

## Income/Franchise:

### Illinois: New Law Increases Franchise Tax Exemption and Modifies Investment Partnership Withholding

*H.B. 3817*, signed by gov. 6/7/23; *S.B. 1963*, signed by gov. 6/7/23. Effective on or after January 1, 2024, new law implementing Illinois' fiscal year 2024 budget includes provisions that exempt the first \$5,000 (rather than first \$1,000) from the state corporate franchise tax. Another recently signed bill provides that for taxable years ending on or after December 31, 2023, defined "investment partnerships" must now withhold Illinois income and replacement taxes from certain non-retired nonresident partners based on the partner's share of distributable income from in-state sources; the same legislation also modifies the definition of investment partnerships. Specifically, for tax years ending on or after December 31, 2023, the term "investment partnership" means any entity that is treated as a partnership for federal income tax purposes that meets the following requirements:

- URL:**  
<https://www.ilga.gov/legislation/billstatus.asp?DocNum=3817&GAID=17&GA=103&DocTypeID=HB&LegID=149076&SessionID=112>
- URL:**  
<https://www.ilga.gov/legislation/billstatus.asp?DocNum=1963&GAID=17&GA=103&DocTypeID=SB&LegID=146825&SessionID=112>

1. 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; and
2. No less than 90% of its gross income consists of interest, dividends, gains from the sale or exchange of qualifying investment securities, and the distributive share of partnership income from lower-tier partnership interests meeting the definition of "qualifying investment security."

For tax years ending on or after December 31, 2023, the definition of a "qualifying investment" 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. Please contact us with any questions.

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