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GOOD MONEY AFTER BAD: "TRANSFERABILITY" WOULD MAKE EDGE TAX CREDITS EVEN MORE DUBIOUS ECONOMIC DEVELOPMENT POLICY

May 15, 2017

1. WHAT ARE EDGE TAX CREDITS?

Economic Development for a Growing Economy ("EDGE") Tax Credits were created by a law signed by Governor George Ryan in 1999. The credits are intended to incentivize companies to create or retain jobs in Illinois that would otherwise be created in or moved to other states, or simply eliminated.

To qualify for an EDGE credit, a company generally must create at least 25 new full-time jobs and make $5 million in capital investments; or, for companies with 100 or fewer employees, create at least five new full-time jobs and invest at least $1 million.[i] If an application is approved, the company is eligible to receive tax credits equal to the state income taxes withheld on its newly hired or retained employees.[ii] These credits are non-refundable—meaning that they cannot be collected as cash if they are larger than the company's total tax bill—but they can be carried forward for up to five years. The tax credit itself lasts for ten years.[iii]

Since 1999, Illinois has issued EDGE credits worth $1.671 billion, though because of the credit's non-refundability, only a fraction of this amount—roughly a third—has actually been claimed.[iv]

2. ARE THERE CONCERNS ABOUT THE EFFICACY OF EDGE TAX CREDITS?

Yes. Many researchers are critical of economic development incentives like EDGE. A 2013 report from the Institute on Taxation and Economic Policy, for example, found that tax incentives "are rarely the deciding factor in whether a business chooses to hire and invest within a state's borders," and tend to displace economic activity by harming existing businesses that don't receive the incentives' benefits.[v] A 2015 report from the Tax Foundation found that state economic incentives often disadvantaged established businesses.[vi]

A 2015 *Chicago Tribune* investigation found problems with the EDGE program specifically. Of 783 EDGE deals examined by the *Tribune*, two out of three businesses receiving the credits "failed to maintain the number of employees that they agreed to retain or hire." Moreover, companies receiving EDGE credits often used a loophole that allowed them to receive money for creating or retaining jobs in one Illinois location while eliminating jobs in another elsewhere in the state. In all, the *Tribune* found that EDGE recipients had cut nearly 24,000 jobs.[vii]

The administration of Governor Bruce Rauner has pledged to curb some of the worst of the abuses under EDGE.

Another problem with Illinois' implementation of EDGE credits has been the growing concentration of benefits under the program. Since January 2015, one out of every three dollars of new EDGE credits, or about $112 million of $338 million, have gone to a single company: Amazon. Meanwhile, Amazon earned over $243 billion in revenue over this period.[viii]

3. MAKING A BAD SITUATION WORSE BY PERMITTING "TRANSFERABILITY"

Currently, companies eligible for an EDGE credit larger than their total state tax burden simply cannot claim all the portion of the credit greater than their taxes. But if EDGE credits were "transferable," a business eligible for an EDGE tax credit could sell all or some of it to another business, creating a way for businesses to monetize the portion of the EDGE credit it otherwise would not have been able to realize. At least one current bill to reform and extend the EDGE program, SB 2071, would create transferable credits under the new name "THRIVE."[ix]

Transferability is poor tax policy for a number of reasons. Most obviously, it provides tax relief to companies that have not been required to create any economic development activity whatsoever. In effect, transferability creates a situation in which the state of Illinois makes a tax expenditure that is intended to provide a public good of job creation, but instead produces nothing of value for the public. This is especially problematic given that EDGE credits reduce the revenue available in the Illinois General Fund, 90 percent of which is spent on core services of education, health care, social services, and public safety. It would be better for Illinois to collect the underlying tax revenue and spend on those four core services than use it to fund a tax expenditure that generates no public good.

