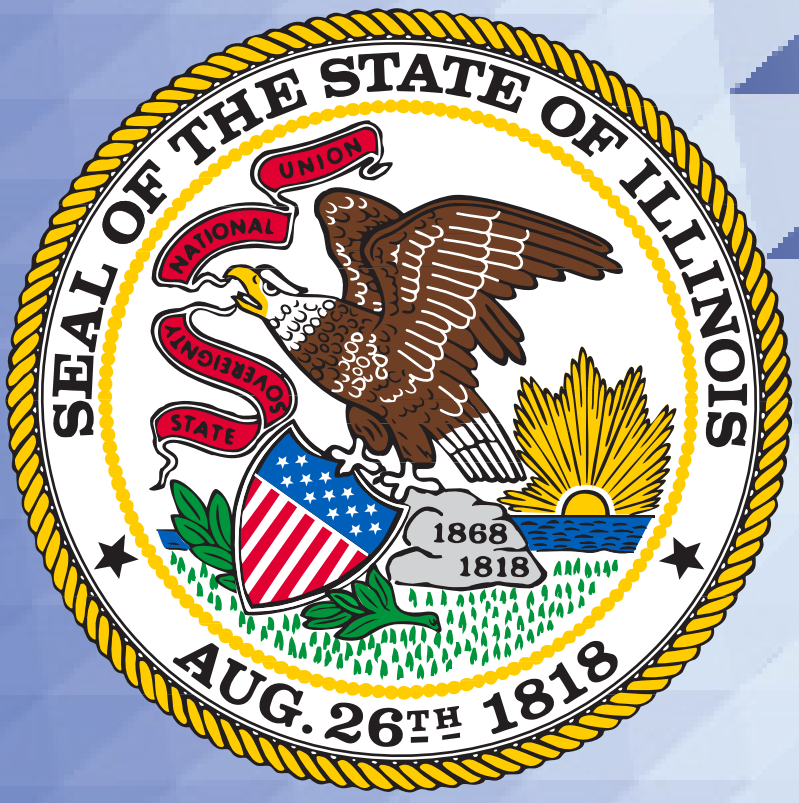
Annual Report
Fiscal Year 2025
Illinois Department of Revenue



ILLINOIS
DEPARTMENT OF
REVENUE

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Collections Remitted to the State Comptroller - All Revenue Sources

	Total
Collections by tax/type [1]	
Sales and Use	$22,255,382,304.64
Motor Fuel	2,938,298,236.82
Cigarette	655,854,584.32
Senior Citizen Deferral	5,465,996.66
Liquor	302,809,561.49
Public Utility	1,374,071,035.07
Hotel	547,953,352.45
Real Estate Transfer	109,310,327.45
Charity Gaming	4,790,856.96
Private Vehicle Use	96,468,903.94
General Office / Misc.	81,600,927.87
Business Income	13,072,425,215.27
Individual Income	28,109,116,853.81
Automobile Renting	107,429,831.92
Live Adult Entertainment	383,706.93
Adult Use Cannabis	474,058,704.87
	$70,135,420,400.47

Collections deposited into State Treasury and in-transit to State Comptroller at year end:

Current year	576,319,217.60
Prior year	532,117,141.02
Net change	$44,202,076.58

Comptroller fund receipts [2]	
Sales and Use	22,131,442,916.59
Motor Fuel	2,948,604,856.39
Cigarette	661,391,601.87
Senior Citizen Deferral	5,252,032.74
Liquor	303,037,511.48
Public Utility	1,373,848,609.62
Hotel	551,136,718.19
Real Estate Transfer	109,210,824.95
Charity Gaming	4,915,507.74
Private Vehicle Use	95,714,682.31
General Office / Misc.	81,575,017.12
Business Income	13,067,393,222.59
Individual Income	28,179,067,937.46
Automobile Renting	107,434,430.22
Live Adult Entertainment	383,706.93
Adult Use Cannabis	470,808,747.69
	$70,091,218,323.89

Collections reconciled to receipts [3] **$0**

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Additional Information

[1] Collections by tax/type

Taxpayers remit their payments to the Illinois Department of Revenue (IDOR) using prescribed payment vouchers. The monies collected are deposited into bank accounts held in the custody of the State Treasurer's Office. The amounts showing in the "**Collections by tax/type**" section reflect the payments received from taxpayers.

[2] Comptroller fund receipts

The monies collected are then receipted into State funds maintained by the State Comptroller's Office. The fund receipts are reflected in the section titled "Comptroller fund receipts". The allocation of specific monies to specific funds is governed by various tax acts. Additional information regarding fund receipts can be found in the State Ledger on the Comptroller's website.

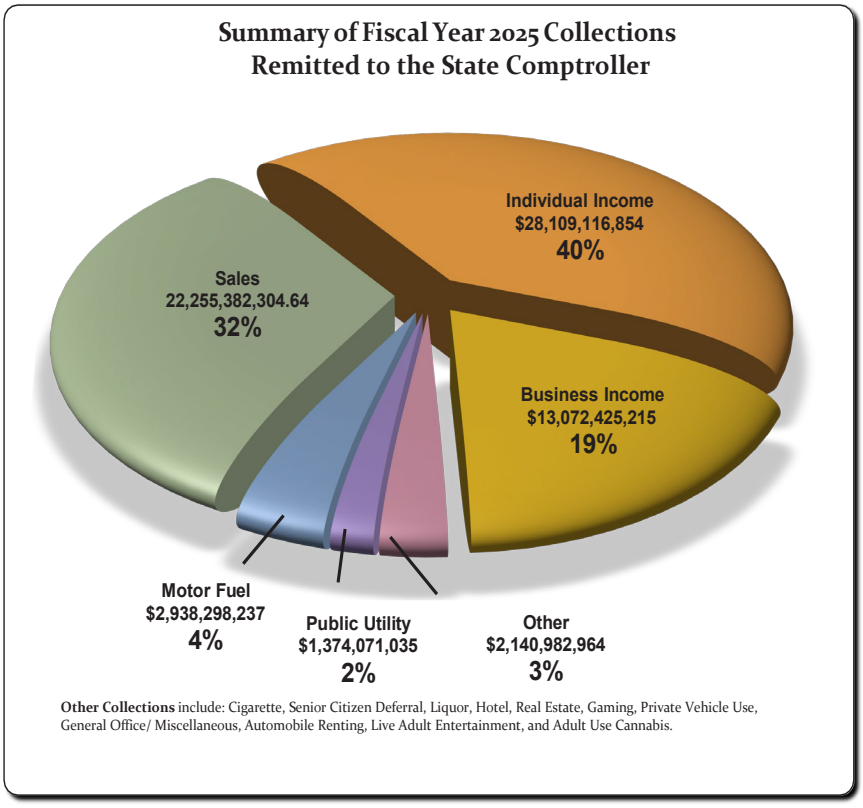
[3] Collections reconciled to receipts

The line "**Collections reconciled to receipts**" demonstrates any discrepancies between money collected by IDOR from taxpayers and the money ultimately receipted into State funds. Variances between collections and receipts are due to timing differences related to changes in the amount of deposits in-transit to the State Comptroller at the end of the period. This information is provided in the section titled "**Collections deposited into State Treasury and in-transit to State Comptroller at year end**."

(Total "**Collections by tax/type**, $**70,135,420,400.47** less "**Collections deposited into the State Treasury and in-transit to the State Comptroller**, $44,202,076.58 " is equal to "**Comptroller fund receipts**, **$70,091,218,323.89**".)

Information regarding the taxes imposed, rates, form/filing requirements, payment requirements, and statutory authority can be found in the Research/Tax Information section of IDOR's website at **tax.illinois.gov**. A more detailed version of this schedule with monthly amounts, collections by voucher type, and receipts by fund and revenue source can be found in the Information for Research section of the IDOR's website.

Also, updated tax statistics are available at the Research section of IDOR's website. Please see the report "Monthly Collections Remitted to the State Comptroller." This report provides additional details about monthly amounts, collections by voucher type, and receipts by fund and revenue source.



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Illinois Department of Revenue Legislative Summary

Income Tax

House Bill 1437, Public Act 104-0434

- **River Edge Redevelopment Zone Tax Credit** - Amends the Illinois Income Tax Act to extend the River Edge Redevelopment Zone tax credit to taxable years ending prior to January 1, 2029.

- **Apprenticeship Education Expense Tax Credit** - Amends the Illinois Income Tax Act to extend the Apprenticeship Education Expense tax credit to taxable years beginning on or before January 1, 2027.

House Bill 2755, Public Act 104-0006

- **Interest Paid to Foreign Persons** - Amends the Illinois Income Tax Act to repeal, for taxable years ending on and after December 31, 2025, certain provisions allowing taxpayers to deduct from income interest and royalties paid to overseas affiliates that are excluded from the unitary business groups under the 80/20 rule.

