Illinois Department of Revenue

IL-1041 Instructions 1997

What's new for 1997

- Effective for tax years ending on or after January 1, 1997, the disqualification criteria changes for the recapture of the High Impact Business Investment Credit. See Schedule 4255, Recapture of Investment Tax Credits, for more information.
- The Internal Revenue Code (IRC), Section 172, has been amended. Due to this amendment, Illinois net losses in tax years beginning after August 5, 1997, must be carried back 2 years, then forward 20 years. See General Information, "What if I have an Illinois net loss deduction (NLD)?"
- Effective for tax years ending on or after January 1, 1998, an Environmental Remediation Tax Credit is available to taxpayers for certain amounts paid for unreimbursed eligible remediation costs and approved by the Illinois Environmental Protection Agency (EPA). See Schedule 1299-D, Income Tax Credits, for more information.

General Information

Who must file Form IL-1041?

You must file Form IL-1041 if you are a fiduciary of a trust or estate and the trust or estate

- has net income as defined under the Illinois Income Tax Act (IITA), regardless of any deduction for distributions to beneficiaries; or
- is a resident of Illinois, is required to file, or does file a federal income tax return (regardless of net income or loss). (See "Nonbusiness income allocable to Illinois" under "Definitions to help you complete your Form IL-1041.")

Note: "Grantor" trusts are not required to file Form IL-1041. Estates do not pay replacement tax.

If the trust or estate is a charitable organization exempt from federal income tax by reason of the IRC, Section 501(a), it is not required to file Form IL-1041. However, unrelated business taxable income, as determined under IRC, Section 512, is subject to tax (without any deduction for the Illinois income tax) and must be reported on Form IL-990-T, Illinois Exempt Organization Income and Replacement Tax Return, instead of Form IL-1041. For further information, refer to Form IL-990-T instructions.

It is your duty as a taxpayer to obtain forms and failure to obtain them is not an excuse for failure to file returns as required by law.

How do I register my business?

If you are required to file Form IL-1041 and you are the owner of a business, you must register by filing Form NUC-1, Illinois Business Registration. Form NUC-1 is available from the Illinois Department of Revenue, P.O. Box 19010, Springfield, IL 62794-9010.

Registering with the Illinois Department of Revenue (IDOR) **prior to filing your return** will ensure that your tax returns are accurately processed and that you will receive the appropriate forms.

Your identification number as an Illinois business taxpayer will be your federal employer identification number (FEIN).

When should I file?

Your Illinois filing period is the same as your federal filing period. In general, Form IL-1041 is due on or before the 15th day of the **4th** month following the close of the tax year.

Automatic six-month extension — We grant you an automatic six-month extension of time to file your fiduciary tax return. You are not required to file Form IL-505-B, Automatic Extension Payment, in order to obtain this automatic extension. However, if you expect tax to be due you must use Form IL-505-B to pay any tentative tax due in order to avoid any interest and penalty on tax not paid by the original due date of the return. An extension of time to file your Form IL-1041 is not an extension of time for payment of Illinois tax.

Additional extensions beyond the automatic extension period — We will grant an extension of more than six months **only** if an extension of more than six months is granted by the Internal Revenue Service (IRS). A copy of the approved federal extension must be attached to your Form IL-1041 when it is filed.

Where should I file?

Mail your Form IL-1041 to

ILLINOIS DEPARTMENT OF REVENUE
PO BOX 19009
SPRINGFIELD IL 62794-9009

When should I pay?

Payment of tax — You must pay your Illinois income and replacement tax in full on or before the original due date of the return. This payment date applies even though an automatic extension for filing the return has been granted.

Estimated tax payments — For state purposes, trusts and estates are not required to make estimated payments, although they may be required to make **federal** estimated payments. You may, however, make such payments on Form IL-1120-ES, Estimated Income and Replacement Tax Payments for Corporations, and include them on Form IL-1041, Part II, Line 4.

Do not use Form IL-1040-ES, Estimated Income Tax Payments for Individuals, to make these payments. Doing so may delay the processing of your return.

Who should sign the return?

Your Form IL-1041 must be signed by the fiduciary of the trust or estate. If there are two or more joint fiduciaries, the signature of one will comply with the requirements of the IITA. The signature verifies by written declaration (and under penalties of perjury) that the signing fiduciary has personally examined the return and the return is true, correct, and complete. The fact that a fiduciary's name is signed to a return is *prima facie* evidence that the fiduciary is authorized to sign the return on behalf of the trust or estate.

Any person, except a fiduciary of the trust or estate, paid to prepare the return (other than a regular, full-time employee of the taxpayer, such as a clerk, secretary, or bookkeeper) must provide a handwritten signature, date the return, and indicate their taxpayer identification number. If the preparer is an employee or partner of a firm or corporation, they must also provide the firm's name, address, and instead of the preparer's taxpayer identification number, they must provide the firm's FEIN. A self-employed preparer must check the "self-employed" box and provide their name, address, and taxpayer identification number in the appropriate spaces.

Note: If your return shows an overpayment of tax (including a credit carryover) and is unsigned, the overpayment is considered forfeited if, after notice and demand for signature, you fail to provide a signature within three years from the date the return was filed.

What are the penalties and interest?

Penalties and interest — You owe a **late filing or nonfiling penalty** if you do not file a processable return by the due date. You owe a **late payment penalty** if you do not pay the tax you owe by the original due date of the return, even if you have an extension of time to file. Interest is calculated on tax and penalty from the day after the due date through the date you pay the tax and penalty.

We will bill you for penalties and interest. If you prefer to figure these amounts, see Publication 103, Uniform Penalties and Interest. To receive a copy of this publication, see "What if I need additional assistance?" for our phone numbers and addresses.

