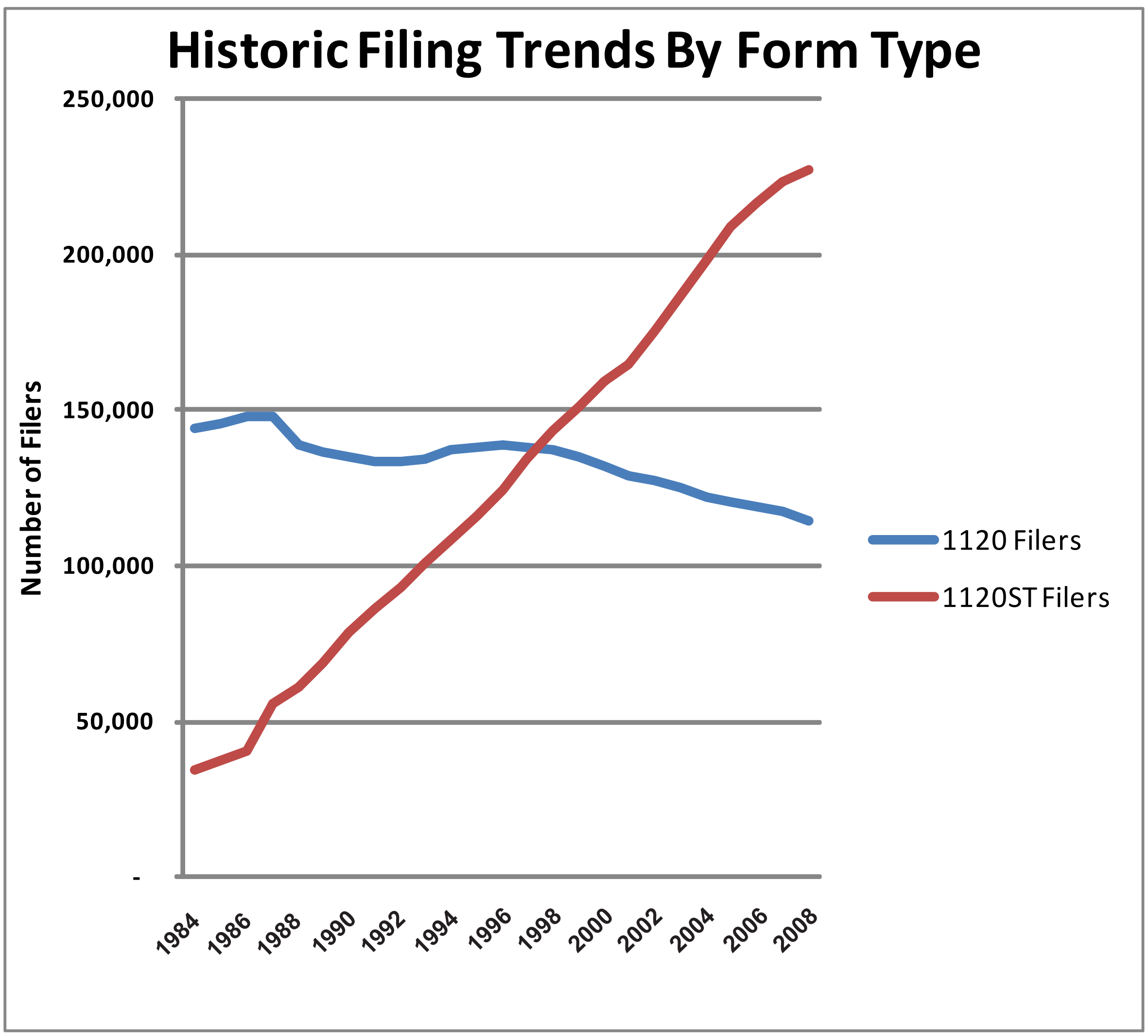
Introduction

This supplement provides some basic statistics on the characteristics of businesses filing income tax returns in Illinois. It also provides updates to some basic tax credit information that was initially provided in a report issued by the Department of Revenue in May 2009.[1]

The graph below illustrates trends in the number of companies, by type of corporate structure, that file tax returns in Illinois. We can see that over the last 25 or so years the trend has been declining C-Corporations and increasing S-Corporations.

