



## Commission on Government Forecasting and Accountability

### REVENUE BILL ANALYSIS *104<sup>TH</sup> General Assembly*

BILL NO: **HB 1361**

January 23, 2025

SPONSOR (S): Meyers-Martin

TYPE: Income Tax: Credit: Small Business Credit

CHAPTER REF: 35 ILCS 5/246

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#### **FISCAL IMPACT**

**HB 1361 would reduce State income tax revenues by creating an income tax credit for certain small businesses in an amount equal to 10% of property taxes paid during the taxable year up to a maximum of \$1,500. The number of small businesses with less than 50 employees that pay property taxes and the cost of such taxes is not known. As such, an estimate of the amount that State revenues would be decreased as a result of HB 1361 cannot be accurately determined. [See ANALYSIS for further details].**

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**SUBJECT MATTER:** HB 1361 amends the Illinois Income Tax Act. For taxable years ending on or after December 31, 2025, each qualified small business is entitled to a credit in an amount equal to the lesser of

- (i) 10% of the property taxes paid by the qualified small business during the taxable year for eligible real property or
- (ii) \$1,500.

"Qualified small business" means a sole proprietorship, partnership, corporation, joint venture, association, or cooperative that conducts business in Illinois, employs fewer than 50 employees in the State during the taxable year, and is current with all State and federal tax obligations as of the last day of the taxable year.

"Eligible real property" means property located in Illinois that meets the following criteria:

- (1) the taxpayer has an ownership interest in the property, whether legal, equitable, or as a lessee, and the taxpayer is liable for the payment of property taxes on the property;
- (2) the property is used to conduct the taxpayer's business operations; and
- (3) the property is not residential.

If the taxpayer is a partnership or Subchapter S corporation, the credit is allowed to pass through to the partners and shareholders.

In no event shall the credit reduce the taxpayer's liability to less than zero. If the amount of the credit exceeds the tax liability for the year, the excess may be carried forward and applied to the tax liability of the 5 taxable years following the excess credit year. HB 1361 would be exempt from the sunset provisions of the Act and would be effective upon becoming law.

ANALYSIS: According to the Illinois 2023 Small Business Profile, there were 1,007,294 businesses with no employees, 220,684 businesses with 1-19 employees, and 29,086 businesses with 20-499 employees. Although it is unclear how many of the businesses with 20-499 employees have fewer than 50, given the size of this category relative to the others, it can be safely assumed around 1.2 million businesses within the State have fewer than 50 employees.

<https://advocacy.sba.gov/wp-content/uploads/2023/11/2023-Small-Business-Economic-Profile-IL.pdf>

However, it is assumed that the vast majority of the businesses with no employees (self-employed) likely do not pay property taxes on commercial property (they work from home, no office space is needed for their job, etc.). Those mostly affected by this legislation would likely be those businesses with 1-50 employees. Using the figures noted above, the credit would, therefore, be potentially utilized by as much as 250,000 businesses in Illinois.

The tax credit under HB 1361 would be for property taxes paid by a small business in an amount equal to 10% of paid property taxes up to a maximum of \$1,500. Therefore, to receive the maximum credit, the property tax bill would have to be at least \$15,000. It is assumed that most small businesses would pay property taxes less than \$15,000, though, the actual amount is unclear with the property tax data from the Department of Revenue (DoR). The latest DoR figures show that of the \$38.5 billion in property tax collected in Illinois in 2023, 25.0% or \$9.6 billion came from commercial taxpayers. However, the data does not distinguish this tax data by the size of the business, which is needed to accurately estimate the cost of this tax credit.

<https://tax.illinois.gov/research/taxstats/propertytaxstatistics.html>

If, for example, 250,000 small businesses in Illinois received a tax credit of, say, \$1,000, the credit would cost the State as much as \$250 million. However, this figure could be vastly overstated if fewer than 250,000 taxpayers claimed the credit or if the average tax credit claimed is notably less than \$1,000. Because it is unclear how many small businesses in Illinois would be eligible for the credit and how much of the maximum \$1,500 credit would be used by these businesses, the precise amount that HB 1361 would reduce State revenues cannot be determined.

Note: HB 1361 is identical to HB 4430 of the 103<sup>rd</sup> General Assembly.

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