Publication 101

Income Exempt from Tax

December 2025

About this publication

The Constitution, treaties or statutes of the United States, and the Illinois Constitution exempt certain income from Illinois Income Tax. Illinois law also exempts income of certain obligations of state and local governments from Illinois Income Tax.

Publication 101, Income Exempt from Tax, provides a quick reference and a brief explanation of income that is exempt from Illinois Income Tax. The objectives of Publication 101 are to

- identify who is entitled to a subtraction of income exempt from Illinois Income Tax.
- define income that is exempt from Illinois Income Tax as outlined in the Illinois Income Tax Rules.
- identify exceptions.
- explain how to claim a subtraction of exempt income on your Illinois Income Tax return.

This publication is reviewed on an annual basis and may not include the latest changes in the Illinois Income Tax Rules. For more information regarding Illinois Income Tax exemptions, see the Illinois Income Tax Rules, 86 Illinois Administrative Code 100.2470. To obtain a copy of these rules, call

- **1 800 356-6302** or
- our TTY at **1 800 544-5304**.

The information in this publication is current as of the date of the publication. Please visit our website at tax.illinois.gov to verify you have the most current revision.

This publication is written so the tax information is easier to understand. As a result, we do not directly quote Illinois statutes and the Illinois Administrative Code. The contents of this publication are informational only and do not take the place of statutes, rules, and court decisions. For many topics covered in this publication, we have provided a reference to the applicable section or part of the Illinois Administrative Code for further clarification or more detail. All of the sections and parts referenced can be found in Title 86 of the Code.

Taxpayer Bill of Rights

You have the right to call the Illinois Department of Revenue (IDOR) for help in resolving tax problems.

You have the right to privacy and confidentiality under most tax laws.

You have the right to respond, within specified time periods, to IDOR notices by asking questions, paying the amount due, or providing proof to refute IDOR's findings.

You have the right to appeal IDOR decisions, in many instances, within specified time periods, by asking for IDOR review, by filing a petition with the Illinois Independent Tax Tribunal, or by filing a complaint in circuit court.

If you have overpaid your taxes, you have the right, within specified time periods, to a credit (or, in some cases, a refund) of that overpayment.

For more information about these rights and other IDOR procedures, you may write us at the following address:

Problems Resolution Office
Illinois Department of Revenue
PO Box 19014
Springfield, IL 62794-9014

For information or forms, visit IDOR's website at: tax.illinois.gov

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General Information

What income may I subtract?

You are entitled to subtract an amount equal to all amounts that are exempt from income tax providing these amounts are included in your Illinois base income.

If you receive income from bonds or other obligations that are exempt from Illinois Income Tax, the exempt amount you are entitled to claim is the interest net of bond premium amortization.

What if I have income from obligations of the United States Government?

If you have income from stocks and obligations of the United States Government that is included in your Illinois base income, you may subtract the total amount of income and interest on the obligations from your Illinois base income.

"Obligations of the United States" are those obligations issued "to secure credit to carry on the necessary functions of government." These exemptions are aimed at protecting the "Borrowing" and "Supremacy" clauses of the Constitution.

Tax-exempt credit instruments

- are written documents,
- bear interest,
- are binding promises by the United States to pay specified sums at specified dates, and
- have congressional authorization which also pledges the faith and credit of the United States in support of the promise to pay.

Note: If you have a governmental obligation that is secondary, indirect, or contingent (*e.g.,* a guaranty of a nongovernmental obligor's primary obligation to pay the principal amount and interest on a note), it is **not exempt** from income tax.

The following types of income are exempt from Illinois Income Tax:

- Interest on U.S. Treasury bonds, notes, bills, certificates, and savings bonds
- Income from GSA Public Building Trust Participation Certificates: First Series, Series A through E; Second Series, Series F; Third Series, Series G; Fourth Series, Series H and I

What federally-taxable income is exempt from Illinois Income Tax by other federal statutes?

