

IN THE ILLINOIS INDEPENDENT
TAX TRIBUNAL

TRANE TECHNOLOGIES COMPANY)
LLC)

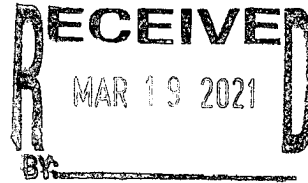
Petitioner,)

v.)

ILLINOIS DEPARTMENT)
OF REVENUE,)

Respondent,)

No.)



217726

PETITION

The Petitioner, Trane Technologies Company LLC, (hereinafter “Petitioner”), a limited liability company, by its attorneys of record, Kupiec & Martin, LLC, hereby petitions the Illinois Independent Tax Tribunal to review, and reverse and/or modify the Notice of Tax Deficiency (hereinafter “Notice”) issued by the Illinois Department of Revenue (hereinafter “Department”) on January 19, 2021, for the reasons set forth below.

INTRODUCTION

1. Petitioner is an LLC with its principal place of business in Davidson, North Carolina. It is the successor entity to Ingersoll-Rand Company, which merged out of existence into Petitioner on May 1, 2020 by means of a statutory merger, with Petitioner the surviving entity.
2. It is located at 800 Beaty Street, Suite E, Davidson, North Carolina and its telephone number is (732) 652-7000. The Petitioner Account number is 13-5156640.
3. The Notice has a Letter ID of CNXXXX9X35XX1442.

4. The Notice was issued by the Department on January 19, 2021 assessing the amount of \$2,201,876.00 in tax, \$167,576.53 in penalties and \$5,309.21 in interest for the reporting period ending December 31, 2019. A copy of the Notice is attached to this Petition.

JURISDICTION

5. The Tax Tribunal has jurisdiction pursuant to 35 ILCS 1010/1-45(a) because the alleged tax liability in question from the Illinois Income Tax Act and the aggregate amount at issue exceeds, \$15,000, exclusive of penalties and interest, and because Petitioner has remitted the \$500 filing fee.

6. The Tax Tribunal also has jurisdiction because the original petition in this matter was filed within 60 days of the date of the Notice of Deficiency.

BACKGROUND AND RELEVANT FACTS

7. Petitioner timely filed an Illinois Corporation Income and Replacement Tax Return, *2019 Form IL-1120*, for itself and the members of its unitary business group for the taxable period ending December 31, 2019 on or before October 15, 2020 (“the 2019 return”).

8. Petitioner claimed \$20,057,751 of Illinois Net Operating Loss Deduction (“NOL”) on the 2019 return.

9. This NOL amount includes NOL carryforward for Petitioner and its unitary business group from tax years 2014-2018. It also includes an NOL from a new member acquired during their 2019 tax year, Milton Roy U.S. Purchaser, Inc. (“Milton”) for tax years 2012 - 2018. The NOLs carried forward were properly reported on Petitioner’s and Milton’s Illinois income tax return each year a loss was incurred subject to the statutory NOL limitations of 2012 and 2013.

10. These NOLs at issue were properly reported on all schedules and worksheets attached with the 2019 return and all timely filed prior period Illinois income tax returns.

11. Subsequent to filing this return, an audit of 2014 and 2015 was conducted. This audit was completed in January 2021 and adjusted the NOL carryforward of 2014 and 2015.

12. The NOL carryforward from 2014 and 2015 was adjusted during the Department's audit to \$49,888,858.

13. During the 2016 tax year, \$10,821,071 of NOL was utilized. The NOL carryforward to 2017 was \$39,067,787.

14. During the 2017 tax year, a \$1,616,535 NOL was incurred and properly reported on Petitioner's 2017 Illinois income tax return. The carryforward to 2018 was \$40,684,322.

15. During the 2018 tax year, \$27,857,224 was utilized. The carryforward to 2019 was \$12,827,098.

16. During the 2019 tax year, Milton was purchased and included in the 2019 Illinois unitary return. Milton became a member of Petitioner's unitary business group during 2019. Based on Milton's unitary relationship with Petitioner, Milton's \$3,701,438 of NOL was included in Petitioner's unitary business group's NOL.

