

STOP SAYING THAT ILLINOIS IS BAD FOR BUSINESS

The Data Show Otherwise

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INTRODUCTION

It is often said that businesses suffer from certain policies and regulations enacted in Illinois. Some think tanks and politicians argue that Illinois is a bad state in which to do business due to high corporate income taxes. For example, one commentator states that Illinois is falling behind Indiana, Michigan and Missouri in tax climate, contending that Illinois “should review the ways in which [neighboring] states have succeeded in creating a stronger business tax climate” (Steere, 2014).

However, actual Census data on business patterns show that Illinois is doing just as well – if not better – than its neighboring states. Compared to most neighboring states, Illinois has more workplaces per 1,000 residents, more small businesses, and higher employment rate. In addition, Illinois surpasses every neighboring state in both household income and compensation per employee, and in the number of corporations and s-corporations.

This Illinois Economic Policy Institute (ILEPI) Economic Commentary is grounded in the premise that actions speak louder than words. Illinois’ business data is compared to information from all five border states - Indiana, Iowa, Kentucky, Missouri, and Wisconsin. The report analyzes data from the 2013 County Business Patterns and the 2013 American Community Survey (1-Year Estimates), both collected and released by the U.S. Census Bureau. Ultimately, despite claims that business costs and taxes are too onerous in Illinois compared to neighboring states, the positives of doing business in Illinois continue to outweigh the negatives.

ESTABLISHMENT DEFINITION

An “establishment” is a single physical location at which business is conducted. It is not necessarily the same as a company, because a company may consist of one or more establishments. Workplaces, worksites, offices, and industrial plants are therefore establishments.

BACKGROUND ON STATE BUSINESS TAX CLIMATES

The 2013 “State Business Tax Climate Index” by the conservative-leaning Tax Foundation rated Illinois as having the 29th-best tax climate in the nation (Drenkard & Henchman, 2012). Illinois was ranked behind Indiana (11th), Missouri (16th), and Kentucky (24th) in the region. Iowa (42nd) and Wisconsin (43rd), however, were given poorer ratings than Illinois.

State corporate income tax rates are largely responsible for these rankings. Iowa and Kentucky have a graduated state corporate income tax rate that ranges depending on the size of the corporation. In 2013, Iowa’s corporate income tax rate ranged from 6 percent to 12 percent, while Kentucky’s only ranged from 4 percent to 6 percent. Indiana (8.0 percent), Missouri (6.25

percent), and Wisconsin (7.9 percent) all had flat corporate taxes such that the tax rate was the same no matter how much money businesses made.

Illinois also has a flat corporate income tax. In 2013, the state levied a 7.0 percent corporate tax on net income. In addition, corporations and S-corporations also respectively paid 2.5 percent and 1.5 percent in the form of a “Personal Property Replacement Tax,” which is collected and distributed to local governments across the state. Combined, the 2013 tax of 9.5 percent for corporations placed Illinois relatively higher than the region and the nation, which is often why some argue that Illinois’ tax climate is bad for business.

However, two important facts must be noted. First, only a small amount of Illinois corporations paid the supposedly-burdensome tax. Recent analysis has found that 70 percent of all corporations in Illinois pay no corporate income taxes. Only about 300 corporations– with tax liabilities greater than \$1,000,000– account for 67.5 percent of all corporate tax revenue in Illinois (Martire et al., 2014). Second, as of January 2015, the state tax rate declined from 7.0 percent to 5.25 percent, lowering the combined rate to 7.75 percent for corporations.

Despite claims of a poor tax climate, Illinois has a competitive employment rate– which is the number of employees divided by the overall population in a state (Figure). In addition to having more people and more business establishments than any border state, Illinois has a 59.5 percent employment rate. This is in line with neighboring states within approximately ±5 percentage points. In fact, Illinois had a higher employment rate in 2013 than Indiana, Kentucky, and Missouri– the three border states ranked higher by the Tax Foundation’s “State Business Tax Climate Index”– but a lower employment rate than Iowa and Wisconsin, the states ranked below Illinois.

