

Illinois Department of Revenue
Audit Manual Updates
Income Tax

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**ILLINOIS DEPARTMENT OF REVENUE
AUDIT BUREAU**

AUDIT MANUAL UPDATE

**AMU Number: IT18-01
ST18-01
MT18-01
Release Date: 1/01/2018
Amended: 9/21/2018**

Subject: Dollar Tolerance for Field Audits, excluding IFTA audits	Chapter 7 – ST Audit Procedures Chapter 20 – IT Audit Procedures
	Authorization: Dan Hall

This audit manual update will be incorporated into the new and revised Chapter 2 General Audit Procedures of the Audit Manual (removed from Chapter 7 and 20). If there are any questions concerning this Audit Manual Update, contact the Technical Support Section.

Effective January 1, 2018, when audit liabilities (tax, penalty, and interest) are less than [REDACTED] for a field audit and Income Tax Discovery Audit, the audit can be submitted as a no liability audit. The previous amount was [REDACTED]. This change only applies to field audits and Income Tax Discovery Audits. It does not apply to IFTA audits since these audits apply to multiple jurisdictions.

When audit liabilities on filers exceed [REDACTED], you should normally assess the tax amount found to be due, plus applicable penalties and interest. However, you may elect not to assess known tax liabilities in excess of [REDACTED] with approval from you supervisor. There may be situations and circumstances where the taxpayer under audit is largely in compliance and it would be appropriate not to adjust returns as filed. This could be true when a relatively small liability is found due from large taxpayers voluntarily paying considerable tax. It may also be true in instances where a liability is clearly in excess of [REDACTED] but in total, it will likely be an immaterial amount. But, in order to determine the exact amount of the liability, a significant amount of additional audit time would be required. A decision not to assess liabilities in excess of [REDACTED] should be documented in the audit file, stating the reasons for the decision.

Where delinquent periods on registered taxpayers exist, it will be necessary to close the periods, even if the liability due will be less than [REDACTED]. The audit should be processed for the amount that is due with applicable penalty and interest regardless of total dollar amount. In this case, the periods are now closed and the proper penalty rate has been applied.

When auditing unregistered taxpayers, you must use your best judgement in determining if an audit liability should be established and/or if the taxpayer should be registered. The nature and amount of noncompliance and the time required to finalize an audit on an unregistered taxpayer are all factors that should be considered. If a decision is made not to establish liability and/or register a taxpayer, approval from your supervisor is required. You should not hesitate to contact your supervisor for help in making a decision regarding any audit. Also, remember to document the decision in the audit file.

In addition, audit requests and audit referrals should not be made unless the audit potential will exceed the amounts listed above.

AUDIT MANUAL UPDATE

<p>Subject:</p> <p>Power of Attorney (IL-2848) Submission and Verification</p>	<p>Chapter 2</p>
	<p>Authorization:</p> <p>Dan Hall</p>

This audit manual update will be incorporated into Chapter 2.

Effective January 1, 2018 there will be new procedures for submitting and verifying the newly revised IL-2848, Power of Attorney. The change agrees with the Department’s new requirement that all IL-2848 forms are to be verified and attached in Gentax by the Central Registration/Taxpayer Assistance Division (TAD) **before** a department employee can discuss confidential information with the a power of attorney.

FORM REVISION HIGHLIGHTS

The following changes have been made to the IL-2848, Power of Attorney:

- 1) The Department will allow the taxpayer/representative to submit a completed IL-2848 electronically to a designated email address- REV.POA@illinois.gov. **Email is the preferred submission method.**
- 2) The taxpayer is required to identify and provide contact information for the authorized agent or fiduciary executing the form; this would typically apply to authorized employees of corporations and partnerships, but could also apply to individuals in some circumstances.
- 3) The revised form allows for only 2 representatives. If more than 2 representatives are necessary, the taxpayer will need to provide additional copies of page 1 identifying the additional representatives- please refer to the instructions.
- 4) The signature lines, affirmation of good standing for the representatives, and the Attorney/CPA/Enrolled Agent acknowledgment sections are now on page 1.
- 5) The revised form also allows the taxpayer/representative to indicate whether duplicate copies of notices should be forwarded to the representative in addition to the taxpayer. The address provided for the representative will be the mailing address used for duplicate notices.

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- 6) **The submission of an IL-2848 will revoke all prior power of attorneys on file with the Department with respect to the same tax type and years/periods unless the taxpayer indicates they do not wish to revoke such powers by checking the Box on Step 4. If the taxpayer has a current power of attorney on file for a given tax type/period(s) and wishes to add another representative, they would need to check the Box on Step 4 to indicate they do not wish to revoke the prior power of attorney.**
- 7) There is a new section to identify the tax matters (tax type/tax forms and tax periods/filing periods) and type of appointment.
- 8) In regards to the type of appointment authorized, the Department will allow the taxpayer to designate a **“general”** appointment, which will grant full power of attorney to the representative, or designate a **“specific”** appointment, which at a minimum will allow the Department to provide and discuss confidential information for the tax matter identified.

AUDIT PROCEDURE CHANGES

Audit Bureau employees must use the following procedures to process the revised IL-2848, Power of Attorney.

Note: Prior IL-2848, Power of Attorney, forms that have been received and processed by the Audit Department found under the audit springboard are still able to be used. If the power of attorney form could be relevant for a case outside of audits, please perform the following steps to ensure the form be attached to the customer springboard by TAD for all other units within the Department:

1. Scan the original form and attach it to a new e-mail
2. Type, "POA Verified by (respective area)" in the e-mail subject line
3. In the e-mail, confirm the form is valid and request the paperwork be processed in GenTax
4. Send the e-mail to REV.POA@illinois.gov
5. File the original form and correspondence as normal

This action will prevent the representative from needing to send the document to us again in the event that another area requires this information and it will eliminate the possibility of the form being rejected since it is on the old form.

VERIFICATION PROCESS

If a **power of attorney is already on file** in Gentax, the auditor will need to verify that it covers the tax types and periods applicable to the audit period by viewing the indicators at the **account springboard** in Gentax. The IL-2848 attachment will be found at the **customer springboard**. **Attachments in the customer springboard can be accessed by clicking on the CRM Tab and Attachments Sub-Tab.**

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- 1) The auditor is expected to make a comment in their Audit Narrative/EDC-5/Lead Log identifying the representative and indicating the power of attorney was verified for the tax type and periods within the audit review.
- 2) If the power of attorney on file does not cover the tax type or periods needed, the auditor must inform the taxpayer and request a new power of attorney to be completed in order to cover the tax type or periods required for the audit.

If a **power of attorney is not on file** for the tax types or periods in the audit, the auditor will have two available options. The auditor may request the taxpayer submit an IL-2848 directly to TAD, or the auditor can receive an IL-2848 from the taxpayer and submit the form on their behalf. **The form can be found on the Department’s website, www.revenue.state.il.us, under “Forms”, “Miscellaneous”, and “Power of Attorney”.** Form instructions are also available in this location.

- 1) The contact options listed on the IL-2848 are:

Email: Rev.POA@illinois.gov (Preferred)
Fax: 217-782-4217
Mail: Illinois Department of Revenue
Attn: Power of Attorney
PO BOX 19001
Springfield, IL 62704

If the form is submitted via email, a confirmation of receipt will be sent by TAD and a decision will be made within **24 hours** on whether the form will be accepted or rejected.

Note: processing time for regular email or fax submissions is one business day, however, TAD requests taxpayers and their representatives *allow three business days* for processing. The processing time for mail is *ten business days*.

- 2) When submitting the power of attorney forms to TAD, there are two types of verification requests:
 - a. **Non-priority requests-** In most instances, the auditor should use non-priority requests when submitting directly to TAD; only in extreme circumstances where immediate interaction is necessary should the priority process be executed.

Scan and attach the power of attorney form with any necessary support to Rev.POA@illinois.gov. CC any other recipients deemed necessary (i.e. taxpayer and/or POA). **For non-priority requests, please label the request as a non-priority and CC all parties included on the forwarded email.**

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- b. **Priority Verification** - *The priority request should only be used in situations where an immediate need to obtain authorization exists. TAD has afforded resources to handle priority requests with the hope of validating the form within 15 minutes.*

Scan and attach the power of attorney form with any necessary support to Rev.POA@illinois.gov. **CC: REV.TAD-Springfield, the immediate supervisor** and any other recipients you would like to have copied. In the subject line include **“POA Priority Verification Request– Taxpayers Name and last four of their identification number”**. **Mark as important and send.**

AUDITOR’S FILE RETENTION RESPONSIBILITY

The POA form is not considered final until it is approved and added to the taxpayer’s account at the customer springboard. If the auditor receives a POA and forwards it to Central Registration/Taxpayer Assistance Division (TAD) to assist the taxpayer, the auditor should only keep the POA in their possession until they have received notice from TAD that the power of attorney is verified and confirmed to be attached in Gentax. Once the POA attachment is confirmed, the auditor should follow the standard shred procedures for destruction of their copy. **The power of attorney forms received by the auditor are not considered complete or verified and therefore are not subject to records retention procedures.**

AUDITOR’S CURSORY REVIEW

When an IL-2848 form is received from the taxpayer, the auditor should perform a cursory review before submitting the document for verification to ensure all necessary information has been provided.

The following procedures are intended to provide guidance to the auditor during their cursory review of the form as to what TAD’s standards are when they process the IL-2848. Ultimately, TAD will handle any processing or revocation issues upon review of the submitted IL-2848.

- 1) Step 1: Taxpayer Information
 - a. Taxpayer’s name and Identification Number (ID) must be provided; or
 - b. Business’s name and Federal Employer Identification Number (FEIN) must be provided.

Note: If primary and spouse signature is present, then we need both the primary and spouse’s information listed.

- 2) Step 2: Authorized Agent or Fiduciary Information
 - a. If a parent of a minor child is authorizing the power of attorney, then this step is **required** and **must** list their name, title as “parent of minor child”, current address and phone number.

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- b. If an individual's fiduciary is authorizing the power of attorney, then this step is **required** and **must** list their name, title, current address, and phone number.
- c. If an individual for a corporation, partnership, not-for-profit, governmental unit, or Limited Liability Company (LLC) is authorizing the power of attorney, then this step is **required** and:
 - i. **must** list their name, title, address, phone number, and
 - ii. **must** be listed as a current owner, officer or responsible party in GenTax.
- d. If an individual for a trust or estate is authorizing the power of attorney, then this step is **required** and:
 - i. **must** list their name, title, current address, phone number, and
 - ii. **must** attach satisfactory evidence of their authority (i.e. a small estate affidavit, a will, or a court order).

Note: If the individual signing is neither the taxpayer nor the fiduciary signing the authority to another representative, but is the same individual listed in Step 3, then the power of attorney is the incorrect form; the individual must complete the IL-56, Notice of Fiduciary Relationship.

3) Step 3: Representative Information

- a. Each representative **must** list
 - i. Their name, ID/license number, current address, and phone number.
 - ii. If any of the required information is missing, contact the representative to complete this information and resubmit.
- b. If the taxpayer designates an individual representative who is not an attorney, CPA, or enrolled agent, then the representative does not complete the declaration in this Step 3. Instead the taxpayer, authorized agent, or fiduciary signature in Step 6 **must** be witnessed or notarized.
- c. If the attorney, CPA, or enrolled agent box is checked,
 - i. The representative **must** sign, date, and list their jurisdiction in the space provided.
 - ii. If the representative did not sign, contact the representative to complete the information and resubmit.

Note: If the representative is not in good standing, they cannot be designated as a power of attorney and a new representative must be designated.

Note: If additional representatives are needed, indicate the total number of representatives the taxpayer is appointing and attach additional copies of page 1 of Form IL-2848.

4) Step 4: Revocation of power of attorney appointments

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Absent a revocation or withdrawal, an IL-2848 will **expire 10 years** from the date the taxpayer, authorized agent or fiduciary signs the form.

If the Box on Step 4 is not checked, any new IL-2848 revokes any previously submitted power of attorney on file with the Department as long as the subsequent filed form covers the same tax matters and tax years or filing periods as the previously filed form.

5) Step 5: Tax Matter Information

- a. Must list tax type, tax forms(s), or notices and year(s) or period(s).

Note: Tax Type, Tax Forms or Notices can include a specific tax type, specific tax form, specific tax notices or be indicated as "All".

- b. Must specify an appointment- general or specific

- i. A general appointment allows a representative to perform any act that a taxpayer may perform himself or herself, including having the authority to receive and discuss confidential tax information with the Department.
- ii. A specific appointment allows a representative minimum powers of attorney and allows the taxpayer to specify the powers granted.

6) Step 6: Signature

Form **must** be signed and dated. If a spouse is listed in Step 1, then the spouse's signature is required.

Note: If the individual signing is neither the taxpayer nor the fiduciary signing the authority to another representative, but is the same individual listed in Step 3, then the power of attorney is the incorrect form; the individual must complete the IL-56, Notice of Fiduciary Relationship.

Subject:	Chapter: 20
Updated PROD-1 with OI/OR codes	Authorization: Dan Hall

The purpose of this Audit Manual Update is to provide audit staff with information on the updated PROD-1 and the new OR (Offset Loss Reduction) and OI (Offset Loss Increase) Production Codes. These two codes may be used in conjunction with Production Codes LR-Loss Reduction and LI-Loss Increase, depending on the situation. The purpose of these new codes is to address the issue of not being able to properly report production in such cases on the PROD-1. These changes will be included in the next update of Chapter 20, Income Tax Audit Procedure.

PROD-1 Instructions:

Per Audit Management, and for the purpose of tracking production effectively:

- 1) Do **not net** liability codes reported when there are different applicable area production codes in the audit adjustments. This is essential for data analytics.
Example: See examples A) and B) under Section “LR – Loss Reduction and LI – Loss Increase” below.
- 2) The auditor may only combine liability codes if using the same area production code.
Example: A three year audit in which the same adjustment (area production code – 228 Sub. Bonus Depreciation) was made in all three years. When reported on the PROD-1, all three years can be combined and reported on one line.

These instructions apply to all PROD-1s available for Income Tax Audit use, which includes: the Excel Standalone, APT and GenTax. With this detailed production information, the newly developed Data Analytics Planning Program will enable Planning to select more productive, focused audit work.

NOTE: All examples illustrated throughout this material are based on the 2014 tax rate (0.095). When determining actual audit production, previous tax year rates may vary.

Definitions

Loss year – A tax period in which the taxpayer has a negative Illinois base income.

Carry year – a tax period in which the taxpayer has Illinois base income, but an excess Illinois net loss deduction from another loss year is carried to the income year to offset it.

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LR-Loss Reduction and LI-Loss Increase

These LR and LI codes are only to be used on the loss year in which the audit change is made to increase or decrease the loss. They are NOT to be used on the carry year when excess loss is used to offset against a subsequent income year.

LR – Loss Reduction

Loss Reduction production occurs when the year being audited is in a loss state and that loss is reduced, thereby reducing the net loss available to be carried forward. A basic example would be – IL Net Loss beginning is (\$500) and after Audit, IL Net Loss is (\$400). Production is \$100 times the tax rate. Dollar amounts on the PROD-1 need to be entered as a positive amount (+).

PROD-1 Example: The taxpayer’s Illinois net loss prior to audit is (\$1,000,000). Audit changes to bonus depreciation, non-business deduction, and apportionment reduce Illinois base income to (\$500,000). The tax rate is .095. The PROD-1 would look as follows:

Part 1: Additional Liability by Period

Area: 228 Sub. Bonus Depreciation	Code: LR	Amount:	\$ 11,875
Area: 229 Non-Bus Inc. Disallowed	Code: LR	Amount:	\$ 23,750
Area: 240 Apportionment Change	Code: LR	Amount:	\$ 11,875

NOTE: This LR production is recorded whether the taxpayer agrees by signature or not. An EDA-143LR must be issued to the taxpayer.

LI – Loss Increase

Loss Increase production occurs when the year being audited is in a net loss and that loss is increased, thereby providing the taxpayer with more available net loss to use in the future. A basic example would be – IL Net Loss beginning is (\$150) and after Audit, IL Net Loss is (\$200). Production is (\$50) times the tax rate. Dollar amounts on the PROD-1 need to be entered as a negative amount (-).

PROD-1 Example: The taxpayer’s Illinois net loss prior to audit is (\$2,000,000). Audit changes to US interest and apportionment increase Illinois base income to (\$5,000,000). The tax rate is .095. The PROD-1 would look as follows:

Part 1: Additional Liability by Period

Area: 220 Sub. US Govt. Interest	Code: LI	Amount:	\$ (190,000)
Area: 240 Apportionment Change	Code: LI	Amount:	\$ (95,000)

NOTE: This LI production is NOT recorded without a signed amended return/EDA-25 with waiver statement, indicating agreement, from the taxpayer because the increased loss could result in claims being filed in carry years. If the taxpayer does not provide a signed document for this audit, the production should be changed to NL and the amended return/EDA-25 should be annotated with “Do Not Process”.

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LR – Loss Reduction and LI – Loss Increase

Example for LR and LI used in the same year –

A) LR amount more than LI amount

PROD-1 Example: The taxpayer’s Illinois net loss prior to audit is (\$800,000). Audit changes increased income by \$100,000, but also increased the Bonus Depreciation subtraction by \$25,000. The tax rate is .095. The PROD-1 would look as follows:

Part 1: Additional Liability by Period				
Area: 205 Tax Income Under / Overstated	Code: LR	Amount:	\$	9,500
Area: 228 Sub. Bonus Depreciation	Code: LI	Amount:	\$	(2,375)
		Total Additional Liability:	\$	<u>7,125</u>

Remember – Since there are two adjustments in this audit for two different area production codes, each must be separately stated. They **cannot** be netted together into one income change line of \$75,000 to result in a net \$7,125 LR.

NOTE: This production is recorded whether the taxpayer agrees by signature or not because it is an overall reduction to the loss year. An EDA-143LR must be issued to the taxpayer.

B) LI amount more than LR amount

PROD-1 Example: The taxpayer’s Illinois net loss prior to audit is (\$800,000). Audit changes increased income by \$25,000, but also increased the Bonus Depreciation subtraction by \$100,000. The tax rate is .095. The PROD-1 would look as follows:

Part 1: Additional Liability by Period				
Area: 205 Tax Income Under / Overstated	Code: LR	Amount:	\$	2,375
Area: 228 Sub. Bonus Depreciation	Code: LI	Amount:	\$	(9,500)
		Total Additional Liability:	\$	<u>(7,125)</u>

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Remember – Since there are two adjustments in this audit for two different area production codes, each must be separately stated. They **cannot** be netted together into one income change line of (\$75,000) to result in a net (\$7,125) LI.

NOTE: This production is NOT recorded without a signed amended return/EDA-25 with waiver statement, indicating agreement, from the taxpayer because it is an overall increase to the loss year which can result in claims being filed in carry years. If the taxpayer does not provide a signed document for this audit, the production should be changed to NL and the amended return/EDA-25 should be annotated with “Do Not Process”.

OR-Offset Loss Reduction and OI-Offset Loss Increase

The OR and OI codes are only to be used on the carry year in which the audit change is made to increase or decrease the amount of the loss carried to offset against the taxpayer’s audited income.

OR – Offset Loss Reduction

This code may be used in conjunction with LR (Loss Reduction), or it may be used on its own if there are no changes to the loss year, but the offset to the income year is increased in audit. It is used when reapplying Losses to an income year with no tax effect, but there is a reduction in the Loss available to be carried going forward after the loss is offset against audit adjustments in the income year. A basic example would be – IL Base Income beginning is \$500, ILNLD used is \$500, and tax is \$0; after Audit, IL Base Income is \$600, ILNLD used is \$600, and tax is \$0. Production is for the change in ILNLD used times applicable tax rate. Dollar amounts on the PROD-1 need to be entered as a positive amount (+).

PROD-1 Example: The taxpayer’s Illinois base income prior to audit is \$800,000 with \$800,000 ILNLD used, so tax is \$0. After audit, Illinois base income is \$900,000 with \$900,000 ILNLD used, so tax is \$0. The tax rate is .095. The PROD-1 would look as follows:

Part 1: Additional Liability by Period					
Area:	228 Sub. Bonus Depreciation	Code:	OR	Amount:	\$ 9,500

NOTE: This OR production is recorded whether the taxpayer agrees by signature or not because it is a reduction to the loss available to be offset to future years. An EDA-143LR must be issued to the taxpayer.

OI – Offset Loss Increase

This code may be used in conjunction with LI (Loss Increase), or it may be used on its own if there are no changes to the loss year, but the offset to the income year is reduced in audit. It is used when reapplying Losses to an income year with no tax effect but there is an increase in the Loss available to be carried going forward after the loss is offset against the audit adjustments in the income year. A basic example would be – IL Base Income beginning is \$700, ILNLD used is \$700, and tax is \$0; after Audit, IL Base Income is reduced to \$400, ILNLD used is reduced to \$400, and tax is \$0. Production is for the

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change in ILNLD used times applicable tax rate. Dollar amounts on the PROD-1 need to be entered as a negative amount (-).

PROD-1 Example: The taxpayer's Illinois base income prior to audit is \$800,000 with \$800,000 ILNLD used, so tax is \$0. After audit, Illinois base income is \$600,000 with \$600,000 ILNLD used, so tax is \$0. The tax rate is .095. The PROD-1 would look as follows:

Part 1: Additional Liability by Period			
Area: 227 Sub. 80/20 Part Exp.	Code: OI	Amount:	\$ (19,000)

NOTE: This OI production is NOT recorded without a signed amended return/EDA-25 with waiver statement, indicating agreement, from the taxpayer from the taxpayer because it is an increase to the loss available to be offset to future years which could result in claims being filed. If the taxpayer does not provide a signed document for this audit, the production should be changed to NL and the amended return/EDA-25 should be annotated with "Do Not Process".

OR – Offset Loss Reduction and OI – Offset Loss Increase

Example for OR and OI used in the same year –

A) OR amount more than OI amount

PROD-1 Example: The taxpayer's Illinois base income prior to audit is \$800,000 with \$800,000 ILNLD used, so tax is \$0. After audit, Illinois base income is \$900,000 with \$900,000 ILNLD used, so tax is \$0. However, audit changes increased income by \$125,000, but also increased the Bonus Depreciation subtraction by \$25,000. The tax rate is .095. The PROD-1 would look as follows:

Part 1: Additional Liability by Period			
Area: 205 Tax Income Under / Overstated	Code: OR	Amount:	\$ 11,875
Area: 228 Sub. Bonus Depreciation	Code: OI	Amount:	\$ (2,375)
Total Additional Liability:			\$ 9,500

Remember – Since there are two adjustments in this audit for two different area production codes, each must be separately stated. They cannot be netted together into one income change line of \$100,000 to result in a net \$9,500 OR.

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NOTE: This production is recorded whether the taxpayer agrees by signature or not because it is an overall reduction to the amount of loss available to offset to future years. An EDA-143LR must be issued to the taxpayer.

B) OI amount more than OR amount

PROD-1 Example: The taxpayer’s Illinois base income prior to audit is \$800,000 with \$800,000 ILNLD used, so tax is \$0. After audit, Illinois base income is \$700,000 with \$700,000 ILNLD used, so tax is \$0. However, audit changes increased income by \$25,000, but also increased the Bonus Depreciation subtraction by \$125,000. The tax rate is .095. The PROD-1 would look as follows:

Part 1: Additional Liability by Period			
Area: 205 Tax Income Under / Overstated	Code: OR	Amount:	\$ 2,375
Area: 228 Sub. Bonus Depreciation	Code: OI	Amount:	\$ (11,875)
		Total Additional Liability:	<u>\$ (9,500)</u>

Remember – Since there are two adjustments in this audit for two different area production codes, each must be separately stated. They **cannot** be netted together into one income change line of (\$100,000) to result in a net (\$9,500) OI.

NOTE: This production is NOT recorded without a signed amended return/EDA-25 with waiver statement, indicating agreement, from the taxpayer because it is an overall increase to the loss available to be offset to future years which could result in claims being filed. If the taxpayer does not provide a signed document for this audit, the production should be changed to NL and the amended return/EDA-25 should be annotated with “Do Not Process”.

Multi-year Audit Example Using New Codes

Basic Example:

Year 1: IL net loss beginning is (\$500) and after Audit, IL net loss is (\$400) – LR

Year 2: IL Base Income beginning is \$500, ILNLD used is \$500, and tax is \$0; after Audit, IL Base Income is \$600, ILNLD used is \$600, and tax is \$0 – OR

Year 3: IL Base Income beginning is \$700, ILNLD used is \$700, and tax is \$0; after Audit, IL Base Income is \$650, ILNLD used is \$650, and tax is \$0 – OI.

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PROD-1 Example:

Year 1: The taxpayer's Illinois net loss prior to audit is (\$800,000). Audit changes to bonus depreciation, non-business deduction, and apportionment reduce Illinois base income to (\$400,000). The tax rate is .095.

Year 2: The taxpayer's Illinois base income prior to audit is \$700,000 with \$700,000 ILNLD used, so tax is \$0. After audit, Illinois base income is \$900,000 with \$900,000 ILNLD used, so tax is \$0. Audit change was to the subtraction modification for US Govt. Interest. The tax rate is .095.

Year 3: The taxpayer's Illinois base income prior to audit is \$800,000 with \$800,000 ILNLD used, so tax is \$0. After audit, Illinois base income is \$700,000 with \$700,000 ILNLD used, so tax is \$0. Audit change was to the subtraction modification for 80/20 Party Expenses. The tax rate is .095.

Part 1: Additional Liability by Period

Area: 228 Sub. Bonus Depreciation	Code: LR	Amount:	\$ 9,500
Area: 229 Non-Bus Inc. Disallowed	Code: LR	Amount:	\$ 19,000
Area: 240 Apportionment Change	Code: LR	Amount:	\$ 9,500
Area: 220 Sub. US Govt. Interest	Code: OR	Amount:	\$ 19,000
Area: 227 Sub. 80/20 Part Exp.	Code: OI	Amount:	\$ (9,500)
Total Additional Liability:			<u>\$ 47,500</u>

NOTE: In a multi-year audit, if there is an LR or OR code, an EDA-143LR must be issued to the taxpayer. Also, if in an individual year within a multi-year audit, there is an LI or OI code, then this production is NOT recorded without a signed amended return/EDA-25 with waiver statement, indicating agreement, from the taxpayer because it is an overall increase to the loss available to be offset to future years which could result in claims being filed. If the taxpayer does not provide a signed document for that respective year [LI or OI] in this audit, the production would not be recorded and the amended return/EDA-25 should be annotated with "Do Not Process".

Subject:	Chapter: 20
Updated EDA-122B & EDA-143I Letters	Authorization: Dan Hall

The purpose of this Audit Manual Update is to provide audit staff with information on the updated EDA-122B/EDA-122B-APT, Notice of Proposed Deficiency, and the EDA-143-I/EDA-143-I-APT, Notice of Audit Results. These changes will be included in the next update of Chapter 20, Income Tax Audit Procedure.

The language on the above letters has been updated to accommodate the APT Auditor Reports. It also works for the Stand-alone Auditor Reports that look like the APT Auditor Reports (IL-1120, IL-1120-ST, IL-1065).

REMEMBER: APT generates the Auditor's Report – GenTax generates the Letters

EDA-122B/EDA-122B-APT (Unagreed Audits)

These letters have an interest line. Effective with the issuance date of the AMU, the auditor is responsible for calculating interest for the Auditor's report(s) that accompanies this letter and for providing that interest amount on this letter. Penalty and interest are calculated per the instruction given in Audit Manual Chapter 42 and 43.

Tax	0.00
Penalty	0.00
Interest	0.00
Balance	0.00

The EDA-122B will be used for the EDA-24 (IL-1040), IL-1000 (through 12/31/2013), EDA-127 (IL-1023-C through 12/31/2013), the IL-1041, and the IL-990-T.

The EDA-122B-APT will be used for the EDA-25 (IL-1120), the EDA-92 (IL-1120-ST), and the EDA-93 (IL-1065). It is also used for the stand-alone auditor reports that look like the APT auditor reports.

EDA-143I/EDA-143I-APT (Unagreed Audits)

The EDA-143I will be used for the EDA-24 (IL-1040), IL-1000 (through 12/31/2013), EDA-127 (IL-1023-C through 12/31/2013), the IL-1041, and the IL-990-T and is issued with the IL-870M.

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The EDA-143I-APT will be used for the EDA-25 (IL-1120), the EDA-92 (IL-1120-ST), and the EDA-93 (IL-1065). It is also used for the stand-alone auditor reports that look like the APT auditor reports. This letter contains tax, penalty, and interest fields. Effective with the issuance date of the AMU, the auditor is responsible for calculating interest for the Auditor's report that accompanies this letter and for providing that interest amount on this letter and the auditor's report(s). Penalty and interest are calculated per the instruction given in Audit Manual Chapter 42 and 43.

Year 1 Tax Period Ending	Required	
Year 1 Interest Through Date		
Year 1 Tax Amount		0.00
Year 1 Penalty Amount		0.00
Year 1 Interest Amount		0.00
Year 1 Total Amont		0.00

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Subject: Reasonable Cause Penalty Abatement Revision	Chapter 2
	Authorization: Dan Hall

This audit manual update will be incorporated into Chapter 2.

The information below is to notify **Income and Sales Tax auditors** of a revision to the policy on the abatement of penalties under Reasonable Cause guidelines. Further review of this policy will continue, and additional revisions may occur.

The procedure regarding reasonable cause penalty abatement requests is being revised to allow for a more efficient process and uniform action at the conclusion of audit assignments. Guidelines for allowing prescribed abatement within certain tolerances, coupled with the auditor's and supervisor's ability to use their professional discretion in evaluating the merit of taxpayers' requests, will benefit all parties involved.

Effective January 1, 2019, the policy concerning the abatement of penalties under the Reasonable Cause guidelines has changed. The policy going forward is as follows:

The accuracy percentage allowance for triggering an **automatic** reasonable cause penalty abatement will be **██████** for all taxes (no additional benefit will be given for Direct Pay participants).

As the auditor completes their final liability assessment on an audit, they will complete the **Uniform Reasonable Cause Template** which is located on the SpIDOR web under [Work Areas, Audit, Forms, Income Tax/Sales Tax](#) (depending on the auditor's respective tax type) to calculate the accuracy percentage.

If this calculation – *either percentage change on tax paid or on percentage of sample error* - reflects a **██████ or less error rate** (i.e., **██████** accuracy) for a specific tax type, then the auditor, after review by their supervisor, shall grant reasonable cause penalty abatement.

- ❖ Taxpayers do **NOT** have to request abatement
- ❖ No approval by management is necessary
- ❖ Auditors **should no longer** use their own templates for this calculation

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If accuracy meets this new standard, the auditor will notify the taxpayer in writing that penalty was abated due to ordinary business care and prudence and present it when providing the taxpayer their ICB rights.

This notification - as well as the uniform template calculation(s) - should be included with the audit workpapers under Section 08: Other. In addition, a corresponding comment should be made in the audit narrative and EDC-5.

The PIO-60 brochure, which is sent along with the Audit Initiation Letter, has been revised to explain the requirements for reasonable cause penalty abatement (per [Regulations 700.400](#)). This includes information on how the taxpayer can request abatement in writing. During the opening conference, the auditor should continue to communicate to the taxpayer this option to request reasonable cause.

- ❖ However, the auditor no longer is required to mention reasonable cause at the closing conference of the audit; the initial conversation and disclosure of the PIO-60 is deemed sufficient notification of their possible abatement option.

If the accuracy percentage is **less than [REDACTED] and the taxpayer has submitted a written request** for penalty abatement:

1. The auditor needs to thoroughly review the reasons and make a recommendation to their supervisor.
2. The supervisor needs to review the taxpayer's request and the recommendation from the auditor.
 - ❖ If the auditor has not addressed all of the issues provided by the taxpayer or not made a recommendation, the supervisor should return the request to the auditor.
3. The supervisor will forward their recommendation along with the auditor's recommendation and taxpayer's request to the Assistant Division Manager (ADM) or Division Manager (DM). The ADM or DM will **either approve or deny** the request and send an email back to the supervisor providing an explanation for the decision.
4. The auditor will subsequently notify the taxpayer in writing of the management decision on their request and provide a detailed explanation as to the reason(s) the penalty abatement request was approved and/or denied. The auditor will include a copy of the management email in the audit workpapers as well as document the decision in the audit narrative and EDC-5.
 - ❖ If the taxpayer asks about abatement of INTEREST, the auditor should inform the taxpayer that interest is statutory, and the Audit Bureau does not have the authority to abate interest.

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- ❖ Should the taxpayer be insistent, as a last resort, the auditor may mention interest abatement requests are handled by the Board of Appeals and direct them to the [BOA-1 Form](#) located on the Department's website.

If there are any questions concerning this Audit Manual Update, contact the Technical Support Section.

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Subject: Requesting Federal Tax Information	Chapter: 1 Authorization: Dan Hall
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The purpose of this Audit Manual Update is to provide audit staff with updated information on requesting Federal Tax Information (transcripts, copies of returns, etc.). These changes will be included in the next update of Chapter 1, General Audit Policies.