17. Petitioner's total 2019 Illinois NOL available to be utilized was \$16,528,536.

18. On Petitioner's originally filed 2019 Illinois income tax return, \$20,057,751 of NOL was utilized. Pursuant to the Department's audit adjustment finalized in January 2021 and as set forth above in paragraphs 12-17, the amount of Illinois NOL carryforward available to carryforward was \$16,528,536.

19. On its 2019 return, Petitioner had an overpayment carried forward to 2020 of \$1,561,057.

20. Due to the reduction in NOL utilization, there is additional taxable income in 2019. This created a small tax liability in 2019 which is less than the 2019 carryforward and tax payment.

21. Therefore, the overpayment carryforward to 2020 should be reduced by this tax amount.

22. No additional tax should be assessed as there was sufficient tax payments and carryforwards to cover any additional tax assessed in 2019.

23. As there is no additional tax assessed for 2019, there should be no penalties or interest assessed as there is no additional tax.

24. The Notice issued to the Petitioner in the total amount of \$2,374,761.74 should be cancelled.

APPLICABLE LAW

25. The Petitioner relies upon the Illinois Income Tax Act (hereinafter "IITA") 35 ILCS Section 207 and Section 1501 to dispute the above referenced Illinois Income Tax assessment.

Illinois Income Tax Statutes and Regulations provide, in relevant part, as follows:

IITA Section 207 - Net Losses

(a) If after applying all of the (i) modifications provided for in paragraph (2) of Section 203(b), paragraph (2) of Section 203(c) and paragraph (2) of Section 203(d) and (ii) the allocation and apportionment provisions of Article 3 of this Act and subsection (c) of this Section, the taxpayer's net income results in a loss; (1) for any taxable year ending prior to December 31, 1999, such loss shall be allowed as a carryover or carryback deduction in the manner allowed under Section 172 of the Internal Revenue Code;

(2) for any taxable year ending on or after December 31, 1999 and prior to December 31, 2003, such loss shall be allowed as a carryback to each of the 2 taxable years preceding the taxable year of such loss and shall be a net operating loss carryover to each of the 20 taxable years following the taxable year of such loss; and

(3) for any taxable year ending on or after December 31, 2003, such loss shall be allowed as a net operating loss carryover to each of the 12 taxable years following the taxable year of such loss.

(a-5) Election to relinquish carryback and order of application of losses.

(A) For losses incurred in tax years ending prior to December 31, 2003, the taxpayer may elect to relinquish the entire carryback period with respect to such loss. Such election shall be made in the form and manner prescribed by the Department and shall be made by the due date (including extensions of time) for filing the taxpayer's return for the taxable year in which such loss is incurred, and such election, once made, shall be irrevocable.

(B) The entire amount of such loss shall be carried to the earliest taxable year to which such loss may be carried. The amount of such loss which shall be carried to each of the other taxable years shall be the excess, if any, of the amount of such loss over the sum of the deductions for carryback or carryover of such loss allowable for each of the prior taxable years to which such loss may be carried.

(b) Any loss determined under subsection (a) of this Section must be carried back or carried forward in the same manner for purposes of subsections (a) and (b) of Section 201 of this Act as for purposes of subsections (c) and (d) of Section 201

of this Act.

(c) Notwithstanding any other provision of this Act, for each taxable year ending on or after December 31, 2008, for purposes of computing the loss for the taxable year under subsection (a) of this Section and the deduction taken into account for the taxable year for a net operating loss carryover under paragraphs (1), (2), and (3) of subsection (a) of this Section, the loss and net operating loss carryover shall be reduced in an amount equal to the reduction to the net operating loss and net operating loss carryover to the taxable year, respectively, required under Section 108(b)(2)(A) of the Internal Revenue Code, multiplied by a fraction, the numerator of which is the amount of discharge of indebtedness income that is excluded from gross income for the taxable year (but only if the taxable year ends on or after December 31, 2008) under Section 108(a) of the Internal Revenue Code and that would have been allocated and apportioned to this State under Article 3 of this Act but for that exclusion, and the denominator of which is the total amount of discharge of indebtedness income excluded from gross income under Section 108(a) of the Internal Revenue Code for the taxable year. The reduction required under this subsection (c) shall be made after the determination of Illinois net income for the taxable year in which the indebtedness is discharged.

