



## What's new for 1997

- 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 August 17, 1997, if you are a partner in a partnership, your partnership may have elected to pass through its replacement tax investment credits to its partners from Form IL-477, Replacement Tax Investment Credits. See Schedule B, Column 9, instructions.
- 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 B, Column 7, instructions.

## General Information

### Who must file Form IL-1120-ST?

You must file Form IL-1120-ST if you are a small business corporation, as defined in IRC, Section 1361(a), that

- has net income or loss as defined under the Illinois Income Tax Act (IITA); or
- is qualified to do business in the state of Illinois and is required to file U.S. Form 1120S (regardless of net income or loss).

If you are an S corporation that is a member of a unitary business group, you should refer to Schedule UB, Combined Apportionment for Unitary Business Group, and its instructions for information about filing requirements. S corporations may file as members of a unitary group but may not file a combined return.

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-1120-ST, 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 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-1120-ST is due on or before the 15th day of the **3rd** month following the close of the tax year.

**Automatic seven-month extension** — We grant you an automatic seven-month extension of time in which to file your small business corporate 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 interest and penalty on tax not paid by the original due date of the return. An extension of time to file your Form IL-1120-ST is not an extension of time for payment of Illinois tax.

**Additional extension beyond the automatic extension period** — We will grant an extension of more than seven 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-1120-ST when it is filed.

### Where should I file?

Mail your Form IL-1120-ST to

ILLINOIS DEPARTMENT OF REVENUE  
PO BOX 19032  
SPRINGFIELD IL 62794-9032

### When should I pay?

**Payment of tax** — You must pay your Illinois replacement tax in full on or before the 15th day of the 3rd month following the close of the tax year. This payment date applies even though an automatic extension for filing your return has been granted.

**Estimated tax payments** — Small business corporations are not required to make estimated payments.

### Who should sign the return?

Your Form IL-1120-ST must be signed by the president, vice president, treasurer, or any other officer duly authorized to sign the return. In the case of a bankruptcy, a receiver, trustee, or assignee must sign any return required to be filed on behalf of the corporation. The signature verifies by written declaration (and under penalties of

perjury) that the signing officer has personally examined the return and that the return is true, correct, and complete. The fact that an individual's name is signed to a return is *prima facie* evidence that the individual is authorized to sign the return on behalf of the corporation.

Any person 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 original due date of your return 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?

**Liquidation, withdrawal from Illinois, or loss of charter** — If you are a corporation that is liquidated, withdraws either voluntarily or involuntarily from Illinois, **or** in any manner surrenders or loses your charter during any tax year, you are still required to file tax returns. Also, we will pursue the assessment and collection of taxes if

- you are liable for replacement tax for that period or any previous tax period; or

- the shareholders had income allocable to Illinois for that period or any previous tax period due to a distribution from you.

**Sales or transfers** — If you are a corporation 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 its business,
- you should complete and send us a Form NUC-542-A, Notice of Sale or Purchase of Business Assets, no later than 10 days after 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** —

You may make a request for prompt determination of liability if you are a corporation that is contemplating, or in the process of dissolution, or has already dissolved. 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 the 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-1120-ST. 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.

**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 you 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 credits; or in the computation of your federal taxable income as reported for federal income tax purposes if the 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 alteration has been agreed to or finally determined.

If you are filing Form IL-843 to claim an overpayment, it must be filed no later than 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 Form IL-1120-ST. 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 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-1120-ST 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-1120-ST 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 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 ordinary income 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 II, 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 II, Line 1b. Refer to Part II - specific instructions for Line 1b.

If you have an Illinois net loss for this tax year, you must file Form IL-1120-ST 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, 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 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. For further information on short year returns, refer to IITA, Section 401(b).

**Definitions to help you complete your Form IL-1120-ST.**

All references to “income” include losses.

**Illinois base income** means federal ordinary income modified by the additions and subtractions as shown in Part IA and Part I of Form IL-1120-ST. See specific instructions for Parts IA and 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 constitute integral parts of your regular trade or business operations.

