2016 Illinois Update & Reference Material

CONTENTS

2016 Workbook

2016 Illinois Update

Please note. Corrections for all of the chapters are available at **www.TaxSchool.illinois.edu.**

For your convenience, in-text website links are also provided as short URLs. Anywhere you see **uofi.tax/xxx**, the link points to the address immediately following in brackets.

NEW LEGISLATION AND UPDATES

STATE TAX PREPARER OVERSIGHT ACT

Public Act 99-0641, the State Tax Preparer Oversight Act, becomes effective January 1, 2017. This act establishes an Illinois requirement to report the preparer tax identification number (PTIN) on income tax returns and claims for refund filed with the state. This will allow the Illinois Department of Revenue (IDOR) to develop a program to use the PTIN as an oversight mechanism to assess returns, to identify high error rates, patterns of suspected fraud, and unsubstantiated bases for tax positions by income tax return preparers. Under this program, IDOR will exchange information with the IRS on income tax return preparers who are suspected of fraud, disciplined, or barred from filing tax returns. IDOR may also establish additional communication protocols with other states to exchange similar enforcement or discipline information.

The act gives IDOR the right to investigate preparers as well as bar or suspend preparers from filing returns with IDOR. Before taking any disciplinary action against a preparer, IDOR must hold a hearing. At least 30 days before the date set for the hearing, the accused must be notified in writing of the charges made and the time and place for the hearing on the charges. All final administrative decisions are subject to judicial review under the provisions of the Administrative Review Law.

The requirement is effective for tax years beginning on or after January 1, 2017. The fine for failure to provide a PTIN is $50 per offense, not to exceed $25,000 per year, in addition to any other applicable penalty. The penalty will not be imposed if the failure is due to reasonable cause and not willful neglect.

TAX LAW CHANGES

Individuals

Effective January 1, 2016, the Illinois individual income tax exemption amount increased from $2,150 to $2,175.[1]

C Corporations

The due dates for some C corporation returns will be changing to correspond with the federal due dates.[2] For C corporation filers whose tax year begins on or after January 1, 2016, and ends on a date **other** than June 30, the original filing and payment due date is now the 15th day of the 4th month following the close of the tax year.[3]

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[1] *What's New for the 2015 Tax Season*. IDOR. [iltax.com/News/WhatsNew.htm] Accessed on Aug. 24, 2016.

[2] IDOR Informational Bulletin FY 2016-08 (Jan. 2016).

[3] *Corporate Income Tax*. IDOR. [www.revenue.state.il.us/businesses/taxinformation/income/corporate.htm] Accessed on Sep. 29, 2016; Instructions for IL-505-B.

IDOR grants an automatic extension of six months to taxpayers whose returns are due on the 15th day of the 4th month following the close of the tax year.[4] The taxpayer does not need to file an application form to obtain the extension.

For C corporations whose tax year begins on or after January 1, 2016, and **ends on June 30**, the original filing and payment due date remains September 15 (the 15th day of the 3rd month following the end of the tax year).[5] IDOR grants an automatic extension of seven months to such taxpayers.[6] The taxpayer does not need to file an application form to obtain the extension.

FARM MACHINERY AND EQUIPMENT SALES TAX EXEMPTION[7]

IDOR issued a compliance alert about taxpayers incorrectly classifying sales of trailers as exempt under the farm machinery and equipment sales and use tax exemption. The farm machinery and equipment exemption applies **only** to items of new or used farm machinery and equipment certified by the purchaser to be used **primarily for production agriculture.** Registered vehicles other than motor vehicles may qualify for the exemption if they are used primarily in production agriculture but do not qualify if they are used for transportation or other nonexempt activities.

Production agriculture is defined as the raising of or propagation of any of the following.

1. Livestock
2. Crops for sale for human consumption
3. Crops for livestock consumption
4. Production seed stock grown for the propagation of feed grains and the husbandry of animals or for the purpose of providing a food product

Transportation of crops, animal food products, and animals (e.g., for slaughter and processing) are **not** considered to be production agriculture. Trailers used in these activities do not qualify for the farm machinery and equipment exemption.

In the compliance alert, IDOR reminded retailers not to allow purchasers to claim a farm machinery and equipment sales tax exemption on these trailer sales. It recommended that retailers advise their customers that the farm exemption only applies to purchases used for production agriculture. It also reminded retailers to obtain and retain exemption certificates for legitimately exempt sales.

The compliance alert warns that IDOR actively pursues persons who improperly claim an exemption. IDOR requires such persons to pay the unpaid tax liabilities and penalties and interest. Purchasers can voluntarily file Form RUT-25, *Vehicle Use Tax Transaction Return,* to pay the tax due.

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[4] Illinois Income Tax Regulations, §100.5020(b).

[5] *Corporate Income Tax*. IDOR. [www.revenue.state.il.us/businesses/taxinformation/income/corporate.htm] Accessed on Sep. 29, 2016.

[6] Illinois Income Tax Regulations, §100.5020(b).

[7] *Compliance Alert—Farm Machinery and Equipment Exemption Not Allowed for Trailers Used to Transport Livestock or Crops.* Jun. 2016. IDOR. [tax.illinois.gov/Publications/ComplianceAlerts/CA-2016-16.pdf] Accessed on Sep. 22, 2016.

CHANGES AFFECTING ILLINOIS BUSINESSES

Equal Pay Act

The Equal Pay Act of 2003 (PA 99-0418) prohibits wage discrimination based on gender. Effective January 1, 2016, the act applies to **all** employers, including those with less than four employees. In addition, there is a new civil penalty structure for employers who violate any provision of the equal pay law. For **each employee** affected by a violation, the penalties are as follows.

	Maximum Fine for Employers with Fewer than 4 Employees	Maximum Fine for Employers with 4 or More Employees
First offense	$ 500	$2,500
Second offense	2,500	3,000
Third or subsequent offense	5,000	5,000

An employer or person who violates the retaliation prohibitions of the law[8] is subject to a civil penalty not to exceed $5,000 for each violation for each employee affected. In determining the penalty amount, the appropriateness of the penalty to the size of the employer's business and the gravity of the violation will be considered.

New Business Website

Under changes to the Department of Commerce and Economic Opportunity Law (PA 99-0134), the Department of Financial and Professional Regulation (DFPR) is now required to create and maintain a website to help anyone wishing to start a business in Illinois or relocate a business to Illinois. The website must be ready by July 1, 2017, and be updated annually after that.

The website will include the following.

1. An estimate of license and permitting fees for different businesses
2. State government application forms for business licensing or registration
3. Hyperlinks to websites of the responsible agency or organization responsible for accepting the application
4. Contact information for any local government permitting agencies that may be relevant
5. A mechanism for the potential business owner to request more information from DFPR that may be helpful in starting the business, including, but not limited to, state-based incentives that the business owner may qualify for when starting or relocating a business

Illinois Notary Public Act Changes

The Illinois Notary Public Act (PA 99-0112) was amended effective January 1, 2016. The information on the notary public application is now matched to the applicant's Illinois driver's license or Illinois identification card. In addition, the law allows the Secretary of State to create an online application system for an Illinois resident applying for appointment and commission as a notary public. The online notary public application system will retrieve an electronic copy of the applicant's signature from their Illinois driver's license or Illinois identification card.

State Agency Review

The Business Assistance and Regulatory Reform Act (PA-0370) requires state agencies to examine their rules, administrative regulations, and permitting processes as they pertain to small businesses. The purpose of the review is to identify those requirements that are unreasonable, unduly burdensome, duplicative, or onerous to small businesses. Each state agency must submit a report every five years to the Office of Business Permits and Regulatory Assistance, the governor, and the general assembly.

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[8] See 820 ILCS 112/10(b) and (c).

ILLINOIS IDENTITY THEFT ISSUES

DELAYED REFUNDS

IDOR delayed issuing refunds for 2015 returns until March 1, 2016. According to IDOR, this delay allowed time to give additional scrutiny to claims for refund as part of an effort to combat both tax return fraud and identity theft.[9]

Connie Beard, IDOR Director, made the following comment concerning the state's scrutiny of the 2014 returns filed in 2015 and the delay for 2016.[10]

> *Fraud prevention measures implemented by the Department of Revenue during last year's tax season resulted in an overall savings of nearly $5 million that would have, otherwise, been paid. Our new security protocols proved very beneficial in detecting and stopping fraudulently filed returns last year, and we are continuing to enhance our fraud detection efforts this year. By delaying tax refunds by just a few weeks, we'll be able to better detect attempts at identity theft and ensure taxpayer refunds do not fall needlessly into the hands of criminals.*

SUSPICIOUS RETURN CORRECTION NOTICES FROM IDOR[11]

If a taxpayer receives a notice regarding corrections to a return that has not been filed or if none of the numbers on the notice match the information on a filed return, IDOR recommends the taxpayer do the following.

1. Respond to the notice with the information requested or a note indicating that the taxpayer has not filed an Illinois income tax return or that the information on the notice does not match the return filed.
2. Provide information to verify the taxpayer's identity, such as the following.
    a. Copies of the taxpayer's federal and state tax returns
    b. Supporting documentation for claims made on the return
    c. Identification information such as a copy of the taxpayer's social security card or driver's license
    d. Any other applicable information related to the specific circumstance

Once IDOR receives the response, they may follow up with a phone call. If IDOR initiates a phone call to the taxpayer, they will never ask the taxpayer to provide their social security number over the phone. Instead, IDOR will ask the taxpayer to verify their identity using information that is already in the state's records.

NOTIFYING THE STATE OF TAX-RELATED IDENTITY THEFT[12]

An Illinois taxpayer who believes they are a victim of tax-related identity theft should submit the following information to IDOR.

1. A copy of their social security card and/or a copy of their driver's license
2. Copies of the federal and state income tax returns filed for the affected reporting periods, if the taxpayer already filed these returns
3. A copy of federal Form 14039, *Identity Theft Affidavit*
4. Any other information related to the taxpayer's specific circumstance

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[9] *Fraud Prevention Measures to Delay Tax Refunds in 2016*. Jan. 4, 2016. IDOR. [www.revenue.state.il.us/AboutIdor/PressReleases/PR-2016-01-04.pdf] Accessed on Sep. 22, 2016.

[10] Ibid.

[11] *Identity theft and its impact on your taxes*. 2016. IDOR. [tax.illinois.gov/Fraud/IdentityTheft.htm] Accessed on Jun. 29, 2016.

[12] Ibid.

The taxpayer should send this information to:

Illinois Department of Revenue
ID Theft/Fraud Unit
PO Box 19049
Springfield, IL 62794-9049

REQUESTING A COPY OF A FRAUDULENTLY FILED TAX RETURN[13]

A victim of identity theft or a person authorized to obtain the identity theft victim's tax information may request a redacted copy of a fraudulent Illinois individual income tax return that was filed and then accepted by IDOR. At this time, IDOR can only provide copies of fraudulent Forms IL-1040, *Individual Income Tax Return*, or IL-1040-X, *Amended Individual Income Tax Return*; they cannot provide copies of business or employment tax returns.

Taxpayers may request copies of fraudulent returns filed in the current tax year and the previous three years. IDOR will not provide copies of any attachments to the return, such as Forms W-2, *Wage and Tax Statement*, out-of-state returns, or federal returns. They will also not provide copies of any correspondence.

Due to privacy laws, the victim's name and social security number (SSN) must be listed as either the primary taxpayer on the fraudulent return or as the secondary taxpayer (spouse) on a jointly filed return. IDOR cannot disclose return information to any person listed only as a dependent on the return or to a person listed as the spouse on a return filed with a married filing separately status.

A taxpayer may request a copy of a fraudulent return by using Form IL-4506-F, *Request for Copy of Fraudulent Tax Return*. This form and the **required documentation** should be mailed to the following address.

Records Management Division
Illinois Department of Revenue 2-200
PO Box 19014
Springfield, IL 62794-9014

Required documentation includes the following.

- A primary or secondary taxpayer requesting a fraudulent return must provide copies of government-issued forms of identification, such as a driver's license or passport.
- A parent or guardian filing Form IL-4506-F on behalf of a minor child must send copies of their government-issued identification and a copy of the child's birth certificate, adoption record, or other court documents showing that the filer is the child's parent or guardian.
- A personal representative or guardian filing Form IL-4506-F on behalf of a taxpayer whose name and SSN were used to file a fraudulent return must include a copy of their own government-issued identification and a completed Illinois Form IL-2848, *Power of Attorney*. In lieu of Form IL-2848, the personal representative may send a copy of court documents showing their appointment as the taxpayer's personal representative or guardian.
- An executor filing Form IL-4506-F on behalf of a deceased taxpayer must include a copy of the executor's government-issued identification and a copy of the letter of administration, letter of testamentary, or a court order showing their appointment as executor for the estate.

IDOR will acknowledge each Form IL-4506-F request within 30 days from the date of receipt. However, any unresolved issues with the tax return must be resolved before IDOR will provide anyone with a copy of the return.

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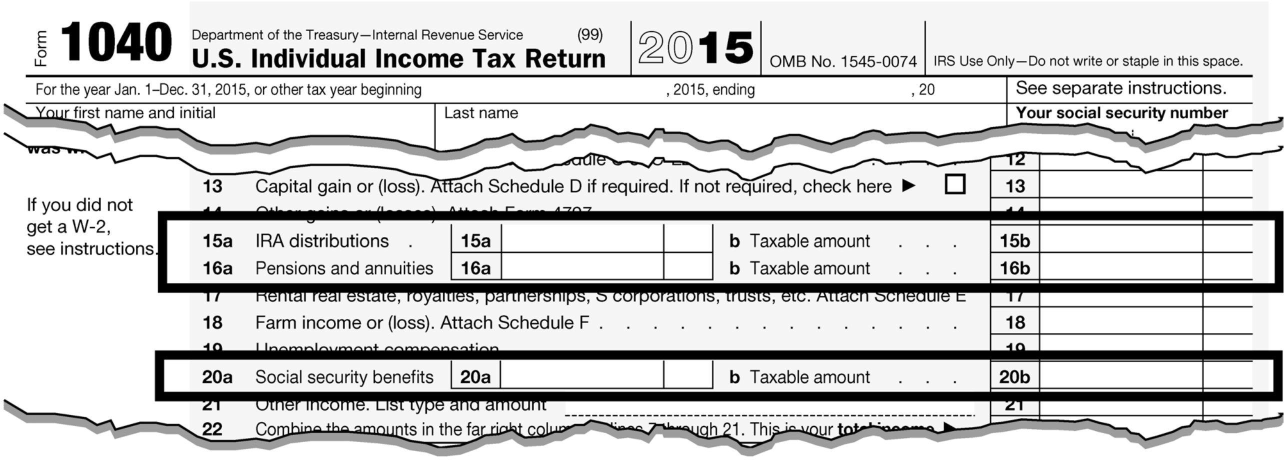
[13] *How do I request a copy of a fraudulently filed tax return?* Mar. 10, 2016. IDOR. [idor.custhelp.com/app/answers/detail/a_id/909/] Accessed on Sep. 29, 2016.

IDOR will assist the taxpayer in resolving any identity theft issues related to individual income tax returns.[14] They also recommend that the taxpayer contact the Illinois Attorney General's Office by visiting the Attorney General identity theft webpage at **uofi.tax/16ilx1** [www.illinoisattorneygeneral.gov/consumers/hotline.html] or by calling the Attorney General's Identity Theft Hotline at 866-999-5630 or 877-844-5461 (TTY). The Attorney General provides assistance to individuals speaking English, Polish, and Spanish.

ILLINOIS SUBTRACTION FOR RETIREMENT PLANS[15]

Illinois allows a deduction for federally taxed social security and qualified retirement income. Historically, many preparers and software providers automatically subtracted every amount of income reported on line 16 of Form 1040, *U.S. Individual Income Tax Return.*



Form **1040** Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return 2015 OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.
For the year Jan. 1–Dec. 31, 2015, or other tax year beginning , 2015, ending , 20 See separate instructions.
Your first name and initial | Last name | **Your social security number**

If you did not get a W-2, see instructions.

13 Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐ **13**
15a IRA distributions . **15a** **b** Taxable amount . . . **15b**
16a Pensions and annuities **16a** **b** Taxable amount . . . **16b**
17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E **17**
18 Farm income or (loss). Attach Schedule F **18**
20a Social security benefits **20a** **b** Taxable amount . . . **20b**
21 Other income. List type and amount **21**
22 Combine the amounts in the far right colu

Line 16 is used for both pensions and annuities. Until the effective date of the net investment income tax (NIIT), federal law did not tax retirement annuities differently from nonqualified annuities. Therefore, it was not necessary for the IRS to require payors issuing Forms 1099-R, *Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.*, to indicate if the payment was from a retirement annuity or a nonqualified annuity.

Effective for tax years beginning after December 31, 2012, IRC §1411 requires that taxpayers with income over certain thresholds pay NIIT on income from investments, including nonqualified annuities. Accordingly, for Forms 1099-R issued for 2013 and subsequent tax years, payors must include a code D in box 7 to indicate that the income is from nonqualified annuities that may be subject to tax under IRC §1411.

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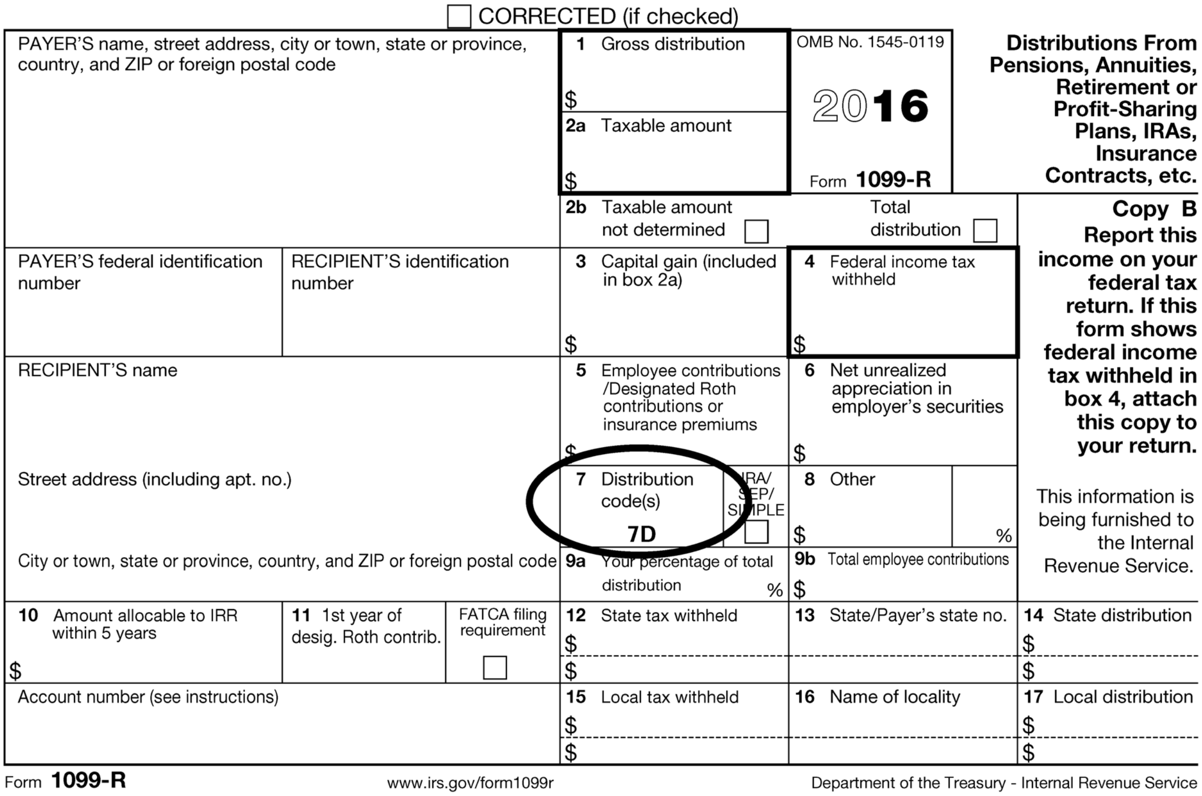
[14] *Identity theft and its impact on your taxes*. 2016. IDOR. [tax.illinois.gov/Fraud/IdentityTheft.htm] Accessed on Sep. 29, 2016.

[15] IDOR Pub. 120, *Retirement Income.*



☐ CORRECTED (if checked)

PAYER'S name, street address, city or town, state or province, country, and ZIP or foreign postal code

1 Gross distribution $

2a Taxable amount $

OMB No. 1545-0119

2016

Form **1099-R**

Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.

2b Taxable amount not determined ☐

Total distribution ☐

Copy B

Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return.

This information is being furnished to the Internal Revenue Service.

PAYER'S federal identification number

RECIPIENT'S identification number

3 Capital gain (included in box 2a) $

4 Federal income tax withheld $

RECIPIENT'S name

5 Employee contributions /Designated Roth contributions or insurance premiums $

6 Net unrealized appreciation in employer's securities $

Street address (including apt. no.)

7 Distribution code(s) 7D

IRA/ SEP/ SIMPLE ☐

8 Other $ %

City or town, state or province, country, and ZIP or foreign postal code

9a Your percentage of total distribution %

9b Total employee contributions $

10 Amount allocable to IRR within 5 years $

11 1st year of desig. Roth contrib.

FATCA filing requirement ☐

12 State tax withheld $ $

13 State/Payer's state no.

14 State distribution $ $

Account number (see instructions)

15 Local tax withheld $ $

16 Name of locality

17 Local distribution $ $

Form **1099-R** www.irs.gov/form1099r Department of the Treasury - Internal Revenue Service

Instructions for Recipient *(Continued)*

distribution (other than a distribution from a designated Roth account) from a qualified plan (including a governmental section 457(b) plan) or section 403(b) plan to a Roth IRA, you must include on the "Taxable amount" line of your tax return the amount shown in this box plus the amount in box 6, if any.

If this is a total distribution from a qualified plan and you were born before January 2, 1936 (or you are the beneficiary of someone born before January 2, 1936), you may be eligible for the 10-year tax option. See the Form 4972 instructions for more information.

If you are an eligible retired public safety officer who elected to exclude from income distributions from your eligible plan used to pay certain insurance premiums, the amount shown in box 2a has not been reduced by the exclusion amount. See the instructions for Form 1040, 1040A, or 1040NR for more information.

Box 2b. If the first box is checked, the payer was unable to determine the taxable amount, and box 2a should be blank, except for an IRA. It is your responsibility to determine the taxable amount. If the second box is checked, the distribution was a total distribution that closed out your account.

Box 3. If you received a lump-sum distribution from a qualified plan and were born before January 2, 1936 (or you are the beneficiary of someone born before January 2, 1936), you may be able to elect to treat this amount as a capital gain on Form 4972 (not on Schedule D (Form 1040)). See the Form 4972 instructions. For a charitable gift annuity, report as a long-term capital gain as explained in the Instructions for Form 8949.

Box 4. Shows federal income tax withheld. Include this amount on your income tax return as tax withheld, and if box 4 shows an amount (other than zero), attach Copy B to your return. Generally, if you will receive payments next year that are not eligible rollover distributions, you can change your withholding or elect not to have income tax withheld by giving the payer Form W-4P.

Box 5. Generally, this shows the employee's investment in the contract (after-tax contributions), if any, recovered tax free this year; the portion that is your basis in a designated Roth account; the part of premiums paid on commercial annuities or insurance contracts recovered tax free; or the nontaxable part of a charitable gift annuity. This box does not show any IRA contributions. If the amount shown is your basis in a designated Roth account, the year you first made contributions to that account may be entered in box 11.

Box 6. If you received a lump-sum distribution from a qualified plan that includes securities of the employer's company, the net unrealized appreciation (NUA) (any increase in value of such securities while in the trust) is taxed only when you sell the securities unless you choose to include it in your gross income this year. See Pub. 575 and Form 4972. If you roll over the distribution to a Roth IRA, see the instructions for *Box 2a.* If the distribution was a direct rollover, the NUA is included in box 2a. If you did not receive a lump-sum distribution, the amount shown is the NUA attributable to employee contributions, which is not taxed until you sell the securities.

Box 7. The following codes identify the distribution you received. For more information on these distributions, see the instructions for your tax return. Also, certain distributions may be subject to an additional 10% tax. See the Instructions for Form 5329.

1—Early distribution, no known exception (in most cases, under age 59½).

2—Early distribution, exception applies (under age 59½).

3—Disability.

4—Death.

5—Prohibited transaction.

6—Section 1035 exchange (a tax-free exchange of life insurance, annuity, qualified long-term care insurance, or endowment contracts).

7—Normal distribution.

