

FAQ – Small Business Job Creation Tax Credit

What is the purpose of the Small Business Job Creation Tax Credit?

- Public Act 096-0888 creates this Tax Credit to help reverse the trend of high unemployment in Illinois and to help spur the economy to recovery, by assisting and encouraging small businesses in the creation of local, sustainable, new jobs.
- Legislation signed by Governor Quinn on January 17, 2011, expands the Tax Credit to include businesses of any size that employ worker-trainees from the "Put Illinois to Work" program.

What businesses are eligible for this tax credit?

- There are two categories of businesses eligible to receive this credit:
 - Small businesses with 50 or fewer total employees on June 30, 2010. The determination of whether an employer has 50 or fewer employees on June 30, 2010, includes all employees in every location, which includes both in Illinois and out of state employment totals.
 - Any-sized business that hires a 2010 "Put Illinois to Work Program" worker-trainee.
- The business must be located within the State of Illinois and must be engaged in interstate or intrastate commerce.
- Calculation of the net increase in the number of Illinois employees is based on the employer's number of Illinois employees as of June 30, 2010. If the business hires 10 new people but lays off 12, it wouldn't receive any credits.
- New businesses hiring their first Illinois employee(s) may qualify for the credit.

How much is the tax credit worth?

- For small businesses under 50 employees: The credit is for \$2,500 per job (that can be carried forward) on withholding tax for employers with 50 or fewer total employees who hire new, full-time Illinois employees during the 12-month period beginning July 1, 2010. The employer is entitled to one credit (\$2,500) if the position is filled for one year.
- For any-sized businesses hiring "Put Illinois to Work" worker-trainees: Employers in this category are entitled to one-half of the credit (\$1,250) allowable if that employee is employed for at least 6 months after the date of hire. The employer is entitled to the other half of the credit (\$1,250) if that employee is employed for at least 12 months after the date of hire.
- A credit can be taken against a company's withholding tax liability.
- The program is capped at \$50 million worth of credits issued.

What are the guidelines for the new position to be eligible for the credit?

- The position must have been created between July 1, 2010 and June 30, 2011.
- The position must pay no less than \$10.00 per hour or the equivalent salary for a new employee for a minimum of \$18,200 annualized. (This is a change as of January 17, 2011, from \$13.75/hour in the original legislation.)
- For small businesses: Eligibility for the credit does not require that a particular individual employee be retained for one year, only that a new, full-time Illinois job be created and sustained for one year.

- For businesses hiring "Put Illinois to Work" worker-trainees: The worker-trainee hired into a full-time position must be employed for at least 6 months to be eligible for one-half of the credit, and that same individual employed for at least 12 months for the business to be eligible for the other half of the credit).
- The credit may be claimed for an hourly employee working an average of at least 35 hours per week or for a full-time salaried employee, but not for a partner or an independent contractor.
- For small business: The position *cannot* be filled by someone previously employed by the company between January 1, 2010 and June 30, 2010.
- For businesses hiring through "Put Illinois to Work": The position *can* be filled by someone who previously worked for the applicant's business under the "Put Illinois to Work" program.
- The position cannot be filled by any individual who has a direct or indirect ownership interest of at least 5% in the profits, capital or value of the business.

How will companies apply for the tax credit and how will it work?

- Eligible companies must register that they have created a new position online at JobsTaxCredit.illinois.gov.
- Online registration for the credit may be made as soon as a new, full-time Illinois employee is hired and begins providing services.
- For small business: Approximately one year after filling the new position, the business will provide supporting data as requested online in order to be issued its tax credit certificate(s). The credit certificates will be issued beginning July 1, 2011.
- For businesses hiring "Put Illinois to Work" worker-trainees: The business may apply for one-half of the tax credit at any time after the conclusion of the 6 month period, and again at any time after the conclusion of the 12 month period for the other half of the tax credit.
- Tax credits granted will not change the recognition of withholding tax paid for either employer or employee.

What will be the impact of the credit?

- Small businesses are the backbone of the Illinois economy. 95% of Illinois businesses have fewer than 50 employees. This tax credit encourages small businesses to hire today, instead of next year, to get their business and the economy growing again. The tax credit also provides a strong incentive for businesses to hire worker-trainees from the 2010 "Put Illinois to Work" program. The credit could be awarded for the creation of up to 20,000 full-time jobs.

