



95TH GENERAL ASSEMBLY

State of Illinois

2007 and 2008

HB0504

Introduced 02/01/07, by Rep. Ronald A. Wait

SYNOPSIS AS INTRODUCED:

35 ILCS 5/203

from Ch. 120, par. 2-203

Amends the Illinois Income Tax Act. Provides that, for taxable years ending on or after December 31, 2007, an individual taxpayer may deduct from adjusted gross income an amount equal to the medical, dental, and other expenses allowed as a deduction under Section 213 of the Internal Revenue Code to the extent allowed as a deduction from adjusted gross income in computing federal income taxes. Provides that to obtain this subtraction modification the taxpayer must submit to the Department, along with his or her tax return, a copy of the Schedule A form or any successor form completed and submitted for federal income tax purposes. Excepts the deduction from the sunset requirements. Effective immediately.

LRB095 04003 MJR 24036 b

FISCAL NOTE ACT
MAY APPLY

A BILL FOR

1 AN ACT concerning taxes.

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

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

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

7 Sec. 203. Base income defined.

8 (a) Individuals.

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

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

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

23 (B) An amount equal to the amount of tax imposed by

1 this Act to the extent deducted from gross income in
2 the computation of adjusted gross income for the
3 taxable year;

4 (C) An amount equal to the amount received during
5 the taxable year as a recovery or refund of real
6 property taxes paid with respect to the taxpayer's
7 principal residence under the Revenue Act of 1939 and
8 for which a deduction was previously taken under
9 subparagraph (L) of this paragraph (2) prior to July 1,
10 1991, the retrospective application date of Article 4
11 of Public Act 87-17. In the case of multi-unit or
12 multi-use structures and farm dwellings, the taxes on
13 the taxpayer's principal residence shall be that
14 portion of the total taxes for the entire property
15 which is attributable to such principal residence;

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

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

1 20 of the Medical Care Savings Account Act of 2000;

2 (D-10) For taxable years ending after December 31,
3 1997, an amount equal to any eligible remediation costs
4 that the individual deducted in computing adjusted
5 gross income and for which the individual claims a
6 credit under subsection (l) of Section 201;

7 (D-15) For taxable years 2001 and thereafter, an
8 amount equal to the bonus depreciation deduction taken
9 on the taxpayer's federal income tax return for the
10 taxable year under subsection (k) of Section 168 of the
11 Internal Revenue Code;

12 (D-16) If the taxpayer sells, transfers, abandons,
13 or otherwise disposes of property for which the
14 taxpayer was required in any taxable year to make an
15 addition modification under subparagraph (D-15), then
16 an amount equal to the aggregate amount of the
17 deductions taken in all taxable years under
18 subparagraph (Z) with respect to that property.

19 If the taxpayer continues to own property through
20 the last day of the last tax year for which the
21 taxpayer may claim a depreciation deduction for
22 federal income tax purposes and for which the taxpayer
23 was allowed in any taxable year to make a subtraction
24 modification under subparagraph (Z), then an amount
25 equal to that subtraction modification.

26 The taxpayer is required to make the addition

1 modification under this subparagraph only once with
2 respect to any one piece of property;

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

22 This paragraph shall not apply to the following:

23 (i) an item of interest paid, accrued, or
24 incurred, directly or indirectly, to a foreign
25 person who is subject in a foreign country or
26 state, other than a state which requires mandatory

1 unitary reporting, to a tax on or measured by net
2 income with respect to such interest; or

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

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

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

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

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

1 person if the taxpayer establishes by clear and
2 convincing evidence that the adjustments are
3 unreasonable; or if the taxpayer and the Director
4 agree in writing to the application or use of an
5 alternative method of apportionment under Section
6 304(f).

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

16 (D-18) For taxable years ending on or after
17 December 31, 2004, an amount equal to the amount of
18 intangible expenses and costs otherwise allowed as a
19 deduction in computing base income, and that were paid,
20 accrued, or incurred, directly or indirectly, to a
21 foreign person who would be a member of the same
22 unitary business group but for the fact that the
23 foreign person's business activity outside the United
24 States is 80% or more of that person's total business
25 activity. The addition modification required by this
26 subparagraph shall be reduced to the extent that

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

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 (D-20) For taxable years beginning on or after
19 January 1, 2002, in the case of a distribution from a
20 qualified tuition program under Section 529 of the
21 Internal Revenue Code, other than (i) a distribution
22 from a College Savings Pool created under Section 16.5
23 of the State Treasurer Act or (ii) a distribution from
24 the Illinois Prepaid Tuition Trust Fund, an amount
25 equal to the amount excluded from gross income under
26 Section 529(c)(3)(B);

1 and by deducting from the total so obtained the sum of the
2 following amounts:

