

1 AN ACT to amend the Illinois Income Tax Act by changing
2 Section 203.

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

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

7 (35 ILCS 5/203) (from Ch. 120, par. 2-203)

8 Sec. 203. Base income defined.

9 (a) Individuals.

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

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

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

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

28 (C) An amount equal to the amount received
29 during the taxable year as a recovery or refund of
30 real property taxes paid with respect to the
31 taxpayer's principal residence under the Revenue Act

1 of 1939 and for which a deduction was previously
2 taken under subparagraph (L) of this paragraph (2)
3 prior to July 1, 1991, the retrospective application
4 date of Article 4 of Public Act 87-17. In the case
5 of multi-unit or multi-use structures and farm
6 dwellings, the taxes on the taxpayer's principal
7 residence shall be that portion of the total taxes
8 for the entire property which is attributable to
9 such principal residence;

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

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16 withdrawn by the taxpayer in the taxable year from a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

23 (D-10) For taxable years ending after December
24 31, 1997, an amount equal to any eligible
25 remediation costs that the individual deducted in
26 computing adjusted gross income and for which the
27 individual claims a credit under subsection (l) of
28 Section 201;

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

31 (E) Any amount included in such total in
32 respect of any compensation (including but not
33 limited to any compensation paid or accrued to a
34 serviceman while a prisoner of war or missing in

1 action) paid to a resident by reason of being on
2 active duty in the Armed Forces of the United States
3 and in respect of any compensation paid or accrued
4 to a resident who as a governmental employee was a
5 prisoner of war or missing in action, and in respect
6 of any compensation paid to a resident in 1971 or
7 thereafter for annual training performed pursuant to
8 Sections 502 and 503, Title 32, United States Code
9 as a member of the Illinois National Guard;

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

21 (G) The valuation limitation amount;

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

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

31 (J) An amount equal to those dividends
32 included in such total which were paid by a
33 corporation which conducts business operations in an
34 Enterprise Zone or zones created under the Illinois

1 Enterprise Zone Act, and conducts substantially all
2 of its operations in an Enterprise Zone or zones;

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

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

18 (M) With the exception of any amounts
19 subtracted under subparagraph (N), an amount equal
20 to the sum of all amounts disallowed as deductions
21 by (i) Sections 171(a) (2), and 265(2) of the
22 Internal Revenue Code of 1954, as now or hereafter
23 amended, and all amounts of expenses allocable to
24 interest and disallowed as deductions by Section
25 265(1) of the Internal Revenue Code of 1954, as now
26 or hereafter amended; and (ii) for taxable years
27 ending on or after August 13, 1999, Sections
28 171(a)(2), 265, 280C, and 832(b)(5)(B)(i) of the
29 Internal Revenue Code; the provisions of this
30 subparagraph are exempt from the provisions of
31 Section 250;

32 (N) An amount equal to all amounts included in
33 such total which are exempt from taxation by this
34 State either by reason of its statutes or

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

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

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

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

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

26 (S) An amount, to the extent included in
27 adjusted gross income, equal to the amount of a
28 contribution made in the taxable year on behalf of
29 the taxpayer to a medical care savings account
30 established under the Medical Care Savings Account
31 Act or the Medical Care Savings Account Act of 2000
32 to the extent the contribution is accepted by the
33 account administrator as provided in that Act;

34 (T) An amount, to the extent included in

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

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

15 (V) Beginning with tax years ending on or
16 after December 31, 1995 and ending with tax years
17 ending on or before December 31, 2004, an amount
18 equal to the amount paid by a taxpayer who is a
19 self-employed taxpayer, a partner of a partnership,
20 or a shareholder in a Subchapter S corporation for
21 health insurance or long-term care insurance for
22 that taxpayer or that taxpayer's spouse or
23 dependents, to the extent that the amount paid for
24 that health insurance or long-term care insurance
25 may be deducted under Section 213 of the Internal
26 Revenue Code of 1986, has not been deducted on the
27 federal income tax return of the taxpayer, and does
28 not exceed the taxable income attributable to that
29 taxpayer's income, self-employment income, or
30 Subchapter S corporation income; except that no
31 deduction shall be allowed under this item (V) if
32 the taxpayer is eligible to participate in any
33 health insurance or long-term care insurance plan of
34 an employer of the taxpayer or the taxpayer's

1 spouse. The amount of the health insurance and
2 long-term care insurance subtracted under this item
3 (V) shall be determined by multiplying total health
4 insurance and long-term care insurance premiums paid
5 by the taxpayer times a number that represents the
6 fractional percentage of eligible medical expenses
7 under Section 213 of the Internal Revenue Code of
8 1986 not actually deducted on the taxpayer's federal
9 income tax return;

10 (W) For taxable years beginning on or after
11 January 1, 1998, all amounts included in the
12 taxpayer's federal gross income in the taxable year
13 from amounts converted from a regular IRA to a Roth
14 IRA. This paragraph is exempt from the provisions of
15 Section 250; and

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

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

17 (Y) Beginning with taxable years ending on or
18 after December 31, 2001, for taxpayers 62 years of
19 age and older, an amount equal to all amounts the
20 taxpayer pays during the taxable year for Medicare
21 Part B benefits under Title XVIII of the federal
22 Social Security Act for costs of, including but not
23 limited to, physician services, outpatient hospital
24 services, medical equipment and supplies, and other
25 health services and supplies. This subparagraph (Y)
26 is exempt from the provisions of Section 250.

