

KBKG Tax Insight: Illinois Reinstates the R&D Tax Credit

On Thursday, July 6th, the Illinois state legislature successfully voted to override Republican Governor Bruce Rauner's veto, giving the state its first operating budget in two years. Included in the \$36 billion spending plan is an extension of the state's research and development tax credit through December 31, 2021. The research and development (R&D) credit had expired on December 31, 2015, the fourth such expiration since Illinois instituted the research credit in 1990.

This is welcome news to companies across the state, particularly in the manufacturing industry, from which between 60 to 70 percent of Illinois' R&D credits are claimed. The fact that companies can now rely on the research credit for at least the next five years brings assurance to an otherwise unpredictable economic landscape. A company's decision to hire more engineers, make capital investments, increase its product line are less risky now that the state's R&D credit is reinstated. The extension of the research credit also discourages Illinois companies from seeking better tax treatment in nearby Indiana, which offers one of the most lucrative R&D credits in the country. With the research credit extension, Illinois hopes to keep companies (and their R&D jobs) in the state.

The following is a summary of Illinois' R&D tax credit:

- The non-refundable credit is equal to 6.5% of the qualifying research expenditures (see below for examples of qualified activities), which exceed a base amount, for such expenditures occurring within the state. These expenditures include employee wages, supplies and contract research performed by a third party within the state of Illinois.
- The base amount equals the average qualifying expenditures for the three prior years immediately preceding the research credit year.
- For pass-through entities (e.g., partnerships, subchapter S corporations and limited liability companies), the research credit flows through to the owners in accordance with each owner's distributive share of income.
- Excess research credits can be carried forward for up to 5 years.

The Illinois R&D credit is generated from qualifying activities performed within the state. These activities are defined in Section 41 of the Internal Revenue Code and include many activities involved with bringing a new or improved product to market, including:

- Concept development
- Defining or refining requirements or specifications
- Design / Engineering
- Prototype development, assembly and testing
- Direct supervision and direct support of the above

Process improvement activities can also qualify, including:

- Increasing plant capacity
- Improving efficiencies through automation or robotics
- Improving speed, accuracy, quality
- Reducing energy consumption
- Reducing defects or scrap
- Recycling of materials

Though manufacturing companies claim the majority of the R&D credit in Illinois, the credit is not limited by industry. The R&D credit applies to companies across a variety of industries, including, but not limited to:

- Manufacturing
- Software Development
- Biotechnology / Pharmaceutical
- Aerospace & Defense
- Agriculture
- Food & Beverage
- Energy / Utilities

Established in 1999, KBKG is a specialty tax services provider. With offices across the US, KBKG provides turn-key tax solutions to CPAs and businesses. KBKG's R&D tax experts have vast experience in claiming, substantiating and defending hundreds of R&D tax credit claims at both the federal and state level. We are ready to assist your company in claiming the credits to which you are entitled. Please reach out to us for a free preliminary analysis.

Author: Michael Maroney

NATIONWIDE SERVICE

Headquarters: 790 E. Colorado Blvd, Suite 600. Pasadena CA 91101 ▪ Phone: 877.525.4462 ▪ Fax: 626.449.3324