

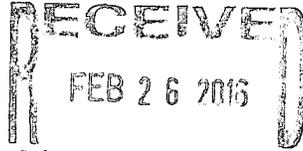
IN THE ILLINOIS INDEPENDENT TAX TRIBUNAL

900 NORTH EQUITY HOLDINGS LLC)
)
Petitioner,)
)
v.)
)
THE ILLINOIS DEPARTMENT OF REVENUE,)
)
Defendant.)

No.

NOTICE OF FILING

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



BY: _____
16 7140

PLEASE TAKE NOTICE that on the 26th day of February, 2016, we filed with the Illinois Independent Tax Tribunal, 160 N. LaSalle Street, Room N506, Chicago, IL 60601 **900 North Equity Holding LLC's Petition**, a copy of which accompanies this notice and is served on you herewith.

Respectfully submitted,

900 NORTH EQUITY HOLDINGS LLC
Petitioner

By: David A. Hughes
One of Petitioner's Attorneys

David A. Hughes (dhughes@hmbllaw.com)
Christopher T. Lutz (clutz@hmbllaw.com)
Horwood Marcus & Berk Chartered
500 W. Madison Street, Suite 3700
Chicago, IL 60661
(312) 606-3200

NOTICE

5. On December 30, 2015, Petitioner received three Notices of Deficiency for the Tax Years Ending December 31, 2011, December 31, 2012, and December 31, 2013 (“Years at Issue”) in the amount of \$23,836.55, \$33,191.24, and \$24,747.95 respectively. True and accurate copies of the Notices of Deficiency (“Notices”) are attached hereto as Exhibit A.

JURISDICTION

6. Petitioner brings this action pursuant to the Illinois Independent Tax Tribunal Act (“Tribunal Act”), 35 ILCS 1010/1-1 to 35 ILCS 1010/1-100.

7. The Tribunal has jurisdiction over this matter pursuant to sections 1-45 and 1-50 of the Tribunal Act because Petitioner timely filed this petition within 60 days of the Notices.

BACKGROUND

8. Petitioner owns an interest in The Surgery Center at 900 N. Michigan Ave., LLC (“The Surgery Center”), an outpatient surgical center located at 900 N. Michigan Ave., Chicago, IL.

9. Petitioner’s members include the President of The Surgery Center (Guita Griffiths); the Chief Operating Officer and Chief Information Officer at The Surgery Center (Kenny Bozorgi); an investment trust owned jointly by Guita Griffiths and Kenny Bozorgi; and a number of Gift Trusts, for whom the grantor is also a doctor and Medical Director at The Surgery Center (Nader Bozorgi).

10. Petitioner’s managers are Guita Griffiths, Nader Bozorgi, and Mandan Farahati.

11. Guita Griffiths owned a 24.5% interest in Petitioner.

12. Kenny Bozorgi owned a 24.5% interest in Petitioner.

13. The Kenny Bozorgi Gift Trust owned a 19.6% interest in Petitioner.

14. The Amanda Bozorgi Gift Trust owned a 2.45% interest in Petitioner.
15. The Alec Bozorgi Gift Trust owned a 2.45% interest in Petitioner.
16. The Guita Bozorgi Griffiths Gift Trust owned a 19.6% interest in Petitioner.
17. Griffiths Grandchildren Gift Trust owned a 4.9% interest in Petitioner.
18. K&G Investment Trust owned a 2% interest in Petitioner.
19. Petitioner was formed for the sole purpose of holding the members' interests in

The Surgery Center in a single entity.

20. Nader Bozorgi is Kenny Bozorgi and Guita Griffith's father.

21. Each of the gift trusts' income is reportable by Nader Bozorgi.

22. Dr. Nader Bozorgi is Chairman of the Surgery Center.

23. Dr. Nader Bozorgi spends his full time working on site at the Surgery Center, where he maintains an office.

24. His primary duties involve management of clinical staff, including nurses, technicians and other healthcare professionals.

25. Dr. Nader Bozorgi oversees material management and staffing and uses his past experience as a surgeon to enhance and monitor the medical operations at the Surgery Center.

26. He is actively engaged in business development and coordinates the Medical Executive Committee meetings as well as other quality control committees.

27. Dr. Kenny Bozorgi is the Chief Operating Officer and Chief Information Officer of the Surgery Center.

28. Dr. Kenny Bozorgi is involved on a daily basis both with medical operations/staffing and with all information technology issues.

