Illinois Department of Revenue

IL-1120-ST Instructions 2002

What's new for 2002?

- Effective for tax years **ending after September 11, 2001,** Illinois has "decoupled" from the federal bonus depreciation legislation. Additions and subtractions reversing the effects of federal bonus depreciation are figured on the new Form IL-4562, Special Depreciation. See specific instructions for Part I, Lines 2c and 5e, and Informational Bulletin, FY 2003-02, Illinois Decouples from Federal Law, on our Web site at **www.ILtax.com**.
- Effective for tax years **beginning on or after January 1, 2003,** you may make an election to treat all of your income other than compensation as business income. A new box has been added to Part III of this form for the purpose of making this election.

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 Internal Revenue Code (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 own a Qualified Subchapter S Subsidiary (QSSS) defined in IRC, Section 1361(b)(3), as well as any other entity that is disregarded as an entity separate from you for purposes of the IRC, it is likewise disregarded as a separate entity for purposes of the IITA. You must include all items of income, deduction, loss, credit, *etc.,* from such entities on your return as if they were earned or incurred by you directly.

If you are an S corporation that is a member of a unitary business group, you should see Illinois Schedule UB, Combined Apportionment for Unitary Business Group, and the 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. 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 should register by calling our Central Registration Division at **217 785-3707**, and they will either send you the correct form to complete or assist you by telephone.

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

Your identification numbers as an Illinois business taxpayer are your federal employer identification number (FEIN) and your Illinois business tax (IBT) number.

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 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 extensions 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). You must attach a copy of the approved federal extension to your Form IL-1120-ST.

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 original due date of the return. 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 tax 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 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 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 write the preparer's 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. Self-employed preparers 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 your return was filed.

What are the penalties and interest?

Penalties and interest — You owe a **late-filing penalty** if you do not file a processable return by the extended due date, a **late-payment penalty** if you do not pay the tax you owe by the original due date of the return, and a **bad check**

penalty if your remittance is not honored by your financial institution. Interest is calculated on tax from the day after the original due date of your return through the date you pay the tax.

We will bill you for penalties and interest. For more information about penalties and interest, 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, withdrawal from Illinois, or loss of charter — If you are a corporation that is liquidated, withdraws either voluntary or involuntary 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 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 or goods which you are in the business of selling,
- the furniture or fixtures of your business,
- the machinery and equipment of your business, or
- the real property of your business,

you or the purchaser must complete and send us Form CBS-1, 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 19035, Springfield, Illinois 62794-9035.

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 your request. Mail your request to Illinois Department of Revenue, P.O. Box 19044, Springfield, Illinois 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 form "CORRECTED" at the top and show the changes. Any correction made may cause a recalculation of penalties and interest.

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

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.

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

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

Illinois net losses must be carried back 2 years (unless an election to carry the losses forward is made), then forward 20 years.

Note: You may make the election to only carry the loss forward and 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 specific instructions for Part II, 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 carry back or carry forward the loss to another year.

If you need further information, visit our Web site at **www.ILtax.com** and view the Illinois Income Tax Regulations, Sections 100.2050 and 100.2300 through 100.2330, or write to Illinois Department of Revenue, Legal Services Office, Senior Counsel - Income Tax, 5-500, 101 West Jefferson Street, Springfield, Illinois 62702, and request these sections of the Illinois Income Tax Regulations.

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 your total base income. If you have a change in your tax year end and the result is a period of less than 12 months, the standard exemption is prorated based on the number of days in the tax year. If this is your first or final return, you are allowed the full-year standard exemption. If you need further information, see 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 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 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.

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 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 the instructions for Illinois 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 income 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 shareholder 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 shareholder. **Do not file Illinois Schedule K-1-P with your Form IL-1120-ST**. 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 shareholders. You **must** file Illinois Schedule B with your Form IL-1120-ST.

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 nonresident shareholders?