27 (b) Corporations.

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

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

34 (A) An amount equal to all amounts paid or

1 accrued to the taxpayer as interest and all
2 distributions received from regulated investment
3 companies during the taxable year to the extent
4 excluded from gross income in the computation of
5 taxable income;

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

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

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

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

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

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

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

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

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

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

1 year;

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

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

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

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

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

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

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

1 subsection shall be that portion of the total
2 interest paid by the borrower with respect to such
3 loan attributable to the eligible property as
4 calculated under the previous sentence;

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

32 (N) Two times any contribution made during the
33 taxable year to a designated zone organization to
34 the extent that the contribution (i) qualifies as a

1 charitable contribution under subsection (c) of
2 Section 170 of the Internal Revenue Code and (ii)
3 must, by its terms, be used for a project approved
4 by the Department of Commerce and Community Affairs
5 under Section 11 of the Illinois Enterprise Zone
6 Act;

7 (0) An amount equal to: (i) 85% for taxable
8 years ending on or before December 31, 1992, or, a
9 percentage equal to the percentage allowable under
10 Section 243(a)(1) of the Internal Revenue Code of
11 1986 for taxable years ending after December 31,
12 1992, of the amount by which dividends included in
13 taxable income and received from a corporation that
14 is not created or organized under the laws of the
15 United States or any state or political subdivision
16 thereof, including, for taxable years ending on or
17 after December 31, 1988, dividends received or
18 deemed received or paid or deemed paid under
19 Sections 951 through 964 of the Internal Revenue
20 Code, exceed the amount of the modification provided
21 under subparagraph (G) of paragraph (2) of this
22 subsection (b) which is related to such dividends;
23 plus (ii) 100% of the amount by which dividends,
24 included in taxable income and received, including,
25 for taxable years ending on or after December 31,
26 1988, dividends received or deemed received or paid
27 or deemed paid under Sections 951 through 964 of the
28 Internal Revenue Code, from any such corporation
29 specified in clause (i) that would but for the
30 provisions of Section 1504 (b) (3) of the Internal
31 Revenue Code be treated as a member of the
32 affiliated group which includes the dividend
33 recipient, exceed the amount of the modification
34 provided under subparagraph (G) of paragraph (2) of

1 this subsection (b) which is related to such
2 dividends;

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

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

12 (R) In the case of an attorney-in-fact with
13 respect to whom an interinsurer or a reciprocal
14 insurer has made the election under Section 835 of
15 the Internal Revenue Code, 26 U.S.C. 835, an amount
16 equal to the excess, if any, of the amounts paid or
17 incurred by that interinsurer or reciprocal insurer
18 in the taxable year to the attorney-in-fact over the
19 deduction allowed to that interinsurer or reciprocal
20 insurer with respect to the attorney-in-fact under
21 Section 835(b) of the Internal Revenue Code for the
22 taxable year; and

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

34 (3) Special rule. For purposes of paragraph (2)

1 (A), "gross income" in the case of a life insurance
2 company, for tax years ending on and after December 31,
3 1994, shall mean the gross investment income for the
4 taxable year.

5 (c) Trusts and estates.

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

10 (2) Modifications. Subject to the provisions of
11 paragraph (3), the taxable income referred to in
12 paragraph (1) shall be modified by adding thereto the sum
13 of the following amounts:

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

18 (B) In the case of (i) an estate, \$600; (ii) a
19 trust which, under its governing instrument, is
20 required to distribute all of its income currently,
21 \$300; and (iii) any other trust, \$100, but in each
22 such case, only to the extent such amount was
23 deducted in the computation of taxable income;

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

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

32 (E) For taxable years in which a net operating
33 loss carryback or carryforward from a taxable year
34 ending prior to December 31, 1986 is an element of

1 taxable income under paragraph (1) of subsection (e)
2 or subparagraph (E) of paragraph (2) of subsection
3 (e), the amount by which addition modifications
4 other than those provided by this subparagraph (E)
5 exceeded subtraction modifications in such taxable
6 year, with the following limitations applied in the
7 order that they are listed:

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

17 (ii) the addition modification relating
18 to the net operating loss carried back or
19 forward to the taxable year from any taxable
20 year ending prior to December 31, 1986 shall
21 not exceed the amount of such carryback or
22 carryforward;

23 For taxable years in which there is a net
24 operating loss carryback or carryforward from more
25 than one other taxable year ending prior to December
26 31, 1986, the addition modification provided in this
27 subparagraph (E) shall be the sum of the amounts
28 computed independently under the preceding
29 provisions of this subparagraph (E) for each such
30 taxable year;

