Illinois
Department of Commerce
& Economic Opportunity
Pat Quinn, Governor

State Business Incentives: The Core Drivers of Economic Growth and Role of Incentives

CORE DRIVERS OF ECONOMIC GROWTH

While incentives provide a critical set of tools for economic development, it is important to note that the **core drivers for economic growth are investments in human capital, physical infrastructure, and technological innovation** which together unleash the economic engine of the private sector. In addition, **access to markets (geography) and culture** play a significant role in location and expansion decisions.

Illinois is uniquely positioned in these areas to spur business attraction and expansion:

- We sit at the ***junction of all transportation networks*** serving North American commerce.
- Illinois boasts a workforce with world class ***educational attainment levels and skill sets***
- Illinois is the ***headquarters for 32 Fortune 500 companies***, more than twice the total of Indiana and Wisconsin combined.

ROLE OF INCENTIVES

Competition to attract companies amongst states and throughout the world has increased dramatically and states are increasingly responding to this competition by employing tools to directly incent company location and expansion.

In this context, **incentives can play a critical role in supporting Illinois' natural advantages**. The **most effective incentives are performance-based** in their delivery of job creation and wage improvement and are designed in parallel to increase investment in human capital and physical infrastructure.

Incentives used in this fashion **will bolster the core drivers of economic growth and ultimately result in greater tax revenue to the state** than would otherwise have been collected in their absence.

Over time the EDGE tax credit has resulted in two distinct programs

CONVENTIONAL EDGE

Program components

- **Performance based program operational since 1999** in which eligible businesses claim a nonrefundable credit **against their Illinois corporate income taxes.**
- May only be claimed when the company has **met job creation and capital investment thresholds**.
- Each potential agreement is **rigorously vetted** by DCEO **under terms established by the EDGE Act**, prior to a formal offer being presented
- The Corporate Accountability Act mandates that companies provide **DCEO with a 3rd party audit certifying their level of employment** prior to the company receiving a tax credit certificate.
- All EDGE agreements are **posted on the DCEO website.**

Performance

- 706 agreements reached since inception
- **Job creation multiple is 2.5x** number promised
- Every **$1 in tax credits has leveraged $8** in private capital investment in the state
- Since 2010, **47%** of companies approved for tax credit agreements have been **small businesses under 500 employees**
- The **average payback period in revenue to the state** from EDGE agreements is estimated to be **less than 2 years**

"SPECIAL" EDGE

- "Special" EDGE agreements are not authorized by the initial EDGE statute; they result from company-specific legislation **approved by the General Assembly and implemented by DCEO.**
- Special EDGE credits are applied **against the company's employee payroll withholdings** as opposed to a credit against a corporate tax liability.
- Like Conventional EDGE, it is a **performance-based incentive** in which companies must certify through 3rd party audits that they meet employment levels and investment thresholds to receive the credit
- To date, **only 9 companies have been approved** by the Legislature for "special" EDGE: Champion Laboratories, Chrysler Group, Continental Tire North America, Ford Motor Company, Ecolab f/k/a Nalco, Mitsubishi Motors North America, Motorola Mobility, Navistar, Sears Holdings
- Agreements have been targeted to major manufacturing sites representing thousands of jobs **and emphasize job retention over creation**
- Enacted **primarily during times of economic distress** in which loss of a major employer would have dealt a significant economic blow to a region

Incentive Analysis

While every state offers a variety of different incentives, the analysis we conducted focuses on eight of the most common categories of incentives. The analysis establishes a general fact base for understanding the competitive landscape for business attraction and expansion. These categories include the following:

- **Job creation credits** (Tax credits offered to any employer that creates new jobs)
- **R&D credits** (Research & Development tax credits to offset qualified research expenses incurred)
- **Investment-based credits** (Tax credit to encourage investment in early-stage, innovative companies)
- **Capital investment tax credits** (Tax incentives to businesses with large job and capital investment numbers)
- **Business attraction tax credits, e.g. EDGE** (Tax credit to encourage companies to locate or expand operations in a state)
- **Deal-closing funds** (Grant funding for company location or expansion issued at the discretion of the Governor)
- **Workforce Training** (Grant funds offered to businesses to invest in worker training)
- **Enterprise Zone** (Diverse incentives designed to stimulate growth and revitalization in economically depressed areas)

