

General Information Letter: Interest subject to alternative minimum tax but not to regular federal income tax is excluded from adjusted gross income and must be added back in the computation of base income.

March 23, 2000

Dear:

This is in response to your letter dated February 15, 2000, which was received by the Legal Services Bureau on March 21, 2000, in which you request a Letter Ruling. Department of Revenue ("Department") regulations require that the Department issue only two types of letter rulings, Private Letter Rulings ("PLRs") and General Information Letters ("GILs"). 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. GILs do not constitute statements of agency policy that apply, interpret or prescribe the tax laws and are not binding on the Department. For your general information, the regulation governing the issuance of letter rulings, 2 Ill. Adm. Code Part 1200 regarding rulings and other information issued by the Department, can be accessed at the Department's website. That address is www.revenue.state.il.us/legalinformation/regs/part1200. The nature of your question and the information provided require that we respond only with a GIL.

In your letter you state as follows:

I am getting conflicting opinions from your office in Rockford and tax advisors as to the tax exempt status of xxxxxxxxxxx tax exempt bonds... Since xxxxxxxx 1999 tax reporting information shows the interest as 'Subject to alternative tax' and not as 'Federally tax exempt interest', the Federal IRS office said that I do not need to list it on Line 8b of my Federal 1040 form, therefore it would not show up on Form Il-1040 line 2.

I've looked over your Publication 101 and also the Illinois Income Tax Rules, 86 Illinois Administrative Tax Code 100.2470, but I cannot determine if they are tax exempt in Illinois or not. Your office in Springfield could not help me and suggested that I write to the Legal Department for an official ruling as to whether they are tax exempt in Illinois or not. Could you tell me if they are taxable or not and if so should I show the interest on Line 3 of the Il-1040?

In response to your first question, the interest income from the bonds in question is not exempt from Illinois income taxation. The list of tax exempt obligations set forth both in Publication 101 and 86 Ill. Adm. Code 100.2470 is intended to be exhaustive. Only the obligations appearing in that list qualify for Illinois income tax exempt status. The obligation you reference in your correspondence does not appear on the list. Therefore, income generated by that obligation is subject to Illinois income taxation.

With respect to your second question, since the income at issue is subject to Illinois income taxation, it must be reflected somewhere in the Il-1040. As you allude to, federally tax exempt municipal obligation interest is usually reported at Line 8b on the Federal 1040 and then added back therefrom into the calculation of Illinois taxable income at Line 2 of the Il-1040. Assuming that it was correct not to show the interest income described in your letter on Line 8b of the Federal 1040, then the correct place to add it back for Illinois purposes is at Line 3 of the Il-1040, regarding "other additions". Our research discloses that this case appears to be something of an aberration in the field of reporting taxable interest income from Illinois municipal obligations. We therefore suggest that, in order to avoid complications in the processing of your return, you attach a copy of this GIL thereto for filing purposes.

We trust that this GIL adequately responds to your inquiry. If you have any further questions regarding this GIL, you may contact this office at (217) 782-7055. If you have further questions regarding the Illinois Income Tax Act, you may access the website referenced above or contact the Department's Taxpayer Information Division at (217) 782-3336.

Very truly yours,

Jackson E. Donley,
Senior Counsel - Income Tax