Illinois Department of Revenue

IL-1041 Instructions 2002

What's new for 2002?

- Effective for tax years **ending on or after September 11, 2001,** Illinois has "decoupled" from the federal bonus depreciation legislation. Additions and subtractions reversing the effects of federal bonus depreciation are figured on the new Form IL-4562, Special Depreciation. See Specific Instructions for Lines 2d and 4f, and Informational Bulletin, FY 2003-02, Illinois Decouples from Federal Law, on our Web site at **www.ILtax.com.**
- Effective for tax years ending **on or after December 31, 2001**, the Tax Credit for Affordable Housing Donations is a credit equal to 50 percent (.50) of the amount of the donation a taxpayer makes for the development of affordable housing in Illinois.
- Effective for tax years **beginning on or after January 1, 2003,** you may make an election to treat all of your income other than employee compensation as business income. A new box has been added to Schedule NR, Part I, for the purpose of making this election.

General Information

Who must file Form IL-1041?

You must file Form IL-1041 if you are a fiduciary of a trust or an estate and the trust or the estate

- has net income or loss as defined under the Illinois Income Tax Act (IITA), regardless of any deduction for distributions to beneficiaries; or
- is a resident of Illinois and files, or is required to file, a federal income tax return (regardless of net income or loss). (See "Nonbusiness income allocable to Illinois" under "Definitions to help you complete your Form IL-1041.")

Note: "Grantor" trusts are not required to file Form IL-1041. Estates do not pay replacement tax.

If the trust or estate is a charitable organization exempt from federal income tax by reason of the IRC, Section 501(a), it is not required to file Form IL-1041. However, unrelated business taxable income, as determined under IRC, Section 512, is subject to tax (without any deduction for the Illinois income tax) and must be reported on Form IL-990-T, Illinois Exempt Organization Income and Replacement Tax Return, instead of Form IL-1041. For further information, see Form IL-990-T instructions.

It is your duty as a taxpayer to obtain forms. Failure to obtain them is not an excuse for failure to file returns as required by law.

How do I register my business?

If you are required to file Form IL-1041 and you are the owner of a business, you should register by calling our Central Registration Division at **217 785-3707**, and they will either send you the correct form to complete or assist you by telephone.

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

Your identification numbers as an Illinois business taxpayer are your federal employer identification number (FEIN) and your Illinois business tax (IBT) number.

When should I file?

Your Illinois filing period is the same as your federal filing period. In general, Form IL-1041 is due on or before the 15th day of the **4th** month following the close of the tax year.

Automatic six-month extension — We grant you an automatic six-month extension of time to file your fiduciary tax return. You are not required to file Form IL-505-B, Automatic Extension Payment, in order to obtain this automatic extension. However, if you expect tax to be due, you must use Form IL-505-B to pay any tentative tax due in order to avoid interest and penalty on tax not paid by the original due date of the return. An extension of time to file your Form IL-1041 is not an extension of time for payment of Illinois tax.

Additional extensions beyond the automatic extension period — We will grant an extension of more than six months **only** if an extension of more than six months is granted by the Internal Revenue Service (IRS). You must attach a copy of the approved federal extension to your Form IL-1041.

Where should I file?

Mail your Form IL-1041 to

ILLINOIS DEPARTMENT OF REVENUE
PO BOX 19009
SPRINGFIELD IL 62794-9009

When should I pay?

Payment of tax — You must pay your Illinois income and replacement tax in full on or before the original due date of the return. This payment date applies even though an automatic extension for filing the return has been granted.

Estimated tax payments — For state purposes, trusts and estates are not required to make estimated payments, although they may be required to make **federal** estimated payments. You may, however, make such payments on Form IL-1120-ES, Estimated Income and Replacement Tax Payments for Corporations, and include them on Form IL-1041, Part II, Line 4.

Do not use Form IL-1040-ES, Estimated Income Tax Payments for Individuals, to make these payments. Doing so may delay the processing of your return.

Who should sign the return?

The Form IL-1041 must be signed by the fiduciary of the trust or estate. If there are two or more joint fiduciaries, the signature of one will comply with the requirements of the IITA. The signature verifies by written declaration (and under penalties of perjury) that the signing fiduciary has personally examined the return and the return is true, correct, and complete. The fact that a fiduciary's name is signed to a return is *prima facie* evidence that the fiduciary is authorized to sign the return on behalf of the trust or estate.

Any person, paid to prepare the return (other than a fiduciary of the trust or estate, or a regular, full-time employee of the taxpayer, such as a clerk, secretary, or bookkeeper) must provide a handwritten signature, date the return, and write the preparer's taxpayer identification number. If the preparer is an employee or partner of a firm or corporation, the preparer must also provide the firm's name, address, and instead of the preparer's taxpayer identification number, the preparer must provide the firm's FEIN. Self-employed preparers must check the "self-employed" box and provide their own name, address, and taxpayer identification number in the appropriate spaces.

Note: If your return is not signed, any overpayment of tax is considered forfeited if, after notice and demand for signature, you fail to provide a signature within three years from the date your return was filed.

What are the penalties and interest?

