



## 96TH GENERAL ASSEMBLY

### State of Illinois

2009 and 2010

HB4045

Introduced 2/27/2009, by Rep. Patricia R. Bellock

#### SYNOPSIS AS INTRODUCED:

New Act  
35 ILCS 5/203

from Ch. 120, par. 2-203

Creates the Health Savings Account Act and amends the Illinois Income Tax Act. Provides that, beginning in taxable year 2010, a resident of Illinois or an employer may deposit contributions, subject to certain limitations, into a health savings account. Provides that the principal contributed to and the interest earned on a health savings account and money reimbursed to an eligible individual or an employee for qualified medical expenses is exempt from the Illinois income tax. Sets forth restriction on the use of funds held in a health savings account. Provides that an eligible individual may withdraw money from his or her health savings account for any purpose, but provides that certain withdrawals are not tax exempt. Repeals the Health Savings Account Act on January 1, 2021. Effective July 1, 2009.

LRB096 04669 RCE 14730 b

FISCAL NOTE ACT  
MAY APPLY

A BILL FOR

1 AN ACT concerning revenue.

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

4 Section 1. Short title. This Act may be cited as the Health  
5 Savings Account Act.

6 Section 5. Definitions. As used in this Act:

7 (a) "Eligible individual" means an individual, including  
8 employees of an employer who contributes to health savings  
9 accounts on the employees' behalf, who:

10 (1) is covered by a "high deductible health plan"  
11 individually or with dependents; and

12 (2) is not covered under any health plan that is not a  
13 high deductible health plan, except for:

14 (i) coverage for accidents;

15 (ii) workers' compensation insurance;

16 (iii) insurance for a specified disease or  
17 illness;

18 (iv) insurance paying a fixed amount per day per  
19 hospitalization; and

20 (v) tort liabilities; and

21 (3) establishes a health savings account or on whose  
22 behalf the health savings account is established.

23 (b) "Deductible" means the total deductible of a high

1 deductible health plan for an eligible individual and all the  
2 dependents of that eligible individual for a calendar year.

3 (c) "Dependent" means an eligible individual's spouse or  
4 child, as defined in Section 152 of the Internal Revenue Code  
5 of 1986.

6 (d) "Qualified medical expense" means an expense paid by  
7 the eligible individual for medical care described in Section  
8 213(d) of the Internal Revenue Code of 1986.

9 (e) "High deductible" means:

10 (1) In the case of self-only coverage, an annual  
11 deductible that is not less than \$1,000 and that, when  
12 added to the other annual out-of-pocket expenses required  
13 to be paid under the plan for covered benefits, does not  
14 exceed \$5,000; and

15 (2) In the case of family coverage, an annual  
16 deductible of not less than \$2,000 and that, when added to  
17 the other annual out-of-pocket expenses required to be paid  
18 under the plan for covered benefits, does not exceed  
19 \$10,000.

20 A plan shall not fail to be treated as a high deductible  
21 plan by reason of a failure to have a deductible for preventive  
22 care or, in the case of network plans, for having out-of-pocket  
23 expenses that exceed these limits on an annual deductible for  
24 services that are provided outside the network.

25 (f) "Health savings account" or "account" means a trust or  
26 custodial account established under a State program

1 exclusively to pay the qualified medical expenses of an  
2 eligible individual, or his or her dependents, that meets the  
3 all of the following requirements:

4 (1) Except in the case of a rollover contribution, no  
5 contribution may be accepted:

6 (A) unless it is in cash; or

7 (B) to the extent that the contribution, when added  
8 to the previous contributions to the Account for the  
9 calendar year, exceeds the lesser of (i) 100% of the  
10 eligible individual's deductible or (ii) \$2,600 for an  
11 individual or \$5,150 per family. Beginning in taxable  
12 year 2009, the amounts set forth in item (ii) of this  
13 subparagraph (B) are subject to annual adjustments  
14 equal to the percentage of increase in the previous  
15 calendar year in the Consumer Price Index for all Urban  
16 Consumers for all items published by the federal Bureau  
17 of Labor Statistics.

18 (2) The trustee or custodian is a bank, an insurance  
19 company, or another person approved by the Secretary of  
20 Human Services.

21 (3) No part of the trust assets will be invested in  
22 life insurance contracts.

23 (4) The assets of the account will not be commingled  
24 with other property except as allowed for under Individual  
25 Retirement Accounts.

26 (5) Eligible individual's interest in the account is

1 nonforfeitable.

2 (g) "Health Savings Account program" or "program" means a  
3 program that includes all of the following:

4 (1) The purchase by an eligible individual or by an  
5 employer of a high deductible health plan.

6 (2) The contribution into a health savings account by  
7 an eligible individual or on behalf of an employee or by  
8 his or her employer. The total annual contribution may not  
9 exceed the amount of the deductible or the amounts listed  
10 in item (1)(B) of subsection (f) of this Section.

11 (h) "High Deductible Health Plan" means a health coverage  
12 policy, certificate, or contract that provides for payments for  
13 covered benefits that exceed the high deductible.

14 Section 10. Application; authorized contributions; tax  
15 exemption.

16 (a) This Act applies regardless of whether the taxpayer  
17 receives preferred federal tax treatment for a health savings  
18 account under Section 223 of the Internal Revenue Code of 1986.

19 (b) Beginning in taxable year 2010, a resident of Illinois  
20 or an employer may deposit contributions into a health savings  
21 account. The amount of deposit for 2010 may not exceed the  
22 lesser of (i) the amount of the deductible or (ii) \$2,600 for  
23 an individual policy and \$5,150 for a family policy.

24 (c) Except as provided in Section 20, the principal  
25 contributed to and the interest earned on a health savings

1 account and money reimbursed to an eligible individual or an  
2 employee for qualified medical expenses is exempt from taxation  
3 under the Illinois Income Tax Act.

4 Section 15. Use of funds.

5 (a) The trustee or custodian must use the funds held in a  
6 health savings account solely (i) for the purpose of paying the  
7 qualified medical expenses of the eligible individual or his or  
8 her dependents, (ii) to purchase a health coverage policy  
9 certificate, or contract, if the eligible individual is  
10 receiving unemployment compensation, is exercising  
11 continuation privileges under federal law, or is purchasing a  
12 long term care insurance contract, or (iii) to pay for health  
13 insurance other than a Medicare supplemental policy for those  
14 who are Medicare eligible.

15 (b) Funds held in a health savings account may not be used  
16 to cover expenses of the eligible individual or his or her  
17 dependents that are otherwise covered, including but not  
18 limited to, medical expense covered under an automobile  
19 insurance policy, worker's compensation insurance policy or  
20 self-insured plan, or another employer-funded health coverage  
21 policy, certificate, or contract.

22 Section 20. Withdrawals.

23 (a) An eligible individual may withdraw money from his or  
24 her health savings account for any purpose.

1           (b) Except as otherwise provided in this Section, if the  
2 eligible individual withdraws money for any purpose other than  
3 a purpose described in subsection (a) of Section 15, all of the  
4 following apply:

5           (1) the amount of the withdrawal is income for the  
6 purposes of the Illinois Income Tax Act in the tax year of  
7 the withdrawal; and

8           (2) interest earned on the amount withdrawn from the  
9 account during the tax year in which a withdrawal under  
10 this subsection is made is income for the purposes of the  
11 Illinois Income Tax Act.

12           (c) The amount of disbursement of any assets of a health  
13 savings account under a filing for bankruptcy protection under  
14 Title 11 of the United States Code by an eligible individual or  
15 person for whose benefit the account was established is not  
16 considered a withdrawal for purposes of this Section, and the  
17 amount of the disbursement is not subject to taxation under the  
18 Illinois Income Tax Act, and subsection (b) does not apply.

