

1 AN ACT concerning taxation.

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15 withdrawn by the taxpayer in the taxable year from a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.

16 (b) Corporations.

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

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

23 (A) An amount equal to all amounts paid or
24 accrued to the taxpayer as interest and all
25 distributions received from regulated investment
26 companies during the taxable year to the extent
27 excluded from gross income in the computation of
28 taxable income;

29 (B) An amount equal to the amount of tax
30 imposed by this Act to the extent deducted from
31 gross income in the computation of taxable income
32 for the taxable year;

33 (C) In the case of a regulated investment
34 company, an amount equal to the excess of (i) the

1 net long-term capital gain for the taxable year,
2 over (ii) the amount of the capital gain dividends
3 designated as such in accordance with Section
4 852(b)(3)(C) of the Internal Revenue Code and any
5 amount designated under Section 852(b)(3)(D) of the
6 Internal Revenue Code, attributable to the taxable
7 year (this amendatory Act of 1995 (Public Act 89-89)
8 is declarative of existing law and is not a new
9 enactment);

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

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

24 (i) the addition modification relating to
25 the net operating loss carried back or forward
26 to the taxable year from any taxable year
27 ending prior to December 31, 1986 shall be
28 reduced by the amount of addition modification
29 under this subparagraph (E) which related to
30 that net operating loss and which was taken
31 into account in calculating the base income of
32 an earlier taxable year, and

33 (ii) the addition modification relating
34 to the net operating loss carried back or

1 forward to the taxable year from any taxable
2 year ending prior to December 31, 1986 shall
3 not exceed the amount of such carryback or
4 carryforward;

5 For taxable years in which there is a net
6 operating loss carryback or carryforward from more
7 than one other taxable year ending prior to December
8 31, 1986, the addition modification provided in this
9 subparagraph (E) shall be the sum of the amounts
10 computed independently under the preceding
11 provisions of this subparagraph (E) for each such
12 taxable year; and

13 (E-5) For taxable years ending after December
14 31, 1997, an amount equal to any eligible
15 remediation costs that the corporation deducted in
16 computing adjusted gross income and for which the
17 corporation claims a credit under subsection (l) of
18 Section 201;

19 and by deducting from the total so obtained the sum of
20 the following amounts:

21 (F) 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 (G) An amount equal to any amount included in
26 such total under Section 78 of the Internal Revenue
27 Code;

28 (H) In the case of a regulated investment
29 company, an amount equal to the amount of exempt
30 interest dividends as defined in subsection (b) (5)
31 of Section 852 of the Internal Revenue Code, paid to
32 shareholders for the taxable year;

33 (I) With the exception of any amounts
34 subtracted under subparagraph (J), an amount equal

1 to the sum of all amounts disallowed as deductions
2 by (i) Sections 171(a) (2), and 265(a)(2) and
3 amounts disallowed as interest expense by Section
4 291(a)(3) of the Internal Revenue Code, as now or
5 hereafter amended, and all amounts of expenses
6 allocable to interest and disallowed as deductions
7 by Section 265(a)(1) of the Internal Revenue Code,
8 as now or hereafter amended; and (ii) for taxable
9 years ending on or after August 13, 1999, Sections
10 171(a)(2), 265, 280C, 291(a)(3), and 832(b)(5)(B)(i)
11 of the Internal Revenue Code; the provisions of this
12 subparagraph are exempt from the provisions of
13 Section 250;

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

24 (K) An amount equal to those dividends
25 included in such total which were paid by a
26 corporation which conducts business operations in an
27 Enterprise Zone or zones created under the Illinois
28 Enterprise Zone Act and conducts substantially all
29 of its operations in an Enterprise Zone or zones;

30 (L) An amount equal to those dividends
31 included in such total that were paid by a
32 corporation that conducts business operations in a
33 federally designated Foreign Trade Zone or Sub-Zone
34 and that is designated a High Impact Business

1 located in Illinois; provided that dividends
2 eligible for the deduction provided in subparagraph
3 (K) of paragraph 2 of this subsection shall not be
4 eligible for the deduction provided under this
5 subparagraph (L);

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

28 (M-1) For any taxpayer that is a financial
29 organization within the meaning of Section 304(c) of
30 this Act, an amount included in such total as
31 interest income from a loan or loans made by such
32 taxpayer to a borrower, to the extent that such a
33 loan is secured by property which is eligible for
34 the High Impact Business Investment Credit. To

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

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

30 (O) An amount equal to: (i) 85% for taxable
31 years ending on or before December 31, 1992, or, a
32 percentage equal to the percentage allowable under
33 Section 243(a)(1) of the Internal Revenue Code of
34 1986 for taxable years ending after December 31,