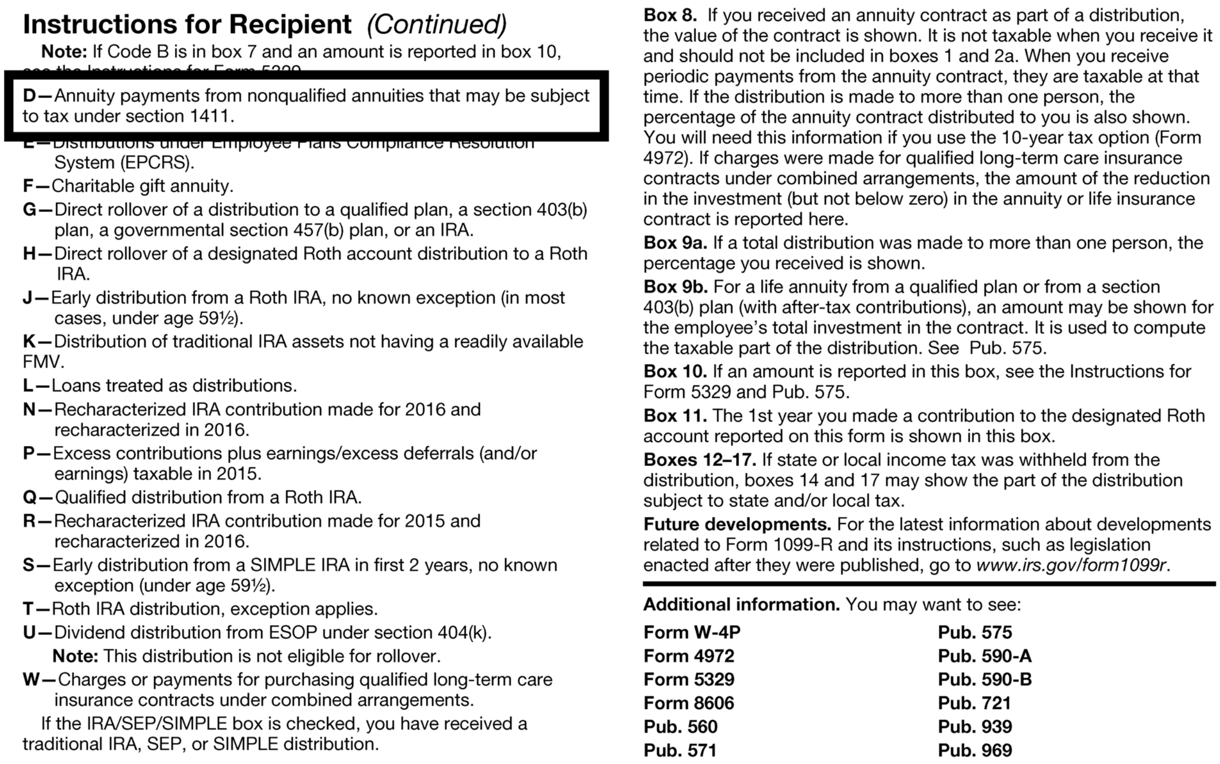
8—Excess contributions plus earnings/excess deferrals (and/or earnings) taxable in 2016.

9—Cost of current life insurance protection.

A—May be eligible for 10-year tax option (see Form 4972).

B—Designated Roth account distribution.

(Continued on the back of Copy 2.)



Instructions for Recipient *(Continued)*

Note: If Code B is in box 7 and an amount is reported in box 10, see the Instructions for Form 5329.

D—Annuity payments from nonqualified annuities that may be subject to tax under section 1411.

E—Distributions under Employee Plans Compliance Resolution System (EPCRS).

F—Charitable gift annuity.

G—Direct rollover of a distribution to a qualified plan, a section 403(b) plan, a governmental section 457(b) plan, or an IRA.

H—Direct rollover of a designated Roth account distribution to a Roth IRA.

J—Early distribution from a Roth IRA, no known exception (in most cases, under age 59½).

K—Distribution of traditional IRA assets not having a readily available FMV.

L—Loans treated as distributions.

N—Recharacterized IRA contribution made for 2016 and recharacterized in 2016.

P—Excess contributions plus earnings/excess deferrals (and/or earnings) taxable in 2015.

Q—Qualified distribution from a Roth IRA.

R—Recharacterized IRA contribution made for 2015 and recharacterized in 2016.

S—Early distribution from a SIMPLE IRA in first 2 years, no known exception (under age 59½).

T—Roth IRA distribution, exception applies.

U—Dividend distribution from ESOP under section 404(k). **Note:** This distribution is not eligible for rollover.

W—Charges or payments for purchasing qualified long-term care insurance contracts under combined arrangements.

If the IRA/SEP/SIMPLE box is checked, you have received a traditional IRA, SEP, or SIMPLE distribution.

Box 8. If you received an annuity contract as part of a distribution, the value of the contract is shown. It is not taxable when you receive it and should not be included in boxes 1 and 2a. When you receive periodic payments from the annuity contract, they are taxable at that time. If the distribution is made to more than one person, the percentage of the annuity contract distributed to you is also shown. You will need this information if you use the 10-year tax option (Form 4972). If charges were made for qualified long-term care insurance contracts under combined arrangements, the amount of the reduction in the investment (but not below zero) in the annuity or life insurance contract is reported here.

Box 9a. If a total distribution was made to more than one person, the percentage you received is shown.

Box 9b. For a life annuity from a qualified plan or from a section 403(b) plan (with after-tax contributions), an amount may be shown for the employee's total investment in the contract. It is used to compute the taxable part of the distribution. See Pub. 575.

Box 10. If an amount is reported in this box, see the Instructions for Form 5329 and Pub. 575.

Box 11. The 1st year you made a contribution to the designated Roth account reported on this form is shown in this box.

Boxes 12–17. If state or local income tax was withheld from the distribution, boxes 14 and 17 may show the part of the distribution subject to state and/or local tax.

Future developments. For the latest information about developments related to Form 1099-R and its instructions, such as legislation enacted after they were published, go to *www.irs.gov/form1099r*.

Additional information. You may want to see:

Form W-4P
Form 4972
Form 5329
Form 8606
Pub. 560
Pub. 571
Pub. 575
Pub. 590-A
Pub. 590-B
Pub. 721
Pub. 939
Pub. 969

RETIREMENT INCOME QUALIFYING FOR THE SUBTRACTION

Under Illinois law, nonqualified annuities are not eligible for the retirement income subtraction. Of the amounts reported on Form 1040, lines 15b, 16b, and 20b, **only** the federally taxed portion of income from the following sources can be subtracted from the taxpayer's Illinois income.

- A qualified employee benefit plan (A qualified employee benefit plan is defined in IRC §§402 through 408.)
- Railroad retirement income
- A state or local governmental deferred compensation plan paid under IRC §457
- An individual retirement arrangement (IRA) (including amounts rolled over to a Roth IRA)
- A self-employed retirement (SEP) plan
- Social security benefits

Additionally, the taxpayer can subtract the following income reported on lines 7, 8, 13, and 17 of Form 1040.

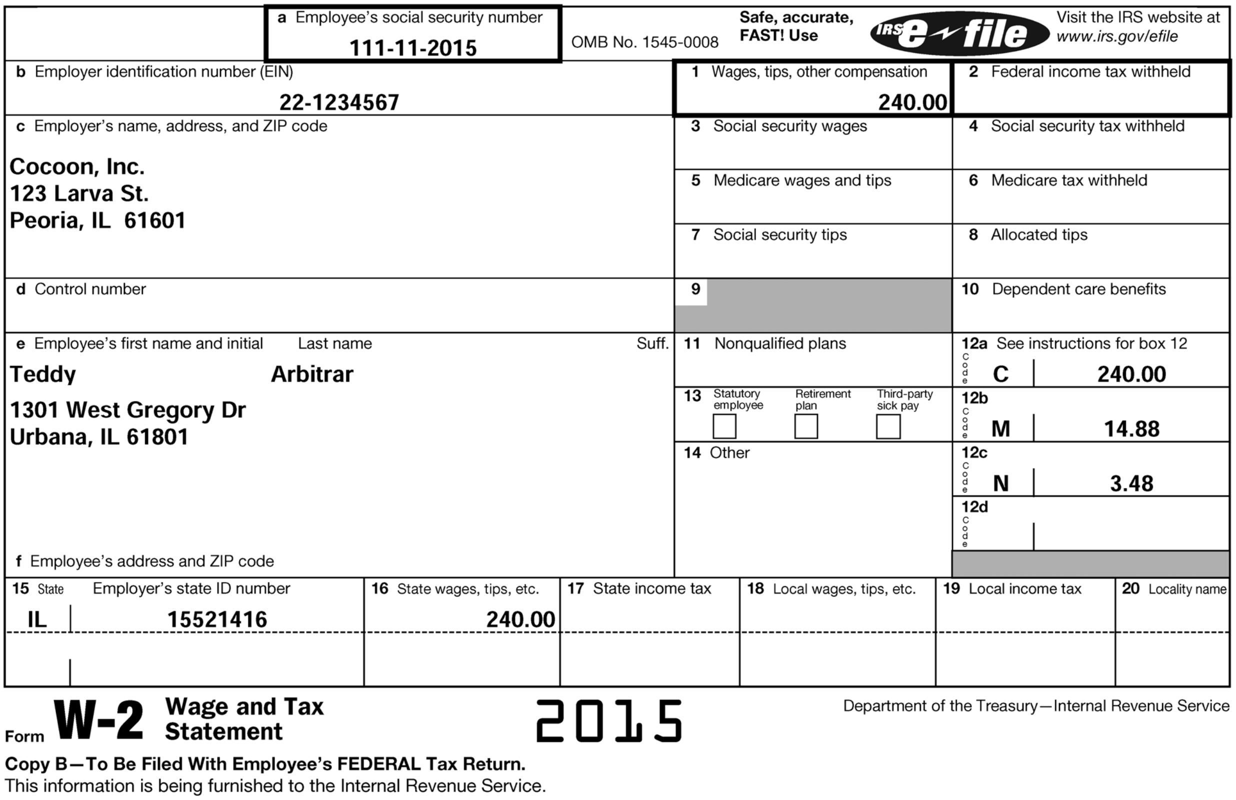
- A government retirement or government disability plan (including military plans)
- A state or local governmental deferred compensation plan paid under IRC §457 (and reported on line 7)
- Capital gains on employer securities received in a lump-sum distribution, to the extent the gains are due to net unrealized appreciation on the securities at the time of distribution
- Retirement payments to retired partners
- Group term life insurance premiums paid by a qualified retirement plan or government retirement plan and included as wages on Form 1040
- Interest income realized on the redemption of U.S. retirement bonds

INCOME NOT QUALIFYING FOR THE SUBTRACTION

There are two categories of income that IDOR specifically identifies in Pub. 120, *Retirement Income,* that cannot be subtracted from the taxpayer's income.

1. Income that is **not** from a qualified employee benefit plan, such as the following
    - **a.** Third-party sick pay
    - **b.** Deferred compensation and disability plans that are not government plans
2. Ordinary income from a qualified retirement plan for which the taxpayer elected to use the special 10-year averaging method on Form 4972, *Tax on Lump-Sum Distributions*

Example 1. Teddy Arbitrar is retired from Cocoon, Inc. In 2015, he received a pension of $36,000, social security benefits of $14,000, and a nonqualified annuity distribution of $15,000 (100% of which is taxable). During January 2016, he received the following 2015 Form W-2. In box 12, the code C indicates the taxable cost of group-term life insurance that Cocoon purchased under a qualified retirement plan on Teddy's behalf in 2015.[16]



a Employee's social security number
111-11-2015

OMB No. 1545-0008

Safe, accurate, FAST! Use IRS e-file

Visit the IRS website at *www.irs.gov/efile*

b Employer identification number (EIN)
22-1234567

c Employer's name, address, and ZIP code
Cocoon, Inc.
123 Larva St.
Peoria, IL 61601

d Control number

e Employee's first name and initial — Last name — Suff.
Teddy Arbitrar
1301 West Gregory Dr
Urbana, IL 61801

f Employee's address and ZIP code

1 Wages, tips, other compensation 240.00

2 Federal income tax withheld

3 Social security wages

4 Social security tax withheld

5 Medicare wages and tips

6 Medicare tax withheld

7 Social security tips

8 Allocated tips

9

10 Dependent care benefits

11 Nonqualified plans

12a See instructions for box 12 — Code C 240.00

12b Code M 14.88

12c Code N 3.48

12d Code

13 Statutory employee ☐ Retirement plan ☐ Third-party sick pay ☐

14 Other

15 State	Employer's state ID number	16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name
IL	15521416	240.00				

Form **W-2** **Wage and Tax Statement** 2015

Department of the Treasury—Internal Revenue Service

Copy B—To Be Filed With Employee's FEDERAL Tax Return.
This information is being furnished to the Internal Revenue Service.

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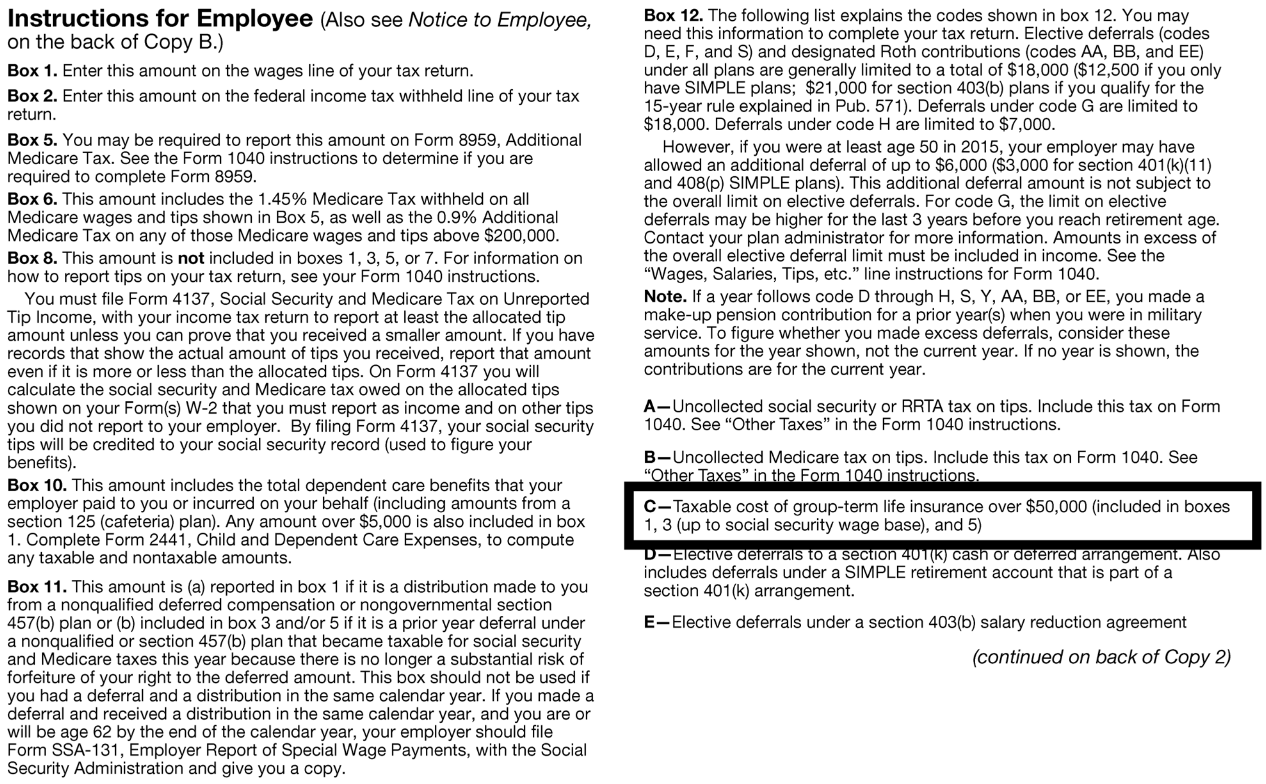
[16] Instructions for Forms W-2 and W-3.

For Example 1



Instructions for Employee (Also see *Notice to Employee,* on the back of Copy B.)

Box 1. Enter this amount on the wages line of your tax return.

Box 2. Enter this amount on the federal income tax withheld line of your tax return.

Box 5. You may be required to report this amount on Form 8959, Additional Medicare Tax. See the Form 1040 instructions to determine if you are required to complete Form 8959.

Box 6. This amount includes the 1.45% Medicare Tax withheld on all Medicare wages and tips shown in Box 5, as well as the 0.9% Additional Medicare Tax on any of those Medicare wages and tips above $200,000.

Box 8. This amount is **not** included in boxes 1, 3, 5, or 7. For information on how to report tips on your tax return, see your Form 1040 instructions.

You must file Form 4137, Social Security and Medicare Tax on Unreported Tip Income, with your income tax return to report at least the allocated tip amount unless you can prove that you received a smaller amount. If you have records that show the actual amount of tips you received, report that amount even if it is more or less than the allocated tips. On Form 4137 you will calculate the social security and Medicare tax owed on the allocated tips shown on your Form(s) W-2 that you must report as income and on other tips you did not report to your employer. By filing Form 4137, your social security tips will be credited to your social security record (used to figure your benefits).

Box 10. This amount includes the total dependent care benefits that your employer paid to you or incurred on your behalf (including amounts from a section 125 (cafeteria) plan). Any amount over $5,000 is also included in box 1. Complete Form 2441, Child and Dependent Care Expenses, to compute any taxable and nontaxable amounts.

Box 11. This amount is (a) reported in box 1 if it is a distribution made to you from a nonqualified deferred compensation or nongovernmental section 457(b) plan or (b) included in box 3 and/or 5 if it is a prior year deferral under a nonqualified or section 457(b) plan that became taxable for social security and Medicare taxes this year because there is no longer a substantial risk of forfeiture of your right to the deferred amount. This box should not be used if you had a deferral and a distribution in the same calendar year. If you made a deferral and received a distribution in the same calendar year, and you are or will be age 62 by the end of the calendar year, your employer should file Form SSA-131, Employer Report of Special Wage Payments, with the Social Security Administration and give you a copy.

Box 12. The following list explains the codes shown in box 12. You may need this information to complete your tax return. Elective deferrals (codes D, E, F, and S) and designated Roth contributions (codes AA, BB, and EE) under all plans are generally limited to a total of $18,000 ($12,500 if you only have SIMPLE plans; $21,000 for section 403(b) plans if you qualify for the 15-year rule explained in Pub. 571). Deferrals under code G are limited to $18,000. Deferrals under code H are limited to $7,000.

However, if you were at least age 50 in 2015, your employer may have allowed an additional deferral of up to $6,000 ($3,000 for section 401(k)(11) and 408(p) SIMPLE plans). This additional deferral amount is not subject to the overall limit on elective deferrals. For code G, the limit on elective deferrals may be higher for the last 3 years before you reach retirement age. Contact your plan administrator for more information. Amounts in excess of the overall elective deferral limit must be included in income. See the "Wages, Salaries, Tips, etc." line instructions for Form 1040.

Note. If a year follows code D through H, S, Y, AA, BB, or EE, you made a make-up pension contribution for a prior year(s) when you were in military service. To figure whether you made excess deferrals, consider these amounts for the year shown, not the current year. If no year is shown, the contributions are for the current year.

A—Uncollected social security or RRTA tax on tips. Include this tax on Form 1040. See "Other Taxes" in the Form 1040 instructions.

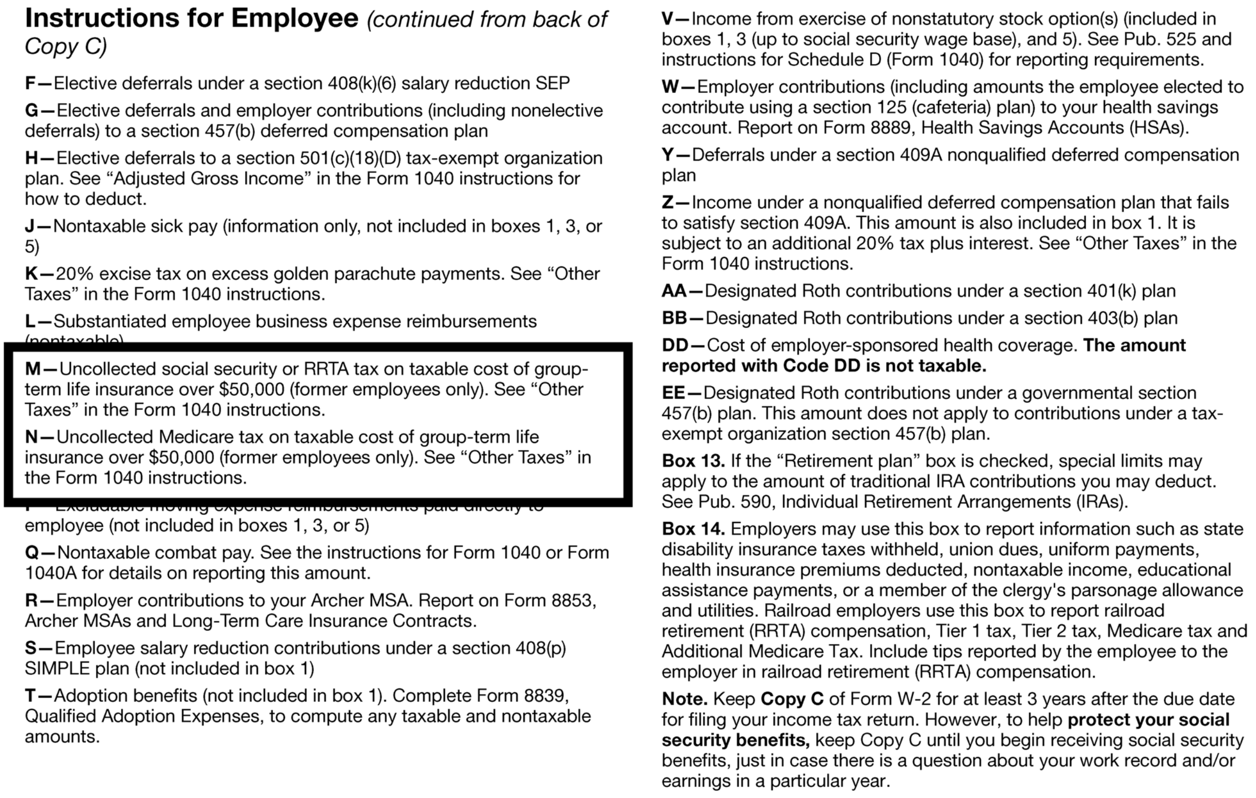
B—Uncollected Medicare tax on tips. Include this tax on Form 1040. See "Other Taxes" in the Form 1040 instructions.

C—Taxable cost of group-term life insurance over $50,000 (included in boxes 1, 3 (up to social security wage base), and 5)

D—Elective deferrals to a section 401(k) cash or deferred arrangement. Also includes deferrals under a SIMPLE retirement account that is part of a section 401(k) arrangement.

E—Elective deferrals under a section 403(b) salary reduction agreement

(continued on back of Copy 2)



Instructions for Employee *(continued from back of Copy C)*

F—Elective deferrals under a section 408(k)(6) salary reduction SEP

G—Elective deferrals and employer contributions (including nonelective deferrals) to a section 457(b) deferred compensation plan

H—Elective deferrals to a section 501(c)(18)(D) tax-exempt organization plan. See "Adjusted Gross Income" in the Form 1040 instructions for how to deduct.

J—Nontaxable sick pay (information only, not included in boxes 1, 3, or 5)

K—20% excise tax on excess golden parachute payments. See "Other Taxes" in the Form 1040 instructions.

L—Substantiated employee business expense reimbursements (nontaxable)

M—Uncollected social security or RRTA tax on taxable cost of group-term life insurance over $50,000 (former employees only). See "Other Taxes" in the Form 1040 instructions.

N—Uncollected Medicare tax on taxable cost of group-term life insurance over $50,000 (former employees only). See "Other Taxes" in the Form 1040 instructions.

P—Excludable moving expense reimbursements paid directly to employee (not included in boxes 1, 3, or 5)

Q—Nontaxable combat pay. See the instructions for Form 1040 or Form 1040A for details on reporting this amount.

R—Employer contributions to your Archer MSA. Report on Form 8853, Archer MSAs and Long-Term Care Insurance Contracts.

S—Employee salary reduction contributions under a section 408(p) SIMPLE plan (not included in box 1)

T—Adoption benefits (not included in box 1). Complete Form 8839, Qualified Adoption Expenses, to compute any taxable and nontaxable amounts.

V—Income from exercise of nonstatutory stock option(s) (included in boxes 1, 3 (up to social security wage base), and 5). See Pub. 525 and instructions for Schedule D (Form 1040) for reporting requirements.

W—Employer contributions (including amounts the employee elected to contribute using a section 125 (cafeteria) plan) to your health savings account. Report on Form 8889, Health Savings Accounts (HSAs).

Y—Deferrals under a section 409A nonqualified deferred compensation plan

Z—Income under a nonqualified deferred compensation plan that fails to satisfy section 409A. This amount is also included in box 1. It is subject to an additional 20% tax plus interest. See "Other Taxes" in the Form 1040 instructions.

AA—Designated Roth contributions under a section 401(k) plan

BB—Designated Roth contributions under a section 403(b) plan

DD—Cost of employer-sponsored health coverage. **The amount reported with Code DD is not taxable.**

EE—Designated Roth contributions under a governmental section 457(b) plan. This amount does not apply to contributions under a tax-exempt organization section 457(b) plan.

Box 13. If the "Retirement plan" box is checked, special limits may apply to the amount of traditional IRA contributions you may deduct. See Pub. 590, Individual Retirement Arrangements (IRAs).