19           (d) The transfer of an eligible individual's interest in a  
20 health savings account to that eligible individual's spouse, or  
21 former spouse under a divorce or separation instrument, is not  
22 considered to be a taxable transfer made by the eligible  
23 individual, and, after the transfer, the interest shall be  
24 treated as a health savings account with the spouse as the  
25 eligible individual. The amount of the transfer is not subject  
26 to taxation under the Illinois Income Tax Act, and subsection

1 (b) does not apply.

2 (e) Upon the death of the eligible individual, the trustee  
3 or custodian must distribute the principle and accumulated  
4 interest of the health savings account to the estate of the  
5 deceased. The amount of the distribution is not subject to  
6 taxation under the Illinois Income Tax Act, and subsection (b)  
7 does not apply.

8 (f) If an employee becomes employed with a different  
9 employer that participates in a health savings account program,  
10 the employee may transfer his or her health savings account to  
11 that new employer's trustee or custodian or to an individually  
12 purchased account program. The amount of the transfer is not  
13 subject to taxation under the Illinois Income Tax Act, and  
14 subsection (b) does not apply.

15 Section 25. Repeal. This Act is repealed on January 1,  
16 2021.

17 Section 990. The Illinois Income Tax Act is amended by  
18 changing Section 203 as follows:

19 (35 ILCS 5/203) (from Ch. 120, par. 2-203)

20 Sec. 203. Base income defined.

21 (a) Individuals.

22 (1) In general. In the case of an individual, base  
23 income means an amount equal to the taxpayer's adjusted



1 gross income for the taxable year as modified by paragraph  
2 (2).

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

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

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

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

1           portion of the total taxes for the entire property  
2           which is attributable to such principal residence;

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

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

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

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

25          (D-16) If the taxpayer sells, transfers, abandons,  
26          or otherwise disposes of property for which the

1 taxpayer was required in any taxable year to make an  
2 addition modification under subparagraph (D-15), then  
3 an amount equal to the aggregate amount of the  
4 deductions taken in all taxable years under  
5 subparagraph (Z) with respect to that property.

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

13 The taxpayer is required to make the addition  
14 modification under this subparagraph only once with  
15 respect to any one piece of property;

16 (D-17) An amount equal to the amount otherwise  
17 allowed as a deduction in computing base income for  
18 interest paid, accrued, or incurred, directly or  
19 indirectly, (i) for taxable years ending on or after  
20 December 31, 2004, to a foreign person who would be a  
21 member of the same unitary business group but for the  
22 fact that foreign person's business activity outside  
23 the United States is 80% or more of the foreign  
24 person's total business activity and (ii) for taxable  
25 years ending on or after December 31, 2008, to a person  
26 who would be a member of the same unitary business

1 group but for the fact that the person is prohibited  
2 under Section 1501(a)(27) from being included in the  
3 unitary business group because he or she is ordinarily  
4 required to apportion business income under different  
5 subsections of Section 304. The addition modification  
6 required by this subparagraph shall be reduced to the  
7 extent that dividends were included in base income of  
8 the unitary group for the same taxable year and  
9 received by the taxpayer or by a member of the  
10 taxpayer's unitary business group (including amounts  
11 included in gross income under Sections 951 through 964  
12 of the Internal Revenue Code and amounts included in  
13 gross income under Section 78 of the Internal Revenue  
14 Code) with respect to the stock of the same person to  
15 whom the interest was paid, accrued, or incurred.

16 This paragraph shall not apply to the following:

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

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

1 following:

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

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

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

18 (iv) an item of interest paid, accrued, or  
19 incurred, directly or indirectly, to a person if  
20 the taxpayer establishes by clear and convincing  
21 evidence that the adjustments are unreasonable; or  
22 if the taxpayer and the Director agree in writing  
23 to the application or use of an alternative method  
24 of apportionment under Section 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 (D-18) An amount equal to the amount of intangible  
9 expenses and costs otherwise allowed as a deduction in  
10 computing base income, and that were paid, accrued, or  
11 incurred, directly or indirectly, (i) for taxable  
12 years ending on or after December 31, 2004, 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 and (ii) for taxable years ending on or after  
18 December 31, 2008, to a person who would be a member of  
19 the same unitary business group but for the fact that  
20 the person is prohibited under Section 1501(a)(27)  
21 from being included in the unitary business group  
22 because he or she is ordinarily required to apportion  
23 business income under different subsections of Section  
24 304. The addition modification required by this  
25 subparagraph shall be reduced to the extent that  
26 dividends were included in base income of the unitary

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

1 This paragraph shall not apply to the following:

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

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

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

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

25 (iii) any item of intangible expense or cost  
26 paid, accrued, or incurred, directly or



1 indirectly, from a transaction with a person if the  
2 taxpayer establishes by clear and convincing  
3 evidence, that the adjustments are unreasonable;  
4 or if the taxpayer and the Director agree in  
5 writing to the application or use of an alternative  
6 method of apportionment under Section 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-19) For taxable years ending on or after  
17 December 31, 2008, an amount equal to the amount of  
18 insurance premium expenses and costs otherwise allowed  
19 as a deduction in computing base income, and that were  
20 paid, accrued, or incurred, directly or indirectly, to  
21 a person who would be a member of the same unitary  
22 business group but for the fact that the person is  
23 prohibited under Section 1501(a)(27) from being  
24 included in the unitary business group because he or  
25 she is ordinarily required to apportion business  
26 income under different subsections of Section 304. The

1 addition modification required by this subparagraph  
2 shall be reduced to the extent that dividends were  
3 included in base income of the unitary group for the  
4 same taxable year and received by the taxpayer or by a  
5 member of the taxpayer's unitary business group  
6 (including amounts included in gross income under  
7 Sections 951 through 964 of the Internal Revenue Code  
8 and amounts included in gross income under Section 78  
9 of the Internal Revenue Code) with respect to the stock  
10 of the same person to whom the premiums and costs were  
11 directly or indirectly paid, incurred, or accrued. The  
12 preceding sentence does not apply to the extent that  
13 the same dividends caused a reduction to the addition  
14 modification required under Section 203(a) (2) (D-17) or  
15 Section 203(a) (2) (D-18) of this Act.

16 (D-20) For taxable years beginning on or after  
17 January 1, 2002 and ending on or before December 31,  
18 2006, in the case of a distribution from a qualified  
19 tuition program under Section 529 of the Internal  
20 Revenue Code, other than (i) a distribution from a  
21 College Savings Pool created under Section 16.5 of the  
22 State Treasurer Act or (ii) a distribution from the  
23 Illinois Prepaid Tuition Trust Fund, an amount equal to  
24 the amount excluded from gross income under Section  
25 529(c) (3) (B). For taxable years beginning on or after  
26 January 1, 2007, in the case of a distribution from a

1 qualified tuition program under Section 529 of the  
2 Internal Revenue Code, other than (i) a distribution  
3 from a College Savings Pool created under Section 16.5  
4 of the State Treasurer Act, (ii) a distribution from  
5 the Illinois Prepaid Tuition Trust Fund, or (iii) a  
6 distribution from a qualified tuition program under  
7 Section 529 of the Internal Revenue Code that (I)  
8 adopts and determines that its offering materials  
9 comply with the College Savings Plans Network's  
10 disclosure principles and (II) has made reasonable  
11 efforts to inform in-state residents of the existence  
12 of in-state qualified tuition programs by informing  
13 Illinois residents directly and, where applicable, to  
14 inform financial intermediaries distributing the  
15 program to inform in-state residents of the existence  
16 of in-state qualified tuition programs at least  
17 annually, an amount equal to the amount excluded from  
18 gross income under Section 529(c)(3)(B).

