

1 AN ACT concerning revenue.

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 adding
5 Section 218 as follows:

6 (35 ILCS 5/218 new)

7 Sec. 218. Alternate research and development credit.

8 (a) For taxable years ending on or after December 31, 2007,
9 each taxpayer who, during the taxable year, makes qualified
10 research expenditures is entitled to a credit against the tax
11 imposed under subsections (a) and (b) of Section 201 in an
12 amount equal to the following:

13 (1) For taxpayers who have conducted business
14 activities in each of the 3 preceding taxable years, the
15 credit under this Section is 12% of the taxpayer's adjusted
16 research expense; or

17 (2) For taxpayers who have not conducted business
18 activities in each of the 3 preceding taxable years, the
19 credit under this Section is 6.5% of the qualified research
20 expenditures made in the current taxable year.

21 (b) For the purpose of this Section:

22 "Adjusted research expense" means an amount equal to: (i)
23 the amount of qualified research expenditures made in the

1 current taxable year; less (ii) 50% of the average of the
2 qualified research expenditures made for the 3 preceding
3 taxable years.

4 "Qualifying research expenditures" means the qualifying
5 expenditures as defined for the federal credit for increasing
6 research activities that would be allowable under Section 41 of
7 the Internal Revenue Code and that are conducted in this State.

8 (c) For partners, shareholders of Subchapter S
9 corporations, and owners of limited liability companies, if the
10 liability company is treated as a partnership for purposes of
11 federal and State income taxation, there is allowed a credit
12 under this Section to be determined in accordance with the
13 determination of income and distributive share of income under
14 Sections 702 and 704 and Subchapter S of the Internal Revenue
15 Code.

16 (d) The credit may not be carried back. Any credit in
17 excess of the tax liability for the taxable year may be carried
18 forward. A taxpayer may elect to have the unused credit shown
19 on its final completed return carried over as a credit against
20 the tax liability for the following 5 taxable years or until it
21 has been fully used, whichever occurs first. If an unused
22 credit is carried forward to a given year from 2 or more
23 earlier years, that credit arising in the earliest year must be
24 applied first against the tax liability for the given year. If
25 a tax liability for the given year still remains, the credit
26 from the next earliest year must then be applied, and so on,

1 until all credits have been used or no tax liability for the
2 given year remains. Any remaining unused credit or credits then
3 must be carried forward to the next following year in which a
4 tax liability is incurred, except that no credit may be carried
5 forward to a year that is more than 5 years after the year in
6 which the expense for which the credit is given was incurred.

7 (e) This Section is exempt from the provisions of Section
8 250 of this Act.

9 (f) A taxpayer may not claim a credit under this Section in
10 any taxable year that the taxpayer claims a credit under
11 subsection (k) of Section 201 of this Act.

12 Section 99. Effective date. This Act takes effect upon
13 becoming law.