0	$0
Total	**$230,874**	**$223,557**	**$236,400**	**$237,270**
TOTAL BUSINESS EXPENDITURES	**$932,285**	**$899,643**	**$947,212**	**$960,197**

* The FY 2005 amount was not known when this source was printed.

** Enterprise Zone and High Economic Impact Business tax expenditures were restructured for FY 2005. Cost figures were combined for enterprise zone subtractions and separated for high economic impact business tax expenditures.

Source: State Comptroller's Tax Expenditure Report, FY 2003, FY 2004, and FY 2005

Sales Tax Related Business Incentives:

Manufacturing Machinery and Equipment Exemption

The sales tax exemption for manufacturing machinery and equipment is for machinery and equipment used primarily in a direct on-line manufacturing process. The exemption includes repair and replacement parts for qualifying machinery and equipment. Manufacturing includes assembling, processing, fabricating and refining and the exemption is available only if the item being produced is for wholesale or retail sale or lease. This exemption has been in effect since 1979.

FY 2005 Annual Impact: $164,666,000

Retailer's Discount

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

FY 2005 Annual Impact: $118,671,000

Rolling Stock Exemption

For purposes of the exemption, "rolling stock" means any transportation vehicle used to transport passengers or freight for hire by any interstate carrier for hire. "Interstate carrier for hire" means any carrier so recognized by the Interstate Commerce Commission or some other federal regulatory agency and it includes railroads, bus lines, airlines and trucking companies. "Rolling stock" also means all transportation vehicles, such as rail cars, locomotives, buses, airplanes, trucks, tractors and trailers and includes freight containers that are loaded onto transportation vehicles and repair parts for transportation vehicles. Only rolling stock used by interstate carriers for hire to transport passengers or freight in interstate commerce for hire qualifies for the exemption. This exemption has been in effect since 1968.

FY 2005 Annual Impact: $49,981,000

Newsprint and Ink to Newspapers and Magazines Exemption

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

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

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

FY 2005 Annual Impact: $43,263,000

Commercial Distribution Fee (CDF) Sales Tax Exemption

The Commercial Distribution Fee (CDF) was effective July 1, 2003 with payments equal to 36% of 2nd division vehicle registration fees. (The CDF rate will decline to 21.5% for fiscal year 2006 and 14.35% thereafter). Second division vehicles which pay the CDF, weigh more than 8,000 lbs., and pay either the weight or mileage taxes for buses, trucks, truck tractors, or trailers are exempt from the sales tax.

FY 2005 Annual Impact: $41,600,000

Sales of Vehicles to Automobile Rentors Exemption

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

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

- Automobiles rented for more than one year.
- Receipts received by automobile dealers from a manufacturer or service contract provider for the use of "loaner" vehicles while the dealer is making a warranty or service contract repair on the person's vehicle.
- Vehicles rented by exempt organizations who provide a copy of the organization's active Illinois exemption number issued by the Department.

This exemption has been in effect since 1988.

FY 2005 Annual Impact: $34,487,000

Designated Tangible Property Enterprise Zone Exemption:
All tangible personal property used or consumed within an enterprise zone, including any High Impact Business, in the process of the manufacturing or assembling of tangible personal property for sale or lease by any producer of graphic arts so certified by DCCA 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.

FY 2005 Annual Impact: $25,344,000

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

FY 2005 Annual Impact: $24,998,000

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

FY 2005 Annual Impact: $6,952,000

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

FY 2005 Annual Impact: $4,249,000

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

FY 2005 Annual Impact: $0

Individual Income Tax Related Business Incentives:

There are several business tax incentives classified by the Department of Revenue under the personal income tax. These include: Enterprise Zone Investment credit; Jobs Tax credit; High Impact Business Investment credit; Training Expense credit (repealed 12/31/2003); Research and Development credit (repealed 12/31/2003 & reinstated (04/05)); Environmental Remediation tax credit (repealed 1/1/02); "TECH-PREP" Youth Vocational Programs; Dependent Care Assistance Program; Economic Development for a Growing Economy Tax credit; Film Production Services; Affordable Housing Donations; and the Transportation Employee Credit (repealed 7/1/04). A description for most of these credits is 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.

According to the information provided by the Department of Revenue, there were 2,379 credits claimed for tax year 2004 in business related incentives that the Department classified under the Individual Income Tax category.

FY 2005 Annual Impact: $8,686,000

Corporate Income Tax Related Incentives:

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

could be carried back 3 years and forward 15 years. The net operating loss deduction has been in effect since 1986.

FY 2005 Annual Impact: $163,186,000

Foreign Insurer Rate Reduction

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

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

This deduction has been in effect since 2000.

FY 2005 Annual Impact: $17,083,000

Illinois EDGE (Economic Development for a Growing Economy) Program

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

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

The amount of the Tax Credit is calculated on a case-by-case basis. The tax credits could be as high as the amount of tax receipts collected from the Illinois income taxes paid by newly hired and/or retained employees of the firm as pertaining to the project.

As a tax credit, the EDGE program allows a firm to reduce the costs of doing business in Illinois when compared with similar costs in other states where it could have located its operation.

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

Each company receiving competitive credits would have to maintain the jobs created and/or retained along with the capital investment concurrent with the period in which it claims the credits.

According to the Department of Commerce and Economic Opportunity, since the program's inception on December 22, 1999 through December 31, 2005, DCEO has received a total of 361 EDGE Tax Credit applications. The breakout of these 361 applications is as follows:

297	EDGE applications approved
64	EDGE applications withdrawn
255	Signed EDGE Agreements
150	Tax Certificates issued to 61 different companies for a total $67.4 million in tax credits

FY 2005 Annual Impact: $9,082,000

High Economic Impact Business Dividend Subtraction

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

FY 2005 Annual Impact: $6,363,000

Enterprise Zone Dividend, Interest, and Charitable Contribution Subtractions

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

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

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

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

These subtractions have been in effect since 1986.

FY 2005 Annual Impact: $2,460,000

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

FY 2005 Annual Impact: $1,562,000

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

FY 2005 Annual Impact: $157,000

High Economic Impact Business Interest Subtraction
This subtraction modification is designated for financial organizations that make loans to borrowers that secure the loans with property that are eligible for the Enterprise Zone Investment credit. This subtraction modification allows interest earned from the eligible loans to be excluded from base income. This provision has been in effect since 1986.

FY 2005 Annual Impact: $131,000

Jobs Tax Credit
This tax credit is provided to taxpayers conducting a trade or business in an Illinois enterprise zone or a High Impact Business conducting business in a federally designated Foreign Trade Zone or Sub-Zone. The tax credit is equal to $500 per eligible employee hired to work in the zone during the tax year. If the credit amount exceeds liability, then the excess credit amount can be carried forward five tax years. The credit has been in effect since 1986.

