



94TH GENERAL ASSEMBLY
State of Illinois
2005 and 2006
HB4261

Introduced 12/16/2005, by Rep. Sidney H. Mathias

SYNOPSIS AS INTRODUCED:

35 ILCS 5/203

from Ch. 120, par. 2-203

Amends the Illinois Income Tax Act. Creates a deduction for individual taxpayers who are 62 years of age or older in an amount equal to the amount the individual pays for Medicare Part B benefits during the taxable year. Provides that the deduction is available in taxable years ending on or after December 31, 2006. Exempts the deduction from the sunset provisions. Effective immediately.

LRB094 15554 BDD 50753 b

FISCAL NOTE ACT
MAY APPLY

1 AN ACT concerning revenue.

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

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

6 (35 ILCS 5/203) (from Ch. 120, par. 2-203)

7 Sec. 203. Base income defined.

8 (a) Individuals.

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

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

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

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

27 (C) An amount equal to the amount received during
28 the taxable year as a recovery or refund of real
29 property taxes paid with respect to the taxpayer's
30 principal residence under the Revenue Act of 1939 and
31 for which a deduction was previously taken under
32 subparagraph (L) of this paragraph (2) prior to July 1,

1 1991, the retrospective application date of Article 4
2 of Public Act 87-17. In the case of multi-unit or
3 multi-use structures and farm dwellings, the taxes on
4 the taxpayer's principal residence shall be that
5 portion of the total taxes for the entire property
6 which is attributable to such principal residence;

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

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

19 (D-10) For taxable years ending after December 31,
20 1997, an amount equal to any eligible remediation costs
21 that the individual deducted in computing adjusted
22 gross income and for which the individual claims a
23 credit under subsection (l) of Section 201;

24 (D-15) For taxable years 2001 and thereafter, an
25 amount equal to the bonus depreciation deduction (30%
26 of the adjusted basis of the qualified property) taken
27 on the taxpayer's federal income tax return for the
28 taxable year under subsection (k) of Section 168 of the
29 Internal Revenue Code;

30 (D-16) If the taxpayer reports a capital gain or
31 loss on the taxpayer's federal income tax return for
32 the taxable year based on a sale or transfer of
33 property for which the taxpayer was required in any
34 taxable year to make an addition modification under
35 subparagraph (D-15), then an amount equal to the
36 aggregate amount of the deductions taken in all taxable

1 years under subparagraph (Z) with respect to that
2 property.

3 The taxpayer is required to make the addition
4 modification under this subparagraph only once with
5 respect to any one piece of property;

6 (D-17) For taxable years ending on or after
7 December 31, 2004, an amount equal to the amount
8 otherwise allowed as a deduction in computing base
9 income for interest paid, accrued, or incurred,
10 directly or indirectly, to a foreign person who would
11 be a member of the same unitary business group but for
12 the fact that foreign person's business activity
13 outside the United States is 80% or more of the foreign
14 person's total business activity. The addition
15 modification required by this subparagraph shall be
16 reduced to the extent that dividends were included in
17 base income of the unitary group for the same taxable
18 year and received by the taxpayer or by a member of the
19 taxpayer's unitary business group (including amounts
20 included in gross income under Sections 951 through 964
21 of the Internal Revenue Code and amounts included in
22 gross income under Section 78 of the Internal Revenue
23 Code) with respect to the stock of the same person to
24 whom the interest was paid, accrued, or incurred.

25 This paragraph shall not apply to the following:

26 (i) an item of interest paid, accrued, or
27 incurred, directly or indirectly, to a foreign
28 person who is subject in a foreign country or
29 state, other than a state which requires mandatory
30 unitary reporting, to a tax on or measured by net
31 income with respect to such interest; or

32 (ii) an item of interest paid, accrued, or
33 incurred, directly or indirectly, to a foreign
34 person if the taxpayer can establish, based on a
35 preponderance of the evidence, both of the
36 following:

1 (a) the foreign person, during the same
2 taxable year, paid, accrued, or incurred, the
3 interest to a person that is not a related
4 member, and

5 (b) the transaction giving rise to the
6 interest expense between the taxpayer and the
7 foreign person did not have as a principal
8 purpose the avoidance of Illinois income tax,
9 and is paid pursuant to a contract or agreement
10 that reflects an arm's-length interest rate
11 and terms; or

12 (iii) the taxpayer can establish, based on
13 clear and convincing evidence, that the interest
14 paid, accrued, or incurred relates to a contract or
15 agreement entered into at arm's-length rates and
16 terms and the principal purpose for the payment is
17 not federal or Illinois tax avoidance; or

18 (iv) an item of interest paid, accrued, or
19 incurred, directly or indirectly, to a foreign
20 person if the taxpayer establishes by clear and
21 convincing evidence that the adjustments are
22 unreasonable; or if the taxpayer and the Director
23 agree in writing to the application or use of an
24 alternative method of apportionment under Section
25 304(f).

26 Nothing in this subsection shall preclude the
27 Director from making any other adjustment
28 otherwise allowed under Section 404 of this Act for
29 any tax year beginning after the effective date of
30 this amendment provided such adjustment is made
31 pursuant to regulation adopted by the Department
32 and such regulations provide methods and standards
33 by which the Department will utilize its authority
34 under Section 404 of this Act;

35 (D-18) For taxable years ending on or after
36 December 31, 2004, an amount equal to the amount of

1 intangible expenses and costs otherwise allowed as a
2 deduction in computing base income, and that were paid,
3 accrued, or incurred, directly or indirectly, to a
4 foreign person who would be a member of the same
5 unitary business group but for the fact that the
6 foreign person's business activity outside the United
7 States is 80% or more of that person's total business
8 activity. The addition modification required by this
9 subparagraph shall be reduced to the extent that
10 dividends were included in base income of the unitary
11 group for the same taxable year and received by the
12 taxpayer or by a member of the taxpayer's unitary
13 business group (including amounts included in gross
14 income under Sections 951 through 964 of the Internal
15 Revenue Code and amounts included in gross income under
16 Section 78 of the Internal Revenue Code) with respect
17 to the stock of the same person to whom the intangible
18 expenses and costs were directly or indirectly paid,
19 incurred, or accrued. The preceding sentence does not
20 apply to the extent that the same dividends caused a
21 reduction to the addition modification required under
22 Section 203(a)(2)(D-17) of this Act. As used in this
23 subparagraph, the term "intangible expenses and costs"
24 includes (1) expenses, losses, and costs for, or
25 related to, the direct or indirect acquisition, use,
26 maintenance or management, ownership, sale, exchange,
27 or any other disposition of intangible property; (2)
28 losses incurred, directly or indirectly, from
29 factoring transactions or discounting transactions;
30 (3) royalty, patent, technical, and copyright fees;
31 (4) licensing fees; and (5) other similar expenses and
32 costs. For purposes of this subparagraph, "intangible
33 property" includes patents, patent applications, trade
34 names, trademarks, service marks, copyrights, mask
35 works, trade secrets, and similar types of intangible
36 assets.