You may file a composite return for any nonresident individuals, trusts, and estates that receive income from your S corporation. 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 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.ILtax.com**;
- call our Taxpayer Assistance Division, Monday through Friday, 8 a.m. to 5 p.m. at **1 800 732-8866**, **217 782-3336**, or our TDD (telecommunications device for the deaf) at **1 800 544-5304**; or
- 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.ILtax.com**;
- call our Illinois Tax Fax at **217 785-3400** or 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 — Type or print the required information clearly in the spaces provided. Be sure that your name, address, FEIN, and the tax year ending are correctly reported at the top of your Form IL-1120-ST. If your name or address has changed since you filed your last return, check the appropriate box. If you have an IBT number, write it clearly in the space provided.

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

If this is your first or final return, check the appropriate box and, if final, answer the questions at the end of your return.

Note: You must complete Form IL-1120-ST itself. Do not send a computer printout with 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. Schedule K-1 to your Form IL-1120-ST.

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

Note: If you are a member of a unitary group, write the figures on each line of Part IA that reflect your separate company income. See Illinois Schedule UB, Specific Instructions.

Line 1 — Write the amount of ordinary income or loss reported on U.S. Form 1120S, Schedule K, Line 1.

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

- For each property requiring cost depletion, 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 requiring percentage depletion, 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 or loss

Complete Part IA before completing Part I.

Note: If you are a member of a unitary group, see Illinois Schedule UB, Specific Instructions.

Line 5c Worksheet

1 Write the share of income of shareholders subject to replacement tax from Line 1. ______________

2 Write the share of additions distributable to shareholders subject to replacement tax from Lines 2a, 2b, and 2c. ______________

3 Add Lines 1 and 2. ______________

4 Write the share of subtractions distributable to shareholders subject to replacement tax from Lines 5a, 5b, 5d, and 5e. ______________

5 Subtract Line 4 from Line 3. If Line 3 is greater than Line 4 (income), write the result here and on Form IL-1120-ST, Part I, Line 5c. If Line 4 is greater than Line 3 (loss), write the result here as a negative amount and write it as a positive amount on Form IL-1120-ST, Part I, Line 2d. ______________

Additions

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

Line 2c — Identify each of the following items in the space provided, and write the total amount of income from the following sources:

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

  Note: The S corporation or the partnership 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.
- Any amount from Form IL-4562, Step 2, Line 4. This amount is the total of
  - any **"bonus depreciation"** you claimed this year when figuring your federal taxable income, plus
  - the subtractions you claimed on any prior year Form IL-4562 for bonus depreciation property that you sold or transferred during this tax year in a transaction for which you reported a capital gain or loss on your federal return.

  See Form IL-4562 and instructions. Identify this amount as "special depreciation" on the line provided. **Attach Form IL-4562 to your Form IL-1120-ST.**

Line 2d — Complete the worksheet for Line 5c to determine if an amount is required on this line. The worksheet calculates the share of distributable income or loss that is to be added to or subtracted from base income. If the result of the worksheet is a negative number (loss), it should be written on Line 2d as a **positive** amount. **Attach Form IL-2569, Personal Property Replacement Tax (Partners' or shareholders' annual certification), to your Form IL-1120-ST.**

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. You may **not** subtract anything that is not identified in Illinois Publication 101, Income Exempt from Tax. This amount is net of any bond premium amortization deducted federally.

Line 5b — Write the total of your enterprise zone subtractions from Illinois Schedule 1299-A, Tax Subtractions and Credits, Step 1, Lines 2 and 4. **For financial organizations only.** Write the enterprise zone or high impact business interest subtraction from Step 1, Line 6. **Attach Illinois Schedule 1299-A to your Form IL-1120-ST.**

Line 5c — Complete the worksheet on this page to compute the amount of distribution and to determine where it should be reported.

Write the share of income distributable to your shareholders that is subject to replacement tax. **Do not** include any income distributable to shareholders that are individuals because they are **not** subject to replacement tax.

