

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) Beginning on July 1, 1979 and thereafter, in
18 addition to such income tax, there is also hereby imposed the
19 Personal Property Tax Replacement Income Tax measured by net
20 income on every corporation (including Subchapter S
21 corporations), partnership and trust, for each taxable year
22 ending after June 30, 1979. Such taxes are imposed on the
23 privilege of earning or receiving income in or as a resident
24 of this State. The Personal Property Tax Replacement Income
25 Tax shall be in addition to the income tax imposed by
26 subsections (a) and (b) of this Section and in addition to
27 all other occupation or privilege taxes imposed by this State
28 or by any municipal corporation or political subdivision
29 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 the
30 basis for such property. The credit shall be available
31 only in the taxable year in which the property is placed
32 in service in the Enterprise Zone and shall not be
33 allowed to the extent that it would reduce a taxpayer's
34 liability for the tax imposed by subsections (a) and (b)

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

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

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

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

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

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

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

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

34 (4) If the basis of the property for federal income

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

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

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

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

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

1 (2) To qualify for the credit:

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

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

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

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

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

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

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

1 services performed.

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

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

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

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

24 (h) Investment credit; High Impact Business.

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

1 satisfied and shall not be allowed to the extent that it
2 would reduce a taxpayer's liability for the tax imposed
3 by subsections (a) and (b) of this Section to below zero.
4 The credit applicable to such minimum investments shall
5 be taken in the taxable year in which such minimum
6 investments have been completed. The credit for
7 additional investments beyond the minimum investment by a
8 designated high impact business shall be available only
9 in the taxable year in which the property is placed in
10 service and shall not be allowed to the extent that it
11 would reduce a taxpayer's liability for the tax imposed
12 by subsections (a) and (b) of this Section to below zero.
13 For tax years ending on or after December 31, 1987, the
14 credit shall be allowed for the tax year in which the
15 property is placed in service, or, if the amount of the
16 credit exceeds the tax liability for that year, whether
17 it exceeds the original liability or the liability as
18 later amended, such excess may be carried forward and
19 applied to the tax liability of the 5 taxable years
20 following the excess credit year. The credit shall be
21 applied to the earliest year for which there is a
22 liability. If there is credit from more than one tax
23 year that is available to offset a liability, the credit
24 accruing first in time shall be applied first.

25 Changes made in this subdivision (h)(1) by Public
26 Act 88-670 restore changes made by Public Act 85-1182 and
27 reflect existing law.

28 (2) The term qualified property means property
29 which:

30 (A) is tangible, whether new or used,
31 including buildings and structural components of
32 buildings;

33 (B) is depreciable pursuant to Section 167 of
34 the Internal Revenue Code, except that "3-year

1 property" as defined in Section 168(c)(2)(A) of that
2 Code is not eligible for the credit provided by this
3 subsection (h);

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

6 (D) is not eligible for the Enterprise Zone
7 Investment Credit provided by subsection (f) of this
8 Section.

9 (3) The basis of qualified property shall be the
10 basis used to compute the depreciation deduction for
11 federal income tax purposes.

12 (4) If the basis of the property for federal income
13 tax depreciation purposes is increased after it has been
14 placed in service in a federally designated Foreign Trade
15 Zone or Sub-Zone located in Illinois by the taxpayer, the
16 amount of such increase shall be deemed property placed
17 in service on the date of such increase in basis.

18 (5) The term "placed in service" shall have the
19 same meaning as under Section 46 of the Internal Revenue
20 Code.

21 (6) If during any taxable year ending on or before
22 December 31, 1996, any property ceases to be qualified
23 property in the hands of the taxpayer within 48 months
24 after being placed in service, or the situs of any
25 qualified property is moved outside Illinois within 48
26 months after being placed in service, the tax imposed
27 under subsections (a) and (b) of this Section for such
28 taxable year shall be increased. Such increase shall be
29 determined by (i) recomputing the investment credit which
30 would have been allowed for the year in which credit for
31 such property was originally allowed by eliminating such
32 property from such computation, and (ii) subtracting such
33 recomputed credit from the amount of credit previously
34 allowed. For the purposes of this paragraph (6), a

1 reduction of the basis of qualified property resulting
2 from a redetermination of the purchase price shall be
3 deemed a disposition of qualified property to the extent
4 of such reduction.

5 (7) Beginning with tax years ending after December
6 31, 1996, if a taxpayer qualifies for the credit under
7 this subsection (h) and thereby is granted a tax
8 abatement and the taxpayer relocates its entire facility
9 in violation of the explicit terms and length of the
10 contract under Section 18-183 of the Property Tax Code,
11 the tax imposed under subsections (a) and (b) of this
12 Section shall be increased for the taxable year in which
13 the taxpayer relocated its facility by an amount equal to
14 the amount of credit received by the taxpayer under this
15 subsection (h).