1 This paragraph shall not apply to the following:

2 (i) any item of intangible expenses or costs
3 paid, accrued, or incurred, directly or
4 indirectly, from a transaction with a foreign
5 person who is subject in a foreign country or
6 state, other than a state which requires mandatory
7 unitary reporting, to a tax on or measured by net
8 income with respect to such item; or

9 (ii) any item of intangible expense or cost
10 paid, accrued, or incurred, directly or
11 indirectly, if the taxpayer can establish, based
12 on a preponderance of the evidence, both of the
13 following:

14 (a) the foreign person during the same
15 taxable year paid, accrued, or incurred, the
16 intangible expense or cost to a person that is
17 not a related member, and

18 (b) the transaction giving rise to the
19 intangible expense or cost between the
20 taxpayer and the foreign person did not have as
21 a principal purpose the avoidance of Illinois
22 income tax, and is paid pursuant to a contract
23 or agreement that reflects arm's-length terms;
24 or

25 (iii) any item of intangible expense or cost
26 paid, accrued, or incurred, directly or
27 indirectly, from a transaction with a foreign
28 person if the taxpayer establishes by clear and
29 convincing evidence, that the adjustments are
30 unreasonable; or if the taxpayer and the Director
31 agree in writing to the application or use of an
32 alternative method of apportionment under Section
33 304(f);

34 Nothing in this subsection shall preclude the
35 Director from making any other adjustment
36 otherwise allowed under Section 404 of this Act for

1 any tax year beginning after the effective date of
2 this amendment provided such adjustment is made
3 pursuant to regulation adopted by the Department
4 and such regulations provide methods and standards
5 by which the Department will utilize its authority
6 under Section 404 of this Act;

7 (D-20) For taxable years beginning on or after
8 January 1, 2002, in the case of a distribution from a
9 qualified tuition program under Section 529 of the
10 Internal Revenue Code, other than (i) a distribution
11 from a College Savings Pool created under Section 16.5
12 of the State Treasurer Act or (ii) a distribution from
13 the Illinois Prepaid Tuition Trust Fund, an amount
14 equal to the amount excluded from gross income under
15 Section 529(c)(3)(B);

16 and by deducting from the total so obtained the sum of the
17 following amounts:

18 (E) For taxable years ending before December 31,
19 2001, any amount included in such total in respect of
20 any compensation (including but not limited to any
21 compensation paid or accrued to a serviceman while a
22 prisoner of war or missing in action) paid to a
23 resident by reason of being on active duty in the Armed
24 Forces of the United States and in respect of any
25 compensation paid or accrued to a resident who as a
26 governmental employee was a prisoner of war or missing
27 in action, and in respect of any compensation paid to a
28 resident in 1971 or thereafter for annual training
29 performed pursuant to Sections 502 and 503, Title 32,
30 United States Code as a member of the Illinois National
31 Guard. For taxable years ending on or after December
32 31, 2001, any amount included in such total in respect
33 of any compensation (including but not limited to any
34 compensation paid or accrued to a serviceman while a
35 prisoner of war or missing in action) paid to a
36 resident by reason of being a member of any component

1 of the Armed Forces of the United States and in respect
2 of any compensation paid or accrued to a resident who
3 as a governmental employee was a prisoner of war or
4 missing in action, and in respect of any compensation
5 paid to a resident in 2001 or thereafter by reason of
6 being a member of the Illinois National Guard. The
7 provisions of this amendatory Act of the 92nd General
8 Assembly are exempt from the provisions of Section 250;

9 (F) An amount equal to all amounts included in such
10 total pursuant to the provisions of Sections 402(a),
11 402(c), 403(a), 403(b), 406(a), 407(a), and 408 of the
12 Internal Revenue Code, or included in such total as
13 distributions under the provisions of any retirement
14 or disability plan for employees of any governmental
15 agency or unit, or retirement payments to retired
16 partners, which payments are excluded in computing net
17 earnings from self employment by Section 1402 of the
18 Internal Revenue Code and regulations adopted pursuant
19 thereto;

20 (G) The valuation limitation amount;

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

24 (I) An amount equal to all amounts included in such
25 total pursuant to the provisions of Section 111 of the
26 Internal Revenue Code as a recovery of items previously
27 deducted from adjusted gross income in the computation
28 of taxable income;

29 (J) An amount equal to those dividends included in
30 such total which were paid by a corporation which
31 conducts business operations in an Enterprise Zone or
32 zones created under the Illinois Enterprise Zone Act,
33 and conducts substantially all of its operations in an
34 Enterprise Zone or zones;

35 (K) An amount equal to those dividends included in
36 such total that were paid by a corporation that

1 conducts business operations in a federally designated
2 Foreign Trade Zone or Sub-Zone and that is designated a
3 High Impact Business located in Illinois; provided
4 that dividends eligible for the deduction provided in
5 subparagraph (J) of paragraph (2) of this subsection
6 shall not be eligible for the deduction provided under
7 this subparagraph (K);

8 (L) For taxable years ending after December 31,
9 1983, an amount equal to all social security benefits
10 and railroad retirement benefits included in such
11 total pursuant to Sections 72(r) and 86 of the Internal
12 Revenue Code;

13 (M) With the exception of any amounts subtracted
14 under subparagraph (N), an amount equal to the sum of
15 all amounts disallowed as deductions by (i) Sections
16 171(a) (2), and 265(2) of the Internal Revenue Code of
17 1954, as now or hereafter amended, and all amounts of
18 expenses allocable to interest and disallowed as
19 deductions by Section 265(1) of the Internal Revenue
20 Code of 1954, as now or hereafter amended; and (ii) for
21 taxable years ending on or after August 13, 1999,
22 Sections 171(a) (2), 265, 280C, and 832(b) (5) (B) (i) of
23 the Internal Revenue Code; the provisions of this
24 subparagraph are exempt from the provisions of Section
25 250;

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

35 (O) An amount equal to any contribution made to a
36 job training project established pursuant to the Tax

1 Increment Allocation Redevelopment Act;

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

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

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

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

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

29 (U) For one taxable year beginning on or after
30 January 1, 1994, an amount equal to the total amount of
31 tax imposed and paid under subsections (a) and (b) of
32 Section 201 of this Act on grant amounts received by
33 the taxpayer under the Nursing Home Grant Assistance
34 Act during the taxpayer's taxable years 1992 and 1993;

35 (V) Beginning with tax years ending on or after
36 December 31, 1995 and ending with tax years ending on

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

26 (W) For taxable years beginning on or after January
27 1, 1998, all amounts included in the taxpayer's federal
28 gross income in the taxable year from amounts converted
29 from a regular IRA to a Roth IRA. This paragraph is
30 exempt from the provisions of Section 250;

31 (X) For taxable year 1999 and thereafter, an amount
32 equal to the amount of any (i) distributions, to the
33 extent includible in gross income for federal income
34 tax purposes, made to the taxpayer because of his or
35 her status as a victim of persecution for racial or
36 religious reasons by Nazi Germany or any other Axis

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

28 (Y) For taxable years beginning on or after January
29 1, 2002 and ending on or before December 31, 2004,
30 moneys contributed in the taxable year to a College
31 Savings Pool account under Section 16.5 of the State
32 Treasurer Act, except that amounts excluded from gross
33 income under Section 529(c)(3)(C)(i) of the Internal
34 Revenue Code shall not be considered moneys
35 contributed under this subparagraph (Y). For taxable
36 years beginning on or after January 1, 2005, a maximum

1 of \$10,000 contributed in the taxable year to (i) a
2 College Savings Pool account under Section 16.5 of the
3 State Treasurer Act or (ii) the Illinois Prepaid
4 Tuition Trust Fund, except that amounts excluded from
5 gross income under Section 529(c)(3)(C)(i) of the
6 Internal Revenue Code shall not be considered moneys
7 contributed under this subparagraph (Y). This
8 subparagraph (Y) is exempt from the provisions of
9 Section 250;

10 (Z) For taxable years 2001 and thereafter, for the
11 taxable year in which the bonus depreciation deduction
12 (30% of the adjusted basis of the qualified property)
13 is taken on the taxpayer's federal income tax return
14 under subsection (k) of Section 168 of the Internal
15 Revenue Code and for each applicable taxable year
16 thereafter, an amount equal to "x", where:

17 (1) "y" equals the amount of the depreciation
18 deduction taken for the taxable year on the
19 taxpayer's federal income tax return on property
20 for which the bonus depreciation deduction (30% of
21 the adjusted basis of the qualified property) was
22 taken in any year under subsection (k) of Section
23 168 of the Internal Revenue Code, but not including
24 the bonus depreciation deduction; and

25 (2) "x" equals "y" multiplied by 30 and then
26 divided by 70 (or "y" multiplied by 0.429).

