



What's new for 1997

- The Internal Revenue Code (IRC), Section 172, has been amended. Due to this amendment, Illinois net losses in tax years beginning after August 5, 1997, must be carried back 2 years, then forward 20 years. See General Information, "What if I have an Illinois net loss deduction (NLD)?"
- Effective for tax years ending on or after August 17, 1997, a new box has been added to the form for the purpose of electing to pass through to your partners, your replacement tax investment credits from Form IL-477, Replacement Tax Investment Credits. See Specific Instructions, Part II, Line 8.

General Information

Who must file Form IL-1065?

You must file Form IL-1065 if you are a partnership, as defined in "Definitions to help you complete your Form IL-1065," and you have base income (loss) as defined under the Illinois Income Tax Act (IITA).

If you are a partnership organized for the sole purpose of playing the Illinois State Lottery you are not required to file a Form IL-1065.

It is your duty as a taxpayer to obtain forms, and 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-1065, you must register by filing Form NUC-1, Illinois Business Registration. Form NUC-1 is available from the Illinois Department of Revenue, P.O. Box 19010, Springfield, IL 62794-9010.

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

Your identification number as an Illinois business taxpayer will be your federal employer identification number (FEIN).

When should I file?

Your Illinois filing period is the same as your federal filing period. In general, Form IL-1065 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 partnership 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-1065 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). A copy of the approved federal extension must be attached to your Form IL-1065 when it is filed.

Where should I file?

Mail your Form IL-1065 to

ILLINOIS DEPARTMENT OF REVENUE
 PO BOX 19031
 SPRINGFIELD IL 62794-9031

When should I pay?

Payment of tax — You must pay your Illinois replacement tax in full on or before the 15th day of the 4th month following the close of the tax year. This payment date applies even though an automatic extension for filing your return has been granted.

Estimated tax payments — Partnerships are not required to make estimated payments.

Who should sign the return?

Your Form IL-1065 must be signed by a partner or any other officer duly authorized to sign the return. In the case of a bankruptcy, a receiver, trustee, or assignee must sign any return required to be filed on behalf of a partnership. The signature verifies by written declaration (and under penalties of perjury) that the signing individual has personally examined the return and the return is true, correct, and complete. The fact that an individual's name is signed to a return is *prima facie* evidence that the individual is authorized to sign the return on behalf of the partnership.

Any person paid to prepare the return (other than a regular, full-time employee of the taxpayer, such as a clerk, secretary, or bookkeeper) must provide a handwritten

signature, date the return, and indicate their taxpayer identification number. If the preparer is an employee or partner of a firm or corporation, they must also provide the firm's name, address, and instead of the preparer's taxpayer identification number, they must provide the firm's FEIN. A self-employed preparer must check the "self-employed" box and provide their name, address, and taxpayer identification number in the appropriate spaces.

Note: If your return shows an overpayment of tax (including a credit carryover) and is unsigned, the overpayment is considered forfeited if, after notice and demand for signature, you fail to provide a signature within three years from the date the return was filed.

What are the penalties and interest?

Penalties and interest — You owe a **late filing or nonfiling penalty** if you do not file a processable return by the due date. You owe a **late payment penalty** if you do not pay the tax you owe by the original due date of the return, even if you have an extension of time to file. Interest is calculated on tax and penalty from the day after the original due date of your return through the date you pay the tax and penalty.

We will bill you for penalties and interest. If you prefer to figure these amounts, see Publication 103, Uniform Penalties and Interest. To receive a copy of this publication, see "What if I need additional assistance?" for our phone numbers and addresses.

What if I am discontinuing my business?

Liquidation or withdrawal from Illinois — If you are a partnership that is liquidated or withdraws either voluntarily or involuntarily from Illinois during any tax year, you are still required to file tax returns. Also, we will pursue the assessment and collection of taxes if

- you are liable for replacement tax for that period or any previous tax period; or
- the partners had income allocable to Illinois for that period or any previous tax period due to a distribution from you.

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

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

you should complete and send us Form NUC-542-A, 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 641155, Chicago, IL 60664-1155.

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-1065. Mark the return “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.

A State changes only — If you discover an error on your Illinois return that does not relate to an 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.