This procedure explains how to order Federal Tax Information (FTI) using the IRS FTI Info Request work item in GenTax. This work item creates a paperless, efficient, and effective way for all FTI requests (IRS Form 8796-A, Request for Return/Information) to be submitted and tracked. **Procedures are identical for In-house and Field unless clearly identified in a specific step.**

1. Requesting FTI

- a. On the Audit Manager, select the Task tab, Work Item sub-tab. Click “Add”.



- b. Select IRS FTI info Request.



- c. The work item screen will be displayed, which has four panels – Upper, Mid, Notes and Lower.

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- 1) Upper Panel - The upper panel contains information on date requested, the subscriber, and the Stage. When requesting FTI, the auditor is not required to make any changes in this area for the initial request.
 - 2) Mid Panel - The Mid panel contains information identifying the Taxpayer and account for which the FTI is requested. The auditor is not required to make any changes in this area.
 - 3) Notes Panel - The Notes panel contain a free form box, where the auditor can place notes relevant to the request. An example would be if the auditor is requesting FTI outside of the audit periods. The auditor can complete this area with the justification or need for those records.
 - 4) Lower Panel - The Lower panel is where the auditor enters and selects information specific to the request. Required fields are in Yellow and must be completed to make the request.
- d. The focus is on the lower panel and its three tabs - Request, IRS Form 8796A, and Log.

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- 1) Request Tab: In the Location field, select “Audit” from the drop-down list. Enter the beginning and ending audit periods in the “Filing Period From” and “Filing Period To” fields that relate to the audit for which the FTI is being requested. For example, “1/1/2016” and “12/31/2016”. Then select the appropriate Audit related to this FTI request.



- 2) IRS Form 8796A Tab: Mimics the information on the IRS Form 8796A. It auto-fills based on the Audit Manager. Answer questions 2 and 3 accordingly.

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3) Log Tab: The Log panel is not used during the initial request; however, it will be important later in the handling of the physical FTI.

- e. Completing the Work Item: Once all required and any optional entries in the work item are entered, select the **Save** button in the Upper right-hand corner. The work item will automatically be assigned to the auditor's RAS for approval.



2. Supervisor review/approval of request - A supervisor must review and approve the request, ensuring that there is a business need. The auditor should notify (email) the RAS that this Work Item has been created.

a. Reviewing the IRS FTI Info Request Work Item

- 1) The RAS, from the "My Work" manager, opens the applicable "IRS FTI Info Request"
- 2) Review the work item to ensure all the information is appropriate and correct.

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- 3) If the request is acceptable, the RAS will approve by doing the following:
 - i. Select “Edit”
 - ii. Change “Stage” to “Supervisor Approved” Stage, and click “Save”
 - iii. Upon save, the work item will automatically be assigned to the current Disclosure Officer. If the owner needs to be updated this will need to be completed after saving.



- 4) If the request needs correcting, reassign the work item back to the auditor.
 - i. Click on the owner name.
 - ii. Select the auditor from the list.
 - iii. Send auditor an e-mail with an explanation with what needs corrected on the work item before it can be approved.

3. Receiving the FTI (paper file): The auditor is responsible for properly securing the paper FTI file according to Publication 1075 requirements.

a. **In-House**: The Disclosure Officer will hand deliver the paper file with the requested FTI to the requesting auditor.

Field: The Disclosure Officer will mail under double-cover the paper file with the requested FTI to the requesting auditor.

b. Upon receipt, the requesting auditor, from the “My Work” manager, opens the applicable “IRS FTI Info Request” work item.

c. Select “Edit”

d. Change “Stage” to “Received” Stage


e. Select the Log tab located on the bottom IRS Rtn/Info Request panel

f. Input the Date, your Last Name, First Name, and select applicable location in the Access Log. Click Save. **Note**: The owner must also in the work item log any individual who receives or views the FTI file while the file is assigned to them as the owner. For example, a trainee asks their coach to assist with an issue on

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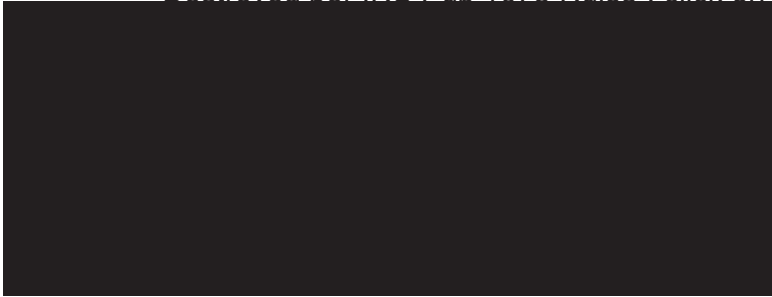
their FTI audit. The coach reviews the FTI file, but the trainee remains the owner of the audit file. The trainee would need to input into the work item log tab the coach's name, location, and the date that the FTI was reviewed.



4. Planning: There will be instances where Audit Planning (IT or ST) will request FTI directly from the Disclosure Officer and make determinations with that documentation. Also, there will be instances in which previously set up audits will be staged to Cancellation Request for approval to be Rejected or Cancellation Approved.
 - a. Audit Planning receives FTI from Disclosure Officer, documentation allows for:
 - 1) The Planner to set up an audit. Go to paragraph 5.
 - 2) Information does not allow for a viable audit, the "IRS FTI Info Request" needs to have the final actions completed.
 - i. Change stage to "Return/Info Destroyed", add work change note "Destroyed per IRS Pub 1075 Rules". click on "Save"

 - ii. Place FTI in the locked Shred Bin to be destroyed.
 - iii. Click "Complete", click "Confirm".
 - b. Audit Planning receives an IDR-229 for Rejection or Cancellation of an audit that has an IRS FTI Info Request work item.

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- 1) If the IDR-229 is denied, return the work item to the requestor per paragraph 5.
- 2) If the IDR-229 is approved, the “IRS FTI Info Request” needs to have the final actions completed.
 - i. Change stage to “Return/Info Destroyed”, add work change note “Destroyed per IRS Pub 1075 Rules”. click on “Save”



- ii. Place FTI in the locked Shred Bin to be destroyed.
 - iii. Click “Complete”, click “Confirm”.
5. Movement of FTI (paper file): For purpose of Audit Planning, RAS Review, RA Supervisor Inventory, Audit Review, Audit Perfection, and Technical Support, the paper FTI file may need to be moved or reassigned to a new owner. Responsibility of properly securing the paper FTI file according to Publication 1075 requirements will move to the new owner.
 - a. **In-house**: If work item is going to an in-house audit member, Deliver the paper FTI documents to the new owner.
 - b. **Field**: if the work item is going to a field audit member, Auditor/RAS mails FTI in double sealed envelope under double-cover to the new owner, with email acknowledgements per FTI mailing procedures in Audit Manual Chapter 1.
 - c. Upon receipt, the New Owner, needs to change the owner of the work item to himself/herself. To change the owner of the work item, open the applicable “IRS FTI Info Request” work item, select the “owner” hyperlink, choose the applicable person, and click “Save”.
 - d. The New Owner needs to update the FTI Log according to paragraph 3.e. and 3.f. above. **Note**: The owner must also log in the work item any individual who receives or views the FTI file while the file is assigned to them as owner.
6. Request for Audit Cancellation/Rejection (IDR-229): When a properly completed and approved IDR-229 is submitted to Audit Planning for an audit that includes an IRS FTI Info Request work item, the RAS will need to move the FTI File to Audit Planning

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per paragraph 5. **Note:** The owner must also log in the work item any individual who receives or views the FTI file while the file is assigned to them as owner.

7. Audit moved to RAS Review Stage: For audits in which an ICB notice has not been issued prior to January 9, 2019.
 - a. Once FTI documents are received and logged, RAS can properly review the audit.
 - b. If audit needs corrections, return audit to auditor by changing the stage to “Rejected by RAS”.
 - c. When auditor has corrected the audit and returned it back to the RAS, RAS verifies corrections have been made.
 - d. RAS changes the audit stage to “Present to Taxpayer” and moves the FTI File to the auditor per paragraph 5. **Note:** The owner must also log in the work item any individual who receives or views the FTI file while the file is assigned to them as owner.
8. Audit Moved to Review Pending ICB Stage: For audits in which an ICB notice has not been issued prior to January 9, 2019.
 - a. If after 30 days of issuing the ICB notice, the taxpayer has not waived ICB rights or agreed to the audit, the auditor e-mails the RAS stating the audit needs to go to Audit Review.
 - b. RAS will change the audit stage to “Review Pending ICB”.
 - c. The auditor will move the FTI File to the Audit Review per paragraph 5. **Note:** The owner must also log in the work item any individual who receives or views the FTI file while the file is assigned to them as owner.
9. Audit Moved to RA Supervisor Inventory Stage:
 - a. Once FTI documents are received and logged, RAS can properly review the audit.
 - b. If audit needs corrections, return audit to auditor by changing the stage to “Rejected by RAS”. When auditor has corrected the audit and returned it back to the RAS, RAS verifies corrections have been made.
 - d. RAS changes the audit stage to “Passed to Clerical”
 - 1) **Field:** Go to paragraph 9.e.

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2) **In-house:** Go to paragraph 11.

- e. **Field** - Move the FTI File to the appropriate Clerical personnel per paragraph 5. **Note:** The owner must also log in the work item any individual who receives or views the FTI file while the file is assigned to them as owner. Continue to paragraph 10.

10. Passed to Clerical (Field ONLY):

- a. Once FTI documents are received and logged, Clerical can properly process the audit.
- b. PAPER AUDIT: Once the audit is processed, the audit and the FTI File can be shipped to Springfield under double-cover per proper procedure.

ELECTRONIC AUDIT: Once the audit is processed, the FTI File can be shipped to Springfield under double-cover per proper procedure.

- c. Move the FTI File to the appropriate Audit Review RAS or Audit Perfection Supervisor per paragraph 5. **Note:** The owner must also log in the work item any individual who receives or views the FTI file while the file is assigned to them as owner. Continue to paragraph 12.

11. Audit Moved to Audit Review or Audit Perfection (In-house ONLY):

- a. Once RAS is notified by clerical staff that audits have been moved to either Audit Review or Audit Perfection, whichever is appropriate, open the applicable “IRS FTI Info Request”
- b. Determine which inventory the audit has been placed.
- c. Move the FTI File to the appropriate person per paragraph 5. **Note:** The owner must also log in the work item any individual who receives or views the FTI file while the file is assigned to them as owner. Continue to paragraph 12.

12. Audit Review:

- a. Once FTI documents are received and logged, Audit Review can properly review the audit following normal Audit Review procedures.
- b. Once Audit Review is finished, the audit will change to the appropriate Audit stage.
- c. Move the FTI File to the Audit Perfection Supervisor per paragraph 5. **Note:** The owner must also log in the work item any individual who receives or views the FTI file while the file is assigned to them as owner.

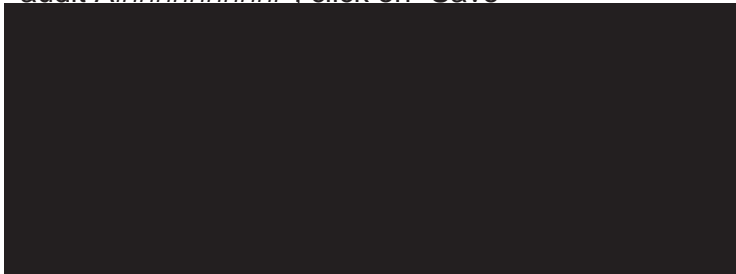
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13. Audit Perfection:

- a. Once FTI documents are received and logged, Audit Perfection can properly process the audit following normal Audit Perfection procedures.
- b. If the taxpayer protests to Administrative Hearings, Tax Tribunal, or Paid under Protest, move the FTI File to the Technical Support RAS per paragraph 5.
Note: The owner must also log in the work item any individual who receives or views the FTI file while the file is assigned to them as owner.
- c. When the audit is in the “Closed Send to Stores” stage, the “IRS FTI Info Request” needs to have the final actions completed.
 - 1) Select “Edit”

FOR PAPER AUDITS:

- 2) Change stage to “Info Included in Audit”, add work change note “Fed Info in audit A#####”, click on “Save”



- 3) Physically put the FTI in the audit file to remain with the audit file until the Records Management Division destroys the file per their procedures.
- 4) Click “Complete”, click “Confirm”.

FOR ELECTRONIC AUDITS:

- 5) Change stage to “Return/Info Destroyed”, add work change note “Destroyed per IRS Pub 1075 Rules”, click on “Save”



- 6) Place FTI in the locked Shred Bin to be destroyed.

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7) Click “Complete”, click “Confirm”.

14. Technical Support – Protest Process (applies only to IT):

- a. Once FTI documents are received and logged, IT Technical Support follow normal IT Technical Support Litigation Support procedures.
- b. Once IT Technical Support is finished, the audit will change to the “Legal Settlement” stage.
- c. Move the FTI File to the IT Audit Perfection Supervisor per paragraph 5. **Note:** The owner must also log in the work item any individual who receives or views the FTI file while the file is assigned to them as owner. Continue to paragraph 13.

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Subject:	Chapter: 28
Auditing the Personal Services Income or a Reasonable Allowance for Compensation of Partners Subtraction on IL-1065 - Revised	Authorization: Roger Koss

This Audit Manual Update will be incorporated into Chapter 28.

The purpose of this revised Audit Manual Update is to provide audit staff with guidance on how to verify the subtraction claimed by a partnership under IITA Section 203(d)(2)(H) as further clarified by 86 IAC § 100.2850.

Additional guidance is being provided on the processes to utilize in addressing the Personal Service Income/Reasonable Compensation (PSI/RC) deduction taken in audits conducted by IDOR. Auditors should follow the process under the Audit Flow for requests of records. Following this guidance will assist in any matters that would potentially go to the Informal Conference Board or litigation after a Notice of Deficiency or Notice of Claim Denial is issued.

I. LEGISLATIVE HISTORY

IITA § 203(d)(2)(H) allows a partnership, for purposes of computing its personal property tax replacement income tax under Section 201(c) and (d), the following subtraction modification:

Any income of the partnership which constitutes personal service income as defined in Section 1348 (b) (1) of the Internal Revenue Code (as in effect December 31, 1981) or a reasonable allowance for compensation paid or accrued for services rendered by partners to the partnership, whichever is greater.

Section 1348(b)(1) of the Internal Revenue Code, as in effect on December 31, 1981, provided that “personal service income” means:

Any income which is earned income within the meaning of section 401(c)(2)(C) or section 911(b) or which is an amount received as a pension or annuity which arises from an employer-employee relationship or from tax-deductible contributions to a retirement plan.

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Section 911(b) of the Internal Revenue Code (as in effect on December 31, 1981) provided:

For purposes of this section, the term “earned income” means wages, salaries, or professional fees, and other amounts received as compensation for services actually rendered, but does not include that part of the compensation derived by the taxpayer for personal services rendered by him to a corporation which represents a distribution of earnings and profits rather than a reasonable allowance as compensation for the personal services actually rendered. In the case of a taxpayer engaged in a trade or business in which both personal services and capital are material income-producing factors, under regulations prescribed by the Secretary, a reasonable allowance as compensation for the personal services rendered by the taxpayer, not in excess of 30 percent of his share of the net profits of such trade or business, shall be considered earned income.

Note that Section 1348(b)(1)(A) provided:

For purposes of this subparagraph, section 911(b) shall be applied without regard to the phrase “, not in excess of 30 percent of his share of net profits of such trade or business”.

Regarding the Code definition of earned income, Treasury Regulations §1.911-2(b)(3) provided as follows:

Earned income include all fees received by a taxpayer engaged in a professional occupation (such as a doctor or lawyer) in the performance of professional activities. Professional fees constitute earned income even though the taxpayer employs assistants to perform part or all of the services rendered, provided the taxpayer’s patients or clients look to the taxpayer as the person responsible for the services.

Treasury Regulations §1.1348-3(a)(2) provided:

The entire amount received as professional fees shall be treated as earned income if the taxpayer is engaged in a professional occupation, such as a doctor, dentist, lawyer, architect, or accountant, even though he employs assistants to perform part or all of the services, provided that the patients or clients are those of the taxpayer and look to the taxpayer as the person responsible for the services performed.

Effective December 18, 2018 the Department adopted Regulation 100.2850 Subtraction Modification for Personal Service Income or Reasonable Allowance for Compensation to Partners (IITA Section 203(d)(2)(H)) to provide guidance on what amounts qualify for the PSI/RC subtraction under IITA 203(d)(2)(H).

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II. GENERAL INFORMATION – THE DEDUCTION

IITA Section 203(d)(2)(H) states that the subtraction modification is equal to the greater of any income which constitutes personal service income or a reasonable allowance for compensation paid or accrued for services rendered by partners to the partnership.

In the auditor comments, the auditor should set out clearly which prong of the test is being discussed. It is not appropriate to use the term “PSI/Reasonable Compensation for Services” without specifying which prong is being discussed

Each of the two prongs for “PSI/Reasonable Compensation for Services” are independent and require a separate analysis to be included in the comments based on different factors as outlined in this guidance.

A. Personal Service Income

Only an individual (or grantor trust or estate in the case of income in respect of a decedent) may receive personal service income.

If the partnership is a business performing only personal services (with little to no capital), then the distributive share and guaranteed payment of the individual (or grantor trust or estate in the case of income in respect of a decedent) are included in the subtraction for personal service income.

A partnership that performs only personal services can include accounting, architecture, actuarial science, consulting, engineering, health, law or the performing arts.

When a partnership incurs a loss from a trade or business (as reflected on Line 1, IL-1065), it does not have personal services income.

If the loss is shared by all partners, then there is no increase in the partner’s capital account balance for the taxable year, so there can also be no subtraction for reasonable compensation.

This is not changed even if the partnership makes distributions to the partners during the taxable year.

If the partner received a guaranteed payment, they would be allowed a subtraction for the amount of the guaranteed payment.

If, after reviewing the reported deduction, applying the above guidance and requesting a detailed computation of the deduction from the taxpayer, Auditor is unable to determine if the amount of the deduction claimed is appropriate, the following calculation may be performed.

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PSI Calculation

For each tax year, calculate the percentage of service income. This financial information comes from the Form 1065 Schedule K and attached statements, if applicable.

Note: Calculation is service income (ordinary income from the US 1065) divided by total income (service income plus all other income from US Schedule K).

Management Fees	\$7,484,259
Rental Income	\$0
Interest	\$71
Dividends	\$43,068
Royalties	\$0
Short Term Cap Gain	\$0
Long Term Cap Gain	\$24,865,939
1231 Gain	\$0
Other Income	\$0
Total	<u>\$32,393,337</u>

Ordinary Income	<u>\$7,484,259</u>	=	23.10%
Total Income	<u>\$32,393,337</u>		

For each tax year, calculate Total IL Income without regard for the Subject to Replacement Tax (SRT) deduction for the PSI/RC deduction.

Income after Add. Mods	\$27,520,242
Sub. Mods other than PSI & Sub to RT	<u>\$0</u>
Total Income	<u>\$27,520,242</u>

For each tax year, multiply the Total IL Income times the percentage of service income.

Total Income	<u>\$27,520,242</u>
Service Income %	<u>23%</u>
	<u>\$6,358,364</u>

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For each tax year, multiply the above number by the ownership percentage NOT subject to replacement tax (partnership ownership percentage from IL-1065 Schedule B). This is the potential PSI deduction, **if it is greater than the amount allowable for RC.**

	<u>\$6,358,364</u>
Ownership% not subject to RT	<u>99.98%</u>
PSI not subject to RT	<u>\$6,357,092</u>

Percentage of Service Income Calculation:

Management Fees	\$7,484,259	
Rental Income	\$0	
Interest	\$71	
Dividends	\$43,068	
Royalties	\$0	
Short Term Cap Gain	\$0	
Long Term Cap Gain	\$24,865,939	
1231 Gain	\$0	
Other Income	<u>\$0</u>	
Total	\$32,393,337	
Ordinary Income	<u>\$7,484,259</u>	= 23.10%
Total Income	\$32,393,337	

PSI Deduction Calculation:

Income after Add. Mods	\$27,520,242
Sub. Mods other than PSI & Sub to RT	<u>\$0</u>
Total Income	\$27,520,242
Service Income %	<u>23%</u>
	\$6,358,364
Ownership% not subject to RT	<u>99.98%</u>
PSI not subject to RT	\$6,357,092

B. Reasonable Compensation for Services

The allowance for reasonable compensation is equal to the sum of the distributive shares of all partners who render services to or on behalf of the partnership of the

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income of the partnership, to the extent that the distributive share would have been allowed as a deduction to the partnership under 26 USC 162 (IAC § 100.2850(c)).

26 CFR 1.162-7(b)(3) limits the deduction for compensation for services to a reasonable allowance:

“it is, in general, just to assume that reasonable and true compensation is only such amount as would ordinarily be paid for like services by like enterprises under like circumstances.”

Per Legal, in other words, what would the partner’s salary be if one could be paid?

IAC § 100.2850(c)(1)

...the amount allowed under this subsection... with respect to any partner may not exceed the increase, if any, in the capital account balance of the partner for the taxable year of the partnership in which the subtraction is claimed...without regard to contributions of money or property by the partner and without regard to distributions of money or property to the partner, but including a guaranteed payment made to the partner.

Increase in Capital Account Balance

Prior to the 2019 Schedule K-1, if the Partnership reports book capital under 26 USC 704 Partner’s distributive share (verified by taxpayer checking the box for “Section 704(b) book” on Schedule K-1, Section L), then the subtraction modification would be limited to the increase reflected on Schedule K-1, Section L. If the partnership reports tax capital, GAAP, or something else, then the information in Section L may not reflect the limitation.

However, beginning with the 2019 Schedule K-1, Section L has been revised. The basis options have been removed, so unless the auditor knows that the taxpayer is reporting capital using “Section 704(b) book, the information in Section L will no longer be valid.

Independent Investor Test

The taxpayer may establish a presumption of reasonableness under the “independent investor test”. The premise behind the independent investor test is that an independent investor will demand a certain level of return on investment. If the return received is at or above that level, the compensation being paid by the entity is presumptively reasonable.

In *Exacto Spring Corp. v. Commissioner*, 196 F.3d 833 (7th Cir. 1999), the court held that where an amount claimed as compensation for services rendered satisfies the “independent investor test” there arises a rebuttable presumption that such compensation is reasonable and therefore deductible under 26 USC 162(a)(1). Accordingly, where income of the partnership is allocated to partners in such amounts

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as to result in a satisfactory return on partnership capital, a rebuttable presumption shall arise that any remaining amount of income allocated to partners for services actually provided to the partnership is a reasonable allowance and therefore deductible under this Section. (See also, *Menard, Inc. v. Commissioner*, 560 F.3d 620 (7th Cir. 2009); *Mulcahy, Pauritsch, Salvador & Co. Ltd. v C.I.R.*, 80 F.3d 867 (7th Cir. 2012) (“When a thriving firm that has nontrivial capital reports no ... [taxable] income, it is apparent that the firm is understating its tax liability”.)

Auditors should not raise the independent investor test to taxpayers. Auditors should keep in mind that the percentage return an independent investor would accept as reasonable can change from year to year. This could mean that there are different rates of return for each period in an audit. A negative return on equity in a particular year would not prohibit an amount to qualify as a reasonable return based on the partner(s) activities.

If the taxpayer claims the computations of “reasonable compensation” were made following the *Exacto Springs* “independent investor test,” the auditor should request these calculations and the support behind them. The fair rate of return should be applied to the beginning balance of each active partner’s capital account as it appears on their respective Schedule K-1 for each year. The “reasonable compensation” for each partner would be the partner’s distributive share of income less the dollar amount of the return on capital for that year.

Unless a subtraction is based on section 1348 income (and not on the imputed services value), auditors should be careful regarding increasing the taxpayer’s claimed subtraction unless there were some special circumstances (i.e. they simply forgot to claim any subtraction where there were services provided or did not include all services provided in the calculation.) The “reasonable” compensation limitation is functionally an anti-abuse provision, there is not necessarily a specific correct number.

Not every taxpayer will need to resort to the independent investor test. An investment partnership is required to meet the definition in IITA Section 1501(a)(11.5) each year to determine if they are subject to the tax imposed by subsections (c) and (d) of IITA Section 201 as described in IITA Section 205(b). In years where they do not meet these requirements, they will have a return filing obligation. When they do have a filing obligation, investment partnerships typically claim the entire amount of income as a reasonable deduction because they believe it is their skills and their connections that generate 100% of the partnership’s income, and therefore they believe the partnership is entitled to claim the entire amount. For instance, a partner needs the ability to identify good investments, but the partner also needs the ability to get people to invest \$100,000 or \$250,000 or \$500,00 in the selected investments. The partners believe the connections are critical to the success of the partnership. Based on these facts, the partnership will claim the entire amount.

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CAUTION: If the reasonable compensation allowance, applying the *Exacto* “independent investor test,” is greater than the amount claimed on the return as filed, the auditor should consider these options:

- i. If the audit was reviewing a claim, the amount of claim could be increased or decreased. When the taxpayer claims a deduction on an original return, the proper way to increase that credit is to file an amended return.
- ii. If the auditor finds that the taxpayer would be entitled to a larger deduction than was claimed on the original return, the auditor could increase the deduction allowed to offset any additional tax due, but
- iii. If the increase results in an overpayment, the auditor should invite the taxpayer to file a timely refund claim. If the computed amount is less than what was claimed on the return, then the smaller calculated amount would be the amount allowed.

It is up to the taxpayer to establish that a presumption of reasonableness arises under the independent investor test, not for us to calculate it.

Auditors can ask for an allocation between return on capital versus labor and support for why the allowance is reasonable.

The Department may rebut the taxpayer’s reported reasonable compensation showing the amount claimed exceeds a reasonable amount, that was the result of extraneous factors, such as:

- An unexpected discovery of oil under the company’s land,
- Or that the company intended to pay the owner/employee a disguised dividend (rather than salary) (is the compensation scheme bonus-heavy and salary-light?);
- Partner does not work for the partnership;
- Conflict of interest (not always decisive);
- Relation of partner’s compensation to that of other partners in the partnership (internal consistency in a company’s treatment of payments to employees);
- Economic conditions (character & condition of the company; including sales, net income, capital value and general economic fitness of the company).

If the partnership’s trade or business incurs a loss (as reflected on Line 1, IL-1065), the partnership may have investment income that could support a subtraction for reasonable compensation.

Reference Material

Bureau of Labor Statistics

The Bureau of Labor Statistics website can be referred to when auditing the amount claimed as reasonable compensation. It is used primarily for researching an average salary in a similar position in the geographical area of the taxpayer. It provides different job classifications with salary information broken out by state and metropolitan area.

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<https://www.bls.gov/blswage.htm>

Reasonable Compensation Job Aid

The Internal Revenue Service issued a publication on October 29, 2014 that was developed by a team of IRS Valuation Professionals from the Large Business and International Division and includes an Appendix. The Job Aid is a guide for IRS Valuation Professionals on the Reasonable Compensation Issue in Not-for-Profit and For-Profit entities. This publication/appendix can be used by auditors as a reference for additional factors to consider when auditing the PSI/RC subtraction.

The documents may be accessed using the hyperlinks below or on the intranet under Work Areas>Audit>Tools & Templates>Income Tax

Reasonable Compensation Job Aid:

<https://www.irs.gov/pub/irs-utl/Reasonable%20Compensation%20Job%20Aid%20for%20IRS%20Valuation%20Professionals.pdf>

Appendix:

<https://www.irs.gov/pub/irs-utl/Appendix%20to%20Reasonable%20Compensation%20Job%20Aid%20for%20IRS%20Valuation%20Professionals.pdf>

Management Fees

The payment of management fees does not automatically prohibit the claim of a reasonable compensation deduction and may not be a double deduction under IITA 203(g).

An additional subtraction is not precluded where services are provided that are not covered by the management fee. The services being claimed as reasonable compensation will need to be reviewed.

If the management fee is a guaranteed payment, this would be good evidence of what the partners themselves agreed the services were worth. We would have a good argument that, as far as any management services were concerned, the subtraction should be limited to the amount agreed upon by the partners as that agreement best reflects the true value of the services.

In some cases, the entity may be paying a management company to run the property and then claim a deduction for management work performed by a partner. If the management company is an independent third party, an auditor would need to determine if the claimed amounts are for services provided by the partner that are not covered by the management company agreement. A determination of the reasonableness of the amounts claimed for those services will need to be determined.

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If the management company is owned by a partner of the entity claiming the deduction, the services provided by the management company are not amounts received by the partner for services rendered in their capacity as a partner and would not qualify for the deduction. As with the independent third party, the auditor would need to make a determination if the deductions claimed are for services not covered by the management company agreement and if they are reasonable. This type of situation would be less likely to occur than with an independent management company. The auditor should request any management agreements to determine ownership and the services provided under the agreements to verify if the services claimed are covered or not.

III. Information to Request from Taxpayer

Request any information necessary to address questions in the following sections. Generally, the auditor may not have the original and amended Illinois and federal partnership returns at the inception of the audit and therefore will need to obtain those documents.

- A. Partnership's operating agreement, including all amended agreements.
- B. Operating agreement (including all amendments) of any partner that is a partnership.
- C. Other agreements in which the partnership entered into with respect to the conduct of its business or the conduct of businesses in which it is a partner (e.g., management agreements with partners and/or third parties (including third parties in which the partnership's partner have sole or part ownership or in which the partnership has sole or part ownership)).
- D. Request a **by partner** detailed breakdown of the PSI/Reasonable Compensation deduction claimed in each tax year of the audit cycle. This will allow for the immediate identification of any deduction claimed for a partner that is a legal entity (other than a disregarded entity or grantor trust) and therefore, not allowed a PSI/Reasonable Compensation deduction.

NOTE: This information is not all inclusive and therefore auditors should include other relevant requests based on their understanding of the particular partnership's business and/or initiate follow up requests, if necessary, after reviewing the information that is requested and received. Changes in the agreements referenced above can impact the amounts allowed depending on the impacts on services provided.

Information Document Requests

Information Document Requests (IDRs) are to be used every time additional documentation is needed from the taxpayer after the Initiation letter has been sent.

A. EDA-70 Information Document Request

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May be issued multiple times, as long as the taxpayer responds to the request for information with proper documentation. If, after presenting the taxpayer with the EDA-70 on two separate occasions, the taxpayer does not respond, the next request to be issued is the EDA-11-A Notice of Demand for Books and Records.

- B. EDA-11-A Notice of Demand for Books and Records
Specifies a deadline 30 days from the date the request is issued to the taxpayer to surrender the requested books and records. May only be issued once.
- C. Subpoena Duces Tecum
The final document request to be issued to the taxpayer when they refuse to provide books and records. Audit Supervisor refers the case to the Assistant Division Manager recommending issuance of a subpoena.

IV. THE PARTNERSHIP

Understand what trade or business your partnership is conducting. Is it strictly a personal services business or is capital a material income-producing factor?

If capital is a material factor, request taxpayer to provide computations that allocate the partnership's net profits to the individual partner's labor that generated the partnership's income.

V. THE PARTNER(S)

- A. Analyze the partner(s) on the IL-1065, Schedule B
Request a detailed description of each service rendered by each individual partner on behalf of the partnership. (Supporting documentation of each service rendered (including contemporaneous documentation and where appropriate or necessary notarized affidavits by each partner as to services rendered on behalf of the partnership)).

1. Partners that have the box in Section B, Column D checked are not eligible for the subtraction. Income distributed to these entities is subtracted from partnership income as Subject to Replacement Tax on the IL-1065. As such, the partnership is allowed a subtraction modification under IIA § 203(d)(2)(I). (Individuals, estates, or grantor trusts and other disregarded entities whose grantors or owners are individuals or estates are **not** subject to this tax.)
2. A Partner who is an individual (or grantor trust or estate in the case of income in respect of a decedent), may not be allowed the deduction if the partner is NOT providing a service that is generating income for the partnership. For example: a non-participating spouse who has a partnership interest but does not provide any services to the partnership. [IAC § 100.2850(c)]
3. A Partner who is an individual (or grantor trust or estate in the case of income in respect of a decedent), may be allowed the deduction if the partner IS providing a service that is generating income for the partnership. The partnership income needs to be analyzed, as well as, the services the partner provides to the partnership.

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4. Dependent on services provided by the partners, limited partners (excepting legal entities (i.e. partnership, LLC, S-corp or C-corp)) are eligible for the deductions. Limited partners cannot “materially” participate in management of the partnership. However, they may provide services on behalf of the partnership. The general partner can direct that these services are provided by limited partners.
5. When a partner is involved in multiple partnerships, the deduction available is determined for each entity based on the partners value to the entity.
6. In multi-tier organizational structures, the auditor should determine early in the process of reviewing this issue at what level in the structural organization the services are being performed. The Taxpayer may not be the level at which the actual services are being performed in the organization’s structure. If the services are being performed at a lower level tier and not at the Taxpayer level, the service would not qualify for the deduction.
7. If the partnership’s individual partners are also partners of any legal entity that is also a partner of the partnership, request a detailed description of each service rendered by each of the partnership’s individual partners on behalf of the partnership partner that is also a partnership (including contemporaneous documentation and where appropriate or necessary notarized affidavits by each partner as to services rendered on behalf of any legal entity that is also a partner of the partnership.)
8. If the partnership’s individual partners have sole/part ownership in a third-party company that provides services to the partnership under an agreement with the partnership and/or a legal entity that is also a partner of the partnership, request a detailed description of each service rendered by each of the partnership’s individual partners on behalf of the third-party company in which that individual partner has sole or part ownership (including obtaining contemporaneous documentation and where appropriate or necessary notarized affidavit by each partner as to services rendered on behalf of the third-party company.)
9. Did the partners receive guaranteed payments? Guaranteed payments are payments meant to compensate a partner for services rendered or use of capital. Therefore, the partner will receive a subtraction for guaranteed payments, but the amount of the subtraction will be determined following the procedures for determining the allowable deduction for any other partners (i.e. identify partner’s services rendered, identify whether capital is a material income producing factor, etc.)