For each of the aforementioned categories, analysis was conducted to determine whether:

1. Each of the states in the comparison group offer an incentive
2. The relative magnitude and type of incentive offered

The following states provide the summary comparison set below (12 in total):

- Midwest states: Illinois, Iowa, Indiana, Ohio, and Wisconsin
- Other top manufacturing states: California, Texas, Pennsylvania, and New York
- Select southern competitor states: Florida, Georgia, and South Carolina

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High level summary of economic development tools by state

Incentive categories	**IL**	**FL**	**CA**	**IA**	**IN**	**WI**	**TX**	**PA**	**SC**	**OH**	**NY**	**GA**
Job creation credits	🟡	🟢	🟢	🟡	🟡	🟡	N/A	🟡	🟢	🟢	🟢	🟡
R&D credits	🟡	🟡	🟢	🟡	🟢	🟡	🟡	🟢	🟡	🟡	🟢	🟢
Investment-based credits	🟡	N/A	N/A	N/A	🟢	🟢	N/A	N/A	🟡	🟢	N/A	🟡
Capital investment tax credits	🟡	🟢	N/A	🟢	🟢	🟡	🟡	N/A	🟡	N/A	🟢	🟡
Business attraction tax credits	🟢	N/A	🟢	🟢	🟢	🟢	N/A	🟡	N/A	🟡	🟡	N/A
Deal closing funds	N/A	🟢	N/A	N/A	N/A	N/A	🟢	🟡	🟢	🟡	N/A	🟡
Workforce training	🟡	🟡	🟢	🟢	🟢	🟢	🟢	🟡	🟡	🟢	🟡	🟢
Enterprise zone	🟡	🟢	🟢	🟢	🟡	🟡	🟡	🟢	🟡	🟢	🟡	🟡

A.) Job Creation Credits

- **Illinois Small Business Job Creation Tax Credit**: Illinois offers a $2,500 tax credit per newly created job for businesses with 50 or fewer employees; new job must pay at least $10 hour; program will remain active through June 30, 2016 and/or the program will hit the $50 million tax credit cap

- **Competitiveness of IL program vs. other states (examples)**:
    - California (Small Business Job Creation Tax Credit) offers a $3,000 personal income tax credit per new job to businesses with 20 or fewer employees; new employee must work at least 35 hours per week; California's program is allocated $400 million in funding

    - New York (Excelsior Jobs Tax Credit) offers a $5,000 credit per new job to firms in such targeted industries as biotechnology, pharmaceutical, high-tech, clean-technology, green technology, financial services, agriculture and manufacturing; credit is refundable; program allocated $70 million annually

    - South Carolina (Small Business Jobs Tax Credit) offers a tax credit worth $1500-$8000 (for jobs paying > 120% of average wage) or $750-$4000 (for jobs paying , 120% of average wage); amount of credit is dependent on county designation - for example, South Carolina categorizes the state's counties as "distressed," "least developed," "under developed," "moderately developed," or "developed."

B) R&D Tax Credit

- **Research and Development Tax Credit**: Illinois offers a corporate income credit equal to 6.5 percent of the incremental increases in qualified R&D expenditures; credit is non-refundable; credit can be carried forward up to 5 years

- **Competitiveness of IL program vs. other states (examples)**:
    - California offers an R&D credit equal to 15 percent of the excess of current year research expenditures over a computed base amount (minimum of 50 percent of current year research expenses); credit is applicable against a business' income or franchise credit; credit is non-refundable; excess amount must be carried forward

    - Georgia offers an R&D credit equal to 10% of R&D expenditures; credit is non-refundable; the credit can be used to offset up to 50 percent of net Georgia income tax liability - unused credits can be carried forward 10 years; excess R&D tax credits can be used against state payroll withholding.
        - The program also offers an incentive to 'new' research organizations/businesses: unused R&D credits can be applied to a business's state payroll withholding tax liability.

