



Sen. James F. Clayborne Jr.

Filed: 4/13/2005

09400SB0507sam002

LRB094 08414 BDD 45112 a

1 AMENDMENT TO SENATE BILL 507

2 AMENDMENT NO. _____. Amend Senate Bill 507, AS AMENDED, by
3 replacing everything after the enacting clause with the
4 following:

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

7 (15 ILCS 505/16.5)

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

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

23 New accounts in the College Savings Pool may ~~shall~~ be
24 processed through participating financial institutions.

1 "Participating financial institution", as used in this
2 Section, means any financial institution insured by the Federal
3 Deposit Insurance Corporation and lawfully doing business in
4 the State of Illinois and any credit union approved by the
5 State Treasurer and lawfully doing business in the State of
6 Illinois that agrees to process new accounts in the College
7 Savings Pool. Participating financial institutions may charge
8 a processing fee to participants to open an account in the pool
9 that shall not exceed \$30 until the year 2001. Beginning in
10 2001 and every year thereafter, the maximum fee limit shall be
11 adjusted by the Treasurer based on the Consumer Price Index for
12 the North Central Region as published by the United States
13 Department of Labor, Bureau of Labor Statistics for the
14 immediately preceding calendar year. Every contribution
15 received by a financial institution for investment in the
16 College Savings Pool shall be transferred from the financial
17 institution to a location selected by the State Treasurer
18 within one business day following the day that the funds must
19 be made available in accordance with federal law. All
20 communications from the State Treasurer to participants shall
21 reference the participating financial institution at which the
22 account was processed.

23 The Treasurer may invest the moneys in the College Savings
24 Pool in the same manner, in the same types of investments, and
25 subject to the same limitations provided for the investment of
26 moneys by the Illinois State Board of Investment. To enhance
27 the safety and liquidity of the College Savings Pool, to ensure
28 the diversification of the investment portfolio of the pool,
29 and in an effort to keep investment dollars in the State of
30 Illinois, the State Treasurer may ~~shall~~ make a percentage of
31 each account available for investment in participating
32 financial institutions doing business in the State. The State
33 Treasurer may ~~shall~~ deposit with the participating financial
34 institution at which the account was processed the following

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

26 Participants shall be required to use moneys distributed
27 from the College Savings Pool for qualified expenses at
28 eligible educational institutions. "Qualified expenses", as
29 used in this Section, means the following: (i) tuition, fees,
30 and the costs of books, supplies, and equipment required for
31 enrollment or attendance at an eligible educational
32 institution and (ii) certain room and board expenses incurred
33 while attending an eligible educational institution at least
34 half-time. "Eligible educational institutions", as used in

1 this Section, means public and private colleges, junior
2 colleges, graduate schools, and certain vocational
3 institutions that are described in Section 481 of the Higher
4 Education Act of 1965 (20 U.S.C. 1088) and that are eligible to
5 participate in Department of Education student aid programs. A
6 student shall be considered to be enrolled at least half-time
7 if the student is enrolled for at least half the full-time
8 academic work load for the course of study the student is
9 pursuing as determined under the standards of the institution
10 at which the student is enrolled. Distributions made from the
11 pool for qualified expenses shall be made directly to the
12 eligible educational institution, directly to a vendor, or in
13 the form of a check payable to both the beneficiary and the
14 institution or vendor. Any moneys that are distributed in any
15 other manner or that are used for expenses other than qualified
16 expenses at an eligible educational institution shall be
17 subject to a penalty of 10% of the earnings unless the
18 beneficiary dies, becomes disabled, or receives a scholarship
19 that equals or exceeds the distribution. Penalties shall be
20 withheld at the time the distribution is made.