B. Determining whether the partner is acting in his capacity as a partner or as an unrelated party (26 CFR §1.707-1)

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Transactions in which the partner is acting as an unrelated party:

- Loans of money or property by the partnership to the partner or by the partner to the partnership
- Sale of property by the partner to the partnership
- The purchase of property by the partner from the partnership
- The rendering of services by the partnership to the partner or by the partner to the partnership
- Where a partner retains the ownership of property but allows the partnership to use such separately owned property for partnership purposes (i.e. to obtain credit or to secure firm creditors by guaranty, pledge, or other agreement)

When a partner is acting in a capacity as other than a partner, the partnership is allowed a deduction in the computation of its taxable income, and therefore no PSI/RC deduction may be taken for that partner.

With respect to partner/partnership transactions in which the partner is acting in a non-partner capacity, IRC 707 already allows the partnership a deduction in computing its FTI. Because the partnership is already allowed a deduction federally, which deduction the IITA couples onto, the auditors should simply ensure that the same amount is not also claimed a second time as a subtraction modification. The only real concern is to prevent double deductions.

GenTax Research

SSN in Multiple Pships/Scorps

This report will show what IL pass-through business an individual is a partner in and receives a K-1.

Under **Managers-Report-Report List**

Type "SSN" in the search line, ENTER
Select "SSN in Multiple Pships/Scorps"

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Type Partner "SSN" in box, ENTER



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A list of FEINs will appear (if any) that show what other businesses the partner is associated with and their filing periods.



VI. AUDITOR'S ANALYSIS OF THE REQUESTED INFORMATION AND ADDITIONAL INFORMATION CONSIDERED IN REACHING THE AUDIT'S CONCLUSION

- A. Summary statement of the auditor's review of each document and what that document disclosed as to services rendered by each individual partner (referencing document as an Exhibit).

- B. Auditor's conclusion as to the amount of PSI/RC claimed and allowed/disallowed for each individual partner. Conclusion should include a detailed explanation in support of the audit's position to allow/disallow (in whole or in part) the PSI/RC claimed with respect to each partner. If any calculations are involved in determining the allowed and/or disallowed PSI/RC deduction, include the detailed calculation, referencing the source of amounts used in the calculations.

VII. PARTNERSHIP INCOME

Auditor needs to determine what kind of income the partnership has reported. The partnership may report earned income, passive income, or both. Only "earned income"

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may be used in determining the personal services income deduction. If the partnership sells property, then capital is likely material, and only that portion of the income attributable to services will be considered “earned income.”

A partnership does not have to be a personal service company to have “earned income”. A partnership will have “earned income” if:

1. Partnership’s income consists of compensation to the partnership for services rendered by the partnership.
2. Capital is a material income producing factor for the partnership. If so, then the amount of income of the partnership that is attributable to the individual partner’s labor is “earned income” (i.e. the reasonable allowance for compensation for services actually rendered would constitute “earned income” under the former IRC Sec. 911(b)). NOTE: Capital is almost always a material factor where the partnership maintains and sells inventory of tangible personal property. Also, note that an analysis of reasonable allowance under 911(b) is not a determination of reasonable compensation under IRC Sec. 162. The determination of “reasonable allowance” under IRC Sec. 911(b) is not based on a comparison of the partner’s services to those of similarly situated individuals. It is more of an imputed number. This amount is determined by computing income derived from capital, and the remaining income is “earned income”.
3. If the partnership does not have “earned income”, the analysis is to determine reasonable compensation applying IRC Sec 162, which is the amount the partnership would be allowed to deduct if the same services being provided by the partner on behalf of the partnership had instead been provided by an employee. Look to what an employee would have been paid for performing similar services for a company in same/similar business in same location.

Include a detailed description of all activities engaged in by the partnership through research, including an internet search of the partnership and its partners.

To determine the type of income, review the taxpayer’s Form 1065. If additional documentation is needed for review, it is noted.

- Document required – Form 1065, pages 1-5 with the federal K-1s issued; Partnership agreement

Form 1065, Line 3-Gross Profit: The partnership is either providing a service or selling a tangible item. It is likely that the partner(s) is/are providing some type of service to the partnership.

Form 1065, Line 4-Ordinary Income from Other partnerships/estates/trusts: The partnership is receiving this income from another entity. The auditor needs to explore whether the partner(s) provides a service in generating that income. Only the portion of the income attributable to services will be considered “earned income” and includable in the deduction for PSI.

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- Documents required – K-1(s) issued to taxpayer by every entity included in this amount; Partnership/Management Agreement between Partnership receiving the income and the partnership flowing the income to the partnership being audited.

Form 1065, Line 5-Net farm profit/loss: The partnership most likely owns a farm. The auditor will need to determine if the partner(s) is the person actually farming or if the farm is under the management of another.

- Document required – Form 1040, Schedule F

Form 1065, Line 6-Net gain/loss for Form 4797 (Sale of Business Property): A determination needs to be made if the property was used in the generation of income. The auditor needs to determine if the gain/loss will be included in the deduction calculation. Includable only in the calculation for reasonable compensation.

- Document required – Form 4797

Form 1065, Line 7-Other income: The auditor needs to obtain the statement explaining the figure on this line. The auditor needs to explore whether the partner(s) provide service in generating that income.

- Document required – Statement that should have been attached to Form 1065

Form 1065, Schedule B, Line 2 & 3b: Note how these questions are answered.

Form 1065, Schedule K, Line 1-Ordinary business income (loss) – If amount is zero or a loss the partnership does not have personal services income. Refer to discussion of Personal Service Income and Reasonable Compensation above for further clarification.

Form 1065, Schedule K, Lines 2, 3a-Rental income/loss: The partnership typically owns commercial or residential rental property. The auditor needs to determine if the partner(s) provide service in generating that income.

- Documents required – Form 8825 for each rental property owned by the partnership; Partnership/Management Agreement

Some portion of the Partnership's rental income may be considered earned income of the partners under former IRC Sec. 911.

The character of the partnership's income would be relevant to the first prong (PSI) of the subtraction. Under the former IRC 911 regulations, capital is material in this case, and so the amount of earned income is a reasonable allowance. Section 911 requires that you determine the extent to which the amounts reported on Lines 2 and 3 may be attributed to the partner's labor.

The second prong (RC) of the subtraction is determined irrespective of the character of the partnership's income. The determination under the second prong (RC) is what amount would be reasonable compensation if the partners had supplied the same services to the partnership as employees rather than partners. That determination would allow a subtraction regardless of the amount, if any, reported on lines 2 and 3, provided that the subtraction attributable to each partner is limited to the increase in that

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partner's book capital account for the year (i.e. the partner must have derived some book income from the partnership to support a subtraction).

Form 1065, Schedule K, Line 4-Guaranteed payments: If there is an amount here, there should be an addition on the IL-1065. The deduction may be limited to this payment amount depending on the Partnership/Management Agreement

- Documents required – Partnership/Management Agreement

Form 1065, Schedule K, Line 5-Interest Income: This is typically passive income. Partner(s) do not perform any service to earn this type of income. It is usually earned on investments or other such types of assets.

- Document required- If “Statement attached” listed, obtain it

Form 1065, Schedule K, Lines 6a, 7-Dividends, Royalties: This is typically passive income. Partner(s) do not perform any service to earn this type of income. It is usually earned on investments or other such types of assets.

- Document required-If “Statement attached” listed, obtain it

Form 1065, Schedule K, Lines 8, 9a, 10-Capital gain/loss: Amounts reported on these lines are not “earned income” and therefore cannot be included in the subtraction for PSI but can be used in the RC subtraction.

Form 1065, Analysis of Income: Review this table to see how the taxpayer reports which of its partner(s) are passive versus active in the partnership and general versus limited partner(s).

Analysis of Net Income (Loss)							
1	Net income (loss). Combine Schedule K, lines 1 through 11. From the result, subtract the sum of Schedule K, lines 12 through 13d, and 16f					1	70,890.
2	Analysis by partner type:						
	(i) Corporate	(ii) Individual (active)	(iii) Individual (passive)	(iv) Partnership	(v) Exempt organization	(vi) Nominee/Other	
a	General partners						
b	Limited partners		4,785.			66,105.	

Are the partnership's partners general partners or limited partners?

(NOTE: Limited partners (excepting legal entities (i.e. partnership, LLC, S-corp or C-corp)) are eligible for the deductions. Limited partners cannot “materially” participate in management of the partnership. However, they may provide services on behalf of the partnership. The general partner can direct that these services are provided by limited partners).

- Document required – Partnership Agreement; Any other contract or agreement

Once the auditor has determined the type(s) of income, a PSI and RC analysis needs to be completed, to determine which is larger.

VIII. ADDITIONAL GUIDANCE

A. A distribution by the partnership subject to 26 USC 731 (gain or loss on distribution) is treated as a return of capital and/or gain from the sale or

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exchange of the partnership interest of the distributee partner, and therefore, in no event may a distribution be included in the amounts computed under subsections (b) and (c). (IAC § 100.2850(a)(2)(B))

- B. No amount may be deducted by the partnership for the transfer of a partnership interest in connection with the performance of services. (IAC § 100.2850(a)(3)(B))
- C. Self-Employment Income (Schedule K Line 14a) is not reflected in the calculation of PSI or RC. Self-employment income is not included in any of the rules or regulations for calculating personal service income or a reasonable allowance.
- D. If all the partnership income is portfolio income (interest, dividends, royalties, etc.) this is NOT earned income and therefore cannot be included in the personal services calculation but can be included in the calculation for reasonable compensation.
- E. Auditor's should familiarize themselves with the court cases cited in the new regulation (IAC § 100.2850) to learn about how to apply the PSI/RC subtraction.
 - *Estate of Tilton, 8 BTA 914 (1927)*
 - *Exacto Spring Corp. v. Commissioner, 196 F.3d 833 (7th Cir. 1999)*
 - *Menard, Inc., v. C.I.R., 560 F.3d 620, 623 (7th Cir. 2009)*
 - *Brewster v. C.I.R., 607 F.2d 1369 (D.C.Dir. 1979)*

IX. PRIOR YEARS SERVICES

Per Legal, compensation for prior years may be taken in current years when it can be shown that a PSI/RC allowance was not taken because the partnership was in a loss state in the previous year and was unable to do so for the partner(s) providing the service(s).

The deduction cannot exceed the current year income to create a loss.

Taxpayer needs to clearly show the amounts taken for prior years in the detailed calculations they provide.

X. REASONABLE CAUSE

Penalty abatement will be provided for tax years ending prior to December 31, 2018 based on the Department's position that there is reasonable cause to abate in the absence of regulations and/or other clear guidance as to the determination of the PSI/Reasonable Compensation deduction. The number of audits conducted will not impact the decision to abate penalties for these periods for a taxpayer.

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Subject: New Audit Time Goals	Chapter 1
	Authorization: Roger Koss

This audit manual update replaces the original version issued on 6/27/2019 and will be incorporated into Chapter 1.

OVERVIEW

Effective January 1, 2020, in a continuing effort to increase overall efficiency and accountability in the Audit Bureau, time goals with respect to the number of (field) audit hours expected to complete an audit - will be instituted for all new assignments. In addition, there will be increased emphasis on establishing meaningful and realistic estimated dates of completion (both at commencement of assignments and updating as needed) by directly working with taxpayers to collaboratively target a calendar date that the audit can be completed. **This will be a pilot program for calendar year 2020.**

In order to achieve any goal, it is important to know your starting point, where you want to be, and to manage the incremental steps along the way (including reasonable calendar consideration) to reach the target. This FY2020 strategic initiative is intended to ensure the Department’s valuable time resources are utilized in the most efficient and effective manner.

To lay the groundwork for this initiative a thorough review of completed audit information from a recent five-year fiscal period, average hours have been determined by:

- a) Tax Group,
- b) Audit Level, and
- c) Audit Program.

This will be used as a starting point for each assignment, with the understanding that a historical, mathematical mean represents some audits that took more than this amount as well as some that have taken less. Obviously, many factors contributed to these numbers. Because Audit staff is diverse in background and experience, as well as providing coverage across a broad spectrum of taxpayers/tax types, the framework will allow flexibility while reinforcing responsibility for performing duties efficiently.

The time data utilized in these historical look-back figures included just the field auditors and did not include time by the Supervisor, CAA, in-house Discovery leads, or other support staff

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(Review, etc.). Likewise, the time goal being established is for the field staff and excludes the same extraneous parties. If another field auditor assists or a 'team' concept is utilized, the combined field hours will count together toward the goal or allocated figure.

Identifying expectations for time goals should facilitate staff focusing their efforts by utilizing several other current strategic goals - limited scope audit techniques, project prior percentage of error on follow-up audit cycles, electronic records and exchange of information (Virtual Audit Room & Computer Assisted Auditing), and other approaches to improve auditing.

Additional benefits of quantifying expectations include better audit planning, which should correlate to increased coverage and compliance. Also, this will allow unbiased, independent evaluation of an auditor's performance in several key categories – Use of Time, Productivity, Planning, and Follow-Up – which can flow through to the completed audit evaluation.

PROCEDURE

A grid is being added to the *Audit Manager*, under the *Attributes* tab, on the *Goal* panel.

This will record the history of the assignment's initial time goal, the estimated date(s) of completion, any adjustments to either the hour goal or calendar target, as well as memorializing staff that made each entry. Additionally, there will be a comment field to record the justification for modifications to either goal.



1) **Initial Time (Hours) Goal**

From the analysis of historical field auditors' audit hours history on assignments by Tax Type, Audit Level, and Audit Program, Audit Planning will enter initial time goal entries (in hours) for assignments to be completed. This will be placed on the track before the assignment reaches the field auditor. The current matrix of data for Field assignments reflects the following breakdown by tax area, audit level, and program type:

SALES TAX			
<u>Program</u>	<u>Level 1 & 9</u>	<u>Level 2</u>	<u>Level 3</u>
Audit Referral	73	81	112
Audit Request	75	83	107
Audit Selection	65	77	105
BCI Referral	49	-	-
Data Analytics	87	86	118
Direct Pay	-	-	97
Director/Mgmt	93	103	108
Mandatory	81	99	112
Original Claim	71	86	82
Other Referral	80	85	140
Random Selection	71	80	108

INCOME TAX			
<u>Program</u>	<u>Level 1 & 9</u>	<u>Level 2</u>	<u>Level 3</u>
All Filer	79	102	104
Amendeds	78	57	82
Audit Referral	77	119	107
Audit Request	72	85	96
Audit Selection	87	106	119
BOB List	77	102	107
Mandatory	96	111	131
Original Claim	87	95	98
Other Referral	75	92	129

- ❖ As new audit programs are added, Audit Planning will perform an analysis of the appropriate initial hour goal to designate by audit level. (This may include looking at the overall average by level or finding a comparable program type to use as a starting point.)
- ❖ The historical analysis and prospective monitoring of hours is inclusive of only field auditors' time – not the supervisor, CAA, or other in-house audit processing personnel (Review & Perfection).
- ❖ As part of their annual audit plan development for the next year, Audit Planning will perform a review of updated data (hours) on completed assignments to consider possible adjustment(s) for the (initial) hour goals by the various audit levels and program types.

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A. Adjustments to Goals

There could be instances where an adjustment needs to be made to the targeted goal for hours either before the audit starts or at some point after commencement; the reason(s) necessitating change could also vary greatly (e.g. legacy information on taxpayer exams known to take longer, size/complexity of taxpayer, scope of problems identified, etc.).

Regardless of the reason, staff should have the flexibility to request adjustment(s) as needed, with continued confidence in auditors' ability to independently evaluate their audit situations. To ensure accountability, approval for these variations will be presented to either a supervisor or member of management along with an explanation justifying the reason(s) necessitating change.

i. Pre-Audit or Beginning Phase

As an auditor and/or supervisor conducts their initial research, review of continuing audit files (CAFs), evaluation of taxpayer pre-audit questionnaire response, etc. and has a significant concern that the initial target set by Audit Planning is not realistic, they should immediately discuss with their supervisor. A modification could be based on their combined knowledge and experience of factors like:

- Complexity/area(s) of tax to review
- Volume of information
- Number of locations
- Expansion of business/change in accounting system
- Type of business/industry

Before making any initial adjustment, this discussion should consider and incorporate the appropriate scope of the examination to ensure the goal of completing the audit in the most efficient manner is achieved.

ii. During the Audit

Once the audit plan is underway, an auditor may determine that the allotted time may be insufficient to complete a thorough examination, or the scope of the audit may need to expand in order to adequately determine the taxpayer's compliance. Additionally, for Sales Tax assignments, audit periods should be expanded and brought as close to current as possible whenever practical, which may require additional time.

Auditors need to be extremely conscious during the audit of their *actual* time expenditures (vs. the goal) and, provided there is adequate justification, take appropriate measures to request a modification **before** reaching the targeted hours. Additionally, auditors, supervisors, and timekeepers need to be prompt in entering, reviewing, and approving weekly timesheets.

In most instances, a request for additional time may only be considered **before** the current threshold is breached. The *Inventory Report* will show the current percentage level, and there is a new *Time Goal Issues Report* that will identify assignments that have reached a 75% expenditure level of the goal amount. Thus, supervisors should monitor and communicate with their auditors any approaching timelines, so the auditor can plan to submit modification requests in advance.

Reasons for modification during the audit may mirror the pre-audit/beginning phase factors or include other considerations like significant non-compliance/fraud detected, unforeseen issue develops, expansion of audit period, etc.

B. Review/Approval of Requests

Each request should be independently and thoroughly evaluated to see if investing additional time makes sense. A key responsibility of the auditor is to ensure the justification for an adjustment is reasonable and sufficiently documented in an email to their supervisor.

The request will be evaluated and then approved by either the immediate supervisor or a member of management. The following action may be taken on a request:

- Approve in full
- Partially approve
- Deny adjustment

An initial adjustment request – provided it is 25% or less of the hour goal designated by Audit Planning – should be evaluated and action should be taken by the supervisor.

However, any subsequent requests – or if the first request is over 25% of the initial hour goal entered by Audit Planning – must be routed to the Assistant Division Manager (or other member of management) for review.

For example: **Initial Goal = 80 hours**

- a) Initial request \leq 20 hours (25% of 80 hours) goes to immediate supervisor.
 - b) Initial request $>$ 20 hours; route to the ADM or another member of management.
- Any subsequent requests to scenario a) or b) must be routed to the ADM or another member of management.

C. Documenting Changes

If the hour goal is changed, a corresponding entry will be made by the supervisor or ADM - including comments summarizing the justification/reason(s) for the adjustment – on the Time Goal grid on the Attributes panel of the audit springboard. The revised

entry will reflect the new total hour target (and not just the incremental increase of hours.)

Additionally, any emails from the auditor, supervisor, or member of management concerning a requested adjustment – whether approved or not – are to be included in the audit’s zip file folder that is attached in GenTax. The email(s) should be saved in the zip file *OTHER* folder and should be named *Hrs Request*. Multiple emails can be saved in the folder if necessary; the file naming convention should be *Hrs Request* followed by the date of the email. (i.e. Hrs Request 05-20-19)

2) Establishing Calendar Goals (Estimated Date of Completion)

At the opening conference (or shortly thereafter), the auditor should discuss with the taxpayer a realistic timeframe for completing the audit. A collaborative effort between both parties in honestly planning calendars/availability should be utilized in establishing this target date. Even more so than with the time (hours) allocated to the assignment, flexibility to change this date will be necessary.

Taxpayers are known for cancelling scheduled appointments, delaying delivery of requested information, limiting availability, etc.; however, there will be an accountability component to ensure auditors have planned for and scheduled work dates in advance, issued document requests timely with specific deadlines, and provided appropriate effort toward progressing the audit efficiently (and avoiding unnecessary aging). Auditors should be advocating the benefits to the taxpayer (reducing potential accrued interest charges, etc.) as well as being assertive with taxpayers, while planning their appointments.

A. Initial Estimated Date of Completion (EDC)

The auditor should determine and input the initial EDC on the grid in GenTax by the time one week of field time (35 hours) has been charged by the auditor on an assignment. The ‘*1st EDC*’ menu option should be selected by the auditor when making this entry. (A pre-defined comment indicating this is the ‘initial estimated date of completion’ will be systemically placed on the grid.)

B. Adjustments to EDC

There will be instances where the original timeframe for completing an assignment may have to be altered. The reason(s) necessitating change could vary greatly and be attributable to either the auditor’s schedule or taxpayer delays. Earnest consideration should be given toward minimizing future extended delays and realistic completion by this revised EDC. The ‘*EDC Update*’ menu option should be selected by the auditor when making this entry on the GenTax grid.

- ❖ Note: The EDC may be a future date past the current statute date; however, auditors should take appropriate action to secure future waivers as soon as is practical if they are aware the assignment needs that additional time to protect the statute.

C. Documenting Changes

When the auditor selects the 'EDC Update' menu option and changes the completion date, they are required to include Comments summarizing the justification/reason(s) for the adjustment which will display on the Time Goal grid.

Additionally, any emails from the taxpayer supporting an EDC revision (related to delays) should be included in the auditor's zip file folder that is attached in GenTax. The email(s) should be saved in the zip file *OTHER* folder and should be named *EDC Support*. Multiple emails can be saved in the folder if necessary; the file naming convention should be *EDC Support* followed by the date of the email (i.e. EDC Support 07-11-19).

If the EDC is pushed forward due to the auditor or internal delays (i.e. issue taken to Technical Support/Legal), this should not be part of the audit package, but the supervisor should retain any supporting information that corresponds to an amendment to the EDC goal entry.

SYSTEMIC MONITORING (GENTAX)

On the Audit Panel Attribute Tab, there will be a grid to record the activity in this time area - Type of entry (and changes/updates where applicable) and corresponding comment, the hour goal or EDC entry, as well as the user making the entry and date and time stamp. This information will be used to monitor progress and performance, through a variety of GenTax reports.

First click on the **EDIT** button on the far right of the Audit Attribute banner. The following pop-up menu, displaying the current grid entries, with a new entry started will display. Click on the drop-down menu to select a type of entry and then fill in the remaining required fields.



The following are Types of entries that can be made.



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If you inadvertently select an option that is not valid from the drop-down list, an error message will display. For example, if a '1st EDC' is selected after one has already been entered, the screen will display accordingly and not allow you to save this entry.

Once you have selected a valid option and entered the required information, click on the **OK** button to save the entry.

- ❖ For changes to the time goal Hours, an updated entry made by the supervisor or the ADM should post the new (total) goal – and not the additional hours being added.

For example: **Initial Hours Target = 68 hours**

First, hours request adjustment for an additional 20 hours. (Because 20 hours is a 29+% increase over the initial target, it must be routed to ADM instead of Supervisor).

The ADM will enter 88 hours on the Time Goal Grid.

1) Accuracy in Daily Reporting

One aspect of auditor's daily timesheet postings that will be imperative in this new process is proper accounting of hours to assignments. While this should always have been the case, in the past auditors may have been more liberal in allocating hours for an entire day (7 hours) to an assignment they were *physically* at, as opposed to denoting hours worked on that taxpayer vs. any portion of the day spent on other assignments or tasks.

- ❖ *Example:* You may take an extended call while working at ABC Company from a taxpayer representative at XYZ Inc. This time needs to be split accordingly, including a corresponding entry on your Timesheet in GenTax as to why you charged time to a track you were not physically located at.

Likewise, in instances where there may be two ongoing tracks at the same taxpayer (i.e. different audit periods, ST-1 & ST-556 assignments, etc.), extra care should be given to properly record where time is spent.

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As with any Direct Time charged, a corresponding entry on the EDC-5 for that assignment should substantiate in enough detail the work performed relative to the amount of time charged.

Besides Direct Time charged to audit assignments, there are many other regular tasks that auditors will need to ensure they properly record to “Indirect” categories. Items such as quarterly staff meetings, monthly Webex trainings, special projects, etc. should continue to be reflected on the Timesheets. As is currently the rule of thumb, barring any extended obligation on a special project (i.e. RAT Trainer), overall Indirect Time should account for less than 10% of an auditor’s total work hours and will be monitored accordingly.

2) Reports

There will be multiple reports to monitor various aspects of time management on assignments:

a) Inventory Report

A field is being added to this existing report, (under the Limited Scope identifier column) to list the current percentage of hours expended on an assignment vs. the goal amount. (This will monitor the progress of active assignments.)

b) Time Goal Issues report (new)

To ensure all time goals mentioned above are met, or to provide notice as some benchmarks are approaching, this report will list the following ‘exceptions’:

- Hours
 - Total field hours >75% of goal (preliminary warning)
 - Total field hours \geq 110% of goal (past acceptable goal tolerance)

- Estimate Date of Completion
 - No EDC entered within 35 hours being charged on assignment.
 - EDC within 30 days of current date (preliminary warning)
 - EDC past the current date (past due)

c) Time Goal Monitoring (new)

This report will provide a listing of current inventory or past audit completions for a date range, along with listing the actual hours vs. goal hours, count of changes to the EDC, and reason. This will be useful to Supervisors to go over with auditors during their inventory reviews and then as input for quarterly/annual evaluations.

MONITORING PROGRESS

As mentioned in the overview, the purpose of these time goals is to have a target to aspire toward and incorporate flexibility while monitoring progress along the way to ensure a successful outcome. Auditors will not be penalized for requesting adjustments to an initial goal - even if several amendments are made.

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Completing any assignment as promptly as possible should be a constant goal. Up to this point, the examples have all addressed instances where an initial amount or date will be exceeded. **This does not imply that an allocation of hours *must* be expended on a given assignment and a constant motivation should be to try and achieve desired outcomes in the shortest amount of time.**

- ❖ *Example:* An auditor identifies early on that a taxpayer has adequate compliance, or the potential liability may be under current thresholds for billing. This 'No Liability' (NL) assignment may be readily completed in a fraction of the allocated time resource. The same methodology applies with date of completion (EDC) – if the audit can be completed before any estimated date, then it should be turned in accordingly.

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Release Date: 06/26/2019

Subject: OVERNIGHT TRAVEL AUTHORIZATION (OTA) FORM	Chapter 1
	Authorization: Dan Hall

This audit manual update will be incorporated into Chapter 1.

Effective July 1, 2019, in an effort to increase efficiency and reduce duplication, the Audit Bureau has combined the former Travel Authorization Form and the In-State Travel Request into one document, a new excel-based form called the **Overnight Travel Authorization (OTA) form** has been created. The OTA will replace the other two forms.

Due to Departmental changes in policy, **the two old forms are no longer used**. However, the policy change did not eliminate the expectation that employees have their supervisor's approval prior to traveling on official state business. The approval process will now stay within the Audit Bureau and we will utilize one form. The current information in Audit Manual Chapter 1 in Section 1.9.1.1 Travel Authorization Form will remain in effect for the OTA form, except for the name change and the location of the form (SpIDOR, Work Area, Audit, Forms-Universal rather than the standardized forms folder). **The In-State Travel Request Form information will be removed.**

Employees are **required** to have pre-approval for any overnight travel needed for conducting official state business. The approval process is completed using the Audit Bureau's Overnight Travel Authorization (OTA) Form. This form is approved by the employee's supervisor, aides the Travel Office in making required reservations, assists in monitoring our overall travel budget and encourages the most cost-effective use of travel money.

The **Overnight Travel Authorization (OTA) form** consists of two main sections. The first section identifies the type of travel and detailed travel expenses. The second section identifies the cost estimate comparisons. Once the form is complete, the document should be submitted to the supervisor as a .pdf for review who will then forward the document to the appropriate area.

**ILLINOIS DEPARTMENT OF REVENUE
AUDIT BUREAU OVERNIGHT TRAVEL AUTHORIZATION (OTA) FORM**

Traveler Name:			
Dates of Travel:			
Headquarters:			
Destination Address:			
Purpose of Travel:			
Type of Travel:		Required Forms in addition to OTA	
<input type="checkbox"/> IDOR-Auditing <input type="checkbox"/> In/out of residence state <input type="checkbox"/> Out-of-country		Out-of-State Travel Request	
<input type="checkbox"/> IDOR Non-Auditing <input type="checkbox"/> In Illinois from any state <input type="checkbox"/> Outside Illinois from any state		Out-of-State Travel Request	
<input type="checkbox"/> Non-IDOR Meeting/Conference/Training <input type="checkbox"/> In Illinois from any state <input type="checkbox"/> Outside Illinois from any state		TCH-1 ONLY IF training is held by another state agency/office Out-of-State Travel Request	
Detailed Travel Expenses (If cost comparison needed, first complete page 2 below)			Cost
Estimated Transportation:			
<input type="checkbox"/> State Vehicle/Pool Car (Enter fuel costs using CMS fuel rate/mile, tolls, and parking in "other expenses" below.)			\$0.00
In-house employees must check availability of pool car			
<input type="checkbox"/> Train			
<input type="checkbox"/> Airplane			\$0.00
Carrier/Flight #	Date	Time	Origin
			Destination
<input type="checkbox"/> Rental Car (Use Rental Cost from Cost Comparisons on next page)			
Rental Car Vendor:		Others using car:	
<input type="checkbox"/> Ride Sharing (Cab/Shuttle/Uber/Lyft)			
<input type="checkbox"/> Personal Car (Use mileage reimbursement. Include tolls/parking in "other expenses" below)			
If elected, enter \$32 rate for personal convenience for maximum of \$64 for trip			
<input type="checkbox"/> Estimated Travel Overtime (only auditors located in Illinois)			\$0.00
<input type="checkbox"/> Estimated Lodging:		Cost per Night	\$0.00
Hotel Name		Location	
<input type="checkbox"/> Estimated Per Diem: Out-of State= \$32/day; \$8/quarter In State= \$28/day; \$7/quarter			\$0.00
<input type="checkbox"/> Other Expenses (List):			
TOTAL ESTIMATED EXPENSES			\$0.00
<input type="checkbox"/> Approved <input type="checkbox"/> Denied			
Signature:		Date:	

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Destination Address:

The full address (**street address, city, state, and zip**) of your destination location must be entered on the form. This will assist the Travel Office in efficiently selecting hotel reservations that are as close to your intended location as possible.

Purpose of Travel:

A brief explanation of the need for travel must be entered.

- For auditing, always indicate the track number such as “Auditing – Track #A123456.” Do **not** include the taxpayer name or ID number since this is confidential. The Auditing category also includes depositions, hearings and court appearances for audit work. These should be identified by statements such as “hearing on Track #A123456” or “court deposition on Track #A123456.”
- For any travel that is not related to direct auditing work, describe the purpose such as “staff meeting,” “Department training,” “work at another IDOR facility other than assigned headquarters,” “RAT training,” “Supervisor Summit,” “FTA conference,” etc.

Type of Travel:

Travel is broken up into three categories: IDOR-Auditing, IDOR Non-Auditing, and Non-IDOR Meeting/Conference/Training. Please pay careful attention to these categories and check the box next to the type of travel needed. For each category, the OTA must **always** be completed and given to the supervisor for pre-approval. Depending upon the type of travel, either the Out-of-State Travel Request or the TCH-1 (an electronic Statewide Training Clearinghouse Registration Form) may also be required.

The need for these additional forms is shown in the column to the right of the travel types. The forms themselves are discussed in the Audit Manual.

IDOR-Auditing category includes such things as:

- Auditing work
- Depositions
- Hearings
- Court appearances for audits

IDOR Non-Auditing category includes such things as:

- Staff meetings
- RAT training
- Working at another facility
- Laptop exchanges
- Attending any Department-held training

Non-IDOR Meeting/Conference/Training category is only for any meeting, conference or training that is sponsored and held by another entity other than IDOR. This would include such things as:

- MSATA conference
- FTA conference

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- IRS training

Detailed Travel Expenses:

Once the top section of the form is completed with basic information, if a cost comparison is necessary, go to the **second page** of the OTA **before** completing the remainder of the Detailed Travel Expenses. See the cost estimate comparison instructions below. There are some pre-established links from the cost comparisons to the Detailed Travel Expenses section that make its completion quicker. However, if no cost comparison is needed, the form allows a manual overwriting entry of the required information in the linked spot. The travel expenses are broken into four categories. Check the box(es) for the expected cost types, and obtain estimates from the Travel Office where appropriate:

- **Estimated Transportation** – There are various transportation options listed. Check the box for the type of transportation you are using. Complete the detailed information requested for all categories selected.
 - In-house employees are required to check the availability of the pool car before using another mode of transportation.
 - If the rental car is more cost effective, but you are electing to use your personal car for your own convenience at the flat rate of \$32 (for a maximum of \$64 per trip), a manual entry is required in the Cost Column in the second line under Personal Car.
 - Estimated travel overtime costs are only to be included for auditors located in Illinois. Use the RPS-43 worksheet to calculate estimated hours. Out-of-State auditors are not eligible for travel overtime since they have an MOU that covers times they can leave and arrive home.
- **Estimated Lodging** – Enter the estimated cost and hotel information from the Travel Office.
- **Estimated Per Diem** – calculate using the current CMS rate and manually enter the estimate.
- **Other Expenses** – This category covers such things as fuel, tolls, parking, etc. The type of expense should be listed in the shaded explanation box, and the total manually entered in the shaded Cost box.