(d) In the case of a corporation (other than a Subchapter S corporation), no carryover deduction shall be allowed under this Section for any taxable year ending after December 31, 2010 and prior to December 31, 2012, and no carryover deduction shall exceed \$100,000 for any taxable year ending on or after December 31, 2012 and prior to December 31, 2014; provided that, for purposes of determining the taxable years to which a net loss

(Source: P.A. 95-233, eff. 8-16-07.)

HTA Section 1501 – Unitary Business Group

(27) Unitary business group.

(A) The term "unitary business group" means a group of persons related through common ownership whose business activities are integrated with, dependent upon and contribute to each other. The group will not include those members whose business activity outside the United States is 80% or more of any such member's total business activity; for purposes of this paragraph and clause (a)(3)(B)(ii) of Section 304, business activity within the United States shall be measured by means of the factors ordinarily applicable under subsections (a), (b), (c), (d), or (h) of Section 304 except that, in the case of members ordinarily required to apportion business income by means of the 3 factor formula of property, payroll and sales specified in subsection (a) of Section 304, including the formula as weighted in subsection (h) of Section 304, such members shall not use the sales factor in the computation and the results of the property and payroll factor computations of subsection (a) of Section 304 shall be divided by 2 (by one if either the property or payroll factor has a denominator of zero). The computation required by the preceding sentence shall, in each case, involve the division of the member's property, payroll, or revenue miles in the United States, insurance

premiums on property or risk in the United States, or financial organization business income from sources within the United States, as the case may be, by the respective worldwide figures for such items. Common ownership in the case of corporations is the direct or indirect control or ownership of more than 50% of the outstanding voting stock of the persons carrying on unitary business activity. Unitary business activity can ordinarily be illustrated where the activities of the members are: (1) in the same general line (such as manufacturing, wholesaling, retailing of tangible personal property, insurance, transportation or finance); or (2) are steps in a vertically structured enterprise or process (such as the steps involved in the production of natural resources, which might include exploration, mining, refining, and marketing); and, in either instance, the members are functionally integrated through the exercise of strong centralized management (where, for example, authority over such matters as purchasing, financing, tax compliance, product line, personnel, marketing and capital investment is not left to each member).

(B) In no event, for taxable years ending prior to December 31, 2017, shall any unitary business group include members which are ordinarily required to apportion business income under different subsections of Section 304 except that for tax years ending on or after December 31, 1987 this prohibition shall not apply to a holding company that would otherwise be a member of a unitary business group with taxpayers that apportion business income under any of subsections (b), (c), (c-1), or (d) of Section 304. If a unitary business group would, but for the preceding sentence, include members that are ordinarily required to apportion business income under different subsections of Section 304, then for each subsection of Section 304 for which there are two or more members, there shall be a separate unitary business group composed of such members. For purposes of the preceding two sentences, a member is "ordinarily required to apportion business income" under a particular subsection of Section 304 if it would be required to use the apportionment method prescribed by such subsection except for the fact that it derives business income solely from Illinois. As used in this paragraph, for taxable years ending before December 31, 2017, the phrase "United States" means only the 50 states and the District of Columbia, but does not include any territory or possession of the United States or any area over which the United States has asserted jurisdiction or claimed exclusive rights with respect to the exploration for or exploitation of natural resources. For taxable years ending on or after December 31, 2017, the phrase "United States", as used in this paragraph, means only the 50 states, the District of Columbia, and any area over which the United States has asserted jurisdiction or claimed exclusive rights with respect to the exploration for or exploitation of natural resources, but does not include any territory or possession of the United States.

