



informational

Bulletin

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This bulletin is written to inform you of recent changes; it does not replace statutes, rules and regulations, or court decisions.

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Legislative Income Tax Changes that May Increase Current Tax Year Liabilities

To: All Illinois Income Tax filers

[Public Act 104-0006](#) made several changes to the Illinois Income Tax Act (IITA) which will affect many taxpayers and may increase current tax year liabilities for certain taxpayers.

A brief description of the following changes are included in this bulletin:

Effective for tax years ending on or after June 16, 2025, gains and losses from sales or exchanges of shares in Subchapter S corporations or from interest in partnerships, other than investment partnerships, are allocable to Illinois if the pass-through entity is taxable in Illinois.

Effective for tax years ending on or after December 31, 2025:

- Illinois adopts the Finnigan method of apportionment when computing the sales factor numerator and applying the throwback and throw-out rules.
- Two Safe Harbor exceptions have been removed from the 80/20 company addback provisions for interest and intangible expense.
- Illinois aligns with federal filing guidelines regarding allocations of certain interest expenses for taxpayers subject to the IRC Sec. 163(j) deduction limit.
- The dividend received deduction for Global Intangible Low-Taxed Income (GILTI) is limited to 50% of the amount recognized.

This bulletin also provides information to help taxpayers determine if they must start paying estimated payments or modify their estimated tax payments. In addition, the bulletin defines what schedule to file with their tax return to minimize or avoid a late-payment penalty for underpayment of estimated tax due.

Changes to the Illinois Income Tax Act (IITA) in accordance with Public Act 104-0006

Pass-through Entity (PTE) capital gains apportionment changes

35 ILCS 5/303(b)(4)

For tax years ending on or after June 16, 2025, taxpayers with gains and losses from sales or exchanges of shares in Subchapter S corporations or from interest in partnerships, other than investment partnerships, are allocable to Illinois if the PTE is taxable in Illinois. Those gains and losses shall be allocated in proportion to the average of the PTE's Illinois apportionment factor in the year of the sale or exchange and the 2 tax years immediately preceding the year of the sale or exchange.

Capital gains or losses from sales or exchanges of shares in pass-through entities are reported on Illinois Schedule NB, Nonbusiness Income. See the Schedule NB instructions for more information.

Illinois adopts the Finnigan method of apportionment when computing the sales factor numerator and applying the throwback and throw-out rules.

35 ILCS 5/304(e)

Effective for tax years ending on or after December 31, 2025, Illinois unitary taxpayers must follow the Finnigan method of apportionment when calculating their apportionment factor on Illinois Schedule UB, Combined Apportionment for Unitary Business Group.

What are throwback sales?

Throwback sales are sales of items shipped from an office, store, warehouse, factory, or other place of storage in Illinois to a purchaser in a state or foreign location where the taxpayer is not taxable. Throwback sales are included in both the sales everywhere and Illinois sales figures when determining apportionment.

[86 Ill. Adm. Code Section 100.3370](#)

What are throw-out sales?

Throw-out sales are sales of services which are "thrown out" because the taxpayer is not taxable in the state in which the services are received. Throw-out sales are excluded from both the sales everywhere and Illinois sales figures when determining apportionment. [35 ILCS 5/304\(a\)\(3\)\(C-5\)\(iv\)](#)

Because of the complex nature of unitary businesses, additional rules were created to address throwback and throw-out sales when calculating unitary apportionment. For tax years ending prior to December 31, 2025, Illinois unitary taxpayers were required to follow the Joyce method of apportionment. For tax years ending on or after December 31, 2025, Illinois unitary taxpayers are required to follow the Finnigan method of apportionment.

What is the Joyce method of apportionment?

Under the Joyce method of apportionment, the determination of whether a unitary member included on the combined return is taxable in a state is made on a separate company basis. The unitary group of corporations would calculate their apportionment by dividing the combined Illinois sales of the members with nexus in Illinois (numerator) by the total combined sales of the unitary business group everywhere (denominator). The only throwback sales that would be included in the apportionment numerator would be those of members that were not taxable in the destination.

What is the Finnigan method of apportionment?