Most income of a corporation is regarded as business income. Consequently, in the case of a corporation other than a personal holding company, the consistent treatment of income from intangibles as

business income in filing Illinois tax returns will be presumed to be correct.

**Commercial domicile** means the principal place from which your trade or business is directed or managed.

**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.

## What does taxability (taxable) in other states mean?

Taxable in other states means you are subject to and pay "tax" in another state. "Tax" includes net income tax, franchise tax measured by net income, franchise tax for the privilege of doing business, and corporate stock tax. You are considered taxable in another state if that state has jurisdiction to subject you 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.

## May I file a composite return for nonresident shareholders?

You may file a composite return for any nonresident individuals, trusts, and estates that derive income from an Illinois S corporation. If you would like more information concerning eligibility to file a composite return, refer to Form IL-1023-C, Composite Income and Replacement Tax Return.

**Note:** You must use Form IL-1023-CES, Composite Estimated Tax Payments for Partners and Shareholders, to make payments of estimated tax for a composite filing. If you make estimated payments to us for any other type of tax or you have overpayments of tax from any other type of tax return, you cannot transfer any of these payments from or to Forms IL-1023-CES or IL-1023-C to satisfy composite tax payment requirements.

## 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-1120-ST, you may call our Forms Order Line at 1 800 356-6302; 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 replacement tax booklet has a pre-addressed label, remove the label and place it in the correct area on the form. If any 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 required 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-1120-ST.

If you are a member of a group filing as a unitary business, mark the appropriate box and attach Schedule UB, or indicate the FEIN of the member who is filing Schedule UB.

**Note: You must complete Form IL-1120-ST itself.** Do not send a computer printout of line numbers and dollar amounts attached to a blank copy of the return.

You 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 IA — Ordinary income adjustments

Complete this part before completing Part I. You do not need to attach copies of U.S. Schedules K-1 to your Form IL-1120-ST.

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** — Write the amount of ordinary income or loss reported on U.S. Form 1120S, Line 21.

**Line 4c** — Write the total amount of depletion on all oil and gas properties calculated as follows:

- For each property that cost depletion would be required, write the depletion that would be allowed to the shareholder, taking into account the shareholder's proportionate share of the adjusted basis for each property.
- For each property that percentage depletion would be required, write the percentage depletion that would be allowed to the shareholder as prescribed by IRC, Section 613(a) and Section 613A. For regulated natural gas and natural gas sold under a fixed contract, write the percentage depletion that would be allowed to the shareholder as prescribed by IRC, Section 613A(b)(1).

**Line 4e** — You cannot take a subtraction for a net operating loss on this line.

## Part I — Computation of base income (loss)

Complete Part IA before completing Part I.

### Additions

**Line 2a** — Write the total of all amounts paid or accrued as interest and all distributions received from regulated investment companies during the tax year, to the extent excluded from federal ordinary income.

**Line 2c** — If you are a partner in a partnership, beneficiary of a trust or an estate, or a shareholder in another S corporation, write the amount of your distributive share of additions furnished you by that partnership, trust, estate, or S corporation.

### Subtractions

**Line 5a** — Write the total interest received or accrued from U.S. Treasury bonds, notes, bills, and savings bonds included in federal ordinary income. This amount is net of any bond premium amortization that is deducted federally.

**Line 5b** — Write the enterprise zone or foreign trade zone/sub-zone dividend subtraction from Illinois Schedule 1299-A, Tax Subtractions and Credits, Section I, Part I, Line 2. **Attach Schedule 1299-A to your Form IL-1120-ST.**

**Line 5c** — Write the enterprise zone project contribution subtraction from Illinois Schedule 1299-A, Section I, Part II, Line 4. **Attach Schedule 1299-A to your Form IL-1120-ST.**

**Line 5d — For financial organizations only.** Write the enterprise zone or high impact business interest subtraction from Illinois Schedule 1299-A, Section I, Part III, Line 6. **Attach Schedule 1299-A to your Form IL-1120-ST.**

**Line 5e** — Write the total of any amortizable bond premium disallowed as a federal deduction by IRC, Section 171(a)(2), any expenses incurred in producing federally tax-exempt income disallowed as a federal deduction by IRC, Section 265(a)(1), or any interest expense disallowed as a federal deduction by IRC, Section 265(a)(2). Also include interest expense disallowed by IRC, Section 291(a)(3).

