

1 AN ACT concerning income taxes.

2 Be it enacted by the People of the State of Illinois,
3 represented in the General Assembly:

4 Section 5. The Illinois Income Tax Act is amended by
5 changing Section 203 as follows:

6 (35 ILCS 5/203) (from Ch. 120, par. 2-203)
7 Sec. 203. Base income defined.

8 (a) Individuals.

9 (1) In general. In the case of an individual, base
10 income means an amount equal to the taxpayer's adjusted
11 gross income for the taxable year as modified by
12 paragraph (2).

13 (2) Modifications. The adjusted gross income
14 referred to in paragraph (1) shall be modified by adding
15 thereto the sum of the following amounts:

16 (A) An amount equal to all amounts paid or
17 accrued to the taxpayer as interest or dividends
18 during the taxable year to the extent excluded from
19 gross income in the computation of adjusted gross
20 income, except stock dividends of qualified public
21 utilities described in Section 305(e) of the
22 Internal Revenue Code;

23 (B) An amount equal to the amount of tax
24 imposed by this Act to the extent deducted from
25 gross income in the computation of adjusted gross
26 income for the taxable year;

27 (C) An amount equal to the amount received
28 during the taxable year as a recovery or refund of
29 real property taxes paid with respect to the
30 taxpayer's principal residence under the Revenue Act
31 of 1939 and for which a deduction was previously

1 taken under subparagraph (L) of this paragraph (2)
2 prior to July 1, 1991, the retrospective application
3 date of Article 4 of Public Act 87-17. In the case
4 of multi-unit or multi-use structures and farm
5 dwellings, the taxes on the taxpayer's principal
6 residence shall be that portion of the total taxes
7 for the entire property which is attributable to
8 such principal residence;

9 (D) An amount equal to the amount of the
10 capital gain deduction allowable under the Internal
11 Revenue Code, to the extent deducted from gross
12 income in the computation of adjusted gross income;

13 (D-5) An amount, to the extent not included in
14 adjusted gross income, equal to the amount of money
15 withdrawn by the taxpayer in the taxable year from a
16 medical care savings account and the interest earned
17 on the account in the taxable year of a withdrawal
18 pursuant to subsection (b) of Section 20 of the
19 Medical Care Savings Account Act or subsection (b)
20 of Section 20 of the Medical Care Savings Account
21 Act of 2000; and

22 (D-10) For taxable years ending after December
23 31, 1997, an amount equal to any eligible
24 remediation costs that the individual deducted in
25 computing adjusted gross income and for which the
26 individual claims a credit under subsection (1) of
27 Section 201;

28 and by deducting from the total so obtained the sum of
29 the following amounts:

30 (E) Any amount included in such total in
31 respect of any compensation (including but not
32 limited to any compensation paid or accrued to a
33 serviceman while a prisoner of war or missing in
34 action) paid to a resident by reason of being on

1 active duty in the Armed Forces of the United States
2 and in respect of any compensation paid or accrued
3 to a resident who as a governmental employee was a
4 prisoner of war or missing in action, and in respect
5 of any compensation paid to a resident in 1971 or
6 thereafter for annual training performed pursuant to
7 Sections 502 and 503, Title 32, United States Code
8 as a member of the Illinois National Guard;

9 (F) An amount equal to all amounts included in
10 such total pursuant to the provisions of Sections
11 402(a), 402(c), 403(a), 403(b), 406(a), 407(a), and
12 408 of the Internal Revenue Code, or included in
13 such total as distributions under the provisions of
14 any retirement or disability plan for employees of
15 any governmental agency or unit, or retirement
16 payments to retired partners, which payments are
17 excluded in computing net earnings from self
18 employment by Section 1402 of the Internal Revenue
19 Code and regulations adopted pursuant thereto;

20 (G) The valuation limitation amount;

21 (H) An amount equal to the amount of any tax
22 imposed by this Act which was refunded to the
23 taxpayer and included in such total for the taxable
24 year;

25 (I) An amount equal to all amounts included in
26 such total pursuant to the provisions of Section 111
27 of the Internal Revenue Code as a recovery of items
28 previously deducted from adjusted gross income in
29 the computation of taxable income;

30 (J) An amount equal to those dividends
31 included in such total which were paid by a
32 corporation which conducts business operations in an
33 Enterprise Zone or zones created under the Illinois
34 Enterprise Zone Act, and conducts substantially all

1 of its operations in an Enterprise Zone or zones;

2 (K) An amount equal to those dividends
3 included in such total that were paid by a
4 corporation that conducts business operations in a
5 federally designated Foreign Trade Zone or Sub-Zone
6 and that is designated a High Impact Business
7 located in Illinois; provided that dividends
8 eligible for the deduction provided in subparagraph
9 (J) of paragraph (2) of this subsection shall not be
10 eligible for the deduction provided under this
11 subparagraph (K);

12 (L) For taxable years ending after December
13 31, 1983, an amount equal to all social security
14 benefits and railroad retirement benefits included
15 in such total pursuant to Sections 72(r) and 86 of
16 the Internal Revenue Code;

