

2010 Illinois Update

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Corrections were made to this workbook through January of 2011. No subsequent modifications were made.

Illinois has had a state income tax for the past four decades beginning August 1, 1969. The tax is measured by net income and is imposed on the privilege of earning or receiving income in or as a resident of the state of Illinois.

Illinois' current budget situation has fueled speculation of a tax increase and/or a temporary surcharge to hike tax rates to supplement the state budget. On two prior occasions, Illinois has added a temporary surcharge to raise revenues. In the past, these surcharges amounted to a 50% across-the-board increase in overall tax rates.

Compared to many states, Illinois does not have a complicated tax structure. In most cases, Illinois taxable income conforms with federal tax law because Illinois piggybacks on the Internal Revenue Code. For an individual, the federal adjusted gross income (AGI) is allocated (and possibly apportioned) or modified depending on the status of the individual (i.e., resident, nonresident, or part-year resident) or based on the additions, subtractions, or credits required by Illinois tax law.

This chapter focuses on selected details of the income taxation of the following entities:

- Individuals
- Partnerships
- C corporations
- S corporations
- Estates and trusts (fiduciary tax returns and IL Form 700)

Note. This chapter discusses material from the standpoint of 2010 tax returns, however the Illinois tax forms shown are 2009 forms. The 2010 Illinois tax forms were not released by the time this workbook went to press. Please be aware that the 2010 forms may contain substantive changes from the 2009 forms.

INDIVIDUAL INCOME TAX RETURNS (IL-1040)

All Illinois tax calculations begin by using the federal income tax return. This so-called “piggybacking the Internal Revenue Code” starts with the individual’s AGI for the taxable year, which becomes the first entry on Form IL-1040, *Illinois Income Tax Return*.

In many cases, income not included in AGI but reported on Form 1040, *U.S. Individual Income Tax Return* — such as tax-exempt interest income from Line 8b of Form 1040 — is added back to income for Illinois purposes. The major Illinois subtractions such as retirement income and Illinois income tax overpayments included in AGI are deducted on the applicable lines.

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In 2008, Illinois modified Schedule M, *Other Additions and Subtractions for Individuals*, to coordinate with the Illinois Department of Revenue (IDOR) computer upgrade. Schedule M modifies the federal AGI with statutorily-authorized additions and subtractions to arrive at Illinois base income. Schedule M continues to be expanded to include more addition and subtraction items to AGI and even incorporates items such as deductions for Treasury interest and military pay, which had been separate line item subtractions on page one of the IL-1040.

Observation. Schedule M was introduced in 2004 as a supporting schedule to capture all the changes to the federal AGI as required for statutorily-authorized additions and deductions.

ADDITION MODIFICATIONS

Some of the more common additions to federal AGI used to arrive at Illinois base income are listed below and referenced by the line numbers on Schedule M.

Line 1. Enter the amount of a child's federally tax-exempt interest and dividend income as reported on federal Form 8814, *Parent's Election to Report Child's Interest and Dividends*.

Line 2. Enter the amounts from Schedule K-1-P, *Partner's or Shareholder's Share of Income, Deductions, Credits, and Recapture*, or Schedule K-1-T, *Beneficiary's Share of Income and Deductions*, for the taxpayer's distributive share of additions received from a partnership, S corporation, or estate.

Note. A copy of the Schedule K-1-P or K-1-T must be attached to Schedule M.

Line 3. Enter withdrawals from a taxpayer's medical care savings account (MCSA) and any interest earned, if not previously included in AGI, if the withdrawals were not used for purposes permitted by the Illinois MCSA Act.

Note. The Illinois MCSA Act expired on January 1, 2010.

Line 5. Enter earnings distributed in 2010 from IRC §529 college-savings and tuition programs if not included in AGI. Distributions from "Bright Start," "Bright Directions," or "College Illinois," or other state programs that meet disclosure requirements are not included as an add-back to Illinois income.

Note. Earnings rolled over tax free into another program are not included.

Line 6. Enter the Illinois special depreciation addition amount from IL-4562, *Special Depreciation*, Step 2, line 4. This is the difference between the bonus depreciation determined for federal tax purposes and the regular depreciation allowed for Illinois purposes. This is required because Illinois decoupled from the federal bonus depreciation rules.

Line 8. Report any contributions previously made to an Illinois college-savings plan or an Illinois Section 529 plan that were transferred to an out-of-state plan. Enter the **smaller** of:

1. The amount of deductions claimed for amounts contributed to an Illinois plan less any deductions recaptured in previous years, or
2. The amount transferred in the current year from the Illinois plan to the out-of-state plan.

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Line 10. Report the recapture of deductions for contributions to college-savings plans withdrawn for nonqualified expenses or refunded. If the withdrawal or refund did not result from the death or disability of a beneficiary of the program, enter the amount claimed for contributions related to the nonqualified withdrawal or refund amount. Enter the **smaller** of:

1. The amount of deductions claimed for amounts contributed to an Illinois college-savings plan, minus any amount recaptured on line 8 for the year and any deductions recaptured in prior years for that plan, or
2. The refund or amount withdrawn during the year that was not used for qualified expenses in an eligible institution plus any refund of contributions.

SUBTRACTION MODIFICATIONS

Line 13. Enter contributions made in 2010 to any of the following Illinois college-savings plans:

1. “Bright Start” college-savings pool
2. “College Illinois” prepaid tuition program
3. “Bright Directions” college-savings pool

Note. The total deduction on line 13 may not exceed \$10,000 (or \$20,000 for MFJ).

Line 14. Enter the distributive share of subtractions from a partnership, S corporation, trust, or estate as shown on the taxpayer’s Schedule K-1-P or Schedule K-1-T.

Note. A copy of the Schedule K-1-P or K-1-T must be attached to Schedule M.

Line 17. Enter expenses related to federal credits or federally tax-exempt income. These are often investment-related expenses not allowable for federal tax purposes as they relate to federal tax-free income. However, they can be claimed as a subtraction for Illinois purposes because the federal tax-exempt income is taxable in Illinois.

Line 19. Enter the Illinois special depreciation subtraction amount from Form IL-4562, Step 3, line 10.

Observation. Practitioners should review new clients’ returns to see whether they have been adversely affected by the add-back reported in line 6. They will get their deduction restored by this subtraction. A copy of Form IL-4562 must be attached.

Line 22. Enter all military pay earned and included in federal AGI. Do not include any combat or other military pay that has not been included in federal AGI.

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Line 23. Enter interest income earned from U.S. Treasury bonds, bills, notes, savings bonds, and U.S. agency interest from Schedule B of Forms 1040 or 1040A. This also includes interest income derived as a percentage of mutual fund interest or dividends that are direct obligations of the U.S. government. Illinois Pub. 101, *Income Exempt from Tax*, explains the types of interest income that qualify as direct Treasury interest.

Caution. The Illinois Department of Revenue issued a compliance alert in February 2010 when it determined that a significant number of taxpayers were incorrectly subtracting income deemed taxable in Illinois, either as U.S. government obligations or mutual fund distributions. The most problematic items were identified as GNMA “Pass-Through Securities,” FNMA interest, FHLMC income, and daily investment deposit accounts under the Federal Home Land Banks. These amounts are includable as Illinois income and not a subtraction as U.S. Treasury interest on line 23 of Schedule M.

Note. A copy of Schedule B from Form 1040 or 1040A, a copy of the statement from the mutual fund, and any worksheets that clearly identify the interest from U.S. obligations **must be attached**.

Line 24. Enter the August 1, 1969 valuation limitation amount from line 17 of Schedule F, *Gains from Sales or Exchanges of Property Acquired Before August 1, 1969*.

Caution. Any 2010 sale of an asset that was acquired prior to August 1, 1969, should be a red flag to the practitioner to use Schedule F to deduct any gain recognition for appreciation prior to the start of Illinois income tax law.

Line 26. Enter the amount for recovery of items previously deducted as a federal itemized deduction. This includes refunds of any state and local income taxes, other than Illinois, that were deducted on Form 1040, Schedule A, in a prior year and included in the federal AGI of the current year.

Line 34. Enter the interest on various tax-exempt obligations of Illinois including Housing Development bonds, Development Finance Authority Bonds, and those other bonds outlined in the instructions for Schedule M. Practitioners are reminded that this tax-exempt interest income first must be added to Illinois income before this subtraction can be taken. Also, no percentage of tax-exempt interest income can be excluded for the indirect ownership of shares in a municipal bond fund.

Line 35. Enter interest earned on various non-U.S. government bonds issued by the governments of Guam, Puerto Rico, Virgin Islands, American Samoa, or North Mariana Islands; or mutual mortgage insurance fund bonds.

Line 36. Enter the U.S. Treasury portion of children’s interest income reported on U.S. Form 8814, *Parent’s Election to Report Child’s Interest and Dividends*, or from sources reflected in lines 34 or 35 as noted above.

Note. While Schedule M provides for the majority of the add-backs and reductions to federal AGI for Illinois purposes, there remain two major subtractions on page 1 of IL-1040. These reductions are reported on line 5 for income received from social security benefits and certain retirement plans if included in line 1, and the Illinois income tax overpayment included on U.S. Form 1040, line 10.

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Illinois Department of Revenue

2009 Schedule M Other Additions and Subtractions for Individuals

Attach to your Form IL-1040

IL Attachment No. 15

Read this information first

Complete this schedule if you are required to add certain income on Form IL-1040, Line 3, or if you are entitled to take subtractions on Form IL-1040, Line 7.

Note If you are required to complete Schedule 1299-C, Schedule F, or Form IL-4562, you must do so before you complete this schedule.

Step 1: Provide the following information

Your name as shown on Form IL-1040.

Your Social Security number.

Step 2: Figure your additions for Form IL-1040, Line 3

Write the amount of

(Whole dollars only)

- | | | | |
|--|----|-------|-----|
| 1 Your child's federally tax-exempt interest and dividend income as reported on U.S. Form 8814 | 1 | _____ | .00 |
| 2 Distributive share of additions you received from a partnership, S corporation, trust, or estate. Attach Schedule K-1-P or Schedule K-1-T. | 2 | _____ | .00 |
| 3 Withdrawals you made from your Medical Care Savings Account, and the interest earned, if not included in your adjusted gross income | 3 | _____ | .00 |
| 4 Lloyds plan of operations loss, if reported on your behalf on Form IL-1023-C and included in your adjusted gross income | 4 | _____ | .00 |
| 5 Earnings distributed in 2009 from IRC Section 529 college savings and tuition programs if not included in your adjusted gross income (Do not include distributions from "Bright Start," "Bright Directions," or "College Illinois" programs or programs that meet certain disclosure requirements - see instructions.) | 5 | _____ | .00 |
| 6 Illinois special depreciation addition amount from Form IL-4562, Step 2, Line 4. Attach Form IL-4562. | 6 | _____ | .00 |
| 7 Business expense recapture (nonresidents only) | 7 | _____ | .00 |
| 8 Recapture of deductions for contributions to Illinois college savings plans transferred to an out-of-state plan | 8 | _____ | .00 |
| 9 Credit taken on Schedule 1299-C for student-assistance contributions you made as an employer | 9 | _____ | .00 |
| 10 Recapture of deductions for contributions to college savings plans withdrawn for nonqualified expenses or refunded | 10 | _____ | .00 |
| 11 Other income - Identify each item _____ | 11 | _____ | .00 |
| 12 Add Lines 1 through 11. Write the amount here and on Form IL-1040, Line 3. | 12 | _____ | .00 |

Step 3: Figure your subtractions for Form IL-1040, Line 7

Write the amount of

- | | | | |
|--|-----|-------|-----|
| 13 Contributions made in 2009 to the following college savings plans: | | | |
| a "Bright Start" College Savings Pool | 13a | _____ | .00 |
| b "College Illinois" Prepaid Tuition Program | 13b | _____ | .00 |
| c "Bright Directions" College Savings Pool | 13c | _____ | .00 |
| 14 Distributive share of subtractions from a partnership, S corporation, trust, or estate. (Do not include any amounts contained in Line 25 of this schedule.) Attach Schedule K-1-P or Schedule K-1-T. | 14 | _____ | .00 |
| 15 Restoration of amounts held under claim of right under Internal Revenue Code, Section 1341 | 15 | _____ | .00 |
| 16 Contributions to a job training project | 16 | _____ | .00 |
| 17 Expenses related to federal credits or federally tax-exempt income | 17 | _____ | .00 |
| 18 Interest earned on investments through the Home Ownership Made Easy Program | 18 | _____ | .00 |
| 19 Illinois special depreciation subtraction amount from Form IL-4562, Step 3, Line 10. Attach Form IL-4562. | 19 | _____ | .00 |
| 20 Add Lines 13a through 19 and write the amount here and on Page 2, Line 21. | 20 | _____ | .00 |



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Step 3: Continued

21 Write the amount from Page 1, Line 20.	21 _____	.00
Write the following only if included in Form IL-1040, Lines 1, 2, or 3:		
22 Military pay earned. Attach military W-2.	22 _____	.00
23 U.S. Treasury bonds, bills, notes, savings bonds, and U.S. agency interest from U.S. 1040A or 1040, Schedule B. Attach a copy of U.S. 1040A or 1040, Schedule B.	23 _____	.00
24 August 1, 1969, valuation limitation amount from your Schedule F, Line 17. Attach Schedule F and required federal forms.	24 _____	.00
25 Enterprise or river edge redevelopment zone and high impact business dividend subtraction amount from your Schedule 1299-C, Step 2, Line 7. Attach Schedule 1299-C.	25 _____	.00
26 Recovery of items previously deducted on U.S. 1040, Schedule A (including refunds of any state and local income taxes, other than Illinois). Attach a copy of U.S. 1040, Page 1, and required federal forms.	26 _____	.00
27 Ridesharing money and other benefits	27 _____	.00
28 Payment of life insurance, endowment, or annuity benefits received	28 _____	.00
29 Your employer's contributions made on your behalf to an account established under the Medical Care Savings Account Act and the interest earned	29 _____	.00
30 Lloyds plan of operations income if reported on your behalf on Form IL-1023-C	30 _____	.00
31 Income earned by certain trust accounts established under the Illinois Pre-Need Cemetery Sales Act	31 _____	.00
32 Education loan repayments made for primary care physicians who agree to practice in designated shortage areas under the Family Practice Residency Act	32 _____	.00
33 Reparations or other amounts received as a victim of persecution by Nazi Germany	33 _____	.00
34 Interest on the following tax-exempt obligations of Illinois state and local government. Do not include interest you received indirectly through owning shares in a mutual fund.		
a Illinois Housing Development Authority bonds and notes (except housing-related commercial facilities bonds and notes)	34a _____	.00
b Export Development Act of 1983 bonds	34b _____	.00
c Illinois Development Finance Authority bonds, notes, and other evidence of obligation (venture fund and infrastructure bonds only)	34c _____	.00
d Quad Cities Regional Economic Development Authority bonds and notes (if declared to be exempt from taxation by the Authority)	34d _____	.00
e College Savings bonds	34e _____	.00
f Illinois Sports Facilities Authority bonds	34f _____	.00
g Higher Education Student Assistance Act bonds	34g _____	.00
h Illinois Development Finance Authority bonds issued under the Illinois Development Finance Authority Act, Sections 7.80 through 7.87	34h _____	.00
i Rural Bond Bank Act bonds and notes	34i _____	.00
j Illinois Development Finance Authority bonds issued under the Asbestos Abatement Finance Act	34j _____	.00
k Quad Cities Interstate Metropolitan Authority bonds	34k _____	.00
l Southwestern Illinois Development Authority bonds	34l _____	.00
m Illinois Finance Authority bonds issued under the Illinois Finance Authority Act, Sections 820.60 and 825.55 or the Asbestos Abatement Finance Act	34m _____	.00
35 Interest on the following non-U.S. government bonds.		
a Bonds issued by the government of Guam	35a _____	.00
b Bonds issued by the government of Puerto Rico	35b _____	.00
c Bonds issued by the government of the Virgin Islands	35c _____	.00
d Bonds issued by the government of American Samoa	35d _____	.00
e Bonds issued by the government of the Northern Mariana Islands	35e _____	.00
f Mutual mortgage insurance fund bonds	35f _____	.00
36 Amount of your child's interest from U.S. Treasury and U.S. agency obligations or from sources in Line 34 or 35 as reported on U.S. Form 8814	36 _____	.00
37 Railroad unemployment income	37 _____	.00
38 Add Lines 21 through 37. Write the amount here and on Form IL-1040, Line 7.	38 _____	.00

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-492-4425



IL-1040 Schedule M back (R-12/09)

SCHEDULE ICR, *ILLINOIS CREDITS*

Illinois introduced Schedule ICR, *Illinois Credits*, for the 2008 filing year as a replacement for Schedule ED, *Credit for K–12 Educational Expenses*, used in prior years. This form was expanded to accommodate the 2009 filing requirement to include the property index number (PIN) for the taxpayer's principal residence in order to obtain a tax credit equal to 5% of the real estate taxes paid. The allowable property tax qualifying for a tax credit includes up to two adjoining lots if considered a part of the principal residence.

