

1 AN ACT concerning 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 201 as follows:

6 (35 ILCS 5/201) (from Ch. 120, par. 2-201)
7 Sec. 201. Tax Imposed.

8 (a) In general. A tax measured by net income is hereby
9 imposed on every individual, corporation, trust and estate
10 for each taxable year ending after July 31, 1969 on the
11 privilege of earning or receiving income in or as a resident
12 of this State. Such tax shall be in addition to all other
13 occupation or privilege taxes imposed by this State or by any
14 municipal corporation or political subdivision thereof.

15 (b) Rates. The tax imposed by subsection (a) of this
16 Section shall be determined as follows, except as adjusted by
17 subsection (d-1):

18 (1) In the case of an individual, trust or estate,
19 for taxable years ending prior to July 1, 1989, an amount
20 equal to 2 1/2% of the taxpayer's net income for the
21 taxable year.

22 (2) In the case of an individual, trust or estate,
23 for taxable years beginning prior to July 1, 1989 and
24 ending after June 30, 1989, an amount equal to the sum of
25 (i) 2 1/2% of the taxpayer's net income for the period
26 prior to July 1, 1989, as calculated under Section 202.3,
27 and (ii) 3% of the taxpayer's net income for the period
28 after June 30, 1989, as calculated under Section 202.3.

29 (3) In the case of an individual, trust or estate,
30 for taxable years beginning after June 30, 1989, an
31 amount equal to 3% of the taxpayer's net income for the

1 taxable year.

2 (4) (Blank).

3 (5) (Blank).

4 (6) In the case of a corporation, for taxable years
5 ending prior to July 1, 1989, an amount equal to 4% of
6 the taxpayer's net income for the taxable year.

7 (7) In the case of a corporation, for taxable years
8 beginning prior to July 1, 1989 and ending after June 30,
9 1989, an amount equal to the sum of (i) 4% of the
10 taxpayer's net income for the period prior to July 1,
11 1989, as calculated under Section 202.3, and (ii) 4.8% of
12 the taxpayer's net income for the period after June 30,
13 1989, as calculated under Section 202.3.

14 (8) In the case of a corporation, for taxable years
15 beginning after June 30, 1989, an amount equal to 4.8% of
16 the taxpayer's net income for the taxable year.

17 (c) Personal Property Tax Replacement Income Tax.
18 Beginning on July 1, 1979 and thereafter, in addition to such
19 income tax, there is also hereby imposed the Personal
20 Property Tax Replacement Income Tax measured by net income on
21 every corporation (including Subchapter S corporations),
22 partnership and trust, for each taxable year ending after
23 June 30, 1979. Such taxes are imposed on the privilege of
24 earning or receiving income in or as a resident of this
25 State. The Personal Property Tax Replacement Income Tax
26 shall be in addition to the income tax imposed by subsections
27 (a) and (b) of this Section and in addition to all other
28 occupation or privilege taxes imposed by this State or by any
29 municipal corporation or political subdivision thereof.

30 (d) Additional Personal Property Tax Replacement Income
31 Tax Rates. The personal property tax replacement income tax
32 imposed by this subsection and subsection (c) of this Section
33 in the case of a corporation, other than a Subchapter S
34 corporation and except as adjusted by subsection (d-1), shall

1 be an additional amount equal to 2.85% of such taxpayer's net
2 income for the taxable year, except that beginning on January
3 1, 1981, and thereafter, the rate of 2.85% specified in this
4 subsection shall be reduced to 2.5%, and in the case of a
5 partnership, trust or a Subchapter S corporation shall be an
6 additional amount equal to 1.5% of such taxpayer's net income
7 for the taxable year.

8 (d-1) Rate reduction for certain foreign insurers. In
9 the case of a foreign insurer, as defined by Section 35A-5 of
10 the Illinois Insurance Code, whose state or country of
11 domicile imposes on insurers domiciled in Illinois a
12 retaliatory tax (excluding any insurer whose premiums from
13 reinsurance assumed are 50% or more of its total insurance
14 premiums as determined under paragraph (2) of subsection (b)
15 of Section 304, except that for purposes of this
16 determination premiums from reinsurance do not include
17 premiums from inter-affiliate reinsurance arrangements),
18 beginning with taxable years ending on or after December 31,
19 1999, the sum of the rates of tax imposed by subsections (b)
20 and (d) shall be reduced (but not increased) to the rate at
21 which the total amount of tax imposed under this Act, net of
22 all credits allowed under this Act, shall equal (i) the total
23 amount of tax that would be imposed on the foreign insurer's
24 net income allocable to Illinois for the taxable year by such
25 foreign insurer's state or country of domicile if that net
26 income were subject to all income taxes and taxes measured by
27 net income imposed by such foreign insurer's state or country
28 of domicile, net of all credits allowed or (ii) a rate of
29 zero if no such tax is imposed on such income by the foreign
30 insurer's state of domicile. For the purposes of this
31 subsection (d-1), an inter-affiliate includes a mutual
32 insurer under common management.

