

# **Report on Findings**

**from the**

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**Tax Policy Subcommittees**

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**Joint Revenue & Finance and  
State Government Administration  
Committees**

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**MAY 28, 2014**

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## Tax Policy – Income Tax

### INCOME TAXATION

The state of Illinois taxes both individual and corporate income. PA 96-1496 increased the income tax rates from 3% to 5% for individuals and from 4.8% to 7% for corporations, effective January 1, 2011. The act also set forth statutory reductions beginning January 1, 2015. The tax rates set forth in the act are as follows.

	<b>Individual Income Tax (IIT)</b> (individuals, trusts, estates)	<b>Corporate Income Tax (CIT)</b> (corporations only)
<i>Before 1/1/11</i>	3%	4.8%
1/1/11 – 12/31/14 (current)	5%	7%
1/1/15 – 12/31/24	3.75%	5.25%
On and after 1/1/25	3.25%	4.8%

Comparable states have the following income tax rates (provided by the Department of Revenue).

State	Individual Income Tax (IIT)	# of Brackets	Corporate Income Tax (CIT)	# of Brackets
Arizona	2.6%-4.5%	5	6.5%	1
California	1.0%-12.3%	9	8.84%	1
Florida	0%	0	5.5%	1
Georgia	1.0%-6.0%	6	6%	1
<b>Illinois</b>	<b>5%</b>	<b>1</b>	<b>7%</b>	<b>1</b>
Indiana	3.4%	1	7.5% before July 1, 2014 7.0% after June 30, 2014 and before July 1, 2015	1
Iowa	0.4%-9.0%	9	6%-12%	4
Kentucky	2.0%-6.0%	6	4%-6%	3
Louisiana	2.0%-6.0%	3	4%-8%	5
Minnesota	5.4%-9.9%	4	9.8%	1
Missouri	1.5%-6.0%	10	6.25%	1
New York	4.0%-8.8%	8	4.35%-7.1%	3
North Carolina	6.0%-7.8%	3	6.0%	1
Ohio	0.5%-5.4%	9	0% (Has Commercial Activity Tax)	0
Oregon	5.0%-9.9%	4	6.6%-7.6%	2
Pennsylvania	3.1%	1	9.99%	1
South Carolina	0.0%-7.0%	6	5%	1
Texas	0%	0	0.575%-0.975%	3
Wisconsin	4.6%-7.8%	5	7.9%	1

In the table below are business expenditures and their fiscal impact from FY 09 through FY 12.

<b>Business Expenditures</b> (\$ in thousands)				
	FY 2009	FY 2010	FY 2011	FY 2012
<b>Individual Income Tax</b>				
Income Tax Credits	\$11,623	\$6,877	\$16,354	\$21,506
Income Tax Subtractions	\$0	\$0	\$4,532	\$7,070
<b>Total</b>	<b>\$11,623</b>	<b>\$6,877</b>	<b>\$20,886</b>	<b>\$28,576</b>
<b>Corporate Income Tax</b>				
Illinois Net Operating Loss Deduction	\$259,536	\$255,529	\$193,487	\$218,957
Economic Development for a Growing Economy Tax Credit	\$25,567	\$34,766	\$36,149	\$31,259
Foreign Insurer Rate Reduction	\$29,088	\$10,240	\$7,544	\$28,258
Film Production Services Credit	\$13,117	\$11,125	\$11,799	\$11,826
Research and Development Credit	\$23,182	\$19,135	\$13,200	\$11,476
Enterprise Zone and River Edge Redevelopment Zone Investment Credit	\$11,720	\$7,169	\$6,009	\$7,602
Special Zone Dividend, Interest, and Charitable Contribution Subtractions	\$1,827	\$1,505	\$1,529	\$1,360
Job Training Contribution Subtraction	\$764	\$1,149	\$477	\$82
High Economic Impact Business Dividend Subtraction	\$5,537	\$4,810	\$1,181	\$61
River Edge Redevelopment Zone Site Remediation Tax Credit	\$0	\$0	\$15	\$28
High Economic Impact Business Investment Credit	\$272	\$96	\$3,104	\$21
Other	\$0	\$0	\$0	\$0
<b>Total</b>	<b>\$370,610</b>	<b>\$345,524</b>	<b>\$274,494</b>	<b>\$310,930</b>

Source: Commission on Government Forecasting & Accountability, *Illinois Tax Incentives, January 2014*.

### INTERESTED PARTIES' OPINIONS

Many groups believe that Illinois should lower its income tax rates in order to encourage business growth and job creation. However, proponents of the income tax increase extension believe that, if the income tax rates were to decrease, vital services to the state population would have to be cut.

#### Recommendations

*Committee members agree that the corporate income tax rate could be reduced but they have no recommendations for this reduced rate.*

### THE PERSONAL PROPERTY REPLACEMENT TAX (PPRT)

The 1970 Illinois Constitution provides that on or before January 1, 1979, personal property taxes within the state of Illinois are abolished. Furthermore, the constitution states that another tax shall be created in order to replace the revenue that local governments would have received if their powers to impose a personal property tax were not eliminated. The Personal Property Replacement Tax (PPRT) was enacted in 1979 to provide this replacement revenue.

PPRT is paid by corporations, partnerships, trusts, S corporations, and public utilities within a district. The proceeds of this tax are collected by the state and put into the Personal Property Replacement Tax Fund in order to be distributed to the local taxing districts. How much a taxing district receives from the PPRT fund is determined solely on the percentage amount, or allocation factor, of personal property tax contributed in the base year, which is 1976 for Cook County and 1977 for the rest of the state. For instance, if in 1977 a district collected 4% of the total personal property tax in the state, then each year that district would get 4% of the funds from PPRT. The only districts that are able to receive PPRT are those that collected personal property taxes in the base year.

Business Entity	PPRT Rate
C-Corporations	2.5%
S-Corps, Partnerships, and Trusts	1.5%
Public Utilities	0.8%

Source: Illinois Department of Revenue

The information below is from the Tax Foundation’s article “States Moving Away From Taxes on Tangible Personal Property.”

The table shows comparable states and whether they have a tangible personal property tax.

State	Does it have a Personal Property Tax?
Arizona	Yes
California	Yes
Georgia	Yes
Florida	Yes
<b>Illinois</b>	<b>No</b>
Indiana	Yes
Iowa	No
Kentucky	Yes
Louisiana	Yes
Minnesota	Yes
Missouri	Yes
New York	No
North Carolina	Yes
Ohio	No
Oregon	Yes
Pennsylvania	No
South Carolina	Yes
Texas	Yes
Wisconsin	Yes

#### INTERESTED PARTIES’ OPINIONS

Many people add the personal property replacement tax (PPRT) into the overall corporate income tax rate; therefore, considering Illinois’ corporate income tax rate to be 9.5% instead of 7%. Because the PPRT rate is applied to a taxpayer’s income, many people feel that it should be considered a part of the overall corporate income tax. Others, however, believe that PPRT should not be considered when discussing corporate income tax rates because the tax was enacted to replace revenue from a tangible personal property tax that many states retain. As a result, Illinois has to generate revenue that was lost when the personal property tax was eliminated, unlike other states that retain this revenue stream.

#### Recommendations

*No consensus was reached in regard to whether or not PPRT should be included when considering the state’s corporate income tax rate.*

#### CORPORATE INCOME TAX INCENTIVES

The information below was given by the Commission on Government Forecasting & Accountability (CGFA) as well as the Department of Commerce & Economic Opportunity (DCEO).

The EDGE credit is an income tax credit to incentivize businesses to relocate to or to expand in Illinois, the amount of which is determined by the number of full-time jobs created or retained by the business as well as capital investments. There are 2 types of EDGE credits, the conventional and special.

- Conventional — tax credit to be used against a business’s Illinois income tax liability.
- Special — a monetized tax credit to be applied against a business’s employees payroll withholdings.