27 The aggregate amount deducted under this
28 subparagraph in all taxable years for any one piece of
29 property may not exceed the amount of the bonus
30 depreciation deduction (30% of the adjusted basis of
31 the qualified property) taken on that property on the
32 taxpayer's federal income tax return under subsection
33 (k) of Section 168 of the Internal Revenue Code;

34 (AA) If the taxpayer reports a capital gain or loss
35 on the taxpayer's federal income tax return for the
36 taxable year based on a sale or transfer of property

1 for which the taxpayer was required in any taxable year
2 to make an addition modification under subparagraph
3 (D-15), then an amount equal to that addition
4 modification.

5 The taxpayer is allowed to take the deduction under
6 this subparagraph only once with respect to any one
7 piece of property;

8 (BB) Any amount included in adjusted gross income,
9 other than salary, received by a driver in a
10 ridesharing arrangement using a motor vehicle;

11 (CC) The amount of (i) any interest income (net of
12 the deductions allocable thereto) taken into account
13 for the taxable year with respect to a transaction with
14 a taxpayer that is required to make an addition
15 modification with respect to such transaction under
16 Section 203(a)(2)(D-17), 203(b)(2)(E-13),
17 203(c)(2)(G-12), or 203(d)(2)(D-7), but not to exceed
18 the amount of that addition modification, and (ii) any
19 income from intangible property (net of the deductions
20 allocable thereto) taken into account for the taxable
21 year with respect to a transaction with a taxpayer that
22 is required to make an addition modification with
23 respect to such transaction under Section
24 203(a)(2)(D-18), 203(b)(2)(E-14), 203(c)(2)(G-13), or
25 203(d)(2)(D-8), but not to exceed the amount of that
26 addition modification;

27 (DD) An amount equal to the interest income taken
28 into account for the taxable year (net of the
29 deductions allocable thereto) with respect to
30 transactions with a foreign person who would be a
31 member of the taxpayer's unitary business group but for
32 the fact that the foreign person's business activity
33 outside the United States is 80% or more of that
34 person's total business activity, but not to exceed the
35 addition modification required to be made for the same
36 taxable year under Section 203(a)(2)(D-17) for

1 interest paid, accrued, or incurred, directly or
2 indirectly, to the same foreign person; ~~and~~

3 (EE) An amount equal to the income from intangible
4 property taken into account for the taxable year (net
5 of the deductions allocable thereto) with respect to
6 transactions with a foreign person who would be a
7 member of the taxpayer's unitary business group but for
8 the fact that the foreign person's business activity
9 outside the United States is 80% or more of that
10 person's total business activity, but not to exceed the
11 addition modification required to be made for the same
12 taxable year under Section 203(a)(2)(D-18) for
13 intangible expenses and costs paid, accrued, or
14 incurred, directly or indirectly, to the same foreign
15 person; and

16 (FF) Beginning with taxable years ending on or
17 after December 31, 2006, for taxpayers 62 years of age
18 and older, an amount equal to all amounts the taxpayer
19 pays during the taxable year for Medicare Part B
20 benefits under Title XVIII of the federal Social
21 Security Act for costs of, including but not limited
22 to, physician services, outpatient hospital services,
23 medical equipment and supplies, and other health
24 services and supplies. This subparagraph (FF) is
25 exempt from the provisions of Section 250.

26 (b) Corporations.

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

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

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

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

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

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

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

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

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

1 income of an earlier taxable year, and

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

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

14 (E-5) For taxable years ending after December 31,
15 1997, an amount equal to any eligible remediation costs
16 that the corporation deducted in computing adjusted
17 gross income and for which the corporation claims a
18 credit under subsection (l) of Section 201;

19 (E-10) For taxable years 2001 and thereafter, an
20 amount equal to the bonus depreciation deduction (30%
21 of the adjusted basis of the qualified property) taken
22 on the taxpayer's federal income tax return for the
23 taxable year under subsection (k) of Section 168 of the
24 Internal Revenue Code; and

25 (E-11) If the taxpayer reports a capital gain or
26 loss on the taxpayer's federal income tax return for
27 the taxable year based on a sale or transfer of
28 property for which the taxpayer was required in any
29 taxable year to make an addition modification under
30 subparagraph (E-10), then an amount equal to the
31 aggregate amount of the deductions taken in all taxable
32 years under subparagraph (T) with respect to that
33 property.

34 The taxpayer is required to make the addition
35 modification under this subparagraph only once with
36 respect to any one piece of property;

1 (E-12) For taxable years ending on or after
2 December 31, 2004, an amount equal to the amount
3 otherwise allowed as a deduction in computing base
4 income for interest paid, accrued, or incurred,
5 directly or indirectly, to a foreign person who would
6 be a member of the same unitary business group but for
7 the fact the foreign person's business activity
8 outside the United States is 80% or more of the foreign
9 person's total business activity. The addition
10 modification required by this subparagraph shall be
11 reduced to the extent that dividends were included in
12 base income of the unitary group for the same taxable
13 year and received by the taxpayer or by a member of the
14 taxpayer's unitary business group (including amounts
15 included in gross income pursuant to Sections 951
16 through 964 of the Internal Revenue Code and amounts
17 included in gross income under Section 78 of the
18 Internal Revenue Code) with respect to the stock of the
19 same person to whom the interest was paid, accrued, or
20 incurred.

21 This paragraph shall not apply to the following:

22 (i) an item of interest paid, accrued, or
23 incurred, directly or indirectly, to a foreign
24 person who is subject in a foreign country or
25 state, other than a state which requires mandatory
26 unitary reporting, to a tax on or measured by net
27 income with respect to such interest; or

28 (ii) an item of interest paid, accrued, or
29 incurred, directly or indirectly, to a foreign
30 person if the taxpayer can establish, based on a
31 preponderance of the evidence, both of the
32 following:

33 (a) the foreign person, during the same
34 taxable year, paid, accrued, or incurred, the
35 interest to a person that is not a related
36 member, and

1 (b) the transaction giving rise to the
2 interest expense between the taxpayer and the
3 foreign person did not have as a principal
4 purpose the avoidance of Illinois income tax,
5 and is paid pursuant to a contract or agreement
6 that reflects an arm's-length interest rate
7 and terms; or

8 (iii) the taxpayer can establish, based on
9 clear and convincing evidence, that the interest
10 paid, accrued, or incurred relates to a contract or
11 agreement entered into at arm's-length rates and
12 terms and the principal purpose for the payment is
13 not federal or Illinois tax avoidance; or

14 (iv) an item of interest paid, accrued, or
15 incurred, directly or indirectly, to a foreign
16 person if the taxpayer establishes by clear and
17 convincing evidence that the adjustments are
18 unreasonable; or if the taxpayer and the Director
19 agree in writing to the application or use of an
20 alternative method of apportionment under Section
21 304(f).

