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Explaining How Certain Tax Incentive Programs Work

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By Ares G. Dalianis and Scott R. Metcalf

Over the past few months the media has reported extensively on the State's use of tax incentives to induce high-profile companies to remain in Illinois and not depart for other locales courting these businesses and the many jobs they sustain. Most people are familiar with how Tax Increment Financing (TIF) works as an economic development tool for municipal government. Fewer, however, are familiar with the other economic development programs utilized at the State level. Two programs often implemented are the Economic Development for a Growing Economy Tax Credit Act (EDGE) and the Economic Development Area Tax Increment Allocation Act (EDA). This FR Alert provides a brief explanation of how these programs work and the benefits they provide in the event that this becomes an issue in your community.

The EDGE tax credit program uses the state income tax to encourage the location and expansion of medium and large companies in Illinois. Under the statute, the Department of Commerce and Economic Opportunity is authorized to enter into agreements with companies that attest to competition from another state for their business location and propose specific projects involving either capital investment or employment opportunities in Illinois. The agreement must describe, among other things, the project to be undertaken and the amount and duration of the income tax credit to be allowed. The credit may be applied either to the company's own income tax liability or to the withholding tax the company deducts from its employees' compensation and which would otherwise be turned over to the State. In other words, the EDGE tax credit program allows a company to keep income taxes, either corporate or personal, that the State would otherwise receive. More information on the EDGE tax credit is available here.

The EDA program, on the other hand, is a property tax-based incentive. It functions in many respects like a TIF. The equalized assessed value of the property in the project area is frozen at the beginning of the EDA, and the property tax revenue generated from the incremental increases in the equalized assessed value of the property are used to fund redevelopment project costs and retire debt incurred to pay for those project costs.

The EDA program differs in several important respects from TIFs. First, unlike a TIF district there is no opportunity for school districts or other local taxing districts to participate in a Joint Review Board. Instead, 30 days prior to the required public hearing on the development plan, the municipality must send a notice to all affected taxing districts. At the public hearing, taxing districts may file written objections and be heard orally with respect to the plan. Second, there is no requirement that an area be blighted in order to form an Economic Development Area. Therefore, an EDA works well in suburban and rural areas. Third, the municipal ordinance approving the development plan must include a finding that the project will create or retain not less than 2,000 full-time jobs and that not less than $100,000,000 in private investment will occur in the project area. Finally, the Illinois Department of Revenue has the authority to approve or deny the creation of the EDA.

Each individual economic development project will have a unique impact on a local school district and other taxing agencies. Therefore, each project should be analyzed differently. Understanding how the various economic development programs work, however, can help local officials remain informed and knowledgeable about specific projects as well as anticipate and plan for the impact on their organization.

More Information

Ares G. Dalianis
agd@franczek.com
312.786.6163

Scott R. Metcalf
srm@franczek.com
312.786.6104

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