Note: Report any distributable loss on Line 2d. **Attach Form IL-2569 to your Form IL-1120-ST.**

Line 5d — 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, 280C, or 291(a)(3).

Line 5e — Identify each of the following subtractions in the space provided on the form. You may **not** subtract anything that is not identified below or in Illinois Publication 101. Write the total of

- the refund of Illinois replacement tax for a prior year, to the extent included in your federal ordinary income.
- any other income included on Part I, Line 4, exempt from taxation by Illinois by reason of its Constitution or statutes or by the Constitution, treaties, or statutes of the United States. This amount is net of any bond premium amortization deducted federally. For further information, see Illinois Publication 101.
- your distributive share of subtractions furnished to you by the S corporation, partnership, trust, or estate, in which you are either a shareholder, a partner, or a beneficiary.

  Note: The S corporation or the partnership 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.
- 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.**
- the amount from Form IL-4562, Step 3. Line 10. This amount is the total of
  - **42.9 percent of any ordinary depreciation allowance** claimed this year on bonus depreciation property that you included in your federal taxable income, plus
  - the **Illinois special depreciation addition** you reported on any prior year Form IL-4562 for property that you sold or transferred during this tax year in a transaction for which you reported a capital gain or loss on your federal return.

  Complete Form IL-4562 to figure this subtraction. Identify this amount as "depreciation subtraction" on the line provided. **Attach Form IL-4562 to your Form IL-1120-ST.**

Part II — Computation of net income or 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 only carry this loss forward and 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-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 must 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 11. **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 following the excess credit year. For further information, see Form IL-477 instructions.

Line 10 — Write the amount of Illinois replacement tax paid with Form IL-505-B.

Line 11 — Follow the instructions on the form. Your refund will not be issued if you do not file a processable return.

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 or interest due and notify you (see General Information, "What are the penalties and interest?"). If you prefer to calculate and pay any penalties and interest when you file, include the amounts on Line 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, Illinois 62794-9044.

Part III — Base income or loss allocable to Illinois

You **must** complete Part III if any portion of Part I, Line 7, base income or 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 or loss you need to determine what portion of the total base income is business income or loss that is to be apportioned among all the states in which you do business, and what portion is nonbusiness income or loss that is to be allocated to a particular state.

Line 2a — Write the amount of all nonbusiness income or loss included in base income, net of any related deductions, from Illinois Schedule NB, Column A. **Attach Illinois Schedule NB to your Form IL-1120-ST.** Include any nonbusiness income from Illinois Schedules K-1-P or K-1-T.

Short year filers only: For tax years **beginning on or after January 1, 2003,** you may make an election to treat all of your income other than compensation as business income. To make this election you must check the box next to Line 2a and write zero on Line 2a and on Part III, Line 7. **This election must be made by the extended due date of this return. Once made, the election is irrevocable.**

Line 2b — Write the amount of all nonunitary business income or 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 the estate is required to send you an Illinois Schedule K-1-T, specifically identifying your share of income.

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 or loss and your factor as a partner must be included in your business income and your factor. This income cannot be subtracted on Line 2b of Part III. For further information, see Illinois Income Tax Regulations, Section 100.3380(d).

Line 5a through 5c — You must complete Lines 5a through 5c only if business income or loss is derived inside and outside Illinois. Follow specific instructions below for Lines 5a through 5c.

Note: If you are a financial organization or a transportation company, check the appropriate box at the end of Line 5 (F = financial organization and T = transportation company) and see "Special Apportionment Formulas" in these instructions.

Line 5a — Write your total sales everywhere.

Line 5b — Write your total sales inside Illinois.

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 these 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 sales person 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 patented 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 from your books and records 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.

If you use a special apportionment formula, see "Special Apportionment Formulas" in these instructions.

Line 5c — Divide Line 5b by Line 5a and write the result, carried to six decimal places.