Penalties and interest — You owe a **late-filing penalty** if you do not file a processable return by the extended due date, a **late-payment penalty** if you do not pay the tax you owe by the original due date of the return, and a **bad check penalty** if your remittance is not honored by your financial institution. Interest is calculated on tax from the day after the original due date of your return through the date you pay the tax.

We will bill you for penalties and interest. For more information about penalties and interest, see Publication 103, Uniform Penalties and Interest. To receive a copy of this publication, see "What if I need additional assistance or forms?" for our phone numbers and addresses.

What if I am discontinuing my business?

Terminated — If you are the fiduciary of a trust or estate that has terminated during any tax year, you are still required to file the tax return. Also, we will pursue the assessment and collection of taxes if

- the trust or estate was liable for income and replacement tax, for that or any previous tax period; or,
- the beneficiary had income allocable to Illinois and was liable for income and replacement tax, for that or any previous tax period, due to a distribution from the trust or estate.

Sales or transfers — If you are a fiduciary that, outside the usual course of business, sells or transfers the major part of any one or more of

- the stock or goods which you are in the business of selling,
- the furniture or fixtures of your business,
- the machinery and equipment of your business, or
- the real property of your business,

you or the purchaser must complete and send us Form CBS-1, Notice of Sale or Purchase of Business Assets, no later than 10 days after the date the sale took place. Mail this form, along with copies of the sales contract and financing agreement, to Illinois Department of Revenue, Bulk Sales Section, P.O. Box 19035, Springfield, Illinois 62794-9035.

Request for prompt determination — If you are an estate that has terminated, you may make a request for prompt determination of liability. Before you can make this request, you must file a return with us. If your request is properly made, the expiration of the statute of limitations (absent fraud) will not extend beyond 18 months from the date of your request. Mail your request to Illinois Department of Revenue, P.O. Box 19044, Springfield, Illinois 62794-9044.

What if I need to correct or change my return?

Corrected — If you need to correct or change your return after it has been filed, but before the automatic extension due date has passed, you must file a corrected Form IL-1041. Mark the form "CORRECTED" at the top and show the changes. Any correction made may cause a recalculation of penalties and interest.

Amended — If you need to correct or change your return after it has been filed, and the automatic extension due date has passed, you must file Form IL-843, Amended Return or Notice of Change in Income, showing the changes.

State changes only — If you discover an error on your Illinois return that does not relate to any error on your federal return but was caused by

- a mistake in transferring information from your federal return to your Illinois return,
- failing to report to Illinois an item that has no effect on your federal return, or
- a mistake in another state's tax return that affects the computation of your Illinois tax liability,

you must file Form IL-843, promptly.

If you are filing Form IL-843 to claim an overpayment, it must be filed within three years after the extended due date, date the return was filed, or one year after the tax giving rise to the overpayment was paid, whichever is latest.

Federal changes only — If you have been notified by the IRS that they have made changes to your return due to an error, or as a result of an examination, you must file Form IL-843. This includes any change in your federal income tax liability; any tax credit; or the computation of your federal taxable income as reported for federal income tax purposes if the change affects any item entering into the computation of net income, net loss, or any credit for any year under the IITA. You must file Form IL-843 no later than 120 days after the changes have been agreed to or finally determined.

If you are filing Form IL-843 to claim an overpayment, it must be filed within two years after the date such notification was due (regardless of whether such notice was given). For further information, see Form IL-843 instructions.

What records must I keep?

You must maintain books and records to substantiate any information reported on your Form IL-1041. Your books and records must be available for inspection by our authorized agents and employees.

Do the IDOR and the IRS exchange income tax information?

The IDOR and the IRS exchange income tax information for the purpose of verifying the accuracy of information reported on federal and Illinois tax returns. All amounts you report on Form IL-1041 are subject to verification and audit.

Should I round?

To make it easier for you to figure your tax, you may round the dollar amounts on Form IL-1041 and accompanying schedules to whole-dollars. To do this, you should drop any amount less than 50 cents and increase any amount of 50 cents or more to the next higher dollar.

What if I have an Illinois net loss deduction (NLD)?

If you have an Illinois NLD from any loss year ending on or after December 31, 1986, it is subtracted from and limited to your base income allocable to Illinois.

To determine your "Illinois net loss" start with federal taxable income, without regard to any federal net operating loss deduction (NOLD), and apply all addition and subtraction modifications and all allocation and apportionment provisions.

Illinois net losses must be carried back 2 years (unless an election to only carry the losses forward is made), then forward 20 years.

Note: You may make the election to only carry the loss forward and to forgo the Illinois NLD carryback period by checking the box below Part III, Line 1a. This election must be made by the extended due date of the loss year return. **Once made, the election is irrevocable.**

If you are carrying forward an Illinois NLD, you must complete Illinois Schedule NLD, Illinois Net Loss Deduction, and claim the deduction on Part III, Line 1b. See specific instructions for Part III, Line 1b.

If you have an Illinois net loss for this tax year, you must file Form IL-1041 reporting the loss in order to carry back or carry forward the loss to another year.

If you need further information, visit our Web site at **www.ILtax.com** and view the Illinois Income Tax Regulations, Sections 100.2050 and 100.2300 through 100.2330, or write to Illinois Department of Revenue, Legal Services Office, Senior Counsel - Income Tax, 5-500, 101 West Jefferson Street, Springfield, Illinois 62702, and request these sections of the Illinois Income Tax Regulations.

