ILLINOIS EDGE TAX CREDIT PROGRAM

ECONOMIC DEVELOPMENT FOR A GROWING ECONOMY

2023 BIENNIAL REPORT ON THE EDGE TAX CREDIT PROGRAM

Illinois
Department of Commerce
& Economic Opportunity
JB Pritzker, Governor

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INTRODUCTION

Pursuant to the Economic Development for a Growing Economy ("EDGE") Tax Credit Act, 35 ILCS 10/5-1, *et seq*. (the "Act"), the Illinois Department of Commerce and Economic Opportunity ("DCEO" or the "Department") administers the EDGE Program. Since 1999, the Department has used the EDGE Program to attract businesses to Illinois and help businesses in the State expand, providing a solid foundation for business growth in the State.

Section 75 of the Act requires the Department to provide an evaluation of the EDGE Program to the Governor and the General Assembly on a biennial basis in odd-numbered years. The biennial report "shall include an assessment of the effectiveness of the program in creating new jobs in Illinois and of the revenue impact of the program" and may also include a review of similar programs offered in competing States. 35 ILCS 10/5-75.

Since Governor Pritzker took office, DCEO has been rigorously evaluating the impact of the EDGE Program and working with the General Assembly to implement changes that help ensure the program has the intended impact and taxpayer funds are used efficiently, as well as to ensure that the return on investment for the EDGE Program benefits both the corporation claiming the benefit and Illinois taxpayers.

1: EDGE PROGRAM OVERVIEW

Legislative Intent and Program Sunset

In August 1999, the General Assembly noted that although the Illinois economy was strong, Illinois faced a competitive disadvantage as other States offered major financial incentives for businesses looking to relocate or expand. The EDGE Program was created to ensure Illinois' competitiveness by offering tax credits to companies looking to relocate to, or expand in, Illinois. In an increasingly global economy, the General Assembly determined that Illinois' long-term development would benefit from strategically using state resources to support business development and growth.

The EDGE Program originally sunset on December 31, 2016 (extended to April 30, 2017), and was restored in September of 2017.

2017 Program Reauthorization

On September 18, 2017, the General Assembly significantly overhauled the EDGE Program. The new law extended the EDGE Program to June 30, 2022. Revisions included:

- **Eligibility Requirements**
  - For companies with more than one hundred (100) employees, the minimum required capital investment was reduced from $5 million to $2.5 million, and the job creation requirement was modified to be the lesser of (a) ten percent (10%) of the company's worldwide full-time headcount, or (b) fifty (50) new jobs.
  - For companies with one hundred (100) or fewer employees, the capital investment requirement, which had been $1 million, was removed entirely. The job creation requirement was modified to the lesser of (a) five percent (5%) of the company's worldwide full-time headcount or (b) 50 new jobs.

- **Credit Amounts**
  - EDGE Program allows for an annual tax credit that is equal to the lesser of (1) the sum of fifty percent (50%) of the incremental income tax attributed to new employees at the project and ten percent (10%) of the training costs related to the new employees; or (2) one hundred percent (100%) of the incremental income tax attributed to new employees at the project location. In contrast, agreements under the prior EDGE Act provided annual tax credits equal to one hundred percent (100%) of the incremental income tax attributed to new employees at the project.

- In addition, the EDGE Program allows the Department to award an additional credit equal to and up to twenty-five percent (25%) of the incremental income tax attributed to full-time employees retained at an incentivized project location. Except for certain “Special EDGE” agreements, the prior version of EDGE did not statutorily allow DCEO to award a credit for retained employees. However, in many agreements under the prior EDGE statute, DCEO did provide credits for retained employees with percentages of withholding credits ranging from ten percent (10%) to one hundred percent (100%). Most Special EDGE agreements provided fifty percent (50%) withholding credits.

- **Incentives for Underserved Areas**
  - The Act allows DCEO to offer businesses additional incentives to encourage companies to expand or move to underserved areas within the State. “Underserved Areas” is defined by the Act.
    - The potential credit for these projects increases the tax credit award amount to the lesser of (1) the sum of seventy-five percent (75%) of the income incremental tax attributed to new employees at the project and ten percent (10%) of the training costs related to the new employees, or (2) one hundred percent (100%) of the incremental income tax attributed to new employees at the project location.