Figure 1: Population, Establishments, and Employment by State, 2013

States	Population, 16 Years and Over	Number of Establishments	Employment Rate, 16 Years and Over
Illinois	10,205,949	315,364	59.5%
Indiana	5,148,420	143,515	58.7%
Iowa	2,448,772	80,581	64.4%
Kentucky	3,491,773	90,675	54.2%
Missouri	4,798,628	150,290	58.5%
Wisconsin	4,585,045	137,983	62.7%

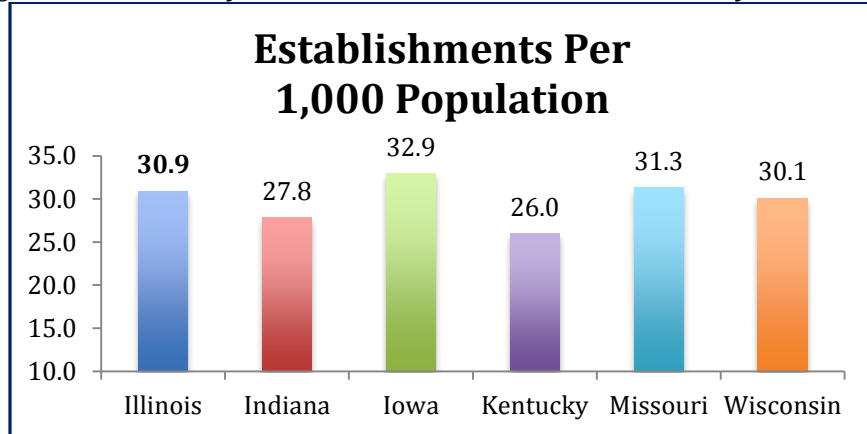
Source(s): 2013 County Business Patterns and 2013 American Community Survey (1-Year Estimates).

ANALYSIS OF BUSINESS DATA

Illinois’ corporate tax rate– which has been lowered since 2013– did not put Illinois at a significant disadvantage compared to neighboring states.

In 2013, Illinois’ had 30.9 business establishments per 1,000 residents (Figure 2). Iowa (32.9) and Missouri (31.3) had only slightly higher numbers of workplace per 1,000 residents. By contrast, Illinois had more business establishments per capita than Indiana (27.8), Kentucky (26.0), and Wisconsin (30.1). Faring about as well or even better than border states, Illinois is clearly not the worst state in which to do business in the region. According to this data, corporate income taxes in Illinois are not deterring businesses from operating in Illinois.

Figure 2: Number of Establishments Per 1,000 Residents by State, 2013

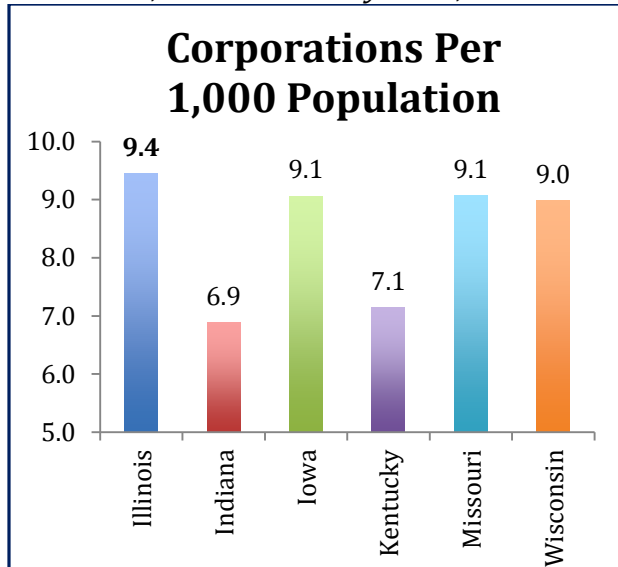


Source(s): 2013 County Business Patterns and 2013 American Community Survey (1-Year Estimates).

Whereas Figure 2 investigated all types of establishments per capita, Figures 3 and 4 focus exclusively on corporations and S-corporations. Compared to its neighboring states, Illinois has the highest per-capita number of both corporations and S-corporations. (Figures 3 and 4).

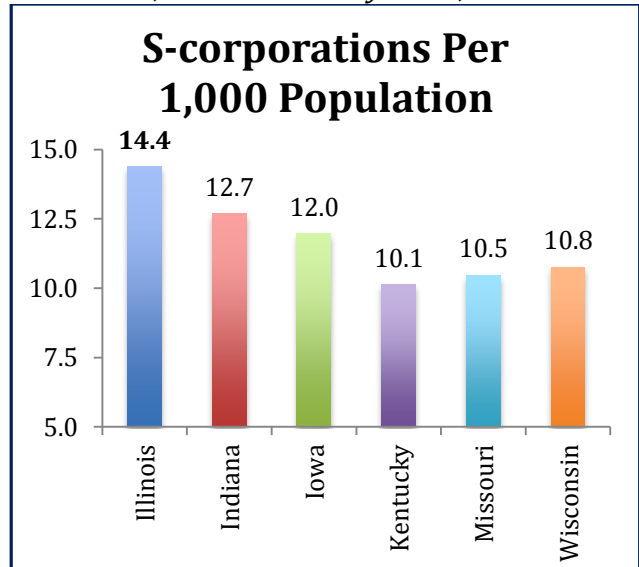
At 9.4 corporations per 1,000 residents, slightly more corporations are located in Illinois than in Iowa (9.1), Missouri (9.1), and Wisconsin (9.0) (Figure 3). In addition, Illinois has more than 2 corporations for every 1,000 people than both Indiana (6.9) and Kentucky (7.1). Despite paying a 7.0 percent net income tax to the state and a 2.5 percent net income tax to local governments, corporations were still located in Illinois at a higher frequency than neighboring states in 2013. Note again that Illinois' state corporate tax has dropped to 5.25 percent for corporations.