What if I am discontinuing my business?

Terminated — If you are the fiduciary of a trust or estate that has terminated during any tax year, you are still required to file the tax return. Also, we will pursue the assessment and collection of taxes if

- the trust or estate was liable for income and replacement tax, for that or any previous tax period; or,
- the beneficiary had income allocable to Illinois and was liable for income and replacement tax, for that or any previous tax period, due to a distribution from the trust or estate.

Sales or transfers — If you are a fiduciary that, outside the usual course of business, sells or transfers the major part of any one or more of

- the stock of goods which you are in the business of selling,
- the furniture or fixtures,
- the machinery and equipment, or
- the real property of your business,

you should complete and send us Form NUC-542-A, Notice of Sale or Purchase of Business Assets, no later than 10 days after the date the sale took place. Mail this form, along with copies of the sales contract and financing agreement, to Illinois Department of Revenue, Bulk Sales Section, P.O. Box 641155, Chicago, IL 60664-1155.

Request for prompt determination — If you are an estate that has terminated, you may make a request for prompt determination of liability. Before you can make this request, you must file a return with us. If your request is properly made, the expiration of the statute of limitations (absent fraud) will not extend beyond 18 months from the date of your request. Mail your request to Illinois Department of Revenue, Taxpayer Correspondence Section, P.O. Box 19044, Springfield, IL 62794-9044.

What if I need to correct or change my return?

Corrected — If you need to correct or change your return after it has been filed, but before the automatic extension due date has passed, you must file a corrected Form IL-1041. Mark the return "CORRECTED" at the top and show the changes. Any correction made may cause a recalculation of penalties and interest.

Amended — If you need to correct or change your return after it has been filed, and the automatic extension due date has passed, you must file Form IL-843, Amended Return or Notice of Change in Income, showing the changes.

A State changes only — If you discover an error on your Illinois return that does not relate to an error on your federal return but was caused by

- a mistake in transferring information from your federal return to your Illinois return,
- failing to report to Illinois an item that has no effect on your federal return, or
- a mistake in another state's tax return that affects the computation of your Illinois tax liability,

you must file Form IL-843, promptly.

If you are filing Form IL-843 to claim an overpayment, it must be filed within three years after the extended due date, date the return was filed, or one year after the tax giving rise to the overpayment was paid, whichever is latest.

B Federal changes only — If you have been notified by the IRS that they have made changes to your return due to an error or as a result of an examination, you must file Form IL-843. This includes any change in your federal income tax liability; any tax credit; or in the computation of your federal taxable income as reported for federal income tax purposes and such change affects any items entering into the computation of net income, net loss, or any credit for any year under the IITA. You must file Form IL-843 no later than 120 days after the changes have been agreed to or finally determined.

If you are filing Form IL-843 to claim an overpayment, it must be filed within two years after the date such notification was due (regardless of whether such notice was given). For further information, refer to Form IL-843 instructions.

What records must I keep?

You must maintain books and records to substantiate any information reported on your Form IL-1041. Your books and records must be available for inspection by our authorized agents and employees.

Do the IDOR and the IRS exchange income tax information?

The IDOR and the IRS exchange income tax information for the purpose of verifying the accuracy of information reported on federal and Illinois tax returns. All amounts you report on Form IL-1041 are subject to verification and audit.

Should I round?

To make it easier for you to figure your tax, you may round the dollar amounts on Form IL-1041 and accompanying schedules to whole-dollars. To do this, you should drop any amount less than 50 cents and increase any amount of 50 cents or more to the next higher dollar.

What if I have a federal net operating loss (NOL) carryforward?

If you have a federal NOL carryforward from any loss year ending **prior to** December 31, 1986, it is subtracted on Part I, Line 4g, to the extent not previously used for Illinois purposes. This subtraction is limited to Illinois **base** income in the year you are claiming the carryforward. For further information, see Part I - specific instructions for Line 4g.

What if I have an Illinois net loss deduction (NLD)?

If you have an Illinois NLD from any loss year ending on or after December 31, 1986, it is subtracted from and limited to base income allocable to Illinois.

To determine your "Illinois net loss" start with federal taxable income, without regard to any federal NOLD, and apply all addition and subtraction modifications and all allocation and apportionment provisions. This Illinois net loss is allowed as a carryback or carryforward deduction in the manner allowed under IRC, Section 172, including, for example, the conditions and limitations of IRC, Sections 381 and 382. **Effective for losses in tax years beginning after August 5, 1997,** IRC, Section 172, has been amended to allow federal NOL's to be carried back 2 years, then forward 20 years.

Illinois net losses in tax years **beginning on or before August 5, 1997,** must be carried back 3 years, then forward 15 years. Illinois net losses in tax years **beginning after August 5, 1997,** must be carried back 2 years, then forward 20 years. However, you may make the election to forgo the Illinois NLD carryback period by checking the box below Part III, Line 1a. This election must be made by the extended due date of the loss year return. Once made, the election is irrevocable.

If you are carrying forward an Illinois NLD, you must complete Illinois Schedule NLD, Illinois Net Loss Deduction, and claim the deduction on Part III, Line 1b. See Part III - specific instructions for Line 1b.

If you have an Illinois net loss for this tax year, you must file Form IL-1041 reporting the loss in order to use it as a carryback or carryforward to another year.

If you need further information, write to Illinois Department of Revenue, Legal Services Office, 101 West Jefferson Street, Springfield, IL 62702, and request the Illinois Income Tax Regulations, Sections 100.2050 and 100.2300 through 100.2330.

What is the standard exemption?

