



Thank you for the opportunity to address this joint committee hearing to discuss Illinois tax policy and its impact on economic development, specifically the manufacturing sector.

The Illinois Manufacturers' Association is the oldest and one of the largest state manufacturing trade associations in the United States. Founded in 1893, the IMA currently represents nearly 4,000 member companies and facilities that employ 580,000 workers directly and contribute the single largest share of the Gross State Product. Our members are publicly and privately owned; small, medium and large; and represent nearly every vertical within the manufacturing sector.

To show the importance of manufacturing to the Illinois economy, I'll point out a few quick statistics. From 2009 to 2012, Illinois exports increased by \$26.5 billion, or 64 percent. Total state exports now top \$68 billion and 92 percent of the growth in exports came from the top ten industries that include machinery, chemicals, transportation equipment, agriculture and food products, electrical equipment and appliances, fabricated metal products, petroleum and coal products, manufactured commodities, and plastic and rubber products.

We appreciate the opportunity to discuss Illinois' job climate including its strengths and weaknesses so that the General Assembly can craft a tax system that will encourage capital investment and job creation in the state. **The best tax system is one that is broad based with low rates.**

As I noted in January at the first hearing, I'm not going to sit here and say that tax policy is always the absolute most important issue for economic development because every company uses different criteria. It could be the high cost of Workers' Compensation, proximity to customers or suppliers, access to a skilled workforce, the cost of labor or electricity, permitting and regulatory structure, or access to good roads, waterways and airports. **However, I can tell you that the cost of state and local taxes is a major factor in nearly every final decision.**

I would note that this opinion is backed up by research conducted by the Tax Foundation and KPMG that concluded "state and local taxes represent a significant cost for corporations operating in the United States, having a material impact on net operating margins. Consequently, business location decisions for new manufacturing facilities, corporate HQ relocation, and the like are influenced by the by the assessments of relative tax burdens."

I'd like to discuss a few specific issues of importance to manufacturers:

1. **Illinois' tax climate is unpredictable.** Employers need stability and predictability before they choose to invest their capital and they don't have that today in Illinois. Our state's debt is more than \$6 billion and in the past several years, Illinois employers have faced a gross receipts tax, a 3 percent payroll tax, elimination of every credit and exemption, sunset of the Research & Development tax credit, and imposition of the largest income tax increase in history.
2. **Illinois needs a permanent and modern Research & Development Tax Credit:** Research and development is the lifeblood of American manufacturing that needs to innovate and develop new products to remain competitive. Since 1999, the U.S. share of R & D has dropped from 39 percent to 31 percent while China's spending has increased fourfold. Illinois is a microcosm of the problem because the credit has not been modernized since it was originally created in the 1980s and now falls under the sunset law. In 2011, the Governor and General Assembly actually allowed it to sunset for 11 months before being reinstated.

Earlier this week, President Obama, Senator Durbin, and Mayor Emanuel proudly announced that Illinois was selected for a nearly \$300 million Digital Manufacturing and Design Innovation Institute in Chicago that is funded by the federal government (\$70 million), state government (\$16 million) and the private sector (\$200 million). This is a research hub in Illinois where new technology will be developed for advanced manufacturing.

Why is the R & D credit important to Illinois? I would note that from 2009 to 2012, Illinois exports increased by \$26.5 billion, or 64 percent. Total exports now top \$68 billion and 92 percent of the growth in exports came from the top ten industries that include machinery, chemicals, transportation equipment, agriculture and food products, electrical equipment and appliances, fabricated metal products, petroleum and coal products, manufactured commodities, and plastic and rubber products.

These statistics from the World Institute for Strategic Economic Research (WISER) **clearly shows that Illinois needs a strong and vibrant manufacturing sector if the state wants to continue growing its exports**

The majority of states have an R & D Credit:

- Indiana – 15 percent on first \$1 million
- Iowa – 6.5 to 16.5 percent
- Minnesota – 10 percent on first \$2 million, 2.5 percent after \$2 million
- Pennsylvania – 10 percent, statewide cap, 20 percent small business
- California – tiered credit 2 to 24 percent
- Wisconsin – 5 percent for increase, 10 percent for certain activities

### **3. Single Sales Factor Benefits Illinois Companies:**

The Single Sales Factor encourages the location and expansion of companies in Illinois. Our state was one of the first in the nation to pass the law when it took effect in 1998. Since then, numerous states have enacted similar laws including neighboring states Indiana, Missouri, Iowa, Wisconsin, Michigan and other large manufacturing states like Pennsylvania, California (optional SSF), New York, and Georgia.

