

# SB3765



## 104TH GENERAL ASSEMBLY

State of Illinois

2025 and 2026

SB3765

Introduced 2/5/2026, by Sen. Michael W. Halpin

### SYNOPSIS AS INTRODUCED:

New Act  
35 ILCS 5/246 new

Creates the Short Line Railroad Modernization Act. Creates an income tax credit for taxpayers that incur qualified railroad expenditures or qualified new rail infrastructure expenditures. Sets forth the amount of the credit and limitations on the amount of the credit that may be awarded. Amends the Illinois Income Tax Act to make conforming changes. Effective immediately.

LRB104 20697 HLH 34197 b

A BILL FOR

1 AN ACT concerning revenue.

2 **Be it enacted by the People of the State of Illinois,**  
3 **represented in the General Assembly:**

4 Section 1. Short title. This Act may be cited as the Short  
5 Line Railroad Modernization Act.

6 Section 5. Definitions. As used in this Act:

7 "Credit" means the Short Line Railroad Infrastructure  
8 Modernization Credit awarded under this Act.

9 "Department" means the Department of Commerce and Economic  
10 Opportunity.

11 "Qualified applicant" means:

12 (1) a railroad company located in whole or in part in  
13 Illinois that is classified by the United States Surface  
14 Transportation Board as a Class II or Class III railroad  
15 and that makes qualified railroad expenditures; or

16 (2) an owner or lessee of a rail siding, industrial  
17 spur, or industry track that is located (A) on or adjacent  
18 to a Class II or Class III railroad in Illinois or (B) in a  
19 qualified project location if the applicant makes  
20 qualified new rail infrastructure expenditures.

21 "Qualified new rail infrastructure" means:

22 (1) new track infrastructure such as industrial leads,  
23 switches, spurs, sidings, rail loading docks, and

1 transloading structures;

2 (2) infrastructure necessary for engineering and site  
3 preparation involved with servicing rail-served customer  
4 locations;

5 (3) infrastructure associated with the expansion of a  
6 Class II or Class III railroad; and

7 (4) new track infrastructure constructed to serve  
8 rail-served customer locations located in a qualified  
9 project location.

10 "Qualified project location" means an Enterprise Zone or a  
11 county in Illinois with a population of not more than 500,000  
12 inhabitants.

13 "Qualified railroad expenditures" means gross expenditures  
14 for maintenance, reconstruction, or replacement of existing  
15 railroad infrastructure that is owned or leased by a Class II  
16 or Class III railroad and is located partly or wholly in  
17 Illinois, including track, roadbed, bridges, crossings,  
18 signals, industrial leads and sidings, and track related  
19 structures. "Qualified railroad expenditures" does not include  
20 expenditures that are used to generate a federal tax credit or  
21 that are funded by a State or federal grant.

22 "Rail-served customer location" means a location in the  
23 State at which qualified new rail infrastructure will be  
24 constructed to connect a customer's facility to a rail line  
25 either by building a new facility with rail access or by  
26 connecting an existing facility to the rail network.

1 "Taxpayer" means a qualified applicant that is (i) subject  
2 to subsections (a) and (b) of Section 201 of the Illinois  
3 Income Tax Act or (ii) a tax-exempt entity that is owned by a  
4 port or a governmental entity.

5 Section 10. Purpose. The Illinois General Assembly finds  
6 that a modern, efficient, and safe rail system is vital to  
7 Illinois' economic competitiveness, supply chain resilience,  
8 and environmental goals. Through targeted investment in short  
9 line railroads, industrial sidings, and new freight rail  
10 infrastructure, this Act is intended to spur private sector  
11 development, strengthen rural and urban connectivity, and  
12 ensure that Illinois remains a national leader in  
13 transportation and logistics. This Act will support  
14 manufacturing, agriculture, renewable energy, and emerging  
15 industries by lowering shipping costs, improving access to  
16 global markets, and expanding multimodal opportunities. By  
17 adopting forward-looking infrastructure tools, Illinois will  
18 create good-paying jobs, attract long-term investment, reduce  
19 highway congestion, and decrease greenhouse gas emissions.  
20 Illinois must aggressively modernize its rail system so that  
21 businesses and communities can compete and thrive against  
22 domestic and foreign competitors.

23 Section 15. Allowable credits; limitations.

24 (a) For taxable years that begin after January 1, 2026 and

1 begin before January 1, 2036, a taxpayer is entitled to a  
2 credit against the taxes imposed under subsections (a) and (b)  
3 of Section 201 of the Illinois Income Tax Act equal to:

4 (1) the taxpayer's:

5 (A) qualified railroad expenditures; and

6 (B) qualified new rail infrastructure  
7 expenditures; multiplied by

8 (2) 50%.

9 (b) The amount of a tax credit allowed under subsection  
10 (a) shall not exceed the following:

11 (1) For qualified railroad expenditures, the product  
12 of:

13 (A) the number of miles of Class II or Class III  
14 railroad track owned or leased by the taxpayer in  
15 Illinois at the close of the taxable year; multiplied  
16 by

17 (B) \$5,000.

18 (2) For qualified new rail infrastructure  
19 expenditures, the lesser of:

20 (A) 50% of the qualified new rail expenditures for  
21 each rail-served customer location completed by the  
22 taxpayer in the taxable year; or

23 (B) \$2,000,000 per rail-served customer location.

24 Notwithstanding any other provision of law, an expenditure  
25 shall be classified as either a qualified railroad expenditure  
26 or a qualified new rail infrastructure expenditure, but not

1 both.

2 (c) The aggregate amount of tax credits permitted in a  
3 taxable year under this Section for all taxpayers shall not  
4 exceed:

5 (1) for qualified railroad expenditures allowed under  
6 this Act, \$9,000,000; and

7 (2) for qualified new rail infrastructure expenditures  
8 allowed under this Act, \$10,000,000.