Federal statutes exempt specific types of income from state income tax. The income from notes, bonds, debentures, and other similar obligations issued by the following is exempt from Illinois Income Tax:

- **Banks for Cooperatives**
- **Commodity Credit Corporation**
- **Farm Credit System Financial Assistance Corporation (Financial Assistance Corporation)**
- **Federal Deposit Insurance Corporation**
- **Federal Farm Credit Banks**
- **Federal Home Loan Banks**
- **Federal Intermediate Credit Banks**
- **Federal Land Banks and Federal Land Bank Association**
- **Federal Savings and Loan Insurance Corporation**
- **Financing Corporation (FICO)**

- **General Insurance Fund**

  Includes debentures issued under the War Housing Insurance Law; General Insurance Fund to acquire rental housing projects; or Armed Services Housing Mortgage Insurance Debentures issued by the General Insurance Fund.
- **National Credit Union Administration Central Liquidity Facility**
- **Production Credit Association**
- **Railroad Retirement Act**

  Includes annuity and supplemental annuity payments as qualified under the Railroad Retirement Act of 1974. Please be sure to use the line specified on your Illinois Income Tax return for this item.
- **Railroad Unemployment Insurance Act**

  Includes unemployment benefits paid pursuant to the Railroad Unemployment Insurance Act.
- **Resolution Funding Corporation**
- **Special Food Service Program**

  Includes assistance to children under the Special Food Service Program.
- **Student Loan Marketing Association**
- **Tennessee Valley Authority**
- **United States Postal Service**

What other income is exempt from Illinois Income Tax by federal statutes?

The following items are also exempt from Illinois Income Tax, but the income received is **not** presently included in your federal taxable income. You must list these federally tax-exempt items as additions on your Illinois Income Tax return. Then, you may list them as subtractions when figuring your Illinois base income.

- **Bonds issued by the government of Guam**
- **Bonds issued by the government of Puerto Rico**
- **Bonds issued by the government of the Virgin Islands**
- **Bonds issued by the government of American Samoa**
- **Bonds issued by the government of the Northern Mariana Islands**
- **Mutual mortgage insurance fund bonds**

  Income from such debentures is issued in exchange for property covered by mortgages insured after February 3, 1988.

What if I have distributions from money market trusts (mutual funds)?

If you have distributions from money market trusts (even if the obligations are owned indirectly through owning shares in a mutual fund), you may subtract that portion of income received from any of the obligations that are listed in this publication under “What if I have income from obligations of the United States Government?”, “What federally-taxable income is exempt from Illinois Income Tax by other federal statutes?”, and “What other income is exempt from Illinois Income Tax by federal statutes?” Your distribution is exempt from Illinois Income Tax if the fund invests

- exclusively in these state tax exempt obligations. The entire amount of the distribution (income) from the fund may be subtracted.
- in both exempt and nonexempt obligations. The amount represented by the percentage of the distribution that the mutual fund identifies as exempt may be subtracted.
- in those obligations listed even if the fund does not identify an exempt amount or percentage. You may figure your subtraction by using a fraction. Use the amount invested by the fund in state-exempt U.S. obligations as the numerator. Use the fund’s total investment as the denominator. Multiply the total distribution by the fraction.

Note: Use the year-end amounts to figure the fraction if the percentage ratio has remained constant throughout the year. If the percentage ratio has not remained constant, take the average of the ratios from the fund's quarterly financial reports.

What if I have interest from obligations of state and local governments (municipal interest)?

Income from state and local obligations (municipal interest), which is tax-exempt for federal purposes, is **not exempt** from Illinois Income Tax except where legislation has been specifically adopted to provide for an exemption. You **must** report all federally tax-exempt income as an addition on your Illinois Income Tax return. You may then subtract income reported from only those bonds or obligations listed below to which you own title. Income from these bonds is **not exempt** if the bonds are owned indirectly through owning shares in a mutual fund.

If you are unable to determine whether your income is taxable, you should contact the issuer of the bond.