B 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 credits; or in the computation of your federal taxable income as reported for federal income tax purposes if the change affects any items 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 alteration has 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, refer to Form IL-843 instructions.

What records must I keep?

You must maintain books and records to substantiate any information reported on your Form IL-1065. 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-1065 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-1065 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 base income allocable to Illinois.

To determine your “Illinois net loss” start with federal taxable income and apply all addition and subtraction modifications and all allocation and apportionment provisions. This Illinois net loss is allowed as a carryback or carryforward deduction in the manner allowed under IRC, Section 172, including, for example, the conditions and limitations of IRC, Sections 381 and 382. **Effective for losses in tax years beginning after August 5, 1997**, IRC, Section 172, has been amended to allow federal NOLs to be carried back 2 years, then forward 20 years.

Illinois net losses in tax years **beginning on or before August 5, 1997**, must be carried back 3 years, then forward 15 years. Illinois net losses in tax years **beginning after August 5, 1997**, must be carried back 2 years, then forward 20 years. However, you may make the election to forgo the Illinois NLD carryback period by checking the box below Part II, 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 II, Line 1b. Refer to Part II - specific instructions for Line 1b.

If you have an Illinois net loss for this tax year, you must file Form IL-1065 reporting the loss in order to use it as a carryback or carryforward to another year.

If you need further information, write to Illinois Department of Revenue, Legal Services Office, 101 West Jefferson, Springfield, IL 62702, and request the Illinois Income Tax Regulations, Sections 100.2050 and 100.2300 through 100.2330.

What is the standard exemption?

The standard exemption is \$1,000 multiplied by a fraction, the numerator is your base income allocable to Illinois and the denominator is 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 standard exemption. If you need further information, refer to IITA, Section 401(b).

Definitions to help you complete your Form IL-1065.

All references to “income” include losses.

Illinois base income means federal ordinary income modified by the additions and subtractions as shown in Part IA and Part I of Form IL-1065. See specific instructions for Parts IA and I.

Business income means income arising from transactions and activity in the regular course of your trade or business, after any allowable 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.

Commercial domicile means the principal place from which your trade or business is directed or managed.

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

Partnership includes a syndicate, group, pool, joint venture, or other unincorporated organization, through or by means of which any business, financial operation, or venture is carried on, and that is not, within the meaning of the IITA, a trust, estate, or corporation. A partnership may be any entity formed under the Illinois Limited Liability Company Act that is treated as a partnership for federal income tax purposes. A partnership that has elected under IRC, Section 761, to be excluded

from the partnership provisions of the IRC is also excluded for purposes of the IITA.

Partner includes a member in such syndicate, group, pool, joint venture, or other unincorporated organization.

A **resident partner** 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 if the 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,” refer to the General Instructions for Form IL-1040, Individual Income Tax Return.

Nonresident partner means a partner who is not a resident of Illinois, as defined above.

What does taxability (taxable) in other states mean?

Taxable in other states means you are subject to and pay “tax” in another state. “Tax” includes net income tax, franchise tax measured by net income, or franchise tax for the privilege of doing business. You or your partners are considered taxable in another state if that state has jurisdiction to subject you to a net income tax even though that state does not impose such a tax. This definition is for purposes of allocating nonbusiness and apportioning business income inside or outside Illinois.

May I file a composite return for any nonresident partners?

You may file a composite return for any nonresident individuals, trusts, and estates that derive income from an Illinois partnership. You may also file a composite return for any nonresident member of a partnership formed under the Illinois Limited Liability Company Act.

If you would like more information concerning eligibility to file a composite return, refer to Form IL-1023-C, Composite Income and Replacement Tax Return.

Note: To make payments of estimated tax for a composite filing, you must use Form IL-1023-CES, Composite Estimated Tax Payments for Partners and Shareholders. If you make estimated payments to us for any other type of tax or you have

overpayments of tax from any other type of tax return, you cannot transfer any of these payments from or to Forms IL-1023-CES or IL-1023-C to satisfy composite tax payment requirements.

What if I need additional assistance?

If you have questions about this form, you may call us at 1 800 732-8866, 217 782-3336, or the TDD-telecommunications device for the deaf 1 800 544-5304. Our office hours are 8 a.m. to 5 p.m. If you prefer, you may write to us at P.O. Box 19044, Springfield, IL 62794-9044.