9 (d) In no event shall a credit under this Section reduce  
10 the taxpayer's liability to less than zero. If the amount of  
11 the credit exceeds the tax liability for the year, the excess  
12 may be carried forward and applied to the tax liability of the  
13 5 taxable years following the excess credit year. The credit  
14 shall be applied to the earliest year for which there is tax  
15 liability. If there are credits from more than one tax year  
16 that are available to offset tax liability, the earlier credit  
17 shall be applied first.

18 Section 20. Application; qualified railroad expenditures.

19 (a) A taxpayer wishing to claim a tax credit under this  
20 Section must apply to the Department after completion of the  
21 project for which qualified railroad expenditures were  
22 incurred. The Department shall prescribe the form and manner  
23 of the application, which must include:

24 (1) the number of miles of railroad track owned or  
25 leased by the taxpayer in Illinois; and

1           (2) a description and certification of the amount of  
2           the taxpayer's qualified railroad expenditures.

3           (b) The Department shall evaluate a taxpayer's eligibility  
4           for a tax credit under this Act.

5           (c) The Department shall certify the eligibility of a  
6           taxpayer that meets the requirements for a tax credit under  
7           this Act.

8           (d) Upon satisfactory review of the application, the  
9           Department shall issue a tax credit certificate to the  
10          taxpayer stating the amount of the tax credit earned in the  
11          taxable year to which the taxpayer is entitled.

12          Section 25. Application; qualified new rail infrastructure  
13          expenditures.

14          (a) A taxpayer wishing to claim a tax credit under this  
15          Section must apply to the Department for precertification  
16          prior to commencing construction, in the form and manner  
17          prescribed by the Department. Upon review, and if the  
18          Department determines that the application conforms to the  
19          requirements of this Act and the rules adopted under this Act,  
20          the Department shall issue a precertification letter  
21          authorizing the taxpayer to proceed with the project.

22          (b) The Department shall establish quarterly application  
23          windows for precertification requests. Applications received  
24          during a quarterly application window shall be reviewed  
25          together, and credits shall be awarded to taxpayer meeting

1 statutory qualifications, subject to the caps specified in  
2 Section 15.

3 (c) If eligible applications in a quarterly period would  
4 cause total awards for the fiscal year to exceed the cap in  
5 subsection (c) of Section 15, the Department shall apply the  
6 prioritization criteria in subsection (d) of this Section.  
7 Credits shall be awarded until the annual cap is fully used.

8 (d) The Department shall give priority to projects that:

9 (1) provide critical rail access to industrial parks,  
10 ports, or economic development projects locating adjacent  
11 to rail; serve businesses in value-added agriculture,  
12 advanced manufacturing, supply chain/distribution  
13 solutions, or environmentally friendly or sustainable  
14 manufacturers, including those reducing carbon emissions  
15 or utilizing renewable energy;

16 (2) located in qualified economic development area or  
17 Enterprise Zone designated by the State;

18 (3) demonstrate the facilitation of significant  
19 private capital investment, job creation, or strategic  
20 economic benefits to the State;

21 (e) If aggregate funding authority under subsection (c) of  
22 Section 15 is not fully used in any quarterly period, the  
23 unused authority shall automatically carry forward to the next  
24 application period within the same fiscal year. Any funding  
25 authority not awarded by the close of the fiscal year shall  
26 expire.

1           (f) A precertification is valid for 12 months after  
2 project award. A project that has been pre-certified must  
3 commence construction within 12 months of the date of the  
4 precertification award.

5           (g) Upon project completion, the taxpayer must notify the  
6 Department and provide necessary documentation as required by  
7 the Department to calculate the tax credit and certify project  
8 completion. The Department shall certify the eligibility of a  
9 taxpayer that meets the requirements for a tax credit under  
10 this Act.

11           (h) Upon satisfactory review of the final application and  
12 supporting documentation, the Department shall issue a tax  
13 credit certificate to the taxpayer stating the amount of tax  
14 credit earned in the taxable year in which the taxpayer is  
15 entitled.

16           Section 30. Transferability. A taxpayer may transfer the  
17 tax credit awarded under this Act by written agreement. A  
18 transfer of credits earned under this Act shall be made, in  
19 accordance with rules adopted by the Department, by the  
20 taxpayer earning the credits at any time after certification  
21 and before expiration of the credit. The Department shall  
22 issue a certificate of transfer to each transferor and  
23 transferee, identifying the amount of the credit transferred.  
24 The transfer certificate shall be attached to the transferor's  
25 and transferee's income tax return under the Illinois Income

1 Tax Act.

2 Section 35. Pass-through entities. For partners and  
3 shareholders of Subchapter S corporations, the provisions of  
4 Section 251 of the Illinois Income Tax Act shall apply with  
5 respect to the credit under this Act.

6 Section 40. Rulemaking. The Department shall adopt rules  
7 for the implementation of this Act.

8 Section 45. Sunset. The Department shall not enter into  
9 any new agreements under the provisions of this Act after  
10 December 31, 2036.

11 Section 900. The Illinois Income Tax Act is amended by  
12 adding Section 246 as follows:

13 (35 ILCS 5/246 new)

14 Sec. 246. Short Line Railroad Modernization Act. For  
15 taxable years that begin after January 1, 2026 and begin  
16 before January 1, 2036, a taxpayer that qualifies for a credit  
17 against the taxes imposed by subsections (a) and (b) of  
18 Section 201 under the Short Line Railroad Modernization Act is  
19 entitled to a credit as provided in that Act.

20 Section 999. Effective date. This Act takes effect upon  
21 becoming law.