Total Estimated Expenses:

After expenses are listed in the appropriate categories, the OTA is programmed to compute the total amount of estimated expenses.

Approval/Denial/Signature:

The supervisor should analyze the purpose and costs and determine if they approve, deny, or would like to modify the request.

- **Modifications** - the supervisor must send the form back to the auditor with an explanation of the issues that need to be corrected.
- **Approval/Denial** - The appropriate box must be checked at the bottom of the first page. The supervisor name and date should be typed into their respective lines. It is not necessary to print the form for signature and then scan it. The email button at the top of the form may be utilized.

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- **Denial** – must be attached to an email and sent back to the auditor with an explanation of the reasons for denial.
- **Approval** – must be attached to an email and sent by the Supervisor to **both the traveler and the Travel Office** at the email address to REV.Travel@illinois.gov as verification that the travel has been authorized and reservations can be made.

Cost Estimate Comparisons:

This section is to be completed when a cost comparison must be done. It is best to complete the cost comparisons before completing any information in the Detailed Travel Expenses section because there are some formulas that automatically pull information into the Detailed Travel Expense section for you.

Cost Estimate Comparisons					
Cost Comparison #1 - Rental Car vs. Personal Car (Commuting Comparison)					
Rental Car		Personal Car		Enter Current Rates:	
Total trip miles driven		Total trip miles driven		Std Mileage Reimb Rt	\$0.545
Rental car cost		Mileage reimb. costs	\$0.00	CMS Rental Fuel Rt/mi	\$0.175
Cab*/Tolls/Parking		Tolls/Parking			
Fuel cost	\$0.00				
Total Rental Car Cost	\$0.00	Total Personal Car Cost	\$0.00	Lesser rental/personal	\$0.00
(*Note: Cab included here is for cab to and from rental car vendor only if needed)					
Cost Comparison #2 - Rental Car vs. Personal Car (Overnight Comparison)					
Rental Car		Personal Car			
Total trip miles driven		Total trip miles driven			
Rental car cost		Mileage reimb. costs	\$0.00		
Cab*/Tolls/Parking		Tolls/Parking			
Rental Fuel cost	\$0.00				
Total Rental Car Cost	\$0.00	Total Personal Car Cost	\$0.00	Lesser rental/personal	\$0.00
(*Note: Cab included here is for cab to and from rental car vendor only if needed)					
Cost Comparison - Commuting vs. Staying Overnight (> 60 miles to location)					
Commuting		Staying Overnight			
		Number of nights			
Lesser: Rental-Personal #1	\$0.00	Hotel cost per night			
Monthly salary*		Total hotel cost	\$0.00		
Est travel overtime hrs*		Lesser: Rental-Personal#2	\$0.00		
Est travel overtime cost	\$0.00	Per diem			
Total Commuting Cost	\$0.00	Total Overnight Cost	\$0.00	Lesser commute/stay	\$0.00
(*Note: Only use for auditors in Illinois. Use RPS-43 worksheet to calculate estimated hours.)					
Transportation Cost Comparison - Driving and Staying Overnight vs. Flying					
Driving and Staying		Flying + rental car (if needed)			
		Airline costs			
Lesser: Rental-Personal #2	\$0.00	Rental car/cab/etc.			
		Total trip miles driven			
		Rental Fuel costs	\$0.00		
Total Driving Cost	\$0.00	Total Flying/Rental Cost	\$0.00	Lesser drive & stay/fly	\$0.00
Additional Information:					
Version 6/19					

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Cost Comparison #1 – This comparison is a **commuting** comparison to see if it is more cost efficient to utilize a rental car or your personal car to commute back and forth from the taxpayer's location every day.

- **Verify the CMS standard mileage reimbursement rate** in Line 56, column G is correct per the Travel Control Board. If it has changed, overwrite the old rate with the new authorized rate.
- **Verify the rental car fuel rate per mile** in Line 57, Column G is correct by confirming it with the CMS Trip Cost Calculator. The Trip Cost Calculator may be found on the CMS website at: <https://www2.illinois.gov/cms/agency/vehicles/Pages/TripCostCalculator.aspx>. If it is incorrect, you may overwrite the old rate with the new authorized rate.
- **Enter** the total estimated miles to be driven for the whole trip, the rental car cost, and any estimated tolls/parking or cab fare to get to and from the rental car vendor.
- **Automatic Calculations and Comparison** - The mileage reimbursement rate and the rental car fuel rate per mile are utilized in formulas that will automatically calculate rental car fuel cost and mileage reimbursement cost for you based on your estimated total trip miles. The lesser cost will show at the bottom of the far-right column for the cost comparison.
- **Flat rate for election to use personal car** - Please note that if a rental car is more cost effective, and you elect to utilize the \$32 rate for personal convenience for a maximum of \$64 per trip in lieu of utilizing the cheaper mode of transportation, then you will need to manually include on the first page in the line under the Personal Car line. It is not included in the comparison so that it does not distort the analysis.

Cost Comparison #2 – This is an **overnight** comparison for a rental car and personal car.

- This section uses the same **current rates** that are in the right columns of the Cost Comparison #1 for standard mileage rate and rental cost per gallon of fuel – verify they are correct using the instructions above.
- **Automatic Calculations and Comparison** - The mileage reimbursement rate and the rental car fuel rate per mile are utilized in formulas that will automatically calculate rental car fuel cost and mileage reimbursement cost for you based on your estimated total trip miles. The lesser cost will show at the bottom of the far-right column for the cost comparison.
- Two vehicle cost comparison sections are included on the form because the third comparison for Commuting vs. Staying Overnight requires calculations from these two different perspectives. Commuting will have a larger total number of miles driven plus travel overtime, and the overnight calculation will have fewer miles driven with the added cost of the hotel.

Cost Comparison – Commuting vs. Staying Overnight – This comparison is necessary when a location is greater than 60 miles away to determine if it is more cost effective to stay overnight rather than to commute back and forth each day.

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- This comparison will automatically fill in the calculations from Cost Comparison #1 and #2 for vehicles.
- For the commuting calculation, if an auditor is located in Illinois and is able to utilize travel overtime, they will need to complete the portion of the comparison related to travel overtime. The RPS-43 worksheet must be completed by the auditor and the estimated hours of travel overtime from that worksheet will need to be manually entered in the OTA along with the auditor's monthly salary amount. The OTA is programmed to calculate the estimated travel overtime cost using these amounts.
- A calculation is also pre-programmed to compute the total cost for the hotel based upon the number of nights listed and the cost per night.
- Per diem will need to be computed and manually entered.
- The OTA will then compare the two methods and indicate the more cost-effective method.

Cost Comparison – Driving and Staying Overnight vs. Flying – On occasion, employees ask to be able to drive rather than fly to a location that is far away from their residence where they plan to stay overnight regardless of the mode of transportation. This comparison is included to determine the most cost-effective method between the two. The driving portion is automatically fed from the cost comparison #2. The flying and rental car portion requires numbers to be manually entered. An automatic calculation programmed to compute the fuel cost for the rental car.

Additional Information – A box is included for the employee to type any additional pertinent information related to their travel that they would like to have considered in the approval process.

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Subject: Electronic Audit Submission – Zipped Folder	Chapter 20
	Authorization: Dan Hall

This audit manual update will be incorporated into Chapter 20.

Effective July 1, 2019 all audits will be required to be submitted electronically utilizing the *Audit File Template* folder, which will be zipped and attached as one item in Gentax for review and submission. This will save both the auditor and supervisor time from having to attach or download individual files in Gentax. This method requires auditors to save audit documents in a system of folders based on the document type with specific names for certain standard documents to promote uniformity across audits. The organization of the folders and file names are stipulated in the *IT Index*, which is included in the template folder and should be completed in lieu of the EDA-51 (the EDA-51 is no longer required). Accordingly, the ‘Electronic Documents’ tab in Gentax has been updated to reflect the need for only a limited number of attachments.

**All laptops and computers should no longer utilize WinZip or 7Zip- if you have this on your computer, please contact laptop support to have it removed.*

What about audits in-progress?

For audits in-progress that have documents already attached, those documents do **not** need to be invalidated or saved again in the template folder. These attachments will be listed at the bottom of the attachment page and can still be accessed; however, no new separately attached documents will be able to be added. Only new documents will need to be saved in the *IT Audit File Template* folder and that will then be zipped and attached in Gentax per the previously outlined procedures.



Note: This section will only show up if there were documents attached in Gentax prior to July 1st. When researching previous audit cycles, all audits closed prior to July 1, 2019 will also have all audit documents appear in Section X.

If a document that was previously attached separately needs to be updated or corrected due to regular audit updates or a review rejection, the auditor should invalidate the attachment in Section X and include the updated document in the zip folder.

Where to get the *Audit File Template*

When an auditor has received a new audit assignment, a new folder should be started for the new audit. The [Income Tax Audit File Template](#) is located on SpIDOR under Work Areas → Audit → Tools and Templates → Income Tax → Income Tax Audit File Template.

**A new template *from SpIDOR* should be downloaded for each new audit assignment- do not copy and paste already downloaded templates, as there may have been an update to the template or index that would be missing if not downloaded from SpIDOR. If an auditor does not have the latest template upon submission, this does not necessarily mean the audit should be rejected by the supervisor. An email will be sent out when an updated version is released, and supervisors will know if the new version only includes some enhancements or if a new form or tool should be in the folder.

Forms

- [Income Tax](#)
- [Sales Tax](#)
- [Universal](#)
- [Procurement](#)

Tools and Templates

- [Income Tax](#)
- [Sales Tax](#)

Procedures

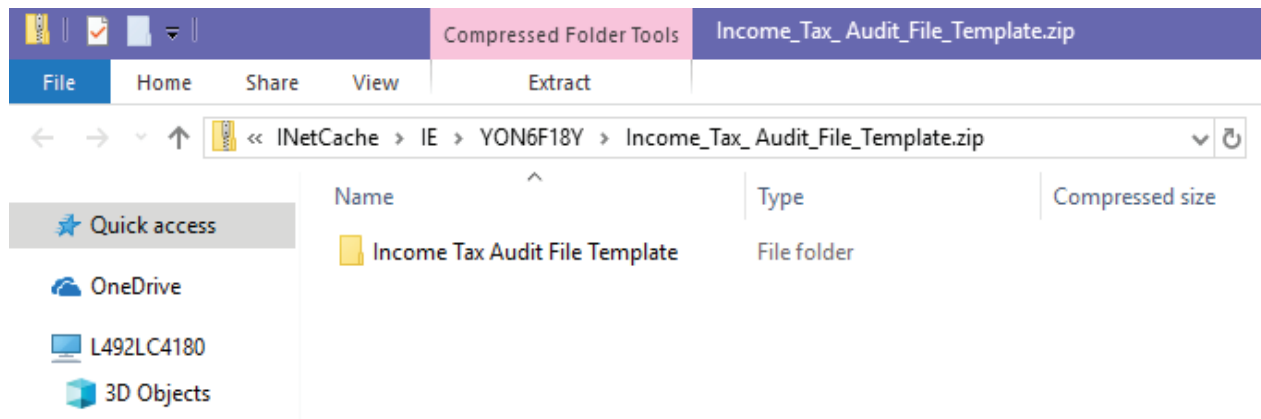
- [Audit Manuals](#)

Income Tax Tools and Templates

- [Income Tax Audit File Template](#)

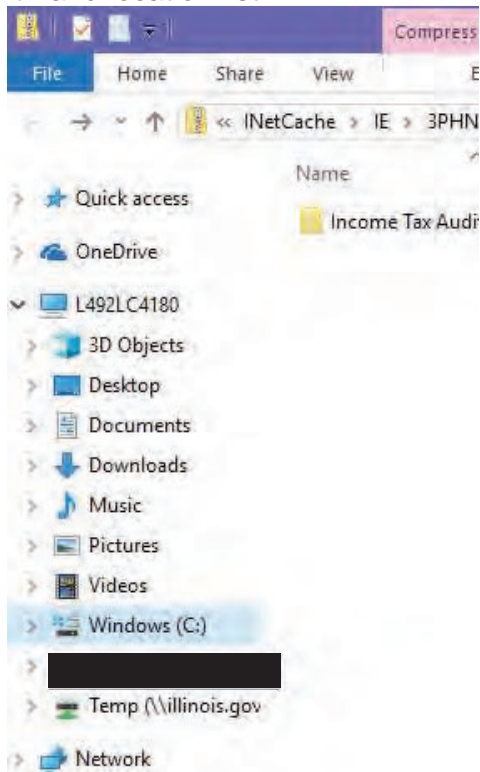
When the folder is downloaded and opened from SpIDOR, a new window will open with the template folder.

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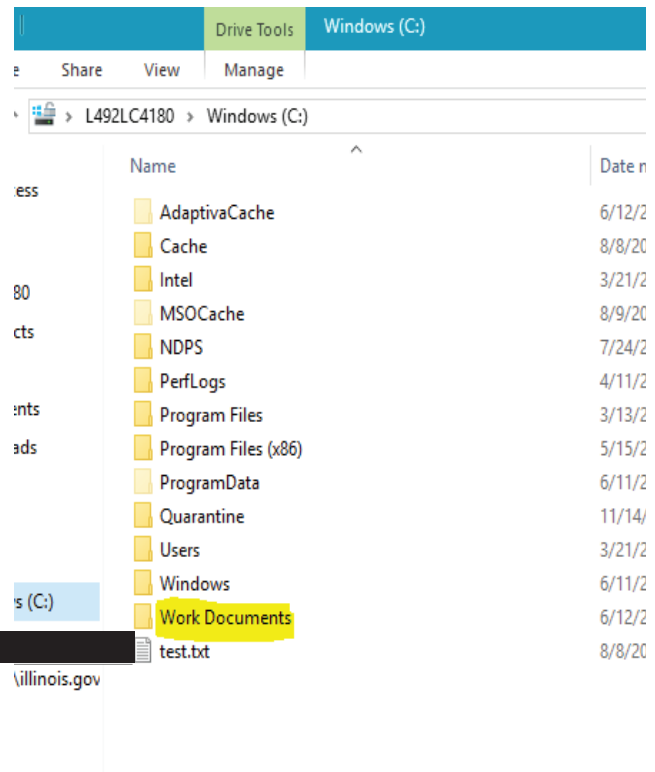
Right click on the folder and select 'Copy' from the dropdown list.

Within the same window, **field auditors** click on 'Windows (C:)' included in the left-hand location list:

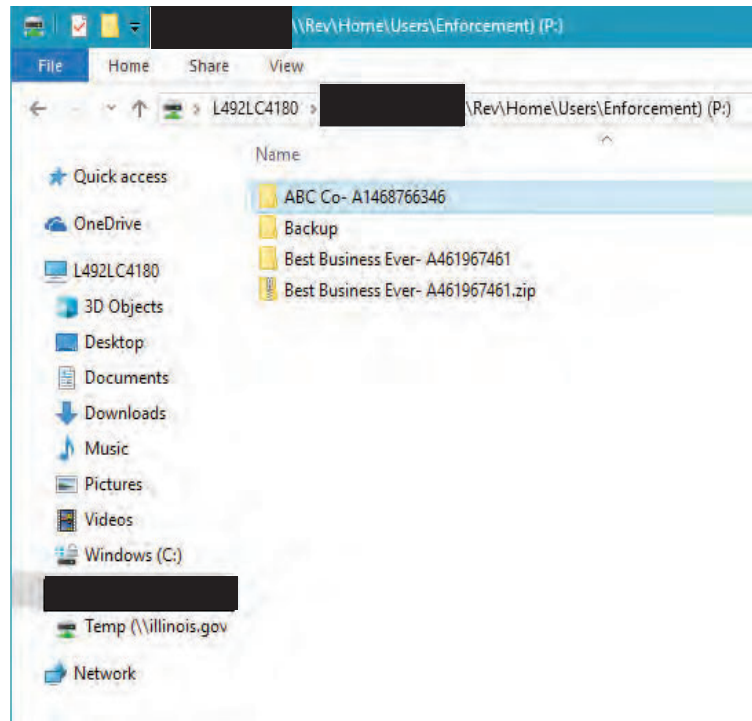
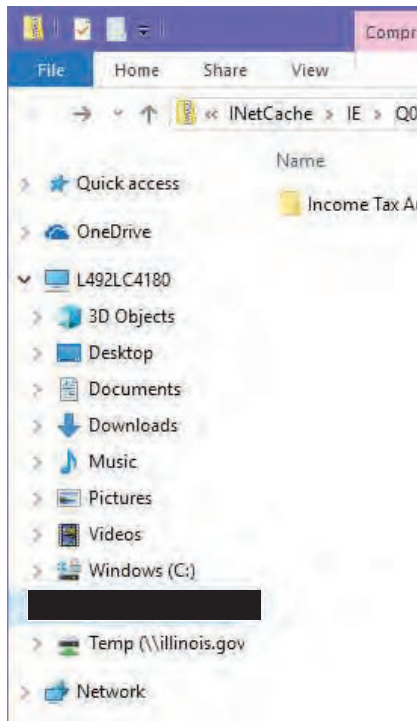


In-house auditors should click on their name (P-drive) from left-hand location list on the template window:

Then double click on their 'Work Documents' folder to open it:

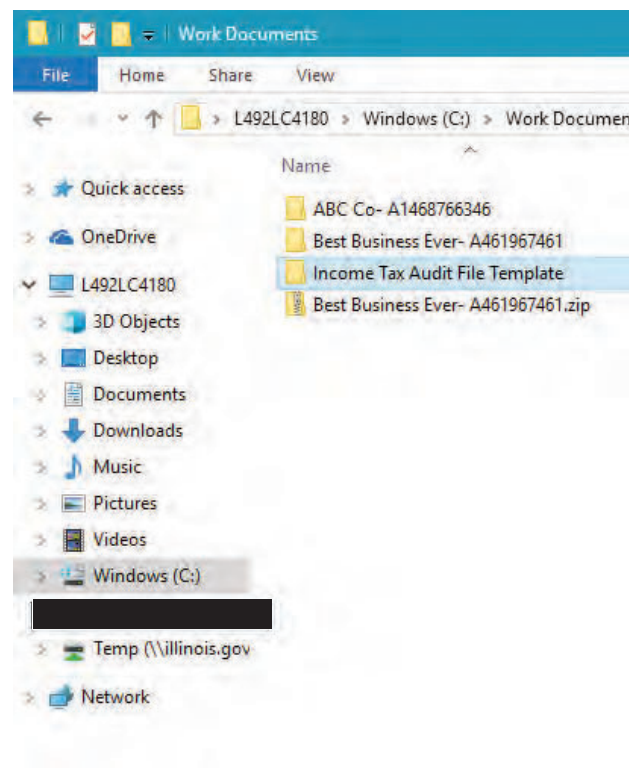
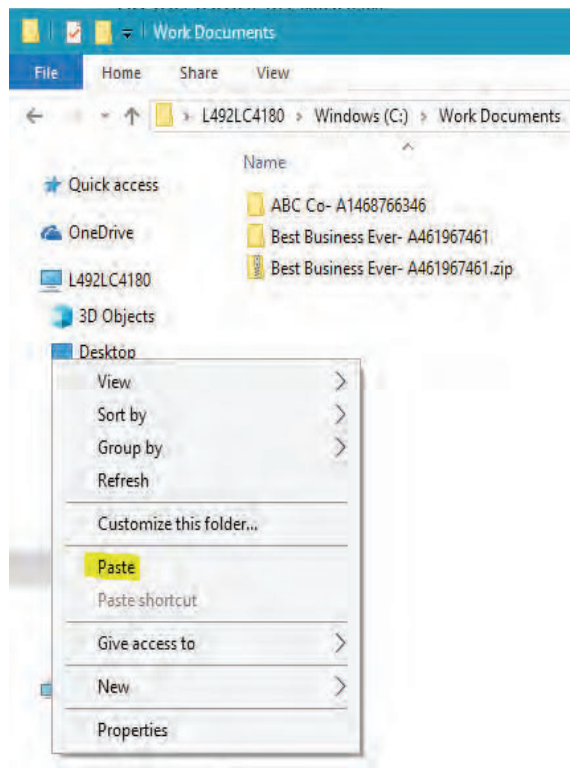


This will take you to where you save your audits:



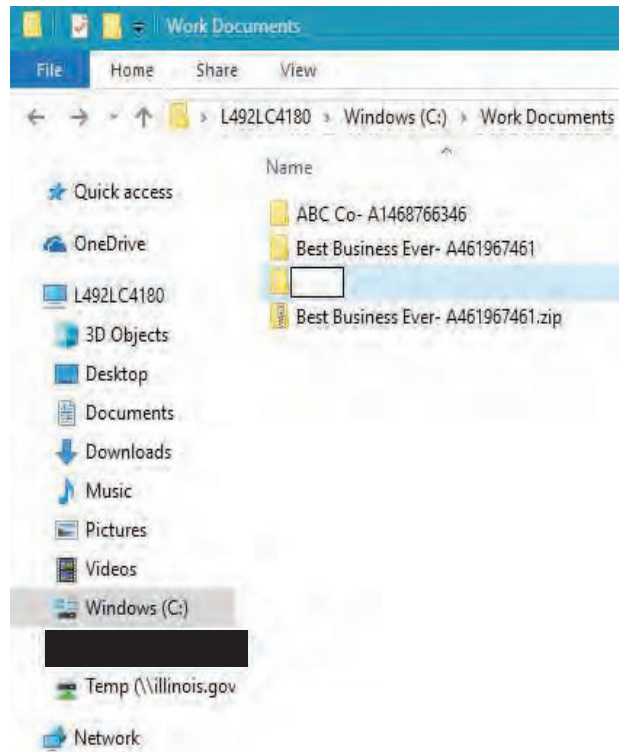
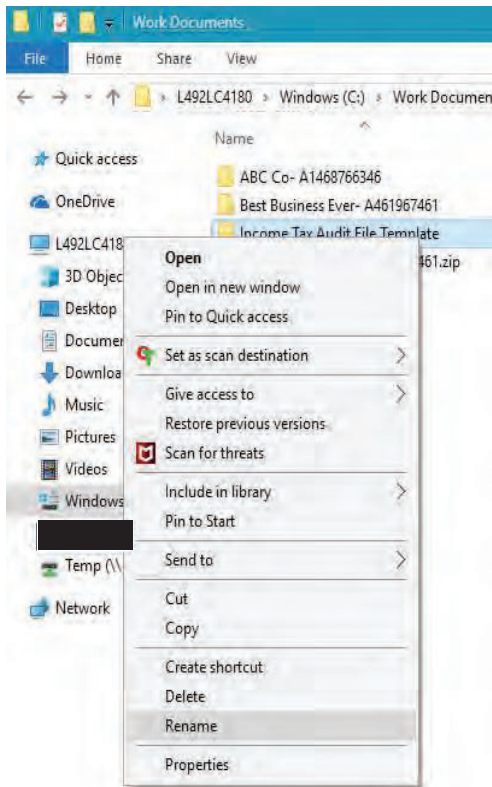
Once in 'Work Documents' or your P-Drive, right click in the window (not on any folders already in the location) and select 'Paste' from the dropdown menu. This will copy the template folder to the respective location.

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Right click on the template folder and select 'Rename' from the dropdown list to name the folder for the new audit. **All audit folders are to be named 'Taxpayer name- Audit ID'** to remain uniform (Ex: MartysMiniMart- A126764675). Name length will impact the ability of opening files from the temporary preview window when downloading from Gentax (shown later), so it is important to keep folder and file names short and concise.

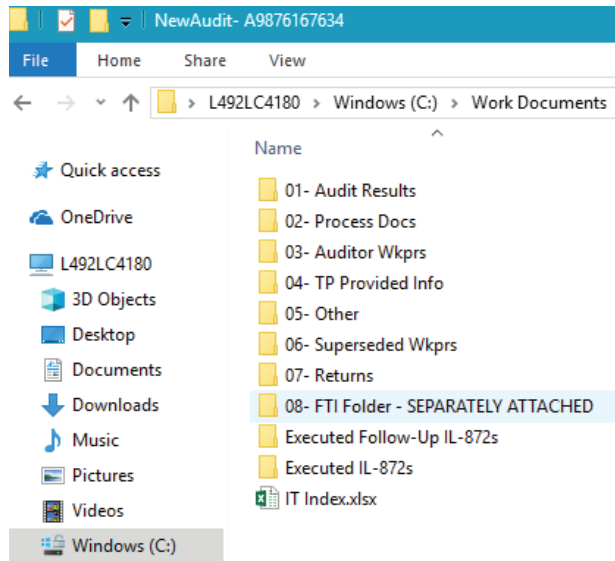
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Note: All shortcuts, such as *Ctrl + C*, will work for those individuals that prefer to use them.

How to Save Audit Documents

The *Audit File Template* contains eight folders in which auditors will save all audit document files, as well as two folders for waivers and the *IT Index*. These folders should not be deleted, even if nothing is saved in the folder.




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The 'Executed IL-872s' folder is for counter-signed waivers obtained for the current audit. The 'Executed Follow-Up IL-872s' folder is for any waivers that may need to be obtained for the subsequent period. This should help differentiate which waivers apply to which periods and help the auditor keep track of the latest statute for each cycle. It should also help ensure all waivers are included in the file to ensure the latest waiver is valid- aka, no statute gaps due to missing waivers.

All IL-872's still need to be attached on the appropriate attachment line in Gentax separately by the supervisor as they are counter-signed. Additionally, the Federal and Illinois returns should be attached separately in Gentax when they are received by the auditor. These are the only documents that will be attached separately by the auditor.

The *IT Index* is organized by the folders included in the master audit folder. Within each section is the list of documents that should be saved in the respective folders:

B		C		D		E		F		G		
		Illinois Department of Revenue		Clear Index		Count Files						
Income Tax Audit Index												
Taxpayer Name:				Account ID:								
Audit Period:				Audit ID:								
<p>All audit file documents must be named with the bolded titles below along with corresponding year, as necessary. Do NOT rename taxpayer provided documents.</p> <p>Red forms are required processing documents when a change is made to those forms.</p>												
01: Audit Results												
										# of files		✓
EDA-150 Penalty and Interest Notice												
EDA-153 Accept Revised Claim												
EDA-27 Explanation of Adjustments												
EDA-64 Auditor Comments												
EDA-8-A Unagreed/Unpaid Supplement												
EDA-ICBW Informal Conference Board Waiver (signed)												
EDC-5 Audit History												
IL-1904 WIT Results												
IL-870 Waiver of Restrictions or EDA-25, 93, 92, 24 Signed												
Payment Voucher												
Prod-1 Audit Results												
Other:												
Comments:												
02: Processing Documents												
										# of files		✓
APT Extract												
APT File												
Audit Sch UB Combined Apportionment for Unitary Business Group												
Audit Sch UB-INS Tax for UBG with Foreign Insurer Members												
Auditor's Report - EDA-25, 93, 92, 24 (unsigned report sent to TP w/ EDA-143)												

Documents **must** be named according to the bolded name indicated on the index, followed by the tax year if applicable. Example: EDA-25 Signed 12-2016 would be saved in the first folder 'Audit Results;' IL-4562 12-2016 would be saved in the second folder 'Processing Documents.'

**Note: The Auditor's Report that is signed by the taxpayer should go in the 'Audit Results' folder, while the unsigned Auditor's Report that was sent to the taxpayer with the applicable*

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143 letter should go in the 'Processing Documents' folder- this is a document that must be saved anyway when generated from APT (or from a standalone) and it is typically cleaner than the signed reports, so it will be easier for perfection to read when processing the audit.

Auditors can include the taxpayer's name, if they wish to make sure they are working on the correct document. Auditors may also create additional sub-folders, for example by tax year, within the folders; however, the name length must be taken into consideration to ensure the document can be opened from the preview window.

The index includes correspondence in the 'Other' folder. Aside from the initiation letter, all letters generated in Gentax need to be saved in order to send them to the taxpayer. Instead of just deleting those copies, they will be saved in the 'Other' folder to provide a more complete audit file in the case of litigation.

Amended Returns – When reviewing amended returns in audit, auditors can save the return in the main folder until it is determined whether it is accepted as-filed or not. If it is accepted, it should be saved in the 'Processing Documents' folder with the applicable amended return name indicating it is to be processed; Ex: IL-1120-X 12-2016 TBP. If it is not accepted, it should be saved in the 'Federal & IL Returns' folder with the applicable amended return name indicating do not process; Ex: IL-1120-X 12-2016 DNP. **When there are multiple layers of processing documents, auditors should still indicate which order they are to be processed; Ex: IL-1120-X 12-2016 TBP 1, EDA-25 12-2016 Prcs 2, EDA-25 12-2016 Prcs 3.**

What are superseded workpapers? These are outdated Auditor Reports that were presented to the taxpayer that no longer have the correct audit adjustments. For example, the auditor emailed EDA-93's on 8/14/2018 to the taxpayer for an initial review. These were saved in 'Processing Documents' as *EDA-93 12-2015* and *EDA-93 12-2016*. Since then the taxpayer provided additional information that reinstated the US Govt. interest subtraction and new EDA-93's had to be generated. The previous EDA-93's should be renamed *EDA-93 12-2015 8-14-18* and *EDA-93 12-2016 8-14-18* and moved to the 'Superseded Workpapers' folder. The auditor should add an entry on the Index under the 'Superseded Workpapers' section labeled EDA-93s. If an auditor creates versions of other workpapers, such as the bonus depreciation worksheet or credit carry worksheets, these can be saved here.

Processing documents- The documents that are bolded red are forms that are required by processing whenever a change has been made to them, whether through audit or an amended return (usually included with the taxpayer filing). These must be included in the audit file in order for the audit to be processed in Springfield.

Taxpayer files – Taxpayer provided files should **not** be renamed. This is for audit trail purposes- it shows that it is what was provided by the taxpayer and that audit did not change anything in the file. The only exception to this may be when the taxpayer provides two documents with the same name, but for different years. The auditor may add the applicable year to the file name. These files should be saved in the related subfolders within folder 4 'Document Requests and Taxpayer Provided Information.' For example, if the auditor requests property and payroll by state and other state returns, these documents should be saved in the 'Apportionment' subfolder as these are used in determining throw-back or throw-out sales.