The increase in S Corporation (1120-ST) filings and the decrease in C Corporation (1120) filings reflect the increasing popularity of pass-through entities that are exempt from federal and most states' entity level income taxes. Changes in federal law over the last 20 years have made electing S Corporation treatment progressively easier, and the introduction of Limited Liability Companies (which provide the same limited liability as corporations, but whose income is passed through to their owners when they elect to be treated as partnerships or to be disregarded entirely) have eliminated many of the advantages of forming businesses as C corporations.

Note that only C-Corporations make income tax payments that are retained by the state. Any income tax payments made directly by S-Corps is fully passed along to local units of government. Also note that on average approximately 33 percent of C-Corporations pay income tax to the state in any given year while on average approximately 50 percent of S-Corporations pay income tax to local units of government.



[1] Analysis of Selected Illinois Business Tax Incentives, Illinois Department of Revenue, April 2009, Revised 5/13/2009

C-Corporations (1120)
Historical Data

Tax year	Number of taxpayers	Number of taxpayers with tax liability	Percentage with tax liability	Taxable income in millions *
2008	114,544	37,334	33%	$35,411
2007	117,502	39,008	33%	$34,529
2006	119,214	39,842	33%	$31,577
2005	120,918	39,633	33%	$25,592
2004	122,257	39,915	33%	$21,418
2003	124,799	39,810	32%	$17,177
2002	127,026	37,291	29%	$15,431
2001	129,221	38,128	30%	$15,719
2000	132,150	41,981	32%	$18,101
1999	135,008	44,241	33%	$19,572
1998	136,937	46,154	34%	$19,804
1997	138,139	46,589	34%	$21,581
1996	138,732	46,433	33%	$20,937
1995	137,828	45,983	33%	$19,563
1994	137,690	44,152	32%	$16,172
1993	134,134	41,114	31%	$13,656
1992	133,526	40,491	30%	$12,069
1991	133,265	40,992	31%	$11,850
1990	135,351	43,305	32%	$12,039
1989	136,183	45,440	33%	$13,016
1988	138,825	49,849	36%	$13,897
1987	147,921	57,135	39%	$12,261
1986	148,236	57,939	39%	$11,189
1985	145,443	57,603	40%	$9,733
1984	144,161	58,010	40%	$10,663

* C corporations pay 4.8 percent Corporate Income Tax and 2.5 percent Personal Property Replacement Tax on their taxable income.

S-Corporations (1120-ST)
Historical Data

Tax year	Number of taxpayers	Number of taxpayers with tax liability	Percentage with tax liability	Taxable income in millions	PPRT in millions *
2008	226,922	118,136	52%	$18,749	$276
2007	223,421	118,345	53%	$20,045	$297
2006	216,716	116,849	54%	$19,667	$295
2005	209,219	111,778	53%	$17,197	$258
2004	198,540	104,484	53%	$15,248	$229
2003	187,132	98,265	53%	$12,934	$194
2002	175,415	88,556	50%	$12,916	$194
2001	164,981	83,996	51%	$12,722	$187
2000	159,088	82,082	52%	$13,244	$194
1999	151,005	78,809	52%	$13,881	$203
1998	143,059	73,695	52%	$12,567	$183
1997	134,116	67,338	50%	$10,894	$158
1996	124,672	60,775	49%	$9,022	$131
1995	116,149	55,264	48%	$7,591	$109
1994	108,550	51,332	47%	$7,186	$104
1993	100,992	45,309	45%	$5,097	$74
1992	92,868	41,302	44%	$4,884	$70
1991	86,017	37,285	43%	$3,965	$58
1990	78,498	35,214	45%	$4,267	$62
1989	68,951	32,136	47%	$4,174	$61
1988	60,777	29,167	48%	$4,101	$60
1987	55,710	26,500	48%	$2,671	$39
1986	40,614	18,094	45%	$1,523	$22
1985	37,146	16,558	45%	$1,274	$19
1984	34,340	15,308	45%	$1,067	$16

* S corporations pay 1.5 percent Personal Property Replacement Tax on their taxable income.

Illinois provides a broad range of business tax credits and economic development incentives with the intent of

- encouraging the creation and retention of jobs;
- enticing firms to locate in Illinois;
- assisting specific industries or disadvantaged groups currently located in Illinois; and,
- encouraging economic development in impoverished local communities.

Business tax credits are claimed on tax returns, while economic development programs are administered by the State's Department of Commerce and Economic Opportunity (DCEO). For purposes of this analysis, we focus solely on tax credits.

In this analysis we distinguish between the amount of credit earned and the amount of credit used. These terms are *not* interchangeable:

> **Credit earned** refers to a firm claiming an individual credit on its tax return. The firm can either *use* the credit in the current year to offset their tax liability or carry the credit forward.