17 (M) With the exception of any amounts
18 subtracted under subparagraph (N), an amount equal
19 to the sum of all amounts disallowed as deductions
20 by (i) Sections 171(a) (2), and 265(2) of the
21 Internal Revenue Code of 1954, as now or hereafter
22 amended, and all amounts of expenses allocable to
23 interest and disallowed as deductions by Section
24 265(1) of the Internal Revenue Code of 1954, as now
25 or hereafter amended; and (ii) for taxable years
26 ending on or after August 13, 1999, Sections
27 171(a)(2), 265, 280C, and 832(b)(5)(B)(i) of the
28 Internal Revenue Code; the provisions of this
29 subparagraph are exempt from the provisions of
30 Section 250;

31 (N) An amount equal to all amounts included in
32 such total which are exempt from taxation by this
33 State either by reason of its statutes or
34 Constitution or by reason of the Constitution,

1 treaties or statutes of the United States; provided
2 that, in the case of any statute of this State that
3 exempts income derived from bonds or other
4 obligations from the tax imposed under this Act, the
5 amount exempted shall be the interest net of bond
6 premium amortization;

7 (O) An amount equal to any contribution made
8 to a job training project established pursuant to
9 the Tax Increment Allocation Redevelopment Act;

10 (P) An amount equal to the amount of the
11 deduction used to compute the federal income tax
12 credit for restoration of substantial amounts held
13 under claim of right for the taxable year pursuant
14 to Section 1341 of the Internal Revenue Code of
15 1986;

16 (Q) An amount equal to any amounts included in
17 such total, received by the taxpayer as an
18 acceleration in the payment of life, endowment or
19 annuity benefits in advance of the time they would
20 otherwise be payable as an indemnity for a terminal
21 illness;

22 (R) An amount equal to the amount of any
23 federal or State bonus paid to veterans of the
24 Persian Gulf War;

25 (S) An amount, to the extent included in
26 adjusted gross income, equal to the amount of a
27 contribution made in the taxable year on behalf of
28 the taxpayer to a medical care savings account
29 established under the Medical Care Savings Account
30 Act or the Medical Care Savings Account Act of 2000
31 to the extent the contribution is accepted by the
32 account administrator as provided in that Act;

33 (T) An amount, to the extent included in
34 adjusted gross income, equal to the amount of

1 interest earned in the taxable year on a medical
2 care savings account established under the Medical
3 Care Savings Account Act or the Medical Care Savings
4 Account Act of 2000 on behalf of the taxpayer, other
5 than interest added pursuant to item (D-5) of this
6 paragraph (2);

7 (U) For one taxable year beginning on or after
8 January 1, 1994, an amount equal to the total amount
9 of tax imposed and paid under subsections (a) and
10 (b) of Section 201 of this Act on grant amounts
11 received by the taxpayer under the Nursing Home
12 Grant Assistance Act during the taxpayer's taxable
13 years 1992 and 1993;

14 (V) Beginning with tax years ending on or
15 after December 31, 1995 and ending with tax years
16 ending on or before December 31, 2004, an amount
17 equal to the amount paid by a taxpayer who is a
18 self-employed taxpayer, a partner of a partnership,
19 or a shareholder in a Subchapter S corporation for
20 health insurance or long-term care insurance for
21 that taxpayer or that taxpayer's spouse or
22 dependents, to the extent that the amount paid for
23 that health insurance or long-term care insurance
24 may be deducted under Section 213 of the Internal
25 Revenue Code of 1986, has not been deducted on the
26 federal income tax return of the taxpayer, and does
27 not exceed the taxable income attributable to that
28 taxpayer's income, self-employment income, or
29 Subchapter S corporation income; except that no
30 deduction shall be allowed under this item (V) if
31 the taxpayer is eligible to participate in any
32 health insurance or long-term care insurance plan of
33 an employer of the taxpayer or the taxpayer's
34 spouse. The amount of the health insurance and

1 long-term care insurance subtracted under this item
2 (V) shall be determined by multiplying total health
3 insurance and long-term care insurance premiums paid
4 by the taxpayer times a number that represents the
5 fractional percentage of eligible medical expenses
6 under Section 213 of the Internal Revenue Code of
7 1986 not actually deducted on the taxpayer's federal
8 income tax return;

9 (W) For taxable years beginning on or after
10 January 1, 1998, all amounts included in the
11 taxpayer's federal gross income in the taxable year
12 from amounts converted from a regular IRA to a Roth
13 IRA. This paragraph is exempt from the provisions of
14 Section 250; and

15 (X) For taxable year 1999 and thereafter, an
16 amount equal to the amount of any (i) distributions,
17 to the extent includible in gross income for federal
18 income tax purposes, made to the taxpayer because of
19 his or her status as a victim of persecution for
20 racial or religious reasons by Nazi Germany or any
21 other Axis regime or as an heir of the victim and
22 (ii) items of income, to the extent includible in
23 gross income for federal income tax purposes,
24 attributable to, derived from or in any way related
25 to assets stolen from, hidden from, or otherwise
26 lost to a victim of persecution for racial or
27 religious reasons by Nazi Germany or any other Axis
28 regime immediately prior to, during, and immediately
29 after World War II, including, but not limited to,
30 interest on the proceeds receivable as insurance
31 under policies issued to a victim of persecution for
32 racial or religious reasons by Nazi Germany or any
33 other Axis regime by European insurance companies
34 immediately prior to and during World War II;

1 provided, however, this subtraction from federal
2 adjusted gross income does not apply to assets
3 acquired with such assets or with the proceeds from
4 the sale of such assets; provided, further, this
5 paragraph shall only apply to a taxpayer who was the
6 first recipient of such assets after their recovery
7 and who is a victim of persecution for racial or
8 religious reasons by Nazi Germany or any other Axis
9 regime or as an heir of the victim. The amount of
10 and the eligibility for any public assistance,
11 benefit, or similar entitlement is not affected by
12 the inclusion of items (i) and (ii) of this
13 paragraph in gross income for federal income tax
14 purposes. This paragraph is exempt from the
15 provisions of Section 250; and

16 (Y) Beginning with taxable years ending on or
17 after December 31, 2001, an amount equal to the
18 amount allowed as a deduction under Section 213 of
19 the Internal Revenue Code for medical care expenses.
20 This subparagraph (Y) is exempt from the provisions
21 of Section 250.

