





4. The Department is an agency of the Executive Department of the State Government and is responsible for administering and enforcing the revenue laws of the State of Illinois. 20 ILCS 5/5-15.

### **NOTICES**

5. On March 13, 2018, the Department issued two Notices of Deficiency (collectively, the “Notices”) for the tax years ending December 31, 2010 and December 31, 2011 (the “Years at Issue”), asserting tax deficiencies, interest, and penalties in the amounts of \$504,099.88 and \$1,088,439.19, respectively. True and accurate copies of the Notices are attached hereto as Exhibit A. Unless otherwise stated, the following paragraphs relate to the Years at Issue.

### **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, and the Illinois Income Tax Act, 35 ILCS 5/101, *et seq.*

7. The Tribunal has jurisdiction over this matter pursuant to Sections 1-15, 1-45, and 1-50 of the Tribunal Act because Petitioner timely filed this Petition within 60 days of the Notices.

### **BACKGROUND**

8. Petitioner is a leading global payments company that promotes, markets, and distributes a wide array of payment solutions and performs processing services for its customers.

9. Petitioner’s customers are either “Issuer Banks”—banks and other financial institutions that issue payment cards to businesses and individuals (“Cardholders”)—or “Acquirer Banks”—banks and other financial institutions that facilitate the acceptance of

payment cards at businesses accepting such as payment for sales of goods and services (“Merchants”).

10. Petitioner’s customers are not Cardholders or Merchants. Cardholders are Issuer Banks’ customers; Merchants are Acquirer Banks’ customers.

11. Petitioner does not issue cards or extend credit to Cardholders. Petitioner does not determine or receive revenue from interest rates or other fees charged to Cardholders by Issuer Banks. Those activities are conducted by the Issuer Banks as part of their business operations.

12. Petitioner does not evaluate the creditworthiness of Merchants or determine the fees to be charged to them. Those activities are conducted by the Acquirer Banks as part of their business activities

13. Rather, Petitioner generates revenue by charging fees to its customers for providing transaction processing and other payment-related services (“Switching Fees”), by charging its customers an “Assessment Fee” (described below), and for certain other payment-related products and services (“Other Fees”).

14. Switching Fees include fees for “authorization” (*i.e.*, processing transaction information from the Acquirer Bank to the Issuer Bank to approve or reject a particular transaction, then relaying the approval or rejection from the Issuer Bank back to the Acquirer Bank), “clearing” (*i.e.*, fees for processing financial information after transactions have been successfully conducted), and “settlement” (*i.e.*, fees for facilitating the exchange of funds between Issuer Banks and Acquirer Banks).

15. Petitioner processes its customers’ transactions using its worldwide network, which is operated from its global technology center located in O’Fallon, Missouri.

16. Assessment Fees are imposed on Issuer Banks and Acquirer Banks for membership in Petitioner's network.

17. Membership in Petitioner's network permits Issuer Banks and Acquirer Banks to promote their own products and services to their customers (Cardholders and Merchants).

18. Petitioner conducts activities to preserve the value of its network from Petitioner's headquarters in New York.

19. Other Fees include consulting and research fees; safety and security fees; Cardholder services fees, such as insurance and telecommunications assistance for lost cards and locating automated teller machines; and program management services provided to Issuer Banks.

20. During the Years at Issue, Mastercard Incorporated filed Illinois unitary combined corporate income and replacement tax returns as the designated member of a unitary business group.

21. On its returns as filed, Petitioner did not exclude any receipts from the sales factor denominator when computing its sales factor pursuant to Section 5/304(a)(3)(C-5)(iv) of the Illinois Income Tax Act. Rather, the denominator of Petitioner's sales factor included all receipts. 35 ILCS 5/304/(a)(3)(A).

22. Upon review of Petitioner's Illinois unitary combined corporate income and replacement tax returns, the Department increased Petitioner's sales factor by excluding some of Petitioner's receipts ("Excluded Receipts") on the basis that Petitioner was not "taxable" in the jurisdictions to which such receipts were assigned, purportedly applying Section 5/304(a)(3)(C-5)(iv) of the Illinois Income Tax Act.

