

Chapter 18: Illinois Department of Revenue

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Please note. Corrections for all of the chapters are available at www.ace.uiuc.edu/taxschool. For clarification about acronyms used throughout this chapter, see the Acronym Glossary at the end of the Index.

The state of Illinois taxes all business entities conducting business within the state. This income tax is a direct result of the Illinois Income Tax Act of 1969, effective August 1, 1969. Illinois income tax law generally conforms to federal income tax law, employing the same definitions, accounting rules, and methods of computations. Any distinctions in Illinois tax law that decouple it from federal law are enacted by statute.

2006 LEGISLATIVE CHANGES

Business Income

One statutory change, effective for tax years beginning in 2005, expands the definition of “business income” to include all income that may be apportioned without violating the Constitution of the United States. This change overruled recent court cases holding that gain from the disposition of an entire business, or from property previously used in a business, was not considered business income.

Decoupled Bonus Depreciation

Another area where Illinois has decoupled from federal law is the allowance for bonus depreciation. When the federal government initiated bonus depreciation rules, the Illinois legislature enacted a provision to reverse this deduction on Illinois tax returns. Illinois taxpayers were required to add back the amount of any bonus depreciation claimed on their federal returns and instead deduct a ratable portion of the “bonus” on their Illinois returns.

The amount of the Illinois deduction is determined by a formula provided in the statute. However, when the federal government increased the bonus allowance from 30% to 50%, Illinois failed to adjust its formula to compensate for the difference. This oversight prevented Illinois taxpayers from recovering their full basis in 50% bonus property.

In 2006, the Illinois legislature corrected this formula to reflect an adequate deduction for 50% bonus property.¹ However, this correction applies only to tax years ending after December 31, 2005. Illinois taxpayers are not allowed to file amendments to correct the faulty formula used on prior years’ returns. Instead, taxpayers may recover the difference between federal and state “basis” on the disposition of the property, effectively catching up the difference then between depreciation claimed on the federal and state returns.

This catch-up is accomplished by reversing the decoupling process. Illinois income is added back to the amount of any bonus depreciation subtractions allowed on prior years’ Illinois returns, and subtracting the amount of bonus depreciation that was added back to Illinois income in the year the bonus was claimed on the federal return.

Although this process theoretically allowed taxpayers to make up any disallowed depreciation before the formula was corrected, the reversal only applied when the bonus property was sold or transferred at a capital gain or loss.

¹ HB2706, 94th General Assembly, as enacted by Public Act 94-0776 on May 19, 2006

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But occasionally, this reversal was never triggered (e.g., when property was gifted). The statute now has been corrected to state the reversal process is initiated when a taxpayer “sells, transfers, abandons, or otherwise disposes of [bonus] property.”

The revised statute further adds that the reversal can be initiated if the taxpayer is still holding the bonus property at the end of the year in which the property becomes fully depreciated on the taxpayer’s federal return. It is irrelevant whether the taxpayer claims the last special depreciation subtraction or not in the year a property becomes fully depreciated. Since all subtractions are added back to income in the final year, the transaction is considered a wash.

CORPORATIONS

C CORPORATIONS (FORM IL-1120)

Illinois corporate taxable income “piggybacks” off federal taxable income, with a few modifications. This modified taxable income is allocated between income earned inside and outside of the state to determine the net income subject to Illinois tax.

Filing Deadline

Illinois corporate income tax returns must be filed on or before the 15th day of the third month following the close of the corporation’s tax year. If the corporation’s federal Form 1120, *U.S. Corporation Income Tax Return*, is filed on a fiscal year basis, its Illinois corporate tax return can also be filed on a fiscal year basis.

Corporate taxpayers filing a federal extension Form 7004, *Application for Automatic 6-Month Extension of Time To File Certain Business Income Tax, Information, and Other Returns*, are granted an automatic 7-month extension for filing their Illinois corporate income tax forms. However, taxpayers should file IL-505B, *Automatic Extension Payment*, and remit any tentative tax due by the due date of the original tax return in order to avoid penalties.

Observation. Illinois does not provide a penalty exception for corporations with zero Illinois income tax liability in the prior year. A corporation, other than an S corporation, should make estimated tax payments if it expects tax liability for the year will be in excess of \$400.

Income Modifications

A corporation’s federal taxable income (or loss) must be modified to determine Illinois base income. While each entity type is subject to unique modification requirements, the following **additions** are common to all entities:

- Any state, municipal, and other interest income excluded from federal taxable income
- Any Illinois income and replacement tax deducted in arriving at federal taxable income
- Total Illinois special depreciation claimed on current-year dispositions

The following **subtractions** are common among all entities:

- U.S. Treasury interest and other exempt obligations of the federal government
- Certain enterprise zone deductions
- Allowable depreciation subtractions for federal bonus depreciation claimed in earlier years, and not fully allowed by Illinois.²

² IL-Form 4562 is required to be filed to support this deduction.

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Income Tax Calculations

Illinois corporate income tax is calculated on Form IL-1120, *Corporation Income and Replacement Tax Return*. The 2.5% replacement tax is computed in Step 6 of Form IL-1120, page 2 and the 4.8% corporate income tax is figured in Step 7 on page 3.

Note. Illinois corporations previously enjoyed a standard exemption up to \$1,000 as a deduction before arriving at taxable base income. **This exemption was eliminated for all corporations for taxable years beginning in 2005.**

Corporate taxpayers are required to complete Step 4 if any portion of Step 3, line 25 base income is derived outside the state of Illinois. Failure to complete all of Step 4, when required, may trigger a notice and demand apportioning 100% of the income to Illinois.

If base income is reduced by a net operating loss (NOL), Schedule NLD, *Illinois Net Loss Deduction*, must be attached. Illinois NOLs can **only be carried forward**, unlike federal NOLs which can be carried forward or back. This rule became effective for corporate tax years ending on or after December 31, 2003.

Example 1. Choice Home Builders Inc. (Choice), an Illinois corporation based in Alton, Illinois, builds residential homes in the Alton area. During 2005, the company had total sales of \$2,555,000 with \$1,955,000 of this income derived from the sale of homes in Illinois.

Choice had federal taxable income of \$151,500 with no adjustments attributable to bonus depreciation. The corporation had an Illinois NOL carryforward of \$13,000 from tax year 2004. Choice's federal NOL had already been carried back to a prior year. The company had \$1,500 in overpaid tax from the 2004 loss year credited to its 2005 estimated taxes.

The following Form IL-1120 reflects the computation of income and tax calculations for both the replacement tax and income tax owed by this corporation. Choice deducts its full Illinois NOL carryforward of \$13,000 before the determination of base income in Step 4.

In Step 4, line 32, Choice determines the amount of income it should allocate to Illinois. This amount is determined by calculating the company's apportionment factor, which is based on gross Illinois sales divided by total gross sales, and multiplying this factor by the corporation's modified Illinois business income. The apportionment factor is carried to six decimal places.

Attachments

The State of Illinois requires that certain federal forms be attached to a corporation's completed Form IL-1120. These attachments include copies of the corporation's federal Form 1120, pages 1 through 4, and Schedules L, M-1, M-2, and M-3, if applicable.

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For Example 1



Illinois Department of Revenue

2005 Form IL-1120

Corporation Income and Replacement Tax Return

Due on or before the 15th day of the 3rd month following the close of the tax year.

If this return is not for calendar year 2005, write your fiscal tax year here.

Tax year beginning ____/____, 2005, ending ____/____/20__

Write the amount you are paying
\$ 6,013.

Step 1: Provide the following business information

A Write your business name and mailing address.

If you have an address change, check this box. ☐

Choice Home Builders Inc

Name

C/O

100 Veterans Drive

Mailing address

Alton

IL

62100

City

State

ZIP

B Check the box if one of the following apply.

☐ first return ☐ final return (If final, write the date ____/____/____)

C If this is a final return because you sold this business, write the date sold ____/____/____, and the new owner's FEIN.

____ - _____

D Check the box if your business is

☐ Combined return (unitary) ☐ Foreign insurer

E If you have completed the following federal forms, check the box and **attach** them to this return.

☐ Federal Schedule 8886 ☐ Federal Schedule M-3

F Special Apportionment Formulas. If you use a special apportionment formula, mark the appropriate box and see Special Apportionment Formula instructions.

☐ Insurance companies
☐ Financial organizations
☐ Transportation companies

G Write your federal employer identification no. (FEIN).

37 - 1801500

H Write your Illinois Business Tax number. (IBT).

8752 - 1240

I If you are a member of a group filing a federal consolidated return, write the FEIN of the parent.

____ - _____

J Write the state and zip code where your accounting records are kept. (Use the two-letter postal abbreviate for your state. Ex., IL, GA, etc.)

IL 62100
State Zip

K If you are making the business income election, to treat all nonbusiness income as business income, check here and write "0" on Lines 26 and 34. ☐

L Check this box if you annualized your income on Form IL-2220. ☐

M Check your method of accounting.

☐ Cash ☒ Accrual ☐ Other _____

N Check the box if you attached Schedule 1299-D, Income Tax Credits. ☐

Step 2: Figure your income or loss

▼ Attach your payment here. ▲	1	Federal Taxable Income from U.S. Form 1120, Line 30, or U.S. Form 1120-A, Line 26. Attach a copy of your federal return.	1	151,500
	2	Net operating loss deduction from U.S. Form 1120, Line 29a, or U.S. Form 1120-A, Line 25a.	2	
	3	State, municipal, and other interest income excluded from Line 1.	3	
	4	Illinois income and replacement tax deducted in arriving at Line 1.	4	
	5	Illinois Bonus Depreciation addition. Attach Form IL-4562.	5	
	6	Related Party Expenses additions. Attach Schedule 80/20.	6	
	7	Distributive shares of additions. Attach Schedule K-1-P or K-1-T.	7	
	8	Other additions. Attach Illinois Schedule M (for IL-1120 filers).	8	
	9	Add Lines 1 through 8. This amount is your income or loss.	9	151,500

BD BE DE FI IZ JN LN MC ME NS TG TF TS UB UD UL UM XX AL____ DR____ ID____

Form IL-1120 (R-1/06)

Page 1 of 3

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For Example 1

Choice Home Builders Inc

37-1801500

10 Write the amount of your income or loss from Line 9. 10 151,500

Step 3: Figure your base income or loss

11	Federally-taxed refund of Illinois income and replacement tax.	11	<u> </u>
12	Interest income from U.S. Treasury and other exempt federal obligations.	12	<u> </u>
13	Enterprise Zone Dividend subtraction. Attach Schedule 1299-B.	13	<u> </u>
14	Enterprise Zone Interest subtraction. Attach Schedule 1299-B.	14	<u> </u>
15	High Impact Business Dividend subtraction. Attach Schedule 1299-B.	15	<u> </u>
16	High Impact Business Interest subtraction. Attach Schedule 1299-B.	16	<u> </u>
17	Contribution subtraction. Attach Schedule 1299-B.	17	<u> </u>
18	Contributions to certain job training projects (see instructions).	18	<u> </u>
19	Foreign dividend subtraction. Attach Schedule J.	19	<u> </u>
20	Illinois Bonus Depreciation subtraction. Attach Schedule IL-4562.	20	<u> </u>
21	Related-Party Expenses subtraction. Attach Schedule 80/20.	21	<u> </u>
22	Distributive share of subtractions. Attach Schedule K-1-P or K-1-T.	22	<u> </u>
23	Other subtractions. Attach Schedule M (for IL-1120 filers).	23	<u> </u>
24	Total subtractions. Add Lines 11 through 23.	24	<u> </u>
25	Base income or net loss. Subtract Line 24 from Line 10.	25	<u>151,500</u>



If the amount on Line 25 is derived inside and outside Illinois, complete Step 4; otherwise go to Step 5.

