

1 AN ACT concerning finance.

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

4 Section 5. The State Treasurer Act is amended by
5 changing Section 16.5 as follows:

6 (15 ILCS 505/16.5)

7 Sec. 16.5. College Savings Pool. The State Treasurer may
8 establish and administer a College Savings Pool to supplement
9 and enhance the investment opportunities otherwise available
10 to persons seeking to finance the costs of higher education.
11 The State Treasurer, in administering the College Savings
12 Pool, may receive moneys paid into the pool by a participant
13 and may serve as the fiscal agent of that participant for the
14 purpose of holding and investing those moneys.

15 "Participant", as used in this Section, means any person
16 who ~~that~~ makes investments in the pool. "Designated
17 beneficiary", as used in this Section, means any person on
18 whose behalf an account is established in the College Savings
19 Pool by a participant. Both in-state and out-of-state persons
20 may be participants and designated beneficiaries in the
21 College Savings Pool.

22 New accounts in the College Savings Pool shall be
23 processed through participating financial institutions.
24 "Participating financial institution", as used in this
25 Section, means any financial institution insured by the
26 Federal Deposit Insurance Corporation and lawfully doing
27 business in the State of Illinois and any credit union
28 approved by the State Treasurer and lawfully doing business
29 in the State of Illinois that agrees to process new accounts
30 in the College Savings Pool. Participating financial
31 institutions may charge a processing fee to participants to

1 open an account in the pool that shall not exceed \$30 until
2 the year 2001. Beginning in 2001 and every year thereafter,
3 the maximum fee limit shall be adjusted by the Treasurer
4 based on the Consumer Price Index for the North Central
5 Region as published by the United States Department of Labor,
6 Bureau of Labor Statistics for the immediately preceding
7 calendar year. Every contribution received by a financial
8 institution for investment in the College Savings Pool shall
9 be transferred from the financial institution to a location
10 selected by the State Treasurer within one business day
11 following the day that the funds must be made available in
12 accordance with federal law. All communications from the
13 State Treasurer to participants shall reference the
14 participating financial institution at which the account was
15 processed.

16 The Treasurer may invest the moneys in the College
17 Savings Pool in the same manner, in the same types of
18 investments, and subject to the same limitations provided for
19 the investment of moneys by the Illinois State Board of
20 Investment. To enhance the safety and liquidity of the
21 College Savings Pool, to ensure the diversification of the
22 investment portfolio of the pool, and in an effort to keep
23 investment dollars in the State of Illinois, the State
24 Treasurer shall make a percentage of each account available
25 for investment in participating financial institutions doing
26 business in the State. The State Treasurer shall deposit
27 with the participating financial institution at which the
28 account was processed the following percentage of each
29 account at a prevailing rate offered by the institution,
30 provided that the deposit is federally insured or fully
31 collateralized and the institution accepts the deposit: 10%
32 of the total amount of each account for which the current age
33 of the beneficiary is less than 7 years of age, 20% of the
34 total amount of each account for which the beneficiary is at

1 least 7 years of age and less than 12 years of age, and 50%
2 of the total amount of each account for which the current age
3 of the beneficiary is at least 12 years of age. The State
4 Treasurer shall adjust each account at least annually to
5 ensure compliance with this Section. The Treasurer shall
6 develop, publish, and implement an investment policy covering
7 the investment of the moneys in the College Savings Pool. The
8 policy shall be published (i) at least once each year in at
9 least one newspaper of general circulation in both
10 Springfield and Chicago and (ii) each year as part of the
11 audit of the College Savings Pool by the Auditor General,
12 which shall be distributed to all participants. The Treasurer
13 shall notify all participants in writing, and the Treasurer
14 shall publish in a newspaper of general circulation in both
15 Chicago and Springfield, any changes to the previously
16 published investment policy at least 30 calendar days before
17 implementing the policy. Any investment policy adopted by the
18 Treasurer shall be reviewed and updated if necessary within
19 90 days following the date that the State Treasurer takes
20 office.

21 Participants shall be required to use moneys distributed
22 from the College Savings Pool for qualified expenses at
23 eligible educational institutions. "Qualified expenses", as
24 used in this Section, means the following: (i) tuition, fees,
25 and the costs of books, supplies, and equipment required for
26 enrollment or attendance at an eligible educational
27 institution and (ii) certain room and board expenses incurred
28 while attending an eligible educational institution at least
29 half-time. "Eligible educational institutions", as used in
30 this Section, means public and private colleges, junior
31 colleges, graduate schools, and certain vocational
32 institutions that are described in Section 481 of the Higher
33 Education Act of 1965 (20 U.S.C. 1088) and that are eligible
34 to participate in Department of Education student aid

1 programs. A student shall be considered to be enrolled at
2 least half-time if the student is enrolled for at least half
3 the full-time academic work load for the course of study the
4 student is pursuing as determined under the standards of the
5 institution at which the student is enrolled. Distributions
6 made from the pool for qualified expenses shall be made
7 directly to the eligible educational institution, directly to
8 a vendor, or in the form of a check payable to both the
9 beneficiary and the institution or vendor. Any moneys that
10 are distributed in any other manner or that are used for
11 expenses other than qualified expenses at an eligible
12 educational institution shall be subject to a penalty of 10%
13 of the earnings unless the beneficiary dies, becomes
14 disabled, or receives a scholarship that equals or exceeds
15 the distribution. Penalties shall be withheld at the time the
16 distribution is made.