3 (E) For taxable years ending before December 31,
4 2001, any amount included in such total in respect of
5 any compensation (including but not limited to any
6 compensation paid or accrued to a serviceman while a
7 prisoner of war or missing in action) paid to a
8 resident by reason of being on active duty in the Armed
9 Forces of the United States and in respect of any
10 compensation paid or accrued to a resident who as a
11 governmental employee was a prisoner of war or missing
12 in action, and in respect of any compensation paid to a
13 resident in 1971 or thereafter for annual training
14 performed pursuant to Sections 502 and 503, Title 32,
15 United States Code as a member of the Illinois National
16 Guard. For taxable years ending on or after December
17 31, 2001, any amount included in such total in respect
18 of 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 a member of any component
22 of the Armed Forces of the United States and in respect
23 of any compensation paid or accrued to a resident who
24 as a governmental employee was a prisoner of war or
25 missing in action, and in respect of any compensation
26 paid to a resident in 2001 or thereafter by reason of

1 being a member of the Illinois National Guard. The
2 provisions of this amendatory Act of the 92nd General
3 Assembly are exempt from the provisions of Section 250;

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

15 (G) The valuation limitation amount;

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

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

24 (J) An amount equal to those dividends included in
25 such total which were paid by a corporation which
26 conducts business operations in an Enterprise Zone or

1 zones created under the Illinois Enterprise Zone Act or
2 a River Edge Redevelopment Zone or zones created under
3 the River Edge Redevelopment Zone Act, and conducts
4 substantially all of its operations in an Enterprise
5 Zone or zones or a River Edge Redevelopment Zone or
6 zones. This subparagraph (J) is exempt from the
7 provisions of Section 250;

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

17 (L) For taxable years ending after December 31,
18 1983, an amount equal to all social security benefits
19 and railroad retirement benefits included in such
20 total pursuant to Sections 72(r) and 86 of the Internal
21 Revenue Code;

22 (M) With the exception of any amounts subtracted
23 under subparagraph (N), an amount equal to the sum of
24 all amounts disallowed as deductions by (i) Sections
25 171(a) (2), and 265(2) of the Internal Revenue Code of
26 1954, as now or hereafter amended, and all amounts of

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

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

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

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

26 (Q) An amount equal to any amounts included in such

1 total, received by the taxpayer as an acceleration in
2 the payment of life, endowment or annuity benefits in
3 advance of the time they would otherwise be payable as
4 an indemnity for a terminal illness;

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

7 (S) An amount, to the extent included in adjusted
8 gross income, equal to the amount of a contribution
9 made in the taxable year on behalf of the taxpayer to a
10 medical care savings account established under the
11 Medical Care Savings Account Act or the Medical Care
12 Savings Account Act of 2000 to the extent the
13 contribution is accepted by the account administrator
14 as provided in that Act;

15 (T) An amount, to the extent included in adjusted
16 gross income, equal to the amount of interest earned in
17 the taxable year on a medical care savings account
18 established under the Medical Care Savings Account Act
19 or the Medical Care Savings Account Act of 2000 on
20 behalf of the taxpayer, other than interest added
21 pursuant to item (D-5) of this paragraph (2);

22 (U) For one taxable year beginning on or after
23 January 1, 1994, an amount equal to the total amount of
24 tax imposed and paid under subsections (a) and (b) of
25 Section 201 of this Act on grant amounts received by
26 the taxpayer under the Nursing Home Grant Assistance

1 Act during the taxpayer's taxable years 1992 and 1993;

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

1 213 of the Internal Revenue Code of 1986 not actually
2 deducted on the taxpayer's federal income tax return;

3 (W) For taxable years beginning on or after January
4 1, 1998, all amounts included in the taxpayer's federal
5 gross income in the taxable year from amounts converted
6 from a regular IRA to a Roth IRA. This paragraph is
7 exempt from the provisions of Section 250;

8 (X) For taxable year 1999 and thereafter, an amount
9 equal to the amount of any (i) distributions, to the
10 extent includible in gross income for federal income
11 tax purposes, made to the taxpayer because of his or
12 her status as a victim of persecution for racial or
13 religious reasons by Nazi Germany or any other Axis
14 regime or as an heir of the victim and (ii) items of
15 income, to the extent includible in gross income for
16 federal income tax purposes, attributable to, derived
17 from or in any way related to assets stolen from,
18 hidden from, or otherwise lost to a victim of
19 persecution for racial or religious reasons by Nazi
20 Germany or any other Axis regime immediately prior to,
21 during, and immediately after World War II, including,
22 but not limited to, interest on the proceeds receivable
23 as insurance under policies issued to a victim of
24 persecution for racial or religious reasons by Nazi
25 Germany or any other Axis regime by European insurance
26 companies immediately prior to and during World War II;

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

15 (Y) For taxable years beginning on or after January
16 1, 2002 and ending on or before December 31, 2004,
17 moneys contributed in the taxable year to a College
18 Savings Pool account under Section 16.5 of the State
19 Treasurer Act, except that amounts excluded from gross
20 income under Section 529(c)(3)(C)(i) of the Internal
21 Revenue Code shall not be considered moneys
22 contributed under this subparagraph (Y). For taxable
23 years beginning on or after January 1, 2005, a maximum
24 of \$10,000 contributed in the taxable year to (i) a
25 College Savings Pool account under Section 16.5 of the
26 State Treasurer Act or (ii) the Illinois Prepaid