- **Public Disclosure**
  - Codifying prior Department policy, Section 50 of the Act operates to increase transparency by requiring that DCEO post the terms of each EDGE Tax Credit Agreement on its website within ten (10) days of entering into any agreement. This posting must include:
    - the name of the recipient’s business,
    - the location of the project,
    - the estimated value of the credit,
    - the number of new jobs and, if applicable, retained jobs, and
    - whether the project is in an underserved area.

- **Enhanced Compliance Provisions**
  - The entire credit amount awarded to a company is subject to recapture if, during the agreement term, the company ceases principal operations with the intent to close the project in the State permanently.
  - In the event of such a claw-back of funds, the State will allocate the amount recaptured to the local workforce investment area serving project location.

- **Vendor Diversity and Sexual Harassment Reporting**

  Companies claiming the EDGE Tax Credit must file an annual report on supplier diversity goals with DCEO by April 15 of each taxable year for which it claims the credit.

2022 EDGE Legislation Updates

Passed in April 2022, Public Act 102-0700 extended the EDGE Program through June 30, 2027, and amended the Act to allow the Department to enable startup companies that have never had an income tax liability to claim EDGE tax credits against their obligation to pay employee withholding taxes. This provision will help make the EDGE Program more attractive for startup businesses and will benefit Illinois's startup ecosystem. The Department implemented this incentive in the second half of 2022.

2023 EDGE Legislation Updates

Public Act 102-1125, effective February 3, 2023, made the following changes to the EDGE Program:

- Reduced the administrative burden and made EDGE more competitive by modernizing the "but for" requirement:
  - Companies are no longer required to research competing states and provide DCEO an analysis of the incentives provided by those state before receiving an Illinois incentive.
  - The EDGE Program is now more competitive and less burdensome to businesses considering Illinois, with the updated requirements focused on a company attestation indicating the project would not occur in Illinois without the credit. Stakeholders previously shared that the past requirements led to longer submission timelines and led to the forging of relationships with economic development agencies in other states.
- Increased tax credit for job retention for underserved areas:
  - Previously, the credit offered for retained employees was capped at twenty-five percent (25%) regardless of location. EDGE recipients are now rewarded for their continued commitment to Illinois' workforce and communities, with a fifty percent (50%) credit for retained employees whose project site is in an Underserved Area and twenty-five percent (25%) for retained employees whose project site is not in an Underserved Area.
  - Stature still requires that recipients meet the requirements for new job creation.
- Clarified EDGE 5-Year termination clause:
  - The EDGE automatic termination clause has been clarified to ensure businesses have five years from the effective date of the EDGE Agreement to achieve the job creation and investment commitments before the agreement is automatically terminated.

Approval Process

Companies interested in participating in the EDGE Program must apply to the Department. Application materials must include:

- Applicant Information
- Project Summary
- Project Description
- Project Rationale
- Jobs Impact
- Company Certification
- Tax Clearance Documentation
- Certificate of Good Standing to Transact Business in the State of Illinois

Once the application and required supporting documentation are received, a comprehensive due diligence process is initiated by DCEO staff. This process includes legal, fiscal, and compliance reviews. The materials are reviewed and approved by the DCEO Business Development Committee, with final approval by the DCEO Director.

If approved, DCEO designates the business as "eligible" and enters into an EDGE Tax Credit Agreement. Provided the company hires the requisite number of new employees and makes the applicable capital investment, the company receives a nonrefundable and nontransferable tax credit against State income taxes. The Act allows eligible companies to claim such credits for up to ten (10) years.

2023 Process Improvements

DCEO has taken the following steps to make the processing of EDGE Tax Credit Certificates easier to navigate:

- Improved outreach through additional email communications and establishing a single point of contact for email communications,
- Streamlined annual reporting processes by implementing a digital submission process with automated reminders and status updates,
- Updated EDGE Tax Reporting form to include more precise language and more specific instructions on the application process,
- Conducted additional outreach and created new reference materials, including an FAQ, training webinars, and more.
- Increased staffing capacity with DCEO to focus on the EDGE Program.

2: PROGRAM EVALUATION

This section provides an overall evaluation of the EDGE Program for the period 2021 into 2023. This section summarizes the various metrics tracked in the EDGE Program, including job creation, job retention, investment, and the costs to the State in terms of the amount of tax credits issued. Please note that EDGE certificate requests are still being processed for calendar year 2023, so those numbers are incomplete.

