



# Business Income Taxes in Illinois

July 19, 2011



- Every business that earns or receives income in Illinois must file a business income tax return.

<b><u>Number of Filers by Entity Type</u></b>				
<u>Tax Year</u>	<u>Corporations</u>	<u>S-Corporations</u>	<u>Partnerships</u>	<u>Total</u>
2009	110,454	232,379	109,997	452,830
2008	114,544	230,488	108,650	453,682
2007	117,641	224,378	106,519	448,538
<b><u>Percent of Filers by Entity Type</u></b>				
<u>Tax Year</u>	<u>Corporations</u>	<u>S-Corporations</u>	<u>Partnerships</u>	<u>Total</u>
2009	24.4%	51.3%	24.3%	100%
2008	25.2%	50.8%	23.9%	100%
2007	26.2%	50.0%	23.7%	100%



## Step 1: Federal Taxable Income

- Each business starts with Federal Taxable Income (FTI), which is income minus federal deductions.
- FTI is analogous to Adjusted Gross Income on the individual income tax return.



## Step 2: Modify Federal Taxable Income (FTI)

- Make modifications to Federal Taxable Income.
  - Additions. Example: Interest income from state and municipal bonds.
  - Subtractions. Example: Enterprise Zone Dividend Subtraction; also High Economic Impact Business Dividend Subtraction.
- The modified FTI is called base income.



## Step 3: Apportionment

- Businesses that operate only in Illinois allocate 100 percent of their base income to Illinois.
- Businesses that operate in Illinois and other states must apportion a fraction of their base income to Illinois.
- In most cases, this fraction is the businesses' Illinois sales divided by the businesses' U.S. sales. This is called single sales factor apportionment.



## History of Apportionment in Illinois

- **8/1/1969 through 12/31/1996** – 3 factor formula consisting of property, payroll and sales, which are weighted equally.
- **Example, Hypothetical Firm:**

Illinois property/U.S. property	=	10%
Illinois payroll/U.S. payroll	=	20%
Illinois sales/U.S. sales	=	<u>30%</u>
Sum		60%
Divide by 3 to get apportionment fraction		20%



## History of Apportionment in Illinois

- **1/1/97 through 12/31/1998** – 3 factor formula with double-weighted sales.
- **Example, Hypothetical Firm:**

Illinois property/U.S. property	=	10%
Illinois payroll/U.S. payroll	=	20%
Illinois sales/U.S. sales	=	30%
Illinois sales/U.S. sales	=	<u>30%</u>
Sum		90%
Divide by 4 to get apportionment fraction		22.5%



## History of Apportionment in Illinois

- **1/1/1999 through the current period** – Single sales factor. Regardless of location, firms that make sales in Illinois must pay Illinois income tax if they have positive taxable income.
- **Example, Hypothetical Firm:**

Illinois property/U.S. property		n/a
Illinois payroll/U.S. payroll		n/a
Illinois sales/U.S. sales	=	30%
Apportionment fraction is		30%



## Note About Single Sales Factor Apportionment in Illinois

- If Company A makes widgets in Illinois and sells 75 percent to Illinois customers and 25 percent to Indiana customers, then 75 percent of Company A's base income is apportioned to Illinois.
- If Company A moves to Indiana and continues to sell 75 percent of their widgets to Illinois customers and 25 percent to Indiana customers, then 75 percent of Company A's base income is still apportioned to Illinois.



## Apportionment Methods in Border States

Indiana	Single sales factor
Iowa	Single sales factor
Wisconsin	Single sales factor
Missouri	3-factor, equal weights
Kentucky	Double sales factor



## Apportionment Methods Nationwide

Single sales factor	14 states
Double sales factor	16 states
3-factor, equal weights	13 states
Other	3 states
No tax	4 states



## Step 5: Calculating Illinois Net Income

- After apportioning base income to Illinois, businesses make adjustments for Illinois net operating losses.
- The result is Illinois net income.
- This provision of the tax code has been suspended for tax years 2011 to 2014.



## Step 6: Apply Corporate Income Tax Rate

- C-Corporations apply the Illinois corporate income tax rate of 7 percent to their Illinois net income.
- Pass-thru entities do not pay the corporate income tax. Instead, their owners pay individual income tax on the owner's share of net income earned by the entities.



## Corporate Income Tax Rates in Border States 2011

Indiana	8.5%
Iowa	6% 1st \$25,000; 8% next \$75,000; 10% next \$150,000; 12% over \$250,000.
Kentucky	4% on 1st \$50,000; 5% on next \$50,000; 6% over \$100,000.
Missouri	6.25%
Wisconsin	7.9%



## Step 7: Apply Personal Property Replacement Tax Rate

- C-Corporations apply a personal property replacement tax rate of 2.5 percent to their Illinois net income.
- Pass-through entities apply a 1.5 percent personal property replacement tax rate to their Illinois net income.



## Personal Property Taxes

- Illinois abolished personal property taxes in 1978 and in their place enacted the Personal Property Replacement Tax, effective July 1, 1979. Revenue from both taxes accrued entirely to local governments and schools.
- Illinois is one of nine states to abolish personal property taxes.
- States that still have a personal property tax include Indiana, Michigan, Wisconsin, Iowa, Missouri, and Kentucky.



## Step 8: Apply Applicable Tax Credits

<u>C-Corp Filers Only</u>	<u>Tax Year 2008 - 766 Unique Filers</u>	
<u>Credit Name</u>	<u>Credit Earned</u>	<u># Filers Earning</u>
Tech-Prep	\$585,534	1
Dependent Care	\$27,876	2
Film	\$19,787,968	10
Child Care	\$246,091	6
Jobs	\$3,500	1
Enterprise Zones	\$13,085,569	462
High Impact	\$2,122,710	9
Affordable Housing	\$13,177,321	11
EDGE	\$56,934,792	72
Research and Development	\$55,057,872	282
River EDGE	\$0	0
Ex-Felons	\$36,894	5
Veterans	\$34,839	15
	\$161,100,966	876
Percent of Total C-Corps Earning Credits		0.7%



## 25-Year Trend in Type of Business Entity

- Over the last 25 years, the number of C-Corporations filing business income tax returns in Illinois has decreased by almost 25 percent.
- During this same period, the number of non-C-corporations filing a business income tax return in Illinois has increased by almost 250 percent.

	C-Corporations	Non-C Corporations
1984	144,161	98,358
2009	110,454	342,376



## Business Entity Stats

<u>Tax Year 2007</u>	<u>C-Corps</u>	<u>1120 ST</u>	<u>1065</u>
Percent with tax liability	33%	53%	25%
Number with tax liability	38,783	118,835	26,101
Percent that apportion	19%	7%	9%
Number that apportion	21,591	16,622	9,214
Percent that apportion <i>and</i> pay tax	50%	68%	42%
Number that apportion <i>and</i> pay tax	10,749	11,310	3,865
Average Illinois sales for those that apportion (\$ mil.)	\$35.9	\$35.9	\$19.4



## "Big Three" Tax Sources FY90-FY11 (\$ mil.)

