

What's new for 2005?

- Effective for tax years **ending on or after December 31, 2004**, any partnership that meets the requirements of "investment partnership" as defined in the IITA, Section 1501(a)(11.5), shall not be subject to replacement tax, and is not required to file Form IL-1065. However, you may elect to file Form IL-1065 even if you are an investment partnership. See Specific Instructions for Part III for more information.
- Effective **immediately**, "business income" is defined to mean all income that may be apportioned without violating the Constitution of the United States. This new definition overrules recent court cases that had ruled that gain from disposition of an entire business or from property that previously had been used in a business is not business income. Also, if you reported income from an asset or activity as business income in a prior year, and report any income from that asset or activity as nonbusiness income on this return, you must add back all expenses deducted in connection with that income in this year and in your two most recent tax years. See Specific Instructions for Part I, Line 2d, and Part III, Lines 2a and 7.
- Effective for tax years **ending on or after December 31, 2004**, you may not deduct some interest or "intangible expenses" such as royalties and losses on sales of intangible assets from transactions with a taxpayer who would be a member of your unitary business group, but cannot be included because 80 percent or more of its business is conducted outside the United States. Also, the 80/20 company that receives the amounts will not be taxed on them. See Specific Instructions for Part I, Lines 2d and 5g and Schedule 80/20, Related-Party Expenses for more information.
- The IL-477, Replacement Tax Investment Credit, scheduled to expire on December 31, 2003, has been extended until December 31, 2008. You may continue to claim a credit for qualified property placed in service after December 31, 2003.

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 or 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 should register by calling our Central Registration Division at **217 785-3707**. You may be able to register electronically. Visit our web site at www.tax.illinois.gov for more information.

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

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-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). You must attach a copy of the approved federal extension to your Form IL-1065.

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 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 — Partnerships are not required to make estimated tax 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 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 — You will 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;
- a **bad check penalty** if your remittance is not honored by your financial institution;
- a **cost of collection fee** if you do not pay the amount you owe within 30 days of the date printed on your bill;

Interest — 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, Penalties and Interest for Illinois Taxes. 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 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 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**

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 extended due date has passed, you must file a corrected Form IL-1065. Write “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 extended due date has passed, you must file Form IL-843, Amended Return or Notice of Change in Income, showing the changes.

State changes only — You must file Form IL-843 promptly, 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.

If you are filing Form IL-843 to claim an overpayment, it must be filed within three years after the extended due date or the date the

return was filed, or within 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 more 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 your 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.

Illinois net losses incurred in tax years ending on or after December 31, 2003, may only be carried forward 12 years. If you are carrying 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 need more information, view the Illinois Income Tax Regulations, Sections 100.2050 and 100.2300 through 100.2330. These sections may be obtained by

- visiting our web site at www.tax.illinois.gov, or
- writing to
**Illinois Department of Revenue,
Legal Services Office, Senior Counsel - Income Tax, 5-500
101 West Jefferson Street
Springfield, Illinois 62702**

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-1065.

Note 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-1065. See specific instructions for Parts IA and I.

Business income means all income (other than compensation) that may be apportioned by formula among the states in which you are doing business without violating the Constitution of the United States. All income of a partnership is business income unless it is clearly attributable to only one state and is earned or received through activities totally unrelated to any business you are conducting in more than one state. Business income is net of all deductions attributable to that income.

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.

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 previously.

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 income and apportioning business income inside or outside Illinois.

IL-1065 Instructions (R-12/05)

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 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 participated in a potentially abusive tax avoidance transaction?

If you participated in a potentially abusive tax avoidance transaction, commonly known as a “listed transaction,” during this tax year and were required to disclose that tax shelter to the IRS, you are also required to disclose that information to Illinois.

You must send us two copies of the form used to disclose the tax shelters to the IRS.

- Attach one copy to your tax return, and
- Mail the 2nd copy to: **Illinois Department of Revenue, P.O. Box 19029, Springfield, Illinois 62794-9029.**

What if I need additional assistance or forms?

If you need additional assistance,

- visit our web site at **www.tax.illinois.gov**;
- write to us at **P.O. Box 19044, Springfield, Illinois 62794-9044**;
- call our Taxpayer Assistance Division at **1 800 732-8866 or 217 782-3336**; or
- call our TDD (telecommunications device for the deaf) at **1 800 544-5304**.

Our office hours are Monday through Friday, 8:00 a.m. to 5:00 p.m.