19 For the purposes of this subparagraph (D-20), a  
20 qualified tuition program has made reasonable efforts  
21 if it makes disclosures (which may use the term  
22 "in-state program" or "in-state plan" and need not  
23 specifically refer to Illinois or its qualified  
24 programs by name) (i) directly to prospective  
25 participants in its offering materials or makes a  
26 public disclosure, such as a website posting; and (ii)

1           where applicable, to intermediaries selling the  
2           out-of-state program in the same manner that the  
3           out-of-state program distributes its offering  
4           materials;

5                         (D-21) For taxable years beginning on or after  
6           January 1, 2007, in the case of transfer of moneys from  
7           a qualified tuition program under Section 529 of the  
8           Internal Revenue Code that is administered by the State  
9           to an out-of-state program, an amount equal to the  
10          amount of moneys previously deducted from base income  
11          under subsection (a) (2) (Y) of this Section.

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

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

1 Guard or, beginning with taxable years ending on or  
2 after December 31, 2007, the National Guard of any  
3 other state. For taxable years ending on or after  
4 December 31, 2001, any amount included in such total in  
5 respect of any compensation (including but not limited  
6 to any compensation paid or accrued to a serviceman  
7 while a prisoner of war or missing in action) paid to a  
8 resident by reason of being a member of any component  
9 of the Armed Forces of the United States and in respect  
10 of any compensation paid or accrued to a resident who  
11 as a governmental employee was a prisoner of war or  
12 missing in action, and in respect of any compensation  
13 paid to a resident in 2001 or thereafter by reason of  
14 being a member of the Illinois National Guard or,  
15 beginning with taxable years ending on or after  
16 December 31, 2007, the National Guard of any other  
17 state. The provisions of this amendatory Act of the  
18 92nd General Assembly are exempt from the provisions of  
19 Section 250;

20 (F) An amount equal to all amounts included in such  
21 total pursuant to the provisions of Sections 402(a),  
22 402(c), 403(a), 403(b), 406(a), 407(a), and 408 of the  
23 Internal Revenue Code, or included in such total as  
24 distributions under the provisions of any retirement  
25 or disability plan for employees of any governmental  
26 agency or unit, or retirement payments to retired

1 partners, which payments are excluded in computing net  
2 earnings from self employment by Section 1402 of the  
3 Internal Revenue Code and regulations adopted pursuant  
4 thereto;

5 (G) The valuation limitation amount;

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

9 (I) An amount equal to all amounts included in such  
10 total pursuant to the provisions of Section 111 of the  
11 Internal Revenue Code as a recovery of items previously  
12 deducted from adjusted gross income in the computation  
13 of taxable income;

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

24 (K) An amount equal to those dividends included in  
25 such total that were paid by a corporation that  
26 conducts business operations in a federally designated

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

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

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

25 (N) An amount equal to all amounts included in such  
26 total which are exempt from taxation by this State

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

8           (O) An amount equal to any contribution made to a  
9           job training project established pursuant to the Tax  
10          Increment Allocation Redevelopment Act;

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) An amount equal to any amounts included in such  
17          total, received by the taxpayer as an acceleration in  
18          the payment of life, endowment or annuity benefits in  
19          advance of the time they would otherwise be payable as  
20          an indemnity for a terminal illness;

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

23          (S) An amount, to the extent included in adjusted  
24          gross income, equal to the amount of a contribution  
25          made in the taxable year on behalf of the taxpayer to a  
26          medical care savings account established under the



1 Medical Care Savings Account Act or the Medical Care  
2 Savings Account Act of 2000 to the extent the  
3 contribution is accepted by the account administrator  
4 as provided in that Act;

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

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

18 (V) Beginning with tax years ending on or after  
19 December 31, 1995 and ending with tax years ending on  
20 or before December 31, 2004, an amount equal to the  
21 amount paid by a taxpayer who is a self-employed  
22 taxpayer, a partner of a partnership, or a shareholder  
23 in a Subchapter S corporation for health insurance or  
24 long-term care insurance for that taxpayer or that  
25 taxpayer's spouse or dependents, to the extent that the  
26 amount paid for that health insurance or long-term care

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

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

24 (X) For taxable year 1999 and thereafter, an amount  
25 equal to the amount of any (i) distributions, to the  
26 extent includible in gross income for federal income

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

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

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

23 (Z) 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 (Z) is exempt from the provisions of  
6 Section 250;

7 (AA) If the taxpayer sells, transfers, abandons,  
8 or otherwise disposes of property for which the  
9 taxpayer was required in any taxable year to make an  
10 addition modification under subparagraph (D-15), then  
11 an amount 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 (D-15), 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 (AA) is exempt from the  
23 provisions of Section 250;

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

1           (CC) The amount of (i) any interest income (net of  
2           the deductions allocable thereto) taken into account  
3           for the taxable year with respect to a transaction with  
4           a taxpayer that is required to make an addition  
5           modification with respect to such transaction under  
6           Section           203(a) (2) (D-17),           203(b) (2) (E-12),  
7           203(c) (2) (G-12), or 203(d) (2) (D-7), but not to exceed  
8           the amount of that addition modification, and (ii) any  
9           income from intangible property (net of the deductions  
10           allocable thereto) taken into account for the taxable  
11           year with respect to a transaction with a taxpayer that  
12           is required to make an addition modification with  
13           respect to such transaction under Section  
14           203(a) (2) (D-18), 203(b) (2) (E-13), 203(c) (2) (G-13), or  
15           203(d) (2) (D-8), but not to exceed the amount of that  
16           addition modification. This subparagraph (CC) is  
17           exempt from the provisions of Section 250;

18           (DD) 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 (i) 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 and (ii) for taxable  
26           years ending on or after December 31, 2008, to a person

1           who would be a member of the same unitary business  
2           group but for the fact that the person is prohibited  
3           under Section 1501(a)(27) from being included in the  
4           unitary business group because he or she is ordinarily  
5           required to apportion business income under different  
6           subsections of Section 304, but not to exceed the  
7           addition modification required to be made for the same  
8           taxable year under Section 203(a)(2)(D-17) for  
9           interest paid, accrued, or incurred, directly or  
10          indirectly, to the same person. This subparagraph (DD)  
11          is exempt from the provisions of Section 250; ~~and~~

12                 (EE) An amount equal to the income from intangible  
13          property taken into account for the taxable year (net  
14          of the deductions allocable thereto) with respect to  
15          transactions with (i) a foreign person who would be a  
16          member of the taxpayer's unitary business group but for  
17          the fact that the foreign person's business activity  
18          outside the United States is 80% or more of that  
19          person's total business activity and (ii) for taxable  
20          years ending on or after December 31, 2008, to a person  
21          who would be a member of the same unitary business  
22          group but for the fact that the person is prohibited  
23          under Section 1501(a)(27) from being included in the  
24          unitary business group because he or she is ordinarily  
25          required to apportion business income under different  
26          subsections of Section 304, but not to exceed the



1 addition modification required to be made for the same  
2 taxable year under Section 203(a)(2)(D-18) for  
3 intangible expenses and costs paid, accrued, or  
4 incurred, directly or indirectly, to the same foreign  
5 person. This subparagraph (EE) is exempt from the  
6 provisions of Section 250; and-

7 (FF) For taxable years ending after December 31,  
8 2010 and on or before December 30, 2020, all amounts  
9 included in the taxpayer's federal gross income in the  
10 taxable year consisting of (i) the principal  
11 contributed to and the interest earned on a health  
12 savings account and (ii) money reimbursed to an  
13 eligible individual or an employee from a health  
14 savings account for qualified medical expenses under  
15 the Health Savings Account Act.