The standard exemption is $1,000 multiplied by a fraction, the numerator is your base income allocable to Illinois and the denominator is your total base income. If you have a change in your tax year end and the result is a period of less than 12 months, the standard exemption is prorated based on the number of days in the tax year. If this is your first or final return, you are allowed the full standard exemption. If you need further information, refer to IITA, Section 401(b).

Definitions to help you complete your Form IL-1041.

All references to "income" include losses.

Illinois base income means federal taxable income modified by additions and subtractions in Part I of Form IL-1041. See specific instructions for Part I.

Business income means income arising from transactions and activity in the regular course of your trade or business, after any allowable deductions. It includes income from tangible and intangible property if the acquisition, management, and disposition of the property are integral parts of your regular trade or business operations.

Business income allocable to Illinois
If the trust or estate is a resident, all income received, regardless of source, is allocable to Illinois.

If the trust or estate is a nonresident and
- business income is derived wholly inside Illinois, the entire amount of business income is allocable to Illinois;
- business income is derived wholly outside of Illinois, none of business income is allocable to Illinois;
- business income is derived inside and outside of Illinois, complete Schedule NR, Nonresident Computation of Fiduciary Income, Part II. Refer to the instructions for Part II.

Nonbusiness income means all income other than business income or compensation. For more information about the different types of nonbusiness income, see instructions for Schedule NB, Nonbusiness Income.

Nonbusiness income allocable to Illinois
If the trust or estate is a resident, all nonbusiness income is allocable to Illinois.

If the trust or estate is a nonresident, items of income and deduction which constitute nonbusiness income are allocable to Illinois according to the following rules:
- **Gains and losses** from sales or exchanges of real or tangible property not included in the property factor of the business income apportionment formula are in Illinois if the property is located in Illinois at the time of the sale or exchange. Gains or losses from the sale or exchange of intangible personal property not included in the property factor of the business income apportionment formula are not allocable to Illinois.
- **Net rents and royalties**
  Real property — Rents and royalties from real property are allocable to Illinois if the property is located in Illinois.
  Tangible personal property — Rents and royalties from tangible personal property are allocable to Illinois to the extent the property is used in Illinois. The extent of use of tangible personal property in a state is determined by multiplying the rents and royalties derived from the property by a fraction, the numerator is the number of days of physical location of the property in the state during the rental and royalty period in the tax year and the denominator is the number of days of physical location of the property everywhere during all rental or royalty periods in the tax year.
- **Patent and copyright royalties** are allocable to Illinois to the extent the patent or copyright is used in Illinois.
  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.
  A **copyright** is used in Illinois to the extent that printing or other publication originates in Illinois.
- **Income from partnerships and other fiduciaries** paid to the trust or estate may be allocable to Illinois. Refer to information furnished by the partnership or other fiduciary.
- **Interest and dividend income** received by a nonresident fiduciary is not allocable to Illinois.
- **Illinois State Lottery winnings** received by a nonresident fiduciary are allocable to Illinois.
- **Other unspecified items** of income or deduction of a nonresident taxpayer are not allocable to Illinois.

Resident means
- an individual who is present in Illinois for other than a temporary or transitory purpose;
- an individual who is absent from Illinois for a temporary or transitory purpose but who is domiciled in Illinois;
- the estate of a decedent who at his or her death was domiciled in Illinois;
- a trust created by a will of a decedent who at his or her death was domiciled in Illinois; or
- an irrevocable trust, the grantor was domiciled in Illinois at the time the trust became irrevocable. For purposes of this definition, a trust is irrevocable to the extent that the grantor is not treated as the owner of the trust under IRC, Sections 671 through 678. For a more detailed explanation of "domicile" and "resident," refer to Form IL-1040, Illinois Individual Income Tax Return, General Instructions.

Nonresident means a person who is not a resident of Illinois, as defined previously.

What does taxability (taxable) in other states mean?

Taxable in other states means a trust or estate is subject to and pays "tax" in another state. "Tax" includes net income tax, franchise tax measured by net income, or franchise tax for the privilege of doing business. A trust or estate is considered taxable in another state if that state has jurisdiction to subject it to a net income tax even though that state does not impose such a tax. This definition is for purposes of allocating nonbusiness and apportioning business income inside or outside Illinois.

What is the fiduciary's share or beneficiary's share of income?

The fiduciary's share of an item of income (including any allowable deduction) is that amount required to be taken into account in computing fiduciary taxable income for federal income tax purposes for the tax year and is not paid, credited, or required to be distributed to the beneficiaries of the trust or estate for that year. The fiduciary's share of each of the items of addition and subtraction required under the IITA is that part of each item which relates and is attributable to the fiduciary's share of the items of income and deduction.

The beneficiary's share of each of the items is the amount which was properly paid, credited, or required to be distributed to the beneficiary for the tax year. The items of income and deduction and the additions and subtractions that are deemed to have been paid, credited, or distributed must be taken into account by the beneficiaries in proportion to their respective shares of the distributable net income.

What if the trust makes an accumulation or capital gain distribution?

If the trust makes an accumulation distribution or a capital gain distribution (both as defined in IRC, Section 665), the portion of the distribution included in the income of a nonresident or part-year resident beneficiary (under IRC, Section 668 and 669) is taxable to the extent that the trust income was allocable to Illinois before distribution.

What if I need additional assistance?

If you have questions about this form, you may call us at 1 800 732-8866, 217 782-3336, or the TDD-telecommunications device for the deaf 1 800 544-5304. Our office hours are 8 a.m. to 5 p.m. If you prefer, you may write to us at P.O. Box 19044, Springfield, IL 62794-9044.

If you need additional forms or schedules to complete your Form IL-1041, you may call our Forms Order Line at 1 800 356-6302; call our Illinois Tax Fax at 217 785-3400; or visit our Web site at <www.revenue.state.il.us>. If you prefer, you may write to us at P.O. Box 19010, Springfield, IL 62794-9010.