EDGE Agreements are structured to recognize a "ramp up" period for projects as part of the capital construction and job hiring process. DCEO allows EDGE recipients until the end of the second full taxable year after entering into an agreement in which to make the requisite investment and hire the minimum number of new jobs associated with the project. For example, a company that signed an EDGE Agreement in June 2020 with a December 31 fiscal year-end would likely seek its first EDGE Tax Credit in the taxable year ending December 31, 2022.

EDGE Certificates Awarded

The EDGE Program requires annual reporting that generally allows companies to claim tax credits for up to ten (10) years. These credits are issued annually and based on the self-reported employment and payroll for the respective company's fiscal year. As demonstrated by Table 1 the number of EDGE certificates issued annually has been relatively close over the last three years: 174 certificates issued in 2021, 206 issued in 2022, and 184 issued through September 2023.

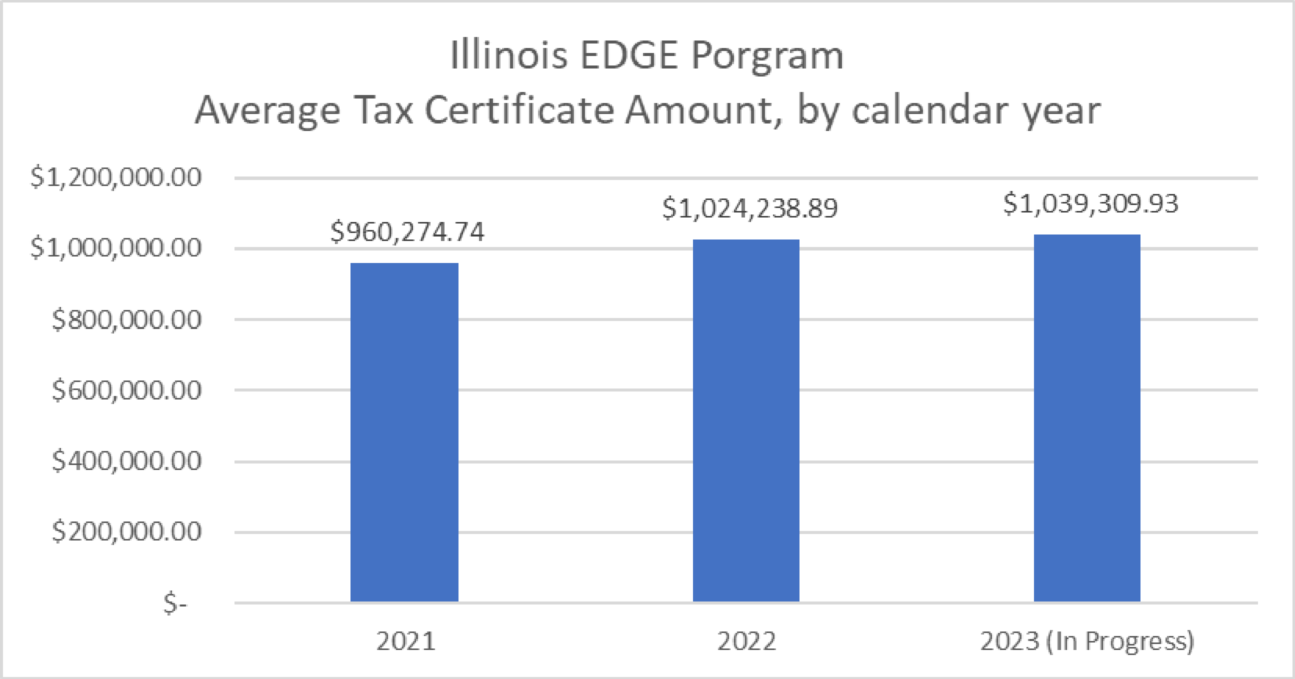
Table 1: Number of EDGE Certificates Issued

Calendar Year	Edge Certificates Awarded
2021	174
2022	206
2023	184

Since EDGE Tax Credits are not refundable and some businesses move or close before claiming all credits, tax credits *awarded* do not reflect tax credits *claimed* and, therefore, do not directly reflect a revenue impact for the State (see Program Revenue Impact on page 15 for more information). Also, companies cannot use the tax credit if they have no tax liability.

