

BOONE COUNTY ENTERPRISE ZONE PROGRAM



INCENTIVE QUESTIONS AND ANSWERS

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INTRODUCTION

The Illinois Enterprise Zone Program is designed to stimulate economic growth and neighborhood revitalization in targeted areas of the state. This is accomplished through state and local tax incentives, regulatory relief, and improved governmental services.

Boone County has had one of the most successful Enterprise Zones in the state, originally certified in 1985 and renewed in 2016. The Boone County Enterprise Zone has helped large, medium, and small businesses create and retain thousands of jobs and invest hundreds of millions of dollars while reaping substantial tax and fee savings.

The renewed and newly expanded Boone County Enterprise Zone include more than 12 miles of eligible property within the City of Belvidere, Village of Capron, Village of Poplar Grove, and unincorporated Boone County. Those government agencies have partnered to offer an array of local incentives in conjunction with state incentives. The incentives available in the Boone County Enterprise Zone are outlined on the following pages. They include:

State Incentives:

- A. Investment Tax Credit**
- B. Sales Tax Deduction**
- C. EZ Machinery and Equipment Sales Tax Exemption**
- D. Utility Tax Exemption**

Local Incentives:

- A. Property Tax Abatement**
- B. Building Permit Fee Reduction**
- C. Other Local Incentives**

The Boone County Enterprise Zone is administered at the local level by **Growth Dimensions for Belvidere-Boone County** at 401 Whitney Blvd., Belvidere, IL 61008, (815) 547-4252, www.growthdimensions.org. More information, including necessary forms, can be obtained by contacting Growth Dimensions.

Growth Dimensions and local officials from Boone County, City of Belvidere, Village of Capron and Village of Poplar Grove will work with your company to ensure you receive maximum benefits under the program.

The Enterprise Zone Program is administered at the state level by the Illinois Department of Commerce and Economic Opportunity (DCEO). For general information on the program, visit www.illinois.gov/dceo/ExpandRelocate/Incentives/taxassistance/Pages/EnterpriseZone.aspx or contact DCEO's Bureau of Business Development at (217) 524-0165.

STATE INCENTIVES

A. INVESTMENT TAX CREDIT

What is the enterprise zone investment tax credit? The Illinois Income Tax Act 35 ILCS 5/201, as amended allows a .5 percent credit against the state income tax for investments in qualified property, which is placed in service in an enterprise zone.

Who are qualifying taxpayers? The credit may be taken by corporations, trusts, estates, individuals, partners and Subchapter S shareholders who make investments in qualified property and who otherwise meet the terms and conditions established by statute.

What is qualified property? "Qualified property" is property which:

- is tangible; whether new or used, including buildings and structural components of buildings; is acquired by purchase as defined in Internal Revenue Code (IRC) Section 179(d);
- is depreciable pursuant to IRC Section 167;
- has a useful life of four or more years as of the date placed in service in an enterprise zone; is used in the enterprise zone by that taxpayer;
- has not been previously used in Illinois in such a manner and by such a person as would qualify for the credit; and, is an improvement or addition made on or after the date the zone was designated to the extent that the improvement or addition is of a capital nature, which increases the adjusted basis of the property previously placed in service in an enterprise zone and otherwise meets the requirements of qualified property.

What are examples of "qualified property"? Examples include buildings, structural components of buildings, elevators, materials tanks, boilers, and major computer installations. Examples of non-qualifying property are land, inventories, small personal computers, trademarks, typewriters, and other small, non-depreciable, or intangible assets.

What does "placed in service" mean? Qualified property is "placed in service" on the earlier of 1) the date the property is placed in a condition of readiness and availability for use, or 2) the date on which the depreciation period of that property begins. To qualify for the enterprise zone investment tax credit, the property must be placed in service on or after the date the zone was certified by the Department of Commerce and Economic Opportunity, and on or before the last day of the firm's taxable year.

What is "depreciable" property? Property must be depreciable pursuant to Internal Revenue Code Section 167. Depreciable property is used in the taxpayer's trade or business or held for the production of income (but not inventory), which is subject to wear and tear, exhaustion or obsolescence.

There are some types of assets that may not be depreciable, even though they are used in the taxpayer's business or trade or are held for the production of income. Good will and land are examples. Other examples of tangible property, which are not depreciable, are inventories, natural resources and currency.

Does “used” property qualify for the enterprise zone investment tax credit? Used property does not qualify if it was previously used in Illinois in such a manner and by such a person as would qualify for either the statewide investment tax credit or the enterprise zone investment tax credit.

Example: A corporation purchases a used pick-up truck for use in its manufacturing business in an enterprise zone from an Illinois resident who used the truck for personal purposes in Illinois. If the truck meets the other requirements for the investment tax credit, it will not be disqualified because it was previously used in Illinois for a purpose, which did not qualify for the credit. However, had the corporation purchased the truck from an Illinois taxpayer in whose hands the truck qualified for the credit, the truck would not be qualified for the investment tax credit, even though the party from whom the truck was acquired had never received an investment tax credit for it.

