

IN THE ILLINOIS INDEPENDENT TAX TRIBUNAL

BELVEDERE HOLDINGS LP )  
)  
Petitioner, )  
)  
v. )  
)  
THE ILLINOIS DEPARTMENT OF REVENUE, )  
)  
Defendant. )

No.

RECEIVED  
DEC 08 2018  
BY: \_\_\_\_\_  
180142

NOTICE OF FILING

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

PLEASE TAKE NOTICE that on the 6th day of December, 2018, we filed with the Illinois Independent Tax Tribunal, 160 N. LaSalle Street, Room N506, Chicago, IL 60601 Belvedere Holdings LP's **Petition**, a copy of which accompanies this notice and is served on you herewith.

Respectfully submitted,

**BELVEDERE HOLDINGS LP**  
Petitioner

By: *Jordan Goodman*  
One of Petitioner's Attorneys

Jordan M. Goodman (jgoodman@hmblaw.com)  
Samantha K. Breslow (sbreslow@hmblaw.com)  
Horwood Marcus & Berk Chartered  
500 W. Madison Street, Suite 3700  
Chicago, IL 60661  
(312) 606-3200

**IN THE ILLINOIS INDEPENDENT TAX TRIBUNAL**

BELVEDERE HOLDINGS LP, )  
 )  
 Petitioner, )  
 )  
 v. )  
 )  
 THE ILLINOIS DEPARTMENT OF REVENUE, )  
 )  
 Defendant. )

No.

RECEIVED  
DEC 05 2018  
187142

**PETITION**

Petitioner, Belvedere Holdings LP (“Petitioner”), by and through its attorneys, Horwood Marcus & Berk Chartered, complains of the Defendant, the Illinois Department of Revenue (“Department”), and alleges as follows:

**PARTIES**

1. Petitioner is a Delaware limited partnership. Petitioner’s principal business address is 10 S Riverside Plaza, Suite 2100, Chicago, Illinois 60606-3825.
2. Petitioner is represented by Jordan M. Goodman and Samantha K. Breslow of Horwood Marcus & Berk Chartered, located at 500 West Madison St., Suite 3700, Chicago, Illinois 60661, who can be reached at 312-606-3225 or jgoodman@hmblaw.com, or 312-606-3206 or sbreslow@hmblaw.com.
3. Petitioner’s FEIN is 26-3999436.
4. The Department is an agency of the Executive Department of the State Government and is tasked with the enforcement and administration of Illinois tax laws. 20 ILCS 5/5-15.

**NOTICE**

5. On October 11, 2018, the Department issued three Notices of Deficiency to Petitioner for the Tax Years Ending December 31, 2014, December 31, 2015, and December 31,

2016 (“Years at Issue”) in the amounts of \$443,148.04, \$595,328.29, and \$621,251.12, 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 is a proprietary trading group which trades commodities and securities.

9. During the Years at Issue, Petitioner had 34 limited partners (hereafter referred to as “the Partners”).

10. During the Years at Issue, Petitioner distributed all income to the Partners.

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

12. 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 Partners as compensation for services rendered by the Partners.

13. On audit, the Department substantially disallowed Petitioner’s deduction for compensation paid for services rendered by the Partners.

14. As a result of the disallowance of the deduction, the Department increased Petitioner’s net income to \$22,207,188 for the 2014 tax year.

15. In accordance with the disallowance, the Department assessed Replacement Tax in the amount of \$333,108, plus penalties and interest for the 2014 tax year.

16. As a result of the disallowance of the deduction, the Department increased Petitioner's net income to \$30,528,765 for the 2015 tax year.

17. In accordance with the disallowance, the Department assessed Replacement Tax in the amount of \$457,931, plus penalties and interest for the 2015 tax year.

18. As a result of the disallowance of the deduction, the Department increased Petitioner's net income to \$32,815,467 for the 2016 tax year.