Step 4: Figure your income allocable to Illinois

26	Nonbusiness income or loss. Attach Schedule NB.	26	<u> </u>
27	Non-unitary partnership business income or loss included in Line 25.	27	<u> </u>
28	Add Lines 26 and 27.	28	<u> </u>
29	Business income or loss. Subtract Line 28 from Line 25.	29	<u>151,500</u>
30	Total sales everywhere (this amount cannot be negative).	30	<u>2,555,000</u>
31	Total sales inside Illinois (this amount cannot be negative).	31	<u>1,955,000</u>
32	Apportionment Factor. Divide Line 31 by Line 30 (carry to six decimal places).	32	<u>. 765166</u>
33	Business income or loss apportionable to Illinois. Multiply Line 29 by Line 32.	33	<u>115,923</u>
34	Nonbusiness income or loss allocable to Illinois. Attach Schedule NB.	34	<u> </u>
35	Non-unitary partnership business income or loss apportionable to Illinois.	35	<u> </u>
36	Base income or net loss allocable to Illinois. Add Lines 33 through 35.	36	<u>115,923</u>

Step 5: Figure your net income

37	Base income or net loss from Step 3, Line 25, or Step 4, Line 36.	37	<u>115,923</u>
38	Illinois net loss deduction. Attach Schedule NLD or UB/NLD. If Line 37 is zero or a negative amount, write "0."	38	<u>13,000</u>
39	Net income. Subtract Line 38 from Line 37.	39	<u>102,923</u>

Step 6: Figure your net replacement tax

40	Replacement Tax. Multiply Line 39 by 2.5% (.025).	40	<u>2,573</u>
41	Recapture of investment credits. Attach Schedule 4255.	41	<u> </u>
42	Replacement Tax before credits. Add Lines 40 and 41.	42	<u>2,573</u>
43	Investment credits. Attach Form IL-477.	43	<u> </u>
44	Net replacement tax. Subtract Line 43 from Line 42. If the amount is negative, write "0".	44	<u>2,573</u>

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For Example 1

Choice Home Builders Inc

37-1801500

Step 7: Figure your net income tax

45	Income tax. Multiply Line 39 by 4.8% (.048).	45	4,940
46	Recapture of investment credits. Attach Schedule 4255.	46	
47	Income tax before credits. Add Lines 45 and 46.	47	4,940
48	Income tax credits. Attach Schedule 1299-D.	48	0
49	Net income tax. Subtract Line 48 from Line 47. If the amount is negative, write "0".	49	4,940

Step 8: Figure your refund or balance due

50	Net replacement tax from Line 44.	50	2,573
51	Net income tax from Line 49.	51	4,940
52	Total net income and replacement taxes. Add Lines 50 and 51.	52	7,513
53	Self-assessed penalties. Attach Form IL-2220 (see instructions).	53	0
54	Add Lines 52 and 53.	54	7,513
55	Payments.		
	a Credit from 2004 overpayment.	a	1,500
	b Total estimated payments.	b	
	c Form IL-505-B (extension) payment.	c	
56	Total payments. Add Lines 55a through 55c.	56	1,500
57	Overpayment. If Line 56 is greater than Line 54, subtract Line 54 from Line 56.	57	
58	Amount to be credited to 2006.	58	
59	Refund. Subtract Line 58 from Line 57. This is the amount to be refunded.	59	
60	Tax due. If Line 54 is greater than Line 56, subtract Line 56 from Line 54. This is the amount you owe.	60	6,013

► Make your check payable to "Illinois Department of Revenue" and attach to the front of this form ◀

Special Note Write the amount of your payment on the top of Page 1 in the space provided

Step 9: Sign here

Under penalties of perjury, I state that I have examined this return and, to the best of my knowledge, it is true, correct, and complete.

Signature of authorized officer _____ Date ____/____/____ Title _____ Phone (____) _____

Signature of preparer _____ Date ____/____/____ Preparer's Social Security number or firm's FEIN _____

Print preparer's firm name (or yours, if self-employed) _____ Address _____ Phone (____) _____

► Mail this return to: Illinois Department of Revenue, P.O. Box 19008, Springfield, IL 62794-9008 ◀

This form is authorized as outlined by the Illinois Income Tax Act. Disclosure of this information is REQUIRED. Failure to provide information could result in a penalty. This form has been approved by the Forms Management Center. IL-492-0089



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For Example 1



Illinois Department of Revenue

Schedule NLD Illinois Net Loss Deduction

For Illinois net losses arising in tax years ending **on or after** December 31, 1986.

Attach to your Form IL-1120, IL-1120-ST, IL-1041, IL-1065, IL-1120-X, IL-1120X-PY, or IL-843.

Carry year ending

12 **2005**

Month Year

IL Attachment No. 1

Write your name as shown on your return.

Choice Home Builders Inc

Write your federal employer identification number (FEIN).

3 7 - 1 8 0 1 5 0 0

Step 1: Figure your Illinois net loss deduction (NLD)

Read the instructions before completing this schedule.

"Carry year" is the year to which the loss is being carried.

Write all amounts as positive figures.

	A	B	C
	Earliest loss year ending	Loss year ending	Loss year ending
	Month / Year	Month / Year	Month / Year
1 Write your reported Illinois net loss. See instructions.	12 / 2004 13,000		
2a Write the carry year and the amount of Illinois net loss previously carried back or forward. See instructions.	2a / / Month / Year Loss carried	/ / Month / Year Loss carried	/ / Month / Year Loss carried
b / / Month / Year Loss carried	/ / Month / Year Loss carried	/ / Month / Year Loss carried	/ / Month / Year Loss carried
c / / Month / Year Loss carried	/ / Month / Year Loss carried	/ / Month / Year Loss carried	/ / Month / Year Loss carried
2d Add Lines 2a through 2c. This is your total amount of loss previously carried.	2d		
3 Subtract Line 2d from Line 1. This is your remaining Illinois net loss.	13,000		
4 Write the Illinois base income for this carry year. See instructions.	115,923	0	0
5 Write the lesser of Line 3 or Line 4. This is your Illinois net loss deduction (NLD).	13,000	0	0
6 Subtract Line 5 from Line 4. This is your remaining income after NLD.	115,923	0	0
7 Subtract Line 5 from Line 3. This is your remaining NLD for subsequent years.	0	0	0

13,000

Total of Columns A, B, and C, Line 5. See instructions.

Remember: You must attach supporting documentation to this schedule.

Step 2: Identify the loss year company

Complete this part only if the loss shown on Step 1, Line 1, originated from a company other than the one filing this return.

Write the FEIN of the company and the reason (e.g., merger) you are allowed to use that company's losses.

A	B	C
8 FEIN: - Reason:	9 FEIN: - Reason:	10 FEIN: - Reason:

Schedule NLD front (R-12/05)

This form is authorized as outlined by the Illinois Income Tax Act. Disclosure of this information is REQUIRED. Failure to provide information could result in a penalty. This form has been approved by the Forms Management Center. IL-492-2331



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REPLACEMENT TAX INVESTMENT CREDIT (FORM IL-477)

Form IL-477, *Replacement Tax Investment Credits*, can be filed by any C corporation, S corporation, partnership, trust, or exempt organization that is subject to the Illinois replacement tax. Only one Form IL-477 is required per combined unitary business group. The credit had been scheduled to expire on December 31, 2003, but now has been extended until December 31, 2008.

This investment credit is equal to 0.5% (.005) of the basis of qualified property placed in service during a tax year by a taxpayer that is primarily engaged in manufacturing, retailing, or mining coal or fluorite. To be primarily engaged, a taxpayer must devote over 50% of its resources to one of these named activities.

An additional 0.5% (.005) credit applies to qualified property placed in service by qualified taxpayers who increased their Illinois base employment by 1% or more over their previous year's figures. This additional credit is also available to businesses that are new to Illinois.

Qualified property must meet the following standards:

- The property must be tangible;
- The property must be depreciable under IRC §167;
- The property must have a useful life of four or more years as of the date it is placed in service in Illinois;
- The taxpayer must acquire the property in a purchase as defined by IRC §179(d); and
- The property must not have been previously used to produce an Enterprise Zone Investment Credit or another Replacement Tax Investment Credit.

Subject to the above restrictions, property may be new or used and may include real property such as buildings, structural components of buildings, or signs. Land and real property improvements, such as landscaping, sewer lines, local access roads, fencing, and parking lots do not qualify for this investment credit. However, capital improvements that increase a property's adjusted basis may be qualified.

The replacement tax investment credit is passed through to partners or shareholders who are also subject to a replacement tax.³ The amount allocable to partners and shareholders who are not subject to the Illinois replacement tax are retained by the entity that created the credit.

SUBCHAPTER S CORPORATIONS (FORM 1120-ST)

Small business corporations⁴ qualified to conduct business in Illinois are required to file Form 1120-ST, *Small Business Corporation Replacement Tax Return*, if they have net income or loss as defined under the Illinois Income Tax Act. The computation of Illinois base income is more complex for S corporations than for C corporations.

Filing Deadline

The filing deadline for Illinois S corporation returns is the same as the federal filing deadline. Form IL-1120-ST is due on or before the 15th day of the third month following the close of an S corporation's tax year. S corporation taxpayers are granted an automatic seven-month extension to file their small business income tax returns.

Small business corporations are not required to make estimated tax payments. However, if a balance due is anticipated on an extended return, taxpayers should file Form IL-505-B, *Automatic Extension Payment*, and remit a payment to the state by the unextended filing deadline to avoid any interest and penalties.

³ The replacement tax investment credit pass-through applies to tax years ending on or after December 31, 2000.

⁴ As defined by IRC §1361(a)

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Income Adjustments

Preparing Form IL-1120-ST can be confusing. Before filling in the first line of Form 1120-ST, Part 1, taxpayers must complete the ordinary income adjustments of Part 1A, located on page 2 of the form. Part 1A starts with the ordinary income or loss reflected on the taxpayer's federal Form 1120S, *U.S. Income Tax Return for an S Corporation*, Schedule K, line 1.