There are currently 706 EDGE agreements, of which 9 are Special EDGE agreements. According to DCEO, every \$1 in tax credits has brought \$4.50 in private capital investment to Illinois.

**Fiscal Impact**

FY 11	\$36,149,000
FY 12	\$31,259,000

What Other States Do

•California: Offers an income tax credit to businesses that relocate or wish to stay in the state. The amount of the credit is based on job creation, location, and capital investment.

•Indiana: Offers an income tax credit for projects. The eligibility for the credit is based on job creation, soundness of the project, the impact of the credit on finishing the project, and whether the project is offered incentives from affected local municipalities.

•Florida: Quick Action Closing Fund

•South Carolina: Governor’s Closing Fund

•Texas: Enterprise Fund



These funds are used to give grants to businesses considering relocation to the state at the discretion of the Governor or Council in the case of South Carolina.

Interested Parties Opinions

Proponents of the EDGE credit believe it is a vital tool in attracting businesses to Illinois and keeps the state competitive in today’s global economy. Opponents feel, however, that the EDGE credit allows companies to pressure the state for even more incentives in order to remain in the state. In addition, some are of the opinion that the credit should be expanded to include certain service industries (currently law and health services are excluded).

Recommendations

*No consensus was reached in regard to changes needed to the EDGE credit; however, all members feel that it is imperative to ensure that Illinois remains competitive in today’s economy.*

## PENDING EDGE CREDIT LEGISLATION (HFA #1 TO HB 3890)

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This piece of legislation would amend both the conventional and the special EDGE credit.

### Changes to the Conventional EDGE Credit

- With regards to retained employees, a credit equal to an amount of up to 40% of the total income tax attributable to those employees during the taxable year may be given to an applicant based on the severity of the poverty or unemployment in the geographic area in which the project is located.
- The taxpayer will also have to provide in the agreement the home addresses of any retained employees to verify that they are residents of high unemployment or high poverty areas.
- Every application must include an affidavit signed by the chief executive officer (CEO) or chief fiscal officer (CFO) that, but for the credit, the business would not be located within the state.
- The \$1 million capital investment requirement is removed for businesses with less than 100 employees.

### Changes to the Special EDGE Credit

- The business must create new jobs. A business will not be given a special EDGE credit for retaining employees.
- The new jobs must be created in a geographic area of high poverty or high unemployment or the business must agree to hire a specified number of new employees, of which at least 65% of whom reside in a geographic area of high poverty or high unemployment.
- The taxpayer has to apply with DCEO before approaching the General Assembly for the election.
- The taxpayer must file a tax statement with DCEO at the time of application containing tax information from the 2 years preceding the application and then annually for the length of the agreement.
- The agreement with DCEO includes consent of the taxpayer to allow DCEO to confirm with the Department of Revenue the accuracy of the information required in the tax statement.

## RESEARCH & DEVELOPMENT (R&D) CREDIT

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The R&D income tax credit is awarded to taxpayers for engaging in research activities in Illinois. The credit is based on the federal R&D credit definitions with respect to qualified research activities and its limitations. The credit is based on 6.5% of increased research activities over the average of the previous 3 years of research conducted in Illinois.

The credit was last extended by 5 years to January 1, 2016, by PA 97-0636.

### **Fiscal Impact**

FY 11	\$13,200,000
FY 12	\$11,476,000

### What Other States Do

•**California:** Offers an R&D credit that is equal to 15% of the increase in research activities. The credit is to be used against income or franchise taxes.

•Georgia: Offers an R&D credit equal to 10% of research expenditures. The credit is allowed against up to 50% of income tax liability; any excess credit can be used against state payroll withholding.

•Pennsylvania: Offers an R&D credit equal to 10% of research and development expenditures. The credit can be used against corporate and personal income liability as well as capital stock/foreign franchise taxes.

### Interested Parties Opinions

Proponents of the R&D credit are of the opinion that it is vital for innovation within the state. They also feel that it should be made permanent, as well as increased to the excess of a year's expenditures over 50% of the average annual expenditures. Therefore, if \$100 is spent on research activities every year, the credit will be based on \$50, which is 50% of the average annual expenditures in the prior 3 years. However, many people feel that it should not be extended due to the fact that it would increase the fiscal impact to the state.

### Recommendations

*The committee was unable to reach an agreement on whether the R&D credit should be made permanent. However, there is consensus that the eligibility criteria for the credit should be changed to match the federal requirements. For instance, the federal alternative simplified R&D credit would require that R&D spending exceed 50% (instead of 100%) of the previous 3-year average.*

The regular federal R&D credit is calculated by taking a percentage of the sum of the following:

- the qualified research expenses for the taxable year over the base amount;
- basic research payments; and
- the amounts paid or incurred by the taxpayer in carrying on any trade or business of the taxpayer during the taxable year (including as contributions) to an energy research consortium for energy research.

There is also an alternative federal R&D credit that is calculated as follows:

(Qualified Research Expenses (QRE) — Average of Previous 3 Years QRE x 50%) x 14%

### THE FILM TAX CREDIT

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The Film Production Services Tax Credit (the film tax credit) is an income tax credit to incentivize the filming of movies and television shows within Illinois. The amount of the credit is 30% of Illinois production expenditures, and the minimum spending requirement is \$50,000 for productions of less than 30 minutes and \$100,000 for productions of 30 minutes or longer. The production is eligible for an additional 15% tax credit on Illinois labor expenditures for employees who live in an area with high unemployment or high poverty as determined by the Department of Commerce and Economic Opportunity.

To obtain a Film Tax Credit, a corporation or individual must submit a 7-page application and proof of copyright or contract to the Illinois Film Office (IFO). Applications are available online. Commercial productions must be received 24 hours prior to shooting while film and television productions must be received 5 business days prior to shooting. Once an application is submitted, the applicant has 30 days to submit all required paperwork. If the application is approved, an Accredited Production Certificate will be issued to the applicant.

### Fiscal Impact

FY 11	\$11,799,000
FY 12	\$11,826,000

Since the enactment of the Film Tax Credit and up until December 31, 2013, there has been \$1.3 billion in direct local spending. Before the Film Tax Credit was enacted, film industry spending in Illinois was approximately \$23 million. In 2013, it was \$358 million.

The table below shows the estimated direct spending and the estimated amount of full-time equivalent jobs for 2010-2013.

Year	Estimated Direct Spending (in millions)	Full-Time Equivalent Jobs
2010	\$161	2,224
2011	\$153	1,884
2012	\$184	2,200
2013	\$358	4,200

### What Other States Do

This information was gathered from the Pew Center on the States' study, *Evidence Counts: Evaluating State Tax Incentives for Jobs and Growth*.

•**New Mexico:** Offers a refundable tax credit equal to 30% of television production expenditures and payments to resident crew for services during production. There are no spending or budget requirements. There is an aggregate cap of \$50 million per year.

•**Wisconsin:** Eliminated as of January 1, 2014. Previously offered a credit equal to 25% of expenditures that are incurred in Wisconsin to be used toward the production. Films, videos, broadcast advertisements, television productions, and electronic games are eligible. There is an aggregate cap of \$500,000.

•**Hawaii:** Offers a 15% or 20% tax credit (depending on what island is used as the location). There is a cap of \$8 million per production and there is a minimum spending requirement of \$200,000 for films, television shows, commercials, and interactive games.

### Interested Parties Opinions

Proponents of the film tax credit believe that the film tax credit is beneficial for the state. It increases economic activity due to hiring state residents and it also increases revenue from tourism. Opponents, on the other hand, believe that the increase in economic activity is temporary and that the credit does not benefit the state as much as once thought.

#### Recommendations

*No consensus was reached among the committee members regarding the Film Tax Credit due to the fact that there are different opinions among the members as to whether the Film Tax Credit is cost effective.*

### ILLINOIS STATE TRAINING AND EMPLOYMENT PROGRAM (I-STEP) ACT (SB 217)

This credit is administered by the Illinois Department of Employment Security (IDES) and the Department of Commerce and Economic Opportunity (DCEO). The program would allow participating businesses to earn credits for hiring new employees and to be reimbursed for certain job training programs.