17 The Treasurer shall limit the contributions that may be
18 made on behalf of a designated beneficiary based on an
19 actuarial estimate of what is required to pay tuition, fees,
20 and room and board for 5 undergraduate years at the highest
21 cost eligible educational institution. The contributions made
22 on behalf of a beneficiary who is also a beneficiary under
23 the Illinois Prepaid Tuition Program shall be further
24 restricted to ensure that the contributions in both programs
25 combined do not exceed the limit established for the College
26 Savings Pool. The Treasurer shall provide the Illinois
27 Student Assistance Commission each year at a time designated
28 by the Commission, an electronic report of all participant
29 accounts in the Treasurer's College Savings Pool, listing
30 total contributions and disbursements from each individual
31 account during the previous calendar year. As soon
32 thereafter as is possible following receipt of the
33 Treasurer's report, the Illinois Student Assistance
34 Commission shall, in turn, provide the Treasurer with an

1 electronic report listing those College Savings Pool
2 participants who also participate in the State's prepaid
3 tuition program, administered by the Commission. The
4 Commission shall be responsible for filing any combined tax
5 reports regarding State qualified savings programs required
6 by the United States Internal Revenue Service. The Treasurer
7 shall work with the Illinois Student Assistance Commission to
8 coordinate the marketing of the College Savings Pool and the
9 Illinois Prepaid Tuition Program when considered beneficial
10 by the Treasurer and the Director of the Illinois Student
11 Assistance Commission. The Treasurer's office shall not
12 publicize or otherwise market the College Savings Pool or
13 accept any moneys into the College Savings Pool prior to
14 March 1, 2000. The Treasurer shall provide a separate
15 accounting for each designated beneficiary to each
16 participant, the Illinois Student Assistance Commission, and
17 the participating financial institution at which the account
18 was processed. No interest in the program may be pledged as
19 security for a loan.

20 The assets of the College Savings Pool and its income and
21 operation shall be exempt from all taxation by the State of
22 Illinois and any of its subdivisions. The accrued earnings
23 on investments in the Pool once disbursed on behalf of a
24 designated beneficiary shall be similarly exempt from all
25 taxation by the State of Illinois and its subdivisions, so
26 long as they are used for qualified expenses. Contributions
27 to a College Savings Pool account during the taxable year may
28 be deducted from adjusted gross income as provided in Section
29 203 of the Illinois Income Tax Act. The provisions of this
30 paragraph are exempt from Section 250 of the Illinois Income
31 Tax Act.

32 The Treasurer shall adopt rules he or she considers
33 necessary for the efficient administration of the College
34 Savings Pool. The rules shall provide whatever additional

1 parameters and restrictions are necessary to ensure that the
2 College Savings Pool meets all of the requirements for a
3 qualified state tuition program under Section 529 of the
4 Internal Revenue Code (26 U.S.C. 529 52). The rules shall
5 provide for the administration expenses of the pool to be
6 paid from its earnings and for the investment earnings in
7 excess of the expenses and all moneys collected as penalties
8 to be credited or paid monthly to the several participants in
9 the pool in a manner which equitably reflects the differing
10 amounts of their respective investments in the pool and the
11 differing periods of time for which those amounts were in the
12 custody of the pool. Also, the rules shall require the
13 maintenance of records that enable the Treasurer's office to
14 produce a report for each account in the pool at least
15 annually that documents the account balance and investment
16 earnings. Notice of any proposed amendments to the rules and
17 regulations shall be provided to all participants prior to
18 adoption. Amendments to rules and regulations shall apply
19 only to contributions made after the adoption of the
20 amendment.

21 Upon creating the College Savings Pool, the State
22 Treasurer shall give bond with 2 or more sufficient sureties,
23 payable to and for the benefit of the participants in the
24 College Savings Pool, in the penal sum of \$1,000,000,
25 conditioned upon the faithful discharge of his or her duties
26 in relation to the College Savings Pool.

27 (Source: P.A. 91-607, eff. 1-1-00; 91-829, eff. 1-1-01;
28 revised 7-3-00.)

29 Section 10. The Illinois Income Tax Act is amended by
30 changing Section 203 as follows:

31 (35 ILCS 5/203) (from Ch. 120, par. 2-203)

32 Sec. 203. Base income defined.

1 (a) Individuals.