What is the standard exemption?

The standard exemption is $1,000 multiplied by a fraction in which the numerator is your base income allocable to Illinois and the denominator is your total base income. If you have a change in your tax year end and the result is a period of less than 12 months, the standard exemption is prorated based on the number of days in the tax year. If this is your first or final return, you are allowed the full-year standard exemption. If you need further information, see IITA, Section 401(b).

Definitions to help you complete your Form IL-1041.

Resident means

- an individual who is present in Illinois for other than a temporary or transitory purpose;
- an individual who is absent from Illinois for a temporary or transitory purpose but who is domiciled in Illinois;
- the estate of a decedent who at his or her death was domiciled in Illinois;
- a trust created by a will of a decedent who at his or her death was domiciled in Illinois; or
- an irrevocable trust, whose grantor was domiciled in Illinois at the time the trust became irrevocable. For purposes of this definition, a trust is irrevocable to the extent that the grantor is not treated as the owner of the trust under IRC, Sections 671 through 678. For a more detailed explanation of "domicile" and "resident," see Form IL-1040, Illinois Individual Income Tax Return, General Instructions.

Nonresident means a person who is not a resident of Illinois, as defined previously.

Note: In the following definitions, all references to "income" include losses.

Illinois base income means federal taxable income modified by additions and subtractions in Part I of Form IL-1041. See specific instructions for Part I.

Business income means income, other than employee compensation, arising from transactions and activities in the regular course of your trade or business, after any related deductions. It includes income from tangible and intangible property if the acquisition, management, and disposition of the property are integral parts of your regular trade or business operations.

Nonbusiness income means all income other than business income or employee compensation. For more information about the different types of nonbusiness income, see the instructions for Illinois Schedule NB, Nonbusiness Income.

When is business income allocable to Illinois?

If the trust or estate is a resident, all income received, regardless of source, is allocable to Illinois.

If the trust or estate is a nonresident and business income is derived

- wholly inside Illinois, the entire amount of business income is allocable to Illinois;
- wholly outside of Illinois, none of business income is allocable to Illinois;
- inside and outside of Illinois, complete Illinois Schedule NR, Nonresident Computation of Fiduciary Income, Part II. See the instructions for Part II.
- from S corporations, partnerships, and other fiduciaries, the business income may be allocable to Illinois. See the Illinois Schedule K-1-P, Partner's or Shareholder's Share of Income, Deductions, Credits, and Recapture, furnished by the S corporation or partnership or the Illinois Schedule K-1-T, Beneficiary's Share of Income and Deductions, furnished by the other fiduciary to determine what income is allocable to Illinois.

When is nonbusiness income allocable to Illinois?

If the trust or estate is a resident, all nonbusiness income is allocable to Illinois.

If the trust or estate is a nonresident, items of income and deduction which constitute nonbusiness income are allocable to Illinois according to the following rules:

- **Interest and dividend income** received by a nonresident trust or estate is not allocable to Illinois.
- **Net rents and royalties**

  Real property — Rents and royalties from real property are allocable to Illinois if the property is located in Illinois.

  Tangible personal property — Rents and royalties from tangible personal property are allocable to Illinois to the extent the property is used in Illinois. The extent of use of tangible personal property in a state is determined by multiplying the rents and royalties derived from the property by a fraction, in which the numerator is the number of days of physical location of the property in the state during the rental and royalty period in the tax year and the denominator is the number of days of physical location of the property everywhere during all rental or royalty periods in the tax year.
- **Patent and copyright royalties** are allocable to Illinois to the extent the patent or copyright is used in Illinois.

  A **patent** is used in Illinois to the extent that it is employed in production, fabrication, manufacturing, or other processing in Illinois or to the extent that a patented product is produced in Illinois.

  A **copyright** is used in Illinois to the extent that printing or other publication originates in Illinois.
- **Gains and losses** from sales or exchanges of real or tangible property are in Illinois if the property is located in Illinois at the time of the sale or exchange. Gains or losses from the sale or exchange of intangible personal property are not allocable to Illinois.
- **Income from S corporations, partnerships and other fiduciaries** paid to the trust or estate is allocable to Illinois as if the trust or estate received it directly. See the Illinois Schedule K-1-P furnished by the S corporation or partnership or the Illinois Schedule K-1-T furnished by the other fiduciary to determine what income is allocable to Illinois.
- **Illinois State lottery winnings** received by a nonresident fiduciary are allocable to Illinois.
- **Other unspecified items** of income or deduction of a nonresident taxpayer are not allocable to Illinois.

What does taxability (taxable) in other states mean?

Taxable in other states means a trust or estate is subject to and pays "tax" in another state. "Tax" includes net income tax, franchise tax measured by net income, or franchise tax for the privilege of doing business. A trust or estate is considered taxable in another state if that state has jurisdiction to subject it to a net income tax even though that state does not impose such a tax. This definition is for purposes of allocating nonbusiness income and apportioning business income inside or outside Illinois.

What is the fiduciary's share or beneficiary's share of income?