And transferability could mean significant new tax expenditures: from 2001 to 2014, about 69 percent of EDGE tax credits went unclaimed because the recipients' tax liabilities were not large enough to claim their full value.[x] If this proportion holds true for 2015 and 2016 (for which figures are not yet publicly available), that would mean about $229 million in EDGE credits went unclaimed.[xi] **If transferability allowed the expenditure of all of these credits, that would mean over $100 million less in state revenue per year.**

Transferability also generates significant inefficiency: In order for the third party to benefit from purchasing the transferable tax credits, it must pay less than their dollar value. In general, companies selling their transferable economic development tax credits receive just 80 to 90 cents per dollar of credit, meaning that 10-20 percent of the state's tax expenditure is never received by the intended beneficiary.[xii]

For these reasons, transferability of economic development tax credits has come under fire in other states. A 2011 legislative tax force appointed by Oklahoma Governor Mary Fallin identified ending transferability as one of its primary recommendations to reform that state's economic development incentives.[xiii]

ENDNOTES

[i] PricewaterhouseCoopers. “Illinois EDGE credit program extended to April 30, 2017.” January 26, 2017. https://www.pwc.com/us/en/state-local-tax/newsletters/salt-insights/assets/pwc-illinois-edge-credit-program-extended-to-april-30-2017.pdf

[ii] Great River Economic Development Foundation. “EDGE Tax Credits.” Undated. http://www.gredf.org/wp-content/uploads/Illinois-EDGE-Tax-Credits1.pdf

[iii] Ibid.

[iv] CTBA analysis of Illinois Department of Commerce and Economic Opportunity, “2015 Economic Development for a Growing Economy (EDGE) Tax Credit Program Annual Report,” June 30, 2016, https://www.illinois.gov/dceo/AboutDCEO/ReportsRequiredByStatute/Final%20Draft%20of%202015%20EDGE%20Annual%20Report.pdf; and Illinois Department of Commerce and Economic Opportunity, “EDGE Agreements,” undated, https://www.illinois.gov/dceo/ExpandRelocate/Incentives/Pages/EdgeAgreements.aspx

[v] Institute on Taxation and Economic Policy. “Tax Incentives: Costly for States, Drag on the Nation.” August 14, 2013. http://itep.org/itep_reports/2013/08/tax-incentives-costly-for-states-drag-on-the-nation.php#.WRXvHFUrLIU

[vi] Tax Foundation. “Location Matters 2015.” August 26, 2015. https://taxfoundation.org/location-matters-2015/

[vii] Berens, Michael J. and Long, Ray. “Illinois businesses get lucrative EDGE tax breaks, fall short of job goals.” *Chicago Tribune*, October 2, 2015. http://www.chicagotribune.com/news/watchdog/ct-illinois-corporate-tax-breaks-met-20151002-story.html

[viii] MarketWatch. “Amazon.com Inc.” Accessed May 15, 2017. http://www.marketwatch.com/investing/stock/amzn/financials

[ix] Illinois General Assembly. “Bill Status of SB 2071.” http://www.ilga.gov/legislation/BillStatus.asp?DocNum=2071&GAID=14&DocTypeID=SB&LegID=105628&SessionID=91&SpecSess=&Session=&GA=100

[x] Illinois Department of Commerce and Economic Opportunity, “2015 Economic Development for a Growing Economy (EDGE) Tax Credit Program Annual Report,” June 30, 2016, https://www.illinois.gov/dceo/AboutDCEO/ReportsRequiredByStatute/Final%20Draft%20of%202015%20EDGE%20Annual%20Report.pdf

[xi] CTBA analysis of Illinois Department of Commerce and Economic Opportunity, “EDGE Agreements,” undated, https://www.illinois.gov/dceo/ExpandRelocate/Incentives/Pages/EdgeAgreements.aspx

[xii] Goodman, Josh. “Tax Breaks for Sale: Transferable Tax Credits Explained.” The Pew Charitable Trusts, December 14, 2012. http://www.pewtrusts.org/en/research-and-analysis/blogs/stateline/2012/12/14/tax-breaks-for-sale-transferable-tax-credits-explained; and

[xiii] Wertz, Joe. “Task Force Recommends Reigning-In Tax Credits and Incentives.” *NPR StateImpact*, December 1, 2011. https://stateimpact.npr.org/oklahoma/2011/12/01/task-force-recommends-reigning-in-tax-credits-and-incentives/

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