

# OTTAWA AREA ENTERPRISE ZONE INCENTIVES

## TAX CREDIT AND EXEMPTIONS

### INVESTMENT TAX CREDIT

The Illinois Income Tax Act, 35 ILCS 5/201, as amended, allows corporations, trusts, estates, individuals, partners and Subchapter S shareholders a 0.5 percent credit against the state income tax for investments in qualified property which is placed in service in an Enterprise Zone. This credit is in addition to the existing 0.5 percent investment tax credit allowed statewide against the corporate personal property replacement tax. The investment tax credit applies against gross income subject to Illinois income tax and to the depreciable basis of qualified property placed in service within the Zone. It is a one-time credit given in the taxable year in which the property is placed in service. 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.

#### **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 are examples of "qualified property"?**

##### Examples of qualified property include:

Buildings, structural components of buildings, elevators, materials tanks, boilers and major computer installations.

##### Examples of non-qualifying property include:

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 is certified by DCEO, 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. Goodwill 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 and 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.

### **BUILDING MATERIALS SALES TAX EXEMPTION**

Enterprise Zone participants have been granted an exemption of the State, City and County sales tax. Sales tax is exempted on building materials incorporated into real estate located in the Enterprise Zone. The exemption applies to building and construction materials used for remodeling, rehabilitation or new construction.

### **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 by remodeling, rehabilitation or new construction in the Enterprise Zone, 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 in to real estate as part of a building project for which a Building Materials Exemption Certificate (BMEC) has been issued by the Administrator for the Enterprise Zone in which the building project is located. To document the exemption allowed under this Section, the retailer must obtain from the purchaser a copy of the BMEC issued by IDOR.

The Building Materials Exemption Certificate must contain:

- a statement that the building project identified in the Certificate meets all the requirements for the building material exemption of the Enterprise Zone;
- the location or address of the building project; and

In addition, the retailer must obtain certification from the purchaser that includes:

- a statement that the building materials are being purchased for incorporation into real estate located in an Illinois Enterprise Zone;
- the location or address of the real estate into which the building materials will be incorporated;
- the name of the Enterprise Zone in which that real estate is located;
- a description of the building materials being purchased; and

- the purchaser's signature and date of purchase.

The Ordinance that governs the Enterprise Zone into which the building materials will be incorporated may neither require nor prohibit the purchase of building materials from any retailer or class of retailers in order to qualify for the exemption.

### **How does the Enterprise Zone sales tax deduction affect Home Rule Municipal Taxes or County Supplemental Taxes?**

Once the gross receipts from sales of building materials are excluded from the Illinois Retailers' Occupation Tax base by virtue of exempted building materials, these receipts are also excluded from the Home Rule Municipal Tax Base and County Supplemental Tax Base.

### **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.

**Examples of eligible materials which qualify follow.** If you still have questions as to materials eligibility for Exemption, contact IDOR.

- 1) common building materials such as lumber, bricks, cement, windows, doors, insulation, roofing materials and sheet metal can qualify for the exemption;
- 2) plumbing systems and components thereof such as bathtubs, lavatories, sinks, faucets, garbage disposals, water pumps, water heaters, water softeners and water pipes can qualify for the exemption;
- 3) heating systems and components thereof such as furnaces, ductwork, vents, stokers, boilers, heating pipes and radiators can qualify for the exemption;
- 4) electrical systems and components thereof such as wiring, outlets and light fixtures that are physically incorporated into the real estate can qualify for the exemption;
- 5) central air conditioning systems, ventilation systems and components thereof that are physically incorporated into the real estate can qualify for the exemption;
- 6) built-in cabinets and other woodwork that are physically incorporated into the real estate can qualify for the exemption;
- 7) built-in appliances such as refrigerators, stoves, ovens and trash compactors that are physically incorporated into the real estate can qualify for the exemption;
- 8) floor coverings such as tile, linoleum and carpeting that are glued or otherwise permanently affixed to the real estate by use of tacks, staples, or wood stripping filled with nails that protrude upward (sometimes referred to as "tacking strips" or "tack-down strips") can qualify for the exemption.

**Sales of Tangible Personal Property that Do Not Qualify for the Exemption.** Items that are not physically incorporated into the real estate cannot qualify for the exemption. For example, gross receipts from sales of:

- 1) tools, machinery, equipment, fuel, forms and other items that may be used by a construction contractor at an enterprise zone building site, but that are not physically incorporated into the real estate, do not qualify for the exemption;
- 2) free-standing appliances such as stoves, ovens, refrigerators, washing machines, portable ventilation units, window air conditioning units, lamps, clothes washers, clothes dryers, trash compactors and dishwashers that may be connected to and

operate from a building's electrical or plumbing system but which do not become a component of those systems do not qualify for the exemption;  
3) floor coverings that are area rugs or that are attached to the structure using only two-sided tape do not qualify for the exemption.

