

General Information Letter: No credit is allowed for taxes paid to Iowa on employee compensation, because Illinois residents are exempted from Iowa tax on employee compensation under the states' reciprocal agreement.

March 9, 2009

Dear:

Your letter dated July 21, 2008, was forwarded to me for review of the Zs' claim for credit for taxes paid to Iowa for 2007. I apologize for the delay in responding.

The confusion about the computation of the credit is caused by the fact that their Iowa return was not completed correctly. On the Form IA 126, Iowa Nonresident and Part-year Resident Credit, both Mr. and Mrs. Z state that they are nonresidents of Iowa, and they claim to be residents of Illinois on their Form IL-1040, Individual Income Tax Return. However, they show \$115,892 in wage income as Iowa-sourced income on the Form IA-126. This is not correct for an Illinois resident, because Illinois and Iowa have entered into a reciprocal agreement under which neither state taxes the wage income of residents of the other state. The wages should not be shown as Iowa-sourced income, even if earned in Iowa. See "Nonresident Example 2" on page 10 of the instructions to the Form IA-126, a copy of which is enclosed.

If this mistake is corrected, following the instructions in Publication 111 for computing the Zs' double-taxed income will make more sense, because those instructions are written on the premise that Illinois residents' wages are not taxed by Iowa.

The missing documentation issue addressed in your letter was not referred to me. If I can be of further service to you, please let me know.

Sincerely,

Paul S. Caselton
Deputy General Counsel – Income Tax