

**Illinois Department of Revenue  
Regulations**

**Title 86 Part 100 Section 100.2450 IIT Refunds (IITA Section 203(a)(2)(H), (b)(2)(F), (c)(2)(J)  
and (d)(2)(F))**

**TITLE 86: REVENUE**

**PART 100  
INCOME TAX**

**Section 100.2450 IIT Refunds (IITA Section 203(a)(2)(H), (b)(2)(F), (c)(2)(J) and (d)(2)(F))**

- a) The "tax benefit rule" codified in Internal Revenue Code section 111 applies when a taxpayer receives a tax benefit from claiming a deduction for an expense in one year and recovers or is compensated or reimbursed for the expense in a subsequent taxable year. Under the tax benefit rule, the recovery or compensation for the expense is included in income in the year it is received. Thus, when the taxpayer deducts State income taxes paid in one taxable year and receives a refund of some or all of the payment in a subsequent year, the tax benefit rule requires the taxpayer to include the refund in federal taxable income or adjusted gross income for the taxable year of the refund. If, however, the expense did not reduce the taxpayer's federal income tax, the recovery or compensation is excluded from income under Internal Revenue Code section 111(a).
- b) The regular income tax imposed directly on an individual is allowed only as an itemized deduction for federal income tax purpose and so is not deducted in computing adjusted gross income. Because Illinois does not allow itemized deductions, and any Personal Property Tax Replacement Income Tax deducted in computing adjusted gross income because it is passed through from a partnership, Subchapter S corporation, or trust is added back under IITA Section 203(a)(2)(B), IITA Section 203(a)(2)(H) allows individuals to subtract any such refund included in adjusted gross income. The purpose of this subtraction and the addition of IITA Section 203(a)(2)(B) is to render the payment of Illinois income tax and replacement income tax neutral in the computation of adjusted gross income.
- c) All other taxpayers are required to add back any Illinois regular income tax or replacement tax deducted in computing their federal taxable income. (See IITA Section 203(b)(2)(B) (corporations), (c)(2)(C) (trusts and estates) and (d)(2)(B) (partnerships)). Because these taxpayers receive no Illinois income tax benefit from these deductions, any refund of Illinois regular income tax or replacement tax that is included in the taxpayer's federal taxable income may be subtracted under IITA Section 203(b)(2)(F) (corporations), (c)(2)(J) (trusts and estates) and (d)(2)(F) (partnerships).

(Source: Added at 32 Ill. Reg. 3400, effective February 25, 2008)