21 The Treasurer shall limit the contributions that may be
22 made on behalf of a designated beneficiary based on the
23 limitations established by the Internal Revenue Service. ~~an~~
24 ~~actuarial estimate of what is required to pay tuition, fees,~~
25 ~~and room and board for 5 undergraduate years at the highest~~
26 ~~cost eligible educational institution.~~ The contributions made
27 on behalf of a beneficiary who is also a beneficiary under the
28 Illinois Prepaid Tuition Program shall be further restricted to
29 ensure that the contributions in both programs combined do not
30 exceed the limit established for the College Savings Pool. The
31 Treasurer shall provide the Illinois Student Assistance
32 Commission each year at a time designated by the Commission, an
33 electronic report of all participant accounts in the
34 Treasurer's College Savings Pool, listing total contributions

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

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

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

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

29 (Source: P.A. 92-16, eff. 6-28-01; 92-439, eff. 8-17-01;
30 92-626, eff. 7-11-02; 93-812, eff. 1-1-05.)

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

1 (35 ILCS 5/203) (from Ch. 120, par. 2-203)

2 Sec. 203. Base income defined.

3 (a) Individuals.

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

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

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

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

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

34 (D) An amount equal to the amount of the capital

1 gain deduction allowable under the Internal Revenue
2 Code, to the extent deducted from gross income in the
3 computation of adjusted gross income;

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

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

17 (D-15) For taxable years 2001 and thereafter, an
18 amount equal to the bonus depreciation deduction (30%
19 of the adjusted basis of the qualified property) taken
20 on the taxpayer's federal income tax return for the
21 taxable year under subsection (k) of Section 168 of the
22 Internal Revenue Code;

23 (D-16) If the taxpayer reports a capital gain or
24 loss on the taxpayer's federal income tax return for
25 the taxable year based on a sale or transfer of
26 property for which the taxpayer was required in any
27 taxable year to make an addition modification under
28 subparagraph (D-15), then an amount equal to the
29 aggregate amount of the deductions taken in all taxable
30 years under subparagraph (Z) with respect to that
31 property.

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

1 (D-17) 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 that 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 under Sections 951 through 964
16 of the Internal Revenue Code and amounts included in
17 gross income under Section 78 of the Internal Revenue
18 Code) with respect to the stock of the same person to
19 whom the interest was paid, accrued, or incurred.

20 This paragraph shall not apply to the following:

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

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

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

1 member, and

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

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

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

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

32 (D-18) For taxable years ending on or after
33 December 31, 2004, an amount equal to the amount of
34 intangible expenses and costs otherwise allowed as a

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

1 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);

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

10 (D-20) For taxable years beginning on or after
11 January 1, 2002 and ending on or before December 31,
12 2005, in the case of a distribution from a qualified
13 tuition program under Section 529 of the Internal
14 Revenue Code, other than (i) a distribution from a
15 College Savings Pool created under Section 16.5 of the
16 State Treasurer Act or (ii) a distribution from the
17 Illinois Prepaid Tuition Trust Fund, an amount equal to
18 the amount excluded from gross income under Section
19 529(c)(3)(B). For taxable years beginning on or after
20 January 1, 2006, in the case of a distribution from a
21 qualified tuition program under Section 529 of the
22 Internal Revenue Code, other than (i) a distribution
23 from a College Savings Pool created under Section 16.5
24 of the State Treasurer Act, (ii) a distribution from
25 the Illinois Prepaid Tuition Trust Fund, or (iii) a
26 distribution from a qualified tuition program under
27 Section 529 of the Internal Revenue Code that, at the
28 time of enrollment and as reasonably determined by
29 either the College Savings Plans Network or the State
30 Treasurer, (I) was in compliance with the College
31 Savings Plans Network's voluntary disclosure
32 principles and (II) was in compliance with the
33 requirement to inform Illinois residents of the
34 existence of the qualified tuition programs

1 administered by the State by either informing Illinois
2 residents directly or informing financial
3 intermediaries distributing the program of the
4 requirement at least annually, an amount equal to the
5 amount excluded from gross income under Section
6 529(c)(3)(B);

7 (D-21) For taxable years beginning on or after
8 January 1, 2006, in the case of transfer of moneys from
9 a qualified tuition program under Section 529 of the
10 Internal Revenue Code that is administered by the State
11 to an out-of-state program, an amount equal to the
12 amount of moneys previously deducted from base income
13 under subsection (a)(2)(Y) of this Section.

