



Impactful Innovation: Why Illinois Manufacturing Needs Permanent Tax Incentive Solutions

Overview: Illinois manufacturing is a known leader for technology and innovation with nearly 20,000 companies and facilities that call this state home. Industry-leading advancements from farm machinery to fighter plane controls have resulted in an industry of forward-thinking companies that contribute the single largest share – 12.4 percent – of the Gross State Product and employs 570,000 workers in good, high-paying jobs. Every dollar spent in manufacturing returns \$1.40 in additional economic value which is the highest multiplier of any sector. In 2014, Illinois manufacturers contributed \$101 billion in total manufacturing output and exported more than \$64 billion worth of goods. It's no secret that manufacturing is vital to Illinois – and consequently, equally as vital to manufacturing is a secure business environment that includes the passage of modern and permanent tax solutions. **That's why AIM-IL (Advance Illinois Manufacturing), is a coalition committed to advocating for just that – modernization and permanent extensions of four critical tax incentives that will provide stability and predictability for job creators.**

A Permanent Research & Development Tax Credit

Illinois is one of few states that does not currently have a Research & Development tax credit that is the lifeblood of manufacturing. It is imperative that Illinois create a modern and permanent R & D credit to remain competitive, attract new manufacturing companies, and maintain our position of strength in technology and innovation. AIM's recommended legislation mirrors federal law by making the base 50 percent of the previous three-year average expenditure (currently 100 percent of the three-year average) and extends the carryforward from 5 to 20 years. The R&D credit (6.5 percent) has expired four times in the past thirteen years, most recently July 2015. Reforming the R & D credit will encourage new economic activity in Illinois.

The presence of R&D tax credits dictate where companies will position their R&D dollars. The absence of this policy negatively impacts Illinois manufacturing as R&D dollars are being invested in neighboring states merely due to more security. According to the National Association of Manufacturers, R&D projects typically span 5-10 years and when a company's long-term investments are at stake, you can bet that they look to the state offering permanent tax credit support. This is another example where Illinois is losing the economic battle due to poor policy. (See article: <http://www.agrimarketing.com/ss.php?id=82536>)

Illinois currently employees nearly 570,000 employees which is just under 10 percent of our state workforce. According to the Illinois Department of Employment Security, the average annual wage for a manufacturing worker totals \$72,000. For R&D specifically, jobs in this sector are technical and highly

skilled meaning higher salary jobs follow R&D investment in sectors such as aerospace, pharmaceutical, chemicals, agriculture, computers, motor vehicles and more. Illinois needs to keep these higher-paying opportunities in Illinois because they are vital to our middle class sector.

For example:

Industrial Engineer - \$79,000

Materials Engineer - \$86,180

Electrical Engineer - \$93,260

Environmental Engineer - \$84,850

(U.S. Department of Labor – Bureau of Labor Statistics)

Reform the Manufacturers Purchase Credit

The Illinois Manufacturers Purchase Credit has expired on several occasions in the last decade including sun setting in July 2014. The state needs to reform and make the MPC permanent by merging it into the Manufacturing Machinery & Equipment exemption (MME). Until it expired, the MPC was a complicated and convoluted process that was difficult for both companies and the Department of Revenue to administer.

AIM proposed to merge the MPC into the MME to allow manufacturing companies to be incented for the purchase of tangible personal property used or consumed in the manufacturing process.

Modification to Graphic Arts Sales Tax Exemption

Following the lead of merging into the Manufacturing Machinery & Equipment exemption (MME), AIM recommends permanently including the graphic arts sales tax exemption. This credit expired in 2014 at a time when the industry employed 55,100 workers in more than 2,300 facilities across the state.

A Permanent Coal, Aggregate Exploration, Mining and Off-Highway Sales Tax Exemption

This current sales tax exemption for the purchase of equipment used in the coal industry, aggregate exploration, mining and off-highway industry is not scheduled to sunset until 2018 so there is no immediate fiscal impact to the state. Making this exemption permanent will provide predictability for these important sectors of the economy.