Illinois Department of Revenue

IL-1065 Instructions 1999

What's new for 1999

- Effective for tax years beginning on or after January 1, 1999, you are allowed to pass through the Research and Development Credit to your partners.
- Effective for tax years beginning on or after January 1, 1999, a new credit is available that you may pass through to your partners. The Economic Development for a Growing Economy (EDGE) Tax Credit is a new credit available to taxpayers who have entered into an agreement with the Department of Commerce and Community Affairs (DCCA) under the Economic Development for a Growing Economy Tax Credit Act.
- Effective for tax years ending on or after August 13, 1999, you are allowed to subtract wages for which you claimed the federal Jobs Tax Credit (nondeductible under the Internal Revenue Code (IRC), Section 280C.)
- Effective for loss years ending on or after December 31, 1999, the Illinois net loss deduction (NLD) provisions are decoupled from the IRC, Section 172.
- Effective for tax years ending on or after December 31, 1999, the manner in which patents, copyrights, trademarks, and similar items of intangible personal property are treated changes for Illinois sales factor purposes.

General Information

Who must file Form IL-1065?

You must file Form IL-1065 if you are a partnership, as defined in "Definitions to help you complete your Form IL-1065," and you have base income (loss) as defined under the Illinois Income Tax Act (IITA).

If you are a partnership organized for the sole purpose of playing the Illinois State Lottery you are not required to file a Form IL-1065.

It is your duty as a taxpayer to obtain forms. 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-1065, you must register by filing Form NUC-1, Illinois Business Registration. To receive Form NUC-1, see "What if I need additional assistance or forms?" for our phone numbers and addresses.

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 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-1065 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 partnership 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-1065 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-1065 when it is filed.

Where should I file?

Mail your Form IL-1065 to

ILLINOIS DEPARTMENT OF REVENUE
PO BOX 19031
SPRINGFIELD IL 62794-9031

When should I pay?

Payment of tax — You must pay your Illinois replacement tax in full on or before the 15th day of the 4th 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 — Partnerships are not required to make estimated payments.

Who should sign the return?

Your Form IL-1065 must be signed by a partner 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 a partnership. The signature verifies by written declaration (and under penalties of perjury) that the signing individual has personally examined the return and 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 partnership.

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, the preparer must also provide the firm's name, address, and instead of the preparer's taxpayer identification number, the preparer must provide the firm's FEIN. A self-employed preparer must check the "self-employed" box and provide their own name, address, and taxpayer identification number in the appropriate spaces.

Note: If your return is not signed, any overpayment of tax 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 will owe a **late-filing or nonfiling penalty** if you do not file a processable return by the due date, including any extended due date. You will 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 or forms?" for our phone numbers and addresses.

What if I am discontinuing my business?

Liquidation or withdrawal from Illinois — If you are a partnership that is liquidated or withdraws either voluntarily or involuntarily from Illinois 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 partners 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 partnership 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 or the purchaser must 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.

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-1065. 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 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 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 within two years after the date such notification was due (regardless of whether such notice was given). For further information, see Form IL-843 instructions.

What records must I keep?

You must maintain books and records to substantiate any information reported on your Form IL-1065. 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-1065 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-1065 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 taxable income and apply all addition and subtraction modifications and all allocation and apportionment provisions.

Effective for loss years **ending on or after December 31, 1999,** the Illinois NLD provisions are decoupled from IRC, Section 172. All Illinois net losses must now be carried back 2 years (unless an election is made to only carry forward such loss), then forward 20 years, which is the same as the general rule under the current version of IRC, Section 172. However, the special rules under IRC, Sections 172, and future amendments to that section will no longer apply to Illinois net losses.

Illinois net losses in tax years **ending before December 31, 1999,** are allowed as a carryback or carryforward deduction only in the manner allowed under IRC, Section 172.

Note: 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. See the Part II, Line 1b, instructions.

If you have an Illinois net loss for this tax year, you must file Form IL-1065 reporting the loss in order to carry back or carry forward the loss to another year.