23. By increasing Petitioner's apportionment percentage, taxable Illinois income and, as a result, Illinois corporate income and replacement taxes increased, as shown on the Notices.

## COUNT I

### **Petitioner Properly Computed Its Apportionment Factor Because It Was Subject to Tax Everywhere It Assigned the Excluded Receipts, Resulting in None of the Excluded Receipts Actually Being Subject to Throw-Out.**

24. Petitioner realleges and reincorporates by reference the statements in paragraphs 1 through 23.

25. Receipts from services are excluded—or “thrown out”— from the apportionment percentage if the taxpayer is not taxable in the state to which such receipts are assigned (“Throw-Out”). 35 ILCS 5/304(a)(3)(C-5)(iv).

26. Per statute, a taxpayer is considered to be subject to tax where either a) the taxpayer is subject to a tax measured by net income, a tax for the privilege of doing business, or a corporate stock tax; or b) the state has jurisdiction to subject the taxpayer to a net income tax, whether or not the state actually does so. 35 ILCS 5/303(f).

27. Per regulation, a taxpayer can be “subject to” a tax only if the taxpayer actually pays the tax—regardless of whether the state or foreign country does not impose tax on the taxpayer’s activity (although the state or foreign country has jurisdiction to do so). 86 Ill. Admin. Code § 100.3200(a)(2).

28. The language of a tax statute is to be strictly construed and cannot be enlarged or extended. *Van’s Material Co., Inc. v. Dept. of Revenue*, 131 Ill.2d 196, 202 (1989). A regulation that expands or limits the scope of a statute is invalid and cannot be applied. *Du-Mont Ventilating Co. v. Dept. of Revenue*, 73 Ill.2d 243 (1978).

29. Regulation 100.3200(a)(2) narrows the scope of section 303(f) of the Illinois Income Tax Act in that the regulation requires that a taxpayer actually pay a tax in a jurisdiction outside Illinois to be taxable, whereas section 303(f) only requires that the jurisdiction outside

Illinois have the ability to tax a taxpayer. *See, e.g., Lorillard Licensing Co. LLC v. Dir., Division of Taxation*, 29 N.J. Tax 275 (N.J. Super. Ct. App. Div., 2015) (finding that “subject to tax” for purposes of New Jersey’s now-repealed throw-out rule had the same meaning as for nexus purposes and that, as a result, receipts assigned to states that had jurisdiction to tax the taxpayer using New Jersey’s nexus standard could not be thrown out, regardless of whether the state actually taxed the taxpayer).

30. Because it adds additional requirements not contained in the statute, Regulation 100.3200(a)(2) is invalid and cannot be applied.

31. The Excluded Receipts are all properly assigned to various jurisdictions outside of Illinois.

32. Illinois takes the position that a corporation can be subject to tax in Illinois if it has a significant economic presence in Illinois. *See, e.g., Capital One Fin. Corp. v. Hamer*, No. 2012-TX-0001/02 (Ill. Cir. Ct. May 11, 2015).

33. Applying Illinois’ own subjectivity standard, Petitioner has a significant economic presence in each jurisdiction where the Excluded Receipts were assigned, and would be considered to be subject to tax in each locale.

34. As a result, the Excluded Receipts must be included in Petitioner’s apportionment formula denominator (*i.e.*, not thrown out).

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

- (a) finds and declares that 86 Ill. Admin. Code § 100.3200(a)(2) is an invalid limitation on the plain language of 35 ILCS 5/303(f);
- (b) recomputes Petitioner’s apportionment percentage without any receipts being “thrown out” from the denominator;

- (c) enters judgment in favor of Petitioner and against the Defendant and orders the Defendant to withdraw the Notices;
- (d) grants such further relief as the Tribunal deems appropriate under the circumstances.

## COUNT II

### **The Throw-Out Rule Reaches an Unconstitutional Result Here, Violating the Due Process Clauses of the United States' and Illinois' Constitutions As Applied to Petitioner.**

35. Petitioner realleges and reincorporates by reference the statements in paragraphs 1 through 34.

36. The Due Process Clause of the United States Constitution guarantees that no state shall deprive any person of property without due process of law. U.S. Const. amend XIV, § 1.

