

## BUSINESS TAXATION

*SCORE Fox Valley Chapter, November 28, 2009*

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### Overview

Many small businesses start out as sole proprietorships and later once established “incorporate” as either an S corp or a limited liability company (LLC) to limit the personal liability of their owners. For others, the decision to incorporate is one made at the outset of launching their businesses. That decision usually depends upon: (1) whether there will be multiple owners (other than a spouse), (2) the amount of personal wealth of the owner, and (3) the amount of professional (errors and omissions) liability exposure that cannot be insured at a reasonable premium cost.

The three most common forms of business organization tend to be: (1) sole proprietorships, (2) S corps, and (3) LLCs. This article will deal with the four most common sources of business taxation impacting these organizations: (1) income taxes, (2) payroll taxes, (3) sales and use taxes, and (4) franchise taxes. C or taxable corporations will be briefly covered only because S corps are C corps prior to making the S corp election with the IRS. There are other legal entity

structures that are not as common for the typical small to medium size business enterprise and will not be dealt with in the course of this article. Also, the whole area of real estate ownership and investment is another unique taxation area that will not be covered.

The sources of information used to develop this article included: (1) Commerce Clearinghouse's (CCH) 2010 editions of the "U.S. Master Tax Guide" and "Guidebook to Illinois Taxes", (2) the January, 2009, version of IRS Publication 15, "(Circular E), Employer's Tax Guide", and (3) the IRS, Illinois Department of Revenue, Illinois Department of Employment Security, and Illinois Secretary of State web sites. (The 2010 CCH guidebooks relate to 2009 federal and Illinois income tax returns.)

The purpose of this article is to provide a general overview of business taxation as it applies to the typical small to medium size business enterprise that is organized and operating in the state of Illinois and to provide information about forms and publications and how to obtain them, which can be a somewhat daunting challenge for the first time entrepreneur.

A reader of this article whose business is located in a state other than Illinois will need to refer to information from their own state's revenue department. One general source of information, other than their individual state's revenue department's web site, is CCH's "State Tax Handbook" which is updated annually.

**The SCORE organization is not engaged in rendering legal, accounting, and tax advice. If such services are required, the assistance of competent professionals should be sought by the reader.**

## I - INCOME TAXES

- Taxation based on the income of a business enterprise depends upon the legal entity structure of the business.
- **Sole Proprietorships** - Profits are taxed at the owner's federal and Illinois personal income tax rates. A profit of \$400 or more triggers the 15.3% self-employment tax (double FICA). Owners may need to file quarterly federal and Illinois estimates to avoid underpayment penalties. "Hobby loss" rules apply (the firm should make a profit in three out of five years including the most recent).
- **Corporations** - Taxable or C corps are subject to double taxation - first the corporate profit is taxed at the corporation level (maximum of 39% federal and 4.8% IL); then dividends paid shareholders are taxed at the shareholder level (max of 15% scheduled to expire after 2010). In addition, Illinois source income is taxed at 2.5% at the corporation level for the replacement tax.
- **S Corporations** - Requires filing a timely election with the IRS using Form 2553, "Election by a Small Business Corporation". The corporation is disregarded as a taxable entity (other than for the 1.5% Illinois replacement tax). Profit and losses of the corporation are passed through to the shareholders equal to their share ownership and are taxed at their individual federal and state income tax rates.

It is preferable that an S corp be an S corp in its first year of existence. Otherwise, it is a C corp, and there can be certain tax consequences that carryover to the S corp. Becoming an S corp in the first year requires that

the Form 2553:

1. Be filed with the IRS on or before the 15th day of the tax year's third month (would be March 15th if the corporation was established on January 1). Unless a business purpose can be established for adopting a fiscal year other than a calendar year, S corps should use a calendar year. The use of a fiscal year without an established business purpose requires that the taxpayer makes interest free deposits with the IRS.
  2. For short tax years of 2.5 months or less (i.e., fourth quarter incorporations), the 2553 must be filed within two months and fifteen days after the start of the tax year regardless of when the tax year ends. Example: if the incorporation date is October 1st, the deadline for filing the 2553 would be no later than December 15th.
- **Limited Liability Companies (LLCs)** - Profit or losses pass through to the members under partnership tax rules. (Members in an LLC are comparable to shareholders in a corporation.) Guaranteed payments to partners are subject to self-employment (SE) taxes. Under partnership tax rules, the profit of a partnership is also subject to the SE tax for general partners but not limited partners.