Box 14. Employers may use this box to report information such as state disability insurance taxes withheld, union dues, uniform payments, health insurance premiums deducted, nontaxable income, educational assistance payments, or a member of the clergy's parsonage allowance and utilities. Railroad employers use this box to report railroad retirement (RRTA) compensation, Tier 1 tax, Tier 2 tax, Medicare tax and Additional Medicare Tax. Include tips reported by the employee to the employer in railroad retirement (RRTA) compensation.

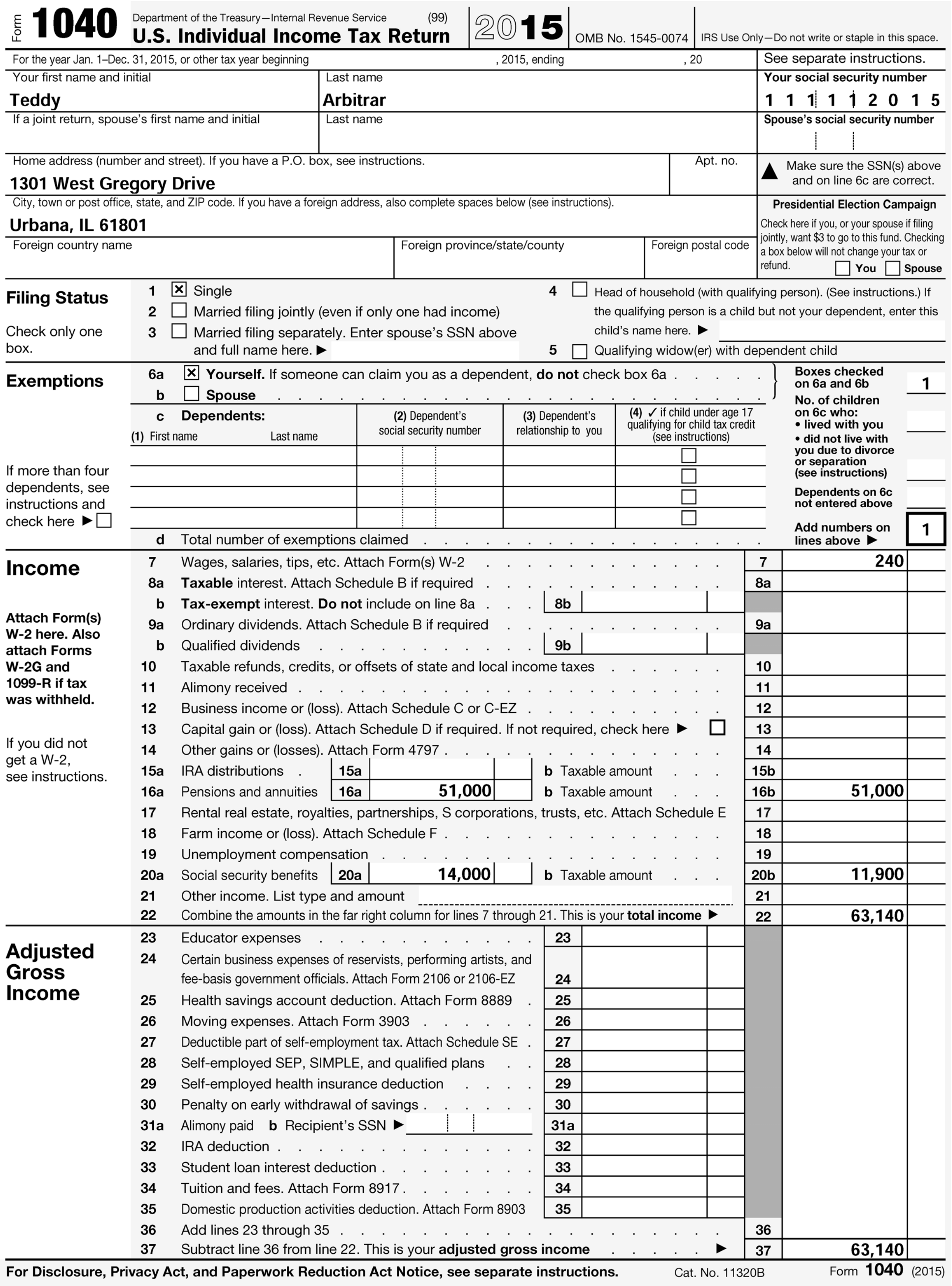
Note. Keep **Copy C** of Form W-2 for at least 3 years after the due date for filing your income tax return. However, to help **protect your social security benefits,** keep Copy C until you begin receiving social security benefits, just in case there is a question about your work record and/or earnings in a particular year.

The following amounts reported on Teddy’s Form 1040 are subtracted on line 5 of his 2015 Form IL-1040.

Taxable pension (Form 1040, line 16b)	$36,000
Taxable social security (Form 1040, line 20b)	11,900
Taxable group term life insurance premiums (Form 1040, line 7)	240
Illinois subtraction on Form IL-1040, line 5	$48,140

The first pages of Teddy’s Forms 1040 and IL-1040 follow.

For Example 1



Form **1040** Department of the Treasury—Internal Revenue Service (99)
U.S. Individual Income Tax Return **2015** OMB No. 1545-0074 IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2015, or other tax year beginning , 2015, ending , 20 See separate instructions.

Your first name and initial **Teddy**	Last name **Arbitrar**	**Your social security number** **1 1 1 1 1 2 0 1 5**
If a joint return, spouse's first name and initial	Last name	**Spouse's social security number**
Home address (number and street). If you have a P.O. box, see instructions. **1301 West Gregory Drive**	Apt. no.	▲ Make sure the SSN(s) above and on line 6c are correct.
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions). **Urbana, IL 61801**		**Presidential Election Campaign** Check here if you, or your spouse if filing jointly, want $3 to go to this fund. Checking a box below will not change your tax or refund. ☐ You ☐ Spouse
Foreign country name	Foreign province/state/county	Foreign postal code

Filing Status

Check only one box.

1 ☒ Single
2 ☐ Married filing jointly (even if only one had income)
3 ☐ Married filing separately. Enter spouse's SSN above and full name here. ▶
4 ☐ Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶
5 ☐ Qualifying widow(er) with dependent child

Exemptions

6a ☒ **Yourself.** If someone can claim you as a dependent, **do not** check box 6a
b ☐ **Spouse**

Boxes checked on 6a and 6b: 1

c **Dependents:**

(1) First name Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) ✓ if child under age 17 qualifying for child tax credit (see instructions)
			☐
			☐
			☐
			☐

If more than four dependents, see instructions and check here ▶ ☐

No. of children on 6c who:
• lived with you
• did not live with you due to divorce or separation (see instructions)

Dependents on 6c not entered above

d Total number of exemptions claimed — Add numbers on lines above ▶ 1

Income

Attach Form(s) W-2 here. Also attach Forms W-2G and 1099-R if tax was withheld.

If you did not get a W-2, see instructions.

7	Wages, salaries, tips, etc. Attach Form(s) W-2			7	240
8a	**Taxable** interest. Attach Schedule B if required			8a	
b	**Tax-exempt** interest. **Do not** include on line 8a	8b			
9a	Ordinary dividends. Attach Schedule B if required			9a	
b	Qualified dividends	9b			
10	Taxable refunds, credits, or offsets of state and local income taxes			10	
11	Alimony received			11	
12	Business income or (loss). Attach Schedule C or C-EZ			12	
13	Capital gain or (loss). Attach Schedule D if required. If not required, check here ▶ ☐			13	
14	Other gains or (losses). Attach Form 4797			14	
15a	IRA distributions	15a		15b b Taxable amount	
16a	Pensions and annuities	16a	51,000	16b b Taxable amount	51,000
17	Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E			17	
18	Farm income or (loss). Attach Schedule F			18	
19	Unemployment compensation			19	
20a	Social security benefits	20a	14,000	20b b Taxable amount	11,900
21	Other income. List type and amount			21	
22	Combine the amounts in the far right column for lines 7 through 21. This is your **total income** ▶			22	63,140

Adjusted Gross Income

23	Educator expenses	23			
24	Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ	24			
25	Health savings account deduction. Attach Form 8889	25			
26	Moving expenses. Attach Form 3903	26			
27	Deductible part of self-employment tax. Attach Schedule SE	27			
28	Self-employed SEP, SIMPLE, and qualified plans	28			
29	Self-employed health insurance deduction	29			
30	Penalty on early withdrawal of savings	30			
31a	Alimony paid b Recipient's SSN ▶	31a			
32	IRA deduction	32			
33	Student loan interest deduction	33			
34	Tuition and fees. Attach Form 8917	34			
35	Domestic production activities deduction. Attach Form 8903	35			
36	Add lines 23 through 35			36	
37	Subtract line 36 from line 22. This is your **adjusted gross income** ▶			37	63,140

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11320B Form **1040** (2015)

For Example 1

Illinois Department of Revenue

2015 Form IL-1040

Individual Income Tax Return or for fiscal year ending __ __/__ __

Over 80% of taxpayers file electronically. It is easy and you will get your refund faster. Visit tax.illinois.gov.

Do not write above this line.

Step 1: Personal Information

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

1 1 1 - 1 1 - 2 0 1 5
Your Social Security number

___ - __ - ____
Spouse's Social Security number

B Personal information

Teddy
Your first name and initial

Arbitrar
Your last name

Spouse's first name and initial

Spouse's last name

1301 West Gregory Drive
Mailing address (See instructions if foreign address)

Apartment number

Urbana
City

IL
State

61801
ZIP or Postal Code

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

C Filing status (see instructions)

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

D Check if you or your spouse are a military veteran and want your name and address shared with the Illinois Department of Veterans' Affairs. ☐ You ☐ Spouse

Staple W-2 and 1099 forms here

Staple your check and IL-1040-V

				(Whole dollars only)
Step 2: Income	**1**	Federal adjusted gross income from your U.S. 1040, Line 37; U.S. 1040A, Line 21; or U.S. 1040EZ, Line 4		1 63,140 .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. **Attach** Schedule M.		3 .00
	4	**Total income**. Add Lines 1 through 3.		4 63,140 .00
Step 3: Base Income	**5**	Social Security benefits and certain retirement plan income received if included in Line 1. **Attach** Page 1 of federal return.	5 48,140 .00	
	6	Illinois Income Tax overpayment included in U.S. 1040, Line 10	6 .00	
	7	Other subtractions. **Attach** Schedule M. Check if Line 7 includes any amount from Schedule 1299-C. ☐	7 .00	
	8	Add Lines 5, 6, and 7. This is the total of your subtractions.		8 48,140 .00
	9	**Illinois base income**. Subtract Line 8 from Line 4.		9 15,000 .00
Step 4: Exemptions	**10**	**a** Number of exemptions from your federal return 1 **X** $2,150	**a** 2,150 .00	
		b If someone can claim you as a dependent, see instructions. ___ **X** $2,150	**b** .00	
		c Check if 65 or older: ☒ You **+** ☐ Spouse **=** 1 **X** $1,000	**c** 1,000 .00	
		d Check if legally blind: ☐ You **+** ☐ Spouse **=** ___ **X** $1,000	**d** .00	
		Exemption allowance. Add Lines a through d.		10 3,150 .00
Step 5: Net Income	**11**	***Residents:*** **Net income**. Subtract Line 10 from Line 9. *Skip* Line 12.		11 11,850 .00
	12	***Nonresidents and part-year residents:*** Check the box that applies to you during 2015 ☐ Nonresident ☐ Part-year resident, and enter the **Illinois base income** from Schedule NR. **Attach** Schedule NR.	12 .00	
Step 6: Tax	**13**	***Residents:*** Multiply Line 11 by 3.75% (.0375). Cannot be less than zero. ***Nonresidents and part-year residents:*** Enter the tax from Schedule NR.		13 444 .00
	14	Recapture of investment tax credits. **Attach** Schedule 4255.		14 .00
	15	**Income tax.** Add Lines 13 and 14. Cannot be less than zero.		15 444 .00
Step 7: Tax After Non-refundable Credits	**16**	Income tax paid to another state while an Illinois resident. **Attach** Schedule CR.	16 .00	
	17	Property tax and K-12 education expense credit amount from Schedule ICR. **Attach** Schedule ICR.	17 .00	
	18	Credit amount from Schedule 1299-C. **Attach** Schedule 1299-C.	18 .00	
	19	Add Lines 16, 17, and 18. This is the total of your credits. Cannot exceed the tax amount on Line 15.		19 .00
	20	**Tax after nonrefundable credits.** Subtract Line 19 from Line 15.		20 444 .00

IL-1040 front (R-12/15)

This form is authorized as outlined under the Illinois Income Tax Act. Disclosure of this information is required. Failure to provide information could result in a penalty.

ILLINOIS SERIES LLC

FORMING AN ILLINOIS SERIES LLC[17]

Illinois is one of only a few states that permits the organization of series LLCs. Under a series LLC, the primary LLC has the ability to create within itself separate "series" or "cells" that have their own interests, liabilities, and members.

> **Note.** The language used to describe the series organization and the members of the series is often confusing. The term "series" may refer to the overall organization of the series LLC, or it may refer to one of the LLCs in the organization. In this material, these components are differentiated by describing the first LLC of the organization as the primary LLC and the LLCs within the organization as member LLCs. Practitioners must use caution when reading IRS materials to determine if the material is using the word "series" to describe the organization or one of its members.

One common example of a series LLC is a company that has multiple rental properties. The primary LLC establishes a series of member LLCs that each own only one property, thus segregating the liabilities along with the assets.

To establish a series LLC in Illinois, Form LLC-5.5(S), *Illinois Limited Liability Company Act Articles of Organization*, is filed with the Illinois Secretary of State's Department of Business Services. The filing fee is $750.

After the Form LLC-5.5(S) has been filed, the primary LLC can then establish one or more individual member LLCs by filing Form LLC-37.40, *Illinois Limited Liability Company Act Certificate of Designation*. A separate Form LLC-37.40 must be filed for each member of the series. The filing fee is $50.

TAXATION OF SERIES LLCs[18]

In 2010, the IRS issued proposed regulations that would generally treat each member of the series as a separate legal entity for federal income tax purposes, regardless of how the state treats a series LLC. **General federal tax law and principles ultimately determine if an organization is an entity for federal tax purposes.[19]**

> **Note.** To the extent that the taxpayers intend for any member within the series LLC to be treated as a separate entity for federal income tax purposes, the member LLC should obtain its own federal employer identification number (FEIN). The IRS is considering revising Form SS-4, *Application for Employer Identification Number*, to include questions regarding series organizations, but as of the date this material was published, the form had not been revised.
>
> For more information about applying for an FEIN, see the 2016 *University of Illinois Federal Tax Workbook*, Volume B, Chapter 2: Small Business Issues.

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[17] *A Guide for Organizing Domestic Limited Liability Companies*. White, Jesse. Jun. 2016. [www.cyberdriveillinois.com/publications/pdf_publications/c334.pdf] Accessed on Sep. 22, 2016.

[18] NPRM REG-119921-09, 2010-45 IRB 626.

[19] Prop. Treas. Reg. §301.7701-1(a)(5)(iii)-(iv).

Effective Date

The proposed regulations apply on and after the date final regulations are published in the Federal Register. However, they include an exception for series established prior to publication of the final regulations that treat all members and the series organization as one entity. If the following requirements for this exception are satisfied, the series may continue to be treated together with the series organization as one entity for federal tax purposes even after issuance of the final regulations.

1. The series LLC and its components were established prior to September 14, 2010.
2. Each member of the series conducted business or had investment activity on and prior to September 14, 2010.
3. The entire series is treated as one entity for purposes of filing any federal income tax returns, information returns, or withholding documents in any tax year.
4. Each member LLC and the series organization had a reasonable basis (within the meaning of IRC §6662) for their claimed classification.
5. None of the owners, members, or the series organization was notified in writing on or before the proposed regulation's effective date that the classification of the series was under examination (in which case the series' classification will be determined in the examination).
6. At least 50% of the ownership interests in the series entity and its member LLCs is held by persons who held interests prior to September 14, 2010. For LLCs taxed as partnerships, **interest** is defined as a capital or profits interest. For LLCs taxed as corporations, **interest** is defined as an equity interest measured by vote or value.

Note. The proposed regulations also discuss exceptions specific to series established under foreign statutes.

Tax Elections

The proposed regulations allow any series member that is treated as a separate entity for federal tax purposes to make federal tax elections independently of the other members of the series and/or the primary LLC. For example, one member of the series could elect to be taxed as an S corporation, another as a C corporation, and the primary LLC could be taxed as a partnership.

Tax Liabilities

The proposed regulations provide that, to the extent federal or local law permits, the IRS may collect a tax liability attributable to any part of a series organization from the primary LLC and/or any member of the series organization. However, because both local and federal law affect the IRS's ability to pursue collections against other portions of the series LLC, this ability is not absolute.

Employment Taxes

In the IRS's explanation of the proposed regulations, there are a number of problems identified concerning how the series LLC should be treated for federal employment tax purposes. Because these problems are very complex, the proposed regulations do not include any guidance about how a series should be treated for federal **employment** tax purposes.

Annual Reporting

The proposed regulations include a provision to require each tax entity within the series to file an annual statement with the IRS.[20] The annual statement will be due March 15 of each year. This provision is not applicable until after the effective date.

The IRS's intent is for the statement to include enough identifying information about the primary LLC and each member of the series to ensure proper assessment and collection of tax. Tentatively, the IRS is considering requiring the statement to include the following.

1. The name, address, and taxpayer identification number of the primary LLC and each member of the series
2. The status of each entity as either a series member or the primary LLC
3. The jurisdiction in which the series organization was formed
4. An indication of whether the series holds title to its assets or whether title is held by another member of the series or the primary LLC (If the assets are held by another entity (or entities), the statement must include the name, address, and taxpayer identification number of the other entity.)

NEXUS ISSUES

FEDERAL LAW

In today's business world, it is increasingly common for even small businesses to transact business with customers in multiple states. Tax practitioners are often asked to determine if their clients need to register with other states, pay sales taxes to other states, pay income taxes to other states, and/or file annual reports with other states.

It is not usually the role of a tax practitioner to question the constitutionality of a state's tax laws, but understanding the application of the constitutional provisions may help practitioners determine if their client meets the requirements to be considered a taxpayer of the state in question. Likewise, when a state law conflicts with a federal law, it may be helpful to practitioners to understand the implications of the conflict.

Every state seems to be attempting to find ways to assess taxes on every possible transaction. Although the Commerce Clause of the U.S. Constitution limits the states' abilities to tax **interstate** transactions, states are free to tax any **intrastate** transactions occurring within their borders. Defining interstate and intrastate for purposes of determining the validity of state taxes has been an ongoing struggle in the court system.

The Four Tests of Constitutionality

In *Complete Auto Transit, Inc. v. Brady,*[21] the U.S. Supreme Court identified the following four tests to determine if a state's tax is constitutional or is in violation of the Commerce Clause.

1. There must be substantial nexus between the taxpayer and the state.
2. The tax must not discriminate against interstate commerce.
3. The tax must not be unfairly apportioned.
4. The tax must be related to services provided by the state.

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[20] Prop. Treas. Reg. §301.6011-6(a).

[21] *Complete Auto Transit, Inc. v. Brady,* 430 U.S. 274 (1977).

Court Case

In *Quill Corp. v. North Dakota*,[22] the U.S. Supreme Court considered the nexus test instituted by *Complete Auto Transit*. *Quill* established the current 2-prong test for determining what nexus requirements must be met before a business is properly subject to a state's tax laws.

The first prong is whether the Due Process Clause is satisfied. Due process is satisfied if the business purposely avails itself of the benefits of an economic market in the state. The second prong requires that the tax must not violate the Commerce Clause under the tests established by *Complete Auto Transit*.

Applicable Federal Laws

The Interstate Income Act of 1959 (PL 86-272) prohibits states from imposing **income** taxes on the income derived from interstate commerce by businesses whose sole activities within the state are solicitation of sales of **tangible personal property.** That said, states vary in their definition of solicitation, and this federal law does not protect businesses from franchise taxes, sales taxes, and other taxes not based on income.

Federal law also prohibits individual states from imposing **Internet** taxes. Under the **Internet Tax Freedom Act** (ITFA),[23] federal, state, and local governments are prohibited from taxing the following Internet-related activities.

1. Access to the Internet
2. Discriminatory Internet-only taxes (such as bit taxes, bandwidth taxes, and email taxes)
3. Multiple taxes on electronic commerce unless there is a credit (for example, a resale exemption certificate) for taxes paid in the other jurisdiction

ITFA does not bar states from imposing sales and use taxes on consumer goods, nor does it prohibit a state and a locality within the state from each imposing sales and use taxes on the same transaction. However, at least in Illinois, the law was interpreted to prohibit the state from imposing a sales tax collection requirement solely based on Internet sales.[24]

AMAZON LAWS IN ILLINOIS

In 2013, the Illinois Supreme Court struck down an Illinois law that would have required any out-of-state Internet sellers with web-marketing affiliates in Illinois to collect Illinois sales taxes on deliveries to the state's residents.[25] This law and others like it are commonly called Amazon laws[26] (or **click-through** laws) because they specifically target Internet retailers like Amazon.com in an attempt to recoup sales tax revenue lost because consumers have switched from buying locally to buying over the Internet from retailers who are not required to collect sales taxes.

In the 2013 opinion, the court did not address the question of nexus, but instead focused its decision on ITFA. It found that because the law targeted Internet sellers, it violated the nondiscrimination requirements of ITFA.

Effective January 1, 2015, Illinois revamped the law to apply to any retailer that makes sales from a coupon or promotional code distributed by a person or company in Illinois via mail, radio, and television as well as the Internet.[27] Thus, the revised law no longer discriminates against Internet retailers.

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[22] *Quill Corp. v. North Dakota*, 504 U.S. 298 (1992).

[23] On February 24, 2016, President Obama signed into law the Trade Facilitation and Trade Enforcement Act of 2015 (PL 114-125), which among other provisions, made ITFA permanent.

[24] *Performance Marketing Ass'n v. Hamer*, 2013 IL 114496 (2013).

[25] Ibid.

[26] *Illinois Governor Signs Amazon Internet Sales Tax Law.* Novack, Janet. Mar. 10, 2011. Forbes. [www.forbes.com/sites/janetnovack/2011/03/10/illinois-governor-signs-amazon-internet-sales-tax-law/#72855e849176] Accessed on Sep. 30, 2016.

[27] Il. Pub. Act 98-1089 (S.B. 352), effective Jan. 1, 2015.

This new provision only applies to sellers whose cumulative gross receipts from sales of tangible personal property to customers by referral in Illinois exceed $10,000 during the preceding four quarters ending on the last day of March, June, September, and December.[28] The law explains that such a retailer will be presumed to maintain a place of business in Illinois but that the retailer may rebut this presumption by submitting proof that the referrals or other activities pursued within Illinois were not sufficient to meet the nexus standards of the U.S. Constitution during those four quarters.

Amazon agreed to comply with the revised law and started collecting sales tax from Illinois customers on February 1, 2015.[29] It is not clear whether this decision was based upon the law or the fact that Amazon intended on opening its first Illinois facility during 2015.[30] The presence of a distribution facility within the state meant that the retailer would soon meet the substantial presence test of *Quill* and would be required to collect sales tax regardless of the constitutionality of the revised law.

ILLINOIS NEXUS

Whether or not a business is subject to Illinois taxes is dependent on the facts and circumstances relative to each situation. The issue of nexus is so fact dependent that IDOR made the following statement in one of its general information letters.[31]

> *. . . (T)he Department does not issue rulings regarding whether a taxpayer has nexus with the State. Such a determination can only be made in the context of an audit where a Department auditor has access to all relevant facts and circumstances.*

Therefore, it is not surprising that IDOR does not have a simple form or questionnaire that taxpayers may use to get a determination on their responsibilities for Illinois taxes. In 2014, a private party requested that the state complete a questionnaire to clarify the "gray areas of state tax law" on nexus. IDOR responded in 2015 with a general information letter (GIL) addressing only sales and use taxes.[32] The GIL provides the following general guidance.

1. *Quill* guidelines are used to determine who is subject to Illinois tax laws. Any type of presence that satisfies the requirements of this case law triggers sales/use tax collection responsibilities except as exempted under Illinois law or regulations.
2. An "Illinois retailer" is liable for retailers' occupation tax (ROT) on gross receipts from sales and must collect use tax incurred by purchasers. The GIL mentions that the regulations were recently amended but does not cite the actual regulation. (86 Ill. Adm. Code §130 covers ROT.)
3. A "retailer maintaining a place of business in Illinois" is not liable for ROT but must still collect use tax on behalf of its Illinois customers. This type of retailer is defined in 86 Ill. Adm. Code §150.201(i).

Note. IDOR Pub. 113, *Retailer's Overview of Sales and Use Tax and Prepaid Wireless E911 Surcharge*, provides a plain language summary of situations that trigger responsibilities for collecting sales/use tax on Illinois transactions. This publication also discusses exempt transactions and determining the tax rates applicable to retail sales.

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[28] 35 ILCS 105/2(1.1).