22 Nothing in this subsection shall preclude the
23 Director from making any other adjustment
24 otherwise allowed under Section 404 of this Act for
25 any tax year beginning after the effective date of
26 this amendment provided such adjustment is made
27 pursuant to regulation adopted by the Department
28 and such regulations provide methods and standards
29 by which the Department will utilize its authority
30 under Section 404 of this Act;

31 (E-13) For taxable years ending on or after
32 December 31, 2004, an amount equal to the amount of
33 intangible expenses and costs otherwise allowed as a
34 deduction in computing base income, and that were paid,
35 accrued, or incurred, directly or indirectly, to a
36 foreign person who would be a member of the same

1 unitary business group but for the fact that the
2 foreign person's business activity outside the United
3 States is 80% or more of that person's total business
4 activity. The addition modification required by this
5 subparagraph shall be reduced to the extent that
6 dividends were included in base income of the unitary
7 group for the same taxable year and received by the
8 taxpayer or by a member of the taxpayer's unitary
9 business group (including amounts included in gross
10 income pursuant to Sections 951 through 964 of the
11 Internal Revenue Code and amounts included in gross
12 income under Section 78 of the Internal Revenue Code)
13 with respect to the stock of the same person to whom
14 the intangible expenses and costs were directly or
15 indirectly paid, incurred, or accrued. The preceding
16 sentence shall not apply to the extent that the same
17 dividends caused a reduction to the addition
18 modification required under Section 203(b)(2)(E-12) of
19 this Act. As used in this subparagraph, the term
20 "intangible expenses and costs" includes (1) expenses,
21 losses, and costs for, or related to, the direct or
22 indirect acquisition, use, maintenance or management,
23 ownership, sale, exchange, or any other disposition of
24 intangible property; (2) losses incurred, directly or
25 indirectly, from factoring transactions or discounting
26 transactions; (3) royalty, patent, technical, and
27 copyright fees; (4) licensing fees; and (5) other
28 similar expenses and costs. For purposes of this
29 subparagraph, "intangible property" includes patents,
30 patent applications, trade names, trademarks, service
31 marks, copyrights, mask works, trade secrets, and
32 similar types of intangible assets.

33 This paragraph shall not apply to the following:

34 (i) any item of intangible expenses or costs
35 paid, accrued, or incurred, directly or
36 indirectly, from a transaction with a foreign

1 person who is subject in a foreign country or
2 state, other than a state which requires mandatory
3 unitary reporting, to a tax on or measured by net
4 income with respect to such item; or

5 (ii) any item of intangible expense or cost
6 paid, accrued, or incurred, directly or
7 indirectly, if the taxpayer can establish, based
8 on a preponderance of the evidence, both of the
9 following:

10 (a) the foreign person during the same
11 taxable year paid, accrued, or incurred, the
12 intangible expense or cost to a person that is
13 not a related member, and

14 (b) the transaction giving rise to the
15 intangible expense or cost between the
16 taxpayer and the foreign person did not have as
17 a principal purpose the avoidance of Illinois
18 income tax, and is paid pursuant to a contract
19 or agreement that reflects arm's-length terms;
20 or

21 (iii) any item of intangible expense or cost
22 paid, accrued, or incurred, directly or
23 indirectly, from a transaction with a foreign
24 person if the taxpayer establishes by clear and
25 convincing evidence, that the adjustments are
26 unreasonable; or if the taxpayer and the Director
27 agree in writing to the application or use of an
28 alternative method of apportionment under Section
29 304(f);

30 Nothing in this subsection shall preclude the
31 Director from making any other adjustment
32 otherwise allowed under Section 404 of this Act for
33 any tax year beginning after the effective date of
34 this amendment provided such adjustment is made
35 pursuant to regulation adopted by the Department
36 and such regulations provide methods and standards

1 by which the Department will utilize its authority
2 under Section 404 of this Act;

3 and by deducting from the total so obtained the sum of the
4 following amounts:

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

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

10 (H) In the case of a regulated investment company,
11 an amount equal to the amount of exempt interest
12 dividends as defined in subsection (b) (5) of Section
13 852 of the Internal Revenue Code, paid to shareholders
14 for the taxable year;

15 (I) With the exception of any amounts subtracted
16 under subparagraph (J), an amount equal to the sum of
17 all amounts disallowed as deductions by (i) Sections
18 171(a) (2), and 265(a) (2) and amounts disallowed as
19 interest expense by Section 291(a) (3) of the Internal
20 Revenue Code, as now or hereafter amended, and all
21 amounts of expenses allocable to interest and
22 disallowed as deductions by Section 265(a) (1) of the
23 Internal Revenue Code, as now or hereafter amended; and
24 (ii) for taxable years ending on or after August 13,
25 1999, Sections 171(a) (2), 265, 280C, 291(a) (3), and
26 832(b) (5) (B) (i) of the Internal Revenue Code; the
27 provisions of this subparagraph are exempt from the
28 provisions of Section 250;

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

1 of bond premium amortization;

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

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

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

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

26 (N) Two times any contribution made during the
27 taxable year to a designated zone organization to the
28 extent that the contribution (i) qualifies as a
29 charitable contribution under subsection (c) of
30 Section 170 of the Internal Revenue Code and (ii) must,
31 by its terms, be used for a project approved by the
32 Department of Commerce and Economic Opportunity under
33 Section 11 of the Illinois Enterprise Zone Act;

34 (O) An amount equal to: (i) 85% for taxable years
35 ending on or before December 31, 1992, or, a percentage
36 equal to the percentage allowable under Section

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

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

29 (Q) An amount equal to the amount of the deduction
30 used to compute the federal income tax credit for
31 restoration of substantial amounts held under claim of
32 right for the taxable year pursuant to Section 1341 of
33 the Internal Revenue Code of 1986;

34 (R) In the case of an attorney-in-fact with respect
35 to whom an interinsurer or a reciprocal insurer has
36 made the election under Section 835 of the Internal

1 Revenue Code, 26 U.S.C. 835, an amount equal to the
2 excess, if any, of the amounts paid or incurred by that
3 interinsurer or reciprocal insurer in the taxable year
4 to the attorney-in-fact over the deduction allowed to
5 that interinsurer or reciprocal insurer with respect
6 to the attorney-in-fact under Section 835(b) of the
7 Internal Revenue Code for the taxable year;

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

18 (T) For taxable years 2001 and thereafter, for the
19 taxable year in which the bonus depreciation deduction
20 (30% of the adjusted basis of the qualified property)
21 is taken on the taxpayer's federal income tax return
22 under subsection (k) of Section 168 of the Internal
23 Revenue Code and for each applicable taxable year
24 thereafter, an amount equal to "x", where:

25 (1) "y" equals the amount of the depreciation
26 deduction taken for the taxable year on the
27 taxpayer's federal income tax return on property
28 for which the bonus depreciation deduction (30% of
29 the adjusted basis of the qualified property) was
30 taken in any year under subsection (k) of Section
31 168 of the Internal Revenue Code, but not including
32 the bonus depreciation deduction; and

33 (2) "x" equals "y" multiplied by 30 and then
34 divided by 70 (or "y" multiplied by 0.429).

35 The aggregate amount deducted under this
36 subparagraph in all taxable years for any one piece of

1 property may not exceed the amount of the bonus
2 depreciation deduction (30% of the adjusted basis of
3 the qualified property) taken on that property on the
4 taxpayer's federal income tax return under subsection
5 (k) of Section 168 of the Internal Revenue Code;

6 (U) If the taxpayer reports a capital gain or loss
7 on the taxpayer's federal income tax return for the
8 taxable year based on a sale or transfer of property
9 for which the taxpayer was required in any taxable year
10 to make an addition modification under subparagraph
11 (E-10), then an amount equal to that addition
12 modification.