In the case of an LLC, the SE tax applies to members' share of the LLC's taxable income (does not apply if the member is strictly a passive investor) plus any guaranteed payments to members, whether or not they be active in the business or passive investors. (Passive LLC members should never be appointed as a manager of the LLC.) LLCs also are subject to a 1.5% Illinois replacement tax. Single member LLCs are taxed like sole proprietorships (reported on Schedule C to U.S. Form 1040).

- **Operating Losses of S Corps and LLCs** - In addition to the "hobby loss" rules, shareholder/member's basis for federal income taxes, material participation rules, and at-risk investment rules can limit the amount of losses that a shareholder in an S corp and a members in an LLC can deduct against other sources of taxable income. These rules are complex and beyond the scope of this article. **The advice of legal and accounting/tax professionals should be sought in the formation of corporations (S and C) and LLCs.**
- **Multi-State Taxation** - business income is apportioned among multiple states based on a three part formula that is the average of the percentages of the state's payroll, property, and sales (defined broadly to encompass all forms of business revenue) to worldwide payroll, property, and sales (with a double weighting given to the sales factor). Illinois adopted a single factor apportionment based on sales starting in 2001. For 2007, Indiana has adopted a five year transition period to a sales only formula commencing in 2011.

Most states recognize the federal pass through tax treatment accorded S corps and LLCs. The individual state apportionment formulas are used to determine non-resident shareholder/member state income tax liability.

- **Tax Returns and Due Dates** - Forms, instructions, and publications can be downloaded from [www.irs.gov](http://www.irs.gov) and [www.revenue.state.il.us](http://www.revenue.state.il.us).

1. **Sole proprietorships and single member LLCs** - attach Schedule C, "Profit or Loss from Business" and Schedule SE, "Self-Employment Tax" (if profit on Schedule C is \$400 or more) to Form 1040, "U.S. Individual Income Tax Return" due by April 15th of the following year. The profit or loss from Schedule C is reported on Line 12 of Page 1 of the 1040. Liability for the self-employment tax from Schedule SE is reported on Line 56 on Page 2 of the 1040 as part of "Other Taxes".
2. **S Corporations** file informational returns with the IRS and Illinois Department of Revenue. By March 15th of the following year, file Form 1120S, "U.S. Income Tax Return for an S Corporation" with the IRS. Shareholder tax information is reported to both the IRS and the shareholders on a Schedule K-1 (Form 1120S), "Shareholder's Share of Income, Deductions, Credits, Etc.". Shareholder's share of the profit or loss from an S Corp is reported on Lines 27 through 32 under Part II on Page 2 of Schedule E, "Supplemental Income and Loss" that is attached to the Form 1040. Total Schedule E activity is reported on Line 17 of Page 1 of the 1040.

For Illinois, an informational return, Form IL-1120-ST, "Small Business Corporation Replacement Tax Return" is also filed by March 15th with the Illinois Department of Revenue. Replacement tax liability and non-resident shareholder tax liability is paid and reported on Form IL-1023-C, "Composite Income and Replacement Tax Return" due by April the 15th.

3. **Multi-member LLCs taxed as partnerships** file an informational Form 1065, "U.S. Return of Partnership Income" by April 15th with the IRS. Shareholder information is reported via Schedule K-1 (Form 1065), "Partner's Share of Income, Deductions, Credits, etc." and ends up being entered on Lines 27 through 32 of Part II of Page 2 of Schedule E and is carried forward to Line 17 on Page 1 of the 1040, the same as with an S corp. The SE liability for members is reported on Schedule SE and is carried forward to to Line 56 on page 2 of Form 1040. For Illinois, Form IL-1065, "Partnership Replacement Tax Return" is due by April 15th. The replacement tax liability is paid with the Form IL-1065.
- **Depreciation of Business Assets** Most businesses, even the smallest, will have needs for equipment for use in the business. At the very least, there will be one or more computers, officer copiers, printers, desks, chairs, file cabinets, etc. As the business grows and becomes more complex, the demand for a widening variety of equipment will also increase.