1 Tuition Trust Fund, except that amounts excluded from
2 gross income under Section 529(c)(3)(C)(i) of the
3 Internal Revenue Code shall not be considered moneys
4 contributed under this subparagraph (Y). This
5 subparagraph (Y) is exempt from the provisions of
6 Section 250;

7 (Z) For taxable years 2001 and thereafter, for the
8 taxable year in which the bonus depreciation deduction
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 was
17 taken in any year under subsection (k) of Section
18 168 of the Internal Revenue Code, but not including
19 the bonus depreciation deduction;

20 (2) for taxable years ending on or before
21 December 31, 2005, "x" equals "y" multiplied by 30
22 and then divided by 70 (or "y" multiplied by
23 0.429); and

24 (3) for taxable years ending after December
25 31, 2005:

26 (i) for property on which a bonus

1 depreciation deduction of 30% of the adjusted
2 basis was taken, "x" equals "y" multiplied by
3 30 and then divided by 70 (or "y" multiplied by
4 0.429); and

5 (ii) for property on which a bonus
6 depreciation deduction of 50% of the adjusted
7 basis was taken, "x" equals "y" multiplied by
8 1.0.

9 The aggregate amount deducted under this
10 subparagraph in all taxable years for any one piece of
11 property may not exceed the amount of the bonus
12 depreciation deduction taken on that property on the
13 taxpayer's federal income tax return under subsection
14 (k) of Section 168 of the Internal Revenue Code. This
15 subparagraph (Z) is exempt from the provisions of
16 Section 250;

17 (AA) If the taxpayer sells, transfers, abandons,
18 or otherwise disposes of property for which the
19 taxpayer was required in any taxable year to make an
20 addition modification under subparagraph (D-15), then
21 an amount equal to that addition modification.

22 If the taxpayer continues to own property through
23 the last day of the last tax year for which the
24 taxpayer may claim a depreciation deduction for
25 federal income tax purposes and for which the taxpayer
26 was required in any taxable year to make an addition

1 modification under subparagraph (D-15), then an amount
2 equal to that addition 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 This subparagraph (AA) is exempt from the
7 provisions of Section 250;

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

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

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

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

26 (FF) For taxable years ending on or after December

1 31, 2007, an amount equal to the medical, dental, and
2 other expenses allowed as a deduction under Section 213
3 of the Internal Revenue Code to the extent allowed as a
4 deduction from adjusted gross income in computing
5 federal income taxes. To obtain this subtraction
6 modification, the taxpayer must submit to the
7 Department, along with his or her tax return, a copy of
8 the Schedule A form or any successor form completed and
9 submitted for federal income tax purposes. This
10 paragraph is exempt from the provisions of Section 250.

11 (b) Corporations.

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

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

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

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

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

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

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

25 (i) the addition modification relating to the
26 net operating loss carried back or forward to the

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

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

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

19 (E-5) For taxable years ending after December 31,
20 1997, an amount equal to any eligible remediation costs
21 that the corporation deducted in computing adjusted
22 gross income and for which the corporation claims a
23 credit under subsection (1) of Section 201;

24 (E-10) For taxable years 2001 and thereafter, an
25 amount equal to the bonus depreciation deduction taken
26 on the taxpayer's federal income tax return for the

1 taxable year under subsection (k) of Section 168 of the
2 Internal Revenue Code; and

3 (E-11) If the taxpayer sells, transfers, abandons,
4 or otherwise disposes of property for which the
5 taxpayer was required in any taxable year to make an
6 addition modification under subparagraph (E-10), then
7 an amount equal to the aggregate amount of the
8 deductions taken in all taxable years under
9 subparagraph (T) with respect to that property.

10 If the taxpayer continues to own property through
11 the last day of the last tax year for which the
12 taxpayer may claim a depreciation deduction for
13 federal income tax purposes and for which the taxpayer
14 was allowed in any taxable year to make a subtraction
15 modification under subparagraph (T), then an amount
16 equal to that subtraction modification.

17 The taxpayer is required to make the addition
18 modification under this subparagraph only once with
19 respect to any one piece of property;

20 (E-12) For taxable years ending on or after
21 December 31, 2004, an amount equal to the amount
22 otherwise allowed as a deduction in computing base
23 income for interest paid, accrued, or incurred,
24 directly or indirectly, to a foreign person who would
25 be a member of the same unitary business group but for
26 the fact the foreign person's business activity

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

14 This paragraph shall not apply to the following:

15 (i) an item of interest paid, accrued, or
16 incurred, directly or indirectly, to 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 interest; or

21 (ii) an item of interest paid, accrued, or
22 incurred, directly or indirectly, to a foreign
23 person if the taxpayer can establish, based on a
24 preponderance of the evidence, both of the
25 following:

26 (a) the foreign person, during the same

1 taxable year, paid, accrued, or incurred, the
2 interest to a person that is not a related
3 member, and