22 (b) Corporations.

23 (1) In general. In the case of a corporation, base
24 income means an amount equal to the taxpayer's taxable
25 income for the taxable year as modified by paragraph (2).

26 (2) Modifications. The taxable income referred to
27 in paragraph (1) shall be modified by adding thereto the
28 sum of the following amounts:

29 (A) An amount equal to all amounts paid or
30 accrued to the taxpayer as interest and all
31 distributions received from regulated investment
32 companies during the taxable year to the extent
33 excluded from gross income in the computation of
34 taxable income;

1 (B) An amount equal to the amount of tax
2 imposed by this Act to the extent deducted from
3 gross income in the computation of taxable income
4 for the taxable year;

5 (C) In the case of a regulated investment
6 company, an amount equal to the excess of (i) the
7 net long-term capital gain for the taxable year,
8 over (ii) the amount of the capital gain dividends
9 designated as such in accordance with Section
10 852(b)(3)(C) of the Internal Revenue Code and any
11 amount designated under Section 852(b)(3)(D) of the
12 Internal Revenue Code, attributable to the taxable
13 year (this amendatory Act of 1995 (Public Act 89-89)
14 is declarative of existing law and is not a new
15 enactment);

16 (D) The amount of any net operating loss
17 deduction taken in arriving at taxable income, other
18 than a net operating loss carried forward from a
19 taxable year ending prior to December 31, 1986;

20 (E) For taxable years in which a net operating
21 loss carryback or carryforward from a taxable year
22 ending prior to December 31, 1986 is an element of
23 taxable income under paragraph (1) of subsection (e)
24 or subparagraph (E) of paragraph (2) of subsection
25 (e), the amount by which addition modifications
26 other than those provided by this subparagraph (E)
27 exceeded subtraction modifications in such earlier
28 taxable year, with the following limitations applied
29 in the order that they are listed:

30 (i) the addition modification relating to
31 the net operating loss carried back or forward
32 to the taxable year from any taxable year
33 ending prior to December 31, 1986 shall be
34 reduced by the amount of addition modification

1 under this subparagraph (E) which related to
2 that net operating loss and which was taken
3 into account in calculating the base income of
4 an earlier taxable year, and

5 (ii) the addition modification relating
6 to the net operating loss carried back or
7 forward to the taxable year from any taxable
8 year ending prior to December 31, 1986 shall
9 not exceed the amount of such carryback or
10 carryforward;

11 For taxable years in which there is a net
12 operating loss carryback or carryforward from more
13 than one other taxable year ending prior to December
14 31, 1986, the addition modification provided in this
15 subparagraph (E) shall be the sum of the amounts
16 computed independently under the preceding
17 provisions of this subparagraph (E) for each such
18 taxable year; and

19 (E-5) For taxable years ending after December
20 31, 1997, an amount equal to any eligible
21 remediation costs that the corporation deducted in
22 computing adjusted gross income and for which the
23 corporation claims a credit under subsection (l) of
24 Section 201;

25 and by deducting from the total so obtained the sum of
26 the following amounts:

27 (F) An amount equal to the amount of any tax
28 imposed by this Act which was refunded to the
29 taxpayer and included in such total for the taxable
30 year;

31 (G) An amount equal to any amount included in
32 such total under Section 78 of the Internal Revenue
33 Code;

34 (H) In the case of a regulated investment

1 company, an amount equal to the amount of exempt
2 interest dividends as defined in subsection (b) (5)
3 of Section 852 of the Internal Revenue Code, paid to
4 shareholders for the taxable year;

5 (I) With the exception of any amounts
6 subtracted under subparagraph (J), an amount equal
7 to the sum of all amounts disallowed as deductions
8 by (i) Sections 171(a) (2), and 265(a)(2) and
9 amounts disallowed as interest expense by Section
10 291(a)(3) of the Internal Revenue Code, as now or
11 hereafter amended, and all amounts of expenses
12 allocable to interest and disallowed as deductions
13 by Section 265(a)(1) of the Internal Revenue Code,
14 as now or hereafter amended; and (ii) for taxable
15 years ending on or after August 13, 1999, Sections
16 171(a)(2), 265, 280C, 291(a)(3), and 832(b)(5)(B)(i)
17 of the Internal Revenue Code; the provisions of this
18 subparagraph are exempt from the provisions of
19 Section 250;

20 (J) An amount equal to all amounts included in
21 such total which are exempt from taxation by this
22 State either by reason of its statutes or
23 Constitution or by reason of the Constitution,
24 treaties or statutes of the United States; provided
25 that, in the case of any statute of this State that
26 exempts income derived from bonds or other
27 obligations from the tax imposed under this Act, the
28 amount exempted shall be the interest net of bond
29 premium amortization;