If you need additional forms or schedules to complete your Form IL-1065, you may call our Forms Order Line at 1 800 356-6302; call our Illinois Tax Fax at 217 785-3400; or visit our Web site at <www.revenue.state.il.us>. If you prefer, you may write to us at P.O. Box 19010, Springfield, IL 62794-9010.

Specific Instructions

Name, address, and FEIN —

If your Illinois replacement tax booklet has a pre-addressed label, remove the label and place it in the correct area on the form. If any information on the pre-addressed label is not correct, cross through it and write the correct information directly on the label. If your name or address has changed, check the appropriate box. If you did not receive a pre-addressed label, type or print the required information clearly in the spaces provided. Be sure that your name, address, FEIN, and tax year ending are correctly reported at the top of your Form IL-1065.

If you are filing an IRC, Section 761(a) or (b) election, check the appropriate box.

Note: You must complete Form IL-1065 itself. Do not send a computer printout of line numbers and dollar amounts attached to a blank copy of the return.

You 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 IA — Ordinary income adjustments

Complete this part before completing Part I. You do not need to attach copies of U.S. Schedules K-1 to your Form IL-1065.

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 4f — Write the total amount of depletion on all your oil and gas properties calculated as follows:

- For each property that cost depletion would be required, write the depletion that would be allowed to the partner, taking into account the partner's proportionate share of the adjusted basis for each property.
- For each property that percentage depletion would be required, write the percentage depletion that would be allowed to the partner as prescribed by IRC, Section 613(a) and Section 613A. For regulated natural gas and natural gas sold under a fixed contract, write the percentage depletion that would be allowed to the partner as prescribed by IRC, Section 613A(b)(1).

Line 4h — You cannot take a subtraction for a net operating loss on this line.

Part I — Computation of base income (loss)

Complete Part IA before completing Part I.

Additions

Line 2a — Write the total of all amounts paid or accrued as interest and all distributions received from regulated investment companies during the tax year, to the extent excluded from federal ordinary income.

Line 2d — If you are a partner in another partnership, beneficiary of a trust or estate, or shareholder in an S corporation, write your distributive share of additions furnished you by that partnership, trust, estate, or S corporation.

Line 2e — Complete the worksheet for Line 5d to determine if an amount is required on this line. The worksheet calculates the share of distributable income (loss) that is to be added or subtracted from base income. If the result of the worksheet is a negative number (loss), it should be written on this line as a **positive** amount. **Attach Form IL-2569, Personal Property Replacement Tax (Partner's Annual Certification), to your Form IL-1065. You may submit one Form IL-2569 that lists all partners, by FEIN, name, and type, rather than a Form IL-2569 for each partner.**

Subtractions

Line 5a — Write the total interest received or accrued from U.S. Treasury bonds, notes, bills, and savings bonds included in federal ordinary income. This amount is net of any bond premium amortization that is deducted federally.

Line 5b — Write the amount from Form IL-1065, Schedule F, Gains from

Sales or Exchanges of Property Acquired Before August 1, 1969, Line 14. 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 5c — Write the greater of

- your personal service income as defined in the now-repealed IRC, Section 1348(b)(1); or
- a reasonable allowance for compensation paid or accrued for services rendered by partners to you.

Line 5d — In the case of a partner(s) subject to replacement tax, write the share of distributable income. Multiply each line referenced in the worksheet by the percentage of total ownership in the partnership attributable to these partners.

Note: Report any share of distributable loss on Line 2e.

Complete the worksheet on this page to compute the amount of distribution and to determine where it should be reported.

Attach Form IL-2569 to your Form IL-1065. You may submit one Form IL-2569 that lists all partners, by FEIN, name, and type, rather than a Form IL-2569 for each partner.

Line 5e — Write the enterprise zone or foreign trade zone/sub-zone dividend subtraction from Illinois Schedule 1299-A, Tax Subtractions and Credits, Section I, Part I, Line 2. **Attach Schedule 1299-A to your Form IL-1065.**

Line 5f — Write the total of any amortizable bond premium disallowed as a federal deduction by IRC, Section 171(a)(2), any expenses incurred in producing federally tax-exempt income disallowed as a federal deduction by IRC, Section 265(a)(1), or any interest expense disallowed as a federal deduction by IRC, Section 265(a)(2).

