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My name is Mark Denzler, vice president & COO of the Illinois Manufacturers' Association. Thank you for the opportunity to address this joint committee hearing to discuss Illinois tax policy and its impact on economic development, in particular the manufacturing sector.

The IMA represents nearly 4,000 manufacturing companies that range from large, Fortune 50 companies to the small, family-owned businesses that dot every community across the state. Today, manufacturing employs nearly 580,000 workers directly while contributing the single largest share of the Gross State Product.

Before I get into tax specifics, I would note that Illinois had 868,000 manufacturing jobs at the start of the century. In just more than a decade, Illinois has lost 288,000 good-paying manufacturing jobs with an average salary and benefits that top $64,000 per year.

In a 2012 report by the Institute of Government & Public Affairs (IGPA), they note that Illinois' growth in the 2000s was a mere 3.3 percent ranking Illinois 41st nationally in population growth, a fact that they attribute in large part of net migration. Our state's net migration was a negative 228,888 during the decade and the Census predicts significant smaller growth in the next two decades. The IGPA report concludes that net migration loss contributes to Illinois' stagnant growth and I'd add slow growing revenue. Illinois has lost billions of dollars in revenue because people have left the state.

In fact, more than half of people who left the state indicated that it was for a job-related reason. According to IGPA, the implication is that the state's best tool to prevent out migration is to focus on job growth.

Which now brings me back to the focus of today's meeting: Tax Policy. The answer, very clearly, is that tax policy matters to manufacturers and job creators who are looking to locate or expand their facilities, invest capital, and hire employees.

I'm not going to sit here and say that tax policy is always the absolute most important issues because every company is different. It could be proximity to their customers or suppliers, access to a skilled workforce, labor costs, the cost of Workers Compensation or electricity, permitting and regulatory structure, access to roads, waterways or airports, and the list goes on. **However, I can tell you that the cost of state and local taxes is a major factor in nearly every decision**.

A study on site selection by the Tax Foundation and KPMG concludes that "state and local taxes represents a significant business cost for corporations operating in the US, having a material impact on net operating margins. Consequently, business location decisions for new manufacturing facilities, corporate HQ relocation, and the like are influenced by the assessments of relative tax burdens."

Here are some statistics from the Tax Foundation and their study:

- Illinois ranks 45th overall nationally for mature operations.

- Illinois' cost for R & D facilities that are integral for manufacturing ranks 48th highest in the United States.

- Illinois has one of the highest income tax burdens in the nation for manufacturing, in addition to an above average cost of Workers Compensation, unemployment insurance, and sales tax burden.

- Individual tax rates impact business activity due to the high number of pass through entities.

To be very clear, one must look at the tax rates as opposed to the total tax dollars collected under the corporate income tax to make a fair comparison. Between 1980 and 2010, the total number of pass through businesses tripled nationally while the number of traditional C corporations experienced a nearly 22 percent decline. Naturally, the "percentage" of corporate tax revenue compared to individual tax revenue will decrease.

In terms of a tax system, the BEST tax system should be broad-based with low rates. Illinois currently imposes high taxes on income and production with little to no tax on services that has been a growing segment of the economy.

Illinois should modernize its tax system to reflect today's economy in order to make it more conducive to economic development. Items that could be discussed include:

1. Expanding the sales tax to services and lowering the tax rate.
2. Reduce the income tax rate for individuals and corporations.
3. Should tax retirement income be taxed at a certain level?
4. Incent key industries such as manufacturing with a long-term Research & Development tax credit, M & E sales tax exemption, and MPC.
5. While tax incentives should be reviewed, the process of sunsetting these incentives every 5 years provides absolutely NO certainty or predictability.
6. The EDGE credit allows Illinois to compete with other states. The Governor and DCEO need these types of tools in order to compete.

For some quick comparisons, Wisconsin recently phased out the income tax for their manufacturing sector. We've seen a number of companies including a 300 employee lighting company located in Lake County move across the border to take advantage.

Indiana's EDGE program is very similar to Illinois with the exception that its limited to manufacturing, R & D and business services exclusively. Ohio's Job Retention Tax Credit program is tied to manufacturing, headquarters and administrative offices only. Michigan's

MEGA tax credit program is linked to manufacturing, mining, R & D, film & digital media and some tourism.

Illinois allows the Film Tax Credit to be monetized but doesn't allow the same treatment for other incentives. States like Indiana, New Jersey, Ohio and others allow tax credits to be transferred or sold to third parties. Indiana and Michigan issue refundable tax credits. Both of these means allows companies to get cash that can be used immediately.

The IMA believes that it is time to modernize the tax code.