Illinois adjusts the taxpayer's federal ordinary income/loss from Schedule K by **adding** any income from the following separately stated Schedule K items:

- Net income or loss from real estate rental activities
- Net income or loss from other rental activities
- Portfolio income or loss from lines 4 through 8c
- Net gain or loss from the sale of property used in a trade or business and certain involuntary conversions under IRC §1231 from line 9
- Other income from line 10

The following separately stated federal Schedule K **subtractions** are made to reduce Illinois base income:

- Charitable contributions from line 12a
- Expenses deducted under IRC §179 from line 11
- Oil and gas depletion
- Interest on investment indebtedness

Income Modifications

After an S corporation's federal ordinary income has been adjusted by the addition and subtraction of certain specifically stated federal Schedule K items as provided for in Part 1A, this "unmodified" base income is further refined on the front page of the Form IL-1120-ST. This refinement includes the addition of any tax-exempt interest excluded for federal purposes, any state replacement tax deducted on the federal return, and any bonus depreciation claimed for federal income tax purposes.

S corporations also can subtract any U.S. Treasury interest included in federal taxable income, enterprise zone subtractions from Schedule 1299-A, *Tax Subtractions and Credits (For Partnerships and S Corporations)*,⁵ expenses incurred to produce tax-exempt income, and the bonus depreciation subtraction as calculated on Form IL-4562, *Special Depreciation*.

Caution. Form IL-1120-ST, Part 1, line 5c, provides for a subtraction of the share of income distributable to shareholders subject to a **replacement** tax. Practitioners often interpret this line as a deduction for the full profit of an S corporation and thereby wind up paying zero corporate taxes to the state in error. However, individuals are **not** subject to replacement tax and income distributable to individual shareholders should not be subtracted.

On the other hand, the share of income distributed to exempt organizations, including Employee Stock Ownership Plans (ESOPs), may be subtracted. Form IL-1120-ST instructions contain a worksheet for determining the amount of income that may be subtracted on line 5c from an S corporation's Illinois taxable income.

⁵. Schedule 1299-A must be attached to Form IL-1120-ST to support any enterprise zone deductions.

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Practitioners must complete an Illinois Schedule K-1-P, *Partner's or Shareholder's Share of Income, Deductions, Credits, and Recapture*, and provide each shareholder with a completed Form K-1-P reflecting the shareholder's portion of income and expense from Form IL-1120-ST. This form is not filed with the S corporation's return. However, it is retained with the tax records of the corporation.

Example 2. Frank's Fish Stand and Storm Door Co. (FFSSD), an S corporation, reported the following items of income and subtractions on its 2005 federal Form 1120-S return:

Ordinary income	\$156,771
Portfolio interest	4,500
U.S. Treasury interest	3,500
Charitable contributions	5,000
IRC §179 expense deduction	30,000
2005 Illinois replacement tax	629

FFSSD also had a few items of relevance only to its Illinois return, such as an Illinois special depreciation subtraction of \$1,287 for bonus property it had previously placed in service. As a retailer, FFSSD is also eligible for a replacement tax investment credit on a computer, and a building it purchased during the year.

FFSSD reports its ordinary income of \$156,771 on Form IL-1120-ST, Part 1A, line 1. This amount is then adjusted for separately stated income and expense items. The \$4,500 of portfolio interest income earned by the corporation is reported on line 2c and added to FFSSD's ordinary income. The \$5,000 charitable contribution is then deducted on line 4a, and the §179 deduction of \$30,000 is subtracted on line 4b to arrive at FFSSD's net Illinois unmodified base income of \$126,271.

FFSSD's unmodified base income is carried to Part I, line 1 on the front page of Form IL-1120-ST. This amount is modified on line 2b by adding back the \$629 in Illinois replacement tax that was deducted on the federal corporate return. The \$3,500 of treasury interest, which is included in FFSSD's federal income, is subtracted on line 5a. The special depreciation subtraction of \$1,287 is computed on Form IL-4562 and carried to Part I, line 5e, where the notation "depreciation subtraction" specifically identifies the deduction. These modifications result in a base income of \$122,113.

FFSSD's taxable income is computed in Part II of Form IL-1120-ST. The base income of \$122,113 is carried to Part II, line 1a. Since the corporation does not have an Illinois net loss deduction, this amount is also carried to line 1c, and the replacement tax is computed as 1.5% of this amount, or \$1,832 ($\$122,113 \times .015$).

FFSSD's replacement tax investment credit is computed on Form IL-477. Each qualifying asset is listed in Step 1, identified by the following information:

Column A	Description of qualified property
Column B	Date placed in service in Illinois
Column C	Number of years of asset's useful life
Column D	Indication of new (N) or used (U) property
Column E	Business activity code: (1) Retailing (2) Manufacturing (3) Coal mining (4) Fluorite mining
Column F	Municipality (or county, if located in an unincorporated area)
Column G	Federal income tax basis

The amounts in column G are multiplied by the credit rate of 0.5% (.005) and the total credit amount of \$1,203 is carried to Form IL-1120-ST, Part II, line 4. This credit reduces the 2005 replacement tax to \$629, as shown in Part II, line 8.

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Note. Practitioners are encouraged to review clients' tax returns from tax years 2001 to date to determine if all applicable state adjustments were made for bonus depreciation property. Practitioners should also be aware of the tax consequences resulting from the disposition or "depreciating out" of such property so the necessary reversal of decoupled depreciation can take place. This reversal restores the state "basis" of bonus property to equal the federal basis.

2006 Workbook

For Example 2



Illinois Department of Revenue

2005 Form IL-1120-ST

Small Business
Corporation

or fiscal year beginning ____/____/____, 2005, ending ____/____/____, 20____. **Replacement Tax Return**
Due on or before the 15th day of the 3rd month following the close of the tax year.

Do not write above this line.

Type	Frank's Fish Stand and Storm Door Co		3 6 - 2 4 0 5 0 0 0	
	Name		Federal employer identification number (FEIN)	
or	C/O		_____-_____-_____-_____-_____-_____-	
print	1115 Mackeral Lane		_____-_____-_____-_____-_____-_____-	
	Mailing address		Illinois business tax (IBT) number	
	Chicago	IL	60100	<input type="checkbox"/> Check this box if you are unitary and write the FEIN of the Sch. UB filer ____-____-_____-_____-_____-_____-
	City	State	ZIP	Check the box if this is your: <input type="checkbox"/> First return
	Check the box if your name or address has changed. <input type="checkbox"/>			<input type="checkbox"/> Final return, complete the questions at the end.

Part I — Base income or loss

Complete Part IA before completing Part I

1 Write your unmodified base income or loss from Part IA, Line 5.	1	126,900
2 Additions (See specific instructions for Part I.)		
a State, municipal, and other interest income excluded in arriving at Line 1 above	2a	_____
b Illinois replacement tax deducted in arriving at Line 1 above	2b	629
c Other additions (Specify: _____)	2c	_____
d The share of loss distributable to a shareholder subject to Illinois replacement tax	2d	_____
3 Add Lines 2a through 2d. This is the total of your additions.	3	629
4 Add Lines 1 and 3. This is your total income.	4	126,900
5 Subtractions (See specific instructions for Part I.)		
a Interest income from U.S. Treasury and other exempt federal obligations	5a	3,500
b Enterprise zone subtractions from Schedule 1299-A (See instructions.)	5b	_____
c The share of income distributable to a shareholder subject to Illinois replacement tax	5c	_____
d Expenses incurred in producing certain federally tax-exempt income (See instructions.)	5d	_____
e Other subtractions (Specify: _____)	5e	1,287
6 Add Lines 5a through 5e. This is the total of your subtractions.	6	4,787
7 Subtract Line 6 from Line 4. This is your base income or loss.		
If your base income or loss is derived solely inside Illinois, write this amount on Part II, Line 1a.		
If any portion of your base income or loss is derived outside Illinois, write this amount on Part III, Line 1.	7	122,113

Part II — Net income or loss and replacement tax

1 a Write your base income or loss from Part III, Line 9, if applicable; otherwise, from Part I, Line 7.	1a	122,113
b Illinois net loss deduction (NLD). (Attach Schedule NLD, see instructions.)	1b	_____
c Subtract Line 1b from Line 1a (cannot be less than zero). This is your income after NLD.	1c	122,113
2 a Multiply Line 1c by 1.5% (.015). This is your replacement tax.	2a	1,832
b Recapture of investment credits from Schedule 4255. (See instructions.)	2b	_____
3 Add Lines 2a and 2b. This is the total of your replacement tax before investment credits.	3	1,832
4 Investment credits from Form IL-477 (Attach Form IL-477, see instructions.)	4	1,203
5 Subtract Line 4 from Line 3 (cannot be less than zero). This is your net replacement tax.	5	629
6 Tax paid with Form IL-505-B. Include any 2004 overpayment credited to 2005 tax.	6	_____
7 Overpayment. Subtract Line 5 from Line 6.	7	_____
a Write the amount of overpayment to be credited to 2006.	7a	_____
8 Tax due. Subtract Line 6 from Line 5. This is your balance of tax due (see instructions). Pay in full if \$1 or more.	8	629

Under penalties of perjury, I state that I have examined this return and, to the best of my knowledge, it is true, correct, and complete.

Do not write in this box.

Sign here

Signature of authorized officer _____ Date _____

(_____) _____
Phone

Signature of preparer _____ Date _____

Preparer's SSN, FEIN, or PTIN _____

Check if self-employed ☐

Preparer firm's name (or yours, if self-employed) _____

Address _____

(_____) _____
Phone

➤ Mail this return to: Illinois Department of Revenue, P.O. Box 19032, Springfield, IL 62794-9032 ➤

NS TS ME ED TF FI BS XX MA MC BD LF IM MH DE IZ TG UR US AL _____ DR _____ ID _____

IL-1120-ST front (R-12/05)

2006 Workbook

For Example 2

Frank's Fish Stand and Storm Door Co

36-2405000

Part IA — Ordinary income adjustments — (See instructions.)

- 1 Write your ordinary income or loss from U.S. Form 1120S, Schedule K, Line 1. **1** 156,771
- 2 Write the appropriate amounts from U.S. Form 1120S, Schedule K.
- a Net income or loss from rental real estate activities from Line 2 **2a** _____
- b Net income or loss from other rental activities from Line 3c **2b** _____
- c Portfolio income or loss from Lines 4 through 8c **2c** 4,500
- d Net gain or loss from sale or exchange of property used in trade or business and certain involuntary conversions under IRC Section 1231, from Line 9 **2d** _____
- e Other income from Line 10 **2e** _____
- f Any other items of income or loss that were not included in the computation of ordinary income or loss on U.S. Form 1120S, Page 1 Identify: _____ **2f** _____
- 2 Total. Add Lines 2a through 2f. **2** 4,500
- 3 Add Lines 1 and 2. **3** 161,271
- 4 Write the appropriate amounts from U.S. Form 1120S, Schedule K.
- a Charitable contributions from Line 12a **4a** 5,000
- b Expense deduction under IRC, Section 179, from Line 11 **4b** 30,000
- c Interest on investment indebtedness from Line 12b **4c** _____
- d Any other items of expense that were not deducted in the computation of ordinary income or loss on U.S. Form 1120S, Page 1 Identify: _____ **4d** _____
- 4 Total. Add Lines 4a through 4d. **4** 35,000
- 5 Subtract Line 4 from Line 3. This is your unmodified base income or loss. Write here and on Part I, Line 1. **5** 126,271

Part III — Base income or loss allocable to Illinois

Complete Part III only if any portion of your base income or loss is derived outside Illinois.