Line 5g — Identify each of the following subtractions in the space provided. Write the total of

- the refund of an overpayment of Illinois replacement tax for a prior year, to the extent included in federal ordinary income.
- any other income included on Part I, Line 4, that is exempt from taxation by Illinois by reason of its Constitution, or the Constitution, treaties, or statutes of the United States. This amount is net of any bond premium amortization that is deducted federally. For further information, refer to Illinois Publication 101.
- your distributive share of subtractions furnished you by another partnership, trust, estate, or S corporation that you were either a partner, beneficiary, or shareholder. Exclude any August 1,

Line 5d worksheet

- 1 Write the share of distributable income included in Line 1. _____
- 2 Write the share of distributable income included in Line 2a. _____
- 3 Write the share of distributable additions included in Line 2d. _____
- 4 Add Lines 1, 2, and 3. _____
- 5 Write the amount of guaranteed payments to partners subject to replacement tax included in Line 2c. _____
- 6 Write the share of distributable income included in Line 5a. _____
- 7 Write the share of distributable modifications included in Line 5g. _____
- 8 Add Lines 5, 6, and 7. _____
- 9 Subtract Line 8 from Line 4. If the result is a **positive amount** (income), write it here and on Form IL-1065, Part I, Line 5d. _____
If the result is a **negative amount** (loss), write it here and write it as a positive figure on Form IL-1065, Part I, Line 2e. _____

1969, appreciation amount included in the share.

- 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.
- any income included on Part I, Line 4, which is exempt from taxation by Illinois statutes other than the IITA. For further information, refer to Illinois Publication 101.

Part II — Computation of net income (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 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-1065.**

Line 6b — Write your recapture of investment credits from Illinois Schedule 4255, Recapture of Investment Tax Credits, Part IV, Column C, Line 12.

If you claimed an 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 after being placed in service, you should use Schedule 4255 to compute the amount of recapture. Credit must be recaptured in the year the property became disqualified.

Line 8 — Write the amount from Form IL-477, Part I, Line 9. **Attach Form IL-477 to your Form IL-1065.**

Effective for tax years ending on or after August 17, 1997, you may make the election to pass through your replacement tax credits to your partners. If you are making this election, you must check the box provided next to the line and write "0" on this line. Once made, this election is irrevocable.

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. For further information, refer to Form IL-477 Instructions.

Line 10 — Write the amount of Illinois replacement tax paid with Form IL-505-B. If you have an additional federal extension beyond six months, you **must** attach a copy of your **approved** federal extension to your return.

Special Note: Illinois income tax withheld for lottery winnings shown on Form IL-W-2G cannot be claimed on your Form IL-1065. This amount must be claimed on each partner's individual return.

Line 11 — Follow the instructions on the form. Your refund will not be issued if your return is determined to be unprocessable.

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 12 — 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 and 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 12 and identify each amount to the left of the line.

Note: When filing your Form IL-1065, include only forms and schedules required to support your return. Send correspondence separately to P.O. Box 19044, Springfield, IL 62794-9044.

Part III — Base income (loss) allocable to Illinois

You **must** complete Part III if any portion of Part I, Line 7, base income (loss) is derived outside Illinois. If you do not complete **all** of Part III we may issue a notice and demand proposing 100 percent of business income being apportioned to Illinois.

In order to properly allocate your base income (loss), you need to determine what portion of the total base income is business income (loss) that is to be apportioned among all the states in which you do business, and what portion is nonbusiness income (loss) that is to be allocated to a particular state.

Line 2a — Write the amount of all nonbusiness income (loss) included in base income, net of any related deductions, from Illinois Schedule NB, Column A. **Attach Schedule NB to your Form IL-1065.**

Line 2b — Write the amount of all business income (loss) included in base income received from another partnership, trust, or estate, of which you are a partner or beneficiary.

Lines 5 through 7 — You must complete Lines 5 through 7 only if business income (loss) is derived inside and outside Illinois. Follow specific instructions below for Lines 5 through 7. Financial organizations and transportation companies should see "Special Apportionment Formulas" in these instructions.

