

## What's New

### **1997** Illinois residents working in Indiana and Wisconsin who are filing their 1997 Form IL-1040

There is a new section on the Form IL-1040, Individual Income Tax Return, that you will need to complete. This new section provides the department with information about compensation that you, an Illinois resident, earn while working in Indiana and Wisconsin. Refer to Page 5 for more detailed information.

### **1998** Certain Illinois and Indiana residents should contact their employers about withholding requirements for their 1998 compensation

**Illinois residents working in Indiana:** Effective January 1, 1998, your Indiana employer should begin withholding Indiana Income Tax from your compensation. While you are an Illinois resident, any compensation you receive from an employer in Indiana will be taxed by Indiana. You should contact your employer about Indiana's withholding requirements. This change does **not** affect the way you will file your 1997 return, generally filed by April 15, 1998. Please refer to the General Information on Page 2 for more detailed information.

**Indiana residents working in Illinois:** Effective January 1, 1998, your Illinois employer must begin withholding Illinois Income Tax from your compensation. While you are an Indiana resident, any compensation you receive from an employer in Illinois will be taxed by Illinois. You should contact your employer about Illinois' withholding requirements. This change does **not** affect the way you will file your 1997 return, generally filed by April 15, 1998. Please refer to the General Information on Page 2 for more detailed information.

### **1998** Employers who employ household employees will have a new, easier method for filing and paying Illinois Income Tax withheld

Effective January 1, 1998, you will have the opportunity to pay the Illinois Income Tax that you withhold from your household employees' wages on an annual basis. You will no longer have to pay withholding payments throughout the year. Please see Page 11 for more detailed information and Page 12 for Form NUC-1-H, Request for Household Employer's Information.

## Electronic Filing

### Consider filing electronically. Your return will

- be received and acknowledged by the Illinois Department of Revenue,
- be accurately figured, and
- produce a speedy refund.

If you are due a refund and your return is electronically transmitted by April 15, your refund will be issued within three weeks from the time the Illinois Department of Revenue accepts your return. Additionally, you may choose the fast and convenient option of having your refund directly deposited into your bank account. Electronic filing is a fast and accurate way to file, even if you are not expecting a refund.

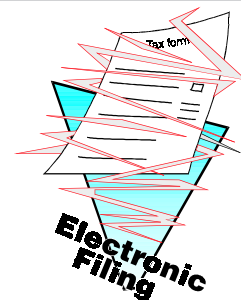
Many professional tax preparers offer electronic filing in addition to preparing your tax return. Ask your tax preparer if he or she is participating in the Illinois Electronic Filing Program. Even if you prepare your own tax return, you may still file it electronically. A tax preparer or an electronic filer in your area can accept your completed return and file it electronically for you.

To file electronically, you must meet certain requirements.

- You may file only Form IL-1040 with W-2, W-2G, and 1099-R forms or Illinois Schedule NR.
- You must file your return between January 16, 1998, and April 15, 1998.

You may not file electronically if you have entries on Lines 9, 19, 21, or 27 or are filing on behalf of a deceased taxpayer.

**For more information about electronic filing, call 1 800 732-8866, 217 782-3336,  
or TDD – telecommunications device for the deaf at 1 800 544-5304.**



# General Information

## Who is an Illinois resident?

You are an Illinois resident if you were domiciled in Illinois for the entire tax year. Your domicile is the place where you resided and the place where you intend to return after temporary absences. Temporary absences may include active duty in the U.S. Armed Forces, residence in a foreign country, out-of-state residence as a student, or out-of-state residence during the winter or summer. If you are absent from Illinois for one year or more, we will presume you are a nonresident of Illinois. However, this nonresident status is not definite and may be changed if you supply satisfactory evidence.

## Who must file an Illinois tax return?

**Illinois resident taxpayers:** You must file Form IL-1040 if

- you filed a federal income tax return (U.S. 1040, 1040A, 1040EZ, or TeleFile);
- you were not required to file a federal income tax return, but your Illinois base income was greater than the number of exemptions to which you are entitled multiplied by \$1,000; or
- you are no longer entitled to a basic exemption for yourself (because you are claimed on your parent's or another person's return) and your Illinois base income is greater than \$1,000.