16 (b) Corporations.

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

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

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

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

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

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

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

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

1 subtraction modifications in such earlier taxable  
2 year, with the following limitations applied in the  
3 order that they are listed:

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

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

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

24 (E-5) For taxable years ending after December 31,  
25 1997, an amount equal to any eligible remediation costs  
26 that the corporation deducted in computing adjusted

1 gross income and for which the corporation claims a  
2 credit under subsection (l) of Section 201;

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

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

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

22 The taxpayer is required to make the addition  
23 modification under this subparagraph only once with  
24 respect to any one piece of property;

25 (E-12) An amount equal to the amount otherwise  
26 allowed as a deduction in computing base income for

1 interest paid, accrued, or incurred, directly or  
2 indirectly, (i) for taxable years ending on or after  
3 December 31, 2004, to a foreign person who would be a  
4 member of the same unitary business group but for the  
5 fact the foreign person's business activity outside  
6 the United States is 80% or more of the foreign  
7 person's total business activity and (ii) for taxable  
8 years ending on or after December 31, 2008, to a person  
9 who would be a member of the same unitary business  
10 group but for the fact that the person is prohibited  
11 under Section 1501(a)(27) from being included in the  
12 unitary business group because he or she is ordinarily  
13 required to apportion business income under different  
14 subsections of Section 304. The addition modification  
15 required by this subparagraph shall be reduced to the  
16 extent that dividends were included in base income of  
17 the unitary group for the same taxable year and  
18 received by the taxpayer or by a member of the  
19 taxpayer's unitary business group (including amounts  
20 included in gross income pursuant to Sections 951  
21 through 964 of the Internal Revenue Code and amounts  
22 included in gross income under Section 78 of the  
23 Internal Revenue Code) with respect to the stock of the  
24 same person to whom the interest was paid, accrued, or  
25 incurred.

26 This paragraph shall not apply to the following:

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

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

12                 (a) the person, during the same taxable  
13 year, paid, accrued, or incurred, the interest  
14 to a person that is not a related member, and

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

22           (iii) the taxpayer can establish, based on  
23 clear and convincing evidence, that the interest  
24 paid, accrued, or incurred relates to a contract or  
25 agreement entered into at arm's-length rates and  
26 terms and the principal purpose for the payment is

1 not federal or Illinois tax avoidance; or

2 (iv) an item of interest paid, accrued, or  
3 incurred, directly or indirectly, to a person if  
4 the taxpayer establishes by clear and convincing  
5 evidence that the adjustments are unreasonable; or  
6 if the taxpayer and the Director agree in writing  
7 to the application or use of an alternative method  
8 of apportionment under Section 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 (E-13) An amount equal to the amount of intangible  
19 expenses and costs otherwise allowed as a deduction in  
20 computing base income, and that were paid, accrued, or  
21 incurred, directly or indirectly, (i) for taxable  
22 years ending on or after December 31, 2004, to a  
23 foreign person who would be a member of the same  
24 unitary business group but for the fact that the  
25 foreign person's business activity outside the United  
26 States is 80% or more of that person's total business

1 activity and (ii) for taxable years ending on or after  
2 December 31, 2008, to a person who would be a member of  
3 the same unitary business group but for the fact that  
4 the person is prohibited under Section 1501(a)(27)  
5 from being included in the unitary business group  
6 because he or she is ordinarily required to apportion  
7 business income under different subsections of Section  
8 304. The addition modification required by this  
9 subparagraph shall be reduced to the extent that  
10 dividends were included in base income of the unitary  
11 group for the same taxable year and received by the  
12 taxpayer or by a member of the taxpayer's unitary  
13 business group (including amounts included in gross  
14 income pursuant to Sections 951 through 964 of the  
15 Internal Revenue Code and amounts included in gross  
16 income under Section 78 of the Internal Revenue Code)  
17 with respect to the stock of the same person to whom  
18 the intangible expenses and costs were directly or  
19 indirectly paid, incurred, or accrued. The preceding  
20 sentence shall not apply to the extent that the same  
21 dividends caused a reduction to the addition  
22 modification required under Section 203(b)(2)(E-12) of  
23 this Act. As used in this subparagraph, the term  
24 "intangible expenses and costs" includes (1) expenses,  
25 losses, and costs for, or related to, the direct or  
26 indirect acquisition, use, maintenance or management,



1 ownership, sale, exchange, or any other disposition of  
2 intangible property; (2) losses incurred, directly or  
3 indirectly, from factoring transactions or discounting  
4 transactions; (3) royalty, patent, technical, and  
5 copyright fees; (4) licensing fees; and (5) other  
6 similar expenses and costs. For purposes of this  
7 subparagraph, "intangible property" includes patents,  
8 patent applications, trade names, trademarks, service  
9 marks, copyrights, mask works, trade secrets, and  
10 similar types of intangible 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 person who is  
15 subject in a foreign country or state, other than a  
16 state which requires mandatory unitary reporting,  
17 to a tax on or measured by net income with respect  
18 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 person during the same taxable  
25 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 person did not have as a  
5 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 person if the  
12 taxpayer establishes by clear and convincing  
13 evidence, that the adjustments are unreasonable;  
14 or if the taxpayer and the Director agree in  
15 writing to the application or use of an alternative  
16 method of apportionment under Section 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 (E-14) For taxable years ending on or after

1 December 31, 2008, an amount equal to the amount of  
2 insurance premium expenses and costs otherwise allowed  
3 as a deduction in computing base income, and that were  
4 paid, accrued, or incurred, directly or indirectly, to  
5 a person who would be a member of the same unitary  
6 business group but for the fact that the person is  
7 prohibited under Section 1501(a)(27) from being  
8 included in the unitary business group because he or  
9 she is ordinarily required to apportion business  
10 income under different subsections of Section 304. The  
11 addition modification required by this subparagraph  
12 shall be reduced to the extent that dividends were  
13 included in base income of the unitary group for the  
14 same taxable year and received by the taxpayer or by a  
15 member of the taxpayer's unitary business group  
16 (including amounts included in gross income under  
17 Sections 951 through 964 of the Internal Revenue Code  
18 and amounts included in gross income under Section 78  
19 of the Internal Revenue Code) with respect to the stock  
20 of the same person to whom the premiums and costs were  
21 directly or indirectly paid, incurred, or accrued. The  
22 preceding sentence does not apply to the extent that  
23 the same dividends caused a reduction to the addition  
24 modification required under Section 203(b)(2)(E-12) or  
25 Section 203(b)(2)(E-13) of this Act;

26 (E-15) For taxable years beginning after December

1           31, 2008, any deduction for dividends paid by a captive  
2           real estate investment trust that is allowed to a real  
3           estate investment trust under Section 857(b)(2)(B) of  
4           the Internal Revenue Code for dividends paid;

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

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

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

12                   (H) In the case of a regulated investment company,  
13                   an amount equal to the amount of exempt interest  
14                   dividends as defined in subsection (b) (5) of Section  
15                   852 of the Internal Revenue Code, paid to shareholders  
16                   for the taxable year;

17                   (I) With the exception of any amounts subtracted  
18                   under subparagraph (J), an amount equal to the sum of  
19                   all amounts disallowed as deductions by (i) Sections  
20                   171(a) (2), and 265(a)(2) and amounts disallowed as  
21                   interest expense by Section 291(a)(3) of the Internal  
22                   Revenue Code, as now or hereafter amended, and all  
23                   amounts of expenses allocable to interest and  
24                   disallowed as deductions by Section 265(a)(1) of the  
25                   Internal Revenue Code, as now or hereafter amended; and  
26                   (ii) for taxable years ending on or after August 13,