Line 5a — Property factor — In Column 1, write the average value of real and tangible personal property owned or rented and used in your trade or business everywhere. In Column 2, write the average value of real and tangible personal property owned or rented and used in your trade or business in Illinois. For Column 3, divide Column 2 by Column 1 and write the result, carried to six decimal places. If a zero is written in Column 1, this factor is not applicable. Write "N/A" in Column 3.

Property owned by you is valued at its original cost, plus the original cost of any capital additions or improvements. The average value of property is determined by averaging the values at the beginning and

end of the tax year. The director may require the averaging of monthly values during the tax year, if reasonably required to properly reflect the average value of your property. Leasehold improvements made by you, as a lessee, are treated as property owned by you regardless of the useful life of the improvements or the person in whom title is vested on termination of the lease.

Property rented by you is valued at eight times the net annual rental rate. Net annual rental rate is the annual rental rate paid by you, less any annual rental rate received by you from nonbusiness sub-rentals.

Line 5b — Payroll factor — In Column 1, write the total compensation paid everywhere. In Column 2, write the total compensation paid inside Illinois. For Column 3, divide Column 2 by Column 1 and write the result, carried to six decimal places. If a zero is written in Column 1, this factor is not applicable. Write "N/A" in Column 3.

Compensation is paid in Illinois if

- the individual's service is performed entirely inside Illinois;
- the individual's service is performed inside and outside Illinois, but the service performed outside Illinois is incidental to the service performed inside Illinois;
- some of the service is performed inside Illinois, and either the base of operations or if there is no base of operations, the place from which the service is directed or controlled is inside Illinois; or
- the base of operations or the place from which the service is directed or controlled, is not in any state in which some part of the service is performed but the individual is a resident of Illinois.

Note: Payments made to a nonresident who performs personal services under a personal service contract for sports performances taking place in Illinois are included in Column 2 if the professional sports team that the individual is a member of, is a resident of a state that imposes a comparable tax liability on Illinois residents. For further information, refer to Illinois Income Tax Regulations, Sections 100.3100(e) and 100.3120(a)(3).

Line 5c — Sales factor — In Column 1, write your total sales everywhere. In Column 2, write your total sales inside Illinois. For Column 3, divide Column 2 by Column 1 and write the result, carried to six decimal places. If a zero is written in Column 1, this factor is not applicable. Write "N/A" in Column 3 and in Column 3, Line 5d.

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

- dividends;

- amounts included under IRC, Section 78; and
- subpart F income as defined in IRC, Section 952.

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.

Sales, other than sales of tangible 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 7 — If an amount (other than zero) is shown in Column 1 for all factors, divide Line 6 by 4. If either the property or payroll factor shown in Column 1 is zero, divide Line 6 by 3. If both property and payroll factors shown in Column 1 are zero, divide Line 6 by 2. If the sales factor shown in Column 1 is zero, divide Line 6 by 2. If the sales factor and either the property or payroll factor shown in Column 1 are zero, write the decimal from Line 6.

Note: If you use a special apportionment formula (see "Special Apportionment Formulas" in these instructions), write on Line 7 the decimal shown on Column 3, Line 5c.

Line 8 — Follow the instructions on the form. If Lines 5 through 7 are blank, write the amount from Line 4.

Line 9 — Write the amount of net nonbusiness income (loss) allocable to Illinois from Illinois Schedule NB, Column B.

Line 10 — Write the amount of business income (loss) apportionable to Illinois as reported by the partnership, trust, or estate (see Part III, Line 2b).

Special Apportionment Formulas

Certain businesses that derive income from inside and outside Illinois require a special apportionment formula. The following definitions will help in completing Part III.

A Business income — See General Information, “Business income” under “Definitions to help you complete your Form IL-1065.”

B Financial organization — any bank, bank holding company, trust company, savings bank, industrial bank, land bank, safe deposit company, private banker, savings and loan association, building and loan association, credit union, currency exchange, cooperative bank, small loan company, sales finance company, investment company, or any person owned by a bank or bank holding company.

C Business income from sources within Illinois — Business income of a financial organization from sources within Illinois is the sum of

- fees, commissions, or other compensation for financial services rendered within Illinois;
- gross profits from trading in stocks, bonds, or other securities managed within Illinois;
- dividends received within Illinois;
- interest from Illinois customers received within Illinois;
- interest charged to customers at places of business maintained inside Illinois for carrying debit balances on margin accounts, without deduction of any costs incurred in carrying such accounts; and
- any other gross income resulting from the operation as a financial organization inside Illinois.