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

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

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

25 Nothing in this subsection shall preclude the
26 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 (E-13) For taxable years ending on or after
9 December 31, 2004, an amount equal to the amount of
10 intangible expenses and costs otherwise allowed as a
11 deduction in computing base income, and that were paid,
12 accrued, or incurred, directly or indirectly, to a
13 foreign person who would be a member of the same
14 unitary business group but for the fact that the
15 foreign person's business activity outside the United
16 States is 80% or more of that person's total business
17 activity. The addition modification required by this
18 subparagraph shall be reduced to the extent that
19 dividends were included in base income of the unitary
20 group for the same taxable year and received by the
21 taxpayer or by a member of the taxpayer's unitary
22 business group (including amounts included in gross
23 income pursuant to Sections 951 through 964 of the
24 Internal Revenue Code and amounts included in gross
25 income under Section 78 of the Internal Revenue Code)
26 with respect to the stock of the same person to whom

1 the intangible expenses and costs were directly or
2 indirectly paid, incurred, or accrued. The preceding
3 sentence shall not apply to the extent that the same
4 dividends caused a reduction to the addition
5 modification required under Section 203(b)(2)(E-12) of
6 this Act. As used in this subparagraph, the term
7 "intangible expenses and costs" includes (1) expenses,
8 losses, and costs for, or related to, the direct or
9 indirect acquisition, use, maintenance or management,
10 ownership, sale, exchange, or any other disposition of
11 intangible property; (2) losses incurred, directly or
12 indirectly, from factoring transactions or discounting
13 transactions; (3) royalty, patent, technical, and
14 copyright fees; (4) licensing fees; and (5) other
15 similar expenses and costs. For purposes of this
16 subparagraph, "intangible property" includes patents,
17 patent applications, trade names, trademarks, service
18 marks, copyrights, mask works, trade secrets, and
19 similar types of intangible assets.

20 This paragraph shall not apply to the following:

21 (i) any item of intangible expenses or costs
22 paid, accrued, or incurred, directly or
23 indirectly, from a transaction with a foreign
24 person who is subject in a foreign country or
25 state, other than a state which requires mandatory
26 unitary reporting, to a tax on or measured by net

1 income with respect to such item; or

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

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

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

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

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

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

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

17 (H) In the case of a regulated investment company,
18 an amount equal to the amount of exempt interest
19 dividends as defined in subsection (b) (5) of Section
20 852 of the Internal Revenue Code, paid to shareholders
21 for the taxable year;

22 (I) With the exception of any amounts subtracted
23 under subparagraph (J), an amount equal to the sum of
24 all amounts disallowed as deductions by (i) Sections
25 171(a) (2), and 265(a) (2) and amounts disallowed as
26 interest expense by Section 291(a) (3) of the Internal

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

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

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

1 zones. This subparagraph (K) is exempt from the
2 provisions of Section 250;

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

12 (M) For any taxpayer that is a financial
13 organization within the meaning of Section 304(c) of
14 this Act, an amount included in such total as interest
15 income from a loan or loans made by such taxpayer to a
16 borrower, to the extent that such a loan is secured by
17 property which is eligible for the Enterprise Zone
18 Investment Credit or the River Edge Redevelopment Zone
19 Investment Credit. To determine the portion of a loan
20 or loans that is secured by property eligible for a
21 Section 201(f) investment credit to the borrower, the
22 entire principal amount of the loan or loans between
23 the taxpayer and the borrower should be divided into
24 the basis of the Section 201(f) investment credit
25 property which secures the loan or loans, using for
26 this purpose the original basis of such property on the

1 date that it was placed in service in the Enterprise
2 Zone or the River Edge Redevelopment Zone. The
3 subtraction modification available to taxpayer in any
4 year under this subsection shall be that portion of the
5 total interest paid by the borrower with respect to
6 such loan attributable to the eligible property as
7 calculated under the previous sentence. This
8 subparagraph (M) is exempt from the provisions of
9 Section 250;

10 (M-1) For any taxpayer that is a financial
11 organization within the meaning of Section 304(c) of
12 this Act, an amount included in such total as interest
13 income from a loan or loans made by such taxpayer to a
14 borrower, to the extent that such a loan is secured by
15 property which is eligible for the High Impact Business
16 Investment Credit. To determine the portion of a loan
17 or loans that is secured by property eligible for a
18 Section 201(h) investment credit to the borrower, the
19 entire principal amount of the loan or loans between
20 the taxpayer and the borrower should be divided into
21 the basis of the Section 201(h) investment credit
22 property which secures the loan or loans, using for
23 this purpose the original basis of such property on the
24 date that it was placed in service in a federally
25 designated Foreign Trade Zone or Sub-Zone located in
26 Illinois. No taxpayer that is eligible for the

1 deduction provided in subparagraph (M) of paragraph
2 (2) of this subsection shall be eligible for the
3 deduction provided under this subparagraph (M-1). The
4 subtraction modification available to taxpayers in any
5 year under this subsection shall be that portion of the
6 total interest paid by the borrower with respect to
7 such loan attributable to the eligible property as
8 calculated under the previous sentence;