The fiduciary's share of an item of income (including any allowable deduction) is that amount required to be taken into account in computing fiduciary taxable income for

federal income tax purposes for the tax year and is not paid, credited, or required to be distributed to the beneficiaries of the trust or estate for that year. The fiduciary's share of each of the addition and subtraction items required under the IITA is that part of each item that relates and is attributable to the fiduciary's share of the items of income and deduction.

The beneficiary's share of each of the items is the amount that was properly paid, credited, or required to be distributed to the beneficiary for the tax year. The items of income and deduction and the additions and subtractions that are deemed to have been paid, credited, or distributed must be taken into account by the beneficiaries in proportion to their respective shares of the distributable net income.

When must I use Illinois Schedules K-1-T and D?

You must use **Illinois Schedule K-1-T** to supply each beneficiary with that individual's or entity's share of the amounts reported on your federal and Illinois tax returns. For Illinois Income Tax purposes, you must give a completed Illinois Schedule K-1-T and a copy of the **Illinois Schedule K-1-T(2)**, Beneficiary's Instructions, to each beneficiary. **Do not file** Illinois Schedule K-1-T with your Form IL-1041. However, you must keep a copy of each Illinois Schedule K-1-T with your tax records.

Note: If you are a partner in a partnership or a shareholder in an S corporation, you should receive a completed **Illinois Schedule K-1-P** and a copy of **Illinois Schedule K-1-P(2)**, Partner's or Shareholder's Instructions.

You must use **Illinois Schedule D,** Beneficiaries' Identification, to supply us with a listing of your beneficiaries. You **must** file Illinois Schedule D with your Form IL-1041.

Note: If you need Illinois Schedule K-1-T, see "What if I need additional assistance or forms?" for our phone numbers and addresses.

What if the trust makes an accumulation or capital gain distribution?

If the trust makes an accumulation distribution or a capital gain distribution (both as defined in IRC, Section 665), the portion of the distribution included in the income of a nonresident or part-year resident beneficiary (under IRC, Section 668 and 669) is taxable to the extent that the trust income was allocable to Illinois before distribution.

What if I need additional assistance or forms?

If you need additional assistance,

- visit our Web site at **www.ILtax.com**;
- call our Taxpayer Assistance Division, Monday through Friday, 8 a.m. to 5 p.m. at **1 800 732-8866**, **217 782-3336**, or our TDD (telecommunications device for the deaf) at **1 800 544-5304**; or
- write to us at P.O. Box 19044, Springfield, Illinois 62794-9044.

If you need additional forms or schedules,

- visit our Web site at **www.ILtax.com**;
- call our Illinois Tax Fax at **217 785-3400** or our 24-hour Forms Order Line at **1 800 356-6302**; or
- write to us at P.O. Box 19010, Springfield, Illinois 62794-9010.

Specific Instructions

Name, address, and FEIN — Type or print the required information clearly in the spaces provided. Be sure that your name, address, FEIN, and the tax year ending are correctly reported at the top of your Form IL-1041. If your name or address has changed since you filed your last return, check the appropriate box. If you have an IBT number, write it clearly in the space provided. You must indicate whether you are a trust or an estate. Check the appropriate box if you are an electing small business trust (ESBT) or an individual bankruptcy estate. You also must indicate your residency status by checking the appropriate box.

If this is your first or final return, check the appropriate box and, if final, fill in the date.

Note: You must complete Form IL-1041 itself. Do not send a computer printout with line numbers and dollar amounts attached to a blank copy of the return.

Every trust or estate subject to Illinois income and replacement tax must use the same accounting method (*e.g.,* cash or accrual) and tax year that is used for federal income tax purposes.

A double deduction is prohibited by IITA, Section 203(g). You cannot deduct the same item more than once.

Part I — Computation of base income or loss

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

Line 1 — To determine the amount to write on Line 1 of Form IL-1041, complete the worksheet. This worksheet reports federal taxable income or loss without regard to any federal net operating loss deduction (FNOLD). To report an Illinois net loss deduction (NLD), see Part III - specific instructions for Line 1b.

Line 1 Worksheet

1 Taxable income from U.S. Form 1041, Line 22	_____
2 FNOLD included in U.S. Form 1041, Line 15a	_____
3*Taxable income of ESBT, if required	_____
4 Taxable income or loss before NOL deduction. Add Lines 1 through 3. Write this amount on Form IL-1041, Line 1.	_____

*If you are an electing small business trust (ESBT), you need to complete Line 3 of the worksheet above. Also, you should include the amounts applicable from this trust in your addition and subtraction modifications. Attach a worksheet explaining each amount.

Modifications — Any addition or subtraction modification required in the computation of base income should be adjusted by any amount permanently set aside for charitable purposes pursuant to IRC, Section 642(c).

Write the addition or subtraction modifications in Column A if the item is included in the computation of fiduciary's income.

Write the addition or subtraction modifications in Column B if the item is included in the computation of beneficiaries' income.

Additions

Line 2c — Write the total of all amounts excluded from federal taxable income that were received or accrued as interest during the tax year.

Line 2d — Identify each of the following items in the space provided, and write the total amount of income from the following sources:

- If you are a beneficiary in another trust or estate, a partner in a partnership, or a shareholder in an S corporation, include your distributive share of additions received from the trust, estate, partnership, or S corporation.

  Note: The trust or estate is required to send you an Illinois Schedule K-1-T and the partnership or S corporation is

required to send you an Illinois Schedule K-1-P specifically identifying your share of income.