D Revenue miles — A revenue mile is the transportation of one passenger, or one net ton of freight, the distance of one mile. In the case of transportation by pipeline, a revenue mile is the transportation of one barrel of oil, 1,000 cubic feet of gas, or any specified quantity of any other substance, the distance of 1 mile.

What if I am a financial organization?

If you are a financial organization and your income is derived from inside and outside Illinois, you must apportion your business income as follows.

Financial organizations — Do not make any entries on Part III, Lines 5a, 5b, or 5d. On Line 5c, line out the words “Sales factor” and write “Financial organization.” In Column 1, write business income from all sources. In Column 2, write business income from sources within Illinois. For Column 3, divide Column 2 by Column 1, carried to six decimal places. Write the result in Column 3 **and** on Lines 6 and 7. See Specific Instructions, Part III - Base income (loss) allocable to Illinois, for completing Lines 8 through 11.

International banking facilities — If you are a financial organization that has established an international banking facility in Illinois, refer to IITA, Section 304(c)(2), to determine apportionable income. If you have questions about these provisions, write to Illinois Department of Revenue, Legal Services Office, Senior Counsel - Income Tax, 5-500, 101 West Jefferson Street, Springfield, IL 62702.

What if I am a transportation service?

If you are a company that furnishes transportation services both inside and outside Illinois, you must apportion business income as follows.

A Transportation other than pipeline - Do not make any entries on Part III, Lines 5a, 5b, or 5d. On Line 5c, line out the words “Sales factor” and write “Revenue miles.” In Column 1, write the amount of revenue miles everywhere. In Column 2, write the amount of revenue miles in Illinois. For Column 3, divide Column 2 by Column 1, carried to six decimal places. Write the result in Column 3 and on Lines 6 and 7. See Specific Instructions, Part III - Base income (loss) allocable to Illinois, for completing Lines 8 through 11.

Note: If you are a corporation engaged in the transportation of both passengers and freight, Column 3, Line 5c is determined by means of an average of the passenger revenue mile fraction and the freight revenue mile fraction, weighted to reflect your

- relative railway operating income from total passenger and total freight service as reported to the Interstate Commerce Commission in the case of transportation by railroad; and
- relative gross receipts from passenger and freight transportation in the case of transportation other than by railroad.

B Transportation by pipeline - Do not make any entries on Part III, Lines 5a, 5b, or 5d. On Line 5c, line out the words “Sales factor” and write “Pipeline.” In Column 1, write the amount of revenue miles everywhere. In Column 2, write the amount of revenue miles in Illinois. For Column 3, divide Column 2 by Column 1, carried to six decimal places. Write the result in Column 3 and on Lines 6 and 7. See Specific Instructions, Part III - Base income (loss) allocable to Illinois, for completing Lines 8 through 11.

What if I want to use an alternative apportionment formula?

If you want to use the separate accounting method or any alternative apportionment method, you **must** receive permission from the IDOR **prior** to filing your return. Send your request to Illinois Department of Revenue, Legal Services Office, Senior Counsel - Income Tax, 5-500, 101 West Jefferson, Springfield, IL 62702.

Note: If you need the procedures for petitioning for an alternative apportionment formula, refer to Illinois Income Tax Regulations, Section 100.3390, or contact the department for further information.

You will be authorized to use a fair and accurate alternative apportionment formula only when the apportionment methods prescribed by IITA, Sections 304(a) through (d) do not fairly and accurately reflect your business activity in Illinois, or lead to a grossly distorted result. Neither you, nor the director, may invoke this method merely because it reaches a different apportionment percentage than the regularly required formula. In order to use an alternative apportionment method, you must show in your petition, by clear and cogent evidence, that the statutory formula would result in the taxation of extraterritorial values. You must also show that it operates unreasonably and arbitrarily in attributing to Illinois a percentage of income which is out of proportion to the business transacted in this state. Finally, you must prove that the use of an alternative apportionment formula would fairly and accurately apportion income to Illinois based upon business activity in this state.

If you receive permission to use an alternative formula, you must attach a copy of the letter granting permission to your Form IL-1065.

