

+ INCOME EXEMPT FROM TAX: PUBLICATION 101  
(FORMERLY INFORMATIONAL BULLETIN FY 87-25 (R-1/88))

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|TO:|Tax Practitioners + Items l  
+---+  
This bulletin is a summary of the new information contained in the attached Publication 101, Income Exempt From Tax (formerly Informational Bulletin FY 87-25 (R-1/88)).

For a complete explanation of the types and nature of exempt income - including the items in this bulletin - please see publication. The section and item numbers which appear below are the same as those in Publication 101.

II. Other Income  
Exempted by Reason  
of Other Federal  
Statutes

+ Item i, 3

Change in the citation  
of the federal statute.

+ Item j

New item. Interest derived bonds issued by the government of Guam. You must add this income to federal taxable income on your Illinois tax return and then claim it as a subtraction. (See Section VI.)

Formerly k. You must add this income to federal taxable income on your Illinois tax return and then claim it as a subtraction. (See Section VI.)

+ Item m

Formerly l. These payments have been included in federal adjusted gross income since January 1, 1984.

+ Item r

Formerly q. You must add this income to federal taxable income on your Illinois tax return and then claim it as a subtraction. (See Section VI.)

Special Note to  
Sections I and II:  
Distribution From Money  
Market Trusts  
(Mutual Funds)

+ Some Distributions  
are Subtractable

New item. When you figure your Illinois base income, the Department will now allow you to subtract income you receive from any of the obligations listed in Sections I and II of Publication 101 i.e., federally taxable obligations exempt from

The Department's previous position had been that you had to invest directly in the obligations. This position was overturned in Andras v. Department of Revenue.

+ Figuring Your  
Subtraction

If the fund invests exclusively in these state-exempt obligations, you may subtract the entire amount of your distribution (income) from the fund.

If the fund invests in both exempt and non-exempt obligations, you may subtract the amount or percentage of your distribution which the mutual fund identifies as exempt.

If the mutual fund does not identify an exempt amount or percentage, you may figure the subtraction by multiplying your distribution by the following fraction:

as the numerator,  
the amount invested  
by the fund in  
state-exempt U.S.  
obligations

as the denominator,  
the fund's total  
investment

+ Items k-r  
Formerly j-q.

state tax because of federal statutes), even if you own the obligations indirectly through owning shares in a mutual fund.

Use the year-end amounts to figure the fraction if the percentage ratio has remained constant throughout the year. If the percentage ratio has not remained constant, take the average of the ratios from the fund's quarterly financial reports.

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+ Getting a Refund of Tax You Already Paid

If you paid tax on these state-exempt distributions, you may file an amended return (IL-1040-X) to claim a refund for any year within the statute of limitations.

III. Entities Exempt From State Income Tax by Reason of Federal Statute

+ Item h

New item. Federal Home Loan Mortgage Corporation.

+ Items i-p

Formerly h-o.

IV. Interest on Obligations of State and Local Governments

You must show the income from these exempt bonds as an addition and then as a subtraction on your Illinois income tax return. Please note that income from these bonds is not exempt if you own the bonds indirectly through owning shares in a

+ Item b

Clarification in the description of the exempt income and change in the citation.

+ Items c and d

Change in the citation.

+ Item e

New item. Illinois State Scholarship Commission bonds issued on or after September 2, 1988.

V. Income not Exempt From Illinois Income Taxation

+ Item c

Formerly d. Former item c has been removed as a result of Andras v. Department of Revenue, discussed in the Special Note to Sections I and II.

VI. Method for Computing the Subtraction of Exempt Income

This section has been rewritten to take into account the fact that some tax exempt items must be included as an addition and then as a subtraction (in figuring base income).

Questions?

For a complete explanation of income exempt from tax, please see the attached Publication 101.

For more information about Andras v. Department of Revenue, please see the Spring, 1988 issue of Taxation Today, page 5, available from the Public Information Office, P.O. Box 19014, Springfield, IL 62794-9014.

If you have questions or need additional information, please call or write us at the numbers and address listed at the bottom of this page.