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

16 (E) For taxable years ending before December 31,
17 2001, any amount included in such total in respect of
18 any compensation (including but not limited to any
19 compensation paid or accrued to a serviceman while a
20 prisoner of war or missing in action) paid to a
21 resident by reason of being on active duty in the Armed
22 Forces of the United States and in respect of any
23 compensation paid or accrued to a resident who as a
24 governmental employee was a prisoner of war or missing
25 in action, and in respect of any compensation paid to a
26 resident in 1971 or thereafter for annual training
27 performed pursuant to Sections 502 and 503, Title 32,
28 United States Code as a member of the Illinois National
29 Guard. For taxable years ending on or after December
30 31, 2001, any amount included in such total in respect
31 of any compensation (including but not limited to any
32 compensation paid or accrued to a serviceman while a
33 prisoner of war or missing in action) paid to a
34 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;

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

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

15 (M) With the exception of any amounts subtracted
16 under subparagraph (N), an amount equal to the sum of
17 all amounts disallowed as deductions by (i) Sections
18 171(a) (2), and 265(2) of the Internal Revenue Code of
19 1954, as now or hereafter amended, and all amounts of
20 expenses allocable to interest and disallowed as
21 deductions by Section 265(1) of the Internal Revenue
22 Code of 1954, as now or hereafter amended; and (ii) for
23 taxable years ending on or after August 13, 1999,
24 Sections 171(a) (2), 265, 280C, and 832(b) (5) (B) (i) of
25 the Internal Revenue Code; the provisions of this
26 subparagraph are exempt from the provisions of Section
27 250;

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

1 this Act, the amount exempted shall be the interest net
2 of bond premium amortization;

3 (O) An amount equal to any contribution made to a
4 job training project established pursuant to the Tax
5 Increment Allocation Redevelopment Act;

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

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

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

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

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

33 (U) For one taxable year beginning on or after
34 January 1, 1994, an amount equal to the total amount of

1 tax imposed and paid under subsections (a) and (b) of
2 Section 201 of this Act on grant amounts received by
3 the taxpayer under the Nursing Home Grant Assistance
4 Act during the taxpayer's taxable years 1992 and 1993;

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

32 (W) For taxable years beginning on or after January
33 1, 1998, all amounts included in the taxpayer's federal
34 gross income in the taxable year from amounts converted

1 from a regular IRA to a Roth IRA. This paragraph is
2 exempt from the provisions of Section 250;

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

1 of Section 250;

2 (Y) For taxable years beginning on or after January
3 1, 2002 and ending on or before December 31, 2004,
4 moneys contributed in the taxable year to a College
5 Savings Pool account under Section 16.5 of the State
6 Treasurer Act, except that amounts excluded from gross
7 income under Section 529(c)(3)(C)(i) of the Internal
8 Revenue Code shall not be considered moneys
9 contributed under this subparagraph (Y). For taxable
10 years beginning on or after January 1, 2005, a maximum
11 of \$10,000 contributed in the taxable year to (i) a
12 College Savings Pool account under Section 16.5 of the
13 State Treasurer Act or (ii) the Illinois Prepaid
14 Tuition Trust Fund, except that amounts excluded from
15 gross income under Section 529(c)(3)(C)(i) of the
16 Internal Revenue Code shall not be considered moneys
17 contributed under this subparagraph (Y). This
18 subparagraph (Y) is exempt from the provisions of
19 Section 250;

20 (Z) For taxable years 2001 and thereafter, for the
21 taxable year in which the bonus depreciation deduction
22 (30% of the adjusted basis of the qualified property)
23 is taken on the taxpayer's federal income tax return
24 under subsection (k) of Section 168 of the Internal
25 Revenue Code and for each applicable taxable year
26 thereafter, an amount equal to "x", where:

27 (1) "y" equals the amount of the depreciation
28 deduction taken for the taxable year on the
29 taxpayer's federal income tax return on property
30 for which the bonus depreciation deduction (30% of
31 the adjusted basis of the qualified property) was
32 taken in any year under subsection (k) of Section
33 168 of the Internal Revenue Code, but not including
34 the bonus depreciation deduction; and

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

3 The aggregate amount deducted under this
4 subparagraph in all taxable years for any one piece of
5 property may not exceed the amount of the bonus
6 depreciation deduction (30% of the adjusted basis of
7 the qualified property) taken on that property on the
8 taxpayer's federal income tax return under subsection
9 (k) of Section 168 of the Internal Revenue Code;

10 (AA) If the taxpayer reports a capital gain or loss
11 on the taxpayer's federal income tax return for the
12 taxable year based on a sale or transfer of property
13 for which the taxpayer was required in any taxable year
14 to make an addition modification under subparagraph
15 (D-15), then an amount equal to that addition
16 modification.

17 The taxpayer is allowed to take the deduction under
18 this subparagraph only once with respect to any one
19 piece of property;

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

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

1 respect to such transaction under Section
2 203(a)(2)(D-18), 203(b)(2)(E-14), 203(c)(2)(G-13), or
3 203(d)(2)(D-8), but not to exceed the amount of that
4 addition modification;

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

17 (EF) An amount equal to the income from intangible
18 property taken into account for the taxable year (net
19 of the deductions allocable thereto) with respect to
20 transactions with a foreign person who would be a
21 member of the taxpayer's unitary business group but for
22 the fact that the foreign person's business activity
23 outside the United States is 80% or more of that
24 person's total business activity, but not to exceed the
25 addition modification required to be made for the same
26 taxable year under Section 203(a)(2)(D-18) for
27 intangible expenses and costs paid, accrued, or
28 incurred, directly or indirectly, to the same foreign
29 person.

30 (b) Corporations.

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

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

4 (A) An amount equal to all amounts paid or accrued
5 to the taxpayer as interest and all distributions
6 received from regulated investment companies during
7 the taxable year to the extent excluded from gross
8 income in the computation of taxable income;

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

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

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

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

1 order that they are listed:

2 (i) 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 be reduced by the amount of
6 addition modification under this subparagraph (E)
7 which related to that net operating loss and which
8 was taken into account in calculating the base
9 income of an earlier taxable year, and

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

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

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

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

33 (E-11) If the taxpayer reports a capital gain or
34 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 (E-10), then an amount equal to the
5 aggregate amount of the deductions taken in all taxable
6 years under subparagraph (T) 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 (E-12) For taxable years ending on or after
12 December 31, 2004, an amount equal to the amount
13 otherwise allowed as a deduction in computing base
14 income for interest paid, accrued, or incurred,
15 directly or indirectly, to a foreign person who would
16 be a member of the same unitary business group but for
17 the fact the foreign person's business activity
18 outside the United States is 80% or more of the foreign
19 person's total business activity. The addition
20 modification required by this subparagraph shall be
21 reduced to the extent that dividends were included in
22 base income of the unitary group for the same taxable
23 year and received by the taxpayer or by a member of the
24 taxpayer's unitary business group (including amounts
25 included in gross income pursuant to Sections 951
26 through 964 of the Internal Revenue Code and amounts
27 included in gross income under Section 78 of the
28 Internal Revenue Code) with respect to the stock of the
29 same person to whom the interest was paid, accrued, or
30 incurred.

