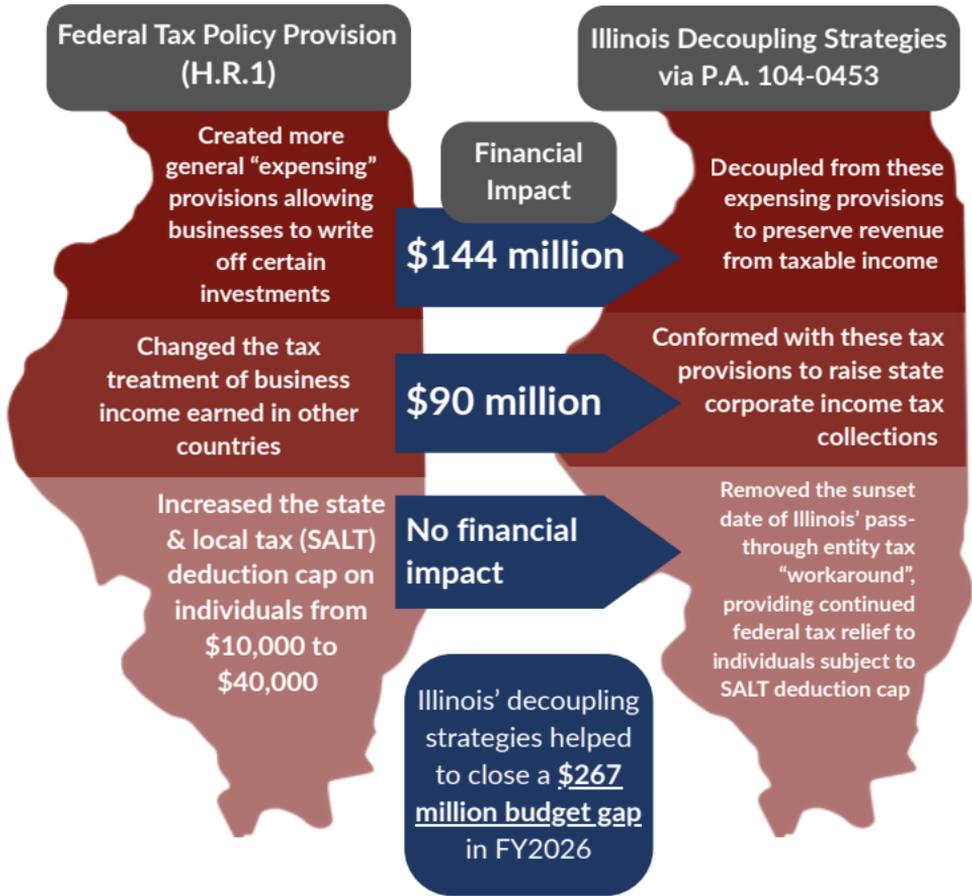


Understanding H.R. 1: How Federal Tax Code Changes Could Impact Illinois



Background

Illinois is one of 26 states whose income tax provisions “roll with” changes in the federal Internal Revenue Code. When Congress passed the Budget Reconciliation Bill in summer 2025 via H.R. 1 (P.L. 119-21), the federal tax code changes in the legislation automatically affected state tax collections and liabilities. In order to minimize the financial impact of these changes (i.e. revenue loss), states had to “decouple” from portions of the Internal Revenue Code.

Context

With H.R. 1’s changes, Illinois faced significant revenue impacts: in the absence of state action, the Governor’s Office of Management and Budget (GOMB) estimated in October 2025 that H.R. 1’s tax code provisions would cost the State of Illinois over \$830 million in tax collections in FY2026 alone. In response to H.R. 1, Illinois decided to decouple from provisions that threatened to decrease state tax revenues and to conform with provisions that would protect or increase state tax collections.