Note: All of the income tax credits examined here have carry-forward provisions.

> The amount of **credit *used*** by a firm in a given year is an aggregate that includes both credits earned in prior years and carried forward as well as credits earned in the current year.

The total amount of credit used here is reported by firms, but firms are not required to distinguish between credits used which were earned in prior years and credits used which were earned in the current year. Due to this data limitation, we therefore have to estimate the amount of each individual credit that is used in a year.

The **Corporate Income Tax (CIT)** credits are used heavily by a small number of businesses. Approximately 0.3 percent of corporate taxpayers (574 returns) used corporate income tax credits to reduce 2008 income taxes. The CIT credits reduced corporate income taxes by $81.4 million for tax year 2008 returns.

The top 25 credit users claimed $60.9 million of the $81.4 million, or 75.0 percent. The top 25 taxpayers represent 0.01 percent of the 114,544 corporate returns on file for tax year 2008.

Income Tax Credits

Illinois levies two taxes on business income:

- **Corporate Income tax (CIT)** — levied on C-Corporations on their business income at 4.8 percent
- **Personal Property Replacement Tax (PPRT)** — levied on C-Corporations, S-Corporations, partnerships, and trusts.[2] C-Corporations are taxed at a 2.5 percent rate by the PPRT, while the rate for the other entities is 1.5 percent.

The PPRT tax is a local tax administered by the State. All PPRT revenue is distributed to local governments. Together these two taxes are referred to as business income taxes. The CIT credits are all filed on the Schedule 1299-D, so collectively they are referred to as 1299-D credits.[3]

[2] Distributions made by S-Corps, Partnerships and Trusts to individuals are taxed at the Individual Income Tax rate of 3 percent.

[3] The PPRT Investment Credit is not reported on the 1299-D schedule.

In tax year 2008, 4518 different credits with a value of $2006 million were earned by firms. The Replacement Tax Investment Credit was the most popular in terms of number of firms earning the credit. The EDGE credit overtook the Research and Development Credit in terms of cost to the state. Of the total $100.6 million in credits earned, $161.1 million came from those credits earned by C-Corporations and claimed on Schedule 1299-D. In tax year 2008, firms filing Schedule 1299-D used approximately 50 percent of total credits earned.

Major Business Income Tax Credits Earned in Tax Year 2008			
Credit	Amount earned in millions	Percent of total	Number of firms earning credit
Research and Development Credit	$55.1	27%	284
Replacement Tax Investment Credit*	$39.5	20%	3,638
EDGE Tax Credit	$56.9	28%	72
Affordable Housing Donations Credit	$13.2	7%	11
Enterprise Zone Investment Credit	$13.1	7%	464
Film Production Services Credit	$19.8	10%	10
Other 1299-D Credits	$0.9	0%	30
High Impact Business Investment Credit	$2.1	1%	9
Total Income Tax Credits Earned	**$200.6**	**100%**	**4,518**
*Includes both 1120 and 1120-ST filers. Both receive this credit.			

1299-D credits earned and used are concentrated among a small number of firms. The table below illustrates the total amount of 1299-D credit earned and used by the top 50 firms.

Firm Concentration of Major Corporate Income Tax Credits Earned and Used in Tax Year 2008				
Firm Rank	1299-D Credits Used in millions	Percent of Total Credits Used	1299-D Credits earned in millions	Percent of total credits earned
Firms 1 - 10	$45.2	56%	$78.7	49%
Firms 11- 20	$12.3	15%	$24.4	15%
Firms 21 - 30	$6.0	7%	$13.7	9%
Firms 31 - 40	$4.1	5%	$8.6	5%
Firms 41 - 50	$3.0	4%	$6.9	4%
Top 50 Firms	$70.6	87%	$132.3	82%
Total, All Firms	**$81.4**	**100%**	**$161.1**	**100%**
Note: Firms in the "Used" Column may not be the same firms as those in the "Earned" Column.				

The top 50 firms using 1299-D credits account for approximately 87 percent of the total amount of 1299-D credits used by all firms. The distribution is particularly concentrated toward the top where the top 10 firms used 56 percent of total credits used. The distribution is similar for 1299-D credits earned. Individual firms may not have the same rank in both columns due to possible carry forward of credits earned in previous years.

Credits similar to the 1299-D credits are available for individual shareholders or partners of non-C corporations. The 1299-C credits earned in tax year 2008 totaled some $34.4 million.