This Week in State Tax (TWIST)

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Illinois: Department Issues Two Rulings on Destination of Sales

The Illinois Department of Revenue (Department) recently issued two rulings applying the destination sourcing rule for sales of tangible personal property under the state corporation income tax. In a Private Letter Ruling, the Department addressed the sales factor sourcing of taxpayer's sales of gaming content and machines that were shipped to an Illinois distribution center to then be further shipped to a customer outside the state. The taxpayer, which manufactured and assembled its products outside Illinois, shipped its products to a centrally located third party distribution center in Illinois. The taxpayer used the distribution center solely to accommodate further shipping, and no modifications or product changes occurred at the distribution center. No inventory was stored at the distribution center, and none of the taxpayer's other businesses utilized the center. Products came to rest in the distribution center for periods ranging from a few hours to several days. Illinois generally follows the Uniform Division of Income for Tax Purposes Act for including sales of tangible personal property in the sales factor. Here, the Department determined that delivery to the Illinois distribution center would not be an Illinois sale because the sales were to customers outside Illinois, the Illinois distribution center was used solely for further shipping, and the shipment did not terminate in Illinois.

In a General Information Letter with different facts, however, the Department concluded that products shipped to Illinois-based distributor locations and storerooms are sales that terminate in Illinois and would be sourced to Illinois for sales factor purposes. Unlike the PLR, the third-party Illinois distributors and storeroom here resold the taxpayer's products to other distributors or retail stores located in various states, including Illinois. In finding that the destination of the sales was Illinois, the Department noted that the taxpayer's control of and responsibility for future sales and movement of its product was fully transferred to the third-party distributor at the Illinois distributor locations. The taxpayer was no longer involved in the sales process once the products were ordered by the distributor and shipped to storerooms. In addition, the distributor would create new pallets of the taxpayer's products, package and label the pallets, and ship the product onward using its own truck or third-party carriers. The taxpayer is not made aware of the subsequent destination of its products. Thus, the Department found that the taxpayer's sales terminated in Illinois, regardless of whether the third-party distributor subsequently moved the goods outside the state. For more information about IT 24-0001-PLR or IT 24-008-GIL, please contact Brad Wilhelmson.