30 (K) An amount equal to those dividends
31 included in such total which were paid by a
32 corporation which conducts business operations in an
33 Enterprise Zone or zones created under the Illinois
34 Enterprise Zone Act and conducts substantially all

1 of its operations in an Enterprise Zone or zones;

2 (L) An amount equal to those dividends
3 included in such total that were paid by a
4 corporation that conducts business operations in a
5 federally designated Foreign Trade Zone or Sub-Zone
6 and that is designated a High Impact Business
7 located in Illinois; provided that dividends
8 eligible for the deduction provided in subparagraph
9 (K) of paragraph 2 of this subsection shall not be
10 eligible for the deduction provided under this
11 subparagraph (L);

12 (M) For any taxpayer that is a financial
13 organization within the meaning of Section 304(c) of
14 this Act, an amount included in such total as
15 interest income from a loan or loans made by such
16 taxpayer to a borrower, to the extent that such a
17 loan is secured by property which is eligible for
18 the Enterprise Zone Investment Credit. To determine
19 the portion of a loan or loans that is secured by
20 property eligible for a Section 201(f) ~~201(h)~~
21 investment credit to the borrower, the entire
22 principal amount of the loan or loans between the
23 taxpayer and the borrower should be divided into the
24 basis of the Section 201(f) ~~201(h)~~ investment credit
25 property which secures the loan or loans, using for
26 this purpose the original basis of such property on
27 the date that it was placed in service in the
28 Enterprise Zone. The subtraction modification
29 available to taxpayer in any year under this
30 subsection shall be that portion of the total
31 interest paid by the borrower with respect to such
32 loan attributable to the eligible property as
33 calculated under the previous sentence;

34 (M-1) For any taxpayer that is a financial

1 organization within the meaning of Section 304(c) of
2 this Act, an amount included in such total as
3 interest income from a loan or loans made by such
4 taxpayer to a borrower, to the extent that such a
5 loan is secured by property which is eligible for
6 the High Impact Business Investment Credit. To
7 determine the portion of a loan or loans that is
8 secured by property eligible for a Section 201(h)
9 ~~201(i)~~ investment credit to the borrower, the entire
10 principal amount of the loan or loans between the
11 taxpayer and the borrower should be divided into the
12 basis of the Section 201(h) ~~201(i)~~ investment credit
13 property which secures the loan or loans, using for
14 this purpose the original basis of such property on
15 the date that it was placed in service in a
16 federally designated Foreign Trade Zone or Sub-Zone
17 located in Illinois. No taxpayer that is eligible
18 for the deduction provided in subparagraph (M) of
19 paragraph (2) of this subsection shall be eligible
20 for the deduction provided under this subparagraph
21 (M-1). The subtraction modification available to
22 taxpayers in any year under this subsection shall be
23 that portion of the total interest paid by the
24 borrower with respect to such loan attributable to
25 the eligible property as calculated under the
26 previous sentence;

27 (N) Two times any contribution made during the
28 taxable year to a designated zone organization to
29 the extent that the contribution (i) qualifies as a
30 charitable contribution under subsection (c) of
31 Section 170 of the Internal Revenue Code and (ii)
32 must, by its terms, be used for a project approved
33 by the Department of Commerce and Community Affairs
34 under Section 11 of the Illinois Enterprise Zone

1 Act;

2 (O) An amount equal to: (i) 85% for taxable
3 years ending on or before December 31, 1992, or, a
4 percentage equal to the percentage allowable under
5 Section 243(a)(1) of the Internal Revenue Code of
6 1986 for taxable years ending after December 31,
7 1992, of the amount by which dividends included in
8 taxable income and received from a corporation that
9 is not created or organized under the laws of the
10 United States or any state or political subdivision
11 thereof, including, for taxable years ending on or
12 after December 31, 1988, dividends received or
13 deemed received or paid or deemed paid under
14 Sections 951 through 964 of the Internal Revenue
15 Code, exceed the amount of the modification provided
16 under subparagraph (G) of paragraph (2) of this
17 subsection (b) which is related to such dividends;
18 plus (ii) 100% of the amount by which dividends,
19 included in taxable income and received, including,
20 for taxable years ending on or after December 31,
21 1988, dividends received or deemed received or paid
22 or deemed paid under Sections 951 through 964 of the
23 Internal Revenue Code, from any such corporation
24 specified in clause (i) that would but for the
25 provisions of Section 1504 (b) (3) of the Internal
26 Revenue Code be treated as a member of the
27 affiliated group which includes the dividend
28 recipient, exceed the amount of the modification
29 provided under subparagraph (G) of paragraph (2) of
30 this subsection (b) which is related to such
31 dividends;

32 (P) An amount equal to any contribution made
33 to a job training project established pursuant to
34 the Tax Increment Allocation Redevelopment Act;

1 (Q) An amount equal to the amount of the
2 deduction used to compute the federal income tax
3 credit for restoration of substantial amounts held
4 under claim of right for the taxable year pursuant
5 to Section 1341 of the Internal Revenue Code of
6 1986;

