

1 AN ACT to amend the Illinois Income Tax Act by changing
2 Section 203.

3 Be it enacted by the People of the State of Illinois,
4 represented in the General Assembly:

5 Section 5. The Illinois Income Tax Act is amended by
6 changing Section 203 as follows:

7 (35 ILCS 5/203) (from Ch. 120, par. 2-203)
8 Sec. 203. Base income defined.

9 (a) Individuals.

10 (1) In general. In the case of an individual, base
11 income means an amount equal to the taxpayer's adjusted
12 gross income for the taxable year as modified by
13 paragraph (2).

14 (2) Modifications. The adjusted gross income
15 referred to in paragraph (1) shall be modified by adding
16 thereto the sum of the following amounts:

17 (A) An amount equal to all amounts paid or
18 accrued to the taxpayer as interest or dividends
19 during the taxable year to the extent excluded from
20 gross income in the computation of adjusted gross
21 income, except stock dividends of qualified public
22 utilities described in Section 305(e) of the
23 Internal Revenue Code;

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

28 (C) An amount equal to the amount received
29 during the taxable year as a recovery or refund of
30 real property taxes paid with respect to the
31 taxpayer's principal residence under the Revenue Act

1 of 1939 and for which a deduction was previously
2 taken under subparagraph (L) of this paragraph (2)
3 prior to July 1, 1991, the retrospective application
4 date of Article 4 of Public Act 87-17. In the case
5 of multi-unit or multi-use structures and farm
6 dwellings, the taxes on the taxpayer's principal
7 residence shall be that portion of the total taxes
8 for the entire property which is attributable to
9 such principal residence;

10 (D) An amount equal to the amount of the
11 capital gain deduction allowable under the Internal
12 Revenue Code, to the extent deducted from gross
13 income in the computation of adjusted gross income;

14 (D-5) An amount, to the extent not included in
15 adjusted gross income, equal to the amount of money
16 withdrawn by the taxpayer in the taxable year from a
17 medical care savings account and the interest earned
18 on the account in the taxable year of a withdrawal
19 pursuant to subsection (b) of Section 20 of the
20 Medical Care Savings Account Act or subsection (b)
21 of Section 20 of the Medical Care Savings Account
22 Act of 2000; and

23 (D-10) For taxable years ending after December
24 31, 1997, an amount equal to any eligible
25 remediation costs that the individual deducted in
26 computing adjusted gross income and for which the
27 individual claims a credit under subsection (1) of
28 Section 201;

29 and by deducting from the total so obtained the sum of
30 the following amounts:

31 (E) Any amount included in such total in
32 respect of any compensation (including but not
33 limited to any compensation paid or accrued to a
34 serviceman while a prisoner of war or missing in

1 action) paid to a resident by reason of being on
2 active duty, or on reserve duty for taxable years
3 ending on or after December 31, 2001, in the Armed
4 Forces of the United States, and in respect of any
5 compensation paid or accrued to a resident who as a
6 governmental employee was a prisoner of war or
7 missing in action, and in respect of any
8 compensation paid to a resident in 1971 or or any
9 taxable year thereafter ending on or before December
10 30, 2001, for annual training performed pursuant to
11 Sections 502 and 503, Title 32, United States Code
12 as a member of the Illinois National Guard, and, for
13 taxable years ending on or after December 31, 2001,
14 in respect of any compensation paid to a resident
15 for any service as a member of the Illinois National
16 Guard. This subparagraph (E) is exempt from the
17 provisions of Section 250;

18 (F) An amount equal to all amounts included in
19 such total pursuant to the provisions of Sections
20 402(a), 402(c), 403(a), 403(b), 406(a), 407(a), and
21 408 of the Internal Revenue Code, or included in
22 such total as distributions under the provisions of
23 any retirement or disability plan for employees of
24 any governmental agency or unit, or retirement
25 payments to retired partners, which payments are
26 excluded in computing net earnings from self
27 employment by Section 1402 of the Internal Revenue
28 Code and regulations adopted pursuant thereto;

29 (G) The valuation limitation amount;

30 (H) An amount equal to the amount of any tax
31 imposed by this Act which was refunded to the
32 taxpayer and included in such total for the taxable
33 year;