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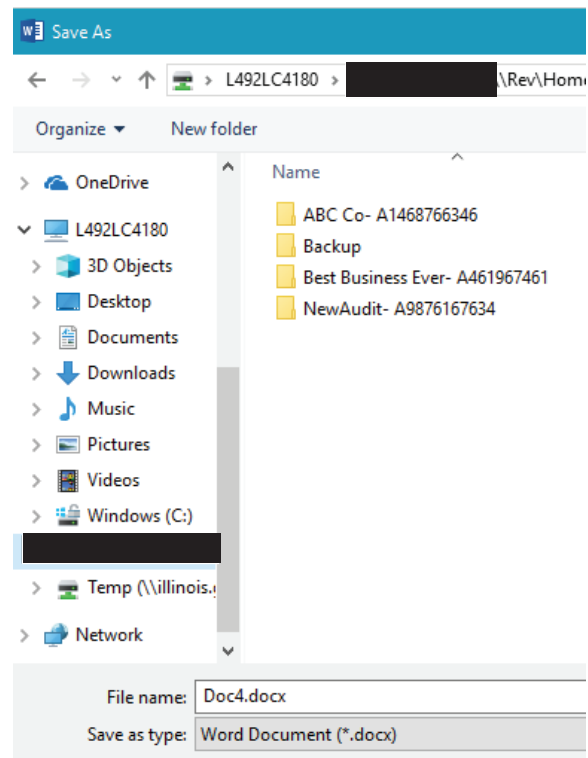
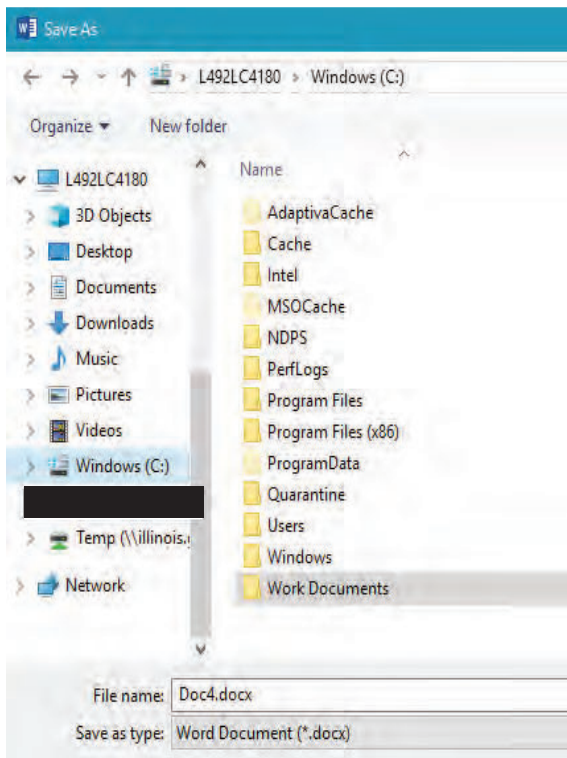
**Note: If a taxpayer provides a response that spans multiple subfolders and the auditor is not able to break up the document, the auditor can save it in the 'Other' subfolder and include a brief description of the item in the comments section on the Index.*

File Saving Mechanics

To save a file in the *Audit File Template* click 'File' in the upper left corner of an open document and select 'Save As' from the dropdown menu. From the 'Save As' page you may need to click on the folder with the arrow next to it, if you do not wish to save the document in that folder:

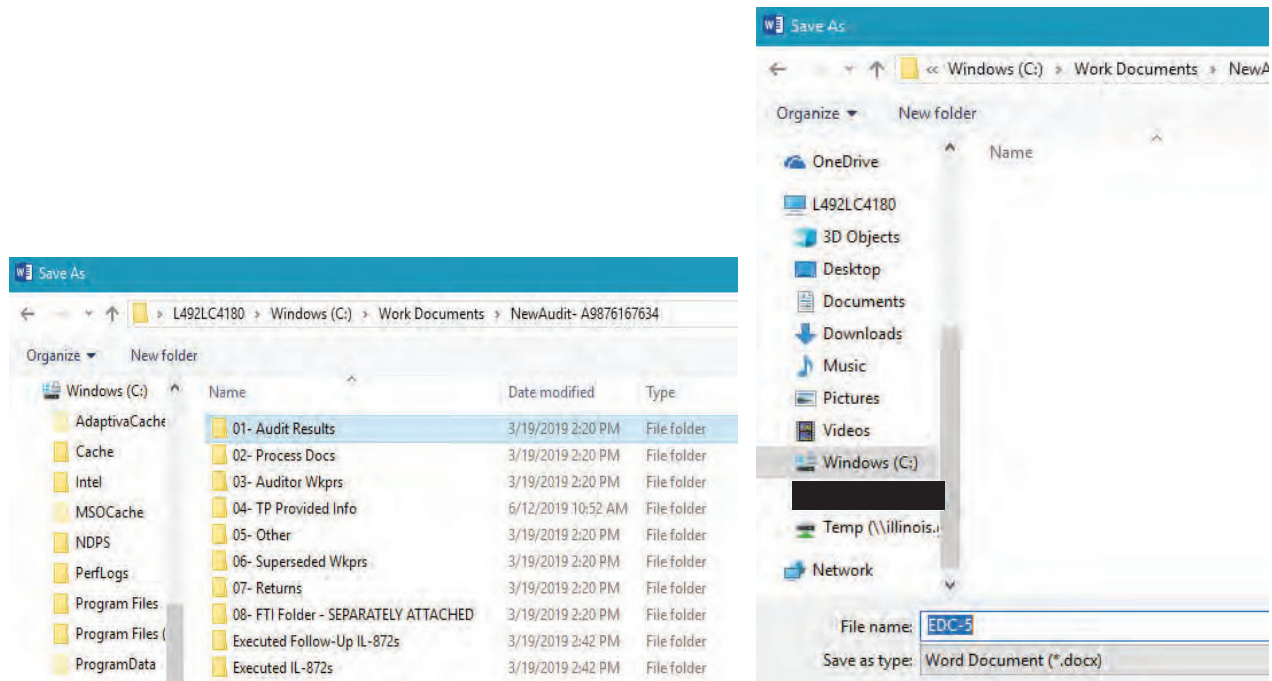


A new window will open that will allow you pick the destination of where you would like to save the document and to rename it, if necessary. On the left-hand side of the window select 'Windows (C:)' or your P-Drive, as applicable. Double click 'Work Documents' if saving on 'Windows (C:).'

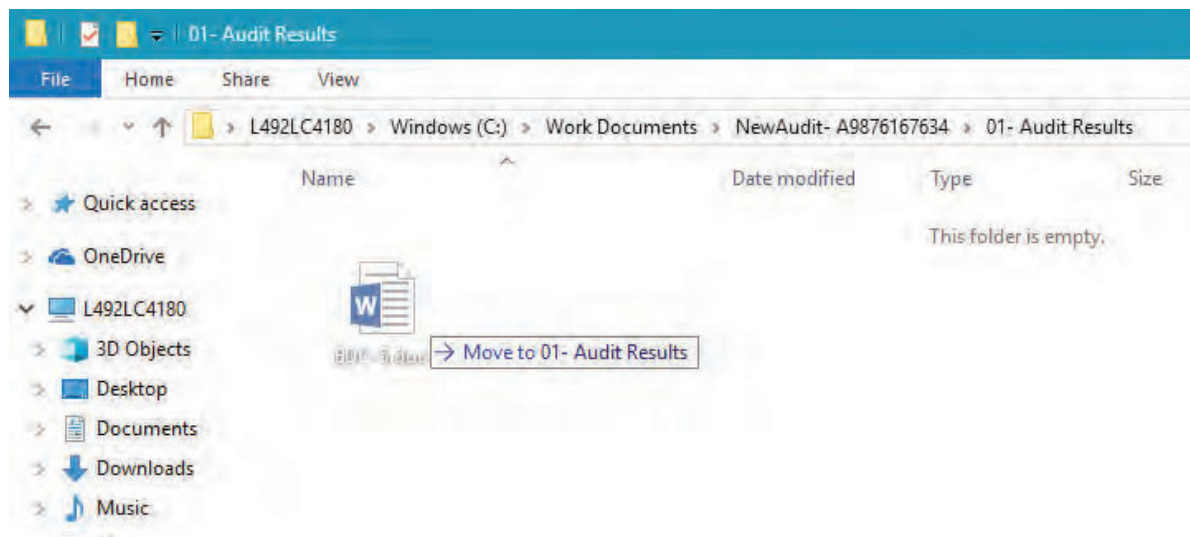


Double click on the applicable Audit File and then double click on the applicable folder (and then double click the applicable subfolder, if necessary). From here you can rename the file, if needed and click 'Save' to save the document in the folder.

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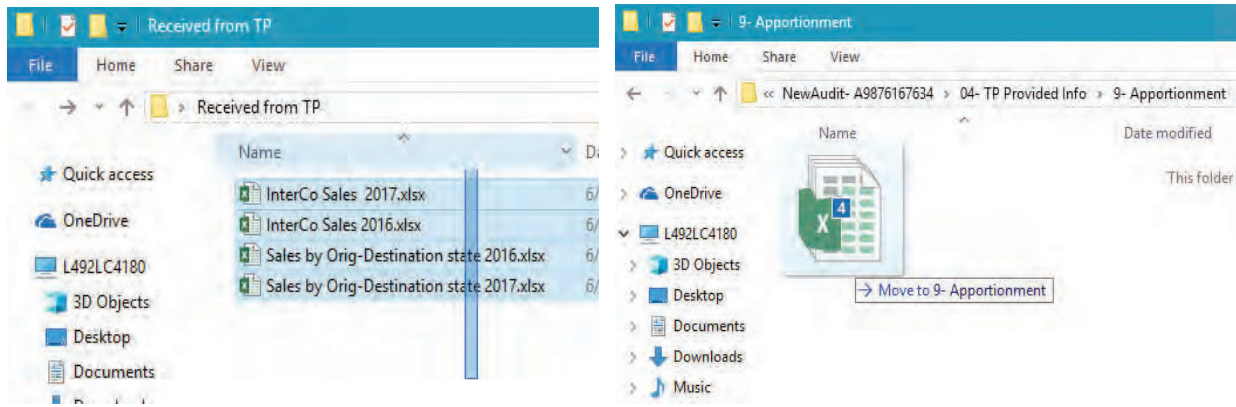


A file can also be dragged into the folder or copy and pasted into the folder. To drag the file, left click and hold on the file icon. While holding the left click, you can move your mouse and 'drag' the file to the folder window. This will move the file from the original location into the folder.



This can also be done with multiple files by highlighting the desired files (left click, hold and drag mouse over the files) and then left click-hold-and drag the highlighted files to the desired location.

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How to Submit the Audit File Folder

The Audit File Folder will be submitted at least twice, once for *RAS Review* and once for *Submit to Supervisor* for final submission.

Note: In instances where supervisors would like to review documents and information as the audit is being conducted, individual subfolders or the whole Audit File Folder can be zipped and emailed to the supervisor. Supervisors can also implement their own routines for in-progress reviews through the VAR. This can be accomplished by auditors creating a new VAR folder labeled 'Supervisor' that only grants their supervisor access and uploading any subfolders requested by the supervisor. Or the supervisor can create their own VAR with folders for all their auditors. DO NOT use Gentax, as storage space in Gentax cannot be expanded as with the VAR- the VAR should still be cleansed when an audit is completed.

RAS Review

When the audit is ready for RAS Review, the auditor will make sure all documents are named properly and included in the correct folder. The auditor can then complete the *IT Index* that checks the documents that are included in the file folder and counts the number of each document type. This is to ensure all documents that should be in the file are accounted for as the audit passes to others. The index is automated to perform these actions for the auditor by clicking the 'Count Files' button at the top of the index:

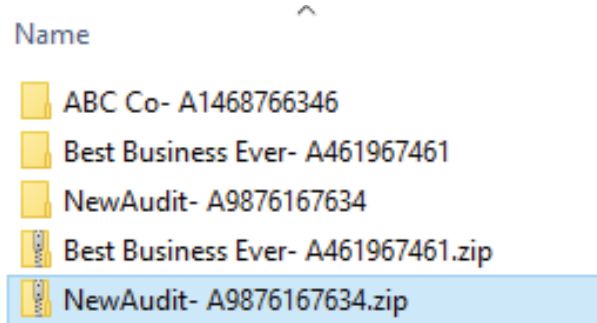
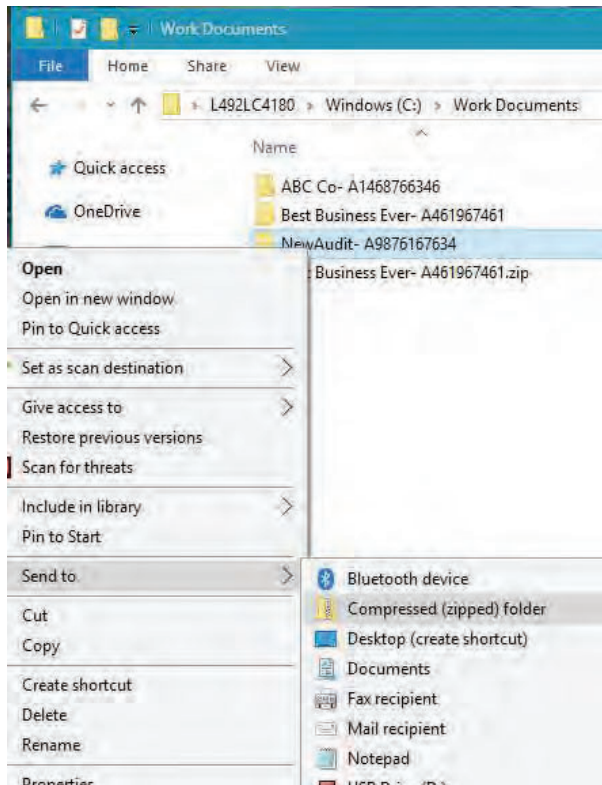


This will automatically count the number of files by document name and check the corresponding checkbox. *In order for the macro to work, the index **must** be saved in the main audit file folder and the naming convention **must** be followed.* The macro will issue error box prompts when there are discrepancies to alert the auditor.

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If there is a document that cannot be counted by the macro, such as a taxpayer provided document, the auditor can manually override the 'number of files' column. The index does not need to be physically signed; the auditor should type their name and date in the appropriate boxes at the bottom of the index- *the date should be updated for each submission.*

Once the audit file folder is ready, the auditor will zip the folder by right clicking the folder and selecting 'Send To' → 'Compressed (zipped) folder' from the dropdown list. This will create a new, zipped folder of the audit, illustrated with a little zipper on the folder icon and the file name ending of .zip.



From here the auditor will attach the zipped folder to the *Zipped Audit File Folder* attachment line in Gentax and include the comment 'RAS Review' in the Description box:



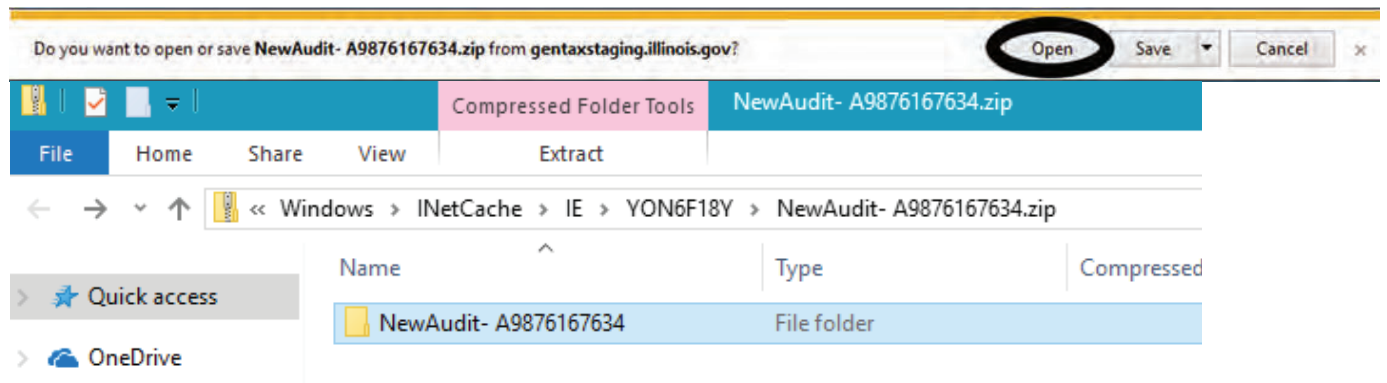
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The auditor will notify their supervisor the audit stage needs to be changed to *RAS Review* and the supervisor will have 30 days to review the audit as they normally would. **All audits must be submitted in this manner for RAS Review- supervisors cannot have the auditor just email the zipped folder to them.**

Note: The max file size for attachment is 350mb (350,000kb). If your compressed folder exceeds this size, temporarily remove the federal returns from the folder to zip without them included. If the compressed folder still exceeds the max size, create two folders with Subfolders 01-07 split between the two folders- one folder should be named 'Taxpayer name- Audit ID- 1of2'; the other folder should be named 'Taxpayer name- Audit ID- 2of2.' In the Description box when attaching in Gentax indicate which Subfolders are included in that attachment. The IT Index should be included in both folders.

During their review, supervisors may open and view documents from the temporary preview window without saving the folder to their desktop.



It is here that if file names are too long, a document may not be opened, and an error message will pop up possibly indicating the file no longer exists or was moved. **This is not true.** The file is still there, the name string is just too long for the computer to recognize and thus open the file. There are two options in this situation- the auditor can go back and rename the file to a shorter name or the supervisor can save the folder to their computer.

Saving the folder can be accomplished by selecting the folder from the preview window and dragging it to their desktop or by selecting the 'Save' option when initially downloading the file folder from Gentax.

Note: Individual files can also be saved to the desktop by selecting the file and dragging it to the desktop. This will need to be completed for the Prod-1 (discussed below) and if anything needs to be viewed in APT, that file will need to be saved on the machine for the application to open it.

The supervisor still has the ability to reject the audit- the audit will be placed back in the auditor's name, the stage changed to '*Rejected by RAS,*' and an email sent to the auditor explaining the reason for rejection. Once the auditor has made all the necessary corrections, they will invalidate the old zip file folder attachment and attach the new Zipped Audit File Folder that includes all corrections.



When attaching the updated File Folder, the auditor should include "RAS Review-Resubmission 1" in the Description box and notify their supervisor to put the audit back in the *RAS Review* stage. When the audit is approved, the supervisor will put the audit back in the auditor's name and change the stage to *Present to Taxpayer*.

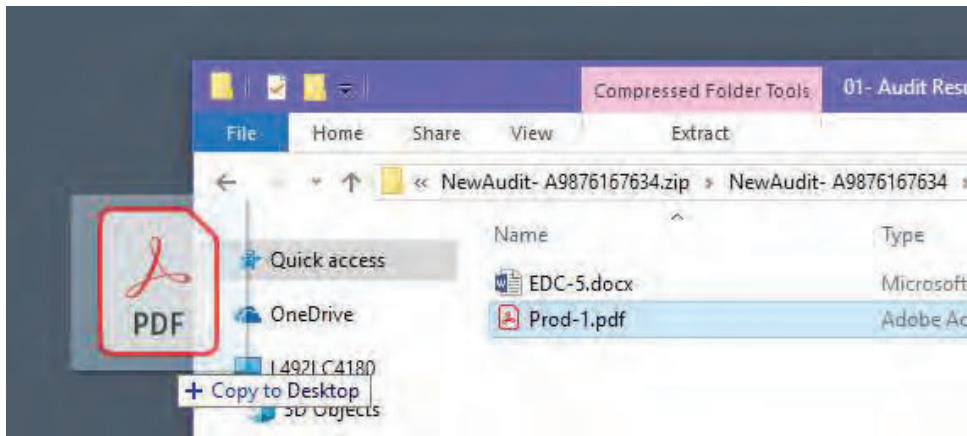
Submit to Supervisor

Once the audit is complete- the 143 letter has been issued and the 30 days to respond has passed- the auditor will include any new documents (Prod-1, new P&I calcs, etc.) and update the EDC-5, narrative, etc. in the Audit File Folder. The final Audit File Folder will be zipped and attached in Gentax with "Final Submission" in the Description box. The previous RAS Review zipped folder should be invalidated. The auditor can then click the *Submit to Supervisor* button to put the stage to *RA Supervisor Inventory*.

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As with RAS Review, the supervisor can reject the audit for corrections. The preceding steps for RAS Review should also be utilized for RA Supervisor Inventory, but with “Final Submission- Resubmitted 1” as the description.

Prod-1: It is at this stage the Prod-1 gets reviewed by the supervisor. Per ABB 2019-2, the auditor’s inclusion the zip folder and attachment in Gentax serves as their signature. The supervisor must save the Prod-1 to their computer, review it for accuracy and then attach it on the separate *Prod-1* attachment line in Gentax. This will now serve as the supervisor’s signature.



Review Checklist: As the supervisor is reviewing the audit (RAS Review and RA Supervisor Inventory), the review checklist should be completed (once available). This should not be confused with the Completed Audit Evaluation in the Performance Measures workbook. The review checklist should help guide the supervisor in their review and keep track of what has already been completed. Any notes to Perfection or Review can be included on this document, which should be attached to the *Reviewer attachment* line in Gentax.



Review Pending ICB

In the event the taxpayer does not waive their ICB rights and the audit needs to go to *Review Pending ICB*, the auditor will email their supervisor to change the stage the *Review Pending ICB* and the owner to the Audit Review supervisor.

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As with the previously discussed review sections, the Reviewer can reject the audit for corrections. The preceding steps for audit rejections should also be utilized for Review Pending ICB, but with “Review Pending ICB- Resubmitted 1” as the description.

What about CAA?

If an audit utilizes CAA, the CA Auditor will complete their own *Zipped CAA Folder* and attach it to the corresponding Gentax attachment.



The [CAA Audit File Template](#) is also located on SpIDOR under Work Areas → Audit → Tools and Templates → Sales Tax → CAA File Template.

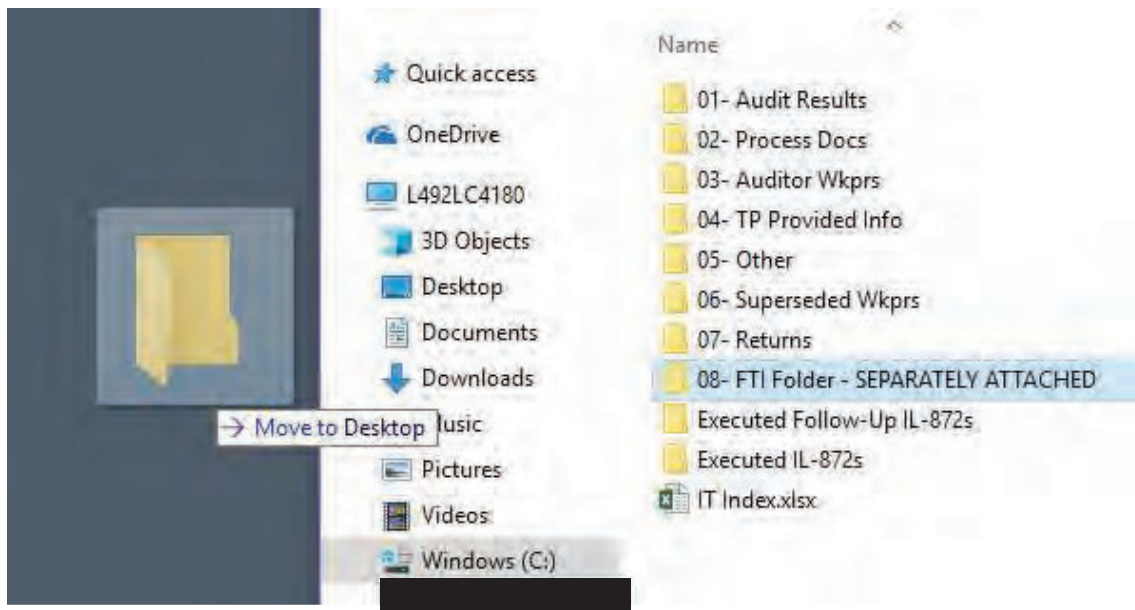
The template folder is similarly organized, with subfolders and a *CAA Audit Index*. The template includes two subfolders- Original Data and Detail Population Reports- that should be deleted from the folder prior to zipping and attaching in Gentax.

The auditor can then view all the control reports generated by the CA Auditor and can incorporate those findings in their audit. The reports can be copied into the auditor's audit file folder; however, **the auditor cannot change or invalidate the *Zipped CAA Folder*.**

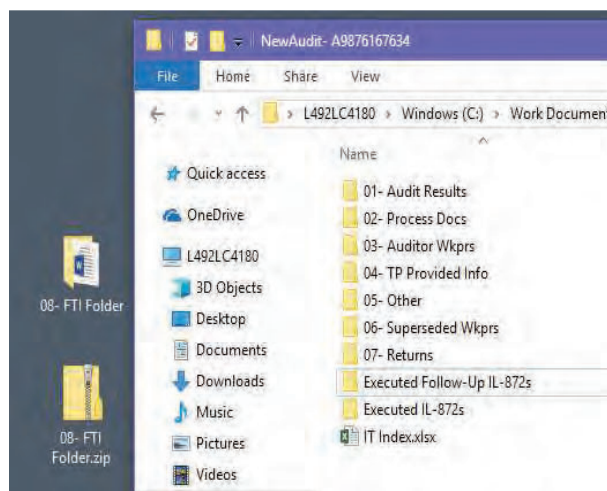
What about FTI?

Audits that utilize Federal Tax Information (FTI) must save that information separately in Gentax in order for the FTI banner to appear. The *IT Audit File Template* includes a folder named ‘FTI Folder.’ All documents that contain FTI, such as source FTI, Auditor's Reports, EDA-27's, etc., **must** be saved in that folder. Upon attaching the audit in Gentax, this folder **must be attached separately on the *FTI*Zipped Audit File Folder* attachment line.** The auditor should temporarily move that folder out of the main Audit File Folder and rename the folder to remove the ‘-SEPARATELY ATTACHED’ portion of the name.

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Then the *FTI Folder* should be zipped and attached in Gentax.



The main Audit File Folder should then be zipped **without** the *FTI Folder* in it and attached on the *Zipped Audit File Folder* attachment line in Gentax.

After the folders are attached the auditor should move the unzipped *FTI Folder* back into the main Audit File Folder, so as to keep all audit documents together and not lose track of anything. The zipped FTI Folder can be deleted.

If the documents included in the *FTI Folder* do not change between submissions (i.e. the supervisor rejected the audit for updates/corrections in the narrative), a new zipped FTI folder does not need to be attach- only the description needs to be updated with the resubmission.

There is an *FTI*Attachment* line in the In-House section that planners can use to attach any source FTI for the auditor. This information should also be saved in the auditor's *FTI Folder*. In situations where the auditor obtains signed original or amended returns that change the audit from an FTI audit to a conventional one, the auditor can invalidate the FTI planner attachment; however, the FTI banner will not go away.

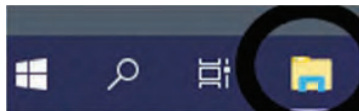
When supervisors are reviewing a Prod-1 that contains FTI, that Prod-1 should be attached to its own *FTI*Prod-1 Audit Results* attachment line.



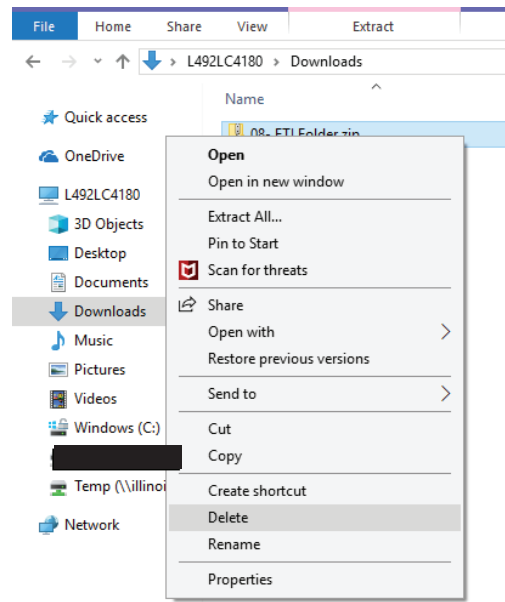
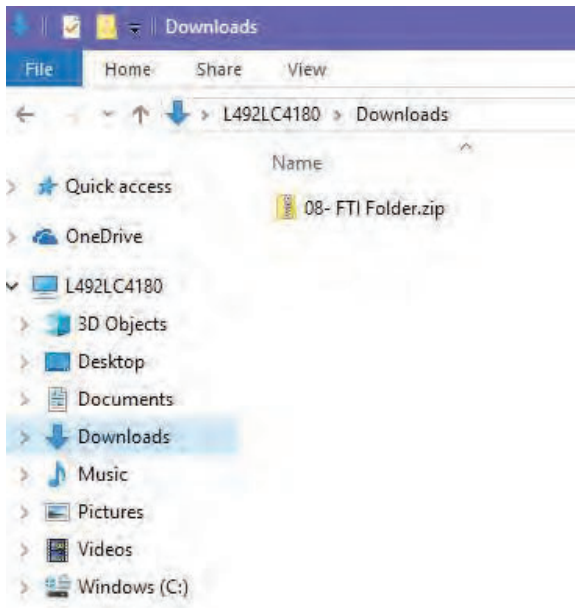
Deleting FTI

When an FTI audit is complete, all FTI information **must** be deleted from all parties' computers. This includes anyone that downloaded the FTI documents for review. The auditor should delete the Audit File Folder, as well as go through their download history to delete any copies saved in the download file and delete the back up on their P-drive or flash drive.

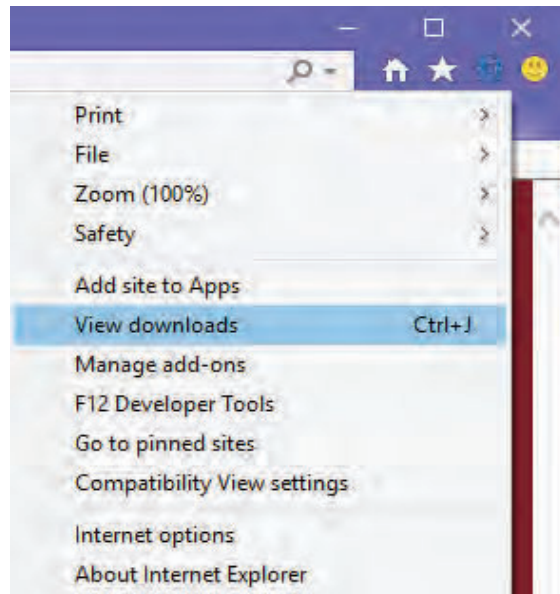
There are two areas where the FTI data could have been saved in download history. The first is on the computer in the Downloads folder- this can be viewed by pulling up the computer's file directory in the lower left corner of your desktop:



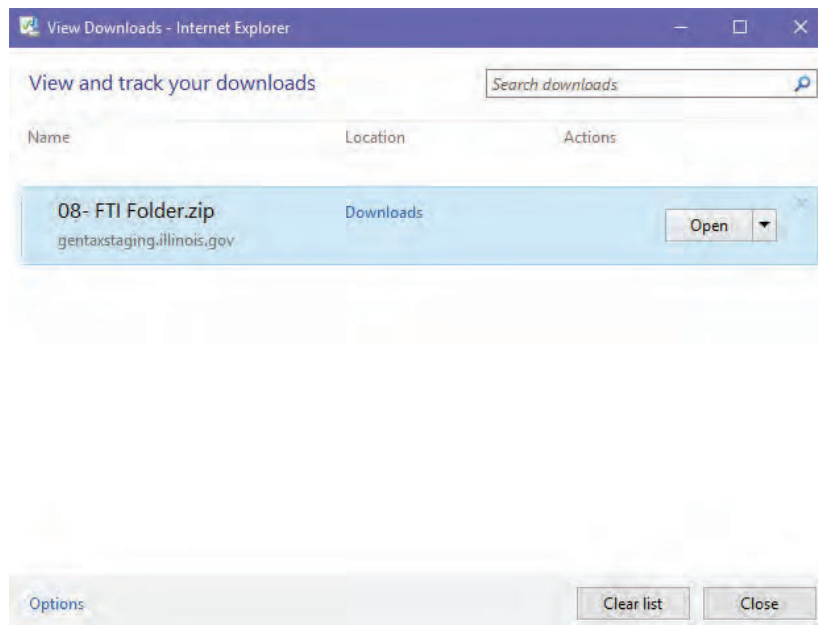
This will open a new window where the Downloads folder can be selected in the left-hand side panel. Here you can see all files that have been downloaded to your computer and delete them.



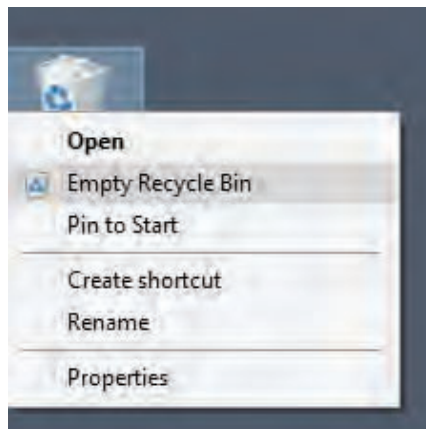
The second download history is located in your browser download history. Open Internet Explorer or Chrome (whichever browser you use) and click the little Cog in the upper right-hand corner and select 'View Downloads' from the dropdown box:



A new window will open that will list all downloads. Here you will be able to clear the entire list or select specific downloads to delete.



Once all areas that may contain FTI data have been cleared, right click on the Recycle Bin on the desktop and select 'Empty Recycle Bin' from the dropdown list.



This will permanently delete all the FTI data from your computer.

All supervisors, reviewers, Perfection RTS', etc. should make sure they are also deleting FTI data from their computers by checking download history after working an FTI audit.

Subject: Repeal of the Noncombination Rule	Chapter 27
	Authorization: Dan Hall

This audit manual update will be incorporated into Chapter 27, Apportionment.

Noncombination Rule Changes for 2017 and Later

For taxable years ending prior to December 31, 2017, a unitary business group (UBG) could not include members that were required to use different apportionment formulas found in IITA § 304. For example, a UBG apportioning under IITA § 304(a) could not include insurance companies (IITA § 304(b)), financial organizations (IITA § 304(c)), federally regulated exchanges (IITA § 304(c-1)) or transportation companies (IITA § 304(d)). This is referred to as the noncombination rule. Therefore, for taxable years ending prior to December 31, 2017, distinct filings (singular or unitary) for each subsection of IITA § 304 were required, as the entities were not allowed to file under one unitary group. IITA § 1501(a)(27)(B).

For taxable years ending on or after December 31, 2017, the noncombination rule is eliminated. A unitary business group may include members that are required to use different apportionment formulas under IITA § 304. See IITA § 1501(a)(27)(A).

Information on combined apportionment for taxpayers using different apportionment formulas is governed by IAC § 100.3600.

When a unitary business group includes members that were formerly required to file as distinct unitary groups, the taxpayer is instructed to complete a UB Subgroup Schedule for each type of apportionment (insurance, financial, regulated exchanges, or transportation). The Subgroup Schedule is used to determine the amounts to enter on Schedule UB, Step 4, Line 2 (net sales everywhere) and Line 3 (net sales within Illinois) for each member of that subgroup.