An employer is entitled to receive a tax credit equal to the total amount of a calendar year's withholding for each employee hired and trained pursuant to the act. An employer may use this credit for up to 10 years to reimburse up to 75% of its program costs, or 100% of program costs if the employer hires individuals unemployed for more than 26 consecutive weeks.

## **INDIVIDUAL INCOME TAX INCENTIVES**

### THE STATE EARNED INCOME TAX CREDIT (EITC)

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Each individual taxpayer that meets certain income limitations receives a state EITC in the amount of 10% of the federal earned income tax credit.

#### What Other States Do

<b>State</b>	<b>% of Federal Credit</b>	<b>Ranking</b>
Maryland	Up to 50%	1
District of Columbia	40%	2
Wisconsin	Up to 34%	3
Minnesota	33% (Average)	4
Vermont	32%	5
New York	30%	6
Connecticut	25%	7
Rhode Island	25%	7
Delaware	20%	8
New Jersey	20%	8
Virginia	20%	8
Kansas	17%	9
Massachusetts	15%	10
Iowa	14%	11
Colorado	10% (currently suspended)	12
<b>Illinois</b>	<b>10%</b>	<b>12</b>
Nebraska	10%	12
New Mexico	10%	12
Washington	10%	12
Indiana	9%	13
Oregon	8%	14
Michigan	6%	15
Maine	5%	16
Ohio	5%	16
Oklahoma	5%	16
Louisiana	3.5%	17

#### Interested Parties Opinions

Proponents of the EITC believe that it is vital to working-class families. According to President Reagan, the EITC is “the best anti-poverty, the best pro-family, the best job creation measure to come out of Congress.” Many proponents feel that the state should increase its EITC. Opponents of increasing the EITC feel that the fiscal impact to the state would be too great.

Recommendations

The committee members agree that the EITC is an important tool that should be utilized to its fullest. There has, however, been discussion regarding the refundability of the credit as well as paying the credit out quarterly instead of annually, but no consensus has been met.

## Tax Policy – Sales Tax

### SALES TAX ON SERVICES

Illinois is one of few states with the least amount of taxed services at 17. The majority of services taxed are utilities —telephone, gas, and electric. Others include:

- Hotel Occupation Tax Act — provides a 5% tax on 94% of gross receipts for short — term rentals and a 1% tax on 94% of gross receipts for rentals longer than 30 days.
- Automobile Renting — a 5% tax on the renting charge for a vehicle for 7-16 passengers and for recreational use.
- Coin-Operated Amusement Device Act — There is a \$30 annual fee for all coin-operated devices.

State	# Services
<b>Illinois</b>	<b>17</b>
Indiana	24
Michigan	26
Missouri	26
Ohio	68
Wisconsin	76
Pennsylvania	24
California	42
New York	56
Florida	63

The broad estimate of applying the 6.25% sales tax rate to services will generate an estimate \$8.5 billion in potential revenue. The second estimate excludes business-to-business transactions and produces \$4.0 billion in annual potential revenue (Source: Commission on Government Forecasting and Accountability (COGFA), [“Illinois Tax Incentives”]).

States with a higher number of services taxed typically have lower income tax, corporate tax, and property tax rates.

The top 4 services industries in Illinois are: Finance and Insurance (\$70 million); Professional and Technical (\$55 million); Information (\$22 million), and Healthcare (\$42 million).

The chart on the following page from COGFA displays services according to the NAICS Code and each industry’s economic activity from each service within all the Great Lake States.

**Table 2. Service Industries within the Great Lake States**  
(\$ Millions)

Industry Code	Industry	Illinois	Indiana	Michigan	Ohio	Wisconsin
11	Utilities	11,619	5,477	7,693	9,213	4,267
36	Transportation and warehousing, excluding Postal Service	21,688	9,242	9,254	15,566	7,448
45	Information	22,868	5,727	9,793	13,240	7,305
50	Finance and insurance	70,391	19,034	26,635	42,500	23,375
57	Rental and leasing services and lessors of intangible assets	9,336	2,716	4,503	5,658	1,863
58	Professional and technical services	55,282	10,564	30,646	28,251	11,133
62	Management of companies and enterprises	15,590	3,109	8,553	14,421	5,215
63	Administrative and waste services	20,685	6,882	12,820	14,523	5,523
66	Educational services	7,602	2,301	2,944	4,270	2,173
67	Health care and social assistance	42,871	19,810	31,396	40,092	20,857
71	Arts, entertainment, and recreation	5,492	3,235	3,659	3,399	1,747
75	Accommodation and Food Service	16,541	6,298	9,389	11,507	5,838
77	Other services, except government	17,158	6,983	10,319	11,998	6,424
<b>Total of Service Related Industries</b>		<b>317,123</b>	<b>101,378</b>	<b>167,604</b>	<b>214,638</b>	<b>103,168</b>
<b>Total Gross State Product</b>		<b>642,456</b>	<b>269,026</b>	<b>382,653</b>	<b>477,245</b>	<b>246,283</b>
<b>Services as % of GSP</b>		<b>49.4%</b>	<b>37.7%</b>	<b>43.8%</b>	<b>45.0%</b>	<b>41.9%</b>

Source: U.S. Department of Commerce - Bureau of Economic Analysis, 2009, CGFA

The chart below showcases the potential revenue from applying the sales tax to services in Illinois (excluding business-to-business transactions). Each service is broken down by sector and tax revenue.

**Table 6. Refined Estimate** (excludes business-to-business transactions)

Sector	Average Final Use %	Final User Service Receipts (\$1,000)	Refined Tax Revenue (\$1,000s)	Sector % of Total
Agricultural Services	23.1%	826,050	41,303	1.0%
Industrial and Mining Services	9.5%	8,782	439	0.0%
Construction	83.1%	14,721,410	736,070	18.4%
Transportation Services	41.2%	2,287,972	114,399	2.9%
Storage	48.1%	1,018,614	50,931	1.3%
Utility Service	18.9%	868,471	43,424	1.1%
Finance, Insurance and Real Estate	53.2%	11,052,418	552,621	13.8%
Personal Services	53.6%	1,821,476	91,074	2.3%
Business Services	21.0%	5,513,353	275,668	6.9%
Computer Services	55.9%	2,931,574	146,579	3.7%
Automotive Services	56.1%	505,859	25,293	0.6%
Admissions & Amusements	77.3%	6,006,299	300,315	7.5%
Professional Services	53.3%	28,274,674	1,413,734	35.3%
Leases and Rentals	55.6%	1,726,768	86,338	2.2%
Fabrication, Installation and Repair Services	71.0%	2,488,146	124,407	3.1%
<b>Total</b>		<b>80,051,867</b>	<b>4,002,593</b>	<b>100%</b>

Sources: Federation of Tax Administrators, Bureau of the Census, and Bureau of Economic Analysis

### Recommendations

Members of the committee understand that numerous states tax services because the economy has changed and the service sectors generate a large portion of revenue. In the future, applying the sales tax to services in Illinois needs to be further explored.