Income from bonds and notes either issued by, received from, or as the result of the following is exempt from Illinois Income Tax:

- **Illinois Housing Development Authority**
  Does not include housing-related commercial facilities notes and bonds.
- **Export Development Act of 1983**
- **Illinois Development Finance Authority Act**
  Includes only bonds and notes issued pursuant to Sections 7.50 - 7.61, specifically, venture fund and infrastructure bonds.
- **Quad Cities Regional Economic Development Authority**
  Includes only bonds and notes that the Authority has declared to be exempt.
- **College Savings Bonds**
  Includes only bonds and notes issued under the General Obligation Bond Act in accordance with the Baccalaureate Savings Act.
- **Illinois Sports Facilities Authority**
- **Higher Education Student Assistance Act**
  Includes only bonds and notes issued on or after September 2, 1988.
- **Illinois Development Finance Authority Act**
  Includes only bonds and notes issued pursuant to Sections 7.80 - 7.87 under the Asbestos Abatement Finance Act.
- **Rural Bond Bank Act**
- **Illinois Development Finance Authority**
  Includes only bonds and notes issued in accordance with the Asbestos Abatement Finance Act.
- **Quad Cities Interstate Metropolitan Authority**
  Includes only bonds and notes issued under the Quad Cities Interstate Metropolitan Authority Act.
- **Southwestern Illinois Development Authority**
  Includes only bonds and notes issued pursuant to the Southwestern Illinois Development Authority Act.
- **Illinois Finance Authority**
  Includes only bonds and notes issued under the Local Government Article and the Financially Distressed City Program in the Illinois Finance Authority Act.
- **Illinois Finance Authority - Illinois Power Agency**
  Includes only bonds issued by the Other Powers Article of the Illinois Finance Authority Act.

- **Central Illinois Economic Development Authority**
  Includes only bonds issued under the Central Illinois Economic Development Authority Act.
- **Eastern Illinois Economic Development Authority**
  Includes only bonds issued under the Eastern Illinois Economic Development Authority Act.
- **Southeastern Illinois Economic Development Authority**
  Includes only bonds issued under the Southeastern Illinois Economic Development Authority Act.
- **Southern Illinois Economic Development Authority**
  Includes only bonds issued under the Southern Illinois Economic Development Authority Act.
- **Upper Illinois River Valley Development Authority**
  Includes only bonds issued under the Upper Illinois River Valley Development Authority Act.
- **Illinois Urban Development Authority**
  Includes only bonds issued under the Illinois Urban Development Authority Act.
- **Western Illinois Economic Development Authority**
  Includes only bonds issued under the Western Illinois Economic Development Authority Act.
- **Downstate Illinois Sports Facilities Authority**
  Includes only bonds issued under the Downstate Illinois Sports Facilities Authority Act.
- **Will-Kankakee Regional Development Authority**
  Includes only bonds issued under the Will-Kankakee Regional Development Authority Law.
- **Tri-County River Valley Development Authority**
  Includes only bonds issued under the Tri-County River Valley Development Authority Law.
- **New Harmony Bridge Authority**
  Includes only bonds issued under the New Harmony Bridge Authority Act.
  Note: For tax years beginning on or after August 19, 2023, the bonds issued by the New Harmony Bridge Authority are no longer eligible for income tax exemption.
- **New Harmony Bridge Bi-State Commission**
  Includes only bonds issued under the New Harmony Bridge Interstate Compact Act.
  Note: For tax years beginning on or after August 19, 2023, the bonds issued by the New Harmony Bridge Bi-State Commission are no longer eligible for income tax exemption.

What other income is exempt from Illinois Income Tax by reason of Illinois statute?

The following types of other income are exempt from Illinois Income Tax:

- Income earned by certain trust accounts established under the Illinois Pre-Need Cemetery Sales Act or the Illinois Funeral or Burial Funds Act. Section 16(f) of the Illinois Pre-Need Cemetery Sales Act and Section 4a(c) of the Illinois Funeral or Burial Funds Act provide that: “because it is not known at the time of deposit or at the time that income is earned on the trust account to whom the principal and the accumulated earnings will be distributed, for purposes of determining the Illinois Income Tax due on these trust funds, the principal and any accrued earnings or losses relating to each individual account shall be held in suspense until the final determination is made as to whom the account shall be paid.”
- Income in the form of education loan repayments made to eligible healthcare providers who agree to serve in designated shortage areas for a specified period of time under the terms of the Underserved Health Care Provider Workforce Act.
- Income earned by nuclear decommissioning trusts established pursuant to Section 8-508.1 of the Public Utilities Act. The terms “decommissioning trust” or “trust” mean a fiduciary account in a bank or other financial institution established to hold the decommissioning funds provided by the Public Utilities Act for the eventual purpose of paying decommissioning costs, which shall be separate from all other accounts and assets of the public utility establishing the trust.