31 This paragraph shall not apply to the following:

32 (i) an item of interest paid, accrued, or
33 incurred, directly or indirectly, to a foreign
34 person who is subject in a foreign country or

1 state, other than a state which requires mandatory
2 unitary reporting, to a tax on or measured by net
3 income with respect to such interest; or

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

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

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

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

26 (iv) an item of interest paid, accrued, or
27 incurred, directly or indirectly, to 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

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

9 (E-13) For taxable years ending on or after
10 December 31, 2004, an amount equal to the amount of
11 intangible expenses and costs otherwise allowed as a
12 deduction in computing base income, and that were paid,
13 accrued, or incurred, directly or indirectly, to a
14 foreign person who would be a member of the same
15 unitary business group but for the fact that the
16 foreign person's business activity outside the United
17 States is 80% or more of that person's total business
18 activity. The addition modification required by this
19 subparagraph shall be reduced to the extent that
20 dividends were included in base income of the unitary
21 group for the same taxable year and received by the
22 taxpayer or by a member of the taxpayer's unitary
23 business group (including amounts included in gross
24 income pursuant to Sections 951 through 964 of the
25 Internal Revenue Code and amounts included in gross
26 income under Section 78 of the Internal Revenue Code)
27 with respect to the stock of the same person to whom
28 the intangible expenses and costs were directly or
29 indirectly paid, incurred, or accrued. The preceding
30 sentence shall not apply to the extent that the same
31 dividends caused a reduction to the addition
32 modification required under Section 203(b)(2)(E-12) of
33 this Act. As used in this subparagraph, the term
34 "intangible expenses and costs" includes (1) expenses,

1 losses, and costs for, or related to, the direct or
2 indirect acquisition, use, maintenance or management,
3 ownership, sale, exchange, or any other disposition of
4 intangible property; (2) losses incurred, directly or
5 indirectly, from factoring transactions or discounting
6 transactions; (3) royalty, patent, technical, and
7 copyright fees; (4) licensing fees; and (5) other
8 similar expenses and costs. For purposes of this
9 subparagraph, "intangible property" includes patents,
10 patent applications, trade names, trademarks, service
11 marks, copyrights, mask works, trade secrets, and
12 similar types of intangible assets.

13 This paragraph shall not apply to the following:

14 (i) any item of intangible expenses or costs
15 paid, accrued, or incurred, directly or
16 indirectly, from a transaction with a foreign
17 person who is subject in a foreign country or
18 state, other than a state which requires mandatory
19 unitary reporting, to a tax on or measured by net
20 income with respect to such item; or

21 (ii) any item of intangible expense or cost
22 paid, accrued, or incurred, directly or
23 indirectly, if the taxpayer can establish, based
24 on a preponderance of the evidence, both of the
25 following:

26 (a) the foreign person during the same
27 taxable year paid, accrued, or incurred, the
28 intangible expense or cost to a person that is
29 not a related member, and

30 (b) the transaction giving rise to the
31 intangible expense or cost between the
32 taxpayer and the foreign person did not have as
33 a principal purpose the avoidance of Illinois
34 income tax, and is paid pursuant to a contract

1 or agreement that reflects arm's-length terms;

2 or

3 (iii) any item of intangible expense or cost
4 paid, accrued, or incurred, directly or
5 indirectly, from a transaction with a foreign
6 person if the taxpayer establishes by clear and
7 convincing evidence, that the adjustments are
8 unreasonable; or if the taxpayer and the Director
9 agree in writing to the application or use of an
10 alternative method of apportionment under Section
11 304(f);

12 Nothing in this subsection shall preclude the
13 Director from making any other adjustment
14 otherwise allowed under Section 404 of this Act for
15 any tax year beginning after the effective date of
16 this amendment provided such adjustment is made
17 pursuant to regulation adopted by the Department
18 and such regulations provide methods and standards
19 by which the Department will utilize its authority
20 under Section 404 of this Act;

21 and by deducting from the total so obtained the sum of the
22 following amounts:

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

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

28 (H) In the case of a regulated investment company,
29 an amount equal to the amount of exempt interest
30 dividends as defined in subsection (b) (5) of Section
31 852 of the Internal Revenue Code, paid to shareholders
32 for the taxable year;

33 (I) With the exception of any amounts subtracted
34 under subparagraph (J), an amount equal to the sum of