    - Pennsylvania offers a sellable and transferrable tax credit equal to 10% of R&D expenditures; credit is applicable against capital stock/foreign franchise, corporate income and personal income tax liabilities.

C) Investment-Based (Angel and related programs) Tax Credits

- **Illinois Angel Investment Credit Program**: The Angel program offers a credit equal to 25% of an investment into a 'qualified new business venture'; max credit is $500,000 per investment; credit may be carried forward for up to five years; program allocated $10 million annually; unused credits may not be used for subsequent years

- **Competitiveness of IL program vs. other states (examples):**
  - Indiana (Venture Capital Investment Tax Credit) offers an income tax credit equal to 20% of an investment into a 'qualified business'; max tax credit amount is $1 million; credit may be carried forward for up to five years; program allocated $12 million annually

  - Ohio (Invest Ohio) offers a non-refundable income tax credit for investments into 'qualified businesses'; credit is a dollar-for-dollar reduction in investor's personal income tax liability; credit can be carried forward for up to seven years; business is required to reinvest that infusion of cash into one of five categories of allowable expenses within six months of its receipt; program allocated $100 million per biennium.

  - Wisconsin (Qualified New Business Venture Program) offers an income tax credit equal to 25% of the investment into a 'qualified business'; maximum tax credit amount is $2 million; allocated $20 million annually; unused credits (each year) from program may be transferred to the Jobs Tax Credit Program

D) Capital Investment Tax Credits

- **HIB High Impact Business**: HIB offers tax incentives to businesses conducting projects in Illinois that result in a $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; incentive is applicable against 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, to businesses.

- **Competitiveness of IL program vs. other states (examples)**:
  - Florida (Capital Investment Tax Credit) offers an annual credit, provided for up to twenty years, against the corporate income tax, equal to 5% of capital expenditures, for projects that create 1,000 jobs or result in the placement of $25 million in capital investments; eligible capital costs include all expenses incurred in the acquisition, construction, installation, and equipping of a project from the beginning of construction to the commencement of operations

  - Indiana (Hoosier Business Investment Program) offers a non-refundable corporate income tax credit, worth up to 10% of capital investment; credit can be carried forward for up to 9 years; Indiana's law contains the following clause: "In order for a project to be eligible, political subdivisions/municipalities affected by the project must have offered significant incentives to the business."

  - New York (Investment Tax Credit) offers businesses that create new jobs and make new investments in production property and equipment an income tax credit equal to 10% of their eligible investment; credit is refundable; credit can be carried forward for up to 15 years

E) Business Attraction Tax Credits

- **EDGE -Economic Development For a Growing Economy Tax Credit Program**: Illinois' EDGE program offers businesses a non-refundable corporate income tax credit; credit is paid over 10 year period; credit may be carried forward for up to five years; in order to receive credit, Illinois' law mandates that business is considering other states for the project

- **Competitiveness of IL program vs. other states (examples):**
  - California (California Competes) offer a non-refundable income tax credit to businesses that want to come to California or stay and grow in California; credit can be carried forward for up to 5 years; amount of credit is based on job creation, location, and capital investment amount per project

  - Indiana (EDGE) offers an income tax credit for eligible projects; criteria for determining eligibility of project is based on job creation, soundness of project, whether receiving the tax credit is a major factor in the applicant's decision to go forward with the project, and affected political subdivisions/municipalities have offered significant incentives to the business; credit is paid over 10 year period; credit may be awarded for up to 100% of the projected withholdings attributable to the company's Indiana project