19. In accordance with the disallowance, the Department assessed Replacement Tax in the amount of \$492,232, plus penalties and interest for the 2016 tax year.

## COUNT I

### **Petitioner is Entitled to A Deduction for Personal Service Income or a Reasonable Allowance for Compensation Paid to its Partners for Services Rendered**

20. Petitioner realleges and incorporates by this reference the allegations made in paragraphs 1 through 19, inclusive, hereinabove.

21. 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).

22. 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.”

23. 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.

24. 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).

25. 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).

26. The investment trading and management services performed by the Partners are exactly the type of activity envisioned by the personal services or reasonable compensation deduction. *See*, Ill. PLR No. IT 91-0339-PLR (12-24-1991) (“The ultimate effect of this definition of personal service income is to greatly reduce or eliminate the replacement tax liability of partnerships of doctors, lawyers, accountants, architects and other professional practitioners.”).

27. The Partners are not passive investors but rather are active in the daily activities of the partnership.

28. The Partners are active participants in all operations of the business, including but not limited to, management of the business, training and management of personnel, executing trades and developing trade strategies, software development and maintenance of proprietary software, managing risk and monitoring market conditions, and financial monitoring and forecasting.

29. The capital employed by Petitioner does not generate income without the daily activity of the Partners.

30. The exclusive source of Petitioner's income is derived from the unique experience and knowledge of the Partners in the trading industry and the personal services performed by the Partners.

31. The payments made to the Partners constitute a reasonable compensation for services rendered.

32. Because the payments made to the partners constitute personal service income or reasonable allowance for compensation paid for services performed, Petitioner was entitled to deduct these payments from its income pursuant to Act section 203(d)(2)(H).

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 partners as personal service income or a reasonable allowance for compensation paid for services rendered by the partners;
- (b) enters judgment in favor of Petitioner and against the Defendant and orders Defendant 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**

33. Petitioner realleges and reincorporates the allegations in paragraphs 1 through 32, inclusive, hereinabove.

34. In its Notices, the Department assessed late payment penalties of \$256,654.20 for the Years at Issue.

35. 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.

36. 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).

37. 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).

38. Petitioner reasonably deducted the income that it paid to its Partners for services rendered to the company.

39. Petitioner, relying on Illinois law and regulations, exercised ordinary business care and prudence when it reasonably determined its Illinois replacement tax liability for the Years at Issue.

40. The Department issued the Notices without allowing the Petitioner an opportunity to provide support for the reasonable compensation deduction claimed.

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

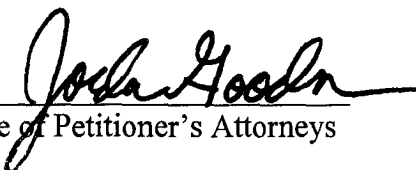
WHEREFORE, Petitioner prays that the Tribunal enter an order that:

- (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,

**BELVEDERE HOLDINGS LP**  
Petitioner

By:   
One of Petitioner's Attorneys

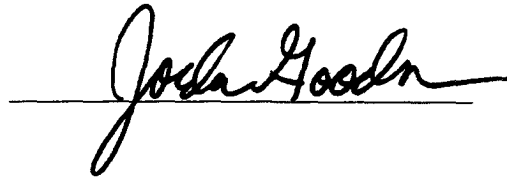
Jordan M. Goodman (jgoodman@hmblaw.com)  
Samantha K. Breslow (sbreslow@hmblaw.com)  
Horwood Marcus & Berk Chartered  
500 W. Madison Street, Suite 3700  
Chicago, IL 60661  
(312) 606-3200



**CERTIFICATE OF SERVICE**

Undersigned counsel of record hereby certifies that he caused a copy of the foregoing **Petition** to be served by electronic mail and by enclosing the same in an envelope, properly addressed, first-class postage prepaid and deposited in the US Mail at 500 West Madison Street, Chicago, Illinois, 60661, before the hour of 5:00 p.m. on the 6th day of December, 2018.