Regulation Section 100.2350 Illinois Net Losses and Illinois Net Loss Deductions, for Losses Occurring on or After December 31, 1986, of Corporations that are Members of a Unitary Business Group: Changes in Membership

a) Member entering the group from a separate return year. IITA Section 207 provides that the amount of Illinois net loss that is available as a carryback or carryover is determined after applying the allocation and apportionment provisions of Article 3. That Section does not limit the amount of Illinois net loss that may be carried into a given year. As a consequence, no such limitation shall apply.

ERROR I – THE ILLINOIS NET LOSS DEDUCTIONS WERE IMPROPERLY DISALLOWED AND TAX LIABILITY ASSESSED

26. Petitioner realleges and reincorporates paragraphs 1-25 of the Petition herein.

27. Section 207 of the IITA provides that Illinois operating loss properly reported on the loss year income tax return “shall be allowed as a net operating loss carryover to each of the 12 taxable years following the taxable year of such loss.” 35 ILCS 207.

28. The Department’s 2019 Schedule UB/NLD Instructions expressly states that “You must use this schedule to claim an Illinois net loss deduction carryforward on an original or amended combined Illinois income tax return filed by a unitary business group for tax years ending on or after December 31, 2019.” Similar statements are included in the instructions for each of the net loss deduction carryforward years at issue.

29. Petitioner properly filed 2014 and 2015 Illinois income tax returns and accompanying forms and schedules claiming net loss deduction carryforwards that were reported and claimed on its 2015 income tax return. These periods were subsequently audited and the amount of NOL carryforward amount agreed to between Petitioner and the Department in January 2021 for these periods was \$49,888,858.

30. Petitioner contends that the Department erred in assessing Illinois income tax in the above referenced Notice, as the Petitioner filed 2014 and 2015 Illinois income tax returns properly reporting and claiming net loss deductions.

31. Petitioner properly filed a 2016 Illinois income tax return including all required forms and schedules and using \$10,821,071 of the available NOL carryforward.

32. Petitioner properly filed a 2017 Illinois income tax return including all required forms and schedules and reporting an additional \$1,616,535 of NOL generated and carried forward to 2018.

33. Petitioner properly filed a 2018 Illinois income tax return including all required forms and schedules and using \$27,857,224 of the carryforward NOL.

34. Petitioner properly included the new unitary group member, Milton, in the unitary group and properly included Milton's Illinois NOL carryforward of \$3,701,438 on Petitioner's 2019 Schedule UB/NLD.

35. Based on all of the aforementioned properly filed returns and schedules noted above, Petitioner reported on its 2019 Illinois unitary income tax return \$16,528,536 of NOL available to be utilized in 2019.

36. This NOL carryforward is properly available for the Petitioner to use on its 2019 return. As such, the total amount of the NOL should not be disallowed.

37. Notwithstanding, based on the Department's 2014 and 2015 audit of the NOL, the Petitioner may owe a small amount of tax that was due with its 2019 return.

38. The Petitioner carried forward an overpayment of \$1,561,057 into tax year 2020.

39. Based on this, Petitioner contends that its overpayment amount should be revised to reflect any tax assessed for the 2019 year.

40. Petitioner also contends that pursuant to the provisions of IITA Section 207 and the 2019 Schedule UB/NLD Instructions, the Department erred in assessing Illinois income tax, penalties and interest in the above referenced Notice as the Petitioner properly filed Illinois income tax returns claiming valid net loss deduction carryforwards.

**ERROR II – THE NOL CARRYFORWARD FROM THE ACQUIRED ENTITY WAS
IMPROPERLY DISALLOWED**

41. Petitioner realleges and reincorporates paragraphs 1-25 of the Petition herein.

42. As noted in the Facts above, a new entity, Milton, was purchased during the 2019 tax year and Milton was included in Petitioner's 2019 Illinois income tax unitary filing.