The general principle for both GAAP and income tax accounting is that any asset with an expected useful life of longer than one year should be capitalized and depreciated over its useful life. It is acceptable to establish a de minimis cost amount for capitalization to avoid having to depreciate paper clips.

Usually, straight-line depreciation is used for financial (GAAP) accounting whereas accelerated depreciation (double declining, bonus depreciation, or Section 179 expensing allowance) is used for tax purposes. For balance sheet presentation, the original cost of capitalized assets is reported along with a contra asset account for the accumulated depreciation expense claimed. **Note:** While Illinois currently recognizes federal bonus depreciation and the temporary higher limits for the Section 179 expensing allowance, that is not necessarily the case with other states. This will impact businesses with multi state operations.

Deductions for depreciation and the Section 179 expensing allowance is reported on Form 4562, "Depreciation and Amortization". More information than most people need or want to know can be found in IRS Publication 946, "How to Depreciate Property" which can be downloaded from [www.irs.gov](http://www.irs.gov).

- **Automobile Expense** Special rules apply regarding deducting automobile expenses for business. The general rule is that either the mileage per diem or actual expense method can be used. The amount of expense that can be deducted will be based on either the number of eligible business miles driven during the tax year (under the per diem method) or the percentage of business miles to total miles applied to total operating expenses for the year. In either case, the IRS requires that adequate documentation be maintained to support claiming a deduction for business use of an automobile.

There are some exceptions to being able to use the per diem method. If the actual expense method is used in the first year, then all subsequent years that the car is used for business must use actual expenses. Also, if the car is legally titled in the name of the business or is part of a fleet, only the actual expense method can be used.

Current tax rules and regulations limits the amount of annual depreciation that can be claimed on certain automobiles and light trucks used for business above a specified cost basis. These are referred to as the "luxury car rules", although the threshold is low enough to subject most cars and light trucks to these rules. Similar restrictions apply to the dollar amount of lease payments that can be deducted each year.

More information about automobile expense is available in IRS Publication 463, "Travel, Entertainment, Gift, and Car Expenses" that can be downloaded from [www.irs.gov](http://www.irs.gov).

- **Home Office Deduction** Many businesses can start out by operating out of the home of the owner. It is advantageous during the startup phase to avoid incurring any more fixed costs than is absolutely necessary until such time that a revenue flow is established. One of the ways to do that is to operate out of the owner's home to avoid the fixed overhead costs of a real estate lease.

Under current tax law and regulations, business expenses that apply to the part of the owner's home may be deducted provided that: (1) it is used exclusively and on a regular basis for business, (2) it is the principal place of business, and (3) if the taxpayer is an employee, it is for the convenience of the employer. For most businesses, allocation of expenses is based on square footage as a percentage of total square footage of the taxpayer's home.

A separate room or structure is not a requirement, although the availability of either should make it easier for the taxpayer to prove to the IRS the eligibility of claiming a home office deduction. **Caution:** A taxpayer should avoid the presence of any items of a personal nature in the home office area. Claiming a home office deduction has been a “red flag” for the IRS in the past and remains potentially a reason for an audit. **Clients are well advised to consult with their accounting and tax advisors to assure full compliance with the rules and regulations.**

Principal place of business is where the majority of the time or revenue is generated. However, under 1997 tax legislation, it also includes the place where the major administrative work of the business is conducted. The employer convenience requirement comes to play when the business is legally organized as a corporation (either a C or an S) because the shareholder active in the business is a W-2 employee of the corporation.