FY 2005 Annual Impact: $6,000

Training Expense Credit (Ended)

This tax credit is provided to taxpayers that pay for educational or vocational training on behalf of individuals employed in Illinois or residents of Illinois employed outside of Illinois. The credit is 1.6% of training expenses. If the credit amount exceeds tax liability, then the excess credit amount can be carried forward 5 tax years. The credit ended on December 30, 2003. Any unused credit amounts cannot be carried forward.

FY 2005 Annual Impact: $0

Research and Development Credit

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

The credit ended on December 30, 2003. However, the credit was re-instated effective for tax years ending on or after December 31, 2004.

The credit first began in 1991.

FY 2004 Annual Impact: $8,180,000
FY 2005 Annual Impact: $0

Enterprise Zone Investment Credit

This tax credit is provided to taxpayers that invest, and place in service, qualified property in an Illinois enterprise 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. This credit has been in effect since 1983.

FY 2004 Annual Impact: $6,520,000
FY 2005 Annual Impact: Not Available

Standard Exemption (Repealed)

Each taxpayer is allowed a standard exemption in determining net income. The exemption is apportioned. The basic amount is $1,000. For tax years ending on or after December 31, 2003, this exemption is only for individual taxpayers. For corporations, the basic amount is now zero.

FY 2005 Annual Impact: $0

Life and Health Insurance Guarantee Association Tax Offset (Expired)

Assessments paid to the Association in excess of $3 million aggregate are allowed as a tax offset against Illinois income tax liabilities. These monies are not collected by the State of Illinois, but drain the state of revenue. The Association's collections are paid by all Life and Accident Insurance companies for the benefit of policyholders and creditors of insolvent Life and Accident Insurance companies.

The tax offset associated with the Life and Health Insurance Guarantee Association expired January 1, 2003. The tax offset associated with the Health Maintenance Organization Act expired January 1, 2004.

FY 2005 Annual Impact: $0

TECH-PREP Youth Vocational Program Credit

Taxpayers that are primarily engaged in manufacturing are allowed a credit against income taxes equal to 20% of direct payroll expenditures for cooperative secondary school youth vocational programs in Illinois. The programs are to prepare students to be technically skilled workers and meet the performance standards of business and industry. This credit cannot be used if the expenses have already been claimed under the training expense credit (201(j)). Excess credits can be carried forward 2 tax years.

According to the Comptroller's website, "1299-D credits claimed by taxpayers for tax year 2002 were reviewed. Based on the review, there were $0 in "TECH-PREP" credits claimed for tax year 2002".

FY 2005 Annual Impact: $0

Replacement Taxes Paid Credit (Repealed)

The Illinois Income Tax Act provides a credit against income tax liabilities for replacement taxes paid. The credit is apportioned net replacement taxes paid multiplied by the income tax rate imposed. If the credit exceeds income tax liability in the year it was earned, then the excess credit amount can be carried forward five tax years to be used against future income tax liabilities.

The credit ended on December 30, 2003. Any unused credits cannot be carried forward.

FY 2005 Annual Impact: $0

Other Tax Related Business Incentives:

Sales for Use Other Than in Motor Vehicles Exemption

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

FY 2005 Annual Impact: $116,891,000

Enterprise & Foreign Trade Zone High Economic Impact Business Exemption

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

FY 2005 Annual Impact: $36,853,000

Timely Filing and Full Payment Discount – Motor Fuel Tax

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

FY 2005 Annual Impact: $20,971,000

Airport Exemption

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

FY 2005 Annual Impact: $12,612,000

Cost of Collection Discount – Cigarettes

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

FY 2005 Annual Impact: $9,944,000

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

FY 2005 Annual Impact: $8,759,000

Commercial Distribution Fee (CDF) Exemption
Certain second division vehicles and trailers are exempt from the Vehicle Use tax if the Commercial Distribution Fee administered by the Secretary of State is paid. This exemption has been in effect since 2004.

FY 2005 Annual Impact: $8,756,000

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

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

FY 2005 Annual Impact: $4,910,000

Two Million Dollar Cap on Franchise Tax for Corporations

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

FY 2005 Annual Impact: $4,743,000

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

racetrack exceeds 60% of the average real estate taxes paid in the prior year for all racetracks awarded live horse racing meets in the current year.

FY 2005 Annual Impact: $3,940,000

Rail Carrier Exemption

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

FY 2005 Annual Impact: $2,992,000

Enterprise & Foreign Trade Zone High Economic Impact Business Exemption

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

FY 2005 Annual Impact: $1,700,000

Timely Filing and Full Payment Discount – Underground Storage Tank Tax

Receivers are allowed a 2% discount for timely filing and full payment of tax. No amendments have occurred since the expenditure's effective date. This discount first began in 1990.

FY 2005 Annual Impact: $1,310,000

Cost of Collection Discount – Liquor

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

FY 2005 Annual Impact: $1,031,000

Cost of Collection Discount – Gas Use Tax

The discount is 1.75% of collections resulting from incorporation of applicable use tax statutes. This discount began in 2004.

FY 2005 Annual Impact: $705,000

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

FY 2005 Annual Impact: $498,000

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

FY 2005 Annual Impact: $496,000

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

FY 2005 Annual Impact: $72,000

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

FY 2005 Annual Impact: $43,000

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

FY 2005 Annual Impact: $31,000

Enterprise Zone Revenue Exemption

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

This tax expenditure amounted to approximately .1% of total gross revenue tax receipts. This tax expenditure reduces the bills of the utility customers who are located in enterprise zones. However, the reductions are not significant since the tax rate is only .1%

FY 2005 Annual Impact: $13,000

Enterprise Zones – A Detailed Look

The Illinois Enterprise Zone Act was signed into law December 7, 1982. According to the Department of Commerce and Economic Opportunity's website, the purpose of the Act is to stimulate economic growth and neighborhood revitalization in economically depressed areas of the state. Businesses located (or those that choose to locate) in a designated enterprise zone can become eligible to obtain special state and local tax incentives, regulatory relief, and improved governmental services, thus providing an economic stimulus to an area that would otherwise be neglected.