Specific Instructions

Name, address, and FEIN — If your Illinois income and replacement tax booklet has a pre-addressed label, remove the label and place it in the correct area on the form. If any of the information is not correct, cross through it and write the correct information directly on the label. If your name or address has changed, check the appropriate box. If you did not receive a pre-addressed label, type or print the requested information clearly in the spaces provided. Be sure that your name, address, FEIN, and tax year ending are correctly reported at the top of your Form IL-1041.

You must check one of the boxes indicating whether you are a trust or estate. You must also indicate your residency status by checking the appropriate box.

If this is your first or final return, check the appropriate box and, if final, fill in the date.

If a tax preparer completes your return and you do not wish to receive a tax booklet next year, check the box at the bottom of Form IL-1041.

Note: You must complete Form IL-1041 itself. Do not send a computer printout with line numbers and dollar amounts attached to a blank copy of the return.

Every trust or estate subject to Illinois income and replacement tax must use the same accounting method (*e.g.*, cash or accrual) and tax year that is used for federal income tax purposes.

A double deduction is prohibited by IITA, Section 203(g). You cannot deduct the same item more than once.

Part I — Computation of base income (loss)

Specific instructions for most of the lines are provided on the following pages. Lines that are not discussed in the instructions are self-explanatory.

Line 1 — To determine the amount to write on Form IL-1041, Line 1, complete the worksheet. This worksheet reports federal taxable income (loss) without regard to any federal net operating loss deduction (FNOLD). To report net operating loss deductions, see Part I - specific instructions for Line 4g, and Part III - specific instructions for Line 1b.

Line 1 Worksheet

1 Taxable income from U.S. Form 1041, Line 23 __________

2 FNOLD included in U.S. Form 1041, Line 15a __________

3 Taxable income (loss) before NOL deduction. Add Lines 1 and 2. Write on Form IL-1041, Line 1. __________

Modifications — Any addition or subtraction modification required in the computation of base income should be adjusted by any amount permanently set aside for charitable purposes pursuant to IRC, Section 642(c).

Write the addition or subtraction modifications in Column A if the item is included in the computation of fiduciary's income. Write the addition or subtraction modifications in Column B if the item is included in the computation of beneficiaries' income.

Additions

Line 2c — Write the total of all amounts paid or accrued as interest during the tax year, to the extent excluded from federal taxable income.

Line 2d — Identify each of the following items in the space provided, and write the total amount of income from the following sources:
- additions from any other trust or estate of which this trust or estate is a beneficiary;
- additions from any partnership or S corporation in which this trust or estate is a partner or shareholder; or
- other state's income tax deducted from federal taxable income, if a corresponding credit is claimed on Illinois Schedule CR, Credit for Tax Paid to Other States, (Form IL-1041).

Subtractions

Line 4a — Write the amount from Form IL-1041, Schedule F, Gains from Sales or Exchanges of Property Acquired Before August 1, 1969, Line 18. Capital gain, or Section 1245 or 1250 gain, on property acquired before August 1, 1969, may be limited by the value of the property on August 1, 1969. See Schedule F for instructions. **Attach Schedule F and a copy of U.S. Schedule D, U.S. Form 4797, and 6252, if filed.**

Line 4b — Write the federally taxed portion of any qualified distribution received from
- a qualified employee pension, profit sharing, stock bonus, or bond purchase plan, or from a government (including military) retirement or disability plan. Report only such distribution that was included in taxable income on U.S. Form 1041, Line 8. **Attach a copy of U.S. Form 1041, Page 1, and supporting schedule for Line 8.**
- a lump-sum distribution of cash or property (*e.g.*, employer securities or retirement income, endowment or life insurance contracts). Report the total distribution treated as long-term capital gain shown on Schedule D plus any amount treated as ordinary income and included in U.S. Form 1041, Line 8. **Attach a copy of U.S. Schedule D and U.S. Form 1041, Page 1, and supporting schedule for Line 8.**
- the redemption of U.S. Retirement Bonds. **Attach a copy of U.S. Form 1041, Page 1, and supporting schedule for Line 8.**
- gain on the sale or exchange of employer securities. Complete Form IL-4644, Gains from Sales of Employer's Securities Received from a Qualified Employee Benefit Plan, to compute the subtraction. **Attach Form IL-4644 to your Form IL-1041.**

Note: You must notify each beneficiary of his or her share of any amount included on Line 4b of Column B, that is attributable to a capital gain distribution or to a gain realized on the disposition of employer securities. You must also advise the beneficiary that his or her share of any such amount is to be reported **only** if he or she is limiting capital gain on the disposition of property acquired before August 1, 1969, on Schedule F. If the beneficiary is an individual, he or she will include the amount on Form IL-1040, Schedule F, Line 13. If the beneficiary is a trust or estate, the fiduciary will include the amount on Form IL-1041, Schedule F, Line 14.

Line 4c — Write the total interest received or accrued from U.S. Treasury bonds, notes, bills, and savings bonds that is included in federal taxable income. This amount is net of any bond premium amortization deducted federally.

Line 4d — Write any retirement payments to retired partners that were received by the trust or estate and excluded in computing net earnings from self employment by IRC, Section 1402.