13 The taxpayer is allowed to take the deduction under
14 this subparagraph only once with respect to any one
15 piece of property;

16 (V) The amount of: (i) any interest income (net of
17 the deductions allocable thereto) taken into account
18 for the taxable year with respect to a transaction with
19 a taxpayer that is required to make an addition
20 modification with respect to such transaction under
21 Section 203(a)(2)(D-17), 203(b)(2)(E-12),
22 203(c)(2)(G-12), or 203(d)(2)(D-7), but not to exceed
23 the amount of such addition modification and (ii) any
24 income from intangible property (net of the deductions
25 allocable thereto) taken into account for the taxable
26 year with respect to a transaction with a taxpayer that
27 is required to make an addition modification with
28 respect to such transaction under Section
29 203(a)(2)(D-18), 203(b)(2)(E-13), 203(c)(2)(G-13), or
30 203(d)(2)(D-8), but not to exceed the amount of such
31 addition modification;

32 (W) An amount equal to the interest income taken
33 into account for the taxable year (net of the
34 deductions allocable thereto) with respect to
35 transactions with a foreign person who would be a
36 member of the taxpayer's unitary business group but for

1 the fact that the foreign person's business activity
2 outside the United States is 80% or more of that
3 person's total business activity, but not to exceed the
4 addition modification required to be made for the same
5 taxable year under Section 203(b)(2)(E-12) for
6 interest paid, accrued, or incurred, directly or
7 indirectly, to the same foreign person; and

8 (X) An amount equal to the income from intangible
9 property taken into account for the taxable year (net
10 of the deductions allocable thereto) with respect to
11 transactions with a foreign person who would be a
12 member of the taxpayer's unitary business group but for
13 the fact that the foreign person's business activity
14 outside the United States is 80% or more of that
15 person's total business activity, but not to exceed the
16 addition modification required to be made for the same
17 taxable year under Section 203(b)(2)(E-13) for
18 intangible expenses and costs paid, accrued, or
19 incurred, directly or indirectly, to the same foreign
20 person.

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

25 (c) Trusts and estates.

26 (1) In general. In the case of a trust or estate, 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. Subject to the provisions of
30 paragraph (3), the taxable income referred to in paragraph
31 (1) shall be modified by adding thereto the sum of the
32 following amounts:

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

1 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 such
6 case, only to the extent such amount was deducted in
7 the computation of taxable income;

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

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

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

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

33 (ii) the addition modification relating to the
34 net operating loss carried back or forward to the
35 taxable year from any taxable year ending prior to
36 December 31, 1986 shall not exceed the amount of

1 such carryback or carryforward;

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

9 (F) For taxable years ending on or after January 1,
10 1989, an amount equal to the tax deducted pursuant to
11 Section 164 of the Internal Revenue Code if the trust
12 or estate is claiming the same tax for purposes of the
13 Illinois foreign tax credit under Section 601 of this
14 Act;

15 (G) An amount equal to the amount of the capital
16 gain deduction allowable under the Internal Revenue
17 Code, to the extent deducted from gross income in the
18 computation of taxable income;

19 (G-5) For taxable years ending after December 31,
20 1997, an amount equal to any eligible remediation costs
21 that the trust or estate deducted in computing adjusted
22 gross income and for which the trust or estate claims a
23 credit under subsection (l) of Section 201;

24 (G-10) For taxable years 2001 and thereafter, an
25 amount equal to the bonus depreciation deduction (30%
26 of the adjusted basis of the qualified property) taken
27 on the taxpayer's federal income tax return for the
28 taxable year under subsection (k) of Section 168 of the
29 Internal Revenue Code; and

30 (G-11) If the taxpayer reports a capital gain or
31 loss on the taxpayer's federal income tax return for
32 the taxable year based on a sale or transfer of
33 property for which the taxpayer was required in any
34 taxable year to make an addition modification under
35 subparagraph (G-10), then an amount equal to the
36 aggregate amount of the deductions taken in all taxable

1 years under subparagraph (R) with respect to that
2 property.

3 The taxpayer is required to make the addition
4 modification under this subparagraph only once with
5 respect to any one piece of property;

6 (G-12) For taxable years ending on or after
7 December 31, 2004, an amount equal to the amount
8 otherwise allowed as a deduction in computing base
9 income for interest paid, accrued, or incurred,
10 directly or indirectly, to a foreign person who would
11 be a member of the same unitary business group but for
12 the fact that the foreign person's business activity
13 outside the United States is 80% or more of the foreign
14 person's total business activity. The addition
15 modification required by this subparagraph shall be
16 reduced to the extent that dividends were included in
17 base income of the unitary group for the same taxable
18 year and received by the taxpayer or by a member of the
19 taxpayer's unitary business group (including amounts
20 included in gross income pursuant to Sections 951
21 through 964 of the Internal Revenue Code and amounts
22 included in gross income under Section 78 of the
23 Internal Revenue Code) with respect to the stock of the
24 same person to whom the interest was paid, accrued, or
25 incurred.

26 This paragraph shall not apply to the following:

27 (i) an item of interest paid, accrued, or
28 incurred, directly or indirectly, to a foreign
29 person who is subject in a foreign country or
30 state, other than a state which requires mandatory
31 unitary reporting, to a tax on or measured by net
32 income with respect to such interest; or

33 (ii) an item of interest paid, accrued, or
34 incurred, directly or indirectly, to a foreign
35 person if the taxpayer can establish, based on a
36 preponderance of the evidence, both of the

1 following:

2 (a) the foreign person, during the same
3 taxable year, paid, accrued, or incurred, the
4 interest to a person that is not a related
5 member, and

6 (b) the transaction giving rise to the
7 interest expense between the taxpayer and the
8 foreign person did not have as a principal
9 purpose the avoidance of Illinois income tax,
10 and is paid pursuant to a contract or agreement
11 that reflects an arm's-length interest rate
12 and terms; or

13 (iii) the taxpayer can establish, based on
14 clear and convincing evidence, that the interest
15 paid, accrued, or incurred relates to a contract or
16 agreement entered into at arm's-length rates and
17 terms and the principal purpose for the payment is
18 not federal or Illinois tax avoidance; or

19 (iv) an item of interest paid, accrued, or
20 incurred, directly or indirectly, to a foreign
21 person if the taxpayer establishes by clear and
22 convincing evidence that the adjustments are
23 unreasonable; or if the taxpayer and the Director
24 agree in writing to the application or use of an
25 alternative method of apportionment under Section
26 304(f).

27 Nothing in this subsection shall preclude the
28 Director from making any other adjustment
29 otherwise allowed under Section 404 of this Act for
30 any tax year beginning after the effective date of
31 this amendment provided such adjustment is made
32 pursuant to regulation adopted by the Department
33 and such regulations provide methods and standards
34 by which the Department will utilize its authority
35 under Section 404 of this Act;

36 (G-13) For taxable years ending on or after

1 December 31, 2004, an amount equal to the amount of
2 intangible expenses and costs otherwise allowed as a
3 deduction in computing base income, and that were paid,
4 accrued, or incurred, directly or indirectly, to a
5 foreign person who would be a member of the same
6 unitary business group but for the fact that the
7 foreign person's business activity outside the United
8 States is 80% or more of that person's total business
9 activity. The addition modification required by this
10 subparagraph shall be reduced to the extent that
11 dividends were included in base income of the unitary
12 group for the same taxable year and received by the
13 taxpayer or by a member of the taxpayer's unitary
14 business group (including amounts included in gross
15 income pursuant to Sections 951 through 964 of the
16 Internal Revenue Code and amounts included in gross
17 income under Section 78 of the Internal Revenue Code)
18 with respect to the stock of the same person to whom
19 the intangible expenses and costs were directly or
20 indirectly paid, incurred, or accrued. The preceding
21 sentence shall not apply to the extent that the same
22 dividends caused a reduction to the addition
23 modification required under Section 203(c)(2)(G-12) of
24 this Act. As used in this subparagraph, the term
25 "intangible expenses and costs" includes: (1)
26 expenses, losses, and costs for or related to the
27 direct or indirect acquisition, use, maintenance or
28 management, ownership, sale, exchange, or any other
29 disposition of intangible property; (2) losses
30 incurred, directly or indirectly, from factoring
31 transactions or discounting transactions; (3) royalty,
32 patent, technical, and copyright fees; (4) licensing
33 fees; and (5) other similar expenses and costs. For
34 purposes of this subparagraph, "intangible property"
35 includes patents, patent applications, trade names,
36 trademarks, service marks, copyrights, mask works,

1 trade secrets, and similar types of intangible assets.