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

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

9 (A) An amount equal to all amounts paid or
10 accrued to the taxpayer as interest or dividends
11 during the taxable year to the extent excluded from
12 gross income in the computation of adjusted gross
13 income, except stock dividends of qualified public
14 utilities described in Section 305(e) of the
15 Internal Revenue Code;

16 (B) An amount equal to the amount of tax
17 imposed by this Act to the extent deducted from
18 gross income in the computation of adjusted gross
19 income for the taxable year;

20 (C) An amount equal to the amount received
21 during the taxable year as a recovery or refund of
22 real property taxes paid with respect to the
23 taxpayer's principal residence under the Revenue Act
24 of 1939 and for which a deduction was previously
25 taken under subparagraph (L) of this paragraph (2)
26 prior to July 1, 1991, the retrospective application
27 date of Article 4 of Public Act 87-17. In the case
28 of multi-unit or multi-use structures and farm
29 dwellings, the taxes on the taxpayer's principal
30 residence shall be that portion of the total taxes
31 for the entire property which is attributable to
32 such principal residence;

33 (D) An amount equal to the amount of the
34 capital gain deduction allowable under the Internal

1 Revenue Code, to the extent deducted from gross
2 income in the computation of adjusted gross income;

3 (D-5) An amount, to the extent not included in
4 adjusted gross income, equal to the amount of money
5 withdrawn by the taxpayer in the taxable year from a
6 medical care savings account and the interest earned
7 on the account in the taxable year of a withdrawal
8 pursuant to subsection (b) of Section 20 of the
9 Medical Care Savings Account Act or subsection (b)
10 of Section 20 of the Medical Care Savings Account
11 Act of 2000; and

12 (D-10) For taxable years ending after December
13 31, 1997, an amount equal to any eligible
14 remediation costs that the individual deducted in
15 computing adjusted gross income and for which the
16 individual claims a credit under subsection (1) of
17 Section 201;

18 and by deducting from the total so obtained the sum of
19 the following amounts:

20 (E) Any amount included in such total in
21 respect of any compensation (including but not
22 limited to any compensation paid or accrued to a
23 serviceman while a prisoner of war or missing in
24 action) paid to a resident by reason of being on
25 active duty in the Armed Forces of the United States
26 and in respect of any compensation paid or accrued
27 to a resident who as a governmental employee was a
28 prisoner of war or missing in action, and in respect
29 of any compensation paid to a resident in 1971 or
30 thereafter for annual training performed pursuant to
31 Sections 502 and 503, Title 32, United States Code
32 as a member of the Illinois National Guard;

33 (F) An amount equal to all amounts included in
34 such total pursuant to the provisions of Sections

1 402(a), 402(c), 403(a), 403(b), 406(a), 407(a), and
2 408 of the Internal Revenue Code, or included in
3 such total as distributions under the provisions of
4 any retirement or disability plan for employees of
5 any governmental agency or unit, or retirement
6 payments to retired partners, which payments are
7 excluded in computing net earnings from self
8 employment by Section 1402 of the Internal Revenue
9 Code and regulations adopted pursuant thereto;

10 (G) The valuation limitation amount;

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

15 (I) An amount equal to all amounts included in
16 such total pursuant to the provisions of Section 111
17 of the Internal Revenue Code as a recovery of items
18 previously deducted from adjusted gross income in
19 the computation of taxable income;

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

26 (K) An amount equal to those dividends
27 included in such total that were paid by a
28 corporation that conducts business operations in a
29 federally designated Foreign Trade Zone or Sub-Zone
30 and that is designated a High Impact Business
31 located in Illinois; provided that dividends
32 eligible for the deduction provided in subparagraph
33 (J) of paragraph (2) of this subsection shall not be
34 eligible for the deduction provided under this

1 deduction used to compute the federal income tax
2 credit for restoration of substantial amounts held
3 under claim of right for the taxable year pursuant
4 to Section 1341 of the Internal Revenue Code of
5 1986;

6 (Q) An amount equal to any amounts included in
7 such total, received by the taxpayer as an
8 acceleration in the payment of life, endowment or
9 annuity benefits in advance of the time they would
10 otherwise be payable as an indemnity for a terminal
11 illness;

12 (R) An amount equal to the amount of any
13 federal or State bonus paid to veterans of the
14 Persian Gulf War;

15 (S) An amount, to the extent included in
16 adjusted gross income, equal to the amount of a
17 contribution made in the taxable year on behalf of
18 the taxpayer to a medical care savings account
19 established under the Medical Care Savings Account
20 Act or the Medical Care Savings Account Act of 2000
21 to the extent the contribution is accepted by the
22 account administrator as provided in that Act;

23 (T) An amount, to the extent included in
24 adjusted gross income, equal to the amount of
25 interest earned in the taxable year on a medical
26 care savings account established under the Medical
27 Care Savings Account Act or the Medical Care Savings
28 Account Act of 2000 on behalf of the taxpayer, other
29 than interest added pursuant to item (D-5) of this
30 paragraph (2);

31 (U) For one taxable year beginning on or after
32 January 1, 1994, an amount equal to the total amount
33 of tax imposed and paid under subsections (a) and
34 (b) of Section 201 of this Act on grant amounts

1 received by the taxpayer under the Nursing Home
2 Grant Assistance Act during the taxpayer's taxable
3 years 1992 and 1993;