What is the “basis” value of property? The "basis" value of property, for the purposes of this credit, is defined the same way it is defined for purposes of federal depreciation calculations. Essentially, the basis is the cost of the property, as well as related capital costs.

Does the enterprise zone investment tax credit carry forward? Yes. The credit is allowed for the tax year in which the property is placed in service, or, if the amount of the credit exceeds the tax liability for that year, the excess may be carried forward and applied to the tax liability of the five taxable years following the excess credit year. The credit must be applied to the earliest year for which there is a liability. If there is credit from more than one tax year that is available to offset a liability, the credit accruing first in time is applied first.

B. SALES TAX DEDUCTION

What is the sales tax deduction and what is the retailer's role? Each retailer who makes a qualified sale of building materials to be incorporated into real estate in an enterprise zone established by a county or municipality under the Illinois Enterprise Zone Act by remodeling, rehabilitation or new construction, may deduct receipts from such sales when calculating the tax imposed by this Act. For purposes of this Section, "qualified sale" means a sale of building materials that will be incorporated into real estate as part of a building project for which a Certificate of Eligibility for Sales Tax Exemption has been issued by the Illinois Department of Revenue (IDOR). To document the exemption allowed under this Section, the retailer must obtain from the purchaser a copy of the Certificate of Eligibility for Sales Tax Exemption issued by IDOR. Here is a link to the IDOR bulletin outlining the process for receiving the building material sales tax exemption:

<http://www.revenue.state.il.us/Publications/Bulletins/2013/FY-2013-16.pdf>

Do all retailers offer a point of sale exemption? No. Retailers are not required by law to participate. The purchaser must ask the retailer for cooperation on this incentive. Retailers have, however, demonstrated good cooperation throughout the history of this program, as this incentive permits them to give customers a "break" without cost to themselves.

What qualifies as "building materials" eligible for the sales tax deduction? Building materials that are eligible for the enterprise zone sales tax deduction include items that are permanently affixed to real property such as lumber, mortar, glued-down carpets, paint, wallpaper and similar affixed items.

C. EZ MACHINERY AND EQUIPMENT SALES TAX EXEMPTION

What is the EZ Manufacturing Machinery and Equipment (M, M & E) Sales Tax Exemption?

The Revenue Act 35 ILCS 120/1d-1f, as amended allows a business enterprise that is certified by DCEO, that *either creates a minimum of 200 full-time equivalent jobs in Illinois; or retains a minimum of 2,000 full-time jobs in Illinois; or which retains 90% of the existing jobs*, a 6.25 percent state sales tax exemption on all tangible personal property which is used or consumed within an enterprise zone in the process of manufacturing or assembly of tangible personal property for wholesale or retail sale or lease. This exemption includes repair and replacement parts for machinery and equipment used primarily in the wholesale or retail sale or lease, and equipment, manufacturing fuels, material and supplies for the maintenance, repair or operation of manufacturing, or assembling machinery or equipment.

How does a business become eligible for the M, M & E Sales Tax Exemption? To be eligible for this incentive, DCEO must certify that the business has made an investment of at *least \$5 million in an enterprise zone and has created a minimum of 200 full-time equivalent jobs in Illinois or has made an investment of at least \$40 million in an enterprise zone and has retained a minimum of 2,000 full-time jobs in Illinois or has made an investment of \$40 million in an enterprise zone and retained 90 percent of the jobs in place on date of certification*. A majority of the “jobs created” or “retained” must be in the Enterprise Zone in which the eligible investment is made. A business must submit an application to DCEO documenting the eligible investment and that the job creation or job retention criteria will be met.

What is an eligible investment? For purposes of this incentive, eligible investment may be either: 1) investments in qualified property as defined in the Enterprise Zone Investment Tax Credit (described on Page 3 of this publication); or, 2) non-capital and non-routine investments and associated service costs made for the basic construction, renovation or improvement of qualified property including productive capacity, efficiency, product quality or competitive position. Regular maintenance and routine expenditures are not included.

Are eligible sales limited to the units of government sponsoring the zone? No. Items eligible for the 6.25 percent state sales tax exemption may be purchased anywhere in Illinois.

What tangible personal property is eligible for the M, M & E sales tax exemption? To be eligible for this exemption the tangible personal property **must** be directly used or consumed in the process of manufacturing or assembling tangible personal property for wholesale or retail sale or lease. Examples of this include: repair and replacement parts; hand tools; materials and supplies such as abrasives, acids or lubricants; protective clothing and safety equipment; and, any fuel used for machinery and equipment.

NOTE: The above examples are only exempt to the extent they are used with machinery and equipment that qualifies for the statewide Manufacturing Machinery and Equipment Sales Tax Exemption.

D. UTILITY TAX EXEMPTION

What is the Utility Tax Exemption? The Public Utilities Act 220 ILCS 5/9-222.1, as amended and the Telecommunications Excise Tax Act 35 ILCS 630/2(a)(5), as amended allows a business enterprise that is certified by DCEO, as making an investment in a zone *that either creates a minimum of 200 full-time equivalent jobs in Illinois or retains a minimum of 1,000 full-time jobs in Illinois*, a 5 percent state tax exemption on gas, electricity and the Illinois Commerce Commission .1 percent administrative charge and excise taxes on the act or privilege of originating or receiving telecommunications. Local units of government may also exempt their taxes on gas, electricity and water.