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

A handwritten signature in black ink, appearing to read "James R. Reynolds", is written over a horizontal line.

# **EXHIBIT A**

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



#BWNKMGV  
#CNXX XX34 X8X4 9129#  
BELVEDERE HOLDINGS LP  
ATTN: THOMAS HUTCHINSON  
10 S RIVERSIDE PLZ STE 2100  
CHICAGO IL 60606-3825

October 11, 2018



Letter ID: CNXXXX34X8X49129

**Taxpayer ID:** 26-3999436  
**Audit ID:** A592873472  
**Reporting period:** December 2014  
**Total Deficiency:** \$443,148.04  
**Balance due:** \$443,148.04

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) 558-4960

# Statement

Date: October 11, 2018  
Name: BELVEDERE HOLDINGS LP  
Taxpayer ID: 26-3999436  
Letter ID: CNXXXX34X8X49129

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

## Computation of deficiency

Reporting period: 31-Dec-2014

Unmodified base income or loss	
Total unmodified base income or loss	\$33,757,836.00
Total unmodified base income	\$33,757,836.00
Income or loss	
Illinois bonus depreciation addition	\$514,062.00
Payments to partners from Form 1065	\$27,602.00
Other additions	\$0.00
Total income or loss	\$34,299,500.00
Illinois base income or net loss	
Income dist. to a partner subject to rep. tax	\$9,564,476.00
Illinois bonus depreciation subtraction	\$896,211.00
Total subtractions	\$10,460,687.00
Base income or loss	\$23,838,813.00
Income allocable to Illinois	
Nonbusiness income or loss	\$72,981.00
Non-unitary partnership business income/loss	\$0.00
Business income or loss	\$23,765,832.00
Apportionment formula	
Total sales everywhere	\$83,884,032.00
Total Illinois sales	\$78,128,304.00
Apportionment factor	0.931385
Business income/loss apportionable to IL	\$22,135,139.00
Non-business income/loss allocable to IL	\$72,981.00
Non-unitary part bus income/loss apprt to IL	\$0.00
Base income or net loss allocable to IL	\$22,208,120.00
Net income	
Base income or net loss	\$22,208,120.00
Illinois net loss deduction (NLD)	\$0.00
Income after NLD	\$22,208,120.00
Exemption allowance	\$932.00
Net income	\$22,207,188.00
Base income or loss allocable to Illinois	\$22,207,188.00
Net replacement tax	
Replacement tax	\$333,108.00
Recapture of investment credits	\$0.00
Replacement tax before investment credits	\$333,108.00

# Statement

Date: October 11, 2018  
Name: BELVEDERE HOLDINGS LP  
Taxpayer ID: 26-3999436  
Letter ID: CNXXXX34X8X49129

## Computation of deficiency

Reporting period: 31-Dec-2014

Replacement tax investment credits	\$0.00
Net replacement tax due	\$333,108.00
Pass-through Withholding Payments	\$5,801.00
Total New Replacement Tax & Pass-Through	\$338,909.00
Minus tax previously assessed	-\$5,801.00
Total tax deficiency	\$333,108.00
UPIA-5 late-payment penalty (Audit)	\$66,621.60
Plus interest on tax through October 11, 2018	\$43,418.44
Total deficiency	* \$443,148.04

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

## Computation of balance due

Reporting period: 31-Dec-2014

Balance due	* \$443,148.04
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# Explanation of Audit Adjustments

## Income Tax



#BWNKMGV  
#CNXX XX75 3X15 92X0#  
BELVEDERE HOLDINGS LP  
ATTN: THOMAS HUTCHINSON  
10 S RIVERSIDE PLZ STE 2100  
CHICAGO IL 60606-3825

October 11, 2018



Letter ID: CNXXXX753X1592X0

Taxpayer ID: 26-3999436  
Account ID: 06289-21248  
Audit ID: A592873472  
Reporting period: December 2014

### Explanation of adjustments for tax period ending 12/31/2014

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)]