1 1999, Sections 171(a)(2), 265, 280C, 291(a)(3), and  
2 832(b)(5)(B)(i) of the Internal Revenue Code; the  
3 provisions of this subparagraph are exempt from the  
4 provisions of Section 250;

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

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

24 (L) An amount equal to those dividends included in  
25 such total that were paid by a corporation that  
26 conducts business operations in a federally designated

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

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

1 such loan attributable to the eligible property as  
2 calculated under the previous sentence. This  
3 subparagraph (M) is exempt from the provisions of  
4 Section 250;

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

1 total interest paid by the borrower with respect to  
2 such loan attributable to the eligible property as  
3 calculated under the previous sentence;

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

15 (O) An amount equal to: (i) 85% for taxable years  
16 ending on or before December 31, 1992, or, a percentage  
17 equal to the percentage allowable under Section  
18 243(a)(1) of the Internal Revenue Code of 1986 for  
19 taxable years ending after December 31, 1992, of the  
20 amount by which dividends included in taxable income  
21 and received from a corporation that is not created or  
22 organized under the laws of the United States or any  
23 state or political subdivision thereof, including, for  
24 taxable years ending on or after December 31, 1988,  
25 dividends received or deemed received or paid or deemed  
26 paid under Sections 951 through 964 of the Internal



1 Revenue Code, exceed the amount of the modification  
2 provided under subparagraph (G) of paragraph (2) of  
3 this subsection (b) which is related to such dividends,  
4 and including, for taxable years ending on or after  
5 December 31, 2008, dividends received from a captive  
6 real estate investment trust; plus (ii) 100% of the  
7 amount by which dividends, included in taxable income  
8 and received, including, for taxable years ending on or  
9 after December 31, 1988, dividends received or deemed  
10 received or paid or deemed paid under Sections 951  
11 through 964 of the Internal Revenue Code and including,  
12 for taxable years ending on or after December 31, 2008,  
13 dividends received from a captive real estate  
14 investment trust, from any such corporation specified  
15 in clause (i) that would but for the provisions of  
16 Section 1504 (b) (3) of the Internal Revenue Code be  
17 treated as a member of the affiliated group which  
18 includes the dividend recipient, exceed the amount of  
19 the modification provided under subparagraph (G) of  
20 paragraph (2) of this subsection (b) which is related  
21 to such dividends. This subparagraph (O) is exempt from  
22 the provisions of Section 250 of this Act;

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

26 (Q) An amount equal to the amount of the deduction

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

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

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

1 provisions of Section 250;

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

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

15 (2) for taxable years ending on or before  
16 December 31, 2005, "x" equals "y" multiplied by 30  
17 and then divided by 70 (or "y" multiplied by  
18 0.429); and

19 (3) for taxable years ending after December  
20 31, 2005:

21 (i) for property on which a bonus  
22 depreciation deduction of 30% of the adjusted  
23 basis was taken, "x" equals "y" multiplied by  
24 30 and then divided by 70 (or "y" multiplied by  
25 0.429); and

26 (ii) for property on which a bonus

1 depreciation deduction of 50% of the adjusted  
2 basis was taken, "x" equals "y" multiplied by  
3 1.0.

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

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

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

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

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

3           (V) The amount of: (i) any interest income (net of  
4 the deductions allocable thereto) taken into account  
5 for the taxable year with respect to a transaction with  
6 a taxpayer that is required to make an addition  
7 modification with respect to such transaction under  
8 Section 203(a)(2)(D-17), 203(b)(2)(E-12),  
9 203(c)(2)(G-12), or 203(d)(2)(D-7), but not to exceed  
10 the amount of such addition modification, (ii) any  
11 income from intangible property (net of the deductions  
12 allocable thereto) taken into account for the taxable  
13 year with respect to a transaction with a taxpayer that  
14 is required to make an addition modification with  
15 respect to such transaction under Section  
16 203(a)(2)(D-18), 203(b)(2)(E-13), 203(c)(2)(G-13), or  
17 203(d)(2)(D-8), but not to exceed the amount of such  
18 addition modification, and (iii) any insurance premium  
19 income (net of deductions allocable thereto) taken  
20 into account for the taxable year with respect to a  
21 transaction with a taxpayer that is required to make an  
22 addition modification with respect to such transaction  
23 under Section 203(a)(2)(D-19), Section  
24 203(b)(2)(E-14), Section 203(c)(2)(G-14), or Section  
25 203(d)(2)(D-9), but not to exceed the amount of that  
26 addition modification. This subparagraph (V) is exempt

1 from the provisions of Section 250;

2 (W) An amount equal to the interest income taken  
3 into account for the taxable year (net of the  
4 deductions allocable thereto) with respect to  
5 transactions with (i) a foreign person who would be a  
6 member of the taxpayer's unitary business group but for  
7 the fact that the foreign person's business activity  
8 outside the United States is 80% or more of that  
9 person's total business activity and (ii) for taxable  
10 years ending on or after December 31, 2008, to a person  
11 who would be a member of the same unitary business  
12 group but for the fact that the person is prohibited  
13 under Section 1501(a)(27) from being included in the  
14 unitary business group because he or she is ordinarily  
15 required to apportion business income under different  
16 subsections of Section 304, but not to exceed the  
17 addition modification required to be made for the same  
18 taxable year under Section 203(b)(2)(E-12) for  
19 interest paid, accrued, or incurred, directly or  
20 indirectly, to the same person. This subparagraph (W)  
21 is exempt from the provisions of Section 250; and

22 (X) 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 (i) 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 and (ii) for taxable  
4 years ending on or after December 31, 2008, to a person  
5 who would be a member of the same unitary business  
6 group but for the fact that the person is prohibited  
7 under Section 1501(a)(27) from being included in the  
8 unitary business group because he or she is ordinarily  
9 required to apportion business income under different  
10 subsections of Section 304, but not to exceed the  
11 addition modification required to be made for the same  
12 taxable year under Section 203(b)(2)(E-13) for  
13 intangible expenses and costs paid, accrued, or  
14 incurred, directly or indirectly, to the same foreign  
15 person. This subparagraph (X) is exempt from the  
16 provisions of Section 250. ~~(Y)~~

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) An amount equal to the amount otherwise  
11 allowed as a deduction in computing base income for  
12 interest paid, accrued, or incurred, directly or  
13 indirectly, (i) for taxable years ending on or after  
14 December 31, 2004, to a foreign person who would be a  
15 member of the same unitary business group but for the  
16 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 and (ii) for taxable  
19 years ending on or after December 31, 2008, to a person  
20 who would be a member of the same unitary business  
21 group but for the fact that the person is prohibited  
22 under Section 1501(a)(27) from being included in the  
23 unitary business group because he or she is ordinarily  
24 required to apportion business income under different  
25 subsections of Section 304. The addition modification  
26 required by this subparagraph shall be reduced to the

1 extent that dividends were included in base income of  
2 the unitary group for the same taxable year and  
3 received by the taxpayer or by a member of the  
4 taxpayer's unitary business group (including amounts  
5 included in gross income pursuant to Sections 951  
6 through 964 of the Internal Revenue Code and amounts  
7 included in gross income under Section 78 of the  
8 Internal Revenue Code) with respect to the stock of the  
9 same person to whom the interest was paid, accrued, or  
10 incurred.