2 This paragraph shall not apply to the following:

3 (i) any item of intangible expenses or costs
4 paid, accrued, or incurred, directly or
5 indirectly, from a transaction with a foreign
6 person who is subject in a foreign country or
7 state, other than a state which requires mandatory
8 unitary reporting, to a tax on or measured by net
9 income with respect to such item; or

10 (ii) any item of intangible expense or cost
11 paid, accrued, or incurred, directly or
12 indirectly, if the taxpayer can establish, based
13 on a preponderance of the evidence, both of the
14 following:

15 (a) the foreign person during the same
16 taxable year paid, accrued, or incurred, the
17 intangible expense or cost to a person that is
18 not a related member, and

19 (b) the transaction giving rise to the
20 intangible expense or cost between the
21 taxpayer and the foreign person did not have as
22 a principal purpose the avoidance of Illinois
23 income tax, and is paid pursuant to a contract
24 or agreement that reflects arm's-length terms;
25 or

26 (iii) any item of intangible expense or cost
27 paid, accrued, or incurred, directly or
28 indirectly, from a transaction with a foreign
29 person if the taxpayer establishes by clear and
30 convincing evidence, that the adjustments are
31 unreasonable; or if the taxpayer and the Director
32 agree in writing to the application or use of an
33 alternative method of apportionment under Section
34 304(f);

35 Nothing in this subsection shall preclude the
36 Director from making any other adjustment

1 otherwise allowed under Section 404 of this Act for
2 any tax year beginning after the effective date of
3 this amendment provided such adjustment is made
4 pursuant to regulation adopted by the Department
5 and such regulations provide methods and standards
6 by which the Department will utilize its authority
7 under Section 404 of this Act;

8 and by deducting from the total so obtained the sum of the
9 following amounts:

10 (H) An amount equal to all amounts included in such
11 total pursuant to the provisions of Sections 402(a),
12 402(c), 403(a), 403(b), 406(a), 407(a) and 408 of the
13 Internal Revenue Code or included in such total as
14 distributions under the provisions of any retirement
15 or disability plan for employees of any governmental
16 agency or unit, or retirement payments to retired
17 partners, which payments are excluded in computing net
18 earnings from self employment by Section 1402 of the
19 Internal Revenue Code and regulations adopted pursuant
20 thereto;

21 (I) The valuation limitation amount;

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

25 (K) An amount equal to all amounts included in
26 taxable income as modified by subparagraphs (A), (B),
27 (C), (D), (E), (F) and (G) which are exempt from
28 taxation by this State either by reason of its statutes
29 or Constitution or by reason of the Constitution,
30 treaties or statutes of the United States; provided
31 that, in the case of any statute of this State that
32 exempts income derived from bonds or other obligations
33 from the tax imposed under this Act, the amount
34 exempted shall be the interest net of bond premium
35 amortization;

36 (L) With the exception of any amounts subtracted

1 under subparagraph (K), an amount equal to the sum of
2 all amounts disallowed as deductions by (i) Sections
3 171(a) (2) and 265(a) (2) of the Internal Revenue Code,
4 as now or hereafter amended, and all amounts of
5 expenses allocable to interest and disallowed as
6 deductions by Section 265(1) of the Internal Revenue
7 Code of 1954, as now or hereafter amended; and (ii) for
8 taxable years ending on or after August 13, 1999,
9 Sections 171(a) (2), 265, 280C, and 832(b) (5) (B) (i) of
10 the Internal Revenue Code; the provisions of this
11 subparagraph are exempt from the provisions of Section
12 250;

13 (M) An amount equal to those dividends included in
14 such total which were paid by a corporation which
15 conducts business operations in an Enterprise Zone or
16 zones created under the Illinois Enterprise Zone Act
17 and conducts substantially all of its operations in an
18 Enterprise Zone or Zones;

19 (N) An amount equal to any contribution made to a
20 job training project established pursuant to the Tax
21 Increment Allocation Redevelopment Act;

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

31 (P) An amount equal to the amount of the deduction
32 used to compute the federal income tax credit for
33 restoration of substantial amounts held under claim of
34 right for the taxable year pursuant to Section 1341 of
35 the Internal Revenue Code of 1986;

36 (Q) For taxable year 1999 and thereafter, an amount

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

33 (R) For taxable years 2001 and thereafter, for the
34 taxable year in which the bonus depreciation deduction
35 (30% of the adjusted basis of the qualified property)
36 is taken on the taxpayer's federal income tax return

1 under subsection (k) of Section 168 of the Internal
2 Revenue Code and for each applicable taxable year
3 thereafter, an amount equal to "x", where:

4 (1) "y" equals the amount of the depreciation
5 deduction taken for the taxable year on the
6 taxpayer's federal income tax return on property
7 for which the bonus depreciation deduction (30% of
8 the adjusted basis of the qualified property) was
9 taken in any year under subsection (k) of Section
10 168 of the Internal Revenue Code, but not including
11 the bonus depreciation deduction; and

12 (2) "x" equals "y" multiplied by 30 and then
13 divided by 70 (or "y" multiplied by 0.429).

14 The aggregate amount deducted under this
15 subparagraph in all taxable years for any one piece of
16 property may not exceed the amount of the bonus
17 depreciation deduction (30% of the adjusted basis of
18 the qualified property) taken on that property on the
19 taxpayer's federal income tax return under subsection
20 (k) of Section 168 of the Internal Revenue Code;

21 (S) If the taxpayer reports a capital gain or loss
22 on the taxpayer's federal income tax return for the
23 taxable year based on a sale or transfer of property
24 for which the taxpayer was required in any taxable year
25 to make an addition modification under subparagraph
26 (G-10), then an amount equal to that addition
27 modification.

28 The taxpayer is allowed to take the deduction under
29 this subparagraph only once with respect to any one
30 piece of property;

31 (T) The amount of (i) any interest income (net of
32 the deductions allocable thereto) taken into account
33 for the taxable year with respect to a transaction with
34 a taxpayer that is required to make an addition
35 modification with respect to such transaction under
36 Section 203(a)(2)(D-17), 203(b)(2)(E-12),

1 203(c)(2)(G-12), or 203(d)(2)(D-7), but not to exceed
2 the amount of such addition modification and (ii) any
3 income from intangible property (net of the deductions
4 allocable thereto) taken into account for the taxable
5 year with respect to a transaction with a taxpayer that
6 is required to make an addition modification with
7 respect to such transaction under Section
8 203(a)(2)(D-18), 203(b)(2)(E-13), 203(c)(2)(G-13), or
9 203(d)(2)(D-8), but not to exceed the amount of such
10 addition modification;

11 (U) An amount equal to the interest income taken
12 into account for the taxable year (net of the
13 deductions allocable thereto) with respect to
14 transactions with a foreign person who would be a
15 member of the taxpayer's unitary business group but for
16 the fact the foreign person's business activity
17 outside the United States is 80% or more of that
18 person's total business activity, but not to exceed the
19 addition modification required to be made for the same
20 taxable year under Section 203(c)(2)(G-12) for
21 interest paid, accrued, or incurred, directly or
22 indirectly, to the same foreign person; and

23 (V) An amount equal to the income from intangible
24 property taken into account for the taxable year (net
25 of the deductions allocable thereto) with respect to
26 transactions with a foreign person who would be a
27 member of the taxpayer's unitary business group but for
28 the fact that the foreign person's business activity
29 outside the United States is 80% or more of that
30 person's total business activity, but not to exceed the
31 addition modification required to be made for the same
32 taxable year under Section 203(c)(2)(G-13) for
33 intangible expenses and costs paid, accrued, or
34 incurred, directly or indirectly, to the same foreign
35 person.