If you need further information, write to Illinois Department of Revenue, Legal Services Office, Senior Counsel - Income Tax, 5-500, 101 West Jefferson, Springfield, Illinois 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, in which 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-year standard exemption. If you need further information, see IITA, Section 401(b).

Definitions to help you complete your Form IL-1065.

All references to "income" include losses.

Illinois base income means federal income modified by the additions and subtractions as shown in Part IA and Part I of Form IL-1065. 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 related 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.

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 Illinois Schedule NB, Nonbusiness Income.

Partnership includes a syndicate, group, pool, joint venture, or other unincorporated organization, through or by means of which any business, financial operation, or venture is carried on, and that is not, within the meaning of the IITA, a trust, estate, or corporation. A partnership may be any entity formed under the Illinois Limited Liability Company Act that is treated as a partnership for federal income tax purposes. A partnership that has elected under IRC, Section 761, to be excluded from the partnership provisions of the IRC is also excluded for purposes of the IITA.

Partner includes a member in such syndicate, group, pool, joint venture, or other unincorporated organization.
A **resident partner** 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 if 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," see the General Instructions for Form IL-1040, Individual Income Tax Return.

Nonresident partner means a partner who is not a resident of Illinois, as defined above.

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, or franchise tax for the privilege of doing business. You or your partners 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.

When must I use Illinois Schedules K-1-P and B?

You must use **Illinois Schedule K-1-P,** Partner's or Shareholder's Share of Income, Deductions, Credits, and Recapture, to supply each partner with that individual's or entity's share of the amounts reported on your federal and Illinois tax returns. For Illinois Income Tax purposes, you must give a completed Illinois Schedule K-1-P and a copy of the **Illinois Schedule K-1-P(2)**, Partner's and Shareholder's Instructions, to each partner. **Do not** file Illinois Schedule K-1-P with your Form IL-1065. However, you must keep a copy of each Illinois Schedule K-1-P with your tax records.

Note: If you are a beneficiary in a trust or an estate, you should receive a completed **Illinois Schedule K-1-T,** Beneficiary's Share of Income and Deductions, and a copy of the **Illinois Schedule K-1-T(2),** Beneficiary's Instructions. Illinois Schedule K-1-T is for trusts and estates to supply tax information to their beneficiaries.

You must use **Illinois Schedule B,** Partners' or Shareholders' Identification, to supply us with a listing of your partners. You **must** file Illinois Schedule B with your Form IL-1065.

Note: If you need Illinois Schedule K-1-P, see "What if I need additional assistance or forms?" for our phone numbers and addresses.

May I file a composite return for any nonresident partners?

You may file a composite return for any nonresident individuals, trusts, and estates that receive income from your partnership. If you would like more information concerning eligibility to file a composite return, see 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 or forms?

If you need additional assistance, visit our Web site at **www.revenue.state.il.us**; call our Taxpayer Assistance Division at **1 800 732-8866, 217 782-3336;** or call our TDD (telecommunications device for the deaf) at **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, Illinois 62794-9044.

If you need additional forms or schedules, visit our Web site at **www.revenue.state.il.us**; call our Illinois Tax Fax at **217 785-3400**; call our 24-hour Forms Order Line at **1 800 356-6302**; or write to us at P.O. Box 19010, Springfield, Illinois 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 of the information is not correct, cross through it and write the correct information directly on the label. 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-1065.

Note: If your name or address has changed since you filed your last return, check the appropriate box.

If you are filing an IRC, Section 761(a) or (b) election, check the appropriate box.

Note: You must complete Form IL-1065 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 — 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-1065.

Note: If you filed federal Form U.S. 1065-B, U.S. Return of Income for Electing Large Partnerships, complete Part IA, Line 1, Lines 2c and 2f for additions to income, and Line 4h for deductions to income.

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

Line 4f — Write the total amount of depletion on all of your 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 partner, taking into account the partner'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 partner 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 partner as prescribed by IRC, Section 613A(b)(1).