Who will manage the program? Will it require more money or employees?

- DCEO will work with the Department of Revenue as it does with various other tax credit programs already in place. An analysis of the cost to administer this tax credit by DCEO is underway and has yet to be completed.

Are any small businesses exempted?

- No.

Is the tax credit limited to a particular industry? Does it exclude retail or restaurants?

- No, as long as the position created is FT and the position pays no less than \$10.00 per hour or the equivalent salary for a new employee for a minimum of \$18,200 annualized.

Are there any salary requirements?

- The position must pay no less than \$10.00 per hour or the equivalent salary for a new employee for a minimum of \$18,200 annualized. (This is a change as of January 17, 2011, from \$13.75/hour in the original legislation.)

The legislation says "no less than \$10 per hour or the equivalent salary for a new employee." Will the State offer the tax credit on a sliding scale, meaning that wages far above \$10 per hour will earn a larger tax credit than \$2500?

- No, the \$2500 tax credit is a fixed amount. The tax incentive is the same for a \$10 per hour job as it is for a \$30 per hour job. There is no "sliding scale" based on wage.

Does a person need to have been previously unemployed for the company to receive the credit?

- No.
- For small businesses: The person must not have been employed by the business between January 1, 2010 and June 30, 2010.
- For businesses hiring a "Put Illinois to Work" worker-trainee: The new employee may have previously worked at the applicant's business under the "Put Illinois to Work Program."

How will you verify these jobs have actually been created?

- These will be verified based on tax and employee information which companies must submit when they register for the credit upon creating the job(s); and when they apply to claim the credit. Audits will also be completed just as with other State tax credit programs.

Does it matter how the company is structured legally?

- Since the relief is credited against the company's withholding tax, any company that pays payroll is eligible and it does not matter what their legal classification is.

IL has reciprocal agreements with other border states, such as Indiana and Kentucky. Can I create a FT position and fill it with an out-of-state employee and still receive the tax credit?

- No, that goes against the intent of the legislation.

If my company has 50 FT jobs, but a few more part-time jobs, do I fit the criteria for "small business"?

- Yes. The statute refers to eligible companies having no more than 50 "full-time positions" at the beginning of the incentive period on July 1, 2010. Keep in mind that any business, no matter the size, that hires a "Put Illinois to Work" worker-trainee into a full-time position is eligible for this credit as well.

How does this credit apply if I hire a new waitress whose wage comes primarily from tips?

- When reporting the position, the restaurant will have to report the position's tips to ensure it reaches the \$18,200 threshold.

Will the State review the applications for "quality" of jobs and make its decisions based on "better" jobs?

- This program is first-come, first-served.
- As long as the position meets the criteria of 1) FT position filled by an eligible employee(s) for at least a year for small business, and at least six months for "Put Illinois to Work" hire 2) making no less than \$10.00 per hour or the equivalent salary for a minimum of \$18,200 annualized 3) withholding taxes going to Illinois, then the company completing their application before the funds run out will receive their credit.

Recent legislative amendments to the Small Business Jobs Creation Tax Credit Program have changed the required salary requirements from \$13.75/hourly or the equivalent salary of \$25,025/annualized to \$10.00/hourly or the equivalent salary of \$18,200/annualized. Can a position which was previously denied based on not meeting or exceeding the \$13.75/hourly-\$25,025/annualized, now be deemed eligible if that position pays at least \$10.00/hourly-\$18,200/annualized?

- Yes, as long as that position meets or exceeds the newly amended salary requirement of \$10.00/hourly-\$18,200/annualized, the position was hired between July 1, 2010 and June 30, 2011, and it meets all other program requirements, then that position would be eligible to receive a tax credit.

What are the basic requirements that must be met in order to receive a tax credit certificate if I hire a 2010 "Put Illinois to Work Program" worker-trainee?

- The business can be any size.
- The position must pay the basic wage of no less than \$10.00 per hour or the equivalent salary of \$18,200 annualized.
- The position must have been created during our program incentive period (July 1, 2010 to June 30, 2011).
- The "Put Illinois to Work" worker-trainee hired into a full-time position must be employed for at least six months for the business to receive the first-half credit, and for at least twelve months for the business to receive the other half-credit, totaling \$2500.