34 (I) An amount equal to all amounts included in

1 such total pursuant to the provisions of Section 111
2 of the Internal Revenue Code as a recovery of items
3 previously deducted from adjusted gross income in
4 the computation of taxable income;

5 (J) An amount equal to those dividends
6 included in such total which were paid by a
7 corporation which conducts business operations in an
8 Enterprise Zone or zones created under the Illinois
9 Enterprise Zone Act, and conducts substantially all
10 of its operations in an Enterprise Zone or zones;

11 (K) An amount equal to those dividends
12 included in such total that were paid by a
13 corporation that conducts business operations in a
14 federally designated Foreign Trade Zone or Sub-Zone
15 and that is designated a High Impact Business
16 located in Illinois; provided that dividends
17 eligible for the deduction provided in subparagraph
18 (J) of paragraph (2) of this subsection shall not be
19 eligible for the deduction provided under this
20 subparagraph (K);

21 (L) For taxable years ending after December
22 31, 1983, an amount equal to all social security
23 benefits and railroad retirement benefits included
24 in such total pursuant to Sections 72(r) and 86 of
25 the Internal Revenue Code;

26 (M) With the exception of any amounts
27 subtracted under subparagraph (N), an amount equal
28 to the sum of all amounts disallowed as deductions
29 by (i) Sections 171(a) (2), and 265(2) of the
30 Internal Revenue Code of 1954, as now or hereafter
31 amended, and all amounts of expenses allocable to
32 interest and disallowed as deductions by Section
33 265(1) of the Internal Revenue Code of 1954, as now
34 or hereafter amended; and (ii) for taxable years

1 ending on or after August 13, 1999, Sections
2 171(a)(2), 265, 280C, and 832(b)(5)(B)(i) of the
3 Internal Revenue Code; the provisions of this
4 subparagraph are exempt from the provisions of
5 Section 250;

6 (N) An amount equal to all amounts included in
7 such total which are exempt from taxation by this
8 State either by reason of its statutes or
9 Constitution or by reason of the Constitution,
10 treaties or statutes of the United States; provided
11 that, in the case of any statute of this State that
12 exempts income derived from bonds or other
13 obligations from the tax imposed under this Act, the
14 amount exempted shall be the interest net of bond
15 premium amortization;

16 (O) An amount equal to any contribution made
17 to a job training project established pursuant to
18 the Tax Increment Allocation Redevelopment Act;

19 (P) An amount equal to the amount of the
20 deduction used to compute the federal income tax
21 credit for restoration of substantial amounts held
22 under claim of right for the taxable year pursuant
23 to Section 1341 of the Internal Revenue Code of
24 1986;

25 (Q) An amount equal to any amounts included in
26 such total, received by the taxpayer as an
27 acceleration in the payment of life, endowment or
28 annuity benefits in advance of the time they would
29 otherwise be payable as an indemnity for a terminal
30 illness;

31 (R) An amount equal to the amount of any
32 federal or State bonus paid to veterans of the
33 Persian Gulf War;

34 (S) An amount, to the extent included in

1 adjusted gross income, equal to the amount of a
2 contribution made in the taxable year on behalf of
3 the taxpayer to a medical care savings account
4 established under the Medical Care Savings Account
5 Act or the Medical Care Savings Account Act of 2000
6 to the extent the contribution is accepted by the
7 account administrator as provided in that Act;

8 (T) An amount, to the extent included in
9 adjusted gross income, equal to the amount of
10 interest earned in the taxable year on a medical
11 care savings account established under the Medical
12 Care Savings Account Act or the Medical Care Savings
13 Account Act of 2000 on behalf of the taxpayer, other
14 than interest added pursuant to item (D-5) of this
15 paragraph (2);

16 (U) For one taxable year beginning on or after
17 January 1, 1994, an amount equal to the total amount
18 of tax imposed and paid under subsections (a) and
19 (b) of Section 201 of this Act on grant amounts
20 received by the taxpayer under the Nursing Home
21 Grant Assistance Act during the taxpayer's taxable
22 years 1992 and 1993;