Schedule ICR is also used to calculate the refundable earned income tax credit of 5% of the federal EIC.

Example 1. Barney and Freda Buckmiller have a son, Barney Jr., who is a full-time student at Blessed Sacrament School in Hinsdale, Illinois. The annual tuition costs for their sixth-grade son was \$4,500 in 2009. In addition, the Buckmillers paid \$6,200 in real estate taxes on their principal residence. Before credits, the taxpayers have a \$4,000 Illinois income tax liability. In prior years, the Buckmillers prepared their own tax returns but now have come to a tax practitioner to help them determine how the allowable tax credits are computed.

Schedule ICR for Illinois credits provides the calculations for both nonrefundable credits that are allowable to the Buckmillers. In Section A of Step 2 of this form, the allowable Illinois property tax credit is computed — 5% of the property tax paid, not to exceed the net Illinois income tax liability. The Buckmillers should provide a copy of the actual real estate bill to the tax practitioner because the PIN number is required to support the credit for their personal residence. The credit in this case is \$310.

In Section B of this same form, the allowable educational tax credit is computed. In the Buckmillers' case, the maximum credit is \$500. This is determined by taking the total expenditure of \$4,500 and reducing it by the \$250 exclusion. The remaining balance of \$4,250 is multiplied by 25% to yield a credit of \$1,062.50. However, the maximum credit per family is limited to \$500.

Note. As of April 13, 2010, the Small Business Job Creation Tax Credit provides a \$2,500 withholding tax credit for each new full-time Illinois job created during the period July 1, 2010 through June 30, 2011. This is a credit for Illinois withholding tax and can be carried forward for up to five years. Employers taking this credit must have no more than 50 employees. Additionally, each new full-time job has to pay at least \$25,000 annually and be sustained for at least one year.

The maximum cumulative credit allowable under this act is \$50 million, which equals 20,000 jobs. Application for this credit must be submitted online to the Illinois Department of Commerce and Economic Affairs.

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For Example 1



Illinois Department of Revenue

2009 Schedule ICR

Attach to your Form IL-1040

Illinois Credits

Tax year ending 2009
IL Attachment No. 23

Read this information first

Complete this schedule only if you are eligible for the

- Illinois Property Tax Credit
- K-12 Education Expense Credit
- Earned Income Credit (EIC)

- You must complete IL-1040 through Line 16 and Schedule CR, if applicable, before completing this schedule.
- The total amount of Illinois Property Tax Credit and K-12 Education Expense Credit cannot exceed tax. Only the Earned Income Credit may exceed tax.

Step 1: Provide the following information

BARNEY & FRED A BUCKMILLER

Your name as shown on your Form IL-1040

1 1 1 - 1 1 - 1 1 1 1
Your Social Security number

Step 2: Figure your nonrefundable credit

- | | | | |
|---|---|---|-----------------|
| 1 | Write the amount of tax from your IL-1040, Line 16. | 1 | <u>4,000.00</u> |
| 2 | Write the amount of credit for tax paid to other states from your IL-1040, Line 17. | 2 | <u>0.00</u> |
| 3 | Subtract Line 2 from Line 1. | 3 | <u>4,000.00</u> |

Section A - Illinois Property Tax Credit (See instructions for directions on how to obtain your PIN)

- | | | | | |
|---|---|--|----|---------------------|
| 4 | a | Write the total amount of Illinois Property Tax paid during the tax year for the real estate that includes your principal residence. | 4a | <u>6,200.00</u> |
| | b | Write the Property Index Number (PIN) for the property listed above. | 4b | <u>01-01-01-001</u> |
| | c | Write the PIN for an adjoining lot, if included in Line 4a. | 4c | <u></u> |
| | d | Write the PIN for any other adjoining lot, if included in Line 4a. | 4d | <u></u> |
| | e | Write the portion of your tax bill that is deductible as a business expense on U.S. income tax forms or schedules, even if you did not take the federal deduction. | 4e | <u>0.00</u> |
| | f | Subtract Line 4e from Line 4a. | 4f | <u>6,200.00</u> |
| | g | Multiply Line 4f by 5% (.05). | 4g | <u>310.00</u> |
| 5 | | Compare Lines 3 and 4g, and write the lesser amount here. | 5 | <u>310.00</u> |
| 6 | | Subtract Line 5 from Line 3. | 6 | <u>3,690.00</u> |

Section B - K-12 Education Expense Credit

Note You must **attach** the receipt you received from your students' school or complete the **K-12 Education Expense Credit Worksheet** on the back of this schedule.

- | | | | | |
|---|---|--|----|-----------------|
| 7 | a | Write the total amount of K-12 education expenses from the receipt you received from your students' school or Line 13 of the worksheet on the back of this schedule. | 7a | <u>4,500.00</u> |
| | b | You may not take a credit for the first \$250 paid. | 7b | <u>250.00</u> |
| | c | Subtract Line 7b from Line 7a. If the result is negative, enter "zero." | 7c | <u>4,250.00</u> |
| | d | Multiply Line 7c by 25% (.25). Compare the result and \$500, and write the lesser amount here. | 7d | <u>500.00</u> |
| 8 | | Compare Lines 6 and 7d, and write the lesser amount here. | 8 | <u>500.00</u> |

Section C - Total Nonrefundable Credit

- | | | | |
|---|--|---|---------------|
| 9 | Add Lines 5 and 8. This is your nonrefundable credit amount. Write this amount on Form IL-1040, Line 18. | 9 | <u>810.00</u> |
|---|--|---|---------------|



MILITARY SPOUSES RESIDENCY RELIEF ACT

In years prior to 2009, military service members did **not** have to change their state of residency while stationed in Illinois. However, the spouse of a military service member stationed in Illinois was required to have Illinois income taxes withheld from wages while working in Illinois.

The Military Spouses Residency Relief Act¹ now permits the spouse of a service member stationed in Illinois the option of retaining the same state of residency. Employers are no longer required to withhold Illinois income tax from wages earned in Illinois by a nonresident spouse who:

- Is present in Illinois only to accompany the service member stationed in Illinois;
- Is a resident of the same state as the service member, other than Illinois; and
- Completes Form IL-W-5-NR, *Employee's Statement of Nonresidence in Illinois*, and checks the box to indicate exemption from Illinois withholding.

Schedule MR, *Military Spouse Relief*, can be filed with the Illinois return. The taxpayer must write in red ink "Military Spouse" on the face of the Form IL-1040 in order to claim a tax refund for spousal withholding on earnings.

Example 2. Rhonda Ramsey is a full-time Air Force officer stationed at Scott Air Force Base near Belleville, Illinois. She has attained the rank of major and earned \$75,000 in 2009. Rhonda's spouse, Jim Bob, is employed at a local animal clinic. Their home state is Texas, which does not have a state income tax.

In 2009, Jim Bob earned wages of \$30,000 from the animal clinic and had Illinois withholding of \$450 deducted from his paycheck. After the first half of the year, his tax practitioner alerted him to the military relief for spouses in the new federal law that was signed into law on November 11, 2009. As a result, Jim Bob files Form IL-W-5-NR to stop the Illinois withholding. In order to obtain a refund of the Illinois tax previously withheld, the taxpayers file a joint Illinois tax return for 2009 with Schedules NR and MR to classify the wages paid as exempt from Illinois tax.

¹. P.L. 111-97.

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For Example 2



Illinois Department of Revenue 2009 Form IL-1040 Individual Income Tax Return

or for

MILITARY SPOUSE

Step 1: Personal Information

Do not write above this line.

A Social Security numbers in the order they appear on your federal return

0 1 0 - 1 9 - 1 0 0 0
Your Social Security number

0 2 0 - 2 9 - 2 0 0 0
Spouse's Social Security number

B Personal information

JIM BOB

Your first name and initial

RHONDA

Spouse's first name and initial

75 FERN GLEN

Mailing address (See instructions if foreign address)

O FALLON

City

Foreign Nation, if not United States (do not abbreviate)

RAMSEY

Your last name

Spouse's last name - only if different

Apartment number

IL

State

62269

ZIP or Postal Code

C Filing status (see instructions)

☐ Single or head of household ☒ Married filing jointly ☐ Married filing separately ☐ Widowed

Step 2: Income

- (Whole dollars only)
- 1 Federal adjusted gross income from your U.S. 1040, Line 37; U.S. 1040A, Line 21; or U.S. 1040EZ, Line 4 1 105,000.00
 - 2 Federally tax-exempt interest and dividend income from your U.S. 1040 or 1040A, Line 8b; or U.S. 1040EZ 2 .00
 - 3 Other additions to your income. **Attach** Schedule M. 3 .00
 - 4 **Total income.** Add Lines 1 through 3. 4 105,000.00

Step 3: Base Income

- 5 Income received from Social Security benefits and certain retirement plans if included in Line 1. **Attach** federal Page 1. 5 .00
- 6 Illinois Income Tax overpayment included in U.S. 1040, Line 10 6 .00
- 7 Other subtractions to your income. **Attach** Schedule M. 7 75,000.00
Check if Line 7 includes any amount from Schedule 1299-C ☐
- 8 Add Lines 5, 6, and 7. This is the total of your subtractions. 8 75,000.00
- 9 **Illinois base income.** Subtract Line 8 from Line 4. 9 30,000.00

Step 4: Exemptions

- See instructions before figuring exemptions.
- 10 a Number of exemptions from your federal return 2 X \$2,000 a 4,000.00
b If someone else claimed or could have claimed you or your spouse as a dependent on their return, see instructions to figure the number to write here. X \$2,000 b .00
c Check if 65 or older: ☐ You + ☐ Spouse = X \$1,000 c .00
d Check if legally blind: ☐ You + ☐ Spouse = X \$1,000 d .00
Exemption allowance. Add Lines a through d. 10 4,000.00

Step 5: Net Income

- 11 **Residents Only: Net income.** Subtract Line 10 from Line 9. **Skip** Line 12. 11 .00
- 12 **Nonresidents and part-year residents Only:**
Check the box that applies to you during 2009 ☒ Nonresident ☐ Part-year resident, and write the **Illinois base income** from Schedule NR. **Attach** Schedule NR. 12 0.00

Step 6: Tax

- 13 **Residents:** Multiply Line 11 by 3% (.03). Write the result here.
Nonresidents and part-year residents: Write the tax before recapture of investment credits from Schedule NR. 13 0.00
- 14 Recapture of investment tax credits. **Attach** Schedule 4255. 14 .00
- 15 **Total tax.** Add Lines 13 and 14. This amount may not be less than zero. 15 0.00

IL-1040 front (R-12/09)

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-492-0065



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For Example 2

16 Total tax amount from Page 1, Line 15 16 0.00

Step 7: Nonrefundable Credits

17 Income tax paid to another state while an Illinois resident. **Attach** Schedule CR. 17 .00

18 Property tax and K-12 education expense credit amount from Schedule ICR. **Attach** Schedule ICR. 18 .00

19 Credit amount from Schedule 1299-C. **Attach** Schedule 1299-C. 19 .00

20 Add Lines 17, 18, and 19. This is the total of your credits. This amount may not exceed the tax amount on Line 16. 20 .00

21 **Tax after nonrefundable credits.** Subtract Line 20 from Line 16. 21 .00

Step 8: Payments and Refundable Credit

22 Illinois Income Tax withheld. **Attach** W-2 and 1099 forms. 22 450.00

23 Estimated payments from Forms IL-505-I and IL-1040-ES, including overpayment applied from 2008 return 23 .00

24 Pass-through entity tax payments. **Attach** Schedule K-1-P or K-1-T. 24 .00

25 Earned Income Credit from Schedule ICR. **Attach** Schedule ICR. 25 .00

26 **Total payments and refundable credit.** Add Lines 22 through 25. 26 450.00

Step 9: Overpayment or Underpayment

27 **Overpayment.** If Line 26 is greater than Line 21, subtract Line 21 from Line 26. 27 450.00

28 **Underpayment.** If Line 21 is greater than Line 26, subtract Line 26 from Line 21. 28 .00

Step 10: Underpayment of Estimated Tax Penalty and Donations

29 Late payment penalty for underpayment of estimated tax. 29 .00

a Check if at least two-thirds of your federal gross income is from farming. ☐

b Check if you or your spouse are 65 or older and permanently living in a nursing home. ☐

c Check if your income was not received evenly during the year and you annualized your income on Form IL-2210, otherwise we will figure this penalty for you. **Attach** Form IL-2210. ☐

30 You can make voluntary charitable donations to many worthy causes using this form. It's easy - just complete Schedule G and enter the donation amount here. **Attach** Schedule G. 30 .00

31 **Total penalty and donations.** Add Lines 29 and 30. 31 .00

Step 11: Refund or Amount You Owe

32 If you have an overpayment on Line 27 and this amount is greater than Line 31, subtract Line 31 from Line 27. This is your remaining **overpayment**. 32 450.00

33 Amount from Line 32 you want **refunded to you** 33 450.00

34 Complete to direct deposit your refund

Direct Deposit Routing number ☐ Checking or ☐ Savings

Account number

35 Subtract Line 33 from Line 32. This amount will be **applied to your 2010 estimated tax**. 35 0.00

36 If you have an underpayment on Line 28, add Lines 28 and 31. **or** If you have an overpayment on Line 27 and this amount is less than Line 31, subtract Line 27 from Line 31. This is the **amount you owe**. 36 .00

Step 12: Sign and Date

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 here

Your signature _____ Date _____ Daytime phone number _____ Your spouse's signature _____ Date _____

Paid preparer's signature _____ Date _____ Preparer's phone number _____ Preparer's FEIN, SSN, or PTIN _____



If no payment enclosed, mail to:
ILLINOIS DEPARTMENT OF REVENUE
PO BOX 1040
GALESBURG IL 61402-1040



If payment enclosed, mail to:
ILLINOIS DEPARTMENT OF REVENUE
SPRINGFIELD IL 62726-0001

IL-1040 back (R-12/09)

DR _____ AP _____ EV _____ RR _____ DC _____



2010 Workbook

For Example 2

Schedule NR – Page 2

Step 3: Continued

	Column A Federal Total	Column B Illinois Portion
21 Write the Illinois portion of your federal total income from Page 1, Step 3, Line 20.	21 _____	0.00
22 Deduction for Educator Expenses (federal Form 1040, Line 23; or 1040A, Line 16)	22 _____	.00
23 Certain business expenses of reservists, performing artists, and fee-based government officials (federal Form 1040, Line 24)	23 _____	.00
24 Deduction for health savings account (federal Form 1040, Line 25)	24 _____	.00
25 Moving expenses (federal Form 1040, Line 26)	25 _____	.00
26 Deduction for one-half of self-employment tax (federal Form 1040, Line 27)	26 _____	.00
27 Self-employed (SEP), SIMPLE, and qualified plans (federal Form 1040, Line 28)	27 _____	.00
28 Self-employed health insurance deduction (federal Form 1040, Line 29)	28 _____	.00
29 Penalty on early withdrawal of savings (federal Form 1040, Line 30)	29 _____	.00
30 Alimony paid (federal Form 1040, Line 31a)	30 _____	.00
31 Total IRA deduction (federal Form 1040, Line 32; or 1040A, Line 17)	31 _____	.00
32 Deduction for student loan interest (federal Form 1040, Line 33; or 1040A, Line 18)	32 _____	.00
33 Deduction for tuition and fees (federal Form 1040, Line 34; or 1040A, Line 19)	33 _____	.00
34 Domestic production activities deduction (federal Form 1040, Line 35)	34 _____	.00
35 Other adjustments (see instructions)	35 _____	.00
36 Add Column B, Lines 22 through 35. This is the Illinois portion of your federal adjustments to income.	36 _____	0.00
37 Write your adjusted gross income as reported on your federal Form 1040, Line 37; 1040A, Line 21; 1040EZ, Line 4.	37 105,000.00	
38 Subtract Line 36 from Line 21. This is the Illinois portion of your federal adjusted gross income.	38 _____	0.00

Step 4: Figure your Illinois additions and subtractions

In Column A, write the total amounts from your Form IL-1040. You must read the instructions for Column B to properly complete this step.