[29] *Amazon to start collecting Illinois sales tax.* Elejalde-Ruiz, Alexia and Karp, Gregory. Jan. 23, 2015. Chicago Tribune. [www.chicagotribune.com/business/ct-amazon-sales-tax-illinois-0124-biz-2-20150123-story.html] Accessed on Sep. 30, 2016.

[30] *Amazon to open its 1st Illinois warehouse.* Harris, Melissa. Oct. 28, 2014. Chicago Tribune. [www.chicagotribune.com/business/ct-confidential-amazon-illinois-1028-biz-20141028-column.html] Accessed on Jun. 30, 2016.

[31] IT 08-0030-GIL (Oct. 7, 2008).

[32] ST 15-0019 GIL (Mar. 18, 2015).

A business must register with IDOR as a retailer that collects Illinois sales/use tax if the company does business in Illinois and sells tangible personal property at retail. The following activities constitute doing business in Illinois.[33]

1. The retailer has a business site in Illinois.
2. The business has an office, an agent, salesperson, or other representative operating in Illinois, even if it is only occasionally.
3. The business has a place in Illinois from which it delivers or produces a product (e.g., a warehouse).
4. The business sells items at craft shows, fairs, seminars, conventions, etc. in Illinois.
5. The business has a contract with a person located in Illinois and the contract has the following terms.
    a. The person in Illinois directly or indirectly refers customers to the retailer by providing to the potential customers a promotional code or other mechanism that allows the retailer to track purchases referred by the person. This includes but is not limited to the use of a link on the person's website, promotional codes distributed through the person's hand-delivered or mailed material, and promotional codes distributed by the person through radio or other broadcast media.
    b. The person is paid a commission or other consideration based on the sales of tangible personal property through such contracts.
    c. The cumulative gross receipts from all sales made to customers referred to the business by such persons under all contracts in Illinois exceeded $10,000 during the preceding four quarterly periods ending on the last day of March, June, September, and December.
6. The business has a contract with a person located in Illinois and the contract has the following terms.
    a. The business sells the same or substantially similar line of products as the person located in Illinois using an identical or substantially similar name, trade name, or trademark as the person located in Illinois.
    b. The business pays a commission or other consideration to the person located in Illinois based on the company's sales of tangible personal property.
    c. The cumulative gross receipts from all sales made to Illinois customers under all such contracts exceeded $10,000 during the preceding four quarterly periods ending on the last day of March, June, September, and December.
7. The business rents or leases tangible personal property in Illinois under a disguised sale contract that has a bargain purchase price at the end of the lease.[34]

ILLINOIS NEXUS FOR INTER VIVOS TRUSTS

Under Illinois law, an irrevocable trust is an Illinois resident subject to income and replacement taxes if the grantor was domiciled in the state at the time the trust became irrevocable.[35] However, this provision was deemed unconstitutional by the 4th District Appellate Court of Illinois on December 18, 2013, in *Linn v. Department of Revenue.*[36]

The Court found that Illinois' attempt to tax irrevocable trusts forever based on the nexus existing at the time that the trust became irrevocable was too far reaching because it ignored any current lack of nexus. The court made a distinction between **inter vivos** (between the living) trusts established while the grantor was alive and **testamentary trusts** that fall under the jurisdiction of an Illinois probate court. The court noted that an inter vivos trust does not rely on Illinois courts or laws in the way that a testamentary trust would.

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[33] IDOR Pub.113, *Retailer's Overview of Sales and Use Tax and Prepaid Wireless E911 Surcharge.*

[34] 86 Ill. Adm. Code §130.2010.

[35] 35 ILCS 5/1501(a)(20)(D).

[36] *Linn v. Department of Revenue*, No. 4-12-1055 (Ill. App. Ct. 2013).

The trust in this case was an inter vivos trust established before the grantor's death. Therefore, the court refused to consider precedents related to testamentary trusts. The court looked at the following facts to make the determination that the trust did not have enough current contacts with Illinois to make it subject to income tax.

1. All of the business of the trust was in Texas.
2. The trustee, the protector, and the noncontingent beneficiary all resided outside of Illinois.
3. There was no trust property in Illinois.

NEXUS WITH OTHER STATES

Midwest Border States Compact[37]

The Midwest Border States Compact is an agreement between eight Midwestern states to exchange information and cooperate in enforcement efforts concerning sales and use taxes. These states are also working together to increase compliance by informing consumers about use tax and seeking voluntary registration from businesses. The following states are members of the compact.

- Illinois
- Iowa
- Kansas
- Minnesota
- Missouri
- Nebraska
- North Dakota
- South Dakota

Six general activities establish a business presence (nexus) for tax purposes. These activities include the following.

1. Having a representative, agent, or salesperson in the state for the purpose of selling or taking orders
2. Leasing tangible personal property or licensing rights for use within the state
3. Maintaining a business location within the state
4. Making delivery of goods with company-owned vehicles
5. Performing nonincidental services or installation, construction, or repairs
6. Stocking inventory in a public warehouse or on consignment

The member states also encourage businesses to register with the other states even if a business has not established a presence for tax purposes in order to "prevent the inconvenience of having your customers contacted directly by state tax authorities seeking to collect use tax." They further warn that consumers who do not pay use tax on purchases from unregistered out-of-state vendors may be billed by their home states for unpaid use tax, penalties, and interest.

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[37] *Midwest Border States Compact, Facts You Need to Know to Protect You and Your Customers.* Mar. 2008. Nebraska Department of Revenue. [www.revenue.nebraska.gov/info/7-227.pdf] Accessed on Sep. 23, 2016; See also *Do You Have Customers in States Other Than Iowa?* Iowa Department of Revenue. [https://tax.iowa.gov/do-you-have-customers-states-other-iowa] Accessed on Sep. 7, 2016.

Streamlined Sales Tax Governing Board[38]

The Streamlined Sales Tax Governing Board (SSTGB) is a cooperative effort among participating states to simplify sales and use tax administration to reduce the burden of tax compliance.[39] Member states adopt conforming legislation that provides uniform definitions and simplification procedures. In addition, these states participate in a central electronic registration system through the SSTGB. With one application, the system registers the applicant with **all** of the member states and with any selected associate or contingent member.[40] Once a business is registered under this system, **it must collect and remit sales and use taxes for all taxable sales in the member states** and in the selected associate or contingent member states.[41] Benefits of registering include amnesty in certain states[42] and administrative options to have a service provider file the returns covering all of the states instead of individual returns with each state.[43]

Currently Tennessee is an associate member in the program and the following 23 states are full members.[44]

- Arkansas
- Georgia
- Indiana
- Iowa
- Kansas
- Kentucky
- Michigan
- Minnesota
- Nebraska
- Nevada
- New Jersey
- North Carolina
- North Dakota
- Ohio
- Oklahoma
- Rhode Island
- South Dakota
- Utah
- Vermont
- Washington
- West Virginia
- Wisconsin
- Wyoming

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[38] *Streamlined Sales Tax Governing Board, Inc.* [www.streamlinedsalestax.org/] Accessed on Sep. 7, 2016.

[39] *About Us*. Streamlined Sales Tax Governing Board, Inc. [www.streamlinedsalestax.org/index.php?page=About-Us] Accessed on Sep. 7, 2016.

[40] *Streamlined Sales Tax Registration System (SSTRS).* Streamlined Sales Tax Governing Board, Inc. [www.sstregister.org] Accessed on Sep. 7, 2016.

[41] *What does it mean to register through the Streamlined Sales Tax Registration system (SSTRS)?* Streamlined Sales Tax Governing Board, Inc. [www.streamlinedsalestax.org/index.php?page=alias-29] Accessed on Sep. 7, 2016.

[42] *What are the benefits of registering under the Agreement?* Streamlined Sales Tax Governing Board, Inc. [www.streamlinedsalestax.org/index.php?page=alias-31] Accessed on Sep. 7, 2016.

[43] *What are the requirements for filing returns?* Streamlined Sales Tax Governing Board, Inc. [www.streamlinedsalestax.org/index.php?page=ret_1] Accessed on Sep. 7, 2016.

[44] *State Info.* Streamlined Sales Tax Governing Board, Inc. [www.streamlinedsalestax.org/index.php?page=state-info] Accessed on Sep. 7, 2016.

Nexus Questionnaire[45]

Multiple types of activities can establish nexus with a state. In addition, various taxes each have their own test to determine nexus. A taxpayer with even minimal activity within a state may find itself subject to one of the following taxes, especially those that are not based on net income.

- Sales tax
- Income tax
- Franchise tax
- Gross receipts tax
- Business transactions value tax
- Occupation tax

Periodically, it is a good idea for businesses to assess their activities to determine if they are subject to taxes outside of their home state. The following is a sample of typical activities that might establish nexus with another state. Once a potential nexus is identified, the relevant state's laws should be reviewed to determine if the business has a tax liability to that state.[46]

- Maintaining a business location in the state (This may include such activities as listing a local address in telephone directories.[47])
- Paying salaries, wages, fees, or commissions to any persons living in the state[48]
- Owning or leasing real property or personal property
- Maintaining inventory (whether consigned, in a warehouse, or carried by sales representatives)
- Storing tangible personal property[49]
- Delivering its products to customers using company-owned vehicles
- Advertising in the local media or through an unrelated telemarketing firm physically located in the state
- Sending employees into the state to attend trade shows or conduct training or seminars
- Actively soliciting orders for sales of tangible personal property, through employees, agents, or independent representatives
- Soliciting orders for services, real estate, or intangibles
- Providing installation, warranty repair, maintenance, or other similar services to customers either through employees or third-party subcontractors
- Allowing an unrelated third party with an in-state physical presence to accept merchandise returns, approve sales orders, resolve warranty issues, or receive payments on the company's behalf
- Selling products or services over the Internet and contracts with affiliates who post web links from their in-state website to the company's out-of-state website
- Charging a license, royalty, or other similar fee for the use of its intangibles (e.g., trademarks and trade names)

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[45] *Navigating Nexus*. Dibello, Diana and Dion, Sylvia. Nov. 1, 2010. Journal of Accountancy. [www.journalofaccountancy.com/issues/2010/nov/20102904.html] Accessed on Sep. 1, 2016.

[46] Except where noted, the list is from: *Navigating Nexus*. Dibello, Diana and Dion, Sylvia. Nov. 1, 2010. Journal of Accountancy. [www.journalofaccountancy.com/issues/2010/nov/20102904.html] Accessed on Sep. 1, 2016.

[47] Wisconsin Department of Revenue Form A-816, *Nexus Questionnaire*.

[48] Ibid.

[49] Ibid.

Activities that typically do not trigger a nexus relationship include the following.[50]

1. Owning real property for investment
2. Being "qualified" to do business in a state but not actually doing business in the state
3. Purchasing goods in the state
4. Delivering goods by common carrier or parcel post

NEXUS AND REGISTRATION WITH NEIGHBORING STATES

Indiana Nexus and Registration

An out-of-state vendor is engaged in business in Indiana and must be registered as an Indiana retail merchant and charge Indiana use tax on tangible personal property delivered into Indiana, if the out-of-state vendor meets any of the following conditions.[51]

1. Maintains an administrative office in Indiana
2. Maintains a research facility in Indiana
3. Displays merchandise at local trade fairs and exhibitions in Indiana
4. Maintains a factory or warehouse in Indiana
5. Delivers goods into Indiana by the seller's truck when title and possession transfer in Indiana

This list does not necessarily include all the potential activities that could result in an out-of-state vendor being required to register as an Indiana retail merchant and to collect Indiana use tax.

Indiana has a website to assist businesses in registering a new business with multiple state agencies. The website is called INBiz and is found at **uofi.tax/16ilx2** [www.inbiz.in.gov/BOS/Home/Index]. Registration is required if a business is engaged in any of the following activities in the state.[52]

- Selling products or tangible items (sales tax)
- Selling food and beverages (sales tax and food-and-beverage tax)
- Having employees working in the state (withholding tax)
- Renting accommodations to customers for less than 30 days (innkeeper's tax)
- Renting motor vehicles to customers (motor vehicle rental tax)
- Distributing gasoline or special fuel (prepaid fuel tax)
- Selling tires (tire fee)
- Selling fireworks (sales tax and safety fee)
- Selling prepaid wireless cards (911 fee)

Even if a business is not required to register, a company conducting business in Indiana may also be subject to income taxes, use taxes, and local taxes.

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[50] *Information Bulletin #37, Sales Tax*. Indiana Department of Revenue. May 2016.

[51] Ibid. See also Indiana Code §6-2.5-3-1(c) for definition of a retail merchant engaged in business in Indiana.

[52] *Register a New Business*. Indiana Department of Revenue. [www.in.gov/dor/3744.htm] Accessed on Sep. 7, 2016.

Note. For more information on Indiana requirements pertaining to filing and paying taxes, see Indiana Department of Revenue's *Indiana Tax Handbook for New and Small Business Owners,* which is available at **uofi.tax/16ilx3** [www.in.gov/dor/files/business-tax-handbook.pdf]. The New and Small Business Education Center at **uofi.tax/16ilx4** [www.in.gov/dor/3939.htm] also provides helpful information.

Iowa Nexus and Registration[53]

The Iowa Department of Revenue allows businesses to request a nexus determination by submitting Questionnaire 21-004, *Activities Within Iowa For a Corporation, Partnership or LLC,* by mail or by fax. For **service** activities provided by corporations, the business may request a nexus determination by submitting Questionnaire 21-006, *Service Activities in Iowa For Corporation Income Tax Purposes*.

Businesses may request informal and nonbinding nexus determinations by emailing **IDRNexusSurveys@iowa.gov.** Information may also be obtained via mail sent to the following address.

Business Nexus, 4th Floor
Iowa Department of Revenue
P. O. Box 10456
Des Moines, IA 50306–0456

The Iowa Department of Revenue offers the following brief descriptions of some of the activities or situations that may create nexus with the state.

- Sellers of tangible personal property — employees or independent representatives (brokers) visiting Iowa that perform activities **other than or in addition to** the actual solicitation of orders (Iowa Admin. Code §§701-52.1(2) and 701-52.1(3))
- Service providers — employees or independent representatives visiting Iowa (The state may impose a corporation income tax even if the only activity in Iowa is the mere solicitation of orders for services benefiting customers in Iowa.) (Iowa Admin. Code §701-52.1)
- Transportation providers who regularly or systematically have physical contact with Iowa (Iowa Admin. Code §701-52.1)
- Intangibles — intangible property "existing" in Iowa (Intangible property generally is treated as existing in Iowa if the corporation's commercial domicile is in Iowa or if the intangible has become an integral part of some business activity occurring regularly in Iowa.) (Iowa Admin. Code §701-52.1(4))

The Iowa Department of Revenue allows businesses registering for one or more of the following taxes to file a combined application.[54]

- Sales tax on products and services
- Use tax
- Automobile rental tax
- Withholding tax
- Corporation income tax
- Partnership income tax

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[53] *Iowa Tax Filing Requirement (Nexus) for Out of State Business*. Iowa Department of Revenue. [tax.iowa.gov/iowa-tax-filing-requirement-nexus-out-state-business#informal] Accessed on Sep. 1, 2016.

[54] *Starting a Business*. Iowa Department of Revenue. [tax.iowa.gov/starting-business] Accessed on Sep. 7, 2016.

An Iowa Business Tax Permit Registration (Form 78-005a and 78-005b) may be filed by mail or fax. Alternatively, a business may register online at **uofi.tax/16ilx5** [www.idr.iowa.gov/CBA/start.asp]. Companies conducting business in Iowa may also be subject to local taxes.

Kentucky Nexus and Registration

The Kentucky Department of Revenue allows businesses to request a nexus determination by submitting Form 41A800, *Corporation and Pass-through Entity Nexus Questionnaire.* The questionnaire is filed with the following division.

ATTN: Division of Corporation Tax
Kentucky Department of Revenue
P. O. Box 181, Station 52
Frankfort, Kentucky 40602-0181

Telephone: 502-564-8139
Fax: 502-564-0058

Kentucky has a website to assist in registering a new business with multiple state agencies. The website is called the One Stop Business Portal and is found at **uofi.tax/16ilx6** [onestop.ky.gov/Pages/default.aspx]. A business can register for the following taxes using this website.[55]

- Employer's withholding tax
- Sales and use tax
- Transient room tax
- Motor vehicle tire fee
- Commercial mobile radio service prepaid service charge
- Consumer's use tax
- Corporation income tax
- Limited liability entity tax
- Utility gross receipts license tax
- Telecommunications tax
- Coal severance and processing tax
- Coal seller/purchaser certificate identification number
- Kentucky nonresident income tax withholding on distributive share income tax

Companies conducting business in Kentucky may also be subject to other taxes and fees.

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[55] *Existing Businesses That Need Additional Accounts.* Kentucky Department of Revenue. [revenue.ky.gov/Business/Pages/Additional-Tax-Registration-Information.aspx] Accessed on Sep. 7, 2016.

Missouri Nexus and Registration

The Missouri Department of Revenue allows businesses to request a nexus determination by submitting Form 4458, *Business Activity Questionnaire.* The questionnaire should be mailed to the following address.

Missouri Department of Revenue
Taxation Division
P.O. Box 295
Jefferson City, MO 65105-0295

Phone: 573-522-4989
Fax: 573-522-1721
E-mail: nexus@dor.mo.gov

The Missouri Business Portal **uofi.tax/16ilx8** [business.mo.gov/register/index.html] is the state's website for registering a new business with multiple state agencies. It is used to obtain information about various permits and licenses and to register a business for the following taxes.[56]

- Sales tax
- Vendor's use tax
- Consumer's tax
- Withholding tax
- Unemployment tax
- Tire/battery fee
- Corporate income/franchise tax

Companies conducting business in Missouri may also be subject to various other taxes and fees, including local taxes.

In addition to the general activities that can create nexus, Missouri has a **click-through** state law that requires a vendor to collect sales tax if the vendor enters into a marketing agreement with one or more residents of the state. The law applies when the resident, for a commission or other consideration, directly or indirectly refers potential customers, whether by a link on an Internet website, an in-person oral presentation, telemarketing, or otherwise, to the vendor. This law only applies if the cumulative gross receipts from sales by the vendor to customers in the state who are referred to the vendor by all residents with this type of agreement with the vendor exceed $10,000 during the preceding 12 months.[57]

Under Missouri law, the vendor may rebut the assumption that sales greater than $10,000 establish nexus with Missouri. The rebuttal must include proof that the residents with whom the vendor has an agreement did not engage in any activity within the state that was significantly associated with the vendor's ability to establish or maintain the vendor's market in the state during the preceding 12 months. Such proof may consist of sworn written statements from all the residents with whom the vendor has an agreement stating that they did not engage in any solicitation in the state on the vendor's behalf during the preceding year. These statements must be provided and obtained in good faith.[58]

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[56] *Online Business Registration.* Missouri Department of Revenue. [dors.mo.gov/tax/coreg/index.jsp] Accessed on Sep. 8, 2016.

[57] Missouri Revised Statutes, Chapter 144, Sales and use tax §144.605(2)(e).

[58] Missouri Revised Statutes, Chapter 144, Sales and use tax §144.605(2)(f).

Wisconsin Nexus and Registration

The Wisconsin Department of Revenue allows a business to request a nexus determination by submitting Form A-816, *Nexus Questionnaire*, to its nexus unit. The following is the contact information for the nexus unit.

Wisconsin Department of Revenue
Nexus Unit 2-233
PO Box 8906
Madison, WI 53708-8906

Phone: 608-266-3969
Fax: 608-266-5464

Wisconsin Administrative Code §2.82 describes the kind of general activities which, when conducted in Wisconsin, create nexus for income and franchise tax purposes. In addition to the usual activities that create nexus, the Administrative Code includes the following.[59]

> *Other usual and frequent activities by employees or representatives in Wisconsin such as credit investigations, collection of delinquent accounts, conducting training classes or seminars for customer personnel in the operation, or repair and maintenance of the taxpayer's products.*

Wisconsin Statute §71.22(1r), includes a lengthy list of activities that constitute "doing business in this state." It also specifies that a taxpayer doing business in Wisconsin for any part of a tax year is considered to be doing business in Wisconsin for the entire tax year.

Under Wisconsin law, nexus is determined for a **combined group** based on the unitary business as a whole.[60] If a member of a combined group has nexus in Wisconsin and that nexus is attributable to the combined group's unitary business, all members of the combined group have nexus in Wisconsin.

The One Stop Business Portal **uofi.tax/16ilx9** [openforbusiness.wi.gov] can be used to register a business online with multiple Wisconsin state agencies. This option can be used to register for sales, use, and withholding tax. However, the Wisconsin Department of Revenue recommends[61] that businesses use the web application found at **uofi.tax/16ilx10** [tap.revenue.wi.gov/btr] or file Form BTR-101, *Application for Wisconsin Business Tax Registration,* via mail or fax. These options may be used to register for the following.[62]

- Withholding tax
- Sales tax on products and services
- Use tax on products and services
- Consumer's use tax
- Dry cleaning license and products fees
- Limousine and rental vehicle fees
- Police and fire protection fee
- Premier resort and local exposition taxes

Companies conducting business in Wisconsin may also be subject to income taxes, corporate franchise taxes, and other taxes and fees. In addition, local taxes may apply.

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[59] Wis. Adm. Code §2.82(4)(a)(7).

[60] Wis. Stats. §71.255(5)(a).

[61] Recommendation received via e-mail in response to a question about the portal.

[62] Instructions for Form BTR-101.

> **Note.** Wisconsin and Illinois have reciprocal agreements under which income earned by residents of each state is taxed by the state of residence regardless of the state in which the employee works. Therefore, Illinois employers are not required to withhold Illinois income tax from employees who are Wisconsin residents.[63] An employer with no other nexus to Wisconsin is not required to withhold Wisconsin income taxes but may do so voluntarily. Withholding requirements are discussed later in this chapter.

Click-Through Nexus States

Like Illinois and Missouri, many other states have laws that allow them to collect sales tax for retail sales to residents if nexus is created by in-state referrals via websites or other means. This particular type of nexus is not easy to identify from the taxpayer's records, so practitioners must understand the marketing methods of the taxpayer to help them stay in compliance with these states. As of August 2016, the following states impose sales tax collection responsibilities on vendors after click-through sales in their jurisdictions exceed certain levels.[64]

State	Threshold
Arkansas	$10,000 during the preceding 12 months
California	$10,000 during the preceding 12 months and over $1 million in total tangible personal property sales to California purchasers
Connecticut	$2,000 during the preceding four quarters
Georgia	$50,000 during the preceding 12 months
Kansas	$10,000 during the preceding 12 months
Louisiana	$50,000 during the preceding 12 months
Maine	$10,000 during the preceding year
Michigan	$10,000 during the immediately preceding 12 months
Minnesota	$10,000 in the 12-month period ending on the last day of the most recent calendar quarter before the current calendar quarter
Missouri	$10,000 during the preceding 12 months
New Jersey	$10,000 in the prior four quarterly periods
New York	$10,000 during the preceding four quarterly sales tax periods (Sales tax quarterly periods end on the last day of February, May, August, and November)[65]
North Carolina	$10,000 during the preceding four quarterly periods
Ohio	$10,000 during the preceding calendar year
Pennsylvania	No threshold
Rhode Island	$5,000 during the preceding four quarterly periods
Tennessee	$10,000 during the preceding 12 months
Vermont	$10,000 during the preceding tax year
Washington	$10,000 during the preceding tax year

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[63] *Filing Requirements.* IDOR. [www.revenue.state.il.us/individuals/filingrequirements/] Accessed on Sep. 26, 2016; *Individual Income Tax Working in Another State.* Dec. 3, 2015. Wisconsin Dept of Revenue. [www.revenue.wi.gov/faqs/pcs/work.html] Accessed on Sep. 26, 2016.

[64] *Which States Require Sales Tax Based on Click-Through Nexus?* Faggiano, Mark. Aug. 22, 2016. [blog.taxjar.com/states-sales-tax-click-thru-nexus/] Accessed on Sep. 2, 2016.

[65] *Business Taxpayer Answer Center (Current Tax Year).* Aug. 3, 2016. New York State Department of Taxation and Finance. [nystax.custhelp.com/app/answers/detail/a_id/2421/~/chapter-57-of-the-laws-of-2008-included-amendments-to-the-tax-law-that-revised] Accessed on Sep. 2, 2016.

Note. With the exception of Connecticut and Pennsylvania, all of the above states presume that sales in excess of the threshold establish sufficient nexus with the state, but they have procedures in place to allow the taxpayer to rebut that presumption.

Multistate Tax Commission Nexus Program[66]

Most of the states contiguous to Illinois participate in the Multistate Voluntary Disclosure Program (MVDP), which is sponsored by the Multistate Tax Commission. **Participating states include Iowa, Kentucky, Missouri, and Wisconsin.** Illinois does not participate.[67] The MVDP allows businesses to anonymously apply for agreements with multiple participating states to disclose and pay back tax liabilities. The states generally waive the applicable penalties if the application is approved.