Under the Finnigan method of apportionment, a unitary group of corporations is determined to be taxable in a state if any member of the unitary group is subject to tax in that state. The unitary corporation would calculate their apportionment by dividing the combined Illinois sales of the members (numerator) by the total combined sales of the unitary business group everywhere (denominator). Throwback sales included in the numerator would only include sales to a destination in which none of the unitary members have nexus in that destination.

Two Safe Harbor exceptions have been removed from the 80/20 company addback provisions for interest and intangible expense. [35 ILCS 5/203](#)

Illinois no longer allows certain exceptions to the related-party addback provisions for unitary filers. For tax years ending on or after December 31, 2025, the only Safe Harbor exceptions allowed when calculating related-party expenses additions on Schedule 80/20, Related-Party Expenses, are:

- An amount of interest and intangible expenses paid, accrued, or incurred, directly or indirectly, to a person if
 - the person paid, accrued, or incurred the interest and intangible expenses to another person that is not a related member, and
 - the transaction did not have the principal purpose of avoiding taxes and is paid pursuant to a contract or agreement that reflects rates and terms between unrelated parties.
- An amount of interest and intangible expenses paid, accrued, or incurred, directly or indirectly, to a person if the taxpayer establishes by clear and convincing evidence that the adjustments are unreasonable.
- An amount of interest and intangible expenses paid, accrued, or incurred, directly or indirectly, to a person that would not be included due to an agreement in writing between the taxpayer and the Director of the Illinois Department of Revenue allowing the taxpayer to use an alternative method of apportionment.

Illinois aligns with federal filing guidelines regarding allocations of certain interest expenses for taxpayers subject to the IRC Sec. 163(j) deduction limit. [35 ILCS 5/203](#)

Taxpayers subject to the IRC Sec. 163(j) deduction limit are required to allocate the reduced interest expenses they paid to certain foreign affiliates first to non-foreign affiliates and then to foreign affiliates. This change aligns Illinois with IRC Sec. 59A(c)(3) and the treatment of consolidated returns at the federal level.

The dividend received deduction for Global Intangible Low-Taxed Income (GILTI) is limited to 50% of the amount recognized. [35 ILCS 5/203\(b\)\(2\)\(O\)](#)

For tax years ending on or after December 31, 2025, Illinois limits the corporation income tax foreign dividends deduction for global intangible low-taxed income to 50% of the amount recognized regardless of the foreign ownership percentage.

GILTI deductions are reported on Illinois Schedule J, Foreign Dividends. See the Schedule J instructions for more information.

Information to minimize or avoid penalties

Will these changes affect my estimated payment requirement?

The changes highlighted in this bulletin may affect your required estimated payment amounts or require you to start making estimated payments.

If you are already making estimated payments, you should recalculate your estimated payments based on the changes highlighted in this bulletin. The first estimated payment after June 16th, should include the additional amounts that would have been due with your previous quarterly payments, as well as the full current quarterly payment. This quarterly payment makes up the difference in your estimated payments.

If you are not currently making estimated payments, you should determine if the changes highlighted in this bulletin cause your tax liability to increase to more than the estimated payment requirement. Your first payment should be made on or before your next quarterly estimated payment due date. The payment should include the current estimated payment due and the amount of all the previous quarterly payments due based on the changes. This quarterly payment makes up the difference in your estimated payments.

Besides making the required estimated payments timely, what else should I do to minimize or avoid penalty?

You may reduce or eliminate your late payment penalty for the underpayment of estimated tax by using the annualized income installment method when filing your tax return. This method allows you to compute your income and liability for each period according to the Illinois Income Tax Act in effect as of the end of that period. The annualized income installment method is found in Step 6 of Form IL-2220, Computation of Penalties for Businesses and Form IL-2210, Computation of Penalties for Individuals.

This relief is appropriate when the first quarterly estimated payment due after June 16, 2025, is paid timely and makes up the difference in your previous estimated payments for the year and all subsequent payments are timely and equal the required payment due amount.

Any penalty assessment is based on the timely estimated installment payments equaling at least 90 percent of this year's tax liability or 100 percent of the prior year's tax liability. See [86 Ill. Adm. Code Section 100.8010\(h\)](#) for more information.

Where can I find out more information?

Visit IDOR's website at tax.illinois.gov or scan the QR code provided.