**Line 5f** — Specifically identify each separate item of the following subtractions in the space provided or on an attachment. Write the total of

- the refund of Illinois replacement tax for a prior year, to the extent included in federal ordinary income.
- any other income included on Part I, Line 4, 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 deducted federally. Please refer to Illinois Publication 101.

- the subtractions from any partnership in which you are a partner, and the subtractions from any trust or estate in which you are a beneficiary. Do not write any August 1, 1969, appreciation amounts from the partnership or fiduciary; these are entered on Form IL-1120-ST, Schedule F.
- the 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 deductions for "foreign dividend gross-up (IRC, Section 78)," "subpart F income," or foreign dividends which are allowed as a subtraction modification under IITA, Sections 203(b)(2)(G) and 203(b)(2)(O). **You must provide supporting attachments clearly identifying each item taken as a subtraction.**
- any income included on Part I, Line 4, which is exempt from taxation by Illinois statutes other than the IITA. For further information, refer to Illinois Publication 101.

## Part II — 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-1120-ST.**

**Line 6b** — Write your recapture of investment credits from Illinois Schedule 4255, Recapture of Investment Tax Credits, 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 of being placed in service, you should use Schedule 4255 to compute the amount of recapture. Credit must be recaptured in the year the property became disqualified.

**Line 8** — Write the amount from Form IL-477, Part I, Line 9. **Attach Form IL-477 to your Form IL-1120-ST.**

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 increased over the preceding year or if your business is new to Illinois. Excess credit may be carried forward for five years. For further information, refer to Form IL-477 instructions.

**Line 10** — Write the amount of Illinois replacement 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.

**Line 11** — Follow the instructions on the form. 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 on this year or any preceding year. If we reduce your credit carryforward, it could result in a late payment penalty in the succeeding year.

**Line 12** — Follow the instructions on the form. This is the amount of tax due that must be paid in full if \$1 or more. Make your check or money order payable to "Illinois Department of Revenue." We will compute any penalty and 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 12 and identify each amount to the left of the line.

**Note:** When filing your Form IL-1120-ST, include only forms and schedules required to support your return. Send correspondence separately to P.O. Box 19044, Springfield, IL 62794-9044.

## Part III — Base income (loss) allocable to Illinois

You **must** complete Part III if any portion of Part I, Line 7, base income (loss) is derived outside Illinois. If you do not complete **all** of Part III we may issue a notice and demand proposing 100 percent of business income being apportioned to Illinois.

In order to properly allocate your base income (loss), you need to determine what portion of the total base income is business income (loss) that is to be apportioned among all the states in which you do business, and what portion is nonbusiness income (loss) that is to be allocated to a particular state.

**Line 2a** — Write the amount of all nonbusiness income (loss) included in base income, net of any related deductions, from Illinois Schedule NB, Column A. **Attach Schedule NB to your Form IL-1120-ST.**

**Line 2b** — Write the amount of all non-unitary business income (loss) included in base income received from any partner-

ship, trust, or estate, of which you are a partner or beneficiary.

**Special Note:** If your activities and the activities of a partnership of which you are a partner constitute a unitary business relationship, any shares of partnership income (loss) and your factors as a partner must be included in your business income and your factors. This income cannot be subtracted on Line 2b of Part III. For further information, refer to Illinois Income Tax Regulations, Section 100.3380(c).

**Lines 5 through 7** — You must complete Lines 5 through 7 only if business income (loss) is derived inside and outside Illinois. Follow specific instructions below for Lines 5 through 7. Insurance companies, transportation companies, and financial organizations should see "Special Apportionment Formulas" in these instructions.

