

Illinois Department of Revenue
101 West Jefferson Street
Springfield, Illinois 62708

INFORMATIONAL BULLETIN FY86-42

TO: Unitary Corporate Income and Replacement Tax Accounts
SUBJECT: Illinois Combined Unitary Returns

Public Act 83-1289 amended the Illinois Tax Act (IITA) to authorize the filing of Illinois Combined Unitary Returns for tax years ending on or after December 31, 1985. Pursuant to new section 502(f) of the IITA, Illinois corporate taxpayers (other than S Corporations) that are members of a unitary business group may elect to be treated as one taxpayer for purposes of original returns, amended returns, extensions, claims for refund, and assessment, collection payment and determination of their tax liability. Corporations electing to be treated as one taxpayer will file one combined Form IL-1120 with Schedule UB (Unitary Business Schedule). If the election is not made, the members of the unitary group should continue to file as they have in the past. That is, each Illinois taxpayer member of that group will file its own separate return and will be treated as a separate taxpayer for all Illinois income tax purposes except for the apportionment of unitary business income.

The Department will be proposing combined return regulations to implement the provisions of P.A. 83-1289 and we will be filing them in proposed form with the Illinois Secretary of State's office during the month of February 1986. We expect to mail a revised Schedule UB, with instruction for combined return filers, to unitary accounts during the month of March 1986. In the meantime, we would like to make available to you the following general information concerning combined returns.

ELIGIBILITY TO FILE A COMBINED RETURN

Corporate taxpayers that are members of the same business group and have the same taxable year are eligible for the election. Part-year members are eligible for the election. Noncorporate taxpayers and S Corporations are not eligible. The election is available to eligible members even though the unitary group includes noncorporate members, S Corporations, or corporate members with different taxable years. Ineligible members that are Illinois taxpayers must file their own separate returns but on a unitary apportionment basis. However, if two or more corporate members have the same taxable year that is different from the year of other corporate members making the election, they may elect to file their own combined return.

ELECTION TO FILE A COMBINED RETURN

In order to exercise the election, each eligible Illinois taxpayer member of the unitary business group must execute a Form IL-1122 by

which each eligible Illinois taxpayer member consents to the combined-return regulations and appoints the designated agent. All Forms IL-1122 must be attached to the first combined return and be filed by the due date of that return (including extensions). Thereafter, Forms IL-1122 need be filed only for new eligible Illinois taxpayer members joining the election.

DESIGNATED AGENT

The electing members must designate the common parent as the agent if it is a member of the unitary business group, is also making the election, and is an Illinois taxpayer. Otherwise, the electing members must choose which Illinois taxpayer member will be the designated agent.

The designated agent will be the SOLE agent for each member making the election and will be authorized by the members to act in all matters relating to the tax liability for the combined-return year. The designated agent is responsible for filing all returns and schedules for the members of the unitary business group electing to file the combined return.

COMBINED ESTIMATED TAX PAYMENTS

For the first two years for which a combined return is filed, payments of estimated tax may be made on either a combined or a separate basis. If a combined return is file, the amount of any estimated tax payments made for such year by any electing member will be credited against the combined tax liability. The designated agent must give notice, in the manner and form prescribed by the Department in the instructions to Illinois Schedule UB, of any estimated payments made on a separate basis for the year.

If a combined return is filed for two consecutive years, payments of estimated tax must be made on a combined basis for each subsequent taxable year, until the election is revoked and separate returns are properly filed.

LIABILITY FOR TAX, PENALTY AND INTEREST

The taxpayers making the election are jointly and severally liable for the combined tax liability, penalty, and interest.

If a penalty or interest is imposed with respect to a combined return, the amount of the penalty or interest will be based on the combined tax liability or deficiency for the combined-return year.

COMBINED TAXABLE INCOME

The designated agent will determine combined taxable income by treating eligible members as if they constituted a federal consolidated group and by applying the federal regulations for determining consolidated

taxable income. (see IRS Reg. Sec. 1-1502-11.) This amount will be determined as if the elections provided by Section 243(b)(2) and

Section 172(b)(3)(C) of the Internal Revenue Code had been in effect, in accordance with IITA Section 203(e)(2)(E). The group's combined taxable income is the preceding amount plus the taxable income of each member that is not eligible to make the election (i.e., noncorporate members, S Corporations,, and corporations with different taxable years).

APPORTIONMENT OF BUSINESS INCOME

The designated agent will determine the group's combined business income apportionable to Illinois by multiplying the group's combined business income by the average of the group's combined property, payroll, and sales factors. These factors will be determined by dividing the group's Illinois property, payroll, and sales by the total property, payroll, and sales of the group everywhere. In the case of groups composed exclusively of one-factor apportionment taxpayers (financial, insurance, or transportation), the group's combined business income will be apportioned by multiplying the group's combined business income by the group's combined financial, insurance, or transportation factors. In the case of groups that include some Illinois taxpayer members ineligible to make the election, the designated agent will determine the electing eligible members' business income apportionable to Illinois by multiplying the group's combined business income by the average of the electing members' combined property, payroll, and sales factors, or by combined financial, insurance, or transportation factors, as the case may be.

COMBINED EXEMPTION AND COMBINED INVESTMENT/JOBS TAX CREDITS

The designated agent will compute one exemption per combined return. The designated agent will compute any investment/jobs credits based on the combined activities of the electing eligible members, and such credits will be applied against the combined liability of the electing eligible members.

COMBINED UNITARY RETURN REGULATIONS

Additional information will be available in the proposed regulations, which will be mailed to all unitary corporate income and replacement tax accounts along with Schedule UB and Form IL-1122 by the end of February 1986. Copies will also be available from the Illinois Department of Revenue, P.O. Box 3545, Springfield, Illinois 62708

J. Thomas Johnson
Director of Revenue

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