33 (1) For the purposes of subsection (d-1), in no
34 event shall the sum of the rates of tax imposed by

1 subsections (b) and (d) be reduced below the rate at
2 which the sum of:

3 (A) the total amount of tax imposed on such
4 foreign insurer under this Act for a taxable year,
5 net of all credits allowed under this Act, plus

6 (B) the privilege tax imposed by Section 409
7 of the Illinois Insurance Code, the fire insurance
8 company tax imposed by Section 12 of the Fire
9 Investigation Act, and the fire department taxes
10 imposed under Section 11-10-1 of the Illinois
11 Municipal Code,

12 equals 1.25% of the net taxable premiums written for the
13 taxable year, as described by subsection (1) of Section
14 409 of the Illinois Insurance Code. This paragraph will
15 in no event increase the rates imposed under subsections
16 (b) and (d).

17 (2) Any reduction in the rates of tax imposed by
18 this subsection shall be applied first against the rates
19 imposed by subsection (b) and only after the tax imposed
20 by subsection (a) net of all credits allowed under this
21 Section other than the credit allowed under subsection
22 (i) has been reduced to zero, against the rates imposed
23 by subsection (d).

24 This subsection (d-1) is exempt from the provisions of
25 Section 250.

26 (e) Investment credit. A taxpayer shall be allowed a
27 credit against the Personal Property Tax Replacement Income
28 Tax for investment in qualified property.

29 (1) A taxpayer shall be allowed a credit equal to
30 .5% of the basis of qualified property placed in service
31 during the taxable year, provided such property is placed
32 in service on or after July 1, 1984. There shall be
33 allowed an additional credit equal to .5% of the basis of
34 qualified property placed in service during the taxable

1 year, provided such property is placed in service on or
2 after July 1, 1986, and the taxpayer's base employment
3 within Illinois has increased by 1% or more over the
4 preceding year as determined by the taxpayer's employment
5 records filed with the Illinois Department of Employment
6 Security. Taxpayers who are new to Illinois shall be
7 deemed to have met the 1% growth in base employment for
8 the first year in which they file employment records with
9 the Illinois Department of Employment Security. The
10 provisions added to this Section by Public Act 85-1200
11 (and restored by Public Act 87-895) shall be construed as
12 declaratory of existing law and not as a new enactment.
13 If, in any year, the increase in base employment within
14 Illinois over the preceding year is less than 1%, the
15 additional credit shall be limited to that percentage
16 times a fraction, the numerator of which is .5% and the
17 denominator of which is 1%, but shall not exceed .5%.
18 The investment credit shall not be allowed to the extent
19 that it would reduce a taxpayer's liability in any tax
20 year below zero, nor may any credit for qualified
21 property be allowed for any year other than the year in
22 which the property was placed in service in Illinois. For
23 tax years ending on or after December 31, 1987, and on or
24 before December 31, 1988, the credit shall be allowed for
25 the tax year in which the property is placed in service,
26 or, if the amount of the credit exceeds the tax liability
27 for that year, whether it exceeds the original liability
28 or the liability as later amended, such excess may be
29 carried forward and applied to the tax liability of the 5
30 taxable years following the excess credit years if the
31 taxpayer (i) makes investments which cause the creation
32 of a minimum of 2,000 full-time equivalent jobs in
33 Illinois, (ii) is located in an enterprise zone
34 established pursuant to the Illinois Enterprise Zone Act

1 and (iii) is certified by the Department of Commerce and
2 Community Affairs as complying with the requirements
3 specified in clause (i) and (ii) by July 1, 1986. The
4 Department of Commerce and Community Affairs shall notify
5 the Department of Revenue of all such certifications
6 immediately. For tax years ending after December 31,
7 1988, the credit shall be allowed for the tax year in
8 which the property is placed in service, or, if the
9 amount of the credit exceeds the tax liability for that
10 year, whether it exceeds the original liability or the
11 liability as later amended, such excess may be carried
12 forward and applied to the tax liability of the 5 taxable
13 years following the excess credit years. The credit shall
14 be applied to the earliest year for which there is a
15 liability. If there is credit from more than one tax year
16 that is available to offset a liability, earlier credit
17 shall be applied first.