Note that entities subject to IITA § 304(a) [sales] calculate total everywhere sales and total Illinois sales as if the subgroup method does not apply. They should follow Schedule UB instructions for Step 4, Lines 2 and 3 and not fill out a Subgroup Schedule.

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Step 4 — Figure your apportionment factor

	A	B	C	D
	FEIN	FEIN	FEIN	Combined totals
1 Enter your combined unitary business income or loss from Step 3, Column E, Line 27 here.				1
Apportionment factor for tax years ending on or after December 31, 2016				
2 Enter the net sales everywhere.				2
3 Enter the net sales within Illinois.				3

Subgroup Schedule

Step 2 Determine your subgroup apportionment factor

	A	B	C	D
	FEIN	FEIN	FEIN	Total
1 Enter the sales everywhere.				1
2 Section 304 Numerator				
3 Section 304 Denominator				3
4 Divide Line 2 of each Column by Line 3, Column D. (Round to six decimal places.)				
5 Illinois Sales				

Line 1:

Each member enters its sales everywhere on Line 1 of the Subgroup Schedule. This amount is the total gross receipts as determined under IAC §§ 100.3370 and 100.3380. In other words, this is the amount of gross receipts the member would include if it was required to apportion under IITA § 304(a). Under the industry specific apportionment formulas, everywhere sales of insurance and transportation companies include only premiums (IITA § 304(b)) and income from transportation services (IITA § 304(d)), respectively. To determine the sales everywhere under IITA § 304(a) for the subgroup method, they would also include interest, gross rental income, net gains or losses on sales of intangibles in the regular course of business, etc. Note that this amount would not include items which are statutorily excluded from the sales apportionment factor, such as dividends and occasional sales. This amount does not include receipts that are eliminated as intercompany transactions with any other member of the entire unitary business group, not just members listed on the Subgroup Schedule.

The sales everywhere for **all** members of the subgroup (including on additional pages if there are more than 3 members of the subgroup) are totaled on Line 1, Column D. Each member's Line 1 amount plus the member's distributive share of the everywhere sales of any IITA § 304(a) [sales] unitary partnership and any unitary partnership included on a different Subgroup Schedule (see discussion of unitary partnerships below) should be entered on Schedule UB, Step 4, Line 2.

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Line 2:

Each member enters its Illinois numerator on Line 2 of the Subgroup Schedule as calculated under the applicable apportionment formula for that type of subgroup (i.e., insurance under IITA § 304(b) or transportation under IITA § 304(d)). Again, intercompany transactions with any other member of the entire unitary business group are not included in this amount.

If the taxpayer has a transportation subgroup and one or more of the subgroup members provides transportation services by airline, enter the amount determined by multiplying the member's gross receipts from transportation by air by the member's miles factor determined by the revenue miles formula for transportation by air. If one or more of their transportation subgroup members provides transportation services by airlines and by other means, use the weighted average method set forth in IAC § 100.3450(d) to determine the amount to enter on Line 2 for such member.

Line 3:

Each member enters its everywhere denominator on Line 3 of the Subgroup Schedule as calculated under the applicable apportionment formula for that type of subgroup (i.e., insurance under IITA § 304(b) or transportation under IITA § 304(d)). Again, intercompany transactions with any other member of the entire unitary business group are not included in this amount. The everywhere denominators for **all** members of the subgroup (including on additional pages if there are more than 3 members of the subgroup) are totaled on Line 3, Column D.

If the taxpayer has a transportation subgroup and one or more of the subgroup members provides transportation services by airline, enter on Line 3 the member's total gross receipts from providing transportation services by airline.

Line 4:

Each member's Illinois numerator on Line 2 is then divided by the **total** of all members' everywhere denominators on Line 3, Column D. Do not divide by that member's individual everywhere denominator. The result should be rounded to the sixth decimal place.

	A	B	C	D
	FEIN	FEIN	FEIN	Total
1 Enter the sales everywhere.	◇ .00	◇ .00	◇ .00	1 .00
2 Section 304 Numerator	◇ .00	◇ .00	◇ .00	← 3 .00
3 Section 304 Denominator	◇ .00	◇ .00	◇ .00	→ 3 .00
4 Divide Line 2 of each Column by Line 3, Column D. (Round to six decimal places.)				

Line 5:

The decimal computed on Line 4 is then multiplied by the **total** of all members' sales everywhere on Line 1, Column D. Do not multiply by that member's individual sales everywhere. This is the member's Illinois sales under the subgroup method. This amount plus the member's distributive share of the Illinois sales of any IITA § 304(a) unitary partnership and

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any unitary partnership included on a different Subgroup Schedule (see discussion of unitary partnerships below) is entered on Schedule UB, Step 4, Line 3 for each member.

	A	B	C	D
	FEIN	FEIN	FEIN	Total
1 Enter the sales everywhere.	◇ .00	◇ .00	◇ .00	1 → .00
2 Section 304 Numerator	◇ .00	◇ .00	◇ .00	
3 Section 304 Denominator	◇ .00	◇ .00	◇ .00	3 .00
4 Divide Line 2 of each Column by Line 3, Column D. (Round to six decimal places.)				←
5 Illinois Sales	◇ .00	◇ .00	◇ .00	

Unitary Partnerships

If the unitary partnership is a financial organization (IITA § 304(c)), a federally regulated exchange (IITA § 304(c-1)), or a transportation company (IITA § 304(d)), you must first ask: Is the unitary partnership required to be included on Schedule UB because the members of the unitary group own or control more than 90% of all the interest in the partnership?

- **YES** - Then the unitary partnership must be included on the Subgroup Schedule as its own member along with the other members of the subgroup.
- **NO** - Then the distributive shares from the unitary partnership must be incorporated on the Subgroup Schedule as follows:
 - If the unitary partnership and the owning partner use the **SAME apportionment formula**, the partner must then add the distributive share of the partnership's sales everywhere and Illinois sales to its own sales on the Subgroup Schedule.
 - If the unitary partnership and the owning partner use a **DIFFERENT apportionment formula**, the partnership must then calculate its sales everywhere and Illinois sales on the applicable subgroup schedule using only the owning partner's distributive shares. Then the partner will add the partnership's calculated figures to its own sales when entering them on the Schedule UB.

If a unitary partnership apportions its business income using the single sales formula under IITA § 304(a), do not include the partner's distributive share of the partnership's apportionment factors on the subgroup schedule as no calculation is needed for single sales entities. The partner will add the partnership's sales everywhere and Illinois sales to its own sales when entering them on the Schedule UB. See "Partnership requirements" and Step 4, Lines 2 and 3, of the Schedule UB Instructions for information on how to report an IITA § 304(a) partnership on Schedule UB.

For more information about unitary partnerships in general, see IAC § 100.3380.

Negative Figures

The taxpayer must receive permission from Legal Services **prior** to filing their return if they have negative figures in Lines 1, 2, or 3 of the Subgroup Schedule. If the taxpayer did not receive permission from Legal Services, the negative figures on these lines should be disallowed and apportionment should be reviewed following usual audit procedures.

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Example 1

For tax year ended 12/31/2018, the taxpayer is a unitary business group with a sales group, an insurance subgroup, and a transportation subgroup. The sales group has two corporations, Comp A and Comp B. Comp A has \$100 in net sales everywhere and \$10 in net Illinois sales. Comp B has \$200 in net sales everywhere and \$25 in net Illinois sales.

The insurance subgroup has two corporations, Ins A and Ins B. Ins A has \$50 in direct premiums everywhere and \$3 in Illinois direct premiums. Ins A has \$250 in gross business receipts from all sources. Ins B has \$100 in direct premiums everywhere and \$6 in Illinois direct premiums. Ins B has \$450 in gross business receipts from all sources.

The transportation subgroup has two corporations, Trans A and Trans B. Trans A has \$25 in transportation service income everywhere and \$5 in Illinois transportation service income. Trans A has \$300 in gross business receipts from all sources. Trans B has \$175 in transportation service income everywhere and \$8 in Illinois transportation service income. Trans B has \$700 in gross business receipts from all sources.

Insurance Companies Subgroup Schedule			
	<u>Ins A</u>	<u>Ins B</u>	<u>Subgroup Total</u>
1. Sales Everywhere	\$250	\$450	\$700
2. § 304(b) Numerator	\$3	\$6	
3. § 304(b) Denominator	\$50	\$100	\$150
For each member:			
Divide Line 2 (Numerator) by Line 3, Column D (Subgroup Total Denominator)	$\$3/\$150 =$ 0.02	$\$6/\$150 =$ 0.04	
4. Subgroup Apportionment	0.02	0.04	
For each member:			
Multiply Line 4 (Apportionment) by Line 1, Column D (Subgroup Total Sales Everywhere)	$.02 * \$700 =$ \$14	$.04 * \$700 =$ \$28	
5. Illinois Sales	\$14	\$28	

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Transportation Companies Subgroup Schedule			
	<u>Trans A</u>	<u>Trans B</u>	<u>Subgroup Total</u>
1. Sales Everywhere	\$300	\$700	\$1,000
2. § 304(b) Numerator	\$5	\$8	
3. § 304(b) Denominator	\$25	\$175	\$200
For each member:			
Divide Line 2 (Numerator) by Line 3, Column D (Subgroup Total Denominator)	\$5/\$200 = 0.025	\$8/\$200 = 0.04	
4. Subgroup Apportionment	0.025	0.04	
For each member:			
Multiply Line 4 (Apportionment) by Line 1, Column D (Subgroup Total Sales Everywhere)	.025 * \$1000 = \$25	.04 * \$1000 = \$40	
5. Illinois Sales	\$25	\$40	

The sales companies, Comp A and Comp B, do not have a subgroup schedule. Their information is entered directly onto Schedule UB following the instructions for that form.

Schedule UB, Step 4 (Page 1 of 2)			
	<u>Ins A</u>	<u>Ins B</u>	<u>Trans A</u>
2. Net Sales Everywhere	\$250	\$450	\$300
3. Net Sales in Illinois	\$14	\$28	\$25
To get Line 4 for each member:			
Divide Line 3 of each column (IL Sales) by Line 2, Column D (Grand Total Sales Everywhere)	\$14/\$2000 = 0.007	\$28/\$2000 = 0.014	\$25/2000 = 0.0125
4. Apportionment Factor	0.007	+	0.014
			+
			0.0125
			+

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Schedule UB, Step 4 (Page 2 of 2)				
	<u>Trans B</u>	<u>Comp A</u>	<u>Comp B</u>	<u>TOTAL</u>
2. Net Sales Everywhere	\$700	\$100	\$200	\$2,000
3. Net Sales in Illinois	\$40	\$10	\$25	\$142
To get Line 4 for each member:				
	\$40/\$2000	\$10/\$2000	\$25/\$2000	\$142/\$2000
Divide Line 3 of each column (IL Sales) by Line 2, Column D (Grand Total Sales Everywhere)	=	=	=	=
	0.02	0.005	0.0125	0.071
4. Apportionment Factor	0.02	+	0.005	+
			0.0125	=
				0.071

Example 2

For tax year ended 12/31/2018, the taxpayer is a unitary business group with a sales group, a financial subgroup, and a transportation subgroup. The sales group has two corporations, Sales A and Sales B. Sales A has \$300 in net sales everywhere and \$80 in net Illinois sales. Sales B has \$100 in net sales everywhere and \$30 in net Illinois sales. Sales B owns a 40% interest in a unitary transportation partnership, Trans UP2. Trans UP2 has \$100 in transportation service income everywhere and \$20 in Illinois transportation service income. Trans UP2 has \$500 in gross business receipts from all sources.

The financial subgroup has two corporations, Fin A and Fin B. Fin A has \$50 in financial income everywhere and \$18 in financial income sourced to Illinois. Fin A has \$300 in gross business receipts from all sources. Fin B has \$60 in financial income everywhere and \$9 in financial income sourced to Illinois. Fin B has \$200 in gross business receipts from all sources. Fin A owns a 45% interest in a unitary financial partnership, Fin UP. Sales A also owns a 50% interest in Fin UP. Fin UP has \$70 in financial income everywhere and \$27 in financial income sourced to Illinois. Fin UP has \$100 in gross business receipts from all sources.

The transportation subgroup has two corporations, Trans A and Trans B. Trans A has \$130 in transportation service income everywhere and \$13 in Illinois transportation service income. Trans A has \$200 in gross business receipts from all sources. Trans B has \$160 in transportation service income everywhere and \$12 in Illinois transportation service income. Trans B has \$400 in gross business receipts from all sources. Trans A owns a 70% interest in a unitary transportation partnership, Trans UP1. Trans UP1 has \$100 in transportation service income everywhere and \$10 in Illinois transportation service income. Trans UP1 has \$1000 in gross business receipts from all sources.

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Unitary partnership analysis: The unitary financial partnership, Fin UP, is owned 45% by Fin A and 50% by Sales A for a total of 95% owned by members of this unitary group. Since this unitary partnership is controlled more than 90% by members of the unitary group, it will be included on the financial Subgroup Schedule as its own member using all of its financial income (not just 95%).

Financial Companies Subgroup Schedule				
	<u>Fin A</u>	<u>Fin B</u>	<u>Fin UP</u>	<u>Subgroup Total</u>
1. Sales Everywhere	\$300	\$200	\$100	\$600
2. § 304(c) Numerator	\$18	\$9	\$27	
3. § 304(c) Denominator	\$50	\$60	\$70	\$180
For each member: Divide Line 2 (Numerator) by Line 3, Column D (Subgroup Total Denominator)				
	\$18/\$180 = 0.1	\$9/\$180 = 0.05	\$27/\$180 = 0.15	
4. Subgroup Apportionment	0.1	0.05	0.15	
For each member: Multiply Line 4 (Apportionment) by Line 1, Column D (Subgroup Total Sales Everywhere)				
	.1 * \$600 = \$60	.05 * \$600 = \$30	.15 * \$600 = \$90	
5. Illinois Sales	\$60	\$30	\$90	

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The first unitary transportation partnership, Trans UP1, is owned 70% by Trans A. Since the partnership is controlled less than 90% by the unitary group and it uses the same apportionment formula as Trans A, Trans A must add the distributive share of Trans UP1's transportation service income everywhere and Illinois transportation income to its own sales on the transportation subgroup schedule.

Trans A's Subgroup Schedule Entries			
	<u>Trans</u> <u>A</u>	(70%) <u>Trans UP1</u>	Trans A <u>Total</u>
1. Sales Everywhere	\$200	\$1000 * .7 = \$700	\$900
2. § 304(d) Numerator	\$13	\$10 * .7 = \$7	\$20
3. § 304(d) Denominator	\$130	\$100 * .7 = \$70	\$200

The second unitary transportation partnership, Trans UP2, is owned 40% by Sales B. Since the partnership is controlled less than 90% by the unitary group and it uses a different apportionment formula than the owning partner, Trans UP2 will calculate its transportation service income everywhere and Illinois transportation income on the transportation subgroup schedule using only Sales B's distributive shares. Sales B will then add the partnership's calculated figures to its own sales when entering them on the Schedule UB.

Transportation Companies Subgroup Schedule				
	<u>Trans A</u> (includes 70% of Trans UP1)	<u>Trans B</u>	<u>Trans UP2</u> (at 40%)	Subgroup <u>Total</u>
				-
1. Sales Everywhere	\$900	\$400	\$500 * .4 = \$200	\$1,500
2. § 304(d) Numerator	\$20	\$12	\$20 * .4 = \$8	
3. § 304(d) Denominator	\$200	\$160	\$100 * .4 = \$40	\$400
For each member: Divide Line 2 (Numerator) by Line 3, Column D (Subgroup Total Denominator)	\$20/\$400 = 0.05	\$12/\$400 = 0.03	\$8/\$400 = 0.02	
4. Subgroup Apportionment	0.05	0.03	0.02	
For each member: Multiply Line 4 (Apportionment) by Line 1, Column D (Subgroup Total Sales Everywhere)	.05 * \$1500 = \$75	.03 * \$1500 = \$45	.02 * \$1500 = \$30	
5. Illinois Sales	\$75	\$45	\$30	

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The sales companies, Sales A and Sales B, do not have a subgroup schedule. Their information is entered directly onto Schedule UB following the instructions for that form.

Schedule UB, Step 4 (Page 1 of 2)							
	<u>Fin A</u>	<u>Fin B</u>	<u>Fin UP</u>	<u>Trans A</u> (includes 70% of Trans UP1)			
2. Net Sales Everywhere	\$300	\$200	\$100	\$900			
3. Net Sales in Illinois	\$60	\$30	\$90	\$75			
To get Line 4 for each member: Divide Line 3 of each column (IL Sales) by Line 2, Column D (Grand Total Sales Everywhere)	$\$60/\$2500 =$ 0.024	$\$30/\$2500 =$ 0.012	$\$90/\$2500 =$ 0.036	$\$75/\$2500 =$ 0.03			
4. Apportionment Factor	0.024	+	0.012	+	0.036	+	0.03

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Schedule UB, Step 4 (Page 2 of 2)

	<u>Trans B</u>	<u>Sales A</u>	<u>Sales B</u> (plus Trans UP2 at 40%)	<u>TOTAL</u> (Page 1 + Page 2)			
2. Net Sales Everywhere	\$400	\$300	\$100 + \$200 = \$300	\$2,500			
3. Net Sales in Illinois	\$45	\$80	\$30 + \$30 = \$60	\$440			
To get Line 4 for each member: Divide Line 3 of each column (IL Sales) by Line 2, Column D (Grand Total Sales Everywhere)	\$45/\$2500 = 0.018	\$80/\$2500 = 0.032	\$60/\$2500 = 0.024	\$440/\$2500 = 0.176			
4. Apportionment Factor	0.018	+	0.032	+	0.024	=	0.176

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Subject: Audit Review Checklist - BIT	Chapter 20
	Authorization: Dan Hall

This audit manual update will be incorporated into Chapter 20

Effective July 1, all Revenue Audit Supervisors (RAS) and members of Technical Review (Reviewer) will complete the Audit Review Checklist for Business Income Tax (BIT) when reviewing an audit. The checklist is to be used as a guide and reminder of areas that must be checked for a thorough and full review. The checklist is available on Sp-IDOR under [Audit – Forms – Income Tax](#) – Audit Income Tax BIT Checklist.

- The checklist is to be used for every audit reviewed.
- The checklist is now completed by both the RAS and the Reviewer. The Income Tax review checklist has two tabs. One for the checklist and a second for comments.
- The main features of the checklist tab are:
 - Question 9. Stage: Date of completion will be displayed when box is checked.
 - Questions 10 – 65:
 - N/A Checkbox – When checked; visually shows the question is not applicable in the audit by lining out question.
 - Yes/No – checkbox corresponds to the answer.
 - Comments – When checked will provide link (*) to comment section for that specific question.
 - Step 8: RAS comments – additional space available on comments tab.
 - Step 9: Reviewer comments to Specialist – additional space available on comments tab.
- The main features of the comments tab:
 - Each Question has a space for the RAS and Reviewer to comment separately.
 - Each Comment will automatically word wrap and expand as user types.
- The checklist is saved in GenTax under Electronic Documents in Section 00: In-House on the Reviewer Attachment line.

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- The RAS will complete the checklist and attach it in GenTax.
- The Reviewer will download the checklist from GenTax completed by the RAS, complete the Reviewer tab, and attach the checklist completed by the RAS and Reviewer in GenTax.
- The review checklist is in addition to the Completed Audit Evaluation Form and the Index.
 - **Completed Audit Evaluation Purpose:** To properly evaluate the auditor's thorough and complete compilation of data and facts associated with that audit. This is used as a tool for the eventual annual performance evaluation.
 - **Checklist Purpose:** To determine that all documents needed for a thorough and complete compilation of data and facts have been presented to the Supervisor in their review of the audit so the audit is factually sound, presentable to the taxpayer and can be processed into GenTax in its current form.
 - **Index Purpose:** To indicate what documents are included in the zipped audit folder that is attached in GenTax. It is completed by the auditor prior to attaching the zipped file in GenTax.

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Subject: 2019 Amnesty Program	Chapter 2
	Authorization: Dan Hall

This audit manual update will be incorporated into Chapter 2 of the Audit Manual.

[Public Act 101-0009](#) amends the Illinois Tax Delinquency Amnesty Act (ITDAA) and directs the Department of Revenue to implement an amnesty program in 2019. The program allows taxpayers participating in the program, with contested and uncontested tax liabilities, to have the related penalties and interest abated when the tax is paid in-full during the Amnesty Program Period. The 200% Sanction which doubled the rates of penalty and interest imposed on a taxpayer who has an Eligible Liability and fails to participate in the Amnesty Program does not apply for this amnesty period.

REFERENCE MATERIAL

Proposed Regulations ([520.101 and 520.105](#)) are available on the Department’s website. The Department has also created [FY Bulletin 2020-05](#) and an [Amnesty FAQ](#) to better explain the amnesty program to taxpayers. For additional information regarding audit-related questions, the [Amnesty FAQ \(2019\)](#) is available on the SpIDOR web under Work Areas, Audit, Reference Material. This document will be updated periodically to give auditors the best information.

DEFINITIONS

Definitions and special provisions.

- 1) "Amnesty Issue" means an issue taken into account in determining an Eligible Liability, including all issues of law that must be resolved in making the determination and all facts relevant to the determination, as in existence as of the end of the Amnesty Program Period. See Section 520.105(k)(1).
- 2) "Amnesty Program Period" means the period from October 1, 2019, through November 15, 2019.
- 3) "Eligible Liability" means a tax liability with respect to which a taxpayer may participate in the Amnesty Program. See subsections (h) and (i) of Section 520.105.

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- 4) "Established Liability" means an Eligible Liability that has been assessed or become final prior to the beginning of the Amnesty Program Period; any amount paid under the Protest Act prior to the beginning of the Amnesty Program Period; or any amount of tax shown on a notice of deficiency, notice of assessment or notice of tax liability that was issued prior to the beginning of the Amnesty Program Period or on an amended return or waiver of restrictions on assessment presented by the Department to the taxpayer prior to the beginning of the Amnesty Program Period after the conclusion of an audit (including any proceedings before the Informal Conference Board).
- 5) "Estimated Federal Change Liability" means the Eligible Liability that a taxpayer estimates will result from a Federal Change that has not become final under IITA Section 506(b) as of the end of the Amnesty Program Period.
- 6) "Federal Change" means a change affecting the taxpayer's federal income tax liability that must be reported to the Department under IITA Section 506(b).
- 7) "Notice and Demand" means any demand for payment issued by the Department that is eligible for the 30-day interest-free grace period under UPIA Section 3-2(c-5).
- 8) "Protest Act" means the State Officers and Employees Money Disposition Act [30 ILCS 230].
- 9) "Taxable Period" means the period of time for which any tax is imposed by and owed to the State of Illinois (ITAA Section 5).

ELIGIBLE TAX PERIODS, PARTICIPATION PERIOD, AND PROVISIONS

Tax periods eligible for Amnesty treatment include those **ending after June 30, 2011, and prior to July 1, 2018.**

The Amnesty payment period (also referred to as the Amnesty Program Period) runs from **October 1, 2019, through November 15, 2019.**

For ROT annual filers, all 2011 receipts received in a tax period ending after June 30, 2011, would qualify for Amnesty; however, all 2018 receipts received in a tax period ending after June 30, 2018, would not qualify for Amnesty.

Monthly filers	July 1, 2011 thru June 30, 2018
Quarterly filers	July 1, 2011 thru June 30, 2018
Annual filers	January 1, 2011 thru December 31, 2017

Unless specifically excluded, taxpayers are eligible to participate in the Amnesty Program as explained in 86 Ill. Adm. Code 520.105(b)(1) of the Amnesty Regulations:

A taxpayer may participate in the Amnesty Program **selectively**, provided that the taxpayer completely satisfies its Eligible Liability for the tax type and tax period for

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which amnesty is sought. Thus, a taxpayer may participate in the Amnesty Program with respect to:

- A. particular types of tax liability, but not others (e.g., Illinois Income Tax, but not Illinois Retailers' Occupation Tax), or
- B. particular tax periods, but not others (e.g., 2013 Illinois Income Tax, but not 2014 Illinois Income Tax).

In other words, a taxpayer may participate in the Amnesty Program by **paying their entire Eligible Liability** for a specific tax type (e.g., either Illinois Income Tax or Illinois Retailers' Occupation Tax) and tax period (e.g., 12/2013 or 12/2014), regardless of whether that liability is known to the Department or the taxpayer, or whether the Department has assessed it.

The requirement that the Eligible Liability be paid in full prevents a taxpayer from receiving abatement of penalties and interest by entering into an installment payment agreement with the Department under which the Eligible Liability will not be paid until after the end of the Amnesty Program Period. A taxpayer who has been making installment payments under an agreement with the Department may participate in the Amnesty Program by paying during Amnesty Program Period any Eligible Liability that remains unpaid.

TAXES/FEES QUALIFYING AND NOT QUALIFYING FOR AMNESTY

a) Taxes/Fees That Qualify

Amnesty applies to all taxes, except for Motor Fuel Use Tax (IFTA), collected by the Department of Revenue, such as Retailers' Occupation, Use, Income, Replacement, Liquor, Cigarette, Hotel, Chicago Soft Drink, Aviation Fuel Sales and Use Tax, Rental Purchase Agreement Occupation Tax, and other miscellaneous taxes.

Amnesty does not include taxes that are collected by other Illinois agencies or local municipalities such as corporate franchise taxes, insurance company premiums taxes, unemployment taxes, or local property taxes.

See [Appendix 1](#) in the Amnesty FAQ for a complete list of tax types and whether they are eligible or ineligible for amnesty.

b) Taxes/Fees (and Penalties) That Do Not Qualify

Lien filing and lien release fees, bad check penalties, collection agency fees, and over-collections of Use Tax that are required to be remitted to the Department by reason of Section 2-40 of the ROTA, forfeited vendor's discount, and responsible officer penalties imposed pursuant to Section 3-7 of the Uniform Penalty and Interest Act, and various other penalties and fees that are not based on a tax liability (e.g., abusive tax shelter penalties, frivolous return penalty, and certain audit penalties) are not eligible for abatement.

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PENALTIES THAT QUALIFY FOR ABATEMENT

Late payment, late filing or failure to file, negligence, and fraud penalties are eligible for abatement. Abatement of penalties and interest is based on the period, and not the payment. If the eligible tax is paid in full during the Amnesty Payment Period, the penalties and interest owed on that tax will be abated.

See [Appendix 2](#) in the Amnesty FAQ for a complete list of penalties and whether they are eligible or ineligible for amnesty.

PENALTY AND INTEREST ONLY LIABILITIES

Per Amnesty rules, Amnesty participation is not allowed for taxpayers who only owe penalty and/or interest. This occurs when a taxpayer has paid all of the tax liability due for a period but has not yet paid all of the penalty and interest related to the liability.

PARTICIPATION IN AMNESTY

No application is required for Amnesty participation. In order to qualify for Amnesty, taxpayers **must** have an outstanding eligible tax liability for a tax period covered under the Amnesty Program. This includes taxpayers that:

- 1) have a tax liability associated with an audit, including those currently assigned or in Tech Review.
- 2) have unreported liabilities in periods not under audit.
- 3) have unpaid tax assessments.
- 4) are participating in the Fast Track Resolution Program or Informal Conference Board process.
- 5) are in Administrative Hearings or Tax Tribunal and if they withdraw and stipulate to judgement in favor of the Department and pay the tax during the amnesty payment period.
- 6) are in Circuit Court and if the action is dismissed on or before November 15, 2019, and the taxpayer has executed an agreed order stipulating to judgement in favor of the Department.
- 7) have entered into a Litigation settlement agreement with the Department, provided they pay the amount of tax due listed in the settlement agreement. They should contact the litigator who was assigned to their case.
- 8) are in bankruptcy are technically eligible to participate, but it is unlikely that they will be able to take advantage of amnesty unless they can get court and creditor approval and are able to pay the required tax within the amnesty payment period.

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INELIGIBLE TAXPAYERS

Taxpayers who are party to any criminal investigation, or civil or criminal litigation regarding an otherwise eligible liability which is pending in any circuit court, appellate court, or the Illinois Supreme Court during the Amnesty Program Period are not eligible. (86 Ill. Adm. Code 520.105(d))

If taxpayers with pending civil cases in state courts wish to participate in amnesty, they must stipulate judgement in favor of the Department and make full payment of tax during the amnesty period.

ELIGIBLE VS. ESTABLISHED LIABILITIES

Taxpayers with an **Eligible Liability** must file the appropriate original or amended return(s) and pay the entire tax liability shown on the return (plus any Established Liability for that tax and period) in full during the Amnesty Program Period (October 1, 2019, through November 15, 2019) to qualify for abatement of eligible penalties and interest. If additional liability is found in an audit after the amnesty payment period has ended and the taxpayer pays the additional liability within 30 days of the notice and demand, the amnesty penalty and interest abatement of penalties and interest will stand for the amount paid during the Amnesty Program Period; however, single penalties and interest will still be assessed on the additional liability. If the taxpayer does not pay the additional liability within 30 days of the notice and demand, the amnesty abatement of penalties and interest will be revoked. Single penalties and interest will be assessed on both the amnesty payment amount and the additional liability.

Example: Since an audit cannot be completed before November 15, 2019 and the taxpayer wants to participate in Amnesty, that taxpayer estimates their 2017 income tax liability to be \$4,000 and submits either an original or amended return with payment during the Amnesty Program Period. In December 2019, the auditor determines that an additional \$1,000 of tax liability is due. If the taxpayer pays the additional \$1,000 within 30 days of the notice and demand, they will still get amnesty abatement on the \$4,000 amnesty payment. They will be subject to single penalties and interest on the additional \$1,000 liability. If the taxpayer does not pay the additional \$1,000 within 30 days of the notice and demand, amnesty abatement will be revoked. Single penalty and interest will apply to both the amnesty payment and the additional liability (all \$5,000).

Example: During Amnesty, a taxpayer files (with payment) an amended 2012 Illinois income tax return reporting an Estimated Federal Change Liability of \$10,000. The finalized Federal Change showing an additional \$1,000 liability is filed in 2015. Note that since the taxpayer timely reported and paid both federal changes, only interest would be due on the tax liability. If the taxpayer timely reports and pays the \$1,000 under IITA Section 506(b) and pays any related single interest within 30 days of the Department's notice and demand, the interest will remain abated on the \$10,000. However, if the taxpayer fails to timely report and pay the \$1,000 or fails to pay any related interest within 30 days, the Amnesty abatement will be forfeited. Single interest and penalty would apply to the total \$11,000.

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Taxpayers with an **Established Liability** must pay the tax liability in full during the Amnesty Program Period (October 1, 2019, through November 15, 2019) to qualify for abatement of eligible penalties and interest. Participation in the Amnesty Program generally does not bar refund claims. However, in the case of an Established Liability, no refunds are allowed unless it results from an issue that was unrelated to the Amnesty payment or from a federal change (RAR) to the taxpayer's income tax liability, which becomes final after Amnesty.

REQUIREMENT TO FILE RETURNS

Taxpayers participating in amnesty are **required** file the appropriate return(s) and make full payment of their eligible tax liability during the Amnesty Program Period of October 1, 2019, through November 15, 2019. It is highly encouraged the taxpayer makes separate payments for each tax period requesting amnesty. Taxpayers should mail their return(s) and payment(s) for all tax types to:

**Illinois Department of Revenue Audit Bureau
PO Box 19020
Springfield, IL 62794-9020**

NOTE: If a taxpayer files one return covering multiple periods (Sales Tax), then they are only eligible for Amnesty on one of those periods. Auditors should allow Amnesty on the period that is the most beneficial to the taxpayer (per Sales Tax policy).

Example: A taxpayer who is required to file monthly sales tax returns files one return covering January – December 2012 and pays the reported liability during the Amnesty Program Period. Even if the payment is enough to cover the full liability, the taxpayer will only qualify for Amnesty in one month.

AMNESTY BY PERIOD

Each period must be evaluated separately to determine whether it qualifies for Amnesty. A taxpayer may qualify for abatement of penalties in one period of an audit and be subject to penalties in another.

A taxpayer **may not** participate in amnesty on an issue-by-issue basis for the same year/period. They **must pay** the entire liability for each amnesty liability year/period.

Example: Taxpayer owes ROT of \$18,000, Use Tax of \$15,000, and SOT of \$5,000. The taxpayer pays \$20,000 indicating they are paying the Use Tax and SOT liabilities. That payment satisfies the tax due for the amnesty period for these tax types. They only want to protest the ROT portion. They can do this because the ROT, UT, and SOT are all separate tax acts in the Statute.

AMNESTY AND OFFSETS

For **Income Tax**, offsets with pending refunds will not be permitted. "Pending refunds" in this context means refunds which have been approved in GenTax and are ready to go to the Comptroller. Income tax credits and net operating losses (including federal capital losses) may

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be used to reduce tax liabilities. However, the credit or loss may not reduce the tax liability to zero to benefit from amnesty.

For **Sales Tax**, verified overpayments and credit memorandums can be used to pay an Eligible Liability. To use these credits, taxpayers **must** identify each verified overpayment, credit memorandum, or overpayment tentatively determined by the Department in an audit to be used as an Amnesty Program payment by tax type, period and amount. However, the credit may not reduce the tax liability to zero to benefit from amnesty.