	Column A Form IL-1040 Total	Column B Illinois Portion
39 Federally tax-exempt interest income (Form IL-1040, Line 2)	39 _____	.00
40 Other additions (Form IL-1040, Line 3)	40 _____	.00
41 Add Column B, Lines 38, 39, and 40. This is the Illinois portion of your total income.	41 _____	0.00
42 Federally taxed Social Security and retirement income (Form IL-1040, Line 5)	42 _____	.00
43 Illinois Income Tax overpayment included on your U.S. 1040, Line 10. (Form IL-1040, Line 6)	43 _____	.00
44 Other subtractions (Form IL-1040, Line 7)	44 _____	.00
45 Add Column B, Lines 42 through 44. This is the total of your Illinois subtractions.	45 _____	0.00

Step 5: Figure your Illinois income and tax

46 Subtract Line 45 from Line 41. If Line 45 is larger than Line 41, write zero. This is your Illinois base income . Write this amount on your Form IL-1040, Line 12.	46 _____	0.00
If Line 46 is zero, skip Lines 47 through 51, and write "0" on Line 52.		
47 Write the base income from Form IL-1040, Line 9.	47 _____	.00
48 Divide Line 46 by Line 47 (carry to three decimal places). Write the appropriate decimal. If Line 46 is greater than Line 47, write 1.000.	48 _____	
49 Write your exemption allowance from your Form IL-1040, Line 10.	49 _____	.00
50 Multiply Line 49 by the decimal on Line 48. This is your Illinois exemption allowance.	50 _____	.00
51 Subtract Line 50 from Line 46. This is your Illinois net income.	51 _____	.00
52 Multiply the amount on Line 51 by 3% (.03). This amount may not be less than zero. This is your tax before recapture of investment credits. Write this amount on your Form IL-1040, Line 13.	52 _____	0.00



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-492-0098

IL-1040 Schedule NR Back (R-12/09)

2010 Illinois Update IL-13

For Example 2



Illinois Department of Revenue

2009 Schedule MR Military Spouse Relief

Attach to your Form IL-1040

IL Attachment No. 26

Step 1: Provide the following information

JIM BOB AND RHONDA RAMSEY

Your name as shown on your Form IL-1040

0 1 0 - 1 9 - 1 0 0 0
Your Social Security number

Step 2: Provide the following information

Check the appropriate box and complete the remainder of the line, if applicable.

- 1 ☒ My wages are exempt from Illinois Income Tax because I am living in Illinois only because my spouse is in the military and is stationed in Illinois, and during 2009 we were both residents of **TX** (write the two-letter abbreviation of that state).
- 2 ☐ My spouse and I are residents of Illinois. My spouse is in the military and was stationed in another state during 2009, and my wages from employment in that state are exempt from taxation by that state, due to the federal Military Spouses Residency Relief Act. I qualify for relief from late payment penalty for any failure to timely pay Illinois Income Tax on those wages.

Note If you filed refund claims with the other state, we will extend your payment due date until October 15, 2010, or until you receive your refund from the other state, whichever is earlier.

General Information

Who can use Schedule MR?

The federal Military Spouses Residency Relief Act has extended certain residency protections to spouses of military members. Spouses of military members can use Schedule MR if the conditions below apply.

Under this act, a spouse's state of residence does not change when he or she moves to a new state because the service member is stationed in the new state. Also, the spouse cannot be taxed by the new state on employee wages earned in that state. These protections apply only if the spouse and the service member are residents of the same state.

When should I use Schedule MR if I am not an Illinois resident?

You should use Schedule MR if

- your spouse is a member of the military who is stationed in Illinois, but is not an Illinois resident,
- you are a resident of the same state as your spouse, and
- you earned income by working in Illinois.

In this case, you are not taxed on wages you earned in Illinois. You must complete Schedule MR, checking box 1, and attach it to your Form IL-1040, Individual Income Tax Return, along with Schedule NR, Nonresident and Part-Year Resident Computation of Illinois Tax, to claim your exemption from tax on your wages and to get a refund of any taxes withheld by your Illinois employer.

Note The exemption for wages from civilian employment applies only to spouses, not to the member of the military. Members of the military remain subject to Illinois Income Tax on wages received from civilian employment in Illinois.

How do I stop my employer from withholding Illinois tax if I am a nonresident military spouse?

You should complete Form IL-W-5-NR, Employee's Statement of Nonresidence in Illinois, and give it to your Illinois employer so they do not withhold Illinois tax from your wages.



When should I use Schedule MR if I am an Illinois resident?

You should use Schedule MR if

- you and your spouse were Illinois residents during 2009,
- you earned wages in another state that are exempt from tax by that state under the Military Spouses Residency Relief Act,
- you are entitled to a refund of the taxes withheld by your employer for the other state, and
- you owe more Illinois tax because you will no longer owe tax to the other state and will not get a credit on the Illinois return for tax paid to the other state.

You should also use Schedule MR if you wish to request permission to delay payment of your Illinois tax until you receive your refund from the other state(s).

Note If you are an Illinois resident, you must pay Illinois income tax on all of your wages, regardless of where they were earned, except military pay that is exempt from Illinois tax. If the member of the military earned wages as a civilian employee in another state, they are entitled to a credit against Illinois income tax for any taxes paid to that state.

Complete Schedule MR, checking box 2, and attach it to your Form IL-1040 to claim exemption from any penalties that would otherwise result from late payment of your tax.

What should I do to my Form IL-1040 if I am attaching Schedule MR?

Write "Military Spouse" in red ink across the top of the front page of your Form IL-1040.

What should I attach to my Form IL-1040 if I am using Schedule MR?

Attach the service member's military W-2 form to your Form IL-1040, even if you are filing separate returns.

How should I make my payment?

If you do not pay with Form IL-1040 and wish to pay when you receive your refund from the other state, complete Form IL-1040-V and send it, along with your payment, to the address listed on the IL-1040-V. Be sure to write your Social Security number(s) on your payment. Form IL-1040-V is available at tax.illinois.gov.

For Example 2



Illinois Department of Revenue

IL-W-5-NR Employee's Statement of Nonresidence in Illinois

Must I complete this form?

You must complete Part 1 of this form if

- you are a resident of Iowa, Kentucky, Michigan, or Wisconsin, or
- your spouse is in the military, you and your spouse are both residents of the same state (other than Illinois) and you are in Illinois only because your spouse is stationed here by the military,

and your wages are exempt from withholding of Illinois Income Tax under the reciprocal withholding agreements between Illinois and these states or under the Military Spouses Residency Relief Act. You must file your completed Form IL-W-5-NR with your Illinois employer. If you change your state of residence, you must notify your employer within ten days.

To employers:

You are required to have a copy of this form on file for each employee who

- is a resident of Iowa, Kentucky, Michigan, or Wisconsin; receives compensation paid in Illinois; and elects to claim exemption from withholding of Illinois Income Tax under the reciprocal withholding agreements between Illinois and these states, OR
- is exempt from Illinois Income Tax on compensation under the Military Spouses Residency Relief Act.

Part 1: Employee information

0 1 0 - 1 9 - 1 0 0 0

Social Security number

JIM BOB RAMSEY

Name

75 FERN GLEN

Mailing address

O FALLON IL 62269

City

State

ZIP

I declare under penalties of perjury that

I am a resident of the state of:

☐ Iowa ☐ Kentucky ☐ Michigan ☐ Wisconsin, OR

☒ My spouse and I are residents of (write the 2-letter abbreviation for your state of residency) **TX** and I am in Illinois only because my spouse is a member of the US military who is stationed in Illinois.

Employee's signature

IL-W-5-NR (R-12/09)

Date

Part 2: Employer information

1 1 - 1 1 1 1 1 1

Federal employer identification number

EDWARDSVILLE ANIMAL HABITAT

Name

1 STATE ST

Mailing address

EDWARDSVILLE IL 55555

City

State

ZIP

This form is authorized as outlined by the Illinois Income Tax Act. Disclosure of this information is required. Failure to provide information may result in a penalty. This form has been approved by the Forms Management Center. IL-492-0052

Note. Illinois Pub. 102, *Illinois Filing Requirements for Military Personnel*, provides detailed information about the Illinois individual income tax filing requirements for military personnel.

ILLINOIS SCHEDULE CR, CREDIT FOR TAX PAID TO OTHER STATES

The Illinois Schedule CR form was expanded to a two-column format. Column A shows the income and adjustments reported on the federal Form 1040 and column B shows the non-Illinois portion. The taxpayer then computes the portion of the income and expense attributable to Illinois for the purpose of determining the allowable credit for taxes paid to another state.

Schedule CR should be filed if the taxpayer:

- Was a resident or a part-year resident of Illinois during the tax year,
- Paid income tax to another state on income earned while an Illinois resident, and the income subject to the other state's tax is included in Illinois base income, and
- Did not deduct the income tax paid to the other state when the taxpayer computed federal AGI as shown on the Illinois tax return.

2010 Workbook

Schedule CR should not be filed if the taxpayer was a nonresident of Illinois during the entire tax year or did not pay any income tax to Illinois **and** another state.

Note. If the taxpayer had **earned income** in Iowa, Kentucky, Michigan, or Wisconsin, the taxpayer is covered by a reciprocal agreement. The employer in any of these four states withholds out-of-state taxes or the taxpayer pays out-of-state taxes on compensation earned. There can be no credit for taxes paid on compensation to reciprocal states. If taxes were withheld in error, a claim for refund must to be filed with the reciprocal state.

While the Schedule CR works well for most Illinois taxpayers with out-of-state income taxed both elsewhere and in Illinois, the Schedule CR can also be quite challenging. Illinois has 43 pages of complex instructions dealing with the double taxation of another state's income and the Illinois' allowable credit. **Example 3** illustrates a situation in which taxpayers did not obtain full credit for taxes paid to another state on double-taxed income. Frequently, taxpayers cannot obtain full benefit if they have a large percentage of retirement income not taxed by Illinois but factored into the computation of the other state's income tax.

Example 3. Ken and Pam Whitehead are full-time residents of Illinois. They retired after 35 years of teaching in the local school system. Each receives a large pension from Illinois and interest and dividends from investments.

Pam inherited a farm in Iowa and receives a large amount of farm rental income. Because the Iowa farm income is not earned income, no Iowa tax is withheld by Iowa (a reciprocal state). Ken and Pam pay federal income tax using quarterly estimates and have always used Schedule CR to claim a credit for the out-of-state taxes paid.

The Whiteheads' 2009 financial information includes the following.

Ken's wages as a part-time teacher	\$ 8,631
The Whiteheads' interest and dividend income	12,753
The Whiteheads' taxable pension income	70,998
Iowa farm rental income	<u>67,235</u>
Federal AGI	\$159,617
Federal tax paid	27,175
Iowa taxes paid on farm rental income	3,159

Iowa determines the state tax liability on a nonresident by first computing tax on all income of the nonresident from whatever source derived. The resulting amount is multiplied by a percentage equal to the taxpayers' in-state sources of income divided by total sources of income. For the Whiteheads, Iowa allows the taxpayers to exclude \$12,000 of their Illinois pension income. This, in effect, reduces the amount of taxes due to Iowa and results in an allowable credit available to the taxpayers. The Whiteheads' first computation of their allowable credit was \$1,927 on the double-taxed farm rental income from Iowa. However, a large portion of the taxpayers' 2009 income came from nontaxable pensions in Illinois. Since Illinois does not tax pension income, no credit is given for the Iowa tax paid on the Whitehead's pension income. This reduces the allowable Schedule CR credit from an initial determination of \$1,927 to an adjusted allowable amount of \$1,164.

Illinois Pub. 111, *Illinois Schedule CR for Individuals*, provides the details and explanation for the correct computation of allowable credits for double-taxed income on Schedule CR. It has been the Illinois policy to prevent this credit in situations where an Illinois employee works for an Illinois-based business but may also work in other states and therefore has income and withholding allocated to these states. During 2009, Illinois statutorily changed the method by which the credit is calculated. As a result, a taxpayer would not have a tax credit for taxes paid to other states and would be subject to double taxation.

RESIDENCY ISSUES

The June 2010 issue of *Tax Trends*,² the Illinois State Bar Association's newsletter on state and local taxation, says that IDOR has focused considerable attention in recent years on wealthy former residents who now claim to be residents of another state. Often, these former residents maintain ties with Illinois through ownership of a home or business in Illinois or through a spouse who continues to live in Illinois. The article cautions that persons who believe they are no longer Illinois residents may still be considered residents for Illinois income tax purposes.

Under Illinois law, the term **resident** includes an individual who is:

- In Illinois for other than a temporary or transitory purpose, or
- Domiciled in Illinois but absent for a temporary or transitory purpose.³

Domicile is generally defined as an individual's permanent home.⁴ There is a presumption of residence in Illinois if an individual spends more than nine months of any taxable year in Illinois. An individual who is absent from Illinois for one year or more is presumed to be a nonresident of Illinois.⁵ Proof of residence or nonresidence depends on the circumstances of each case. Evidence that the taxpayer may submit to IDOR for consideration includes the following.

- Voter registration
- Automobile or driver's license registration
- An income tax return filed as a resident of another state
- Home ownership or rental agreements
- Club and/or organization memberships
- Telephone and/or utility records⁶

An individual who believes that they are a nonresident of Illinois should file a return for any taxable year in which they are presumed by the Illinois regulations to be a resident. Such a return enables the individual to avoid possible penalties imposed for failure to file if it is later determined that they were an Illinois resident for the taxable year. The return should be marked as a nonresident return. A signed statement should accompany the return indicating which presumption of residence the individual was subject to and detailing the reasons that the individual believes they were a nonresident for the taxable year.⁷

² *Illinois State Bar Association Home Page*. Dorner, David. June 2010. Illinois State Bar Association. [www.isba.org/sections/statelocaltax/newsletter/2010/06/imanonresidentofillinoismaybe] Accessed on July 26, 2010.

³ 35 ILCS 1501(a)(20).

⁴ 86 Ill. Admin. Code 100.3020(d).

⁵ 86 Ill. Admin. Code 100.3020(f).

⁶ 86 Ill. Admin. Code 100.3020(g)(1).

⁷ 86 Ill. Admin. Code 100.3020(g)(2).

PARTNERSHIP INCOME TAX RETURNS (FORM IL-1065)

Partnerships, including limited liability companies (LLC) taxed as partnerships, are required to file Form IL-1065, *Partnership Replacement Tax Return*, to report their annual financial information from doing business in Illinois. While partnership income is not taxed for federal purposes, partnerships must pay an Illinois replacement tax of 1.5% on base income.

An LLC is a state-created business entity. Federal law allows an LLC to determine whether it wants to be taxed as a sole proprietorship, partnership, C corporation, or S corporation. The state of Illinois imposes tax on the LLC based on the federal election. The Illinois Limited Liability Company Act (LLCA) was initiated on January 1, 1994. The office of the Secretary of State administers LLCs in the state of Illinois.

Illinois partnerships and Illinois S corporations are similar in that the starting point for each entity is federal taxable income with required add-backs and subtractions. Neither entity normally pays federal tax, but both Illinois entities can pay up to 1.5% of base income for Illinois tax.

Illinois allows a deduction for personal service income or a reasonable allowance for compensation of partners (line 26 of Step 5 of the IL-1065). However, this does not mean a taxpayer can zero out all income of the partnership. The partnership can deduct the greater of a reasonable allowance for partner compensation or personal service income. Personal service income is “earned income” as it was defined in the now-repealed IRC §1348(b)(1). Income from rents, interest, and dividends is either passive or portfolio income, and by this definition, not earned income subtracted as reasonable compensation.

Observation. In July 2009, Illinois partners received quite a scare when a tax bill was adopted by the state that modified the definition of partnership income by terminating the deduction for the greater of personal service income or a reasonable allowance for partner’s compensation. This change was slated to take effect on January 1, 2010. However, intense lobbying by the Illinois CPA Society and other organizations led to a repeal of this legislation.

The Illinois replacement tax is computed beginning with the ordinary income or loss reported on federal Form 1065, Schedule K. Items such as rental income (or loss), portfolio income, IRC §1231 gain or loss, and any other income items are added to arrive at ordinary income or loss.

The partnership subtractions include charitable contributions, IRC §179 expense election, investment interest expense, and all other items of expense not deducted in the computation of federal partnership income.

Note. Illinois partnerships can deduct payments made on behalf of partners to IRAs, Keogh Plans, SEP, or SIMPLE plans.

Partnerships wholly domiciled in Illinois can obtain an annual maximum \$1,000 exemption in arriving at taxable income. For multi-state partnerships, the exemption is calculated by multiplying \$1,000 by a fraction, the numerator of which is Illinois base income and the denominator of which is total base income.

Note. Illinois corporations do not receive the benefit of this \$1,000 standard deduction.

Illinois partnerships with net loss deductions (NLD) can only carry forward excess losses for 12 years. For tax years beginning in 2004, any NLD is required to be carried forward and can no longer be carried back. A partnership with a NLD carryforward is required to attach Schedule NLD, *Net Loss Deduction*, to reflect the loss carryforward to the current-year tax return.

2010 Workbook

Form IL-1065 is due on the 15th day of the fourth month following the close of the partnership's tax year. An automatic extension piggybacks with the 6-month federal extension requested on Form 7004, *Application for Automatic Extension of Time to File Certain Business Income Tax, Information, and Other Returns*. Illinois grants an automatic 7-month extension if a federal extension is granted. Illinois partnerships do not need to file Form IL-505-B, *Automatic Extension Payment*, unless a replacement tax liability is anticipated.

Note. Practitioners are becoming more aware of the need to timely extend the filing date for federal income tax purposes for both partnerships and S corporations. There is currently a federal penalty of \$195 (versus \$89 in 2009) per month per shareholder/partner for failure to timely file a tax return. The federal extension covers and extends the filing date for Illinois partnerships and S corporations.