<u>Return Impact</u>	<u>Tax Impact</u>
\$24,000,000.00	\$333,108.00

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, has resulted 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**



#BWNKMGV  
#CNXX X182 5598 2562#  
BELVEDERE HOLDINGS LP  
ATTN: THOMAS HUTCHINSON  
10 S RIVERSIDE PLZ STE 2100  
CHICAGO IL 60606-3825

October 11, 2018



Letter ID: CNXXX18255982562

Taxpayer ID: 26-3999436  
Audit ID: A592873472  
Reporting period: December 2015  
Total Deficiency: \$595,328.29  
Balance due: \$595,328.29

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) 558-4960

# Statement

Date: October 11, 2018  
Name: BELVEDERE HOLDINGS LP  
Taxpayer ID: 26-3999436  
Letter ID: CNXXX18255982562

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

## Computation of deficiency

Reporting period: 31-Dec-2015

Unmodified base income or loss	
Total unmodified base income or loss	\$41,843,304.00
Total unmodified base income	\$41,843,304.00
Income or loss	
Illinois bonus depreciation addition	\$377,879.00
Other additions	\$0.00
Total income or loss	\$42,221,183.00
Illinois base income or net loss	
Income dist. to a partner subject to rep. tax	\$11,106,087.00
Illinois bonus depreciation subtraction	\$334,573.00
Total subtractions	\$11,440,660.00
Base income or loss	\$30,780,523.00
Income allocable to Illinois	
Nonbusiness income or loss	\$188,081.00
Non-unitary partnership business income/loss	\$0.00
Business income or loss	\$30,592,442.00
Apportionment formula	
Total sales everywhere	\$91,580,659.00
Total Illinois sales	\$90,829,952.00
Apportionment factor	0.991803
Business income/loss apportionable to IL	\$30,341,676.00
Non-business income/loss allocable to IL	\$188,081.00
Non-unitary part bus income/loss apprt'n to IL	\$0.00
Base income or net loss allocable to IL	\$30,529,757.00
Net income	
Base income or net loss	\$30,529,757.00
Illinois net loss deduction (NLD)	\$0.00
Income after NLD	\$30,529,757.00
Exemption allowance	\$992.00
Net income	\$30,528,765.00
Base income or loss allocable to Illinois	\$30,528,765.00
Net replacement tax	
Replacement tax	\$457,931.00
Recapture of investment credits	\$0.00
Replacement tax before investment credits	\$457,931.00
Replacement tax investment credits	\$0.00



## Statement

Date: October 11, 2018  
Name: BELVEDERE HOLDINGS LP  
Taxpayer ID: 26-3999436  
Letter ID: CNXXX18255982562

### Computation of deficiency

Reporting period: 31-Dec-2015

Net replacement tax due	\$457,931.00
Pass-through Withholding Payments	\$5,645.00
Total New Replacement Tax & Pass-Through	\$463,576.00
Minus tax previously assessed	-\$5,645.00
Total tax deficiency	\$457,931.00
UPIA-5 late-payment penalty (Audit)	\$91,586.20
Plus interest on tax through October 11, 2018	\$45,811.09
Total deficiency	* \$595,328.29

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

### Computation of balance due

Reporting period: 31-Dec-2015

Balance due	* \$595,328.29
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# Explanation of Audit Adjustments

## Income Tax



#BWNKMGV  
#CNXX XX84 4651 2164#  
BELVEDERE HOLDINGS LP  
ATTN: THOMAS HUTCHINSON  
10 S RIVERSIDE PLZ STE 2100  
CHICAGO IL 60606-3825

October 11, 2018



Letter ID: CNXXXX8446512164

Taxpayer ID: 26-3999436

Account ID: 06289-21248

Audit ID: A592873472

Reporting period: December 2015

### Explanation of adjustments for tax period ending 12/31/2015

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)]

### Return Impact

\$30,875,000.00

### Tax impact

\$457,931.00

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, has resulted 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**