Figure 3: Number of Corporations Per 1,000 Residents by State, 2013



Source(s): 2013 County Business Patterns and 2013 American Community Survey (1-Year Estimates).

Figure 4: Number of S-Corporations Per 1,000 Residents by State, 2013



Source(s): 2013 County Business Patterns and 2013 American Community Survey (1-Year Estimates).

Illinois also had 14.4 S-corporations per 1,000 residents in 2013 (Figure 4). Only Indiana (12.7) and Iowa (12.0) came close to Illinois in terms of the proportionate numbers of S-corporations. Illinois had about 3 more S-corporations for every 1,000 people than there were in Kentucky (10.1), Missouri (10.5), and Wisconsin (10.8). Despite paying a 7.0 percent net income tax to the state and a 1.5 percent net income tax to local governments, more S-corporations also choose to do business in Illinois in 2013. Note again that Illinois' state tax has dropped to 5.25 percent for S-corporations.

Furthermore, as of 2015, Illinois has the 6th most Fortune 1000 Companies per capita in the country (Manzo & Bruno, 2015). Figure 5 replicates data from a previous report by the Illinois Economic Policy Institute and the University of Illinois, which shows that Illinois has 12.1 Fortune 1000 company headquarters for every one million workers. Missouri is the next-highest border state, with 10.3 top companies per million workers. Wisconsin (9.6), Indiana (6.7), Kentucky (5.3), and Iowa (3.8) all trail behind. This, combined with the previous 2013 data, shows that Illinois attracts companies— both large and small— to locate and operate within the state. Illinois is a competitive place to do business compared to neighboring states.

Figure 5: Comparison of Fortune 1000 Companies Per Million Workers, 2015

Rank	State	Top Companies Per Million Workers
US	US Average	8.4
6	Illinois	12.1
12	Missouri	10.3
14	Wisconsin	9.6
26	Indiana	6.7
29	Kentucky	5.3
36	Iowa	3.8

Source(s): Manzo & Bruno (2015) analysis of Fortune 1000 data.

Along with a proportionately number of companies per capita located within state borders, Illinois workers and households earn more money than their neighbors across state lines (Figure 6). Compensation per employee was \$50,347 in Illinois in 2013, while worker compensation in neighboring states ranged from about \$7,800 to \$12,100 less. Likewise, the average household income in Illinois was \$79,009 in Illinois, which was between \$10,000 and \$20,000 more than border states.

Figure 6: Compensation and Household Income by State, 2013

State	Compensation Per Employee	Mean Household Income
Illinois	\$50,347	\$79,009
Indiana	\$40,350	\$63,249
Iowa	\$38,571	\$68,075
Kentucky	\$38,173	\$59,323
Missouri	\$41,814	\$63,241
Wisconsin	\$42,516	\$67,292

Source(s): 2013 County Business Patterns and 2013 American Community Survey (1-Year Estimates).

High incomes are reflective of Illinois' highly educated workforce. Illinois maintains a high-income, high-skill workforce with well-connected markets that benefit business

establishments (Manzo, 2014). High levels of education translate into high levels of productivity, which in turn are rewarded by high wages. With higher incomes, workers have more money to spend in the economy, increasing consumer demand. This mutually-beneficial relationship—companies want both skilled workers and customers— attracts businesses to Illinois. Thus, the truth borne out by actual economic data is that companies are attracted to Illinois and the state is competitive with neighboring economies, despite claims to the contrary.

CONCLUSION

Claims that Illinois' business environment is falling behind neighboring states are refuted by the actual actions of corporations and other companies. Despite a high corporate tax compared to border states, Illinois had more business establishments per capita, more corporations per capita, and more S-corporations per capita than almost every neighboring state. A supposedly mediocre business tax climate has not deterred firms from locating their headquarters or conducting business operations in Illinois. Illinois is not the worst state to do business in the region. In fact, the state is competitive with Indiana, Iowa, Kentucky, Missouri, and Wisconsin, and offers a higher-skilled and better-paid workforce than neighboring states. Ultimately, Illinois remains a great place to do business.

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