- **Sale of Pass-Through Entity** - Amends the Illinois Income Tax Act to allow gains and losses from the sale or exchange of a partnership interest or shares in an S corporation to be allocable to Illinois in proportion to the pass-through entity's average Illinois apportionment factor in the year of the sale and the preceding two years.

- **Income Apportionment** - Amends the Illinois Income Tax Act to require the sales of each member of a unitary business group, who is not a taxpayer, to be determined based on the apportionment rules applicable to the member and shall be aggregated, effective for taxable years ending on or after December 31, 2025.

- **Global Intangible Low-Taxed Income (GILTI)** - Amends the Illinois Income Tax Act to provide, for taxable years ending on or after December 31, 2025, 50% of a taxpayer's GILTI is taxable.

- **Advancing Innovative Manufacturing (AIM) for Illinois Tax Credit** - Creates the Advancing Innovative Manufacturing Tax Credit. For tax years beginning on or after January 1, 2026, creates a tax credit for taxpayers that enter into an agreement with the Department of Commerce and Economic Opportunity and provides the amount of the credit is equal to the amount determined in the agreement. Provides the excess credit can be carried forward for ten (10) years.

Senate Bill 1911, Public Act 104-0453

- **Net Controlled Foreign Corporation Tested Income (NCTI)** - Amends the Illinois Income Tax Act to provide, for taxable years ending on or after December 31, 2025, 50% of a taxpayer's NCTI is taxable.

- **Bonus Depreciation** - Amends the Illinois Income Tax Act to decouple from the federal bonus depreciation deduction under Section 168(n) of the Internal Revenue Code, effective for taxable years 2026 and thereafter.

- **Film Production Services Tax Credit** - Amends the Film Production Services Tax Credit Act of 2008 to provide if compensation is paid to a loan out company, then the production company or its authorized payroll service company shall withhold tax on that compensation, effective for productions that commence on or after December 12, 2025.

Sales and Related Taxes

House Bill 2755, Public Act 104-0006

- **Hotel Operators Occupation Tax (HOOT)** - Amends the HOOT Act. Redefines "hotel" to include "short-term rentals", effective July 1, 2025.

- **Remote Retailer Amnesty Program** - Amends the Retailers' Occupation Tax Act to create a Remote Retailer Amnesty Program. From August 1, 2026 through October 31, 2026, allows remote retailers to come into compliance with sales tax law changes that took effect January 1, 2021. The program also establishes a "simplified retailers' occupation tax rate" of 9% for general merchandise and 1.75% for items subject to the low rate of tax for remote retailers to determine their tax liability and waives any applicable penalty and interest.

- **Leveling The Playing Field** - Expands destination-base sourcing concepts of the Leveling the Playing Field for Illinois Retail Act to the Service Occupation Tax Act and the Service Use Tax Act. Eliminates the 200-transaction tax remittance threshold for establishing economic nexus. These two provisions take effect January 1, 2026. Establishes a 15% tax rate to apply when insufficient records are provided to determine the location of the sale. Provides Certified Service Providers can file returns on behalf of retailers and servicemen maintaining a place of business in Illinois. The two provisions are effective June 16, 2025.

- **"Drive-Away Permit Exemption"** - Amends the Use Tax Act to create a rebuttable presumption that the sales tax exemption for a motor vehicle that was sold in this State to a nonresident, delivered to the nonresident in this State, that is to be titled outside of this State, and for which a drive-away permit is issued is taxable if the purchaser is a limited liability company and a member of the limited liability company is a resident of Illinois, effective June 16, 2025.

- **Motor Fuel Definition** - Amends the Motor Fuel Tax Law to provide "motor fuel" includes volatile and inflammable "substances," effective January 1, 2026.

- **Motor Fuel Refund Claims** - Amends the Motor Fuel Tax Law to clarify, for purposes of claims for refund, "any purpose other than operating a motor vehicle upon the public highways" refers to the specific purpose for which the motor vehicle was used and does not refer to the specific location where the motor fuel was used. Provides incidental use of motor fuel on private roads or private highways in the operation of a motor vehicle does not constitute a "purpose other than operating a motor vehicle upon the public highways" and does not form a basis for a claim, effective June 16, 2025.

- **Rolling Stock Exemption** - Amends the "sales" tax acts to provide, effective July 1, 2025, vehicles that meet the definition of "limousine" and which are used to provide transportation network company services as defined in the Transportation Network Providers Act do not qualify for the rolling stock exemption.

- **Private Party Vehicle Sales** - Amends the Illinois Vehicle Code to create an exemption from the Vehicle Use Tax when a retailer registered under the Retailers' Occupation Tax Act purchases a motor vehicle from a private party for the purpose of reselling that vehicle, effective June 16, 2025.

- **Tobacco Products Tax Changes** - Amends the Tobacco Products Tax Act of 1995 to provide, beginning July 1, 2025, "tobacco products" also includes any product that is made from or derived from tobacco, or that contains nicotine whether natural or synthetic, including but not limited to nicotine pouches, lozenges, and gum. Effective July 1, 2025, increases the tax rate on tobacco products to 45% (currently 36%), including moist snuff and electronic cigarettes.

- **Tobacco Products Annual License Fee** - Amends the Tobacco Products Tax Act of 1995 to increase the annual license fee for tobacco products retailers to $150 (currently $75), effective July 1, 2025.

- **Motor Fuel Licenses** - Amends the Motor Fuel Tax Law to combine the distributor and supplier licenses under the law, effective January 1, 2026.

- **Municipal Motor Fuel Tax** - Amends the Municipal Motor Fuel Tax Law in the Illinois Municipal Code to allow a municipality whose territory lies partially in a county with a population of over 3,000,000 inhabitants and partially outside such a county to impose the tax in only that portion of the municipality that lies in a county with a population of over 3,000,000 inhabitants, effective June 16, 2025.

- **Electronic Filing Requirement** - Amends the Cigarette Tax Act, the Cigarette Use Tax Act, the Cigarette Machine Operators' Occupation Tax Act, and the Tobacco Products Tax Act of 1995 to require all returns, reports and supporting schedules required to be filed under those Acts to be filed electronically, effective January 1, 2026.

- **Telecommunication Excise Tax Rate** - Amends the Telecommunications Excise Tax Act to increase the telecommunications excise tax rate to 8.65% (currently 7%), effective July 1, 2025. The 1.65% increase is to be designated as the statewide 9-8-8 surcharge and is established to support and enhance the 9-8-8 Suicide and Crisis Lifeline.

Senate Bill 1911, Public Act 104-0453

- **STAR Bonds** - Creates the Statewide Innovation Development and Economy Act to assist in the development and redevelopment of major tourism, entertainment, retail, and related projects within eligible areas of the State by authorizing municipalities and counties to issue sales tax and revenue (STAR) bonds for the financing of STAR bond projects. Defines "local sales tax increment" and "State sales tax increment". Provides the Department shall allocate revenues from incremental sales tax collections that secure bonds used to finance project costs in STAR bond districts.

Property Tax

House Bill 2755, Public Act 104-0006

- **Special Assessments for Affordable Housing -** Amends the Property Tax Code to allow that special assessments for affordable housing shall also apply to substantially rehabilitated residential real property put into service (currently only applies to newly constructed real property). Extends the sunset provision from 2027 to 2037 and clarifies that approved reduced valuations prior to the expiration of the new sunset date will not be shortened or disqualified if the new sunset date is not further extended.

- **Tax Bill Information** - Amends the Property Tax Code to require the inclusion on tax bills, each redevelopment project that (i) is associated with the TIF district and (ii) has been completed during or before the taxable year for which the bill is prepared or is in the process of being completed during that taxable year.

- **Cook County Annual Tax Sale** - Amends the Illinois Municipal Code to delay the application for judgment and order of sale for the 2023 annual tax sale in Cook County that would normally be held in calendar year 2025 to be filed on or before March 10, 2026.

Senate Bill 642, Public Act 104-0452

- **Low-Income Senior Citizens Assessment Freeze Homestead Exemption** - Amends the Property Tax Code to provide the maximum income limitation to qualify for the Low-Income Senior Citizens Assessment Freeze Homestead Exemption is (i) $75,000 for taxable year 2026, (ii) $77,000 for taxable year 2027, and (iii) $79,000 for taxable years 2028 and thereafter.

- **Property Tax Due Dates** - Amends the Property Tax Code to provide, in counties of 3,000,000 or more, for tax year 2025, the estimated first installment of unpaid taxes shall be deemed delinquent and shall bear interest after April 1, 2026 at the rate of 0.75% per month or portion thereof until paid or forfeited.

- **Property Tax Payment Plan** - Amends the Property Tax Code to allow, for any tax certificates held by a county, the county clerk to create and administer a payment plan during the redemption period. Under the payment plan, the county clerk may waive interest penalties when payments are made in accordance with the parameters set forth in the payment plan.