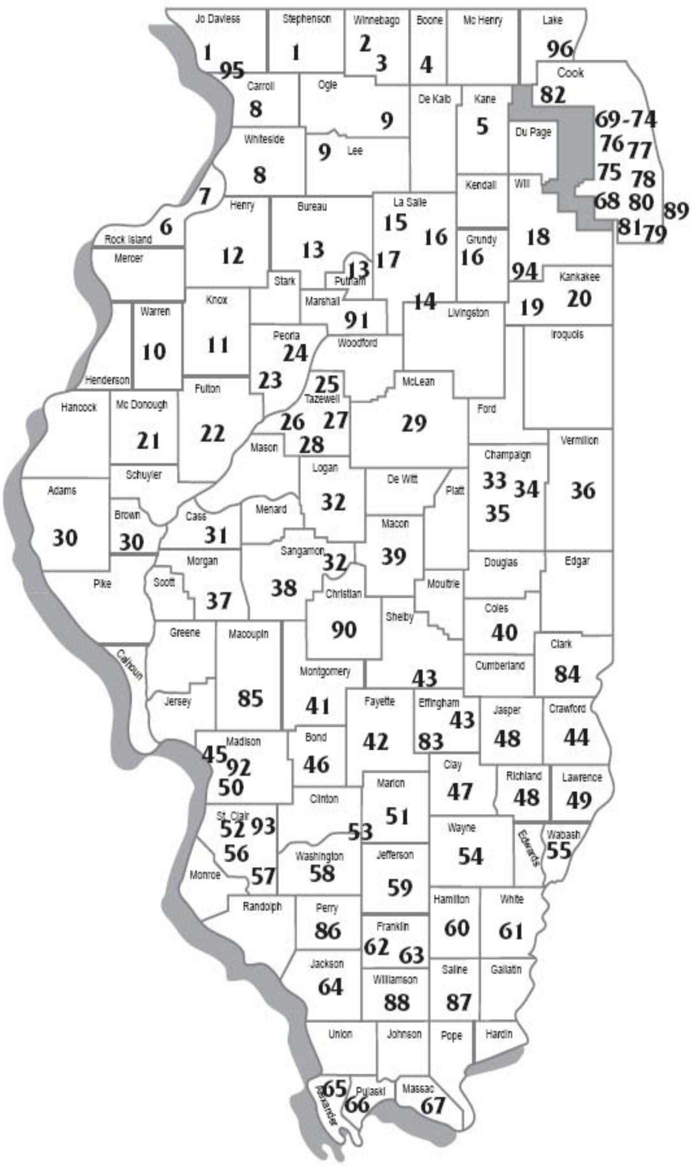
Businesses located or expanding in an Illinois enterprise zone may be eligible for the following incentives:

- An exemption on the retailers' occupation tax paid on building materials.
- An investment tax credit of 0.5 percent of qualified property.
- An enterprise zone jobs tax credit for each job created in the zone for which a certified dislocated worker or economically disadvantaged individual is hired.
- An expanded 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.
- An exemption on the state utility tax for electricity, natural gas and the Illinois Commerce Commission's administrative charge and telecommunication excise tax.

These exemptions require a business to make application to, and be certified by, the Department of Commerce and Economic Opportunity. In addition to the state incentives, each zone offers distinctive local incentives to enhance business development projects.

According to the Department of Commerce and Economic Opportunity's *Enterprise Zone Fiscal Year 2006 Annual Report*, since the Enterprise Zone Act was passed in 1982, the department has designated 95 enterprise zones throughout the state. During FY 2006, the department reports that investments of over $3.9 billion in these designated enterprise zones have resulted in the creation of 21,332 jobs and the retention of 29,085 jobs.

A map displaying the Enterprise Zones in Illinois as of July 2006 is shown on the following page.



ILLINOIS ENTERPRISE ZONES

July 2006

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

High Economic Impact Business Program – A Detailed Look

The High Economic Impact Business program is designed to encourage large-scale economic development activities, by providing tax incentives (similar to those offered within an enterprise zone) to companies that propose to make a substantial capital investment in operations and will create or retain above average number of jobs. 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 manufacturing equipment purchases, repair and replacement parts.

To obtain high economic impact status, the project must involve a minimum of $12 million investment causing the creation of 500 full-time jobs or an investment of $30 million causing the retention of 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, or a newly constructed gasification facility as a "Coal/Energy High Impact Businesses".

A qualifying High Impact Business may be eligible to receive the following: sales tax exemption on building materials, an investment tax credit, an exemption from State gas and electric tax, and a State sales tax exemption on manufacturing repair and equipment repairs and replacement parts. The Coal/Energy High Impact Business may qualify for sales tax exemption on building materials, an investment tax credit, an exemption from State gas tax on utilities and excise tax on electricity.

A designated High Impact Business located in a foreign trade zone or sub-zone is eligible for additional incentives including an income tax credit for a minimum of five new eligible hires, an exemption from municipal tax on utilities, an exemption from the telecommunications excise tax, and an income tax deduction for financial institutions receiving interest from loans secured by property eligible for the High Impact Business Investment Tax Credit. Below is the list of areas designated as High Impact Businesses as of August 2006.

COMPANY NAME	LOCATION
ABN AMRO North America, Inc.	Chicago
Abbott Laboratories	Abbott Park
Caterpillar, Inc.	Mossville
Champion Laboratories, Inc.	Albion
DeVry, Inc.	Naperville
Franklin County Power of Illinois, LLC	Franklin County
Hospira, Inc. and Subsidiaries	Lake Forest
Motorola	Schaumburg
OfficeMax Incorporated	Naperville
Takeda Pharmaceuticals North America, Inc.	Deerfield
TAP Holdings, Inc., and Subsidiary	Lake Forest
Target Corporation	DeKalb
Triumph Foods, LLC	East Moline
UBS, AG	Chicago

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, 2005.

Annual Report of Recaptures Provision by Program

For Jan. 1, 2004 to Dec. 31, 2005

Published June 1, 2006

Business Development Public Infrastructure Program

Total number of companies that have received benefits as defined within the Act since Jan. 1, 2004	8
Total number of recipients in violation of the terms of the development agreement as of Dec. 31, 2005	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

Corporate Headquarters Relocation Program

Total number of companies that have received benefits as defined within the Act since Jan. 1, 2004	2
Total number of recipients in violation of the terms of the development agreement as of Dec. 31, 2005	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

EDGE Tax Credit

Total number of companies that have received benefits as defined within the Act since Jan. 1, 2004	101
Total number of recipients in violation of the terms of the development agreement as of Dec. 31, 2005	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

Employee Training Investment Program

Total number of companies that have received benefits as defined within the Act since Jan. 1, 2004	63
Total number of recipients in violation of the terms of the development agreement as of Dec. 31, 2005	4
Total number of completed recapture efforts since Jan. 1, 2004	2
Total number of recapture efforts initiated since Jan. 1, 2004	6
Total number of waivers granted since Jan. 1, 2004	0

Annual Report of Recaptures Provision by Program

For Jan. 1, 2004 to Dec. 31, 2005

Published June 1, 2006

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	**8**
Total number of recipients in violation of the terms of the development agreement as of Dec. 31, 2005	**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	**9**
Total number of recipients in violation of the terms of the development agreement as of Dec. 31, 2005	**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	**6**
Total number of recipients in violation of the terms of the development agreement as of Dec. 31, 2005	**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	**28**
Total number of recipients in violation of the terms of the development agreement as of Dec. 31, 2005	**2**
Total number of completed recapture efforts since Jan. 1, 2004	**0**
Total number of recapture efforts initiated since Jan. 1, 2004	**2**
Total number of waivers granted since Jan. 1, 2004	**0**

Tax Increment Financing

Another area that businesses receive tax incentives is from Tax Increment Financing. Tax Increment Financing began in the State of Illinois over 20 years ago. This financing tool was created to help local governments restore their most run-down areas or jumpstart economically sluggish parts of town. It allows municipalities to make the infrastructure improvements they need and provide incentives to attract businesses or help existing businesses expand, without tapping into general funds or raising taxes.

