IT 25-0011-GIL 10/02/2025 BASE INCOME

> Pass-through entity tax computed by a partnership for a taxable year is determined from the portion of the partnership's base income as allocated to Illinois under the provisions of IITA Article 3. (This is a GIL.)

October 2, 2025

NAME
TITLE
COMPANY
ADDRESS
EMAIL

Dear NAME:

This letter is in response to your email dated August 1, 2025, 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:

> Based on Illinois Publication 129 and the Form IL-1065 instructions, it is my understanding that investment partnerships are eligible to make the Illinois PTET election. The instructions indicate that the investment partnership should complete the PTE Income Worksheet as if it did not qualify as an investment partnership.
>
> I am seeking clarification on how to properly report the income in the following example:
>
> Partnership only has $10,000,000 of portfolio/investment income. Partnership is owned by two partners, Partner A and Partner B. Partner A is a resident of IL and Partner B is an IL nonresident. Partner A owns a 75% interest in Partnership and Partner B owns 25% interest. Since Partner A is an IL

resident, he is taxed on his total share of the partnership income for IL PIT purposes. There is otherwise no IL allocable income that would subject Partner B to IL nonresident withholding or PIT.

Partner A's share = $7,500,000
Partner B's share = $2,500,000

Based on the PTE Income Worksheet, we believe it should be completed as follows. In the below example, we believe line 13 would only be the residents share of the portfolio income since he is taxed on his total share of the income for PIT purposes. There is no IL nonbusiness income allocable for purposes of Partner B.

PTE Income Worksheet

1a	Base Income from Line 35. **Investment Partnerships** - Subtract income subject to withholding from base income.			1a	10,000,000.00
1b	Exempt distributions for retired partners included in Line 1a.			1b	.00
1	Subtract Line 1b from Line 1a.			1	10,000,000.00
2a	Amount from Line 26.	2a	0.00		
2b	Amount from Line 27.	2b	0.00		
3	Add Lines 2a and 2b.			3	0.00
4	PTE base income. Add Lines 1 and 3.			4	10,000,000.00
5	Nonbusiness income or loss.			5	10,000,000.00
6	Business income or loss included in Line 4 from non-unitary partnerships, partnerships included on a Schedule UB, S corporations, trusts, or estates.			6	0.00
7	Add Lines 5 and 6.			7	10,000,000.00
8	Business income or loss. Subtract Line 7 from Line 4.			8	0.00
9	Total sales everywhere. This amount cannot be negative.	9	0.00		
10	Total sales inside Illinois. This amount cannot be negative.	10	0.00		
11	Divide Line 10 by Line 9. Round to six decimal places.	11	0.000000		
12	Business income or loss apportionable to Illinois. Multiply Line 8 by Line 11.			12	0.00
13	Nonbusiness income or loss allocable to Illinois.			13	7,500,000.00
14	Business income or loss apportionable to Illinois from non-unitary partnerships, partnerships included on a Schedule UB, S corporations, trusts, or estates.			14	.00
15	**PTE Income.** Add Lines 12 through 14. Enter this amount on Line 60.			15	7,500,000.00

Will you please confirm our understanding is correct?

DEPARTMENT'S RESPONSE

The Illinois Income Tax Act ("IITA") provides for taxable years ending on or after December 31, 2021, and beginning prior to January 1, 2026, a partnership (other than a publicly traded partnership under Internal Revenue Code ("IRC") Section 7704) or Subchapter S corporation may elect to pay pass-through entity ("PTE") tax for the privilege of earning or receiving income in Illinois in an amount equal to 4.95% of the taxpayer's net income for the taxable year (35 ILCS 5/201(p)). A separate election shall be made for each taxable year on Form IL-1065, Partnership Replacement Tax Return, or Form IL-1120-ST, Small Business Corporation Replacement Tax Return.

IITA Section 202 defines the net income of a taxpayer for a taxable year as that portion of the taxpayer's base income for such year which is allocable to Illinois under the provisions of IITA Article 3, less the standard exemption allowed by IITA Section 204, and the deduction allowed by IITA Section 207. In the case of a partnership as taxpayer, PTE tax is that portion of the partnership's base income for the year as allocated to Illinois under the provisions of IITA Article 3. As provided in IITA Section 301(c)(2)(B), any item of income or deduction which was taken into account in the computation of base income for the taxable year by a partnership and which is not otherwise specifically allocated or apportioned pursuant to IITA Section 302, 303 or 304 (including, without limitation, interest, dividends, items of income taken into account under the provisions of IRC Sections 401 through 425, and benefit payments received by a beneficiary of a supplemental unemployment benefit trust as referred to in IRC Section 501(c)(17)) is allocated to Illinois if the partnership had its commercial domicile in this State at the time such item was paid, incurred or accrued.

For taxable years ending on or after December 31, 2023, IITA Section 1501(a)(11.5)(A-5) defines an "investment partnership" as any entity that is treated as a partnership for federal income tax purposes that meets the following requirements:

(i) no less than 90% of the partnership's cost of its total assets consists of qualifying investment securities, deposits at banks or other financial institutions, and office space and equipment reasonably necessary to carry on its activities as an investment partnership; and

(ii) no less than 90% of its gross income consists of interest, dividends, gains from the sale or exchange of qualifying investment securities, and the distributive share of partnership income from lower-tier partnership interests meeting the definition of qualifying investment security under subparagraph (B)(xiii); for the purposes of this subparagraph (ii), "gross income" does not include income from partnerships that are operating at a federal taxable loss.

An investment partnership may elect to pay PTE tax on income earned or received in Illinois. An electing investment partnership must file Form IL-1065 and complete the PTE Income Worksheet in the Form IL-1065 instructions to compute the amount of pass-through entity income to report on Line 60 of the return. The PTE Worksheet Instructions for Lines 5 and 13 direct a taxpayer to complete a pro forma Illinois Schedule NB allocating nonbusiness income amounts to Illinois.

In the scenario you provided, the amount of nonbusiness income or loss allocable to Illinois on Line 13 of the PTE Income Worksheet should equal the total amount of nonbusiness income allocable to Illinois as reported in Column B of the pro forma Illinois Schedule NB. If the commercial domicile of the partnership is in Illinois, then the portfolio/investment income would be allocable to Illinois under IITA Article 3 for PTE tax purposes and would be specified as a Column B item on the pro forma Schedule NB.

As stated above, this is a General Information Letter. A General Information Letter does not constitute a statement of Department policy that applies, interprets or prescribes the tax laws, and it is not binding on the Department. If you require additional information, please visit our website at https://tax.illinois.gov/ or contact the Department's Taxpayer Assistance Division at 800-732-8866.

Sincerely,

Jennifer Uhles
Associate Counsel

JU:se