

KBKG TAX INSIGHT: ILLINOIS LAWMAKERS SEEK TO SIGNIFICANTLY IMPROVE THE STATE RESEARCH & DEVELOPMENT TAX CREDIT

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On January 18th, Illinois State Senator, Donald DeWitte introduced a proposed amendment to the Illinois Income Tax Act to base the incremental qualified research expenditures (QREs) on an increase over 50% of the average QREs incurred within the state of Illinois. This would bring the state's credit calculation more in line with the federal Alternative Simplified Credit methodology. Current state law defines the base amount as the average of the three prior years' QREs. This represents an outstanding opportunity to take advantage of a tax credit for activities meeting the requirements of IRC §41 (To be eligible for R&D Tax Credits, research activities must meet the criteria in the IRS [Four-Part Test](#)). The tax credits are available for expenditures including:

- Wages paid to an employee performing research activities conducted at a facility in Illinois
- Wages paid to any employees directly supporting or directly supervising an employee performing research activities conducted at a facility in Illinois
- Supplies used or consumed while performing research activities at a facility in Illinois

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KBKG Insight:

Qualifying research activities may be present in a multitude of different industries including, but not limited to manufacturing, software development, architectural and engineering design, and agriculture.

Opportunity

Should this bill pass, Illinois taxpayers have an opportunity to triple their current R&D tax benefit.

To illustrate the impact on the credit, consider an Illinois manufacturer's average QREs for the three prior years is \$500,000 and its 2021 QREs increase to \$600,000. Under the current tax law, this taxpayer's Illinois R&D credit is \$6,500 $((\$600,000 - \$500,000) \times 6.5\%)$. Under the proposed legislation, the credit would be \$22,750 $((\$600,000 - \$250,000) \times 6.5\%)$. By cutting the previous base amount by the proposed 50%, it increases the incremental R&D expenditures to be multiplied by the credit rate.

To learn more about the R&D Tax Credit, contact our [experts](#).



About the Author



Michael Maroney – Director [Midwest](#)

Michael Maroney is a Director with KBKG at our [Chicago, IL office](#). He advises clients on tax matters related to federal and state [R&D tax credits](#). He has advised numerous Fortune 1000 clients across a variety of industries. He has successfully defended his client's R&D claims before the IRS and state taxing authorities. He has been an instructor on these topics for numerous CPA and industry associations and has authored articles related to federal and state R&D tax credits. » [Full Bio](#)