

IIT 19-0003-GIL 02/11/2019 SUBTRACTION MODIFICATION (RETIREMENT INCOME)

Dividends from Taxable Brokerage Account may not be Subtracted. (This is a GIL)

February 11, 2019

Re: retirement income subtraction modification

Dear Xxxx:

This is in response to your letter dated September 19, 2018, in which you request information regarding the subtraction modification for retirement income on your Form IL-1040. The nature of your request and the information you have provided require that we respond with a General Information Letter, which is designed to provide general information, is not a statement of Department policy and is not binding on the Department. See 86 Ill. Adm. Code 1200.120(b) and (c), which may be found on the Department's web site at www.tax.illinois.gov.

Your letter states as follows:

I plan to take a lump-sum distribution from 401(k) and distribute it to two separate brokerage accounts:

- Taxable brokerage account contains all my company stock
- IRA brokerage account contains liquidated cash from rest of cash/bond/mutual funds.

My employer will issue a 1099-R which contains cost basis of my employer stock (net unrealized appreciation) and IRA rollover amount. At federal level, cost basis of my employer stock will be taxed, but I can deduct it on Form IL-1040, Line 5.

Private Letter Ruling centers on my employer future annual dividend and sales of company stock.

How/where to deduct my employer annual dividend on IL-1040? My brokerage will issue Form 1099-DIV, and I will include on federal Form 1040, Line 13. Have I opt for a total rollover from 401(k) to IRA, any stock appreciation would be part of IRA balance. Any future distribution would be tax free from IL (deducted on Form IL-1040, Line 5). Appreciation is part of IRA account balance.

Please issue a Private Letter Ruling for above two situations and advise how/where to include/deduct them on Form IL-1040.

RULING

Illinois allows a subtraction modification for any retirement income included in adjusted gross income under Sections 402(a), 402(c), 403(a), 403(b), 406(a), 407(a) and 408 of the Internal Revenue Code. These generally cover distributions from qualified and non-qualified retirement

plans and individual retirement accounts. You have described receiving dividends from company stock held in a taxable brokerage account. Those dividends may not be deducted from adjusted gross income on your Form IL-1040 individual income tax return.

As stated above, this is a general information letter which does not constitute a statement of policy that applies, interprets or prescribes the tax laws, and it is not binding on the Department. If you are not under audit and you wish to obtain a binding Private Letter Ruling regarding your factual situation, please submit all of the information set out in items 1 through 8 of Section 1200.110(b). If you have any further questions regarding this letter, you may contact me at (312) 814-1722.

Sincerely,

Brian E. Fliflet
Deputy General Counsel, Income Tax

BCC: File