**Line 5a — 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 a 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. The director may require the averaging of monthly values during the tax year, if reasonably required to properly reflect the average value of your property. 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 5b — 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 a 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 both inside and outside Illinois, but the service performed outside Illinois is incidental to the service performed inside Illinois;

- some of the service is performed inside 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 services 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 5c — 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 a zero is written in Column 1, this factor is not applicable. Write "N/A" in Column 3 and in Column 3, Line 5d.

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 in Illinois; or
- the income-producing activity is performed both 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 7** — If an amount (other than zero) is shown in Column 1 for all factors, divide Line 6 by 4. If either the property or payroll factor shown in Column 1 is zero, divide Line 6 by 3. If both property and payroll factors shown in Column 1 are zero, divide Line 6 by 2. If the sales factor shown in Column 1 is zero, divide Line 6 by 2. If the sales factor and either the property or payroll factor shown in Column 1 are zero, write the decimal from Line 6.

**Note:** If you use a special apportionment formula (see "Special Apportionment Formulas" in these instructions), write on Line 7 the decimal shown on Column 3, Line 5c.

**Line 8** — Follow the instructions on the form. If Lines 5 through 7 are blank, write the amount from Line 4.

**Line 9** — Write the amount of net nonbusiness income (loss) allocable to Illinois from Illinois Schedule NB, Column B.

**Line 10** — Write the amount of nonunitary business income (loss) apportionable to Illinois as reported by the partnership, trust, or estate (see Part III, Line 2b).

## Special Apportionment Formulas

Certain businesses that derive their income from inside and outside Illinois require a special apportionment formula. The following definitions will help in completing Part III.

**A Direct writing company** - an insurance company whose direct insurance premiums are 50 percent or more of its total insurance premiums.

**B Reinsurer** - an insurance company whose reinsurance premiums assumed are 50 percent or more of its total insurance premiums.

**C Total insurance premiums** - the sum of both direct insurance premiums and reinsurance premiums assumed without any reduction for reinsurance ceded.

**D Annual statement** - the annual statement required to be filed with the director of insurance of the state of Illinois.

**E Nonlife mutual and nonlife stock insurance companies** - an insurance company taxable under IRC, Section 831, for the taxable year.

**F Business income** - See General Information, "Business income" under "Definitions to help you complete your Form IL-1120-ST."

**G Financial organization** - any bank, bank holding company, trust company, savings bank, industrial bank, land bank, safe deposit company, private banker, savings and loan association, building and loan association, credit union, currency exchange, cooperative bank, small loan company, sales finance company, investment company,

or any person which is owned by a bank or bank holding company.

**H Business income from sources within Illinois** - Business income of a financial organization from sources within Illinois is the sum of

- fees, commissions, or other compensation for financial services rendered within Illinois;
- gross profits from trading in stocks, bonds, or other securities managed within Illinois;
- dividends received within Illinois;
- interest from Illinois customers received within Illinois;
- interest charged to customers at places of business maintained inside Illinois for carrying debit balances on margin accounts, without deduction of any costs incurred in carrying such accounts; and
- any other gross income resulting from the operation as a financial organization inside Illinois.

In computing these amounts, any amount received by a member of an affiliated group (determined under IRC, Section 1504(a), but without reference to whether any such corporation is an "includible corporation" under IRC, Section 1504(b)) from another member of the group must be included only to the extent the amount exceeds expenses of the original recipient.

**I Revenue miles** - A revenue mile is the transportation of one passenger, or one net ton of freight, the distance of one mile. In the case of transportation by pipeline, a revenue mile is the transportation of one barrel of oil, 1,000 cubic feet of gas, or any specified quantity of any other substance, the distance of one mile.

## What if I am an insurance company?

If you are an insurance company taxable under IRC, Section 831, and your income is derived from inside and outside Illinois, you must apportion your business income as follows:

**Direct writing companies — Nonlife mutual and nonlife stock insurance companies** - Do not make any entries on Part III, Lines 5a, 5b, or 5d. On Line 5c, line out the words "Sales factor" and write "Insurance premiums." In Column 1, write the amount of total direct premiums (gross direct premiums less return premiums) from the annual statement (relating to life insurance premiums, annuity considerations, and accident and health insurance premiums, including policy, membership and other fees).

