

General Information Letter: Response to survey on Illinois income tax treatment of research and development expenditures.

March 21, 2007

Dear:

This is in response to your letter dated February 16, 2007 in which you request the following:

I am a full-time faculty engaged in an academic study pertaining to innovation tax incentives (e.g., R&D credits) offered by the various states. It is essential that I obtain accurate and current information; therefore, I am requesting that you or your delegate either (i) send me any existing documents describing your state's innovation tax incentives, or (ii) complete and send me the very brief table below.

Type of incentive	Rate	Basis for the incentive (e.g., all R&D incurred during the year of some incremental amount)
R&D tax credit		
R&D tax deduction		
Other innovation incentive(s)		

Your assistance is essential and most appreciated.

According to the Department of Revenue ("Department") regulations, the Department may issue only two types of letter rulings: Private Letter Rulings ("PLR") and General Information Letters ("GIL"). The regulations explaining these two types of rulings issued by the Department can be found in 2 Ill. Adm. Code §1200, or on the website <http://www.tax.illinois.gov/LegalInformation/regs/part1200>.

Due to the nature of your inquiry and the information presented in your letter, we are required to respond with a GIL. GILs are designed to provide background information on specific topics. GILs, however, are not binding on the Department.

Since 1990, Illinois has granted taxpayers a research and development credit to those taxpayers who increase research activities in the state of Illinois. Enclosed is a copy of the statutory language that is found in Section 201(k) of the Illinois Income Tax Act ("IITA"; 35 ILCS 5/101 et seq.). As you will see in the statute, the R&D credit was repealed for one year, calendar year 2003. The Illinois Department of Revenue has promulgated a regulation that further clarifies the R&D credit, specifically 86 Ill. Admin. Code 100.2160. For your convenience, enclosed is a copy of this regulation as well.

Because Illinois allows a credit for R&D expenses, there is currently no tax deduction allowed for these same expenses. However, because the computation of Illinois net income begins with the federal adjusted gross income of the taxpayer (for individuals) or taxable income (for all other taxpayers), the federal deduction provided for such expenses in IRC Section 174 would indirectly decrease Illinois net income. There are no other Illinois innovative tax incentives at this time.

As stated above, this is a general information letter which does not constitute a statement of policy

IT 07-0010-GIL

March 21, 2007

Page 2

that either applies, interprets or prescribes tax law. It is not binding on the Department. Should you have additional questions, please do not hesitate to contact our office.

Sincerely,

Heidi Scott

Staff Attorney -- Income Tax