43. Illinois Regulation Section 100.2350 and IITA Section 207 provides the following guidance concerning the addition of a new unitary member with a net loss deduction carryforward -

a) Member entering the group from a separate return year. IITA Section 207 provides that the amount of Illinois net loss that is available as a carryback or carryover is determined after applying the allocation and apportionment provisions of Article 3. That Section does not limit the amount of Illinois net loss that may be carried into a given year. As a consequence, no such limitation shall apply.

44. Moreover, Milton had previously filed income tax returns in Illinois and properly established prior period NOL deductions.

45. During the 2019 year, Petitioner established under IITA Section 1501(27) that Milton was a member of its Illinois unitary business group and properly included Milton as part of its Illinois income tax unitary return and properly included Milton's previously generated Illinois NOLs.

46. Petitioner contends that Petitioner properly included Milton's net loss deduction carryforward as part of Petitioner's 2019 Illinois net loss deduction carryforward. Accordingly, the Department should remove the tax, penalty and interest assessed as a result of the Department's denial of the Milton net loss deduction carryforward.

ERROR III – ABATEMENT OF PENALTY

47. Petitioner realleges and reincorporates paragraphs 1- 25 of the Petition herein.

48. Petitioner contends that the Department erred in assessing Petitioner the penalty and interest at issue as Petitioner's net loss deductions at issue were properly reported and carried forward to the tax year ending December 31, 2019.

49. The Petitioner does not owe the Illinois income tax to the State of Illinois as alleged by the Department on the Notice of Deficiency, and therefore no penalties may be assessed by the Department. Notwithstanding, even if any tax is due, any penalties assessed on such tax should be abated for reasonable cause. 35 ILCS 735-3/8.

50. The Petitioner has relied in good faith on its understanding of Illinois law with respect to these transactions.

51. The Department's regulation on reasonable cause looks to whether the Petitioner "made a good faith effort" and exercised "ordinary business care in prudence". Illinois Admin. Code tit. 86 Section 700.400.

52. The Petitioner has viable defenses based on Illinois law that the net loss deductions claimed were valid.

CONCLUSION AND RELIEF REQUESTED

THEREFORE, the Department is precluded from assessing the Illinois Income Tax, penalties, and interest as set forth in the aforementioned Notice of Deficiency as the Net Loss Deductions claimed were valid. The Petitioner will provide evidence showing the validity of the net loss deductions carried forward to the 2019 tax year.

WHEREAS, for the reasons set forth above, Petitioner respectfully requests the Illinois Income Tax, penalties, and interest assessed in the aforementioned January 19, 2021 Notice of Deficiency in the total amount of amount of \$2,201,876.00 in tax, \$167,576.53 in penalties and \$5,309.21 in interest be cancelled and withdrawn and the Department correctly reflect Petitioner's Net Loss Deduction carryforward to the 2020 tax year.

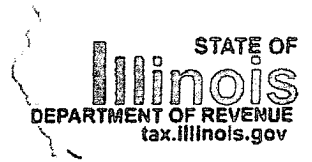
Respectfully Submitted,

Trane Technologies Company LLC

By: 
One of the Petitioner's Attorneys

David J. Kupiec
Natalie M. Martin
Kupiec & Martin, LLC
600 W. Van Buren #202
Chicago, IL 60607
(312) 632-1022
dkupiec@kupiecandmartin.com
Attorney No. 58817

Notice of Deficiency
for Form IL-1120, Corporation Income and Replacement Tax Return



January 19, 2021



Letter ID: CNXXXXX9X35XX1442

Taxpayer ID: 13-5156640

Reporting period: December 2019

Total deficiency: \$2,374,761.74

Balance due: \$517,314.74

_____ #BWNKMGV
_____ #CNXX XX9X 35XX 1442#
_____ TRANE TECHNOLOGIES COMPANY LLC
_____ ATTN: IRCO TAX DEPT
_____ 1 CENTENNIAL AVE STE 101
_____ PISCATAWAY NJ 08854-3921

We have determined that you owe amounts for the reporting period listed above. The attached statement explains the computation of your deficiency and the balance due. Illinois law requires that we notify you of this deficiency and your rights.