General/Miscellaneous

House 2667, Public Act 104-0242
Rulemaking Procedures - Amends the Illinois Administrative Procedure Act to provide that before filing a certified copy of a rule with the Secretary of State, an agency shall (i) give at least 14 days' notice of its intended action to the general public and (ii) accept comments from any interested persons. Provides, after the said notice period, the agency may make modifications to the proposed rule in response to any comment received and file a certified copy with the Secretary of State.

House Bill 2755, Public Act 104-0006
- **Tax Amnesty Program** - Amends the Tax Delinquency Amnesty Act to create the 2025 Tax Amnesty Program to run from October 1, 2025 through November 17, 2025, for individuals and businesses with unpaid tax debt for reporting periods ending after June 30, 2018, and before July 1, 2024.

- **Local Distributions** - Amends the State Finance Act to eliminate the "subject to appropriation" provision regarding distributions from the State and Local Sales Tax Reform Fund and the Local Government Distributive Fund.

- **River Edge Redevelopment Zone** - Amends the River Edge Redevelopment Zone Act to allow the Department of Commerce and Economic Opportunity to certify two additional pilot River Edge Redevelopment Zones, including one in the City of Alton and one in the City of Sterling.

- **Certificates of Registration** - Amends the Retailers' Occupation Tax Act to allow certificates of registration to be issued in the manner and form determined by the Department and allows the Department to determine the manner and form by which retailers make its certificate of registration available.

- **Tobacco Distributor's License Revocation** - Amends the Tobacco Products Manufacturers' Escrow Enforcement Act of 2003 to authorize the Department to revoke a tobacco distributor's license for failure to comply with the Master Settlement Agreement.

- **American Hostage Tax Liability Postpone Act** - Creates the American Hostage Tax Liability Postpone Act to provide that, if a person was unlawfully or wrongfully detained abroad or held hostage abroad, any tax liability of that person shall be postponed until 90 days after the person is no longer unlawfully or wrongfully detained abroad or held hostage abroad. Provides that the person shall be exempt from paying any interest or penalty that accrues while the tax liability is postponed.

- **Illinois Gives Tax Credit** - Amends the Illinois Gives Tax Credit Act to provide, from July 1, 2025, through June 30, 2026, a community foundation must have applied to the Community Foundation National Standards Board to qualify to issue Illinois Gives tax credits. Provides, from July 1, 2026 and after, a community foundation must be certified by the Board to qualify to issue Illinois Gives tax credits.

Senate Bill 618, Public Act 104-0451
Liquor Bonds - Amends the Liquor Control Act of 1934 to provide manufacturers or importing distributors who are applying for a license for the first time need not obtain a bond. Provides a bond may be required as a condition to renew a license for subsequent annual license terms if a manufacturer or importing distributor exceeds $50,000 in tax liability.

Illinois Department of Revenue Legislative Summary - continued

Senate Bill 642, Public Act 104-0452
Senior Citizens Real Estate Tax Deferral Program - Amends the Senior Citizens Real Estate Tax Deferral Act. Amends the definition of "taxpayer" to provide a "qualified taxpayer" is one (i) who will be 65 years of age or older by June 1 of the year for which a tax deferral is claimed; (ii) who certifies that they have owned and occupied as their residence such property or other qualifying property in the State for at least the last 3 years, except for any periods during which the taxpayer may have temporarily resided in a nursing or sheltered care home; and (iii) whose household income for the year is no greater than the maximum household income.

Increases the "maximum household income" to (i) $75,000 for tax year 2025, (ii) $77,000 for tax year 2026, and (iii) $79,000 for tax years 2027 and after.

Senate Bill 1441, Public Act 104-0100
Secure Choice Savings Program - Amends the Illinois Secure Choice Savings Program Act to provide employers who fail to remit contributions are subject to penalties.

Senate Bill 2111, Public Act 104-0457
Northern Illinois Transit Authority (NITA) Tax Rate - Effective June 1, 2026, amends several acts to change the Regional Transportation Authority (RTA) to the Northern Illinois Transit Authority (NITA). Authorizes the NITA board to increase its sales tax rate by 0.25% and provides the sales tax on motor fuel and gasohol will be deposited to the Public Transportation Fund and the Downstate Public Transportation Fund.

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Illinois Department of Revenue Rulemaking

MM&E and School Meal Plans Clean-Up – 86 Ill. Adm. Code § 130.210; 86 Ill. Adm. Code § 130.215; 86 Ill. Adm. Code § 130.330; 86 Ill. Adm. Code § 130.1930; 86 Ill. Adm. Code § 130.1980; 86 Ill. Adm. Code § 130.2005; 86 Ill. Adm. Code § 130.2020; 86 Ill. Adm. Code § 130.2145; 86 Ill. Adm. Code § 180.145
This rulemaking amends several sections of Part 130, Retailers' Occupation Tax, to reflect new statutory developments, decisional law, and Department policies. This rulemaking also deletes outdated provisions in Part 130 and provides various technical changes. Section 180.145 is being amended to provide updated cross-references with the addition of the new subsection (c) in 130.2005.
Adopted at 48 Ill. Reg. 10646 and 48 Ill. Reg. 10757 effective July 2, 2024**.**

Service Use Tax – 86 Ill. Adm. Code § 160.101; 86 Ill. Adm. Code § 160.105; 86 Ill. Adm. Code § 160.110; 86 Ill. Adm. Code § 160.111; 86 Ill. Adm. Code § 160.115; 86 Ill. Adm. Code § 160.116; 86 Ill. Adm. Code 160.117; 86 Ill. Adm. Code § 160.125; 86 Ill. Adm. Code § 160.130; 86 Ill. Adm. Code § 160.135; 86 Ill. Adm. Code § 160.136; 86 Ill. Adm. Code § 160.160; 86 Ill. Adm. Code § 160.165; 86 Ill. Adm. Code § 160.170; 86 Ill. Adm. Code § 160.175
This rulemaking amends Part 160, Service Use Tax, to reflect new statutory developments, decisional law, and Department policies. This rulemaking also deletes outdated provisions in Part 160 and provides various technical changes.
Adopted at 48 Ill. Reg. 10710, effective July 2, 2024.

Investment Partnership – 86 Ill. Adm. Code §100.7034; 86 Ill. Adm. Code § 100.9730
This rulemaking amends Part 100 Income Tax, Subpart EE Definitions, Section 100.9730 Investment Partnerships, implementing the changes in Public Act 103-0009 to the definition of "investment partnership" in the Illinois Income Tax Act Section 1501(a)(11.5) [35 ILCS 5/1501(a)(11.5)]. Additional updates and corrections to this section are included in the rulemaking. This rulemaking adds a new section (Section 100.7034) to Part 100 Income Tax, Subpart S Requirement and Amount of Withholding, implementing the changes in Public Act 103-0009 which amends the Illinois Income Tax Act to add Section 709.5(d) [35 ILCS 5/709.5(d)] requiring investment partnerships to withhold an amount from each nonresident partner for taxable years ending on and after December 31, 2023.
Adopted at 48 Ill. Reg. 10846, effective July 11, 2024.

Booking Intermediaries - 86 Ill. Adm. Code § 195.100; 86 Ill. Adm. Code § 195.105; 86 Ill. Adm. Code § 195.110; 86 Ill. Adm. Code § 195.120; 86 Ill. Adm. Code § 195.130; 86 Ill. Adm. Code § 195.135; 86 Ill. Adm. Code § 195.140; 86 Ill. Adm. Code § 195.150
The rulemaking implements the amendments to the Parking Excise Tax Act (35 ILCS 525) enacted by Public Act 102-700, Article 100, effective July 1, 2023, and Public Act 103-9, Article 20, effective July 1, 2023. The amendments to the Parking Excise Tax Act clarify the imposition, collection, and remittance of the tax when booking intermediaries facilitate the use of parking spaces on behalf of registered and unregistered operators of parking areas and garages.
Adopted at 48 Ill. Reg. 12523, effective August 5, 2024.

Practice and Procedure for Hearings Before the Illinois Department of Revenue - 86 Ill. Adm. Code § 200.107
This rulemaking updates the address for the Chicago location where administrative hearings are conducted.
Adopted at 48 Ill. Reg. 13834, effective August 27, 2024.