- Any other state's income tax deducted from federal taxable income, if a corresponding credit is claimed on Illinois Schedule CR, Credit for Tax Paid to Other States, (Form IL-1041).
- Any amount from Form IL-4562, Step 2, Line 4. This amount is the total of
  - any **"bonus depreciation"** you claimed this year when figuring your federal taxable income, plus
  - the subtractions you claimed on any prior year Form IL-4562 for bonus depreciation property that you sold or transferred during this tax year in a transaction for which you reported a capital gain or loss on your federal return.

  See Form IL-4562 and instructions. Identify this amount as "special depreciation" on the line provided. **Attach Form IL-4562 to your Form IL-1041.**

Subtractions

Line 4a — Write the amount from Form IL-1041, Schedule F, Gains from Sales or Exchanges of Property Acquired Before August 1, 1969, Line 18. Capital gain, or Section 1245 or 1250 gain, on property acquired before August 1, 1969, may be limited by the value of the property on August 1, 1969. See Schedule F for instructions. **Attach Schedule F and a copy of U.S. Schedule D, U.S. Form 4797, and U.S. Form 6252, if filed.**

Line 4b — Write the federally taxed portion of any qualified distribution received from

- a qualified employee pension, profit sharing, stock bonus, or bond purchase plan, or from a government (including military) retirement or disability plan. Report only such distribution that was included in taxable income on U.S. Form 1041, Line 8. **Attach a copy of U.S. Form 1041, Page 1, and supporting schedule for Line 8.**
- an Individual Retirement Account (IRA), a self-employed retirement (SEP) plan, or a 401(k) plan.
- a lump-sum distribution of cash or property from a qualified plan (e.g., employer securities or retirement income, endowment or life insurance contracts). Report the total distribution treated as long-term capital gain shown on Schedule D plus any amount treated as ordinary income and included in U.S. Form 1041, Line 8. **Attach a copy of U.S. Schedule D and U.S. Form 1041, Page 1, and supporting schedule for Line 8.**
- the redemption of U.S. Retirement Bonds. **Attach a copy of U.S. Form 1041, Page 1, and supporting schedule for Line 8.**
- gain on the sale or exchange of employer securities. Complete Form IL-4644, Gains from Sales of Employer's Securities Received from a Qualified Employee Benefit Plan, to compute the subtraction. **Attach Form IL-4644 to your Form IL-1041.**

Note: You must notify each beneficiary of his or her share of any amount included on Line 4b, Column B, that is attributable to a capital gain distribution or to a gain realized on the disposition of employer securities. You must also advise the beneficiary that his or her share of any such amount is to be reported **only** if he or she is limiting capital gain on the disposition of property acquired before August 1, 1969, on Schedule F. If the beneficiary is an individual, he or she will include the amount on Form IL-1040, Schedule F, Step 3, Line 13. If the beneficiary is a trust or estate, the fiduciary will include the amount on Form IL-1041, Schedule F, Line 14.

Line 4c — Write the total interest received or accrued from U.S. Treasury bonds, notes, bills, federal agency obligations, and savings bonds that is included in the federal taxable income. You may **not** subtract anything that is not identified in Illinois Publication 101, Income Exempt from Tax. This amount is net of any bond premium amortization deducted federally.

Line 4d — Write any retirement payments to retired partners that were received by the trust or estate and excluded in computing net earnings from self employment by IRC, Section 1402.

Line 4e — Write the enterprise zone or foreign trade zone/sub-zone dividend subtraction from Illinois Schedule 1299-B, Enterprise Zone and Foreign Trade Zone (sub-zone) Subtractions, Step 1, Line 2. **Attach Illinois Schedule 1299-B to your Form IL-1041.**

Line 4f — Identify each of the following subtractions in the space provided on the form. You may **not** subtract anything that is not identified below or in Illinois Publication 101. Write the total of

- the refund of Illinois income and replacement tax for a prior year, to the extent included in your federal taxable income.
- any income included on Part I, Line 3, exempt from taxation by Illinois by reason of its Constitution or statutes or by the Constitution, treaties, or statutes of the United States. This amount is net of any bond premium amortization deducted federally. For further information, see Illinois Publication 101.
- your distributive share of subtractions passed through to you by any partnership, S corporation, trust, or estate that you were either a partner, a shareholder, or a beneficiary.

  Note: The partnership or the S corporation is required to send you an Illinois Schedule K-1-P and the trust or estate is required to send you an Illinois Schedule K-1-T, specifically identifying your share of subtractions.
- the expenses relating to federally tax-exempt investments such as state or municipal bonds that were disallowed as federal deductions because of IRC, Section 171(a)(2), 265, or 280C.
- the amount equal to the deduction used to compute the federal tax credit for restoration of amounts held under claim of right under IRC, Section 1341.
- income from the Illinois Prepaid Tuition Trust Fund that is included in Part I, Line 3, except for the federally taxed distributions that you did not spend in accordance with the provisions of your tuition contract.
- the amount from Form IL-4562, Step 3, Line 10. This amount is the total of
  - **42.9 percent of any ordinary depreciation allowance** claimed this year on bonus depreciation property that you included in your federal taxable income, plus
  - the **Illinois special depreciation addition** you reported on any prior Form IL-4562 for property that you sold or transferred during this tax year in a transaction for which you reported a capital gain or loss on your federal return.