An Illinois partnership must furnish an Illinois Schedule K-1-P, *Partner's or Shareholder's Share of Income, Deductions, Credits and Recapture*, to each partner. This schedule is prepared at the partnership level for each partner. It reports each partner's respective share of income and deductions claimed on the partnership's federal and state income tax returns. It also provides other information necessary for preparing the partners' individual income tax returns. The schedules are not filed with either the Illinois partnership tax return or the Illinois partner's personal income tax return. The Illinois partnership files a Schedule B, *Partner's or Shareholder's Identification*, that lists all partners and their identification numbers.

NEW WITHHOLDING REQUIREMENT FOR PASS-THROUGH ENTITIES

Illinois has experienced a major compliance problem with nonresident partners, S corporation shareholders, and beneficiaries of Illinois entities. When cross-checking out-of-state partners, Illinois found the majority never filed Illinois income tax returns to report their distributive share of pass-through entity income. IDOR termed this major revenue shortfall as "widespread ignorance and deliberate disregard of the Illinois law."

Consequently, the Illinois General Assembly enacted laws requiring most Illinois-based pass-through entities to remit payments to IDOR on behalf of their nonresident partners, S corporation shareholders, and trust/estate beneficiaries. The law change became effective for years beginning after December 31, 2008. This change makes it easier for out-of-state partners to pay their share of Illinois tax on their distributive share of Illinois income.

Targeted entities are now required to compute and remit any Illinois tax due on apportioned Illinois business income on behalf of their nonresident partners, shareholders, and beneficiaries. The nonresident taxpayers receive a corresponding credit for the amount of tax paid on their behalf.

If the tax paid on behalf of a **nonresident individual** partner, shareholder, or beneficiary covers the resulting tax liability for the distributive share of Illinois income, the nonresident individual taxpayer is not required to file an Illinois income tax return. However, **nonresident nonindividual** taxpayers and shareholders must still file an Illinois tax return.

Only Illinois business income is subject to pass-through entity payments. Nonbusiness income such as interest and dividend payments is not subject to these rules. Business income includes passive income for operating rental real estate operations as defined by the IRS. The only exclusions from the defined business income are income amounts clearly classifiable as nonbusiness income.

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Those affected pass-through entities, partnerships, S corporations, and trusts with nonexempt, nonresident owners must do the following:

- File Form IL-1000, *Pass-Through Entity Payment Income Tax Return*
- Determine and remit the required tax payment on behalf of the nonresident individuals
- Prepare Schedule K-1-P, *Partner's or Shareholder's Share of Income, Deductions, Credits, and Recapture*, or Schedule K-1-T, *Beneficiary's Share of Income and Deductions*, to notify the affected individual nonresident owners of the amount of pass-through entity payments made on their behalf

All Illinois tax forms, except the Form IL-990-T, *Exempt Organization Income and Replacement Tax Return*, were revised to accommodate the pass-through payment. In effect, the payment has been treated as a “forced” distribution to nonresident individuals by the entity and is treated as a distribution for tax purposes.

Note. State law may require a corporation to pay or withhold state income tax on behalf of some shareholders. These laws are disregarded in determining whether all stock has equal rights to distributions. Therefore, this does not constitute a second class of stock that could cause a corporation to lose its S corporation status.⁸

Example 4. R. Rogers and Sons Development, LLC, operates in central Illinois. The members of this LLC are R. Rogers, who has a 50% interest; his son, R. Rogers Jr., who has a 25% interest; and his son Bill, who has the remaining 25% interest. The LLC is required to file federal and Illinois partnership tax returns.

Bill lives in Colorado and the partnership is required to pay his share of Illinois individual income tax on his distributive share of income from the LLC. This counts as a distribution for Bill. Therefore, he is not required to file an Illinois income tax return.

The LLC had two classes of income:



- Net income from its land development and home construction business for 2009 was \$62,000. This has always been considered active trade or business income by the LLC, and the members of the LLC have paid both regular income and self-employment (SE) tax on these earnings.
- During slow periods for lot development and home sales, the company focused on building residential apartment units for rent on its property. As a result of their efforts, the LLC built up an extensive rental operation. In 2009, the net rental income for tax purposes was \$128,500.

All income and expense was properly reflected for both federal and Illinois tax purposes. The question facing the tax practitioner is how much partnership income, if any, can be excluded from Illinois replacement tax on line 26 — *Personal service income or reasonable allowance for compensation*. Undoubtedly, the tax preparer can properly exclude as reasonable compensation the income subject to SE tax (the earnings from the development operations). The issue now becomes the treatment of the passive rental income from the LLC apartment units. A conservative approach is to treat the passive earnings as nonpersonal service income with no reasonable allowance for compensation, and thereby take no deduction for this income on the Illinois partnership tax return.

⁸. Treas. Reg. §1.136-1(l)(2)(ii).

2010 Workbook

For Example 4

	Illinois Department of Revenue 2009 Form IL-1065 Partnership Replacement Tax Return <small>Due on or before the 15th day of the 4th month following the close of the tax year.</small>	
<small>If this return is not for calendar year 2009, write your fiscal tax year here.</small>		<small>Write the amount you are paying.</small> \$ 1,913.00
<small>Tax year beginning ____/____/2009, ending ____/____/20__</small>		
Step 1: Identify your partnership		
A Write your business name and mailing address. <small>If you have an address change, or this is a first return, check this box. <input type="checkbox"/></small>		
<u>R. ROGERS AND SONS DEVELOPMENT LLC</u> <small>Name</small>		
<u>10 VETERANS PARKWAY</u> <small>C/O</small>		
<u>NORMAL</u> <u>IL</u> <u>61761</u> <small>City State ZIP</small>		
B Check the box if one of the following apply. <input type="checkbox"/> first return <input type="checkbox"/> 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 Special Apportionment Formulas. If you use a special apportionment formula, check the appropriate box and see Special Apportionment Formula instructions. <input type="checkbox"/> Financial organizations <input type="checkbox"/> Transportation companies		
E Check if you are classified as an investment partnership. <input type="checkbox"/>		
F Write your federal employer identification no. (FEIN). <u>3 7 - 1 6 6 6 6 6</u>		
G <input type="checkbox"/> Check the box if you are a member of a unitary business group, and write the FEIN of the member filing the Schedule UB, Combined Apportionment for Unitary Business Groups. ____-____-____		
H Write the state and zip code where your accounting records are kept. (Use the two-letter postal abbreviation, e.g., IL, GA, etc.) <small>State ZIP</small>		
I If you are making the business income election to treat all nonbusiness income as business income, check here and write "0" on Lines 37 and 45. <input type="checkbox"/>		
J Check if you are making an IRC § 761 election. <input type="checkbox"/>		
K If you have completed the following federal forms, check the box and attach them to this return. <input type="checkbox"/> Federal Form 8886 <input type="checkbox"/> Federal Sch. M-3		
Step 2: Figure your ordinary income or loss		
<small>Attach your payment here.</small>	1 Ordinary income or loss, or equivalent from federal Schedule K.	1 <u>62,000.00</u>
	2 Net income or loss from all rental real estate activities.	2 <u>128,500.00</u>
	3 Net income or loss from other rental activities.	3 <u>.00</u>
	4 Portfolio income or loss.	4 <u>.00</u>
	5 Net IRC Section 1231 gain or loss from involuntary conversions due to casualty and theft.	5 <u>.00</u>
	6 All 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 1065-B. See instructions. Identify: _____	6 <u>.00</u>
	7 Add Lines 1 through 6. This is your ordinary income or loss.	7 <u>190,500.00</u>
Step 3: Figure your unmodified base income or loss		
8 Charitable contributions.	8 <u>.00</u>	
9 Expense deduction under IRC Section 179.	9 <u>.00</u>	
10 Interest on investment indebtedness.	10 <u>.00</u>	
11 All other items of expense that were not deducted in the computation of ordinary income or loss on Page 1 of U.S. Form 1065 or 1065-B. See instructions. Identify: _____	11 <u>.00</u>	
12 Add Lines 8 through 11.	12 <u>0.00</u>	
13 Subtract Line 12 from Line 7. This amount is your total unmodified base income or loss.	13 <u>190,500.00</u>	
NS DR _____		
<small>IL-1065 (R-12/09)</small>		

2010 Workbook

For Example 4



14 Write your unmodified base income from Line 13. 14 190,500.00

Step 4: Figure your income or loss

15 State, municipal, and other interest income excluded from Line 14. 15 .00
 16 Illinois replacement tax deducted in arriving at Line 14. 16 .00
 17 Illinois Special Depreciation addition. **Attach** Form IL-4562. 17 .00
 18 Related-party expenses addition. **Attach** Schedule 80/20. 18 .00
 19 Distributive share of additions. **Attach** Schedule K-1-P or K-1-T. 19 .00
 20 Guaranteed payments to partners from U.S. Form 1065. 20 .00
 21 The amount of loss distributable to a partner subject to replacement tax. **Attach** Schedule B. 21 .00
 22 Other additions. **Attach** Illinois Schedule M (for businesses). 22 .00
 23 Add Lines 14 through 22. This amount is your income or loss. 23 190,500.00

Step 5: Figure your Illinois base income or net loss

24 Interest income from U.S. Treasury obligations or other exempt federal obligations. 24 .00
 25 August 1, 1969, valuation limitation amount. **Attach** Schedule F. 25 .00
 26 Personal service income or reasonable allowance for compensation of partners. 26 62,000.00
 27 Share of income distributable to a partner subject to replacement tax. **Attach** Schedule B. 27 .00
 28 Expenses incurred in producing certain federally tax-exempt income or federal credits. 28 .00
 29 Enterprise Zone or River Edge Redevelopment Zone Dividend subtraction. **Attach** Schedule 1299-A. 29 .00
 30 High Impact Business Dividend subtraction. **Attach** Schedule 1299-A. 30 .00
 31 Illinois Special Depreciation subtraction. **Attach** Form IL-4562. 31 .00
 32 Related-party expenses subtraction. **Attach** Schedule 80/20. 32 .00
 33 Distributive share of subtractions. **Attach** Schedule K-1-P or K-1-T. 33 .00
 34 Other subtractions. **Attach** Schedule M (for businesses). 34 .00
 35 Total subtractions. Add Lines 24 through 34. 35 62,000.00
 36 **Base income or net loss.** Subtract Line 35 from Line 23. 36 128,500.00



If the amount on Line 36 is derived inside and outside Illinois, complete Step 6; otherwise go to Step 7.

Step 6: Figure your income allocable to Illinois

37 Nonbusiness income or loss. **Attach** Schedule NB. 37 .00
 38 Non-unitary partnership business income or loss included in Line 36. 38 .00
 39 Add Lines 37 and 38. 39 .00
 40 Business income or loss. Subtract Line 39 from Line 36. 40 .00
 41 Total sales everywhere. This amount cannot be negative. 41 .00
 42 Total sales inside Illinois. This amount cannot be negative. 42 .00
 43 Apportionment factor. Divide Line 42 by Line 41 (carry to six decimal places). 43 .00
 44 Business income or loss apportionable to Illinois. Multiply Line 40 by Line 43. 44 .00
 45 Nonbusiness income or loss allocable to Illinois. **Attach** Schedule NB. 45 .00
 46 Non-unitary partnership business income or loss apportionable to Illinois. 46 .00
 47 **Base income or net loss allocable to Illinois.** Add Lines 44 through 46. 47 .00



2010 Workbook

For Example 4



Step 7: Figure your net income

48	Base income or net loss from Step 5, Line 36, or Step 6, Line 47.	48	<u>128,500.00</u>
49	Illinois net loss deduction. Attach Schedule NLD. If Line 48 is zero or a negative amount, write "0".	49	<u>0.00</u>
50	Income after NLD. Subtract Line 49 from Line 48.	50	<u>128,500.00</u>
51	Write the amount from Step 5, Line 36.	51	<u>128,500.00</u>
52	Divide Line 48 by Line 51. (This figure cannot be greater than "1".)	52	<u>1 . 000000</u>
53	Exemption allowance. Multiply Line 52 by \$1,000. (Short-year filers, see instructions.)	53	<u>1,000.00</u>
54	Net income. Subtract Line 53 from Line 50.	54	<u>127,500.00</u>

Step 8: Figure your net replacement tax

55	Write the amount from Line 54.	55	<u>127,500.00</u>
56	Replacement tax. Multiply Line 55 by 1.5% (.015).	56	<u>1,913.00</u>
57	Recapture of investment credits. Attach Schedule 4255.	57	<u>.00</u>
58	Replacement tax before investment credits. Add Lines 56 and 57.	58	<u>1,913.00</u>
59	Investment credits. Attach Form IL-477.	59	<u>.00</u>
60	Net replacement tax. Subtract Line 59 from Line 58. Write "0" if this is a negative amount.	60	<u>1,913.00</u>

Step 9: Figure your refund or balance due

61	Payments		
a	Credit from 2008 overpayment.	a	<u>.00</u>
b	Form IL-505-B (extension) payment.	b	<u>.00</u>
c	Pass-through entity payments. Attach Schedule K-1-P or K-1-T.	c	<u>.00</u>
62	Total payments. Add Lines 61a through 61c.	62	<u>.00</u>
63	Overpayment. If Line 62 is greater than Line 60, subtract Line 60 from Line 62.	63	<u>.</u>
64	Amount to be credited to 2010 .	64	<u>.00</u>
65	Refund. Subtract Line 64 from Line 63. This is the amount to be refunded.	65	<u>.</u>
66	Tax Due. If Line 60 is greater than Line 62, subtract Line 62 from Line 60. This is the amount you owe.	66	<u>1,913.</u>

► **Make your check payable to "Illinois Department of Revenue" and attach to the first page of this form.** ◀

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

Step 10: 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 partner	Date	Title	() Phone
Signature of preparer	Date	Preparer's Social Security number or firm's FEIN	
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** ◀



2010 Workbook

For Example 4



Illinois Department of Revenue



Year ending

12 09
Month Year

Schedule B

Partners' or Shareholders' Identification

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

IL Attachment no. 1

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

R. ROGERS AND SONS DEVELOPMENT, LLC

Write your federal employer identification number (FEIN).

3 7 - 1 6 6 6 6 6

Step 1: Provide the following information


- | | | | |
|---|---|---|-------------------|
| 1 | Write the amount of base income or net loss from your Form IL-1065 or Form IL-1120-ST, Line 48. | 1 | <u>128,500.00</u> |
| 2 | Write the apportionment factor from your Form IL-1065 or Form IL-1120-ST, Line 43. | 2 | <u>1.000000</u> |

Step 2: Identify your partners or shareholders. Attach additional sheets if necessary.

	A	B	C	D	E	F	G
	Name and Address	SSN or FEIN	Partner or Shareholder type (See instructions.)	Total amount of base income (loss) distributable (See instr.)	Member subject to Illinois replacement tax (See instr.)	Pass-through entity payment amount (See instr.)	Excluded from pass-through entity payments (See instr.)
1	<u>R. ROGERS</u> <u>PO BOX</u> <u>NORMAL, IL 61761</u>	<u>333-33-3333</u>	<u>I</u>	<u>95,250.00</u>	<input type="checkbox"/>		<u>R</u>
2	<u>R. ROGERS JR</u> <u>PO BOX</u> <u>NORMAL, IL 61761</u>	<u>344-44-4444</u>	<u>I</u>	<u>47,625.00</u>	<input type="checkbox"/>		<u>R</u>
3	<u>BILL ROGERS</u> <u>PO BOX</u> <u>BOULDER, CO 77777</u>	<u>466-66-6666</u>	<u>I</u>	<u>47,625.00</u>	<input type="checkbox"/>	<u>1,429.00</u>	
4	<u></u> <u></u> <u></u>				<input type="checkbox"/>		
5	<u></u> <u></u> <u></u>				<input type="checkbox"/>		
6	<u></u> <u></u> <u></u>				<input type="checkbox"/>		
7	Add the amounts shown in Column D for partners or shareholders for which you have entered a check mark in Column E. Write the total here. (See instructions.)			7 <u></u>			

2010 Workbook

For Example 4

	Illinois Department of Revenue Schedule K-1-P To be completed by partnerships filing Form IL-1065 or S corporations filing Form IL-1120-ST Partners and Shareholders receiving Schedule K-1-P should attach this to their Illinois tax return.	Partner's or Shareholder's Share of Income, Deductions, Credits, and Recapture Year ending <u>12</u> <u>2009</u> Month Year IL Attachment No. 10
---	--	---

Step 1: Identify your partnership or S corporation

- 1 Check your business type ☒ partnership ☐ S corporation 3 3 7 1 6 6 6 6 6
Write your federal employer identification number (FEIN).
- 2 **R. ROGERS AND SONS DEVELOPMENT, LLC** 4 Write the apportionment factor from Form IL-1065, Line 42 or Form
Write your name as shown on your Form IL-1065 or Form IL-1120-ST. IL-1120-ST, Line 43. Otherwise, write "1." 1.000000

Step 2: Identify your partner or shareholder

- 5 **BILL ROGERS** 7 **466-66-6666**
Name Social Security number or FEIN
- 6 **PO BOX** 8 **25**
Mailing address Share (%)
- BOULDER** **CO** **77777** 9 Check the appropriate box
City State ZIP
☒ individual ☐ corporation ☐ trust
☐ partnership ☐ S corporation ☐ estate