**Illinois resident taxpayers working in Indiana, Iowa, Kentucky, Michigan, or Wisconsin during tax year 1997:** You must file Form IL-1040 and include as Illinois income any compensation you received from an employer in these states. Compensation paid to Illinois residents working in these states is taxed by Illinois. Based on reciprocal agreements negotiated between Illinois and these states, these states do not tax the compensation of Illinois residents.

If your employer in any of these states withheld that state's tax from your wages, you may claim a refund of that state's tax withheld by filing the correct form with that state. You may not claim tax withheld by an employer in these states as a credit on your Illinois return.

**Note** **Illinois resident taxpayers working in Indiana during tax year 1998:** Beginning on January 1, 1998, if you are an Illinois resident and are employed in Indiana by an Indiana employer, any compensation you receive from your Indiana employer will be taxed by Indiana. Illinois Income Tax will no longer be withheld from your paycheck although you remain subject to Illinois Income Tax because you are an Illinois resident. You should contact your employer to receive information concerning Indiana's withholding requirements. This change does **not** affect the way you will file your 1997 return, generally filed by April 15, 1998.

When you file your **1998** Illinois Income Tax return in **1999**, you may be allowed a credit on your Form IL-1040 for the tax you paid to Indiana during 1998. You must first complete and file an income tax return in Indiana. Then, to see if you qualify for a credit against Illinois Income Tax, you must complete a Schedule CR, Credit for Taxes Paid to Other States. If you qualify for a credit, attach your completed Schedule CR and a copy of your Indiana return to your Form IL-1040.

**Retired Illinois resident taxpayers:** Most types of retirement income (e.g., pension, Social Security) are not taxed by Illinois. However, if you were required to file a U.S. 1040, you must file Form IL-1040. Read the instructions for Line 5 to see what types of retirement income you may subtract.

**Part-year resident taxpayers:** You are a part-year resident if you were an Illinois resident for any part of the taxable year. You must file Form IL-1040 with Schedule NR, Nonresident and Part-Year Resident Computation of Illinois Tax, if

- you earned income from any source while you were a resident,
- you earned income (other than interest, dividends, or the sale of securities) from Illinois sources while you were not a resident, or
- Illinois Income Tax was withheld from your pay.

**Nonresident taxpayers:** If you are not a resident of Illinois, you must file Form IL-1040 with Schedule NR if

- you earned income (other than interest, dividends, or the sale of securities) from Illinois sources, or
- Illinois Income Tax was withheld from your pay.

**Residents of Indiana, Iowa, Kentucky, Michigan, or Wisconsin working in Illinois during tax year 1997:** If you are a resident of one of these states during 1997, you are not required to pay Illinois Income Tax on compensation you receive from Illinois employers. This is based on reciprocal agreements negotiated between Illinois and these states and applies only to compensation you receive from wages, salaries, tips, and commissions. It does not apply to any other income you might receive, such as Illinois lottery winnings. You must file Form IL-1040 with Schedule NR if

- you received income in Illinois from sources other than wages, salaries, tips, and commissions (you must pay tax on this income regardless of residency), or
- you want a refund of any Illinois tax withheld.

**Note** **Residents of Indiana working in Illinois during tax year 1998:** Beginning on January 1, 1998, if you are an Indiana resident during 1998 and are employed in Illinois by an Illinois employer, you **are required** to pay Illinois Income Tax on any compensation you receive from your

Illinois employer. All compensation you receive in Illinois is subject to withholding of Illinois Income Tax. Contact your employer to receive Form IL-W-4, Employee's Illinois Withholding Allowance Certificate. Complete this form and give it to your employer. Your completed Form IL-W-4 will allow your Illinois employer to withhold the correct amount of Illinois Income Tax from your pay. This change does **not** affect the way you will file your 1997 return, generally filed by April 15, 1998.

When you file your **1998** individual income tax return in **1999**, you will need to complete a Form IL-1040 and attach a completed Schedule NR, Nonresident and Part-Year Resident Computation of Illinois Tax, to your return. Schedule NR allows you to calculate the correct amount of income tax that you must pay on any compensation earned in Illinois.