7 (R) In the case of an attorney-in-fact with
8 respect to whom an interinsurer or a reciprocal
9 insurer has made the election under Section 835 of
10 the Internal Revenue Code, 26 U.S.C. 835, an amount
11 equal to the excess, if any, of the amounts paid or
12 incurred by that interinsurer or reciprocal insurer
13 in the taxable year to the attorney-in-fact over the
14 deduction allowed to that interinsurer or reciprocal
15 insurer with respect to the attorney-in-fact under
16 Section 835(b) of the Internal Revenue Code for the
17 taxable year; and

18 (S) For taxable years ending on or after
19 December 31, 1997, in the case of a Subchapter S
20 corporation, an amount equal to all amounts of
21 income allocable to a shareholder subject to the
22 Personal Property Tax Replacement Income Tax imposed
23 by subsections (c) and (d) of Section 201 of this
24 Act, including amounts allocable to organizations
25 exempt from federal income tax by reason of Section
26 501(a) of the Internal Revenue Code. This
27 subparagraph (S) is exempt from the provisions of
28 Section 250.

29 (3) Special rule. For purposes of paragraph (2)
30 (A), "gross income" in the case of a life insurance
31 company, for tax years ending on and after December 31,
32 1994, shall mean the gross investment income for the
33 taxable year.

34 (c) Trusts and estates.

1 (1) In general. In the case of a trust or estate,
2 base income means an amount equal to the taxpayer's
3 taxable income for the taxable year as modified by
4 paragraph (2).

5 (2) Modifications. Subject to the provisions of
6 paragraph (3), the taxable income referred to in
7 paragraph (1) shall be modified by adding thereto the sum
8 of the following amounts:

9 (A) An amount equal to all amounts paid or
10 accrued to the taxpayer as interest or dividends
11 during the taxable year to the extent excluded from
12 gross income in the computation of taxable income;

13 (B) In the case of (i) an estate, \$600; (ii) a
14 trust which, under its governing instrument, is
15 required to distribute all of its income currently,
16 \$300; and (iii) any other trust, \$100, but in each
17 such case, only to the extent such amount was
18 deducted in the computation of taxable income;

19 (C) An amount equal to the amount of tax
20 imposed by this Act to the extent deducted from
21 gross income in the computation of taxable income
22 for the taxable year;

23 (D) The amount of any net operating loss
24 deduction taken in arriving at taxable income, other
25 than a net operating loss carried forward from a
26 taxable year ending prior to December 31, 1986;

27 (E) For taxable years in which a net operating
28 loss carryback or carryforward from a taxable year
29 ending prior to December 31, 1986 is an element of
30 taxable income under paragraph (1) of subsection (e)
31 or subparagraph (E) of paragraph (2) of subsection
32 (e), the amount by which addition modifications
33 other than those provided by this subparagraph (E)
34 exceeded subtraction modifications in such taxable

1 year, with the following limitations applied in the
2 order that they are listed:

3 (i) the addition modification relating to
4 the net operating loss carried back or forward
5 to the taxable year from any taxable year
6 ending prior to December 31, 1986 shall be
7 reduced by the amount of addition modification
8 under this subparagraph (E) which related to
9 that net operating loss and which was taken
10 into account in calculating the base income of
11 an earlier taxable year, and

12 (ii) the addition modification relating
13 to the net operating loss carried back or
14 forward to the taxable year from any taxable
15 year ending prior to December 31, 1986 shall
16 not exceed the amount of such carryback or
17 carryforward;

18 For taxable years in which there is a net
19 operating loss carryback or carryforward from more
20 than one other taxable year ending prior to December
21 31, 1986, the addition modification provided in this
22 subparagraph (E) shall be the sum of the amounts
23 computed independently under the preceding
24 provisions of this subparagraph (E) for each such
25 taxable year;

26 (F) For taxable years ending on or after
27 January 1, 1989, an amount equal to the tax deducted
28 pursuant to Section 164 of the Internal Revenue Code
29 if the trust or estate is claiming the same tax for
30 purposes of the Illinois foreign tax credit under
31 Section 601 of this Act;

32 (G) An amount equal to the amount of the
33 capital gain deduction allowable under the Internal
34 Revenue Code, to the extent deducted from gross

1 income in the computation of taxable income; and

2 (G-5) For taxable years ending after December
3 31, 1997, an amount equal to any eligible
4 remediation costs that the trust or estate deducted
5 in computing adjusted gross income and for which the
6 trust or estate claims a credit under subsection (l)
7 of Section 201;

8 and by deducting from the total so obtained the sum of
9 the following amounts:

10 (H) An amount equal to all amounts included in
11 such total pursuant to the provisions of Sections
12 402(a), 402(c), 403(a), 403(b), 406(a), 407(a) and
13 408 of the Internal Revenue Code or included in such
14 total as distributions under the provisions of any
15 retirement or disability plan for employees of any
16 governmental agency or unit, or retirement payments
17 to retired partners, which payments are excluded in
18 computing net earnings from self employment by
19 Section 1402 of the Internal Revenue Code and
20 regulations adopted pursuant thereto;

21 (I) The valuation limitation amount;

22 (J) An amount equal to the amount of any tax
23 imposed by this Act which was refunded to the
24 taxpayer and included in such total for the taxable
25 year;