29. He is also involved in the day-to-day running of the center, training and overseeing training of staff and acting as a liaison for physicians who use the Center.

30. Guita Griffiths is President of the Surgery Center.

31. She spends her full time at the center and oversees strategy, financing and business development at the Surgery Center.

32. Trained as an attorney, Guita Griffiths manages all litigation with help of outside attorneys and negotiates all business relationships for the Surgery Center.

33. Guita Griffiths keeps her primary office at the Surgery Center.

34. During the Years at Issue, Petitioner distributed all of its income to its members.

35. The payments Petitioner made to its members were in exchange for their personal services performed for the business.

36. On its Illinois Income and Replacement Tax Returns for the Years at Issue and in accordance with section 203(d)(2)(H) of the Illinois Income Tax Act ("Act"), Petitioner deducted the payments made to its members as compensation for services rendered by the members.

37. On audit, the Department disallowed Petitioner's deduction for compensation paid for services rendered by the members virtually in its entirety.

38. As a result of the disallowance of the services rendered deduction, the Department increased Petitioner's net income to \$1,240,413 for the Tax Year Ending December 31, 2011.

39. In accordance with the disallowance, the Department assessed Replacement Tax against Petitioner in the amount of \$18,606, plus penalties and interest for the 2011 tax year.

40. For the Tax Year Ending December 31, 2012, the Department increased Petitioner's net income to \$1,756,294 as a result of the disallowance of the services rendered deduction.

41. In accordance with the disallowance, the Department assessed Replacement Tax against Petitioner in the amount of \$26,344, plus penalties and interest.

42. For the Tax Year Ending December 31, 2013, the Department increased Petitioner's net income to \$1,318,502 as a result of the disallowance of the services rendered deduction.

43. In accordance with the disallowance, the Department assessed Replacement Tax against Petitioner in the amount of \$19,778, plus penalties and interest.

COUNT I

Petitioner is Entitled to A Deduction for the Compensation Paid to its Members for Services Rendered

44. Petitioner realleges and incorporates by this reference the allegations made in paragraphs 1 through 43, inclusive, hereinabove.

45. The Act allows a partnership to deduct “[a]ny income of the partnership which constitutes personal service income as defined in Section 1348(b)(1) of the Internal Revenue Code (as in effect December 31, 1981) or a reasonable allowance for compensation paid or accrued for services rendered by partners to the partnership, whichever is greater.” 35 ILCS 5/203(d)(2)(H).

46. Internal Revenue Code Section 1348, as in effect on December 31, 1981, provides that “personal service income” consists of “[a]ny income which is earned income within the meaning of section 401(c)(2)(C) or section 911(b) or which is an amount received as a pension or annuity which arises from an employer-employee relationship or from tax deductible contributions to a retirement plan.”

47. Internal Revenue Code section 911(b), as in effect on December 31, 1981, provided that the term “earned income” means wages, salaries, or professional fees, and other amounts received as compensation for personal services actually rendered, but does not include that part of compensation derived by the taxpayer for personal profits rather than a reasonable allowance as compensation for services actually rendered.

48. The question of what constitutes reasonable compensation for services rendered to a business is one of fact. *Lydia E. Pinkham Medicine Co. v. Commissioner*, 128 F. 2d 986, 990 (1st Cir. 1942).

49. For payments to partners to be considered reasonable compensation for services rendered, it must be the intent of the business to compensate the partners for their services. *Whitcomb v. Commissioner*, 733 F.2d 1991 (1st Cir. 1984).

50. The exclusive source of Petitioner’s income is the services performed by Kenny Bozorgi, Guita Griffiths, and Nader Bozorgi.

51. The payments made to Kenny Bozorgi, Guita Griffiths, and Nader Bozorgi constitute reasonable compensation for services rendered.

52. Petitioner intended to compensate Kenny Bozorgi for his role as Chief Operating Officer and Chief Information Officer of The Surgery Center.

53. Petitioner intended to compensate Guita Griffiths for her role as President of The Surgery Center.

54. Petitioner intended to compensate Nader Bozorgi for his role as Chairman of The Surgery Center.

55. The compensation paid to Kenny Bozorgi, Guita Griffiths, and Nader Bozorgi ranged between \$1,349,288 and \$1,793,156, cumulatively, in any given tax year and is well within the realm of reasonable compensation for the executive staff of a health care business.