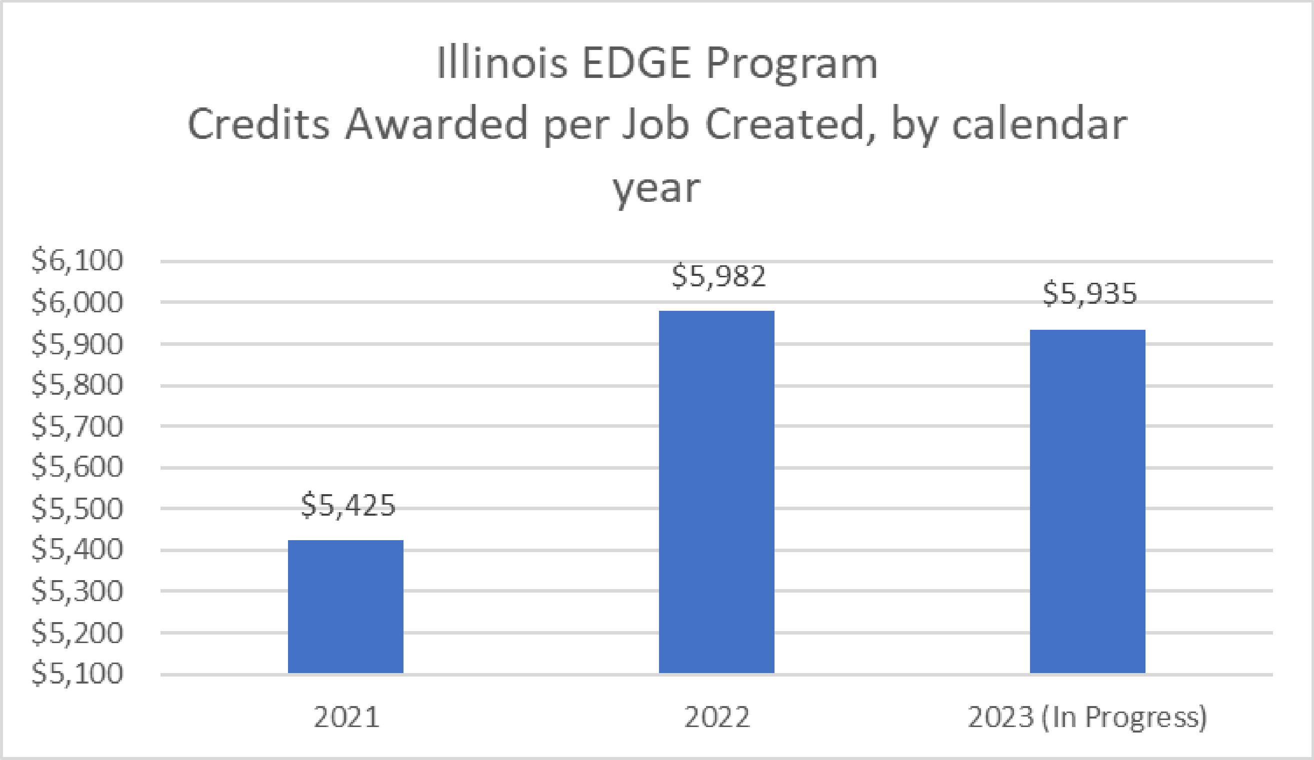
As reflected in Graph 1, the average value of tax credit certificates has remained consistent between 2021 and 2023.

Graph 1: Average Value of Tax Certificates, 2021-2023.



The credits awarded per job created returned in 2022 to approximately $6,000, a level last seen in 2019 and has remained at that level in 2023.

Graph 2: Tax Credits Awarded per Jobs Created, 2021-2023.



Job Creation and Retention

The primary goal of the EDGE Program is to promote the creation of new jobs and the retention of existing full-time employees by encouraging companies to move to, or remain in, Illinois. As demonstrated by Table 2, companies receiving EDGE Tax Credits reported creating 30,801 jobs in 2021, 35,273 jobs in 2022, and 31,519 jobs for 2023 to date. Additionally, EDGE recipient companies have retained numerous jobs in Illinois: 18,957 in 2021, 21,242 in 2022, and 18,735 in 2023 to date. Table 2 further shows a notable overall payroll paid to Illinois employees of nearly $5 billion in additional payroll in 2021, over $6 billion in additional payroll in 2022 and nearly $5 billion 2023 to date. These figures reflect only those jobs that have been reported by companies receiving an EDGE Tax Credit. They do not include employment at related corporate entities or other company locations that are not incentivized by EDGE or vendor and supplier hiring for companies receiving EDGE.