23 (V) Beginning with tax years ending on or
24 after December 31, 1995 and ending with tax years
25 ending on or before December 31, 2004, an amount
26 equal to the amount paid by a taxpayer who is a
27 self-employed taxpayer, a partner of a partnership,
28 or a shareholder in a Subchapter S corporation for
29 health insurance or long-term care insurance for
30 that taxpayer or that taxpayer's spouse or
31 dependents, to the extent that the amount paid for
32 that health insurance or long-term care insurance
33 may be deducted under Section 213 of the Internal
34 Revenue Code of 1986, has not been deducted on the

1 federal income tax return of the taxpayer, and does
2 not exceed the taxable income attributable to that
3 taxpayer's income, self-employment income, or
4 Subchapter S corporation income; except that no
5 deduction shall be allowed under this item (V) if
6 the taxpayer is eligible to participate in any
7 health insurance or long-term care insurance plan of
8 an employer of the taxpayer or the taxpayer's
9 spouse. The amount of the health insurance and
10 long-term care insurance subtracted under this item
11 (V) shall be determined by multiplying total health
12 insurance and long-term care insurance premiums paid
13 by the taxpayer times a number that represents the
14 fractional percentage of eligible medical expenses
15 under Section 213 of the Internal Revenue Code of
16 1986 not actually deducted on the taxpayer's federal
17 income tax return;

18 (W) For taxable years beginning on or after
19 January 1, 1998, all amounts included in the
20 taxpayer's federal gross income in the taxable year
21 from amounts converted from a regular IRA to a Roth
22 IRA. This paragraph is exempt from the provisions of
23 Section 250; and

24 (X) For taxable year 1999 and thereafter, an
25 amount equal to the amount of any (i) distributions,
26 to the extent includible in gross income for federal
27 income tax purposes, made to the taxpayer because of
28 his or her status as a victim of persecution for
29 racial or religious reasons by Nazi Germany or any
30 other Axis regime or as an heir of the victim and
31 (ii) items of income, to the extent includible in
32 gross income for federal income tax purposes,
33 attributable to, derived from or in any way related
34 to assets stolen from, hidden from, or otherwise

1 lost to a victim of persecution for racial or
2 religious reasons by Nazi Germany or any other Axis
3 regime immediately prior to, during, and immediately
4 after World War II, including, but not limited to,
5 interest on the proceeds receivable as insurance
6 under policies issued to a victim of persecution for
7 racial or religious reasons by Nazi Germany or any
8 other Axis regime by European insurance companies
9 immediately prior to and during World War II;
10 provided, however, this subtraction from federal
11 adjusted gross income does not apply to assets
12 acquired with such assets or with the proceeds from
13 the sale of such assets; provided, further, this
14 paragraph shall only apply to a taxpayer who was the
15 first recipient of such assets after their recovery
16 and who is a victim of persecution for racial or
17 religious reasons by Nazi Germany or any other Axis
18 regime or as an heir of the victim. The amount of
19 and the eligibility for any public assistance,
20 benefit, or similar entitlement is not affected by
21 the inclusion of items (i) and (ii) of this
22 paragraph in gross income for federal income tax
23 purposes. This paragraph is exempt from the
24 provisions of Section 250.

25 (b) Corporations.

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

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

32 (A) An amount equal to all amounts paid or
33 accrued to the taxpayer as interest and all
34 distributions received from regulated investment

1 companies during the taxable year to the extent
2 excluded from gross income in the computation of
3 taxable income;

4 (B) An amount equal to the amount of tax
5 imposed by this Act to the extent deducted from
6 gross income in the computation of taxable income
7 for the taxable year;

8 (C) In the case of a regulated investment
9 company, an amount equal to the excess of (i) the
10 net long-term capital gain for the taxable year,
11 over (ii) the amount of the capital gain dividends
12 designated as such in accordance with Section
13 852(b)(3)(C) of the Internal Revenue Code and any
14 amount designated under Section 852(b)(3)(D) of the
15 Internal Revenue Code, attributable to the taxable
16 year (this amendatory Act of 1995 (Public Act 89-89)
17 is declarative of existing law and is not a new
18 enactment);