Taxpayers are **not** eligible for the program if they have done any of the following with the state at issue.[68]

- Filed tax returns
- Made tax payments
- Been audited or are being audited
- Had prior contact with the state concerning a tax obligation

Benefits of using the program include the following.[69]

- Applying for settlements is done through one process with the MVDP instead of multiple applications directly to each state.
- Guidance through the application and completion process is provided by the National Nexus Program (NNP) staff of the Multistate Tax Commission.
- The liability is limited to the lookback periods imposed by each jurisdiction.
- Penalties may be completely or partially waived.
- Once the NNP receives the application, the taxpayer is protected from state audits of periods prior to the lookback period.

Note. The Indiana Department of Revenue has its own voluntary disclosure program under which the taxpayer may remain anonymous during the application process. More information about this program can be found at **uofi.tax/16ilx7** [www.in.gov/dor/3616.htm] or by contacting Eric Troop, 8 a.m. to 4:30 p.m. (Eastern time), Monday through Friday.

Eric Troop – DOR Mail Stop #104
VDA Office/Indiana Department of Revenue
100 N. Senate Ave., Rm. IGCN241
Indianapolis, IN 46204

Phone: 317-233-6036
Fax: 317-234-5531
Email: VoluntaryDisclosure@dor.in.gov

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[66] *Multistate Voluntary Disclosure Program.* Multistate Tax Commission. [www.mtc.gov/Nexus-Program/Multistate-Voluntary-Disclosure-Program] Accessed on Sep. 1, 2016.

[67] *Member States.* Multistate Tax Commission. [www.mtc.gov/Nexus-Program/Member-States] Accessed on Sep. 1, 2016.

[68] *FAQ.* Multistate Tax Commission. [www.mtc.gov/Nexus-Program/Multistate-Voluntary-Disclosure-Program/FAQ] Accessed on Sep. 1, 2016.

[69] Ibid.

WITHHOLDING REQUIREMENTS

EMPLOYERS — ILLINOIS INCOME TAX WITHHOLDING[70]

Generally, employers must withhold Illinois income tax when they are required to withhold federal income tax from compensation paid **in Illinois.** This does not apply in the unusual circumstances that the employer has no nexus relationship with Illinois or when the work performed in Illinois is incidental to the services provided outside of the state. (See **Example 4** and **Example 5** later in the chapter).

Compensation Paid in Illinois

Compensation is paid **in Illinois** when the employee's services are "localized" in Illinois. If the taxpayer meets any of the following localization tests, IDOR considers compensation paid in Illinois.

1. The employee's service is localized in Illinois because all of the service is performed in Illinois.
2. Some of the employee's services are performed outside Illinois, but the services outside Illinois are **incidental** to the services performed inside Illinois. Incidental services are those that support the employee's primary service, are temporary or transitory, or are isolated transactions.
3. The employee's service is **not** localized in any state under either of the preceding rules, but:
    - Some of the service is performed in Illinois; **and**
    - Either the base of operations (i.e., the place from which the employee works) is in Illinois, or, if there is no base of operations, the place from which the service is directed or controlled is in Illinois.

Example 2. Mary's Land, Ltd, headquartered in Maryland, employs a Missouri resident to make routine service calls. The office from which the employee works and receives instruction is in Illinois. About 95% of the employee's customers are in Missouri and 5% are in Illinois. According to IDOR, compensation is paid in Illinois because the base of operations is in Illinois and **significant** services are performed in both states.[71]

Note. IDOR explains that "significant" does not equal a percentage. Although only 5% of the total customers in this example are in Illinois, the service performed in Illinois is separate from, and therefore, not incidental to, the service performed in Missouri.

4. The employee's service is **not** localized in any state under any of the preceding rules, but:
    - Some of the service is performed in Illinois,
    - The base of operations or the place from which the service is directed or controlled is **not** in any state in which some part of the service is performed, **and**
    - The employee is an Illinois resident.

Example 3. Ohio Buckeyes Company, headquartered in Ohio, employs an Illinois resident. There is no base of operations. The employee is controlled from the Ohio headquarters, and services are performed in Illinois, Iowa, and Indiana. Therefore, the services are not localized in only one state. Compensation is paid in Illinois because the employee is an Illinois resident, some of the service is performed in Illinois, and no service is performed in Ohio.[72]

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[70] IDOR Pub. 130, *Who is Required to Withhold Illinois Income Tax*.

[71] Adapted from an example in IDOR Pub. 130, *Who is Required to Withhold Illinois Income Tax*.

[72] Ibid.

5. For compensation for services performed by a nonresident as a member of a professional athletic team, the amount that is paid in Illinois is the total compensation for services performed for the team during the year, multiplied by the number of duty days spent within Illinois, divided by the total number of duty days spent performing services for the team. See §304(a)(2)(B)(iv) of the Illinois Income Tax Act for more guidance.

Compensation for Incidental Work

Employers are not always required to withhold Illinois income tax on wages paid to Illinois residents. The following two examples of incidental work performed in Illinois are based on material in IDOR Pub. 130, *Who is Required to Withhold Illinois Income Tax*.

Example 4. Missouri Arches, Inc., headquartered in Missouri, hires an Illinois resident to install computer networks for their Missouri-based clients. Occasionally, the employee travels to clients' branch offices in Illinois to complete network installation. Compensation is not paid in Illinois because the employee's services are localized in Missouri and the services performed in Illinois are incidental to the services performed in Missouri. Therefore, the company does not withhold Illinois income tax. (See the note below.)

Example 5. The main office of Indiana Races, Ltd. is in Indiana. The company employs an Illinois resident to honor copy machine routine maintenance contracts. The employee works out of the main office and has clients in both Illinois and Indiana. The company is not required to withhold Illinois income tax because the employee's base of operations is in Indiana and some of the service is performed in Indiana. (See the note below.)

Note. Although in **Example 4** and **Example 5** the employer is not required to withhold Illinois income tax, the employees' income is taxed by Illinois because they are Illinois residents. Therefore, the employees must file returns in two states. Illinois gives the employees a credit for taxes paid to the other state. If the credit for the amount of tax paid to the other state is less than the Illinois tax liability, the employees may need to make estimated income tax payments to Illinois.

NEIGHBORING STATES: EMPLOYER WITHHOLDING REQUIREMENTS

Illinois Reciprocal Agreements

Illinois has reciprocal agreements with **Iowa, Kentucky, Michigan, and Wisconsin. Under a reciprocal agreement, employees pay income tax to the state they live in rather than the state in which they work.** Therefore, Illinois employers are not required to withhold Illinois income tax paid to residents of the reciprocal states. (The two neighboring states with which Illinois does **not** have reciprocal agreements are Indiana and Missouri.)

An Illinois employer only withholds a reciprocal state's income tax in two instances.

1. The employer has nexus for withholding tax purposes in that state.
2. The employer voluntarily withholds income taxes for the employee's state of residence.

Generally speaking, for most states, if the employee regularly provides services in the state, that in itself provides enough of a presence to establish nexus for withholding requirements. However, the specific requirements vary by state.

Indiana[73]

Indiana requires that employers withhold income taxes for all nonresidents employed in the state except for those living in reciprocal states. Indiana's reciprocal state agreements are with Kentucky, Michigan, Ohio, Pennsylvania, and Wisconsin.

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[73] Indiana Department of Revenue Information Bulletin #33, *Withholding Requirements for Nonresident Employees.*

Iowa[74]

For nonresident persons, Iowa generally requires that an employer withhold income tax on any compensation paid for services performed in Iowa. This rule does not apply to Illinois residents working in Iowa or nonresidents working in specific industries.

Under Iowa and Illinois' reciprocal agreement, income earned by residents of each state is taxed by the state of residence regardless of the state in which the employee works. Therefore, employers are not required to withhold Illinois income tax from employees who work in Illinois but who are residents of Iowa. Likewise, employers are not required to withhold Iowa income tax on wages paid to Illinois residents who work in Iowa. An employer with no other nexus to Iowa is not required to withhold Iowa income taxes but may do so voluntarily.

Kentucky[75]

For nonresident persons, Kentucky generally requires that an employer withhold income tax on any compensation paid for services performed in the state. This rule does not apply to Illinois residents working in Kentucky, residents of other reciprocal states working in Kentucky, or employees working in specific industries. Kentucky's reciprocal state agreements are with Illinois, Indiana, Michigan, Ohio (under certain conditions), Virginia (under certain conditions), West Virginia, and Wisconsin.

Kentucky and Illinois have reciprocal agreements under which income earned by residents of each state is taxed by the state of residence regardless of the state in which the employee works. Therefore, employers are not required to withhold Illinois income tax from employees who work in Illinois but who are residents of Kentucky. Likewise, employers are not required to withhold Kentucky income tax on wages paid to Illinois residents who work in Kentucky. An employer with no other nexus to Kentucky is not required to withhold Kentucky income taxes but may do so voluntarily.

Note. Wages paid to a Kentucky resident are subject to Kentucky withholding on services performed both in and outside Kentucky if the employer is required to withhold Kentucky income taxes.

Missouri[76]

If a nonresident employee performs all services within Missouri, the employer must withhold income taxes as if the employee were a Missouri resident. If a nonresident employee performs services partly within and partly outside of the state, only wages paid for services performed within Missouri are subject to Missouri income tax withholding. An employee must file Form MO W-4A, *Certificate of Nonresidence or Allocation of Withholding Tax,* to inform their employer of the percentage of work they anticipate doing in Missouri. The employee may determine the portion of wages allocable to Missouri on the basis of their experience in the preceding year.

Missouri does not have any reciprocity agreement(s) with any other state. If an out-of-state employer hires a Missouri resident, the employer is responsible for paying Missouri withholding in any of the following circumstances.

1. When a Missouri resident is employed in a state with no income tax
2. On wages earned while the employee is in Missouri
3. When the state income tax rate is lower in the state in which the resident is working than it is in Missouri

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[74] *Iowa Withholding Tax Information Booklet*. Iowa Department of Revenue. [tax.iowa.gov/iowa-withholding-tax-information-booklet] Accessed on Sep. 8, 2016.

[75] *Withholding Kentucky Income Tax.* Kentucky Department of Revenue. May 2015. [revenue.ky.gov/Forms/42A003515.pdf] Accessed on Sep. 29, 2016.

[76] *State of Missouri Employer's Tax Guide.* Jan. 2015. Missouri Department of Revenue. [http://dor.mo.gov/forms/4282_2015.pdf] Accessed on Sep. 26, 2016.

At the discretion of the employee, the employee may file Form MO-W-4C, *Withholding Affidavit for Missouri Residents*, with the employer to relieve the employer of the responsibility for filing and submitting Missouri withholding tax. However, if the employee chooses not to complete this form, the employer is responsible for withholding and remitting the appropriate amount of Missouri taxes.

Wisconsin[77]

For nonresident persons, Wisconsin generally requires that an employer withhold income tax on any compensation paid for services performed in the state. This rule does not apply to Illinois residents working in Wisconsin, residents of other reciprocal states working in Wisconsin, and nonresidents working in specific industries. It also does not apply if the employer can reasonably expect the annual Wisconsin earnings to be less than $1,500. Wisconsin's reciprocal state agreements are with Illinois, Indiana, Kentucky, and Michigan.

Wisconsin and Illinois have reciprocal agreements under which income earned by residents of each state is taxed by the state of residence regardless of the state in which the employee works. Therefore, employers are not required to withhold Illinois income tax from employees who work in Illinois but who are residents of Wisconsin. Likewise, employers are not required to withhold Wisconsin income tax on wages paid to Illinois residents who work in Wisconsin. An employer with no other nexus to Wisconsin is not required to withhold Wisconsin income taxes but may do so voluntarily.

CLASSIFICATION OF RECEIPTS BY ILLINOIS TRUSTS

Under federal tax law, income received by a trust (other than a trust treated as a disregarded grantor trust) is divided into distributable net income (DNI) and additions to corpus. To the extent of distributions, DNI flows through to the beneficiaries, and they pay the federal and state income taxes on that income. Additions to corpus remain with the trust and are subject to federal income taxes and Illinois income and replacement taxes. For tax years beginning on or after January 1, 2015, these Illinois tax rates are 3.75% and 1.5%, respectively.[78]

Under federal law, the allocation between income and corpus is based on fiduciary accounting income (FAI). FAI is determined under the terms of the governing instrument and applicable local law.[79] FAI is the amount to be distributed or accumulated for income beneficiaries.

This is often confusing for practitioners because FAI does not include some types of income (treating it as return of corpus) even though that income is classified as ordinary income under federal tax law. For example, if a trust is a beneficiary of an IRA and receives a $10,000 required minimum distribution (RMD), it has $10,000 of taxable income (ignoring expenses and assuming no basis in the IRA). In the absence of a specific provision in the trust, the $10,000 may or may not be treated as FAI under state law. In many states, the Uniform Principal and Income Act (UPIA) treats 10% of any RMD as FAI and the remaining 90% as corpus. Consequently, in these states, only $1,000 of a $10,000 RMD is FAI. In these states, assuming the beneficiaries received at least $1,000, the $1,000 is DNI taxable to the beneficiaries. The remaining $9,000 is a return of corpus taxable to the trust.

In 2016, some software companies began defaulting to classifying all capital gain income as corpus subject to Illinois taxes. While this may be correct in most situations, it is not always the correct treatment, as explained later in this material. This section is intended to provide practitioners with the tools necessary to properly allocate Illinois trusts' income and expenses to FAI and corpus.

Note. For the basics of trust taxation, including key definitions, see the 2015 *University of Illinois Federal Tax Workbook,* Volume B, Chapter 3: Trust Accounting and Taxation. For more advanced coverage, see the 2016 *University of Illinois Federal Tax Workbook*, Volume B, Chapter 3: Trust and Estate Taxation.

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[77] Wisconsin Pub. W-166, *Wisconsin Withholding Tax Guide.*

[78] *Income Tax Rates*. IDOR. 2016. [tax.illinois.gov/TaxRates/Income.htm] Accessed on Sep. 9, 2016.

[79] IRC §643(b).

ILLINOIS LAW[80]

The state of Illinois has not adopted the UPIA. The applicable law in Illinois is the Principal and Income Act (the Act). Under the Act, the designation of income as DNI or corpus is determined under one of the following three methods.

1. The terms of the trust may stipulate the apportionment of receipts and related expenses between DNI and corpus. The terms of the trust take precedence over trustee discretion and Illinois statutes. For example, the trust may have a provision that designates capital gain distributions from mutual funds as DNI even though they are capital gains allocable to corpus under Illinois law. Because the trust document dictates the treatment, the capital gain distributions are included in DNI.

2. The terms of the trust may give the trustee discretion in apportioning the income and expenses between DNI and corpus. The law also gives the trustee the discretion to determine the allocation "in accordance with what is reasonable and equitable" for the interests of the income and remainder beneficiaries, but only when both of the following are true.

    - The terms of the trust are not in conflict with the trustee's determination.

    - The trustee determines that application of the Illinois law provisions "would result in a substantial inequity to either the income beneficiaries or the remaindermen…"[81]

3. If the trust document does not stipulate apportionment or give the trustee the power to designate the apportionment, Illinois law determines the allocation of income between DNI and corpus.

Income and Principal

Illinois statutes define **income** as money or property derived from the use of principal (corpus), including the following.

1. Rent of real or personal property, including sums received for cancellation or renewal of a lease

2. Interest received, including sums received as consideration for the privilege of prepayment of principal (See 760 ILCS 15/8 for exceptions relating to premiums and discounts on bonds and similar obligations.)

3. Income earned during administration of a decedent's estate (including estates in trusts) (See 760 ILCS 15/6.)

4. Corporate distributions and mutual fund distributions of ordinary income (See 760 ILCS 15/7.)

5. Accrued increment on bonds or other obligations issued at discount (See 760 ILCS 15/8.)

6. Receipts from business and farming operations (See 760 ILCS 15/9. Generally, the net profits and losses are computed in accordance with generally accepted accounting principles.)

7. Certain receipts from disposition of natural resources such as minerals, oil, and gas (See 760 ILCS 15/10.)

Illinois statutes define **principal** as the property that has been set aside for the remainder beneficiary. It also stipulates that:

> *Except to the extent provided in Section 8 [premiums and discounts on bonds] and Section 10 [disposition of natural resources], **no portion of the net proceeds of the sale or other disposition of property (whether nonproductive, underproductive, or productive) shall be allocated to income.***[82]

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[80] 760 ILCS 15 (from Ch. 30, par. 501–517).

[81] 760 ILCS 15/3(b).

[82] 760 ILCS 15/13 (from Ch. 30, par. 513).

The following **receipts are added to corpus** under the Illinois statutes.

1. Consideration received by the trustee on the sale or other transfer of principal or on repayment of a loan or as a refund or replacement or change in the form of principal
2. Proceeds of property taken on eminent domain proceedings
3. Proceeds of insurance on property forming part of the principal except proceeds of insurance on a separate interest of an income beneficiary
4. Stock dividends, receipts on liquidation of a corporation, and other corporate distributions (See 760 ILCS 15/7.)
5. Receipts from the disposition of bonds or other obligations (See 760 ILCS 15/8.)
6. Certain receipts from disposition of natural resources such as timber, water, soil, sod, dirt, peat, turf, and mosses subject to particular exceptions (See 760 ILCS 15/3 and 10.)
7. Receipts from other principal subject to depletion (See 760 ILCS 15/12.)
8. Any profit resulting from any change in the form of principal
9. Any allowances for depreciation attributable to business and farming operations
10. Receipts from the granting of options

Example 6. The Smith Family Trust document is silent on the allocation of income to DNI or corpus. All of the trust's assets are invested in mutual funds. In 2015, the trust realized $5,000 in ordinary dividends and $8,000 in capital gain distributions. Under the terms of the trust, the trustee distributed $20,000 to the current beneficiaries for their education. The trustee would like to treat both the ordinary dividends and the capital gain as DNI. However, because the trust document is silent on this issue, Illinois law controls the allocation. Consequently, only the $5,000 of ordinary dividends is allocated to the beneficiary. The trust must allocate the $8,000 in capital gain distributions as corpus and pay any federal and Illinois taxes due on the trust's net income after applicable expenses.

Allocation of Expenses to Income and Principal

After allocating receipts between income and corpus, the trustee allocates the trust's expenses to income or corpus. As stated previously, the terms of the trust are controlling even if the terms are not consistent with Illinois law. Furthermore, if the trust document gives the trustee discretion in making the allocations, the trustee's discretion has priority over Illinois law. If the trust is silent on the issue and does not give the trustee the discretion to determine the allocation, the Illinois laws are used.

The following **expenses are allocated to income**. However, if income-related expenses are unusually high, the trustee may (by means of reserves or other reasonable means) allocate the expenses over a reasonable period and withhold from distributions sufficient amounts to regularize distributions.

1. Except as otherwise provided in the Act, ordinary expenses incurred by the trustee in connection with the administration or protection of the trust property, including the following
    a. Regularly recurring taxes assessed against any portion of the principal
    b. Water rates
    c. Premiums on insurance taken on the interests of the income beneficiary, remainder beneficiary, or trustee
    d. Interest paid by the trustee
    e. Ordinary repairs and maintenance

2. Half of court costs, attorney's fees, and other expenses and fees on any judicial accounting, unless the court directs otherwise
3. Court costs, attorney's fees, and other expenses and fees on other judicial proceedings if the matter primarily concerns the income interest, unless the court directs otherwise
4. Special compensation and expenses incurred by the trustee in connection with income
5. Half of the regular compensation of the trustee, attorney, investment counsel, custodian, or accountant
6. Any tax, including interest and penalties thereon, levied upon receipts defined as income under the Act or the trust instrument and payable by the trustee
7. Half of the interest on all estate, inheritance, and generation-skipping transfer taxes apportioned to the trust and half of the interest on any penalties on those taxes
8. A reasonable allowance for depreciation on property that is subject to depreciation under generally accepted accounting principles (However, no allowance may be made for depreciation of any real property used by a beneficiary as a residence. The allowance may only be charged against the income from the property subject to depreciation and cannot accrue from year to year.)

Example 7. Use the same facts as **Example 6.** In 2015, the trust paid $2,000 in trustee fees and $1,000 in accounting and tax preparation fees. In accordance with Illinois law, the trustee and accounting fees were allocated 50% to income and 50% to corpus.

The following **expenses are allocated to corpus.**

1. Half of the regular compensation of the trustee, attorney, investment counsel, custodian, or accountant

Note. If in the judgment of the trustee it is impracticable or inadvisable to pay half of the professional fees out of the principal, the trustee may pay the fees out of income. The decision of the trustee to pay any of this compensation out of income is conclusive; the income of the trust is not entitled to reimbursement of these fees from principal at any subsequent time.

2. Special compensation and expenses incurred by the trustee in connection with principal
3. Trustee's compensation computed on principal as an acceptance, distribution, or termination fee
4. Court costs, attorney's fees, and other expenses and fees in judicial proceedings if the matter primarily concerns the corpus, unless the court directs otherwise
5. Court costs, attorney's fees, and other expenses and fees in other judicial proceedings in any action to construe the trust, protect the trust or the trust's property, or assure the title to any trust property, unless the court directs otherwise
6. The cost of investing and reinvesting principal
7. Payments on principal of a debt
8. Expenses for preparation of property for rental or sale
9. Extraordinary repairs or expenses incurred in making a capital improvement to assets held for investment, including special assessments
10. Costs and disbursements related to environmental matters
11. Any tax, including interest and penalties thereon, levied on profit, gain, or other receipts **allocated to principal**
12. Any tax, including interest and penalties thereon, levied on amounts not actually received by the trustee before the date the tax is payable, including extensions

Note. If in the judgment of the trustee, it is impracticable or inadvisable to pay the tax from principal, the trustee may pay this expense out of income. The decision of the trustee to pay any of this out of income is conclusive; the income of the trust is not entitled to reimbursement of these fees from principal at any subsequent time. However, if a tax that was allocated to principal is later refunded, the portion previously so allocated must be returned to corpus.

13. All estate, inheritance, and generation-skipping transfer taxes and any penalties on the taxes apportioned to the trust
14. Half of the interest on estate, inheritance, and generation-skipping transfer taxes and penalties
15. A net loss in any year from the operation of a business or farm even though it will be repaid from income in later years
16. Amounts paid for the purchase of options
17. Expenses not allocated to income under the statute

Example 8. Use the same facts as **Example 6** and **Example 7.** The trust also paid Illinois income and replacement taxes of $800 on the 2014 income allocated to corpus. This expense was applied against principal in 2015 because the tax was incurred solely on taxable income treated as additions to corpus.

For 2015, the trust reports the following DNI and income taxable to the trust.

	DNI	Corpus
Ordinary dividends	$5,000	
Capital gain distributions		$8,000
Trustee fees	(1,000)	(1,000)
Accounting fees	(500)	(500)
Illinois income and replacement taxes		(800)
DNI taxable to beneficiary	$3,500	
Trust's federal taxable income before exemption		$5,700

Note. For Illinois tax purposes, the $800 of income and replacement taxes is added back into taxable income on line 5 of Form IL-1041, *Fiduciary Income and Replacement Tax Return.*

Court Case

In *Brown Brothers Harriman Trust Co, LLC v Bennett*,[83] the Illinois Appellate Court affirmed that if the trust document gives the trustee discretion to make the allocations between income and corpus, the trustee's determination overrides the Illinois law. John W. Stewart created a grantor trust that made his second wife, Marka, the income beneficiary until her death. His children from a previous marriage were the remainder beneficiaries. From the time of John's death to the time she died, Marka received an average of $625,000 per year from the trust.

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[83] *Brown Brothers Harriman Trust Co, LLC v. Bennett*, No. 1-04-2350, 827 NE2d 1101 (2005).

The trust document gave the trustees the power to exercise their discretion in allocating the apportionment of all receipts and disbursements between income and principal. From the time of John's death in 1976 to the time of Marka's death in 2000, all of the trustees' fees and investment advisory fees (collectively "fees") were paid from and allocated to the trust income. The successor trustees continued that practice after John's death. The trustees considered the trust administration policies they followed, including the allocation of the fees, to be in keeping with John's intentions.

Marka's two children from her previous marriage sued the trust claiming that the fees should have been allocated equally between the trust principal and income in accordance with Illinois law. They argued that the allocation reduced the amount of money paid to Marka and therefore the allocation was an abuse of the trustees' discretion.

However, 760 ILCS 15/3(a) provides that the Act governs "the ascertainment of income and principal and the apportionment of receipts and expenses in all cases where a trust is established unless otherwise stated hereinafter, **to the extent not inconsistent with the provisions of the instrument**." (Emphasis added)

Under Illinois case law,[84] a court may only interfere with the discretion of the trustees when there is proof of fraud, abuse of discretion, or bad faith. A court cannot substitute its judgment for the trustee's judgment unless the actions by the trustee are "outside the bounds of reasonable judgment." There was no compelling evidence provided to the court that the trustees abused their discretion, acted in bad faith, or violated their fiduciary duties.

The court ruled that the provisions of 760 ILCS 15/3(a) give the terms of the trust document priority over the Act. Because the trust agreement specifically granted discretion to the trustees, the trustees were not required to follow the provisions of the Act regarding allocation of expenses to income or principal.

ILLINOIS INCOME TAX WITHHOLDING BY TRUSTS[85]

Note. According to its website, IDOR plans to release Pub 129, *Pass-through Entity Income.* However, the publication had not been released as of the time this chapter was written. See the 2015 Illinois Update Chapter for background information on the withholding requirement and an example featuring an S corporation.