If a taxpayer overpaid their amnesty liability, they can receive a refund of the overpayment, or in some cases a credit, but The Department will not pay interest on any overpayment.

AMNESTY AND NON-AMNESTY PERIODS

Audits should still be conducted as normal. If an audit covers periods both amnesty and non-amnesty periods, the auditor should do the following:

For **Income Tax**, both the amnesty and non-amnesty periods can be kept in the same track and be included on the same IL-870. Since each year is processed on its own EDA-25 for income tax, the penalties and interest would be abated on the applicable periods. For example, if the audit includes tax years ended 6/30/2017, 6/30/2018, and 6/30/2019 the penalties and interest would be abated on the EDA-25s for the two amnesty years (if all requirements for amnesty are met) and would not be abated on the EDA-25 for the post-amnesty year.

For **Sales Tax**, the audit can remain in one track, but it will need to be reported on two EDA-105s. One EDA-105 should be prepared for the amnesty periods, and a second one should be prepared for the non-amnesty periods.

Amnesty Period Returns - Net Liability

For **Sales Tax**, if the amnesty portion of the audit results in a **net liability**, only one EDA-105/EDA-556 is required.

For example, for amnesty periods only, if the taxpayer has a \$4,000 overpayment on January 2015 and a \$5,000 liability on February 2016. The audit will result in a net liability of \$1,000. The auditor only needs to complete one EDA-105/EDA-556 for the amnesty portion of the audit because the ending result is a **net liability**. To participate in amnesty, the taxpayer is required to pay the EDA-105/EDA-556 net liability of \$1,000 during the Amnesty Program Period.

Amnesty Period Returns – Net Overpayment

For **Sales Tax**, if the amnesty portion of the audit results in a **net overpayment**, two EDA-105s/EDA-556s are required.

For example, for amnesty periods only, if the taxpayer has a \$5,000 overpayment on January 2015 and a \$4,000 liability on February 2016. The audit will result in a net overpayment of \$1,000. The auditor is required to complete two EDA-105s/EDA-556s (one reflecting the liability and one reflecting the overpayment) for the amnesty portion of the audit because the ending result is a **net overpayment**. To participate in amnesty, the taxpayer is required to pay the

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liability shown on the EDA-105/EDA-556 and pay during the Amnesty Program Period; otherwise, based upon the amnesty rules and regulations, the taxpayer will not qualify for amnesty. The taxpayer will receive a credit memo for the overpayment after the audit is processed.

AUDIT ISSUES

Audits Completed Prior to, During, and After Amnesty

- a. If an audit is completed **prior to the beginning** of the Amnesty Program Period, the taxpayer can participate in Amnesty by paying the tax liability during the Amnesty Program Period of October 1, 2019, through November 15, 2019.
- b. If the audit is **completed during the Amnesty Payment Period** and the taxpayer wants to pay, the taxpayer can participate in Amnesty by paying the tax liability during the Amnesty Program Period of October 1, 2019, through November 15, 2019.
- c. If an audit **cannot be completed before the Amnesty period expires**, the taxpayer can still participate in amnesty. To participate, the taxpayer is required to complete the appropriate original or amended return(s) for each period(s) they want to receive amnesty and submit the return(s) along with payment(s) to the audit PO Box listed on the taxpayer's amnesty notification letter during the Amnesty Program Period. It is in the best interest of the taxpayer to make their "best estimate" of the tax liability. Under no circumstances should an auditor prepare amended returns for the taxpayer using audit estimates. This is considered the taxpayer's responsibility.
- d. **If the estimate is less than the final liability**, the taxpayer will still qualify for amnesty abatement on the amnesty estimate if they pay the additional tax due within 30 days of the notice and demand. They will only be subject to single penalties and interest on the additional liability. However, if the taxpayer does not pay the additional tax due within 30 days of the notice and demand, they will be subject to single penalties and interest on both the amnesty payment and the additional liability found during the audit.

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Subject: ACH CREDIT PAYMENTS – NEW BANK ACCOUNT INFORMATION	Chapter 1
	Authorization: Dan Hall

This audit manual update will be incorporated into Chapter 1 of the Audit Manual.

ACH Credit is an electronic payment method in which the taxpayer instructs their financial institution to transfer funds from their account to the Department’s account. The tax payment received by the Department is then applied to the taxpayer’s tax liability. For taxpayers who are paying audit liabilities electronically, this is the preferred method for electronic payments.

Effective October 31, 2019, the following ACH instructions are for all vendors for the transfer of funds via an electronic method into the Department’s Agency Clearing Account:

ACH Format: [REDACTED]
 Bank Name: [REDACTED]
 Routing Number: [REDACTED]
 Account Name: [REDACTED]
 Account Number: [REDACTED]
 Addenda Info: [REDACTED]

The Treasurer’s Office prefers the Automated Clearinghouse method (CCD or CCD+ Format) of transferring funds due to lower cost of this type of transaction versus a wire transfer.

Note: The Treasurer’s Office has asked that the bank account information not be placed in unencrypted e-mails going outside the IDOR firewall. Therefore, the ACH Transaction Detail provided in this AMU is not to be e-mailed to taxpayers.

For Wire Transfers:

Any future or new vendor payments for wire transfers **must** be approved by the Treasurer’s Office each time before releasing instructions to them. Please submit your request for instructions to the appropriate Audit Perfection Supervisor, who will then contact the proper individuals at the Treasurer’s Office for approval. These instructions should only be provided to vendors who have been previously approved by the Treasurer’s Office.

Addenda Info:

Sequence of Records – CCD Corporate Entry Detail Record and Addenda Record											
CCD ENTRY DETAIL RECORD											
Field	1	2	3	4	5	6	7	8	9	10	11
Data Element Name	Record Type Code	Transaction Code	Receiving DFI Identification	Check Digit	DFI Account Number	Amount	Identification Number	Receiving Company Name	Discretionary Data	Addenda Record Indicator	Trace Number
Field Inclusion Requirement	M	M	M	M	R	M	O	R	O	M	M
Contents	'6'	Numeric	TTTTAAA	Numeric	Alphanumeric	\$\$\$\$\$\$cc	Alphanumeric	Alphanumeric	Alphanumeric	Numeric	Numeric
Length	1	2	8	1	17	10	15	22	2	1	15
Position	01-01	02-03	04-11	12-12	13-29	30-39	40-54	55-76	77-78	79-79	80-94
CCD ADDENDA RECORD											
Field	1	2	3	4	5						
Data Element Name	Record Type Code	Addenda Type Code	Payment Related Information	Addenda Sequence Number	Entry Detail Sequence Number						
Field Inclusion Requirement	M	M	O	M	M						
Contents	'7'	'05'	Alphanumeric	Numeric	Numeric						
Length	1	2	80	4	7						
Position	01-01	02-03	04-83	84-87	88-94						



The information shown above when added in the Addenda Payment Relation Information Field (#3) will provide the Treasurer’s Office with the general ledger account; so, the payment can be posted correctly. It will also provide the Treasurer’s Office with the name of the person or company who is making the payment to the Department (payor name). This additional information will assist the Treasurer’s Office to help the Department in reconciling our Clearing Activity Reports.

If the originator states they are unable to add the addenda information, please request them to abbreviate another field to at least incorporate the last four digits of your Agency Clearing Account number of “XXXX”.

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Example:

████ ABC Services Company International

In this example, the █████ represents the receiving agency's clearing account number and "ABC Services Company International" represents the name of the vendor (taxpayer) originating the ACH.

Once the taxpayer is given the ACH Credit information, the auditor will need to know the exact amount of the payment that will be submitted and the date the payment will be submitted (the settlement date) for the payment.

The auditor must send an e-mail addressed to the following people immediately after being notified from the taxpayer of the payment amount and the date the payment will be submitted. This needs to be done to guarantee that the payment will post correctly on GenTax. This also needs to be done for investment purposes.

Address the e-mail to:

- The appropriate Audit Perfection Supervisor. (The supervisor will check GenTax to ensure that the payment was posted and applied appropriately).
- The auditor's supervisor.

The e-mail must contain the following information:

- **E-mail subject line:** Audit payment submitted by ACH Credit
- **The text of the e-mail:**
 1. Identify the taxpayer – give the taxpayer's name **exactly** as shown in GenTax, the taxpayer's address, the tax type for which the payment is being made (Income Tax, Withholding Tax or Sales Tax), provide the account ID and provide the Audit ID number.
 2. State the exact amount of the audit payment that was made.
 3. Provide the date the payment will be submitted (the settlement date) as provided by the taxpayer.
 4. State the APE (Income Tax) or period (Sales Tax) for which the payment was made. Also, give the correct APE or audit period to identify where this payment should be posted. If the payment is for multiple APEs or audit periods be sure to clearly identify the amounts and APEs or audit periods for which the payments should be applied. Request that a reply be sent confirming that the payment has been correctly posted.

In the electronic audit zip file, the auditor should include a copy of the e-mail sent and copies of any replies received based on this e-mail in the "07 Other" sub-folder.

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As mentioned above, ACH Credit is the method of payment for audit liabilities. If the taxpayer is not able to use ACH Credit, the Treasurer's Office must be contacted for approval of a Wire Transfer. The auditor or Revenue Auditor Supervisor must contact the Audit Perfection Supervisor (Income Tax) or the Audit Review and Perfection Supervisor (Sales Tax) regarding Wire Transfers.

Please contact Income Tax or Sales Tax Technical Support with any questions concerning ACH Credit payments.

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Subject: P&I Calculation Procedures Pilot Program	Chapter 20/42
	Authorization: Roger Koss

This audit manual update will be incorporated into Chapter 2

Effective February 10, 2020, penalty and interest will be calculated by IT Technical Review for field audits. (Note this is a pilot project)

Procedures

1. When a field audit has been reviewed and approved by the Field RAS (RAS Review stage completed), it is ready to have penalty and interest calculated for presentation to the taxpayer. The Field RAS will send an email request for penalty and interest calculation to the Income Tax Review RAS. The Income Tax Review RAS will assign the calculation to one of their Reviewers.

NOTE: Email should include documents for **all layers of** adjustments to be processed. This would include amended returns, EDA-25/92/93/24s to be processed in lieu of amended returns, and the audit EDA-25/92/93/24. The email should also include the anticipated date to issue the EDA-122. This date will be used as the interest thru date. Finally, the email should also include if penalty has been abated due to reasonable cause.

IMPORTANT: Since some audits will have multiple layers of calculations to be completed every effort should be made by the RA and the RAS to present the information in clear, concise and well-organized manner so the Review RA can determine the appropriate calculation. The email should include clear direction of the process order of the amended returns and EDA's and provide all applicable dates (received, statute, RAR finalization, etc.) for each layer. If any required information is missing, the email will be sent back to the Field RAS for the missing information.

2. The Reviewer will use all available resources to calculate the audits penalty and interest. This would include the Gentax P&I calculator, Microsoft Excel, and other resources.

NOTE: Penalty and interest calculations will only be performed for audit or amended tax increases. Any audit claims will be disregarded for P&I calculations purposes. **The balance due periods will be calculated using the assumption that the adjustments are unagreed and there will be no offsets between periods.**

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- a. The Reviewer will verify that the Col A of first processing document for each year matches Gentax. If Col A does not match, an email should be sent to the RAS stating that P&I cannot be calculated as currently presented and corrected figures need to be submitted as soon as possible.
 - b. If Col A is correct, the Reviewer should first calculate penalty and interest using the P&I calculator and/or by hand calculation. The amount due in the P&I calculator should equal the audit or amended change.
 - c. The penalty and interest results will be attached as a Reviewer Attachment on the Electronic Documents tab of the Audit in Gentax. The standard format would be the P&I calculator exported to excel. A separate attachment will need to be made for each adjustment layer (i.e. Amended 1, Amended 2, Audit) and year. If a period has multiple adjustment layers, a Microsoft Excel spreadsheet can be used to breakdown each layer's penalty and interest amounts in lieu of attaching multiple P&I calculator excel files.
3. When the Reviewer has completed and attached their calculations. An email will be sent to Income Tax Review RAS. Income Tax Review RAS will notify the Field RAS that the penalty and interest calculations have been completed and are attached to the audit in Gentax.
 - a. Review will also provide a daily rate for exact calculations of amount due. The amount for each period of the audit should be entered in the comments section of the corresponding Auditors Report.
 4. The Field Auditor should input the penalty and interest amounts in the auditor reports to be presented to the taxpayer. The Field Auditor should also make sure the penalty and interest calculations are included in the audit in Gentax. Any request for an explanation of the penalty and interest will be addressed by the Field Auditor.

REMINDER: Penalty and interest will be calculated for the specific change. Unless otherwise noted, **the penalty and interest amounts will represent the Col B figures to be included on the auditor reports, not necessarily the total penalty and interest for the period.**

AUDIT BUREAU
AUDIT MANUAL UPDATE

Release Date: February 10, 2020

Subject: Email Authorization	Chapter 7 and 20
	Authorization: Roger W. Koss

This audit manual update will be incorporated into Chapter 7 for Sales Tax and Chapter 20 for Income Tax

Effective February 10, 2020, form EDA-154, Audit Email Authorization is no longer required to be obtained from a taxpayer. Since email communication is now a normal way of daily life, the determination was made to do away with the email authorization.

If a taxpayer expresses any concerns regarding confidential data exchange, document exchanges should still utilize the VAR and its policies and procedures.

Please note that use of email communication is still optional for the taxpayer and they can choose not to interact with audit staff in this manner.

Subject: New Amended Return Flow	Chapter 39
	Authorization: Roger W. Koss

This audit manual update will be incorporated into Chapter 39, Amended Returns & Claims.

Overview

Effective 04/01/2020, amended returns received during an audit or referred to audit for processing should be handled using the procedures outlined below. These procedural changes have been initiated to expedite the posting of amended returns. The procedural changes are an effort to reduce both the amount of refund interest paid by the Department and the number of aged audits. Also, the procedural changes will ease the upcoming GenTax Integration transition.

The treatment of amended returns now has two phases. In the first phase, the auditor must determine if the amended return can be posted. If amended return does not meet the posting criteria, the auditor will obtain or generate the items necessary to post the amended return tax changes. Once the posting criteria are met, appropriate steps should be taken to post the amended return tax changes on GenTax. It is the Department's intention to issue any refunds and Notice and Demand (NAD) once the amended returns are posted.

In the second phase, an auditor must determine the accuracy of the amended return tax changes. If Illinois tax liabilities were understated, auditors should incorporate in one audit layer their audit adjustments due to improperly reported amended return tax changes and any other in-statute audit adjustments discovered during the examination. Auditors are not to separate audit adjustments into multiple audit layers.

What are the posting criteria?

In addition to being considered a "processable" amended return per Pub 103, there are additional criteria that must be met to post an amended return to GenTax. GenTax requires a posted original return, specific schedules, and dates. Also, claims must be filed within statute

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and in good faith. For additional discussion of Posting Criteria, refer to AMU 20-04 Posting Guidance.

Perfection Checklist

The checklist should be completed in phase 1 of the new amended return flow. This checklist is used to verify each amended return sent to Audit Perfection meets all posting criteria. The completed checklist should be retained in the audit file. For a copy of the Perfection Checklist refer to Exhibit 1.

When Should Math Error Corrections Be Made?

An auditor should check the tax year for RCNs early in the audit process. If an auditor obtains the support necessary for a math error correction, a request for the correction should be made **prior to processing ANY amended returns**. For the procedure to request a math error correction, please refer to Chapter 20.

If taxpayers do not provide support for a math error correction, a math error correction is not warranted. In these instances, the math error must stand. Refer to AMU 20-04 for additional guidance.

How Should Multiple Amended Returns for a Tax Year be Handled?

Amended returns are to be posted on GenTax in the order they were received by the Department. If multiple amended returns are received for a tax year, and if Informal Conference Board (ICB) rights have not been issued, they should be posted as they are received within the same audit. If an amended return is received after the issuance of ICB rights, the amended return should be addressed in a separate audit track.

If an auditor was holding amended returns per previous guidance and they receive another amended return, the previously held amended returns must be posted prior to posting the newest amended return. Auditors should complete a Perfection Checklist for each previously held amended return. The additional processing instructions of each checklist should indicate the amended returns posting order.

For example, if an auditor was holding an amended return received under the previous guidance and then received an additional amended return on or after 04/01/2020, a Perfection Checklist for each amended return should be prepared. The additional processing instructions on the checklist for the oldest amended return would state "First of Two Amended Returns." The additional processing instruction on the checklist for the newest amended return would state "Second of Two Amended Returns."

A separate AMU is forthcoming that will address how to post amended returns which were received prior to this new process and are currently in auditor's inventories.

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Refund Considerations

A stop refund indicator is the only way to place an overpayment on “hold” and prevent the overpayment from being refunded or transferred as a credit to another tax year or account. The use of stop refund indicators will only be allowed in rare circumstances and can only be set with approval from the Division Manager (DM) or Assistant Division Manager (ADM). Requests for stop refund indicators will not be approved solely because the taxpayer wants to place an overpayment on “hold” until the audit concludes because they may receive an assessment. It is the Department’s intention for overpayments to process as refunds or credit transfers as soon as possible to limit the accrual of refund interest.

Please keep in mind when an overpayment is approved for a refund, the Department’s refund flow logic may systemically apply the overpayment as an offset to any outstanding balances with the Department. In addition, when a refund is released to the Comptroller, the refund may be systemically offset to any outstanding balances with other government entities.

If the taxpayer intends for the overpayment to be credited to another tax year as an estimated payment or existing balance due on another tax year, it should be indicated on the amended return or the written offset request should be included with the posting documents.

If all or a portion of the overpayment was not claimed within statute, the out-of-statute amount should be posted as a deactivated credit.

If the overpayment should be posted as a deactivated credit or credited to another tax year or account the auditor should provide clear and specific processing instructions on Line 20 of the Perfection Checklist (Exhibit 1).

Erroneous Refund Considerations

Whenever possible the controlling statute of audit should be determined by the “natural” 3-year statute, waivers, or some other section of IITA § 905(a)-(h), (f). However, scenarios arise when those statutes have lapsed or do not apply. When another section of IITA § 905 cannot be used, the auditor should determine if the NOD can be issued using the erroneous refund statute. With limitations, IITA § 905(g) allows the Department to recover the erroneous refund.

The new amended return flow will increase the incidence of erroneous refunds. When auditing claims, to maintain statutory control auditors should take the erroneous refund limitations into consideration. In an erroneous refund situation, the Department may issue the NOD under IITA § 905(g) within two years from the date of the refund. The NOD is limited to the amount of the refund. Taxpayers are unlikely to sign waivers in the event of an erroneous refund. For this reason, all audits including an erroneous refund should be worked as a **priority**.

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Collection Considerations

When amended returns are processed, Perfection will issue a Notice and Demand (NAD) for any unpaid tax, penalty, and interest. These balances due are admitted liabilities and deemed assessed. Taxpayers have 30-days to remit the amount due on the NAD.

If the taxpayer does not remit the full balance due within 30-days and the liability is for a tax due, without regard to extensions on or after 07/31/2003, the Department will assess the Cost of Collection Fee (UPIA § 3-4.5). If the unpaid amount is less than \$1,000 the fee is \$30. If the unpaid amount is \$1,000 or more the fee is \$100. The Department can assess a Collection Fee for each NAD balance not paid in-full within 30-days. So, if multiple NADs are issued for a tax year the taxpayer could be assessed multiple Collection Fees for the same tax year. Taxpayers may not request reasonable cause abatement of collection fees. Refer to 86 IAC 700.315 for additional details. The taxpayer must request abatement through the Board of Appeals (BOA).

Tax years under-audit are not exempt from collection efforts. If the taxpayer does not remit the full balance due on an NAD within 45-days, the Department will begin collection efforts. The "Stop Bill" indicator will only be used in rare circumstances and can only be set with approval from the DM or ADM. If approval is obtained to set the "Stop Bill" indicator, when the audit is complete Perfection should be instructed to cease the indicator in the processing section of the Audit Comments (EDA-64).

Informal Conference Board (ICB) Considerations

With few exceptions, the Audit Bureau will post the amended return tax changes as they were filed. When the Bureau cannot post the requested tax changes as filed, the taxpayer should be offered any applicable protest rights with ICB. However, these protest rights will only be offered after auditors complete their examination of any other lines which are in-statute and within the scope of the audit. Thus, there could be a delay between the time an amended return is posted and when the auditor offers any applicable protest rights with ICB. Auditors should convey to the taxpayer that any applicable protest rights will be offered upon completion of the examination and a determination is made if there are any other unagreed tax liabilities.

The Department may only issue the taxpayer their ICB rights once during an audit. Thus, any Notices of Proposed Deficiencies (EDA-122), Notices of Proposed Claim Denials (EDA-125), or Notices of Proposed Deficiencies and Claim Denials (EDA-124) should include any disputed tax changes from the posting of the amended returns and any other unagreed tax liabilities determined by Audit. These notices will be issued after the total determination has been arrived at.

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Prod-1 Considerations

Generally, under previous guidance, if a taxpayer filed an amended return reporting an additional liability the Prod-1 would reflect compliance production (Z code) for the admitted tax liability and audit production (EL/AP/AL) for any additional tax liabilities found during the audit. If a taxpayer filed a claim the Prod-1 would reflect an original claim (OC) for the requested tax reduction and claim reductions (WC/CR) for any overstated claim amounts.

Under the new guidance, the Prod-1 treatment of amended returns reporting additional liabilities will remain the same. However, the treatment of claims will see significant changes. If a taxpayer filed a claim the Prod-1 would still reflect an original claim (OC) for the requested tax reduction. However, with few exceptions, any audit adjustments will be reported as additional tax liabilities (EL/AP/AL). Claim reductions (WC/CR) will be limited to claims that cannot be posted as filed.

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New Amended Returns Flow

Phase 1: The auditor determines if the amended return can be posted.

- When an amended return **meets the posting criteria**, the return should be posted. Refer to the Perfection Checklist for posting criteria.
 - The Audit Bureau will issue a Notice and Demand (NAD) for any unpaid amounts due when the amended return is posted.
 - Any overpaid amounts will be processed as refunds.
- When an amended return **does not meet the posting criteria**, when possible auditors should obtain or generate the items necessary to post the allowable amended return tax changes. Refer to the posting guidance in AMU 20-04 for additional details.
- When an amended return is **un-processable**, it cannot be posted to GenTax. Refer to the posting guidance in AMU 20-04 for additional details.

Phase 2: The auditor will determine if the amended return properly reported Illinois tax liabilities.

- **Properly reported or posted Illinois tax liabilities** do not require additional auditor's reports to be processed by Audit Perfection. If the amended return was posted as filed, the appropriate Notice of Audit Results (EDA-143) can be issued. The audit should be submitted to the RAS for the quality review process.

If the amended return could not be posted as filed and additional liabilities were not found during the examination, the taxpayer should be offered any applicable protest rights. Please refer to Chapter 20 for additional guidance.

If any indicators or holds were not released when the amended return was posted, they should be addressed in the processing section of the audit comments (EDA-64).

- **Improperly reported Illinois tax liabilities** require additional auditors reports to be processed by Audit Perfection. The auditor should propose all appropriate audit adjustments and offer any applicable protest rights. Refer to the guidance on the processing of audit adjustments in Chapter 20.
 - If the amended return or claim understated Illinois tax liabilities, the audit adjustments would result in additional tax due.
 - If a claim included down-foot, payment errors, or unsupported tax reductions, the audit adjustments would include a partial claim reduction or full-claim denial.

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Auditor's Treatment of Amended Returns

Phase 1

- 1.** The Department received an amended return, posting the return should be done as a priority.
 - a.** If Planning received and posted the amended return, the auditor should move on to phase 2 of the amended returns flow discussed on the previous page.
 - b.** If Planning received but could not post the amended return, the auditor will review the amended return and Perfection Checklist completed by Planning. The auditor will obtain any support for missing posting criteria and/or generate any necessary posting documents, and then proceed to step 2 below.
 - c.** If an auditor received the amended return, the auditor will review the amended return and complete the Perfection Checklist. If necessary, the auditor will obtain any support for missing posting criteria and/or generate any necessary posting documents then proceed to step 2 below.
- 2.** Once auditors have all the required posting documents, they should be forwarded to their RAS for review.
 - a.** Field Audits: Upon approval, the RAS will forward the posting documents to Planning. Planning will case file hard copies of the posting documents. Planning will also scan and attach the posting documents to the audit file on GenTax.
 - b.** Discovery Audits: Upon approval, the RAS will forward the posting documents to Perfection. The Discovery Auditors case file and attach their own documents on GenTax.
- 3.** If Perfection cannot post the amended return, the auditor and RAS requesting the items will be emailed to request the items necessary to post the return. Auditors should provide their response directly to Perfection. If any additional item should be case filed, field auditors should include Planning on the response.
- 4.** Once the amended return is posted, Perfection will notify the auditor. The auditor will:
 - a.** If applicable, advise the taxpayer the net tax results of posting the amended tax changes were different than the amounts reported on the amended return. Refer to the free-form letter guidance for more details.
 - b.** In claim situations, review the relevant statutes to determine if the audit includes a potential erroneous refund. If necessary, update the controlling statute on GenTax accordingly.
 - b.** Continue to phase 2 of the amended returns flow. The auditor will determine if the amended return properly reported Illinois tax liabilities.

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Planning's Treatment of Amended Returns

Planning receive amended returns in one of three ways. Amended returns received from BPD meet audit selection criteria or the tax year was under audit and an amended return was sent to the address on the return. Sometimes, an amended return is filed by the taxpayer directly with Planning. Otherwise, the amended return is received from a field auditor and it needs to be case filed after a PDF of the posting documents is attached to the audit on GenTax.

Phase 1 - Amended Received by Planning

1. Complete the Perfection Checklist. Then scan and attach the amended return and checklist to the audit on GenTax.
2. Drop file the checklist. If the amended return has not been case filed, case file the hard copy amended return including the checklist.
3. If the amended return can be posted, forward the posting documents to Perfection. After processing, Perfection will e-mail an advisory to Planning the amended return was posted. For unassigned claim audits, review the relevant statutes to determine if the audit includes a potential erroneous refund. If so,
 - a. Set-up the audit in the "Erroneous Refund" audit program.
 - b. Update the controlling statute on GenTax.
 - c. Place the audit in Discovery's inventory.
 - d. E-mail the relevant RAS that an erroneous refund audit was placed in their inventory. These should be assigned and worked as a **priority**.For assigned audits, statutory control of the audit is maintained by the assigned auditor. For assigned audits, e-mail the auditor an advisory that an amended return was received and if it was posted.
4. If the amended return cannot be posted, make a planning comment which identifies the posting criteria which were not met. For assigned audits, e-mail the auditor an advisory that an amended return was received and could not be posted and identifies the posting criteria which were not met.

Phase 1 – Posting Documents Forwarded from a Field Auditor

1. If necessary, case file/drop file hard copies of the posting documents.
2. Attach a PDF of the posting documents to the audit on GenTax.
3. Forward the posting documents to Perfection.
4. If the amended return cannot be posted, Perfection will notify the auditor. Once the auditor obtains the necessary items, they will be sent directly to Perfection. Auditors should copy Planning on these responses when additional posting documents need to be drop filed and attached to the audit.

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Exhibit 1 – Perfection Checklist

Perfection Checklist		
Section 1: General Information		
1	Audit ID	_____
2	FEIN/Account ID	_____
3	Taxpayer Name	_____
4	Audit Period	_____
5	Tax Year	_____
6	Date Filed	_____
7	Balance Due (Overpayment)	_____
8	Statute Before Processing	_____
		Present or <u>True</u> <u>N/A</u>
Section 2: Processing Criteria		
1	Signed Perjury Statement	<input type="checkbox"/>
2	Col A Matches Gentax	<input type="checkbox"/>
3	Downfoots	<input type="checkbox"/>
4	Payments Reconcile to Gentax	<input type="checkbox"/>
5	Federal Finalization Date (RAR Only) Date: _____	<input type="checkbox"/>
6	IL-4562	<input type="checkbox"/>
7	IL-477	<input type="checkbox"/>
8	Schedule 1299	<input type="checkbox"/>
9	Schedule 80-20	<input type="checkbox"/>
10	Schedule UB	<input type="checkbox"/>
11	Schedule UB-INS	<input type="checkbox"/>
12	Schedule UB-NLD	<input type="checkbox"/>
13	Schedule M	<input type="checkbox"/>
14	Schedule CR (IIT ONLY)	<input type="checkbox"/>
15	Schedule NR (IIT ONLY)	<input type="checkbox"/>
16	Schedule ICR (IIT ONLY)	<input type="checkbox"/>
17	IL-WIT Schedule (IIT ONLY)	<input type="checkbox"/>
18	Filed within Statute (Claims Only)	<input type="checkbox"/>
19	Filed in Good Faith (Claims Only)	<input type="checkbox"/>
20	Additional Processing Instructions	<input type="checkbox"/>
Section 3: Erroneous Refund Statute Review		
<i>Claims only. Completed by Planning for unassigned audits. Completed by auditors for assigned audits.</i>		
1	Disposition of Overpayment	<input type="checkbox"/> Released <input type="checkbox"/> Offset <input type="checkbox"/> Issued
2	Date Issued/Offset	_____
3	Erroneous Refund	<input type="checkbox"/> Yes <input type="checkbox"/> No
4	Statute After Processing	_____

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Subject: Posting Guidance	Chapter 39
	Authorization: Roger W. Koss

This audit manual update will be incorporated into Chapter 39, Amended Returns & Claims.

Overview

Effective 04/01/2020, amended returns received during an audit or referred to audit for processing should be handled using the procedures outlined below. These procedural changes have been initiated to expedite the posting of amended returns. The procedural changes are an effort to reduce both the amount of refund interest paid by the Department and the number of aged audits. Also, the procedural changes will ease the upcoming GenTax Integration transition.

The treatment of amended returns now has two phases. Refer to AMU 20-03 New Amended Return Flow for detailed information. In the first phase, the auditor must determine if the amended return can be posted. If amended return does not meet the posting criteria, with few exceptions, the auditor will obtain or generate the items necessary to post the amended return tax changes. This AMU discusses the criteria for posting amended returns on GenTax and provides guidance to address posting issues.

What is a processable return?

Per Publication 103 for a return to be considered “processable” by the Department, it must:

- be signed by the person authorized by law to sign it,
- be in a format the Department prescribed or approved, and
- contain all information, schedules, and supporting documents necessary to determine the correct tax and to make allocations.

What are the posting criteria?

In addition to being considered a “processable” amended return per Pub-103, there are additional criteria that must be met to post an amended return to GenTax. GenTax requires a

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posted original return, specific schedules, and dates. Also, claims must be filed within statute and in good faith.

The table below includes the schedules and dates Gentax requires to post a 2018 amended return. For a list of schedules required for prior years refer to Exhibit 2.

IL-4562	Schedule M
IL-477	Schedule CR (IIT Only)
Schedule 1299	Schedule NR (IIT Only)
Schedule 80-20	Schedule ICR (IIT Only)
Schedule UB, UB-INS	Schedule IL-WIT (IIT Only)
Schedule UB-NLD	Federal Finalization Date (RAR Changes Only)

What are claims filed in good faith?

Most taxpayers file returns in good faith, exercising usual business care and prudence reporting their Illinois tax liabilities. However, it is appropriate for auditors to exercise professional skepticism. When auditors are concerned a claim was not filed in good faith, **with supervisory approval**, they can delay the posting of the claim. If the auditor determines any portion of the claim is allowable, at that time the claim should be posted as it was filed. To address this issue, refer to the guidance below on good faith issues.

What are down-foot errors?

Footing means adding all the numbers in a single column. The result is the sum, which appears at the bottom (foot) of the column. So, down-footing is widely used Department jargon for adding numbers vertically on a page. If an amended return has a down-foot error, the tax increase (decrease) calculated on the amended return contains an error. To address down-foot errors, refer to the guidance below on computational errors.

What are payment errors?

Payment errors occur when the payments reported on an amended return do not agree with the payments posted to GenTax. If an amended return included payment errors, the auditor's reports would calculate the same tax change as the amended return but a different net result than what was reported. To address payment errors, refer to the guidance below on payment errors.

What are math errors?

A math error is defined by IITA § 1501(a)(12) and 86 IAC 100.9200(a)(1)(B)(2)(A)-(E) to include, in addition to computational errors, any of the following:

- entries on the wrong lines,
- omission of required schedules, forms, or any of the information called for thereon,
- any attempt to claim, exclude, deduct or improperly report, in a manner directly contrary to the Act or Regulations, any item of income, deduction, or credit.

Math errors do not include unclaimed subtraction modifications, tax credits, or Illinois Net Loss Deduction (NLD). Addition modifications are required to be reported on an Illinois Return; however, subtraction modifications are available to be claimed.

Math errors differ because they are governed by IITA § 903(a)(1). Math error liabilities are deemed assessed by the filing of the return. The taxpayer is notified of a math error assessment by issuance of the Notice and Demand (NAD). The Department has three years to assess a math error and bill the taxpayer when there is a liability. The taxpayer does not have a right to protest a math error. The taxpayer can only “protest” a math error by paying the assessed amount then filing a claim. The Consent to Extend the Time to Assess or Refund Income Tax (waiver, IL-872) does not extended the statute for math errors.