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

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

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

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

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

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

22 (E-5) For taxable years ending after December
23 31, 1997, an amount equal to any eligible
24 remediation costs that the corporation deducted in
25 computing adjusted gross income and for which the
26 corporation claims a credit under subsection (l) of
27 Section 201;

28 and by deducting from the total so obtained the sum of
29 the following amounts:

30 (F) An amount equal to the amount of any tax
31 imposed by this Act which was refunded to the
32 taxpayer and included in such total for the taxable
33 year;

34 (G) An amount equal to any amount included in

1 such total under Section 78 of the Internal Revenue
2 Code;

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

8 (I) With the exception of any amounts
9 subtracted under subparagraph (J), an amount equal
10 to the sum of all amounts disallowed as deductions
11 by (i) Sections 171(a) (2), and 265(a)(2) and
12 amounts disallowed as interest expense by Section
13 291(a)(3) of the Internal Revenue Code, as now or
14 hereafter amended, and all amounts of expenses
15 allocable to interest and disallowed as deductions
16 by Section 265(a)(1) of the Internal Revenue Code,
17 as now or hereafter amended; and (ii) for taxable
18 years ending on or after August 13, 1999, Sections
19 171(a)(2), 265, 280C, 291(a)(3), and 832(b)(5)(B)(i)
20 of the Internal Revenue Code; the provisions of this
21 subparagraph are exempt from the provisions of
22 Section 250;

23 (J) An amount equal to all amounts included in
24 such total which are exempt from taxation by this
25 State either by reason of its statutes or
26 Constitution or by reason of the Constitution,
27 treaties or statutes of the United States; provided
28 that, in the case of any statute of this State that
29 exempts income derived from bonds or other
30 obligations from the tax imposed under this Act, the
31 amount exempted shall be the interest net of bond
32 premium amortization;

33 (K) An amount equal to those dividends
34 included in such total which were paid by a

1 corporation which conducts business operations in an
2 Enterprise Zone or zones created under the Illinois
3 Enterprise Zone Act and conducts substantially all
4 of its operations in an Enterprise Zone or zones;

5 (L) An amount equal to those dividends
6 included in such total that were paid by a
7 corporation that conducts business operations in a
8 federally designated Foreign Trade Zone or Sub-Zone
9 and that is designated a High Impact Business
10 located in Illinois; provided that dividends
11 eligible for the deduction provided in subparagraph
12 (K) of paragraph 2 of this subsection shall not be
13 eligible for the deduction provided under this
14 subparagraph (L);

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

1 loan attributable to the eligible property as
2 calculated under the previous sentence;

3 (M-1) For any taxpayer that is a financial
4 organization within the meaning of Section 304(c) of
5 this Act, an amount included in such total as
6 interest income from a loan or loans made by such
7 taxpayer to a borrower, to the extent that such a
8 loan is secured by property which is eligible for
9 the High Impact Business Investment Credit. To
10 determine the portion of a loan or loans that is
11 secured by property eligible for a Section 201(h)
12 ~~201(i)~~ investment credit to the borrower, the entire
13 principal amount of the loan or loans between the
14 taxpayer and the borrower should be divided into the
15 basis of the Section 201(h) ~~201(i)~~ investment credit
16 property which secures the loan or loans, using for
17 this purpose the original basis of such property on
18 the date that it was placed in service in a
19 federally designated Foreign Trade Zone or Sub-Zone
20 located in Illinois. No taxpayer that is eligible
21 for the deduction provided in subparagraph (M) of
22 paragraph (2) of this subsection shall be eligible
23 for the deduction provided under this subparagraph
24 (M-1). The subtraction modification available to
25 taxpayers in any year under this subsection shall be
26 that portion of the total interest paid by the
27 borrower with respect to such loan attributable to
28 the eligible property as calculated under the
29 previous sentence;

30 (N) Two times any contribution made during the
31 taxable year to a designated zone organization to
32 the extent that the contribution (i) qualifies as a
33 charitable contribution under subsection (c) of
34 Section 170 of the Internal Revenue Code and (ii)