4 (V) Beginning with tax years ending on or
5 after December 31, 1995 and ending with tax years
6 ending on or before December 31, 2004, an amount
7 equal to the amount paid by a taxpayer who is a
8 self-employed taxpayer, a partner of a partnership,
9 or a shareholder in a Subchapter S corporation for
10 health insurance or long-term care insurance for
11 that taxpayer or that taxpayer's spouse or
12 dependents, to the extent that the amount paid for
13 that health insurance or long-term care insurance
14 may be deducted under Section 213 of the Internal
15 Revenue Code of 1986, has not been deducted on the
16 federal income tax return of the taxpayer, and does
17 not exceed the taxable income attributable to that
18 taxpayer's income, self-employment income, or
19 Subchapter S corporation income; except that no
20 deduction shall be allowed under this item (V) if
21 the taxpayer is eligible to participate in any
22 health insurance or long-term care insurance plan of
23 an employer of the taxpayer or the taxpayer's
24 spouse. The amount of the health insurance and
25 long-term care insurance subtracted under this item
26 (V) shall be determined by multiplying total health
27 insurance and long-term care insurance premiums paid
28 by the taxpayer times a number that represents the
29 fractional percentage of eligible medical expenses
30 under Section 213 of the Internal Revenue Code of
31 1986 not actually deducted on the taxpayer's federal
32 income tax return;

33 (W) For taxable years beginning on or after
34 January 1, 1998, all amounts included in the

1 taxpayer's federal gross income in the taxable year
2 from amounts converted from a regular IRA to a Roth
3 IRA. This paragraph is exempt from the provisions of
4 Section 250; and

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

1 benefit, or similar entitlement is not affected by
 2 the inclusion of items (i) and (ii) of this
 3 paragraph in gross income for federal income tax
 4 purposes. This paragraph is exempt from the
 5 provisions of Section 250; and

6 (Y) For taxable years beginning on or after
 7 January 1, 2002, moneys contributed in the taxable
 8 year to a College Savings Pool account under Section
 9 16.5 of the State Treasurer Act. This subparagraph
 10 (Y) is exempt from the provisions of Section 250.

11 (b) Corporations.

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

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

18 (A) An amount equal to all amounts paid or
 19 accrued to the taxpayer as interest and all
 20 distributions received from regulated investment
 21 companies during the taxable year to the extent
 22 excluded from gross income in the computation of
 23 taxable income;

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 taxable income
 27 for the taxable year;

28 (C) In the case of a regulated investment
 29 company, an amount equal to the excess of (i) the
 30 net long-term capital gain for the taxable year,
 31 over (ii) the amount of the capital gain dividends
 32 designated as such in accordance with Section
 33 852(b)(3)(C) of the Internal Revenue Code and any
 34 amount designated under Section 852(b)(3)(D) of the

1 Internal Revenue Code, attributable to the taxable
2 year (this amendatory Act of 1995 (Public Act 89-89)
3 is declarative of existing law and is not a new
4 enactment);

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

9 (E) For taxable years in which a net operating
10 loss carryback or carryforward from a taxable year
11 ending prior to December 31, 1986 is an element of
12 taxable income under paragraph (1) of subsection (e)
13 or subparagraph (E) of paragraph (2) of subsection
14 (e), the amount by which addition modifications
15 other than those provided by this subparagraph (E)
16 exceeded subtraction modifications in such earlier
17 taxable year, with the following limitations applied
18 in the order that they are listed:

19 (i) the addition modification relating to
20 the net operating loss carried back or forward
21 to the taxable year from any taxable year
22 ending prior to December 31, 1986 shall be
23 reduced by the amount of addition modification
24 under this subparagraph (E) which related to
25 that net operating loss and which was taken
26 into account in calculating the base income of
27 an earlier taxable year, and

28 (ii) the addition modification relating
29 to the net operating loss carried back or
30 forward to the taxable year from any taxable
31 year ending prior to December 31, 1986 shall
32 not exceed the amount of such carryback or
33 carryforward;

34 For taxable years in which there is a net

1 operating loss carryback or carryforward from more
 2 than one other taxable year ending prior to December
 3 31, 1986, the addition modification provided in this
 4 subparagraph (E) shall be the sum of the amounts
 5 computed independently under the preceding
 6 provisions of this subparagraph (E) for each such
 7 taxable year; and

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

14 and by deducting from the total so obtained the sum of
 15 the following amounts:

16 (F) An amount equal to the amount of any tax
 17 imposed by this Act which was refunded to the
 18 taxpayer and included in such total for the taxable
 19 year;

20 (G) An amount equal to any amount included in
 21 such total under Section 78 of the Internal Revenue
 22 Code;

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

28 (I) With the exception of any amounts
 29 subtracted under subparagraph (J), an amount equal
 30 to the sum of all amounts disallowed as deductions
 31 by (i) Sections 171(a) (2), and 265(a)(2) and
 32 amounts disallowed as interest expense by Section
 33 291(a)(3) of the Internal Revenue Code, as now or
 34 hereafter amended, and all amounts of expenses

1 allocable to interest and disallowed as deductions
2 by Section 265(a)(1) of the Internal Revenue Code,
3 as now or hereafter amended; and (ii) for taxable
4 years ending on or after August 13, 1999, Sections
5 171(a)(2), 265, 280C, 291(a)(3), and 832(b)(5)(B)(i)
6 of the Internal Revenue Code; the provisions of this
7 subparagraph are exempt from the provisions of
8 Section 250;

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

19 (K) 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 (L) An amount equal to those dividends
26 included in such total that were paid by a
27 corporation that conducts business operations in a
28 federally designated Foreign Trade Zone or Sub-Zone
29 and that is designated a High Impact Business
30 located in Illinois; provided that dividends
31 eligible for the deduction provided in subparagraph
32 (K) of paragraph 2 of this subsection shall not be
33 eligible for the deduction provided under this
34 subparagraph (L);