9 (N) Two times any contribution made during the
10 taxable year to a designated zone organization to the
11 extent that the contribution (i) qualifies as a
12 charitable contribution under subsection (c) of
13 Section 170 of the Internal Revenue Code and (ii) must,
14 by its terms, be used for a project approved by the
15 Department of Commerce and Economic Opportunity under
16 Section 11 of the Illinois Enterprise Zone Act or under
17 Section 10-10 of the ~~Illinois~~ River Edge Redevelopment
18 Zone Act. This subparagraph (N) is exempt from the
19 provisions of Section 250;

20 (O) An amount equal to: (i) 85% for taxable years
21 ending on or before December 31, 1992, or, a percentage
22 equal to the percentage allowable under Section
23 243(a)(1) of the Internal Revenue Code of 1986 for
24 taxable years ending after December 31, 1992, of the
25 amount by which dividends included in taxable income
26 and received from a corporation that is not created or

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

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

25 (Q) An amount equal to the amount of the deduction
26 used to compute the federal income tax credit for

1 restoration of substantial amounts held under claim of
2 right for the taxable year pursuant to Section 1341 of
3 the Internal Revenue Code of 1986;

4 (R) On and after July 20, 1999, in the case of an
5 attorney-in-fact with respect to whom an interinsurer
6 or a reciprocal insurer has made the election under
7 Section 835 of the Internal Revenue Code, 26 U.S.C.
8 835, an amount equal to the excess, if any, of the
9 amounts paid or incurred by that interinsurer or
10 reciprocal insurer in the taxable year to the
11 attorney-in-fact over the deduction allowed to that
12 interinsurer or reciprocal insurer with respect to the
13 attorney-in-fact under Section 835(b) of the Internal
14 Revenue Code for the taxable year; the provisions of
15 this subparagraph are exempt from the provisions of
16 Section 250;

17 (S) For taxable years ending on or after December
18 31, 1997, in the case of a Subchapter S corporation, an
19 amount equal to all amounts of income allocable to a
20 shareholder subject to the Personal Property Tax
21 Replacement Income Tax imposed by subsections (c) and
22 (d) of Section 201 of this Act, including amounts
23 allocable to organizations exempt from federal income
24 tax by reason of Section 501(a) of the Internal Revenue
25 Code. This subparagraph (S) is exempt from the
26 provisions of Section 250;

1 (T) For taxable years 2001 and thereafter, for the
2 taxable year in which the bonus depreciation deduction
3 is taken on the taxpayer's federal income tax return
4 under subsection (k) of Section 168 of the Internal
5 Revenue Code and for each applicable taxable year
6 thereafter, an amount equal to "x", where:

7 (1) "y" equals the amount of the depreciation
8 deduction taken for the taxable year on the
9 taxpayer's federal income tax return on property
10 for which the bonus depreciation deduction was
11 taken in any year under subsection (k) of Section
12 168 of the Internal Revenue Code, but not including
13 the bonus depreciation deduction;

14 (2) for taxable years ending on or before
15 December 31, 2005, "x" equals "y" multiplied by 30
16 and then divided by 70 (or "y" multiplied by
17 0.429); and

18 (3) for taxable years ending after December
19 31, 2005:

20 (i) for property on which a bonus
21 depreciation deduction of 30% of the adjusted
22 basis was taken, "x" equals "y" multiplied by
23 30 and then divided by 70 (or "y" multiplied by
24 0.429); and

25 (ii) for property on which a bonus
26 depreciation deduction of 50% of the adjusted

1 basis was taken, "x" equals "y" multiplied by
2 1.0.

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 taken on that property on the
7 taxpayer's federal income tax return under subsection
8 (k) of Section 168 of the Internal Revenue Code. This
9 subparagraph (T) is exempt from the provisions of
10 Section 250;

11 (U) If the taxpayer sells, transfers, abandons, or
12 otherwise disposes of property for which the taxpayer
13 was required in any taxable year to make an addition
14 modification under subparagraph (E-10), then an amount
15 equal to that addition modification.

16 If the taxpayer continues to own property through
17 the last day of the last tax year for which the
18 taxpayer may claim a depreciation deduction for
19 federal income tax purposes and for which the taxpayer
20 was required in any taxable year to make an addition
21 modification under subparagraph (E-10), then an amount
22 equal to that addition modification.

23 The taxpayer is allowed to take the deduction under
24 this subparagraph only once with respect to any one
25 piece of property.

26 This subparagraph (U) is exempt from the

1 provisions of Section 250;

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

18 (W) An amount equal to the interest income taken
19 into account for the taxable year (net of the
20 deductions allocable thereto) with respect to
21 transactions with a foreign person who would be a
22 member of the taxpayer's unitary business group but for
23 the fact that the foreign person's business activity
24 outside the United States is 80% or more of that
25 person's total business activity, but not to exceed the
26 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

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

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

8 (B) In the case of (i) an estate, \$600; (ii) a
9 trust which, under its governing instrument, is
10 required to distribute all of its income currently,
11 \$300; and (iii) any other trust, \$100, but in each such
12 case, only to the extent such amount was deducted in
13 the computation of taxable income;