If you need additional forms or schedules,

- visit our web site at **www.tax.illinois.gov**;
- write to us at **P.O. Box 19010, Springfield, Illinois 62794-9010**; or
- call our 24-hour Forms Order Line at **1 800 356-6302**.

Line 5d Worksheet

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

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-1065. If you have an IBT number, write it clearly in the space provided.

If your address has changed since you filed your last return, check the appropriate box. If this is your first or final return, check the appropriate box and, if final, answer the questions at the end of your return.

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

Note → You must complete Form IL-1065. 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 — 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-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 2e for additions to income, and Line 4g for deductions to income.

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

Line 4d — Include any items of income or deduction that

- you are required to state separately to your partners, rather than include in ordinary income, and
- that would be taken into account by an individual in computing his or her taxable income, and
- that are not included on any other line of Part IA.

Do not include any net operating loss carryovers on this line.

Part I — Computation of base income or loss

Complete Part IA before completing Part I.

Additions

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

Line 2c — Write the guaranteed payments to partners from U.S. Form 1065, Line 10, or U.S. Form 1065-B, Line 13.

Line 2d — 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 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.

- The addition amount calculated on Form IL-4562, Special Depreciation. See Form IL-4562 and instructions. Identify this amount as “special depreciation” on the line provided. **Attach Form IL-4562 to your Form IL-1065.**
- Interest or intangible expenses paid to an 80/20 company, to the extent these expenses exceed any taxable dividends you received from the 80/20 company. To compute the amount of this addition, complete Schedule 80/20, Related-Party Expenses.

80/20 Company means any taxpayer who would be a member of a unitary business group with you, but cannot be included in the group because 80 percent or more of its business activities are conducted outside the United States.

See instructions for the “80/20 rule” under “What is a unitary business group?” in the Schedule UB Instructions, Combined Apportionment for Unitary Business Group, for more information.

Intangible expenses mean royalties and fees paid for intangible assets, losses incurred on sales or other disposition of intangible assets to an 80/20 company, losses on factoring or discounting transactions with an 80/20 company, and deductible expenses incurred in connection with the acquisition, use, management, or sale or other disposition of an intangible asset. Intangible assets include patents, patent applications, trade names, trademarks, service marks, copyrights, mask works, trade secrets, and similar types of intangible assets.

Some interest and intangible expenses may be exempt from this add-back provision. See Schedule 80/20, Related-Party Expenses, for more information.

- If you reported income from an asset or activity as business income in prior years, and reported any income from that asset or activity as nonbusiness income on this return, include on this line all deductions you claimed for expenses connected with that income in this year and in your two most recent tax years. See Schedule NB, Line 11, and Schedule NB Instructions for more information.

Line 2e — Complete the Line 5d Worksheet on this page 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 2e as a **positive** amount. **Attach Form IL-2569, Personal Property Replacement Tax (Partners’ or shareholders’ annual certification), to your Form IL-1065.**

Subtractions

Line 5a — Write the total interest received or accrued from U.S. Treasury bonds, notes, bills, federal agency obligations, and savings bonds that is included in the 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 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 — Complete the Line 5d Worksheet on page 4, to compute the amount of distribution and to determine where it should be reported.

Write the share of income that is distributable to your partners that are subject to replacement tax or that are exempt organizations, including Employee Stock Ownership Plans (ESOP). **Do not** include any income distributable to partners that are individuals because they are **not** subject to replacement tax. Multiply each line referenced in the worksheet by the percentage of total ownership in the partnership attributable to the partners that are subject to replacement tax.

Note Report any share of distributable loss on Line 2e. **Attach Form IL-2569 to your Form IL-1065.**

Line 5e — Write the enterprise zone or foreign trade zone (or sub-zone) dividend subtraction from Illinois Schedule 1299-A, Tax Subtractions and Credits, Step 2, Line 13. **Attach Illinois Schedule 1299-A to your Form IL-1065.**

Note Recent legislation requires the Illinois Department of Revenue to collect data for certain subtractions and credits. If you distribute any subtraction or credit amount to your partners, you must complete Schedule 1299-A and report any distributive share of the partner's subtractions or credits on Schedule K-1-P.

Line 5f — Write the total of the expenses that were disallowed as federal deductions because of IRC Section 171(a)(2), 265, or 280C.