18 (2) The term "qualified property" means property
19 which:

20 (A) is tangible, whether new or used,
21 including buildings and structural components of
22 buildings and signs that are real property, but not
23 including land or improvements to real property that
24 are not a structural component of a building such as
25 landscaping, sewer lines, local access roads,
26 fencing, parking lots, and other appurtenances;

27 (B) is depreciable pursuant to Section 167 of
28 the Internal Revenue Code, except that "3-year
29 property" as defined in Section 168(c)(2)(A) of that
30 Code is not eligible for the credit provided by this
31 subsection (e);

32 (C) is acquired by purchase as defined in
33 Section 179(d) of the Internal Revenue Code;

34 (D) is used in Illinois by a taxpayer who is

1 primarily engaged in manufacturing, or in mining
2 coal or fluorite, or in retailing; and

3 (E) has not previously been used in Illinois
4 in such a manner and by such a person as would
5 qualify for the credit provided by this subsection
6 (e) or subsection (f).

7 (3) For purposes of this subsection (e),
8 "manufacturing" means the material staging and production
9 of tangible personal property by procedures commonly
10 regarded as manufacturing, processing, fabrication, or
11 assembling which changes some existing material into new
12 shapes, new qualities, or new combinations. For purposes
13 of this subsection (e) the term "mining" shall have the
14 same meaning as the term "mining" in Section 613(c) of
15 the Internal Revenue Code. For purposes of this
16 subsection (e), the term "retailing" means the sale of
17 tangible personal property or services rendered in
18 conjunction with the sale of tangible consumer goods or
19 commodities.

20 (4) The basis of qualified property shall be the
21 basis used to compute the depreciation deduction for
22 federal income tax purposes.

23 (5) If the basis of the property for federal income
24 tax depreciation purposes is increased after it has been
25 placed in service in Illinois by the taxpayer, the amount
26 of such increase shall be deemed property placed in
27 service on the date of such increase in basis.

28 (6) The term "placed in service" shall have the
29 same meaning as under Section 46 of the Internal Revenue
30 Code.

31 (7) If during any taxable year, any property ceases
32 to be qualified property in the hands of the taxpayer
33 within 48 months after being placed in service, or the
34 situs of any qualified property is moved outside Illinois

1 within 48 months after being placed in service, the
2 Personal Property Tax Replacement Income Tax for such
3 taxable year shall be increased. Such increase shall be
4 determined by (i) recomputing the investment credit which
5 would have been allowed for the year in which credit for
6 such property was originally allowed by eliminating such
7 property from such computation and, (ii) subtracting such
8 recomputed credit from the amount of credit previously
9 allowed. For the purposes of this paragraph (7), a
10 reduction of the basis of qualified property resulting
11 from a redetermination of the purchase price shall be
12 deemed a disposition of qualified property to the extent
13 of such reduction.

14 (8) Unless the investment credit is extended by
15 law, the basis of qualified property shall not include
16 costs incurred after December 31, 2003, except for costs
17 incurred pursuant to a binding contract entered into on
18 or before December 31, 2003.

19 (9) Each taxable year ending before December 31,
20 2000, a partnership may elect to pass through to its
21 partners the credits to which the partnership is entitled
22 under this subsection (e) for the taxable year. A
23 partner may use the credit allocated to him or her under
24 this paragraph only against the tax imposed in
25 subsections (c) and (d) of this Section. If the
26 partnership makes that election, those credits shall be
27 allocated among the partners in the partnership in
28 accordance with the rules set forth in Section 704(b) of
29 the Internal Revenue Code, and the rules promulgated
30 under that Section, and the allocated amount of the
31 credits shall be allowed to the partners for that taxable
32 year. The partnership shall make this election on its
33 Personal Property Tax Replacement Income Tax return for
34 that taxable year. The election to pass through the

1 credits shall be irrevocable.

2 For taxable years ending on or after December 31,
3 2000, a partner that qualifies its partnership for a
4 subtraction under subparagraph (I) of paragraph (2) of
5 subsection (d) of Section 203 or a shareholder that
6 qualifies a Subchapter S corporation for a subtraction
7 under subparagraph (S) of paragraph (2) of subsection (b)
8 of Section 203 shall be allowed a credit under this
9 subsection (e) equal to its share of the credit earned
10 under this subsection (e) during the taxable year by the
11 partnership or Subchapter S corporation, determined in
12 accordance with the determination of income and
13 distributive share of income under Sections 702 and 704
14 and Subchapter S of the Internal Revenue Code. This
15 paragraph is exempt from the provisions of Section 250.

16 (f) Investment credit; Enterprise Zone.