Over the last several years, billions of dollars nationwide, in federal and state aid to local governments have been eliminated. At the same time, unfunded federal and state mandates have increased the financial burden on many municipalities. Factor in property tax caps, and the funding problems facing local governments make it apparent that local governments are left to do more with less. Tax Increment Financing offers local governments a way to revitalize their communities by expanding their tax base, offsetting, in part, the federal and state funds that are no longer available to them *without imposing increased property taxes on the whole community*.

So how does tax increment financing (TIF) work? In a TIF district, dollars for improvements are generated by new and old businesses, attracted by the benefits of TIF. Specifically, money for improvements to infrastructure and other incentives comes from the growth in property tax revenues – the tax increment.

Once an area is declared a TIF, the amount of tax the TIF area generates is set as a "baseline." The taxing entities within an area, which generally receive portions of property tax revenue generated in the area, continue to receive that set amount during the life of the TIF. Parks, schools, and other agencies continue to receive the same amount of revenue, so there is no loss of revenue to those taxing bodies. As vacant and dilapidated properties developed with TIF assistance return to productive and appropriate uses, the equalized assessed value (EAV) of those properties increases. This productivity creates an incremental increase in the revenue generated within the TIF district. The increment created between the baseline and the new EAV is captured and used solely for improvements within the TIF district. This increment can be used as a source of revenue to pay back the bonds issued to pay "upfront" costs, or can be used on a "pay-as-you-go" basis for individual projects.

The maximum life of a TIF district is 23 years. As the TIF expires and the investments in the redevelopment projects are paid back, property tax revenues are again shared by all the different taxing entities. Those taxing entities realize a budget windfall, receiving the higher revenues based on much higher EAVs which would not have been possible without the TIF.

Through the use of tax increment financing, property values increase while being assessed and taxed the same way as in non-TIF areas. According to the Illinois Tax Increment Association, the advantages of TIF do not stop there. The Association's website (www.illinois-tif.com) lists the following ways that communities benefit from TIF.

- No tax increases
- Increased property values
- Private investment and development
- More jobs
- Job Retention
- Job training programs
- Stronger, broader tax base
- Stronger economic base
- Incremental revenue is reinvested in the TIF district
- Stimulates investment outside TIF district boundaries

As shown, the Illinois Department of Commerce and Economic Opportunity reports that, as of January 2006, there were 998 TIF districts in Illinois located in 77 of the 102 counties. A detailed list of each municipality with a TIF district can be found at *www.illinois-tif.com*.

TIF DISTRICTS IN ILLINOIS

(As of January 2006: Includes all established)

Data Provided By The Illinois Department of Commerce and Economic Opportunity

Adams	2	Jackson	1	Montgomery	3
Alexander	1	Jersey	1	Morgan	3
Bond	1	JoDaviess	1	Moultrie	4
Boone	3	Kane	17	Ogle	2
Brown	1	Kane/Cook	4	Peoria	16
Bureau	5	Kane/DuPage	5	Perry	2
Bureau/LaSalle	1	Kankakee	14	Piatt	1
Carroll	3	Kendall	2	Randolph	7
Cass	4	Knox	4	Richland	1
Champaign	12	Lake	30	Rock Island	35
Clay	1	LaSalle	32	Saline	1
Clinton	6	LaSalle/Livingston	1	Sangamon	16
Coles	3	Lawrence	2	Schuyler	1
Cook	373	Lee	3	St. Clair	44
Cook/DuPage	4	Livingston	4	Stark	2
Cook/Lake	5	Logan	2	Stephenson	12
Cook/Will	10	Macon	5	Tazewell	10
Crawford	2	Macoupin	1	Tazewell/Peoria	3
DeKalb	8	Madison	27	Tazewell/Woodford	1
DeWitt	5	Madison/St.Clair	3	Vermilion	5
Douglas	9	Marion	4	Wabash	5
DuPage	33	Marion/Clinton	3	Warren	1
DuPage/Cook	13	Marshall	4	Washington	1
Edgar	2	Mason	3	Wayne	2
Effingham	6	Massac	1	Whiteside	4
Fayette	2	McDonough	2	Will	16
Ford	2	McHenry	9	Will/Cook	5
Franklin	1	McHenry/Kane	1	Will/DuPage	2
Fulton	5	McLean	14	Will/Kendall	1
Greene	1	Mercer	2	Williamson	10
Grundy	2	Mercer/Warren	1	Winnebago	16
Grundy/LaSalle	2	Monroe	1	Woodford	5
Henry	16	Monroe/St. Clair	1	Woodford/Marshall	1
Iroquois	7				
Total TIF Districts:	**998**				

Note: 77 Counties (Out Of 102) Have A TIF District In Them

Source: http://www.illinois-tif.com/IllinoisTIFs-county.htm

Below and on the following page, two attached tables from *The Book of the States, 2006*, are provided. 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. Any questions regarding the data used in these tables can be addressed through the previously mentioned data source.