1 (M) For any taxpayer that is a financial
2 organization within the meaning of Section 304(c) of
3 this Act, an amount included in such total as
4 interest income from a loan or loans made by such
5 taxpayer to a borrower, to the extent that such a
6 loan is secured by property which is eligible for
7 the Enterprise Zone Investment Credit. To determine
8 the portion of a loan or loans that is secured by
9 property eligible for a Section 201(f) ~~201(h)~~
10 investment credit to the borrower, the entire
11 principal amount of the loan or loans between the
12 taxpayer and the borrower should be divided into the
13 basis of the Section 201(f) ~~201(h)~~ investment credit
14 property which secures the loan or loans, using for
15 this purpose the original basis of such property on
16 the date that it was placed in service in the
17 Enterprise Zone. The subtraction modification
18 available to taxpayer in any year under this
19 subsection shall be that portion of the total
20 interest paid by the borrower with respect to such
21 loan attributable to the eligible property as
22 calculated under the previous sentence;

23 (M-1) For any taxpayer that is a financial
24 organization within the meaning of Section 304(c) of
25 this Act, an amount included in such total as
26 interest income from a loan or loans made by such
27 taxpayer to a borrower, to the extent that such a
28 loan is secured by property which is eligible for
29 the High Impact Business Investment Credit. To
30 determine the portion of a loan or loans that is
31 secured by property eligible for a Section 201(h)
32 ~~201(i)~~ investment credit to the borrower, the entire
33 principal amount of the loan or loans between the
34 taxpayer and the borrower should be divided into the

1 basis of the Section 201(h) ~~201(i)~~ investment credit
2 property which secures the loan or loans, using for
3 this purpose the original basis of such property on
4 the date that it was placed in service in a
5 federally designated Foreign Trade Zone or Sub-Zone
6 located in Illinois. No taxpayer that is eligible
7 for the deduction provided in subparagraph (M) of
8 paragraph (2) of this subsection shall be eligible
9 for the deduction provided under this subparagraph
10 (M-1). The subtraction modification available to
11 taxpayers in any year under this subsection shall be
12 that portion of the total interest paid by the
13 borrower with respect to such loan attributable to
14 the eligible property as calculated under the
15 previous sentence;

16 (N) Two times any contribution made during the
17 taxable year to a designated zone organization to
18 the extent that the contribution (i) qualifies as a
19 charitable contribution under subsection (c) of
20 Section 170 of the Internal Revenue Code and (ii)
21 must, by its terms, be used for a project approved
22 by the Department of Commerce and Community Affairs
23 under Section 11 of the Illinois Enterprise Zone
24 Act;

25 (O) An amount equal to: (i) 85% for taxable
26 years ending on or before December 31, 1992, or, a
27 percentage equal to the percentage allowable under
28 Section 243(a)(1) of the Internal Revenue Code of
29 1986 for taxable years ending after December 31,
30 1992, of the amount by which dividends included in
31 taxable income and received from a corporation that
32 is not created or organized under the laws of the
33 United States or any state or political subdivision
34 thereof, including, for taxable years ending on or

1 after December 31, 1988, dividends received or
2 deemed received or paid or deemed paid under
3 Sections 951 through 964 of the Internal Revenue
4 Code, exceed the amount of the modification provided
5 under subparagraph (G) of paragraph (2) of this
6 subsection (b) which is related to such dividends;
7 plus (ii) 100% of the amount by which dividends,
8 included in taxable income and received, including,
9 for taxable years ending on or after December 31,
10 1988, dividends received or deemed received or paid
11 or deemed paid under Sections 951 through 964 of the
12 Internal Revenue Code, from any such corporation
13 specified in clause (i) that would but for the
14 provisions of Section 1504 (b) (3) of the Internal
15 Revenue Code be treated as a member of the
16 affiliated group which includes the dividend
17 recipient, exceed the amount of the modification
18 provided under subparagraph (G) of paragraph (2) of
19 this subsection (b) which is related to such
20 dividends;

21 (P) An amount equal to any contribution made
22 to a job training project established pursuant to
23 the Tax Increment Allocation Redevelopment Act;

24 (Q) An amount equal to the amount of the
25 deduction used to compute the federal income tax
26 credit for restoration of substantial amounts held
27 under claim of right for the taxable year pursuant
28 to Section 1341 of the Internal Revenue Code of
29 1986;

30 (R) In the case of an attorney-in-fact with
31 respect to whom an interinsurer or a reciprocal
32 insurer has made the election under Section 835 of
33 the Internal Revenue Code, 26 U.S.C. 835, an amount
34 equal to the excess, if any, of the amounts paid or

1 incurred by that interinsurer or reciprocal insurer
2 in the taxable year to the attorney-in-fact over the
3 deduction allowed to that interinsurer or reciprocal
4 insurer with respect to the attorney-in-fact under
5 Section 835(b) of the Internal Revenue Code for the
6 taxable year; and

7 (S) For taxable years ending on or after
8 December 31, 1997, in the case of a Subchapter S
9 corporation, an amount equal to all amounts of
10 income allocable to a shareholder subject to the
11 Personal Property Tax Replacement Income Tax imposed
12 by subsections (c) and (d) of Section 201 of this
13 Act, including amounts allocable to organizations
14 exempt from federal income tax by reason of Section
15 501(a) of the Internal Revenue Code. This
16 subparagraph (S) is exempt from the provisions of
17 Section 250.