16 (i) A credit shall be allowed against the tax imposed by
17 subsections (a) and (b) of this Section for the tax imposed
18 by subsections (c) and (d) of this Section. This credit
19 shall be computed by multiplying the tax imposed by
20 subsections (c) and (d) of this Section by a fraction, the
21 numerator of which is base income allocable to Illinois and
22 the denominator of which is Illinois base income, and further
23 multiplying the product by the tax rate imposed by
24 subsections (a) and (b) of this Section.

25 Any credit earned on or after December 31, 1986 under
26 this subsection which is unused in the year the credit is
27 computed because it exceeds the tax liability imposed by
28 subsections (a) and (b) for that year (whether it exceeds the
29 original liability or the liability as later amended) may be
30 carried forward and applied to the tax liability imposed by
31 subsections (a) and (b) of the 5 taxable years following the
32 excess credit year. This credit shall be applied first to
33 the earliest year for which there is a liability. If there
34 is a credit under this subsection from more than one tax year

1 that is available to offset a liability the earliest credit
2 arising under this subsection shall be applied first.

3 If, during any taxable year ending on or after December
4 31, 1986, the tax imposed by subsections (c) and (d) of this
5 Section for which a taxpayer has claimed a credit under this
6 subsection (i) is reduced, the amount of credit for such tax
7 shall also be reduced. Such reduction shall be determined by
8 recomputing the credit to take into account the reduced tax
9 imposed by subsection (c) and (d). If any portion of the
10 reduced amount of credit has been carried to a different
11 taxable year, an amended return shall be filed for such
12 taxable year to reduce the amount of credit claimed.

13 (j) Training expense credit. Beginning with tax years
14 ending on or after December 31, 1986, a taxpayer shall be
15 allowed a credit against the tax imposed by subsection (a)
16 and (b) under this Section for all amounts paid or accrued,
17 on behalf of all persons employed by the taxpayer in Illinois
18 or Illinois residents employed outside of Illinois by a
19 taxpayer, for educational or vocational training in
20 semi-technical or technical fields or semi-skilled or skilled
21 fields, which were deducted from gross income in the
22 computation of taxable income. The credit against the tax
23 imposed by subsections (a) and (b) shall be 1.6% of such
24 training expenses. For partners, shareholders of subchapter
25 S corporations, and owners of limited liability companies, if
26 the liability company is treated as a partnership for
27 purposes of federal and State income taxation, there shall be
28 allowed a credit under this subsection (j) to be determined
29 in accordance with the determination of income and
30 distributive share of income under Sections 702 and 704 and
31 subchapter S of the Internal Revenue Code.

32 Any credit allowed under this subsection which is unused
33 in the year the credit is earned may be carried forward to
34 each of the 5 taxable years following the year for which the

1 credit is first computed until it is used. This credit shall
2 be applied first to the earliest year for which there is a
3 liability. If there is a credit under this subsection from
4 more than one tax year that is available to offset a
5 liability the earliest credit arising under this subsection
6 shall be applied first.

7 (k) Research and development credit.

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

23 For purposes of this subsection:7

24 "Qualifying expenditures" means the qualifying
25 expenditures as defined for the federal credit for increasing
26 research activities which would be allowable under Section 41
27 of the Internal Revenue Code and which are conducted in this
28 State.7

29 "Qualifying expenditures for increasing research
30 activities in this State" means, at the election of the
31 taxpayer, either (1) the excess of qualifying expenditures
32 for the taxable year in which incurred over qualifying
33 expenditures for the base period or (2) as an alternate
34 credit, for taxable years ending on or after December 31,

1 2001, the qualifying expenditures for the taxable year
2 incurred in this State computed in a manner consistent with
3 the alternative incremental credit described in Section
4 41(c)(4) of the Internal Revenue Code. For purposes of the
5 alternative incremental credit, "base amount", "basic
6 research payment", and "qualified research expense" mean the
7 same as defined for the federal credit for increasing
8 research activities under Section 41 of the Internal Revenue
9 Code, except that for the alternative incremental credit such
10 amounts are for activities conducted within the State of
11 Illinois. The taxpayer may make this election regardless of
12 the method used for the taxpayer's federal income tax. An
13 election is for the tax year, and the taxpayer may use
14 another or the same method for any subsequent year. For
15 purposes of the alternate credit computation, the credit
16 percentages applicable to qualified research expenses
17 described in clauses (i), (ii), and (iii) of Section
18 41(c)(4)(A) of the Internal Revenue Code are 1.65%, 2.20%,
19 and 2.75%, respectively.

20 "Qualifying expenditures for the base period" means the
21 average of the qualifying expenditures for each year in the
22 base period, and "base period" means the 3 taxable years
23 immediately preceding the taxable year for which the
24 determination is being made.

25 Any credit in excess of the tax liability for the taxable
26 year may be carried forward. A taxpayer may elect to have the
27 unused credit shown on its final completed return carried
28 over as a credit against the tax liability for the following
29 5 taxable years or until it has been fully used, whichever
30 occurs first.