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

Line 5d worksheet

1	Write the share of distributable income included in Line 1.	_______
2	Write the share of distributable income included in Line 2a.	_______
3	Write the amount of guaranteed payments to partners subject to replacement tax included in Line 2c.	_______
4	Write the share of distributable additions included in Line 2d.	_______
5	Add Lines 1 through 4.	_______
6	Write the share of distributable income included in Line 5a.	_______
7	Write the share of distributable modifications included in Line 5g.	_______
8	Add Lines 6 and 7.	_______
9	Subtract Line 8 from Line 5. If the result is a **positive amount** (income), write it here and on Form IL-1065, Part I, Line 5d. If the result is a **negative amount** (loss), write it here and write it as a positive amount on Form IL-1065, Part I, Line 2e.	_______

Part I — Computation of base income (loss)

Complete Part IA before completing Part I.

Additions

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

Line 2d — If you are a partner in another partnership, a shareholder in an S corporation, or a beneficiary of a trust or an estate, include your distributive share of additions received from the partnership, S corporation, trust, or estate.

Note: The partnership or the S corporation is required to send you an Illinois Schedule K-1-P and the trust or the estate is required to send you an Illinois Schedule K-1-T, specifically identifying your share of income.

Line 2e — Complete the worksheet for Line 5d to determine if an amount is required on this line. The worksheet calculates the share of distributable income (loss) that is to be added or subtracted from base income. If the result of the worksheet is a negative number (loss), it should be written on Line 2e as a **positive** amount. **Attach Form IL-2569, Personal Property Replacement Tax (Partner's Annual Certification), to your Form IL-1065. You may submit one Form IL-2569 that lists all partners, by FEIN, name, and type, rather than a Form IL-2569 for each partner.**

Subtractions

Line 5a — Write the total interest received or accrued from U.S. Treasury bonds, notes, bills, federal agency obligations, 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 amount from Form IL-1065, Schedule F, Gains from Sales or Exchanges of Property Acquired Before August 1, 1969, Line 14. 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 U.S. Form 6252, if filed.**

Line 5c — Write the greater of

- your personal service income as defined in the now-repealed IRC, Section 1348(b)(1); or
- a reasonable allowance for compensation paid or accrued for services rendered by partners to you.

Line 5d — In the case of a partner(s) subject to replacement tax, write the share of distributable income. Multiply each line referenced in the worksheet by the percentage of total ownership in the partnership attributable to these partners.

Note: Report any share of distributable loss on Line 2e.

Complete the worksheet on this page to compute the amount of distribution and to determine where it should be reported.

Attach Form IL-2569 to your Form IL-1065. You may submit one Form IL-2569 that lists all partners, by FEIN, name, and type, rather than a Form IL-2569 for each partner.

Line 5e — 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 Illinois Schedule 1299-A to your Form IL-1065.**

Line 5f — Write the total of 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). Effective for tax years **ending on or after August 13, 1999,** you may also subtract IRC, Sections 265 and 280C amounts.

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

- the refund of an overpayment 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, 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. For further information, see Illinois Publication 101.
- your distributive share of subtractions furnished you by the partnership, S corporation, trust, or estate, that you are either a partner, a shareholder, or a beneficiary.
  Note: The partnership or the S corporation is required to send you an Illinois Schedule K-1-P and the trust or the estate is required to send you an Illinois Schedule K-1-T specifically identifying your share of subtractions.
- 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.
- any income included on Part I, Line 4, which is exempt from taxation by Illinois statutes other than the IITA. For further information, see 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 Illinois Schedule NLD to your Form IL-1065.**

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 after being placed in service, you should use Illinois 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. You may make the election to pass through your replacement tax credits to your partners. If you are making this election, you must check the box provided next to the line and write “0” on this line. Once made, this election is irrevocable. **Attach Form IL-477 to your Form IL-1065.**

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, see 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.

Special Note: Illinois income tax withheld for lottery winnings shown on Form IL-W-2G cannot be claimed on your Form IL-1065. This amount must be claimed on each partner’s individual 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 for this year or any preceding year. If we reduce your credit carryforward, it may result in a late-payment penalty in the succeeding year.