PA 103-0009 Implementation – 86 Ill. Adm. Code § 130.120; 86 Ill. Adm. Code § 130.320; 86 Ill. Adm. Code § 140.101; 86 Ill. Adm. Code § 140.125; 86 Ill. Adm. Code § 150.105; 86 Ill. Adm. Code § 480.101
This rulemaking amends Part 130, Retailers' Occupation Tax to enact changes made by P.A. 103-0009 which were not addressed in previous rulemaking. Section 130.120 is amended to expand the exemption for materials, parts, equipment, components, and furnishings incorporated into or upon an aircraft to include aircraft engines or power plants. Extends the exemption to December 31, 2029. Section 130.320 is amended to incorporate various changes to dates as well as the percentages of proceeds subject to tax from sales of gasohol, majority blended ethanol fuel, and mid-range ethanol blends. Section 140.101 is amended to incorporate various changes to dates as well as the

percentages of proceeds subject to tax from sales of gasohol, majority blended ethanol fuel, and mid-range ethanol blends. Section 140.125 is amended to expand the exemption for materials, parts, equipment, components, and furnishings incorporated into or upon an aircraft to include aircraft engines or power plants. This rulemaking also extends the exemption to December 31, 2029. Section 150.105 is amended to incorporate various changes to dates as well as the percentages of proceeds subject to tax from sales of gasohol, majority blended ethanol fuel, and mid-range ethanol blends. Section 480.101 is amended to extend the exclusion from tax to receipts from the renting of rooms to an entity that is organized and operated by an organization chartered by the United States Congress for the purpose of providing disaster relief and that possesses an active Exemption Identification Number issued by the Department.
Adopted at 48 Ill. Reg. 14779; 48 Ill. Reg. 14809; 48 Ill. Reg. 14836; and 48 Ill. Reg. 14846, effective September 25, 2024.

REV MICRO Implementation – 86 Ill. Adm. Code § 130.1958; 86 Ill. Adm. Code § 130.1959; 86 Ill. Adm. Code § 470.132; 86 Ill. Adm. Code § 470.133; 86 Ill. Adm. Code § 495.100
This rulemaking implements Public Acts 102-1125 and 102-669 as codified in 35 ILCS 120/5m, and Public Act 102-700 as codified in 35 ILCS 120/5n. New Section 130.1958 is created to implement the statutory exemption under Section 5n of the Retailers' Occupation Tax Act, 35 ILCS 120/5n. The exemption provides that sales of building materials that will be incorporated into real estate in a qualified facility, for which a certificate of exemption has been issued by the Department of Commerce and Economic Opportunity ("DCEO") under Section 110-105 of the Manufacturing Illinois Chips for Real Opportunity ("MICRO") Act (35 ILCS 45/110-1 et seq.) are exempt from State and local retailers' occupation taxes. This new section 130.1958 provides examples of qualifying and non-qualifying building materials, explains the certification process with the Illinois Department of Revenue ("IDOR"), provides suspension and revocation criteria for failure to file an annual report or unlawful use of an exemption certificate, lists annual report requirements, and describes ineligibility and protest procedures. New Section 130.1959 is created to implement the statutory exemption under Section 5m of the Retailers' Occupation Tax Act, 35 ILCS 120/5m. The exemption provides that sales of building materials that will be incorporated into a REV Illinois Project, for which a certificate of exemption has been issued by the DCEO under Section 105 of the Reimagining Energy and Vehicles in Illinois Act ("REV Illinois Act") (20 ILCS 686/1 et seq.) are exempt from State and local retailers' occupation taxes. This new section 130.1959 provides examples of qualifying and non-qualifying building materials, explains the certification process with IDOR, provides suspension and revocation criteria for failure to file an annual report or unlawful use of an exemption certificate, lists annual report requirements, and describes ineligibility and protest procedures. New Section 470.132 is created to implement a statutory exemption under Section 1 of the Gas Revenue Tax Act which excludes from gross receipts any charges added to customers' bills pursuant to the provisions of Section 9-222 of the Public Utilities Act, 220 ILCS 5/9-222. Section 9-222 of the Public Utilities Act provides that a public utility shall not charge customers, who are certified under Section 95 of the Reimagining Energy and Vehicles in Illinois Act ("REV Illinois Act") (20 ILCS 686/1 et seq.) an additional charge equal to the total amount of tax imposed under Section 2 of the Gas Revenue Tax Act. New Section 470.133 is created to implement a statutory exemption under Section 1 of the Gas Revenue Tax Act which excludes from gross receipts any charges added to customers' bills pursuant to the provisions of Section 9-222 of the Public Utilities Act, 220 ILCS 5/9-222. Section 9-222 of the Public Utilities Act provides that a public utility shall not charge customers, who are certified under the Manufacturing Illinois Chips for Real Opportunity ("MICRO") Act (35 ILCS 45/110-1 et seq.) an additional charge equal to the total amount of tax imposed under Section 2 of the Gas Revenue Tax Act. Section 495.100 is amended to comply with the Internet Tax Freedom Act, 47 USCA § 151. Statutory language regarding what is not included in gross charges is also inserted from the Telecommunications Excise Tax Act. This language, states among other things, that gross charges do not include charges to business enterprises certified under Section 9-222.1 of the Public Utilities Act, or under Section 95 of the Reimagining Energy and Vehicles in Illinois Act ("REV Illinois Act") (20 ILCS 686/1 et seq.), or under the Manufacturing Illinois Chips for Real Opportunity ("MICRO") Act (35 ILCS 45/110-1 et seq.), to the extent of such exemption and during the period of time specified by the Department of Commerce and Economic Opportunity ("DCEO").
Adopted at 48 Ill. Reg. 16529; 48 Ill. Reg. 16561; and 48 Ill. Reg. 16566, effective November 4, 2024.

Illinois Department of Revenue Rulemaking - continued

Electricity Excise Tax Law Clean-Up – 86 Ill. Adm. Code § 511.100; 86 Ill. Adm. Code §511.110; 86 Ill. Adm. Code § 511.120; 86 Ill. Adm. Code § 511.125; 86 Ill. Adm. Code § 511.140; 86 Ill. Adm. Code § 511.150; 86 Ill. Adm. Code § 511.200; 86 Ill. Adm. Code § 511.210; 86 Ill. Adm. Code § 511.220; 86 Ill. Adm. Code § 511.230; 86 Ill. Adm. Code § 511.300; 86 Ill. Adm. Code § 511.310; 86 Ill. Adm. Code § 511.320; 86 Ill. Adm. Code § 511.330; 86 Ill. Adm. Code § 511.340; 86 Ill. Adm. Code §511.350; 86 Ill. Adm. Code § 511.360
This rulemaking includes a general cleanup of the Electricity Excise Tax rules incorporating policies memorialized in Private Letter Rulings and General Information Letters. The rulemaking deletes outdated language and includes updated statutory text.
Adopted at 49 Ill. Reg. 17483, effective November 22, 2024

Emergency Worker Credit – 86 Ill. Adm. Code § 100.2179
This rulemaking incorporates the changes made by P.A. 103-0592 to expand eligibility to include volunteer disaster relief workers.
Adopted at 48 Ill. Reg. 17848, effective November 26, 2024.

Emergency Illinois Gives Tax Credit Act – 86 Ill. Adm. Code § 1050.100; 86 Ill. Adm. Code § 1050.450
This rulemaking implements the Illinois Gives Tax Credit Act adopted by Public Act 103-0592.
Adopted at 48 Ill. Reg. 18291, effective December 12, 2024

Sunset Extension – 86 Ill. Adm. Code § 100.2160; 86 Ill. Adm. Code § 100.2193; 86 Ill. Adm. Code § 100.2330
This rulemaking amends 100.2160 and 100.2193 to reflect new sunset dates for the Research and Development Credit and Student Assistance Contributions Credit enacted by Public Acts 103-0592 and 103-0595. This rulemaking implements the changes to the IL net loss deduction made by Public Act 103-0592 limiting the amount of losses that may be deducted to $500,000 in tax years ending on or after December 31, 2024 and prior to December 31, 2027.
Adopted at 49 Ill. Reg. 1295, effective January 15, 2025.

Quantum Theater Journalism Credits – 86 Ill. Adm. Code § 100.2161; 86 Ill. Adm. Code § 100.7385; 86 Ill. Adm. Code § 100.7386
This rulemaking amends Part 100 Income Tax, Subpart B Credits, to create new section 100.2161 which implements the process for taxpayers to qualify and apply for the Quantum Computing Campuses Tax Credit created by Public Act 103-0595. In addition, this rulemaking amends Part 100 Income Tax, Subpart V Employer's Return and Payment of Tax Withheld, to create new sections 100.7385 and 100.7386 which implements the process for taxpayers to qualify and apply for the Live Theater Production Tax Credit and the Local Journalism Sustainability Tax Credit, created by Public Act 103-0592.
Adopted at 49 Ill. Reg. 1861, effective January 31, 2025.