The real after tax benefits of claiming a home office deduction can be more illusory than real because, particularly for those taxpayers who itemize deductions on Schedule A of their Form 1040, the incremental deductions available under Form 8829, “Expenses for Business Use of Your Home” may not be all that significant. Computation of the deduction is somewhat complex and beyond the scope of this article. However, being able to qualify an office in the home under the law and regulations without claiming a deduction can be beneficial to the business:

1. **Listed Property Rules for depreciation** Computers used in a regular place of business are NOT listed property for depreciation purposes.

Under the Internal Revenue Code and regulations, listed property is any type of depreciable asset that can be used interchangeably for business and personal use. The three major classes impacting the typical small to medium sized business will be computers, cell phones, and passenger cars and light trucks. Under the listed property rules, depreciable asset must be used more than 50% for business use throughout the depreciable to qualify for accelerated depreciation, bonus depreciation, and the Section 179 expensing allowance discussed earlier.

Home offices that qualify are a regular place of business, and computers are not subject to the listed property rules. Unfortunately, automobiles and light trucks and cellphones cannot similarly qualify. The taxpayer must maintain written records of business use of automobiles, light trucks, and cellphones.

2. **Commuting Rules do not apply** When a home office qualifies as a regular place of business, all of the auto mileage of the taxpayer is deductible as a business expense. Otherwise, the mileage associated with the distance between home and the first business call and the last business call of the day and home is non-deductible commuting mileage.

More information about the home office deduction can be found in IRS Publication 587, “Business Use of Your Home” that can be downloaded from [www.irs.gov](http://www.irs.gov).

## II - PAYROLL TAXES

- Regardless of the legal entity structure, all businesses with W-2 employees are required to withhold federal and state income and FICA taxes from employee pay. In addition, the employer is legally obligated to match their employees' FICA and are subject to both federal and state unemployment taxes.
- W-2 employee withholding requires the business to obtain an Employer Identification Number (EIN) from the IRS by filing Form SS-4, "Application for Employer Identification Number" (electronic filing is available at [www.irs.gov/smallbiz](http://www.irs.gov/smallbiz)) and be registered as a withholding agent with the Illinois Department of Revenue by completing Form REG-1, "Illinois Business Registration Application".

The Form REG-1 is filed **after** the IRS assigns an EIN. Also, the business needs to be registered with the Illinois Department of Employment Security for state unemployment tax payments by filing Form UI-1, "Report to Determine Liability Under the Unemployment Insurance Act" **following** the issuance of a state taxpayer number by the Illinois Department of Revenue.

- Most small to medium size businesses will be required to remit to the IRS on the 15th of each month the amount of federal income tax and employee FICA withholding and the employer FICA match for the previous month. This is referred to as a "Form 941" deposit.

Quarterly by April 30th, July 31st, October 31st, and January 31st of the following year, the employer completes and files with the IRS a Form 941, "Employers Quarterly Federal Tax Return" that reconciles the three monthly 941 deposits.

- Quarterly, the employer is required to deposit the federal unemployment tax (0.8% of the first \$7,000 of W-2 compensation per employee or \$56 per year per employee) by April 30th, July 31st, October 31st, and January 31st of the following year. These deposits of FUTA are referred to as "Form 940" deposits.

Annually by January 31st, the employer files Form 940, "Employer's Annual Federal Unemployment (FUTA) Tax Return" with the IRS which reconciles the quarterly FUTA and state unemployment taxes paid for the year.

- For state income tax withholding, depending upon the employer's liability, it will be required to file with and pay to the Illinois Department of Revenue on a monthly or quarterly basis. The forms, filed with the Department of Revenue, are either IL-501, "Illinois Withholding Income Tax Payment" for monthly depositors or IL-941, "Illinois Quarterly Withholding Income Tax Return".
- For state unemployment (SUTA), the employer files Form UI-3/40, "Employer Contribution and Wage Report" with and pays any liability to the Illinois Department of Employment Security quarterly by April 30th, July 31st, October 31st, and January 31st of the following year. SUTA rates and wage base are subject to change annually. (For 2009, SUTA is levied on the

first \$12,300 for 2009 of W-2 earnings per employee.) For the first three years of a business, the rate can be as high as 4.2%. After three years, the business will be eligible for experience rating.