## **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 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 0.1 percent administrative charge and excise taxes on the act or privilege of originating or receiving telecommunications. **Local utility tax exemptions are not included in this this Exemption, however they may be separately exempted by local Ordinance.**

### **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 \$20 million in an Enterprise Zone and has retained a minimum of 1,000 full-time jobs in Illinois. A business must submit an application to DCEO documenting the eligible investment and that the job creation or job retention criteria have 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 above in this 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.

## **OPEN MARKET NATURAL GAS TAX EXEMPTION**

Companies who are located within the boundaries of an Illinois Enterprise Zone are entitled to an exemption on the state sales tax for “wheeled” or open market natural gas transactions. The Form RG-61 is located at the end of this document. Purchases must be from out-of-state vendors.

### **INSTRUCTIONS TO THE COMPANY UTILIZING THE EXEMPTION**

In order to receive the exemption, the Form RG-61 Gas Use Tax Exemption Certificate (Addendum B) must be completed and given to your delivering supplier. If any of the information you provide on Form RG-61 changes, you must complete a new Form RG-61. Even if no changes are required, a new Form RG-61 must be completed every five years to keep state records current and the exemption intact.

## **MANUFACTURING MACHINERY AND EQUIPMENT (MM/E) SALES TAX EXEMPTION**

The Revenue Act 35 ILCS 120/1d-1f, as amended, allows a business enterprise that is certified by DCEO as making a \$5 million investment 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 process of manufacturing or assembling tangible personal property for 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 MM/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 the date of certification. A business must submit an application to DCEO documenting the eligible investment and that the job creation or job retention criteria will be met. This application is also available online at the DCEO Enterprise Zone Web Page [\*\*HERE\*\*](#) or at

<https://www.illinois.gov/dceo/ExpandRelocate/Incentives/taxassistance/Pages/EnterpriseZone.aspx>

### **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 above) 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 MM/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.

### **POLLUTION CONTROL FACILITIES EXEMPTION**

For eligible businesses, a sales tax exemption is available on tangible personal property (e.g., machinery, equipment, supplies, etc.) used or consumed within the Enterprise Zone in the operation of pollution control facilities. DCEO must certify the business as “eligible” to qualify, which means a business must make an investment in an Illinois Enterprise Zone that creates a minimum of 200 full time jobs or retains a minimum of 2,000 full time jobs. Applications are available at the end of this manual and online at: <https://www.illinois.gov/dceo/ExpandRelocate/Incentives/taxassistance/Pages/EnterpriseZone.aspx>



## PROPERTY TAX ABATEMENT

The Ottawa Area Enterprise Zone at this time does not offer a property tax abatement.

In Grundy County there may be property tax abatement through Nancy Norton at Grundy County Economic Development Corporation at (815) 942-0163 or email: [nnorton@gedc.com](mailto:nnorton@gedc.com).

The City of Ottawa may offer property tax rebates through the Tax Increment Finance Districts (TIF). Contact Dave Noble at (815) 433-0161 ext.220 or email: [dnoble@cityofottawa.org](mailto:dnoble@cityofottawa.org).

Illinois Department of Revenue  
**RG-61 Gas Use Tax Exemption Certificate**

**Step 1: Read this information first**

If you purchase natural gas from outside of Illinois for use in Illinois and any description in Step 3 applies to you, you are exempt from paying Gas Use Tax. You must provide your delivering supplier with this completed certificate as your proof that no Gas Use Tax is due.

- If you use gas which is both exempt (e.g., gas used in the production of electric energy) and non-exempt (e.g., gas used in heating and general maintenance of the production facility, etc.) from Gas Use Tax, you must have separate accounts for exempt and non-exempt purchases.
- If you have multiple accounts which are exempt from Gas Use Tax, you must complete a separate Form RG-61 for each account unless the same exemption applies to all of the accounts. In this case, complete one Form RG-61 and list each account subject to that exemption. Attach an additional sheet(s) if necessary.
- If any information you provide below changes, you must complete a new Form RG-61. If no changes are needed, you should submit a new Form RG-61 every five years to keep records current.

If you have any questions, call us weekdays between 8:00 a.m. and 4:30 p.m. at **217 782-6045**.