Farm M&E and Books & Records – 86 Ill. Adm. Code § 130.305; 86 Ill. Adm. Code § 130.801; 86 Ill. Adm. Code § 130.805; 86 Ill. Adm. Code § 130.810; 86 Ill. Adm. Code § 130.820; 86 Ill. Adm. Code § 130.825; 86 Ill. Adm. Code § 130.1415, 86 Ill. Adm. Code § 130.1955; 86 Ill. Adm. Code § 130.1970; 86 Ill. Adm. Code § 130.2100; 86 Ill. Adm. Code § 130.2110
Section 130.305 is being amended to reflect changes made by P.A. 103-0009, effective June 7, 2023, exempting electrical power generation equipment used primarily for production agriculture, as well as incorporating Department Compliance Alerts, 07-03 and 16-02, relating to ATVs and tractors. Additionally, Section 130.305 is being amended to reorganize the rule and make it more understandable. Section 130.801 is being amended to specify the timeframe for a taxpayer to respond to a second Information Document Request. This section is also being

amended to provide that failing to take reasonable steps to safeguard books and records against the elements shall be considered a failure to produce books and records. Section 130.805 is being amended to update the minimum requirements for recordkeeping that are expected to be retained by a retailer, and to update language consistent with modern technology for recordkeeping. Section 130.810 is being amended to be more understandable in outlining what is required for documenting deductions. Sections 130.820 and 130.825 are being amended to provide technical changes and to update language consistent with modern technology for recordkeeping. Section 130.1415 is being amended to make technical changes and provide an updated resale number for farm related items. Section 130.1955 is being amended to reflect decisional law changes regarding farm chemicals and updated information from Department policies. Sections 130.1970, 130.2100, and 130.2110 are being amended to delete outdated terms and provisions as well as being reformatted for readability.
Adopted at 49 Ill. Reg. 2107, effective February 5, 2025.

PA 101-604 and 100-1171 Implementation – Aviation Fuel – 86 Ill. Adm. Code § 130.541; 86 Ill. Adm. Code § 140.430; 86 Ill. Adm. Code § 220.101; 86 Ill. Adm. Code § 220.105; 86 Ill. Adm. Code § 230.101; 86 Ill. Adm. Code § 230.105; 86 Ill. Adm. Code § 270.101; 86 Ill. Adm. Code § 270.105; 86 Ill. Adm. Code § 280.101; 86 Ill. Adm. Code § 280.105; 86 Ill. Adm. Code § 320.101; 86 Ill. Adm. Code § 320.105; 86 Ill. Adm. Code § 330.101; 86 Ill. Adm. Code § 330.105; 86 Ill. Adm. Code § 370.101; 86 Ill. Adm. Code § 370.105; 86 Ill. Adm. Code § 380.101; 86 Ill. Adm. Code § 380.105; 86 Ill. Adm. Code § 395.101; 86 Ill. Adm. Code § 395.105; 86 Ill. Adm. Code § 396.101; 86 Ill. Adm. Code § 396.105; 86 Ill. Adm. Code § 500.202; 86 Ill. Adm. Code § 500.203; 86 Ill. Adm. Code § 201.200; 86 Ill. Adm. Code § 670.101; 86 Ill. Adm. Code § 670.105; 86 Ill. Adm. Code § 680.101; 86 Ill. Adm. Code § 680.105; 86 Ill. Adm. Code § 690.101; 86 Ill. Adm. Code § 690.105; 86 Ill. Adm. Code § 691.101; 86 Ill. Adm. Code § 691.105; 86 Ill. Adm. Code § 693.101; 86 Ill. Adm. Code § 693.105; 86 Ill. Adm. Code § 694.101; 86 Ill. Adm. Code § 694.105
Section 130.541 is being created to detail the procedures for filing aviation fuel returns. Section 140.430 is being amended to incorporate by reference the newly created Section 130.541 into the Service Occupation Tax Regulations. This rulemaking incorporates the technical changes made by P.A. 100-117, effective January 1, 2019, related to how these rules describe the exemption of low-rate items from these local taxes. It also reflects the changes made by P.A. 101-0010, effective June 5, 2019, and P.A. 101-604, effective December 13, 2019, exempting aviation fuel from the Home Rule County Retailers' Occupation Tax, the Home Rule County Service Occupation Tax, the Home Rule Municipal Retailers' Occupation Tax, the Home Rule Municipal Service Occupation Tax, the Regional Transportation Authority Retailers' Occupation Tax, the Regional Transportation Authority Service Occupation Tax, the Metro East Mass Transit District Retailers' Occupation Tax, the Metro East Mass Transit District Service Occupation Tax, the Metro-East Park and Recreation District Retailers' Occupation Tax, the Metro-East Park and Recreation District Service Occupation Tax, the Motor Fuel Tax, the Environmental Impact Fee, the Special County Retailers' Occupation Tax for Public Safety, the Special County Service Occupation Tax for Public Safety, the Salem Civic Center Retailers' Occupation Tax, the Salem Civic Center Service Occupation Tax, the Non-Home Rule Municipal Retailers' Occupation Tax, the Non-Home Rule Municipal Service Occupation Tax and providing new references regarding the low-rate items. This rulemaking reflects the recent changes made by P.A. 103-0781, effective August 5, 2024, regarding the local grocery tax. This rulemaking also incorporates changes made by P.A. 103-0592, effective June 7, 2024, and P.A 103-0995, effective August 9, 2024. Section 500.200 is amended to clarify how to calculate the percentage increase in the Consumer Price Index for purposes of any motor fuel tax increase. Section 500.202 is amended to extend the leaking underground storage tank tax through December 31, 2029. This rulemaking also makes changes to reflect new sunset dates made by P.A. 103-0592, effective June 7, 2024. Section 501.200 is amended to extend the environmental impact fee through December 31, 2029. This rulemaking reflects the recent changes made by P.A. 103-0781, effective August 5, 2024, removing the referendum approval requirement for imposing local taxes.
Adopted at 49 Ill. Reg. 3180; 49 Ill. Reg. 3194; 49 Ill. Reg. 3201; 49 Ill. Reg. 3207; 49 Ill. Reg. 3213; 49 Ill. Reg. 3219; 49 Ill. Reg. 3225; 49 Ill. Reg. 3232; 49 Ill. Reg. 3238; 49 Ill. Reg. 3244; 49 Ill. Reg. 3250; 49 Ill. Reg. 3256; 49 Ill. Reg. 3261; 49 Ill. Reg. 3278; 49 Ill. Reg. 3282; 49 Ill. Reg. 3288; 49 Ill. Reg. 3294; 49 Ill. Reg. 3299; 49 Ill. Reg. 3304; and 49 Ill. Reg. 3312, effective February 26, 2025.

Illinois Department of Revenue Rulemaking - continued

REV MICRO Credits – 86 Ill. Adm. Code § 100.2110; 86 Ill. Adm. Code § 100.2111; 86 Ill. Adm. Code § 100.2112; 86 Ill. Adm. Code § 100.2131; 86 Ill. Adm. Code § 100.2135; 86 Ill. Adm. Code § 100.2164; 86 Ill. Adm. Code § 100.2198; 86 Ill. Adm. Code § 100.2655; 86 Ill. Adm. Code § 100.7380; 86 Ill. Adm. Code § 100.7381; 86 Ill. Adm. Code § 100.7382
This rulemaking amends Part 100 Income Tax, Subpart B Credits, to create new sections 100.2111 and 100.2112 which implements the process for taxpayers to qualify and apply for the REV Tax Credit and the MICRO Tax Credit. In addition, this rulemaking amends Part 100 Income Tax, Subpart V Employer's Return and Payment of Tax Withheld, to create new sections 100.7381 and 100.7382 which implements the process for taxpayers to qualify and apply an election against withholding for the REV Tax Credit and the MICRO Tax Credit.
Adopted at 49 Ill. Reg. 3115, effective February 26, 2025.

Direct Pay Annual Review and Home-Delivered Meals – 86 Ill. Adm. Code § 130.120; 86 Ill. Adm. Code § 130.341; 86 Ill. Adm. Code § 130.2532; 86 Ill. Adm. Code § 140.124; 86 Ill. Adm. Code § 140.125
Section 130.120 is being amended to update the list of exemptions from the Retailers' Occupation Tax with additions made by Public Acts 103-0384, 103-592, and 103-0643 for active-duty military, leases, and home-delivered meals. Section 130.341 is being repealed as those exemptions ended in 2005. This new Section 130.2532 implements Public Act 103-0966 and provides guidance, including examples, regarding the annual review process for Direct Pay Permit holders, the filing of amended returns, and $6,000 penalty for noncompliance. This rulemaking amends 86 Ill. Adm. Code 140.125 to update the added exemptions to the Service Occupation Tax by Public Acts 103-0384, 103-592 103-0643, and for active-duty military, leases, and home-delivered meals. This rulemaking repeals 86 Ill. Adm. Code 140.124 as those exemptions ended in 2005. This rulemaking also contains technical corrections to statutory text and citations.
Adopted at 49 Ill. Reg. 5419; and 49 Ill. Reg. 5457, effective April 1, 2025.