In Column 2, write the amount of direct premiums on property or risk located in Illinois from the annual statement.

For Column 3, divide Column 2 by Column 1, carried to six decimal places. Write the result in Column 3 and on

Lines 6 and 7. See Specific Instructions, Part III - Base income (loss) applicable to Illinois, for completing Lines 8 through 11.

**Reinsurers — Nonlife mutual and nonlife stock insurance companies** - Do not make any entries on Part III, Lines 5a, 5b, or 5d. On Line 5c, line out the words "Sales factor" and write "Insurance premiums." In Column 1, write from the annual statement (relating to life insurance premiums, annuity considerations, and accident and health insurance premiums, including policy, membership, and other fees) the sum of total direct premiums (gross direct premiums less return premiums) **and** the total reinsurance premiums assumed.

For Column 2, write from the annual statement, the sum of direct premiums on property or risk located in Illinois **and** the reinsurance premiums assumed inside Illinois, determined under any one of the following methods:

**Method A** - Determine the reinsurance premiums assumed, relating to property or risk located in Illinois.

**Method B** - For each company from which reinsurance is accepted, determine the ceding insurance company's ratio of direct premiums on property or risk located in Illinois, to its total direct premiums. Apply this ratio to the reinsurance premiums assumed from that company. For example, reinsurer R assumes premiums of \$40,000 and \$50,000 from ceding companies A and B respectively. Company A's ratio of direct premiums on property or risk located in Illinois, to its total direct premiums, is 10 percent and Company B's ratio is 20 percent. Reinsurer R has \$14,000 of reinsurance premiums assumed on property or risk located in Illinois, consisting of \$4,000 from ceding Company A (10 percent of \$40,000) and \$10,000 from ceding Company B (20 percent of \$50,000).

**Method C** - Determine the amount of reinsurance premiums assumed from insurance companies commercially domiciled in Illinois. Include in reinsurance premiums assumed in Illinois, all premiums for reinsurance accepted from insurance companies commercially domiciled in Illinois.

For Column 3, divide Column 2 by Column 1, carried to six decimal places. Write the result in Column 3 **and** on Lines 6 and 7. See Specific Instructions, Part III - Base income (loss) allocable to Illinois, for completing Lines 8 through 11.

## What if I am a financial organization?

If you are a financial organization and your income is derived from inside and outside Illinois, you must apportion your business income as follows:

**Financial organizations** — Do not make any entries on Part III, Lines 5a, 5b, or 5d.

On Line 5c, line out the words "Sales factor" and write "Financial organization." In Column 1, write the amount of business income from all sources. In Column 2, write the amount of business income from sources within Illinois. For Column 3, divide Column 2 by Column 1, carried to six decimal places. Write the result in Column 3 **and** on Lines 6 and 7. See Specific Instructions, Part III - Base income (loss) allocable to Illinois, for completing Lines 8 through 11.

**International banking facilities** — If you are a financial organization that has established an international banking facility in Illinois, refer to IITA, Section 304(c)(2), to determine apportionable income. If you have questions about these provisions, write to Illinois Department of Revenue, Legal Services Office, Senior Counsel - Income Tax, 5-500, 101 West Jefferson Street, Springfield, IL 62702.

## What if I am a transportation service?

If you are a company that furnishes transportation services both inside and outside Illinois you must apportion your business income as follows:

**A Transportation other than pipeline** - Do not make any entries on Part III, Lines 5a, 5b, or 5d. On Line 5c, line out the words "Sales factor" and write "Revenue miles." In Column 1, write the amount of revenue miles everywhere. In Column 2, write the amount of revenue miles in Illinois. For Column 3, divide Column 2 by Column 1, carried to six decimal places. Write the result in Column 3 **and** on Lines 6 and 7. See Specific Instructions, Part III - Base income (loss) allocable to Illinois, for completing Lines 8 through 11.

