



MULTISTATE INCOME/FRANCHISE TAX

## Illinois fiscal year 2024 budget highlights Tax Alert

### Overview

On June 7, 2023, Illinois [Public Act 103-0009](#) (“Budget Act”) was enacted into law. The Budget Act, among other things, expands the definition of investment partnership to include income from another pass-through entity and imposes a new withholding requirement on investment partnerships, applicable for tax years ending on or after December 31, 2023.

This Tax Alert summarizes some of the tax related provisions in the Budget Act.

### Investment partnership updates

#### Definitions

For tax years ending *before* December 31, 2023, “investment partnership” is defined as any partnership that meets certain requirements, including:

- (i) No less than 90% of the partnership’s cost of its total assets consists of qualifying investment securities, deposits at banks or other financial institutions, and office space and equipment reasonably necessary to carry on its activities as an investment partnership;
- (ii) No less than 90% of its gross income consists of interest, dividends, and gains from the sale or exchange of qualifying investment securities;
- (iii) The partnership is not a dealer in qualifying investment securities.

An investment in the partnership only qualifies as qualifying investment securities if the partnership itself is an investment partnership.

The Budget Act changed the definition of qualifying investment securities for tax years ending on and after December 31, 2023. Qualifying investment securities now includes a partnership interest that, in the hands of the partnership, qualifies as a security within the meaning of subsection (a)(1) of Subchapter 77B of Chapter 2A of Title 15 of the United States Code, which broadly defines a security.

Additionally, the definition of investment partnership is expanded to include “distributive share of partnership income from lower-tier partnership interests meeting the definition of qualifying investment security under subparagraph (B)(xiii)” and to clarify that gross income does not include income from partnerships that are operating at a federal taxable loss.

Furthermore, the restriction on dealers is removed and therefore broker dealers can now be investment partnerships.

### **Withholding**

The Budget Act also provides that for tax years ending on or after December 31, 2023, investment partnerships are subject to a new withholding requirement. No credit is allowed for taxes withheld except to the extent the income is business income in the hands of the partner. An exemption from withholding is not allowed.

### **Pass-through entity tax retired partner payment deduction**

For tax years ending on or after December 31, 2023, for calculating the optional pass-through entity tax, certain payments to retired partners that are exempt from the individual income tax as retirement payments are not included in the pass-through entity tax base.

### **Other provisions in the Budget Act**

#### **Credits**

- Allows Department of Commerce and Economic Opportunity to certify Kankakee and Joliet as River Edge Redevelopment Zones.
- Extends and expands the amount of credits available under the Historic Preservation Tax Credit Act.
- Expands the definition of High Impact Business to include businesses that establish a new cultured cell material food production facility.
- Amends the administration of the Sustainable Aviation Fuel Sales Tax Credit.
- Expands the definition of “startup taxpayer” for EDGE agreements to entities that have existed for less than 10 years instead of 5 years.
- Increases the amount of Angel Investment Tax Credits that can be awarded each year.
- Increases the amount of New Market Development Tax Credits that can be awarded each year.
- Creates new alternative qualification requirements for the REV Tax Incentives. Also corrects a sales tax reference.
- Creates a \$500 income tax credit for volunteer emergency workers.

#### **Sales Tax**

- Extends and expands the sales tax exemption for aircraft repairs.
- Reduces sales tax rates for motor fuel with ethanol.
- Expands the farm machinery and equipment sales tax exemption to include electrical power generation equipment used for agriculture production.
- Amends the Parking Excise Tax Act.
- Exempts hotel rooms rented to the Red Cross for disaster relief.

- Provides that amounts paid for certain sales and excise taxes, other than quarterly payments, are deemed assessed upon receipt.

## Other

- Extends the automatic Consumer Price Index increase to the individual standard exemption for income taxes.

## Get in touch

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