F) Deal Closing Funds

- **Illinois does not have a deal-closing fund**

- **Other states' programs (examples):**
  - Florida's (Quick Action Closing Fund) Quick Action Closing Fund is "deal closing" tool in highly competitive negotiations where Florida's traditional incentives are not enough to win the deal; program offers a grant to businesses; tool is critical to the state's ability to attract projects where Florida is at a significant competitive disadvantage. All Closing Fund projects include a performance-based contract with the State of Florida

  - South Carolina's (Governor's Closing Fund) Governor's Closing Fund was created in 2006 when additional, more flexible funding was needed to assist with high impact economic development projects; program offers a grant to businesses; to provide maximum flexibility to encourage the creation of new jobs and capital investment," the General Assembly voted to give the Council the authority to "transfer economic development funds at its disposal to the Closing Fund

  - Texas' (Enterprise Fund) EF funds are used primarily to attract new business to the state or assist with the substantial expansion of an existing business as part of a competitive recruitment situation; allocated $250 million annually; program offers a grant to businesses

G) Workforce Training

- **ETIP - Employer Training Investment Program**: Illinois' (ETIP) provides grants equal to 50% of training costs up to a maximum of $500 to businesses and organizations for job training

- **Competitiveness of IL program vs. other states (examples):**
    - Indiana's Skills enhancement Fund supports training and upgrading of skills of employees at 50% of training costs over a 2 year period for new capital projects
    - Wisconsin's work force training grants cover 50% of training costs for a business's full-time employees (existing and new) up to $5,000 per worker; eligibility requirements include making 150% of federal minimum wage
    - Iowa's Employee Training Program is funded through diversion of payroll taxes on new employees to reimburse the full cost of new employee training; training is provided through the community college system. Businesses can also claim a credit up to 50% of existing employee withholdings for on the job training if overall employment is increased by 10%
    - Texas (Skills Development Fund) provides grants to community colleges, technical colleges and community-based organizations for workforce training; businesses generally set-up a training project and funds are provided to eligible recipients; maximum grant for an individual business is $500,000; in 2012 program utilized over $22 million of grant monies

H) Enterprise Zone

- **Enterprise Zone Program**: Illinois offers investment tax credits (worth .5% of qualified investment), sales tax deductions, machinery and equipment tax exemptions, utility tax exemptions, property tax abatements and assessment reductions; there are 97 zones in the state

- **Competitiveness of IL program vs. other states' programs (examples):**
  - California (Enterprise Zone Program) offers enterprises zone companies the following benefits: 1) Hiring Credits - can earn $37,440 or more in state tax credits for each qualified employee hired; 2) Up to 100% Net Operating Loss (NOL) carry-forward. NOL may be carried forward 15 years (suspended for tax years 2002 and 2003); 3) Corporations can earn sales tax credits on purchases of $20 million per year of qualified machinery and machinery parts; 4) Up-front expensing of certain depreciable property. Lenders to Zone businesses may receive a net interest deduction; 5) Unused tax credits can be applied to future tax years, stretching out the benefit of the initial investment

  - Florida offers new or expanded businesses located within an enterprise zone a credit against Florida corporate income tax equal to 96% of ad valorem taxes paid on the new or improved property

  - Iowa offers enterprise businesses a number of incentives, however the following stand out: 1) a local property tax exemption of up to 100% of the value added to the property to a period not to exceed 10 years; 2) a capital investment tax credit worth 10%; eligibility requirements include: minimum capital investment of $500,000, creation/retention of 10 jobs, and providing insurance to full-time employees

  - Ohio's program permits municipalities to offer the following incentives to enterprise zone businesses: Exemption of real and/or personal property assessed values of up to 75% for up to 10 years or an average of 60% over the term of the agreement on new investments and unincorporated areas to offer the following incentives: Exemption of real and/or personal property assessed values of up to 60% for up to 10 years or an average of 50% over the term of the agreement on new investments in buildings

  - Pennsylvania offers grants to enterprise zone businesses: Planning Grants can be up to $50,000; additional basic grants can also be up to $50,000; and Grants-to-loans can be up to $500,000