11 This paragraph shall not apply to the following:

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

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

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

26 (b) the transaction giving rise to the

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

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

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

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

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

3           (G-13) An amount equal to the amount of intangible  
4           expenses and costs otherwise allowed as a deduction in  
5           computing base income, and that were paid, accrued, or  
6           incurred, directly or indirectly, (i) for taxable  
7           years ending on or after December 31, 2004, to a  
8           foreign person who would be a member of the same  
9           unitary business group but for the fact that the  
10          foreign person's business activity outside the United  
11          States is 80% or more of that person's total business  
12          activity and (ii) for taxable years ending on or after  
13          December 31, 2008, to a person who would be a member of  
14          the same unitary business group but for the fact that  
15          the person is prohibited under Section 1501(a)(27)  
16          from being included in the unitary business group  
17          because he or she is ordinarily required to apportion  
18          business income under different subsections of Section  
19          304. The addition modification required by this  
20          subparagraph shall be reduced to the extent that  
21          dividends were included in base income of the unitary  
22          group for the same taxable year and received by the  
23          taxpayer or by a member of the taxpayer's unitary  
24          business group (including amounts included in gross  
25          income pursuant to Sections 951 through 964 of the  
26          Internal Revenue Code and amounts included in gross

1 income under Section 78 of the Internal Revenue Code)  
2 with respect to the stock of the same person to whom  
3 the intangible expenses and costs were directly or  
4 indirectly paid, incurred, or accrued. The preceding  
5 sentence shall not apply to the extent that the same  
6 dividends caused a reduction to the addition  
7 modification required under Section 203(c)(2)(G-12) of  
8 this Act. As used in this subparagraph, the term  
9 "intangible expenses and costs" includes: (1)  
10 expenses, losses, and costs for or related to the  
11 direct or indirect acquisition, use, maintenance or  
12 management, ownership, sale, exchange, or any other  
13 disposition of intangible property; (2) losses  
14 incurred, directly or indirectly, from factoring  
15 transactions or discounting transactions; (3) royalty,  
16 patent, technical, and copyright fees; (4) licensing  
17 fees; and (5) other similar expenses and costs. For  
18 purposes of this subparagraph, "intangible property"  
19 includes patents, patent applications, trade names,  
20 trademarks, service marks, copyrights, mask works,  
21 trade secrets, and similar types of intangible assets.

22 This paragraph shall not apply to the following:

23 (i) any item of intangible expenses or costs  
24 paid, accrued, or incurred, directly or  
25 indirectly, from a transaction with a person who is  
26 subject in a foreign country or state, other than a

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

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

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

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

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



1 method of apportionment under Section 304(f);

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

11 (G-14) For taxable years ending on or after  
12 December 31, 2008, an amount equal to the amount of  
13 insurance premium expenses and costs otherwise allowed  
14 as a deduction in computing base income, and that were  
15 paid, accrued, or incurred, directly or indirectly, to  
16 a person who would be a member of the same unitary  
17 business group but for the fact that the person is  
18 prohibited under Section 1501(a)(27) from being  
19 included in the unitary business group because he or  
20 she is ordinarily required to apportion business  
21 income under different subsections of Section 304. The  
22 addition modification required by this subparagraph  
23 shall be reduced to the extent that dividends were  
24 included in base income of the unitary group for the  
25 same taxable year and received by the taxpayer or by a  
26 member of the taxpayer's unitary business group

1 (including amounts included in gross income under  
2 Sections 951 through 964 of the Internal Revenue Code  
3 and amounts included in gross income under Section 78  
4 of the Internal Revenue Code) with respect to the stock  
5 of the same person to whom the premiums and costs were  
6 directly or indirectly paid, incurred, or accrued. The  
7 preceding sentence does not apply to the extent that  
8 the same dividends caused a reduction to the addition  
9 modification required under Section 203(c)(2)(G-12) or  
10 Section 203(c)(2)(G-13) of this Act.

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

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

24 (I) The valuation limitation amount;

25 (J) An amount equal to the amount of any tax  
26 imposed by this Act which was refunded to the taxpayer

1 and included in such total for the taxable year;

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

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

26 (M) An amount equal to those dividends included in

1           such total which were paid by a corporation which  
2           conducts business operations in an Enterprise Zone or  
3           zones created under the Illinois Enterprise Zone Act or  
4           a River Edge Redevelopment Zone or zones created under  
5           the River Edge Redevelopment Zone Act and conducts  
6           substantially all of its operations in an Enterprise  
7           Zone or Zones or a River Edge Redevelopment Zone or  
8           zones. This subparagraph (M) is exempt from the  
9           provisions of Section 250;

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

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

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

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

1 Germany or any other Axis regime or as an heir of the  
2 victim. The amount of and the eligibility for any  
3 public assistance, benefit, or similar entitlement is  
4 not affected by the inclusion of items (i) and (ii) of  
5 this paragraph in gross income for federal income tax  
6 purposes. This paragraph is exempt from the provisions  
7 of Section 250;

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

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

21 (2) for taxable years ending on or before  
22 December 31, 2005, "x" equals "y" multiplied by 30  
23 and then divided by 70 (or "y" multiplied by  
24 0.429); and

25 (3) for taxable years ending after December  
26 31, 2005:

1 (i) for property on which a bonus  
2 depreciation deduction of 30% of the adjusted  
3 basis was taken, "x" equals "y" multiplied by  
4 30 and then divided by 70 (or "y" multiplied by  
5 0.429); and

6 (ii) for property on which a bonus  
7 depreciation deduction of 50% of the adjusted  
8 basis was taken, "x" equals "y" multiplied by  
9 1.0.

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

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

23 If the taxpayer continues to own property through  
24 the last day of the last tax year for which the  
25 taxpayer may claim a depreciation deduction for  
26 federal income tax purposes and for which the taxpayer

1 was required in any taxable year to make an addition  
2 modification under subparagraph (G-10), then an amount  
3 equal to that addition modification.

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

7 This subparagraph (S) is exempt from the  
8 provisions of Section 250;

9 (T) The amount of (i) any interest income (net of  
10 the deductions allocable thereto) taken into account  
11 for the taxable year with respect to a transaction with  
12 a taxpayer that is required to make an addition  
13 modification with respect to such transaction under  
14 Section 203(a)(2)(D-17), 203(b)(2)(E-12),  
15 203(c)(2)(G-12), or 203(d)(2)(D-7), but not to exceed  
16 the amount of such addition modification and (ii) any  
17 income from intangible property (net of the deductions  
18 allocable thereto) taken into account for the taxable  
19 year with respect to a transaction with a taxpayer that  
20 is required to make an addition modification with  
21 respect to such transaction under Section  
22 203(a)(2)(D-18), 203(b)(2)(E-13), 203(c)(2)(G-13), or  
23 203(d)(2)(D-8), but not to exceed the amount of such  
24 addition modification. This subparagraph (T) is exempt  
25 from the provisions of Section 250;

26 (U) An amount equal to the interest income taken



1 into account for the taxable year (net of the  
2 deductions allocable thereto) with respect to  
3 transactions with (i) a foreign person who would be a  
4 member of the taxpayer's unitary business group but for  
5 the fact the foreign person's business activity  
6 outside the United States is 80% or more of that  
7 person's total business activity and (ii) for taxable  
8 years ending on or after December 31, 2008, to a person  
9 who would be a member of the same unitary business  
10 group but for the fact that the person is prohibited  
11 under Section 1501(a)(27) from being included in the  
12 unitary business group because he or she is ordinarily  
13 required to apportion business income under different  
14 subsections of Section 304, but not to exceed the  
15 addition modification required to be made for the same  
16 taxable year under Section 203(c)(2)(G-12) for  
17 interest paid, accrued, or incurred, directly or  
18 indirectly, to the same person. This subparagraph (U)  
19 is exempt from the provisions of Section 250; and