1 all amounts disallowed as deductions by (i) Sections
2 171(a) (2), and 265(a) (2) and amounts disallowed as
3 interest expense by Section 291(a) (3) of the Internal
4 Revenue Code, as now or hereafter amended, and all
5 amounts of expenses allocable to interest and
6 disallowed as deductions by Section 265(a) (1) of the
7 Internal Revenue Code, as now or hereafter amended; and
8 (ii) for taxable years ending on or after August 13,
9 1999, Sections 171(a) (2), 265, 280C, 291(a) (3), and
10 832(b) (5) (B) (i) of the Internal Revenue Code; the
11 provisions of this subparagraph are exempt from the
12 provisions of Section 250;

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

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

28 (L) 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

1 shall not be eligible for the deduction provided under
2 this subparagraph (L);

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

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

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

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

22 (O) An amount equal to: (i) 85% for taxable years
23 ending on or before December 31, 1992, or, a percentage
24 equal to the percentage allowable under Section
25 243(a)(1) of the Internal Revenue Code of 1986 for
26 taxable years ending after December 31, 1992, of the
27 amount by which dividends included in taxable income
28 and received from a corporation that is not created or
29 organized under the laws of the United States or any
30 state or political subdivision thereof, including, for
31 taxable years ending on or after December 31, 1988,
32 dividends received or deemed received or paid or deemed
33 paid under Sections 951 through 964 of the Internal
34 Revenue Code, exceed the amount of the modification

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

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

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

24 (R) In the case of an attorney-in-fact with respect
25 to whom an interinsurer or a reciprocal insurer has
26 made the election under Section 835 of the Internal
27 Revenue Code, 26 U.S.C. 835, an amount equal to the
28 excess, if any, of the amounts paid or incurred by that
29 interinsurer or reciprocal insurer in the taxable year
30 to the attorney-in-fact over the deduction allowed to
31 that interinsurer or reciprocal insurer with respect
32 to the attorney-in-fact under Section 835(b) of the
33 Internal Revenue Code for the taxable year;

34 (S) For taxable years ending on or after December

1 31, 1997, in the case of a Subchapter S corporation, an
2 amount equal to all amounts of income allocable to a
3 shareholder subject to the Personal Property Tax
4 Replacement Income Tax imposed by subsections (c) and
5 (d) of Section 201 of this Act, including amounts
6 allocable to organizations exempt from federal income
7 tax by reason of Section 501(a) of the Internal Revenue
8 Code. This subparagraph (S) is exempt from the
9 provisions of Section 250;

10 (T) 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 (U) If the taxpayer reports a capital gain or loss

1 on the taxpayer's federal income tax return for the
2 taxable year based on a sale or transfer of property
3 for which the taxpayer was required in any taxable year
4 to make an addition modification under subparagraph
5 (E-10), then an amount equal to that addition
6 modification.

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

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

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

1 taxable year under Section 203(b)(2)(E-12) for
2 interest paid, accrued, or incurred, directly or
3 indirectly, to the same foreign person; and

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

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

21 (c) Trusts and estates.

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

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

29 (A) An amount equal to all amounts paid or accrued
30 to the taxpayer as interest or dividends during the
31 taxable year to the extent excluded from gross income
32 in the computation of taxable income;

33 (B) In the case of (i) an estate, \$600; (ii) a

1 trust which, under its governing instrument, is
2 required to distribute all of its income currently,
3 \$300; and (iii) any other trust, \$100, but in each such
4 case, only to the extent such amount was deducted in
5 the computation of taxable income;

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

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

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

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

31 (ii) the addition modification relating to the
32 net operating loss carried back or forward to the
33 taxable year from any taxable year ending prior to
34 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

1 subparagraph (G-10), then an amount equal to the
2 aggregate amount of the deductions taken in all taxable
3 years under subparagraph (R) with respect to that
4 property.