Step 3: Figure your partner's or shareholder's share of your nonbusiness income

	A	B
	Member's share (see instructions)	Nonresident member's share allocable to Illinois
10 Interest	10	
11 Dividends	11	
12 Rental income	12	
13 Patent royalties	13	
14 Copyright royalties	14	
15 Other royalty income	15	
16 Capital gain or loss from real property	16	
17 Capital gain or loss from tangible personal property	17	
18 Capital gain or loss from intangible personal property	18	
19 Other income and expense	19	
Specify		

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

	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 <u>15,500.00</u>	<u>15,500.00</u>
21 Net income (loss) from rental real estate activities	21 <u>32,125.00</u>	<u>32,125.00</u>
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	
31 Other income and expense	31	
Specify		



2010 Workbook

For Example 4

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

	A Member's share from Form IL-1065 or IL-1120-ST	B Nonresident member's share apportioned or allocated to Illinois
Additions		
32 Federally tax-exempt interest income	32 _____	_____
33 Illinois replacement tax deducted	33 _____	_____
34 Illinois Special Depreciation addition	34 _____	_____
35 Related-Party Expenses addition	35 _____	_____
36 Distributive share of additions	36 _____	_____
37 Other additions (from Illinois Schedule M for businesses)	37 _____	_____
Subtractions		
38 a Interest from U.S. Treasury obligations (business income)	38a _____	_____
b Interest from U.S. Treasury obligations (nonbusiness income)	38b _____	_____
39 Certain federally-disallowed deductions	39 _____	_____
40 Enterprise Zone or River Edge Redevelopment Zone Dividend subtraction	40 _____	_____
41 High Impact Business Dividend subtraction	41 _____	_____
42 Contribution subtraction (Form IL-1120-ST filers only)	42 _____	_____
43 Interest subtraction - Enterprise Zones or River Edge Redevelopment Zone (Form IL-1120-ST financial organizations only)	43 _____	_____
44 Interest subtraction - High Impact Business within a Foreign Trade Zone (Form IL-1120-ST financial organizations only)	44 _____	_____
45 Illinois Special Depreciation subtraction	45 _____	_____
46 Related-Party Expenses subtraction	46 _____	_____
47 Distributive share of subtractions	47 _____	_____
48 Other subtractions (from Illinois Schedule M for businesses)	48 _____	_____

Step 6: Figure your partner's or shareholder's (except a corporate partner or shareholder) share of your Illinois August 1, 1969, appreciation amounts

	A Member's share from Illinois Schedule F (Form IL-1065 or IL-1120-ST)	B Nonresident member's share apportioned or allocated to Illinois
49 Section 1245 and 1250 gain	49 _____	_____
50 Section 1231 gain	50 _____	_____
51 Section 1231 gain less casualty and theft gain (See instructions.)	51 _____	_____
52 Capital gain	52 _____	_____

Step 7: Figure your partner's or shareholder's share of your Illinois credits and recapture and pass-through entity payments

	A Member's or nonresident member's share from Illinois tax return
53 Illinois credits	
a Film Production Services Tax Credit	53a _____
b Enterprise Zone or River Edge Redevelopment Zone Investment Credit	53b _____
c Tax Credit for Affordable Housing Donations	53c _____
d Economic Development for a Growing Economy (EDGE) Tax Credit	53d _____
e Research & Development Tax Credit	53e _____
f Ex-felons Jobs Credit	53f _____
g Veterans Jobs Credit	53g _____
h Student-Assistance Contribution Credit	53h _____
i Replacement Tax Investment Credits (See instructions.)	53i _____
54 Recapture	
a Enterprise Zone or River Edge Redevelopment Zone Investment Credit recapture	54a _____
b Replacement Tax Investment Credit recapture	54b _____
55 a Pass-through entity payment (See instructions.)	55a <u>1,429.00</u>
b Composite return payment (See instructions.)	55b _____



Schedule K-1-P back (R-12/09)

2010 Workbook

For Example 4

	Illinois Department of Revenue 2009 Form IL-1000	Pass-through Entity Payment Income Tax Return
If this return is not for calendar year 2009, write your fiscal tax year here.		
Tax year beginning ____/____/2009, ending ____/____/20__		Write the amount you are paying. \$ <u>1,429.00</u>

Read this information first:

You must file Form IL-1000 if the following apply to you:

- you are a subchapter S corporation, partnership, or a fiduciary with an Illinois filing obligation, and
- you have business income distributable to Illinois nonresident partners, shareholders, or beneficiaries who are not included on Form IL-1023-C, Illinois Composite Income and Replacement Tax Return, or
- you have business income distributable to Illinois nonresident partners, shareholders, or beneficiaries who have not provided you with Form 1000-E, Certificate of Exemption for Pass-through Entity Payments.

If you are an investment partnership as defined in the Illinois Income Tax Act, Section 1501(a)(11.5), you should not file Form IL-1000.

Note Do not file Form IL-1000 if all of your nonresident partners, shareholders, and beneficiaries:

- are included on a Form IL-1023-C,
- provided you with Form 1000-E, or
- are exempt organizations.

Step 1: Identify your partnership, S corporation, or trust

A Write your business name and mailing address.

Check the box if your address has changed or is different than the mailing address on your Form IL-1120-ST or IL-1065, or if this is your first return. ☐

R. ROGERS AND SONS DEVELOPMENT, LLC

Name of organization

10 VETERANS PARKWAY

Mailing address

NORMAL

City

IL

State

61761

ZIP

B Write your federal employer identification number (FEIN).

3 7 - 1 6 6 6 6 6 5 5

C Check your entity type:

☒ Partnership ☐ S corporation ☐ Trust

Step 2: Figure your payment amount

- | | |
|--|---------------------|
| 1 Write your total amount of business income apportioned to Illinois (cannot be less than zero). | 1 <u>190,500.00</u> |
| Lines 2 through 5, write the amount of Illinois business income that is distributable to nonresident partners, shareholders, or beneficiaries. (See instructions.) | |
| 2 Nonresident individuals and estates share of the amount on Line 1 = <u>47,625</u> x .03 = | 2 <u>1,429.00</u> |
| 3 Partnerships/S corporations share of the amount on Line 1 = _____ x .015 = | 3 <u>.00</u> |
| 4 Nonresident trusts share of the amount on Line 1 = _____ x .045 = | 4 <u>.00</u> |
| 5 Corporations share of the amount on Line 1 = _____ x .073 = | 5 <u>.00</u> |
| 6 Add Lines 2 through 5. | 6 <u>1,429.00</u> |
| 7 Write any pass-through entity payment reported to you on Schedule K-1-P or K-1-T that you choose to apply toward your pass-through entity payment obligations. Attach Schedules K-1-P and K-1-T. | 7 <u>.00</u> |
| 8 Subtract Line 7 from Line 6. This is your pass-through entity payment amount. | 8 <u>1,429.00</u> |

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 partner, authorized officer, or fiduciary	_____ Date	_____ Title	_____ Phone
_____ Signature of preparer	_____ Date	_____ Preparer's Social Security number or firm's FEIN	
_____ Preparer firm's name (or yours, if self-employed)	_____ Address		_____ Phone

► Mail this return to: Illinois Department of Revenue, P.O. Box 19017, Springfield, IL 62794-9017 ◀

NS DR _____



IL-1000 front (R-12/09)

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-492-0067



ILLINOIS CORPORATE INCOME TAX RETURNS (FORM IL-1120)

Illinois imposes a tax on corporations earning or receiving income in the state of Illinois. The tax is computed on Illinois net income of a subchapter C corporation at a rate of 4.8% plus an additional 2.5% personal property replacement tax. Illinois corporate income taxes were enacted as part of the Illinois Income Tax Act of 1969 and became effective on August 1, 1969.

Illinois corporate tax returns are due 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. Corporate Income Tax Return*, is filed on a fiscal-year basis, an Illinois corporate tax return can also be filed on a fiscal-year basis. Illinois corporations no longer are granted a \$1,000 exemption amount, nor are they allowed an NOL carryback.

Corporations that file a federal extension on Form 7004 receive an automatic 6-month extension and are granted a similar extension by Illinois. However, corporate taxpayers with an expected Illinois income tax liability need to file IL-505-B, *Automatic Extension Payment*, and remit the expected balance due by the due date of the original tax return in order to avoid late-payment penalties.

The computation of Illinois corporate income tax starts with the corporation's federal taxable income. Federal taxable income is modified to produce "base income or loss" and base income is then allocated and apportioned within and without Illinois to determine net income subject to tax.

INCOME MODIFICATIONS

A corporation's federal taxable income (or loss) must be modified to arrive at Illinois base income or loss. While each entity type (partnership, S corporation, and C corporation) 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
- The total of Illinois special or bonus depreciation claimed on current year purchases of new equipment

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

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

REPLACEMENT TAX INVESTMENT CREDIT (FORM IL-477)

Illinois has a replacement tax investment credit. It is available for both real and tangible property purchases if the entity is qualified. Illinois taxpayers can use Form IL-477, *Replacement Tax Investment Credits*, to claim the tax credit for the purchase of both new and used assets. Qualified taxpayers include C corporations, S corporations, partnerships, trusts, and exempt organizations.

The tax credit is equal to 0.5% (.005) of the basis of the qualified property placed in service during the tax year. The taxpayer must be "primarily engaged" in the business of manufacturing, retailing, or mining coal or fluorite. To qualify as "primarily engaged," the taxpayer must devote at least 50% of its resources to one of these named activities.

In addition, another 0.5% investment tax credit applies to the same qualified property if the taxpayer increased its Illinois base employment by 1% or more over its previous year's employment numbers. This extra credit is also available to business entities that are new in Illinois.

Qualified property must meet the following conditions:

- 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).
- The property must not have been previously used to produce an Enterprise Zone investment tax credit or another replacement tax credit.

The properties (multiple properties can be listed on the Form IL-477) can be either new or used and may include real property such as buildings, structural components of buildings, and even signs. However, land and real property improvements such as landscaping, sewer lines, local access roads, fencing, and parking lots do not qualify for the credit. Capital improvements made after the property is placed in service are considered qualified to the extent the improvement increases the property's adjusted basis and adds to the calculation for the tax credit.

Partners or S corporation shareholders that are subject to a replacement tax credit receive a pass-through tax credit using Form IL-1065 or IL-1120-ST. If the partners or S corporation shareholders are not subject to a replacement tax, the investment tax credit is retained by the entity that created the credit.

Example 5. Eddie's Counter Top Sales, Inc., has operated as a calendar-year C corporation since August 1, 1980. It files an Illinois sales tax return each month. The company enjoys a good reputation for quality and service and, as a result, its sales have not suffered during the recent economic downturn. Federal taxable income for the past year is \$27,856 and the corporation paid \$4,178 in federal income tax. The company bought \$225,000 of new equipment during the past year and claimed bonus depreciation of \$112,500 on this purchase plus regular depreciation of \$16,071. This information is used as an adjustment when computing the Illinois corporate tax return. The purpose is to curtail the impact of the bonus depreciation and also to calculate the business investment tax credit on the equipment purchases.

2010 Workbook

For Example 5



Illinois Department of Revenue

2009 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 2009, write your fiscal tax year here.

Tax year beginning ____/____, 2009, ending ____/____/20__

Write the amount you are paying.

\$ 8,573.00

Step 1: Provide the following business information

A Write your business name and mailing address.

If you have an address change, or this is a first return, check this box. ☐

Name: EDDIE'S COUNTER TOP SALES INC

C/O: _____

Mailing address: 5100 RANGE ROAD

City: BARRINGTON State: IL ZIP: 60010

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 Form 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 ☐ Broadcasting companies

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

3 7 - 9 9 9 9 9 9

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

I Write the state and zip code where your accounting records are kept. (Use the two-letter postal abbreviation, **e.g.**, IL, GA, etc.)

State _____ Zip _____

J 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. ☐

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

L Check your method of accounting.

☐ Cash ☒ Accrual ☐ Other _____

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

N Write your Illinois corporate file (charter) number. _____

O Check the box if you are making a Discharge of Indebtedness adjustment. ☐

Step 2: Figure your income or loss

Attach your payment here.	1	Federal taxable income from U.S. Form 1120, Line 30. Attach a copy of your federal return.	1	<u>27,856.00</u>
	2	Net operating loss deduction from U.S. Form 1120, Line 29a. This amount cannot be negative.	2	<u>.00</u>
	3	State, municipal, and other interest income excluded from Line 1.	3	<u>.00</u>
	4	Illinois income and replacement tax deducted in arriving at Line 1.	4	<u>8,573.00</u>
	5	Illinois Special Depreciation addition. Attach Form IL-4562.	5	<u>112,500.00</u>
	6	Related-party expenses additions. Attach Schedule 80/20.	6	<u>.00</u>
	7	Distributive shares of additions. Attach Schedule K-1-P or K-1-T.	7	<u>.00</u>
	8	Other additions. Attach Schedule M (for businesses).	8	<u>.00</u>
	9	Add Lines 1 through 8. This amount is your income or loss.	9	<u>148,929.00</u>

2010 Workbook

For Example 5



10 Write the amount of your income or loss from Line 9. 10 148,929.00

Step 3: Figure your base income or loss

11 Federally-taxed refund of Illinois income and replacement tax.	11	<u>.00</u>
12 Interest income from U.S. Treasury and other exempt federal obligations.	12	<u>.00</u>
13 Enterprise Zone or River Edge Redevelopment Zone Dividend subtraction. Attach Schedule 1299-B.	13	<u>.00</u>
14 Enterprise Zone or River Edge Redevelopment Zone Interest subtraction. Attach Schedule 1299-B.	14	<u>.00</u>
15 High Impact Business Dividend subtraction. Attach Schedule 1299-B.	15	<u>.00</u>
16 High Impact Business Interest subtraction. Attach Schedule 1299-B.	16	<u>.00</u>
17 Contribution subtraction. Attach Schedule 1299-B.	17	<u>.00</u>
18 Contributions to certain job training projects (see instructions).	18	<u>.00</u>
19 Foreign Dividend subtraction. Attach Schedule J.	19	<u>.00</u>
20 Illinois Special Depreciation subtraction. Attach Form IL-4562.	20	<u>16,071.00</u>
21 Related-party expenses subtraction. Attach Schedule 80/20.	21	<u>.00</u>
22 Distributive share of subtractions. Attach Schedule K-1-P or K-1-T.	22	<u>.00</u>
23 Other subtractions. Attach Schedule M (for businesses).	23	<u>.00</u>
24 Total subtractions. Add Lines 11 through 23.	24	<u>16,071.00</u>
25 Base income or net loss. Subtract Line 24 from Line 10.	25	<u>132,858.00</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>.00</u>
27 Trusts, estates, and non-unitary partnership business income or loss included in Line 25.	27	<u>.00</u>
28 Add Lines 26 and 27.	28	<u>.00</u>
29 Business income or loss. Subtract Line 28 from Line 25.	29	<u>.00</u>
30 Total sales everywhere. This amount cannot be negative.	30	<u></u>
31 Total sales inside Illinois. This amount cannot be negative.	31	<u></u>
32 Apportionment Factor. Divide Line 31 by Line 30 (carry to six decimal places).	32	<u>.00</u>
33 Business income or loss apportionable to Illinois. Multiply Line 29 by Line 32.	33	<u>.00</u>
34 Nonbusiness income or loss allocable to Illinois. Attach Schedule NB.	34	<u>.00</u>
35 Trusts, estates, and non-unitary partnership business income or loss apportionable to Illinois.	35	<u>.00</u>
36 Base income or net loss allocable to Illinois. Add Lines 33 through 35.	36	<u>.00</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>132,858.00</u>
38 Discharge of Indebtedness adjustment. See instructions.	38	<u>.00</u>
39 Adjusted base income or net loss. Add Lines 37 and 38. See instructions.	39	<u>132,858.00</u>
40 Illinois net loss deduction. Attach Schedule NLD or UB/NLD. If Line 39 is zero or a negative amount, write "0."	40	<u>.00</u>
41 Net income. Subtract Line 40 from Line 39.	41	<u>132,858.00</u>

2010 Workbook

For Example 5



Step 6: Figure your net replacement tax

42	Replacement tax. Multiply Line 41 by 2.5% (.025).	42	3,321.00
43	Recapture of investment credits. Attach Schedule 4255.	43	.00
44	Replacement tax before credits. Add Lines 42 and 43.	44	3,321.00
45	Investment credits. Attach Form IL-477.	45	1,125.00
46	Net replacement tax. Subtract Line 45 from Line 44. If the amount is negative, write "0".	46	2,196.00

Step 7: Figure your net income tax

47	Income tax. Multiply Line 41 by 4.8% (.048).	47	6,377.00
48	Recapture of investment credits. Attach Schedule 4255.	48	.00
49	Income tax before credits. Add Lines 47 and 48.	49	6,377.00
50	Income tax credits. Attach Schedule 1299-D.	50	.00
51	Net income tax. Subtract Line 50 from Line 49. If the amount is negative, write "0".	51	6,377.00

Step 8: Figure your refund or balance due

52	Net replacement tax from Line 46.	52	2,196.00
53	Net income tax from Line 51.	53	6,377.00
54	Total net income and replacement taxes. Add Lines 52 and 53.	54	8,573.00
55	Underpayment of estimated tax penalty from Form IL-2220 (see instructions).	55	.
56	Total tax and penalty. Add Lines 54 and 55.	56	8,573.00
57	Payments.		
a	Credit from 2008 overpayment.	57a	.00
b	Total estimated payments.	57b	.00
c	Form IL-505-B (extension) payment.	57c	.00
d	Pass-through entity payments. Attach Schedule K-1-P or K-1-T.	57d	.00
e	Gambling Withholding. Attach Form W-2G.	57e	.00
58	Total payments. Add Lines 57a through 57e.	58	.00
59	Overpayment. If Line 58 is greater than Line 56, subtract Line 56 from Line 58.	59	.
60	Amount to be credited to 2010.	60	.00
61	Refund. Subtract Line 60 from Line 59. This is the amount to be refunded.	61	.
62	Tax due. If Line 56 is greater than Line 58, subtract Line 58 from Line 56. This is the amount you owe.	62	8,573.