37. The Due Process Clause requires that “a rational relationship [exists] between the income attributed to the state and the intrastate values of the enterprise.” *Exxon Corp. v. Dept. of Revenue of Wisconsin*, 447 U.S. 207, 220 (1980) (citing *Mobil Oil Corp. v. Comm’r of Taxes*, 445 U.S. 425, 436-37 (1980) (citing *Moorman Mfg. Co. v. Bair*, 437 U.S. 267, 272-73 (1978))).

38. The Illinois Constitution’s Due Process Clause also protects against deprivation of property without due process of law and serves a similar purpose. Ill. Const. art. I, § 2.

39. By removing the Excluded Receipts from the Illinois sales factor denominator, the Illinois sales factor increases, increasing the amount of income attributed to Illinois.

40. Yet, the “Excluded Receipts” here are all from activities that occur outside of Illinois and that—applying Illinois’ or other states’ receipts sourcing provisions—are properly sourced outside of Illinois.

41. There is no rational relationship between sales properly sourced outside Illinois and an increase in Illinois apportioned income.



42. Therefore, Throw-Out as applied to Petitioner's receipts violates the Due Process Clauses of the United States' and Illinois' constitutions.

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

- (a) finds and declares that Throw Out violates the Due Process Clauses of the United States and Illinois Constitutions as applied to Petitioner in the Notices;
- (b) enters judgment in favor of Petitioner and against the Defendant and orders the Defendant to withdraw the Notices;
- (c) grants such further relief as the Tribunal deems appropriate under the circumstances.

### COUNT III

#### **The Throw-Out Rule Reaches an Unconstitutional Result Here, Violating the Commerce Clause of the United States Constitution As Applied to Petitioner.**

43. Petitioner realleges and reincorporates by reference the statements in paragraphs 1 through 42.

44. The Commerce Clause of the U.S. Constitution gives Congress the power to "regulate Commerce . . . among the several States." U.S. Const. art. I, § 8, cl. 3.

45. For a state tax on a multistate business to be constitutional under the Commerce Clause, the tax must (i) be applied to an activity with substantial nexus with the taxing state; (ii) be fairly apportioned, (iii) not discriminate against interstate commerce; and (iv) be fairly related to services provided by the state. *Complete Auto Transit, Inc. v. Brady*, 430 U.S. 274 (1977).

46. A tax that does not actually "reflect a reasonable sense of how income is generated" violates the fair apportionment requirement of the Commerce Clause. *Container Corp. of Am. v. Franchise Tax Bd.*, 463 U.S. at 169.

47. The “Excluded Receipts” here are all properly assigned to jurisdictions outside of Illinois.

48. By removing the Excluded Receipts from the Illinois sales factor denominator, the Illinois sales factor increases, increasing the amount of income attributable to Illinois.

49. Increasing Petitioner’s Illinois corporate income and replacement tax based on sales properly assigned to other jurisdictions does not actually reflect a reasonable sense of how Petitioner’s income is generated.

50. Throw-Out as applied to Petitioner by the Notices results in a Illinois tax that is not fairly apportioned in violation of the Commerce Clause of the United States Constitution.

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

- (a) finds and declares that Throw Out violates the Commerce Clause of the U.S. Constitution as applied to Petitioner in the Notices;
- (b) enters judgment in favor of Petitioner and against the Defendant and orders the Defendant to withdraw the Notices;
- (c) grants such further relief as the Tribunal deems appropriate under the circumstances.

#### COUNT IV

**The Throw-Out Rule Facially Violates the Commerce Clause of the United States Constitution and the Due Process Clauses of the United States and Illinois Constitutions.**

51. Petitioner realleges and reincorporates by reference the statements in paragraphs 1 through 50.

52. Recognizing that the Tribunal lacks the authority to determine the facial validity of the Throw-Out rule under the Due Process and Commerce Clauses of the United States

Constitution and the Due Process Clause of the Illinois Constitution, we respectfully preserve the right to challenge the facial constitutional validity of Section 5/304(a)(3)(C-5)(iv) of the Illinois Income Tax Act at a later time.