- Annually, the employer is required to:
  1. By January 31st, furnish each employee with a completed Form W-2, "Wage and Tax Statement".
  2. By February 28th, file Copy A of all Form W-2s along with Form W-3, "Transmittal of Wage and Tax Statements" with the Social Security Administration. For electronically filed returns, the filing deadline is March 31st.
  3. By February 28th, file Form IL-W-3, "Illinois Annual Withholding Income Tax Return" with the Illinois Department of Revenue. The employer **retains but does not file** Copy 1 of the W-2 with the Department of Revenue.
- For new hires, the employer is required to verify the hiree's eligibility to work in the U.S. by completing and certifying Form I-9, "Employment Eligibility Verification", a Department of Homeland Security form, and the hiree must complete a Form W-4, "Employee's Withholding Allowance Certificate" and Form IL-W-4, "Employee's Illinois Withholding Allowance Certificate".
- Required reference publications include IRS Publication 15, "(Circular E), Employer's Tax Guide" that is updated in January of each year and can be downloaded from [www.irs.gov](http://www.irs.gov).
- **Reasonable compensation of S corp shareholders** - a landmark U.S. Supreme Court case (Radtke) ruled that S corporations must pay reasonable compensation to their shareholders for services rendered to the corporation. The Radtke decision precludes the aggressive position of shareholders receiving all compensation from their corporation as tax free distributions (which reduce the income tax basis in their shares). A shareholder who actively works for or participates in the management of an S corporation is a common law or W-2 employee of the corporation. (Stockholder basis is a complex topic, a discussion of which is beyond the scope of this article.)

The Radtke court stopped short of providing any "bright line" guidelines as to what constitutes reasonable compensation. (The limited number of subsequent court decisions and rulings by the IRS has provided scant additional guidance.) A common practice (although may not necessarily be bulletproof from IRS challenge) is 2/3rds W-2 and 1/-3rd tax free dividend distributions. For highly compensated shareholders, it is probably prudent to take up to the OASDI (social security) limit for FICA as W-2 salary.

**Caution:** S corps who are profitable without any reported officer salaries and wages on page 1 of the 1120S return with only tax free dividend distributions to shareholders reported on Schedule K to the 1120S and the individual shareholder K-1s represent a potential "red flag" to the IRS.

**Note:** It should be pointed out that there have been several ideas floated in Treasury from time-to-time that would treat S Corp shareholders as self-employed individuals, thus subjecting their share of the corporation profits to the 15.3% SE tax, the same as is the case with members of an LLC and a

sole proprietorship. **Always seek the advice of your tax advisor when establishing a compensation policy for S corp shareholders**

- **Misclassification of W-2 employees as independent contractors - tread carefully in this arena!** If the employer can control how the employee does the job, the employee is a W-2 employee, not an independent contractor. **Determinative is the ability of the employer to control the activities of the employee, not whether the employer actually exercises such control.**

If the IRS determines, during the course of an employment tax audit, that the employer has deliberately misclassified employees, the penalty can be as much as 100% of the unpaid employment taxes. Moreover, the IRS lien is not a dischargeable debt in bankruptcy. Responsible parties can be held personally responsible for the unpaid taxes, penalties, and interest.

There are other consequences as well. Qualified benefit plans can be overturned if employees were misclassified because of the “top heavy” and anti-discrimination rules of ERISA (Employee Retirement Income Security Act of 1974) and the Tax Code. In addition, workers compensation injuries of uninsured contractors (and their employees) can be ruled as the responsibility of the employer. If the employer has no insurance and they should have had, the Illinois Industrial Commission can shut the employer down.

Compensation of \$600 or more paid to **bonafide** independent contractors is reported as Box 7, non-employee compensation on Form 1099-MISC.