Illinois Gives Tax Credit Act – 86 Ill. Adm. Code § 1050.100; 86 Ill. Adm. Code § 1050.450
This rulemaking implements the Illinois Gives Tax Credit Act adopted by Public Act 103-0592.
Adopted at 49 Ill. Reg. 8025, effective May 23, 2025.

Automobile Renting Occupation Tax – 86 Ill. Adm. Code § 180.101; 86 Ill. Adm. Code § 180.120; 86 Ill. Adm. Code § 180.125; 86 Ill. Adm. Code § 180.130; 86 Ill. Adm. Code § 180.150
The rulemaking amends 86 Ill. Adm. Code 180, the Automobile Renting Occupation Tax rules, to reflect changes to the Act enacted by Public Act 103-520. Public Act 103-520 excludes peer-to-peer car sharing, as defined in Section 5 of the Car-Sharing Program Act (815 ILCS 312), from the Automobile Renting Occupation Tax if tax due on the automobile under the Retailers' Occupation Tax or Use Tax Act was paid upon the purchase of the automobile or when the automobile was brought into Illinois. This rulemaking also clarifies existing text, updates citations, and adds a new section on administration and enforcement of the Act.
Adopted at 49 Ill. Reg. 7670, effective May 19, 2025.

Use Tax to Retailers' Occupation Tax Conversion – 86 Ill. Adm. Code § 130.225; 86 Ill. Adm. Code § 130.530; 86 Ill. Adm. Code § 130.715; 86 Ill. Adm. Code § 130.2075; 86 Ill. Adm. Code § 131.105; 86 Ill. Adm. Code § 131.107; 86 Ill. Adm. Code § 131.110; 86 Ill. Adm. Code § 131.150; 86 Ill. Adm. Code § 131.155; 86 Ill. Adm. Code § 131. Illustration A; 86 Ill. Adm. Code § 131.Illustration B; 86 Ill. Adm. Code § 150.801; 86 Ill. Adm. Code § 150.802; 86 Ill. Adm. Code § 150.1305; 86 Ill. Adm. Code § 270.115
This rulemaking implements Public Act 103-983, which changed the tax obligation for retailers maintaining a place of business in this State making sales to Illinois customers from outside of this State. Prior to January 1, 2025, such sales were subject to Use Tax only. On and after January 1, 2025, these retailers incur destination-based retailers' occupation tax on these sales. This rulemaking also amends the Department's sourcing rules related to the lease of tangible personal property in this State as enacted by Public Act 103-592 (Article 75).
Adopted at 49 Ill. Reg. 8586; 49 Ill. Reg. 8610; 49 Ill. Reg. 8640; and 49 Ill. Reg. 8655, effective June 13, 2025.

Income Tax

PepsiCo, Inc. and Affiliates v. Illinois Department of Revenue, 2025 IL App (1st) 230913 (Apr. 30, 2025), appeal denied, No. 131799 (Ill. Sept. 24, 2025).

The Illinois Department of Revenue issued Notices of Deficiency to PepsiCo for tax years ending December 31, 2011, December 31, 2012, and December 31, 2013, which contained audit adjustments by the Department disallowing PepsiCo's treatment of a member of its business group, Frito-Lay North America, Inc. ("FLNA"), as an excluded 80/20 company. The Department's audit adjustment added FLNA's income, approximately $2.5 billion each year, to the PepsiCo unitary group's income for purposes of calculating its Illinois income taxes. PepsiCo challenged the Department's Notices of Deficiency in the Tax Tribunal. The Tax Tribunal granted the Department's Motion for Summary Judgment, concluding that PepsiCo failed in its burden to prove that it is entitled to claim FLNA as an 80/20 company, that its global mobility subsidiary (PepsiCo Global Mobility, LLC, or "PGM") must be disregarded as it has no economic substance, and that PGM was not the employer of the PepsiCo expatriates for purposes of the 80/20 payroll calculation. The Tax Tribunal also granted the Department's subsequent Motion for Summary Judgment upholding the imposition of penalties.

PepsiCo filed an appeal at the First District Court. In a published decision, the First District affirmed the Tax Tribunal's two decisions, on the 80/20 issue and on denial of penalty abatement. On the 80/20 issue, the Court affirmed that PepsiCo improperly classified its expatriate employees as employees of PGM, and therefore the expatriates could not be considered employees of FLNA through PGM. "Consequently, the compensation paid to the expatriates cannot be counted as foreign payroll of FLNA to meet the 80% payroll threshold."

In reaching its conclusion that PepsiCo failed to demonstrate that it exercised reasonable cause to justify penalty abatement, the First District affirmed the language of the Tax Tribunal's decision:

> "It is astounding that a sophisticated tax department, like PepsiCo's, would create such an aggressive tax strategy to create a non-operational shell company, PGM [sic] LLC, whose sole purpose was to make billions of dollars of FLNA's domestic snack line income, previously recognized for State of Illinois income tax calculations, disappear with a few strokes of a pen, without addressing the merits of such an endeavor with in-depth factual and legal analyses."

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Illinois Department of Revenue Recurrent Taxpayer Non-Compliance Issues

Sales Tax

Leveling the Playing Field and Marketplace Facilitator Issues

The Audit Bureau continues to see issues with taxpayers complying with the rules associated with the Leveling the Playing Field for Illinois Retail Act. Examples of these issues include the following:

- Taxpayers meeting specific tax remittance thresholds are failing to register and failing to remit retailers' occupation taxes (ROT). (See 86 Ill. Adm. Code 131.125, 86 Ill. Adm. Code 131.145, and PIO-113, Out-of-State Seller and Remote Retailer Registration Flowchart**.)
- Registered taxpayers are reporting use taxes instead of the correct retailers' occupation taxes. This occurs for two main reasons: some do it to simplify their tax return preparation, while others make questionable claims about having physical presence (nexus) to avoid paying retailers' occupation taxes in various jurisdictions. (Note: Effective January 1, 2025, Public Act 103-983 extended the obligation to pay ROT to most out-of-state sales which is expected to improve this issue in the future.) (See 86 Ill. Adm. Code 131.110, 86 Ill. Adm. Code 131.130, and PIO-104, Leveling the Playing Field for Illinois Retail Act Flowchart.)
- Many marketplace facilitators are not providing their marketplace sellers with Form CRT-63, Sales Through Marketplace Facilitator Certificate, which notifies the seller that the marketplace facilitator is responsible for collecting and remitting the sales tax. This often makes it challenging for sellers to determine if they owe tax on their marketplace sales.
- Some remote retailers and marketplace facilitators are not retaining enough documentation to allow the Audit Bureau to verify the correct location of the sale. This makes it difficult to ensure the appropriate tax rate was applied and the collected taxes are allocated to the proper local governments. For destination-based transactions, supporting documents must include the full name and street address for each delivery. (See 86 Ill. Adm. Code 131.125, 86 Ill. Adm. Code 131.145, and 86 Ill. Admin. Code 130.801.)
- Some remote retailers and marketplace facilitator filers are not properly determining whether their shipping charges are taxable. (See 86 Ill. Adm. Code 130.415.)

Cash Business Issues

Audits of cash businesses such as bars, restaurants, liquor stores, tobacco stores, grocery stores, convenience stores, and fuel stations continue to show compliance problems.

- Audited taxpayers are failing to keep or produce records. The records produced are often insufficient to verify taxable sales. Failure to maintain proper records and/or production of insufficient records causes delays in the audit process which results in taxpayers postponing their payments for established liabilities. (See 86 Ill. Adm. Code 130.801.)
- Some taxpayers are incorrectly reporting sales subject to the high rate of tax as sales subject to the low rate of tax on their returns to reduce their tax liability. (See 86 Ill. Adm. Code 130.310 and 86 Ill. Adm. Code 130.311.)
- Some fuel stations are incorrectly reporting taxable fuel as tax exempt fuel. (See 86 Ill. Adm. Code 130.320 and FY 2024-13, Form ST-1 and Form PST-1 Changes for New Motor Fuel Classifications, Effective January 1, 2024.)

Selling Price Issues

Retailers are increasingly adding additional charges to their sales invoices such as credit card transaction fees, banquet room fees, etc. They often fail to collect taxes on these fees even though these fees are considered as costs of doing business and are subject to tax. (See 86 Ill. Adm. Code 130.410, 86 Ill. Adm. Code 130.2145, and CA-2012-11.)

Illinois Department of Revenue Recurrent Taxpayer Non-Compliance Issues - continued

Depending on their nature, state and local taxes can either be deducted from gross receipts or included in them as costs of doing business. Generally, costs of doing business are not deductible and should be included in gross receipts. (See 86 Ill. Adm. Code 130.410.)