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

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

21 (E) For taxable years in which a net operating loss
22 carryback or carryforward from a taxable year ending
23 prior to December 31, 1986 is an element of taxable
24 income under paragraph (1) of subsection (e) or
25 subparagraph (E) of paragraph (2) of subsection (e),
26 the amount by which addition modifications other than

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

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

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

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

25 (F) For taxable years ending on or after January 1,
26 1989, an amount equal to the tax deducted pursuant to

1 Section 164 of the Internal Revenue Code if the trust
2 or estate is claiming the same tax for purposes of the
3 Illinois foreign tax credit under Section 601 of this
4 Act;

5 (G) An amount equal to the amount of the capital
6 gain deduction allowable under the Internal Revenue
7 Code, to the extent deducted from gross income in the
8 computation of taxable income;

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

14 (G-10) For taxable years 2001 and thereafter, an
15 amount equal to the bonus depreciation deduction taken
16 on the taxpayer's federal income tax return for the
17 taxable year under subsection (k) of Section 168 of the
18 Internal Revenue Code; and

19 (G-11) If the taxpayer sells, transfers, abandons,
20 or otherwise disposes of property for which the
21 taxpayer was required in any taxable year to make an
22 addition modification under subparagraph (G-10), then
23 an amount equal to the aggregate amount of the
24 deductions taken in all taxable years under
25 subparagraph (R) with respect to that property.

26 If the taxpayer continues to own property through

1 the last day of the last tax year for which the
2 taxpayer may claim a depreciation deduction for
3 federal income tax purposes and for which the taxpayer
4 was allowed in any taxable year to make a subtraction
5 modification under subparagraph (R), then an amount
6 equal to that subtraction modification.

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

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

1 Internal Revenue Code) with respect to the stock of the
2 same person to whom the interest was paid, accrued, or
3 incurred.

4 This paragraph shall not apply to the following:

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

11 (ii) an item of interest paid, accrued, or
12 incurred, directly or indirectly, to a foreign
13 person if the taxpayer can establish, based on a
14 preponderance of the evidence, both of the
15 following:

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

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

1 (iii) the taxpayer can establish, based on
2 clear and convincing evidence, that the interest
3 paid, accrued, or incurred relates to a contract or
4 agreement entered into at arm's-length rates and
5 terms and the principal purpose for the payment is
6 not federal or Illinois tax avoidance; or

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

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

24 (G-13) For taxable years ending on or after
25 December 31, 2004, an amount equal to the amount of
26 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 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 intangible expenses and costs were directly or
18 indirectly paid, incurred, or accrued. The preceding
19 sentence shall not apply to the extent that the same
20 dividends caused a reduction to the addition
21 modification required under Section 203(c)(2)(G-12) of
22 this Act. As used in this subparagraph, the term
23 "intangible expenses and costs" includes: (1)
24 expenses, losses, and costs for or related to the
25 direct or indirect acquisition, use, maintenance or
26 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

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

8 (iii) any item of intangible expense or cost
9 paid, accrued, or incurred, directly or
10 indirectly, from a transaction with a foreign
11 person if the taxpayer establishes by clear and
12 convincing evidence, that the adjustments are
13 unreasonable; or if the taxpayer and the Director
14 agree in writing to the application or use of an
15 alternative method of apportionment under Section
16 304(f);

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

26 and by deducting from the total so obtained the sum of the

1 following amounts:

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

13 (I) The valuation limitation amount;

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

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

1 amortization;

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

15 (M) An amount equal to those dividends included in
16 such total which were paid by a corporation which
17 conducts business operations in an Enterprise Zone or
18 zones created under the Illinois Enterprise Zone Act or
19 a River Edge Redevelopment Zone or zones created under
20 the River Edge Redevelopment Zone Act and conducts
21 substantially all of its operations in an Enterprise
22 Zone or Zones or a River Edge Redevelopment Zone or
23 zones. This subparagraph (M) is exempt from the
24 provisions of Section 250;

25 (N) An amount equal to any contribution made to a
26 job training project established pursuant to the Tax

1 Increment Allocation Redevelopment Act;

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

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

16 (Q) For taxable year 1999 and thereafter, an amount
17 equal to the amount of any (i) distributions, to the
18 extent includible in gross income for federal income
19 tax purposes, made to the taxpayer because of his or
20 her status as a victim of persecution for racial or
21 religious reasons by Nazi Germany or any other Axis
22 regime or as an heir of the victim and (ii) items of
23 income, to the extent includible in gross income for
24 federal income tax purposes, attributable to, derived
25 from or in any way related to assets stolen from,
26 hidden from, or otherwise lost to a victim of

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

23 (R) For taxable years 2001 and thereafter, for the
24 taxable year in which the bonus depreciation deduction
25 is taken on the taxpayer's federal income tax return
26 under subsection (k) of Section 168 of the Internal

1 Revenue Code and for each applicable taxable year
2 thereafter, an amount equal to "x", where:

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

10 (2) for taxable years ending on or before
11 December 31, 2005, "x" equals "y" multiplied by 30
12 and then divided by 70 (or "y" multiplied by
13 0.429); and

14 (3) for taxable years ending after December
15 31, 2005:

16 (i) for property on which a bonus
17 depreciation deduction of 30% of the adjusted
18 basis was taken, "x" equals "y" multiplied by
19 30 and then divided by 70 (or "y" multiplied by
20 0.429); and

21 (ii) for property on which a bonus
22 depreciation deduction of 50% of the adjusted
23 basis was taken, "x" equals "y" multiplied by
24 1.0.