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

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

28 This paragraph shall not apply to the following:

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

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

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

1 disposition of intangible property; (2) losses
2 incurred, directly or indirectly, from factoring
3 transactions or discounting transactions; (3) royalty,
4 patent, technical, and copyright fees; (4) licensing
5 fees; and (5) other similar expenses and costs. For
6 purposes of this subparagraph, "intangible property"
7 includes patents, patent applications, trade names,
8 trademarks, service marks, copyrights, mask works,
9 trade secrets, and similar types of intangible assets.

10 This paragraph shall not apply to the following:

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

18 (ii) any item of intangible expense or cost
19 paid, accrued, or incurred, directly or
20 indirectly, if the taxpayer can establish, based
21 on a preponderance of the evidence, both of the
22 following:

23 (a) the foreign person during the same
24 taxable year paid, accrued, or incurred, the
25 intangible expense or cost to a person that is
26 not a related member, and

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

34 (iii) any item of intangible expense or cost

1 paid, accrued, or incurred, directly or
2 indirectly, from a transaction with a foreign
3 person if the taxpayer establishes by clear and
4 convincing evidence, that the adjustments are
5 unreasonable; or if the taxpayer and the Director
6 agree in writing to the application or use of an
7 alternative method of apportionment under Section
8 304(f);

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

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

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

31 (I) The valuation limitation amount;

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

1 (K) An amount equal to all amounts included in
2 taxable income as modified by subparagraphs (A), (B),
3 (C), (D), (E), (F) and (G) which are exempt from
4 taxation by this State either by reason of its statutes
5 or Constitution or by reason of the Constitution,
6 treaties or statutes of the United States; provided
7 that, in the case of any statute of this State that
8 exempts income derived from bonds or other obligations
9 from the tax imposed under this Act, the amount
10 exempted shall be the interest net of bond premium
11 amortization;

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

25 (M) An amount equal to those dividends included in
26 such total which were paid by a corporation which
27 conducts business operations in an Enterprise Zone or
28 zones created under the Illinois Enterprise Zone Act
29 and conducts substantially all of its operations in an
30 Enterprise Zone or Zones;

31 (N) An amount equal to any contribution made to a
32 job training project established pursuant to the Tax
33 Increment Allocation Redevelopment Act;

34 (O) An amount equal to those dividends included in

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

9 (P) An amount equal to the amount of the deduction
10 used to compute the federal income tax credit for
11 restoration of substantial amounts held under claim of
12 right for the taxable year pursuant to Section 1341 of
13 the Internal Revenue Code of 1986;

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

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

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

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

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

30 The aggregate amount deducted under this
31 subparagraph in all taxable years for any one piece of
32 property may not exceed the amount of the bonus
33 depreciation deduction (30% of the adjusted basis of
34 the qualified property) taken on that property on the

1 taxpayer's federal income tax return under subsection
2 (k) of Section 168 of the Internal Revenue Code;

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

10 The taxpayer is allowed to take the deduction under
11 this subparagraph only once with respect to any one
12 piece of property;

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

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

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

7 (V) An amount equal to the income from intangible
8 property taken into account for the taxable year (net
9 of the deductions allocable thereto) with respect to
10 transactions with a foreign person who would be a
11 member of the taxpayer's 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 that
14 person's total business activity, but not to exceed the
15 addition modification required to be made for the same
16 taxable year under Section 203(c)(2)(G-13) for
17 intangible expenses and costs paid, accrued, or
18 incurred, directly or indirectly, to the same foreign
19 person.

20 (3) Limitation. The amount of any modification
21 otherwise required under this subsection shall, under
22 regulations prescribed by the Department, be adjusted by
23 any amounts included therein which were properly paid,
24 credited, or required to be distributed, or permanently set
25 aside for charitable purposes pursuant to Internal Revenue
26 Code Section 642(c) during the taxable year.

27 (d) Partnerships.