#BWNKMGV  
#CNXX X157 5131 3128#  
BELVEDERE HOLDINGS LP  
ATTN: THOMAS HUTCHINSON  
10 S RIVERSIDE PLZ STE 2100  
CHICAGO IL 60606-3825

October 11, 2018



Letter ID: CNXXX15751313128

**Taxpayer ID:** 26-3999436  
**Audit ID:** A592873472  
**Reporting period:** December 2016  
**Total Deficiency:** \$621,251.12  
**Balance due:** \$621,251.12

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) 558-4960

# Statement

Date: October 11, 2018  
Name: BELVEDERE HOLDINGS LP  
Taxpayer ID: 26-3999436  
Letter ID: CNXXX15751313128

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

## Computation of deficiency

Reporting period: 31-Dec-2016

Unmodified base income or loss	
Total unmodified base income or loss	\$36,587,069.00
Total unmodified base income	\$36,587,069.00
Income or loss	
Distributive share of additions	\$507,659.00
Other additions	\$0.00
Total income or loss	\$37,094,728.00
Illinois base income or net loss	
Income dist. to a partner subject to rep. tax	\$3,814,579.00
Distributive share of subtractions	\$297,094.00
Total subtractions	\$4,111,673.00
Base income or loss	\$32,983,055.00
Income allocable to Illinois	
Nonbusiness income or loss	\$298,581.00
Non-unitary partnership business income/loss	\$0.00
Business income or loss	\$32,684,474.00
Apportionment formula	
Total sales everywhere	\$100,654,788.00
Total Illinois sales	\$100,141,765.00
Apportionment factor	0.994903
Business income/loss apportionable to IL	\$32,517,881.00
Non-business income/loss allocable to IL	\$298,581.00
Non-unitary part bus income/loss apprt n to IL	\$0.00
Base income or net loss allocable to IL	\$32,816,462.00
Net income	
Base income or net loss	\$32,816,462.00
Illinois net loss deduction (NLD)	\$0.00
Income after NLD	\$32,816,462.00
Exemption allowance	\$995.00
Net income	\$32,815,467.00
Base income or loss allocable to Illinois	\$32,815,467.00
Net replacement tax	
Replacement tax	\$492,232.00
Recapture of investment credits	\$0.00
Replacement tax before investment credits	\$492,232.00
Replacement tax investment credits	\$0.00

# Statement

Date: October 11, 2018  
Name: BELVEDERE HOLDINGS LP  
Taxpayer ID: 26-3999436  
Letter ID: CNXXX15751313128

## Computation of deficiency

Reporting period: 31-Dec-2016

Net replacement tax due	\$492,232.00
Pass-through Withholding Payments	\$6,516.00
Total New Replacement Tax & Pass-Through	\$498,748.00
Minus tax previously assessed	-\$6,516.00
Total tax deficiency	\$492,232.00
UPIA-5 late-payment penalty (Audit)	\$98,446.40
Plus interest on tax through October 11, 2018	\$30,572.72
Total deficiency	* \$621,251.12

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

## Computation of balance due

Reporting period: 31-Dec-2016

Balance due	* \$621,251.12
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# Explanation of Audit Adjustments

## Income Tax



#BWNKMGV  
#CNXX X178 4175 3123#  
BELVEDERE HOLDINGS LP  
ATTN: THOMAS HUTCHINSON  
10 S RIVERSIDE PLZ STE 2100  
CHICAGO IL 60606-3825

October 11, 2018



Letter ID: CNXXX17841753123

Taxpayer ID: 26-3999436  
Account ID: 06289-21248  
Audit ID: A592873472  
Reporting period: December 2016

### Explanation of adjustments for tax period ending 12/31/2016

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)]

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, has resulted in this penalty increasing to 20 percent. [35 ILCS 735/3-3(b-20)(2)]

<u>Return Impact</u>	<u>Tax impact</u>
\$33,500,000.00	\$492,232.00