## COUNT V

### **Penalties Should be Abated as Reasonable Cause Existed to Support Petitioner's Returns as Filed.**

53. Petitioner realleges and reincorporates by reference the statements in paragraphs 1 through 52.

54. The Department assessed late payment penalties for the year ended December 31, 2010 in the amount of \$71,921.20 and for the year ended December 31, 2011 in the amount of \$159,264.20.

55. Late payment penalties do not apply if the taxpayer demonstrates that the failure to pay tax at the required time was due to reasonable cause. 35 ILCS 735/3-8.

56. Petitioner reasonably determined that it was not required to "throw out" receipts for all of the reasons described in Paragraphs 28 through 66, above.

57. Petitioner acted in good faith and demonstrated reasonable cause when it determined that it was not subject to any additional corporate net income tax or replacement tax for the Years at Issue.

58. Therefore, all late payment penalties must be abated.

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

- (a) finds and declares that all penalties must be fully abated based on reasonable cause;
- (b) enters judgment in favor of Petitioner and against the Defendant and requires the Defendant to recompute the amount due under the Notices:

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

Respectfully submitted,

**MASTERCARD INCORPORATED  
AND SUBSIDIARIES,**  
Petitioners

By:   
One of Petitioner's Attorneys

Peter M. Price (pprice@mayerbrown.com)  
Mayer Brown LLP  
71 S. Wacker Drive  
Chicago, Illinois, 60606  
(312) 782-0600

**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 14th day of May, 2018.

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

By:   
One of Petitioners' Attorneys

Peter M. Price (pprice@mayerbrown.com)  
Mayer Brown LLP  
71 S. Wacker Drive  
Chicago, Illinois 60606  
(312) 782-0600

# **EXHIBIT A**

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



March 13, 2018



**Letter ID:** CNXXXX7792732640

**Taxpayer ID:** 13-4172551  
**Audit ID:** A1724127232  
**Reporting period:** December 2010  
**Total Deficiency:** \$504,099.88  
**Balance due:** \$504,099.88

\_\_\_\_\_  
#BWNKMGV  
#CNXX XX77 9273 2640#  
MASTERCARD INC & SUBS  
MASTERCARD INCORPORATED & SUBSIDIARIES  
\_\_\_\_\_  
ATTN: TAX DEPT  
\_\_\_\_\_  
2000 PURCHASE ST  
PURCHASE NY 10577-2405

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](http://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](http://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) 524-2230

## **Bankruptcy Information**

If you are currently under the protection of the Federal Bankruptcy Court, contact us and provide the bankruptcy case number and the bankruptcy court. The bankruptcy automatic stay does not change the fact you are required to file tax returns. For those under the bankruptcy protection, this notice is not an attempt to collect tax debt. Illinois law requires issuance of this notice to advise you of an amount due or a missing return that must be filed.

## **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: March 13, 2018  
Name: MASTERCARD INC & SUBS  
Taxpayer ID: 13-4172551  
Letter ID: CNXXXX7792732640

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

## Computation of deficiency

Reporting period: 31-Dec-2010

Income or loss	
Federal taxable income	\$1,569,400,260.00
Net operating loss deduction	\$22,250.00
State Municipal and other interest excluded	\$15,481,526.00
Income tax and replacement tax deduction	\$2,795,424.00
Illinois bonus depreciation addition	\$27,485,094.00
Other additions	\$0.00
Base income or loss	
Treasury interest income & other exempt obl.	\$1,510,414.00
Foreign dividends subtraction	\$302,038,393.00
Illinois bonus depreciation subtraction	\$26,576,180.00
Total subtractions	\$330,124,987.00
Base income or net loss	\$1,285,059,567.00
Income allocable to Illinois	
Non-business income or loss	\$0.00
Non-unitary partnership bus. income or loss	\$165,396,116.00
Business income or loss	\$1,119,663,451.00
Apportionment formula	
Total sales everywhere	\$3,153,218,757.00
Total Illinois sales	\$106,405,715.00
Apportionment factor	0.033745
Business income/loss apportionable to IL	\$37,783,043.00
Nonbusiness income/loss allocable to IL	\$0.00
Non-unitary part. business income app. to IL	\$0.00
Base income or net loss allocable to IL	\$37,783,043.00
Net income	
Base income or net loss	\$37,783,043.00
IL net loss deduction (NLD)	\$0.00
Net income	\$37,783,043.00
Net replacement tax	
Replacement tax	\$944,576.00
Recapture of investment credits	\$0.00
Replacement tax before credits	\$944,576.00
Replacement tax investment credits	\$0.00
Net replacement tax	\$944,576.00
Net income tax	