56. Because the compensation paid to Kenny Bozorgi, Guita Griffiths, and Nader Bozorgi constitutes reasonable compensation for services performed, Petitioner was entitled to deduct these payments from its income pursuant to Act section 203(d)(2)(H).

57. Because Petitioner was entitled to deduct the payments made to Kenny Bozorgi, Guita Griffiths, and Nader Bozorgi, the Notices should be withdrawn and cancelled.

WHEREFORE, Petitioner prays that the Tribunal enter an order that:

- (a) finds and declares that the Petitioner is entitled to deduct from its income the payments it made to its members for personal services rendered by the members;
- (b) enters judgment in favor of Petitioner and against the Defendants and orders Defendants to withdraw and cancel the Notices;
- (c) grants such further relief as the Tribunal deems appropriate under the circumstances.

COUNT II

All Late Payment Penalties Should be Abated Based on Reasonable Cause

58. Petitioner realleges and reincorporates the allegations in paragraphs 1 through 43, inclusive, hereinabove.

59. In its Notices, Defendants assessed late payment penalties in an amount totaling \$12,945.60.

60. Illinois law provides that late payment penalties do not apply if a taxpayer shows that its failure to pay tax at the required time was due to reasonable cause. 35 ILCS §734-8.

61. The most important factor to be considered in making a determination to abate a penalty will be the extent to which the taxpayer made a good faith effort to determine its proper tax liability and to pay its proper tax liability in a timely fashion. 86 Ill. Admin. Code §700.400(b).

62. A taxpayer will be considered to have made a good faith effort to determine and pay its proper tax liability if it exercised ordinary business care and prudence in doing so. 86 Ill. Admin. Code §700.400(b).

63. Petitioner reasonably deducted the income that it paid to its members for services rendered.

64. Petitioner, relying on Illinois law and regulations, exercised ordinary business care and prudence when it reasonably determined its Illinois replacement tax liability.

65. The Department's determination that Petitioner owes penalties on late payment of tax is not supported by fact or law.

WHEREFORE, Petitioner prays that the Tribunal enter an order that:

- (a) finds and declares that all penalties should be fully abated based on reasonable cause;
- (b) enjoins the Department from taking any action to assess, lien, levy, offset, or in any other way prosecute and collect the amount of penalties on the Notices; and

(c) grants such further relief as the Tribunal deems appropriate under the circumstances.

Respectfully submitted,

900 NORTH EQUITY HOLDINGS LLC
Petitioner

By: 
One of Petitioner's Attorneys

David A. Hughes (dhughes@hmblaw.com)
Christopher T. Lutz (clutz@hmblaw.com)
Horwood Marcus & Berk Chartered
500 W. Madison Street, Suite 3700
Chicago, IL 60661
(312) 606-3200

Notice of Deficiency
for Form IL-1065, Partnership Replacement Tax Return



December 30, 2015



Letter ID: CNXXXX836944X164

#BWNKMGV
#CNXX XX83 6944 X164#
900 NORTH EQUITY HOLDINGS LLC
900 N EQUITY HOLDINGS LLC
ATTN: MAGNA
7456 S STATE RD STE 301
BEDFORD PARK IL 60638-6621

Taxpayer ID: 36-4273732
Audit ID: A1724166144
Reporting period: December 2011
Total Deficiency: \$23,836.55
Balance due: \$23,836.55

We have audited your account 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, pay the total balance due as soon as possible to minimize penalty and interest assessed. Make your check payable to the "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 the date 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 and administrative hearing. An administrative hearing is a formal legal proceeding conducted pursuant to the 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 at tax.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 liability 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 assessment total 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, call us at the telephone number shown below.

Sincerely,

Constance Beard
Director

ILLINOIS DEPARTMENT OF REVENUE
AUDIT BUREAU
PO BOX 19012
SPRINGFIELD IL 62794-9012
(217) 782-9339

Bankruptcy Information

If you are currently under the protection of the Federal Bankruptcy Court, contact us and provide the bankruptcy number and the bankruptcy court. The bankruptcy automatic stay does not change the fact you are required to file tax returns.