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

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

1 (A) An amount equal to all amounts paid or accrued
2 to the taxpayer as interest or dividends during the
3 taxable year to the extent excluded from gross income
4 in the computation of taxable income;

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

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

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

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

21 (D-6) If the taxpayer reports a capital gain or
22 loss on the taxpayer's federal income tax return for
23 the taxable year based on a sale or transfer of
24 property for which the taxpayer was required in any
25 taxable year to make an addition modification under
26 subparagraph (D-5), then an amount equal to the
27 aggregate amount of the deductions taken in all taxable
28 years under subparagraph (O) with respect to that
29 property.

30 The taxpayer is required to make the addition
31 modification under this subparagraph only once with
32 respect to any one piece of property;

33 (D-7) For taxable years ending on or after December
34 31, 2004, an amount equal to the amount otherwise

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

18 This paragraph shall not apply to the following:

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

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

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

34 (b) the transaction giving rise to the

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

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

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

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

30 (D-8) For taxable years ending on or after December
31 31, 2004, an amount equal to the amount of intangible
32 expenses and costs otherwise allowed as a deduction in
33 computing base income, and that were paid, accrued, or
34 incurred, directly or indirectly, to a foreign person

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

34 This paragraph shall not apply to the following:

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

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

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

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

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

33 Nothing in this subsection shall preclude the
34 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 following
9 amounts:

10 (E) The valuation limitation amount;

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

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

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

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

1 exempt from federal income tax by reason of Section
2 501(a) of the Internal Revenue Code;

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

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

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

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

1 (D-5), then an amount equal to that addition
2 modification.

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

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

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

34 (S) An amount equal to the income from intangible

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

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

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

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

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

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

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

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

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

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

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

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

34 (H) Partnerships. In the case of a partnership,

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

7 (3) Recapture of business expenses on disposition of
8 asset or business. Notwithstanding any other law to the
9 contrary, if in prior years income from an asset or
10 business has been classified as business income and in a
11 later year is demonstrated to be non-business income, then
12 all expenses, without limitation, deducted in such later
13 year and in the 2 immediately preceding taxable years
14 related to that asset or business that generated the
15 non-business income shall be added back and recaptured as
16 business income in the year of the disposition of the asset
17 or business. Such amount shall be apportioned to Illinois
18 using the greater of the apportionment fraction computed
19 for the business under Section 304 of this Act for the
20 taxable year or the average of the apportionment fractions
21 computed for the business under Section 304 of this Act for
22 the taxable year and for the 2 immediately preceding
23 taxable years.

24 (f) Valuation limitation amount.

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

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

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

1 capital gain) for all property in respect of which such
2 gain was reported for federal income tax purposes for
3 the taxable year, or (ii) the net capital gain for the
4 taxable year, reduced in either case by any amount of
5 such gain included in the amount determined under
6 subsection (a) (2) (F) or (c) (2) (H).

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

8 (A) If the fair market value of property referred
9 to in paragraph (1) was readily ascertainable on August
10 1, 1969, the pre-August 1, 1969 appreciation amount for
11 such property is the lesser of (i) the excess of such
12 fair market value over the taxpayer's basis (for
13 determining gain) for such property on that date
14 (determined under the Internal Revenue Code as in
15 effect on that date), or (ii) the total gain realized
16 and reportable for federal income tax purposes in
17 respect of the sale, exchange or other disposition of
18 such property.

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

30 (C) The Department shall prescribe such
31 regulations as may be necessary to carry out the
32 purposes of this paragraph.

33 (g) Double deductions. Unless specifically provided

1 otherwise, nothing in this Section shall permit the same item
2 to be deducted more than once.

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

12 (Source: P.A. 92-16, eff. 6-28-01; 92-244, eff. 8-3-01; 92-439,
13 eff. 8-17-01; 92-603, eff. 6-28-02; 92-626, eff. 7-11-02;
14 92-651, eff. 7-11-02; 92-846, eff. 8-23-02; 93-812, eff.
15 7-26-04; 93-840, eff. 7-30-04; revised 10-12-04.)

16 Section 99. Effective date. This Act takes effect upon
17 becoming law."