- Reparations or other amounts received as a victim of persecution for racial or religious reasons by Nazi Germany or any other Axis regime that are included in your federal taxable income. Also include any reparations or other amounts received as an heir of such victim that are included in your federal taxable income.
- Income earned from college savings programs under Section 55 of the Illinois Prepaid Tuition Act or Section 16.5 of the State Treasurer Act, except distributions that are not used for tuition, fees, school supplies, and other qualified expenses. These programs are commonly known as the Bright Start and Bright Directions College Savings Programs and the College Illinois prepaid tuition program. For tax years beginning on or after January 1, 2007, this exemption also applies to any plan qualifying under Section 529 of the Internal Revenue Code that complies with the disclosure requirements of the College Savings Plan Network and that annually informs Illinois residents about in-state programs.

  Note: For tax years ending on or after December 31, 2002, and on or before December 31, 2004, contributions to the Bright Start program under the State Treasurer Act are deductible.

  For tax years ending on or after December 31, 2005, up to $10,000 in contributions ($20,000 if married filing jointly) to the Bright Start or Bright Directions programs and the College Illinois prepaid tuition fund are deductible.
- Income earned from qualified ABLE accounts under Section 16.6 of the State Treasurer Act for tax years beginning on or after January 1, 2018 and prior to January 1, 2028. This is limited to a maximum of $10,000 and exempts amounts excluded from gross income under Section 529(c)(3)(C)(i) or Section 529A(c)(1)(C) of the Internal Revenue Code. Contributions made by an employer on behalf of an employee, or matching contributions made by an employee, shall be treated as made by the employee.

  The credit is limited to $10,000 in contributions ($20,000 if married filing jointly) to qualified ABLE accounts.

What income is not exempt from Illinois Income Tax?

The following types of income are **not exempt** from Illinois Income Tax:

- Income from securities known as Government National Mortgage Association (GNMA) “Pass-Through Securities” or GNMA “Mortgage-Backed Securities” and income from debentures, notes, and bonds issued by the Federal National Mortgage Association (FNMA) including mortgage-backed bonds
- Interest from Federal Home Loan Mortgage Corporation (FHLMC) securities
- Daily Investment Deposit Accounts (DID) under Federal Home Loan Banks
- Accumulated interest on Internal Revenue Service tax refunds
- Income from U.S. securities acquired by a taxpayer under a repurchase agreement (repo) with a bank or similar financial organization. Such agreements are to be treated as loans.

  For example: You loan money to the bank and receive interest in return. The securities subject to repurchase by the bank serve as collateral for the loan. The bank remains legally entitled to receive the interest payments from the issuing authority and remains the actual owner of the securities. Any tax benefit attributable to the exempt income paid by the issuing authority accrues to the bank and **not** to you.

How do I figure the amount of exempt income I am entitled to subtract on my Illinois Income Tax Return?

First, you must be sure that the item of income **is included** in your total income as shown on your Illinois Income Tax return. Most items are automatically included in your total Illinois income because they are included in your federal gross income, which is a part of your total Illinois income.

For example: Interest on U.S. Treasury notes is included in your federal gross income and is, therefore, included in your total income on your Illinois Income Tax return.

Other federally tax-exempt items that were **not included** on your federal return **must** be included as an addition on your Illinois Income Tax return when figuring your total Illinois income.

For example: Interest from an Illinois Housing Development Authority bond (municipal interest) would not be included in your federal gross income but must be included as an addition on your Illinois Income Tax return.

