

Retirement income, including amounts passed through from an estate or trust, is eligible for a subtraction modification under IITA Section 203(a)(2)(F).

July 29, 2025

NAME
ADDRESS

Re: Taxability of Retirement Plan Income (Individuals)

Dear NAME:

This letter is in response to your letter dated October 3, 2023, in which you requested information. The Department issues two types of letter rulings. Private Letter Rulings (“PLRs”) are issued by the Department in response to specific taxpayer inquiries concerning the application of a tax statute or rule to a particular fact situation. A PLR is binding on the Department, but only as to the taxpayer who is the subject of the request for ruling and only to the extent the facts recited in the PLR are correct and complete. Persons seeking PLRs must comply with the procedures for PLRs found in the Department’s regulations at 2 Ill. Adm. Code 1200.110. The purpose of a General Information Letter (“GIL”) is to direct taxpayers to Department regulations or other sources of information regarding the topic about which they have inquired. A GIL is not a statement of Department policy and is not binding on the Department. See 2 Ill. Adm. Code 1200.120. You may access our website at <https://tax.illinois.gov/> to review regulations, letter rulings and other types of information relevant to your inquiry.

The nature of your inquiry and the information you have provided require that we respond with a GIL. In your letter you have stated and made inquiry as follows:

I am writing in regards to the law relating to the taxability of retirement plan income for individuals.

I have an Illinois taxpayer [who is XX years old] that is receiving inherited IRA payments via his father’s estate. The payments pass from the estate to a trust in the taxpayer’s name to the taxpayer. The 1099R is received by the estate not the taxpayer. The income is reported on form K1 for the taxpayer.

The question is – does this qualify to be excluded from the taxpayer’s income?

July 29, 2025

I received 2 different answers from agents at the Department of Revenue so they suggested I write and request a written answer. One said the taxpayer must receive the 1099R directly.

Thanks in advance for your consideration.

RULING

Under the Illinois Income Tax Act ("IITA" 35 ILCS 5/101 *et seq.*), the base income for individuals is equal to their federal adjusted gross income, modified by certain statutorily prescribed addition and subtraction provisions. See IITA §203(a). IITA §203(a)(2)(F) provides the following subtraction modification:

(F) An amount equal to all amounts included in [federal AGI] such total pursuant to the provisions of Sections 402(a), 402(c), 403(a), 403(b), 406(a), 407(a), and 408 of the Internal Revenue Code, or included in such total as distributions under the provisions of any retirement or disability plan for employees of any governmental agency or unit, or retirement payments to retired partners, which payments are excluded in computing net earnings from self employment by Section 1402 of the Internal Revenue Code and regulations adopted pursuant thereto;...

§203(c) relates to base income of trusts and estates. Specifically, §203(c)(2)(H) provides as follows:

(H) An amount equal to all amounts included in such total pursuant to the provisions of Sections 402(a), 402(c), 403 (a), 403(b), 406(a), 407(a) and 408 of the Internal Revenue Code or included in such total as distributions under the provisions of any retirement or disability plan for employees of any governmental agency or unit, or retirement payments to retired partners, which payments are excluded in computing net earnings from self employment by Section 1402 of the Internal Revenue Code and regulations adopted pursuant thereto;

§ 408(d) of the Internal Revenue Code (26 USC §408(d)) states in pertinent part as follows:

(d) TAX TREATMENT OF DISTRIBUTIONS

(1) IN GENERAL. Except as otherwise provided in this subsection, any amount paid or distributed out of an individual retirement plan shall be included in gross income by the payee or distributee as the case may be, in the manner provided under section 72.

§7701(a)(37) of the Internal Revenue Code (26 USC §7701(a)(37)) defines the term “individual retirement plan” to include an individual retirement account described in IRC §408(d). Publication 120, “Retirement Income,” also addresses the nature of retirement income and lists many types of retirement income such as 401(k), IRAs, and deferred compensation.

In this case, you represent that distributions from the inherited IRA are received by the estate. The estate then makes distributions to a trust, and the trust makes further distributions to its beneficiary. The estate receives the 1099R (form for reporting distributions from an IRA), and distributions from the estate and trust are reported to the respective beneficiaries on K-1s (used to report distributions from trusts and estates).

To the extent distributions from the IRA are retained by the estate, the estate is entitled to the subtraction modification under IITA Section 203(c)(2)(H). To the extent that the distributions received by the trust are retained by the trust and characterized federally as distributions from an individual retirement account included in gross income under the rules of IRC Section 408, the trust is entitled to the subtraction modification under IITA Section 203(c)(2)(H). Finally, to the extent that distributions received by the beneficiary of the trusts are characterized federally as distributions from an individual retirement account included in gross income under the rules of IRC Section 408, the beneficiary is entitled to the subtraction modification under IITA Section 203(a)(2)(F).

I hope this information is helpful. If you require additional information, please visit our website at <https://tax.illinois.gov/> or contact the Department’s Taxpayer Information Division at 800-732-8866.

Sincerely,

Javonna Ackerman
Associate Counsel