**Step 2: Identify yourself**

1 Name: \_\_\_\_\_ 3 Account ID: \_\_\_\_\_  
2 Address: \_\_\_\_\_ 4 Your account number(s) with your supplier:  
Number and street  
\_\_\_\_\_  
City State ZIP  
\_\_\_\_\_  
County ( ) -  
Daytime telephone number

**Step 3: Check the best description of your exemption**

The natural gas purchased will be used

- \_\_\_\_\_ by a business located in an enterprise zone certified by the Department of Commerce and Economic Opportunity. Provide the name of the enterprise zone in which you are located: \_\_\_\_\_
- \_\_\_\_\_ by a governmental body or entity organized and operated exclusively for charitable, religious, or educational purposes. Provide your exemption identification number: **E-** \_\_\_\_\_
- \_\_\_\_\_ in the production of electric energy. This does not include gas used in general maintenance or heating of an electric energy production facility or other structure.
- \_\_\_\_\_ in a petroleum refinery operation.
- \_\_\_\_\_ in liquefaction and fractionation processes that produce value-added natural gas by-products for resale.
- \_\_\_\_\_ in the production of anhydrous ammonia and downstream nitrogen fertilizer products for resale.

**Step 4: Sign below**

Under penalties of perjury, I state that I have examined this information and, to the best of my knowledge, it is true, correct, and complete. I certify that I will assume responsibility for reporting and paying the tax (if any) imposed by the Gas Use Tax Act.

\_\_\_\_\_  
Signature Title Date

**Attention:**

This exemption certificate does not apply to charges by a utility for the account listed above that may be subject to Gas Revenue Tax.





**Ottawa Area Enterprise Zone**  
**Building Materials Exemption Certificate**

**Project Application**

Bld. Permit No. \_\_\_\_\_ Permit Issue Date \_\_\_\_\_ City Issuing Permit \_\_\_\_\_

This project listed below is within the Ottawa Area Enterprise Zone for Sales Tax Exemption on building materials purchased for permanent incorporation into commercial or industrial real estate by remodeling, rehabilitation or new construction.

PROJECT OWNER LEGAL BUSINESS NAME \_\_\_\_\_

OWNER ADDRESS \_\_\_\_\_

OWNER CONTACT NAME \_\_\_\_\_ TELEPHONE \_\_\_\_\_

OWNER CONTACT EMAIL \_\_\_\_\_

PROJECT NAME \_\_\_\_\_

PROJECT ADDRESS \_\_\_\_\_

PROJECT PIN # \_\_\_\_\_ EST. COMPLETION DATE \_\_\_\_\_

PROJECT DESCRIPTION \_\_\_\_\_

\_\_\_\_\_

Total Project Cost \$ \_\_\_\_\_ Total Bld. Materials \$ \_\_\_\_\_ Est. Labor Cost \$ \_\_\_\_\_

PERMANENT ON-SITE JOBS: Presently employed \_\_\_\_\_ Retained by Project \_\_\_\_\_ Created \_\_\_\_\_

**I hereby certify that I have the full legal capacity to authorize the filing of this application and that all information submitted are true and correct to the best of my knowledge. The materials purchased with the sales tax certification generated by this application will be incorporated only into the project listed above and will only be used for materials incorporated in to the permanent building, and that receipts will be tallied for reporting to the Enterprise Zone Administrator and Illinois Department of Revenue.**

OWNER FEIN \_\_\_\_\_ OWNER Unemployment Insurance # \_\_\_\_\_

Contact Printed Name \_\_\_\_\_

Owner Contact Signature \_\_\_\_\_ Date \_\_\_\_\_

Office use only:

Permit Fee: \$ Bld. Materials \_\_\_\_\_ x 0.5% = \_\_\_\_\_ Paid Y / N

Approved by Zone Administrator \_\_\_\_\_ Date \_\_\_\_\_

**City of Ottawa**  
(815)433-0161, (815)433-2344 fax



**301 West Madison Street**  
**Ottawa, Illinois 61350**

**Ottawa Area Enterprise Zone**  
**Building Materials Exemption Certificate**  
**Certificate Application**

Bld. Permit No. \_\_\_\_\_ Permit Issue Date \_\_\_\_\_ City Issuing Permit \_\_\_\_\_

This project listed below is within the Ottawa Area Enterprise Zone for Sales Tax Exemption on building materials purchased for permanent incorporation into commercial or industrial real estate by remodeling, rehabilitation or new construction.

