

Illinois Taxes and Tax Incentives

State of Illinois

Personal Income Tax

Income earned in Illinois or received by Illinois residents is taxed at 3%. Partnerships and S-corporations pay a 1.5% personal property replacement tax and S-corporation owners pay 3% personal income tax on their share of the corporation's income.

★ *INCENTIVES*

- There are no local personal income taxes in Illinois.
- Retirement income is not taxed in Illinois.

Corporate Income Tax

Corporate income apportioned to Illinois is taxed at 7.3%, which includes a 4.8% state income tax and a 2.5% personal property replacement tax (S-corporations pay 1.5%).

★ *INCENTIVES*

- The 2.5% replacement tax may be deducted from the 4.8% state income tax, resulting in an effective tax rate of ~7.2%.
- The Illinois apportionment formula for income is $66\frac{2}{3}\%$ sales, $16\frac{2}{3}\%$ property, and $16\frac{2}{3}\%$ payroll. In 2000 it will be $83\frac{1}{3}\%$ sales, $8\frac{1}{3}\%$ property, and $8\frac{1}{3}\%$ payroll. After 2000 apportionment will be based on sales alone.
- Credits include a 0.5% credit for investment in mining, manufacturing or retailing, plus an additional 0.5% if employment increases over 1%, a 1.6% training expense tax credit, a 6.5% Research and Development credit, and an additional 0.5% investment tax credit plus a \$500 jobs tax credit in Illinois Enterprise Zones.
- In addition, dividends paid by corporations operating in an Illinois Enterprise Zone and interest on loans to Enterprise Zone businesses are deductible.
- There are no local corporate income taxes in Illinois.

Sales Tax

Retail purchases of tangible personal property are subject to a state sales tax or use tax rate of 5.0%. Local sales tax rates vary from 0 to 2.5%, and total 2.25% in Rockford.

★ *INCENTIVES*

- Illinois has a number of exemptions: purchases of manufacturing machinery as well as replacement parts and computers used to control manufacturing machinery; purchases of farm machinery; pollution controls; building materials to be used in an Illinois Enterprise Zone; and materials consumed in the manufacturing process in Illinois Enterprise Zones (certain job creation criteria apply).
- Purchasers of manufacturing machinery receive a credit equal to 50% of what the taxes would have been if the manufacturing machinery was taxable, making it possible for the manufacturers to use this credit to offset any other sales tax liability they incur.
- Sales tax Tax Increment Financing zones (TIFs) are often used to spur development in Illinois.
- Food and drugs are taxed at the reduced rate of 1%.

Utility Taxes

Illinois imposes a tax on those in the business of selling, distributing, supplying or furnishing electricity or natural gas for use or consumption. The telephone tax is 5%. The electricity tax is 5% or 0.32 cents per kilowatt hour, whichever is lower. The natural gas tax is 5% or 2.4 cents per therm, whichever is lower. Some local governments also collect utility taxes.

★ **INCENTIVES**

- Illinois does not tax water and sewer utilities.
- Electricity and natural gas tax exemptions are available in Illinois Enterprise Zones (certain job creation criteria apply).
- Natural gas bought from producers outside the state is not subject to the natural gas tax.

Property Taxes

Illinois does not collect a state property tax on real estate or on personal property. Local governments are authorized to collect property taxes on real property (land and buildings), which is assessed at 33. $\frac{1}{3}$ % of market value (except in Cook County).

★ **INCENTIVES**

- All property other than real estate is exempt from the property tax in Illinois. Thus, all classes of personal property, including machinery, equipment, inventories and intangibles are exempt.
- Local taxing bodies may abate the property taxes of a new or expanded industrial or commercial facility up to \$3 million spread over as many as 10 years.
- Taxing bodies within Illinois Enterprise Zones may abate property taxes without a dollar limit for the life of the zone (up to 20 years from the time of the zone's creation) for any project in the zone.
- Pollution controls are assessed at salvage value (lacking any economic productivity) rendering them essentially exempt from the property tax.
- Property tax caps are in effect in many Illinois counties, limiting increases in property tax rates to the lower of inflation or 5%.
- Property tax TIFs also are used in Illinois to promote development.

Unemployment Compensation Taxes

An unemployment compensation tax is applied to the first \$9,000 in wages paid to each employee annually. A "new employer" rate applies for the first three years of operation; after 13 months experience in Illinois, an "experience-adjusted" rate is calculated. When an employer has been in business in Illinois at least 13 months but less than 36 months, that employer pays the higher of the two rates; after 36 months, the employer pays its "experience-adjusted" rate. Adjusted rates may vary from 0.6 to 6.8%.

★ **INCENTIVE**

- The maximum rate for an employer with less than \$50,000 in total wages in a given quarter is 5.4%.

Inheritance Tax

★ **INCENTIVE**

- Illinois collects only the amount that the federal government would collect in the absence of a state tax.