Line 12 — Follow the instructions on the form. This is your 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-1065, include only forms and schedules required to support your return. Send correspondence separately to P.O. Box 19044, Springfield, Illinois 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.

How is the apportionment factor figured?

For tax years **ending on or after December 31, 1999, and before December 31, 2000,** the apportionment formula is figured using 8.33333 percent (.083333) for the property and payroll factors and 83.3334 percent (.833334) for the sales factor. For tax years **ending on or after December 31, 2000,** the apportionment formula is figured using only the sales factor.

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 Illinois Schedule NB to your Form IL-1065.** Include any nonbusiness income from Illinois Schedules K-1-P or K-1-T.

Line 2b — Write the amount of all business income (loss) included in base income received from any partnership, trust, or estate, of which you are a partner or a beneficiary.

Note: The partnership is required to send you an Illinois Schedule K-1-P and the trust or estate is required to send you an Illinois Schedule K-1-T specifically identifying your share of income.

Lines 5a through 6 — You must complete Lines 5a through 6 only if business income (loss) is derived inside and outside Illinois. Follow specific instructions below for Lines 5a through 6. Financial organizations and transportation companies 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. Divide Column 2 by Column 1 and write the result, carried to six decimal places only, in Column 3. Multiply the decimal in Column 3 by the weighted factor in Column 4, and write the result in Column 5. If you wrote zero in Column 1, this factor is not applicable. Write “N/A” in Column 3 and see the instructions under Line 6 entitled “What if I do not have three factors?”

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 subrentals.

Line 5b — Payroll factor — In Column 1, write the total compensation paid everywhere. In Column 2, write the total compensation paid inside Illinois. Divide Column 2 by Column 1 and write the result, carried to six decimal places only, in Column 3. Multiply the decimal in Column 3 by the weighted factor in Column 4, and write the result in Column 5. If you wrote zero in Column 1, this factor is not applicable. Write “N/A” in Column 3 and see the instructions under Line 6 entitled “What if I do not have three factors?”

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 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 service contract at a sporting event that takes place entirely 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 residents of Illinois. For further information, see 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. Divide Column 2 by Column 1 and write the result, carried to six decimal places only, in Column 3. Multiply the decimal in Column 3 by the weighted factor in Column 4, and write the result in Column 5. If you wrote zero in Column 1, this factor is not applicable. Write "N/A" in Column 3 and see the instructions under Line 6 entitled "What if I do not have three factors?"

Include gross receipts from the license, sale, or other disposition of patents, copyrights, trademarks, and similar items of intangible personal property in the numerator and denominator of your sales factor only if the gross receipts are more than 50 percent of the total gross receipts included in gross income for this tax year and each of the two immediately preceding tax years.

Do not include the following items of income in the numerator or denominator of your sales factor:
- dividends;
- amounts included under IRC, Section 78;
- subpart F income as defined in IRC, Section 952; and
- any item of income excluded or deducted from base income.

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.

Gross receipts from the licensing, sale, or other disposition of patents, copyrights, trademarks, and other similar items of intangible personal property are in Illinois to the extent the item is used in Illinois during the year the gross receipts are included in gross income. An item is used in Illinois if
- a patent is employed in production, fabrication, manufacturing, or other processing in Illinois or if the patent product is produced in Illinois.
- copyrighted material is printed or other publications originated in Illinois.
- the commercial domicile of the licensee or purchaser of a trademark or other item of intangible personal property is in Illinois.

Note: If you cannot determine in which state an item is used, do not include the gross receipts from that item in the numerator or the denominator of the sales factor.

Sales, other than sales of tangible personal property, or gross receipts from the licensing, sale, or other disposition of patents, copyrights, trademarks, and similar items of intangible 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 rather than outside Illinois, based on performance costs.

Line 6 — Add Column 5, Lines 5a through 5c. This is your apportionment factor.