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 gurantees for building construction	State loan gurantees 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 incentives for establishing industrial plants in areas of high unemployment	City and/or county incentives for establishing industrial plans in areas of high unemployment
Alabama	*	*	*		*	*	*	*	*	*					*		*	*
Alaska	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Arizona					*	*	*	*			*	*			*		*	*
Arkansas	*	*	*	*	*	*	*	*	*	*	*	*			*		*	*
California	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*		*	*
Colorado	*	*			*		*	*	*	*	*	*	*	*	*	*	*	*
Connecticut	*	*	*	*			*	*	*	*	*	*		*	*		*	*
Delaware	*	*	*		*		*	*	*	*					*	*	*	*
Florida			*		*	*	*	*	*	*			*	*	*		*	*
Georgia	*	*	*		*	*			*	*							*	*
Hawaii	*		*	*	*	*	*	*							*		*	*
Idaho		*			*	*			*	*								
Illinois	*	*	*		*		*	*	*	*					*		*	*
Indiana	*	*	*		*	*	*	*	*	*	*	*	*	*	*	*	*	*
Iowa	*	*	*		*	*	*	*	*	*	*	*			*	*	*	*
Kansas			*	*	*	*			*	*		*			*	*	*	*
Kentucky	*	*	*	*	*	*	*	*	*	*					*	*	*	*
Louisiana		*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Maine	*		*		*	*	*	*	*	*	*	*			*		*	*
Maryland	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Massachusetts	*	*	*		*		*	*	*	*	*	*	*	*	*	*	*	*
Michigan	*	*	*		*	*	*	*	*	*					*	*	*	*
Minnesota	*	*	*	*	*	*	*	*	*	*			*	*	*	*	*	*
Mississippi	*	*	*	*	*	*	*	*	*	*	*	*			*		*	*
Missouri	*	*	*		*	*	*	*	*	*	*	*			*		*	*
Montana		*	*	*	*	*	*	*	*	*	*	*	*	*	*			
Nebraska	*	*	*	*		*	*	*	*	*	*	*	*	*	*	*	*	*
Nevada	*	*	*	*													*	*
New Hampshire	*	*	*		*	*				*	*	*	*	*	*			
New Jersey	*		*		*	*	*	*	*	*	*	*			*		*	*
New Mexico	*	*	*	*	*	*	*	*	*	*	*	*			*		*	*
New York	*	*	*	*	*		*	*	*	*	*	*			*		*	*
North Carolina	*				*	*			*	*							*	
North Dakota		*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Ohio	*	*	*		*		*	*	*	*					*	*	*	*
Oklahoma	*		*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Oregon	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Pennsylvania	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Rhode Island	*	*	*	*	*		*	*	*	*	*	*			*	*	*	*
South Carolina	*	*	*		*	*	*	*	*	*			*	*	*		*	*
South Dakota	*		*	*	*	*	*	*	*	*					*	*		
Tennessee			*	*	*	*	*	*	*	*	*	*			*	*	*	
Texas	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Utah	*	*			*	*			*	*							*	
Vermont	*	*	*		*	*	*	*	*	*	*	*			*	*		
Virginia	*	*	*		*	*	*	*	*	*		*			*	*	*	*
Washington	*	*	*		*			*				*				*	*	
West Virginia	*	*	*		*		*	*	*	*	*	*			*	*		
Wisconsin	*	*	*		*	*	*	*	*	*	*	*			*	*		
Wyoming	*	*	*		*	*	*	*	*	*	*	*			*	*		
State totals	42	40	45	24	47	39	42	43	45	46	31	34	18	19	44	28	42	38

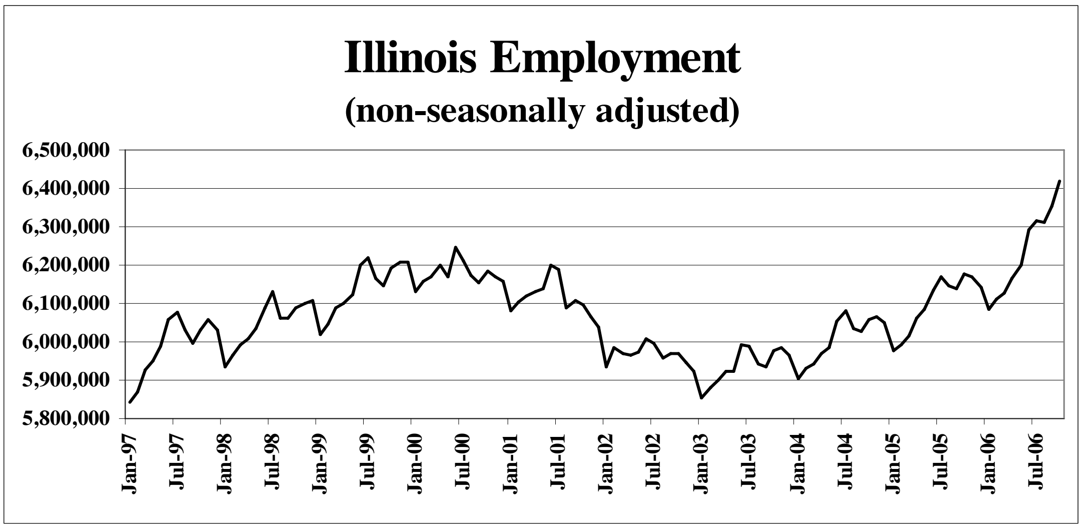
Source: *The Book of the States*, Volume 38; *Site Selection*, November 2005

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		*	*	*				*	*			*			*
Arizona	*	*		*	*	*	*	*	*	*	*			*	*
Arkansas	*		*	*	*	*	*	*	*	*	*	*		*	
California		*	*	*	*	*	*	*	*	*	*			*	*
Colorado	*		*		*	*	*	*	*	*	*				
Connecticut	*		*	*	*	*	*	*	*	*	*		*	*	*
Delaware	*	*	*	*	*	*	*	*	*	*	*			*	*
Florida	*	*	*	*	*	*	*	*	*	*	*			*	*
Georgia				*	*	*	*	*	*	*	*			*	*
Hawaii	*	*	*		*	*	*	*	*	*	*		*	*	*
Idaho	*				*	*	*	*	*		*			*	*
Illinois	*	*	*	*	*	*	*	*	*	*	*			*	*
Indiana	*	*		*	*	*	*	*	*	*	*			*	*
Iowa	*	*	*	*	*	*	*	*	*	*	*			*	*
Kansas	*	*		*	*	*	*	*	*	*	*			*	*
Kentucky	*	*		*	*	*	*	*	*	*	*	*		*	*
Louisiana	*	*		*	*	*	*	*	*	*	*		*	*	*
Maine	*	*		*	*	*	*	*	*	*	*			*	*
Maryland	*	*	*	*	*	*	*	*	*	*	*			*	*
Massachusetts	*	*	*	*	*	*	*	*	*	*	*		*	*	*
Michigan	*	*		*	*	*	*	*	*	*	*		*	*	*
Minnesota	*		*	*	*	*	*	*	*	*	*		*	*	*
Mississippi	*	*		*	*	*	*	*	*	*	*			*	*
Missouri	*	*	*	*	*	*	*	*	*	*	*			*	*
Montana	*	*		*	*	*	*	*	*	*	*	*	*	*	*
Nebraska		*		*	*	*	*	*	*	*	*				*
Nevada	*	*	*			*	*	*	*	*					
New Hampshire		*			*	*	*	*	*						*
New Jersey	*	*		*	*	*	*	*	*	*	*			*	
New Mexico	*	*		*	*	*	*	*	*	*	*			*	*
New York	*	*	*	*	*	*	*	*	*	*	*			*	
North Carolina	*		*	*	*	*	*	*	*	*	*			*	*
North Dakota	*		*	*	*	*	*	*	*	*	*			*	
Ohio	*	*		*	*	*	*	*	*	*	*			*	*
Oklahoma	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Oregon			*	*	*	*	*	*	*		*			*	*
Pennsylvania	*	*	*	*	*	*	*	*	*	*	*	*	*	*	*
Rhode Island			*	*	*	*	*	*	*	*	*	*	*	*	*
South Carolina	*			*	*	*	*	*	*	*	*			*	*
South Dakota	*	*	*	*		*	*	*	*	*	*			*	*
Tennessee	*	*	*	*	*	*	*	*	*	*	*			*	*
Texas	*	*		*	*	*		*	*	*	*			*	
Utah					*	*	*	*	*	*					*
Vermont			*			*	*	*	*	*	*		*		*
Virginia	*	*		*	*	*	*	*	*	*	*		*	*	*
Washington	*	*	*			*	*	*	*	*	*			*	
West Virginia	*	*	*	*	*	*		*	*	*	*	*		*	*
Wisconsin	*	*			*	*	*	*	*	*	*			*	*
Wyoming	*	*				*	*		*						
State totals	**41**	**37**	**28**	**40**	**44**	**49**	**47**	**49**	**50**	**45**	**45**	**8**	**12**	**42**	**41**