### **4. Manufacturers Machinery & Equipment Exemption**

The manufacturing M & E exemption provides a sales tax exemption for the purchase of manufacturing machinery and equipment that is placed into production in Illinois. While this is not tied directly to a set number of jobs, it's very clear that if companies don't buy new equipment or retool their facilities, then there will be an impact on the company's ability to produce products and employ workers.

### **5. Manufacturers Purchase Credit**

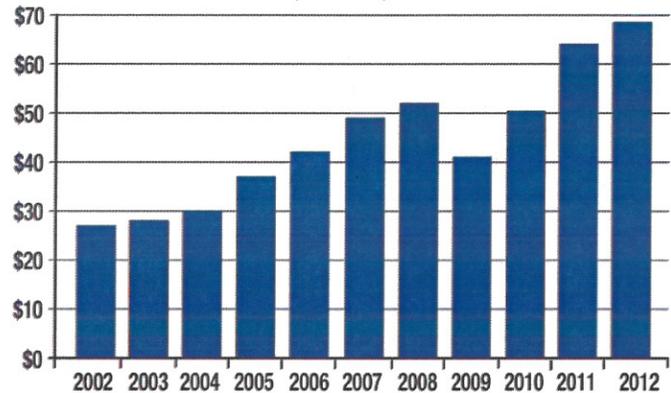
The General Assembly created the Manufacturers Purchase Credit in 1995 to encourage manufacturers to invest their capital and encourage production in Illinois. MPC is an incentive only provided to companies **after** they have purchased manufacturing equipment and placed it in service in Illinois. The MPC helps lower the cost of producing goods and encourages manufacturing activity in Illinois.

# Illinois in the International Marketplace

## Exports are a Significant Portion of Illinois' Economy

- From 2009 through 2012, Illinois exports increased by \$26.5 billion, or 64%, well above the national average of 46%
- Illinois exports totaled over \$68.1 billion in 2012, increasing 5.1% or \$3.3 billion over 2011, exceeding average U.S. export growth for the second consecutive year
- Direct exports accounted for nearly 10% of the Gross State Product (GSP) in 2012
- Illinois is the largest exporting state in the Midwest and the 5th largest exporting state in the U.S.

**Illinois Exports**  
(in billions)



Top 10 Industries for Illinois Exports	Annual 2012 (billions)	Annual 2011 (billions)	Growth (%)
Machinery, Except Electrical	20.2	17.8	13.0
Chemicals	7.8	8.5	-7.3
Transportation Equipment	7.4	6.7	10.4
Computers and Electronic Products	6.3	6.1	3.0
All Agricultural and Food Products	6.2	6.1	2.6
Electrical Equipment, Appliances, and Components	3.3	3.1	6.0
Fabricated Metal Products	3.0	2.8	5.5
Petroleum and Coal Products	2.9	3.1	-7.4
Miscellaneous Manufactured Commodities	2.3	2.3	-0.6
Plastics and Rubber Products	1.9	1.6	12.7
<b>TOTAL ALL COUNTRIES</b>	<b>68.1</b>	<b>64.8</b>	<b>5.1</b>

## Illinois Exports a Diverse Range of Industrial, Agricultural, and Consumer Products

- 92% of growth came from top 10 industries
- Machinery was the single largest contributor to growth by monetary value and percentage, with a \$2.3 billion, or 13% increase over 2011
- Notable growth industries include:
  - Transportation Equipment \$0.7 billion (10%)
  - Rubber and Plastic Products \$0.2 billion (13%)
  - Electrical Equipment, Appliances, and Components \$0.2 billion (6%)