# Statement

Date: March 13, 2018  
Name: MASTERCARD INC & SUBS  
Taxpayer ID: 13-4172551  
Letter ID: CNXXXX7792732640

## Computation of deficiency

Reporting period: 31-Dec-2010

Income tax	\$1,813,586.00
Recapture of investment credits	\$0.00
Income tax before credits	\$1,813,586.00
Income tax investment credits	\$0.00
Net income tax	\$1,813,586.00
Refund or balance due	
Net replacement tax	\$944,576.00
Net income tax	\$1,813,586.00
Total net income and replacement tax due	\$2,758,162.00
Minus tax previously assessed	-\$2,398,556.00
Total tax deficiency	\$359,606.00
UPIA-5 late-payment penalty (Audit)	\$71,921.20
Plus interest on tax through March 13, 2018	\$72,572.68
Total deficiency	* \$504,099.88
If you intend to pay under protest, you must pay this total deficiency amount.	

## Computation of balance due

Reporting period: 31-Dec-2010

Balance due	* \$504,099.88
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# Explanation of Audit Adjustments

## Income Tax



March 13, 2018



**Letter ID:** CNXXX2X38685X4X2

**Taxpayer ID:** 13-4172551

**Account ID:** 05325-08160

**Audit ID:** A1724127232

**Reporting period:** December 2010

\_\_\_\_\_  
#BWNKMGV  
#CNXX X2X3 8685 X4X2#  
MASTERCARD INC & SUBS  
MASTERCARD INCORPORATED & SUBSIDIARIES  
ATTN: TAX DEPT  
2000 PURCHASE ST  
PURCHASE NY 10577-2405

### Explanation of adjustments for tax period ending 12/31/2010

	<u>Return Impact</u>	<u>Tax impact</u>
We adjusted your Illinois net income or loss to correctly reflect income or loss. [35 ILCS 5/203(b), (c), (d), (e)]	\$39,204,060.00	\$96,574.00
We adjusted your subtraction modifications for foreign dividends on Schedule J, Foreign Dividends, to reflect the correct amount as allowed by Illinois law. [35 ILCS 5/203(b)(2)(G), (b)(2)(O), (h)]	\$31,729,422.00	-\$78,161.00
We adjusted your business income and apportionment factors to include the income and apportionment factors of partnerships that are unitary with your business operations. [86 IL Adm. Code 100.3380(d)]	\$165,396,116.00	-\$407,434.00
We excluded from sales everywhere service receipts that were earned in jurisdictions where you were not taxable during the audit period. Ref: IITA 304 (a) (3) (C-5) (iv).	-\$984,258,363.00	\$748,627.00
Interest on tax and penalty, if applicable, 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 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-1120, Corporation Income and Replacement Tax Return**



March 13, 2018



Letter ID: CNXXX12222775845

#BWNKMGV  
#CNXX X122 2277 5845#  
MASTERCARD INC & SUBS  
MASTERCARD INCORPORATED & SUBSIDIARIES  
ATTN: TAX DEPT  
2000 PURCHASE ST  
PURCHASE NY 10577-2405

**Taxpayer ID:** 13-4172551  
**Audit ID:** A1724127232  
**Reporting period:** December 2011  
**Total Deficiency:** \$1,088,439.19  
**Balance due:** \$1,088,439.19

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.**

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- **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](http://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.
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Sincerely,

Constance Beard  
Director

ILLINOIS DEPARTMENT OF REVENUE  
AUDIT BUREAU  
PO BOX 19012  
SPRINGFIELD IL 62794-9012

(217) 524-2230

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- 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: March 13, 2018  
Name: MASTERCARD INC & SUBS  
Taxpayer ID: 13-4172551  
Letter ID: CNXXX1222775845