► **Make your check payable to "Illinois Department of Revenue" and attach to the first page 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	
Preparer firm's name (or yours, if self-employed)	Address	Phone	

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

IL-1120 (R-12/09)



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



Page 3 of 3

2010 Workbook

For Example 5

	Illinois Department of Revenue IL-4562 Special Depreciation For tax years ending on or after September 11, 2001. Attach to your Illinois tax return.	 Tax year ending <table border="0" style="margin: auto;"><tr><td style="border: 1px solid black; padding: 2px 10px;">12</td><td style="border: 1px solid black; padding: 2px 10px;">2009</td></tr><tr><td style="font-size: small;">Month</td><td style="font-size: small;">Year</td></tr></table> IL Attachment No. 11	12	2009	Month	Year
12	2009					
Month	Year					

Step 1: Provide the following information

EDDIE'S COUNTER TOP SALES INC

Write your name as shown on your return.

37-9999999

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

 **Special Note** You must read the instructions before completing Form IL-4562

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. | 1 | 112,500.00 |
| 2 Individuals only: Write the total amount claimed as a special depreciation allowance from federal Form 2106, Employee Business Expenses. | 2 | |
| 3 Last year of regular depreciation: 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 | 112,500.00 |

Step 3: Figure your Illinois depreciation subtraction

- | | | |
|---|----|-----------|
| 5a Write the portion of depreciation allowance claimed on federal Form 4562, Line 17, plus Line 19, Column g, plus 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, for bonus depreciation equal to 30 percent of your basis in the property. | 5a | |
| b Individuals only: If you completed a federal Form 2106 for this tax year, write the portion of any depreciation deductions included in Lines 4 and 38 for which you reported an addition modification for this tax year or any prior tax year on Form IL-4562, Step 2, Line 2, for bonus depreciation equal to 30 percent of your basis in the property. | 5b | |
| c Add Lines 5a and 5b. | 5c | |
| 6 Multiply Line 5c by 42.9% (0.429). | 6 | |
| 7a Write the portion of depreciation allowance claimed on federal Form 4562, Line 17, plus Line 19, Column g, plus 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, for bonus depreciation equal to 50 percent of your basis in the property. | 7a | 16,071.00 |
| b Individuals only: If you completed a federal Form 2106 for this tax year, write the portion of any depreciation deductions included in Lines 4 and 38 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 2, for bonus depreciation equal to 50 percent of your basis in the property. | 7b | |
| c Add Lines 7a and 7b. | 7c | 16,071.00 |
| d For tax years ending on or before December 31, 2005, multiply Line 7c by 42.9% (0.429). For tax years ending after December 31, 2005, write the amount from Line 7c. | 7d | 16,071.00 |
| 8 Add Lines 6 and 7d. | 8 | 16,071.00 |
| 9 Last year of regular depreciation: Write the Illinois special depreciation addition reported on any prior year Form IL-4562, Step 2, Line 1 plus Line 2, for that asset. | 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 | 16,071.00 |

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

2010 Workbook

For Example 5

	Illinois Department of Revenue IL-477 <small>Attach to Form IL-1120, IL-1065, IL-1120-ST, IL-1041, or IL-990-T.</small>		Year ending 12 2009 <small>Month Year</small> IL Attachment No. 18
---	---	--	---

Write your name as shown on your return.
EDDIE'S COUNTER TOP SALES INC

Write your federal employer identification number (FEIN).
3 7 - 9 9 9 9 9 9 9

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

	A Description of qualified property	B Date placed in service Month Year	C Useful life	D New or used*	E Business activity (see inst.)	F Location of use (city or county)	G Basis	H Column G x .5% (.005)
1	a NEW EQUIPMENT	07 / 2009	7	N	2	BARRINGTON	225,000.00	1a 1,125.00
	b							1b
	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.						225,000.00	1,125.00
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.							
4	Write the distributive share of replacement tax investment credit from partnerships and S corporations.							
5	Add Line 2, Column H, and Lines 3 and 4. This is your total replacement tax investment credit from this year.							1,125.00
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 (see instructions).							
7	Subtract Line 6 from Line 5.							1,125.00
8	Write the amount of your credit carryforward from a previous year.							
9	Add Lines 7 and 8. This is your total investment credit available to use this year.							1,125.00
10	Write your total replacement tax (see instructions).							3,321.00
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.							1,125.00
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.							0.00

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 the result here. If the amount is positive , continue to Line 17. If the amount is zero or negative , stop here . Write "0" on Line 3, and continue to Line 4. 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 Line 2, Column H, on Line 3. If this amount is less than .01, continue to Line 18.			17
18 Multiply Line 17 by 50% (.50). Round to six decimal places and write here.			18
19 Multiply Line 2, Column G, by Line 18, and write here and on Line 3.			19

ILLINOIS S CORPORATION INCOME TAX RETURNS (FORM IL-1120-ST)

Qualified small business corporations that conduct business in Illinois are required to file Form IL-1120-ST, *Small Business Corporation Replacement Tax Return*, reporting net income or net loss as defined by the Illinois Income Tax Act. The determination of Illinois base income is more complex than a similar calculation for C corporations.

The filing date for Illinois S corporation returns is the same as the federal filing date. The returns are due on or before the 15th day of the third month following the close of the S corporation's tax year. Since most S corporations have a calendar yearend, the usual due date is March 15. Illinois recognizes any federal extension that is granted. While Illinois does not have an estimated tax requirement for S corporations, any tax due must be paid by the original filing date. The tax is remitted using Form IL-505-B, *Automatic Extension Payment*. This allows the corporation to avoid interest and penalties.

INCOME ADJUSTMENTS

The Illinois S corporate return is more complex than the C corporate tax return. Illinois first adjusts the taxpayer's federal ordinary income or loss from Schedule K by **adding** any income from the following items separately stated on Schedule K:

- Net income or loss from real estate rental activities
- Net income or loss from other rental activities
- Portfolio income or loss from lines 4 thru 8c
- Net gain or loss from the sale of property used in a trade or business and certain involuntary conversions under IRC §1231 as disclosed on 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 paid on investment indebtedness

INCOME MODIFICATIONS

After the Schedule K income additions and subtractions, the resulting income or loss must be modified as provided in Steps 4 and 5 from page 2 of IL-1120-ST. Step 4 provides for the following **additions**:

- Any state, municipal, and other interest income excluded from unmodified base income
- Illinois replacement tax deducted in arriving at unmodified base income
- Illinois special depreciation addition from Form IL-4562
- The distributive share of additions from Schedules K-1-P or K-1-T
- The amount of loss distributable to a shareholder subject to replacement tax as noted on Schedule B
- Any other additions from Illinois Schedule M for businesses

2010 Workbook

The following **subtractions** further modify Illinois unmodified base income:

- Interest income from U.S. Treasury obligations or other exempt federal obligations
- The share of income distributable to a shareholder subject to replacement tax

Note. Practitioners need to be careful as this is **not** a subtraction for the distributive share of income flowing to an individual shareholder because individuals are subject to an income tax only — not a replacement tax.

- Expenses incurred in producing certain federally tax-exempt income or federal credits
- Various Enterprise Zone, River Development Zone, or high-impact business interest or dividend subtractions as noted on Form 1299-A
- Illinois special depreciation subtractions from IL-Form 4562
- The distributive share of subtractions from Schedules K-1-P or K-1-T
- Other subtractions from Illinois Schedule M for businesses



Example 6. Grady's Disaster Restoration Business, Inc., is an S corporation that operates in central Illinois cleaning up after natural disasters in the area. Business has been good in recent months.

For the most recent calendar year, 2009, the S corporation realized a profit from operations of \$280,000. This amount is reported on Schedule K, line 1 of federal Form 1120-S. Separately-stated items include:

- Interest income of \$8,200, which included \$4,800 U.S. Treasury interest;
- Net income of \$30,000 from the rental of trailers;
- An IRC §1231 gain of \$24,000 from the sale of a crane;
- Contributions of \$12,500 made to qualified organizations; and
- An IRC §179 expense deduction of \$66,000 for the purchase of a new bobcat.

Observation. If an S corporation furnishes health insurance for the benefit of a 2% or more shareholder and/or his family, the preferred method is that the corporation treat the health insurance as wages not subject to FICA and Medicare. The full deduction for the health insurance would carry over to the Illinois tax return. This saves the Illinois replacement tax (1.5%) on the amount of the health insurance premium.

For Example 6

	Illinois Department of Revenue 2009 Form IL-1120-ST Small Business Corporation 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 2009, write your fiscal tax year here.

Tax year beginning ____/____, 2009, ending ____/____/20__

Write the amount you are paying.
 \$ 3,884.00

Step 1: Identify your small business corporation

A Write your business name and mailing address.

If you have an address change, or this is a first return, check this box. ☐

GRADY'S DISASTER RESTORATION BUSINESS INC
 Name

C/O
100 PHILO ROAD
 Mailing address

URBANA IL 61801
 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 Special Apportionment Formulas. If you use a special apportionment formula, check the appropriate box and see Special Apportionment Formula instructions.
☐ Financial organizations ☐ Transportation companies

E Write your federal employer identification no. (FEIN).
3 6 - 4 5 5 5 5

F ☐ Check the box if you are a member of a unitary business group, and write the FEIN of the member filing the Schedule UB, Combined Apportionment for Unitary Business Groups. ____-____-____

G Write the state and zip code where your accounting records are kept. (Use the two-letter postal abbreviation, e.g., IL, GA, etc.)
 State ____ Zip ____

H If you are making the business income election to treat all nonbusiness income as business income, check here and write "0" on Lines 37 and 45. ☐

I Write your Illinois corporate file (charter) number. ____

J If you have completed the following federal forms, check the box and **attach** them to this return.
☐ Federal Form 8886 ☐ Federal Sch. M-3

K Check the box if you are making a discharge of indebtedness adjustment. ☐

Step 2: Figure your ordinary income or loss

<div style="writing-mode: vertical-rl; transform: rotate(180deg);"> Attach your payment here. </div>	1 Ordinary income or loss, or equivalent from federal Schedule K.	1 <u>280,000.00</u>
	2 Net income or loss from all rental real estate activities.	2 <u>.00</u>
	3 Net income or loss from other rental activities.	3 <u>30,000.00</u>
	4 Portfolio income or loss.	4 <u>8,200.00</u>
	5 Net IRC Section 1231 gain or loss from involuntary conversions due to casualty and theft.	5 <u>24,000.00</u>
	6 All other items of income or loss that were not included in the computation of income or loss on Page 1 of U.S. Form 1120S. See instructions. Identify: _____	6 <u>.00</u>
	7 Add Lines 1 through 6. This is your ordinary income or loss.	7 <u>342,200.00</u>

Step 3: Figure your unmodified base income or loss

	8 Charitable contributions.	8 <u>12,500.00</u>
	9 Expense deduction under IRC Section 179.	9 <u>66,000.00</u>
	10 Interest on investment indebtedness.	10 <u>.00</u>
	11 All other items of expense that were not deducted in the computation of ordinary income or loss on Page 1 of U.S. Form 1120S. See instructions. Identify: _____	11 <u>.00</u>
	12 Add Lines 8 through 11.	12 <u>78,500.00</u>
	13 Subtract Line 12 from Line 7. This amount is your total unmodified base income or loss.	13 <u>263,700.00</u>

IL-1120-ST (R-12/09)
NS DR _____
Page 1 of 4

2010 Workbook

For Example 6



14	Write your unmodified base income from Line 13.	14	<u>263,700.00</u>
Step 4: Figure your income or loss			
15	State, municipal, and other interest income excluded from Line 14.	15	<u>.00</u>
16	Illinois replacement tax deducted in arriving at Line 14.	16	<u>.00</u>
17	Illinois special depreciation addition. Attach Form IL-4562.	17	<u>.00</u>
18	Related-party expenses addition. Attach Schedule 80/20.	18	<u>.00</u>
19	Distributive share of additions. Attach Schedule K-1-P or K-1-T.	19	<u>.00</u>
20	The amount of loss distributable to a shareholder subject to replacement tax. Attach Schedule B.	20	<u>.00</u>
21	Other additions. Attach Illinois Schedule M (for businesses).	21	<u>.00</u>
22	Add Lines 14 through 21. This amount is your income or loss.	22	<u>263,700.00</u>

Step 5: Figure your Illinois base income or net loss

23	Interest income from U.S. Treasury obligations or other exempt federal obligations.	23	<u>4,800.00</u>
24	Share of income distributable to a shareholder subject to replacement tax. Attach Schedule B.	24	<u>.00</u>
25	Expenses incurred in producing certain federally tax-exempt income or federal credits.	25	<u>.00</u>
26	Enterprise Zone or River Edge Redevelopment Zone Dividend subtraction. Attach Schedule 1299-A.	26	<u>.00</u>
27	Enterprise Zone or River Edge Redevelopment Zone Interest subtraction. Attach Schedule 1299-A.	27	<u>.00</u>
28	High Impact Business Dividend subtraction. Attach Schedule 1299-A.	28	<u>.00</u>
29	High Impact Business Interest subtraction. Attach Schedule 1299-A.	29	<u>.00</u>
30	Contribution subtraction. Attach Schedule 1299-A.	30	<u>.00</u>
31	Illinois Special Depreciation subtraction. Attach Form IL-4562.	31	<u>.00</u>
32	Related-party expenses subtraction. Attach Schedule 80/20.	32	<u>.00</u>
33	Distributive share of subtractions. Attach Schedule K-1-P or K-1-T.	33	<u>.00</u>
34	Other subtractions. Attach Schedule M (for businesses).	34	<u>.00</u>
35	Total subtractions. Add Lines 23 through 34.	35	<u>4,800.00</u>
36	Base income or net loss. Subtract Line 35 from Line 22.	36	<u>258,900.00</u>



If the amount on Line 36 is derived inside and outside Illinois, complete Step 6; otherwise go to Step 7.

Step 6: Figure your income allocable to Illinois

37	Nonbusiness income or loss. Attach Schedule NB.	37	<u>.00</u>
38	Trust, estate, and non-unitary partnership business income or loss included in Line 36.	38	<u>.00</u>
39	Add Lines 37 and 38.	39	<u>.00</u>
40	Business income or loss. Subtract Line 39 from Line 36.	40	<u>.00</u>
41	Total sales everywhere. This amount cannot be negative.	41	<u> </u>
42	Total sales inside Illinois. This amount cannot be negative.	42	<u> </u>
43	Apportionment factor. Divide Line 42 by Line 41 (carry to six decimal places).	43	<u>. </u>
44	Business income or loss apportionable to Illinois. Multiply Line 40 by Line 43.	44	<u>.00</u>
45	Nonbusiness income or loss allocable to Illinois. Attach Schedule NB.	45	<u>.00</u>
46	Trust, estate, and non-unitary partnership business income or loss apportionable to Illinois.	46	<u>.00</u>
47	Base income or net loss allocable to Illinois. Add Lines 44 through 46.	47	<u>.00</u>

2010 Workbook

For Example 6



Step 7: Figure your net income

48	Base income or net loss from Step 5, Line 36, or Step 6, Line 47.	48	<u>258,900.00</u>
49	Discharge of Indebtedness adjustment. See instructions.	49	<u>.00</u>
50	Adjusted base income or net loss. Add Lines 48 and 49.	50	<u>258,900.00</u>
51	Illinois net loss deduction. Attach Schedule NLD. If Line 50 is zero or a negative amount, write "0".	51	<u>.00</u>
52	Net income. Subtract Line 51 from Line 50.	52	<u>258,900.00</u>

Step 8: Figure your net replacement tax

53	Replacement tax. Multiply Line 52 by 1.5% (.015).	53	<u>3,884.00</u>
54	Recapture of investment credits. Attach Schedule 4255.	54	<u>.00</u>
55	Replacement tax before investment credits. Add Lines 53 and 54.	55	<u>3,884.00</u>
56	Investment credits. Attach Form IL-477.	56	<u>.00</u>
57	Net replacement tax. Subtract Line 56 from Line 55. Write "0" if this is a negative amount.	57	<u>3,884.00</u>

Step 9: Figure your refund or balance due

58	Payments		
a	Credit from 2008 overpayment.	58a	<u>.00</u>
b	Form IL-505-B (extension) payment.	58b	<u>.00</u>
c	Pass-through entity payments. Attach Schedule K-1-P or K-1-T.	58c	<u>.00</u>
d	Gambling withholding. Attach Form W-2G.	58d	<u>.00</u>
59	Total payments. Add Lines 58a through 58d.	59	<u>.00</u>
60	Overpayment. If Line 59 is greater than Line 57, subtract Line 57 from Line 59.	60	<u>.</u>
61	Amount to be credited to 2010 .	61	<u>.00</u>
62	Refund. Subtract Line 61 from Line 60. This is the amount to be refunded.	62	<u>.</u>
63	Tax Due. If Line 57 is greater than Line 59, subtract Line 59 from Line 57. This is the amount you owe.	63	<u>3,884.</u>

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

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

Step 10: 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	
_____ 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 ◀



2010 Workbook

For Example 6



Illinois Department of Revenue



Year ending

Schedule B

Partners' or Shareholders' Identification

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

12 2009
Month Year

IL Attachment no. 1

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

Write your federal employer identification number (FEIN).