17 (1) A taxpayer shall be allowed a credit against
18 the tax imposed by subsections (a) and (b) of this
19 Section for investment in qualified property which is
20 placed in service in an Enterprise Zone created pursuant
21 to the Illinois Enterprise Zone Act. For partners,
22 shareholders of Subchapter S corporations, and owners of
23 limited liability companies, if the liability company is
24 treated as a partnership for purposes of federal and
25 State income taxation, there shall be allowed a credit
26 under this subsection (f) to be determined in accordance
27 with the determination of income and distributive share
28 of income under Sections 702 and 704 and Subchapter S of
29 the Internal Revenue Code. The credit shall be .5% of
30 the basis for such property. The credit shall be
31 available only in the taxable year in which the property
32 is placed in service in the Enterprise Zone and shall not
33 be allowed to the extent that it would reduce a
34 taxpayer's liability for the tax imposed by subsections

1 (a) and (b) of this Section to below zero. For tax years
2 ending on or after December 31, 1985, the credit shall be
3 allowed for the tax year in which the property is placed
4 in service, or, if the amount of the credit exceeds the
5 tax liability for that year, whether it exceeds the
6 original liability or the liability as later amended,
7 such excess may be carried forward and applied to the tax
8 liability of the 5 taxable years following the excess
9 credit year. The credit shall be applied to the earliest
10 year for which there is a liability. If there is credit
11 from more than one tax year that is available to offset a
12 liability, the credit accruing first in time shall be
13 applied first.

14 (2) The term qualified property means property
15 which:

16 (A) is tangible, whether new or used,
17 including buildings and structural components of
18 buildings;

19 (B) is depreciable pursuant to Section 167 of
20 the Internal Revenue Code, except that "3-year
21 property" as defined in Section 168(c)(2)(A) of that
22 Code is not eligible for the credit provided by this
23 subsection (f);

24 (C) is acquired by purchase as defined in
25 Section 179(d) of the Internal Revenue Code;

26 (D) is used in the Enterprise Zone by the
27 taxpayer; and

28 (E) has not been previously used in Illinois
29 in such a manner and by such a person as would
30 qualify for the credit provided by this subsection
31 (f) or subsection (e).

32 (3) The basis of qualified property shall be the
33 basis used to compute the depreciation deduction for
34 federal income tax purposes.

1 (4) If the basis of the property for federal income
2 tax depreciation purposes is increased after it has been
3 placed in service in the Enterprise Zone by the taxpayer,
4 the amount of such increase shall be deemed property
5 placed in service on the date of such increase in basis.

6 (5) The term "placed in service" shall have the
7 same meaning as under Section 46 of the Internal Revenue
8 Code.

9 (6) If during any taxable year, any property ceases
10 to be qualified property in the hands of the taxpayer
11 within 48 months after being placed in service, or the
12 situs of any qualified property is moved outside the
13 Enterprise Zone within 48 months after being placed in
14 service, the tax imposed under subsections (a) and (b) of
15 this Section for such taxable year shall be increased.
16 Such increase shall be determined by (i) recomputing the
17 investment credit which would have been allowed for the
18 year in which credit for such property was originally
19 allowed by eliminating such property from such
20 computation, and (ii) subtracting such recomputed credit
21 from the amount of credit previously allowed. For the
22 purposes of this paragraph (6), a reduction of the basis
23 of qualified property resulting from a redetermination of
24 the purchase price shall be deemed a disposition of
25 qualified property to the extent of such reduction.

26 (g) Jobs Tax Credit; Enterprise Zone and Foreign Trade
27 Zone or Sub-Zone.

28 (1) A taxpayer conducting a trade or business in an
29 enterprise zone or a High Impact Business designated by
30 the Department of Commerce and Community Affairs
31 conducting a trade or business in a federally designated
32 Foreign Trade Zone or Sub-Zone shall be allowed a credit
33 against the tax imposed by subsections (a) and (b) of
34 this Section in the amount of \$500 per eligible employee

1 hired to work in the zone during the taxable year.

2 (2) To qualify for the credit:

3 (A) the taxpayer must hire 5 or more eligible
4 employees to work in an enterprise zone or federally
5 designated Foreign Trade Zone or Sub-Zone during the
6 taxable year;

7 (B) the taxpayer's total employment within the
8 enterprise zone or federally designated Foreign
9 Trade Zone or Sub-Zone must increase by 5 or more
10 full-time employees beyond the total employed in
11 that zone at the end of the previous tax year for
12 which a jobs tax credit under this Section was
13 taken, or beyond the total employed by the taxpayer
14 as of December 31, 1985, whichever is later; and

15 (C) the eligible employees must be employed
16 180 consecutive days in order to be deemed hired for
17 purposes of this subsection.

18 (3) An "eligible employee" means an employee who
19 is:

20 (A) Certified by the Department of Commerce
21 and Community Affairs as "eligible for services"
22 pursuant to regulations promulgated in accordance
23 with Title II of the Job Training Partnership Act,
24 Training Services for the Disadvantaged or Title III
25 of the Job Training Partnership Act, Employment and
26 Training Assistance for Dislocated Workers Program.