  Complete Form IL-4562 to figure this subtraction. Identify this amount as "depreciation subtraction" on the line provided. **Attach Form IL-4562 to your Form IL-1041.**

Line 5 — Subtract Line 4 from Line 3. Trusts and estates that are residents of Illinois should also write this amount on Part III, Line 1a. The base income of a resident trust or estate is not subject to allocation or apportionment. The entire amount is allocated to Illinois under the provisions of the IITA. Trusts and estates that are nonresidents of Illinois must complete Form IL-1041, Schedule NR, before completing Part III.

Part II — Computation of total tax

Complete Parts III and IV before you complete Part II.

Line 4 — You may claim on this line the total of

- any Illinois income tax withheld on wages and salaries (of a decedent) that were received by the fiduciary. This withholding must be claimed by the fiduciary (attach Form W-2);

- any tax paid with Form IL-505-B;
- any estimated payments you made with Form IL-1120-ES; and
- any 2001 overpayment credited to 2002 tax.

Line 5 — Follow the instructions on the form. This is your overpayment. Your refund will not be issued if you do not file a processable return.

Note: Your refund or credit carryforward may be reduced by us to satisfy any unpaid tax, penalty, and interest due for this year or any preceding year. If we reduce your credit carryforward, it may result in a late-payment penalty in the succeeding year.

Line 6 — Follow the instructions on the form. This is your amount of tax due that must be paid in full if $1 or more. Make your check or money order payable to **"Illinois Department of Revenue."** We will compute any penalty or interest due and notify you (see General Information, "What are the penalties and interest?"). If you prefer to calculate and pay any penalties and interest when you file, include the amounts on Line 6 and identify each amount to the left of the line.

Note: When filing your Form IL-1041 you should include only forms and schedules required to support your return. Send correspondence separately to P.O. Box 19044, Springfield, Illinois 62794-9044.

Part III — Computation of net income or loss and replacement tax

Line 1a — Follow the instructions on the form. If this amount is a loss, you may carry it to other years as an Illinois net loss deduction (NLD). If you are electing to only carry this loss forward and to forgo the Illinois NLD carryback period, you must check the box below Line 1a. **This election must be made by the extended due date of this return. Once made, the election is irrevocable.** (See General Information, "What if I have an Illinois net loss deduction (NLD)?")

Line 1b — Write your Illinois NLD carryforward from any Illinois loss year ending on or after December 31, 1986, from Illinois Schedule NLD, Line 5. **Attach Illinois Schedule NLD to your Form IL-1041.**

Estates — Do not complete Lines 4 through 7.

Trusts — You must complete Lines 4 through 7.

Line 4b — Write your recapture of investment credits from Illinois Schedule 4255, Recapture of Investment Tax Credits, Part IV, Column C, Line 12.

If you claimed any Illinois investment tax credit in a prior year on Form IL-477, Replacement Tax Investment Credits, and any of the property was disqualified within 48 months of being placed in service, you must use Illinois Schedule 4255 to compute the amount of recapture. Credit must be recaptured in the year the property became disqualified.

Line 6 — Write the amount from Form IL-477, Part I, Line 11. **Attach Form IL-477 to your Form IL-1041.**

You may claim a replacement tax investment credit of .5 percent (.005) of the basis of qualified property placed in service in Illinois during the tax year.

An additional credit of up to .5 percent (.005) of the basis of qualified property is available if your Illinois base employment increased over the preceding year or if your business is new to Illinois. Excess credit may be carried forward for five years following the excess credit year. For further information, see Form IL-477 instructions.

Part IV — Computation of income tax

Line 2b — Write your recapture of investment credits from Illinois Schedule 4255, Part IV, Columns A and B, Line 12.

If you claimed an Illinois Enterprise Zone Credit or High Impact Business Investment Credit in a prior year on Illinois Schedule 1299-D, Income Tax Credits, and any of the property becomes disqualified, you must use Illinois Schedule 4255 to compute the amount of recapture. Credit must be recaptured in the year in which the property became disqualified. See Illinois Schedule 4255 for more information.

Line 4a — Write the amount from Form IL-1041, Schedule CR, Line 8. **Attach Schedule CR and all required supporting documents.** For further information, see Schedule CR instructions.

Line 4b — Write the amount from Illinois Schedule 1299-D, Step 3, Line 50. The total of all credits is limited to the total income tax shown on Form IL-1041, Part IV, Line 3. **Attach Illinois Schedule 1299-D to your Form IL-1041.** For further information, see Illinois Schedule 1299-D instructions.

The Tax Credit for Affordable Housing Donations, is available for tax years ending **on or after December 31, 2001.**

The TECH-PREP Youth Vocational Programs Credit and the Dependent Care Assistance Program Tax Credit are available to taxpayers primarily engaged in manufacturing. Any excess credit may be carried forward for **two** years following the excess credit year.