Taxpayer Bill of Rights

- You have the right to call the Department of Revenue for help in resolving tax problems.
- You have the right to privacy and confidentiality under most tax laws.
- You have the right to respond, within specified time periods, to Department notices by asking questions, paying the amount due, or providing proof to refute the Department's findings.
- You have the right to appeal Department decisions, in many instances, within specified time periods, by asking for Department review, by filing a petition with the Illinois Independent Tax Tribunal, or by filing a complaint in circuit court.
- If you have overpaid your taxes, you have the right, within specified time periods, to file for a credit (or, in some cases, a refund) of that overpayment.

The full text of the Taxpayers' Bill of Rights is contained in the Illinois Compiled Statutes, 20 ILCS 2520/1 et seq.

Statement

Date: December 30, 2015
 Name: 900 NORTH EQUITY HOLDINGS LLC
 Taxpayer ID: 36-4273732
 Letter ID: CNXXX836944X164

The attached EDA-27, Explanation of Adjustments, details your audit adjustments.

Computation of deficiency

Reporting period: 31-Dec-2011

Unmodified base income or loss	\$1,349,288.00
Total unmodified base income or loss	\$1,349,288.00
Total unmodified base income	
Income or loss	
Other additions	\$0.00
Total income or loss	\$1,349,288.00
Illinois base income or net loss	
Income dist. to a partner subject to rep. tax	\$26,986.00
Total subtractions	\$26,986.00
Base income or loss	\$1,322,302.00
Income allocable to Illinois	
Nonbusiness income or loss	\$0.00
Non-unitary partnership business income/loss	\$0.00
Business income or loss	\$1,322,302.00
<hr/>	
Apportionment formula	\$0.00
Total sales everywhere	\$0.00
Total Illinois sales	1.000000
Apportionment factor	\$0.00
Business income/loss apportionable to IL	\$0.00
Non-business income/loss allocable to IL	\$0.00
Non-unitary part bus income/loss apprtn to IL	\$0.00
Base income or net loss allocable to IL	\$0.00
Net income	\$1,322,302.00
Base income or net loss	\$80,889.00
Illinois net loss deduction (NLD)	\$1,241,413.00
Income after NLD	\$1,000.00
Exemption allowance	\$1,240,413.00
Net income	\$1,240,413.00
Base income or loss allocable to Illinois	\$1,240,413.00
Net replacement tax	
Replacement tax	\$18,606.00
Recapture of investment credits	\$0.00
Replacement tax before investment credits	\$18,606.00
Replacement tax investment credits	\$0.00
Net replacement tax due	\$18,606.00

Statement

Date: December 30, 2015
Name: 900 NORTH EQUITY HOLDINGS LLC
Taxpayer ID: 36-4273732
Letter ID: CNXXXX836944X164

Computation of deficiency

Reporting period: 31-Dec-2011

Total tax deficiency	\$18,606.00
UPIA-5 late-payment penalty (Audit)	\$3,721.20
Plus interest on tax through December 30, 2015	\$1,509.35
Total deficiency	* \$23,836.55

If you intend to pay under protest, you must pay this total deficiency amount.

Computation of balance due

Reporting period: 31-Dec-2011

Balance due	* \$23,836.55
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Explanation of Audit Adjustments

Income Tax



December 30, 2015

#BWNKMGV
#CNXX XX84 X934 4160#
900 NORTH EQUITY HOLDINGS LLC
900 N EQUITY HOLDINGS LLC
ATTN: MAGNA
7456 S STATE RD STE 301
BEDFORD PARK IL 60638-6621



Letter ID: CNXXXX84X9344160

Taxpayer ID: 36-4273732
Account ID: 11052-47232
Audit ID: A1724166144
Reporting period: December 2011

Explanation of adjustments for tax period ending 12/31/2011

We have adjusted or disallowed the subtraction modifications for the amount of your income that is distributable to a partner subject to replacement tax.
[35 ILCS 5/203(d)(2)(I)]

Income change Tax impact

\$0.00 \$0.00

We adjusted or disallowed the subtraction modifications for the amount of income of the partnership which constitutes personal service income as defined in Section 1348(b)(1) of the Internal Revenue Code (as in effect December 31, 1981) or a reasonable allowance for compensation paid or accrued for services rendered by partners to the partnership.
[35 ILCS 5/203(d)(2)(H)]

\$0.00 \$0.00

Interest on tax has been computed as allowed by Illinois law.
[35 ILCS 735/3-2]

