



Illinois Department of Revenue

Informational Bulletin

Brian Hamer
Director of Revenue

**For information
or forms...**

- Call us at:
1 800 732-8866 or
217 782-3336
- Call our TDD
(telecommunications device
for the deaf) at:
1 800 544-5304
- Write us at:
Illinois Department of Revenue
P.O. Box 19044
Springfield, IL 62794-9044
- Visit our web site at:
tax.illinois.gov
- Call our 24-hour
Forms Order Line at:
1 800 356-6302

This bulletin is written to inform you of recent changes; it does not replace statutes, rules and regulations, or court decisions.

Domestic Activities Production Deduction

To:
**All income tax preparers and professionals and
Subchapter S corporations and partnerships**

The purpose of this bulletin is to clarify who may take the Domestic Production Services deduction. Limitations to subchapter S corporations (S corporations) and partnerships are specifically identified.

What is the Domestic Production Activities deduction?

For tax years beginning January 1, 2005, the Internal Revenue Code (IRC) Section 199 allows for a deduction for qualified domestic production activities. See IRC Section 199 for details on what activities are considered to be qualified and how to calculate the federal deduction amount.

How do S corporations and partnerships calculate the deduction?

For federal purposes, IRC Section 199(d)(1) provides that the deduction may be taken by the partners or shareholders, and not by the entity (S corporation or partnership). The partnership or S corporation must “pass-through” the information each partner or shareholder needs to calculate the amount that may be taken as a federal deduction.

Can S corporations and partnerships take the deduction on the Illinois tax return?

No. Generally, partnerships and S corporations may take deductions that they are allowed to deduct on their federal income tax returns, when computing Illinois net income that is subject to the Personal Property Replacement Income Tax. Partnerships and S corporations are also allowed to take deductions that they cannot take for federal income tax purposes because the deductions are required to be separately stated to their partners and shareholders under IRC Sections 703(a)(1) or 1363(b)(1).

However, because the Domestic Production Activities deduction is disallowed to partnerships and S corporations under IRC Section 199, rather than separately stated under IRC Section 703 or 1363, the deduction is not allowed to partnerships or S corporations for Illinois income tax purposes.

Can partners and shareholders take the deduction on the Illinois return?

Yes. Partners and shareholders who are allowed the federal deduction are allowed the deduction in computing their Illinois net income.