1 must, by its terms, be used for a project approved
2 by the Department of Commerce and Community Affairs
3 under Section 11 of the Illinois Enterprise Zone
4 Act;

5 (0) An amount equal to: (i) 85% for taxable
6 years ending on or before December 31, 1992, or, a
7 percentage equal to the percentage allowable under
8 Section 243(a)(1) of the Internal Revenue Code of
9 1986 for taxable years ending after December 31,
10 1992, of the amount by which dividends included in
11 taxable income and received from a corporation that
12 is not created or organized under the laws of the
13 United States or any state or political subdivision
14 thereof, including, for taxable years ending on or
15 after December 31, 1988, dividends received or
16 deemed received or paid or deemed paid under
17 Sections 951 through 964 of the Internal Revenue
18 Code, exceed the amount of the modification provided
19 under subparagraph (G) of paragraph (2) of this
20 subsection (b) which is related to such dividends;
21 plus (ii) 100% of the amount by which dividends,
22 included in taxable income and received, including,
23 for taxable years ending on or after December 31,
24 1988, dividends received or deemed received or paid
25 or deemed paid under Sections 951 through 964 of the
26 Internal Revenue Code, from any such corporation
27 specified in clause (i) that would but for the
28 provisions of Section 1504 (b) (3) of the Internal
29 Revenue Code be treated as a member of the
30 affiliated group which includes the dividend
31 recipient, exceed the amount of the modification
32 provided under subparagraph (G) of paragraph (2) of
33 this subsection (b) which is related to such
34 dividends;

1 (P) An amount equal to any contribution made
2 to a job training project established pursuant to
3 the Tax Increment Allocation Redevelopment Act;

4 (Q) An amount equal to the amount of the
5 deduction used to compute the federal income tax
6 credit for restoration of substantial amounts held
7 under claim of right for the taxable year pursuant
8 to Section 1341 of the Internal Revenue Code of
9 1986;

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

21 (S) For taxable years ending on or after
22 December 31, 1997, in the case of a Subchapter S
23 corporation, an amount equal to all amounts of
24 income allocable to a shareholder subject to the
25 Personal Property Tax Replacement Income Tax imposed
26 by subsections (c) and (d) of Section 201 of this
27 Act, including amounts allocable to organizations
28 exempt from federal income tax by reason of Section
29 501(a) of the Internal Revenue Code. This
30 subparagraph (S) is exempt from the provisions of
31 Section 250.

32 (3) Special rule. For purposes of paragraph (2)
33 (A), "gross income" in the case of a life insurance
34 company, for tax years ending on and after December 31,

1 1994, shall mean the gross investment income for the
2 taxable year.

3 (c) Trusts and estates.

4 (1) In general. In the case of a trust or estate,
5 base income means an amount equal to the taxpayer's
6 taxable income for the taxable year as modified by
7 paragraph (2).

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

12 (A) An amount equal to all amounts paid or
13 accrued to the taxpayer as interest or dividends
14 during the taxable year to the extent excluded from
15 gross income in the computation of taxable income;

16 (B) In the case of (i) an estate, \$600; (ii) a
17 trust which, under its governing instrument, is
18 required to distribute all of its income currently,
19 \$300; and (iii) any other trust, \$100, but in each
20 such case, only to the extent such amount was
21 deducted in the computation of taxable income;

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

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

30 (E) For taxable years in which a net operating
31 loss carryback or carryforward from a taxable year
32 ending prior to December 31, 1986 is an element of
33 taxable income under paragraph (1) of subsection (e)
34 or subparagraph (E) of paragraph (2) of subsection

1 (e), the amount by which addition modifications
2 other than those provided by this subparagraph (E)
3 exceeded subtraction modifications in such taxable
4 year, with the following limitations applied in the
5 order that they are listed:

6 (i) the addition modification relating to
7 the net operating loss carried back or forward
8 to the taxable year from any taxable year
9 ending prior to December 31, 1986 shall be
10 reduced by the amount of addition modification
11 under this subparagraph (E) which related to
12 that net operating loss and which was taken
13 into account in calculating the base income of
14 an earlier taxable year, and