- **TECH-PREP Youth Vocational Programs Credit —** The programs must be certified as qualifying TECH-PREP programs by the State Board of Education. The credit is for an amount equal to 20 percent (.20) of the direct payroll expenditures for cooperative secondary school youth vocational programs in Illinois. The payroll expenditures must not have been claimed for the Training Expense Credit. You also may claim an additional credit of 20 percent (.20) for personal services rendered by a TECH-PREP student or instructor that would be subject to withholding if they were employed by you and no other credit is claimed by the actual employer.

- **Dependent Care Assistance Program Credit —** A credit of 5 percent (.05) of the amount of expenditures reported, under IRC, Section 129(d)(7), to provide an on-site facility dependent care assistance program as defined in IRC, Section 129.

The following seven credits are also available and may be carried forward **five** years following the excess credit year:

- **Jobs Tax Credit —** A credit of $500 per eligible employee hired to work in an Illinois enterprise zone or foreign trade zone (or sub-zone) during the tax year.

- **High Impact Business Investment Credit —** A credit of .5 percent (.005) of the basis of qualified property placed in service in Illinois by you during your tax year as a "High Impact Business," certified as such by the Illinois Department of Commerce and Community Affairs (DCCA). This credit is available only after you have met the minimum investment required by the Illinois Enterprise Zone Act.

- **Enterprise Zone Investment Credit —** A credit of .5 percent (.005) of the basis of qualified property placed in service in an Illinois enterprise zone during the tax year.

- **Training Expense Credit —** A credit of 1.6 percent (.016) for all amounts paid or accrued for educational or vocational training in semi-technical or technical fields, or semi-skilled or skilled fields to provide educational, technical, or vocational training.

- **Tax Credit for Affordable Housing Donations —** A credit of 50 percent (.50) of the amount of the donation a taxpayer

makes under Section 7.28 of the Illinois Housing Development Act for the development of affordable housing in Illinois.

- **Research and Development Credit —** A credit of 6.5 percent (.065) of the qualifying expenditures for increasing research activities conducted in Illinois, and which would be allowable under IRC, Section 41, as in effect before P.L. 101-239.

- **Economic Development for a Growing Economy (EDGE) Tax Credit —** A credit is available to taxpayers who have entered into an agreement with DCCA under the Economic Development for a Growing Economy Tax Credit Act. The credit is available to businesses located within Illinois or businesses planning to locate within Illinois, who are participating in an economic development project area.

Estates — Do not complete Lines 4c and 4d.

Trusts — You must complete Lines 4c and 4d.

Lines 4c and 4d — You must complete the worksheet on this page. The IITA provides a credit against income tax for replacement tax paid. This credit may be carried forward for five years following the excess credit year. Use the worksheet on this page to compute your current year credit and the amount of credit you have available to carry forward.

Part V — Additional information

Follow the instructions on the form.

Illinois Schedule D Instructions

Complete and attach Illinois Schedule D to your Form IL-1041, when you file your return with us.

Column A — Write the name of each beneficiary.

Column B — Write the beneficiary's address.

Column C — Write the Social Security number or federal employer identification number of the beneficiary.

Column D — Check this column if the beneficiary was not an Illinois resident on the last day of the tax year. See IITA, Section 1501, for the definition of an individual, trust, or estate "resident" for Illinois income tax purposes. Corporations and partnerships are considered nonresidents for purposes of Illinois Schedule D and Illinois Schedule K-1-T (See General Information, "Definitions to help you complete your Form IL-1041.")

Lines 4c and 4d Worksheet

a	Write your net replacement tax from Form IL-1041, Part III, Line 7.	**a** _____
b	**Residents.** Write "1." **Nonresidents.** Write the decimal from Illinois Schedule NR, Part III, Line 3.	**b** _____
c	Multiply Line a by Line b.	**c** _____
d	Multiply Line c by 3% (.03). This is your credit for the current year. **Write also on Part IV, Line 4c.**	**d** _____
e	Write the amount of credit being carried forward, if any, from the 2001 Lines 4c and 4d Worksheet, Line j. **Write also on Part IV, Line 4d.**	**e** _____
f	Add Lines d and e.	**f** _____
g	Write the amount from Form IL-1041, Part IV, Line 3.	**g** _____
h	Write the total amount from Form IL-1041, Part IV, Lines 4a and 4b.	**h** _____
i	Subtract Line h from Line g.	**i** _____
j	Subtract Line i from Line f. If Line i is larger than Line f, write "0." This is the amount of credit you may carry to a succeeding year's return. (**Do not** write this amount on your current year return.)	**j** _____

Illinois Schedule NR Instructions

You must complete Illinois Schedule NR if the trust or estate is a nonresident of Illinois. Resident trusts and estates are not permitted to allocate their fiduciary base income.

Part I — Computation of base income or loss allocable to Illinois

Short year filers only: For tax **years beginning on or after January 1, 2003,** you may make an election to treat all of your income other than employee compensation as business income. To make this election you must check the box in Part I and report all income as business income on Part I, Line 4. **This election must be made by the extended due date of this return. Once made, the election is irrevocable.**

Note: If you received income from a partnership or an S corporation, it is required to send you an Illinois Schedule K-1-P and a copy of Illinois Schedule K-1-P(2), Partner's and Shareholder's Instructions.

If you received income from another trust or estate, it is required to send you an Illinois Schedule K-1-T and a copy of Illinois Schedule K-1-T(2), Beneficiary's Instructions.