Example

Factor	Column 3		Column 4		Column 5
Property	.100000	X	.083333	=	.008333
Payroll	.100000	X	.083333	=	.008333
Sales	.500000	X	.833334	=	.416667
Total					.433333

Apportionment factor is .433333
Write this factor on Line 6.

What if I do not have three factors?

If you do not have three factors (if Line 5a, 5b, or 5c, Column 1, is zero) you must reweight the factors to compute your apportionment factor. To reweight, add the weighted totals in Column 5 for the factors you have; then add the weighting factors in Column 4 for those factors. Divide the total of Column 5 by the total of Column 4. Use this factor to figure your business income (loss) apportionable to Illinois.

Example

Factor	Column 3		Column 4		Column 5
Property	.100000	X	.083333	=	.008333
Payroll	N/A				
Sales	.500000	X	.833334	=	.416667
Total			.916667		.425000

.425000 ÷ .916667 = .463636
Write this factor on Line 6.

Note: If you only have a sales factor, divide Column 2 by Column 1 and write the result, carried to six decimal places only, in Column 3 **and** on Line 6. **Do nothing** for Columns 4 and 5.

If you use a special apportionment formula (see "Special Apportionment Formulas" in these instructions), write on Line 6 the factor shown on Column 3, Line 5c.

Line 7 — Follow the instructions on the form. If Lines 5a through 6 are blank, write the amount from Line 4.

Line 8 — Write the amount of net nonbusiness income (loss) allocable to Illinois from Illinois Schedule NB, Column B. Include any nonbusiness income from Illinois Schedules K-1-P or K-1-T.

Line 9 — Write the amount of business income (loss) apportionable to Illinois as reported by the partnership, trust, or estate, on Illinois Schedules K-1-P or K-1-T (see Part III, Line 2b).

Special Apportionment Formulas

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

A **Business income -** See General Information, "Business income" under "Definitions to help you complete your Form IL-1065."

B **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 owned by a bank or bank holding company.

C 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.

D 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 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 or 5b. 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. Divide Column 2 by Column 1, write the result, carried to six decimal places only, in Column 3 **and** on Line 6. **Do nothing** for Columns 4 and 5. See Specific Instructions, Part III - Base income (loss) allocable to Illinois, for completing Lines 7 through 10.

International banking facilities — If you are a financial organization that has established an international banking facility in Illinois, see 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, Illinois 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 business income as follows.

A Transportation other than pipeline - Do not make any entries on Part III, Lines 5a or 5b. 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. Divide Column 2 by Column 1, write the result, carried to six decimal places only, in Column 3 **and** on Line 6. **Do nothing** for Columns 4 and 5. See Specific Instructions, Part III - Base income (loss) allocable to Illinois, for completing Lines 7 through 10.

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 or 5b. 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, write the amount of revenue miles in Illinois. Divide Column 2 by Column 1, write the result, carried to six decimal places only, in Column 3 **and** on Line 6. **Do nothing** for Columns 4 and 5. See Specific Instructions, Part III - Base income (loss) allocable to Illinois, for completing Lines 7 through 10.

What if I want to use an alternative apportionment formula?

If the apportionment methods prescribed by IITA, Sections 304(a) through (d) and (h), do not fairly and accurately reflect your business activity in Illinois, or lead to a grossly distorted result, you may want to use a more accurate alternative method. If you want to use an alternative apportionment method, you **must** receive permission from the IDOR **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, Illinois 62702.

Note: Your request for an alternative apportionment formula must follow the requirements of the Illinois Income Tax Regulations, Section 100.3390. See the regulations or contact the department for further information.

If you receive permission to use an alternative formula, you must attach a copy of the letter granting permission to your Form IL-1065.

Illinois Schedule B Instructions

Complete Illinois Schedule B identifying any person who was a partner at any time during your tax year. You **must** attach Illinois Schedule B to your Form IL-1065.

Column A - Write the name of each partner.

Column B - Write each partner’s address.

Column C - Write the Social Security number or the federal employer identification number of each partner.

Column D - Write the percentage representing each partner’s share of income, deductions, credit, or recapture.

Illinois 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.