18 (3) Special rule. For purposes of paragraph (2)
19 (A), "gross income" in the case of a life insurance
20 company, for tax years ending on and after December 31,
21 1994, shall mean the gross investment income for the
22 taxable year.

23 (c) Trusts and estates.

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

28 (2) Modifications. Subject to the provisions of
29 paragraph (3), the taxable income referred to in
30 paragraph (1) shall be modified by adding thereto the sum
31 of the following amounts:

32 (A) An amount equal to all amounts paid or
33 accrued to the taxpayer as interest or dividends
34 during the taxable year to the extent excluded from

1 gross income in the computation of taxable income;

2 (B) In the case of (i) an estate, \$600; (ii) a
3 trust which, under its governing instrument, is
4 required to distribute all of its income currently,
5 \$300; and (iii) any other trust, \$100, but in each
6 such case, only to the extent such amount was
7 deducted in the computation of taxable income;

8 (C) An amount equal to the amount of tax
9 imposed by this Act to the extent deducted from
10 gross income in the computation of taxable income
11 for the taxable year;

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

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

26 (i) the addition modification relating to
27 the net operating loss carried back or forward
28 to the taxable year from any taxable year
29 ending prior to December 31, 1986 shall be
30 reduced by the amount of addition modification
31 under this subparagraph (E) which related to
32 that net operating loss and which was taken
33 into account in calculating the base income of
34 an earlier taxable year, and

1 (ii) the addition modification relating
 2 to the net operating loss carried back or
 3 forward to the taxable year from any taxable
 4 year ending prior to December 31, 1986 shall
 5 not exceed the amount of such carryback or
 6 carryforward;

7 For taxable years in which there is a net
 8 operating loss carryback or carryforward from more
 9 than one other taxable year ending prior to December
 10 31, 1986, the addition modification provided in this
 11 subparagraph (E) shall be the sum of the amounts
 12 computed independently under the preceding
 13 provisions of this subparagraph (E) for each such
 14 taxable year;

15 (F) For taxable years ending on or after
 16 January 1, 1989, an amount equal to the tax deducted
 17 pursuant to Section 164 of the Internal Revenue Code
 18 if the trust or estate is claiming the same tax for
 19 purposes of the Illinois foreign tax credit under
 20 Section 601 of this Act;

21 (G) An amount equal to the amount of the
 22 capital gain deduction allowable under the Internal
 23 Revenue Code, to the extent deducted from gross
 24 income in the computation of taxable income; and

25 (G-5) For taxable years ending after December
 26 31, 1997, an amount equal to any eligible
 27 remediation costs that the trust or estate deducted
 28 in computing adjusted gross income and for which the
 29 trust or estate claims a credit under subsection (1)
 30 of Section 201;

31 and by deducting from the total so obtained the sum of
 32 the following amounts:

33 (H) An amount equal to all amounts included in
 34 such total pursuant to the provisions of Sections

1 402(a), 402(c), 403(a), 403(b), 406(a), 407(a) and
2 408 of the Internal Revenue Code or included in such
3 total as distributions under the provisions of any
4 retirement or disability plan for employees of any
5 governmental agency or unit, or retirement payments
6 to retired partners, which payments are excluded in
7 computing net earnings from self employment by
8 Section 1402 of the Internal Revenue Code and
9 regulations adopted pursuant thereto;

10 (I) The valuation limitation amount;

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

15 (K) An amount equal to all amounts included in
16 taxable income as modified by subparagraphs (A),
17 (B), (C), (D), (E), (F) and (G) which are exempt
18 from taxation by this State either by reason of its
19 statutes or Constitution or by reason of the
20 Constitution, treaties or statutes of the United
21 States; provided that, in the case of any statute of
22 this State that exempts income derived from bonds or
23 other obligations from the tax imposed under this
24 Act, the amount exempted shall be the interest net
25 of bond premium amortization;

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

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

5 (M) 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 (N) An amount equal to any contribution made
12 to a job training project established pursuant to
13 the Tax Increment Allocation Redevelopment Act;

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

24 (P) An amount equal to the amount of the
25 deduction used to compute the federal income tax
26 credit for restoration of substantial amounts held
27 under claim of right for the taxable year pursuant
28 to Section 1341 of the Internal Revenue Code of
29 1986; and

30 (Q) For taxable year 1999 and thereafter, an
31 amount equal to the amount of any (i) distributions,
32 to the extent includible in gross income for federal
33 income tax purposes, made to the taxpayer because of
34 his or her status as a victim of persecution for

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

31 (3) Limitation. The amount of any modification
32 otherwise required under this subsection shall, under
33 regulations prescribed by the Department, be adjusted by
34 any amounts included therein which were properly paid,

1 credited, or required to be distributed, or permanently
 2 set aside for charitable purposes pursuant to Internal
 3 Revenue Code Section 642(c) during the taxable year.

4 (d) Partnerships.