Source: ***The Book of the States*****, Volume 38;** ***Site Selection*** **, November 2005**

Illinois Employment

One of the major reasons that Illinois offers business tax incentives is the hope that fewer taxes will lead to the creation of more jobs in the State. Consequently, one way of tracking the success of these incentives is to look at Illinois' employment figures. The below graph displays Illinois' employment data (non-seasonally adjusted) over the last ten years. This information comes from the Illinois Department of Employment Security, Economic Information and Analysis. The graph shows that employment in Illinois was on an upward trend in the late 90s and then hit a plateau at the start of the century. Employment dropped between 2000 and 2003 as a result of the country's recession. Since then, however, Illinois has been on a strong upward trend. In October 2006, Illinois hit a record high of 6,420,400 employees (non-seasonally adjusted).



According to the latest edition of the Illinois Statistical Abstract, the largest Illinois employers were listed as follows:

Top Illinois Employers					
Rank	Organization	# of Employees	Rank	Organization	# of Employees
1	State of Illinois (excluding universities)	83,100	17	Marshall Fields/Target/Mervin	18,100
2	U.S. Government (excluding Postal Service)	46,600	18	Sears	17,300
3	Chicago School Board	45,800	19	Abbott Laboratories	17,200
4	U.S. Postal Service	43,200	20	UAL	16,200
5	City of Chicago	42,800	21	Bank One	16,000
6	Wal-Mart	39,700	22	Dominick's Finer Foods	15,000
7	Jewel/Osco (Albertson's)	39,100	23	Southern Illinois University	14,300
8	County of Cook	27,100	24	Archdiocese of Chicago	14,200
9	Ameritech (SBC)	25,900	25	Exelon (Unicom/Commonwealth Edison)	14,000
10	United Parcel Service	25,000	26	University of Chicago	13,100
11	Advocate Health Care	24,600	27	Northwestern University	12,300
12	Caterpillar	24,000	28	American Airlines	11,800
13	State Farm Insurance	23,600	29	Allstate	10,800
14	University of Illinois	23,200	30	ABN-Amro North America	10,400
15	Walgreen's	22,000	31	Kmart	10,300
16	Motorola	20,000	32	Chicago Transit Authority	10,000
SOURCE: 2004 Illinois Statistical Abstract. Data as of August 2002.					

The Corporate Income Tax and the Single Sales Factor

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

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 page 31). 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. They point out that many of the companies benefiting from the single-sales factor have laid-off thousands of Illinois workers and/or have been purchased by out-of-state or foreign-owned companies. 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.

RANGE OF STATE CORPORATE INCOME TAX RATES

(For tax year 2006 -- as of January 1, 2006)

State	Tax Rates	Tax Brackets		# of Brackets	Bank Tax Rates	Federal Tax Deductible
ALABAMA	6.5	----Flat Rate----		1	6.5	*
ALASKA	1.0 - 9.4	10,000	90,000	10	1.0 - 9.4	
ARIZONA	6.968	----Flat Rate----		1	6.968	
ARKANSAS	1.0 - 6.5	3,000	100,000	6	1.0 - 6.5	
CALIFORNIA	8.84	----Flat Rate----		1	10.84	
COLORADO	4.63	----Flat Rate----		1	4.63	
CONNECTICUT	7.5	----Flat Rate----		1	7.5	
DELAWARE	8.7	----Flat Rate----		1	8.7-1.7	
FLORIDA	5.5	----Flat Rate----		1	5.5	
GEORGIA	6.0	----Flat Rate----		1	6.0	
HAWAII	4.4 - 6.4	25,000	100,000	3	7.92	
IDAHO	7.6	----Flat Rate----		1	7.6	
ILLINOIS	7.3	----Flat Rate----		1	7.3	
INDIANA	8.5	----Flat Rate----		1	8.5	
IOWA	6.0 - 12.0	25,000	250,000	4	5.0	*
KANSAS	4	----Flat Rate----		1	2.25	
KENTUCKY	4.0 - 7.0	50,000	100,000	3	---	
LOUISIANA	4.0 - 8.0	25,000	200,000	5	---	*
MAINE	3.5 - 8.93	25,000	250,000	4	1.0	
MARYLAND	7.0	----Flat Rate----		1	7.0	
MASSACHUSETTS	9.5	----Flat Rate----		1	10.5	
MINNESOTA	9.8	----Flat Rate----		1	9.8	
MISSISSIPPI	3.0 - 5.0	5,000	10,000	3	3.0 - 5.0	
MISSOURI	6.25	----Flat Rate----		1	7.0	*
MONTANA	6.75	----Flat Rate----		1	6.75	
NEBRASKA	5.58 - 7.81	50,000		2	---	
NEW HAMPSHIRE	8.5	----Flat Rate----		1	8.5	
NEW JERSEY	9	----Flat Rate----		1	9	
NEW MEXICO	4.8 - 7.6	500,000	1 million	3	4.8 - 7.6	
NEW YORK	7.5	----Flat Rate----		1	7.5	
NORTH CAROLINA	6.9	----Flat Rate----		1	6.9	
NORTH DAKOTA	2.6 - 7.0	3,000	30,000	5	7	*
OHIO	5.1 - 8.5	50,000		2	---	
OKLAHOMA	6.0	----Flat Rate----		1	6.0	
OREGON	6.6	----Flat Rate----		1	6.6	
PENNSYLVANIA	9.99	----Flat Rate----		1	---	
RHODE ISLAND	9	----Flat Rate----		1	9	
SOUTH CAROLINA	5.0	----Flat Rate----		1	4.5	
SOUTH DAKOTA	---				6.0-0.25%	
TENNESSEE	6.5	----Flat Rate----		1	6.5	
UTAH	5	----Flat Rate----			5	
VERMONT	7.0 - 8.9	10,000	250,000	4	---	
VIRGINIA	6.0	----Flat Rate----		1	6	
WEST VIRGINIA	9.0	----Flat Rate----		1	9.0	
WISCONSIN	7.9	----Flat Rate----		1	7.9	
DIST. OF COLUMBIA	9.975	----Flat Rate----			9.975	

Notes: Illinois' rate includes the 2.5% personal property replacement tax. Michigan imposes a single business tax (sometimes described as a business activities tax or value added tax) of 1.9% on the sum of federal taxable income of the business, compensation paid to employees, dividends, interest, royalties paid and other items. Similarly, Texas imposes a franchise tax of 4.5% of earned surplus or 2.5 mills of net worth. Nevada, Washington, and Wyoming do not have state corporate income taxes.