15 (ii) the addition modification relating
16 to the net operating loss carried back or
17 forward to the taxable year from any taxable
18 year ending prior to December 31, 1986 shall
19 not exceed the amount of such carryback or
20 carryforward;

21 For taxable years in which there is a net
22 operating loss carryback or carryforward from more
23 than one other taxable year ending prior to December
24 31, 1986, the addition modification provided in this
25 subparagraph (E) shall be the sum of the amounts
26 computed independently under the preceding
27 provisions of this subparagraph (E) for each such
28 taxable year;

29 (F) For taxable years ending on or after
30 January 1, 1989, an amount equal to the tax deducted
31 pursuant to Section 164 of the Internal Revenue Code
32 if the trust or estate is claiming the same tax for
33 purposes of the Illinois foreign tax credit under
34 Section 601 of this Act;

1 (G) An amount equal to the amount of the
2 capital gain deduction allowable under the Internal
3 Revenue Code, to the extent deducted from gross
4 income in the computation of taxable income; and

5 (G-5) For taxable years ending after December
6 31, 1997, an amount equal to any eligible
7 remediation costs that the trust or estate deducted
8 in computing adjusted gross income and for which the
9 trust or estate claims a credit under subsection (l)
10 of Section 201;

11 and by deducting from the total so obtained the sum of
12 the following amounts:

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

24 (I) The valuation limitation amount;

25 (J) An amount equal to the amount of any tax
26 imposed by this Act which was refunded to the
27 taxpayer and included in such total for the taxable
28 year;

29 (K) An amount equal to all amounts included in
30 taxable income as modified by subparagraphs (A),
31 (B), (C), (D), (E), (F) and (G) which are exempt
32 from taxation by this State either by reason of its
33 statutes or Constitution or by reason of the
34 Constitution, treaties or statutes of the United

1 States; provided that, in the case of any statute of
2 this State that exempts income derived from bonds or
3 other obligations from the tax imposed under this
4 Act, the amount exempted shall be the interest net
5 of bond premium amortization;

6 (L) With the exception of any amounts
7 subtracted under subparagraph (K), an amount equal
8 to the sum of all amounts disallowed as deductions
9 by (i) Sections 171(a) (2) and 265(a)(2) of the
10 Internal Revenue Code, as now or hereafter amended,
11 and all amounts of expenses allocable to interest
12 and disallowed as deductions by Section 265(1) of
13 the Internal Revenue Code of 1954, as now or
14 hereafter amended; and (ii) for taxable years ending
15 on or after August 13, 1999, Sections 171(a)(2),
16 265, 280C, and 832(b)(5)(B)(i) of the Internal
17 Revenue Code; the provisions of this subparagraph
18 are exempt from the provisions of Section 250;

19 (M) An amount equal to those dividends
20 included in such total which were paid by a
21 corporation which conducts business operations in an
22 Enterprise Zone or zones created under the Illinois
23 Enterprise Zone Act and conducts substantially all
24 of its operations in an Enterprise Zone or Zones;

25 (N) An amount equal to any contribution made
26 to a job training project established pursuant to
27 the Tax Increment Allocation Redevelopment Act;

28 (O) An amount equal to those dividends
29 included in such total that were paid by a
30 corporation that conducts business operations in a
31 federally designated Foreign Trade Zone or Sub-Zone
32 and that is designated a High Impact Business
33 located in Illinois; provided that dividends
34 eligible for the deduction provided in subparagraph

1 (M) of paragraph (2) of this subsection shall not be
2 eligible for the deduction provided under this
3 subparagraph (O);

4 (P) An amount equal to the amount of the
5 deduction used to compute the federal income tax
6 credit for restoration of substantial amounts held
7 under claim of right for the taxable year pursuant
8 to Section 1341 of the Internal Revenue Code of
9 1986; and

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

1 first recipient of such assets after their recovery
2 and who is a victim of persecution for racial or
3 religious reasons by Nazi Germany or any other Axis
4 regime or as an heir of the victim. The amount of
5 and the eligibility for any public assistance,
6 benefit, or similar entitlement is not affected by
7 the inclusion of items (i) and (ii) of this
8 paragraph in gross income for federal income tax
9 purposes. This paragraph is exempt from the
10 provisions of Section 250.

