

# Tax Changes Implemented As Part of Revenue Package Supporting Illinois Budget

Article By:

Mary Kay McCalla Martire

Fred M. Ackerson

---

Yesterday afternoon, after months of wrangling and a marathon 4th of July weekend session, the Illinois House of Representatives voted to override Governor Bruce Rauner's veto of Senate Bill (SB) 9, the revenue bill supporting the State's Fiscal Year (FY) 2017-2018 Budget. The vote ended Illinois' two year budget impasse and may avoid a threatened downgrade of Illinois bonds to junk status. The key tax components of the bill as enacted [Public Act 100-0022](#) (Act) are as follows:

## Income Tax

**Rate increase.** Income tax rates are increased, effective July 1, 2017, to 4.95 percent for individuals, trusts and estates, and 7 percent for corporations.

**Income allocation.** The Act contains a number of provisions intended to resolve questions regarding how income should be allocated between the two rates in effect for 2017.

- Illinois Income Tax Act (IITA) 5/202.5(a) provides a default rule, a proration based on the days in each period (181/184), for purposes of allocating income between pre-July 1 segments and periods after the end of June when rates increase. Alternatively, IITA 5/202.5(b) provides that a taxpayer may elect to determine net income on a specific accounting basis for the two portions of their taxable year, from the beginning of the taxable year through the last day of the apportionment period, and from the first day of the next apportionment period through the end of the taxable year.

**Note:** This provision will create planning opportunities for taxpayers. For example, a taxpayer who paid bonuses to employees early in the year may wish to elect specific accounting, whereas taxpayers who paid bonuses out after the effective date of the tax increase may wish to pro rate under the default rule.

- A new sub-section (IITA 202.5(c)(3)) provides that a taxpayer who elects a specific allocation different from the default rule must divide any Section 204 exemptions between the respective periods in amounts which bear the same ratio to the total exemption allowable under Section

---

204 as the total number of days in each period bears to the total number of days in the taxable year. We note that no mention is made regarding the treatment of credits.

- Finally, another new sub-section (IITA 202.5(c)(4)) provides that a taxpayer who elects a specific allocation different from the default rule may not claim negative net income for one portion of the year and not the other. If a taxpayer's net income otherwise would be negative for a portion of the year, the taxpayer is required to attribute all of its net income to the portion of the taxable year with positive net income and report net income for the other portion of the taxable year as zero.

Elimination of non-combination rule. For taxable years beginning on or after December 31, 2017, the definition of "unitary business group" is amended to eliminate the non-combination rule for group members that use different apportionment methods. There is no exception for insurance companies.

**Note:** For calendar year corporations, this change will take effect this year.

Expanded definition of "United States." For taxable years ending on or after December 31, 2017, the definition of "unitary business group" is amended to include an expanded definition of "United States" to include the fifty states, the District of Columbia and "any area over which the United States has asserted jurisdiction or claimed exclusive rights with respect to the exploration for or exploitation of natural resources," but not any territory or possession of the United States.

**Note:** For calendar year corporations, this change will take effect this year.

Decoupling from Domestic Production Activities Deduction (DPAD). The Act decouples from the federal domestic production activities deduction.

Research and Development Credit Extended and Reliance Protected. The research and development credit is restored retroactively (it had expired on January 1, 2016) and extended through December 31, 2021. The Act provides that all actions taken by taxpayers "in reliance on the continuation of the credit" are "hereby validated."

Income Cap on individual taxpayer eligibility for certain exemptions and credits. Taxpayers with adjusted gross income for a taxable year in excess of \$500,000 (in the case of spouses filing a joint federal return) or \$250,000 (for all other taxpayers) may not claim the standard exemptions set forth in IITA Section 204. (IITA 5/204(g)). In addition, they may not claim a tax credit for residential real property taxes (IITA 5/208) or the education expense credit (IITA 5/201(m)).

Increased education expense credit. The education expense credit is increased to \$750 for tax years ending on or after December 31, 2007. (See note above about limitations on taxpayer eligibility for the credit.)

Instructional materials credit. A new credit (maximum \$250.00) is created for taxpayers who are teachers, instructors, counselors, principals or aides in qualified schools (for at least 900 hours during a school year) for instructional materials and supplies.

## **Sales Tax**

Sales tax base not expanded to include services. The Act does not change the sales tax rate or expand the base to tax services.

Gasohol, majority blended ethanol, biodiesel and certain biodiesel blends. The Retailers' Occupation Tax Act, Use Tax Act and Services Tax Act are amended to provide that gasohol is taxed at 100 percent of sales proceeds, effective July 1, 2017. Exemptions for blended ethanol, biodiesel and biodiesel blends are extended through 2023.

Manufacturing, Machinery and Equipment Exemption expanded to include graphic arts. The manufacturing, machinery and equipment exemption is expanded to include graphic arts machinery and equipment, effective July 1, 2017.

## **State Tax Lien Registration Act**

The Act creates a central state tax lien registration system, which eliminates the requirement for the Illinois Department of Revenue (DOR) to post liens for taxes due in counties throughout the state. Taxpayers are required to pay any administrative fee imposed by the DOR by rule when creating the State Tax Lien Registry.

## **Revised Uniform Unclaimed Property Law**

The Act includes a complete rewrite of the Illinois Unclaimed Property Laws, which we describe in [a separate post](#).

© 2025 McDermott Will & Emery

---

National Law Review, Volume VII, Number 189

Source URL: <https://natlawreview.com/article/tax-changes-implemented-part-revenue-package-supporting-illinois-budget>