26 (K) An amount equal to all amounts included in
27 taxable income as modified by subparagraphs (A),
28 (B), (C), (D), (E), (F) and (G) which are exempt
29 from taxation by this State either by reason of its
30 statutes or Constitution or by reason of the
31 Constitution, treaties or statutes of the United
32 States; provided that, in the case of any statute of
33 this State that exempts income derived from bonds or
34 other obligations from the tax imposed under this

1 Act, the amount exempted shall be the interest net
2 of bond premium amortization;

3 (L) With the exception of any amounts
4 subtracted under subparagraph (K), an amount equal
5 to the sum of all amounts disallowed as deductions
6 by (i) Sections 171(a) (2) and 265(a)(2) of the
7 Internal Revenue Code, as now or hereafter amended,
8 and all amounts of expenses allocable to interest
9 and disallowed as deductions by Section 265(1) of
10 the Internal Revenue Code of 1954, as now or
11 hereafter amended; and (ii) for taxable years ending
12 on or after August 13, 1999, Sections 171(a)(2),
13 265, 280C, and 832(b)(5)(B)(i) of the Internal
14 Revenue Code; the provisions of this subparagraph
15 are exempt from the provisions of Section 250;

16 (M) An amount equal to those dividends
17 included in such total which were paid by a
18 corporation which conducts business operations in an
19 Enterprise Zone or zones created under the Illinois
20 Enterprise Zone Act and conducts substantially all
21 of its operations in an Enterprise Zone or Zones;

22 (N) An amount equal to any contribution made
23 to a job training project established pursuant to
24 the Tax Increment Allocation Redevelopment Act;

25 (O) An amount equal to those dividends
26 included in such total that were paid by a
27 corporation that conducts business operations in a
28 federally designated Foreign Trade Zone or Sub-Zone
29 and that is designated a High Impact Business
30 located in Illinois; provided that dividends
31 eligible for the deduction provided in subparagraph
32 (M) of paragraph (2) of this subsection shall not be
33 eligible for the deduction provided under this
34 subparagraph (O);

1 (P) An amount equal to the amount of the
2 deduction used to compute the federal income tax
3 credit for restoration of substantial amounts held
4 under claim of right for the taxable year pursuant
5 to Section 1341 of the Internal Revenue Code of
6 1986; and

7 (Q) For taxable year 1999 and thereafter, an
8 amount equal to the amount of any (i) distributions,
9 to the extent includible in gross income for federal
10 income tax purposes, made to the taxpayer because of
11 his or her status as a victim of persecution for
12 racial or religious reasons by Nazi Germany or any
13 other Axis regime or as an heir of the victim and
14 (ii) items of income, to the extent includible in
15 gross income for federal income tax purposes,
16 attributable to, derived from or in any way related
17 to assets stolen from, hidden from, or otherwise
18 lost to a victim of persecution for racial or
19 religious reasons by Nazi Germany or any other Axis
20 regime immediately prior to, during, and immediately
21 after World War II, including, but not limited to,
22 interest on the proceeds receivable as insurance
23 under policies issued to a victim of persecution for
24 racial or religious reasons by Nazi Germany or any
25 other Axis regime by European insurance companies
26 immediately prior to and during World War II;
27 provided, however, this subtraction from federal
28 adjusted gross income does not apply to assets
29 acquired with such assets or with the proceeds from
30 the sale of such assets; provided, further, this
31 paragraph shall only apply to a taxpayer who was the
32 first recipient of such assets after their recovery
33 and who is a victim of persecution for racial or
34 religious reasons by Nazi Germany or any other Axis

1 regime or as an heir of the victim. The amount of
2 and the eligibility for any public assistance,
3 benefit, or similar entitlement is not affected by
4 the inclusion of items (i) and (ii) of this
5 paragraph in gross income for federal income tax
6 purposes. This paragraph is exempt from the
7 provisions of Section 250.

8 (3) Limitation. The amount of any modification
9 otherwise required under this subsection shall, under
10 regulations prescribed by the Department, be adjusted by
11 any amounts included therein which were properly paid,
12 credited, or required to be distributed, or permanently
13 set aside for charitable purposes pursuant to Internal
14 Revenue Code Section 642(c) during the taxable year.

15 (d) Partnerships.

16 (1) In general. In the case of a partnership, base
17 income means an amount equal to the taxpayer's taxable
18 income for the taxable year as modified by paragraph (2).

19 (2) Modifications. The taxable income referred to
20 in paragraph (1) shall be modified by adding thereto the
21 sum of the following amounts:

22 (A) An amount equal to all amounts paid or
23 accrued to the taxpayer as interest or dividends
24 during the taxable year to the extent excluded from
25 gross income in the computation of taxable income;

26 (B) An amount equal to the amount of tax
27 imposed by this Act to the extent deducted from
28 gross income for the taxable year;

29 (C) The amount of deductions allowed to the
30 partnership pursuant to Section 707 (c) of the
31 Internal Revenue Code in calculating its taxable
32 income; and

33 (D) An amount equal to the amount of the
34 capital gain deduction allowable under the Internal

1 Revenue Code, to the extent deducted from gross
2 income in the computation of taxable income;
3 and by deducting from the total so obtained the following
4 amounts:

5 (E) The valuation limitation amount;

6 (F) An amount equal to the amount of any tax
7 imposed by this Act which was refunded to the
8 taxpayer and included in such total for the taxable
9 year;