- **Tip Income** - For those engaged in the food and beverage service industry need to be aware of their requirement to track and report tip income of its employees. All employees are required to report their tip income to their employer. Tip income is taxable income to the employee and is subject to FICA (employee and employer match), and unemployment taxes. If the IRS determines that the amount of tip income being reported by the employer is inadequate, they can assess an allocated amount against the employer.

Additional information is contained in IRS Publication 15, “(Circular E), Employer Tax Guide” that is updated annually and the Instructions for Form 8027, “Employer’s Annual Information Return of Tip Income and Allocated Tips”. Both can be downloaded from [www.irs.gov](http://www.irs.gov).

- **Estimating employer’s payroll tax expense** - For budgeting and business plan purposes, a good rule of thumb is to add 15% to salaries and wages to cover the employer’s FICA match, FUTA, SUTA, and work comp insurance premium.

### III - Sales and Use Taxes

- When purchasing raw materials, components, and finished product for resale, the business will want to purchase the items tax free. Otherwise, end up paying state sales tax twice - once on the purchase price and then again when sold in a taxable sale transaction.

- In Illinois, the business needs to register as a reseller with the Illinois Department of Revenue by filing Form REG-1, "Illinois Business Registration Application" ..
- The business needs to bill and collect the appropriate sales tax depending upon the location of sales to Illinois customers unless they are exempt from sales tax and provide proof of exemption.
- Businesses engaged in interstate commerce (including web based sellers) cannot be compelled to bill, collect, and remit to out-of-state revenue departments for sales to out-of-state customers, unless the selling vendor has a tax nexus in the foreign state (i.e., a physical presence in the form of an office or a warehouse, domiciled employees, or conduct repeated sales in the state). There is a federal moratorium in effect for web-based sellers without a "brick and mortar" presence.
- A registered business will be required to file a Form ST-1, "Sales and Use Tax Return" and pay sales tax liability to the Illinois Department of Revenue. For the initial year of a business, the Department of Revenue usually will require quarterly filings. Based on tax liability, the business will be either a monthly, quarterly, or annual filer in subsequent years.
- Items purchased from out-of-state vendors for company use are subject to the 6.25% Illinois use tax. A credit up to 6.25% for sales taxes paid to out-of-state vendors can be claimed against Illinois sales and use tax liability.

#### **IV - FRANCHISE TAXES**

- Illinois imposes a franchise tax on domestic corporations (i.e., those corporations that are organized under Illinois law) for the privilege of exercising their franchises in Illinois. Franchise taxes also are imposed on foreign corporations (i.e., corporations not organized in Illinois) for the privilege of exercising their authority to do business in the state.
- The Illinois franchise tax is based on the paid-in capital of a corporation. It is initially imposed at the beginning of the corporation's first year of doing business in the state. Thereafter, the corporation pays the tax annually on the basis of its original paid-in capital adjusted for subsequent events such as issuance of additional shares of stock.
- The annual franchise tax is based on the amount of the corporation's paid-in capital allocated to Illinois in the third month preceding the corporation's anniversary month. For example, a corporation organized in the month of October will have a July anniversary date.
- The amount of paid-in capital allocated to Illinois is determined by multiplying the paid-in capital by a fraction based on the sum of the value of corporation's property located in Illinois plus the gross receipts of the corporation generated in Illinois divided by the sum of worldwide property and gross receipts of the corporation.
- Domestic corporations pay the franchise tax along with filing a "Domestic Corporation Annual Report" with the Illinois Secretary of State. The filing fee is \$75 plus the franchise tax due. For most small corporations, the annual amount will be \$100.

- Limited liability companies are required to file an annual report, Form LLC-50.1, "Limited Liability Company Annual Report" with the Illinois Secretary of State. The filing fee is \$250.
- **Doing business outside of Illinois** - Illinois corporations and LLCs who are doing business in other states may be subject to those states' registration and franchise tax requirements. What constitutes doing business in any given state may or may not be defined in that state's corporation or limited liability company laws. Generally speaking, the standard for doing business will vary depending upon whether the corporation or LLC is subject to: (1) taxation, (2) service of legal process and suit in the state, or (3) is statutorily required to qualify to do business in the state.