We are imposing a penalty because you did not pay the amount required to be shown due on your return by the due date for payment. Once an audit has been initiated, the late payment penalty is assessed at 15 percent of the late payment. Failure to pay the amount due or invoke protest rights within 30 days from the "Date of Issuance" on the Form IL 870, Waiver of Restrictions, will result in this penalty increasing to 20 percent.
[35 ILCS 735/3-3(b-20)(2)]

Notice of Deficiency
for Form IL-1065, Partnership Replacement Tax Return



December 30, 2015



Letter ID: CNXXXX1698457766

#BWNKMGV
#CNXX XX16 9845 7766#
900 NORTH EQUITY HOLDINGS LLC
900 N EQUITY HOLDINGS LLC
ATTN: MAGNA
7456 S STATE RD STE 301
BEDFORD PARK IL 60638-6621

Taxpayer ID: 36-4273732
Audit ID: A1724166144
Reporting period: December 2012
Total Deficiency: \$33,191.24
Balance due: \$33,191.24

We have audited your account 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, pay the total balance due as soon as possible to minimize penalty and interest assessed. Make your check payable to the "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 the date 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 and administrative hearing. An administrative hearing is a formal legal proceeding conducted pursuant to the 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 at tax.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 liability 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 assessment total 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, call us at the telephone number shown below.

Sincerely,

Constance Beard
Director

ILLINOIS DEPARTMENT OF REVENUE
AUDIT BUREAU
PO BOX 19012
SPRINGFIELD IL 62794-9012
(217) 782-9339

Bankruptcy Information

If you are currently under the protection of the Federal Bankruptcy Court, contact us and provide the bankruptcy number and the bankruptcy court. The bankruptcy automatic stay does not change the fact you are required to file tax returns.

Taxpayer Bill of Rights

- You have the right to call the Department of Revenue for help in resolving tax problems.
- You have the right to privacy and confidentiality under most tax laws.
- You have the right to respond, within specified time periods, to Department notices by asking questions, paying the amount due, or providing proof to refute the Department's findings.
- You have the right to appeal Department decisions, in many instances, within specified time periods, by asking for Department review, by filing a petition with the Illinois Independent Tax Tribunal, or by filing a complaint in circuit court.
- If you have overpaid your taxes, you have the right, within specified time periods, to file for a credit (or, in some cases, a refund) of that overpayment.

The full text of the Taxpayers' Bill of Rights is contained in the Illinois Compiled Statutes, 20 ILCS 2520/1 et seq.

Statement

Date: December 30, 2015
Name: 900 NORTH EQUITY HOLDINGS LLC
Taxpayer ID: 36-4273732
Letter ID: CNXXXX1698457766

The attached EDA-27, Explanation of Adjustments, details your audit adjustments.

Computation of deficiency

Reporting period: 31-Dec-2012

Unmodified base income or loss	
Total unmodified base income or loss	\$1,793,156.00
Total unmodified base income	\$1,793,156.00
Income or loss	
Other additions	\$0.00
Total income or loss	\$1,793,156.00
Illinois base income or net loss	
Income dist. to a partner subject to rep. tax	\$35,862.00
Total subtractions	\$35,862.00
Base income or loss	\$1,757,294.00
Income allocable to Illinois	
Nonbusiness income or loss	\$0.00
Non-unitary partnership business income/loss	\$0.00
Business income or loss	\$1,757,294.00
<hr/>	
Apportionment formula	
Total sales everywhere	\$0.00
Total Illinois sales	\$0.00
Apportionment factor	1.000000
Business income/loss apportionable to IL	\$0.00
Non-business income/loss allocable to IL	\$0.00
Non-unitary part bus income/loss apportion to IL	\$0.00
Base income or net loss allocable to IL	\$0.00
Net income	
Base income or net loss	\$1,757,294.00
Illinois net loss deduction (NLD)	\$0.00
Income after NLD	\$1,757,294.00
Exemption allowance	\$1,000.00
Net income	\$1,756,294.00
Base income or loss allocable to Illinois	\$1,756,294.00
Net replacement tax	
Replacement tax	\$26,344.00
Recapture of investment credits	\$0.00
Replacement tax before investment credits	\$26,344.00
Replacement tax investment credits	\$0.00
Net replacement tax due	\$26,344.00

Statement

Date: December 30, 2015
Name: 900 NORTH EQUITY HOLDINGS LLC
Taxpayer ID: 36-4273732
Letter ID: CNXXXX1698457766

Computation of deficiency

Reporting period: 31-Dec-2012

Total tax deficiency	\$26,344.00
UPIA-5 late-payment penalty (Audit)	\$5,268.80
Plus interest on tax through December 30, 2015	\$1,578.44
Total deficiency	* \$33,191.24

If you intend to pay under protest, you must pay this total deficiency amount.