**Note:** If you are a corporation engaged in the transportation of both passengers and freight, Column 3, Line 5c, is determined by means of an average of the passenger revenue mile fraction and the freight revenue mile fraction, weighted to reflect your

- relative railway operating income from total passenger and total freight service as reported to the Interstate Commerce Commission in the case of transportation by railroad; and
- relative gross receipts from passenger and freight transportation in the case of transportation other than by railroad.

**B Transportation by pipeline** - Do not make any entries on Part III, Lines 5a, 5b, or 5d. On Line 5c, line out the words "Sales factor" and write "Pipeline." In Column 1, write the amount of revenue miles everywhere. In Column 2, Line 5c write the amount of revenue miles in Illinois. For Column 3, divide Column 2 by Column 1, carried to six decimal places. Write the result in Column 3

**and** on Lines 6 and 7. See Specific Instructions, Part III - Base income (loss) allocable to Illinois, for completing Lines 8 through 11.

## What if I am a member of a unitary business group?

The term "unitary business group" means a group of persons related through common ownership, whose business activities are integrated with, dependent on, and contribute to each other. In the case of a corporation, common ownership is defined as the direct or indirect ownership or control of more than 50 percent of the outstanding voting stock of a corporation.

If you determine that you are a member of a unitary business group, refer to Schedule UB for further information regarding your Illinois filing requirements and the computation of your Illinois tax liability. Only Part IA of your Form IL-1120-ST should reflect your separate company income. The remainder of Form IL-1120-ST should reflect unitary figures from Schedule UB.

If you do file a unitary return, the instructions to Schedule B (Form IL-1120-ST) will not be applicable to your return. You will need to complete a *pro forma* separate return in order to correctly complete Schedule B. Do not attach Schedule B to your Form IL-1120-ST.

## What if I want to use an alternative apportionment formula?

If you want to use the separate accounting method or any alternative apportionment method, you **must** receive permission from the department **prior** to filing your return. Send your request to Illinois Department of Revenue, Legal Services Office, Senior Counsel - Income Tax, 5-500, 101 West Jefferson, Springfield, IL 62702.

**Note:** If you need the procedures for petitioning for an alternative apportionment formula, refer to Illinois Income Tax Regulations, Section 100.3390, or contact the department for further information.

You will be authorized to use a fair and accurate alternate apportionment formula only when the apportionment methods prescribed by IITA, Sections 304(a) through (d), do not accurately and fairly reflect business activity in Illinois, or lead to a grossly distorted result. Neither you, nor the director, may invoke this method merely because it reaches a different apportionment percentage than the regularly required formula. In order to use an alternative apportionment method, you must show in your petition, by clear and cogent evidence, that the statutory formula would result in the taxation of extraterritorial values. You must also show that it operates unreasonably and arbitrarily in

attributing to Illinois a percentage of income which is out of proportion to the business transacted in this state. Finally, you must prove that the use of an alternative apportionment formula would fairly and accurately apportion income to Illinois based upon business activity in this state.

If you receive permission to use an alternative formula, you must attach a copy of the letter granting permission to your Form IL-1120-ST.

## Schedule B Instructions

Complete Part I of this schedule for all shareholders, including any person who was a shareholder at any time during your tax year. Complete Part II of this schedule only for those shareholders who were not residents of Illinois on the last day of your tax year.

### Part I — All shareholders

**Column 1** — Write the name and address of each person who was a shareholder at any time during your tax year.

**Column 2** — Write the Social Security number or FEIN of the shareholder.

**Column 3** — Check this column if the shareholder was not an Illinois resident on the last day of the tax year. For further information, refer to IITA, Section 1501, for the definition of an individual, trust, or estate “resident” for Illinois income tax purposes.

**Column 4** — Write the percentage representing **each** shareholder’s share of income, gain, loss, deduction, or credit allocated among the shareholders as required by IRC, Section 1366. In the event that the shareholders’ agreement provides for a specific allocation of certain items which differs from that used to allocate income or loss, the special items and percentage allocation should be reported on a separate sheet and attached to this return.

**Column 5** — Write **each** shareholder’s share of the additions shown on Form IL-1120-ST, Part I, Lines 2a and 2c. (Each shareholder should report this amount on his or her Illinois income tax return as “other additions.”)