Column 1 — The amounts shown in this column should correspond to the amounts shown on U.S. Form 1041, except for Lines 4, 5, 7, and 20. The net gain or loss shown on U.S. Form 1041, Lines 4, 5, and 7 should be reclassified on Form IL-1041 as follows:

- Write on Line 4 the net gain or loss (other than from partnerships and other fiduciaries) from sales or exchanges of nonbusiness property;
- Include in Line 5a the net rent and royalty income or loss;
- Include in Line 5b the net gain or loss from partnerships and S corporations, from Illinois Schedule K-1-P;
- Include in Line 5c the net gain or loss from other trusts and estates from Illinois Schedule K-1-T; and
- Write on Line 7 the net gain or loss (other than from partnerships and other fiduciaries) from sales or exchanges of business property.

Column 2 — Write on the appropriate lines your share, as fiduciary, of the amounts shown in Column 1.

Column 3 — Write on the appropriate lines your share, as fiduciary, of the amounts shown in Column 2 which are allocable to Illinois. If you received an Illinois Schedule K-1-P or K-1-T, see Illinois Schedule K-1-P(2) or K-1-T(2) instructions to figure the amounts to include in this column.

Note: For Column 3, Lines 1 and 2, interest and dividend income classified as nonbusiness income is not allocable to Illinois. However, interest and dividend income classified as business income is apportioned to Illinois by the entity. If you received an Illinois Schedule K-1-P or K-1-T, see Illinois Schedule K-1-P(2) or K-1-T(2) instructions for the amounts to include on these lines.

Note: For definitions of business and nonbusiness income allocable to Illinois see General Information, "Definitions to help you complete your Form IL-1041."

Column 4 — Write on the appropriate lines the portion of the additions and subtractions listed on Form IL-1041, Part I, that are allocable to Illinois. Additions and subtractions are allocable to Illinois if the items to which they directly relate are allocable to Illinois. If you received an Illinois Schedule K-1-P or K-1-T, see Illinois Schedule K-1-P(2) or K-1-T(2) instructions to figure the amounts to include in this column.

Write additions as positive numbers.

Write subtractions as negative numbers.

Column 5 — Combine the amounts shown in Columns 3 and 4 and write the result in Column 5.

Note: For Lines 5b and 5c, write your share of income or loss allocable to Illinois.

Part II — Business income apportionment formula

Who must complete Part II?

You must complete Part II if the trust or estate derived business income or loss from both inside and outside of Illinois. The apportionment factor is applied to items of business income or loss in Part I, Column 2, to determine the amount of business income or loss apportionable to Illinois. The apportionment factor is also used to apportion business income or loss on Illinois Schedule K-1-T for each beneficiary.

Line 1 — Write your total sales everywhere.

Line 2 — Write your total sales inside Illinois.

Include gross receipts from the license, sale or other disposition of patents, copyrights, trademarks, and similar items of intangible personal property in the numerator and denominator of your sales factor only if these gross receipts are more than 50 percent of the total gross receipts included in gross income for this tax year and each of the two immediately preceding tax years.

Do not include the following items of income in the numerator or denominator of your sales factor:

- dividends;
- amounts included under IRC, Section 78;
- subpart F income as defined in IRC, Section 952; and
- any item of income excluded or deducted from base income.

Sales of tangible personal property are in Illinois if

- the property is delivered or shipped from anywhere to a purchaser in Illinois, other than the United States government, regardless of the f.o.b. point or other conditions of the sale;
- the property is shipped from Illinois to any place and the purchaser is the United States government;
- the property is shipped from Illinois to another state and you are not taxable in the state of the purchaser or you did not file a tax return in the state of the purchaser; or
- your salesperson operates out of an office in Illinois, and the property sold by the salesperson is shipped from a state in which you are not taxable, to a state in which you are not taxable.

Gross receipts from the licensing, sale, or other disposition of patents, copyrights, trademarks, and other similar items of intangible personal property are in Illinois to the extent the item is used in Illinois during the year the gross receipts are included in gross income. An item is used in Illinois if

- a patent is employed in production, fabrication, manufacturing, or other processing in Illinois or if the patented product is produced in Illinois.
- copyrighted material is printed or other publications originated in Illinois.
- the commercial domicile of the licensee or purchaser of a trademark or other item of intangible personal property is in Illinois.

Note: If you cannot determine from your books and records (or the books and records of a related person) in which state an item is used, do not include the gross receipts from that item in the numerator or the denominator of the sales factor.

Sales, other than sales of tangible personal property, or gross receipts from the licensing, sale, or other disposition of patents, copyrights, trademarks and similar items of intangible personal property, are in Illinois if

- the income-producing activity is performed in Illinois; or
- the income-producing activity is performed both inside and outside Illinois, and a greater proportion of the income-producing activity is performed inside Illinois rather than outside Illinois, based on performance costs.

Line 3 — Divide Line 2 by Line 1 and write the result, carried to six decimal places. This is your apportionment factor.

Part III — Compute your standard exemption

You are entitled to deduct a standard exemption in computing net income. The amount of the standard exemption is $1,000, multiplied by a fraction, the numerator is your base income allocable to Illinois for the tax year and the denominator is total base income for the tax year. To determine the allowable standard exemption, complete Schedule NR, Part III.