Closing Tax Loopholes

Governor Pritzker's proposed budget is balanced with no tax increases for Illinois families and solves for the original estimated deficit through flat spending, government efficiencies, and ending corporate loopholes and giveaways.

CAP CORPORATE NOL DEDUCTIONS AT $100,000 PER YEAR FOR NEXT 3 YEARS

Generally, when a corporation suffers a net operating loss (NOL) in a given year, it can carry forward the NOL to future years and deduct it from otherwise taxable income (IITA Section 207). The governor is proposing to limit the amount of NOL deductions claimed in any one year to $100,000 for the next three years. This change is only applicable to corporations. An estimated 80 percent of Illinois corporate income taxpayers carrying NOLs will not be impacted by the limit. In the 2018 tax year, 2,805 corporations had NOLs totaling over $6.4 billion, over half of which was claimed by only 89 corporations. Those that are impacted will only be delayed in using their NOL deductions; they will not lose them. However, with this change, it is estimated that an additional **$314 million** in corporate income tax revenues for the general funds will be collected in fiscal year 2022 as well as an increase of **$21 million in local taxes**.

ROLL BACK FEDERAL TCJA 100% FOREIGN-SOURCE DIVIDEND DEDUCTION

Then-President Donald Trump's 2017 change to tax law (the TCJA) adjusted the percentage of the dividend deductions for domestic dividends and the "U.S.-source" portion of foreign dividends while creating a new 100 percent dividend deduction for the "foreign-source" portion of foreign dividends and a new 50 percent deduction for global intangible low-taxed income (GILTI). These new deductions give better tax treatment to dividends from foreign sources than dividends from domestic sources. Aligning the tax treatment of foreign- source dividends and GILTI to the treatment of domestic dividends will generate an additional **$107 million** in corporate income tax revenues for the general funds and **$7 million** for local governments while still permitting corporate taxpayers to take advantage of the standard deductions authorized under IRC Section 243 for domestic dividends and IITA Section 203(b)(2)(O) for foreign dividends. The impact of this proposal will fall primarily on large, multi-national corporations with foreign subsidiaries or substantial ownership interests in foreign corporations.

ROLL BACK FEDERAL TCJA 100% ACCELERATED DEPRECIATION DEDUCTION

The federal Tax Cuts and Jobs Act of 2017 (TCJA) changed the tax code to allow businesses to take a 100 percent depreciation deduction in the year of purchase for all purchases of qualifying assets such as machinery, equipment, furniture and computers. The 100% first year deduction does not accurately reflect the depreciation of an asset over its useful life. The governor's proposed budget calls for business taxpayers to apply the standard depreciation schedules in IRC Section 168. An estimated **$214 million** in additional business income tax revenues for the general funds and **$14 million** for local governments will be collected in fiscal year 2022 with this change. The impact of this proposal will be felt by large businesses that invest more than $1 million in qualifying depreciable assets annually.

CAP RETAILERS' DISCOUNT

Currently, Illinois retailers receive a discount of 1.75 percent of the sales tax due on their retail sales. The discount is intended to reimburse some of their cost of collecting taxes on behalf of the state. The discount costs state and local governments approximately $250 million per year. The Governor is proposing a $1,000- per-month cap on the Retailers’ Discount, which would increase sales tax deposits by **$73 million for the state** general funds and **$55 million for local governments**. Only a small percentage of high-volume retailers will be impacted by this proposal; nearly 99 percent of all Illinois retailers will see no change in their discount. The cap will not affect any retailer with monthly sales of less than $500,000.

REVIEW AND REVERSE RECENT ILLINOIS TAX CHANGES

In 2019, several business tax incentives were included in Illinois’ income, franchise and sales tax laws that are not currently affordable for the state. Eliminating some recent tax changes like the add-on income tax credits for construction job payroll expenditures, eliminating the repeal of the corporate franchise tax, and removing production-related tangible personal property from the Manufacturing Machinery and Equipment Exemption (MM&E) in the sales tax law will increase state tax revenues by an estimated **$102 million** for the general funds in fiscal year 2022. Additionally, accelerating the expiration of the remaining sales tax exemptions for biodiesel will increase state general funds revenues by an estimated **$107 million**.

All changes to sales taxes will also benefit the local governments where the sales are made. The revision to MM&E will result in a **$44 million increase in local taxes** and that the early expiration of biodiesel exemptions will result in an **$85 million increase in local taxes**.