### **SALES TAX EXEMPTIONS, CREDITS, AND DISCOUNTS**

<b>Exemptions, Credits, and Discounts</b>	<b>Cost FY 09</b>	<b>Cost FY 12</b>
Manufacturing, Machinery, and Equipment Exemption ( MM&E)	\$183 M	\$183 M
Manufacturer's Purchase Credit (MPC)	\$29 M	\$37.5 M
Vendor Collection Allowance ( Retailer's Discount)	\$112 M	\$121 M
Rolling Stock Exemptions	\$47 M	\$74 M
Sales of Use Other Than in Motor Vehicles Exemption	\$126 M	\$116 M
Newspaper Ink Exemption	\$39 M	\$32 M
Designated TPP Enterprise Zone Exemption	\$26 M	\$20 M
Graphic Arts Machinery Exemption	\$21 M	\$8 M
Building Materials Zone Exemption	\$4.7 M	\$4.1 M
Cost of Collection-Hotel Operator's Occupation and Use Tax	\$3.8 M	\$4.1 M
Timely Filing/Full Payment Discount-Auto Renting Use Tax	\$0.5 M	\$0.6 M
Timely Filing/Full Payment Discount-Motor Fuel Tax	\$20.1 M	\$20.1 M
Interim Use Prior to Sale Exemption	\$4 M	\$1.1 M
Cost of Collection Discount-Gas Use Tax	\$0.7 M	\$0.6 M
Cost of Collection Discount-Cigarettes	\$8.8 M	\$9.0 M
Cost of Collection Discount-Telecommunications	\$9.4 M	\$8.6 M
Cost of Collection Discount Liquor	\$1.3 M	\$2.3 M
New Markets Development Program	\$0	\$3.8 M
Gas Used in Production Fertilizer	\$2.7 M	\$2.5 M
Timely Filing & Full Payment Discount-Underground Storage Tank	\$1.2 M	\$1.2 M

#### Manufacturing, Machinery and Equipment Exemption (MM&E)

Provides a sales and use tax exemption for machinery and equipment used in the manufacturing and assembly process. The MM&E does not generally apply to pre and post-production materials; fuels and building materials, and tangible personal property (TPP) used or consumed in associated research and development activities. Effective Year: 1979

Economic Impact FY 09: \$183 M  
Economic Impact FY 12: \$183 M

#### Manufacturer's Purchase Credit (MPC)

Currently, businesses complain that the MPC is difficult to calculate. The credit is based on the value of the MME and may be used against the 6.25% sales tax on tangible goods consumed in the manufacturing process by machinery that is placed into service in Illinois. The MPC expires August 30, 2014. Effective Year: 1995.

Economic Impact FY 09: \$29 M  
Economic Impact FY 12: \$37.5 M

- The MPC currently costs the state \$40 million. A proposal suggests that Illinois eliminate the MPC all together and broaden the products that receive the MM&E sales tax exemption. Implementing this method will cost Illinois an additional \$30 million.
- Only 50% of the MPC credit is used, and half of the MPC is taken up by 5 companies.

Recommendations

*All members of the committee understand that the issues regarding the MPC need to be addressed. A consensus has yet to be reached about extending the MPC, but all members agree that if the MPC was extended, it should be combined with the MM&E.*

Vendor Collection Allowance

- Illinois has a vendor collection allowance of 1.75%, which ranks as the 3<sup>rd</sup> highest in the country after Colorado and Missouri. The discount costs the state \$126 million and local governments \$75 million annually, in terms of dollar amount. Illinois ranks the highest in the nation. The states with the next highest dollar amounts are Texas with an allowance of 0.5% and compensation cost of \$89 million and Pennsylvania with a 1.0% allowance and a compensation cost of \$72 million.
- The purpose of the vendor collection allowance is to provide reimbursement for companies for the trouble and time of collecting and remitting sales taxes. The discount is a percentage of total sales tax due.
- Walmart is the nation’s largest retailer and collects about \$60 million in retailer compensation from 26 states. Walmart receives about \$8.5 million in compensation from Illinois.
- The average annual sales of the Walmart on Chicago’s West Side is \$61 million. This store alone retains about \$100,000 as a vendor.
- A cap of \$200 per month would save the state about \$75 million annually. A \$500 per month cap would save annually \$65 million.
- The subcommittee also discussed applying a method similar to Indiana’s bracket system. This alternative would allow small to mid-sized businesses to retain a larger portion of the allowance while reducing the allowance for large retailers. The chart below displays Indiana’s bracket system regarding their vendor allowance. If Illinois adopted Indiana’s bracket system, the state would gain \$90 million annually, and locals would gain \$57 million annually.

Discount	Sales Tax Collected
0.73%	Less than \$60,000
0.53%	\$60,000-\$600,000
0.26%	Greater than \$600,000

Recommendations

*The committee discussed the financial impact of the vendor discount but there are no plans to modify the 1.75% discount. Some members think the discount should be the same rate across all instances of tax remittance of the state (see further, timely filing discounts and cost of collection discounts).*

### Rolling Stock Exemption

Provides a sales tax exemption on tangible personal property purchased by or sold to interstate carriers for hire for rolling stock moving in interstate commerce. It applies to rolling stock across interstates and in between points in Illinois. Effective Date: 1968.

Economic Impact FY 09: \$47 M  
Economic Impact FY 12: \$74 M

### Sales for use Other than in Motor Vehicles Exemption

Users of fuel for use in vehicles/equipment (not for use on roads) do not pay motor fuel tax. Effective Year: 1940.

Economic Impact FY 09: \$126 M  
Economic Impact FY 12: \$116 M

### Newsprint and Ink to Newspapers and Magazines Exemption

Purchasing of newsprint and ink are exempt for publications. Effective Year: 1965.

Economic Impact FY 09: \$39 M  
Economic Impact FY 12: \$32 M

#### Recommendations

*Some members believe this exemption should be eliminated.*

### Designated Tangible Property Enterprise Zone Exemption

The purchase of all tangible personal property used within an enterprise zone in the manufacturing process or tangible personal property for sale to a graphic arts producer is exempt. The exemption applies to producers living in counties of more than 4,000 but less than 45,000 people. The exemption also applies to tangible personal property used by operators of a pollution control facility. This exemption was designed to stimulate private investment with tax incentives. There are 97 zones in Illinois. Effective Year: 1986.

Economic Impact FY 09: \$26 M  
Economic Impact FY 12: \$20 M

### Graphic Arts Machinery and Equipment Exemption

The purchase and sale of new and used machinery and equipment including repair parts are exempt. The exemption will expire in August 2014. Effective Year: 1981.

Economic Impact FY 09: \$21 M  
Economic Impact FY 12: \$8 M

#### Recommendations

*Some members believe this exemption should be eliminated while others believe it should be extended.*

### Building Materials within Enterprise Zone Exemption

The purchase and sale of certain building materials by a retailer to be used for remodeling and new construction in real estate in an enterprise zone, river edge redevelopment zone, or intermodal terminal facility redevelopment project area. Effective Year: 1982.

Economic Impact FY 09: \$4.7 M  
Economic Impact FY 12: \$4.1 M

### Interim Use Prior to Sale Exemption

Purchase for "Use" does not mean the interim use of tangible personal property and such purchases are exempt. Effective Year: 1955.

Economic Impact FY 09: \$4 M  
Economic Impact FY 12: \$1.1 M

### New Markets Development Program

Economic development with a qualified equity investment in, or long term debt security issued by a qualified community development entity certified by DCEO is exempt from the insurance privilege tax. The Illinois New Markets Development Program provides funding for investment entities that have been approved for the Federal New Markets Tax Credit (NMTC) program. The objective is to support small and developing businesses by providing more access to capital funds and attract more investors to Illinois. Effective Year: 2009.

Economic Impact FY 09: \$0  
Economic Impact FY 12: \$3.8 M

### Gas used in Production of Fertilizer

Gas used in production of anhydrous ammonia and downstream nitrogen fertilizer products for resale is exempt from the Gas Use tax. Effective Year: 2004.

Economic Impact FY 09: \$2.7 M  
Economic Impact FY 12: \$2.5

### Recommendations

*The committee reviewed a number of small exemptions and credits to determine their value. As of now, there is no agreeable solution among members to make modifications.*

### Timely Filing and Full Payment Discount: Auto Renting Occupation and Use Tax

Automobile renting businesses are given a 1.75% discount for timely filing and full payment. The original discount was 2.0% in FY 82 and reduced to the current rate in FY 90. Effective year: 1982.

Economic Impact FY 09: \$0.5 M  
Economic Impact FY 12: \$0.6 M

### Timely Filing and Full Payment Discount: Motor Fuel Tax

Distributors and suppliers are allowed a 1.75% discount for timely filing and full payment. Effective year: 1930.