27 (B) Hired after the enterprise zone or
28 federally designated Foreign Trade Zone or Sub-Zone
29 was designated or the trade or business was located
30 in that zone, whichever is later.

31 (C) Employed in the enterprise zone or Foreign
32 Trade Zone or Sub-Zone. An employee is employed in
33 an enterprise zone or federally designated Foreign
34 Trade Zone or Sub-Zone if his services are rendered

1 there or it is the base of operations for the
2 services performed.

3 (D) A full-time employee working 30 or more
4 hours per week.

5 (4) For tax years ending on or after December 31,
6 1985 and prior to December 31, 1988, the credit shall be
7 allowed for the tax year in which the eligible employees
8 are hired. For tax years ending on or after December 31,
9 1988, the credit shall be allowed for the tax year
10 immediately following the tax year in which the eligible
11 employees are hired. If the amount of the credit exceeds
12 the tax liability for that year, whether it exceeds the
13 original liability or the liability as later amended,
14 such excess may be carried forward and applied to the tax
15 liability of the 5 taxable years following the excess
16 credit year. The credit shall be applied to the earliest
17 year for which there is a liability. If there is credit
18 from more than one tax year that is available to offset a
19 liability, earlier credit shall be applied first.

20 (5) The Department of Revenue shall promulgate such
21 rules and regulations as may be deemed necessary to carry
22 out the purposes of this subsection (g).

23 (6) The credit shall be available for eligible
24 employees hired on or after January 1, 1986.

25 (h) Investment credit; High Impact Business.

26 (1) Subject to subsections (b) and (b-5) of Section
27 5.5 of the Illinois Enterprise Zone Act, a taxpayer shall
28 be allowed a credit against the tax imposed by
29 subsections (a) and (b) of this Section for investment in
30 qualified property which is placed in service by a
31 Department of Commerce and Community Affairs designated
32 High Impact Business. The credit shall be .5% of the
33 basis for such property. The credit shall not be
34 available (i) until the minimum investments in qualified

1 property set forth in subdivision (a)(3)(A) of Section
2 5.5 of the Illinois Enterprise Zone Act have been
3 satisfied or (ii) until the time authorized in subsection
4 (b-5) of the Illinois Enterprise Zone Act for entities
5 designated as High Impact Businesses under subdivisions
6 (a)(3)(B), (a)(3)(C), and (a)(3)(D) of Section 5.5 of the
7 Illinois Enterprise Zone Act, and shall not be allowed to
8 the extent that it would reduce a taxpayer's liability
9 for the tax imposed by subsections (a) and (b) of this
10 Section to below zero. The credit applicable to such
11 investments shall be taken in the taxable year in which
12 such investments have been completed. The credit for
13 additional investments beyond the minimum investment by a
14 designated high impact business authorized under
15 subdivision (a)(3)(A) of Section 5.5 of the Illinois
16 Enterprise Zone Act shall be available only in the
17 taxable year in which the property is placed in service
18 and shall not be allowed to the extent that it would
19 reduce a taxpayer's liability for the tax imposed by
20 subsections (a) and (b) of this Section to below zero.
21 For tax years ending on or after December 31, 1987, the
22 credit shall be allowed for the tax year in which the
23 property is placed in service, or, if the amount of the
24 credit exceeds the tax liability for that year, whether
25 it exceeds the original liability or the liability as
26 later amended, such excess may be carried forward and
27 applied to the tax liability of the 5 taxable years
28 following the excess credit year. The credit shall be
29 applied to the earliest year for which there is a
30 liability. If there is credit from more than one tax
31 year that is available to offset a liability, the credit
32 accruing first in time shall be applied first.

33 Changes made in this subdivision (h)(1) by Public
34 Act 88-670 restore changes made by Public Act 85-1182 and

1 reflect existing law.

2 (2) The term qualified property means property
3 which:

4 (A) is tangible, whether new or used,
5 including buildings and structural components of
6 buildings;

7 (B) is depreciable pursuant to Section 167 of
8 the Internal Revenue Code, except that "3-year
9 property" as defined in Section 168(c)(2)(A) of that
10 Code is not eligible for the credit provided by this
11 subsection (h);

12 (C) is acquired by purchase as defined in
13 Section 179(d) of the Internal Revenue Code; and

14 (D) is not eligible for the Enterprise Zone
15 Investment Credit provided by subsection (f) of this
16 Section.

17 (3) The basis of qualified property shall be the
18 basis used to compute the depreciation deduction for
19 federal income tax purposes.

20 (4) If the basis of the property for federal income
21 tax depreciation purposes is increased after it has been
22 placed in service in a federally designated Foreign Trade
23 Zone or Sub-Zone located in Illinois by the taxpayer, the
24 amount of such increase shall be deemed property placed
25 in service on the date of such increase in basis.