Specifics for each state's rate can be found at the following website: http://www.taxadmin.org/fta/rate/corp inc.html

STATE APPORTIONMENT OF CORPORATE INCOME

(Formulas for tax year 2006 -- as of January 1, 2006)

ALABAMA *	3 Factor	NEBRASKA	Sales
ALASKA *	3 Factor	NEVADA	No State Income Tax
ARIZONA * (2)	Double wtd. sales	NEW HAMPSHIRE	Double wtd. Sales
ARKANSAS *	Double wtd. sales	NEW JERSEY (1)	Double wtd. Sales
CALIFORNIA *	Double wtd. sales	NEW MEXICO *	Double wtd. sales
COLORADO *	3 Factor/Sales & Property	NEW YORK (3)	60% Sales, 20% Property & Payroll
CONNECTICUT	Double wtd. sales/Sales		
DELAWARE	3 Factor	NORTH CAROLINA *	Double wtd. sales
FLORIDA	Double wtd. sales	NORTH DAKOTA *	3 Factor
GEORGIA (3)	80% Sales, 10% Property & Payroll	OHIO *	60% Sales, 20% Property & Payroll
HAWAII *	3 Factor	OKLAHOMA	3 Factor
IDAHO *	Double wtd. sales	OREGON *	Sales
ILLINOIS *	Sales	PENNSYLVANIA *	Triple wtd. sales
INDIANA	Double wtd. sales	RHODE ISLAND	Double wtd sales
IOWA	Sales	SOUTH CAROLINA	Double wtd. sales/Sales
KANSAS *	3 Factor	SOUTH DAKOTA	No State Income Tax
KENTUCKY *	Sales	TENNESSEE *	Double wtd. sales
LOUISIANA	Double wtd. sales	TEXAS	Sales
MAINE *	Double wtd. sales	UTAH *	3 Factor/Double wtd. sales
MARYLAND	Double wtd. sales/Sales	VERMONT	Double wtd. sales
MASSACHUSETTS	Double wtd. sales/Sales	VIRGINIA	Double wtd. sales
MICHIGAN	90% Sales, 5% Property & Payroll	WASHINGTON	No State Income Tax
		WEST VIRGINIA *	Double wtd. sales
MINNESOTA (3)	75% Sales,12.5% Property, and 12.5% Payroll	WISCONSIN * (3)	60% Sales, 20% Property & Payroll
MISSISSIPPI	Accounting/3 Factor	WYOMING	No State Income Tax
MISSOURI *	3 Factor/sales	DIST. OF COLUMBIAA	3 Factor
MONTANA *	3 Factor		

Note: The formulas listed are for general manufacturing businesses. Some industries have special formula different than those reported.

* State has adopted substantial portions of the UDITPA.

(1) A 3-factor formula is used for corporations not subject to the corporation business franchise tax.

(2) For tax years beginning in 2007, formula changes to 60% Sales and 20% Property and Payroll.

(3) State is phasing in a single sales factor. Weightings will change each year until 100% sales factor in 2008 for Georga, New York and Wisconsin, and 2013 in Minnesota.

Source: http://www.taxadmin.org/fta/rate/corp_app.html

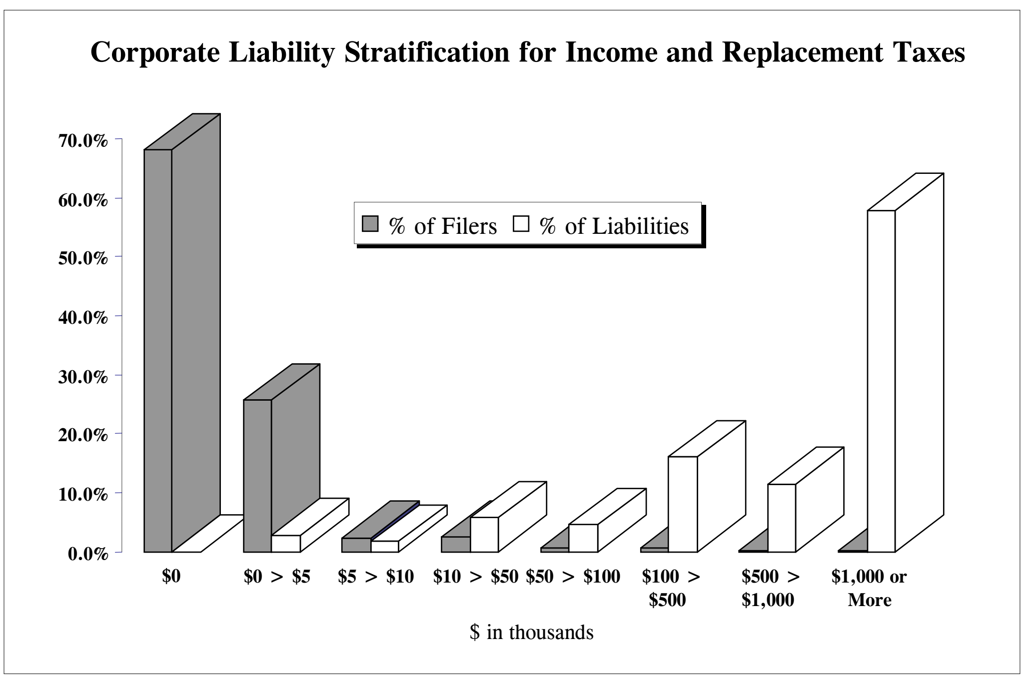
Who Pays the Corporate Income Tax?

Corporate Liability Stratification for Income & Replacement Taxes: Tax Year 2003

LIABILITY RANGE (000'S)	TOTAL FILERS	PERCENT OF FILERS	LIABILITIES (MILLIONS)	PERCENT OF LIABILITIES	AVERAGE LIABILITY
$0	83,818	68.04%	$.0	0.00%	$0
$0 > $5	31,499	25.57%	$33.1	2.81%	$1,051
$5 > $10	2,888	2.34%	$20.0	1.70%	$6,925
$10 > $50	2,992	2.43%	$66.8	5.67%	$22,326
$50 > $100	763	0.62%	$53.6	4.55%	$70,249
$100 > $500	854	0.69%	$188.8	16.02%	$221,077
$500 > $1,000	190	0.15%	$134.3	11.40%	$706,842
$1,000 or More	191	0.16%	$681.9	57.86%	$3,570,157
TOTALS	**123,195**	**100.00%**	**$1,178.5**	**100.00%**	**$9,566**
LIABILITY ONLY	**39,377**	**31.96%**	**$1,178.5**	**100.00%**	**$29,929**