Line 4e — Write the enterprise zone or foreign trade zone/sub-zone dividend subtraction from Illinois Schedule 1299-B, Enterprise Zone and Foreign Trade Zone/ Sub-Zone Subtractions, Part I, Line 4. **Attach Schedule 1299-B to your Form IL-1041.**

Line 4f — Specifically identify each separate item of the following subtractions in the space provided or on an attachment. Write the total of

- the refund of an overpayment of Illinois income and replacement tax for a prior year to the extent included in federal taxable income.
- any income included on Part I, Line 3, that is exempt from taxation by Illinois by reason of its Constitution or the Constitution, treaties, or statutes of the United States. This amount is net of any bond premium amortization that is deducted federally. Please refer to Illinois Publication 101.
- the subtractions from any partnership in which the trust or estate is a partner, or S corporation in which it is a shareholder, and the subtractions from any trust or estate in which this trust or estate is a beneficiary. Do not write any August 1, 1969, appreciation amounts from the partnership, S corporation, or other fiduciary; these are entered on Form IL-1041, Schedule F.
- the expenses relating to federally tax-exempt investments such as state or municipal bonds that were disallowed as federal deductions because of IRC, Section 171(a)(2), 265(a)(1), or 265(a)(2).
- an amount equal to the deduction used to compute the federal tax credit for restoration of amounts held under claim of right under IRC, Section 1341.
- the income included in Part I, Line 3, that is exempt from taxation by Illinois statutes other than the IITA. For further information, refer to Illinois Publication 101.

Line 4g — Write your federal NOL carryforward arising from loss years ending **prior to** December 31, 1986, to the extent of Illinois base income (Line 3 minus the sum of Lines 4a through 4f), and to the extent not previously used against Illinois base income. Do not write an amount on Line 4g that exceeds Line 3 minus the sum of Lines 4a through 4f. Any federal NOL carryforward used in this manner may not be used a second time to obtain a double benefit for Illinois purposes. Unused loss may be used in subsequent years.

Line 5 — Subtract Line 4 from Line 3. Trusts and estates that are residents of Illinois should also write this amount on Part III, Line 1. The base income of a resident trust or estate is not subject to allocation or apportionment. The entire amount is allocated to Illinois under the provisions of the IITA. Trusts and estates that are nonresidents of Illinois must complete Form IL-1041, Schedule NR, before completing Part III.

Part II — Computation of total tax

Complete Parts III and IV before you complete Part II.

Line 4 — You may claim on this line the total of

- any Illinois income tax withheld on wages and salaries (of a decedent) that were received by the fiduciary (attach Form W-2);
- any tax paid with Form IL-505-B. If you have an additional federal extension beyond six months, you **must** attach a copy of your **approved** federal extension to your return;
- any estimated payments you made with Form IL-1120-ES; and
- any 1996 overpayment credited to 1997 tax.

Line 5 — Follow the instructions on the form. This is your overpayment. Your refund will not be issued if your return is determined to be unprocessable.

Note: Your refund or credit carryforward may be reduced by us to satisfy any unpaid tax, penalty, and interest due for this year or any preceding year. If we reduce a credit carryforward, it could result in late payment penalty in the succeeding year.

Line 6 — Follow the instructions on the form. This is your amount of tax due that must be paid in full if $1.00 or more. Make your check or money order payable to **"Illinois Department of Revenue."** We will compute any penalty or interest due and notify you (see General Information, "What are the penalties and interest?"). If you prefer to calculate and pay any penalties and interest when you file, include the amounts on Line 6 and identify each amount to the left of the line.

Note: When filing your Form IL-1041 you should include only forms and schedules required to support your return. Send correspondence separately to P.O. Box 19044, Springfield, IL 62794-9044.

Part III — Computation of net income (loss) and replacement tax

Line 1a — Follow the instructions on the form. If this amount is a loss, you may carry it to other years as an Illinois net loss deduction (NLD). If you are electing to forgo the Illinois NLD carryback period you must check the box below Line 1a. This election must be made by the extended due date of this return. Once made the election is irrevocable. (See General Information, "What if I have an Illinois net loss deduction (NLD)?")

Line 1b — Write your Illinois NLD carryforward from any Illinois loss year ending on or after December 31, 1986, from Illinois Schedule NLD, Line 5. **Attach Schedule NLD to your Form IL-1041.**

Estates — Do not complete Lines 4 through 7.

Trusts — You must complete Lines 4 through 7.

Line 4b — Write your recapture of investment credits from Illinois Schedule 4255, Part IV, Column C, Line 12.

If you claimed an Illinois investment tax credit in a prior year, on Form IL-477, Replacement Tax Investment Credits, and any of the property was disqualified within 48 months after being placed in service, you must use Schedule 4255, to compute the amount of recapture. Credit must be recaptured in the year the property became disqualified.

Line 6 — Write the amount from Form IL-477, Part I, Line 9. **Attach Form IL-477 to your Form IL-1041.**

You may claim a replacement tax investment credit of .5 percent (.005) of the basis of qualified property placed in service in Illinois during the tax year.

An additional credit of up to .5 percent (.005) of the basis of qualified property is available if your Illinois base employment increases over the preceding year or if your business is new to Illinois. Excess credit may be carried forward for five years following the excess credit year. For further information, refer to Form IL-477 instructions.

Part IV — Computation of income tax

Line 2b — Write your recapture of investment credits from Schedule 4255, Part IV, Columns A and B, Line 12.

If you claimed an Illinois Enterprise Zone Credit or High Impact Business Investment Credit in a prior year on Schedule 1299-D, Income Tax Credits, and any of the property was disqualified, you must use Schedule 4255 to compute the amount of recapture. Credit must be recaptured in the year in which the property became disqualified. Effective for **tax years ending on or after January 1, 1997**, the disqualification criteria changes for the High Impact Business Investment Credit. See Schedule 4255 for more information.

Line 4a — Write the amount from Form IL-1041, Schedule CR, Line 8. **Attach Schedule CR and all required supporting documents.** For further information, refer to Schedule CR instructions.

