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5 Key Takeaways | The Illinois Franchise Tax: A Trap for the Unwary - and Even the Wary

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The Illinois Franchise Tax is an archaic set of laws that often traps well-intentioned taxpayers in the uncomfortable position of not being in compliance and/or not in good standing with the State of Illinois. Kilpatrick's **Jordan Goodman** and **Jesse Feinstein** recently conducted a webinar, as part of the firm's “Next in Tax” Quarterly Series, covering the basics of general compliance and exploring some of the more technical nuances associated with Paid in Capital and the Allocation Factor. Additionally, they provided solutions for maintaining or achieving compliance and offered key information on how to take advantage of the franchise tax amnesty period being offered from October 1, 2025, through November 15, 2025.

Jordan and Jesse offer the following takeaways from their presentation:

1. The Illinois Franchise Tax is complicated and easy to get wrong—even for experts. It applies to most corporations doing business in Illinois, not just those based there, and the state is getting stricter about enforcement and penalties for mistakes.

2. The tax is based on "Paid-In Capital" (basically, how much money or value the corporation has gotten from selling shares) and an "Allocation Factor" (which decides how much of the business is connected to Illinois by looking at Illinois property and sales over total property and sales). These calculations are different from regular income tax, and using the wrong method can lead to big errors.

3. If you fail to correctly calculate either your Paid-in-Capital or Allocation factor or pay late, the state will charge a 10% penalty and 24% interest until you pay. If you overpay, you can get a refund—but only if you catch it within three years. Generally, the state won't let a taxpayer know if they paid too much but will certainly point out an underpayment.

4. There are lots of common problems, like miscalculating the Allocation Factor, not reporting increases to Paid-In Capital, and filing reports incorrectly or late. These mistakes can cause your business to lose its "good standing" in Illinois, meaning you could lose the right to do business in Illinois.

5. There's a special Amnesty Program from October 1 to November 15, 2025, for companies that owe back Franchise Tax from certain years. If you qualify and pay what you owe, all penalties and interest is waived. However, if you overpay under amnesty, you forfeit the right to a refund or challenge the tax for those periods.

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