S corporations, trusts, and most partnerships must withhold Illinois income tax from nonresident shareholders, beneficiaries, and partners. Such entities are also generally required to withhold Illinois income tax from beneficiaries who are partnerships, corporations, and S corporations.[86] **Estates** are **not** required to withhold the tax from any of their beneficiaries.

For trusts, the withholding is based on the beneficiary's share of the following types of income apportionable to Illinois.

1. The share of **business income** of the trust
2. For tax years ending on or after December 31, 2014, the share of **nonbusiness income** of the trust that is properly allocated to Illinois if that income was distributable to that beneficiary

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[84] The court cites *In re: the Estate of McInerny,* 289 Ill. App. 3d 289, 600 (1997).

[85] 35 ILCS 5/709.5.

[86] Instructions for Form IL-1041.

The rate of withholding varies based on the type of beneficiary, as shown in the following table.[87]

Beneficiary Type	Withholding Rate
Nonresident individual or estate	3.75%
Nonresident trust	5.25%
Partnership or S corporation	1.50%
C corporation	7.75%

Trusts are **not** required to withhold Illinois income tax on behalf of beneficiaries:

1. That are tax-exempt organizations under IRC §501(a) or under 35 ILCS 5/205, or
2. That have submitted Form IL-1000-E, *Certificate of Exemption for Pass-through Withholding Payments*, to the trust.[88]

BUSINESS VERSUS NONBUSINESS INCOME[89]

A trust's business income includes all income that may be apportioned by formula among the states in which the trust is doing business without violating the U.S. Constitution. Business income is net of all deductions attributable to that income. All apportionable income of a trust is business income unless:

1. The income is clearly attributable to only one state, and
2. It is earned or received through activities totally unrelated to any business conducted in more than one state.

For a nonresident of Illinois, only the business income derived inside Illinois is allocable to Illinois. If the trust receives income from a partnership, S corporation, or other fiduciary, the trustee must review the tax documents they receive from the entity to determine if any of the entity's pass-through income is allocable to Illinois. Income from pass-through entities is allocable to Illinois as if the beneficiary received it directly.

A trust's nonbusiness income is all income other than business income. It must be possible to clearly demonstrate that the income has no connection to the trust's business.

The following rules determine the nonbusiness income distributable to a nonresident beneficiary that is allocable to Illinois.

1. **Interest and dividend income** received by a **nonresident** individual, trust, or estate is **not** allocable to Illinois. Interest and dividend income of partnerships or corporations is allocable to Illinois if the entity's commercial domicile was in Illinois at the time the interest or dividend was paid or accrued.
2. **Rents and royalties from real property** are allocable to Illinois only if the property is located in Illinois.
3. **Rents and royalties from tangible personal property** are allocable to Illinois based on the number of days that the property is used in Illinois.
4. **Patent and copyright royalties** are allocable to Illinois to the extent that the patent or copyright is used in Illinois.
    - **a.** A **patent** is used in Illinois to the extent that it is employed in production, fabrication, manufacturing, or other processing in Illinois or to the extent that a patented product is produced in Illinois.
    - **b.** A **copyright** is used in Illinois to the extent that printing or other publication originates in Illinois.

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[87] 2015 Schedule K-1-T(3), *Pass-through Withholding Calculation for Nonresident Members.*

[88] Instructions for Form IL-1041.

[89] Instructions for Trusts and Estates Completing Schedule K-1-T and Schedule K-1-T(3). See also 35 ILCS 5/303.

5. **Gains and losses** from sales or exchanges of real or tangible personal property are allocable to Illinois if the property was located in Illinois at the time of the sale or exchange. Gains or losses from the sale or exchange of intangible personal property are allocable to the state of residence or commercial domicile of the beneficiary.

6. **Illinois state lottery winnings** and proceeds from sales or other transfers of rights to lottery winnings are allocable to Illinois.

7. **Distributions** from qualified employer retirement plans, IRAs, nonqualified deferred compensation plans, funded welfare benefit plans, employee stock purchase plans, and supplemental unemployment benefit trusts are **not** allocable to Illinois if the beneficiary is an individual, trust, or estate.[90] If the beneficiary is a C corporation, S corporation, or partnership, the income is only allocable to Illinois if the beneficiary had its commercial domicile in Illinois at the time the item was paid or accrued.

Note. Illinois **residents** may subtract distributions from qualified retirement plans and IRAs when calculating their Illinois base income.[91]

8. **Other unspecified items** of income or deduction of a **nonresident individual or fiduciary** are **not** allocable to Illinois. Unspecified items of income or deduction for partnerships, C corporations, and S corporations are allocable to Illinois if the entity's commercial domicile was in Illinois at the time the item was paid or accrued.

Example 9. The Lawrence Family Trust has two income beneficiaries. Michael is a resident of Illinois, and Jean is a resident of Texas. Under the terms of the trust, each beneficiary received $50,000 in 2015 distributions. The trust document does not contain any provisions concerning allocation of receipts to income and corpus.

The trust owns Illinois farm ground that is rented on a crop share basis and has an interest-bearing checking account that it uses as the farm operating account. In addition, the trust has an investment account with Jones, Edwards, and Morgan. It also receives annual distributions from the deceased grantor's IRA.

In 2015, the trust had the following earnings that are allocated to corpus and DNI as shown.

	Total	Corpus	DNI
Net farm rental income	$60,000		$60,000
Interest on operating account	1,000		1,000
Interest on investment accounts	2,000		2,000
Ordinary dividends on investments	3,000		3,000
Capital gain distributions on investments	5,000	$5,000	
IRA distributions	10,000		10,000
Totals	$81,000	$5,000	$76,000

The tax practitioner must determine for Jean, the nonresident beneficiary, what portion of DNI is income subject to Illinois tax. All of the trust's 2015 DNI is classified as nonbusiness income. Only the rental income is classified as **Illinois** nonbusiness income.

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[90] 35 ILCS 5/301(c)(2) referencing items taken into account under IRC §§401 through 425 and 501(c)(17).

[91] IDOR Pub. 120, *Retirement Income.*

The trust must withhold Illinois income taxes on Jean's share of Illinois income. She received 50% of the distributions, so $30,000 (50% × $60,000) of Illinois nonbusiness DNI is subject to withholding. Because Jean is an individual, the trust must withhold at the rate of 3.75%. The trust pays $1,125 (3.75% × $30,000) to IDOR as tax withholding on Jean's behalf. This is reflected on line 49 of Jean's Illinois Schedule K-1-T, *Beneficiary's Share of Income and Deductions*.

IRA distributions are exempt from Illinois tax. Therefore, Michael's Schedule K-1-T, line 37, shows his share of the IRA distribution as a subtraction for Illinois income tax purposes. (Column B of his Schedule K-1-T is not completed because Michael was a resident of Illinois on the last day of the trust's tax year.[92])

Following are the completed forms for the trust's 2015 Illinois return. The Schedules K-1-T are not filed with the Illinois return, but they must be provided to the beneficiaries. Schedule K-1-T(3), *Pass-through Withholding Calculation for Nonresident Members*, is neither provided to the beneficiary nor filed with the return.

On Schedule D, *Beneficiary Information,* **section A,** line 1 equals the total amounts reported on all the Schedules K-1-T issued to the trust's beneficiaries on step 3, column A, line 9 through line 18. Because all of the trust's income was nonbusiness income, the amount on line 1 is the total DNI of $76,000.[93]

On Schedule D*,* the amounts in **section B,** column D equals the base income or loss deemed distributed to each beneficiary.[94] This includes the beneficiary's share of Illinois additions and subtractions. Because the IRA qualifies as an Illinois subtraction, the net base amount for each beneficiary is $33,000 (50% × ($76,000 − $10,000)).

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[92] Instructions for Illinois Schedule K-1-T.

[93] Instructions for Form IL-1041.

[94] Ibid.

For Example 9

Illinois Department of Revenue

2015 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.

If this return is not for calendar year 2015, enter your fiscal tax year here.

Tax year beginning _____ (month) _____ (day) 20____ (year), ending _____ (month) _____ (day) 20____ (year)

For tax years ending **on** or **after** December 31, 2015. For prior years, use the form for that year.

Enter the amount you are paying. $ 1,335.00

Step 1: Identify your fiduciary

A Enter your complete legal business name.
If you have a name change, check this box. ☐

Name: **The Lawrence Family Trust**

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

C/O: **Megan Morgan**

Mailing address: **801 North St**

City: **Mount Vernon** State: **IL** ZIP: **62864**

C Check the box that identifies your fiduciary. ☒ Trust ☐ Estate

D Check the box if any of the following apply. (You may check multiple boxes.)

☐ Electing small business trust (ESBT) ☐ Individual bankruptcy estate

☐ Complex trust without distributions

E Check the box if one of the following apply.

☐ First return

☐ Final return (If final, enter the date. ____ (mm) ____ (dd) ______ (yyyy))

F Check your method of accounting.

☒ Cash ☐ Accrual ☐ Other ____________________

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

37 - 6565456

H Check this box if you completed federal Form 8886 and **attach** a copy to this return. ☐

I Check this box if your residency is not in Illinois and you attached Illinois Schedule NR. ☐

J Check this box if you attached Illinois Schedule 1299-D. ☐

K Check this box if you attached Illinois Schedule I. ☐

L Check this box if you attached Form IL-4562. ☐

M Check this box if you attached Illinois Schedule M (for businesses). ☐

N Check this box if you attached Schedule 80/20. ☐

O If you are making a Discharge of Indebtedness adjustment on Schedule NLD or Form IL-1041, Line 28, check this box and **attach** federal Form 982. ☐

Step 2: Figure your income or loss

			A **Beneficiaries** (Whole dollars only)		B **Fiduciary** (Whole dollars only)
1	Federal taxable income from U.S. Form 1041, Line 22.			1	4,900 .00
2	Federal net operating loss deduction from U.S. Form 1041, Line 15b. This amount cannot be negative.			2	.00
3	Taxable income of ESBT, if required. See instructions.			3	.00
4	Exemption claimed on U.S. Form 1041, Line 20.			4	100 .00
5	Illinois income and replacement tax and surcharge deducted in arriving at Line 1.	5a	.00	5b	.00
6	State, municipal, and other interest income excluded from Line 1.	6a	.00	6b	.00
7	Illinois Special Depreciation addition. **Attach** Form IL-4562.	7a	.00	7b	.00
8	Related-party expenses addition. **Attach** Schedule 80/20.	8a	.00	8b	.00
9	Distributive share of additions. **Attach** Schedule(s) K-1-P or K-1-T.	9a	.00	9b	.00
10	Other additions. **Attach** Illinois Schedule M (for businesses).	10a	.00	10b	.00
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	5,000 .00

Capital Gain Distributions Allocated to Corpus

▼ Attach your payment and Form IL-1041-V here. ▲

IL-1041 (R-12/15) NS DR ________ Page 1 of 5

For Example 9

Step 3: Figure your base income or loss

			A Beneficiaries		B Fiduciary
12	Enter the amount of your income or loss from Line 11.			12	5,000.00
13	August 1, 1969, valuation limitation amount. **Attach** Schedule F.	13a	.00	13b	.00
14	Payments from certain retirement plans. See instructions.	14a	.00	14b	.00
15	Interest income from U.S. Treasury and other exempt federal obligations.	15a	.00	15b	.00
16	Retirement payments to retired partners.	16a	.00	16b	.00
17	River Edge Redevelopment Zone Dividend subtraction. **Attach** Schedule 1299-B.	17a	.00	17b	.00
18	High Impact Business Dividend subtraction. **Attach** Schedule 1299-B.	18a	.00	18b	.00
19	Contributions to certain job training projects. See instructions.	19a	.00	19b	.00
20	Illinois Special Depreciation subtraction. **Attach** Form IL-4562.	20a	.00	20b	.00
21	Related-party expenses subtraction. **Attach** Schedule 80/20.	21a	.00	21b	.00
22	Distributive share of subtractions. **Attach** Schedule(s) K-1-P or K-1-T.	22a	.00	22b	.00
23	ESBT loss amount. See instructions.	23a		23b	.00
24	Other subtractions. **Attach** Illinois Schedule M (for businesses).	24a	.00	24b	.00
25	Total subtractions. Add Column B, Lines 13b through 24b. Report Column A, Lines 13a through 24a, on Schedule K-1-T, Step 5.			25	.00
26	**Base income or loss.** Subtract Line 25 from Line 12.			26	5,000.00

STOP **If you are a nonresident of Illinois, complete Schedule NR; otherwise go to Step 4.**

Step 4: Figure your net income

27	Base income or net loss from Line 26, or, if a nonresident, from Schedule NR, Line 51.			27	5,000.00
28	Discharge of Indebtedness adjustment. **Attach** federal Form 982. See instructions.			28	.00
29	Adjusted base income or net loss. Add Lines 27 and 28.			29	5,000.00
30	Illinois net loss deduction. **Attach** Schedule NLD. **If Line 29 is zero or a negative amount, enter "0."**	30	.00		
31	Standard exemption. (Short-year filers, see instructions.) **Residents only:** Enter $1,000. **Nonresidents only:** Enter the amount from Schedule NR, Line 54.	31	1,000.00		
32	Add Lines 30 and 31.			32	1,000.00
33	**Net Income.** Subtract Line 32 from Line 29. **If the amount is negative, enter "0."**			33	4,000.00

Step 5: Figure your net replacement tax — For trusts only, estates go to Step 6

34	Replacement tax. Multiply Line 33 by 1.5% (.015).			34	60.00
35	Recapture of investment credits. **Attach** Schedule 4255.			35	.00
36	Replacement tax before credits. Add Lines 34 and 35.			36	60.00
37	Replacement tax credit for income tax paid to another state while an Illinois resident. **Attach** Schedule CR.	37	.00		
38	Investment credits. **Attach** Form IL-477.	38	.00		
39	Total credits. Add Lines 37 and 38.			39	.00
40	**Net replacement tax.** Subtract Line 39 from Line 36. If the amount is negative, enter "0."			40	60.00

For Example 9

Step 6: Figure your net income tax — For trusts and estates

41	Enter the amount of your net income from Line 33.		**41** 4,000.00
42	Income tax. Multiply Line 41 by 3.75% (.0375).		**42** 150.00
43	Recapture of investment credits. **Attach** Schedule 4255.		**43** .00
44	Income tax before credits. Add Lines 42 and 43.		**44** 150.00
45	Income tax credit for income tax paid to another state while an Illinois resident. **Attach** Schedule CR.	**45** .00	
46	Income tax credits. **Attach** Schedule 1299-D.	**46** .00	
47	Total credits. Add Lines 45 and 46.		**47** .00
48	**Net income tax.** Subtract Line 47 from Line 44. If the amount is negative, enter "0."		**48** 150.00

Step 7: Figure your refund or balance due

Illinois Withholding for Jean

49	**Trusts only:** net replacement tax from Line 40.		**49** 60.00
50	Net income tax from Line 48.		**50** 150.00
51	Compassionate Use of Medical Cannabis Pilot Program Act surcharge. See instructions.		**51** .00
52	Pass-through withholding payments you owe on behalf of your members. Enter the amount from Schedule D, Section A, Line 6. See Instructions. **Attach** Schedule D.		**52** 1,125.00
53	**Total net income and replacement taxes, surcharge, and pass-through withholding payments you owe.** Add Lines 49, 50, 51, and 52.		**53** 1,335.00
54	Payments. See instructions.		
a	Credit from prior year overpayments.	**54a** .00	
b	Form IL-505-B (extension) payment.	**54b** .00	
c	Pass-through withholding payments reported to you on Schedule(s) K-1-P or K-1-T. **Attach** Schedule(s) K-1-P or K-1-T.	**54c** .00	
d	Illinois Income Tax withheld. **Attach** all W-2, W-2G, and 1099 forms.	**54d** .00	
e	Form IL-516-I prepayments.	**54e** .00	
f	Form IL-516-B prepayments.	**54f** .00	
55	Total payments. Add Lines 54a through 54f.		**55** .00
56	Overpayment. If Line 55 is greater than Line 53, subtract Line 53 from Line 55.		**56** .00
57	Amount to be **credited forward.** See instructions.		◆ **57** .00 ◆
58	**Refund.** Subtract Line 57 from Line 56. This is the amount to be refunded.		**58** .00

59 **Complete to direct deposit your refund**

Routing Number ☐☐☐☐☐☐☐☐☐ ☐ Checking or ☐ Savings

Account Number ☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

60	**Tax Due.** If Line 53 is greater than Line 55, subtract Line 55 from Line 53. This is the amount you owe.		**60** 1,335.00

▶ **If you owe tax on Line 60, complete a payment voucher, Form IL-1041-V, make your check payable to "Illinois Department of Revenue" and attach them to the first page of this form.** ◀

Special Note → **Enter the amount of your payment on the top of Page 1 in the space provided.**

Step 8: 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 fiduciary ___ Date ___ Title ___ Phone ( ) ___

Signature of paid preparer ___ Date ___ Paid preparer's Social Security number or firm's FEIN ___

Check this box if the Department may discuss this return with the paid preparer shown in this step. ☐

Paid preparer's firm name ___ Address ___ Phone ( ) ___

▶ If a payment is **not** enclosed, mail this return to: **Illinois Department of Revenue, P.O. Box 19009, Springfield, IL 62794-9009**

▶ If a payment is enclosed, mail this return to**: Illinois Department of Revenue, P.O. Box 19053, Springfield, IL 62794-9053**

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For Example 9

Illinois Department of Revenue

2015 Schedule D Beneficiary Information

Attach to your Form IL-1041.

Year ending
12 2015
Month Year
IL Attachment no. 1

Enter your name as shown on your Form IL-1041.
The Lawrence Family Trust

Enter your federal employer identification number (FEIN).
3 7 - 6 5 6 5 4 5 6

Read this information first

- You must read the Schedule D instructions and complete Schedule(s) K-1-T and Schedule(s) K-1-T(3) before completing this schedule.
- You must complete Section B of Schedule D and provide all the required information for your beneficiaries before completing Section A of Schedule D.

Note → Failure to follow these instructions may delay the processing of your return or result in you receiving further correspondence from the Department. You may also be required to submit further information to support your filing.

Section A: Total members' information (from Schedule(s) K-1-T and Schedule D, Section B)

Before completing this section you must first complete Schedule(s) K-1-T, Schedule(s) K-1-T(3), and Schedule D, Section B. You will use the amounts from those schedules when completing this section.

Totals for resident and nonresident beneficiaries (from Schedule(s) K-1-T and Schedule D, Section B)

1	Enter the total of all nonbusiness income or loss you reported on Schedule(s) K-1-T for your members. See instructions.	1	76,000

Totals for nonresident beneficiaries (from Schedule D, Section B)

2	Enter the total pass-through withholding you reported on all pages of your Schedule D, Section B, Column G for your nonresident individual and estate members. See instructions.	2	1,125
3	Enter the total pass-through withholding you reported on all pages of your Schedule D, Section B, Column G for your partnership and S corporation members. See instructions.	3	
4	Enter the total pass-through withholding you reported on all pages of your Schedule D, Section B, Column G for your nonresident trust members. See instructions.	4	
5	Enter the total pass-through withholding you reported on all pages of your Schedule D, Section B, Column G for your C corporation members. See instructions.	5	
6	Add Line 2 through Line 5. This is the total pass-through withholding you owe on behalf of all your nonresident beneficiaries. This amount should match the total amount from Schedule D, Section B, Column G for all nonresident beneficiaries on all pages. Enter the total here **and** on Form IL-1041, Line 52. See instructions.	6	1,125

▶ **Attach all pages of Schedule D, Section B behind this page.**

For Example 9

Illinois Department of Revenue
2015 Schedule D

The Lawrence Family Trust
Enter your name as shown on your Form IL-1041.

3 7 - 6 5 6 5 4 5 6
Enter your federal employer identification number (FEIN).

Section B: Members' information (See instructions before completing.)

	A Name and Address	B Beneficiary type	C SSN or FEIN	D Beneficiary's amount of base income or loss (See instr.)	E Excluded from pass-through withholding payments	F Share of Illinois income subject to pass-through withholding	G Pass-through withholding payment amount *(If Column E is blank, complete Column F and Column G. Otherwise, enter zero in Column F and Column G.)*
1	Name Michael Lawrence C/O Address 1 123 Illinois Address 2 City Tremont State IL Zip 61568	I	777-58-1234	33,000.00	R	0.00	0.00
2	Name Jean Lawrence C/O Address 1 393 Marigold Address 2 City Houston State TX Zip 77001	I	777-67-6767	33,000.00		30,000.00	1,125.00
3	Name C/O Address 1 Address 2 City State Zip						
4	Name C/O Address 1 Address 2 City State Zip						
5	Name C/O Address 1 Address 2 City State Zip						

R = Resident

Jean's 50% of Rental Income

Note If you have more members than space provided, attach additional copies of this page as necessary.

Schedule D back (R-12/15)

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For Example 9

Illinois Department of Revenue

Schedule K-1-T

Beneficiary's Share of Income and Deductions

Year ending 12 2015
Month Year

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

IL Attachment No. 13

Step 1: Identify your trust or estate

1 Check the appropriate box ☒ trust ☐ estate

2 **The Lawrence Family Trust**
Enter your name as shown on your Form IL-1041.

3 **3 7 - 6 5 6 5 4 5 6**
Enter your federal employer identification number (FEIN).

4 Enter the apportionment factor from Step 6, Line 3, of Schedule NR, Form IL-1041; otherwise, enter "1." **1.0**

Step 2: Identify your beneficiary

5 **Michael Lawrence**
Name

6 **123 Illinois**
Mailing address

Tremont **IL** **61568**
City State ZIP

7 **777-58-1234**
Social Security number or FEIN

8a Check the appropriate box. See instructions.
☒ individual ☐ corporation ☐ trust
☐ partnership ☐ S corporation ☐ estate

8b **To be completed by the recipient on Line 5 only.**
I am a: ☐ grantor trust ☐ disregarded entity
and the amounts on this Schedule will be reported by:
Name: __________
SSN or FEIN: __________

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

			A Beneficiary's share (see instructions)	B Illinois share
9	Interest	9	**1,500.00**	
10	Dividends	10	**1,500.00**	
11	Rental income	11	**30,000.00**	
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 and expense **IRA Distribution** (Specify)	18	**5,000.00**	

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

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

Schedule K-1-T front (R-12/14)

For Example 9

Enter the beneficiary's identification number from Line 7. 777-58-1234

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

			A Beneficiary's share from Form IL-1041	B Illinois share
	Additions			
30	Federally tax-exempt interest income	**30**		
31	Illinois income and replacement tax and surcharge deducted	**31**		
32	Illinois Special Depreciation addition	**32**		
33	Related-Party Expenses addition	**33**		
34	Distributive share of additions	**34**		
35	Other additions from 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	Payment from certain retirement plans	**37**	5,000.00	
38	Retirement payments to retired partners	**38**		
39	River Edge Redevelopment Zone Dividend Subtraction	**39**		
40	High Impact Business within a Foreign Trade Zone Dividend Subtraction	**40**		
41	Contributions to certain job training projects	**41**		
42	Illinois Special Depreciation subtraction	**42**		
43	Related-Party Expenses subtraction	**43**		
44	Distributive share of subtractions	**44**		
45	Other subtractions from Illinois Schedule M (for businesses)	**45**		

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

			A Beneficiary's share from Illinois Schedule F (Form IL-1041)	B Illinois share
46	Section 1245 and 1250 gain	**46**		
47	Section 1231 gain	**47**		
48	Capital gain	**48**		

Step 7: Figure your beneficiary's share of pass-through withholding payments and federal income subject to surcharge

49 Pass-through withholding payments made on behalf of your nonresident beneficiary. (See instructions before completing.) **49** ____________

50 Federal income attributable to transactions subject to the Compassionate Use of Medical Cannabis Pilot Program Act Surcharge. See instructions. **50** ____________

For Example 9

Illinois Department of Revenue

Schedule K-1-T

Beneficiary's Share of Income and Deductions

Year ending 12 2015
Month Year

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

IL Attachment No. 13

Step 1: Identify your trust or estate

1 Check the appropriate box ☒ trust ☐ estate

2 **The Lawrence Family Trust**
Enter your name as shown on your Form IL-1041.

3 **3 7 - 6 5 6 5 4 5 6**
Enter your federal employer identification number (FEIN).