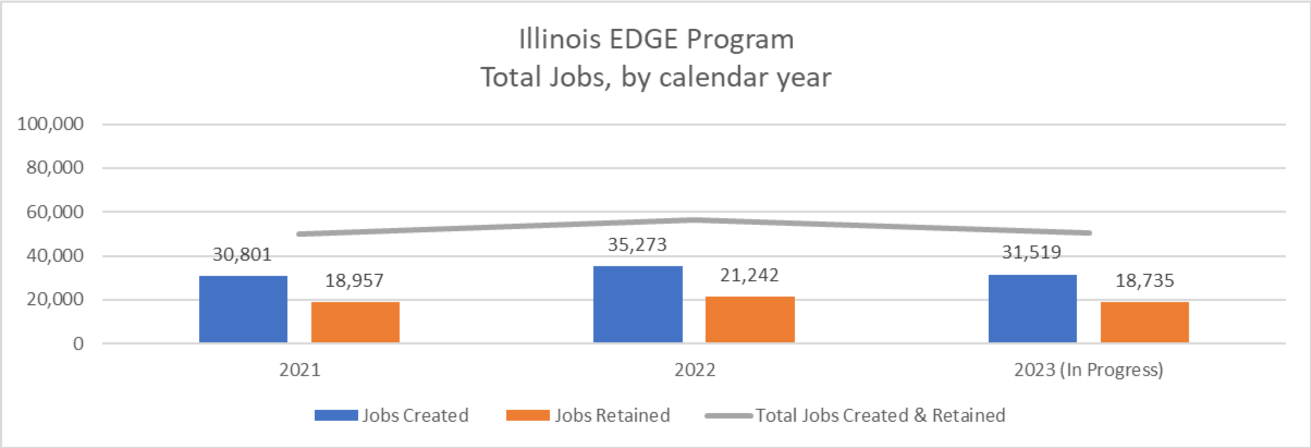
Table 2: Job Creation and Retention and Associated Payroll, 2021-2023

Calendar Year	Reported Jobs Created	Reported Jobs Retained	Reported Payroll Amount
2021	30,801	18,957	$4,757,137,949.46
2022	35,273	21,242	$6,129,166,910.60
2023 (In Progress)	31,519	18,735	$4,995,099,002.18

As shown below in Graph 3, the total number of new jobs increased by 14.5 percent between 2021 and 2022, and retained jobs rose 12 percent. These increases are primarily due to 18 percent more certificates issued in 2022. When 2023 concludes, the job creation and retention numbers reflected will likely be on par with or greater than 2022.

DCEO will continue to study methods for improving the effectiveness of job creation and retention within the Program. In the years ahead, the Department anticipates that job creation and retention numbers will increase within the EDGE Program because of legislative changes enacted at the beginning of 2023 that remove the requirement for applicants to demonstrate a cost disadvantage to investing in Illinois versus an out-of-state location. Additionally, legislative changes now provide applicants with a potential award of a twenty-five percent (50%) tax credit for retained jobs when the project site is inside of an Underserved Area.

Graph 3: Reported Job Creation and Retention Between 2021 and 2023



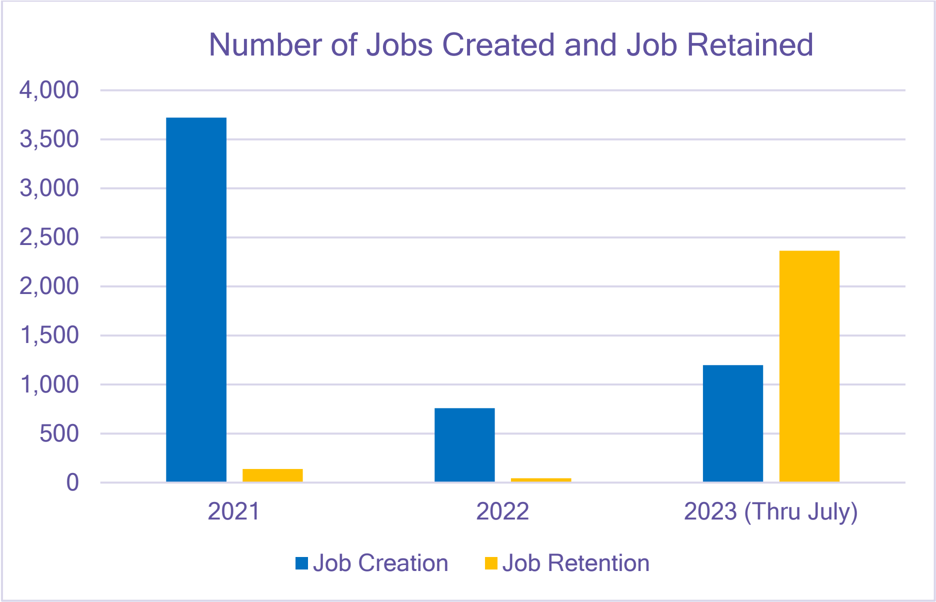
The legislative changes made with Public Act 102-1125 became effective on February 3, 2023, and resulted in double the number of tax agreements entered into between January – July 2023, compared to January – December 2022. In fact, the number of applications reviewed, approved, and accepted offers through July 2023 is only one less than the total count during the 2021 calendar year. Additionally, the job creation and job retention targets, as well as capital investment targets, are rising commensurately. Furthermore, the job retention number within January - July 2023 is significantly greater than 2021 and 2022 counts at 2,364 (2023) versus 139 (2021) and 45 (2022).