The Department or taxpayer may correct a math error, at any time. However, IITA § 911 may limit the taxpayer from receiving the resulting overpayment as a refund or credit carry forward. An overpayment on an original return is not a refund claim [86 IAC 100.9400(f)(1)]. If the Department has not refunded the overpayment within the statute of limitations, taxpayers must file amended returns to preserve their right to a refund. The statute of limitations is extended by properly executed waivers per IITA § 911(c).

If the taxpayer provides support for a math error correction within the statute of limitations, regardless of when the math error correction is posted, any overpayments established by the adjustments should be processed as refunds or credits.

If the taxpayer provides support for the math error correction after the statute of limitations, any overpayments should be posted as deactivated credits.

When Should Math Error Corrections Be Made?

An auditor should check the tax year for RCNs early in the audit process. If an auditor obtains the support necessary for a math error correction, the correction should be requested **prior to processing ANY amended returns**. For the procedure to request a math error correction, please refer to Chapter 20.

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If taxpayers do not provide support for a math error correction, a math error correction is not warranted. In these instances, the math error must stand. Refer to the guidance below to address any Column A discrepancies.

What if one or more posting criteria have not been met?

When the amended return does not meet one or more of the posting criteria the return cannot be posted to GenTax as filed. The guidance below directs auditors on how to address the various posting criteria, so the tax changes requested on the amended return can be posted on GenTax.

The best, easiest, and preferred solution is to obtain the missing support from the taxpayer. However, there are circumstances when an auditor cannot obtain the missing support from the taxpayer.

Once the auditor has addressed the missing posting criteria using the guidance below, the appropriate steps should be taken to have any amended return tax changes posted. Auditors should provide Perfection with all documents necessary to post the amended return tax changes. Audit Perfection will need the following:

Posting Documents

1. Perfection Checklist with processing instructions for any credit transfers.
2. Amended Return with all required schedules provided by the taxpayer.
3. If necessary, any supporting schedules generated by the auditor.
4. If necessary, any Auditor's Reports generated by the auditor.

Letter Guidance

When the net tax result reported on the amended return is different than the net tax result on the Auditor's Report, the auditor should issue a free form letter or e-mail advising the taxpayer of the error and changes to the net tax results.

1. The amended return reported a balance due.

- a. Net Tax Result - Balance Due Increased:** The taxpayer should be advised to remit any unpaid amounts from the NAD. The Department will issue an NAD when the amended return is processed. Refer to the collections considerations discussion in AMU 20-03 for additional details.
- b. Net Tax Result - Balance Due Decreased or Overpayment:** If applicable, the taxpayer should be advised to remit any unpaid amounts from the NAD. If applicable any overpayments may be processed as refunds. Refer to the refund considerations and collections considerations discussions in AMU 20-03 for additional details.

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2. The amended return requested a claim.

- a. Net Tax Result - Overpayment Increased:** The taxpayer should be advised to file any in-statute claims requesting a refund of the additional overpayment. The additional overpayment will be posted to the account as a deactivated credit. Refer to the refund considerations discussion in AMU 20-03 for additional details.
- b. Net Tax Result - Overpayment Decreased -or Balance Due:** If applicable, the taxpayer should be advised to remit any unpaid amounts from the NAD. They should be advised their protest rights will be offered when the examination of the requested changes is complete. Refer to the refund considerations and collections considerations discussions in AMU 20-03 for additional details.

Required Schedule Missing

If an auditor received an amended return that did not include the required supporting schedule, a copy of the missing schedule should be requested from the taxpayer.

If the auditor cannot obtain the missing schedule from the taxpayer, the guidance below should be followed:

- If the line change resulted in an increase to Illinois income, **with supervisory approval**, auditors can generate a schedule to support the increase. Also, **with supervisory approval**, auditors can generate schedules to support any decreases to Illinois credits. These schedules should clearly indicate they were created by audit and should reconcile to the amount included on the return. See example below. Hard copies of any schedules generated by an auditor should be case filed with the amended return. A PDF of these documents should be included in the audit file.

Illinois Department of Revenue
2019 Schedule UB
Attach to your Form IL-1120, Form IL-1120-ST, and Form IL-1065.

Combined Apportionment for Unitary Business Group
For tax years ending on or after December 31, 2019

Common year ending for the unitary business group
12 2019
Month Year

IL Attachment No. 5

Step 1 — Provide Your Membership Information

Acme Company, Audit Pro-Forma
Enter the name of the designated agent (see general instructions)

1 2 - 3 4 5 6 7 8 9
Enter the federal employer identification number (FEIN).

- If the line change resulted in a decrease to Illinois income, auditors should **NOT** generate schedules to support the tax reduction. Additionally, if the line change increased a credit, auditors should not generate schedules to support the additional credits.

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If the amended return included one line change, the unsupported tax reduction or credit increase should not be allowed. In these instances, the amended return should not be processed. These claims should be denied. When the auditor completes their examination of any other in-statute lines, the taxpayer should be offered any applicable ICB rights.

If an amended return requested multiple line changes, any unsupported tax reductions or credit increases should not be allowed. Auditors should create an Auditor's Report to process in lieu of the amended return which omits the unsupported decreases to Illinois income and additional credits. The Auditor's Report should reflect any tax increases and supported tax reductions. When the auditor completes their examination of any other in-statute lines, the taxpayer should be offered any applicable ICB rights.

Column A Discrepancies

If an auditor received an amended return and Column A of the Amended Return does not match the latest version of the return posted on GenTax, the source of the discrepancies should be researched.

If the discrepancies are due to a math error, the auditor should request support for a math error correction from the taxpayer. If the auditor obtains the necessary support, a math error correction should be requested using the procedures outlined in Chapter 20. Once the math error correction is posted, Column A should agree with the amounts posted on GenTax.

If the auditor cannot obtain support for a math error correction or the discrepancies are due to the omission of previous audit results or amended returns, **with supervisory approval**, an Auditor's Report should be prepared and posted in lieu of the amended return. The Auditor's Report should incorporate amounts posted on GenTax and the tax changes requested on the amended return. The Auditor's Report should reflect the following amounts in the columns:

EDA Columns

Column A GenTax Amount

Column B Amended Increase (Decrease)

Column C Processing Amount

*Note: Processing Amount = GenTax Amount + Amended Line Increase (Decrease) or
Col C = Col A + Col B*

Auditors may need to generate schedules that reconcile to the processing amounts. It should be clearly indicated that these schedules were created by Audit.

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Hard copies of the auditor's reports and, if applicable, supporting schedules should be case filed with the amended return. A PDF of these documents should be included in the audit file.

When the net tax result reported on the amended return will be different than the net tax result on the Auditor's Report, the taxpayer should be advised of the error and changes to the net tax results. Refer to the letter guidance above for more details.

Computational Errors

If the amended return included a computational error and the taxpayer cannot provide any support to correct the error, an Auditor's Report should be prepared and posted in lieu of the amended return. The net tax result reported on the amended return will be different than the net tax result on the Auditor's Report. The taxpayer should be advised of the error and changes to the net tax results. Refer to the letter guidance above for more details.

Schedule and Return Do Not Reconcile

If an auditor received an amended return that included a schedule that did not reconcile to the amended return, a revised schedule that reconciles to the amount reported on the amended return should be requested from the taxpayer.

If the taxpayer does not provide a revised schedule, the auditor will need to prepare a supporting schedule that reconciles to the amended return for processing. It should be clearly indicated that the schedule was created by audit.

If the taxpayer takes the position that the amount reported on the schedule was correct and the amount carried over to amended return was not, the taxpayer and auditor should discuss how the taxpayer prefers to address the issue. To post the amended return, the amended return must be submitted with a schedule that reconciles to the amount reported on the amended return. If the amount reported on the schedule provided by the taxpayer would increase or create an overpayment, when the appropriate statutes are available, the taxpayer should file an additional amended return. In other circumstances, filing an additional amended return it is not likely to be more advantageous for the taxpayer than allowing the auditor to make audit adjustments.

When the net tax result reported on the amended return will be different than the net tax result on the Auditor's Report, the auditor should advise the taxpayer of the error and changes to the net tax results. Refer to the letter guidance above for more details.

Entries on Wrong Lines

If the auditor notes the taxpayer made entries on the wrong line and moving the entry to the correct line has no tax effect an Auditor's Report should be created and posted in lieu of the

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amended return, the Auditor's Report should reflect the entry on the correct line. If moving the entry to the correct line has a tax effect the auditor should post the amended return as filed.

Understated Tax Payments

The Department will apply all available payments. An Auditor's Report should be prepared that reflect the available payments. If a claim was understated, and the applicable statutes are available, the taxpayer should be advised to file a claim for the additional refund. Also, the auditor should advise the taxpayer of the payment error and change to the net result of the amended return. Refer to the letter guidance above and refund considerations discussion in AMU 20-03 for more details.

Overstated Tax Payments

The auditor should request payment support for the additional payments. If the taxpayer provides payment support, the auditor should research the payments. If the auditor determines a payment was misapplied on GenTax, Audit Perfection should be asked to move the payment.

If the taxpayer cannot support the payments made on the amended return, an Auditor's Report should be prepared that reflects the available payments. In addition, the taxpayer should be advised of the error and change to the net result of the amended return. If a balance due was understated, the taxpayer should be advised to remit the amount due on the NAD. Refer to the letter guidance and collections considerations discussion in AMU 20-03 for more guidance.

Missing Signature

If the auditor received an unsigned amended return from the taxpayer, a signed copy of the amended return or a properly completed Signature Declaration (IDR-916) should be requested from the taxpayer.

If the taxpayer will not provide a signed copy of the return or IDR-916 the return is not processable. An un-signed claim is not a valid claim and taxpayers cannot be offered protest rights. These instances would not result in a full claim denial.

A hard copy of the unsigned, un-processable return should be case filed. A PDF of the unsigned, un-processable return should be included in the audit file.

If the appropriate statutes are open the auditor should examine the original or previously amended amounts posted on GenTax. If the auditor determines Illinois tax liabilities were not properly reported, any changes to the tax year should be processed as audit adjustments.

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Federal Finalization Date

If the auditor received an amended return reporting federal changes without a federal finalization date, proof of federal finalization should be requested from the taxpayer. If the taxpayer does not provide the requested proof of federal finalization the auditor may refer to the Data warehouse and/or contact the IRS Disclosure Officer.

If the federal finalization date cannot be obtained the amended return cannot be posted. A signed claim would result in a full claim denial. The taxpayer should re-file the amended return once they obtain federal finalization.

A hard copy of the amended return should be case filed. A PDF of the amended return should be included in the audit file.

If the appropriate statutes are open the auditor should examine the original or previously amended amounts posted on GenTax. If it is determined the Illinois tax liabilities were not properly reported, any changes to the tax year should be processed as audit adjustments.

Claim Not Filed Within Statute

If the auditor received a claim and determined it was not timely filed, the Department will not post these claims. An un-timely claim would result in a full claim denial.

A hard copy of the return should be case filed. The taxpayer should be informed and issued any applicable protest rights.

If the appropriate statutes are open the auditor should examine the original or previously amended amounts posted on GenTax. If the auditor determines the Illinois tax liabilities were not properly reported, any changes to the tax year should be processed as audit adjustments.

Claim Not Filed in Good Faith

This is a concern primarily with ROT Spin-off audits. For example, Discovery will initiate audits based on the results of a Sales and Use Tax audit requesting an amended return to correct apparent understated income. In response, taxpayers may file claims including the additional receipts found during the ROT audit and significant questionable increases to their cost of goods sold (COGS). In these instances, **with supervisory approval**, the posting of the claim may be delayed until the questionable COGS increase is substantiated.

When the auditor is concerned a claim was not filed in good faith, **with supervisory approval**, the posting of the claim may be delayed. If the auditor determines any portion of the claim is allowable, at that time the claim should be posted as it was filed. For example, the taxpayer

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made a claim for \$10,000. The auditor determined the allowable claim was \$100. The claim for \$10,000 should be posted as filed.

If the auditor determines that no portion of the claim is allowable, the claim should not be posted. For example, the taxpayer made a claim for \$10,000. The auditor determined the allowable claim was \$0. The claim should not be posted. A hard copy of the return should be case filed, and a PDF of the claim should be included in the audit file. The taxpayer should be issued any applicable protest rights.

If the appropriate statutes are open the auditor should examine the original or previously amended amounts posted on GenTax. If the auditor determines the Illinois tax liabilities were not properly reported, any changes to the tax year should be processed as audit adjustments.

No Original Return on File

If an auditor received an amended return with no original return on file, a signed copy of the original return including all schedules, attachments, and statements should be requested from the taxpayer.

If the auditor obtains a signed copy of the original return, the original return should be posted on GenTax. Once the original return is posted, the amended return should be posted on GenTax. If it is determined the Illinois tax liabilities were not properly reported, any changes to the tax year should be processed as audit adjustments.

If the auditor cannot obtain a signed copy of the original return, the amended return cannot be processed. Any unreported Illinois tax liabilities should be processed as audit adjustments.

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Exhibit 1 – Perfection Checklist

Perfection Checklist		
Section 1: General Information		
1. Audit ID	_____	
2. FEIN/Account ID	_____	
3. Taxpayer Name	_____	
4. Audit Period	_____	
5. Tax Year	_____	
6. Date Filed	_____	
7. Balance Due (Overpayment)	_____	
8. Statute Before Processing	_____	
	Present or <u>True</u>	<u>N/A</u>
Section 2: Processing Criteria		
1. Signed Perjury Statement	<input type="checkbox"/>	
2. Col A Matches Gentax	<input type="checkbox"/>	
3. Downfoots	<input type="checkbox"/>	
4. Payments Reconcile to Gentax	<input type="checkbox"/>	
5. Federal Finalization Date (RAR Only) Date: _____	<input type="checkbox"/>	
6. IL-4562	<input type="checkbox"/>	<input type="checkbox"/>
7. IL-477	<input type="checkbox"/>	<input type="checkbox"/>
8. Schedule 1299	<input type="checkbox"/>	<input type="checkbox"/>
9. Schedule 80-20	<input type="checkbox"/>	<input type="checkbox"/>
10. Schedule UB	<input type="checkbox"/>	<input type="checkbox"/>
11. Schedule UB-INS	<input type="checkbox"/>	<input type="checkbox"/>
12. Schedule UB-NLD	<input type="checkbox"/>	<input type="checkbox"/>
13. Schedule M	<input type="checkbox"/>	<input type="checkbox"/>
14. Schedule CR (IIT ONLY)	<input type="checkbox"/>	<input type="checkbox"/>
15. Schedule NR (IIT ONLY)	<input type="checkbox"/>	<input type="checkbox"/>
16. Schedule ICR (IIT ONLY)	<input type="checkbox"/>	<input type="checkbox"/>
17. IL-WIT Schedule (IIT ONLY)	<input type="checkbox"/>	<input type="checkbox"/>
18. Filed within Statute (Claims Only)	<input type="checkbox"/>	<input type="checkbox"/>
19. Filed in Good Faith (Claims Only)	<input type="checkbox"/>	<input type="checkbox"/>
20. Additional Processing Instructions		
Section 3: Erroneous Refund Statute Review		
<i>Claims only. Completed by Planning for unassigned audits. Completed by auditors for assigned audits.</i>		
1. Disposition of Overpayment	<input type="checkbox"/> Released	<input type="checkbox"/> Offset <input type="checkbox"/> Issued
2. Date Issued/Offset	_____	
3. Erroneous Refund	<input type="checkbox"/> Yes	<input type="checkbox"/> No
4. Statute After Processing	_____	

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Exhibit 2 – Prior Year Required Schedules

Gentax requires the following schedules for IL-1120 returns.

<u>Tax Year</u>	<u>Required Schedule for Posting</u>
2000 – 2008	Schedule UB, Schedule 1299-D
2009	Schedule UB, Schedule 1299-D, Schedule M, IL-4562
2010	Schedule UB, Schedule 1299-D, Schedule M, IL-4562, Schedule 80/20
2011 – 2018	Schedule UB, Schedule 1299-D, Schedule M, IL-4562, Schedule 80/20, and Schedule INL

Gentax requires the following Schedule UB lines for members being added, deleted, or changed.

<u>UB Step</u>	<u>Required Line</u>
Step 2	Line 28, 29a, and 29b
Step 4	Line 2,3,6,7, and 9

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Subject: Updated EDC-5 Requirements	Chapter 20 & 7
	Authorization: Roger W. Koss


This audit manual update will be incorporated into Chapter 20 for Income Tax and Chapter 7 for Sales Tax.

Effective April 1, 2020, auditors must include a time spent summary at the end of the last entry of the day on the EDC-5. This will allow for greater accountability of auditor's time. This is mandatory and must be done by each auditor as part of their daily time keeping habits.

Please see the below examples.

Income Tax EDC-5:

EDC-5 History Worksheet



Account ID: 12345-67890 Audit ID: A123456789 Audit Period: 01/01/2015 through 12/31/2017

Taxpayer name: WIB Inc.

Taxpayer's complete address: 101 West Jefferson, Springfield, IL

Contact person: J. Taxpayer

Contact person's telephone number and email: 217-555-5555

Date and time	Contact person	Comments
03/02/2020 12:00 AM	J. Taxpayer	Researched the account. Held the opening conference with the taxpayer. Received federal returns, state returns, and sales tax returns from the taxpayer. 7.0 Hrs
03/03/2020 12:00 AM	J. Taxpayer	Received purchase invoices and Z tapes from the taxpayer. Reviewed federal returns and invoices for Form 4562 assets. 7.0 Hrs
03/04/2020 12:00 AM	J. Taxpayer	Continued review of Form 4562 assets and 1299. 5.5 hrs

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Sales Tax EDC-5:

EDC-5 History Worksheet



Auditor: J. Auditor
 Account ID: 1234-5678 Audit ID: A123456789 Audit Period: 1/1/2015 through 12/31/2017
 Taxpayer name: ABC Corp.
 Taxpayer's complete address: 101 West Jefferson, Springfield, Illinois 62702
 Contact Person: J. Taxpayer
 Contact person's telephone and email: 217-555-5555

Date and time	Contact person	Comments
3/02/2020 8:30AM	J. Taxpayer	Researched the account. Held a conference call with the taxpayer, Received federal, state, and sales tax returns from the taxpayer. 7.0 Hrs
3/03/2020 8:30AM	J. Taxpayer	Received purchase invoices and Z tapes from the taxpayer, Reviewed and scheduled z-tapes. 7.0 Hrs
3/04/2020 8:30AM	J. Taxpayer	Continued to review purchase invoices and Z tapes. 5.5 Hrs

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Subject: Audit Flow Modifications	Chapter
	Authorization: Roger W. Koss

This audit manual update will be incorporated into the appropriate sections on the Audit Manuals.

Effective April 1, 2020, the Audit Process Steps for Income Tax and Sales and Misc Taxes have been modified as Identified below. These are found on the Audit Sp-IDOR page under training; Tax Appeal Process: Income Tax and Tax Appeal: Sales Tax.

Tax Appeal Process: Steps 11 -13

11. Once all documents have been reviewed and preliminary findings discussed/reviewed with the taxpayer, Revenue Auditor Trainees and Revenue Auditor 1's will prepare the file for RAS review. At this point the audit is complete. All documents, with the exception of the Prod-1 (NL audits see note after step 13), should be uploaded to the Electronic Documents Index in GenTax (i.e., narrative, EDC-5, taxpayer records, calculation spreadsheets, penalty and interest schedules etc.).

NOTE: The audit narrative and the EDC-5 should be complete and well-documented at this stage. The audit will have to stand on its own merit.

12. The auditor will email their supervisor and request the audit stage be changed to RAS Review and the owner be changed to the supervisor to indicate the auditor's supervisor is reviewing the audit for accuracy **BEFORE** the final audit results are presented to the taxpayer. The supervisor has **30** days to review the audit.

- a. If the supervisor **approves** the audit, the supervisor will change the stage to *Present to Taxpayer* and will re-assign the audit to the auditor. **Once approved, no changes should be made to the audit. In the event changes are made, the Supervisor should be made aware of them prior to their limited review at the conclusion of the audit.**

If the information requested via the subpoena is provided consult with your Supervisor whether the information should be accepted.

This manual is not a statement of Department policy. The Department reserves the right to review and revise the work of any auditor and to order or approve procedures or methods that deviate from or are outside the scope of this manual. This manual is intended for internal use only and shall not constitute written legal advice or guidance to taxpayers for any purpose, including but not limited to, the Taxpayers' Bill of Rights. Page 1

- b. If the supervisor **does not approve** the audit, the supervisor will change the stage to *Rejected by RAS* and re-assign the audit back to the auditor to make the required corrections. The auditor will have 15 days to make any corrections and email the supervisor requesting the stage be changed to *RAS Review* and the owner to the supervisor. The supervisor will have 15 days to review the corrections. This back-and-forth process will happen until the audit is approved by the supervisor and the stage is changed to *Present to Taxpayer*. **Once approved, no changes should be made to the audit, unless as previously discussed above.**

For everyone else, the Revenue Audit Supervisor has the **discretion** of performing a complete review. They may want to simply review the narrative before the ICB rights/Audit Report is issued (previous process). Or they may decide that they do not need to review the audit and the auditor may present the ICB rights/Audit Report. By consistently performing monthly inventory reviews, the Supervisor will be well aware of issues on each assignment and may insert some additional oversight on contentious issues/taxpayers.

If the RAS thinks the audit is going to FTR or ICB, they should review the audit (RAS Review).

If RAS Review is bypassed, the Supervisor will have 30 days for the RA Supv. Inv. final review.

The 'Review Pending ICB' stage is still in effect; if ICB rights are issued, after 30 days it should be moved to Review.

13. After the audit has been approved by the supervisor, the supervisor will change the owner to the auditor and the stage in GenTax to *Present to Taxpayer*.

NOTE: NL Audits - Process Change

Also, effective April 1, 2020, No Liability audits may be reviewed only once in the process; RAS Review or RA Supr Inv, depending on criteria above. When the audit is sent to the Supervisor for RAS Review stage, the PROD-1 must be completed and attached by the Auditor. If the Supervisor agrees with the Audit Findings, the audit can be closed without going back to the Auditor for the Present to Taxpayer stage. The RAS will issue the EDA-143 from the Letters panel. Then change the stage to Pass to Clerical for the clerical person to add the PROD-1 information to the Gentax working paper.

If the Supervisor does not agree with the audit results they may Reject as normal.

Prior to sending to the Supervisor for RAS Review or RA Supr. Inv, the auditor should discuss the No Liability case with the taxpayer informing them that if the case passes review by their Supervisor they will not return and the taxpayer will receive a closing letter.

Subject: EDA-11-A Countersigning	Chapter 6 & 20
	Authorization: Roger W. Koss

This audit manual update will be incorporated into Chapter 7 of the Sales Tax Manual and Chapter 20 of the Income Tax Manual.

****IMPORTANT****

This procedure will continue until the Stay at Home orders are lifted and “wet” signatures may be obtained. You will be notified when this procedure is no longer acceptable.

After presenting the taxpayer with the EDA-70 for the same items on two separate occasions, and the taxpayer does not respond, the next request to be issued is the EDA-11-A, a Notice of Demand for Books and Records. EDA-70 and EDA-11-A requests, audit narrative, and EDC-5’s are all reviewed in detail before issuing a subpoena; therefore, documentation is very important. The [EDA-11-A](#) requires a signature of the Revenue Audit Supervisor and provides a deadline for books and records. The **deadline is 30 days** from the date the request is issued to the taxpayer.

Generally, a physical signature would be required, however, due to the unique situation affecting our world today with the COVID-19 pandemic, electronic signatures are allowed. The auditor **must** document in their EDC-5 that an electronic signature is being used in lieu of an original signature because of the COVID-19 pandemic.

The EDA-11-A is located on the Department’s website. On the Sp-IDOR web, click on **Work Areas** and select **Audits**. In the Audit Work Area, under **Forms** click the **Universal** hyperlink. From the list of available forms, select the **Notice of Demand for Books and Records (EDA-11-A)**.

Audit Universal Forms

- [Audit Email Authorization - \(EDA-154\)](#)
- [Audit Referral/Request - \(SC-137\)](#)

Use your mouse or Tab key to move through the fields. Use your mouse or space bar to enable check boxes.

Illinois Department of Revenue
 Bureau of Audits
 101 West Jefferson Street
 Springfield IL 62702

Notice of Demand for Books and Records

In the matter of
 Illinois Department of Revenue
 of the State of Illinois

VS

Taxpayer name	Tax type:
Address	Audit period:
City, state, ZIP	

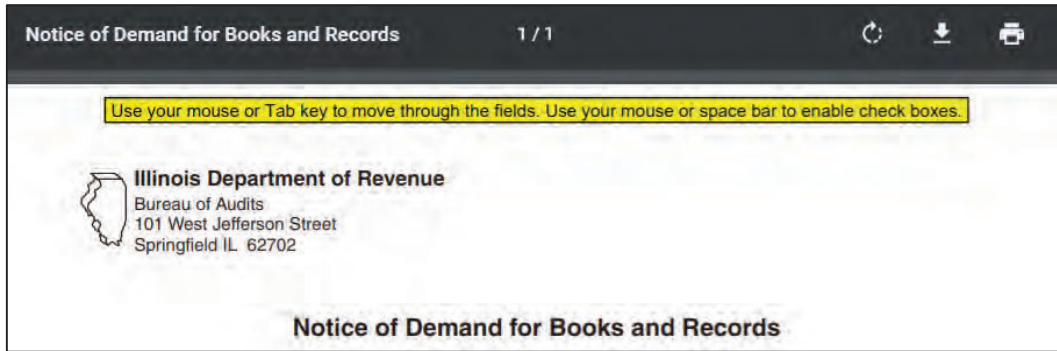
In order to determine the amount due, you must make the following books and records available for our review on or before _____.

Date

According to the Illinois Compiled Statutes, 35 ILCS 120/7, "All books and records and other papers and documents which are required by this Act to be kept shall be kept in the English language and shall, at all times during business hours of the day, be subject to inspection by the Department [of Revenue] or its duly authorized agents and employees."

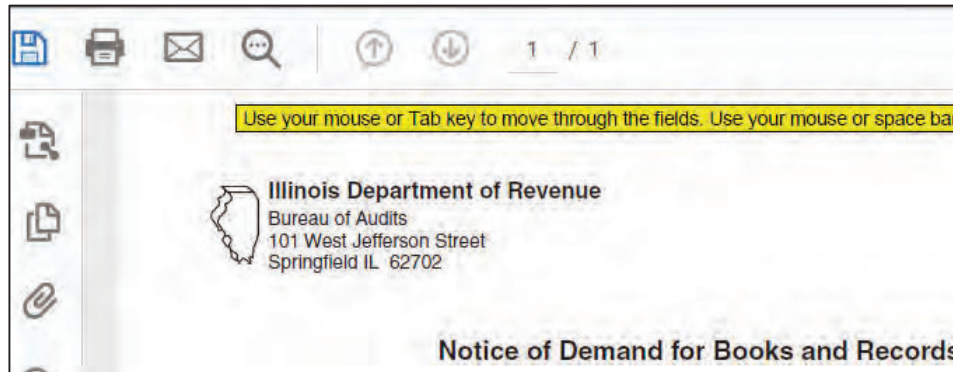
Once opened, fill-in the required fields with the taxpayer’s information, audit period, and records being requested. **Be specific** in the types of documents being requested. This section should match the EDA-70 document requests that are still missing from the taxpayer. Once the information is filled in, the document will need to be printed as a pdf and sent to your supervisor for their electronic signature.

If using Google Chrome, select the **Print** icon in the upper-right hand corner.

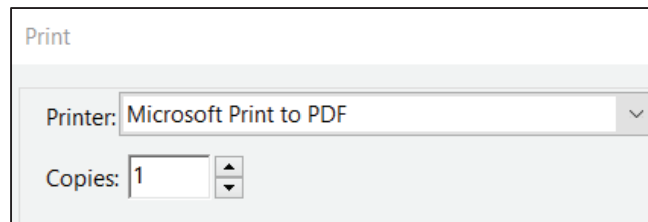


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If using Internet Explorer, select the **Print** icon on the upper-left hand corner.




Change the printer to **Microsoft Print to PDF**. Click **Print**. Name the document “(Taxpayer Name) EDA-11-A Request” and **Save** the document.



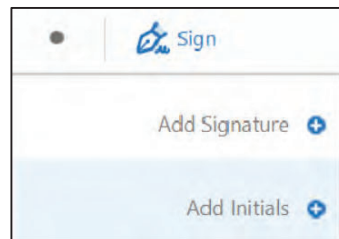
Email the saved PDF to your audit supervisor to obtain their electronic signature.

Supervisors:

To add your electronic signature, open the saved .pdf provided by the auditor in Acrobat Reader. Examine the audit file as normal to approve or deny the request.

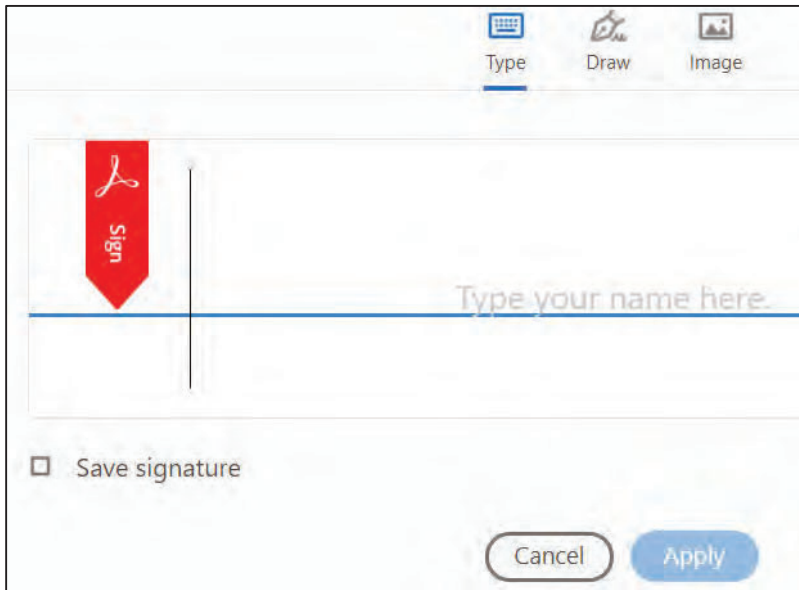
If approved, to electronically sign, the supervisor will click on the  **Sign** symbol on the top of the EDA-11-A document.

Once the  **Sign** is clicked, a drop-down menu will appear. Click on **Add Signature**.

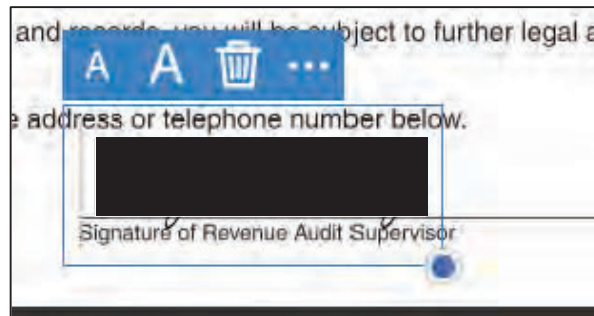


NOTE: Once a signature has been added to and saved to the document, the signature cannot be removed.

Use **Type** to enter your name into the signature box. This will create a “signature type” signature. **Unselect Save Signature** and select **Apply**.



Drag the signature to the appropriate signature line on the document. Click anywhere else on the document to un-select the name text box. To add a Served By signature, the same steps should be taken.



The supervisor should then save the document using **Save As** and the document is then ready to be issued to the taxpayer either by mail or email.

Subject: BCI Indicator	Chapter 6 & 20
	Authorization: Roger W. Koss

This audit manual update will be incorporated into Chapter 7 of the Sales Tax Manual and Chapter 20 of the Income Tax Manual.

Supervisors and Auditors are reminded that if a BCI Indicator is active in Gentax on their Taxpayer they are not to contact the taxpayer unless the assigned CID agent has given permission to audit that tax and period.

For any audits in your current inventory (RAS or Auditor) you should check for the indicator and, if present, contact the assigned CID agent to get permission to assign/perform the audit. This check should also be made once the audit has been staged Assigned-Started as indicators can be added as the audit progresses.

Effective April 1, 2020, Audit Planning will be taking the following steps to attempt to prevent contact by Auditors with cases under CID jurisdiction from occurring.

1. When an audit planner is researching a taxpayer, and prior to the planner establishing an audit assignment available for selection, the audit planner will verify if there is an active/open BCI/CID indicator on the account.
2. If there is an active/open BCI/CID Indicator, the audit planner will contact CID to determine which agent is working the case. The Audit Planner will contact the agent to find out if an audit assignment can be established for the period of the audit.
3. If the agent says that an audit assignment can be created because the investigation does not cover the period of the audit or the type of tax of the audit. The audit planner will establish the audit.
4. If the agent says that no audit assignment should be established, then no audit assignment will be created until after the criminal case is completed.

Again, you as the Auditor or Supervisor, will have check your current inventory, to prevent contact with cases under CID jurisdiction. The audit planning procedures are for audits set up on or after April 1, 2020.