4 Enter the apportionment factor from Step 6, Line 3, of Schedule NR, Form IL-1041; otherwise, enter "1." **1.0**

Step 2: Identify your beneficiary

5 **Jean Lawrence**
Name

6 **393 Marigold**
Mailing address

Houston **TX** **77001**
City State ZIP

7 **777-67-6767**
Social Security number or FEIN

8a Check the appropriate box. See instructions.
☒ individual ☐ corporation ☐ trust
☐ partnership ☐ S corporation ☐ estate

8b **To be completed by the recipient on Line 5 only.**
I am a: ☐ grantor trust ☐ disregarded entity
and the amounts on this Schedule will be reported by:
Name:
SSN or FEIN:

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

		A Beneficiary's share (see instructions)	B Illinois share
9 Interest	9	1,500.00	
10 Dividends	10	1,500.00	
11 Rental income	11	30,000.00	30,000.00
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 and expense **IRA Distribution** (Specify)	18	5,000.00	

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

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

Schedule K-1-T front (R-12/14)

For Example 9

Enter the beneficiary's identification number from Line 7. 777-67-6767

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

		A Beneficiary's share from Form IL-1041	B Illinois share
Additions			
30 Federally tax-exempt interest income	**30**		
31 Illinois income and replacement tax and surcharge deducted	**31**		
32 Illinois Special Depreciation addition	**32**		
33 Related-Party Expenses addition	**33**		
34 Distributive share of additions	**34**		
35 Other additions from 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 Payment from certain retirement plans	**37**	5,000.00	
38 Retirement payments to retired partners	**38**		
39 River Edge Redevelopment Zone Dividend Subtraction	**39**		
40 High Impact Business within a Foreign Trade Zone Dividend Subtraction	**40**		
41 Contributions to certain job training projects	**41**		
42 Illinois Special Depreciation subtraction	**42**		
43 Related-Party Expenses subtraction	**43**		
44 Distributive share of subtractions	**44**		
45 Other subtractions from Illinois Schedule M (for businesses)	**45**		

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

		A Beneficiary's share from Illinois Schedule F (Form IL-1041)	B Illinois share
46 Section 1245 and 1250 gain	**46**		
47 Section 1231 gain	**47**		
48 Capital gain	**48**		

Step 7: Figure your beneficiary's share of pass-through withholding payments and federal income subject to surcharge

49 Pass-through withholding payments made on behalf of your nonresident beneficiary. (See instructions before completing.) **49** 1,125.00

50 Federal income attributable to transactions subject to the Compassionate Use of Medical Cannabis Pilot Program Act Surcharge. See instructions. **50** ______

Schedule K-1-T back (R-12/14)

For Example 9

Illinois Department of Revenue

2015 Schedule K-1-T(3)

To be completed by trusts filing Form IL-1041

Pass-through Withholding Calculation for Nonresident Members

Year ending

12 2015
Month Year

Read this information first:

- **For tax year ending on or after December 31, 2015, only.**
- You **must** complete Schedule K-1-T(3) for each of your nonresident beneficiaries who have not submitted a Form IL-1000-E to you.
- **Do not** complete Schedule K-1-T(3) for any member who is a resident or who has submitted Form IL-1000-E to you.

Note **Keep this schedule with your income tax records. You must send us this information if we request it.**

Step 1: Identify your trust

1 **The Lawrence Family Trust**
Enter your name as shown on your Form IL-1041.

2 **3 7 - 6 5 6 5 4 5 6**
Enter your federal employer identification number (FEIN).

Step 2: Identify your nonresident beneficiary

3 **Jean Lawrence**
Name

4 **777-67-6767**
Social Security number or FEIN

5 Check the appropriate box to identify this nonresident beneficiary's organization type.

☒ individual ☐ corporation ☐ trust
☐ partnership ☐ S corporation ☐ estate

Step 3: Figure your nonresident beneficiary's pass-through withholding

Note If this member is a resident or has submitted Form IL-1000-E to you, do not complete this schedule for this member.

6 Add the amounts from this member's Schedule K-1-T, Step 3, Column B, Lines 11 through 16 and 18 and enter the total here. This is your member's share of nonbusiness income allocable to Illinois before modifications and credits. See instructions before completing. 6 **30,000.00**

7 Add the amounts from this member's Schedule K-1-T, Step 4, Column B, Lines 19 through 22, 25, 28, and 29 and enter the total here. This is your member's share of business income allocable to Illinois before modifications and credits. See instructions before completing. 7 ______

8 Add Line 6 and Line 7 and enter the result. 8 **30,000.00**

9 Add the amounts from this member's Schedule K-1-T, Column B, Lines 30 through 35 and enter the total here. This is your member's share of additions allocable to Illinois. 9 ______

10 Add Line 8 and Line 9 and enter the result. 10 **30,000.00**

11 Add the amounts from this member's Schedule K-1-T, Column B, Lines 36a through 45 and enter the total here. This is your member's share of subtractions allocable to Illinois. 11 ______

12 Subtract Line 11 from Line 10. If negative, enter zero. **This is your member's share of Illinois income subject to pass-through withholding.** See instructions. 12 **30,000.00**

13 Figure this member's pass-through withholding payment. If this member is a

nonresident individual or estate, multiply Line 12 by 3.75% (.0375) and enter the result.
partnership or S corporation, multiply Line 12 by 1.5% (.015) and enter the result.
nonresident trust, multiply Line 12 by 5.25% (.0525) and enter the result.
corporation, multiply Line 12 by 7.75% (.0775) and enter the result.

This is your member's total pass-through withholding payment. **Report this amount on this member's Schedule K-1-T, Step 7, Line 49. You must also report this amount on your Form IL-1041, Schedule D, Section B, Column G, on the line which reports this member's amounts.** 13 **1,125.00**

Keep a copy of this schedule for each member with your income tax records. Do not send Schedule K-1-T(3) to your members or submit it to the Department unless we specifically request it from you.

Schedule K-1-T(3) (R-12/15)

Internal Revenue Service

Serving Illinois

LOCATION	ADDRESS	PHONE
Bloomington	301 S. Prospect Road Bloomington, IL 61704	309-661-0032 **FAX 309-662-4792**
Champaign	310 W. Church Street Champaign, IL 61820	217-398-5210 **FAX 217-398-5414**
Chicago	230 S. Dearborn Street Chicago, IL 60604	312-292-4912 **FAX 312-292-4915**
Davenport, IA	101 W. 2nd Street, #6 Davenport, IA 52801	563-326-6052 **FAX 563-328-4452**
Decatur	306 W. Eldorado Street Decatur, IL 62522	217-619-7459 **FAX 217-429-0843**
Downers Grove	2001 Butterfield Road, Ste 1200 Downers Grove, IL 60515	630-493-5291 **FAX 630-493-5404**
Fairview Heights	380 Fountain Office Court Fairview Heights, IL 62208	618-589-7399 **FAX 618-632-5357**
Galesburg	2066 Windish Drive Galesburg, IL 61401	309-345-4158 **FAX 309-342-8246**
Mount Vernon	105 South Sixth Street Mt. Vernon, IL 62864	618-632-2567 **FAX 618-632-9410**
Orland Park	14479 John Humphrey Dr. Orland Park, IL 60462	708-873-8310 **FAX 708-346-7878**
Peoria	2415 W. Cornerstone Ct. Peoria, IL 61614	309-621-7273 **FAX 309-693-1117**
Quincy	3701 East Lake Centre Drive Quincy, IL 62305	217-224-8208 **FAX 217-224-9877**
Rockford	4920 E. State St. Rockford, IL 61108	815-334-7026 **FAX 815-987-4271**
Schiller Park	5100 River Road Schiller Park, IL 60176	847-737-6688 **FAX 847-671-7518**
Springfield	3101 Constitution Drive Springfield, IL 62704	217-993-6783 **FAX 217-862-6037**

Illinois IRS Subject Matter Points of Contact

Automated Collection Service (ACS)

W&I	**800-829-7650**
SBSE, LB & I, TE/GE	**800-829-3903**
ATIN	**512-460-7898**

Adoptive parents file Form W-7A to obtain a temporary number for adopted children. The temporary number is needed so that the adoptive parents can claim dependency exemption and child care credit.

Audit Reconsiderations	**For individuals: 800-829-1040**
	For businesses: 800-829-4933

This is a procedure where the result of a completed examination may be reconsidered. The taxpayer must establish good reasons why the case should be reopened, such as non-receipt of audit letter or additional evidence not previously available.

Banks, Post Offices, and Libraries	**800-829-2765**

Post offices and libraries provide an alternative location for taxpayers to obtain tax forms and publications. Only banks that also participate in the e-file program are recruited for this program.

Centralized Authorization File	**Fax: 855-214-7519**

Claims	**800-829-1040**

A claim is an amended tax return reflecting a lower net tax liability and a refund. The amended return generally may be filed within three years of the due date or two years from when the tax was paid, whichever is later. Claims may either be accepted as filed or examined.

Congressional Affairs Program

Springfield Taxpayer Advocate (case related)	**217-993-6714**
Chicago Taxpayer Advocate (case related)	**312-292-3800**
Governmental Liaison (non-case related)	**312-292-3520**

CP 2000 Notices

Generated from Brookhaven, Ogden, or Philadelphia	**800-829-8310**
Generated from Atlanta, Austin, or Fresno	**800-829-3009**

Criminal Investigation (CI) Division

Office of Special Agent in Charge – Chicago	**312-292-4500**
CID Referral (report tax violations)	**800-829-0433**

Electronic Federal Tax Payment System (EFTPS)	**800-555-4477**
	Web: www.eftps.gov

EFTPS is a tax payment and reporting system sponsored by the Treasury Department. By using a telephone or personal computer, taxpayers can input their tax payment Information and send it.

Electronic Returns Originator (ERO) Information **866-255-0654**

Responds to inquiries regarding the electronic filing program (how to participate) and the various types of electronic programs available. Annually, a sample of preparers who electronically file tax returns are visited to ensure compliance, answer questions, and provide other requested assistance.

Employer Identification Numbers (EINs)

Get EINs through Business and Specialty Tax Lines **800-829-4933**
Fax: 859-669-5760
Web: www.irs.gov

Employee Plans and Exempt Organizations Customer Service

(applications and determinations) **877-829-5500**

This toll-free number is a centralized help desk in Cincinnati that is available for Taxpayers and employees in answering questions, or inquiries on status of application for exempt status.

Federal, State, and Local Governments **419-522-2259**
Customer Account Services **877-829-5500**

The office of Federal, State and Local Governments of the IRS, Tax Exempt and Government Entities Operating Division works with federal agencies, quasi-government entities, state agencies, and local governments including U.S. possessions. Primary objective is to assist these agencies in complying with federal employment tax laws and information return reporting.

Financial Management Service (FMS) **800-304-3107**

FMS will issue a TOP offset notice when a taxpayer's refund is offset for child support or a federal agency non-tax debt (e.g. student loans, VA loans, etc.). Refer taxpayers who have questions about the offset to the FMS Help Desk.

Innocent Spouse Coordinator **Fax: 855-233-8558**

Taxpayers submit Form 8857 when they feel they are not responsible for their current or former spouse's tax liability. Detailed instructions are in *Publication 971.*

Magnetic Media **866-455-7438**

National Distribution Center **800-829-3676**

For obtaining forms and publications

Office of Professional Responsibility **Fax: 202-317-6338**

Preparers of federal income tax returns are bound by the ethical and due diligence principles contained in *Circular 230*. Identified situations contrary to these principles may be referred to the Office of Professional Responsibility.

Practitioner Priority Service **866-860-4259**

Previously known as the Practitioner Hot-line, this office accepts calls only from practitioners. Handles call regarding accounts and procedures. The practitioner must have a valid power of attorney on file.

PTIN Account Information Hotline	**877-613-7846**
Refund Inquiries (Automated Refund Information)	**800-829-4477** **800-829-1954** **Web: www.irs.gov**

Small Business Tax Workshops

Web: www.irs.gov

Small Business Community Website: www.irs.gov/smallbiz

General workshops for current and prospective small business owners are held at various times and locations throughout the state. Community organizations such as the Small Business Development Centers participate in STEP. Topics include record keeping, business use of the home, sole proprietorships, employment tax issues, etc.

Taxpayer Advocate Service National Hotline	**877-777-4778**

The Taxpayer Advocate Service is an IRS program that provides an independent system to assure that tax problems, which have not been resolved through normal channels, are promptly and fairly handled. Taxpayers having an ongoing issue with the IRS that has not been resolved through normal processes, or taxpayers who have suffered or are about to suffer a significant hardship as a result of the application of the tax laws can contact the Taxpayer Advocate national hotline.

Taxpayer Advocate for Illinois

Springfield	**217-993-6714**
Chicago	**312-292-3800**

Each state has a Local Taxpayer Advocate. The local advocate is not a substitute for established IRS procedures or the formal Appeals process. The advocate cannot reverse legal or technical tax determinations. The local advocate is available to assist taxpayers meeting advocate criteria, serving as liaison with the practitioner community and congressional staff for their constituents and solicits feedback on recurring problems with the IRS systems and procedures.

Taxpayer Identification Number (TIN)	**800-829-4933**	
	Fax: 859-669-5760	**(all 50 states)**
	Fax: 267-941-1040	**(anywhere else)**

Effective January 2, 2002, taxpayers can call the above toll-free number to get an EIN. Customer service representatives in three IRS service centers are available Monday-Friday from 7:30 a. m. – 5:30 p.m. local time. The taxpayer must have a completed Form SS4 prepared prior to calling. Upon completion of the call, the form must be mailed within 24 hours to the service center. Complete instructions are provided with Form SS4.

Illinois Directory

Small Business Self-Employed
Stakeholder Liaison Division

IRS TELEPHONE DIRECTORY
for Practitioners

10/5/2016

Appeals

Title	Name	Phone
Appeals Team Manager, Area 13 Team 6	Debra Dufek	312-582-6838
Appeals Team Manager, Area 7 Team 14	Scott W. Hultsch	312-582-6940
Appeals Team Manager, Area 7 Team 15	Jim R. Helfrich	312-582-6840
Appeals Team Manager, ATCL Operations	Clarence H. Phillips	312-582-6877
Appeals Team Manager, PQCS Team 9	David Kantor	312-582-6829

Area Counsel

Title	Name	Phone
Tax Court Case Inquiries	Receptionist	312-368-8152
All Other Inquiries, Assoc.Area Counsel SBSE	Mayer Y. Silber	312-368-8230
	Abby Carlson	312-368-8156

Criminal Investigation Special Agent in Charge (*may be more than one contact name per area)

Title	Name	Phone
Special Agent in Charge	James Robnett	312-292-4502
Public Information Officer	Kerry Hannigan	708-898-9815

LB&I (Retailers, Food, Transportation and Healthcare)

Title	Name	Phone
PM Cross Border Activ. Field Ops West – Terr 6	Ismael Carreno	847-737-6537
Prog Mgr Eastern Comp.Prac. Area. Terr 7 – Chicago	Renee Banks	312-292-3962
Prog. Mgr Treaty & Transf Pricing Ops	Shah Mobed	630-493-5099
Prog Mgr Eastern Comp Prac.Area. Terr 8 – Downer	Robert D. Budney	630-493-5477

Lien Cases

Title	Name	Phone
Centralized Lien Processing		800-913-6050

NHQ PGLD, Privacy, Governmental Liaison and Disclosure

Title	Name	Phone
Area Manager	William C. Maier	408-283-1777
Governmental Liaison	Lynda Dyer	312-292-3520
Disclosure Manager	Reinita House	615-250-5413

SB/SE Collection Division

Title	Name	Phone
Prog. Mgr, Downers Grove Terr	Christopher Love	630-493-5401
Program Manager, Milwaukee Terr. (IL & WI)	David Preston	847-737-6298
Program Manager, Great Lakes Terr, (IL & MI)	John Anthony	248-699-9592
Program Manager, St. Louis Terr. (IL &MO)	Beverly Morris	636-255-1280

SB/SE Collection Operations “Specialty” Insolvency

Title	Name	Phone
Supervisory Revenue Officer	Vicky Young	312-292-3959

SB/SE Collection Operations “Specialty” Offers & Liens

Title	Name	Phone
Territory Manager – Chicago	Doreen Peterson	615-250-5253

SB/SE Communications and Liaison, Stakeholder Liaison

Title	Name	Phone
Area Manager (Acting)	Craig Crews	615-250-5791

SB/SE Examination Division

Title	Name	Phone
Program Manager, Chicago 1 Terr.	Jeanine N. Jones	312-292-2801
Program Manager, Chicago 2 Terr. (IL, MI & MN)	Annette Jones	312-292-2501
Program Manager, Wisconsin	Lori A. Carmichael	651-312-8086
Program Manager, St. Louis 1 Terr.	Roheel Subhani	312-292-2701
Program Manager, St. Louis 2 Terr.	Kevin Harris	314-612-4597
Program Manager, MO/KS	Christina Sedlacek	913-722-7561

SB/SE Examination Operations "Specialty Examination" Estate & Gift Tax Program

Title	Name	Phone
Supervisory Attorney – Group 1405	Sarah Daya	312-292-4485

SB/SE Specialty Programs Employment Tax Territory Manager

Title	Name	Phone
Territory Manager, Mid-States, Grp 1	Anita Bartels	321-441-2553

Taxpayer Advocate

Title	Name	Phone
Local Taxpayer Advocate, Chicago	Pamela Bates	312-292-3801
Local Taxpayer Advocate, Springfield	Julie Majors (acting thru 7/8/16)	217-993-6714

Treasury Inspector General for Tax Administration (TIGTA)

Title	Name	Phone
Assistant Special Agent in Charge	Frank Boenzi	312-554-8741

Wage & Investment Field Assistance -Taxpayer Assistance Centers (TAC) in IL: http://www.irs.gov/uac/Contact-Your-Local-IRS-Office-1

Title	Name	Phone
Terr. Mgr. Bloomington, Champaign Chicago, Decatur, Downers Grove Galesburg, Orland Park, Peoria Quincy & Schiller Park	Lula Watkins	312-292-3201
Terr. Mgr. Fairview Heights	Kathy Oost	615-250-5437
Terr. Mgr. Rockford	Kathryn Lett	913-722-7576
Terr Mgr. Springfield	Suzanne Ooley	317-685-7782

Wage & Investment Stakeholder Partnership, Education & Communication

Title	Name	Phone
Terr. Mgr. Chicago & Springfield	Mary L. Solomon	402-233-7311

Social Security Administration Offices in Illinois (partial list)

City	Address	Telephone
Alton	Room 103 Fed Bldg., 501 Belle St., 62002	855-285-6006
Aurora	1325 N. Lake St., 60506	877-274-5412
Belleville	Lake Christine Center, 1670 Lebanon Ave., 62221	877-405-0471
Bloomingdale	230 W. Lake St., 60108	800-772-1213
Bloomington	207 N. Williamsburg Dr., 61704	877-405-4640
Carbondale	250 W. Cherry St., Room 104, 62901	877-714-0377
Champaign	101 S. Country Fair Dr., 61821	877-819-2593
Chicago	77 W. Jackson Blvd. Suite 300, 60604	800-772-1213
Danville	400 N. Vermilion St., 61832	866-331-5394
Decatur	606 W. Pershing Rd., 62526	888-619-4773
E. St. Louis	Room 104 Fed Bldg., 650 Missouri Ave., 62201	877-700-4849
Effingham	1207 Network Centre Dr., Suite 2, 62401	855-213-5288
Elgin	790 Fletcher Dr., 60123	877-405-0435
Evanston	2116 Green Bay Rd., 60201	800-772-1213
Freeport	4 E. Linden St., 61032	855-628-1591
Galesburg	2060 Windish Dr., 61401	877-405-7659
Harrisburg	18 Veterans Dr., 62946	866-366-3980
Hillside	230 N. Mannheim Rd., 60162	800-772-1213
Joliet	552 Houbolt Rd., 60431	866-783-7302
Kankakee	630 E. Oak St., 60901	855-807-8801
Litchfield	1107 W. Ferdon, 62056	877-319-3077
Mt. Prospect	705 N. Wheeling Rd., 60056	800-772-1213
Mt. Vernon	Federal Bldg., 105 S. 6th St., 62864	866-931-2549
North Riverside	Rm. 600, 7222 W. Cermak Rd., 60546	800-772-1213
Palos Hills	10718 S. Roberts Rd., 60465	800-772-1213
Pekin	2801 Broadway, 61554	877-405-0499
Peoria	815 W. Pioneer Parkway, 61615	877-319-6039
Peru	915 Wenzel Rd., 61354	855-245-0640
Quincy	2401 Lind St., 62301	888-279-5999
Rockford	502 E. Jefferson St., 61107	877-628-6570
Rock Island	2350 4th Ave., 61201	866-414-9166
Springfield	3112 Constitution Dr., 62704	877-279-9504
Sterling	3512 E. Lincolnway, Suite C, 61081	866-789-1093
Waukegan	1930 N. Lewis Ave., 60087	800-772-1213
West Frankfurt	1005 Factory Outlet Dr., 62896	888-223-8869
Woodridge	7440 Providence Dr., 60517	866-303-2724
Woodstock	2450 Lake Shore Dr., 60098	877-405-7828

Reference Material

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

INFLATION ADJUSTED ITEMS AND OTHER USEFUL INFORMATION

	2015	2016
Standard Deductions		
Joint or Qualifying Widow(er)	$ 12,600	$ 12,600
Single	6,300	6,300
Head of Household	9,250	9,300
Married Filing Separately	6,300	6,300
Additional for Elderly/Blind — MFJ, MFS, QW	1,250	1,250
Additional for Elderly/Blind — Single, HoH	1,550	1,550
Taxpayer Claimed as Dependent	1,050 [a]	1,050 [a]
Personal and Dependent Exemption Deduction	4,000	4,050
Exemption Amounts for Alternative Minimum Tax		
Joint or Qualifying Widow(er)	83,400	83,800
Single or Head of Household	53,600	53,900
Married Filing Separately	41,700	41,900
Estates and trusts	23,800	23,900
Long-Term Care Premium Limitations		
Age 40 or less	380	390
Age more than 40 but not more than 50	710	730
Age more than 50 but not more than 60	1,430	1,460
Age more than 60 but not more than 70	3,800	3,900
Age more than 70	4,750	4,870

[a] The 2015 and 2016 standard deduction is the greater of $1,050, or $350 plus the dependent's earned income, up to a maximum of $6,300.