Line 5g — 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 more information, see Illinois Publication 101.
- your distributive share of subtractions passed through to you by a partnership, S corporation, trust, or estate that you were 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.
- contributions you made under the Tax Increment Allocation Redevelopment Act to a job training project. For more information, see FY Bulletin 1990-40.
- the special depreciation amount from Form IL-4562. 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-1065.**
- If you added back interest paid to an 80/20 company on Part I, Line 2d, you may subtract any interest received from that 80/20 company during this tax year, up to the amount of your addition for interest expense paid to that company. Also, if you added back intangible expenses from a transaction with an 80/20 company on Line 2d, you may subtract any income you received during the tax year from similar transactions with the 80/20 company, up to the amount of your addition for intangible expense for that company. Complete Schedule 80/20 to figure the amount of your allowable subtraction.
- If you are an 80/20 company, and you received interest or intangible income from someone who had to add back the interest and intangible expense on their Schedule 80/20, you may subtract your interest or intangible income from that company.

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 forward to later years as 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, Step 4, Column C, Line 18.

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, Step 1, Line 11. **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 following the excess credit year. For more information, see Form IL-477 instructions.

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

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 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-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 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 be 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 and any amount distributable to partners who are subject to replacement tax, 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.

Note — If you are making the election to treat all of your income as business income, 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 business income or loss included in base income received from any non-unitary partnership, trust, or estate, of which you are a partner or a beneficiary, net of any amount distributable to partners who are subject to replacement tax.

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 you are a partner engaged in a unitary business with your partnership, you must include your distributable share of the partnership’s business income in your business income. Do not subtract this business income on Part III, Line 2b.

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.

Special Note — If you are a partner engaged in unitary business with your partnership, you must include your distributive share of the “everywhere” and “Illinois” sales factors from the partnership in your “everywhere” and “Illinois” sales factors.

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.

For more information on what should be included in the numerator or denominator of your sales factor, see Illinois Income Tax Regulations 100.3370 and 100.3380.

Note — Investment partnerships that elect to complete Form IL-1065 should write zero on Lines 1 through 9 and attach a written explanation.

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.

If the “sales everywhere” amount includes gross receipts from the licensing, sale, or other disposition of patents, copyrights, trademarks, and other similar items of intangible personal property, then these receipts should be allocated to 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.

Note → If you checked the box next to Part III, Line 2a, making the election to treat all of your income as business income, then write zero on Line 7.

Line 8 — Write the amount of business income or loss apportionable to Illinois as reported by the non-unitary 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 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-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 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. Complete Lines 6 through 9 as indicated in Specific Instructions for Part III - Base income or loss allocable to Illinois.

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 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. Complete Lines 6 through 9 as indicated in Specific Instructions for Part III - Base income or loss allocable to Illinois.

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. Complete Lines 6 through 9 as indicated in Specific Instructions for Part III - Base income or loss allocable to Illinois.

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 more information.

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

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 federal employer identification number of each partner.

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

Illinois Schedule NB Instructions

Note → Do not complete Schedule NB if you made the election to treat all income as business income on your annual tax return.

Special Note → Do not include the portion of nonbusiness income or loss distributable to partners subject to replacement tax reported on Form IL-1065, Part I, Lines 2e or 5d.

Column A

Lines 1 through 10 — Write in Column A, on the appropriate line, all nonbusiness income, net of related expenses, wherever earned.

Line 11 — Recaptured Business Expense

If any of the income included in Lines 1 through 10 was earned from an asset or activity which, in any prior tax year, produced business income, write all of the expenses of that asset or activity that you deducted in the current year and the two most recent tax years in Column A of Line 11. Include this amount on Line 12 and on Form IL-1065, Part I, Line 2d.

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

Line 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.

Line 3 — 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, 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.

Line 4 — 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.

Lines 7, 8, and 9 — 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 the exchange.

Line 11 — Recaptured Business Expense

Note → In order to get the correct figure for this line, you must complete the Apportionment Factor Worksheet.

Multiply the amount in Column A by the amount on the Apportionment Factor Worksheet, Line f. Include this amount on Line 12 and Form IL-1065, Part III, Line 7.

Apportionment Factor Worksheet

Follow the instructions on the form.

The apportionment factor should be the greater of:

- the apportionment factor on Form IL-1065, Part III, Line 5c, or
- the total of the apportionment factor on your Form IL-1065, Part III, Line 5c, for this year, plus the apportionment factors from the tax return you filed for the two most recent tax years, prior to this year, divided by “3”.

If you filed a tax return for only one tax year, prior to this year, add the apportionment factor from that return to the apportionment factor the current year return and divide the total by “2”.