

This letter discusses claims for credit. See 86 Ill. Adm. Code Section 130.1501. (This is a GIL).

November 24, 2008

Dear Xxxxx:

This letter is in response to your letter dated December 4, 2007, in which you request information. We apologize for such a late response. The Department issues two types of letter rulings. Private Letter Rulings ("PLRs") are issued by the Department in response to specific taxpayer inquiries concerning the application of a tax statute or rule to a particular fact situation. A PLR is binding on the Department, but only as to the taxpayer who is the subject of the request for ruling and only to the extent the facts recited in the PLR are correct and complete. Persons seeking PLRs must comply with the procedures for PLRs found in the Department's regulations at 2 Ill. Adm. Code 1200.110. The purpose of a General Information Letter ("GIL") is to direct taxpayers to Department regulations or other sources of information regarding the topic about which they have inquired. A GIL is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120. You may access our website at www.tax.illinois.gov to review regulations, letter rulings and other types of information relevant to your inquiry.

The nature of your inquiry and the information you have provided require that we respond with a GIL. In your letter you have stated and made inquiry as follows:

Our company prepares sales tax returns for our clients in all states. We had a question regarding credits on returns and how IL would like these items shown on the sales tax returns. The issue involved is in regards to credit memo's issued on prior-period taxable sales, which results in a net credit on the current return.

For example:

In March 2007, COMPANY sells products for \$100,000 plus tax amount of \$5,000 (assume 5% tax rate for illustration purposes only). COMPANY reports the \$5,000 along with other taxes charged on their 1Q07 sales tax return.

In April 2007, COMPANY receives a resale certificate from this customer and a \$5,000 tax only credit memo is issued to the customer. The only other taxes collected in April, May & June 2007 totals only \$2,000. A \$3,000 tax credit is the result of this reporting period.

Attached is a spread sheet that discusses the different ways that this scenario is handled. We would like to know which method is the proper reporting method. If none of these methods are correct, we would like guidance on how you expect taxpayers in IL to account for credits of this type.

DEPARTMENT'S RESPONSE:

A retailer may deduct from the retailer's gross receipts, listed on Form ST-1 Sales Tax Return, any refunds made by that retailer during the preceding return period on account of tangible personal property that is returned to the retailer or a refund of tax that was not properly due. See Section 130.401(b) of the Department's rules which can be found on our website. If the refund occurs during a later return period, the retailer should not make an adjustment on the next return or amend the return for the period in which the overpayment occurred. The retailer should instead file a claim for credit with the Department. See Section 130.1501 of the Department's rules. If the claim for credit is approved by the Department, the Department will issue a credit memorandum to the retailer which can then be used on future liability on its ST-1s.

Even though the amount of the credit memorandum may exceed the taxpayer's liability for the period for which a return is being filed, the taxpayer should write only the amount of the credit memorandum he is claiming that equals the taxpayer's liability for that period. Any remaining balance will be reflected on the Taxpayer Statement and may be used in subsequent liability periods.

I hope this information is helpful. If you require additional information, please visit our website at www.tax.illinois.gov or contact the Department's Taxpayer Information Division at (217) 782-3336.

Very truly yours,

Debra M. Boggess
Associate Counsel

DMB:msk