- 1 Write your base income or loss from Part I, Line 7. **1** _____
- 2 a Nonbusiness income or loss included in Part III, Line 1 (Attach Schedule NB.) If you are making the business income election, check this box and write zero here and on Part III, Line 7. (See instructions.) → ☐ **2a** _____
- b Business income or loss from non-unitary partnerships, trusts, and estates included in Part III, Line 1. (See instructions.) **2b** _____
- 3 Add Lines 2a and 2b. This is the total of your subtractions. **3** _____
- 4 Subtract Line 3 from Line 1. This is your business income or loss. **4** _____
- 5 Business income apportionment formula (**Financial organizations and transportation companies:** check the appropriate box and see Special Apportionment Formulas instructions.) ☐ F ☐ T
- a Total sales everywhere **5a** _____
- b Total sales within Illinois **5b** _____
- c Divide Line 5b by Line 5a. (Carry to six decimal places.) This is your apportionment factor. **5c** _____
- 6 Multiply Line 4 by Line 5c. This is your business income or loss apportionable to Illinois. **6** _____
- 7 Nonbusiness income or loss allocable to Illinois (Attach Sch. NB.) If you checked the box on Line 2a, write zero here. **7** _____
- 8 Business income or loss apportionable to Illinois from non-unitary partnerships, trusts, and estates (See instr.) **8** _____
- 9 Add Lines 6 through 8. This is your base income or net loss allocable to Illinois. Write here and on Part II, Line 1a. **9** _____

- 1 Check the method of accounting used in preparing this return: ☐ Cash ☒ Accrual ☐ Other (Specify: _____)

If you discontinued or sold your business, please complete the following.

- 2 If you discontinued your business, write the date: ____/____/____
- 3 If you sold your business, write the date: ____/____/____
- 4 Tell us the new owner's name: _____
- 5 Tell us the new owner's address: _____
- 6 Tell us the former owner's forwarding address: _____



This form is authorized as outlined by the Illinois Income Tax Act. Disclosure of this information is REQUIRED. Failure to provide information could result in a penalty. This form has been approved by the Forms Management Center. IL-492-0069

IL-1120-ST back (R-12/05)

2006 Workbook

For Example 2



Illinois Department of Revenue

IL-4562

Special Depreciation

For tax years ending on or after September 11, 2001.
Attach to your return.

Tax year ending

12 / 2005

Month Year

IL Attachment No. 14

Step 1: Provide the following information

Frank's Fish Stand and Storm Door Co

36-2405000

Write your name as shown on your return.

Write your Social Security number (SSN) or
federal employer identification number (FEIN).

Step 2: Figure your Illinois special depreciation addition

- 1 Write the total amount claimed as a special depreciation allowance on federal Form 4562, Depreciation and Amortization, Line 14 or Line 25, for property acquired after September 10, 2001.

Do not include any special depreciation for property that you sold or transferred in this tax year.
See instructions.

1 _____

- 2 **Individuals only:** If you completed a federal Form 2106, Employee Business Expenses, write the total amount claimed as a special depreciation allowance on Lines 4 and 31, minus any IRC Section 179 deduction, for property acquired after September 10, 2001. See instructions.

Do not include any special depreciation claimed on federal Schedule A, Itemized Deductions, or special depreciation for property that you sold or transferred in this tax year. See instructions.

2 _____

- 3 **Sales or transfers only:** If you sold or transferred property during this tax year in a transaction for which you reported a capital gain or loss on your federal return, you must reverse all the subtractions claimed on this property. Write the total amount of all Illinois depreciation subtractions claimed on prior year IL-4562 forms, Step 3, Line 8, for this property.

3 _____

- 4 Add Lines 1 through 3. This is your Illinois special depreciation addition. Write the total here and see instructions for the list of Illinois form and line references to report this addition.

4 _____

Step 3: Figure your Illinois depreciation subtraction

- 5 Write the portion of depreciation allowance claimed on federal Form 4562, Line 17, plus Line 19, Column g, or Line 26, Column h, **only** for property for which you reported an addition modification for this tax year or any prior tax year on Form IL-4562, Step 2, Line 1.

Do not include any depreciation for property that you sold or transferred in this tax year.
See instructions.

5 _____ **3,000**

- 6 **Individuals only:** If you completed a federal Form 2106, subtract Line 31 from Line 38 and write the portion of depreciation allowance claimed (but not less than zero), **only** for property that you reported an addition modification for this tax year or any prior tax year on Form IL-4562, Step 2, Line 2.

Do not include any depreciation for property that you sold or transferred in this tax year.
See instructions.

6 _____

- 7 Add Lines 5 and 6.

7 _____ **3,000**

- 8 Multiply Line 7 by 42.9% (0.429).

8 _____ **1,287**

- 9 **Sales or transfers only:** If you sold or transferred property during this tax year in a transaction for which you reported a capital gain or loss on your federal return, then you should reverse the special depreciation addition you reported on any prior year Form IL-4562 for this property. Write the Illinois special depreciation addition reported on any prior year Form IL-4562, Step 2, Line 1 plus Line 2, for this property.

9 _____

- 10 Add Lines 8 and 9. This is your Illinois depreciation subtraction for this year. Write the total here and see instructions for the list of Illinois form and line references to report this subtraction.

10 _____ **1,287**

➔ **Attach this form to your Illinois return.** ➔



2006 Workbook

For Example 2



Illinois Department of Revenue

IL-477

Attach to Form IL-1120, IL-1120-ST,
IL-1065, IL-1041, or IL-990-T.

Replacement Tax Investment Credits

Year ending

12 2005

Month

Year

IL Attachment No. 10

Write your name as shown on your return.

Frank's Fish Stand and Storm Door Co

Write your federal employer identification number (FEIN).

3 6 - 2 4 0 5 0 0 0

Step 1: Figure your Replacement Tax Investment Credit for qualified property placed in service during the tax year.

A	B	C	D	E	F	G	H
Description of qualified property	Date placed in service Month Year	Useful life	New or used*	Business activity (see inst.)	Location of use (city or county)	Basis	Column G x .5% (.005)
1 a Building	01 / 2005	39	N	1	Cook	238,000	1a 1,190
b Computer	01 / 2005	5	N	1	Cook	2,500	1b 13
c	/						1c

* If the property is used, write the abbreviation of the state in which the property was previously used.

2 Write the total of each Column G and H.	2	1,203
3 If your business is new to Illinois, write the amount from Line 2, Column H, here and check the box in Step 2. If your business is not new to Illinois, complete Step 2 to see if you qualify for an additional credit based on increases in employment.	3	
4 Write the distributive share of replacement tax investment credit from partnerships and S corporations.	4	
5 Add Line 2, Column H, and Lines 3 and 4. This is your total replacement tax investment credit from this year.	5	1,203
6 Multiply Line 5 by the percentage of total ownership in the partnership or S corporation attributable to partners or shareholders subject to replacement tax.	6	
7 Subtract Line 6 from Line 5.	7	1,203
8 Write the amount of your credit carryforward from a previous year.	8	
9 Add Lines 7 and 8. This is your total investment credit available to use this year.	9	1,203
10 Write your total replacement tax (see instructions).	10	1,832
11 Write the lesser of Line 9 or Line 10 here and on your return (see instructions). This is your replacement tax investment credit to use this year.	11	1,203
12 Subtract Line 11 from Line 9 (cannot be less than zero). This is the amount of excess credit available to be carried forward five years.	12	0

Step 2: Figure your base employment calculation worksheet

Note: If your business is new to Illinois, check this box. ☐
You automatically qualify for the additional credit. **Do not** complete Lines 13 through 19. See instructions for Step 1, Line 3.

	Month	A Current year	B Preceding year
13 Write as your "base employment" the "number of covered workers" from Line 1 of Illinois Department of Employment Security Form UI-3/40, Employer's Contribution and Wage Report. Make entries only for those months that you were taxed by Illinois.	1st 2nd 3rd 4th 5th 6th 7th 8th 9th 10th 11th 12th		
14 Write the total of each column.	14		
15 Divide the amount on Line 14 by the number of months used in that column. Round to six decimal places and write here.	15		
16 Subtract Line 15, Column B, from Line 15, Column A, and write here. If the amount is zero or negative, write "0" on Step 1, Line 3, and continue to Step 1, Line 4. Stop here. You do not qualify for the additional credit.	16		
17 Divide Line 16 by Line 15, Column B. Round to six decimal places and write here. If the amount is .01 or larger, stop here and write the amount from Step 1, Line 2, Column H, on Step 1, Line 3. If this amount is less than .01, continue to Line 18 below.	17		
18 Multiply Line 17 by 50% (.50). Round to six decimal places and write here.	18		
19 Multiply Step 1, Line 2, Column G, by Step 2, Line 18, and write here and on Step 1, Line 3.	19		

IL-477 Front (R-12/05)

This form is authorized by the Illinois Income Tax Act. Disclosure of this information is REQUIRED. Failure to provide this information could result in a penalty. This form has been approved by the Forms Management Center. IL-492-0096



2006 Workbook

For Example 2



Illinois Department of Revenue

Schedule K-1-P

For partnerships filing Form IL-1065 or S corporations filing Form IL-1120-ST

Do not attach this form to your Form IL-1065 or Form IL-1120-ST.

Partner's or Shareholder's Share of Income, Deductions, Credits, and Recapture

Year ending

12 2005

Month Year

IL Attachment No. 10

Step 1: Identify your partnership or S corporation

1 Check your business type ☐ partnership ☒ S corporation

3 3 6 - 2 4 0 5 0 0 0

Write your federal employer identification number (FEIN).

2 Frank's Fish Stand and Storm Door Co

Write your name as shown on your Form IL-1065 or Form IL-1120-ST.

4 Write the apportionment factor from Part III, Line 5c, of Form IL-1065 or Form IL-1120-ST; otherwise write "1." 1.0000

Step 2: Identify your partner or shareholder

5 Frank Synder

Name

7 123-45-6789

Social Security number or FEIN

6

Mailing address

Chicago

IL

60660

City

State

ZIP

8 100

Share (%)

9 Check the appropriate box

☒ individual

☐ corporation

☐ trust

☐ partnership

☐ S corporation

☐ estate

Step 4: Figure your partner's or shareholder's share of your business income (loss)

(See instructions.)