26 (5) The term "placed in service" shall have the
27 same meaning as under Section 46 of the Internal Revenue
28 Code.

29 (6) If during any taxable year ending on or before
30 December 31, 1996, any property ceases to be qualified
31 property in the hands of the taxpayer within 48 months
32 after being placed in service, or the situs of any
33 qualified property is moved outside Illinois within 48
34 months after being placed in service, the tax imposed

1 under subsections (a) and (b) of this Section for such
2 taxable year shall be increased. Such increase shall be
3 determined by (i) recomputing the investment credit which
4 would have been allowed for the year in which credit for
5 such property was originally allowed by eliminating such
6 property from such computation, and (ii) subtracting such
7 recomputed credit from the amount of credit previously
8 allowed. For the purposes of this paragraph (6), a
9 reduction of the basis of qualified property resulting
10 from a redetermination of the purchase price shall be
11 deemed a disposition of qualified property to the extent
12 of such reduction.

13 (7) Beginning with tax years ending after December
14 31, 1996, if a taxpayer qualifies for the credit under
15 this subsection (h) and thereby is granted a tax
16 abatement and the taxpayer relocates its entire facility
17 in violation of the explicit terms and length of the
18 contract under Section 18-183 of the Property Tax Code,
19 the tax imposed under subsections (a) and (b) of this
20 Section shall be increased for the taxable year in which
21 the taxpayer relocated its facility by an amount equal to
22 the amount of credit received by the taxpayer under this
23 subsection (h).

24 (i) Credit for Personal Property Tax Replacement Income
25 Tax. A credit shall be allowed against the tax imposed by
26 subsections (a) and (b) of this Section for the tax imposed
27 by subsections (c) and (d) of this Section. This credit
28 shall be computed by multiplying the tax imposed by
29 subsections (c) and (d) of this Section by a fraction, the
30 numerator of which is base income allocable to Illinois and
31 the denominator of which is Illinois base income, and further
32 multiplying the product by the tax rate imposed by
33 subsections (a) and (b) of this Section.

34 Any credit earned on or after December 31, 1986 under

1 this subsection which is unused in the year the credit is
2 computed because it exceeds the tax liability imposed by
3 subsections (a) and (b) for that year (whether it exceeds the
4 original liability or the liability as later amended) may be
5 carried forward and applied to the tax liability imposed by
6 subsections (a) and (b) of the 5 taxable years following the
7 excess credit year. This credit shall be applied first to
8 the earliest year for which there is a liability. If there
9 is a credit under this subsection from more than one tax year
10 that is available to offset a liability the earliest credit
11 arising under this subsection shall be applied first.

12 If, during any taxable year ending on or after December
13 31, 1986, the tax imposed by subsections (c) and (d) of this
14 Section for which a taxpayer has claimed a credit under this
15 subsection (i) is reduced, the amount of credit for such tax
16 shall also be reduced. Such reduction shall be determined by
17 recomputing the credit to take into account the reduced tax
18 imposed by subsections (c) and (d). If any portion of the
19 reduced amount of credit has been carried to a different
20 taxable year, an amended return shall be filed for such
21 taxable year to reduce the amount of credit claimed.

22 (j) Training expense credit. Beginning with tax years
23 ending on or after December 31, 1986, a taxpayer shall be
24 allowed a credit against the tax imposed by subsections (a)
25 and (b) under this Section for all amounts paid or accrued,
26 on behalf of all persons employed by the taxpayer in Illinois
27 or Illinois residents employed outside of Illinois by a
28 taxpayer, for educational or vocational training in
29 semi-technical or technical fields or semi-skilled or skilled
30 fields, which were deducted from gross income in the
31 computation of taxable income. The credit against the tax
32 imposed by subsections (a) and (b) shall be 1.6% of such
33 training expenses. For partners, shareholders of subchapter
34 S corporations, and owners of limited liability companies, if

1 the liability company is treated as a partnership for
2 purposes of federal and State income taxation, there shall be
3 allowed a credit under this subsection (j) to be determined
4 in accordance with the determination of income and
5 distributive share of income under Sections 702 and 704 and
6 subchapter S of the Internal Revenue Code.

7 Any credit allowed under this subsection which is unused
8 in the year the credit is earned may be carried forward to
9 each of the 5 taxable years following the year for which the
10 credit is first computed until it is used. This credit shall
11 be applied first to the earliest year for which there is a
12 liability. If there is a credit under this subsection from
13 more than one tax year that is available to offset a
14 liability the earliest credit arising under this subsection
15 shall be applied first.

16 (k) Research and development credit.