Computation of balance due

Reporting period: 31-Dec-2012

Balance due	* \$33,191.24
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Explanation of Audit Adjustments

Income Tax



December 30, 2015

#BWNKMGV
#CNXX X168 6964 88X4#
900 NORTH EQUITY HOLDINGS LLC
900 N EQUITY HOLDINGS LLC
ATTN: MAGNA
7456 S STATE RD STE 301
BEDFORD PARK IL 60638-6621



Letter ID: CNXXX168696488X4

Taxpayer ID: 36-4273732
Account ID: 11052-47232
Audit ID: A1724166144
Reporting period: December 2012

Explanation of adjustments for tax period ending 12/31/2012

We have adjusted or disallowed the subtraction modifications for the amount of your income that is distributable to a partner subject to replacement tax.

[35 ILCS 5/203(d)(2)(I)]

Income change Tax impact

\$0.00 \$0.00

We adjusted or disallowed the subtraction modifications for the amount of income of the partnership which constitutes personal service income as defined in Section 1348(b)(1) of the Internal Revenue Code (as in effect December 31, 1981) or a reasonable allowance for compensation paid or accrued for services rendered by partners to the partnership.

[35 ILCS 5/203(d)(2)(H)]

\$0.00 \$0.00

Interest on tax has been computed as allowed by Illinois law.

[35 ILCS 735/3-2]

We are imposing a penalty because you did not pay the amount required to be shown due on your return by the due date for payment. Once an audit has been initiated, the late payment penalty is assessed at 15 percent of the late payment. Failure to pay the amount due or invoke protest rights within 30 days from the "Date of Issuance" on the Form IL-870,

Waiver of Restrictions, will result in this penalty increasing to 20 percent.

[35 ILCS 735/3-3(b-20)(2)]

Notice of Deficiency
for Form IL-1065, Partnership Replacement Tax Return



December 30, 2015



Letter ID: CNXXX15X8X326563

#BWNKMGV
#CNXX X15X 8X32 6563#
900 NORTH EQUITY HOLDINGS LLC
900 N EQUITY HOLDINGS LLC
ATTN: MAGNA
7456 S STATE RD STE 301
BEDFORD PARK IL 60638-6621

Taxpayer ID: 36-4273732
Audit ID: A1724166144
Reporting period: December 2013
Total Deficiency: \$24,747.95
Balance due: \$24,747.95

We have audited your account 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, pay the total balance due as soon as possible to minimize penalty and interest assessed. Make your check payable to the "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 the date 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 and administrative hearing. An administrative hearing is a formal legal proceeding conducted pursuant to the 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 at tax.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 liability 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 assessment total 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, call us at the telephone number shown below.

Sincerely,

Constance Beard
Director

ILLINOIS DEPARTMENT OF REVENUE
AUDIT BUREAU
PO BOX 19012
SPRINGFIELD IL 62794-9012
(217) 782-9339

Bankruptcy Information

If you are currently under the protection of the Federal Bankruptcy Court, contact us and provide the bankruptcy number and the bankruptcy court. The bankruptcy automatic stay does not change the fact you are required to file tax returns.

Taxpayer Bill of Rights

- You have the right to call the Department of Revenue for help in resolving tax problems.
- You have the right to privacy and confidentiality under most tax laws.
- You have the right to respond, within specified time periods, to Department notices by asking questions, paying the amount due, or providing proof to refute the Department's findings.
- You have the right to appeal Department decisions, in many instances, within specified time periods, by asking for Department review, by filing a petition with the Illinois Independent Tax Tribunal, or by filing a complaint in circuit court.
- If you have overpaid your taxes, you have the right, within specified time periods, to file for a credit (or, in some cases, a refund) of that overpayment.

The full text of the Taxpayers' Bill of Rights is contained in the Illinois Compiled Statutes, 20 ILCS 2520/1 et seq.

