Insights: Publications

Introduction to the Illinois Franchise Tax and its Importance to Your Company

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The Illinois Franchise Tax (the "Franchise Tax") is an extremely complex tax that places unique burdens on corporations conducting business in Illinois. Based on our experience, many corporations incorrectly calculate their obligations, leading to the over or underpayment of their tax liabilities. Neither of these scenarios is desirable, and as such, the following series of articles are designed to familiarize you with the basics of the Franchise Tax and reveal a few common problems we at Kilpatrick have identified and resolved over the years.

For any corporation conducting business within Illinois or any corporation considering a merger or acquisition of a corporation operating within Illinois, the Franchise Tax and its impact should be carefully considered. Failure to do so could cause your corporation to lose its "good standing" with the Illinois Secretary of State, thereby risking the right to conduct business within the state.[1] Furthermore, your corporation may incorrectly calculate the Allocation Factor (defined below), leading to under or overpayment of your tax liability. Under-payment could again result in this loss of good standing, additional penalties, and interest, while over-payment is not in the best interest of any corporation either.

This series of articles will be divided into four topics. This first will cover the businesses and entities required to pay the Franchise Tax and the mechanics of the Franchise Tax system. The second will define the essential terms to understand the Franchise Tax and its calculation and cover some significant differences between the Franchise Tax and the state Income and Corporate Income Tax. The third will provide specific resources and examples on correctly calculating your Allocation Factor for the Franchise Tax. The fourth and final section will cover some of the common issues and problems we have seen corporations and clients struggle with in calculating, understanding, and ultimately paying the Franchise Tax.

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