If you agree to this deficiency, you must pay the total balance due as soon as possible to minimize penalty and interest assessed. Make your check payable to "Illinois Department of Revenue," write your taxpayer ID on your check, and mail a copy of this notice along with your payment.

If you do not agree, you may contest this notice by following the instructions listed below.

- If the amount of this tax deficiency, exclusive of penalty and interest, is more than \$15,000, or if no tax deficiency is assessed but the total penalties and interest is more than \$15,000, file a petition with the Illinois Independent Tax Tribunal within 60 days of this notice. Your petition must be in accordance with the rules of practice and procedure provided by the Tribunal (35 ILCS 1010/1-1, *et seq.*).
- In all other cases, file a protest with us, the Illinois Department of Revenue, within 60 days of this notice. If you file a protest on time, we must reconsider the proposed deficiency, and if requested, grant you or your authorized representative an administrative hearing. An administrative hearing is a formal legal proceeding conducted pursuant to rules adopted by the Department and is presided over by an administrative law judge. Submit your protest on Form EAR-14, Format for Filing a Protest for Income Tax, (available on our website atax.illinois.gov). If we do not receive your protest within 60 days, this deficiency will become final. A protest of this notice does not preserve your rights under any other notice.
- In any case, you may instead, under Sections 2a and 2a 1 of the State Officers and Employees Money Disposition Act (30 ILCS 230/2a, 230/2a 1), pay the total deficiency under protest using Form RR-374, Notice of Payment Under Protest (available on our website at tax.illinois.gov), and file a complaint with the circuit court for a review of our determination.

If you do not protest this notice or pay the balance due in full, we may take collection action against you for the balance due, which may include levy of your wages and bank accounts, filing of a tax lien, or other action.

If you have questions, contact us at the telephone number shown below.

Sincerely,

David Harris
Director of Revenue

BUSINESS PROCESSING DIVISION
ILLINOIS DEPARTMENT OF REVENUE
PO BOX 19014
SPRINGFIELD IL 62794-9014
217 557-9676

IN THE ILLINOIS INDEPENDENT
TAX TRIBUNAL

TRANE TECHNOLOGIES COMPANY)
LLC)

Petitioner,)

v.)

No.)

ILLINOIS DEPARTMENT)
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Respondent,)

NOTICE OF FILING

TO:

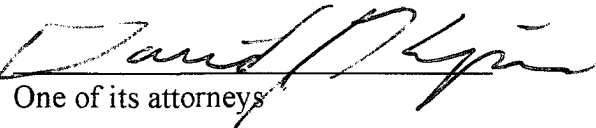
Illinois Department of Revenue
100 W. Randolph St.
SUITE 7-900
Chicago, IL 60601

Please take note that on March 17, 2021, the undersigned representative for TRANE TECHNOLOGIES COMPANY LLC, filed with the Illinois Independent Tax Tribunal, 160 N. LaSalle St. Room 506, Chicago, IL 60601 a Petition, a copy of which is attached and served on you.

Date: March 17, 2021

Respectfully Submitted,
TRANE TECHNOLOGIES COMPANY LLC

By:



One of its attorneys

David J. Kupiec
Kupiec & Martin, LLC
600 West Van Buren Street, Ste 202
Chicago, Illinois 60607

CERTIFICATE OF SERVICE

Undersigned counsel of record hereby certifies that he caused a copy of the foregoing **Petition** to be served upon other counsel of record herein by causing the same to be delivered by mail on the 17th day of March, 2021.

Illinois Department of Revenue
Office of Legal Services
100 W. Randolph St., 7-900
Chicago, IL 60601

By: 
One of its attorneys

David J. Kupiec
Kupiec & Martin, LLC
600 West Van Buren Street, Ste 202
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