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

18 (d) Partnerships.

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

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

25 (A) An amount equal to all amounts paid or
26 accrued to the taxpayer as interest or dividends
27 during the taxable year to the extent excluded from
28 gross income in the computation of 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 for the taxable year;

32 (C) The amount of deductions allowed to the
33 partnership pursuant to Section 707 (c) of the
34 Internal Revenue Code in calculating its taxable

1 income; and

2 (D) An amount equal to the amount of the
3 capital gain deduction allowable under the Internal
4 Revenue Code, to the extent deducted from gross
5 income in the computation of taxable income;

6 and by deducting from the total so obtained the following
7 amounts:

8 (E) The valuation limitation amount;

9 (F) An amount equal to the amount of any tax
10 imposed by this Act which was refunded to the
11 taxpayer and included in such total for the taxable
12 year;

13 (G) An amount equal to all amounts included in
14 taxable income as modified by subparagraphs (A),
15 (B), (C) and (D) which are exempt from taxation by
16 this 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 (H) Any income of the partnership which
25 constitutes personal service income as defined in
26 Section 1348 (b) (1) of the Internal Revenue Code
27 (as in effect December 31, 1981) or a reasonable
28 allowance for compensation paid or accrued for
29 services rendered by partners to the partnership,
30 whichever is greater;

31 (I) An amount equal to all amounts of income
32 distributable to an entity subject to the Personal
33 Property Tax Replacement Income Tax imposed by
34 subsections (c) and (d) of Section 201 of this Act

1 including amounts distributable to organizations
2 exempt from federal income tax by reason of Section
3 501(a) of the Internal Revenue Code;

4 (J) With the exception of any amounts
5 subtracted under subparagraph (G), an amount equal
6 to the sum of all amounts disallowed as deductions
7 by (i) Sections 171(a) (2), and 265(2) of the
8 Internal Revenue Code of 1954, as now or hereafter
9 amended, and all amounts of expenses allocable to
10 interest and disallowed as deductions by Section
11 265(1) of the Internal Revenue Code, as now or
12 hereafter amended; and (ii) for taxable years ending
13 on or after August 13, 1999, Sections 171(a)(2),
14 265, 280C, and 832(b)(5)(B)(i) of the Internal
15 Revenue Code; the provisions of this subparagraph
16 are exempt from the provisions of Section 250;

17 (K) An amount equal to those dividends
18 included in such total which were paid by a
19 corporation which conducts business operations in an
20 Enterprise Zone or zones created under the Illinois
21 Enterprise Zone Act, enacted by the 82nd General
22 Assembly, and which does not conduct such operations
23 other than in an Enterprise Zone or Zones;

24 (L) An amount equal to any contribution made
25 to a job training project established pursuant to
26 the Real Property Tax Increment Allocation
27 Redevelopment Act;

28 (M) An amount equal to those dividends
29 included in such total that were paid by a
30 corporation that conducts business operations in a
31 federally designated Foreign Trade Zone or Sub-Zone
32 and that is designated a High Impact Business
33 located in Illinois; provided that dividends
34 eligible for the deduction provided in subparagraph

1 (K) of paragraph (2) of this subsection shall not be
2 eligible for the deduction provided under this
3 subparagraph (M); and

4 (N) An amount equal to the amount of the
5 deduction used to compute the federal income tax
6 credit for restoration of substantial amounts held
7 under claim of right for the taxable year pursuant
8 to Section 1341 of the Internal Revenue Code of
9 1986.

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

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

1 or subparagraph (E) of paragraph (2) of subsection (c)
2 for trusts and estates, exceed subtraction modifications,
3 an addition modification must be made under those
4 subparagraphs for any other taxable year to which the
5 taxable income less than zero (net operating loss) is
6 applied under Section 172 of the Internal Revenue Code or
7 under subparagraph (E) of paragraph (2) of this
8 subsection (e) applied in conjunction with Section 172 of
9 the Internal Revenue Code.