Retailers find it difficult to determine if local food and beverage taxes should be included in their gross sales or deducted from it when calculating the ROT. Whether a tax should be included in a business's gross receipts depends on who is legally responsible for paying the tax. If the consumer is legally responsible for paying the tax, it does not count as part of the business's gross receipts. If the retailer or manufacturer is responsible for the tax, then the tax must be included in the gross receipts as part of the business's operating costs. (See 86 Ill. Adm. Code 130.435.)

For example, the Chicago Restaurant Tax should be included in gross receipts on Line 1 of Form ST-1, Sales and Use Tax and E911 Surcharge Return, and is subject to ROT, but some Chicago restaurants are failing to include the Chicago Restaurant Tax in gross receipts. For the taxes that are deductible, some retailers fail to keep records showing they remitted the taxes to the local government. (See 86 Ill. Adm. Code 130.410, 86 Ill. Adm. Code 130.435, and Form ST-1, Sales and Use Tax and E911 Surcharge Return, Instructions.)

Exemption Documentation Issues

The Audit Bureau has noticed some retailers are failing to obtain or keep the documentation required to show that a sale qualifies for an exemption. Examples of frequently missing exemption documentation include resale certificates, farm machinery and equipment exemption certificates, building materials exemption certificates, marketplace facilitator certificates, and exemption documentation for sales to governmental, charitable, religious, or educational organizations. This failure to obtain or keep documentation leads to delays in completing audits as the taxpayers must then gather the documentation after the audit starts. (See PIO-101, Illinois Sales & Use Tax Matrix, for guidance on different types of exemption documentation required to be obtained by retailers and 86 Ill. Adm. Code 130.810.)

For example, when a sale is made to an exempt organization, some retailers may obtain exemption certificates (i.e., Form ST-591, Certificate of Exemption Eligibility for Qualified Purchases of Home-Delivered Meals, a copy of the organization's Section 501(c)(3) exemption from the IRS, a copy of their "E" number from IDOR, etc.) but fail to retain the documentation required to tie those certificates to specific sales nor do they maintain proof that payment was made by the exempt organization. A retailer must identify the sales made to the specific exempt organization in their books and records and provide proof payment was made by the exempt organization. If they fail to do so, IDOR must disallow the exemption. (See 86 Ill. Adm. Code 130.2081.)

Additionally, some construction contractors claiming a building materials exemption for work performed in ~~an~~ Enterprise Zones, River Edge Redevelopment Zones, etc., are failing to keep and provide the documentation necessary to verify their building material purchases qualify for the project exemptions. In addition, some retailers selling to these construction contractors are failing to obtain the required exemption certifications. It is the retailer's responsibility to verify that the certificate holder's building materials exemption certificate number is valid and active. The retailer can confirm the validity of the Form EZ-1, Building Materials Exemption Certification, from the construction contractor through IDOR's website. (See 86 Ill. Adm. Code 130.1949 – 1954 and FY 2013-16, New Application Process to Obtain Sales Tax Exemption Certificates for Building Materials.)

Durable Medical Equipment and Other Tangible Personal Property

The Audit Bureau has noticed some retailers and servicepeople are not remitting Retailers' Occupation Tax or Service Occupation Tax for durable medical equipment and other tangible personal property transferred to Medicare beneficiaries under Medicare Parts A and B and paid for by Medicare Administrative Contractors. (See CA-2024-01, Sales Made to Medicare Administrative Contractors, and 86 Ill. Adm. Code 130.810.)

Illinois Department of Revenue Recurrent Taxpayer Non-Compliance Issues - continued

Cannabis Cultivation Privilege Tax Issues

The Audit Bureau has noticed some cannabis cultivators are incorrectly calculating the privilege taxes they owe due to the different ways in which the adult-use and medical cannabis privilege taxes are calculated.

The medical cannabis cultivation privilege tax is calculated using the sales price per ounce while the adult-use cannabis cultivation privilege tax is based on gross receipts.

Cannabis cultivators must file Form CC-1, Adult Use Cannabis Cultivation Privilege Tax Return, if they are licensed as a cannabis cultivation center or a craft grower making sales of adult use cannabis. Cannabis cultivation centers selling medical cannabis must file Form MC-1, Medical Cannabis Cultivation Privilege Tax Return, to report sales of medical cannabis. (See 86 Ill. Adm. Code section 422.105, 86 Ill. Adm. Code section 423.105, 86 Ill. Adm. Code section 424.105, 86 Ill. Adm. Code section 425.105, and 86 Ill. Adm. Code section 429.105.)

Current Law for Medical Cannabis Cultivators:

Beginning January 1, 2014, a tax is imposed upon the privilege of cultivating medical cannabis at a rate of 7% of the sales price per ounce. The tax is paid by a cultivation center and is not the responsibility of a dispensing organization, qualifying patient or designated caregiver. [410 ILCS 130/200(a)]

Current Law for Adult-Use Cannabis Cultivators:

Beginning September 1, 2019, the Cannabis Cultivation Privilege Tax Law imposes a tax on the privilege of cultivating cannabis in this State* at the rate of 7% of gross receipts received from the first sale of cannabis by the cultivator. [410 ILCS 705/60-10(a)]

International Fuel Tax Agreement (IFTA) Issues

The Audit Bureau has identified a variety of compliance issues related to the International Fuel Tax Agreement:

- Many licensees covered by the International Fuel Tax Agreement are failing to keep or produce the documentation required to verify the amounts claimed on their returns. These licensees are not properly maintaining logs or other support to document their miles driven, are not keeping fuel purchase receipts, and are not adequately keeping track of the fuel withdrawn from bulk fuel storage tanks.
- Many IFTA licensees are not keeping copies of their system generated Electronic Logging Device (ELD) daily log details which are needed for verification on completeness of the trips taken. These licensees are only keeping copies of the mileage state* summaries. ELD systems' reports are normally only accessible for the previous six months, which is problematic when auditing periods prior to that timeframe. (See the MFUT-53, Illinois IFTA Carrier Compliance Manual and 86 Ill. Adm. Code 500.345.)

Licensees covered by the International Fuel Tax Agreement are failing to record the actual addresses of their origin and destination points and are instead simply listing the city which is insufficient. They are also failing to record their actual trip origin and destination points and are instead only reporting the locations where they pick up and drop off loads.

- Some IFTA licensees are purchasing more decals than their reported active trucks listed and are unable to show the copies of any unused decals after the year ends. This makes it difficult to determine whether the licensee is using those decals with vehicles not reported in their records.

Illinois Department of Revenue Recurrent Taxpayer Non-Compliance Issues - continued

Transactional Return Issues

The Audit Bureau has identified a variety of compliance issues related to the purchases of aircraft, watercraft, and vehicles. Major issues include the following:

- Taxpayers continue to claim the rolling stock exemption on non-qualifying vehicles such as trucks that do not exceed the 16,000 pounds gross vehicle weight rating (GVWR) and vehicles improperly claimed to be used as limousines. (Note: Effective July 1, 2025, Public Act 104-0006 eliminated the exemption for limousines used to provide transportation network company services which should simplify future compliance.) (See 86 Ill. Adm. Code 130.340 and FY 2025-30, Changes Related to Motor Vehicle Transactions for Automobile Dealers.)
- Illinois residents are purchasing vehicles from Illinois dealers claiming the exemption available for out-of-state residents from reciprocal states. There is a similar issue with Illinois residents establishing out-of-state LLCs to improperly claim a nonresident exemption on vehicles intended to be used in Illinois. (Note: Public Act 104-0006 provided clarification on this issue by creating a rebuttable presumption that an LLC with an Illinois resident as a member is not eligible to claim the nonresident exemption.) (See 86 Ill. Adm. Code 130.605 and FY 2025-30.)
- Taxpayers are claiming the farm machinery and equipment exemption on purchases which frequently do not qualify for the exemption, such as ATVs, UTVs, and mowers. If these purchases do qualify for the exemption, taxpayers frequently fail to keep usage logs which makes verifying that the items are used in an exempt manner difficult during an audit. (See 86 Ill. Adm. Code 130.305.)
- Purchasers of watercraft from private parties are listing a price below the actual purchase price to reduce the tax due. (See 86 Ill. Adm Code 153.110.)
- Out-of-State residents who hangar or primarily use aircraft in Illinois are failing to file returns and pay the applicable use taxes due. (See 86 Ill. Adm. Code 150.310.)

Leasing Companies

Leasing companies, in and outside of Illinois, are failing to make the proper determination on sales of certain off-lease, Illinois-registered items such as motor vehicles, watercraft, aircraft, and trailers, that are subject to state and local retailers' occupation tax in Illinois.

In Illinois, if a company primarily leases or rents first division motor vehicles, aircraft, or watercraft, and then sells any of these used items to someone who intends to use it and not resell it, that company is considered a retailer engaged in the business of selling that specific item at retail. Similarly, leasing companies selling off-lease, second division motor vehicles or trailers are also considered to be selling these items at retail if they typically sell this type of property. (See 86 Ill. Adm. Code 130.111 and FY 2025-17, Reporting Requirements for Certain Titled or Registered Property Subject to Tax on Lease or Rental Receipts.)