**Column 6** — Write **each** shareholder’s share of the subtractions shown on Form IL-1120-ST, Part I, Lines 5a and 5f. (Each shareholder should 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 shareholder must be given a list identifying each separate item by type, payor and amount.

**Column 7** — Write **each** shareholder’s share of the enterprise zone investment credit shown on Schedule 1299-A, Section II, Part I, Line 9, the training

expense credit shown on Illinois Schedule 1299-A, Section II, Part II, Line 12, and the environmental remediation tax credit shown on Illinois Schedule 1299-A, Section II, Part III, Line 16. **Attach Schedule 1299-A to your return.** (Each shareholder should report these credits on his or her Schedule 1299-A, C, or D.)

- **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 amounts which 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) and which were deducted from gross income in the computation of federal taxable income.
- **Environmental Remediation 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.

**Column 8** — Write **each** shareholder’s share of enterprise zone investment credit recapture shown on Illinois Schedule 4255, Part IV, Column A, Line 12. Each shareholder’s share of the recapture is limited to the shareholder’s share of the original investment credit. If a shareholder who shared in the credit is no longer a shareholder in the year of recapture or if a shareholder’s share in the year of the credit is different from the shareholder’s share in the year of the recapture, report that shareholder’s share of the recapture on a separate sheet as described in the instructions for Column 4. (Each shareholder should report this amount on his or her Schedule 4255, Part IV, Column A, Line 11.)

**Column 9** — Write **each** shareholder’s share of the replacement tax investment credits shown on Form IL-477, Part I, Line 9. **Attach Form IL-477 to your return.** (Each shareholder should report these credits on his or her Form IL-477.)

## Part II — Nonresident shareholders only

In determining the amounts to be written in Columns 10, 11, and 12, the nonresident shareholder’s share of corporate income will include only those addition and subtraction amounts shown in Schedule B, Part I, Columns 5 and 6.

**Column 10** — Write **each** nonresident shareholder’s share of your income or loss. The amount to be written in Column 10 will be that share of your unmodified base income shown on Form IL-1120-ST, Part I, Line 1, increased by the additions shown in Schedule B, Part I, Column 5, and decreased by the subtractions shown in Schedule B, Part I, Column 6.

**Note:** Any August 1, 1969, appreciation amount may reduce income only in the case of a shareholder who is an individual, trust, or estate, (but not a corporation). The shareholder’s share of August 1, 1969, appreciation amounts is limited to the extent these appreciation amounts arise from gain on the disposition of business property. See instructions for Schedule C, Column 5.

**Column 11** — Write **each** nonresident shareholder’s share of **Column 10** constituting business income or loss. This will be the amount in Column 10, **minus** any nonbusiness income, **minus** your distributive share of income or loss from any partnership, trust, or estate, **times** the decimal from Form IL-1120-ST, Part III, Line 7.

**Column 12** — Write **each** nonresident shareholder’s share of items of income or loss, net of deductions and modifications (but only those modifications shown on Form IL-1120-ST, Part I, Lines 2a, 2c, 5a, and 5f), which constitutes nonbusiness income (loss).

Each nonresident shareholder 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 shareholder’s level.

**Column 13** — Write **each** nonresident shareholder’s share of income or loss from trusts or estates allocable to Illinois. For further information, refer to information furnished to you by the trust or estate for these amounts.

**Column 14** — Write **each** nonresident shareholder’s share of income or loss from partnerships allocable to Illinois. For further information, refer to information furnished to you by the other partnership for these amounts.

## Schedule C Instructions

Complete Columns 1 through 4 of this schedule for all shareholders. Complete Column 5 only for those shareholders who were not residents of Illinois on the last day of your tax year.

If your reported gain on the disposition of property acquired before August 1, 1969, the gain may be reduced by the August 1, 1969, appreciation amount. For complete instructions and the information necessary to complete Columns 1 through 4, refer to Form IL-1120-ST, Schedule F, Gains from Sales or Exchanges of Property Acquired Before August 1, 1969.