20 (V) An amount equal to the income from intangible  
21 property taken into account for the taxable year (net  
22 of the deductions allocable thereto) with respect to  
23 transactions with (i) a foreign person who would be a  
24 member of the taxpayer's unitary business group but for  
25 the fact that the foreign person's business activity  
26 outside the United States is 80% or more of that

1 person's total business activity and (ii) for taxable  
2 years ending on or after December 31, 2008, to a person  
3 who would be a member of the same unitary business  
4 group but for the fact that the person is prohibited  
5 under Section 1501(a)(27) from being included in the  
6 unitary business group because he or she is ordinarily  
7 required to apportion business income under different  
8 subsections of Section 304, but not to exceed the  
9 addition modification required to be made for the same  
10 taxable year under Section 203(c)(2)(G-13) for  
11 intangible expenses and costs paid, accrued, or  
12 incurred, directly or indirectly, to the same foreign  
13 person. This subparagraph (V) is exempt from the  
14 provisions of Section 250. ~~(W)~~

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

22 (d) Partnerships.

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

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

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

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

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

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

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

23           (D-6) If the taxpayer sells, transfers, abandons,  
24 or otherwise disposes of property for which the  
25 taxpayer was required in any taxable year to make an  
26 addition modification under subparagraph (D-5), then

1 an amount equal to the aggregate amount of the  
2 deductions taken in all taxable years under  
3 subparagraph (O) with respect to that property.

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

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

14 (D-7) An amount equal to the amount otherwise  
15 allowed as a deduction in computing base income for  
16 interest paid, accrued, or incurred, directly or  
17 indirectly, (i) for taxable years ending on or after  
18 December 31, 2004, to a foreign person who would be a  
19 member of the same unitary business group but for the  
20 fact the foreign person's business activity outside  
21 the United States is 80% or more of the foreign  
22 person's total business activity and (ii) for taxable  
23 years ending on or after December 31, 2008, to a person  
24 who would be a member of the same unitary business  
25 group but for the fact that the person is prohibited  
26 under Section 1501(a)(27) from being included in the

1 unitary business group because he or she is ordinarily  
2 required to apportion business income under different  
3 subsections of Section 304. The addition modification  
4 required by this subparagraph shall be reduced to the  
5 extent that dividends were included in base income of  
6 the unitary group for the same taxable year and  
7 received by the taxpayer or by a member of the  
8 taxpayer's unitary business group (including amounts  
9 included in gross income pursuant to Sections 951  
10 through 964 of the Internal Revenue Code and amounts  
11 included in gross income under Section 78 of the  
12 Internal Revenue Code) with respect to the stock of the  
13 same person to whom the interest was paid, accrued, or  
14 incurred.

15 This paragraph shall not apply to the following:

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

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

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

4           (b) the transaction giving rise to the  
5           interest expense between the taxpayer and the  
6           person did not have as a principal purpose the  
7           avoidance of Illinois income tax, and is paid  
8           pursuant to a contract or agreement that  
9           reflects an arm's-length interest rate and  
10          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 person if  
19          the taxpayer establishes by clear and convincing  
20          evidence that the adjustments are unreasonable; or  
21          if the taxpayer and the Director agree in writing  
22          to the application or use of an alternative method  
23          of apportionment under Section 304(f).

24          Nothing in this subsection shall preclude the  
25          Director from making any other adjustment  
26          otherwise allowed under Section 404 of this Act for

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

7 (D-8) An amount equal to the amount of intangible  
8 expenses and costs otherwise allowed as a deduction in  
9 computing base income, and that were paid, accrued, or  
10 incurred, directly or indirectly, (i) for taxable  
11 years ending on or after December 31, 2004, to a  
12 foreign person who would be a member of the same  
13 unitary business group but for the fact that the  
14 foreign person's business activity outside the United  
15 States is 80% or more of that person's total business  
16 activity and (ii) for taxable years ending on or after  
17 December 31, 2008, to a person who would be a member of  
18 the same unitary business group but for the fact that  
19 the person is prohibited under Section 1501(a)(27)  
20 from being included in the unitary business group  
21 because he or she is ordinarily required to apportion  
22 business income under different subsections of Section  
23 304. The addition modification required by this  
24 subparagraph shall be reduced to the extent that  
25 dividends were included in base income of the unitary  
26 group for the same taxable year and received by the

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

26 This paragraph shall not apply to the following:



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

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

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

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

24           (iii) any item of intangible expense or cost  
25           paid, accrued, or incurred, directly or  
26           indirectly, from a transaction with a person if the

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

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

15 (D-9) For taxable years ending on or after December  
16 31, 2008, an amount equal to the amount of insurance  
17 premium expenses and costs otherwise allowed as a  
18 deduction in computing base income, and that were paid,  
19 accrued, or incurred, directly or indirectly, to a  
20 person who would be a member of the same unitary  
21 business group but for the fact that the person is  
22 prohibited under Section 1501(a)(27) from being  
23 included in the unitary business group because he or  
24 she is ordinarily required to apportion business  
25 income under different subsections of Section 304. The  
26 addition modification required by this subparagraph

1 shall be reduced to the extent that dividends were  
2 included in base income of the unitary group for the  
3 same taxable year and received by the taxpayer or by a  
4 member of the taxpayer's unitary business group  
5 (including amounts included in gross income under  
6 Sections 951 through 964 of the Internal Revenue Code  
7 and amounts included in gross income under Section 78  
8 of the Internal Revenue Code) with respect to the stock  
9 of the same person to whom the premiums and costs were  
10 directly or indirectly paid, incurred, or accrued. The  
11 preceding sentence does not apply to the extent that  
12 the same dividends caused a reduction to the addition  
13 modification required under Section 203(d)(2)(D-7) or  
14 Section 203(d)(2)(D-8) of this Act.

15 and by deducting from the total so obtained the following  
16 amounts:

17 (E) The valuation limitation amount;

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

21 (G) An amount equal to all amounts included in  
22 taxable income as modified by subparagraphs (A), (B),  
23 (C) and (D) which are exempt from taxation by this  
24 State either by reason of its statutes or Constitution  
25 or by reason of the Constitution, treaties or statutes  
26 of the United States; provided that, in the case of any

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

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

11 (I) An amount equal to all amounts of income  
12 distributable to an entity subject to the Personal  
13 Property Tax Replacement Income Tax imposed by  
14 subsections (c) and (d) of Section 201 of this Act  
15 including amounts distributable to organizations  
16 exempt from federal income tax by reason of Section  
17 501(a) of the Internal Revenue Code;

18 (J) With the exception of any amounts subtracted  
19 under subparagraph (G), an amount equal to the sum of  
20 all amounts disallowed as deductions by (i) Sections  
21 171(a) (2), and 265(2) of the Internal Revenue Code of  
22 1954, as now or hereafter amended, and all amounts of  
23 expenses allocable to interest and disallowed as  
24 deductions by Section 265(1) of the Internal Revenue  
25 Code, as now or hereafter amended; and (ii) for taxable  
26 years ending on or after August 13, 1999, Sections

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

5 (K) An amount equal to those dividends included in  
6 such total which were paid by a corporation which  
7 conducts business operations in an Enterprise Zone or  
8 zones created under the Illinois Enterprise Zone Act,  
9 enacted by the 82nd General Assembly, or a River Edge  
10 Redevelopment Zone or zones created under the River  
11 Edge Redevelopment Zone Act and conducts substantially  
12 all of its operations in an Enterprise Zone or Zones or  
13 from a River Edge Redevelopment Zone or zones. This  
14 subparagraph (K) is exempt from the provisions of  
15 Section 250;