These leasing companies must register with IDOR and are obligated to collect Illinois Sales Tax and report these sales on Form ST-556, Sales Tax Transaction Return. (See 86 Ill. Adm. Code 130.2013(e).)

Income Tax

Apportionment Issues

In general, apportionment calculations seem to give taxpayers difficulty. Certain businesses that derive their income from inside and outside Illinois require an apportionment formula. On a recurring basis, auditors have identified compliance problems with taxpayers failing to correctly report both the numerator and denominator of the apportionment factor. Improper calculations by taxpayers can result in a smaller apportionment of income to Illinois and as a result, they underpay their tax.

For more information on what should be included in the numerator or denominator of your sales factor, see 86 Ill. Adm. Code Sections 100.3370 and 100.3380.

- Numerator / Reversionary Sales - Auditors often find instances where the numerator does not include items of income apportionable to Illinois. This includes sales of services received in Illinois and sales of tangible personal property

Illinois Department of Revenue Recurrent Taxpayer Non-Compliance Issues - continued

shipped into Illinois. Auditors have also noted instances where taxpayers are not including receipts from the sale of tangible personal property shipped from Illinois to states where they are not taxable. Per 35 ILCS 5/304(a)(3)(B)(ii), such sales should be included in the sales factor numerator.

Apportionment Denominator - Auditors have discovered instances where taxpayers have added items into the calculation of the apportionment denominator that should not be included, as well as excluded figures from the denominator when they should be included. For example, auditors have discovered instances where the apportionment denominator includes items of income such as foreign dividends, tax exempt interest, etc., that are being subtracted during the computation of base income. Per Continental Illinois Nat'l Bank & Trust Co. of Chicago v. Lenckos, 102 Ill. 2d 210 (1984), any gross receipt excluded from base income or subtracted in the computation of base income must be excluded from the apportionment numerator and denominator. Auditors are also noticing that taxpayers struggle to properly classify (or mistakenly include) royalties, non-business income, and eligible throw-out sales when calculating the denominator. Taxpayers are mistakenly using gross sales instead of net sales. Eliminations are also being calculated incorrectly. (See 35 ILCS 5/304(a)(3).)

Personal Service Income (PSI) Reasonable Compensation
Partnerships are improperly reporting the subtraction modification allowed under the Illinois Income Tax Act Section 203(d)(2)(H) for personal service income (PSI) or reasonable allowance for compensation paid to their partners. Taxpayers are using this subtraction to zero out their taxable income and eliminate their replacement tax liability. In many cases, they have not maintained proper documentation to substantiate the subtraction amount as reported. When supporting documentation is requested, they either do not have the documentation, or they attempt to find a calculation that justifies their subtraction amount.

Bonus Depreciation
Due to Illinois' complex and decoupled rules regarding bonus depreciation, many taxpayers incorrectly calculate their tax modifications on Form IL-4562, Special Depreciation. This non-compliance is a timing issue but results in the state* not receiving the tax revenue it should.

Taxpayers are trying to use subtraction modifications to catch up on the deduction even after the asset has been disposed of. Additionally, they are keeping separate depreciation records between federal and state* for different calculations. (See 35 ILCS 5/203 and Form IL-4562, Instructions.)

Federal Schedule E / Schedule C
Individual taxpayers are improperly reporting income and expenses on their federal Schedule C or Schedule E. The following are common issues IDOR continues to find:

- Under-reporting of income – Taxpayers may not be reporting all income related to their business activities.
- Over-reporting of expenses - Auditors have noticed that taxpayers may be claiming a small amount of income but a disproportionately large amount of expenses. Taxpayers are also claiming wage expenses even though they are not paying Illinois withholding income tax on these wages.
- Improper business deductions – Auditors have noticed that taxpayers are claiming excessive business deduction amounts and are using incorrect information when doing so. For example, some taxpayers are claiming home office expenses instead of pro-rating the amounts and completing the proper forms per the federal guidelines.
- Claiming gambling losses in the improper place - There are instances where taxpayers are attempting to take gambling losses on the federal Schedule C, claiming they are professional gamblers, instead of properly claiming the losses on the federal Schedule A.

In each case, taxpayers are attempting to create a loss to offset other, unrelated income and reduce their tax liability. In some cases, the reported loss is significant enough that it allows them to claim federal and state Earned Income Tax Credit (EITC).

Replacement Tax Investment Credit
Auditors have noted several recurring issues with taxpayers incorrectly completing Form IL-477, Replacement Tax Investment Credits, that results in taxpayers claiming more credit than they are entitled to receive.

Illinois Department of Revenue Recurrent Taxpayer Non-Compliance Issues - continued

For example, taxpayers are:

- Failing to meet the conditions required to claim the Replacement Tax Investment Credit.
- Claiming the credit on non-qualified property.
- Failing to report recapture credits from disqualified property.
- Claiming the credits on property put into service after 2018, which is not permissible according to IITA §201(e)(8).

Non-Filers

One of the most prevalent compliance issues faced by IDOR is non-filed returns. This is a major issue, especially with individual income taxpayers. In accordance with information exchange agreements, IDOR receives information from both the Illinois Comptroller's Office and the IRS regarding taxpayers that have Illinois sourced income but are found to have not filed the required Illinois returns. The Audit Bureau contacts these taxpayers and encourages them to file their state return or to provide supporting information that confirms they are not required to file with the State of Illinois. There have been over 131,000 non-filer taxpayers for individual income tax with $302.7 million in liability established in the past fiscal year alone.

Non-filed business income tax returns are also problematic. In a recent non-filer project, the Audit Bureau encountered transportation companies that have revenue miles within Illinois, but did not file Illinois business income tax returns to apportion their income based upon Illinois revenue miles.

Audits have revealed taxpayers who habitually fail to file returns despite multiple compliance enforcement cycles. These repeated audits are costly and inefficient for the state. Certain taxpayers knowingly avoid filing returns to evade paying taxes they know are due, including individuals with wages lacking Illinois withholding, recipients of flow-through income, and those transacting primarily in cash.

Unreported Revenue Auditor Report (RAR) Changes

When taxpayers are audited by the IRS, the federal audit results often include changes that result in increased Illinois tax liability. Taxpayers are required to report these changes from the federal Revenue Auditor's Report (RAR) to Illinois within 120 days of the federal finalization date. Taxpayers often fail to report federal changes that affect their Illinois returns, so the Audit Bureau must contact them to make the required changes. This applies to several taxes including individual income tax, business income tax, and withholding tax. (See 35 ILCS 5/506(b).)

Unitary Business Groups

The Audit Bureau has noted several recurring issues with unitary business groups (See Public Act 93-0840 and 86 Ill. Adm. Code 100.2430(b)(1)).)

- Unitary business groups have been incorrectly utilizing non-unitary partnership losses instead of having the non-unitary partner claim them.
- Taxpayers seem to misunderstand the 80/20 rules and misclassify foreign partners.
- Some taxpayers struggle with the repeal of the non-combination rule. They are incorrectly excluding entities from the group that were previously disallowed due to non-combination and are failing to include all appropriate entity types in the unitary group.
- Taxpayers do not understand that the rules for federal combined returns are different than the Illinois unitary rules and regulations, causing them to include or exclude members from the unitary group incorrectly.

Residency

Some taxpayers are trying to avoid Illinois taxation by filing as residents of states with no income tax, such as Florida, while still maintaining residences in Illinois. The Audit Bureau is receiving referrals from the Individual Processing Division, the Federal State Exchange Unit, and the Criminal Investigation Division for situations that appear questionable. Rules for residency can be found in 86 Ill. Adm. Code 100.3020.

Tiered Partnerships / 1000-E

The Audit Bureau has found that partnerships are intentionally creating multi-tiered partnership structures and are incorrectly using Form IL-1000-E, Certificate of Exemption for Pass-through Withholding, in an effort to hide income. Tiered partnership structures make it harder to track the income flowing through the various tiers. Often, the income-originating

Illinois Department of Revenue Recurrent Taxpayer Non-Compliance Issues - continued

partnership taxpayers are not paying the pass-through's withholding because they are claiming the IL-1000-E exemption for the flow-through partnerships, and then the flow-through partners do not file the required return to pay tax on the K-1 flow through income. This circumvents the intent of the pass-through withholding.

Nexus

Taxpayers continue to claim they do not have nexus with Illinois or try to claim protection under P.L. 86-272 even though the business activities exceed mere solicitation. (See 86 Ill. Adm. Code 100.9720.)

Research and Development Credit

Taxpayers are incorrectly claiming the Research and Development tax credit to claim credit for research activities that are conducted outside of Illinois. (See 35 ILCS 5/201(k) and 86 Ill. Adm. Code 100.2160.)

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