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

Line 7 — Write the amount of net nonbusiness income or loss allocable to Illinois from Illinois Schedule NB, Column B. Include any nonbusiness income from Illinois Schedules K-1-P or K-1-T.

Short year filers only: If you checked the box next to Part III, Line 2a, making the election to treat all of your income other than compensation as business income, then write zero on Line 7.

Line 8 — Write the amount of the income or loss reported on Part III, Line 2b that is apportionable to Illinois as reported by the partnership, trust, or estate, on Illinois Schedules K-1-P or K-1-T.

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

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.

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 the expenses of the original recipient directly allocable to such income.

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 checked the box in Part III, Line 5, marked "F," indicating that 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 — On Lines 5a and 5b, line out the word "sales" and write "Financial organization." On Line 5a, write the amount of business income from all sources. On Line 5b, write the amount of business income from sources within Illinois. Divide Line 5b by 5a and write the result, carried to six decimal places, on Line 5c. See Specific Instructions, Part III - Base income or loss allocable to Illinois, for completing Lines 6 through 9.

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 checked the box in Part III, Line 5, marked "T," indicating that you are a company that furnishes transportation service both inside and outside Illinois, you must apportion your business income as follows:

A **Transportation other than pipeline —** On Lines 5a and 5b, line out the word "sales" and write "Revenue miles." On Line 5a, write the amount of revenue miles everywhere. On Line 5b, write the amount of revenue miles in Illinois. Divide Line 5b by Line 5a and write the result, carried to six decimal places, on Line 5c. See Specific Instructions, Part III - Base income or loss allocable to Illinois, for completing Lines 6 through 9.

Note: If you are a corporation engaged in the transportation of both passengers and freight, 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 Surface Transportation Board 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 —** On Lines 5a and 5b, line out the word "sales" and write "Pipeline." On Line 5a, write the amount of revenue miles everywhere. On Line 5b, write the amount of revenue miles in Illinois. Divide Line 5b by Line 5a and write the result, carried to six decimal places, on Line 5c. See Specific Instructions, Part III - Base income or loss allocable to Illinois, for completing Lines 6 through 9.

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, see Illinois Schedule UB for further information regarding your Illinois filing requirements and the computation of your Illinois tax liability. Once the Schedule UB has been completed, you must apportion your business income as follows:

On Line 5a, write the "everywhere" sales factor of the entire unitary business group from Schedule UB, Part IV, Line 2, Column E. On Line 5b, write only your Illinois sales (including your share of sales of any unitary partnerships in which you are a partner).

On Lines 7 and 8, write your own nonbusiness income and the Illinois portion of business income from nonunitary partnerships in which you are a partner or from trusts or estates, of which you are a beneficiary.

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 Street, Springfield, Illinois 62702.

Note: Your request for an alternative apportionment formula must follow the requirement 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 to your Form IL-1120-ST a copy of the letter granting permission.

Illinois Schedule B Instructions

Complete Illinois Schedule B identifying any person who was a shareholder at any time during your tax year. You **must** attach Illinois Schedule B to your Form IL-1120-ST.

Column A — Write the name of each shareholder.

Column B — Write each shareholder's address.

Column C — Write the Social Security number or federal employer identification number of each shareholder.

Column D — Write the percentage representing each shareholder's share of income, deductions, credit, or recapture.

Illinois Schedule NB Instructions

Note: Do not include the portion of nonbusiness income or loss distributable to shareholders subject to replacement tax reported on Form IL-1120-ST, Part I, Lines 2d or 5c.

Column A — Write in Column A on the appropriate line all nonbusiness income, wherever earned, minus all deductions allocable to that income, including the portion distributable to shareholders subject to replacement tax on the Line 5c Worksheet.

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 you were not organized under the laws of the state in which the property was used, or taxable with respect to the rents or royalties in that state.

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 of the person paying the royalties 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 of the person paying the royalties 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 you were 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.