	2015	2016
Child's Unearned Income Not Subject to Parent's Tax Rate	$ 2,100	$ 2,100
Beginning/Ending of Personal Exemption Phaseout Range — Based on AGI		
Joint or Qualifying Widow(er)	309,900–432,400	311,300–433,800
Single	258,250–380,750	259,400–381,900
Head of Household	284,050–406,550	285,350–407,850
Married Filing Separately	154,950–216,200	155,650–216,900
IRC §179 Deduction Limit	500,000	500,000
IRC §179 Asset Limitation	2,000,000	2,010,000
Beginning of Itemized Deduction Phaseout Range — Based on AGI		
Joint or Qualifying Widow(er)	309,900	311,300
Head of Household	284,050	285,350
Single	258,250	259,400
Married Filing Separately	154,950	155,650
FICA/SE Tax Information		
OASDI Tax Maximum Earnings	118,500	118,500
FICA (OASDI and HI) Tax Rate (Employee)	7.65%	7.65%
SE Tax Rate	15.30%	15.30%
Self-Employed Health Insurance Deduction	100%	100%
Estimated Tax Payments (AGI ≤ $150,000)		
Prior Year Tax % or	100%	100%
Current Year Tax %	90%	90%
Earnings Ceiling for Social Security		
Under full retirement age	15,720	15,720
The year full retirement age is reached	41,880	41,880
The month full retirement age is reached, and above	Unlimited	Unlimited
Earnings Required to Earn One Quarter of Social Security Coverage	1,220	1,260
Estate and Gift Tax Applicable Exclusion Amount	5,430,000	5,450,000
Annual Gift Exclusion Amount	14,000	14,000
Capital Gain Rates (Maximum for Noncorporate Taxpayers)		
For those in ≤15% bracket	0%	0%
For those in >15% bracket and <39.6% bracket	15%	15%
For those in 39.6% bracket	20%	20%
For Recapture Gain on Real Estate	25%	25%
For Most Collectibles	28%	28%
Adoption Credit		
Special Needs Child	13,400	13,460
Other Children (limited to qualified expenses)	13,400	13,460
Phaseout Amount	201,010 / 241,010	201,920 / 241,920

	2015	2016
Lifetime Learning Credits		
Maximum credit	2,000	2,000
Phaseout — Single, HoH, QW	55,000– 65,000	55,000– 65,000
Phaseout — MFJ	110,000–130,000	110,000–130,000
Hope/American Opportunity Credit		
Maximum credit	2,500	2,500
Phaseout — Single, HoH, QW	80,000– 90,000	80,000– 90,000
Phaseout — MFJ	160,000–180,000	160,000–180,000
Earned Income Tax Credit		
One child		
Minimum earned income for maximum EITC	9,880	9,920
Maximum Amount of Credit	3,359	3,373
Phaseout Amount (single and head of household)	18,110 / 39,131	18,190 / 39,296
Phaseout Amount (married filing jointly)	23,630 / 44,651	23,740 / 44,846
Two Children		
Minimum earned income for maximum EITC	13,870	13,930
Maximum Amount of Credit	5,548	5,572
Phaseout Amount (single and head of household)	18,110 / 44,454	18,190 / 44,648
Phaseout Amount (married filing jointly)	23,630 / 49,974	23,740 / 50,198
Three or More Children		
Minimum earned income for maximum EITC	13,870	13,930
Maximum Amount of Credit	6,242	6,269
Phaseout Amount (single and head of household)	18,110 / 47,747	18,190 / 47,995
Phaseout Amount (married filing jointly)	23,630 / 53,267	23,740 / 53,505
No children		
Minimum earned income for maximum EITC	6,580	6,610
Maximum Amount of Credit	503	506
Phaseout Amount (single and head of household)	8,240 / 14,820	8,270 / 14,880
Phaseout Amount (married filing jointly)	13,760 / 20,330	13,820 / 20,430
Child Tax Credit	1,000	1,000

Daycare Provider Standard Meal Allowance for 2016 Returns

	48 States	Alaska	Hawaii
Breakfast	$1.32	$2.11	$1.54
Lunch/Dinner	2.48	4.02	2.90
Snack	.74	1.20	.86

Daycare Provider Standard Meal Allowance for 2015 Returns

	48 States	Alaska	Hawaii
Breakfast	$1.31	$2.09	$1.53
Lunch/Dinner	2.47	4.00	2.88
Snack	.73	1.19	.86

Child Tax Credit AGI Phaseout — 2016

Filing Status	Beginning Phaseout
MFJ	$110,000
Single, HoH, QW	75,000
MFS	55,000

M&IE (Meals-and-Incidental-Expense-Only) Rates for Transportation Workers for Travel Away from Home

Locality	Oct. 1, 2015–Sep. 30, 2016	Oct. 1, 2016–Sep. 30, 2017
CONUS (continental U.S.)	$63	$63
OCONUS (outside the continental U.S.)	68	68

High and Low Per Diem Reimbursements

	Oct. 1, 2015–Sep. 30, 2016	Oct. 1, 2016–Sep. 30, 2017
High cost areas	$275 ($68 for M&IE)	$282 ($68 for M&IE)
Basic/low cost areas	$185 ($57 for M&IE)	$189 ($57 for M&IE)

DEPRECIATION LIMITS FOR LUXURY VEHICLES[1]

Tax Year	Used Passenger Vehicles	New Passenger Vehicles	Used Trucks and Vans	New Trucks and Vans
Placed in service in 2016				
1	$3,160	$3,160 [a]	$3,560	$3,560 [a]
2	5,100	5,100	5,700	5,700
3	3,050	3,050	3,350	3,350
4 or more	1,875	1,875	2,075	2,075
Placed in service in 2015				
1	$3,160	$3,160 [a]	$3,460	$3,460 [a]
2	5,100	5,100	5,600	5,600
3	3,050	3,050	3,350	3,350
4 or more	1,875	1,875	1,975	1,975
Placed in service in 2014				
1	$3,160	$3,160 [a]	$3,460	$3,460 [a]
2	5,100	5,100	5,500	5,500
3	3,050	3,050	3,350	3,350
4 or more	1,875	1,875	1,975	1,975
Placed in service in 2013				
1	$3,160	$3,160 [a]	$3,360	$3,360 [a]
2	5,100	5,100	5,400	5,400
3	3,050	3,050	3,250	3,250
4 or more	1,875	1,875	1,975	1,975
Placed in service in 2012				
1	$3,160	$3,160 [a]	$3,360	$3,360 [a]
2	5,100	5,100	5,300	5,300
3	3,050	3,050	3,150	3,150
4 or more	1,875	1,875	1,875	1,875
Placed in service in 2011				
1	$3,060	$3,060 [a]	$3,260	$3,260 [a]
2	4,900	4,900	5,200	5,200
3	2,950	2,950	3,150	3,150
4 or more	1,775	1,775	1,875	1,875
Placed in service in 2010				
1	$3,060	$3,060 [a]	$3,160	$3,160 [a]
2	4,900	4,900	5,100	5,100
3	2,950	2,950	3,050	3,050
4 or more	1,775	1,775	1,875	1,875

[a] For 2010–2016, bonus depreciation is available for new vehicles placed in service. The maximum first-year depreciation for new passenger vehicles is $11,060 for 2010 and 2011, and $11,160 for 2012 through 2016. The maximum first-year depreciation for new trucks and vans is $11,160 for 2010, $11,260 for 2011, $11,360 for 2012 and 2013, $11,460 for 2014 and 2015, and $11,560 for 2016.

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[1] Rev. Procs. 2010-18, 2011-21, 2012-23, 2013-21, 2014-21, 2015-19, and 2016-23.

SAVER'S CREDIT PHASEOUT — 2016

	AGI Phaseout		
Credit Rate	MFJ	HoH	Single, MFS, QW
50%	$ 0–37,000	$ 0–27,750	$ 0–18,500
20%	37,001–40,000	27,751–30,000	18,501–20,000
10%	40,001–61,500	30,001–46,125	20,001–30,750
0%	Over $61,500	Over $46,125	Over $30,750

QUALIFIED RETIREMENT PLAN LIMITATIONS

	2015	2016
Contributions/Deferrals		
Maximum deductible employee annual retirement contribution **(401(k), 403(b), 457, SARSEP, Thrift Savings Plans)**	$ 18,000	$ 18,000
Catch-up contributions (age 50 or over)	6,000	6,000
Maximum annual deferral under **SIMPLE**	12,500	12,500
Catch-up deferral (age 50 or over)	3,000	3,000
Maximum **traditional and Roth IRA** annual contributions (the annual limit is lesser of 100% of taxable compensation or listed amount)	5,500	5,500
Catch-up contributions (age 50 or over)	1,000	1,000
Maximum employer contribution to **SEP IRA** (the annual limit is lesser of 25% of compensation or listed amount)	53,000	53,000
Income limitations		
Maximum annual benefit for a **defined benefit plan** (based on annual compensation, the annual limits may be less)	210,000	210,000
Maximum annual contribution to **all defined contribution plans** (the annual limit is lesser of 100% of compensation or listed amount)	53,000	53,000
Earnings threshold for **highly-compensated employees**	120,000	120,000
Earnings threshold for **key employee in top-heavy plan**	170,000	170,000

UNIFORM LIFETIME TABLE/SINGLE LIFE EXPECTANCY TABLE

This chart combines the *Uniform Lifetime Table* and the *Single Life Expectancy Table* found in IRS Pub. 590, *Individual Retirement Arrangements.*

Age	Single Life	Uniform Life	Age	Single Life	Uniform Life	Age	Single Life	Uniform Life	Age	Single Life	Uniform Life
10	72.8	86.2	34	49.4	62.3	58	27.0	38.7	82	9.1	17.1
11	71.8	85.2	35	48.5	61.4	59	26.1	37.8	83	8.6	16.3
12	70.8	84.2	36	47.5	60.4	60	25.2	36.8	84	8.1	15.5
13	69.9	83.2	37	46.5	59.4	61	24.4	35.8	85	7.6	14.8
14	68.9	82.2	38	45.6	58.4	62	23.5	34.9	86	7.1	14.1
15	67.9	81.2	39	44.6	57.4	63	22.7	33.9	87	6.7	13.4
16	66.9	80.2	40	43.6	56.4	64	21.8	33.0	88	6.3	12.7
17	66.0	79.2	41	42.7	55.4	65	21.0	32.0	89	5.9	12.0
18	65.0	78.2	42	41.7	54.4	66	20.2	31.1	90	5.5	11.4
19	64.0	77.3	43	40.7	53.4	67	19.4	30.2	91	5.2	10.8
20	63.0	76.3	44	39.8	52.4	68	18.6	29.2	92	4.9	10.2
21	62.1	75.3	45	38.8	51.5	69	17.8	28.3	93	4.6	9.6
22	61.1	74.3	46	37.9	50.5	70	17.0	27.4	94	4.3	9.1
23	60.1	73.3	47	37.0	49.5	71	16.3	26.5	95	4.1	8.6
24	59.1	72.3	48	36.0	48.5	72	15.5	25.6	96	3.8	8.1
25	58.2	71.3	49	35.1	47.5	73	14.8	24.7	97	3.6	7.6
26	57.2	70.3	50	34.2	46.5	74	14.1	23.8	98	3.4	7.1
27	56.2	69.3	51	33.3	45.5	75	13.4	22.9	99	3.1	6.7
28	55.3	68.3	52	32.3	44.6	76	12.7	22.0	100	2.9	6.3
29	54.3	67.3	53	31.4	43.6	77	12.1	21.2	101	2.7	5.9
30	53.3	66.3	54	30.5	42.6	78	11.4	20.3	102	2.5	5.5
31	52.4	65.3	55	29.6	41.6	79	10.8	19.5	103	2.3	5.2
32	51.4	64.3	56	28.7	40.7	80	10.2	18.7	104	2.1	4.9
33	50.4	63.3	57	27.9	39.7	81	9.7	17.9	105	1.9	4.5

Column 1: Age refers to either the owner while living or the beneficiary after owner's death.

Column 2: Single Life is used for a beneficiary.

Column 3: Uniform Life is used by owner before death.

OTHER RATES FOR VEHICLES

	2014	2015	2016
Auto Standard Mileage Allowance			
Business	$0.56	$0.575	0.54
Charity work	0.14	0.14	0.14
Medical/moving	0.235	0.23	0.19
Qualified Transportation Fringe (expressed as monthly limits)			
Vehicle/transit pass limit	$ 250	$ 250	$ 255
Qualified parking limit	250	250	255
Qualified bicycle limit	20	20	20

TAX RATES FOR 2016

Tax Rate Schedule
Single Taxpayers
For Tax Years Beginning in 2016

If Taxable Income Is			
Over	But Not Over	The Tax Is	Of the Amount Over
$ 0	$ 9,275	10.0%	$ 0
9,275	37,650	927.50 + 15.0%	9,275
37,650	91,150	5,183.75 + 25.0%	37,650
91,150	190,150	18,558.75 + 28.0%	91,150
190,150	413,350	46,278.75 + 33.0%	190,150
413,350	415,050	119,934.75 + 35.0%	413,350
415,050		120,529.75 + 39.6%	415,050

Tax Rate Schedule
Married Individuals Filing Joint Returns and Surviving Spouses
For Tax Years Beginning in 2016

If Taxable Income Is			
Over	But Not Over	The Tax Is	Of the Amount Over
$ 0	$ 18,550	10.0%	$ 0
18,550	75,300	1,855.00 + 15.0%	18,550
75,300	151,900	10,367,50 + 25.0%	75,300
151,900	231,450	29,517.50 + 28.0%	151,900
231,450	413,350	51,791.50 + 33.0%	231,450
413,350	466,950	111,818.50 + 35.0%	413,350
466,950		130,578.50 + 39.6%	466,950

Tax Rate Schedule
Married Individuals Filing Separate Returns
For Tax Years Beginning in 2016

If Taxable Income Is			
Over	But Not Over	The Tax Is	Of the Amount Over
$ 0	$ 9,275	10.0%	$ 0
9,275	37,650	927.50 + 15.0%	9,275
37,650	75,950	5,183.25 + 25.0%	37,650
75,950	115,725	14,758.75 + 28.0%	75,950
115,725	206,675	25,895.75 + 33.0%	115,725
206,675	233,475	55,909.25 + 35.0%	206,675
233,475		65,289.25 + 39.6%	233,475

Tax Rate Schedule
Head of Household
For Tax Years Beginning in 2016

If Taxable Income Is			
Over	But Not Over	The Tax Is	Of the Amount Over
$ 0	$ 13,250	10.0%	$ 0
13,250	50,400	1,325.00 + 15.0%	13,250
50,400	130,150	6,897.50 + 25.0%	50,400
130,150	210,800	26,835.00 + 28.0%	130,150
210,800	413,350	49,417.00 + 33.0%	210,800
413,350	441,000	116,258.50 + 35.0%	413,350
441,000		125,936.00 + 39.6%	441,000

Tax Rate Schedule
Trusts and Estates
For Tax Years Beginning in 2016

If Taxable Income Is			
Over	But Not Over	The Tax Is	Of the Amount Over
$ 0	$2,550	15.0%	$ 0
2,550	5,950	382.50 + 25.0%	2,550
5,950	9,050	1,232.50 + 28.0%	5,950
9,050	12,400	2,100.50 + 33.0%	9,050
12,400		3,206.00 + 39.6%	12,400

Tax Rate Schedule
Corporate
For Tax Years Beginning in 2016

If Taxable Income Is			
Over	But Not Over	The Tax Is	Of the Amount Over
$ 0	$ 50,000	15.0%	$ 0
50,000	75,000	7,500.00 + 25.0%	50,000
75,000	100,000	13,750.00 + 34.0%	75,000
100,000	335,000	22,250.00 + 39.0%	100,000
335,000	10,000,000	113,900.00 + 34.0%	335,000
10,000,000	15,000,000	3,400,000.00 + 35.0%	10,000,000
15,000,000	18,333,333	5,150,000.00 + 38.0%	15,000,000
18,333,333		6,416,667.00 + 35.0%	18,333,333

FEDERAL LAND BANK INTEREST RATES FOR VALUING FARMLAND UNDER SPECIAL USE VALUATION RULES OF IRC §2032A[2]

Farm Credit Bank District in Which Property is Located	2014 Interest Rates	2015 Interest Rates	2016 Interest Rates
AgFirst, FCB	5.29%	5.21%	5.11%
AgriBank, FCB	4.71%	4.56%	4.44%
CoBank, ACB	4.31%	4.17%	4.01%
Texas, FCB	4.82%	4.73%	4.69%

Farm Credit System Bank	Location of Property
AgFirst, FCB	Delaware, District of Columbia, Florida, Georgia, Maryland, North Carolina, Pennsylvania, South Carolina, Virginia, West Virginia
AgriBank, FCB	Arkansas, Illinois, Indiana, Iowa, Kentucky, Michigan, Minnesota, Missouri, Nebraska, North Dakota, Ohio, South Dakota, Tennessee, Wisconsin, Wyoming
CoBank, ACB	Alaska, Arizona, California, Colorado, Connecticut, Hawaii, Idaho, Kansas, Maine, Massachusetts, Montana, Nevada, New Hampshire, New Jersey, New Mexico, New York, Oklahoma, Oregon, Rhode Island, Utah, Vermont, Washington
Texas, FCB	Alabama, Louisiana, Mississippi, Texas

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[2] Rev. Rul. 2014-21, 2014-34 IRB 381; Rev. Rul. 2015-18, 2015-34 IRB 209, Rev. Rul. 2016-19, 2016-35 IRB 273.

INTEREST RATES FOR NONCORPORATE OVERPAYMENTS AND UNDERPAYMENTS OF TAX 2006–2016

Calendar Quarter Beginning	Rate on Overpayments	Rate on Underpayments
10/1/2016	4%	4%
7/1/2016	4%	4%
4/1/2016	4%	4%
1/1/2016	3%	3%
10/1/2015	3%	3%
7/1/2015	3%	3%
4/1/2015	3%	3%
1/1/2015	3%	3%
10/1/2014	3%	3%
7/1/2014	3%	3%
4/1/2014	3%	3%
1/1/2014	3%	3%
10/1/2013	3%	3%
7/1/2013	3%	3%
4/1/2013	3%	3%
1/1/2013	3%	3%
10/1/2012	3%	3%
7/1/2012	3%	3%
4/1/2012	3%	3%
1/1/2012	3%	3%
10/1/2011	3%	3%
7/1/2011	4%	4%
4/1/2011	4%	4%
1/1/2011	3%	3%
10/1/2010	4%	4%
7/1/2010	4%	4%
4/1/2010	4%	4%
1/1/2010	4%	4%
10/1/2009	4%	4%
7/1/2009	4%	4%
4/1/2009	4%	4%
1/1/2009	5%	5%
10/1/2008	6%	6%
7/1/2008	5%	5%
4/1/2008	6%	6%
1/1/2008	7%	7%
10/1/2007	8%	8%
7/1/2007	8%	8%
4/1/2007	8%	8%
1/1/2007	8%	8%
10/1/2006	8%	8%
7/1/2006	8%	8%
4/1/2006	7%	7%
1/1/2006	7%	7%

INTEREST RATES ON CORPORATE OVERPAYMENTS AND UNDERPAYMENTS OF TAX 2012–2016

Calendar Quarter Beginning	Rate on Overpayments	Rate on Underpayments
Oct. 1, 2016	3%	4%
Jul. 1, 2016	3%	4%
Apr. 1, 2016	3%	4%
Jan. 1, 2016	2%	3%
Oct. 1, 2015	2%	3%
Jul. 1, 2015	2%	3%
Apr. 1, 2015	2%	3%
Jan. 1, 2015	2%	3%
Oct. 1, 2014	2%	3%
Jul. 1, 2014	2%	3%
Apr. 1, 2014	2%	3%
Jan. 1, 2014	2%	3%
Oct. 1, 2013	2%	3%
Jul. 1, 2013	2%	3%
Apr. 1, 2013	2%	3%
Jan. 1, 2013	2%	3%
Oct. 1, 2012	2%	3%
Jul. 1, 2012	2%	3%
Apr. 1, 2012	2%	3%
Jan. 1, 2012	2%	3%

INTEREST RATES ON LARGE CORPORATE OVERPAYMENTS AND UNDERPAYMENTS OF TAX 2012–2016

Calendar Quarter Beginning	Rate on Overpayments	Rate on Underpayments
Oct. 1, 2016	1.5%	6%
Jul. 1, 2016	1.5%	6%
Apr. 1, 2016	1.5%	6%
Jan. 1, 2016	0.5%	5%
Oct. 1, 2015	0.5%	5%
Jul. 1, 2015	0.5%	5%
Apr. 1, 2015	0.5%	5%
Jan. 1, 2015	0.5%	5%
Oct. 1, 2014	0.5%	5%
Jul. 1, 2014	0.5%	5%
Apr. 1, 2014	0.5%	5%
Jan. 1, 2014	0.5%	5%
Oct. 1, 2013	0.5%	5%
Jul. 1, 2013	0.5%	5%
Apr. 1, 2013	0.5%	5%
Jan. 1, 2013	0.5%	5%
Oct. 1, 2012	0.5%	5%
Jul. 1, 2012	0.5%	5%
Apr. 1, 2012	0.5%	5%
Jan. 1, 2012	0.5%	5%

APPLICABLE FEDERAL RATES FOR OCTOBER 2014 THROUGH SEPTEMBER 2016

For the newest AFR tables, go to **http://apps.irs.gov/app/picklist/list/federalRates.html**.

October 2014

	Period For Compounding			
	Annual	**Semiannual**	**Quarterly**	**Monthly**
Short-term AFR	0.38%	0.38%	0.38%	0.38%
Mid-term AFR	1.85%	1.84%	1.84%	1.83%
Long-term AFR	2.89%	2.87%	2.86%	2.85%

November 2014

	Period For Compounding			
	Annual	**Semiannual**	**Quarterly**	**Monthly**
Short-term AFR	0.39%	0.39%	0.39%	0.39%
Mid-term AFR	1.90%	1.89%	1.89%	1.88%
Long-term AFR	2.91%	2.89%	2.88%	2.87%

December 2014

	Period For Compounding			
	Annual	**Semiannual**	**Quarterly**	**Monthly**
Short-term AFR	0.34%	0.34%	0.34%	0.34%
Mid-term AFR	1.72%	1.71%	1.71%	1.70%
Long-term AFR	2.74%	2.72%	2.71%	2.70%

January 2015

	Period For Compounding			
	Annual	**Semiannual**	**Quarterly**	**Monthly**
Short-term AFR	0.41%	0.41%	0.41%	0.41%
Mid-term AFR	1.75%	1.74%	1.74%	1.73%
Long-term AFR	2.67%	2.65%	2.64%	2.64%

February 2015

	Period For Compounding			
	Annual	**Semiannual**	**Quarterly**	**Monthly**
Short-term AFR	0.48%	0.48%	0.48%	0.48%
Mid-term AFR	1.70%	1.69%	1.69%	1.68%
Long-term AFR	2.41%	2.40%	2.39%	2.39%

March 2015

	Period For Compounding			
	Annual	Semiannual	Quarterly	Monthly
Short-term AFR	0.40%	0.40%	0.40%	0.40%
Mid-term AFR	1.47%	1.46%	1.46%	1.46%
Long-term AFR	2.19%	2.18%	2.17%	2.17%

April 2015

	Period For Compounding			
	Annual	Semiannual	Quarterly	Monthly
Short-term AFR	0.48%	0.48%	0.48%	0.48%
Mid-term AFR	1.70%	1.69%	1.69%	1.68%
Long-term AFR	2.47%	2.45%	2.44%	2.44%

May 2015

	Period For Compounding			
	Annual	Semiannual	Quarterly	Monthly
Short-term AFR	0.43%	0.43%	0.43%	0.43%
Mid-term AFR	1.53%	1.52%	1.52%	1.52%
Long-term AFR	2.30%	2.29%	2.28%	2.28%

June 2015

	Period For Compounding			
	Annual	Semiannual	Quarterly	Monthly
Short-term AFR	0.43%	0.43%	0.43%	0.43%
Mid-term AFR	1.60%	1.59%	1.59%	1.58%
Long-term AFR	2.50%	2.48%	2.47%	2.47%

July 2015

	Period For Compounding			
	Annual	Semiannual	Quarterly	Monthly
Short-term AFR	0.48%	0.48%	0.48%	0.48%
Mid-term AFR	1.77%	1.76%	1.76%	1.75%
Long-term AFR	2.74%	2.72%	2.71%	2.70%

August 2015

	Period For Compounding			
	Annual	Semiannual	Quarterly	Monthly
Short-term AFR	0.48%	0.48%	0.48%	0.48%
Mid-term AFR	1.82%	1.81%	1.81%	1.80%
Long-term AFR	2.82%	2.80%	2.79%	2.78%

September 2015

	Period For Compounding			
	Annual	Semiannual	Quarterly	Monthly
Short-term AFR	0.54%	0.54%	0.54%	0.54%
Mid-term AFR	1.77%	1.76%	1.76%	1.75%
Long-term AFR	2.64%	2.62%	2.61%	2.61%

October 2015

	Period For Compounding			
	Annual	Semiannual	Quarterly	Monthly
Short-term AFR	0.55%	0.55%	0.55%	0.55%
Mid-term AFR	1.67%	1.66%	1.66%	1.65%
Long-term AFR	2.58%	2.56%	2.55%	2.55%

November 2015

	Period For Compounding			
	Annual	Semiannual	Quarterly	Monthly
Short-term AFR	0.49%	0.49%	0.49%	0.49%
Mid-term AFR	1.59%	1.58%	1.58%	1.57%
Long-term AFR	2.57%	2.55%	2.54%	2.54%

December 2015

	Period For Compounding			
	Annual	Semiannual	Quarterly	Monthly
Short-term AFR	0.56%	0.56%	0.56%	0.56%
Mid-term AFR	1.68%	1.67%	1.67%	1.66%
Long-term AFR	2.61%	2.59%	2.58%	2.58%

January 2016

	Period For Compounding			
	Annual	Semiannual	Quarterly	Monthly
Short-term AFR	0.75%	0.75%	0.75%	0.75%
Mid-term AFR	1.81%	1.80%	1.80%	1.79%
Long-term AFR	2.65%	2.63%	2.62%	2.62%

February 2016

	Period For Compounding			
	Annual	Semiannual	Quarterly	Monthly
Short-term AFR	0.81%	0.81%	0.81%	0.81%
Mid-term AFR	1.82%	1.81%	1.81%	1.80%
Long-term AFR	2.62%	2.60%	2.59%	2.59%

March 2016

	Period For Compounding			
	Annual	Semiannual	Quarterly	Monthly
Short-term AFR	0.65%	0.65%	0.65%	0.65%
Mid-term AFR	1.48%	1.47%	1.47%	1.47%
Long-term AFR	2.33%	2.32%	2.31%	2.31%

April 2016

	Period For Compounding			
	Annual	Semiannual	Quarterly	Monthly
Short-term AFR	0.70%	0.70%	0.70%	0.70%
Mid-term AFR	1.45%	1.44%	1.44%	1.44%
Long-term AFR	2.25%	2.24%	2.23%	2.23%

May 2016

	Period For Compounding			
	Annual	Semiannual	Quarterly	Monthly
Short-term AFR	0.67%	0.67%	0.67%	0.67%
Mid-term AFR	1.43%	1.42%	1.42%	1.42%
Long-term AFR	2.24%	2.23%	2.22%	2.22%

June 2016

	Period For Compounding			
	Annual	Semiannual	Quarterly	Monthly
Short-term AFR	0.64%	0.64%	0.64%	0.64%
Mid-term AFR	1.41%	1.41%	1.41%	1.41%
Long-term AFR	2.24%	2.23%	2.22%	2.22%

July 2016

	Period For Compounding			
	Annual	Semiannual	Quarterly	Monthly
Short-term AFR	0.71%	0.71%	0.71%	0.71%
Mid-term AFR	1.43%	1.42%	1.42%	1.42%
Long-term AFR	2.18%	2.17%	2.16%	2.16%

August 2016

	Period For Compounding			
	Annual	Semiannual	Quarterly	Monthly
Short-term AFR	0.56%	0.56%	0.56%	0.56%
Mid-term AFR	1.18%	1.18%	1.18%	1.18%
Long-term AFR	1.90%	1.89%	1.89%	1.88%

September 2016

	Period For Compounding			
	Annual	Semiannual	Quarterly	Monthly
Short-term AFR	0.61%	0.61%	0.61%	0.61%
Mid-term AFR	1.22%	1.22%	1.22%	1.22%
Long-term AFR	1.90%	1.89%	1.89%	1.88%