Economic Impact FY 09: \$20.1 M  
Economic Impact FY 12: \$20.1 M

### Timely Filing and Full Payment Discount: Underground Storage Tank Tax

Receivers are allotted a 2% discount for timely filing and full payment of tax. Effective Year: 1990.

Economic Impact FY 09: \$1.2 M

Economic Impact FY 12: \$1.2 M

#### Recommendations

*Some members believe the timely filing and full payment discount should be given the same percentage discount to be more uniform, similar to Indiana's singular discount system. Indiana has a collection allowance of 0.83% of sales tax due for a timely remittance of a full payment.*

### Collection Discount: Hotel Operators' Occupation and Use Tax

Provides hotel operators a discount of 2.1% or \$25 per a calendar year, whichever is greater when they file on time and in full. The reimbursement is for expenses associated with record keeping, filing returns, and submitting data to the Department of Revenue. Effective Year: 1988.

Economic Impact FY 09: \$3.8 M

Economic Impact FY 12: \$4 M

### Cost of Collection Discount: Gas Use Tax

Provides a 1.75% discount of collections from incorporation of applicable use tax statutes. Effective Year: 2004.

Economic Impact FY 09: \$0.7 M

Economic Impact FY 12: \$0.6 M

### Cost of Collection Discount: Cigarettes

Distributors of cigarettes are provided a discount of 1.75% of the first \$3 million paid and 1.5% of any additional amount paid for collecting the cigarette tax. Effective Year: 1942.

Economic Impact FY 09: \$8.8

Economic Impact FY 12: \$9.0 M

### Cost of Collection Discount: Telecommunications

Retailers receive a 1% discount for expenses associated with keeping records, billing customers, and remitting the tax. Effective Year: 2004.

Economic Impact FY 09: \$9.4 M

Economic Impact FY 12: \$8.6 M

### Cost of Collection Discount: Liquor

Provides a 2% discount up to \$2,000 for electric filing liquor retailers. Effective Year: 2003.

Economic Impact FY 09: \$1.3 M

Economic Impact FY 12: \$2.3 M

#### Recommendations

*Some members believe the various discounts should be aligned to be more uniform, similar to Indiana's singular discount system. Indiana has a collection allowance of 0.83% of sales tax due for a timely remittance of a full payment.*



## Digital Sales

Illinois currently applies the sales tax rate to prewritten and canned software. The current tax on terminal online video gaming has yielded \$121 million in revenue, primarily to fund capital projects. The chart below illustrates estimated revenue generated from 5 categories, if tax were collected at 100%.

Illinois	Electronic books	Online Music	Mobile Apps	Online Games	Online videos
Estimated Revenue	\$2.0 million	\$ 6.4 million	\$7.8 million	\$14.8 million	\$9.3 million

5 Major Types of Digital Goods: computer software, movies, music, books, and games can possibly generate \$300 million annually

Applying sales tax to digital goods is the same as taxing their tangible counterparts. Numerous digital items, such as games, books, and movies, are becoming another source of taxable revenue as the transition to their digital forms increases.

- States are slowly extending their tax base to include digital goods and services. 33 of the 45 states, including D.C., tax downloadable computer software.
- 22 of the states with a sales tax apply a tax to downloaded movies, music and/or books
- Hawaii, New Mexico, and South Dakota tax almost all digital goods and services like the sales of their tangible equivalent, while Idaho, Utah, and Washington also include coverage of digital goods and services beyond software, movies, etc.
- A number of states tax smaller-scale digital goods such as online information databases and electronic greeting cards.

The global market for cloud computing is growing; it will increase from \$40 billion in 2011 to more than \$240 billion in 2020. Iowa is one of 16 states that has passed legislation to provide sales tax breaks to data centers. Iowa created a healthy financial package for a proposed data center which includes tax increment financing and would create 84 jobs. Illinois has numerous advantages in the technology and data industry. They are as follows:

- Illinois is pro-business;
- Illinois has access to long-haul fiber;
- Competitive energy rates;
- Access to major population centers (Chicago, Aurora, Rockford, Joliet, and Peoria);
- Technology sector; and
- Solid workforce and educational system.

## Data Centers and EDGE credits

Data centers prefer sales tax exemptions to EDGE credits because sales tax is their biggest tax liability. Data centers are constantly purchasing updated equipment and, therefore, the sales tax exemptions are more beneficial.

### Recommendations

*The committee is strongly interested in providing exemptions for data centers but has not yet come to a consensus about how to move forward in this process.*



## ***Tax Policy – Other Taxes***

Tax Policy — Other Taxes Subcommittee is responsible for compiling information and analyzing taxes other than income and sales. After extensive debate, the group's primary focus became the corporate franchise tax, which is administered by the Secretary of State.

- The bi-partisan working groups, as well as the Revenue/State Government Administration — Other Taxes Subcommittee, have discussed possible changes to the corporate franchise tax in order to make it more consistent and less burdensome on Illinois businesses; and
- A subject matter hearing on March 21, 2014, in Springfield revealed poignant information provided in testimony by the Secretary of State's fiscal department about the corporate franchise tax and the methods of collection in the state.

### FINDINGS

- Currently, there are approximately 373,000 corporations registered in Illinois (this includes both C-corporations and S-corporations);
- Annually, a corporation will pay between a minimum of \$25.00 and maximum of \$2 million in corporate franchise tax;
- In FY 13, \$180 million in corporate franchise tax which, together with the \$75 Annual Report filing fee, totaled \$204 million collected;
- The corporate franchise tax is a self-reporting tax; and
- Under the Business Corporation Act, the Secretary of State does not have the authority to conduct full audits.

The Illinois corporate franchise tax is outdated and not well administered. It was included in the 1919, 1933, and 1983 Business Corporation Acts. Options include making the following modifications:

- Make the corporate franchise tax apportionment formula consistent with the corporate income tax formula to ease the compliance burden on businesses;
- Make treasury shares a subtraction for paid-in-capital; and
- Provide more enforcement to collect the corporate franchise tax.

### Recommendations

*Although the committee members have not reached a consensus on how to replace the current corporate franchise tax revenue, the working groups have agreed to repeal the corporate franchise tax.*

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Secondly, the Tax Policy — Other Taxes Subcommittee focused on filing fees for limited liability corporations (LLCs) collected by the Secretary of State.

## LLC — Fees in Illinois

(Secretary of State Division of Business Service Fees — Receipts Over \$100,000 Only)

Fee Name	Amount per Filer	Total Collected FY 13
Articles of Incorporation Filing Fee or Registration.	\$500 / \$750 for a series LLC	\$13,733,500
Annual Report Filing Fee	\$250	\$40,295,400
Copy Fee for Any Paper Related to a certified copy record.	\$25	\$151,600
Application for Reinstatement Filing Fee — applies to corporations that have been administratively dissolved or revoked that wish to resume business in Illinois.	\$500 / \$750 for a series LLC	\$1,040,000
Expedited Services Fee — this optional fee applies to corporations that desire filing to be processed within 24 hours of receipt in either the Chicago or Springfield office. Expedited filings must be filed in person or online.	\$25-200	\$5,341,100
Penalties/Interest for Delinquent Filings — applies primarily to corporations that pay their franchise taxes late. May also apply if a corporation's payment is returned or denied.	\$300	\$3,300,300
Transact Business without Permission Penalty — LLCs that are conducting business are penalized if not registered.	Varies	\$648,955
Application to Reserve Corporate Name Filing Fee.	\$300	\$72,700
Articles of Merger or Consolidation Filing Fee.	\$100	\$23,200
Articles of Amendment Filing Fee.	\$50	\$791,883
Articles of Dissolution Filing Fee.	\$5	\$292,750
Application for Use of an Assumed Corporate Name Filing Fee.	\$30	\$266,603
	<b>Total</b>	<b>\$65,957,991</b>

**Note:**

**Penalties and Interest:** \$300 for delinquent annual reports + \$100 for every additional year or portion thereof; and for foreign LLCs that transact business without authority, \$2,000 + \$100 per month or portion thereof.