How does a business become eligible for the Utility Tax Exemption? To be eligible for this incentive, DCEO must certify that the business makes *an investment of at least \$5 million in an enterprise zone and has created a minimum of 200 full-time equivalent jobs in Illinois or makes an investment of at least \$175 million in an enterprise zone and has created a minimum of 150 full-time equivalent jobs in Illinois or makes an investment of at least \$20 million in an enterprise zone and has retained a minimum of 1,000 full-time jobs in Illinois*. A majority of the “jobs created” or “retained” must be in the Enterprise Zone in which the eligible investment is made. A business must submit an application to DCEO documenting the eligible investment and that the job creation or job retention criteria has been met.

What is an eligible investment? For purposes of this incentive, eligible investment may be either: 1) investments in qualified property as defined in the Enterprise Zone Investment Tax Credit (described on Page 3 of this publication); or, 2) non-capital and non-routine investments and associated service costs made for the basic construction, renovation or improvement of qualified property including productive capacity, efficiency, product quality or competitive position. Regular maintenance and routine expenditures are not included.

LOCAL INCENTIVES

A. PROPERTY TAX ABATEMENT

What is the Enterprise Zone Property Tax Abatement incentive? The Illinois Enterprise Zone Act allows any taxing district to abate any portion of its taxes on real property located within an Enterprise Zone upon which new improvements have been constructed or upon which existing improvements have been renovated or rehabilitated. Property tax abatement is provided by the City of Belvidere, Boone County, Village of Capron, Village of Poplar Grove, Belvidere Township, Belvidere School District #100, and Belvidere Park District.

To what extent are property taxes abated in the Boone County Enterprise Zone? Property taxes are abated on improvements to commercial and industrial properties in increments of 80% the first year, 60% the second year, 40% the third year and 20% the fourth year. The abatement is for the portion of taxes on improvements to the property.

Additional property tax abatements are available for individual industrial taxpayers who construct further improvements beyond those that were abated in the above incentive or who cause their suppliers to construct new improvements. If the improvements total at least \$2 million, property taxes are abated in increments of 80% the first year, 60% the second year, 40% the third year and 20% the fourth year. If improvements are a fraction of \$2 million, the abatement will be adjusted proportionately. For example, if the aggregate sum of the improvements result in a \$1 million increase in assessed valuation, the additional abatement shall be 40% of the taxes produced by the increase in assessed valuation caused by the original improvements to said property in the fifth year, 30% in the sixth year, 20% in the seventh year and 10% in the eighth year.

Are taxes abated on existing improvements? No. The abatement applies only to taxes on the increase in assessed value attributable to the new construction, renovation, or rehabilitation. Taxes based on the assessed value of land and existing improvements continue to be collected.

Is the property always reassessed following the construction of new improvements or rehabilitation and/or renovation of existing improvements? Yes. By state law, any time property is improved it must be reassessed.

Is property tax abatement available in tax increment financing districts? No. Property tax abatement is not offered in tax increment financing districts (TIFs). Properties in TIFs that are in the Enterprise Zone, however, and are eligible to receive other tax incentives and benefits.

Are tax incentives and other benefits offered on a case-by-case basis? No. "Case-by-Case" is contrary to the intent of the Enterprise Zone Act. Tax incentives must be offered uniformly and equitably by class. The local ordinance authorizing tax incentives, such as property tax abatement, extends the incentives automatically through eligibility criteria, such as class of property (I.e., residential, commercial and industrial) and formulas (i.e., percentages and number of years available).

B. BUILDING PERMIT FEE REDUCTION

In addition to other state and local incentives provided to commercial and industrial businesses within the Enterprise Zone, **50%** of any building permit fee will be waived when certain information related to development activity within the Zone is provided at the time the permit is requested. Otherwise an applicant will be required to pay the full permit fee.

What kind of information is requested?

- The name of the business
- federal Employer Identification Number
- Unemployment Insurance Number
- estimated cost of construction or renovation, estimated cost of site, estimated cost of capital equipment, total project cost
- project completion date
- full-time equivalent jobs created and or retained, and current employment

Why is this information requested? As a condition of receiving designation as an Enterprise Zone, communities in Illinois are required to report all development activity within their Zones. The Illinois Department of Commerce and Economic Opportunity (DCEO) requires each Enterprise Zone Administrator to file quarterly reports detailing this activity,

C. OTHER LOCAL INCENTIVES

Do Boone County and its municipalities offer incentives in addition to those local benefits already discussed? Yes. The County, municipalities, and Growth Dimensions, the public-private partnership formed to promote economic development in Boone County and the communities of Belvidere, Capron, and Poplar Grove can help you with:

- no-cost assistance in identifying and applying for state and federal financing programs for business.
- specialized education and training programs offered through Rock Valley College, The Workforce Connection and/or the Illinois Department of Commerce and Economic Opportunity (DCEO).
- site identification and procedures relating to the construction of a project in the Belvidere- Boone County Enterprise Zone.