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### To: All taxpayers and tax professionals who are eligible to claim a credit carryforward or distribution of the Environmental Remediation Tax Credit.

This bulletin serves to clarify the process of determining limits imposed on and the distribution and the carryforward of the Environmental Remediation Tax Credit.

The Environmental Remediation Tax Credit is valid for tax years ending on or after January 1, 1998, through tax years ending on or before December 31, 2001. The allowable credit is limited to \$40,000 and provides a credit carryforward of any excess credit for up to 5 years, which includes tax years ending after December 31, 2001.

#### How does the \$40,000 limitation apply to S corporations and partnerships?

The \$40,000 limit is initially applied at the S corporation or partnership level. The total amount that the S corporation or partnership distributes to its partners or shareholders cannot exceed \$40,000. Any excess credit at the S corporation or partnership level may be carried forward and distributed to partners and shareholders for up to five years.

For example:

Partnership A earns an Environmental Remediation Tax Credit in the amount of \$85,000 in

tax year 2000. Partnership A has four partners who are entitled to distributions. For tax year 2000, the limit of \$40,000 is imposed at the partnership level. If all four partners receive equal distributions, each partner would be allowed a credit of \$10,000 for tax year 2000. Partnership A would be allowed to carry forward the remaining \$45,000 for up to 5 years. In tax year 2001, Partnership A has enough credit to again claim the full \$40,000 amount and distribute \$10,000 to each partner. In 2002, a credit of \$5,000 remains for the partnership to distribute. Each partner would be eligible to claim \$1,250. Even though the partnership is no longer allowed to earn the credit after December 31, 2001, the 5-year carryforward of excess credit allows the partnership to distribute the remaining credit through December 31, 2005, because the credit was initially earned in 2000.

#### How does an S corporation or partnership report the credit carryforward for the 2002 tax year?

In previous years, the credit was shown for partnerships and S corporations on Schedule 1299-A, Tax Subtractions and Credits. Any flow-through amount to a partner or shareholder was reported on Schedule K-1-P, Partner's or Shareholder's Share of Income,

Deductions, Credits, and Recapture. The revisions made to both schedules for the 2002 tax year failed to take into account the possibility that any excess credit would be available for use. If you have available credit, follow the instructions below in order to claim and distribute any credit carryforward.

◆ **Schedule 1299-A:**

On the bottom of the back page of Schedule 1299-A, write "Carryforward of Environmental Remediation Tax Credit from prior year." Write the amount of the credit carryforward or \$40,000, whichever is less.

◆ **Schedule K-1-P:**

For each partner or shareholder complete the following process:

On the bottom of the back page of Schedule K-1-P, write "Carryforward of Environmental Remediation Tax Credit." Write the allowable distribution amount of the carryforward.

**How does a partner or shareholder who received a credit carryforward distribution report that amount for the 2002 tax year?**

◆ **Individuals:**

Individuals receiving a credit carryforward distribution must use Schedule 1299-C, Income Tax Subtractions and Credits, to report the amount of their allowable distribution. The amount of allowable credit is reported to you by the partnership or S corporation on Schedule K-1-P.

Write the amount of the allowable credit carryforward from Schedule K-1-P on Schedule 1299-C, Step 4, Line 38. Follow the instructions on Schedule 1299-C to figure your total allowable credit for Form IL-1040, Individual Income Tax Return, or IL-1040-X, Amended Individual Income Tax Return. You must attach a copy of Schedule 1299-C and Schedule K-1-P to your tax return to receive the credit.

◆ **Corporations, Trusts, Estates, and Exempt Organizations:**

Corporations, Trusts, Estates, and Exempt Organizations that receive a credit carryforward distribution must use Schedule 1299-D, Income Tax Credits, to report the amount of their allowable distribution. The amount of allowable credit is reported to you by the partnership or S corporation on Schedule K-1-P.

Write the amount of the allowable credit carryforward from Schedule K-1-P on Schedule 1299-D, Step 3, Line 44. Follow the instructions on Schedule 1299-D to figure the allowable credit for your annual tax return. You must attach Schedule 1299-D and Schedule K-1-P to your tax return to receive the credit.