2013 LLC	Current Revenue		Revised Revenue		Loss	
	Number Filed	Filing Fees	If fee is \$150	If fee is \$250	If fee is \$150	If fee is \$250
Articles of Organization	29,527	\$15,113,140	\$4,429,050	\$7,381,750	\$10,684,090	\$7,731,390
Articles of Amendment	5,013	\$780,150	\$751,950	\$1,253,250	\$28,200	(\$473,100)
Annual Reports	167,711	\$42,707,621	\$25,156,650	\$41,927,750	\$17,550,971	\$779,871
Articles of Merger	242	\$24,650	\$36,300	\$60,500	(\$11,650)	(\$35,850)

**Note:**

A negative tax loss actually means a revenue gain. See highlighted cells.

The annual report fee is currently \$250. The \$779,871 revenue loss would be from eliminating the \$50 additional charge per series for series LLCs.

## LLC — Initial & Reoccurring Filing Fee by State

State	Initial Fee	Reoccurring Fee
Illinois	\$500	\$250
Massachusetts	\$500	\$500
New York	\$200	\$9
Washington	\$180	\$71
Wisconsin	\$170	\$25
Florida	\$125	\$138
Pennsylvania	\$125	\$70
Georgia	\$100	\$50
Virginia	\$100	\$50
Indiana	\$90	\$30
California	\$85	\$20
Iowa	\$50	\$45
Michigan	\$50	\$25

### Recommendations

*The committee members have agreed that all initial filing fees for LLCs should be reduced. There is no consensus on reducing all other LLC fees; however, each fee is being examined.*

## **Tax Policy – Business Climate**

The Revenue/SGA – Business Climate Subcommittee is responsible for identifying how to define ‘business climate,’ what the best state practices for fostering a prosperous business climate are, and what the state is failing to do to create a prosperous business climate.

### **DEFINITION OF BUSINESS CLIMATE**

The term business climate can be defined in many ways, and it is frequently used with no definition at all – with the assumption individuals know what it means. In general, usage of the term falls into three major categories:

- An overall measure of growth or business health in a region;
- A set of factors believed to contribute to and/or prevent regional economic growth; and
- An intangible asset in the form of a regional reputation for business friendliness and receptiveness to growth.

Rather than try and create a separate definition of business climate, focusing on the above 3 factors will help narrow down the state’s overall business climate. The following information focuses solely on measuring business growth in Illinois by comparing job numbers from 2007-2013. Focusing on sectors that have seen significant growth/loss will identify areas to improve and areas in which the state does well.

According to the Department of Employment Security (DES), the state’s labor force has yet to reach pre-recession levels. Using data from 2007 through 2013, the Illinois labor force totaled 6,660,200 in 2007 and totaled 6,554,200 in 2013, equating to a net loss of 106,000.

In choosing sectors of employment to focus, the DES uses 11 different sectors for nonfarm payroll. The table below details the 11 sectors and growth/decline of jobs within each sector since 2007.

Sector	Year	Jobs	Year	Jobs	(+/-) jobs	% change
Mining	2007	10,200	2013	10,000	(200)	(1.96%)
Construction	2007	274,6000	2013	191,000	(83,500)	(30.4%)
Manufacturing	2007	681,100	2013	583,300	(97,800)	(14.35%)
Trade, Transportation, & Utilities	2007	1,210,300	2013	1,518,200	(52,100)	(3.97%)
Information	2007	115,700	2013	99,300	(16,400)	(14.17%)
Financial Activities	2007	406,800	2013	367,500	(39,000)	(9.46%)
Professional & Business	2007	862,700	2013	884,700	+22,000	+2.55%
Educational & Health	2007	771,000	2013	878,500	+107,500	+13.94%
Leisure & Hospitality	2007	530,200	2013	544,200	+14,000	+2.6%
Other Services	2007	259,700	2013	249,400	(10,300)	(3.96%)

### Mining

Mining in the state has remained relatively flat and is predicted to remain relatively flat for the foreseeable future. One positive for the Illinois mining industry is the advancement of scrubbing technology – coal scrubbing removes up to 97% of sulfur from burning coal. Due to the high amount of sulfur from burning Illinois coal, the price is relatively low. If more and more power plants are required to install coal scrubbing technology, Illinois coal could rise in demand resulting in more mining jobs.

### Construction

The construction industry has been hit harder than any other sector since the “Great Recession” nation-wide but especially in Illinois which lost more construction jobs than any other state in 2013. However, there is cautious optimism. Contractors are more optimistic about the outlook for 2014 than they have been since the commercial construction market experienced a significant downturn seven years ago. Many firms plan to hire again in 2014, while few plan to implement layoffs. Meanwhile, most contractors predict demand will either grow or remain stable in virtually every market segment covered by this report. Nearly three-quarters of contractors in Illinois expect to purchase new equipment this year.

While the outlook is significantly more optimistic than in years past, there are still areas of concern for most contractors. Many expect higher costs for materials and supplies, while health care costs continue to rise. Many contractors report they are already having a hard time finding qualified workers to fill key positions and they expect workforce conditions to remain tough. The industry also believes their operations will be negatively impacted by new federal regulatory requirements dealing with wetlands, silica protection and human resources paperwork requirements. Similar to manufacturing, non-tax related costs are a huge burden on construction employers; workers’ comp and UI and burdensome paperwork. The industry also points to the need for greater collaboration between the state and community colleges vocational and trade schools. More than half of construction workers will be retiring in the next decade.

### Manufacturing

Manufacturing, one of the hardest hit industries during the “Great Recession” across the country, has slowly started to climb back to its pre-recession levels. In January 2010, manufacturing employment in Illinois dropped to 554,100 but has steadily increased to a January 2013 figure of

583,300. Illinois is home to corporations such as Caterpillar and John Deere. Illinois still boasts many advantages for manufacturing and attracting manufacturing firms. For example, in 2011 Chrysler announced an investment of roughly \$600,000 to build its 2012 model vehicles at its Belvidere, leading to the creation of 2,000 more jobs. Due to Illinois' infrastructure, comparatively cheap energy prices and skilled workforce, other mid-level companies in the food and transportation machinery industries announced similar expansions.

It is estimated that roughly 50% of manufacturing employees are expected to retire in the next decade. IDES predicts the manufacturing sector will shrink by 26,911 jobs in 2020. Providing greater certainty at the state level, whether its existing investment programs or addressing other non-tax related costs, can help to reverse this trend.

### Trade, Transportation, and Utilities

This sector of employment has seen a modest decrease of 3.97% since 2007. Trade and transportation are strongly related, as exports from Illinois and imports into Illinois need to be moved from its point of exit/entrance. Illinois has 2 major international airports, O'Hare and Midway, and is home to the country's largest rail hub. Recently, O'Hare opened a new runway and will begin construction of its largest capital improvements. C.R.E.A.T.E is a multi-billion dollar infrastructure program to increase both passenger and freight rail efficiency in northern Illinois. Manufacturing in Illinois is beginning to rebound which will further increase the use of the state's vast transportation advantages.

An increase in foreign demand of goods produced in Illinois with further increase the trade and transportation sectors in Illinois. Illinois is home to both Caterpillar and ADM, which provide goods to countries all over the world. However, foreign demand for such goods has decreased since 2012 and has yet to see much of a rebound.

The utility sector in Illinois will be aided by growth in the clean-energy marketplace. Currently, Illinois supports almost 97,000 jobs in clean-energy and is expected to increase to over 100,000 by the end of 2014. Clean-energy investment was aided by the deregulation of the utility industry in 2007, which required the state to get at least 25 percent of its electricity from naturally renewable sources by 2025. However, since then, municipalities have been allowed to use municipal aggregation. Community municipal aggregation allows city and county governments to purchase electricity on behalf of residential and small business customers, and negotiate a price with an alternative electric supplier rather than the utility that serves the area. This has resulted in reinvestment in renewable energy seeing no gains in 2013. Advocates of clean-energy would like to see a change in the municipal aggregation law.