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

1 property may not exceed the amount of the bonus
2 depreciation deduction taken on that property on the
3 taxpayer's federal income tax return under subsection
4 (k) of Section 168 of the Internal Revenue Code. This
5 subparagraph (R) is exempt from the provisions of
6 Section 250;

7 (S) If the taxpayer sells, transfers, abandons, or
8 otherwise disposes of property for which the taxpayer
9 was required in any taxable year to make an addition
10 modification under subparagraph (G-10), then an amount
11 equal to that addition modification.

12 If the taxpayer continues to own property through
13 the last day of the last tax year for which the
14 taxpayer may claim a depreciation deduction for
15 federal income tax purposes and for which the taxpayer
16 was required in any taxable year to make an addition
17 modification under subparagraph (G-10), then an amount
18 equal to that addition modification.

19 The taxpayer is allowed to take the deduction under
20 this subparagraph only once with respect to any one
21 piece of property.

22 This subparagraph (S) is exempt from the
23 provisions of Section 250;

24 (T) The amount of (i) any interest income (net of
25 the deductions allocable thereto) taken into account
26 for the taxable year with respect to a transaction with

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

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

26 (V) 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(c)(2)(G-13) for
10 intangible expenses and costs paid, accrued, or
11 incurred, directly or indirectly, to the same foreign
12 person.

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

20 (d) Partnerships.

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

24 (2) Modifications. The taxable income referred to in
25 paragraph (1) shall be modified by adding thereto the sum

1 of the following amounts:

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

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

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

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

16 (D-5) For taxable years 2001 and thereafter, an
17 amount equal to the bonus depreciation deduction 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 sells, transfers, abandons,
22 or otherwise disposes of property for which the
23 taxpayer was required in any taxable year to make an
24 addition modification under subparagraph (D-5), then
25 an amount equal to the aggregate amount of the
26 deductions taken in all taxable years under

1 subparagraph (O) with respect to that property.

2 If the taxpayer continues to own property through
3 the last day of the last tax year for which the
4 taxpayer may claim a depreciation deduction for
5 federal income tax purposes and for which the taxpayer
6 was allowed in any taxable year to make a subtraction
7 modification under subparagraph (O), then an amount
8 equal to that subtraction modification.

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

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

1 Internal Revenue Code and amounts included in gross
2 income under Section 78 of the Internal Revenue Code)
3 with respect to the stock of the same person to whom
4 the interest was paid, accrued, or incurred.

5 This paragraph shall not apply to the following:

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

12 (ii) an item of interest paid, accrued, or
13 incurred, directly or indirectly, to a foreign
14 person if the taxpayer can establish, based on a
15 preponderance of the evidence, both of the
16 following:

17 (a) the foreign person, during the same
18 taxable year, paid, accrued, or incurred, the
19 interest to a person that is not a related
20 member, and

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

1 and terms; or

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

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

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

25 (D-8) For taxable years ending on or after December
26 31, 2004, an amount equal to the amount of intangible

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

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

11 This paragraph shall not apply to the following:

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

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

24 (a) the foreign person during the same
25 taxable year paid, accrued, or incurred, the
26 intangible expense or cost to a person that is

1 not a related member, and

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

9 (iii) any item of intangible expense or cost
10 paid, accrued, or incurred, directly or
11 indirectly, from a transaction with a foreign
12 person if the taxpayer establishes by clear and
13 convincing evidence, that the adjustments are
14 unreasonable; or if the taxpayer and the Director
15 agree in writing to the application or use of an
16 alternative method of apportionment under Section
17 304(f);

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

1 and by deducting from the total so obtained the following
2 amounts:

3 (E) The valuation limitation amount;

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

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

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

23 (I) An amount equal to all amounts of income
24 distributable to an entity subject to the Personal
25 Property Tax Replacement Income Tax imposed by
26 subsections (c) and (d) of Section 201 of this Act

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

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

17 (K) An amount equal to those dividends included in
18 such total which were paid by a corporation which
19 conducts business operations in an Enterprise Zone or
20 zones created under the Illinois Enterprise Zone Act,
21 enacted by the 82nd General Assembly, or a River Edge
22 Redevelopment Zone or zones created under the River
23 Edge Redevelopment Zone Act and conducts substantially
24 all of its operations in an Enterprise Zone or Zones or
25 from a River Edge Redevelopment Zone or zones. This
26 subparagraph (K) is exempt from the provisions of

1 Section 250;

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

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

14 (N) An amount equal to the amount of the deduction
15 used to compute the federal income tax credit for
16 restoration of substantial amounts held under claim of
17 right for the taxable year pursuant to Section 1341 of
18 the Internal Revenue Code of 1986;