1 1992, of the amount by which dividends included in
2 taxable income and received from a corporation that
3 is not created or organized under the laws of the
4 United States or any state or political subdivision
5 thereof, including, for taxable years ending on or
6 after December 31, 1988, dividends received or
7 deemed received or paid or deemed paid under
8 Sections 951 through 964 of the Internal Revenue
9 Code, exceed the amount of the modification provided
10 under subparagraph (G) of paragraph (2) of this
11 subsection (b) which is related to such dividends;
12 plus (ii) 100% of the amount by which dividends,
13 included in taxable income and received, including,
14 for taxable years ending on or after December 31,
15 1988, dividends received or deemed received or paid
16 or deemed paid under Sections 951 through 964 of the
17 Internal Revenue Code, from any such corporation
18 specified in clause (i) that would but for the
19 provisions of Section 1504 (b) (3) of the Internal
20 Revenue Code be treated as a member of the
21 affiliated group which includes the dividend
22 recipient, exceed the amount of the modification
23 provided under subparagraph (G) of paragraph (2) of
24 this subsection (b) which is related to such
25 dividends; provided, however, that no subtraction
26 shall be allowed under this subparagraph to a
27 Subchapter S corporation for any tax year ending
28 after December 31, 2001;

29 (P) An amount equal to any contribution made
30 to a job training project established pursuant to
31 the Tax Increment Allocation Redevelopment Act;

32 (Q) An amount equal to the amount of the
33 deduction used to compute the federal income tax
34 credit for restoration of substantial amounts held

1 under claim of right for the taxable year pursuant
2 to Section 1341 of the Internal Revenue Code of
3 1986;

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

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

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

31 (c) Trusts and estates.

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

1 paragraph (2).

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

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

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

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

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

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

34 (i) the addition modification relating to

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

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

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

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

29 (G) An amount equal to the amount of the
30 capital gain deduction allowable under the Internal
31 Revenue Code, to the extent deducted from gross
32 income in the computation of taxable income; and

33 (G-5) For taxable years ending after December
34 31, 1997, an amount equal to any eligible

1 remediation costs that the trust or estate deducted
2 in computing adjusted gross income and for which the
3 trust or estate claims a credit under subsection (l)
4 of Section 201;

5 and by deducting from the total so obtained the sum of
6 the following amounts:

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

18 (I) The valuation limitation amount;

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

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

34 (L) With the exception of any amounts

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

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

19 (N) An amount equal to any contribution made
20 to a job training project established pursuant to
21 the Tax Increment Allocation Redevelopment Act;

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

32 (P) An amount equal to the amount of the
33 deduction used to compute the federal income tax
34 credit for restoration of substantial amounts held

1 under claim of right for the taxable year pursuant
2 to Section 1341 of the Internal Revenue Code of
3 1986; and

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

1 the inclusion of items (i) and (ii) of this
2 paragraph in gross income for federal income tax
3 purposes. This paragraph is exempt from the
4 provisions of Section 250.

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

12 (d) Partnerships.

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

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

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

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

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

30 (D) An amount equal to the amount of the
31 capital gain deduction allowable under the Internal
32 Revenue Code, to the extent deducted from gross
33 income in the computation of taxable income;

34 and by deducting from the total so obtained the following

1 amounts:

2 (E) The valuation limitation amount;

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

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

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

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

32 (J) With the exception of any amounts
33 subtracted under subparagraph (G), an amount equal
34 to the sum of all amounts disallowed as deductions

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

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

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

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

32 (N) An amount equal to the amount of the
33 deduction used to compute the federal income tax
34 credit for restoration of substantial amounts held

1 under claim of right for the taxable year pursuant
2 to Section 1341 of the Internal Revenue Code of
3 1986.

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

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

1 under subparagraph (E) of paragraph (2) of this
2 subsection (e) applied in conjunction with Section 172 of
3 the Internal Revenue Code.

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

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

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

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

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

27 (E) Consolidated corporations. In the case of
28 a corporation which is a member of an affiliated
29 group of corporations filing a consolidated income
30 tax return for the taxable year for federal income
31 tax purposes, taxable income determined as if such
32 corporation had filed a separate return for federal
33 income tax purposes for the taxable year and each
34 preceding taxable year for which it was a member of

1 an affiliated group. For purposes of this
2 subparagraph, the taxpayer's separate taxable income
3 shall be determined as if the election provided by
4 Section 243(b) (2) of the Internal Revenue Code had
5 been in effect for all such years;

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

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

29 (H) Partnerships. In the case of a
30 partnership, taxable income determined in accordance
31 with Section 703 of the Internal Revenue Code,
32 except that taxable income shall take into account
33 those items which are required by Section 703(a)(1)
34 to be separately stated but which would be taken

1 into account by an individual in calculating his
2 taxable income.

3 (f) Valuation limitation amount.

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

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

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

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

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

34 (B) If the fair market value of property

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

12 (C) The Department shall prescribe such
13 regulations as may be necessary to carry out the
14 purposes of this paragraph.

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

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

27 (Source: P.A. 90-491, eff. 1-1-98; 90-717, eff. 8-7-98;
28 90-770, eff. 8-14-98; 91-192, eff. 7-20-99; 91-205, eff.
29 7-20-99; 91-357, eff. 7-29-99; 91-541, eff. 8-13-99; 91-676,
30 eff. 12-23-99; 91-845, eff. 6-22-00; 91-913, eff. 1-1-01;
31 revised 1-15-01.)