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

13 (A) Certain life insurance companies. In the
14 case of a life insurance company subject to the tax
15 imposed by Section 801 of the Internal Revenue Code,
16 life insurance company taxable income, plus the
17 amount of distribution from pre-1984 policyholder
18 surplus accounts as calculated under Section 815a of
19 the Internal Revenue Code;

20 (B) Certain other insurance companies. In the
21 case of mutual insurance companies subject to the
22 tax imposed by Section 831 of the Internal Revenue
23 Code, insurance company taxable income;

24 (C) Regulated investment companies. In the
25 case of a regulated investment company subject to
26 the tax imposed by Section 852 of the Internal
27 Revenue Code, investment company taxable income;

28 (D) Real estate investment trusts. In the
29 case of a real estate investment trust subject to
30 the tax imposed by Section 857 of the Internal
31 Revenue Code, real estate investment trust taxable
32 income;

33 (E) Consolidated corporations. In the case of
34 a corporation which is a member of an affiliated

1 group of corporations filing a consolidated income
2 tax return for the taxable year for federal income
3 tax purposes, taxable income determined as if such
4 corporation had filed a separate return for federal
5 income tax purposes for the taxable year and each
6 preceding taxable year for which it was a member of
7 an affiliated group. For purposes of this
8 subparagraph, the taxpayer's separate taxable income
9 shall be determined as if the election provided by
10 Section 243(b) (2) of the Internal Revenue Code had
11 been in effect for all such years;

12 (F) Cooperatives. In the case of a
13 cooperative corporation or association, the taxable
14 income of such organization determined in accordance
15 with the provisions of Section 1381 through 1388 of
16 the Internal Revenue Code;

17 (G) Subchapter S corporations. In the case
18 of: (i) a Subchapter S corporation for which there
19 is in effect an election for the taxable year under
20 Section 1362 of the Internal Revenue Code, the
21 taxable income of such corporation determined in
22 accordance with Section 1363(b) of the Internal
23 Revenue Code, except that taxable income shall take
24 into account those items which are required by
25 Section 1363(b)(1) of the Internal Revenue Code to
26 be separately stated; and (ii) a Subchapter S
27 corporation for which there is in effect a federal
28 election to opt out of the provisions of the
29 Subchapter S Revision Act of 1982 and have applied
30 instead the prior federal Subchapter S rules as in
31 effect on July 1, 1982, the taxable income of such
32 corporation determined in accordance with the
33 federal Subchapter S rules as in effect on July 1,
34 1982; and

1 (H) Partnerships. In the case of a
2 partnership, taxable income determined in accordance
3 with Section 703 of the Internal Revenue Code,
4 except that taxable income shall take into account
5 those items which are required by Section 703(a)(1)
6 to be separately stated but which would be taken
7 into account by an individual in calculating his
8 taxable income.

9 (f) Valuation limitation amount.

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

13 (A) The sum of the pre-August 1, 1969
14 appreciation amounts (to the extent consisting of
15 gain reportable under the provisions of Section 1245
16 or 1250 of the Internal Revenue Code) for all
17 property in respect of which such gain was reported
18 for the taxable year; plus

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

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

29 (A) If the fair market value of property
30 referred to in paragraph (1) was readily
31 ascertainable on August 1, 1969, the pre-August 1,
32 1969 appreciation amount for such property is the
33 lesser of (i) the excess of such fair market value
34 over the taxpayer's basis (for determining gain) for

1 such property on that date (determined under the
2 Internal Revenue Code as in effect on that date), or
3 (ii) the total gain realized and reportable for
4 federal income tax purposes in respect of the sale,
5 exchange or other disposition of such property.

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

18 (C) The Department shall prescribe such
19 regulations as may be necessary to carry out the
20 purposes of this paragraph.

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

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

33 (Source: P.A. 90-491, eff. 1-1-98; 90-717, eff. 8-7-98;

1 90-770, eff. 8-14-98; 91-192, eff. 7-20-99; 91-205, eff.
2 7-20-99; 91-357, eff. 7-29-99; 91-541, eff. 8-13-99; 91-676,
3 eff. 12-23-99; 91-845, eff. 6-22-00; 91-913, eff. 1-1-01;
4 revised 10-24-00)

5 Section 99. Effective date. This Act takes effect upon
6 becoming law.