Line 4b — Write the amount from Schedule 1299-D, Part VIII, Line 41. The total of all credits is limited to the total income tax shown on Form IL-1041, Part IV, Line 3. **Attach Schedule 1299-D to your Form IL-1041.** For further information, refer to Schedule 1299-D instructions.

A new income tax credit, the Environmental Remediation Tax Credit, is available for tax years ending **on or after January 1, 1998**.

The TECH-PREP Youth Vocational Programs Credit and the Dependent Care Assistance Program Tax Credit, are available to taxpayers primarily engaged in manufacturing. Any excess credit may be carried forward for **two** years following the excess credit year.

- **TECH-PREP Youth Vocational Programs Credit —** The programs must be certified as qualifying TECH-PREP programs by the State Board of Education and the department. The credit is for an amount equal to 20 percent (.20) of the direct payroll expenditures for cooperative secondary school youth vocational programs in Illinois. The payroll expenditures must not have been claimed for the Training Expense Credit. You may also claim an additional credit of 20 percent (.20) for personal services rendered by a TECH-PREP student or instructor that would be subject to withholding if they were employed by you and no other credit has been claimed by the actual employer.

- **Dependent Care Assistance Program Credit —** A credit of 5 percent (.05) of the amount of expenditures reported, pursuant to IRC, Section 129(d)(7), to provide an on-site facility dependent care assistance program as defined in IRC, Section 129.

The following six credits are also available and may be carried forward for **five** years following the excess credit year:

- **High Impact Business Investment Credit —** A credit of .5 percent (.005) of the basis of qualified property placed in service in Illinois by you during your tax year as a “High Impact Business,” certified as such by the Illinois Department of Commerce and Community Affairs. This credit is available only after you have met the minimum investment required by the Illinois Enterprise Zone Act.

- **Jobs Tax Credit —** A credit of $500 per eligible employee hired to work in an Illinois enterprise zone or foreign trade zone (sub-zone) during your preceding tax year. If you hired eligible employees during the current year, credit cannot be claimed until the subsequent year’s return is filed.

- **Enterprise Zone Investment Credit —** A credit of .5 percent (.005) of the basis of qualified property placed in service in an Illinois enterprise zone during the tax year.

- **Training Expense Credit —** A credit of 1.6 percent (.016) of all federally deducted amounts that were paid or accrued for educational or vocational training in semi-technical or technical fields or semi-skilled or skilled fields (on behalf of all persons employed by you in Illinois or Illinois residents employed outside of Illinois).

- **Research and Development Credit —** A credit of 6.5 percent (.065) of the qualifying expenditures for increasing research activities conducted in Illinois, and which would be allowable under IRC, Section 41, as in effect before P.L. 101-239.

- **Environmental Remediation Tax Credit —** A credit of 25 percent (.25) of the amount of unreimbursed eligible remediation costs in excess of $100,000 per site. However, the $100,000 threshold does not apply to sites certified by the Illinois Department of Commerce and Community Affairs (DCCA). These costs cannot include any approved eligible remediations costs that are deducted under the provisions of the IRC. To claim this credit, you must have received approval of the unreimbursed eligible remediation costs from the Illinois EPA. The credit must be claimed in the tax year in which the Illinois EPA approval is granted. The maximum credit you may claim is $40,000 annually, with a maximum total of $150,000 per site.

Estates — Do not complete Lines 4c and 4d.

Trusts — You must complete Lines 4c and 4d.

Lines 4c and 4d — You must complete the worksheet on this page. The IITA provides a credit against income tax for replacement tax paid. This credit may be carried forward for five years following the excess credit year. Use the worksheet on this page to compute your current year credit and the amount of credit you have available to carry forward.

Lines 4c and 4d Worksheet

a	Write your net replacement tax from Form IL-1041, Part III, Line 7.	**a**	______
b	**Residents**. Write “1.” **Nonresidents**. Write the decimal from Illinois Schedule NR, Part III, Line 3.	**b**	______
c	Multiply Line a by Line b.	**c**	______
d	Multiply Line c by 3% (.03). This is your credit for the current year. **Write also on Part IV, Line 4c.**	**d**	______
e	Write the amount of credit being carried forward, if any. This amount comes from the 1996 Lines 4c and 4d Worksheet, Line j. **Write also on Part IV, Line 4d.**	**e**	______
f	Add Lines d and e.	**f**	______
g	Write the amount from Form IL-1041, Part IV, Line 3.	**g**	______
h	Write the total amount from Form IL-1041, Part IV, Lines 4a and 4b.	**h**	______
i	Subtract Line h from Line g.	**i**	______
j	Subtract Line i from Line f. If Line i is larger than Line f, write “0.” This is the amount of credit you may carry to a succeeding year’s return. (**Do not** write this amount on your current year return.)	**j**	______

Part V — Additional information

Follow the instructions on the form.

Schedule D Instructions

You must complete Illinois Schedule D if any part of the trust or estate income is paid, credited, or distributed, or deemed to have been paid, credited, or distributed, by the trust or estate to the beneficiaries.

Part I — All beneficiaries

Column 1 — Write the name and address of each person who was a beneficiary of the trust or estate.

Column 2 — Write the Social Security number or federal employer identification number of the beneficiary.

Column 3 — Check this column if the beneficiary was not an Illinois resident on the last day of the tax year. Refer to IITA, Section 1501, for the definition of an individual, trust, or estate “resident” for Illinois income tax purposes. Corporations and partnerships are considered nonresidents for purposes of Schedules D and E. (See General Information, “Definitions to help you complete your Form IL-1041.”)

Column 4 — Write **each** beneficiary’s share of the additions shown on Form IL-1041, Part I, Column B, Line 2e. (Each beneficiary will report this amount on his or her Illinois income tax return as “other additions.”)