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

## Computation of deficiency

Reporting period: 31-Dec-2011

Income or loss	
Federal taxable income	\$2,367,881,787.00
Net operating loss deduction	\$22,500.00
State Municipal and other interest excluded	\$8,272,479.00
Income tax and replacement tax deduction	\$4,921,308.00
Other additions	\$0.00
Base income or loss	
Treasury interest income & other exempt obl.	\$417,080.00
Foreign dividends subtraction	\$307,932,507.00
Illinois bonus depreciation subtraction	\$19,875,482.00
Total subtractions	\$328,225,069.00
Base income or net loss	\$2,052,873,005.00
Income allocable to Illinois	
Non-business income or loss	\$0.00
Non-unitary partnership bus. income or loss	\$256,595,358.00
Business income or loss	\$1,796,277,647.00
Apportionment formula	
Total sales everywhere	\$3,301,935,870.00
Total Illinois sales	\$99,847,456.00
Apportionment factor	0.030239
Business income/loss apportionable to IL	\$54,317,640.00
Nonbusiness income/loss allocable to IL	\$0.00
Non-unitary part. business income app. to IL	\$0.00
Base income or net loss allocable to IL	\$54,317,640.00
Net income	
Base income or net loss	\$54,317,640.00
IL net loss deduction (NLD)	\$0.00
Net income	\$54,317,640.00
Net replacement tax	
Replacement tax	\$1,357,941.00
Recapture of investment credits	\$0.00
Replacement tax before credits	\$1,357,941.00
Replacement tax investment credits	\$0.00
Net replacement tax	\$1,357,941.00
Net income tax	
Income tax	\$3,802,235.00

# Statement

Date: March 13, 2018  
Name: MASTERCARD INC & SUBS  
Taxpayer ID: 13-4172551  
Letter ID: CNXXX1222775845

## Computation of deficiency

Reporting period: 31-Dec-2011

Recapture of investment credits	\$0.00
Income tax before credits	\$3,802,235.00
Income tax investment credits	\$0.00
Net income tax	\$3,802,235.00
Refund or balance due	
Net replacement tax	\$1,357,941.00
Net income tax	\$3,802,235.00
Total net income and replacement tax due	\$5,160,176.00
Minus tax previously assessed	-\$4,363,855.00
Total tax deficiency	\$796,321.00
UPIA-5 late-payment penalty (Audit)	\$159,264.20
Plus interest on tax through March 13, 2018	\$132,853.99
Total deficiency	* \$1,088,439.19

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	* \$1,088,439.19
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# Explanation of Audit Adjustments

## Income Tax



March 13, 2018



Letter ID: CNXXX11241977440

Taxpayer ID: 13-4172551

Account ID: 05325-08160

Audit ID: A1724127232

Reporting period: December 2011

\_\_\_\_\_  
#BWNKMGV  
\_\_\_\_\_  
#CNXX X112 4197 7440#  
MASTERCARD INC & SUBS  
MASTERCARD INCORPORATED & SUBSIDIARIES  
ATTN: TAX DEPT  
2000 PURCHASE ST  
PURCHASE NY 10577-2405

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

	<u>Return Impact</u>	<u>Tax impact</u>
We adjusted your Illinois net income or loss to correctly reflect income or loss. [35 ILCS 5/203(b), (c), (d), (e)]	\$36,318,025.00	\$104,331.00
We adjusted your subtraction modifications for foreign dividends on Schedule J, Foreign Dividends, to reflect the correct amount as allowed by Illinois law. [35 ILCS 5/203(b)(2)(G), (b)(2)(O), (h)]	\$32,024,981.00	-\$91,998.00
We adjusted your business income and apportionment factors to include the income and apportionment factors of partnerships that are unitary with your business operations. [86 IL Adm. Code 100.3380(d)]	\$256,595,358.00	-\$737,123.00
Free We excluded from sales everywhere service receipts that were earned in jurisdictions where you were not taxable during the audit period. Ref: IITA 304 (a) (3) (C-5) (iv).	-\$1,150,902,127.00	\$1,521,111.00
Interest on tax and penalty, if applicable, 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 Form IL-870, Waiver of Restrictions, will result in this penalty increasing to 20 percent. [35 ILCS 735/3-3 (b-20)(2)]		