Table 3: Number of Tax Agreements Entered into with Associated Job Creation, Job Retention and Capital Investment, 2021-2023

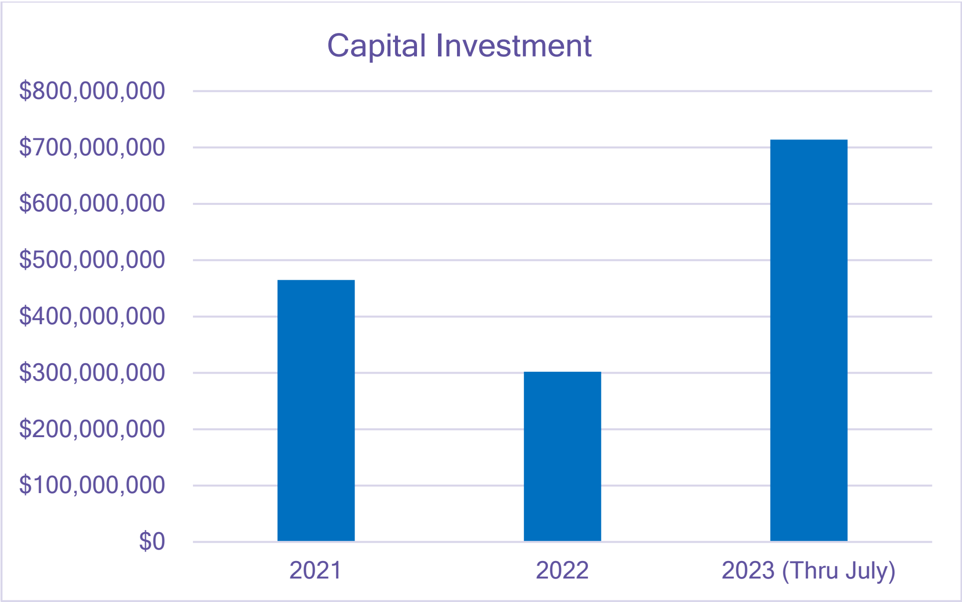
Calendar Year	Number of Applications Reviewed, Approved, & Accepted	Job Creation Target	Job Retention Target	Capital Investment Target
2021	23	3,722	139	$464,951,572
2022	12	759	45	$301,934,937
2023 (Thru September)	22	1058	1863	$660,067,424

Graph 4: Number of Applications Reviewed, Approved, and Offers Accepted, 2021-2023

Graph 5: Jobs - Number of Created and Retained - Associated with Offers Accepted, 2021-2023



Graph 6: Capital Investment Associated with Offers Accepted, 2021-2023



Program Revenue Impact

The following is a summary of Tax Credit certificates issued since 2001 and the dollar value of credits claimed by the recipients. These aggregated numbers include carry-forward amounts, which may be claimed for up to five (5) years after issuance. The total number of certificates issued, and value of credits claimed for 2022 has yet to be known as the DCEO and IDOR calculations and workflow processes for calendar year 2022 still need to be completed.