### Information

The information sector covers a wide array of occupations and fields from telecommunications, newspapers and broadcasting to the motion picture industries, computer data processing services and most internet services. While the employment figures show a 14.7% decrease in jobs since 2007, there are more factors impacting this change.

Telecommunications in the state still remain as one of the top five markets in the U.S. for this industry. One of the biggest Illinois jobs success story in recent years is the rise of technology start-ups, particularly in Chicago. Groupon, Orbitz, Grubhub, and Classified Ventures all call Illinois home. A recent study shows 367 digital startups were launched in 2012, a 187% increase from 2011 and a 15 times increase from the 25 startup averages per year between 2004 to 2008. 59 of those companies have successfully raised in excess of \$1 million each, aggregating over \$391 million in venture capital raised in 2012. Many of these startups point to the Illinois Invest Venture Fund as a critical tool in their early stages. They also highlight the important relationships the companies have formed with local universities in formalizing their entrepreneurship programs.

## Financial Activities

Illinois is home to several global financial firms, including the Chicago Mercantile Exchange, Chicago Board Options Exchange, Allstate, State Farm and Aon (its US headquarters are in Chicago). These global firms, as well as the many public and private colleges in Illinois, will aid in growing this sector of employment in the state. However, many of these firms are becoming more and more technologically advanced and driven by IT infrastructure rather than human capital.

Real estate in Illinois has yet to return to pre-recession levels. This is due to both supply and demand factors. Foreclosure rates in Illinois have stabilized, but the demand is not where it needs to be to alleviate supply. Home prices are rising at a much slower rate than the national average, but a rise in interest rates could spur any further increase in prices.

## Professional and Business Services

Professional and business services have seen modest gains since 2007 and will continue to see an increase through the next several years. Gains in this sector are due primarily to the growth of technology employers and headquarters relocating to Chicago. Chicago was recently ranked as the number one city in the US for headquarters relocation. Primary factors for this ranking were due to transportation advantages in Illinois (both flight and rail) and the access to talent. Moody's forecast this sector to grow 2.5% annually, reaching a total of 1,000,000 jobs by 2022.

## Educational and Health

This sector has seen growth in employment expand every year since 2003 and continues to grow as the population continues to age. The expansive network of public and private universities and colleges in the state will further aid to the growth in this sector. Illinois outpaces the national average in its workforce holding a bachelor's degree and an advanced degree. Growth in healthcare related jobs should see an increase due to the passage of Affordable Care Act and expansion of Medicaid will increase payrolls and will aid in the growth of this sector. One negative factor is older individuals moving to warmer climates as they reach retirement age and get older. Due to this, growth levels in the sector could remain near flat, rather than increasing as is forecasted.

## Leisure and Hospitality

Leisure & Hospitality has seen a modest job growth increase of 2.6% since 2007 in Illinois. This increase has been experienced nation-wide. Many economists note that individuals who became unemployed in recent years took jobs as cooks, waiters, bartenders, and other associated jobs. For example, restaurant chains have continued to add new locations, and as growth in other industries has lagged, jobless individuals have been more likely to take restaurant or hotel jobs. One reason for this may be that a high turnover rate in the industry lets employers replace full-time jobs with part-time jobs much quicker. Due to the high-turnover rate, leisure and hospitality companies are much more sensitive to the short-term direct costs of each worker than other industries may be in areas like labor policy similar to the retail industry.

One area where Illinois has excelled in recent years is the tourism industry. In 2012 Illinois hosted a record 99 million domestic visitors – a 6.1% increase over 2011. Those travelers generated nearly \$31 billion in revenues for the state's economy – a 5% increase over 2011. This increase has not only been felt in Chicago but in places like the Quad-Cities and Springfield. The tourism industry is a significant job creator in Illinois and recent figures show that the Illinois travel industry added approximately 5,000 new jobs in 2012.



Something to note, which is difficult to quantify, is the uncertainty surrounding the state's finances. Many studies have indicated the uncertainty surrounding our finances is detrimental to further business growth. Companies are hesitant to expand or re-locate in Illinois due to our fiscal instability. Businesses would like to know prior to expanding or relocating to Illinois that our overall 'business climate' is stable and will not change significantly in a way that will be detrimental to the business.

### Agribusiness

According to the Illinois Farm Bureau, farming and farm-related employment in Illinois accounts for nearly 25% of the state's workers. This extends not to just farmers, but farming related employment which includes, but is not limited to, veterinarians, food scientists, butchers, and ethanol technicians. Livestock farming alone provides nearly 25,000 on-the-farm jobs in Illinois. Illinois has over 2,900 hog farms, 14,000 beef farms, and 780 dairy farms. Illinois citizens spend an estimated \$4.5 billion on beef, with Illinois beef farmers raising nearly 429,000 head of cattle annually. Illinois is the nation's leading producer of pumpkins and horseradish, with more than 85% of all canned pumpkins starting in Illinois.

There are approximately 76,000 Illinois farms cover nearly 27 million acres, over 75% of the state's total land area. Illinois is a leading national producer of soybeans, corn and swine. The state's climate and soil types enable farmers to grow and raise many other agriculture commodities as well, including cattle, wheat, oats, sorghum, hay, sheep, and poultry. North of I-80 are many of the state's food processors that help strengthen the economies of the urban areas. The Chicago metro area contains one of the largest concentrations of food-related businesses in the world. According to the 2007 Census of Agriculture, the total market value of Illinois agricultural products was nearly \$13.5 billion. There is no question that the agribusiness industry in Illinois employs thousands of workers, but there are varying estimates on exactly how many. It has been somewhat difficult to correctly estimate farm employment over the years. Prior to the "New Deal" in the 1930s, farmers and other agriculture interests lobbied to be excluded from the unemployment insurance laws at both the national and state levels. The main reason was that, at the time, most farms were small family operations owned and operated by independently minded individuals that wanted nothing to do with the government unemployment system. During the past 50 years, the number of family farms and farm owners has declined. The trend now is toward much larger farms that are owned and managed by corporations that are covered by the unemployment insurance laws, which make it much easier to track employment. Three levels of occupations are essential for estimating total agriculture industry employment: direct agriculture employment, agriculture-related employment and all other related employment. It is also important to determine which industry sectors to include in the agriculture and agribusiness industries.

In summary, now that more farms today are managed by corporations that are required to adhere to state unemployment insurance laws, state government can better track employment in the agribusiness industry. An accurate count of agribusiness employment in Illinois must include the appropriate industry sectors in the count as well as estimates for direct agriculture employment, agriculture-related employment and all other related employment. While the agribusiness industry in Illinois comprises only 2.6 percent of the state's workforce, the 163,252 workers it employs is a significant amount. With Illinois agriculture products valued at \$13.5 billion, the agribusiness industry also contributes greatly to the economy. Given the domestic and export markets for its products, the agribusiness industry is expected to remain a significant contributor to the economy in the future.

## **FINDINGS**

CNBC has completed its annual state rankings for overall business climate for 2013. CNBC uses a point system that is comprised of 10 different categories, with each category having a different number for maximum points attainable. CNBC worked with various businesses, notably the National Association of Manufacturers and the Council on Competitiveness, to establish the 10 different categories. The categories and point totals are broken down below. Illinois received an overall ranking of #37, with categorical rankings as follows:

Cost of Doing Business — 44 <sup>th</sup>	Education — 22 <sup>nd</sup>
Workforce — 29 <sup>th</sup>	Infrastructure — 5 <sup>th</sup>
Business Friendliness — 36 <sup>th</sup>	Technology and Innovation — 5 <sup>th</sup>
Economy — 45 <sup>th</sup>	Cost of Living — 23 <sup>rd</sup>
Quality of Life — 30 <sup>th</sup>	Access to Capital — 25 <sup>th</sup>

Below are 5 different statements about Illinois business climate from business publications in the nation.