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

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

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

15 (B) An amount equal to the amount of tax
 16 imposed by this Act to the extent deducted from
 17 gross income for the taxable year;

18 (C) The amount of deductions allowed to the
 19 partnership pursuant to Section 707 (c) of the
 20 Internal Revenue Code in calculating its taxable
 21 income; and

22 (D) An amount equal to the amount of the
 23 capital gain deduction allowable under the Internal
 24 Revenue Code, to the extent deducted from gross
 25 income in the computation of taxable income;

26 and by deducting from the total so obtained the following
 27 amounts:

28 (E) The valuation limitation amount;

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

33 (G) An amount equal to all amounts included in
 34 taxable income as modified by subparagraphs (A),

1 (B), (C) and (D) which are exempt from taxation by
 2 this State either by reason of its statutes or
 3 Constitution or by reason of the Constitution,
 4 treaties or statutes of the United States; provided
 5 that, in the case of any statute of this State that
 6 exempts income derived from bonds or other
 7 obligations from the tax imposed under this Act, the
 8 amount exempted shall be the interest net of bond
 9 premium amortization;

10 (H) Any income of the partnership which
 11 constitutes personal service income as defined in
 12 Section 1348 (b) (1) of the Internal Revenue Code
 13 (as in effect December 31, 1981) or a reasonable
 14 allowance for compensation paid or accrued for
 15 services rendered by partners to the partnership,
 16 whichever is greater;

17 (I) An amount equal to all amounts of income
 18 distributable to an entity subject to the Personal
 19 Property Tax Replacement Income Tax imposed by
 20 subsections (c) and (d) of Section 201 of this Act
 21 including amounts distributable to organizations
 22 exempt from federal income tax by reason of Section
 23 501(a) of the Internal Revenue Code;

24 (J) With the exception of any amounts
 25 subtracted under subparagraph (G), an amount equal
 26 to the sum of all amounts disallowed as deductions
 27 by (i) Sections 171(a) (2), and 265(2) of the
 28 Internal Revenue Code of 1954, as now or hereafter
 29 amended, and all amounts of expenses allocable to
 30 interest and disallowed as deductions by Section
 31 265(1) of the Internal Revenue Code, as now or
 32 hereafter amended; and (ii) for taxable years ending
 33 on or after August 13, 1999, Sections 171(a)(2),
 34 265, 280C, and 832(b)(5)(B)(i) of the Internal

1 Revenue Code; the provisions of this subparagraph
2 are exempt from the provisions of Section 250;

3 (K) An amount equal to those dividends
4 included in such total which were paid by a
5 corporation which conducts business operations in an
6 Enterprise Zone or zones created under the Illinois
7 Enterprise Zone Act, enacted by the 82nd General
8 Assembly, and which does not conduct such operations
9 other than in an Enterprise Zone or Zones;

10 (L) An amount equal to any contribution made
11 to a job training project established pursuant to
12 the Real Property Tax Increment Allocation
13 Redevelopment Act;

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

24 (N) An amount equal to the amount of the
25 deduction used to compute the federal income tax
26 credit for restoration of substantial amounts held
27 under claim of right for the taxable year pursuant
28 to Section 1341 of the Internal Revenue Code of
29 1986.

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

31 (1) In general. Subject to the provisions of
32 paragraph (2) and subsection (b) (3), for purposes of
33 this Section and Section 803(e), a taxpayer's gross
34 income, adjusted gross income, or taxable income for the

1 taxable year shall mean the amount of gross income,
2 adjusted gross income or taxable income properly
3 reportable for federal income tax purposes for the
4 taxable year under the provisions of the Internal Revenue
5 Code. Taxable income may be less than zero. However, for
6 taxable years ending on or after December 31, 1986, net
7 operating loss carryforwards from taxable years ending
8 prior to December 31, 1986, may not exceed the sum of
9 federal taxable income for the taxable year before net
10 operating loss deduction, plus the excess of addition
11 modifications over subtraction modifications for the
12 taxable year. For taxable years ending prior to December
13 31, 1986, taxable income may never be an amount in excess
14 of the net operating loss for the taxable year as defined
15 in subsections (c) and (d) of Section 172 of the Internal
16 Revenue Code, provided that when taxable income of a
17 corporation (other than a Subchapter S corporation),
18 trust, or estate is less than zero and addition
19 modifications, other than those provided by subparagraph
20 (E) of paragraph (2) of subsection (b) for corporations
21 or subparagraph (E) of paragraph (2) of subsection (c)
22 for trusts and estates, exceed subtraction modifications,
23 an addition modification must be made under those
24 subparagraphs for any other taxable year to which the
25 taxable income less than zero (net operating loss) is
26 applied under Section 172 of the Internal Revenue Code or
27 under subparagraph (E) of paragraph (2) of this
28 subsection (e) applied in conjunction with Section 172 of
29 the Internal Revenue Code.