10 (G) An amount equal to all amounts included in
11 taxable income as modified by subparagraphs (A),
12 (B), (C) and (D) which are exempt from taxation by
13 this State either by reason of its statutes or
14 Constitution or by reason of the Constitution,
15 treaties or statutes of the United States; provided
16 that, in the case of any statute of this State that
17 exempts income derived from bonds or other
18 obligations from the tax imposed under this Act, the
19 amount exempted shall be the interest net of bond
20 premium amortization;

21 (H) Any income of the partnership which
22 constitutes personal service income as defined in
23 Section 1348 (b) (1) of the Internal Revenue Code
24 (as in effect December 31, 1981) or a reasonable
25 allowance for compensation paid or accrued for
26 services rendered by partners to the partnership,
27 whichever is greater;

28 (I) An amount equal to all amounts of income
29 distributable to an entity subject to the Personal
30 Property Tax Replacement Income Tax imposed by
31 subsections (c) and (d) of Section 201 of this Act
32 including amounts distributable to organizations
33 exempt from federal income tax by reason of Section
34 501(a) of the Internal Revenue Code;

1 (J) With the exception of any amounts
2 subtracted under subparagraph (G), an amount equal
3 to the sum of all amounts disallowed as deductions
4 by (i) Sections 171(a) (2), and 265(2) of the
5 Internal Revenue Code of 1954, as now or hereafter
6 amended, and all amounts of expenses allocable to
7 interest and disallowed as deductions by Section
8 265(1) of the Internal Revenue Code, as now or
9 hereafter amended; and (ii) for taxable years ending
10 on or after August 13, 1999, Sections 171(a)(2),
11 265, 280C, and 832(b)(5)(B)(i) of the Internal
12 Revenue Code; the provisions of this subparagraph
13 are exempt from the provisions of Section 250;

14 (K) An amount equal to those dividends
15 included in such total which were paid by a
16 corporation which conducts business operations in an
17 Enterprise Zone or zones created under the Illinois
18 Enterprise Zone Act, enacted by the 82nd General
19 Assembly, and which does not conduct such operations
20 other than in an Enterprise Zone or Zones;

21 (L) An amount equal to any contribution made
22 to a job training project established pursuant to
23 the Real Property Tax Increment Allocation
24 Redevelopment Act;

25 (M) An amount equal to those dividends
26 included in such total that were paid by a
27 corporation that conducts business operations in a
28 federally designated Foreign Trade Zone or Sub-Zone
29 and that is designated a High Impact Business
30 located in Illinois; provided that dividends
31 eligible for the deduction provided in subparagraph
32 (K) of paragraph (2) of this subsection shall not be
33 eligible for the deduction provided under this
34 subparagraph (M); and

1 (N) An amount equal to the amount of the
2 deduction used to compute the federal income tax
3 credit for restoration of substantial amounts held
4 under claim of right for the taxable year pursuant
5 to Section 1341 of the Internal Revenue Code of
6 1986.

7 (e) Gross income; adjusted gross income; taxable income.

8 (1) In general. Subject to the provisions of
9 paragraph (2) and subsection (b) (3), for purposes of
10 this Section and Section 803(e), a taxpayer's gross
11 income, adjusted gross income, or taxable income for the
12 taxable year shall mean the amount of gross income,
13 adjusted gross income or taxable income properly
14 reportable for federal income tax purposes for the
15 taxable year under the provisions of the Internal Revenue
16 Code. Taxable income may be less than zero. However, for
17 taxable years ending on or after December 31, 1986, net
18 operating loss carryforwards from taxable years ending
19 prior to December 31, 1986, may not exceed the sum of
20 federal taxable income for the taxable year before net
21 operating loss deduction, plus the excess of addition
22 modifications over subtraction modifications for the
23 taxable year. For taxable years ending prior to December
24 31, 1986, taxable income may never be an amount in excess
25 of the net operating loss for the taxable year as defined
26 in subsections (c) and (d) of Section 172 of the Internal
27 Revenue Code, provided that when taxable income of a
28 corporation (other than a Subchapter S corporation),
29 trust, or estate is less than zero and addition
30 modifications, other than those provided by subparagraph
31 (E) of paragraph (2) of subsection (b) for corporations
32 or subparagraph (E) of paragraph (2) of subsection (c)
33 for trusts and estates, exceed subtraction modifications,
34 an addition modification must be made under those

1 subparagraphs for any other taxable year to which the
2 taxable income less than zero (net operating loss) is
3 applied under Section 172 of the Internal Revenue Code or
4 under subparagraph (E) of paragraph (2) of this
5 subsection (e) applied in conjunction with Section 172 of
6 the Internal Revenue Code.