### **1. Illinois ranks 3rd in Corporate Expansions, up from 5th last year**

#### **Site Selection Magazine**

The top two states are Texas and Ohio. They do not publish a ranking of all 50 states, Illinois is ahead of Michigan, and the other Great Lakes States do not make the top 10. To be included in the Site Selection rankings, new corporate facilities and expansions had to meet at least one of three criteria: involve a capital investment of at least \$1 million, create at least 50 jobs or add at least 20,000 square feet of new floor area. The rankings are regarded by corporate real estate analysts as “the industry scoreboard.” Site Selection, published by Conway Data, Inc., is the senior publication in the corporate real estate and economic development field.

### **2. Illinois is Top 5 in the nation for ‘Technology and Innovation’ and ‘Infrastructure.’**

#### **CNBC Top States for Business 2013**

This was measured by a CNBC survey of business groups including the National Association of Manufacturers and the Council on Competitiveness. States received points based on their ranking in each metric, which were then separated into 10 broad categories based on how frequently they are cited in state economic development marketing materials. The 10 categories are cost of doing business, economy, infrastructure, workforce, quality of life, technology & innovation, business friendliness, education, cost of living and access to capital. This survey ranks Illinois 37th overall as a top state to do business in.

### **3. Illinois has added over 280,000 private sector jobs since Q1 of 2010.**

#### **IDES 2014**

These are net jobs; it is a 5.6% increase since 2010. Wisconsin (5.7%), Indiana (8.8%), and Michigan (9.2%) have done better. According to the Bureau of Labor Statistics, no Midwestern state has added more nonfarm jobs than Illinois. Some sectors where jobs have been added are Professional & Business Services (15.3%), Leisure & Hospitality (7.8%) and Education & Health Services (6.9%). Illinois’ unemployment rate is 8.4%, down from the recession high of 11.3% in January of 2010. It remains 3rd highest in the country, however. National unemployment is 6.7%. Generally, Illinois has tracked similar both to the country and to Great Lakes States; however they are all doing better: Wisconsin (5.9%), Michigan (7.5%), Missouri (6.7%), Ohio (6.1%), Indiana (5.9%), etc., Illinois saw a 3.1% decline in public sector/ government jobs.

#### 4. Illinois brought in more jobs to the state than it lost last year.

Illinois Innovation Index (an information resource that provides analysis and insight of technology-based economic activity in Illinois – an initiative started by Quinn in partnership with the Illinois Science & Technology Coalition)

This statistic is in terms of business relocation. Illinois gained 1,400 jobs from business relocation. In 2012 275 businesses moved into Illinois and 283 businesses moved out. Illinois had 76 companies come from our neighbors (Wisconsin, Ohio, Michigan & Indiana) and a total of 1,332 employees. Illinois lost 72 companies to the same neighboring states and 1,392 employees overall.

#### 5. Illinois ranks 3rd best in business growth.

The Chicago Examiner

“An independent study by CareerBuilder and Economic Modeling Specialists Intl. has found that Illinois ranks 3rd among the 50 states in growth of business establishments.” An establishment is defined as a single physical location that produces some form of economic activity. Texas is first (creating 22% of the nation’s net private sector business establishments), New York second (16%) and Illinois third (14%). According to the Philadelphia Federal Reserve Bank, in the next 6 months, Illinois is projected to have the best economic growth in the five largest states in America. The summary of the study essentially makes the point that it is not necessarily related to taxes and government regulation. Instead it may be more relevant that, “IL, TX and NY all have major metropolitan areas that are centers for economic activity, their economies are diversified and their construction sectors, while not doing great, have fared better than most areas in the country.”

### **FORBES BUSINESS CLIMATE RANKINGS**

Forbes state business climate rankings consist of 6 different categories, listed below. Each category has a brief explanation along with rankings for Illinois and each of its border states.

#### **BUSINESS COST RANK**

Business cost rankings include such items as labor costs, energy, and taxes. Labor costs are weighed most heavily. Because Illinois has the 38<sup>th</sup> highest mean annual wages, Illinois business costs rankings will be hurt.

State	Rank
Iowa	8
Indiana	11
Missouri	21
Ohio	28
Wisconsin	35
<b>Illinois</b>	<b>36</b>
Florida	37
Michigan	38
Pennsylvania	39
New York	46

#### **REGULATORY ENVIRONMENT RANK**

The factors that go into this ranking are education attainment and percentage of workers in labor unions. Illinois’s educational attainment is higher than the national average – 87.67% of Illinoisans over 25 have a high school degree (86.4% nationally) and 31.6% have a college degree or higher (29.1% nationally). However, Illinois’s union membership is the 9<sup>th</sup> highest nationally. It’s fair to conclude that Illinois ranks high on this scale because of its union strength.

State	Rank
Indiana	2
Missouri	6
Ohio	7
Iowa	10
Florida	15
Michigan	16
Pennsylvania	20
New York	23
Wisconsin	29
<b>Illinois</b>	<b>34</b>

### **ECONOMIC CLIMATE RANK**

The Mercatus Center at George Mason University issues a 50-state “Freedom Report” that ranks regulatory burden. One of the big factors in the Center’s ranking of Illinois is the legal liability (tort) system. Another factor that counts against Illinois is that Illinois is not a right-to-work state. The Forbes ranking of states relies on the Mercatus Center report for its rank of regulatory environment.

State	Rank
New York	8
Pennsylvania	16
Iowa	20
<b>Illinois</b>	<b>29</b>
Indiana	30
Wisconsin	30
Missouri	32
Ohio	35
Florida	46
Michigan	47

### **GROWTH PROSPECTS RANK**

Two factors go into the ranking for economic climate. First, GSP (Gross State Product) growth. In 2012, Illinois GSP grew at 1.9%. That compares to a Great Lakes region growth of 2.2% and 2.5% nationally. The second factor is unemployment, and Illinois has the third highest unemployment at 8.4%. Illinois’s unemployment rate is mitigated by its high labor participation rate. For example, in March 2012 the national labor participation rate was 63.8%, while Illinois’ rate was 66.0%. With more people defined as looking for work, Illinois’s unemployment rate looks higher than in other states where less people are defined as looking for work.

State	Rank
Florida	7
New York	14
Indiana	32
Ohio	35
Pennsylvania	36
Wisconsin	37
<b>Illinois</b>	<b>38</b>
Missouri	42
Iowa	43
Michigan	47

### **LABOR SUPPLY RANK**

The Forbes list relies primarily on business opening and closing statistics from the Small Business Administration. The SBA does show that Illinois had both less businesses opening and less businesses closing than the national average for the last reported period. However, the SBA statistics have to be read in conjunction with a more recent Careerbuilder study that Illinois ranks third in the country for new businesses.

State	Rank
Florida	12
New York	31
<b>Illinois</b>	<b>32</b>
Pennsylvania	35
Iowa	37
Wisconsin	39
Missouri	41
Indiana	45
Ohio	47
Michigan	48

### **QUALITY OF LIFE RANK**

Illinois ranks 14<sup>th</sup> on Forbes list of best places for business in the Quality of Life category. Things that affect this category are health outcomes, school test performance, crime rate, poverty, and cultural and recreational opportunities.

State	Rank
Pennsylvania	8
Ohio	10
New York	11
Iowa	12
<b>Illinois</b>	<b>14</b>
Wisconsin	15
Indiana	18
Michigan	23
Missouri	31
Florida	35

Recommendations

*A point person should be designated to help businesses seeking the state's help when it comes to job creation, retention, and relocation in Illinois and seeking licensure and permits. This position would work with the business and be the point person within each department with the specific business it has been assigned. This streamlines the current process and allows the business to have 1 contact within the department who is working with each division to better help the business.*