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

33 (A) Certain life insurance companies. In the
34 case of a life insurance company subject to the tax

1 imposed by Section 801 of the Internal Revenue Code,
2 life insurance company taxable income, plus the
3 amount of distribution from pre-1984 policyholder
4 surplus accounts as calculated under Section 815a of
5 the Internal Revenue Code;

6 (B) Certain other insurance companies. In the
7 case of mutual insurance companies subject to the
8 tax imposed by Section 831 of the Internal Revenue
9 Code, insurance company taxable income;

10 (C) Regulated investment companies. In the
11 case of a regulated investment company subject to
12 the tax imposed by Section 852 of the Internal
13 Revenue Code, investment company taxable income;

14 (D) Real estate investment trusts. In the
15 case of a real estate investment trust subject to
16 the tax imposed by Section 857 of the Internal
17 Revenue Code, real estate investment trust taxable
18 income;

19 (E) Consolidated corporations. In the case of
20 a corporation which is a member of an affiliated
21 group of corporations filing a consolidated income
22 tax return for the taxable year for federal income
23 tax purposes, taxable income determined as if such
24 corporation had filed a separate return for federal
25 income tax purposes for the taxable year and each
26 preceding taxable year for which it was a member of
27 an affiliated group. For purposes of this
28 subparagraph, the taxpayer's separate taxable income
29 shall be determined as if the election provided by
30 Section 243(b) (2) of the Internal Revenue Code had
31 been in effect for all such years;

32 (F) Cooperatives. In the case of a
33 cooperative corporation or association, the taxable
34 income of such organization determined in accordance

1 with the provisions of Section 1381 through 1388 of
2 the Internal Revenue Code;

3 (G) Subchapter S corporations. In the case
4 of: (i) a Subchapter S corporation for which there
5 is in effect an election for the taxable year under
6 Section 1362 of the Internal Revenue Code, the
7 taxable income of such corporation determined in
8 accordance with Section 1363(b) of the Internal
9 Revenue Code, except that taxable income shall take
10 into account those items which are required by
11 Section 1363(b)(1) of the Internal Revenue Code to
12 be separately stated; and (ii) a Subchapter S
13 corporation for which there is in effect a federal
14 election to opt out of the provisions of the
15 Subchapter S Revision Act of 1982 and have applied
16 instead the prior federal Subchapter S rules as in
17 effect on July 1, 1982, the taxable income of such
18 corporation determined in accordance with the
19 federal Subchapter S rules as in effect on July 1,
20 1982; and

21 (H) Partnerships. In the case of a
22 partnership, taxable income determined in accordance
23 with Section 703 of the Internal Revenue Code,
24 except that taxable income shall take into account
25 those items which are required by Section 703(a)(1)
26 to be separately stated but which would be taken
27 into account by an individual in calculating his
28 taxable income.

29 (f) Valuation limitation amount.

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

33 (A) The sum of the pre-August 1, 1969
34 appreciation amounts (to the extent consisting of

1 gain reportable under the provisions of Section 1245
2 or 1250 of the Internal Revenue Code) for all
3 property in respect of which such gain was reported
4 for the taxable year; plus

5 (B) The lesser of (i) the sum of the
6 pre-August 1, 1969 appreciation amounts (to the
7 extent consisting of capital gain) for all property
8 in respect of which such gain was reported for
9 federal income tax purposes for the taxable year, or
10 (ii) the net capital gain for the taxable year,
11 reduced in either case by any amount of such gain
12 included in the amount determined under subsection
13 (a) (2) (F) or (c) (2) (H).

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

15 (A) If the fair market value of property
16 referred to in paragraph (1) was readily
17 ascertainable on August 1, 1969, the pre-August 1,
18 1969 appreciation amount for such property is the
19 lesser of (i) the excess of such fair market value
20 over the taxpayer's basis (for determining gain) for
21 such property on that date (determined under the
22 Internal Revenue Code as in effect on that date), or
23 (ii) the total gain realized and reportable for
24 federal income tax purposes in respect of the sale,
25 exchange or other disposition of such property.

26 (B) If the fair market value of property
27 referred to in paragraph (1) was not readily
28 ascertainable on August 1, 1969, the pre-August 1,
29 1969 appreciation amount for such property is that
30 amount which bears the same ratio to the total gain
31 reported in respect of the property for federal
32 income tax purposes for the taxable year, as the
33 number of full calendar months in that part of the
34 taxpayer's holding period for the property ending

1 July 31, 1969 bears to the number of full calendar
2 months in the taxpayer's entire holding period for
3 the property.

4 (C) The Department shall prescribe such
5 regulations as may be necessary to carry out the
6 purposes of this paragraph.

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

10 (h) Legislative intention. Except as expressly provided
11 by this Section there shall be no modifications or
12 limitations on the amounts of income, gain, loss or deduction
13 taken into account in determining gross income, adjusted
14 gross income or taxable income for federal income tax
15 purposes for the taxable year, or in the amount of such items
16 entering into the computation of base income and net income
17 under this Act for such taxable year, whether in respect of
18 property values as of August 1, 1969 or otherwise.

19 (Source: P.A. 90-491, eff. 1-1-98; 90-717, eff. 8-7-98;
20 90-770, eff. 8-14-98; 91-192, eff. 7-20-99; 91-205, eff.
21 7-20-99; 91-357, eff. 7-29-99; 91-541, eff. 8-13-99; 91-676,
22 eff. 12-23-99; 91-845, eff. 6-22-00; 91-913, eff. 1-1-01;
23 revised 1-15-01.)

24 Section 99. Effective date. This Act takes effect upon
25 becoming law.