17 Beginning with tax years ending after July 1, 1990, a
18 taxpayer shall be allowed a credit against the tax imposed by
19 subsections (a) and (b) of this Section for increasing
20 research activities in this State. The credit allowed
21 against the tax imposed by subsections (a) and (b) shall be
22 equal to 6 1/2% of the qualifying expenditures for increasing
23 research activities in this State. For partners,
24 shareholders of subchapter S corporations, and owners of
25 limited liability companies, if the liability company is
26 treated as a partnership for purposes of federal and State
27 income taxation, there shall be allowed a credit under this
28 subsection to be determined in accordance with the
29 determination of income and distributive share of income
30 under Sections 702 and 704 and subchapter S of the Internal
31 Revenue Code.

32 For purposes of this subsection:7

33 "Qualifying expenditures" means the qualifying
34 expenditures as defined for the federal credit for increasing

1 research activities which would be allowable under Section 41
2 of the Internal Revenue Code and which are conducted in this
3 State.⁷

4 "Qualifying expenditures for increasing research
5 activities in this State" means, at the election of the
6 taxpayer, either (1) the excess of qualifying expenditures
7 for the taxable year in which incurred over qualifying
8 expenditures for the base period or (2) as an alternate
9 credit, for taxable years ending on or after December 31,
10 2003, the qualifying expenditures for the taxable year
11 incurred in this State computed in a manner consistent with
12 the alternative incremental credit described in Section
13 41(c)(4) of the Internal Revenue Code. For purposes of the
14 alternative incremental credit, "base amount", "basic
15 research payment", and "qualified research expense" mean the
16 same as defined for the federal credit for increasing
17 research activities under Section 41 of the Internal Revenue
18 Code, except that for the alternative incremental credit such
19 amounts are for activities conducted within the State of
20 Illinois. The taxpayer may make this election regardless of
21 the method used for the taxpayer's federal income tax. An
22 election is for the tax year, and the taxpayer may use
23 another or the same method for any subsequent year. For
24 purposes of the alternate credit computation, the credit
25 percentages applicable to qualified research expenses
26 described in clauses (i), (ii), and (iii) of Section
27 41(c)(4)(A) of the Internal Revenue Code are 1.65%, 2.20%,
28 and 2.75%, respectively.⁷

29 "Qualifying expenditures for the base period" means the
30 average of the qualifying expenditures for each year in the
31 base period, and "base period" means the 3 taxable years
32 immediately preceding the taxable year for which the
33 determination is being made.

34 Any credit in excess of the tax liability for the taxable

1 year may be carried forward. A taxpayer may elect to have the
2 unused credit shown on its final completed return carried
3 over as a credit against the tax liability for the following
4 5 taxable years or until it has been fully used, whichever
5 occurs first.

6 If an unused credit is carried forward to a given year
7 from 2 or more earlier years, that credit arising in the
8 earliest year will be applied first against the tax liability
9 for the given year. If a tax liability for the given year
10 still remains, the credit from the next earliest year will
11 then be applied, and so on, until all credits have been used
12 or no tax liability for the given year remains. Any
13 remaining unused credit or credits then will be carried
14 forward to the next following year in which a tax liability
15 is incurred, except that no credit can be carried forward to
16 a year which is more than 5 years after the year in which the
17 expense for which the credit is given was incurred.

18 Unless extended by law, the credit shall not include
19 costs incurred after December 31, 2009 2004, except for costs
20 incurred pursuant to a binding contract entered into on or
21 before December 31, 2009 2004.

22 No inference shall be drawn from this amendatory Act of
23 the 91st General Assembly in construing this Section for
24 taxable years beginning before January 1, 1999.

25 (1) Environmental Remediation Tax Credit.

26 (i) For tax years ending after December 31, 1997
27 and on or before December 31, 2001, a taxpayer shall be
28 allowed a credit against the tax imposed by subsections
29 (a) and (b) of this Section for certain amounts paid for
30 unreimbursed eligible remediation costs, as specified in
31 this subsection. For purposes of this Section,
32 "unreimbursed eligible remediation costs" means costs
33 approved by the Illinois Environmental Protection Agency
34 ("Agency") under Section 58.14 of the Environmental

