

Illinois bonus depreciation subtraction amounts that are “unused” in a tax year may not be carried forward to a future tax year. (This is a GIL.)

September 18, 2025

NAME  
COMPANY  
ADDRESS  
EMAIL

Dear NAME:

This letter is in response to your letter dated August 13, 2025, in which you requested information. The Department issues two types of letter rulings. Private Letter Rulings (“PLRs”) are issued by the Department in response to specific taxpayer inquiries concerning the application of a tax statute or rule to a particular fact situation. A PLR is binding on the Department, but only as to the taxpayer who is the subject of the request for ruling and only to the extent the facts recited in the PLR are correct and complete. Persons seeking PLRs must comply with the procedures for PLRs found in the Department’s regulations at 2 Ill. Adm. Code 1200.110. The purpose of a General Information Letter (“GIL”) is to direct taxpayers to Department regulations or other sources of information regarding the topic about which they have inquired. A GIL is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120. You may access our website at <https://tax.illinois.gov/> to review regulations, letter rulings and other types of information relevant to your inquiry.

The nature of your inquiry and the information you have provided require that we respond with a GIL. In your letter you have stated and made inquiry as follows:

I am writing to request a formal written explanation regarding the treatment of unused Illinois depreciation subtraction amounts arising from federal bonus depreciation. Although Illinois currently disallows the carryforward of this loss, we believe the unused depreciation should be eligible to carry forward, regardless of the fact that it is from depreciation.

Recently, I contacted the Illinois Department of Revenue to clarify whether an unused Illinois depreciation subtraction can be carried forward to subsequent tax years. The representative I spoke with indicated, after research, that Illinois does not allow the carryover of unused depreciation subtraction related to federal bonus depreciation from year to year, noting that Illinois decoupled from the federal allowance several years ago.

However, the representative was unable to provide a specific statutory or regulatory citation to support this position. Therefore, I am requesting that

the Legal Services Office provide a written explanation, including references to the relevant Illinois statute, administrative code, or official guidance, that addresses:

1. Whether unused Illinois depreciation subtraction amounts from bonus depreciation are eligible for carryforward.
2. The effective date of any change in Illinois law or policy on this matter.
3. Any applicable publications or formal rulings that clarify the issue.

This guidance will help ensure accurate and compliant preparation of Illinois income tax returns for our clients.

#### **DEPARTMENT'S RESPONSE**

Under Section 203(b) of the Illinois Income Tax Act (“IITA”; 35 ILCS 5/203), a corporation computes its base income by starting with its federal taxable income and making various addition and subtraction modifications. Section 203(h) of the Illinois Income Tax Act provides:

Except as expressly provided by this Section there shall be no modifications or limitations on the amounts of income, gain, loss or deduction taken into account in determining gross income, adjusted gross income or taxable income for federal income tax purposes for the taxable year, or in the amount of such items entering into the computation of base income and net income under this Act for such taxable year, whether in respect of property values as of August 1, 1969 or otherwise.

For taxable years 2001 and after, IITA Section 203(b)(2)(E-10) requires corporations to add back an amount equal to the bonus depreciation deduction taken on the taxpayer’s federal income tax return for the taxable year under subsection (k) of Section 168 of the Internal Revenue Code (“IRC”). IITA Section 203(b)(2)(T) allows a subtraction for corporations:

For taxable years 2001 and thereafter, for the taxable year in which the bonus depreciation deduction is taken on the taxpayer’s federal income tax return under subsection (k) of Section 168 of the Internal Revenue Code and for each applicable taxable year thereafter, an amount equal to “x”, where:

- (1) “y” equals the amount of the depreciation deduction taken for the taxable year on the taxpayer’s federal income tax return on property for which the

bonus depreciation deduction was taken in any year under subsection (k) of Section 168 of the Internal Revenue Code, but not including the bonus depreciation deduction;

(2) for taxable years ending on or before December 31, 2005, "x" equals "y" multiplied by 30 and then divided by 70 (or "y" multiplied by 0.429); and

(3) for taxable years ending after December 31, 2005:

(i) for property on which a bonus depreciation deduction of 30% of the adjusted basis was taken, "x" equals "y" multiplied by 30 and then divided by 70 (or "y" multiplied by 0.429);

(ii) for property on which a bonus depreciation deduction of 50% of the adjusted basis was taken, "x" equals "y" multiplied by 1.0;

(iii) for property on which a bonus depreciation deduction of 100% of the adjusted basis was taken in a taxable year ending on or after December 31, 2021, "x" equals the depreciation deduction that would be allowed on that property if the taxpayer had made the election under Section 168(k)(7) of the Internal Revenue Code to not claim bonus depreciation on that property; and

(iv) for property on which a bonus depreciation deduction of a percentage other than 30%, 50% or 100% of the adjusted basis was taken in a taxable year ending on or after December 31, 2021, "x" equals "y" multiplied by 100 times the percentage bonus depreciation on the property (that is,  $100(\text{bonus}\%)$ ) and then divided by 100 times 1 minus the percentage bonus depreciation on the property (that is,  $100(1-\text{bonus}\%)$ ).

The aggregate amount deducted under this subparagraph in all taxable years for any one piece of property may not exceed the amount of the bonus depreciation deduction taken on that property on the taxpayer's federal income tax return under subsection (k) of Section 168 of the Internal Revenue Code. This subparagraph (T) is exempt from the provisions of Section 250.

The purpose of these addition and subtraction modifications is to de-couple Illinois from the effects of federal bonus depreciation. The net effect of the additions and subtractions is to allow a taxpayer to deduct the regular depreciation amount that would have been allowed on its federal return had the bonus depreciation law not been enacted. (See

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Informational Bulletin FY 2003-02, available on the Department's website, for additional information.)

There is no provision in the IITA which permits or allows a carryforward of an "unused" Section 203(b)(2)(T) special depreciation deduction amount. This deduction is merely a subtraction from the base income of the corporation in the taxable year in which the bonus depreciation deduction is taken on the taxpayer's federal income tax return. If the corporation cannot fully utilize the subtraction against its income in a tax year, the "unused" subtraction amount is not available to be carried forward to a future tax year. However, for taxable years ending on or after December 31, 1986, IITA Section 207(a) and (b), provides that after applying all the modifications provided for in IITA Section 203(b) and the allocation and apportionment provisions of Article 3 of the IITA, if the corporation has a net Illinois loss, such net loss is allowed as a carryback or carryover deduction in the same manner as under IRC Section 172. Therefore, to the extent that a part or all of the deduction under IITA Section 203(b)(2)(T) is reflected in the Illinois net loss for the tax year as an "unused depreciation" amount, it would automatically be carried back or forward, but only to the extent that it might be reflected, if at all, in the Illinois net operating loss carryback/carryforward.

As stated above, this is a General Information Letter. A General Information Letter does not constitute a statement of Department policy that applies, interprets or prescribes the tax laws, and it is not binding on the Department. If you require additional information, please visit the Department's website at <https://tax.illinois.gov/> or contact the Department's Taxpayer Assistance Division at 800-732-8866.

Sincerely,

Jennifer Uhles  
Associate Counsel (Income Tax)

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