31 If an unused credit is carried forward to a given year
32 from 2 or more earlier years, that credit arising in the
33 earliest year will be applied first against the tax liability
34 for the given year. If a tax liability for the given year

1 still remains, the credit from the next earliest year will
2 then be applied, and so on, until all credits have been used
3 or no tax liability for the given year remains. Any
4 remaining unused credit or credits then will be carried
5 forward to the next following year in which a tax liability
6 is incurred, except that no credit can be carried forward to
7 a year which is more than 5 years after the year in which the
8 expense for which the credit is given was incurred.

9 Unless extended by law, the credit shall not include
10 costs incurred after December 31, 2009 2004, except for costs
11 incurred pursuant to a binding contract entered into on or
12 before December 31, 2009 2004.

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

16 (1) Environmental Remediation Tax Credit.

17 (i) For tax years ending after December 31, 1997
18 and on or before December 31, 2001, a taxpayer shall be
19 allowed a credit against the tax imposed by subsections
20 (a) and (b) of this Section for certain amounts paid for
21 unreimbursed eligible remediation costs, as specified in
22 this subsection. For purposes of this Section,
23 "unreimbursed eligible remediation costs" means costs
24 approved by the Illinois Environmental Protection Agency
25 ("Agency") under Section 58.14 of the Environmental
26 Protection Act that were paid in performing environmental
27 remediation at a site for which a No Further Remediation
28 Letter was issued by the Agency and recorded under
29 Section 58.10 of the Environmental Protection Act. The
30 credit must be claimed for the taxable year in which
31 Agency approval of the eligible remediation costs is
32 granted. The credit is not available to any taxpayer if
33 the taxpayer or any related party caused or contributed
34 to, in any material respect, a release of regulated

1 substances on, in, or under the site that was identified
2 and addressed by the remedial action pursuant to the Site
3 Remediation Program of the Environmental Protection Act.
4 After the Pollution Control Board rules are adopted
5 pursuant to the Illinois Administrative Procedure Act for
6 the administration and enforcement of Section 58.9 of the
7 Environmental Protection Act, determinations as to credit
8 availability for purposes of this Section shall be made
9 consistent with those rules. For purposes of this
10 Section, "taxpayer" includes a person whose tax
11 attributes the taxpayer has succeeded to under Section
12 381 of the Internal Revenue Code and "related party"
13 includes the persons disallowed a deduction for losses by
14 paragraphs (b), (c), and (f)(1) of Section 267 of the
15 Internal Revenue Code by virtue of being a related
16 taxpayer, as well as any of its partners. The credit
17 allowed against the tax imposed by subsections (a) and
18 (b) shall be equal to 25% of the unreimbursed eligible
19 remediation costs in excess of \$100,000 per site, except
20 that the \$100,000 threshold shall not apply to any site
21 contained in an enterprise zone as determined by the
22 Department of Commerce and Community Affairs. The total
23 credit allowed shall not exceed \$40,000 per year with a
24 maximum total of \$150,000 per site. For partners and
25 shareholders of subchapter S corporations, there shall be
26 allowed a credit under this subsection to be determined
27 in accordance with the determination of income and
28 distributive share of income under Sections 702 and 704
29 and of subchapter S of the Internal Revenue Code.

30 (ii) A credit allowed under this subsection that is
31 unused in the year the credit is earned may be carried
32 forward to each of the 5 taxable years following the year
33 for which the credit is first earned until it is used.
34 The term "unused credit" does not include any amounts of

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

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

25 (m) Education expense credit.

26 Beginning with tax years ending after December 31, 1999,
27 a taxpayer who is the custodian of one or more qualifying
28 pupils shall be allowed a credit against the tax imposed by
29 subsections (a) and (b) of this Section for qualified
30 education expenses incurred on behalf of the qualifying
31 pupils. The credit shall be equal to 25% of qualified
32 education expenses, but in no event may the total credit
33 under this Section claimed by a family that is the custodian
34 of qualifying pupils exceed \$500. In no event shall a credit

1 under this subsection reduce the taxpayer's liability under
2 this Act to less than zero. This subsection is exempt from
3 the provisions of Section 250 of this Act.

4 For purposes of this subsection;

5 "Qualifying pupils" means individuals who (i) are
6 residents of the State of Illinois, (ii) are under the age of
7 21 at the close of the school year for which a credit is
8 sought, and (iii) during the school year for which a credit
9 is sought were full-time pupils enrolled in a kindergarten
10 through twelfth grade education program at any school, as
11 defined in this subsection.

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

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

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

26 (Source: P.A. 90-123, eff. 7-21-97; 90-458, eff. 8-17-97;
27 90-605, eff. 6-30-98; 90-655, eff. 7-30-98; 90-717, eff.
28 8-7-98; 90-792, eff. 1-1-99; 91-9, eff. 1-1-00; 91-357, eff.
29 7-29-99; 91-643, eff. 8-20-99; 91-644, eff. 8-20-99; 91-860,
30 eff. 6-22-00; 91-913, eff. 1-1-01; revised 10-24-00.)