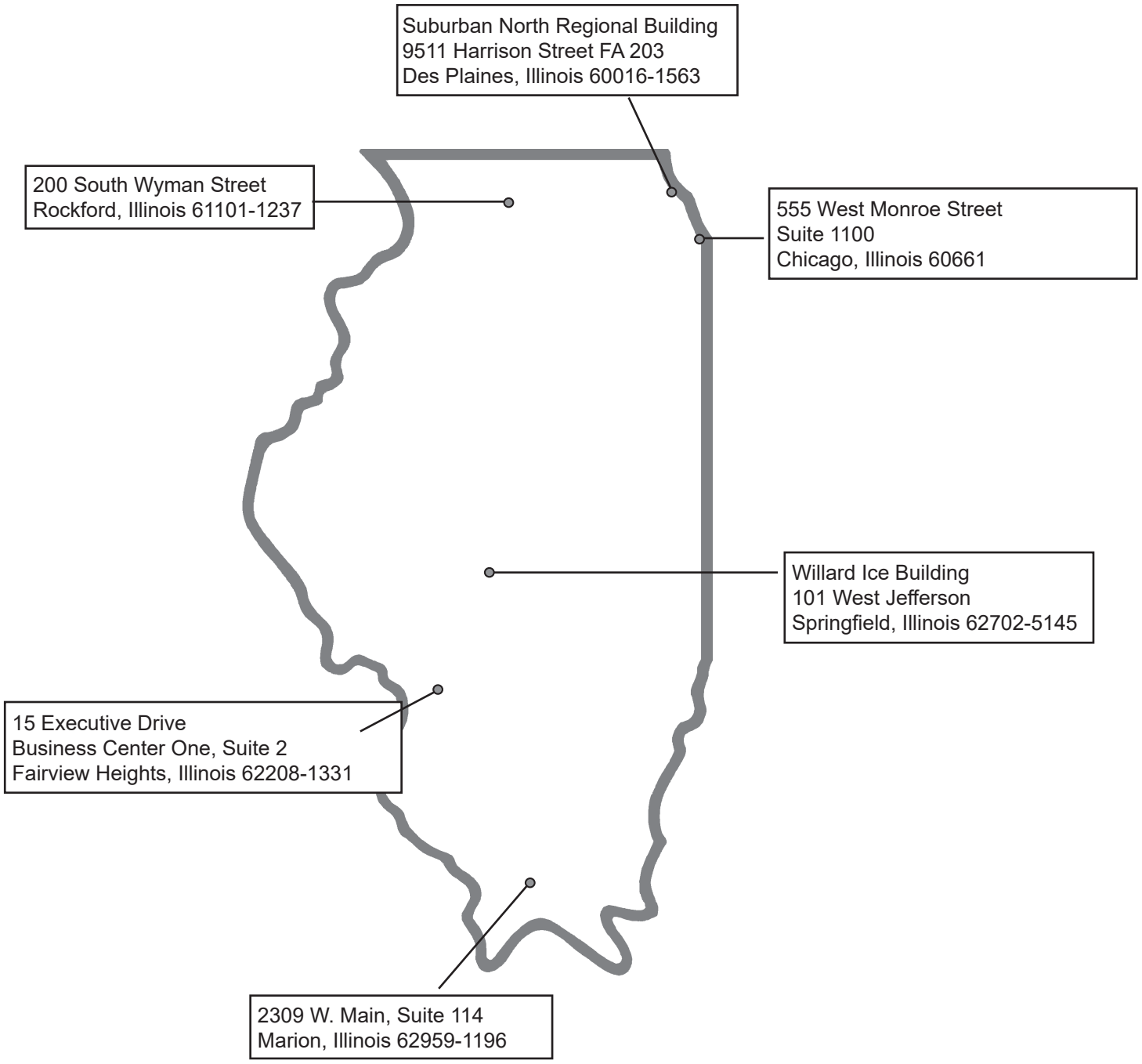
Then, you must determine which specific items of income are exempt from Illinois Income Tax and report these items on the specified lines on your Illinois Income Tax return and Schedule M.

Note: The amount of exempt income that you subtract must be reduced by any related bond premium amortization that you deducted federally.

How do I get a refund of tax that I already paid in error on income that was not taxable on my Illinois Income Tax Return?

If you paid Illinois income tax on state income that is exempt from Illinois tax, you may file an amended return to claim a refund for any year still within the statute of limitations.

Office Locations



Contact Information

Visit our website at **tax.illinois.gov**. For specific phone number and email contacts see our **Contact Us** page.

Call us at **1 800 732-8866** or **217 782-3336** (TTY at **1 800 544-5304**).

Write us at Illinois Department of Revenue, PO Box 19001, Springfield, IL 62794-9001.

Call our 24-hour Forms Order Line at **1 800 356-6302**.

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