Column 5 — Write **each** beneficiary’s share of the subtractions shown on Form IL-1041, Part I, Column B, Line 4h.

(Each beneficiary will report this amount on his or her Illinois income tax return as "other subtractions.")

Note: If more than one type of income is included in the subtraction amount, the beneficiary must be given a list identifying each separate item by type, payor and amount.

Part II — Nonresident beneficiaries only

Note: Reduce the amounts to be written in Columns 10 and 11 to reflect any August 1, 1969, appreciation amounts written on Schedule E, Column 4, by appreciation amounts that directly relate to items of business and nonbusiness income allocable to Illinois. See instructions for Illinois Schedule E, Column 4.

Column 6 — Write **each** nonresident beneficiary's share of income distributed by the fiduciary. This will be a share of the amount shown on Line 18 of the U.S. Form 1041 (income distribution deduction) minus all federal income which has been distributed to **resident beneficiaries**.

Column 7 — Write **each** nonresident beneficiary's share of modified distributed income. This will be the amount shown in Column 6, increased by the nonresident's share of any additions shown in Schedule D, Part I, Column 4, and decreased by the nonresident's share of the subtractions shown in Schedule D, Part I, Column 5.

Column 8 — Write **each** nonresident beneficiary's share of income (loss) received from partnerships and S corporations. This will be a share of the amount shown on Schedule NR, Part I, Column 1, Line 5b, less the amount shown on Schedule NR, Part I, Column 2, Line 5b, **less the resident beneficiaries' shares**.

Column 9 — Write **each** nonresident beneficiary's share of income (loss) received from other trusts or estates. This will be a share of the amount shown on Schedule NR, Part I, Column 1, Line 5c, less the amount shown on Schedule NR, Part I, Column 2, Line 5c, **less the resident beneficiaries' shares**.

Column 10 — Write **each** nonresident beneficiary's share of items of income, net of deductions and modifications (but only those included in Columns 4 and 5 above) that apply, which constitute nonbusiness income. (Each nonresident beneficiary must be provided with a breakdown of each item of income included in this entry because the allocation of nonbusiness income to Illinois is determined at the beneficiary's level.)

Column 11 — Write **each** nonresident beneficiary's share of business income allocable to Illinois. This will be the amount shown in Column 7, less the amounts shown in Columns 8, 9, and 10, times the decimal from Schedule NR, Part II, Line 5.

Column 12 — Write **each** nonresident beneficiary's share of income (loss) from partnerships allocable to Illinois. For further information, refer to information furnished you by the partnerships.

Column 13 — Write **each** nonresident beneficiary's share of income (loss) from other trusts and estates allocable to Illinois. For further information, refer to information furnished you by the other trusts or estates.

Schedule E Instructions

If the trust or estate reported gain on the disposition of property acquired before August 1, 1969, this gain may be reduced by the August 1, 1969, appreciation amount. Refer to Form IL-1041, Schedule F, for complete instructions and for the information necessary to complete Columns 1 through 3.

Column 1 — Write **each** beneficiary's share of the August 1, 1969, appreciation amount for Sections 1245 and 1250 gain reported on Form IL-1041, Schedule F, Part II, Column 2, Line 7.

Column 2 — Write **each** beneficiary's share of the August 1, 1969, appreciation amount for Section 1231 gain reported on Form IL-1041, Schedule F, Part II, Column 2, Line 8.

Column 3 — Write **each** beneficiary's share of the August 1, 1969, appreciation amount for capital gain reported on Form IL-1041, Schedule F, Part II, Column 2, Line 9.

Column 4 — Write **each** nonresident beneficiary's share of the August 1, 1969, appreciation amounts that are allocable to Illinois and reported on Form IL-1041, Schedule F, Column 2, Lines 7, 8, and 9.

To the extent allocable to Illinois in accordance with the following rules, these appreciation amounts will reduce the items of income to which they directly relate (if those items are reported in Form IL-1041, Schedule D, Part II) in arriving at each nonresident beneficiary's share of income allocable to Illinois.

If these appreciation amounts result from the gain on disposition of nonbusiness property, you should allocate them in accordance with the following rules for allocation of nonbusiness income:

- If the real property is located in Illinois, the gain from the disposition of this real property is allocable to Illinois.
- If at the time of the sale or exchange, the tangible personal property was located in Illinois, the gain from the disposition of this property is allocable to Illinois.
- The gain from the disposition of intangible personal property is not allocable to Illinois.

If these appreciation amounts resulted from the gain on disposition of business property, you should apportion them in accordance with the following rules governing the apportionment of business income:

- If business income is derived wholly inside Illinois, all of the appreciation amounts are apportioned to Illinois.
- If business income is derived wholly outside Illinois, none of the appreciation amounts are apportioned to Illinois.
- If business income is derived both inside and outside Illinois and the value of the property that the gain was reported on is included in the denominator of the property factor, the amount of the appreciation related to the gain is apportioned to Illinois by multiplying the appreciation amount by the decimal on Form IL-1041, Schedule NR, Part II, Line 5.

Schedule NR Instructions

You must complete Schedule NR if the trust or estate is a nonresident of Illinois. Resident trusts and estates are not permitted to allocate their fiduciary base income.

Part I — Computation of base income (loss) allocable to Illinois

Column 1 — The amounts shown in this column should correspond to the amounts shown on U.S. Form 1041, except for Lines 4, 5, 7, and 20. Any IRC, Section 1202, exclusions you reported on U.S. Form 1041, Line 20, should be netted against the net gain (loss) from sales or exchanges of property shown on U.S. Form 1041, Lines 4 and 7. The resulting net gain (loss) should be reclassified as follows:

- Write on Line 4 the net gain (loss) (other than from partnerships and other fiduciaries) from the sale or exchange of property not included in the property factor of the business income apportionment formula;
- Include in Line 5a the net rent and royalty income (loss);
- Include in Line 5b the net gain (loss) from partnerships and S corporations;
- Include in Line 5c the net gain (loss) from other trusts and estates; and
- Write on Line 7 the net gain (loss) (other than from partnerships and other fiduciaries) from sales or exchanges of property included in the property factor of the business income apportionment formula.