**Column 1** — Write **each** shareholder's share of the August 1, 1969, appreciation amount for Sections 1245 and 1250 gain reported on Form IL-1120-ST, Schedule F, Line 3.

**Column 2** — Write **each** shareholder's share of the August 1, 1969, appreciation amount for Section 1231 gain reported on Form IL-1120-ST, Schedule F, Line 4.

**Column 3** — Write **each** shareholder's share of the August 1, 1969, appreciation amount for Section 1231 gain less casualty and theft gain reported on Form IL-1120-ST, Schedule F, Line 6. If you do not report casualty or theft gain for federal income tax purposes, leave this column blank.

**Column 4** — Write **each** shareholder's share of the August 1, 1969, appreciation amount for capital gain reported on Form IL-1120-ST, Schedule F, Line 7.

**Column 5** — Write **each** nonresident shareholder's share of the August 1, 1969, appreciation amounts that are allocated or apportioned to Illinois and reported on Form IL-1120-ST, Schedule F, Lines 3, 4, 6, and 7. Read the following rules to determine which application applies.

If these appreciation amounts resulted from the gain on disposition of nonbusiness property, you should allocate them to Illinois. The rules governing the allocation of nonbusiness income are as follows:

- 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 to Illinois. The rules governing the apportionment of business income are as follows:

- 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-1120-ST, Part III, Line 7.

## Schedule NB Instructions

**Note to partnerships:** Do not include the portion of nonbusiness income or loss reported on Form IL-1065, Part I, Lines 2e or 5d.

**Column A** — Write in Column A on the appropriate line all nonbusiness income, wherever earned.

**Column B** — Of the amounts written in Column A, write in Column B any amount allocable to Illinois as follows:

**1 Net interest and dividends.** If your commercial domicile was in Illinois when the interest and dividends were paid or accrued, the interest and dividend income is allocable to Illinois.

**2 Rents and royalties.** Rents and royalties from real property are allocable to Illinois if the property is located in Illinois. Rents and royalties from tangible personal property are allocable to Illinois to the extent that the property is used in Illinois; or in their entirety, if at the time the rents or royalties were paid or accrued, your commercial domicile was in Illinois and was not organized under the laws of, or taxable with respect to, the rents or royalties in the state in which the property was used.

The extent of use of tangible personal property in a state is determined by multiplying the rents or royalties derived from the property by a fraction, the numerator of which is the number of days of physical location of the property in the state during the rental or royalty period in the taxable year, and the denominator of which is the number of days of physical location of the property everywhere during all rental or royalty periods in the taxable year. If the physical location of the property during the rental or royalty period is unknown or unascertainable, tangible personal property is used in the state in which the property was located at the time the rental or royalty payer obtained possession.

**3 Patent and copyright royalties.**

Patent and copyright royalties are allocable to Illinois to the extent that the patent or copyright is used by the payer in Illinois, or to the extent that the patent or copyright is used by the payer in a state in which you are not taxable with respect to the royalties and, at the time the royalties were paid or accrued, your commercial domicile was in Illinois.

A patent is used in a state to the extent that it is employed in production, fabrication, manufacturing, or other processing in the state or to the extent

that a patented product is produced in the state. If the basis of, or receipts from, patent royalties do not permit allocation to states or if the accounting procedures do not reflect states of use, the patent is used in Illinois if your commercial domicile was in Illinois.

A copyright is used in a state to the extent that printing or other publication originates in the state. If the basis of, or receipts from, copyright royalties do not permit allocation to states or if the accounting procedures do not reflect states of use, the copyright is used in Illinois if your commercial domicile was in Illinois.

**4 Capital gains and losses.** Capital gains and losses resulting from the sale or exchange of property are allocable to Illinois

- for real property if the real property is located in Illinois;
- for tangible personal property if at the time of the sale or exchange the property had its situs in Illinois, or your commercial domicile was in Illinois and was not taxable in the state in which the tangible personal property had its situs; or
- for intangible personal property if your commercial domicile was in Illinois at the time of the sale or exchange.