	A	B
	Member's share from U.S. Schedule K-1, less nonbusiness income	Nonresident member's share apportioned to Illinois
20 Ordinary income (loss) from trade or business activity	20 156,771	
21 Net income (loss) from rental real estate activities	21	
22 Net income (loss) from other rental activities	22	
23 Interest	23 4,500	
24 Dividends	24	
25 Royalties	25	
26 Net short-term capital gain (loss)	26	
27 Net long-term capital gain (loss). (Total for year)	27	
28 Unrecaptured Section 1250 gain	28	
29 Guaranteed payments to partner (U.S. Form 1065 only)	29	
30 Net Section 1231 gain (loss) (other than casualty or theft)	30	
31 Other income and expense	31	
Specify		

Step 5: Figure your partner's or shareholder's share of Illinois additions and subtractions

	A	B
	Member's share from Form IL-1065 or IL-1120-ST	Nonresident member's share apportioned or allocated to Illinois
Additions		
32 Federally tax-exempt interest income	32	
33 Illinois replacement tax deducted	33 629	
34 Other additions	34	
Specify		
Subtractions		
35 a Interest from U.S. Treasury obligations included as business income	35a 3,500	
b Interest from U.S. Treasury obligations included as nonbusiness income	35b	
36 Schedule 1299-A subtractions (see instructions)		
a Enterprise Zone Dividend Subtraction	36a	
b High Impact Business within a Foreign Trade Zone (or sub-zone) Dividend Subtraction	36b	
c Contribution Subtraction (Form IL-1120-ST filers only)	36c	
d Interest Subtraction - Enterprise Zones (Form IL-1120-ST financial organization filers only)	36d	
e Interest Subtraction - High Impact Business within a Foreign Trade Zone (or sub-zone) (Form IL-1120-ST financial organization filers only)	36e 1,287	

2006 Workbook

PARTNERSHIPS FORM IL-1065

Partnerships doing business in the state of Illinois are required to file Form IL-1065. A partnership may be any entity under the Illinois Limited Liability Act that is treated as a partnership for federal income tax purposes.⁶ Although partnerships are not taxed at the federal level, they can be assessed an Illinois replacement tax of 1.5% of base income.

Limited liability companies (LLCs) with two or more members or associates must file Form IL-1065 unless the LLC elects out of partnership filing status using the “check-the-box” method. The annual fee charged to maintain an LLC in Illinois often deters taxpayers from establishing an LLC within the state.

Illinois partnership returns are based on the federal Schedule K, in a manner similar to S corporations. Partnerships begin computing Illinois base income on page 2 of Form IL-1065, Part 1A, line 1, with adjustments similar to those made for S corporations. In addition, partnerships can deduct payments made on behalf of partners to IRAs, Keoghs, or SIMPLE plans. Once the modified base income is determined at the partnership level, this amount is carried forward to Form IL-1065, Part 1, line 1, where it is further modified by certain additions and subtractions.

Partners do not receive salaries from a partnership, but rather receive compensation in the form of guaranteed payments. These payments must be added back when computing Illinois base income. However, these guaranteed payments can generally be considered a reasonable allowance for compensation paid to partners and then subtracted in Part 1, line 5c.

Any distributive loss that a partnership receives from another partnership, S corporation, trust, or estate is an addition. These amounts can be found on the K-1-P or K-1-T transmittal forms received by the partnership.

Unlike corporations, Illinois partnerships still enjoy a \$1,000 standard exemption, which is subtracted from base income to arrive at net taxable income. The allowable standard exemption is \$1,000 multiplied by a fraction in which the numerator represents the base income allocated to Illinois and the denominator is the total base income of the partnership.

For years ending after December 31, 2003, Illinois partnerships with NOLs can only carry these losses forward. The carryforward period is limited to 12 years. A partnership carrying forward an NOL must attach Form NLD to the partnership’s tax return.

Observation. The subtraction section of Form IL-1065, Part I, is probably the most challenging area for many preparers — specifically, the deduction on line 5c for the “**greater of personal service income or reasonable allowance for compensation paid.**” Since partners are not employees, what is the yardstick to determine compensation paid? Does compensation represent the entire profit of the partnership, or is compensation limited to the actual income distributed to each partner during the year? Does compensation include only partnership earnings subject to self-employment tax, thus excluding any passive or portfolio income earned by the partnership?

FILING DEADLINE

The filing deadline for Illinois partnership tax returns is the same as the federal filing period. Form IL-1065 is due on or before the 15th day of the 4th month following the close of the partnership’s tax year. An automatic six-month extension is granted all Illinois partnerships. Form IL 505-B is not required unless a replacement tax is expected on the base income of the partnership. Partnerships are **not** required to make estimated tax payments.

⁶ By definition, a partnership is any syndicate, group, pool, or joint venture through or by means of which any business, financial operation, or venture is carried on.

2006 Workbook

SUPPORTING ILLINOIS SCHEDULES REQUIRED

Partnerships must provide each partner with an Illinois Schedule K-1-P, *Partner's or Shareholder's Share of Income, Deductions, Credits, and Recapture*. This schedule is used to report each partner's respective share of income and deductions claimed on the partnership's federal and state income tax returns, as well as to provide other income necessary for preparing the partners' individual returns. These schedules are not filed with the Illinois partnership tax return. However, the partnership must file an Illinois Schedule B, *Partner's or Shareholder's Identification*, to provide the state with a list of all partners in the partnership.

Example 3. Bob and Darlene's Accounting Service (B&D) is a successful Illinois husband and wife business partnership that files annual federal and state partnership tax returns. All of B&D's income is earned in the state of Illinois.

B&D enjoyed a successful tax year in 2005, with a regular business profit of \$138,900 after making guaranteed payments of \$21,500 for Bob and Darlene's health insurance premiums. In addition, the partnership sold some vacant ground next to their office location for a §1231 gain of \$58,000.

B&D's prior partnership tax returns revealed no Illinois tax liability, as Bob and Darlene took advantage of the "line 5c" subtraction on their Illinois Form IL-1065 for not only the partnership's regular income but also the add-back for guaranteed payments representing the partners' health insurance premiums. These amounts were allowed as a subtraction since all regular income and payments for health insurance premiums represent compensation for services that are subject to self-employment taxes.

The land sale, although a taxable transaction in Illinois, does not represent compensation for service and is taxed in full at the rate of 1.5%, after subtracting the standard exemption allowance of \$1,000.

Excerpts from Bob and Darlene's Form IL-1065, Illinois Schedule B, and Schedule K-1-P follow.

2006 Workbook

For Example 3



Illinois Department of Revenue 2005 Form IL-1065

Partnership Replacement Tax Return

or fiscal year beginning ___/___/___, 2005, ending ___/___/___, 20___. Due on or before the 15th day of the 4th month following the close of the tax year.

Do not write above this line.

Bob and Darlene's Accounting Service

Type Name of partnership

200 - **16000000**

Federal employer identification number (FEIN)

or C/O

1040 Service Street

_____-_____-_____-_____-_____-_____-

Illinois business tax (IBT) number

print Mailing address

Springfield

IL

62701

City

State

ZIP

Check if: ☐ Name or address change ☐ First return

☐ Final return, answer the questions at the end.

☐ You are filing an IRC Section 761, election.

Part I — Base income or loss

Complete Part IA before completing Part I

1 Write your unmodified base income or loss from Part IA, Line 5.

1 **196,900**

2 Additions (See specific instructions for Part I.)

a State, municipal, and other interest income excluded in arriving at Line 1 above

2a _____

b Illinois replacement tax deducted in arriving at Line 1 above

2b _____

c Guaranteed payments to partners (see instructions).

2c **21,500**

d Other additions (Specify: _____)

2d _____

e The share of loss distributable to a partner subject to Illinois replacement tax

2e _____

3 Add Lines 2a through 2e. This is the total of your additions.

3 **21,500**

4 Add Lines 1 and 3. This is your total income.

4 **218,400**

5 Subtractions (See specific instructions for Part I.)

a Interest income from U.S. Treasury and other exempt federal obligations

5a _____

b August 1, 1969, valuation limitation amount from Schedule F

5b _____

c Greater of personal service income or reasonable allowance for compensation paid

5c **160,400**

d The share of income distributable to a partner subject to Illinois replacement tax

5d _____

e Enterprise zone or foreign trade zone/sub-zone dividends from Schedule 1299-A

5e _____

f Expenses incurred in producing certain federally tax-exempt income (See instructions.)

5f _____

g Other subtractions (Specify: _____)

5g _____

6 Add Lines 5a through 5g. This is the total of your subtractions.

6 **160,400**

7 Subtract Line 6 from Line 4. This is your base income or loss.

7 **58,000**

If your base income or loss is derived solely inside Illinois, write this amount on Part II, Line 1a.

If any portion of your base income or loss is derived outside Illinois, write this amount on Part III, Line 1.

7 **58,000**

Part II — Net income or loss and replacement tax

1 a Write your base income or loss from Part III, Line 9, if applicable; otherwise, from Part I, Line 7.

1a **58,000**

b Illinois net loss deduction (NLD). (Attach Schedule NLD, see instructions.)

1b _____

c Subtract Line 1b from Line 1a (cannot be less than zero). This is your income after NLD.

1c **58,000**

2 Write your total base income from Part I, Line 7.

2 **58,000**

3 Divide Line 1a by Line 2. If Line 1a equals or exceeds Line 2, write "1."

3 **1**

4 Multiply Line 3 by \$1,000. This is your standard exemption. If you are a short-year filer, see General Information.

4 **1,000**

5 Subtract Line 4 from Line 1c. This is your net income.

5 **57,000**

6 a Multiply Line 5 by 1.5% (.015). This is your replacement tax.

6a **855**

b Recapture of investment credits from Schedule 4255 (See instructions.)

6b _____

7 Add Lines 6a and 6b. This is the total of your replacement tax before investment credits.

7 **855**

8 Investment credits from Form IL-477 (Attach Form IL-477, see instructions.)

8 _____

9 Subtract Line 8 from Line 7 (cannot be less than zero). This is your net replacement tax.

9 **855**

10 Tax paid with Form IL-505-B. Include any 2004 overpayment credited to 2005 tax.

10 _____

11 Overpayment. Subtract Line 9 from Line 10.

11 _____

a Write the amount of overpayment to be credited to 2006.

11a _____

12 Tax due. Subtract Line 10 from Line 9. This is your balance of tax due. (See instructions.) Pay in full if \$1 or more.

12 **855**

Under penalties of perjury, I state that I have examined this return and, to the best of my knowledge, it is true, correct, and complete.

Do not write in this box.