Statement

Date: December 30, 2015
 Name: 900 NORTH EQUITY HOLDINGS LLC
 Taxpayer ID: 36-4273732
 Letter ID: CNXXX15X8X326563

The attached EDA-27, Explanation of Adjustments, details your audit adjustments.

Computation of deficiency

Reporting period: 31-Dec-2013

Unmodified base income or loss	\$1,432,592.00
Total unmodified base income or loss	\$1,432,592.00
Total unmodified base income	\$1,432,592.00
Income or loss	
Other additions	\$0.00
Total income or loss	\$1,432,592.00
Illinois base income or net loss	
Income dist. to a partner subject to rep. tax	\$26,928.00
Distributive share of subtractions	\$86,162.00
Total subtractions	\$113,090.00
Base income or loss	\$1,319,502.00
Income allocable to Illinois	
Nonbusiness income or loss	\$0.00
Non-unitary partnership business income/loss	\$0.00
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Business income or loss	\$0.00
Apportionment formula	
Total sales everywhere	\$0.00
Total Illinois sales	\$0.00
Apportionment factor	1.000000
Business income/loss apportionable to IL	\$0.00
Non-business income/loss allocable to IL	\$0.00
Non-unitary part bus income/loss apprt'n to IL	\$0.00
Base income or net loss allocable to IL	\$0.00
Net income	
Base income or net loss	\$1,319,502.00
Illinois net loss deduction (NLD)	\$0.00
Income after NLD	\$1,319,502.00
Exemption allowance	\$1,000.00
Net income	\$1,318,502.00
Base income or loss allocable to Illinois	\$1,318,502.00
Net replacement tax	
Replacement tax	\$19,778.00
Recapture of investment credits	\$0.00
Replacement tax before investment credits	\$19,778.00
Replacement tax investment credits	\$0.00

Statement

Date: December 30, 2015
Name: 900 NORTH EQUITY HOLDINGS LLC
Taxpayer ID: 36-4273732
Letter ID: CNXXX15X8X326563

Computation of deficiency

Reporting period: 31-Dec-2013

Net replacement tax due	\$19,778.00
Total tax deficiency	\$19,778.00
UPIA-5 late-payment penalty (Audit)	\$3,955.60
Plus interest on tax through December 30, 2015	\$1,014.35
Total deficiency	* \$24,747.95

If you intend to pay under protest, you must pay this total deficiency amount.

Computation of balance due

Reporting period: 31-Dec-2013

Balance due	* \$24,747.95
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Explanation of Audit Adjustments

Income Tax



December 30, 2015

#BWNKMGV
#CNXX X152 7125 6484#
900 NORTH EQUITY HOLDINGS LLC
900 N EQUITY HOLDINGS LLC
ATTN: MAGNA
7456 S STATE RD STE 301
BEDFORD PARK IL 60638-6621



Letter ID: CNXXX15271256484

Taxpayer ID: 36-4273732
Account ID: 11052-47232
Audit ID: A1724166144
Reporting period: December 2013

Explanation of adjustments for tax period ending 12/31/2013

	<u>Income change</u>	<u>Tax impact</u>
We have adjusted or disallowed the subtraction modifications for the amount of your income that is distributable to a partner subject to replacement tax. [35 ILCS 5/203(d)(2)(I)]	\$0.00	\$0.00
We adjusted or disallowed the subtraction modifications for the amount of income of the partnership which constitutes personal service income as defined in Section 1348(b)(1) of the Internal Revenue Code (as in effect December 31, 1981) or a reasonable allowance for compensation paid or accrued for services rendered by partners to the partnership. [35 ILCS 5/203(d)(2)(H)]	\$0.00	\$0.00
Interest on tax has been computed as allowed by Illinois law. [35 ILCS 735/3-2]		
We are imposing a penalty because you did not pay the amount required to be shown due on your return by the due date for payment. Once an audit has been initiated, the late payment penalty is assessed at 15 percent of the late payment. Failure to pay the amount due or invoke protest rights within 30 days from the "Date of Issuance" on the Form IL-870, Waiver of Restrictions, will result in this penalty increasing to 20 percent. [35 ILCS 735/3-3(b-20)(2)]		

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 messenger before the hour of 5:00 p.m. on the 26th day of February, 2016.

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

A handwritten signature in black ink, reading "David A. Hughes". The signature is written in a cursive style with a horizontal line underneath the name.