**Section 100.APPENDIX A Business Income of Persons Other Than Residents**

**Section 100.TABLE A Example of Unitary Business Apportionment**

Example: Corporations A, B and C are engaged in the conduct of a unitary business. All three corporations are doing business both within and without Illinois. For purposes of this example, it will be assumed that all of the income of the corporations is business income, that there are no applicable addition or subtraction modifications (see IITA Section 203(b)(2)), and, that none of the corporations derives income from a partnership. It is further assumed that none of the three corporations is a financial organization, transportation company or insurance company. In addition, it is assumed that there were no intercompany transactions. Based on A's, B's and C's records, the computation of each company's share of the unitary business income to be apportioned to Illinois would be as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | Corporation A | B | Corporation C | CorporationCombined |
| Business Income | $ 20,000 | $ 30,000 | $ 40,000 | $ 90,000 |
| Illinois Property | 50,000 | 25,000 | 25,000 |  |
| Total Property | 75,000 | 50,000 | 75,000 | 200,000 |
| Property Factor1 | .25 | .125 | .125 |  |
| Illinois Payroll | 10,000 | 20,000 | 30,000 |  |
| Total Payroll | 20,000 | 30,000 | 50,000 | 100,000 |
| Payroll Factor2 | .1 | .2 | .3 |  |
| Illinois Sales | 50,000 | 75,000 | 80,000 |  |
| Total Sales | 150,000 | 100,000 | 250,000 | 500,000 |
| Sales Factor3 | .1 | .15 | .16 |  |
| Average | .15 | .158333 | .195 |  |
| Business Income Apportioned to Illinois4 | $ 13,500 | $ 14,250 | $ 17,550 |  |

Note1 This decimal is derived by dividing each member's Illinois property by the combined total property; i.e., for A, this is $50,000 divided by $200,000.

Note2 This decimal is derived by dividing each member's Illinois payroll by the combined total payroll, i.e., for A, this is $10,000 divided by $100,000.

Note3 This decimal is derived by dividing each member's Illinois sales by the combined total sales; i.e., for A, this is $50,000 divided by $500,000.

Note4 This amount is determined by multiplying the combined business income ($90,000) by the average of the three factors for each member. For A, this is .15 times $90,000.00. Note that the provisions of P.L. 86-272 remain applicable. In instances where one member of the group may come within the protection of P.L. 86-272, i.e., where the activities of the corporation with regard to sales of tangible personal property do not give rise to sufficient tax nexus, those sales will not be included in the numerator of the sales factor for that member. Nonetheless, those sales, to the extent arising out of the group's unitary business activity will be shown in the denominator and will be part of the combined apportionment formula. In utilizing the combined method of apportionment, members of a unitary group filing Illinois income tax returns will be required to disclose, in colunmar form, all items of income, credit, deduction or exclusion which would enter into the computation of base income under the Illinois Income Tax Act as if each member of the group were required to file an Illinois income tax return. In some instances, it will also be necessary to disclose the computation of federal taxable income even where a particular member may not be required to file a federal income tax return. Appropriate schedules for this purpose will be provided. Essentially, the schedules will require, for each member of the group:

(A) the construction of federal taxable income or its equivalent;

(B) the computation of Illinois base income or its equivalent;

(C) disclosure and explanation of intercompany eliminations;

(D) classification of income as business or nonbusiness income;

(E) the appropriate apportionment factors;

(F) and, for those members required to file an Illinois income tax return the computation of Illinois base income which will include the member's apportioned share of unitary business income as well as any other income allocable or apportionable to Illinois.

**Section 100.APPENDIX A Business Income of Persons Other Than Residents**

**Section 100.TABLE B Example of Unitary Business Apportionment for Groups Which Include Members Using Three-Factor and Single-Factor Formulas**

Example: Corporation A is engaged in the manufacture and sale of tangible personal property. Corporation B, a wholly-owned subsidiary of A, is a financial organization. The operations of A and B are unitary and both corporations operate both within and without Illinois. For purposes of simplicity, assume that there are no intercompany transactions. Consistent with the provisions of the Illinois Income Tax Act, and the combined method of apportionment utilized in Illinois, A determines that its net unitary business income is $45,000. B, likewise, determines that its net unitary business income is $15,000. The reflection of the factors discussed above would result in the following combined apportionment schedule entries, assuming accurate disclosure of information contained thereon:

|  |  |  |  |
| --- | --- | --- | --- |
|  | Corporation A | Corporation B | Combined |
| Business income | $ 45,000 | $ 15,000 | $ 60,000 |
| Illinois property | 1,000 |  |  |
| Total property | 10,000 | 10,000 | 20,000 |
| Property factor | .051 |  |  |
| Illinois payroll | 1,000 |  |  |
| Total payroll | 10,000 | 90,000 | 100,000 |
| Payroll factor | .012 |  |  |
| Illinois sales | 1,000 | 2,0003 |  |
| Total sales | 80,000 | 20,0004 | 100,000 |
| Sales factor6 | .01 | .02 |  |
| Average | .23333 | .027 |  |
| Business income apportioned to Illinois | 1,400 | 1,2008 |  |

Note1 This property factor for A is A's Illinois property divided by property everywhere for both A and B as determined under the provisions of IITA Section 304(a). Note that B's "Illinois property" is not shown; B will use the single factor determined under IITA Section 304(c). B's "property everywhere" is shown only to arrive at the combined denominator used in the computation of A's property factor.

Note2 This payroll factor for A is A's Illinois payroll divided by payroll everywhere for both A and B as determined under the provisions of IITA Section 304(a). Note that B's "Illinois payroll" is not shown; B will use the single factor determined under IITA Section 304(c). B's "payroll everywhere" is shown only to arrive at the combined denominator used in the computation of A's payroll factor.

Note3 This "Illinois sales" numerator for B is the numerator prescribed by IITA Section 304(c).

Note4 This "total sales" denominator for B is the denominator prescribed by IITA Section 304(c).

Note5 The combined "total sales" is the sum of the sales factor denominator prescribed by IITA Section 304(a) for A and the denominator prescribed by IITA Section 304(c) for B.

Note6 This decimal is derived by dividing each member's Illinois sales by the combined total sales, or in the case of B, the numerator described by IITA Section 304(c) by the combined total sales. In the example, the combined total sales is the sum of the denominator determined for A in accordance with IITA Section 304(a) and the denominator determined for B in accordance with IITA Section 304(c).

Note7 Since B is using a single-factor formula, the average (.02 divided by 1) is .02.

Note8 This amount is determined by multiplying the combined business income ($60,000) by the average of the factors for each member. The same approach is to be followed where the unitary group includes an insurance company or a transportation company. In the case of an insurance company, the apportionment factor to be utilized is that prescribed in IITA Section 304(b). In the case of a transportation company, it will be necessary to convert the "revenue miles" apportionment factor of IITA Section 304(d) to dollar amounts. This is to be accomplished by dividing total gross receipts from transportation services by total revenue miles in order to arrive at a dollar amount for each "revenue mile". Thereafter, "Illinois revenue miles" (the numerator prescribed by IITA Section 304(d)), and "everywhere revenue miles" (the denominator prescribed by IITA Section 304(d)), will be multiplied by the dollar amount determined in accordance with the preceding sentence. The resulting fraction will then be utilized as described in the example shown above. It may be that this method of accounting for insurance companies, financial organizations and transportation companies within the context of combined apportionment may produce unreasonable results in particular cases. Where this occurs, the Director may require, or the taxpayer may petition for, an alternative method. See IITA Section 304(c) and 86 Ill. Adm. Code 100.3700(a).