36 (3) Limitation. The amount of any modification

1 otherwise required under this subsection shall, under
2 regulations prescribed by the Department, be adjusted by
3 any amounts included therein which were properly paid,
4 credited, or required to be distributed, or permanently set
5 aside for charitable purposes pursuant to Internal Revenue
6 Code Section 642(c) during the taxable year.

7 (d) Partnerships.

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

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

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

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

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

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

28 (D-5) For taxable years 2001 and thereafter, an
29 amount equal to the bonus depreciation deduction (30%
30 of the adjusted basis of the qualified property) taken
31 on the taxpayer's federal income tax return for the
32 taxable year under subsection (k) of Section 168 of the
33 Internal Revenue Code;

34 (D-6) If the taxpayer reports a capital gain or
35 loss on the taxpayer's federal income tax return for

1 the taxable year based on a sale or transfer of
2 property for which the taxpayer was required in any
3 taxable year to make an addition modification under
4 subparagraph (D-5), then an amount equal to the
5 aggregate amount of the deductions taken in all taxable
6 years under subparagraph (O) with respect to that
7 property.

8 The taxpayer is required to make the addition
9 modification under this subparagraph only once with
10 respect to any one piece of property;

11 (D-7) For taxable years ending on or after December
12 31, 2004, an amount equal to the amount otherwise
13 allowed as a deduction in computing base income for
14 interest paid, accrued, or incurred, directly or
15 indirectly, to a foreign person who would be a member
16 of the same unitary business group but for the fact the
17 foreign person's business activity outside the United
18 States is 80% or more of the foreign person's total
19 business activity. The addition modification required
20 by this subparagraph shall be reduced to the extent
21 that dividends were included in base income of the
22 unitary group for the same taxable year and received by
23 the taxpayer or by a member of the taxpayer's unitary
24 business group (including amounts included in gross
25 income pursuant to Sections 951 through 964 of the
26 Internal Revenue Code and amounts included in gross
27 income under Section 78 of the Internal Revenue Code)
28 with respect to the stock of the same person to whom
29 the interest was paid, accrued, or incurred.

30 This paragraph shall not apply to the following:

31 (i) an item of interest paid, accrued, or
32 incurred, directly or indirectly, to a foreign
33 person who is subject in a foreign country or
34 state, other than a state which requires mandatory
35 unitary reporting, to a tax on or measured by net
36 income with respect to such interest; or

1 (ii) an item of interest paid, accrued, or
2 incurred, directly or indirectly, to a foreign
3 person if the taxpayer can establish, based on a
4 preponderance of the evidence, both of the
5 following:

6 (a) the foreign person, during the same
7 taxable year, paid, accrued, or incurred, the
8 interest to a person that is not a related
9 member, and

10 (b) the transaction giving rise to the
11 interest expense between the taxpayer and the
12 foreign person did not have as a principal
13 purpose the avoidance of Illinois income tax,
14 and is paid pursuant to a contract or agreement
15 that reflects an arm's-length interest rate
16 and terms; or

17 (iii) the taxpayer can establish, based on
18 clear and convincing evidence, that the interest
19 paid, accrued, or incurred relates to a contract or
20 agreement entered into at arm's-length rates and
21 terms and the principal purpose for the payment is
22 not federal or Illinois tax avoidance; or

23 (iv) an item of interest paid, accrued, or
24 incurred, directly or indirectly, to a foreign
25 person if the taxpayer establishes by clear and
26 convincing evidence that the adjustments are
27 unreasonable; or if the taxpayer and the Director
28 agree in writing to the application or use of an
29 alternative method of apportionment under Section
30 304(f).

31 Nothing in this subsection shall preclude the
32 Director from making any other adjustment
33 otherwise allowed under Section 404 of this Act for
34 any tax year beginning after the effective date of
35 this amendment provided such adjustment is made
36 pursuant to regulation adopted by the Department

1 and such regulations provide methods and standards
2 by which the Department will utilize its authority
3 under Section 404 of this Act; and

4 (D-8) For taxable years ending on or after December
5 31, 2004, an amount equal to the amount of intangible
6 expenses and costs otherwise allowed as a deduction in
7 computing base income, and that were paid, accrued, or
8 incurred, directly or indirectly, to a foreign person
9 who would be a member of the same unitary business
10 group but for the fact that the foreign person's
11 business activity outside the United States is 80% or
12 more of that person's total business activity. The
13 addition modification required by this subparagraph
14 shall be reduced to the extent that dividends were
15 included in base income of the unitary group for the
16 same taxable year and received by the taxpayer or by a
17 member of the taxpayer's unitary business group
18 (including amounts included in gross income pursuant
19 to Sections 951 through 964 of the Internal Revenue
20 Code and amounts included in gross income under Section
21 78 of the Internal Revenue Code) with respect to the
22 stock of the same person to whom the intangible
23 expenses and costs were directly or indirectly paid,
24 incurred or accrued. The preceding sentence shall not
25 apply to the extent that the same dividends caused a
26 reduction to the addition modification required under
27 Section 203(d)(2)(D-7) of this Act. As used in this
28 subparagraph, the term "intangible expenses and costs"
29 includes (1) expenses, losses, and costs for, or
30 related to, the direct or indirect acquisition, use,
31 maintenance or management, ownership, sale, exchange,
32 or any other disposition of intangible property; (2)
33 losses incurred, directly or indirectly, from
34 factoring transactions or discounting transactions;
35 (3) royalty, patent, technical, and copyright fees;
36 (4) licensing fees; and (5) other similar expenses and

1 costs. For purposes of this subparagraph, "intangible
2 property" includes patents, patent applications, trade
3 names, trademarks, service marks, copyrights, mask
4 works, trade secrets, and similar types of intangible
5 assets;

6 This paragraph shall not apply to the following:

7 (i) any item of intangible expenses or costs
8 paid, accrued, or incurred, directly or
9 indirectly, from a transaction with a foreign
10 person who is subject in a foreign country or
11 state, other than a state which requires mandatory
12 unitary reporting, to a tax on or measured by net
13 income with respect to such item; or

14 (ii) any item of intangible expense or cost
15 paid, accrued, or incurred, directly or
16 indirectly, if the taxpayer can establish, based
17 on a preponderance of the evidence, both of the
18 following:

19 (a) the foreign person during the same
20 taxable year paid, accrued, or incurred, the
21 intangible expense or cost to a person that is
22 not a related member, and

23 (b) the transaction giving rise to the
24 intangible expense or cost between the
25 taxpayer and the foreign person did not have as
26 a principal purpose the avoidance of Illinois
27 income tax, and is paid pursuant to a contract
28 or agreement that reflects arm's-length terms;
29 or

30 (iii) any item of intangible expense or cost
31 paid, accrued, or incurred, directly or
32 indirectly, from a transaction with a foreign
33 person if the taxpayer establishes by clear and
34 convincing evidence, that the adjustments are
35 unreasonable; or if the taxpayer and the Director
36 agree in writing to the application or use of an

1 alternative method of apportionment under Section
2 304(f);

3 Nothing in this subsection shall preclude the
4 Director from making any other adjustment
5 otherwise allowed under Section 404 of this Act for
6 any tax year beginning after the effective date of
7 this amendment provided such adjustment is made
8 pursuant to regulation adopted by the Department
9 and such regulations provide methods and standards
10 by which the Department will utilize its authority
11 under Section 404 of this Act;

12 and by deducting from the total so obtained the following
13 amounts:

14 (E) The valuation limitation amount;

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

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

28 (H) Any income of the partnership which
29 constitutes personal service income as defined in
30 Section 1348 (b) (1) of the Internal Revenue Code (as
31 in effect December 31, 1981) or a reasonable allowance
32 for compensation paid or accrued for services rendered
33 by partners to the partnership, whichever is greater;

34 (I) An amount equal to all amounts of income
35 distributable to an entity subject to the Personal
36 Property Tax Replacement Income Tax imposed by

1 subsections (c) and (d) of Section 201 of this Act
2 including amounts distributable to organizations
3 exempt from federal income tax by reason of Section
4 501(a) of the Internal Revenue Code;

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

18 (K) An amount equal to those dividends included in
19 such total which were paid by a corporation which
20 conducts business operations in an Enterprise Zone or
21 zones created under the Illinois Enterprise Zone Act,
22 enacted by the 82nd General Assembly, and conducts
23 substantially all of its operations in an Enterprise
24 Zone or Zones;

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

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

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

6 (O) For taxable years 2001 and thereafter, for the
7 taxable year in which the bonus depreciation deduction
8 (30% of the adjusted basis of the qualified property)
9 is taken on the taxpayer's federal income tax return
10 under subsection (k) of Section 168 of the Internal
11 Revenue Code and for each applicable taxable year
12 thereafter, an amount equal to "x", where:

13 (1) "y" equals the amount of the depreciation
14 deduction taken for the taxable year on the
15 taxpayer's federal income tax return on property
16 for which the bonus depreciation deduction (30% of
17 the adjusted basis of the qualified property) was
18 taken in any year under subsection (k) of Section
19 168 of the Internal Revenue Code, but not including
20 the bonus depreciation deduction; and

21 (2) "x" equals "y" multiplied by 30 and then
22 divided by 70 (or "y" multiplied by 0.429).

23 The aggregate amount deducted under this
24 subparagraph in all taxable years for any one piece of
25 property may not exceed the amount of the bonus
26 depreciation deduction (30% of the adjusted basis of
27 the qualified property) taken on that property on the
28 taxpayer's federal income tax return under subsection
29 (k) of Section 168 of the Internal Revenue Code;

30 (P) If the taxpayer reports a capital gain or loss
31 on the taxpayer's federal income tax return for the
32 taxable year based on a sale or transfer of property
33 for which the taxpayer was required in any taxable year
34 to make an addition modification under subparagraph
35 (D-5), then an amount equal to that addition
36 modification.

1 The taxpayer is allowed to take the deduction under
2 this subparagraph only once with respect to any one
3 piece of property;

4 (Q) The amount of (i) any interest income (net of
5 the deductions allocable thereto) taken into account
6 for the taxable year with respect to a transaction with
7 a taxpayer that is required to make an addition
8 modification with respect to such transaction under
9 Section 203(a)(2)(D-17), 203(b)(2)(E-12),
10 203(c)(2)(G-12), or 203(d)(2)(D-7), but not to exceed
11 the amount of such addition modification and (ii) any
12 income from intangible property (net of the deductions
13 allocable thereto) taken into account for the taxable
14 year with respect to a transaction with a taxpayer that
15 is required to make an addition modification with
16 respect to such transaction under Section
17 203(a)(2)(D-18), 203(b)(2)(E-13), 203(c)(2)(G-13), or
18 203(d)(2)(D-8), but not to exceed the amount of such
19 addition modification;

20 (R) An amount equal to the interest income taken
21 into account for the taxable year (net of the
22 deductions allocable thereto) with respect to
23 transactions with a foreign person who would be a
24 member of the taxpayer's unitary business group but for
25 the fact that the foreign person's business activity
26 outside the United States is 80% or more of that
27 person's total business activity, but not to exceed the
28 addition modification required to be made for the same
29 taxable year under Section 203(d)(2)(D-7) for interest
30 paid, accrued, or incurred, directly or indirectly, to
31 the same foreign person; and

32 (S) An amount equal to the income from intangible
33 property taken into account for the taxable year (net
34 of the deductions allocable thereto) with respect to
35 transactions with a foreign person who would be a
36 member of the taxpayer's unitary business group but for

1 the fact that the foreign person's business activity
2 outside the United States is 80% or more of that
3 person's total business activity, but not to exceed the
4 addition modification required to be made for the same
5 taxable year under Section 203(d)(2)(D-8) for
6 intangible expenses and costs paid, accrued, or
7 incurred, directly or indirectly, to the same foreign
8 person.

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

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

1 subparagraphs for any other taxable year to which the
2 taxable income less than zero (net operating loss) is
3 applied under Section 172 of the Internal Revenue Code or
4 under subparagraph (E) of paragraph (2) of this subsection
5 (e) applied in conjunction with Section 172 of the Internal
6 Revenue Code.

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

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

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

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

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

29 (E) Consolidated corporations. In the case of a
30 corporation which is a member of an affiliated group of
31 corporations filing a consolidated income tax return
32 for the taxable year for federal income tax purposes,
33 taxable income determined as if such corporation had
34 filed a separate return for federal income tax purposes
35 for the taxable year and each preceding taxable year
36 for which it was a member of an affiliated group. For

1 purposes of this subparagraph, the taxpayer's separate
2 taxable income shall be determined as if the election
3 provided by Section 243(b) (2) of the Internal Revenue
4 Code had been in effect for all such years;

5 (F) Cooperatives. In the case of a cooperative
6 corporation or association, the taxable income of such
7 organization determined in accordance with the
8 provisions of Section 1381 through 1388 of the Internal
9 Revenue Code;

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

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

33 (3) Recapture of business expenses on disposition of
34 asset or business. Notwithstanding any other law to the
35 contrary, if in prior years income from an asset or
36 business has been classified as business income and in a

1 later year is demonstrated to be non-business income, then
2 all expenses, without limitation, deducted in such later
3 year and in the 2 immediately preceding taxable years
4 related to that asset or business that generated the
5 non-business income shall be added back and recaptured as
6 business income in the year of the disposition of the asset
7 or business. Such amount shall be apportioned to Illinois
8 using the greater of the apportionment fraction computed
9 for the business under Section 304 of this Act for the
10 taxable year or the average of the apportionment fractions
11 computed for the business under Section 304 of this Act for
12 the taxable year and for the 2 immediately preceding
13 taxable years.

14 (f) Valuation limitation amount.

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

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

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

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

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

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

7 (B) If the fair market value of property referred
8 to in paragraph (1) was not readily ascertainable on
9 August 1, 1969, the pre-August 1, 1969 appreciation
10 amount for such property is that amount which bears the
11 same ratio to the total gain reported in respect of the
12 property for federal income tax purposes for the
13 taxable year, as the number of full calendar months in
14 that part of the taxpayer's holding period for the
15 property ending July 31, 1969 bears to the number of
16 full calendar months in the taxpayer's entire holding
17 period for 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 by
25 this Section there shall be no modifications or limitations on
26 the amounts of income, gain, loss or deduction taken into
27 account in determining gross income, adjusted gross income or
28 taxable income for federal income tax purposes for the taxable
29 year, or in the amount of such items entering into the
30 computation of base income and net income under this Act for
31 such taxable year, whether in respect of property values as of
32 August 1, 1969 or otherwise.

33 (Source: P.A. 92-16, eff. 6-28-01; 92-244, eff. 8-3-01; 92-439,
34 eff. 8-17-01; 92-603, eff. 6-28-02; 92-626, eff. 7-11-02;

1 92-651, eff. 7-11-02; 92-846, eff. 8-23-02; 93-812, eff.
2 7-26-04; 93-840, eff. 7-30-04; revised 10-12-04.)

3 Section 99. Effective date. This Act takes effect upon
4 becoming law.