Top 10 Countries for Illinois Exports – 70% of Total	Annual 2012 (billions)	Annual 2011 (billions)	Growth (%)
Canada	19.4	19.5	-0.3
Mexico	6.4	5.7	11.6
Australia	5.4	3.7	44.7
China	4.1	3.9	6.5
Germany	2.7	2.5	6.4
Brazil	2.3	2.6	-8.1
Japan	2.1	2.0	2.8
United Kingdom	2.0	2.4	-13.5
Belgium	1.9	1.7	14.3
Chile	1.5	1.1	28.0
<b>TOTAL ALL COUNTRIES</b>	<b>68.1</b>	<b>64.8</b>	<b>5.1</b>

## Illinois' Export Growth Comes from Around the Globe

- 86% of growth came from top 15 markets
- Australia was the largest single contributor to growth by monetary value and percentage, with a \$1.7 billion, or 45% increase over 2011
- Notable growth markets include: Mexico \$0.7 billion (12%); Chile \$0.3 billion (28%); South Africa \$0.3 billion (32%); China \$0.3 billion (6%); Belgium \$0.2 billion (14%)



## Illinois in the International Marketplace

### Foreign Direct Investment (FDI) in Illinois – 2013

- Illinois is home to over 2,000 foreign firms that employ more than 350,000 Illinois residents
- Illinois is ranked 5th among all states and Chicago 2nd among all metropolitan areas in locations for new and expanded corporate facilities (Site Selection Magazine)
- Chicago is the commercial capital of the U.S., with two of the top international exchanges (Chicago Board of Trade and Chicago Board Options Exchange)
- Chicago is the #1 container hub in the western hemisphere. Illinois' 13 port districts offer many companies direct links to the Atlantic Ocean, Great Lakes, and Gulf of Mexico
- O'Hare is among the world's busiest airports, served by all major international carriers and the only "dual hub" airport system in North America, handling over 3,100 flights per day with non-stop or direct global gateways to 68 international business capitals
- Foreign trade zones, located at eight sites across the state, offer low-cost production and warehousing facilities for import and export-bound products

### Illinois' Top Markets for Foreign Direct Investment

Country	Companies	Locations	Employees
UK	225	1,601	83,268
Japan	410	1,387	53,725
Canada	217	1,136	40,334
Germany	231	1,199	38,470
France	105	573	24,726
Switzerland	101	563	19,700
Netherlands	68	399	14,165
Luxembourg	27	270	11,702
New Zealand	14	67	10,269
Italy	64	153	9,785
All Other	557	1,679	53,571
<b>Total</b>	<b>2,019</b>	<b>9,027</b>	<b>359,715</b>

### Top 15 Foreign Firms with Employment in Illinois

Firm	Country	Employment
AON	UK	25,403
Harris BMO Bank	Canada	13,483
HSBC Holdings PLC	UK	7,922
Aioi Insurance Co Ltd.	Japan	7,000
Schneider Electric	France	6,750
Arcelormittal SA	Luxembourg	6,672
First Group PLC (Greyhound Lines)	UK	6,465
Canadian National Railway	Canada	6,368
Pactive Corporation	New Zealand	6,178
BP Products North America	UK	5,915
Chrysler-Fiat SA	Italy	5,778
Siemens Industry, Inc.	Germany	5,087
WPP PLC	UK	3,570
Mitsubishi Motors Corporation	Japan	3,358
UCI Holdings Limited (Champion Laboratories, Inc.)	New Zealand	3,281

### Top 15 Illinois Firms with Overseas Employment

Firm	Headquarters	Overseas Employment
McDonalds	Oak Brook	161,523
Mondelez Int. (Kraft)	Northfield	38,294
Illinois Tool Works	Elgin	34,212
Sears Holding Co.	Hoffman Estates	29,053
Abbott Laboratories	Abbott Park-N. Chicago	21,691
Caterpillar	Peoria	21,276
Motorola Solutions	Schaumburg	20,116
Jones Lang La Salle, Inc.	Chicago	18,903
Molex, Inc.	Lisle	17,455
Deere & Co.	Moline	15,242
Claire's, Inc.	Hoffman Estates	13,339
Dover Corp.	Downers Grove	10,930
Hillshire Brand (Sara Lee)	Chicago	9,862
Aptargroup, Inc.	Crystal Lake	7,243
Archer Daniels Midland	Decatur	6,822

Export Data Source – WISER

Foreign Direct Investment Data Source – Dunn and Bradstreet January 2013