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

25 (1) "y" equals the amount of the depreciation
26 deduction taken for the taxable year on the

1 taxpayer's federal income tax return on property
2 for which the bonus depreciation deduction was
3 taken in any year under subsection (k) of Section
4 168 of the Internal Revenue Code, but not including
5 the bonus depreciation deduction;

6 (2) for taxable years ending on or before
7 December 31, 2005, "x" equals "y" multiplied by 30
8 and then divided by 70 (or "y" multiplied by
9 0.429); and

10 (3) for taxable years ending after December
11 31, 2005:

12 (i) for property on which a bonus
13 depreciation deduction of 30% of the adjusted
14 basis was taken, "x" equals "y" multiplied by
15 30 and then divided by 70 (or "y" multiplied by
16 0.429); and

17 (ii) for property on which a bonus
18 depreciation deduction of 50% of the adjusted
19 basis was taken, "x" equals "y" multiplied by
20 1.0.

21 The aggregate amount deducted under this
22 subparagraph in all taxable years for any one piece of
23 property may not exceed the amount of the bonus
24 depreciation deduction taken on that property on the
25 taxpayer's federal income tax return under subsection
26 (k) of Section 168 of the Internal Revenue Code. This

1 subparagraph (O) is exempt from the provisions of
2 Section 250;

3 (P) If the taxpayer sells, transfers, abandons, or
4 otherwise disposes of property for which the taxpayer
5 was required in any taxable year to make an addition
6 modification under subparagraph (D-5), then an amount
7 equal to that addition modification.

8 If the taxpayer continues to own property through
9 the last day of the last tax year for which the
10 taxpayer may claim a depreciation deduction for
11 federal income tax purposes and for which the taxpayer
12 was required in any taxable year to make an addition
13 modification under subparagraph (D-5), then an amount
14 equal to that addition modification.

15 The taxpayer is allowed to take the deduction under
16 this subparagraph only once with respect to any one
17 piece of property.

18 This subparagraph (P) is exempt from the
19 provisions of Section 250;

20 (Q) The amount of (i) any interest income (net of
21 the deductions allocable thereto) taken into account
22 for the taxable year with respect to a transaction with
23 a taxpayer that is required to make an addition
24 modification with respect to such transaction under
25 Section 203(a)(2)(D-17), 203(b)(2)(E-12),
26 203(c)(2)(G-12), or 203(d)(2)(D-7), but not to exceed

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

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

22 (S) An amount equal to the income from intangible
23 property taken into account for the taxable year (net
24 of the 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

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

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

10 (1) In general. Subject to the provisions of paragraph
11 (2) and subsection (b) (3), for purposes of this Section
12 and Section 803(e), a taxpayer's gross income, adjusted
13 gross income, or taxable income for the taxable year shall
14 mean the amount of gross income, adjusted gross income or
15 taxable income properly reportable for federal income tax
16 purposes for the taxable year under the provisions of the
17 Internal Revenue Code. Taxable income may be less than
18 zero. However, for taxable years ending on or after
19 December 31, 1986, net operating loss carryforwards from
20 taxable years ending prior to December 31, 1986, may not
21 exceed the sum of federal taxable income for the taxable
22 year before net operating loss deduction, plus the excess
23 of addition modifications over subtraction modifications
24 for the taxable year. For taxable years ending prior to
25 December 31, 1986, taxable income may never be an amount in

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

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

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

1 (B) Certain other insurance companies. In the case
2 of mutual insurance companies subject to the tax
3 imposed by Section 831 of the Internal Revenue Code,
4 insurance company taxable income;

5 (C) Regulated investment companies. In the case of
6 a regulated investment company subject to the tax
7 imposed by Section 852 of the Internal Revenue Code,
8 investment company taxable income;

9 (D) Real estate investment trusts. In the case of a
10 real estate investment trust subject to the tax imposed
11 by Section 857 of the Internal Revenue Code, real
12 estate investment trust taxable income;

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

25 (F) Cooperatives. In the case of a cooperative
26 corporation or association, the taxable income of such

1 organization determined in accordance with the
2 provisions of Section 1381 through 1388 of the Internal
3 Revenue Code;

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

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

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

18 (f) Valuation limitation amount.

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

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

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

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

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

21 (B) If the fair market value of property referred
22 to in paragraph (1) was not readily ascertainable on
23 August 1, 1969, the pre-August 1, 1969 appreciation
24 amount for such property is that amount which bears the
25 same ratio to the total gain reported in respect of the
26 property for federal income tax purposes for the

1 taxable year, as the number of full calendar months in
2 that part of the taxpayer's holding period for the
3 property ending July 31, 1969 bears to the number of
4 full calendar months in the taxpayer's entire holding
5 period for the property.

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

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

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

21 (Source: P.A. 93-812, eff. 7-26-04; 93-840, eff. 7-30-04;
22 94-776, eff. 5-19-06; 94-789, eff. 5-19-06; 94-1021, eff.
23 7-12-06; 94-1074, eff. 12-26-06; revised 1-2-07.)

24 Section 99. Effective date. This Act takes effect upon

1 becoming law.