Sign

Signature of authorized officer

Date

Phone

here

Signature of preparer

Date

Preparer's SSN, FEIN, or PTIN

Check if self-employed ☐

Preparer firm's name (or yours, if self-employed)

Address

Phone

➤ Mail this return to: Illinois Department of Revenue, P.O. Box 19031, Springfield, IL 62794-9031

NS TS FI ME LF TF XX MA MC BD ED IM DE MH IZ TG AL _____ DR _____ ID _____

IL-1065 front (R-12/05)

2006 Workbook

For Example 3

Bob and Darlene's Accounting Service

20-1600000

Part IA — Income adjustments — (See instructions.)

- 1 Write your income or loss from U.S. Form 1065, Schedule K, Line 1, or U.S. Form 1065-B, Schedule K, Line 1a. **1** 138,900
- 2 Write the appropriate amounts from U.S. Form 1065, Schedule K.
- a Net income or loss from rental real estate activities from Line 2 **2a** _____
- b Net income or loss from other rental activities from Line 3c **2b** _____
- c Portfolio income or loss from Lines 5 through 9c, or U.S. Form 1065-B, Schedule K, Lines 2, 3, and 4 **2c** _____
- d Net IRC, Section 1231, gain or loss from involuntary conversions due to casualty and theft, included in Line 10 **2d** 58,000
- e Any other items of income or loss that were not included in the computation of income or loss on Page 1 of U.S. Form 1065 or U.S. Form 1065-B Identify: _____ **2e** _____
- 2 **Total.** Add Lines 2a through 2e. **2** 58,000
- 3 Add Lines 1 and 2. **3** 196,900
- 4 Write the appropriate amounts from U.S. Form 1065, Schedule K.
- a Charitable contributions from Line 13a **4a** _____
- b Expense deduction under IRC Section 179, from Line 12 **4b** _____
- c Interest on investment indebtedness from Line 13b **4c** _____
- d Any other items of expense that were not deducted in the computation of income or loss on Page 1 of U.S. Form 1065 or U.S. Form 1065-B Identify: _____ **4d** _____
- 4 **Total.** Add Lines 4a through 4d. **4** _____
- 5 Subtract Line 4 from Line 3. This is your unmodified base income or loss. Write here and on Part I, Line 1. **5** 196,900



Illinois Department of Revenue

Schedule B Partners' or Shareholders' Identification

Attach to your Form IL-1065 or Form IL-1120-ST.

Year ending

12 **2005**
Month Year

IL Attachment No. 3

Write your name as shown on your Form IL-1065 or Form IL-1120-ST.

Bob and Darlene's Accounting Service

Write your federal employer identification number (FEIN).

2 0 - 1 6 0 0 0 0 0

Identify your partners or shareholders

	A	B	C	D
	Name	Address	Social Security number or FEIN	Share of income or loss (%)
1	Bob Wainwright	Bloomington, IL 61701	987-65-4321	50
2	Darlene Wainwright	Bloomington, IL 61701	123-98-4567	50
3				

2006 Workbook

For Example 3



Illinois Department of Revenue Schedule K-1-P

For partnerships filing Form IL-1065 or S corporations filing Form IL-1120-ST

Do not attach this form to your Form IL-1065 or Form IL-1120-ST.

Partner's or Shareholder's Share of Income, Deductions, Credits, and Recapture

Year ending
12 **2005**
Month Year

IL Attachment No. 10

Step 1: Identify your partnership or S corporation

- 1 Check your business type ☐ partnership ☒ S corporation
- 2 **Bob and Darlene's Accounting Service**
Write your name as shown on your Form IL-1065 or Form IL-1120-ST.
- 3 **2 0 - 1 6 0 0 0 0 0**
Write your federal employer identification number (FEIN).
- 4 Write the apportionment factor from Part III, Line 5c, of Form IL-1065 or Form IL-1120-ST; otherwise write "1." **1.0000**

Step 2: Identify your partner or shareholder

- 5 **Bob Wainwright**
Name
- 6 **Bloomington IL 61701**
Mailing address City State ZIP
- 7 **888-88-8888**
Social Security number or FEIN
- 8 **50**
Share (%)
- 9 Check the appropriate box
☒ individual ☐ corporation ☐ trust
☐ partnership ☐ S corporation ☐ estate

Step 4: Figure your partner's or shareholder's share of your business income (loss) (See instructions.)

	A	B
	Member's share from U.S. Schedule K-1, less nonbusiness income	Nonresident member's share apportioned to Illinois
20 Ordinary income (loss) from trade or business activity	20 69,450	
21 Net income (loss) from rental real estate activities	21	
22 Net income (loss) from other rental activities	22	
23 Interest	23	
24 Dividends	24	
25 Royalties	25	
26 Net short-term capital gain (loss)	26	
27 Net long-term capital gain (loss). (Total for year)	27	
28 Unrecaptured Section 1250 gain	28	
29 Guaranteed payments to partner (U.S. Form 1065 only)	29	
30 Net Section 1231 gain (loss) (other than casualty or theft)	30 29,000	
31 Other income and expense Specify	31	

TRUSTS AND ESTATES

A Form IL-1041, *Illinois Fiduciary and Replacement Tax Return*, is required to be filed by fiduciaries of trusts and estates if the entity:

- Has net income or loss as defined under the Illinois Income Tax Act (IITA), regardless of any deduction for distributions to beneficiaries; or
- Is located in Illinois and files, or is required to file, a federal income tax return, regardless of income or loss.

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For fiduciary purposes, a resident means:

- An individual who is present in Illinois for other than a temporary or transitory purpose;
- An individual who is absent from Illinois for a temporary or transitory purposes, but who is domiciled in Illinois;
- The estate of a decedent, who at his death was domiciled in Illinois;
- A trust created by a will of a decedent, who at his death was domiciled in Illinois; or
- An irrevocable trust, whose grantor was domiciled in Illinois at the time the trust became irrevocable.

Note. Grantor trusts are **not** required to file Form IL-1041. If a trust or estate is a charitable organization exempt from federal income tax by reason of IRC §501(c), it also is **not** required to file Form IL-1041.

STANDARD EXEMPTION

Trusts and estates are entitled to a standard exemption up to \$1,000, which is subtracted before determining the taxable base income of the trust or estate. Illinois base income means federal taxable income modified by the additions and subtractions of Form IL-1041, Part 1.

FILING DEADLINE

The filing date for an IL-1041 is the same as the federal filing period. In general, the Form IL-1041 is due on or before the 15th day of 4th month following the close of the tax year. An automatic six-month extension is granted and no payment is required with Form IL 505-B unless a tax is expected to be owed with the tax return.

Illinois estimated tax payments are not required for estates and trusts even if federal estimated tax payments are required. If a trust or estate desires to make estimated tax payments, payments are made on the corporate estimated tax Form IL-1120, *Estimated Income Replacement Tax Payments for Corporations*, and are credited on Form IL-1041, Part II, line 4.

Example 4. The David Pine Trust, which is administered by Dexter Pine, is a complex trust that provides for a partial distribution of income to Dexter Pine each year. This amount is transmitted to Dexter on an Illinois Schedule K-1-T, *Beneficiary's Share of Income and Deductions*. The balance not distributed to Dexter is taxable on the federal and state fiduciary tax returns.

The income and expense of the trust are as follows:

Income:	
Bank interest	\$ 11
US Treasury interest	65
Tax exempt interest income	1,729
Taxable dividend income	3,048
Capital gain distributions	2,403
Capital gain on stock sales	321
Gross rental income	41,405
Expense:	
Rental expenses	17,704
Rental depreciation	7,035
Fiduciary fees	4,800
Tax preparation fee	300
Distribution:	
Distribution to beneficiary per trust agreement	12,127

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The David Pine Trust's IL-1041 is shown here. The form starts with the federal taxable income and then is adjusted for any modifications made between the beneficiary and the fiduciary tax return. Illinois requires the trust to add back any tax-exempt interest income allocated to the fiduciary while allowing a subtraction for the fiduciary's share of expenses related to the tax-exempt interest income. The fiduciary's share of U.S. Treasury interest may also be subtracted on the Illinois return.

Illinois taxes trusts at a combined rate of 4.5%, consisting of a replacement tax rate of 1.5% plus an income tax rate of 3.0%. Estates are **not** subject to a replacement tax and therefore are taxed at a rate of 3%.

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For Example 4



Illinois Department of Revenue

2005 Form IL-1041

Fiduciary Income and Replacement Tax Return

or fiscal year beginning ____/____/2005, ending ____/____/20____.
Due on or before the 15th day of the 4th month following the close of the tax year.

Do not write above this line.

Type David Pine Trust
Name and/or number of trust or estate
or Dexter Pine Trustee
C/O
print 1111 Forest Boulevard
Mailing address
Chicago IL 60660
City State ZIP
Check the box if your name or address has changed. ☐

36 - 18018000
Federal employer identification number (FEIN)
 -
Illinois business tax (IBT) number
☒ **Trust** ☐ **Estate**
☐ ESBT ☐ Individual bankruptcy estate
Resident of Illinois? ☒ Yes ☐ No
Check the box, if this is your: ☐ First return
☐ Final return and date ____/____/____

Part I — Base income or loss

1 Write your federal taxable income or loss before FNOLD from the worksheet (See instructions.) 1 6,514

2 Additions

	A Fiduciary	B Beneficiaries
a Exemption claimed on U.S. Form 1041, Page 1	2a <u>100</u>	
b Illinois income and replacement tax deducted in arriving at Line 1 above	2b	
c State, municipal, and other federally tax-exempt interest (See instructions.)	2c <u>452</u>	<u>1,277</u>
d Other additions (specify: _____)	2d	
e Add Lines 2a through 2d. This is the total of your additions. Report Column B, Lines 2b through 2d, on Schedule K-1-T, Step 5. Write the amount shown on Column A, Line 2e, here.	2e <u>552</u>	<u>1,277</u>

2 552

3 Add Lines 1 and 2. This is your total income. 3 7,066

4 Subtractions

	A Fiduciary	B Beneficiaries
a August 1, 1969, valuation limitation amount from Schedule F	4a	
b Payments from certain retirement plans (See instructions.)	4b	
c Interest income from U.S. Treasury and other exempt federal obligations	4c <u>15</u>	<u>43</u>
d Retirement payments to retired partners	4d	
e Enterprise Zone Dividend Subtraction from Schedule 1299-B	4e	
f High Impact Business within a Foreign Trade Zone (or sub-zone) Dividend Subtraction from Schedule 1299-B	4f	
g Other subtractions (specify: _____)	4g <u>50</u>	<u>140</u>
h Add Lines 4a through 4g. This is the total of your subtractions. Report Column B, Lines 4b through 4g, on Schedule K-1-T, Step 5. Write the amount shown on Column A, Line 4h, here.	4h <u>65</u>	<u>183</u>

4 65

5 Subtract Line 4 from Line 3. This is your Illinois base income or loss.
If the trust or estate is a resident of Illinois, write this amount on Part III, Line 1a.
If the trust or estate is a nonresident of Illinois, write this amount on Sch. NR, Part III, Line 2, and then complete Sch. NR. 5 7,001

Part II — Total tax

1 Write the net replacement tax from Part III, Line 7 (trusts only.) 1 90

2 Write the net income tax from Part IV, Line 7. 2 180

3 Add Lines 1 and 2. This is your total net income and replacement tax. 3 270

4 Add the total Illinois income tax withheld on wages (attach Forms W-2), tax paid with Form IL-505-B, and any 2004 overpayment credited to 2005 tax. This is the total of your payments and credits. 4

5 Overpayment. Subtract Line 3 from Line 4. 5

a Write the amount of overpayment to be credited to 2006. 5a

6 Tax due. Subtract Line 4 from Line 3. This is the balance of tax due. (See instructions.) Pay in full if \$1 or more. 6 270

Under penalties of perjury, I state that I have examined this return and, to the best of my knowledge, it is true, correct, and complete.