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

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

1           this subparagraph (M);

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

7           (O) 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 (O) is exempt from the provisions of  
16 Section 250;

17 (P) If the taxpayer sells, transfers, abandons, or  
18 otherwise disposes of property for which the taxpayer  
19 was required in any taxable year to make an addition  
20 modification under subparagraph (D-5), then an amount  
21 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-5), 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 (P) is exempt from the  
7 provisions of Section 250;

8 (Q) The amount of (i) any interest income (net of  
9 the deductions allocable thereto) taken into account  
10 for the taxable year with respect to a transaction with  
11 a taxpayer that is required to make an addition  
12 modification with respect to such transaction under  
13 Section 203(a)(2)(D-17), 203(b)(2)(E-12),  
14 203(c)(2)(G-12), or 203(d)(2)(D-7), but not to exceed  
15 the amount of such addition modification and (ii) any  
16 income from intangible property (net of the deductions  
17 allocable thereto) taken into account for the taxable  
18 year with respect to a transaction with a taxpayer that  
19 is required to make an addition modification with  
20 respect to such transaction under Section  
21 203(a)(2)(D-18), 203(b)(2)(E-13), 203(c)(2)(G-13), or  
22 203(d)(2)(D-8), but not to exceed the amount of such  
23 addition modification. This subparagraph (Q) is exempt  
24 from Section 250;

25 (R) An amount equal to the interest income taken  
26 into account for the taxable year (net of the



1 deductions allocable thereto) with respect to  
2 transactions with (i) a foreign person who would be a  
3 member of the taxpayer's unitary business group but for  
4 the fact that the foreign person's business activity  
5 outside the United States is 80% or more of that  
6 person's total business activity and (ii) for taxable  
7 years ending on or after December 31, 2008, to a person  
8 who would be a member of the same unitary business  
9 group but for the fact that the person is prohibited  
10 under Section 1501(a)(27) from being included in the  
11 unitary business group because he or she is ordinarily  
12 required to apportion business income under different  
13 subsections of Section 304, but not to exceed the  
14 addition modification required to be made for the same  
15 taxable year under Section 203(d)(2)(D-7) for interest  
16 paid, accrued, or incurred, directly or indirectly, to  
17 the same person. This subparagraph (R) is exempt from  
18 Section 250; and

19 (S) An amount equal to the income from intangible  
20 property taken into account for the taxable year (net  
21 of the deductions allocable thereto) with respect to  
22 transactions with (i) a foreign person who would be a  
23 member of the taxpayer's unitary business group but for  
24 the fact that the foreign person's business activity  
25 outside the United States is 80% or more of that  
26 person's total business activity and (ii) for taxable

1           years ending on or after December 31, 2008, to a person  
2           who would be a member of the same unitary business  
3           group but for the fact that the person is prohibited  
4           under Section 1501(a)(27) from being included in the  
5           unitary business group because he or she is ordinarily  
6           required to apportion business income under different  
7           subsections of Section 304, but not to exceed the  
8           addition modification required to be made for the same  
9           taxable year under Section 203(d)(2)(D-8) for  
10          intangible expenses and costs paid, accrued, or  
11          incurred, directly or indirectly, to the same person.  
12          This subparagraph (S) is exempt from Section 250. ~~(T)~~

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

14           (1) In general. Subject to the provisions of paragraph  
15          (2) and subsection (b) (3), for purposes of this Section  
16          and Section 803(e), a taxpayer's gross income, adjusted  
17          gross income, or taxable income for the taxable year shall  
18          mean the amount of gross income, adjusted gross income or  
19          taxable income properly reportable for federal income tax  
20          purposes for the taxable year under the provisions of the  
21          Internal Revenue Code. Taxable income may be less than  
22          zero. However, for taxable years ending on or after  
23          December 31, 1986, net operating loss carryforwards from  
24          taxable years ending prior to December 31, 1986, may not  
25          exceed the sum of federal taxable income for the taxable

1 year before net operating loss deduction, plus the excess  
2 of addition modifications over subtraction modifications  
3 for the taxable year. For taxable years ending prior to  
4 December 31, 1986, taxable income may never be an amount in  
5 excess of the net operating loss for the taxable year as  
6 defined in subsections (c) and (d) of Section 172 of the  
7 Internal Revenue Code, provided that when taxable income of  
8 a corporation (other than a Subchapter S corporation),  
9 trust, or estate is less than zero and addition  
10 modifications, other than those provided by subparagraph  
11 (E) of paragraph (2) of subsection (b) for corporations or  
12 subparagraph (E) of paragraph (2) of subsection (c) for  
13 trusts and estates, exceed subtraction modifications, an  
14 addition modification must be made under those  
15 subparagraphs for any other taxable year to which the  
16 taxable income less than zero (net operating loss) is  
17 applied under Section 172 of the Internal Revenue Code or  
18 under subparagraph (E) of paragraph (2) of this subsection  
19 (e) applied in conjunction with Section 172 of the Internal  
20 Revenue Code.

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

24 (A) Certain life insurance companies. In the case  
25 of a life insurance company subject to the tax imposed  
26 by Section 801 of the Internal Revenue Code, life

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

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

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

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

17 (E) Consolidated corporations. In the case of a  
18 corporation which is a member of an affiliated group of  
19 corporations filing a consolidated income tax return  
20 for the taxable year for federal income tax purposes,  
21 taxable income determined as if such corporation had  
22 filed a separate return for federal income tax purposes  
23 for the taxable year and each preceding taxable year  
24 for which it was a member of an affiliated group. For  
25 purposes of this subparagraph, the taxpayer's separate  
26 taxable income shall be determined as if the election

1 provided by Section 243(b) (2) of the Internal Revenue  
2 Code had been in effect for all such years;

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

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

24 (H) Partnerships. In the case of a partnership,  
25 taxable income determined in accordance with Section  
26 703 of the Internal Revenue Code, except that taxable

1 income shall take into account those items which are  
2 required by Section 703(a)(1) to be separately stated  
3 but which would be taken into account by an individual  
4 in calculating his taxable income.

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

22 (f) Valuation limitation amount.

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

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

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

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

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

26 (B) If the fair market value of property referred

1 to in paragraph (1) was not readily ascertainable on  
2 August 1, 1969, the pre-August 1, 1969 appreciation  
3 amount for such property is that amount which bears the  
4 same ratio to the total gain reported in respect of the  
5 property for federal income tax purposes for the  
6 taxable year, as the number of full calendar months in  
7 that part of the taxpayer's holding period for the  
8 property ending July 31, 1969 bears to the number of  
9 full calendar months in the taxpayer's entire holding  
10 period for the property.

11 (C) The Department shall prescribe such  
12 regulations as may be necessary to carry out the  
13 purposes of this paragraph.

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

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



1 August 1, 1969 or otherwise.

2 (Source: P.A. 94-776, eff. 5-19-06; 94-789, eff. 5-19-06;  
3 94-1021, eff. 7-12-06; 94-1074, eff. 12-26-06; 95-23, eff.  
4 8-3-07; 95-233, eff. 8-16-07; 95-286, eff. 8-20-07; 95-331,  
5 eff. 8-21-07; 95-707, eff. 1-11-08; 95-876, eff. 8-21-08;  
6 revised 10-15-08.)

7 Section 997. Severability. The provisions of this Act are  
8 severable under Section 1.31 of the Statute on Statutes.

9 Section 999. Effective date. This Act takes effect July 1,  
10 2009.