31 (F) For taxable years ending on or after
32 January 1, 1989, an amount equal to the tax deducted
33 pursuant to Section 164 of the Internal Revenue Code
34 if the trust or estate is claiming the same tax for

1 purposes of the Illinois foreign tax credit under
2 Section 601 of this Act;

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

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

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

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

26 (I) The valuation limitation amount;

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

31 (K) An amount equal to all amounts included in
32 taxable income as modified by subparagraphs (A),
33 (B), (C), (D), (E), (F) and (G) which are exempt
34 from taxation by this State either by reason of its

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

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

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

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

30 (O) An amount equal to those dividends
31 included in such total that were paid by a
32 corporation that conducts business operations in a
33 federally designated Foreign Trade Zone or Sub-Zone
34 and that is designated a High Impact Business

1 located in Illinois; provided that dividends
2 eligible for the deduction provided in subparagraph
3 (M) of paragraph (2) of this subsection shall not be
4 eligible for the deduction provided under this
5 subparagraph (O);

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

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

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

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

20 (d) Partnerships.

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

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

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

31 (B) An amount equal to the amount of tax
32 imposed by this Act to the extent deducted from
33 gross income for the taxable year;

34 (C) The amount of deductions allowed to the

1 partnership pursuant to Section 707 (c) of the
2 Internal Revenue Code in calculating its taxable
3 income; and

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

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

10 (E) The valuation limitation amount;

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

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

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

33 (I) An amount equal to all amounts of income
34 distributable to an entity subject to the Personal

1 Property Tax Replacement Income Tax imposed by
2 subsections (c) and (d) of Section 201 of this Act
3 including amounts distributable to organizations
4 exempt from federal income tax by reason of Section
5 501(a) of the Internal Revenue Code;

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

19 (K) An amount equal to those dividends
20 included in such total which were paid by a
21 corporation which conducts business operations in an
22 Enterprise Zone or zones created under the Illinois
23 Enterprise Zone Act, enacted by the 82nd General
24 Assembly, and which does not conduct such operations
25 other than in an Enterprise Zone or Zones;

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

30 (M) An amount equal to those dividends
31 included in such total that were paid by a
32 corporation that conducts business operations in a
33 federally designated Foreign Trade Zone or Sub-Zone
34 and that is designated a High Impact Business

1 located in Illinois; provided that dividends
2 eligible for the deduction provided in subparagraph
3 (K) of paragraph (2) of this subsection shall not be
4 eligible for the deduction provided under this
5 subparagraph (M); and

6 (N) An amount equal to the amount of the
7 deduction used to compute the federal income tax
8 credit for restoration of substantial amounts held
9 under claim of right for the taxable year pursuant
10 to Section 1341 of the Internal Revenue Code of
11 1986.

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

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

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

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

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

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

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

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

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

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

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

1 federal Subchapter S rules as in effect on July 1,
2 1982; and

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

11 (f) Valuation limitation amount.

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

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

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

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

31 (A) If the fair market value of property
32 referred to in paragraph (1) was readily
33 ascertainable on August 1, 1969, the pre-August 1,
34 1969 appreciation amount for such property is the

1 lesser of (i) the excess of such fair market value
2 over the taxpayer's basis (for determining gain) for
3 such property on that date (determined under the
4 Internal Revenue Code as in effect on that date), or
5 (ii) the total gain realized and reportable for
6 federal income tax purposes in respect of the sale,
7 exchange or other disposition of such property.

8 (B) If the fair market value of property
9 referred to in paragraph (1) was not readily
10 ascertainable on August 1, 1969, the pre-August 1,
11 1969 appreciation amount for such property is that
12 amount which bears the same ratio to the total gain
13 reported in respect of the property for federal
14 income tax purposes for the taxable year, as the
15 number of full calendar months in that part of the
16 taxpayer's holding period for the property ending
17 July 31, 1969 bears to the number of full calendar
18 months in the taxpayer's entire holding period for
19 the property.

20 (C) The Department shall prescribe such
21 regulations as may be necessary to carry out the
22 purposes of this paragraph.

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

26 (h) Legislative intention. Except as expressly provided
27 by this Section there shall be no modifications or
28 limitations on the amounts of income, gain, loss or deduction
29 taken into account in determining gross income, adjusted
30 gross income or taxable income for federal income tax
31 purposes for the taxable year, or in the amount of such items
32 entering into the computation of base income and net income
33 under this Act for such taxable year, whether in respect of

1 property values as of August 1, 1969 or otherwise.
2 (Source: P.A. 90-491, eff. 1-1-98; 90-717, eff. 8-7-98;
3 90-770, eff. 8-14-98; 91-192, eff. 7-20-99; 91-205, eff.
4 7-20-99; 91-357, eff. 7-29-99; 91-541, eff. 8-13-99; 91-676,
5 eff. 12-23-99; 91-845, eff. 6-22-00; 91-913, eff. 1-1-01;
6 revised 10-24-00)

7 Section 99. Effective date. This Act takes effect upon
8 becoming law.