Sign

Signature of fiduciary

Date

Phone

here

Signature of preparer

Date

Preparer's SSN, FEIN, or PTIN

Do not write in this box.

Check if self-employed ☐

Preparer firm's name (or yours, if self-employed)

Address

Phone

➤ Mail this return to: Illinois Department of Revenue, P.O. Box 19009, Springfield, IL 62794-9009

DE EJ EH MD NS TS FI ME NR OC OG SC OB OS OT MA XX MC LF ED IM AL DR ID
IL-1041 front (R-12/05)

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For Example 4

Part III — Net income or loss and replacement tax

- 1 **a** Write the base income or loss from Part I, Line 5, or, if a nonresident, from Schedule NR, Part I, Line 23. **1a** 7,001
b Write the amount of Illinois net loss deduction (NLD) (attach Schedule NLD, see instructions.) **1b** _____
c Subtract Line 1b from 1a (cannot be less than zero). This is your income after NLD. **1c** 7,001
- 2 If the trust or estate is a **resident** of Illinois, write the standard exemption of \$1,000.
If the trust or estate is a **nonresident** of Illinois, write the amount from Schedule NR, Part III, Line 4.
(If you are a short-year filer, see General Information.) **2** 1,000
- 3 Subtract Line 2 from Line 1c (cannot be less than zero). Write the result here and on Part IV, Line 1.
This is your Illinois net income. **3** 6,001
- Lines 4 through 7 are for trusts only. Estates go to Part IV.**
- 4 **a** Multiply Line 3 by 1.5% (.015). This is your replacement tax. **4a** 90
b Recapture of investment credits from Schedule 4255 (See instructions.) **4b** _____
- 5 Add Lines 4a and 4b. This is your total replacement tax. **5** 90
- 6 Write the amount of investment credits from Form IL-477. (Attach Form IL-477, see instructions.) **6** _____
- 7 Subtract Line 6 from Line 5 (cannot be less than zero).
Write the result here and on Part II, Line 1. This is your net replacement tax. **7** 90

Part IV — Income tax

- 1 Write the amount of net income from Part III, Line 3. **1** 6,001
- 2 **a** Multiply Line 1 by 3% (.03). This is your income tax. **2a** 180
b Recapture of investment credits from Schedule 4255 (See instructions.) **2b** _____
- 3 Add Lines 2a and 2b. This is your total income tax. **3** 180
- 4 Credit for income tax paid to other states (Attach Schedule CR, see instructions.) **4** _____
- 5 Income tax credits from Schedule 1299-D (Attach Schedule 1299-D, see instructions.) **5** _____
- a High Impact Businesses only:** Write the amount of your Jobs Tax Credit from Schedule 1299-D. **5a** _____
b Write the amount of your High Impact Investment Credit from Schedule 1299-D. **5b** _____
c Write the amount of your EDGE Tax Credit from Schedule 1299-D. **5c** _____
- 6 Add Lines 4 and 5. Do not include Lines 5a, 5b, and 5c. (See instructions.) **6** _____
- 7 Subtract Line 6 from Line 3 (cannot be less than zero).
Write the result here and on Part II, Line 2. This is your net income tax. **7** 180

Part V — This information must be completed by all taxpayers.

- 1 Check one of the following: ☐ Estate ☐ Simple trust ☒ Complex trust
- 2 If a trust, check one of the following: ☐ Testamentary trust ☐ Inter vivos trust
- 3 **a** If a trust, write the date created: 12 / 18 / 1995
b If an estate, write the date of the decedent's death: _____
- 4 Check the method of accounting used in preparing this return: ☐ Cash ☐ Accrual ☐ Other (specify: _____)
- 5 Did this trust or estate receive income from a partnership, an S corporation, or another trust or estate? ☐ Yes ☐ No
If yes, list all such partnerships, S corporations, trusts, or estates, showing the name, address, and FEIN of each (attach additional sheet, if necessary).



Illinois Department of Revenue

Schedule D Beneficiaries' Identification

Attach to your Form IL-1041.

Year ending

12 2005

Month Year

Write your name as shown on your Form IL-1041.

David Pine Trust

Write your federal employer identification number (FEIN).

3 6 - 1 8 0 1 8 0 0

Identify your beneficiaries

- | A | B | C | D |
|----------------------|---|--------------------------------|----------------------|
| Name | Address | Social Security number or FEIN | Check if nonresident |
| 1 Dexter Pine | 1111 Forest Boulevard, Chicago, IL 60660 | 222-33-4444 | |
| 2 _____ | _____ | _____ | |

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For Example 4



Illinois Department of Revenue
Schedule K-1-T
For trusts or estates filing Form IL-1041

Beneficiary's Share of Income and Deductions

Year ending

Month Year

Step 1: Identify your trust or estate

1 Check the appropriate box ☒ trust ☐ estate

2 **David Pine Trust**

Write your name as shown on your Form IL-1041.

3 **3 6 - 1 8 0 1 8 0 0**

Write your federal employer identification number (FEIN).

4 Write the apportionment factor from Schedule NR, Part II, of Form IL-1041; otherwise, write "1." **1**

Step 2: Identify your beneficiary

5 **Dexter Pine**

Name

7 **222-33-4444**

Social Security number or FEIN

6 **1111 Forest Boulevard**

Mailing address

Chicago

IL

60660

City

State

ZIP

8 Check the appropriate box

☒ individual

☐ corporation

☐ trust

☐ partnership

☐ S corporation

☐ estate

Step 3: Figure your beneficiary's share of your nonbusiness income

	A Beneficiary's share (see instructions)	B Nonresident beneficiary's share allocable to Illinois
9 Interest	9 50	
10 Dividends	10 2003	
11 Rental income	11	
12 Patent royalties	12	
13 Copyright royalties	13	
14 Other royalty income	14	
15 Capital gain or loss from real property	15	
16 Capital gain or loss from tangible personal property	16	
17 Capital gain or loss from intangible personal property	17	
18 Other income	18	
Specify		

Step 4: Figure your beneficiary's share of your business income

(See instructions.)

	A Beneficiary's share from U.S. Schedule K-1, less nonbusiness income	B Nonresident beneficiary's share apportioned to Illinois
19 Interest	19	
20 Dividends	20	
21 Net short-term capital gain	21	
22 Net long-term capital gain (total for year)	22	
23 Annuities, royalties, and other nonpassive income before directly apportioned deductions	23	
24 Directly apportioned deductions — Depreciation, depletion, and amortization	24	
25 Total annuities, royalties, and other nonpassive income. Subtract Line 24 from Line 23.	25	
26 Trade or business, rental real estate, and other rental income before directly apportioned deductions	26 8,937	8,937
27 Directly apportioned deductions — Depreciation, depletion, and amortization	27	
28 Total trade or business, rental real estate, and other rental income. Subtract Line 27 from Line 26.	28 8,937	8,937
29 Other income	29	

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For Example 4

Step 5: Figure your beneficiary's share of your Illinois additions and subtractions

	A	B
	Beneficiary's share from Form IL-1041	Nonresident beneficiary's share apportioned or allocated to Illinois
Additions		
30 Federally tax-exempt interest income	30 1,277	
31 Illinois income and replacement tax deducted	31	
32 Other additions _____ Specify	32	
Subtractions		
33 a Interest from U.S. Treasury obligations included as business income	33a	
b Interest from U.S. Treasury obligations included as nonbusiness income	33b 43	
34 Payment from certain retirement plans	34	
35 Retirement payments to retired partners	35	
36 a Enterprise Zone Dividend Subtraction	36a	
b High Impact Business within a Foreign Trade Zone (or sub-zone) Dividend Subtraction	36b	
37 a Income exempt from taxation by Illinois by reason of its statutes or Constitution, or the Constitution, treaties, or statutes of the U.S.	37a	
b Subtractions from partnerships, S corporations, trusts, or estates	37b	
c Certain federally-disallowed deductions	37c 140	

ESTATE AND GENERATION SKIPPING TRANSFER TAX RETURN

The Illinois estate tax is administered by the Illinois Attorney General's office, not the Illinois Department of Revenue. IL Form 700, *State of Illinois Estate & Generation Skipping Transfer Tax Return*, is required for all estates required to file a federal Form 706, *United States Estate (and Generation-Skipping Transfer) Tax Return*.

Form 700 should be filed in duplicate, with copies filed with both the County Treasurer in the county of residence and the Attorney General's office. A complete copy of the federal estate tax return should be attached. Form 700 is due nine months after the date of the decedent's death. If the federal tax is paid in installments, the Illinois tax can also be paid in installments, although no deduction is allowable for state payments until the tax is actually paid.

For decedents dying on or after January 1, 2005, state death taxes can no longer be claimed as a **credit** against the federal estate tax. Instead, any state death taxes now are deducted from the federal gross estate to arrive at taxable income.⁷ However, this calculation requires a circular formula, since Illinois income tax is based on federal taxable income and federal taxable income is reduced by the amount of any state taxes paid.

Rather than relying on preparers to obtain this deduction by trial and error, the Illinois Attorney General's office has acquired a computer program that makes the necessary computation. Preparers are invited to contact the Illinois Attorney's General's office by either of the following methods to access this program:

Telephone:	Chicago	312-814-2491
	Springfield	217-524-5095
Website	www.illinoisattorneygeneral.gov	

⁷ 26 USC 2058

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The preparer needs to know the amount of the “tentative taxable estate” from Form 706, line 3a, and the “taxable estate with adjusted gifts” amount from Form 706, line 5, Form 706, before contacting the Attorney General’s office. These amounts should be computed **without** the state death tax deduction.

Example 5. Margaret died on February 1, 2005 with a gross estate of \$2 million. Her Illinois estate tax liability is \$92,910, as computed by the Illinois Attorney General’s computer program. This liability is not limited by federal tax. The deduction on Margaret’s federal estate tax return would be the same \$92,910.