1 Protection Act that were paid in performing environmental
2 remediation at a site for which a No Further Remediation
3 Letter was issued by the Agency and recorded under
4 Section 58.10 of the Environmental Protection Act. The
5 credit must be claimed for the taxable year in which
6 Agency approval of the eligible remediation costs is
7 granted. The credit is not available to any taxpayer if
8 the taxpayer or any related party caused or contributed
9 to, in any material respect, a release of regulated
10 substances on, in, or under the site that was identified
11 and addressed by the remedial action pursuant to the Site
12 Remediation Program of the Environmental Protection Act.
13 After the Pollution Control Board rules are adopted
14 pursuant to the Illinois Administrative Procedure Act for
15 the administration and enforcement of Section 58.9 of the
16 Environmental Protection Act, determinations as to credit
17 availability for purposes of this Section shall be made
18 consistent with those rules. For purposes of this
19 Section, "taxpayer" includes a person whose tax
20 attributes the taxpayer has succeeded to under Section
21 381 of the Internal Revenue Code and "related party"
22 includes the persons disallowed a deduction for losses by
23 paragraphs (b), (c), and (f)(1) of Section 267 of the
24 Internal Revenue Code by virtue of being a related
25 taxpayer, as well as any of its partners. The credit
26 allowed against the tax imposed by subsections (a) and
27 (b) shall be equal to 25% of the unreimbursed eligible
28 remediation costs in excess of \$100,000 per site, except
29 that the \$100,000 threshold shall not apply to any site
30 contained in an enterprise zone as determined by the
31 Department of Commerce and Community Affairs. The total
32 credit allowed shall not exceed \$40,000 per year with a
33 maximum total of \$150,000 per site. For partners and
34 shareholders of subchapter S corporations, there shall be

1 allowed a credit under this subsection to be determined
2 in accordance with the determination of income and
3 distributive share of income under Sections 702 and 704
4 and subchapter S of the Internal Revenue Code.

5 (ii) A credit allowed under this subsection that is
6 unused in the year the credit is earned may be carried
7 forward to each of the 5 taxable years following the year
8 for which the credit is first earned until it is used.
9 The term "unused credit" does not include any amounts of
10 unreimbursed eligible remediation costs in excess of the
11 maximum credit per site authorized under paragraph (i).
12 This credit shall be applied first to the earliest year
13 for which there is a liability. If there is a credit
14 under this subsection from more than one tax year that is
15 available to offset a liability, the earliest credit
16 arising under this subsection shall be applied first. A
17 credit allowed under this subsection may be sold to a
18 buyer as part of a sale of all or part of the remediation
19 site for which the credit was granted. The purchaser of
20 a remediation site and the tax credit shall succeed to
21 the unused credit and remaining carry-forward period of
22 the seller. To perfect the transfer, the assignor shall
23 record the transfer in the chain of title for the site
24 and provide written notice to the Director of the
25 Illinois Department of Revenue of the assignor's intent
26 to sell the remediation site and the amount of the tax
27 credit to be transferred as a portion of the sale. In no
28 event may a credit be transferred to any taxpayer if the
29 taxpayer or a related party would not be eligible under
30 the provisions of subsection (i).

31 (iii) For purposes of this Section, the term "site"
32 shall have the same meaning as under Section 58.2 of the
33 Environmental Protection Act.

34 (m) Education expense credit. Beginning with tax years

1 ending after December 31, 1999, a taxpayer who is the
2 custodian of one or more qualifying pupils shall be allowed a
3 credit against the tax imposed by subsections (a) and (b) of
4 this Section for qualified education expenses incurred on
5 behalf of the qualifying pupils. The credit shall be equal
6 to 25% of qualified education expenses, but in no event may
7 the total credit under this subsection claimed by a family
8 that is the custodian of qualifying pupils exceed \$500. In
9 no event shall a credit under this subsection reduce the
10 taxpayer's liability under this Act to less than zero. This
11 subsection is exempt from the provisions of Section 250 of
12 this Act.

13 For purposes of this subsection:

14 "Qualifying pupils" means individuals who (i) are
15 residents of the State of Illinois, (ii) are under the age of
16 21 at the close of the school year for which a credit is
17 sought, and (iii) during the school year for which a credit
18 is sought were full-time pupils enrolled in a kindergarten
19 through twelfth grade education program at any school, as
20 defined in this subsection.

21 "Qualified education expense" means the amount incurred
22 on behalf of a qualifying pupil in excess of \$250 for
23 tuition, book fees, and lab fees at the school in which the
24 pupil is enrolled during the regular school year.

25 "School" means any public or nonpublic elementary or
26 secondary school in Illinois that is in compliance with Title
27 VI of the Civil Rights Act of 1964 and attendance at which
28 satisfies the requirements of Section 26-1 of the School
29 Code, except that nothing shall be construed to require a
30 child to attend any particular public or nonpublic school to
31 qualify for the credit under this Section.

32 "Custodian" means, with respect to qualifying pupils, an
33 Illinois resident who is a parent, the parents, a legal
34 guardian, or the legal guardians of the qualifying pupils.

1 (Source: P.A. 91-9, eff. 1-1-00; 91-357, eff. 7-29-99;
2 91-643, eff. 8-20-99; 91-644, eff. 8-20-99; 91-860, eff.
3 6-22-00; 91-913, eff. 1-1-01; 92-12, eff. 7-1-01; 92-16, eff.
4 6-28-01; 92-651, eff. 7-11-02; 92-846, eff. 8-23-02.)