Source: Illinois Department of Revenue

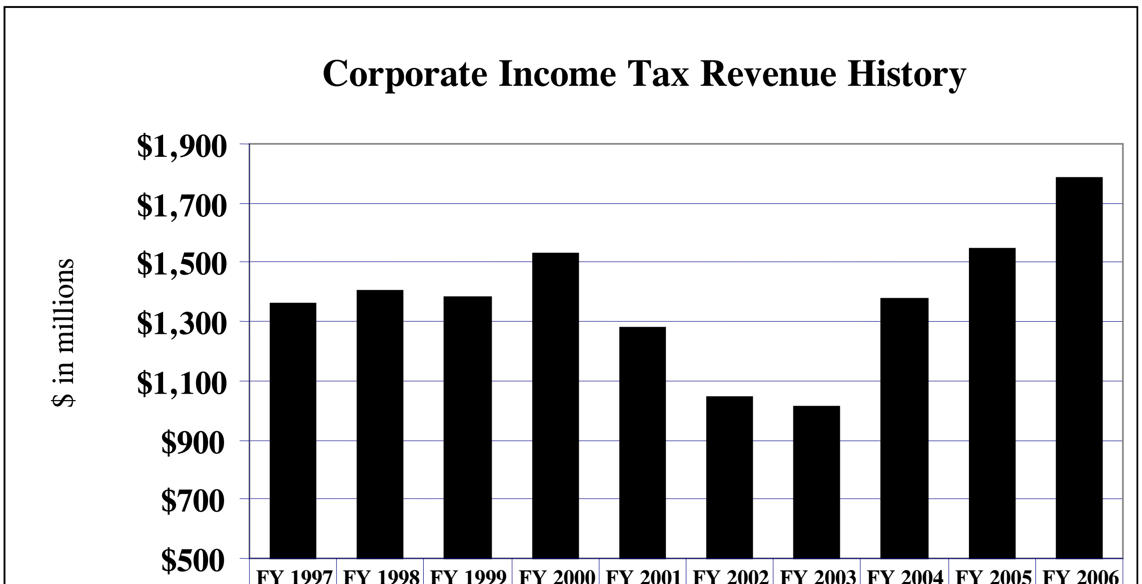
The availability of corporate tax incentives allows many businesses to lower their tax liability. So what portion of Illinois businesses actually have a tax liability? According to the Department of Revenue's latest figures, there were 123,195 corporate income tax filers in tax year 2003. However, only 39,377 or 32.0% of the corporate filers had a corporate income tax liability. In fact, of the nearly $1.2 billion in corporate tax liability in this year, 95.5% of the liability came from only 4.1% of the corporate income tax filers. Broken down even further, 191 Illinois corporations had a liability of over $1.0 million. While they made up only 0.2% of all filers, their tax liability made up 57.9% of total corporate income tax liabilities in tax year 2003. These statistics are shown above and displayed below.



So what does this tell us? As mentioned earlier, according to the Comptroller's *Tax Expenditure Report*, tax incentives relating to the corporate income tax totaled $233.9 million. By using these incentives to reduce the amount of taxes owed by Illinois businesses is part of the reason that many businesses had a State income tax liability of zero. While these incentives appear to negatively affect State revenues due to lower corporate income tax totals, many believe that without these tax incentives Illinois would risk losing businesses and, thus, essential tax receipts from other areas of the tax spectrum including sales taxes, utility taxes, and the income taxes of the business' employees.

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

Historically, the corporate income tax has been a very volatile revenue source. For example, over the last ten years, corporate income tax receipts have ranged from $1.011 billion in FY 2003 to $1.784 billion in FY 2006 with many hills and valleys in between. The graph and chart below show this volatility. Annual percentage changes have been dramatic over the past decade ranging from a sharp decline of 18.5% in FY 2002 to a 36.4% increase just two years later. Tax changes are partly to blame for this volatility, but, as discussed previously, due to the significant percentage that the largest companies make up of total tax liability, much of this fluctuation in corporate income tax receipts is directly related to the performance of Illinois' largest companies.



	FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006
■ Corp. Inc. Tax Receipts	$1,361	$1,402	$1,384	$1,527	$1,279	$1,043	$1,011	$1,379	$1,548	$1,784
■ Annual % Change	12.7%	3.0%	-1.3%	10.3%	-16.2%	-18.5%	-3.1%	36.4%	12.3%	15.2%

Illinois Companies in the 2006 Fortune 500

As mentioned on the previous page, it appears that the largest Illinois companies are paying the vast majority of the corporate income taxes in the State. So who are they? While the tax liability that each company pays is proprietary information, the below table should provide a glimpse at which businesses likely pay the most taxes in Illinois. According to cnn.com, there were 32 Illinois companies listed in the Fortune 500 as generating the most revenue in 2006. Illinois has the 4th most Fortune 500 companies in the nation, trailing only Texas, New York, and California. The largest Illinois company, in terms of revenue, was State Farm Insurance (Bloomington headquarters), followed by Boeing (Chicago), Sears Holdings (Hoffman Estates), and Walgreen (Deerfield).

2006 Illinois Companies in Fortune's 500

Illinois Rank	Company	U.S. Rank	Revenue $ in millions	Headquarters Location
1	State Farm Insurance Cos	22	$59,223.9	Bloomington
2	Boeing	26	$54,848.0	Chicago
3	Sears Holdings	33	$49,124.0	Hoffman Estates
4	Walgreen	45	$42,201.6	Deerfield
5	Motorola	54	$36,843.0	Schaumburg
6	Caterpillar	55	$36,339.0	Peoria
7	Archer Daniels Midland	56	$35,943.8	Decatur
8	Allstate	58	$35,383.0	Northbrook
9	Abbott Laboratories	93	$22,337.8	Abbott Park
10	Deere	96	$21,930.5	Moline
11	McDonald's	109	$20,460.2	Oak Brook
12	Sara Lee	111	$19,727.0	Chicago
13	UAL	124	$17,379.0	Elk Grove Township
14	Exelon	144	$15,405.0	Chicago
15	Illinois Tool Works	173	$12,921.8	Glenview
16	Navistar International	201	$11,696.0	Warrenville
17	Aon	237	$10,030.0	Chicago
18	Baxter International	240	$9,849.0	Deerfield
19	OfficeMax	258	$9,157.7	Itasca
20	R.R. Donnelley & Sons	265	$8,651.4	Chicago
21	Smurfit-Stone Container	274	$8,396.0	Chicago
22	Fortune Brands	305	$7,498.5	Deerfield
23	CDW	343	$6,291.8	Vernon Hills
24	Brunswick	363	$5,923.8	Lake Forest
25	Ryerson	371	$5,782.0	Chicago
26	Tribune	388	$5,595.6	Chicago
27	W.W. Grainger	391	$5,526.6	Lake Forest
28	USG	420	$5,139.0	Chicago
29	Tenneco	463	$4,441.0	Lake Forest
30	United Stationers	468	$4,408.5	Des Plaines
31	Wm. Wrigley Jr.	482	$4,159.3	Chicago
32	ServiceMaster	494	$4,004.4	Downers Grove

Source: http://money.cnn.com/magazines/fortune/fortune500/states/I.html

BACKGROUND

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

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

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

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

These reports are available from:

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

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