Illinois no longer links its estate tax to the state death tax credit on the federal estate tax return.⁸ Instead, Illinois now bases its estate tax on the full amount computed under the State Death Tax Credit Table found under Table B of the federal Form 706 instructions. This amount is computed without factoring in the reductions/termination contained in 2001 federal legislation, which reduced the credit by 25% each successive year from 2002 to 2004, resulting in the elimination of the credit in 2005.

Illinois will follow the federal estate tax exemption until it reaches \$2 million. At that point the Illinois estate tax exemption will level out at \$2 million through calendar year 2009. Unless the legislature intervenes in the next several years, the Illinois estate tax will expire in 2010 when the federal estate tax sunsets, but will resume under pre-2001 laws in 2011 and after.

Estate tax exemption:

	Federal	Illinois
2006–2008	\$2 million	\$2 million
2009	3.5 million	2 million
2010	Unlimited	Unlimited
2011	1 million	1 million

For decedents dying on or after January 1, 2003, Illinois estate tax is apportioned according to the ratio of the Illinois estate to the total estate.

Example 6. Use the same facts as **Example 5**, except \$1 million of Margaret’s estate is in Florida and the remaining \$1 million is in Illinois. Margaret’s Illinois estate tax is now only \$46,455 [$\$92,910 \times (\$1,000,000 \div \$2,000,000)$], even though Florida does not impose a state death tax.

⁸ This change applies for returns of decedents dying on or after January 1, 2003.

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FORM 700

STATE OF ILLINOIS ESTATE & GENERATION SKIPPING TRANSFER TAX RETURN FOR DECEDENTS DYING ON OR AFTER JANUARY 1, 2005

Estate of:		Date of Death
Decedent's Address: No. & Street		
City	State	Zip Code
Decedent's Social Security Number:		Name of Illinois County with Jurisdiction over Estate:
Name of Personal Representative or Person Filing Return:		Telephone:
Address: No. & Street		
City	State	Zip Code
Name of Preparer:		Telephone:
Address: No. & Street		
City	State	Zip Code

Indicate which ONE of the following SIX is applicable:

- ☐ 1. A Federal Estate Tax Return is not required to be filed, but a Certificate of Discharge is requested.

- a) Assets with taxable situs in Illinois
- b) Assets with taxable situs in another state or states
- c) TOTAL Gross Value of Decedent's Assets

\$
\$
\$

Attach itemized schedule of assets wherever located. Gross value means the total of the assets undiminished by mortgages, liens or other encumbrances upon such assets for which decedent was personally liable.

- ☐ 2. A Federal Estate Tax Return is attached, but **no** Illinois Estate Tax is due.
A Certificate of Discharge is requested.
- ☐ 3. A Federal Estate Tax Return is attached, and an Illinois Estate Tax is due.
A Certificate of Discharge is requested.
(Complete Recapitulation and Schedule A or B, whichever is applicable.)

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- ☐ 4. This is an Amended or Supplemental Return.
(Complete Recapitulation and Schedule A or B, whichever is applicable, and attach copy of amended Federal Estate Tax Return or other applicable documents.)
- ☐ 5. This is a Generation Skipping Transfer Tax Return.
(Attach copy of Federal Return and Supporting Documents.)

Decedent was:	
<input type="checkbox"/> a) a resident of Illinois, Year residency established	a)
<input type="checkbox"/> b) a non-resident of Illinois, Year residency established	b)
<input type="checkbox"/> c) an alien, State of residence	c)

Due date of this Return: _____

- ☐ 6. If due date determined by extension of time to file Federal Estate Tax Return, check box and attach a copy of the extension request. File a copy of approved extension request when available. This return and extension request should be filed within 9 months.

The undersigned declare, under penalties of perjury, that they have examined this return, including any and all accompanying schedules or attachments, and that they believe the same to be true and correct as to every material matter and further verify that any attached Federal Estate Tax Return and any other applicable Federal tax documents are true and corrected copies of the originals filed with the Internal Revenue Service.

The undersigned further certify that the attached Will (if decedent died testate) is a true and correct copy of the Will of the decedent.

Signature of decedent's personal representative	Title	Date
---	-------	------

Signature of preparer	Title	Date
-----------------------	-------	------

NOTE: All attachments must be filed with the Attorney General's copy of the return. If a Certificate of Discharge is requested, a copy of the Form 700 must be filed with the appropriate County Treasurer.

SCHEDULE A - Resident Decedent's Estate - (See instructions below.)

1. Total amount calculable from State Death Tax Credit Table (See instructions on Page 4.)	1. \$
2. Gross value for Federal Estate Tax purposes of decedent's estate having taxable situs in Illinois (Identify on attached Federal Estate Tax Return.)	2. \$
3. Gross value of decedent's estate for Federal Estate Tax purposes wherever located	3. \$
4. Percent of estate having taxable situs in Illinois (Line 2 divided by line 3.)	4. %
5. Amount of tax attributable to Illinois (Line 1 multiplied by line 4. Also enter on line 1 in Recapitulation.)	5. \$

With respect to the estate of a deceased resident of this State, all property included in the gross estate of the decedent for Federal Estate Tax purposes shall have a taxable situs in this State for purposes of this Section, excepting real estate and tangible personal property physically situated in another state (including any such property held in trust).

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SCHEDULE B - Non-Resident or Alien Decedent's Estate - (See instructions below.)

1. Total amount calculable from State Death Tax Credit Table (See instructions on Page 4.)	1. \$
2. Gross Value for Federal Estate Tax purposes of decedent's estate having taxable situs in Illinois (Identify on attached Federal Estate Tax Return.)	2. \$
3. Gross value of decedent's estate for Federal Estate Tax purposes, wherever located	3. \$
4. Percent of estate having taxable situs in Illinois (Line 2 divided by line 3.)	4. %
5. Tax payable to Illinois (Line 1 multiplied by line 4. Also enter on line 1 in Recapitulation.)	5. \$

With respect to the estate of a decedent not a resident of this State but a resident of another state or territory of the United States, the property having a taxable situs in this state for purposes of this Section is only real estate and tangible personal property physically situated in this State (including any such property held in trust.)

With respect to the estate of a decedent who is not a resident of a state or territory of the United States, the property having taxable situs in this State for purposes of this Section is real estate and tangible personal property situated or having a business situs in this State (including any such property held in trust) and intangible personal property having a business situs in or evidenced by instruments physically situated in this State.

SCHEDULE C - Generation Skipping Transfer Tax

1. Maximum allowable credit for certain state taxes pursuant to Section 2604, Internal Revenue Code. (Attach Federal Estate and Generation Skipping Transfer Tax Return and computations.)	1. \$
2. Allowable generation skipping transfer state tax credit paid to other states. (Attach explanation and schedule of assets identifying property which is non-taxable in Illinois.)	2. \$
3. Illinois Generation Skipping Transfer Tax (Line 1 minus line 2.)	3. \$

RECAPITULATION

1. Amount of tax payable to Illinois (Schedule A line 5 or Schedule B line 5 and/or Schedule C line 3.)	1. \$
2. Late filing penalty (5% of tax for each month or portion thereof - maximum penalty 25%.)	2. \$
3. Late payment penalty (1/2 of 1% of tax for each month or portion thereof - maximum penalty 25%.)	3. \$
4. Interest at 10% per annum from 9 months after death until date of payment	4. \$
5. Total Tax, penalties and interest payable (Total of lines 1, 2, 3 and 4.)	5. \$
6. Prior Payment (Attach explanation.)	6. \$
7. Balance due (Line 5 minus line 6.)	7. \$

The estate elects to pay \$ _____ of line 1 in installments under 35 ILCS 405/6 (supply proof of acceptance by Internal Revenue Service when available of Sec. 6166 election and file IL-4350a).

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FILING AND PAYMENT INSTRUCTIONS

For decedents dying on or after January 1, 2003, the Illinois Estate Tax is based upon the full amount calculable from the State Death Tax Credit Table as it existed in § 2011 of the Internal Revenue Code on December 31, 2001 (shown below). The Illinois Estate Tax is computed without recognizing the reductions or termination of the State Death Tax Credit under Internal Revenue Code §§ 2011(b)(2) and 2011(f) (as amended in 2001). However, the amount cannot be greater than an amount that would have reduced the Federal Estate Tax to \$0.

For decedents dying on or after January 1, 2005, the state death tax paid to any state is no longer a credit, in whole or part, against the Federal Estate Tax. The state death tax has become a deduction against the Federal Gross Estate (See 26 USC 2058). The Illinois Estate Tax is still computed with regard to the Federal Taxable Estate. However, the amount of the Federal Taxable Estate will appear after deductions allowed on the Federal Return resulting in an inter-related computation of the Illinois tax and corresponding deduction. The amounts on Lines 3 and 5 of the Federal Form 706 without the State Death Tax Deduction will be needed to compute the Illinois Estate Tax. The Attorney General's Office has acquired a computer program that will make that computation, rather than the preparer performing numerous trials to obtain a figure. The preparer may contact our Office by mail or phone (Chicago 312-814-2491 or Springfield 217-524-5095), or may access the program at our website (www.illinoisattorneygeneral.gov). To make the computation, the amounts of the Tentative Taxable Estate (Line 3a, Form 706) and the Taxable Estate with adjusted gifts (Line 5, Form 706) without the State Death Tax Deduction are required. Please contact our Office or website for further information.

This return must be filed within nine (9) months of the date of death.

For Cook, DuPage, Lake and McHenry Counties, file the original of the return with the Office of the Attorney General, Revenue Litigation Bureau, 100 West Randolph Street, 13th Floor, Chicago, Illinois 60601. For all other counties, file the original of the return with the Office of the Attorney General, Revenue Litigation Bureau, 500 South Second Street, Springfield, Illinois 62706. An additional copy of the return, without attachments, must also be filed with the County Treasurer of the County having jurisdiction over the estate.

ALL PAYMENTS OF ILLINOIS ESTATE TAXES, PENALTY AND INTEREST MUST BE MADE PAYABLE TO THE COUNTY TREASURER OF THE COUNTY HAVING JURISDICTION OVER THE ESTATE. IF THE DECEDENT IS A NON-RESIDENT AND HAS PROPERTY IN MORE THAN ONE COUNTY, PAYMENT OF ALL TAX SHOULD BE MADE TO THE COUNTY HAVING THE GREATEST VALUE OF PROPERTY.

ALL PAYMENTS MUST BE MAILED TO OR DEPOSITED WITH THE COUNTY TREASURER IN ORDER TO BE CREDITED WITH TIMELY PAYMENT. Please send a copy of the County Treasurer's receipt to: Office of the Attorney General, Revenue Litigation Bureau, 100 West Randolph Street, 13th Floor, Chicago, Illinois 60601, or the Office of the Attorney General, Revenue Litigation Bureau, 500 South Second Street, Springfield, Illinois 62706, as appropriate.