PROJECT NAME & ADDRESS \_\_\_\_\_

PROJECT DESCRIPTION \_\_\_\_\_

PROJECT PIN # \_\_\_\_\_ PROJECT OWNER \_\_\_\_\_

APPLICANT CONTRACTOR/SUBCONTRACTOR \_\_\_\_\_

ADDRESS \_\_\_\_\_

CONTACT NAME \_\_\_\_\_ TELEPHONE \_\_\_\_\_

CONTACT EMAIL \_\_\_\_\_

ESTIMATED COST: Your Contract \_\_\_\_\_ Bld. Materials YOU would pay tax on \_\_\_\_\_

# YOUR CONST WORKERS ON SITE \_\_\_\_\_ TOTAL DAYS ON SITE \_\_\_\_\_

YOUR ESTIMATED TOTAL WORKER-DAYS \_\_\_\_\_ YOUR EST. COMPLETION DATE \_\_\_\_\_

**I hereby certify that I have the full legal capacity to authorize the filing of this application and that all information submitted are true and correct to the best of my knowledge. The materials purchased with the sales tax certification generated by this application will be incorporated only into the project listed above and will only be used for materials incorporated in to the permanent building, and that receipts will be tallied for reporting to the Enterprise Zone Administrator and Illinois Department of Revenue.**

Applicant FEIN # \_\_\_\_\_

Applicant Printed Name \_\_\_\_\_

Applicant Signature \_\_\_\_\_ Date \_\_\_\_\_

Office use only:

Permit Fee \_\_\_\_\_ Paid Y / N

Approved by Zone Administrator \_\_\_\_\_ Date \_\_\_\_\_

Ottawa EZ Certificate Number \_\_\_\_\_ IDOR Certificate No. \_\_\_\_\_

## Instructions

### Enterprise Zone - Building Materials Exemption Certificate (BMEC)

The Ottawa Area Enterprise Zone program provides for sales tax exemption on Building Materials permanently affixed to the building only. It does not include furnishings and/or removable items. Qualifying properties must be located inside the Ottawa EZ boundaries.

Two forms are needed to apply for the Ottawa Area Enterprise Zone sales tax exemption: a PROJECT APPLICATION and a CERTIFICATE APPLICATION(S). The process is as follows:

1. The PROJECT APPLICATION is to be completed and signed by the property owner and sent to Dave Noble at Ottawa City Hall or scanned and e-mailed to [dnoble@cityofottawa.org](mailto:dnoble@cityofottawa.org). The project fee of 0.5% of the estimated building materials for the project must be paid before the application is processed.
2. Each contractor/subcontractor purchasing building materials for the project must complete a CERTIFICATE APPLICATION and sends it to Dave Noble at Ottawa City Hall or emails it to [dnoble@cityofottawa.org](mailto:dnoble@cityofottawa.org).
3. If the owner will be purchasing building materials directly, the owner must also submit a CERTIFICATE APPLICATION.
4. Finally, City staff will enter the application information into the Illinois Department of Revenue website and IDOR will email each contractor's contact person a link to obtain their actual BMEC Certificate. Be sure the contact person listed on the application is the one you want receiving the emails and doing the paperwork.
5. Additional contractors added as the project proceeds can be included by them completing and submitting the CERTIFICATE APPLICATION.
6. Each contractor shows their certificate to retailers at the time of purchase, and the tax is waived.
7. All contractors need to keep track of the dollar amount of tax exempt purchases made during the project. A few months after the end of each calendar year that the certificate has been valid, each contractor will receive an e-mail from IDOR asking them to complete a report on the IDOR website detailing that dollar amount.
8. The project owners will also receive an email from IDOR for them to complete a Project Report.

PLEASE NOTE THAT FOR ALL COMMERCIAL/INDUSTRIAL PROJECTS INSIDE THE CITY OF OTTAWA, PREVAILING WAGES MUST BE UTILIZED FOR CONSTRUCTING THE PROJECT TO TAKE ADVANTAGE OF THIS BMEC SALES TAX EXEMPTION.

### Here are a few links to commonly asked questions about the Enterprise Zone.

Building materials Exemption Certification- Enterprise Zone IDOR website  
<https://www2.illinois.gov/rev/businesses/incentives/Pages/default.aspx>

Enterprise Zone JCAR Rules  
<ftp://www.ilga.gov/JCAR/AdminCode/014/01400520sections.html>

Illinois Department of Revenue regulations  
<http://www.revenue.state.il.us/legalinformation/regs/part130/130-1951.pdf>

Also, please feel free to call me or Nancy Stisser (815-433-0161 x224) with questions.

**David A. Noble PE**

Zone Administrator

Ottawa Area Enterprise Zone

301 West Madison Street, Ottawa, IL 61350

[dnoble@cityofottawa.org](mailto:dnoble@cityofottawa.org) 815-433-0161 x220