GRADY'S DISASTER RESTORATION BUSINESS INC

3 6 - 4 5 5 5 5 5

Step 1: Provide the following information

1 Write the amount from your Form IL-1065 or Form IL-1120-ST, Line 48.

1 258,900.00

2 Write the apportionment factor from your Form IL-1065 or Form IL-1120-ST, Line 43.

2 1 . 000000

Step 2: Identify your partners or shareholders. Attach additional sheets if necessary.

A	B	C	D	E	F	G
Name and Address	SSN or FEIN	Partner or Shareholder type (See instructions.)	Total amount of base income (loss) distributable (See instr.)	Member subject to Illinois replacement tax (See instr.)	Pass-through entity payment amount (See instr.)	Excluded from pass-through entity payments (See instr.)
1 <u>GRADY TENBROCK</u>						
<u>RR 2</u>						
<u>URBANA, IL 61801</u>						
	<u>888-80-2222</u>	<u>S</u>	<u>258,900.00</u>	<input type="checkbox"/>		<u>R</u>
2				<input type="checkbox"/>		
3				<input type="checkbox"/>		
4				<input type="checkbox"/>		
5				<input type="checkbox"/>		
6				<input type="checkbox"/>		


7 Add the amounts shown in Column D for partners or shareholders for which you have entered a check mark in Column E. Write the total here. (See instructions.)

7 _____



2010 Workbook

For Example 6

	Illinois Department of Revenue Schedule K-1-P To be completed by partnerships filing Form IL-1065 or S corporations filing Form IL-1120-ST Partners and Shareholders receiving Schedule K-1-P should attach this to their Illinois tax return.	Partner's or Shareholder's Share of Income, Deductions, Credits, and Recapture Year ending <u>12</u> <u>2009</u> 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 - 4 5 5 5 5 5
 Write your federal employer identification number (FEIN).
- 2 **GRADY'S DISASTER RESTORATION BUSINESS INC** 4 Write the apportionment factor from Form IL-1065, Line 42 or Form
 Write your name as shown on your Form IL-1065 or Form IL-1120-ST. IL-1120-ST, Line 43. Otherwise, write "1." 1.000000

Step 2: Identify your partner or shareholder

- 5 **GRADY TENBROCK** 7 **888-80-2222**
 Name Social Security number or FEIN
- 6 **RR 2** 8 **100.00**
 Mailing address Share (%)
- URBANA** **IL** **61801** 9 Check the appropriate box
 City State ZIP
☒ individual ☐ corporation ☐ trust
☐ partnership ☐ S corporation ☐ estate

Step 3: Figure your partner's or shareholder's share of your nonbusiness income

	A	B
	Member's share (see instructions)	Nonresident member's share allocable to Illinois
10 Interest	10	
11 Dividends	11	
12 Rental income	12	
13 Patent royalties	13	
14 Copyright royalties	14	
15 Other royalty income	15	
16 Capital gain or loss from real property	16	
17 Capital gain or loss from tangible personal property	17	
18 Capital gain or loss from intangible personal property	18	
19 Other income and expense	19	
Specify		

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

	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 <u>280,000.00</u>	
21 Net income (loss) from rental real estate activities	21	
22 Net income (loss) from other rental activities	22 <u>30,000.00</u>	
23 Interest	23 <u>8,200.00</u>	
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 <u>24,000.00</u>	
31 Other income and expense Sec. 179 & Contribution ded.	31 <u>-78,500.00</u>	
Specify		



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For Example 6

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 <u>4,800.00</u>	<u> </u>
33 Illinois replacement tax deducted	33 <u> </u>	<u> </u>
34 Illinois Special Depreciation addition	34 <u> </u>	<u> </u>
35 Related-Party Expenses addition	35 <u> </u>	<u> </u>
36 Distributive share of additions	36 <u> </u>	<u> </u>
37 Other additions (from Illinois Schedule M for businesses)	37 <u> </u>	<u> </u>
Subtractions		
38 a Interest from U.S. Treasury obligations (business income)	38a <u> </u>	<u> </u>
b Interest from U.S. Treasury obligations (nonbusiness income)	38b <u> </u>	<u> </u>
39 Certain federally-disallowed deductions	39 <u> </u>	<u> </u>
40 Enterprise Zone or River Edge Redevelopment Zone Dividend subtraction	40 <u> </u>	<u> </u>
41 High Impact Business Dividend subtraction	41 <u> </u>	<u> </u>
42 Contribution subtraction (Form IL-1120-ST filers only)	42 <u> </u>	<u> </u>
43 Interest subtraction - Enterprise Zones or River Edge Redevelopment Zone (Form IL-1120-ST financial organizations only)	43 <u> </u>	<u> </u>
44 Interest subtraction - High Impact Business within a Foreign Trade Zone (Form IL-1120-ST financial organizations only)	44 <u> </u>	<u> </u>
45 Illinois Special Depreciation subtraction	45 <u> </u>	<u> </u>
46 Related-Party Expenses subtraction	46 <u> </u>	<u> </u>
47 Distributive share of subtractions	47 <u> </u>	<u> </u>
48 Other subtractions (from Illinois Schedule M for businesses)	48 <u> </u>	<u> </u>

Step 6: Figure your partner's or shareholder's (except a corporate partner or shareholder) share of your Illinois August 1, 1969, appreciation amounts

	A	B
	Member's share from Illinois Schedule F (Form IL-1065 or IL-1120-ST)	Nonresident member's share apportioned or allocated to Illinois
49 Section 1245 and 1250 gain	49 <u> </u>	<u> </u>
50 Section 1231 gain	50 <u> </u>	<u> </u>
51 Section 1231 gain less casualty and theft gain (See instructions.)	51 <u> </u>	<u> </u>
52 Capital gain	52 <u> </u>	<u> </u>

Step 7: Figure your partner's or shareholder's share of your Illinois credits and recapture and pass-through entity payments

	A
	Member's or nonresident member's share from Illinois tax return
53 Illinois credits	
a Film Production Services Tax Credit	53a <u> </u>
b Enterprise Zone or River Edge Redevelopment Zone Investment Credit	53b <u> </u>
c Tax Credit for Affordable Housing Donations	53c <u> </u>
d Economic Development for a Growing Economy (EDGE) Tax Credit	53d <u> </u>
e Research & Development Tax Credit	53e <u> </u>
f Ex-felons Jobs Credit	53f <u> </u>
g Veterans Jobs Credit	53g <u> </u>
h Student-Assistance Contribution Credit	53h <u> </u>
i Replacement Tax Investment Credits (See instructions.)	53i <u> </u>
54 Recapture	
a Enterprise Zone or River Edge Redevelopment Zone Investment Credit recapture	54a <u> </u>
b Replacement Tax Investment Credit recapture	54b <u> </u>
55 a Pass-through entity payment (See instructions.)	55a <u> </u>
b Composite return payment (See instructions.)	55b <u> </u>



Schedule K-1-P back (R-12/09)

TRUSTS AND ESTATES (FORM IL-1041)

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

- Has net income or loss as defined under the Illinois Income Tax Act (IITA), regardless of any deductions 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.

For fiduciary purposes, a resident means:

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

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

Trusts and estates are granted a \$1,000 standard exemption when calculating net income for the trust or estate. The filing date for the trust or estate is on or before the 15th day of the fourth month following the close of the tax year. An extension of time to file the federal tax return also extends the due date of Form IL-1041.

Even if federal tax estimated payments are required, no estimates are needed for Illinois trust or estate tax returns. However, estimated tax payments can be made at the discretion of the trustee on the Illinois corporate tax form, IL-1120-ES, and are credited on Form IL-1041, Part II, line 4.

Example 7. Illinois resident Archie Rountree established a grantor trust which became an irrevocable trust when he died on August 5, 2002. His widow, Annabel Rountree, is the sole beneficiary of this trust. Each year, Annabel receives a distribution of all income and reports her distributive share of this income as shown on Form 1041, Schedule K-1, on her personal income tax return.

Annabel died on August 1, 2009. Pursuant to the terms of the trust instrument, the Archie Rountree IRR Trust issued two Schedules K-1-T for the year ending December 31, 2009 — one to Annabel for income earned from January 1, 2009, through July 31, 2009, and another to the Estate of Annabel Rountree for income from the trust from August 1, 2009, to the end of the year.

The Archie Rountree IRR Trust earned a significant share of income during the year from investments in real estate and interest and dividends earned on cash investments.

Items of income and expense for the trust for 2009 include the following:

Tax-exempt interest income from Merrill Lynch (net)	\$ 5,400
Interest income from certificates of deposit at bank	75,010
Interest income from real estate investment trusts	6,849
Dividend income from Merrill Lynch (\$3,388 qualified)	5,551
Net rental real estate income from commercial property	32,208
Fiduciary fees	(1,401)
Net distributable income — all distributed	\$123,617

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The trust and all beneficiaries are Illinois residents. All income is accounted for federal purposes as disclosed on the two separate Schedules K-1-T. Even though all income is distributed with no tax exposure to the trust at either the federal or state level, an Illinois Form 1041 is required and two separate Schedules K-1-T are issued from the Illinois fiduciary return. Even though the trust administrator is located out of state, no pass-through entity payment is required because the individual and estate are Illinois residents. A Form IL-1000-E, *Certificate of Exemption for Pass-Through Entity Payments*, is prepared but not filed with Form IL-1041.

Portions of the IL-1041 for **Example 7** follow.

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For Example 7

	Illinois Department of Revenue 2009 Form IL-1041 Fiduciary Income and Replacement Tax Return Due on or before the 15th day of the 4th month following the close of the tax year.	Write the amount you are paying. \$ <u>0.00</u>
---	--	--

If this return is not for calendar year 2009, write your fiscal tax year here.

Tax year beginning ____ / ____, 2009, ending ____ / ____ 20__

Step 1: Identify your fiduciary

- A** Check the box that identifies your fiduciary. ☒ Trust ☐ Estate
- B** Write your name and/or number and mailing address. If you have an address change, or this is your first return, check this box. ☐
- Name: ARCHIE ROUNTREE IRR TRUST
- C/O: MERRILL LYNCH, TRUSTEE
- Mailing address: 1 BOATMAN'S PLAZA
- City: ST. LOUIS State: MO ZIP: 63102
- C** Check the box if one of the following apply.
☐ First return ☐ If final, write the date. _____
- D** Check your method of accounting.
☒ Cash ☐ Accrual ☐ Other _____
- E** Write your federal employer identification no. (FEIN).
4 3 - 1 6 0 0 0 0 0
- F** Check the box if your residency is not in Illinois. Attach Illinois Schedule NR. ☐
- G** Check the box if you are an
 Electing small business trust (ESBT) ☐
 Individual bankruptcy estate ☐
- H** Check the box if you attached Illinois Schedule 1299-D, Income Tax Credits. ☐
- I** Check the box if you attached Illinois Schedule I, Income Received. ☐
- J** If you have completed Federal Form 8886, check the box and attach a copy to this return. ☐
- K** Check the box if you are making a discharge of indebtedness adjustment. ☐

Step 2: Figure your income or loss

	A Beneficiaries	B Fiduciary
1 Federal Taxable Income from U.S. Form 1041, Line 22.		1 <u>-300.00</u>
2 Federal net operating loss deduction from U.S. Form 1041, Line 15a. This amount cannot be negative.		2 <u>.00</u>
3 Taxable income of ESBT, if required (see instructions).		3 <u>.00</u>
4 Exemption claimed on U.S. Form 1041, Line 20.		4 <u>300.00</u>
5 Illinois income and replacement tax deducted in arriving at Line 1.	5a <u>.00</u>	5b <u>.00</u>
6 State, municipal, and other interest income excluded from Line 1.	6a <u>5,400.00</u>	6b <u>0.00</u>
7 Illinois Special Depreciation addition. Attach Form IL-4562.	7a <u>.00</u>	7b <u>.00</u>
8 Related-party expenses addition. Attach Schedule 80/20.	8a <u>.00</u>	8b <u>.00</u>
9 Distributive share of additions. Attach Schedule K-1-P or K-1-T.	9a <u>.00</u>	9b <u>.00</u>
10 Other additions. Attach Illinois Schedule M (for businesses).	10a <u>.00</u>	10b <u>.00</u>
11 Add Column B, Lines 1 through 10b. This amount is your income or loss. Report Column A, Lines 5a through 10a, on Schedule K-1-T, Step 5.		11 <u>0.00</u>

NS DR _____

IL-1041 (R-12/09)



Page 1 of 4

2010 Workbook

For Example 7

		Illinois Department of Revenue Schedule D Beneficiary Information Attach to your Form IL-1041	Year ending <u>12</u> <u>09</u> Month Year	IL Attachment No. 1
--	---	--	--	----------------------------

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

ARCHIE ROUNTREE IRR TRUST

Write your federal employer identification number (FEIN).

4 3 - 1 6 0 0 0 0 0

Step 1: Provide the following information

- | | |
|---|-------------------|
| 1 Write the amount from your Form IL-1041, Line 28. | 1 <u>0.00</u> |
| 2 Write the apportionment factor from your Form IL-1041, Schedule NR, Step 6, Line 3. | 2 <u>1.000000</u> |

Step 2: Identify your beneficiaries. Attach additional sheets if necessary.

	A	B	C	D	E	F
	Name and Address	SSN or FEIN	Beneficiary type (See instructions.)	Total amount of base income (loss) distributable (See instructions.)	Check the box if the beneficiary is an Illinois nonresident	Pass-through entity payment amount (See instructions.)
1	<u>ANNABEL ROUNTREE</u> <u>RR 1</u> <u>URBANA, IL 61801</u>	<u>140-00-0000</u>	<u>I</u>	<u>72,947.00</u>	<input type="checkbox"/>	
2	<u>ESTATE OF ANNABEL ROUNTR</u> <u>C/O MERRILL LYNCH</u> <u>1 BOATMAN'S PLAZA</u> <u>ST. LOUIS, MO 63102</u>	<u>37-6222222</u>	<u>M</u>	<u>50,670.00</u>	<input type="checkbox"/>	
3	<u></u> <u></u> <u></u>	<u></u>	<u></u>	<u></u>	<input type="checkbox"/>	
4	<u></u> <u></u> <u></u>	<u></u>	<u></u>	<u></u>	<input type="checkbox"/>	
5	<u></u> <u></u> <u></u>	<u></u>	<u></u>	<u></u>	<input type="checkbox"/>	
6	<u></u> <u></u> <u></u>	<u></u>	<u></u>	<u></u>	<input type="checkbox"/>	
7	Add the amounts shown in Column D for partners or shareholders for which you have entered a check mark in Column E. Write the total here. (See instructions.)			7 <u>0.00</u>		



For Example 7



Illinois Department of Revenue Form IL-1000-E

Certificate of Exemption for Pass-through Entity Payments

Read this information first

Owners:

Form IL-1000-E, Certificate of Exemption for Pass-through Entity Payments, should be completed by any owner (partner, shareholder, or beneficiary) that elects to make their own tax payments on business income from a pass-through entity (partnership, shareholder, or fiduciary). **Individuals may not make the exemption election.**

Specific information:

Form IL-1000-E must only be completed, signed, and submitted once to the pass-through entity. It does not need to be resubmitted on an annual basis. **Do not send Form IL-1000-E to the department unless we specifically request it from you.**

Pass-through entities:

In order to accept Form IL-1000-E, make sure that the certificate is completed and signed by the owner, officer, fiduciary, or authorized representative. Keep the certificates in your files. **Do not send them to the department unless we specifically request them from you.**

In the event that we notify you that the certificate has been revoked, the certificate remains valid for 60 days after the date of notification, and you must then begin withholding for business income distributable to the owner.