Fiscal Year	**Amount of EDGE Credit Used to Offset Corporate Income Tax Liability** (Per the Comptroller's Tax Expenditures Report)	**Amount of EDGE Credit Used to Offset Individual Income Tax Liability** (Per the Comptroller's Tax Expenditures Report)	**Dollar Value of EDGE Tax Credits Certificates Issued by DCEO**
2001	$0	$0	$6,510,316
2002	$190,000	**	$11,929,375
2003	$3,330,000	**	$22,898,697
2004	$5,200,000	**	$29,293,557
2005	$9,082,000	**	$35,885,149
2006	$13,614,000	$99,000	$43,050,873
2007	$24,862,000	$4,717,000	$60,825,257
2008	$23,534,000	$4,981,000	$69,145,879
2009	$25,567,000	$3,651,000	$68,090,549
2010	$34,766,000	$691,000	$82,862,058

2011	$36,149,000	$3,082,000	$163,243,486
2012	$31,259,000	$9,207,000	$202,545,923
2013	$45,085,000	$38,943,000	$116,548,826
2014	$58,873,000	$37,762,000	$206,524,531
2015	$90,757,000	$45,760,000	$215,118,188
2016	$82,409,000	$41,347,000	$147,607,895
2017	$76,702,000	$56,171,000	$186,246,794
2018	$82,039,000	$55,017,000	$188,472,703
2019	$78,112,000	$47,629,000	$249,618,350
2020	$74,858,000	$40,381,000	$188,795,121
2021	$75,345,000	$35,218,000	$225,614,444
2022	*	*	$210,993,211
Total	**$871,733,000**	**$424,656,000**	**$2,731,821,181**

*2022 Tax Expenditure Report Not Yet Available ** Amount of Individual Income Tax Credits Not Reported Separately for EDGE
*2023 Tax Expenditure Report Not Yet Available **Amount of Individual Income Tax Credits Not Reported Separately for EDGE.

In summary, in evaluating the EDGE Program, it is essential to understand the overall costs to the State and the benefits generated. Assuming these projects would not have occurred within Illinois "but for" the EDGE Program, the State could have a deficit of tens of thousands of new jobs created and tens of thousands of existing jobs eliminated, and billions in payroll and investment lost.

3: COMPETITOR STATE TAX INCENTIVE PROGRAMS

Illinois' primary competitors for business locations and expansions are the bordering states of Kentucky, Indiana, Iowa, Missouri, and Wisconsin. These states have adopted similar tax credit programs as incentives for businesses locating or expanding operations. However, other non-border states have also become increasingly aggressive in seeking to relocate business from Illinois. The information below shows the similarities of the programs from the most frequently cited out-of-state options and highlights the advantages of the EDGE Program. The Selected State EDGE-like Comparison matrix illustrates that the EDGE Program is somewhat competitive with those of bordering states and certain others states with whom Illinois regularly finds itself in competition. Other states regularly competing with Illinois that have roughly analogous incentive programs include the following: California, Florida, New York, and Texas,

Competing State EDGE Equivalent

State	Structure	Requirements	Retention	Transfer-able*	"But for"**
California (California Competes Tax Credit)	Credit against corporate income tax liability.	Credit amount based on factors including number of jobs created & retained, capital investment, compensation, etc.	Yes	No	No
Florida (Capital Investment Tax Credit)	Annual credit for up to 20 years, against the corporate income tax. Amount based on eligible capital costs.	Located in designated high impact portions for various sectors. Create at least 100 new jobs; capital investment of at least $25 million.	Yes, if there is significant evidence that the loss of jobs is imminent.	Yes	No
Illinois (EDGE)	Credit based on percentage of expected increased tax withholdings generated by new jobs created, as well as retained jobs under limited circumstances.	$2.5M in investment and the lesser of 10% of worldwide employment or 50 new jobs for companies over 100 worldwide headcount; no minimum investment and the lesser of 5% of worldwide employment or 50 new jobs for companies under 100 worldwide headcount	Yes, provision for retention.	No	Yes
Indiana (EDGE)	Credit based on percentage of expected increased tax withholdings generated by new jobs created.	Create at least 50 new jobs; duration of credit not to exceed 20 years. No requirement for a minimum number of employees to be in Indiana.	Yes, provision for retention includes stiffer guidelines.	Yes	Yes

