This Week in State Tax (TWIST)

June 9, 2025

Illinois – FY 2026 Budget Contains Amnesty and Corporate Tax Changes

The Illinois budget bill, which passed out of the state legislature on June 1, makes numerous changes to the state tax code. The bill is currently pending Governor Pritzker's signature. Notable changes include:

- Switching from a *Joyce* apportionment method to a *Finnigan* approach. Under the new provision, a unitary group will be required to include the sales of each of its members (without regard to whether the member has individual Illinois nexus) when computing its sales factor.
- Expanding the corporate income tax base to include 50 percent of global intangible low-taxed income (GILTI) that was included for federal purposes under IRC 951A. Previously, Illinois allowed a full deduction for GILTI if the taxpayer owned 80% or more of the controlled foreign corporation.
- Adjusting the application of the business interest limitation by requiring that any federal reduction in a unitary group's deductible interest expenses caused by the IRC 163(j) limitation be applied to expense deductions claimed by group members included in the Illinois combined report before applying the reduction to group members excluded from the Illinois combined report. The bill also expands the circumstances under which a taxpayer is required to add-back for state purposes otherwise federally deductible interest expenses. Previously, a taxpayer was not required to add-back interest paid to a foreign related entity if that entity is subject to tax in a foreign country or state or the agreement was entered into at arm's-length rates and terms. Under the bill, there is no exemption for payments to entities that are subject to tax, and agreements with arm's-length rates and terms are exempted only if the recipient will pay the interest along to another unrelated person or if the taxpayer establishes by clear and convincing evidence that the resulting adjustment would be unreasonable.
- Creating new sourcing provisions that use a "lookthrough" approach to attribute to Illinois the owner's income from the sale of the passthrough entity (S corporations and partnerships, other than Illinois investment partnerships). The revised approach will the passthrough entity's Illinois apportionment factors, averaging the current tax year with the two immediately prior tax years, to allocate nonbusiness income and to source business income from the sale of the entity.
- Eliminating the 200-transaction threshold for collection of sales tax by remote sellers (but maintaining the $100,000 in gross sales economic nexus standard).
- Establishing a three separate amnesty programs. A general amnesty program for taxes administered by the Department of Revenue will run from October 1, 2025 through November 15, 2025, which will cover all taxes due from periods ending between June 30, 2018 and July 1, 2024. The amnesty will provide relief from all penalties and interest on taxes paid during the amnesty. A separate franchise tax amnesty program will

run during the same period and cover any franchise tax or licensee fee liabilities for tax periods ending between June 30, 2019 and July 1, 2025. Finally, a “remote retailer amnesty program” will run from August 1, 2026 to October 31, 2026, during which remote retailers (as defined) will be eligible to remit sales and use taxes for transactions that occurred between January 1, 2021 and June 30, 2026 at a “simplified rate” (9 percent for items that would have been taxed at a state rate of 6.25 percent, and 1.75 percent for items that would have been taxed at a state rate of 1 percent). Payment of tax at the simplified rate will be in lieu of all state and local retail occupation taxes due, and all penalty and interest on any such amounts shall be abated.

Contact Brad Wilhelmson or Andrew Olson with questions about H.B. 2755.