If the certificate has been revoked, you may not accept another certificate from the owner until we notify you.

Step 1: Identify the pass-through entity

The pass-through entity must keep this certificate.

ARCHIE ROUNTREE IRR TRUST

Name

1 BOATMAN'S PLAZA

Mailing address

SAINT LOUIS

MO

63102

City

State

ZIP

()

Phone number

Federal employer identification number (FEIN)

4 3 1 6 0 0 0 0

Step 2: Identify the owner (partner, shareholder, or beneficiary)

ESTATE OF ANNABEL ROUNTREE

Name

C/O MERRILL LYNCH, 1 BOATMAN'S PLAZA

Mailing address

ST. LOUIS

MO

63102

City

State

ZIP

Federal employer identification number (FEIN)

3 7 6 2 2 2 2 2

Check the box to indicate your business type:

- ☐ Corporation
- ☐ Subchapter S corporation
- ☐ Partnership
- ☐ Trust
- ☒ Estate

Step 3: Sign below

I certify that the owner indicated in Step 2 will file all Illinois income tax returns and make timely payment of all Illinois income taxes due, and that it is subject to personal jurisdiction of the State of Illinois for purposes of the collection of income taxes due with respect to income from the partnership, corporation or trust indicated in Step 1 of this certificate.

Signature of owner, officer, fiduciary, or authorized representative

Date


Printed name

Title



2010 Workbook

For Example 7

	Illinois Department of Revenue Schedule K-1-T To be completed by trusts or estates filing Form IL-1041 Beneficiaries receiving Schedule K-1-T should attach this form to their Illinois Tax Return	Beneficiary's Share of Income and Deductions Year ending <u>12</u> <u>09</u> Month Year IL Attachment No. 10
---	--	--

Step 1: Identify your trust or estate

- 1 Check the appropriate box ☒ trust ☐ estate
- 2 ARCHIE ROUNTREE IRR TRUST
Write your name as shown on your Form IL-1041.
- 3 4 3 - 1 6 0 0 0 0 0
Write your federal employer identification number (FEIN).
- 4 Write the apportionment factor from Step 6, Line 3, of Schedule NR, Form IL-1041; otherwise, write "1." 1.000000

Step 2: Identify your beneficiary

- 5 ESTATE OF ANNABEL ROUNTREE
Name
- 6 C/O MERRILL LYNCH; 1 BOATMAN'S PLAZA
Mailing address
- ST. LOUIS MO 63102
City State ZIP
- 7 37-6222222
Social Security number or FEIN
- 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	
10 Dividends	10	
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 <u>33,149.00</u>	
20 Dividends	20 <u>2,265.00</u>	
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 <u>13,043.00</u>	
24 Directly apportioned deductions — Depreciation, depletion, and amortization	24	
25 Total annuities, royalties, and other nonpassive income. Subtract Column A, Line 24 from Line 23. See Instructions.	25 <u>13,043.00</u>	
26 Trade or business, rental real estate, and other rental income before directly apportioned deductions	26	
27 Directly apportioned deductions — Depreciation, depletion, and amortization	27	
28 Total trade or business, rental real estate, and other rental income. Subtract Column A, Line 27 from Line 26.	28	
29 Other income	29	
Specify		



2010 Workbook

For Example 7



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 <u>2,213.00</u>	
31 Illinois income and replacement tax deducted	31 _____	
32 Illinois Bonus Depreciation addition	32 _____	
33 Related-Party Expenses addition	33 _____	
34 Distributive share of additions	34 _____	
35 Other additions not listed above (as figured on Illinois Schedule M (for businesses))	35 _____	
Subtractions		
36 a Interest from U.S. Treasury obligations included as business income	36a _____	
b Interest from U.S. Treasury obligations included as nonbusiness income	36b _____	
37 Federally-taxed refund of Illinois income and replacement tax	37 _____	
38 Payment from certain retirement plans	38 _____	
39 Retirement payments to retired partners	39 _____	
40 Enterprise Zone or River Edge Redevelopment Zone Dividend Subtraction	40 _____	
41 High Impact Business within a Foreign Trade Zone Dividend Subtraction	41 _____	
42 Contributions to certain job training projects	42 _____	
43 Illinois Bonus Depreciation subtraction	43 _____	
44 Related-Party Expenses subtraction	44 _____	
45 Distributive share of subtractions	45 _____	
46 ESBT loss	46 _____	
47 Other subtractions not listed above (as figured on Illinois Schedule M (for businesses))	47 _____	

Step 6: Figure your beneficiary's (except a corporate beneficiary) share of your Illinois August 1, 1969, appreciation amounts

	A	B
	Beneficiary's share from Illinois Schedule F (Form IL-1041)	Nonresident beneficiary's share apportioned or allocated to Illinois
48 Section 1245 and 1250 gain	48 _____	
49 Section 1231 gain	49 _____	
50 Capital gain	50 _____	

Step 7: Figure your beneficiary's share of pass-through entity payments

51 Pass-through entity payments made on behalf of nonresident beneficiary from Form IL-1000.	51 _____
---	----------

ESTATE TAX (IL FORM 700)

The Illinois inheritance tax has received a lot of attention since the beginning of 2009 because Illinois decoupled from the federal estate tax law and had a \$2 million exemption equivalent for 2009 before any Illinois estate taxes were due. On the other hand, the federal exemption equivalent was \$3.5 million for 2009.

Note. At the time this book was printed, there was no federal **or** Illinois estate tax for 2010. Both are expected to be reinstated in 2011, with a \$1 million exemption.

If the taxable estate exceeds \$2 million for 2009, an IL Form 700, *State of Illinois Estate & Generation Skipping Transfer Tax Return* is required, even if no federal estate tax is required. IL Form 700 must be filed in duplicate. One copy is for the county treasurer in the decedent's county of residence, and the other is for the Illinois attorney general's office. A complete copy of federal Form 706 with all attachments, copies of the will, trust documents, death certificates, and appraisals must be included with IL Form 700. This is true even if there is no federal estate tax liability. The tax return is due nine months after the date of the decedent's death. The Illinois tax liability can be paid in installments if the federal tax is being paid on the installment basis. The computation is made using IL Form 4350a, *Computation of Illinois Estate Tax Due with Return and Annual Installment*.

If an individual died in 2009 with a gross taxable estate of \$3 million, no federal tax is owed. However, a federal Form 706 with all schedules and attachments must be prepared. This form becomes an attachment to IL Form 700 because the gross taxable estate exceeded \$2 million. In situations in which both federal and Illinois estate tax returns are required, no credit is allowed for Illinois tax paid on the federal estate tax return. Instead, a series of interrelated calculations are required to determine the proper Illinois tax liability and the allowable deduction on the federal estate tax return. The estate representative uses the calculator at the Illinois attorney general's website to make this interrelated calculation. See www.illinoisattorneygeneral.gov for more information.⁹

For persons dying after January 1, 2009, the estate may make a qualified terminal interest property (QTIP) election that is larger than the federal QTIP election. The Illinois QTIP election must be made on IL Form 700 and will follow federal statutes and rules for the elected property passing to the surviving spouse and inclusion for Illinois purposes on the Illinois estate tax return of the surviving spouse.

An IL Form 700 for decedents dying in the year 2009 follows.

⁹. The Illinois attorney general's office administers the Illinois estate tax.

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FORM 700

STATE OF ILLINOIS ESTATE & GENERATION SKIPPING TRANSFER TAX RETURN FOR DECEDENTS DYING ON OR AFTER JANUARY 1, 2009

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 of the following SIX is applicable:

- ☐ 1. Neither a Federal Estate Tax Return nor Illinois Estate Tax Return is 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.

STATE OF ILLINOIS ESTATE & GENERATION SKIPPING TRANSFER TAX RETURN - PAGE 1

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☐ 3. A Federal Estate Tax Return or any other form containing the same information is attached (whether or not a Federal Estate Tax is due), and an Illinois Estate Tax is due. A Certificate of Discharge is requested. *(Complete Recapitulation and Schedule A or B, whichever is applicable.)*

☐ 4. An Illinois QTIP election is made for this estate.
Amount of Illinois QTIP election \$

Social Security Number of surviving spouse _____

☐ 5. 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.)

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 an extension of time to file is being requested or if due date determined by extension of time to file Federal Estate Tax Return, check box and attach explanation for extension request or a copy of the Federal extension request. If based upon a Federal extension request, file a copy of approved extension request when available. This extension request should be filed within 9 months of date of death.

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 (Instructions on page 5.)	
1. Tentative Taxable Estate from Federal Return (Line 3a, Form 706), or other form containing the same information	1. \$
2. Illinois QTIP election <i>(Additional amount in excess of Federal QTIP included in Line 2, Form 706.)</i> . . .	2. \$
3. Illinois Tentative Taxable Estate <i>(Line 1 minus Line 2.)</i>	3. \$

STATE OF ILLINOIS ESTATE & GENERATION SKIPPING TRANSFER TAX RETURN - PAGE 2

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SCHEDULE A – Resident Decedent's Estate (Continued.)

4. Adjusted taxable gifts (Line 4, Form706, or any other form containing the same information.)	4. \$
5. Illinois Tentative Taxable Estate plus adjusted taxable gifts (Add Line 3 and Line 4.)	5. \$
6. Full amount computed for Illinois Estate Tax from website calculator before apportionment (Lines 3 & 5 from this Form 700 and applied to website calculator for interrelated calculation.)	6. \$
7. Gross value for Federal Estate Tax purposes of decedent's estate having taxable situs in Illinois	7. \$
8. Gross value of decedent's estate for Federal Estate Tax purposes wherever located	8. \$
9. Percent of estate having taxable situs in Illinois (Line 7 divided by Line 8.)	9. %
10. Amount of tax attributable to Illinois (Line 6 multiplied by Line 9. Also enter on Line 1 in Recapitulation.)	10. \$

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).

SCHEDULE B – Non-Resident or Alien Decedent's Estate (Instructions on page 5.)

1. Tentative Taxable Estate from Federal Return, or other equivalent form	1. \$
2. Illinois QTIP election (Additional amount in excess of Federal QTIP included in Line 2, Form 706.)	2. \$
3. Illinois Tentative Taxable Estate (Line 1 minus Line 2.)	3. \$
4. Adjusted taxable gifts (Line 4, Form706, or any other form containing the same information.)	4. \$
5. Illinois Tentative Taxable Estate plus adjusted taxable gifts (Add Line 3 and Line 4.)	5. \$
6. Full amount computed for Illinois Estate Tax from website calculator before apportionment (Lines 3 & 5 from this Form 700 and applied to website calculator for interrelated calculation.)	6. \$
7. Gross value for Federal Estate Tax purposes of decedent's estate having taxable situs in Illinois	7. \$
8. Gross value of decedent's estate for Federal Estate Tax purposes wherever located	8. \$

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SCHEDULE B – Non-Resident or Alien Decedent's Estate (Continued.)

- | | |
|--|--------|
| 9. Percent of estate having taxable situs in Illinois
(Line 7 divided by Line 8.) | 9. % |
| 10. Amount of tax attributable to Illinois
(Line 6 multiplied by Line 9. Also enter on Line 1 in Recapitulation.) | 10. \$ |

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.

RECAPITULATION

- | | |
|--|-------|
| 1. Amount of tax payable to Illinois
(Schedule A Line 10 or Schedule B Line 10.) | 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).

FILING AND PAYMENT INSTRUCTIONS

For decedents dying prior to 2009, see the Returns previously posted on this website covering the specific year of death at issue subject to taxation.

For persons dying in 2009, the Federal exemption for Federal estate tax purposes is \$3,500,000. However, the exemption equivalent for Illinois estate tax purposes is \$2,000,000. Therefore, tentative taxable estates with adjusted taxable gifts between \$2,000,000 and \$3,500,000 will owe an Illinois estate tax without any corresponding Federal estate tax liability. In such situations, the estate representative is to prepare and file the Illinois Estate Tax Return, Form 700, together with a Federal Form 706, Federal Estate Tax Return, or any other form containing the same information, even though the Federal return is not required to be filed with the Internal Revenue Service. The Federal Form 706 must include all schedules, appraisals, wills, trusts, attachments, etc. as the Federal Form 706 would have for a 2008 decedent with a tentative taxable estate plus adjusted taxable gifts over \$2,000,000. The Illinois estate tax will be determined by using the inter-related calculations from the 2009 Calculator available at www.illinoisattorneygeneral.gov. The computations are based upon using the amounts of the Illinois Tentative Taxable Estate (Line 3, Form 700) and the Illinois Tentative Taxable Estate plus adjusted taxable gifts (Line 5, Form 700).

When the tentative taxable estate plus adjusted taxable gifts exceeds \$3,500,000 the Illinois Estate Tax Return, Form 700, is to be prepared and filed in the same manner for 2009 as for 2008, and must therefore include a copy of the Federal Form 706 with all attachments.

For both resident and non-resident decedents, the tax base will be calculated assuming all assets are located within Illinois. (Line 6, Schedule A or B, Form 700). The percentage of Illinois assets to total assets is then computed with the percentage applied to the tax base for apportionment purposes to determine the amount of Illinois estate tax due.

Illinois QTIP election (Qualified Terminable Interest Property):

For persons dying January 1, 2009 and after, the estate may make a QTIP election for Illinois purposes which is larger than the Federal QTIP election. The Illinois QTIP must be elected on the Illinois Return. The Illinois QTIP election will follow Federal statutes and rules for treatment of such elected property as passing to the surviving spouse and inclusion for Illinois purposes on any Illinois Estate Tax Return of the surviving spouse.

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.



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INFORMAL CONFERENCE BOARD

Many tax practitioners are unfamiliar with the Informal Conference Board (ICB), a unit of IDOR.¹⁰ Cases coming before the ICB are typically large corporation income and sales tax issues. The ICB can be useful after a taxpayer has discussions with a tax auditor and audit supervisor regarding a completed Illinois tax audit. Generally during such discussions, the auditor explains the proposed adjustments and allows the taxpayer time to secure additional information which may alter the outcome of the audit.

If the taxpayer disagrees with any portion of the audit adjustments, the taxpayer may request a review by the ICB on the disputed issues. The review allows the taxpayer the opportunity to have an informal conference before Illinois issues a Notice of Deficiency, Notice of Claim Denial, or Notice of Tax Liability. The review is an attempt to resolve disputes without using costly and time-consuming litigation.

The review is a part of the audit process but is only used when a valid and controversial audit issue is identified. If the ICB rules against the taxpayer, the formal protest rights are retained. ICB review is not granted if:

- The taxpayer simply disagrees with the applicable tax law or regulation,
- The taxpayer is only disputing the assessment of penalty or interest,
- The same or similar issue is pending in Administrative Hearings or in the courts, or
- The conferee determines that an issue is not valid and controversial.

Because the ICB's informal review process occurs before the issuance of a statutory notice, the ICB will not:

- Render a formal opinion as a result of the review,
- Issue decisions that are precedential in nature, or
- Propose or consider percentage or dollar settlements.

REVIEW GRANTED

If the taxpayer's request for an ICB review is granted, the taxpayer is notified by the audit conferee assigned to the case. A conference is scheduled with the taxpayer, the auditor, and the audit supervisor. The taxpayer may have a representative present who does not have to be an attorney.

If the ICB determines that the audit adjustments should be revised, the case is returned to the auditor. If the ICB finds the audit adjustments are correct, the audit is finalized.

All completed audits (including cases on which an ICB decision has been issued) are subject to a computational and procedural review by IDOR's Technical Review Section. This review may result in the audit being returned to the auditor for additional field work.

REVIEW DENIED

If the taxpayer's request is denied, the taxpayer may not appeal the denial. The taxpayer retains formal appeal rights once the statutory notice is issued.

¹⁰ The information comes from a pamphlet, Informal Conference Unit Review, prepared by the Audit Bureau of the Illinois Department of Revenue. PIO-58 (R-5/98).

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FORMAL APPEAL RIGHTS

The ICB process does not affect the taxpayer's formal appeal rights after issuance of the statutory notice. The taxpayer has the right to:

- Protest the Notice of Deficiency, Notice of Claim Denial, or Notice of Tax Liability once it is issued and request a hearing before an Administrative Law Judge;¹¹
- Pay the audit liability and file a claim for the disagreed issues; or
- Pay the audit liability under protest in accordance with the Protest Act and file a complaint in circuit court.

REQUESTING A REVIEW

To request an ICB review, the taxpayer must complete Form ICB-1, *Request for Informal Conference Review*, and submit it to the ICB within 60 days of the issuance of either a Notice of Proposed Liability, Notice of Proposed Deficiency, or Notice of Proposed Claim denial by the Auditor.

It is the goal of the ICB to ensure that the disputed proposed audit adjustments are correct and to resolve disputes with taxpayers concerning their tax liability at the earliest possible opportunity in the administrative process. The ICB liberally exercises its discretion in all areas with this goal in mind.

For more information on the ICB, see section 215 of the Illinois Department of Revenue Regulations.

¹¹. Detailed information regarding practice and procedure for hearings is contained in Illinois Administrative Code, Title 86, Chapter I, Part 200.

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