Iowa (High Quality Jobs Program)	Tax credits or direct financial assistance which includes loans, tax exemptions, and refunds.	Eligible businesses must meet certain wage threshold requirements; amount of tax incentives varies by investment amount in relation to the number of jobs created/retained.	Yes, retained jobs can qualify the business for incentives, though wage thresholds apply.	Yes	No
Kentucky (Business Investment Program)	Corporate income tax credits and wage assessments (subsidies drawn from wages).	Create and maintain minimum of 10 new full-time jobs for KY residents, incurring eligible costs of at least $100,000.	No	No	No
Missouri (Missouri Works Program)	Benefits are either the retention of State withholding tax or State tax credits.	Minimum of 2 new jobs or retention of 50; paired with minimum new capital investment and wage thresholds.	Yes, retention requirements differ slightly from creation requirements.	Yes	Yes
New York (Excelsior Jobs Program)	Five fully refundable tax credits against various New York taxes over a 10-year period.	Job requirements vary by industry; anywhere from 5 new jobs for scientific research to 300 new jobs and $6M investment for a larger firm.	Yes. Limited specifics provided, but job retention is an eligible activity.	Yes	No
Texas (Texas Enterprise Fund)	Award based on average wage, hiring timeline and number of jobs created, subject to adjustment based total proposed capital investment	New jobs exceed 75 in urban areas or 25 in rural areas. Total average wage must meet or exceed average county wage.	No	No	Yes
Wisconsin (Business Development Tax Credit)	Tax credit against Wisconsin tax liability.	50% if Eligible Employees' wages are greater than 400 percent of the federal minimum wage. The amount of Tax Credits awarded for job creation may equal up to 10% of the annual wages for Eligible Employees. Tax Credits may not be earned for wages over $100,000 per year. Must meet capital investment requirements.	Yes	Yes	Yes

* "Transferable" refers to the company's ability to sell or otherwise dispose of unused credits.

** "But for" refers to whether the company must demonstrate an out-of-state option to qualify for the Program.

4: CONCLUSIONS ON EFFECTIVENESS

In 2023, legislative enhancements to the EDGE Program significantly boosted the effectiveness of the Program. The increased effectiveness is seen in the data displayed in Table 3 and the graphs that followed. Twenty-two (22) companies in the first seven months of 2023, who certified in their applications the proposed project would not happen in Illinois without the tax credit, were approved for and accepted the incentive offer. That is, one shy of the number of applications reviewed and approved for the entire calendar year in 2021, and nearly twice the number of applications reviewed and accepted within calendar year 2022. The monthly average of jobs companies are committing to retain is up considerably in 2023 (338) versus 2021 (12) and 2022 (4). For the first seven months of 2023, companies approved for EDGE tax credits, made capital investment commitments summing $713,908,918, which is thirty-five percent (35%) more than all of calendar year 2021 and 58 percent more than all of calendar year 2022.

Other metrics continued to demonstrate that companies are benefiting from the tax credit and hence, growing and maintaining their business in Illinois: per the number of certificates issued annually, an annual average tax certificate of around $1 million and the credits awarded annually are consistently close to $6,000 per job created. Additionally, process improvements instituted in early 2023 have made the issuance of tax credit certificates more efficient for business agreement holders and DCEO staff freeing up time for companies to focus on improving their profit margins and DCEO to accommodate the increased interest in the EDGE Program.

The Department believes that the EDGE Program will continue to be an effective and critical tool to attract businesses to Illinois and help businesses continue to grow in the State. Nonetheless, DCEO continues to explore enhancements to the EDGE Program and improvements to its own processes and procedures. Presently DCEO is strategizing how to market the EDGE Program to Startups, so these entrepreneurs can use the incentives that permit Startups to retain the withholding tax attributable to their employees and thereby reduce upfront costs and improve the potential for a successful business.

From January 2019 through the Summer of 2022, the Department worked with the Office of the Auditor General (“OAG”) on the biennial compliance examination and EDGE performance audit, concluded an internal audit of the EDGE Program, worked with faculty and students from the University of Chicago Harris School of Public Policy on a review of the performance of the EDGE Program, and reviewed various policies and procedures related to the Program. The office has implemented many of these improvements and will continue to implement additional controls as the Department increases staff over the coming fiscal year. The Department continues to prioritize implementing the recommendations contained in the OAG audit as well as those of our internal auditors in improving Program performance. The Department looks forward to continuing to work with the General Assembly in revising the Act and its governing rules, where necessary, to improve the EDGE Program and fulfill the purposes of the Act.

DCEO continually evaluates the policies and procedures for the EDGE Program, including exploring alternatives to increase the overall effectiveness. In conjunction with stakeholders, the Department looks forward to working with the Governor's Office and the General Assembly in implementing new statutory provisions as well as exploring potential additional statutory enhancements.