Illinois Corporate Franchise Tax

Department of Revenue

3-21-2014

House Joint Committee of Revenue and Finance and State Government

Objectives

- Provide committee members with some basic accounting framework to evaluate the economics of the Corporate Franchise Tax.
- Describe the Illinois Franchise Tax in broad strokes (The Secretary of State will provide a more detailed presentation).
- Identify other states with a similar tax.
- Enumerate several objections to the tax structure.
- Recommend changes to the tax structure.

Accounting Terminology

- Paid-in Capital
  - Capital contributed to a corporation by investors through purchase of stock from the corporation in the primary market.

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  - Par Value times the number of shares issued.

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  - Value in excess of Par times the number of shares (Often called "Additional Paid-in Capital" or "Paid-in Capital in Excess of Par").

Accounting Terminology

- Retained Earnings
  - a corporation's cumulative net income (from the date of incorporation to the current balance sheet date) minus the cumulative amount of dividends declared.
  - If a corporation has experienced net losses since it was formed, it could have negative retained earnings. In this case, the account is described as "Deficit" or "Accumulated Deficit" on the corporation's balance sheet.

Accounting Terminology

- Treasury Stock
  - If a corporation reacquires some of its stock and does not *retire* those shares, the shares are called treasury stock.
  - Treasury stock reflects the difference between the number of shares *issued* and the number of shares *outstanding*.

Stockholders Equity

- Paid-in Capital + Retained Earnings – Treasury Stock = Total Stockholders Equity
- Can also be thought of as the net worth of the corporation (Total Stockholders equity also equals asset minus liabilities).

Accounting of Paid-in Capital

Stockholders' Equity

Paid-in capital	
Common stock, $0.10 par, 10,000 shares authorized, 2,000 shares issued, 1,900 shares outstanding	$ 200
Paid-in capital in excess of pair - common	49,800
Total paid-in capital	50,000
Retained earnings	28,000
Subtotal	$ 78,000
Less: treasury stock, at cost (100 shares at $20)	– 2,000
Total stockholders' equity	$ 76,000

Source: Accountingcoach.com