Column 2 — Write on the appropriate lines your share, as fiduciary, of the amounts shown in Column 1.

Column 3 — Write on the appropriate lines your share, as fiduciary, of the amounts shown in Column 2 which are allocable to Illinois.

Note: For definitions of business and nonbusiness income allocable to Illinois refer to General Information, "Definitions to help you complete your Form IL-1041."

Column 4 — Write on the appropriate lines the portion of the additions and subtractions listed on Form IL-1041, Part I, that are allocable to Illinois. Additions and subtractions are allocable to Illinois if the items to which they directly relate are allocable to Illinois.

Write additions to amounts in Column 3 as positive numbers.

Write subtractions from amounts in Column 3 as negative numbers.

Column 5 — Combine the amounts shown in Columns 3 and 4 and write the result in Column 5.

Note: For Lines 5b and 5c, write your share of income (loss) allocable to Illinois.

Part II — Business income apportionment formula

You must complete Part II if the trust or estate derived business income (loss) from both inside and outside of Illinois. The decimal resulting from applying the apportionment formula is applied to items of business income (loss) in Part I, Column 2, to determine the amount of business income (loss) apportionable to Illinois. The business income apportionment formula is also used to determine business income (loss) apportionable to Illinois on Schedule D for beneficiaries. Gains and losses from sales or exchanges of property included in the property factor are items of business income.

Line 1 — Property factor — In Column 1, write the average value of real and tangible personal property owned or rented and used in your trade or business everywhere. In Column 2, write the average value of real and tangible personal property owned or rented and used in your trade or business in Illinois. For Column 3, divide Column 2 by Column 1 and write the result, carried to six decimal places. If zero is written in Column 1, this factor is not applicable. Write "N/A" in Column 3.

Property owned by you is valued at its original cost, plus the original cost of any capital additions or improvements. The average value of property is determined by averaging the values at the beginning and end of the tax year. Leasehold improvements made by you, as a lessee, are treated as property owned by you regardless of the useful life of the improvements or the person in whom title is vested on termination of the lease.

Property rented by you is valued at eight times the net annual rental rate. Net annual rental rate is the annual rental rate paid by you, less any annual rental rate received by you from nonbusiness sub-rentals.

Line 2 — Payroll factor — In Column 1, write the total compensation paid everywhere. In Column 2, write the total compensation paid inside Illinois. For Column 3, divide Column 2 by Column 1 and write the result, carried to six decimal places. If zero is written in Column 1, this factor is not applicable. Write "N/A" in Column 3.

Compensation is paid in Illinois if

- the individual's service is performed entirely inside Illinois;
- the individual's service is performed inside and outside Illinois, but the service performed outside Illinois is incidental to the individual's service performed inside Illinois; or,
- some of the service is performed inside of Illinois, and either the base of operations, or if there is no base of operations, the place from which the service is directed or controlled is inside Illinois; or
- 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, but the individual is a resident of Illinois.

Note: Payments made to a nonresident who performs personal services under a personal service contract for sports performances taking place in Illinois are included in Column 2 if the professional sports team that the individual is a member of is a resident of a state that imposes a comparable tax liability on Illinois residents. For further information, refer to Illinois Income Tax Regulations, Sections 100.3100(e) and 100.3120(a)(3).

Line 3a — Sales factor — In Column 1, write your total sales everywhere. In Column 2, write your total sales inside Illinois. For Column 3, divide Column 2 by Column 1 and write the result, carried to six decimal places. If zero is written in Column 1, this factor is not applicable. Write "N/A" in Column 3.

Do not include the following items of income in the numerator or denominator of your sales factor:

- dividends;
- amounts included under IRC, Section 78; and
- subpart F income as defined in IRC, Section 952.

Sales of tangible personal property are in Illinois if

- the property is delivered or shipped from anywhere to a purchaser in Illinois, other than the United States government, regardless of the f.o.b. point or other conditions of the sale;
- the property is shipped from Illinois to any place and the purchaser is the United States government;
- the property is shipped from Illinois to another state and you are not taxable in the state of the purchaser or you did not file a tax return in the state of the purchaser; or
- your salesperson operates out of an office in Illinois, and the property sold by the salesperson is shipped from a state in which you are not taxable, to a state in which you are not taxable.

Sales, other than sales of tangible personal property, are in Illinois if

- the income-producing activity is performed inside Illinois; or
- if the income-producing activity is performed inside and outside Illinois, and a greater proportion of the income-producing activity is performed inside Illinois than outside Illinois, based on performance costs.

Line 5 — Average — If an amount (other than zero) is shown in Column 1 for all factors, divide Line 4 by 4. If either the property or payroll factor shown in Column 1 is zero, divide Line 4 by 3. If both property and payroll factors shown in Column 1 are zero, divide Line 4 by 2. If the sales factor shown in Column 1 is zero, divide Line 4 by 2. If the sales factor and either the property or payroll factor shown in Column 1, are zero, write the decimal from Line 4.

Part III — Compute your standard exemption

You are entitled to deduct a standard exemption in computing net income. The amount of the standard exemption is $1,000, multiplied by a fraction, the numerator is your base income allocable to Illinois for the tax year and the denominator is total base income for the tax year. To determine the allowable standard exemption, complete Schedule NR, Part III.