7 (2) Special rule. For purposes of paragraph (1) of
8 this subsection, the taxable income properly reportable
9 for federal income tax purposes shall mean:

10 (A) Certain life insurance companies. In the
11 case of a life insurance company subject to the tax
12 imposed by Section 801 of the Internal Revenue Code,
13 life insurance company taxable income, plus the
14 amount of distribution from pre-1984 policyholder
15 surplus accounts as calculated under Section 815a of
16 the Internal Revenue Code;

17 (B) Certain other insurance companies. In the
18 case of mutual insurance companies subject to the
19 tax imposed by Section 831 of the Internal Revenue
20 Code, insurance company taxable income;

21 (C) Regulated investment companies. In the
22 case of a regulated investment company subject to
23 the tax imposed by Section 852 of the Internal
24 Revenue Code, investment company taxable income;

25 (D) Real estate investment trusts. In the
26 case of a real estate investment trust subject to
27 the tax imposed by Section 857 of the Internal
28 Revenue Code, real estate investment trust taxable
29 income;

30 (E) Consolidated corporations. In the case of
31 a corporation which is a member of an affiliated
32 group of corporations filing a consolidated income
33 tax return for the taxable year for federal income
34 tax purposes, taxable income determined as if such

1 corporation had filed a separate return for federal
2 income tax purposes for the taxable year and each
3 preceding taxable year for which it was a member of
4 an affiliated group. For purposes of this
5 subparagraph, the taxpayer's separate taxable income
6 shall be determined as if the election provided by
7 Section 243(b) (2) of the Internal Revenue Code had
8 been in effect for all such years;

9 (F) Cooperatives. In the case of a
10 cooperative corporation or association, the taxable
11 income of such organization determined in accordance
12 with the provisions of Section 1381 through 1388 of
13 the Internal Revenue Code;

14 (G) Subchapter S corporations. In the case
15 of: (i) a Subchapter S corporation for which there
16 is in effect an election for the taxable year under
17 Section 1362 of the Internal Revenue Code, the
18 taxable income of such corporation determined in
19 accordance with Section 1363(b) of the Internal
20 Revenue Code, except that taxable income shall take
21 into account those items which are required by
22 Section 1363(b)(1) of the Internal Revenue Code to
23 be separately stated; and (ii) a Subchapter S
24 corporation for which there is in effect a federal
25 election to opt out of the provisions of the
26 Subchapter S Revision Act of 1982 and have applied
27 instead the prior federal Subchapter S rules as in
28 effect on July 1, 1982, the taxable income of such
29 corporation determined in accordance with the
30 federal Subchapter S rules as in effect on July 1,
31 1982; and

32 (H) Partnerships. In the case of a
33 partnership, taxable income determined in accordance
34 with Section 703 of the Internal Revenue Code,

1 except that taxable income shall take into account
2 those items which are required by Section 703(a)(1)
3 to be separately stated but which would be taken
4 into account by an individual in calculating his
5 taxable income.

6 (f) Valuation limitation amount.

7 (1) In general. The valuation limitation amount
8 referred to in subsections (a) (2) (G), (c) (2) (I) and
9 (d)(2) (E) is an amount equal to:

10 (A) The sum of the pre-August 1, 1969
11 appreciation amounts (to the extent consisting of
12 gain reportable under the provisions of Section 1245
13 or 1250 of the Internal Revenue Code) for all
14 property in respect of which such gain was reported
15 for the taxable year; plus

16 (B) The lesser of (i) the sum of the
17 pre-August 1, 1969 appreciation amounts (to the
18 extent consisting of capital gain) for all property
19 in respect of which such gain was reported for
20 federal income tax purposes for the taxable year, or
21 (ii) the net capital gain for the taxable year,
22 reduced in either case by any amount of such gain
23 included in the amount determined under subsection
24 (a) (2) (F) or (c) (2) (H).

25 (2) Pre-August 1, 1969 appreciation amount.

26 (A) If the fair market value of property
27 referred to in paragraph (1) was readily
28 ascertainable on August 1, 1969, the pre-August 1,
29 1969 appreciation amount for such property is the
30 lesser of (i) the excess of such fair market value
31 over the taxpayer's basis (for determining gain) for
32 such property on that date (determined under the
33 Internal Revenue Code as in effect on that date), or
34 (ii) the total gain realized and reportable for

1 federal income tax purposes in respect of the sale,
2 exchange or other disposition of such property.

3 (B) If the fair market value of property
4 referred to in paragraph (1) was not readily
5 ascertainable on August 1, 1969, the pre-August 1,
6 1969 appreciation amount for such property is that
7 amount which bears the same ratio to the total gain
8 reported in respect of the property for federal
9 income tax purposes for the taxable year, as the
10 number of full calendar months in that part of the
11 taxpayer's holding period for the property ending
12 July 31, 1969 bears to the number of full calendar
13 months in the taxpayer's entire holding period for
14 the property.

15 (C) The Department shall prescribe such
16 regulations as may be necessary to carry out the
17 purposes of this paragraph.

18 (g) Double deductions. Unless specifically provided
19 otherwise, nothing in this Section shall permit the same item
20 to be deducted more than once.

21 (h) Legislative intention. Except as expressly provided
22 by this Section there shall be no modifications or
23 limitations on the amounts of income, gain, loss or deduction
24 taken into account in determining gross income, adjusted
25 gross income or taxable income for federal income tax
26 purposes for the taxable year, or in the amount of such items
27 entering into the computation of base income and net income
28 under this Act for such taxable year, whether in respect of
29 property values as of August 1, 1969 or otherwise.

30 (Source: P.A. 90-491, eff. 1-1-98; 90-717, eff. 8-7-98;
31 90-770, eff. 8-14-98; 91-192, eff. 7-20-99; 91-205, eff.
32 7-20-99; 91-357, eff. 7-29-99; 91-541, eff. 8-13-99; 91-676,
33 eff. 12-23-99; 91-845, eff. 6-22-00; 91-913, eff. 1-1-01;

1 revised 10-24-00)

2 Section 99. Effective date. This Act takes effect upon

3 becoming law.