

General Information Letter: In computing the credit for taxes paid to other states, residents are required to allocate credits to out-of-state income due to the United States Supreme Court decision in Lunding v. New York Tax Appeals Tribunal.

July 11, 2023

NAME

ADDRESS

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Dear NAME:

This letter is in response to your letter in which you requested information about taking certain deductions on Schedule CR. The Department issues two types of letter rulings. Private Letter Rulings ("PLRs") are issued by the Department in response to specific taxpayer inquiries concerning the application of a tax statute or rule to a particular fact situation. A PLR is binding on the Department, but only as to the taxpayer who is the subject of request for ruling and only to the extent the facts recited in the PLR are correct and complete. Persons seeking PLRs must comply with the procedures for PLRs found in the Department's regulations at 2 Ill. Adm. Code 1200.110. The purpose of a General Information Letter ("GIL") is to direct taxpayers to Department regulations or other sources of information regarding the topic about which they have inquired. A GIL is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120. You may access our website at www.tax.illinois.gov to review regulations, letter rulings and other types of information relevant to your inquiry.

The nature of your inquiry and the information you have provided require that we respond with a GIL. In your letter you have stated and made inquiry as follows:

I am writing to you about Account ID P##### pertaining to TAXPAYER(SSN XXX-XX-0123). The difference of opinion is about student loan interest being included on Column B Line 28 of IL Schedule CR.

TAXPAYER has always lived in Illinois and has been a teacher in Illinois for many years. She has student loan interest because she received a master's degree in education several years ago. She has also had a part-time job in STATE at a RETAILER. In 2022 she was paid \$\$\$\$\$ from her STATE employment. It seems IDOR is of the opinion on her IL CR form that the student loan interest should be deducted on line 28 column B so her STATE income to compute the credit is only \$\$\$\$\$.

I have included STATE tax forms and instructions. When she completes her STATE IT-PNR form she cannot deduct student loan interest. It can only be deducted for residents of STATE. She has to pay tax on \$\$\$\$\$ of income, not \$\$\$\$\$. This makes common sense and

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follows STATE rules. IDOR feels she should receive a credit paid to another state based on \$\$\$\$\$ of income. This is not what occurred and to me follows no logic. She had to pay STATE income tax on \$\$\$\$\$ of income. That was not a choice; it was a requirement. To compute an IL credit based on \$\$\$\$\$ does not make sense and is not fair.

I know the difference of opinion results in only a tiny difference in tax, but TAXPAYER is concerned about the change to her tax return and this change has occurred in other years as well. I would appreciate your consideration to change the tax return to show a CR credit based on \$\$\$\$\$ of income and not subtract student loan interest.

Thank you in advance for any information you can provide.

DEPARTMENT'S RESPONSE:

Section 601(b)(3) of the Illinois Income Tax Act (35 ILCS 5/601) allows Illinois residents a credit for taxes paid to other states. That section provides, in part:

[T]he credit provided under this paragraph for tax paid to other states shall not exceed that amount which bears the same ratio to the tax imposed by subsections 201(a) and (b) otherwise due under this Act as the amount of the taxpayer's base income that would be allocated or apportioned to other states if all other states had adopted the provisions in Article 3 of this Act bears to the taxpayer's total base income subject to tax by this State for the taxable year.

In *Lunding v. N.Y. Tax Appeals Tribunal*, 522 U.S. 287 (1998), the United States Supreme Court held that states could not discriminate against nonresidents by denying them the same deduction for alimony paid that would be allowed to residents. Accordingly, Illinois allows nonresidents to allocate the full amount of the deduction for student loan interest to Illinois in determining their Illinois net income. Consistent with this allocation, the limit on the credit for taxes paid to other states in Section 601(b)(3) must be computed by allocating the deduction for student loan interest to other states as if they followed the same allocation principles as Illinois. The instructions to the Schedule CR, Credit for Taxes Paid to Other States, correctly apply the statute.

As stated above, this is a general information letter which does not constitute a statement of policy that applies, interprets or prescribes the tax laws, and it is not binding on the Department.

I hope this information is helpful. If you require additional information, please visit our website at www.tax.illinois.gov or contact the Department's Taxpayer Information Division at (217) 782-3336.

Very truly yours,

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Brian Fliflet
Deputy General Counsel