Clearly, a corporation or LLC with an office, plant, or warehouse/distribution center out-of-state will be subject that state's "doing business" laws and regulations. Moreover, having access to foreign state courts to pursue a legal action against a resident of that state requires that the corporation or LLC to qualify itself to do business in the state.

Taxation often can be the grayest of the three areas. If the foreign corporation is required to bill, collect, and remit sales taxes to the state's revenue department, registration as a foreign corporation or LLC is, almost without exception, a pre-condition of the foreign state's revenue department granting authority to collect and remit sales taxes .

It is key to know whether or not an unqualified foreign corporation or LLC will be able to qualify after the fact in the event that it has to pursue legal action against a resident of the state. All states except for Alabama and Vermont are what are referred to as "cure" states; that is, an unqualified foreign corporation or LLC will be allowed to qualify after the fact and pay any back taxes and penalties while pursuing legal action. Only in Alabama and Vermont will unqualified foreign corporations and LLCs be barred from pursuing legal action for contracts entered into prior to the date of their qualification.

All corporations and LLCs must have a registered agent in every state where it is qualified to do business. Unless there are resident employees in the foreign state, it will be necessary to retain the services of specialized companies to serve as its registered agent.

**Corporations and LLCs operating in multiple states need to consult with their legal, accounting, and tax advisors to assure that they are in full compliance with the varying laws of the states where they are operating.**

**V - A FINAL WORD** - It is the prudent business that, when mailing all of its tax returns with or without payments and other correspondence to federal, state, and local taxing and other governmental authorities, pays for the U.S. Post Office's certified mail with return receipt. The IRS does NOT accept the cheaper "Certificate of Mailing" as proof that the item has been mailed. The more expensive certified mail with return receipt has a computerized tracking number that proves to be "cheap insurance" when faced with lost or misplaced mail situations with any governmental authority or agency.

That is why electronic filing and EFT payments are advantageous over regular mail. However,

this option may not always be possible or available. It is in these situations when the certified mail with return receipt will prove worthwhile even if there is only one event in a one or two year period of time when "the paperwork" has been lost or misplaced. The burden of proof of mailing is always on the sender.

In the case of federal and state income tax returns, an alternative to mailing is to hand deliver them to the local office of the IRS or Illinois Department of Revenue, but ALWAYS make an extra copy of page 1 of the return that the tax office will stamp the date it has been received. Retain all returned certified mail receipts as well as stamped copies of returns that have been hand delivered in your files.

### LOCAL TAX OFFICE LOCATIONS

**IRS** 2001 Butterfield Road  
Downers Grove, IL 60515  
(630) 493-5291  
M - F 8:30 A.M. - 4:30 P.M.

230 S. Dearborn Street  
Chicago, IL 60604  
(312) 566-4912  
M - F 8:30 A.M. - 4:30 P.M.

### Illinois Department of Revenue

Maine North Regional Office  
  
9511 Harrison Avenue  
Des Plaines, IL 60016-1563  
(847) 294-4200  
M - F 8:30 A.M. - 5 P.M.

James R. Thompson Center -  
Concourse Level  
100 West Randolph Street  
Chicago, IL 60601-3274  
(312) 814-5232  
M - F 8:30 A.M. - 5 P.M.

### IL Secretary of State Security

69 W. Washington, Suite 1240  
Chicago, IL . 60602  
(312) 793-3380  
M - F 8:00 A.M. - 5 P.M.

### IL Dept. of Employment

33 South State Street  
Chicago, IL 60603-2802  
(312) 793-1900  
M-F 8:30 A.M. to 5 P.M.

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**The information contained in this article is for the sole purpose of providing the reader with general information regarding the common forms of taxation impacting the typical small and medium sized business enterprise and is not intended to be interpreted as rendering professional advice on these complex topics. Business owners should always consult with their legal counsel and accounting and tax advisors regarding these topics.**  
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