**Persons claimed as a dependent on their parent's or another person's return:** If you are claimed as a dependent on your parent's or another person's return, you may not be exempt from tax. You must file Form IL-1040 if

- your Illinois base income was greater than \$1,000, or
- your Illinois base income was \$1,000 or less and you want a refund of Illinois tax withheld from your pay.

If your parent claimed your interest and dividend income through U.S. Form 8814, do not file your own Form IL-1040.

**Persons filing on behalf of deceased taxpayers:** If you are the surviving spouse or representative of a deceased taxpayer, you must file a return for the taxpayer who died during the taxable year. Please note the special instructions under the "Name and Address" section in the Step-by-Step Instructions.

**Students:** You are not exempt from tax, nor are there special residency provisions for you. However, income that is not taxed under federal income tax law, such as certain scholarships, fellowships, and foreign treaty income, is also not taxed by Illinois.

**Nonresident alien taxpayers:** You are not exempt from tax. However, income that is not taxable under federal income tax law, such as foreign treaty income, is also not taxable by Illinois. You must attach a completed copy of your U.S. 1040NR.

**Even if you are not required to file Form IL-1040, you must file to get a refund of any Illinois Income Tax withheld from your pay or any estimated tax payments you have made.**

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## How may I file?

You may file your return using the 1997 Form IL-1040. If you wish to use computer-generated forms, they must be approved by the department. Form approval for software companies that provide computer-generated forms will be given at the company level.

If you want a quicker refund, you may choose to file your return electronically. To file your return electronically, you must meet certain requirements. For more information about electronic filing, see "Electronic Filing."

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## What is income?

Your Illinois income includes the adjusted gross income amount figured on your federal return, plus any federally tax-exempt income that must be added on Line 2 and other Illinois additions on Line 3. Some of this income may be subtracted on Lines 5 through 9. See the Step-by-Step Instructions.

You should follow the federal law concerning passive activity income and losses. You are not required to recalculate your federal passive activity losses.

Also, federal law governs the taxation of income from community property sources in the case of spouses who are residents of different states and who file separate returns.

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## When should I file?

Your Illinois filing period is the same as your federal filing period. We will assume that you are filing your Form IL-1040 for calendar year 1997 unless you indicate a different filing period in the space provided at the top of the return. The due date for calendar year filers is April 15, 1998.

**Automatic six-month extension:** We grant an automatic six-month extension of time to file your individual income tax return. This extension grants you a six-month extension of time to file your return but does not grant you a six-month extension of time to pay any tax you owe. If you determine you will owe tax, you must file Form IL-505-I, Automatic Extension Payment for Individuals, to pay any tax you owe in order to avoid penalty and interest on tax not paid by April 15, 1998. You must file Form IL-1040 to claim credit for this payment.

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## What if I cannot pay?

If you can complete your return on time but cannot pay the tax you owe, file your return by the due date without the payment. This will prevent a late-filing penalty from being assessed. You will, however, owe late-payment penalty and interest on any tax you pay after the original due date, even if you have an extension of time to file. Therefore, it will be to your advantage to pay as soon as you can.

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## What are the penalties?

**Late-filing or nonfiling penalty:** You will owe this penalty if you do not file a processable return by the due date, including any extended due date. You will be penalized even if your return is fully paid or shows an overpayment. Your return will be considered processable if it is signed by the person required by law, is in a format that we have approved, and contains all information and schedules necessary to determine the correct tax.

**Late-payment penalty:** You will owe a **late-payment penalty for underpayment of estimated tax** if you were required to make estimated payments and failed to do so, or failed to pay the required amount by the payment due date. You may be penalized even if you are receiving a refund. If your Illinois Income Tax exceeds the total tax withheld and credited (Line 14 minus the total of Lines 17, 19, 20, and 21) for the tax year by more than \$250, you may be required to make estimated payments.

In addition, you will owe a **late-payment penalty for unpaid tax** if you do not pay the tax you owe by the original due date of the return, even if you have an extension of time to file.

If you file an amended return within six months of the due date (during the automatic extension period), the late-payment penalty for underpayment of estimated tax will be recalculated using the tax figure on your latest filed return. Once the extension period has passed, your original penalty will not change.

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## Will I owe interest?

You will owe **interest** on any tax and penalty from the day after the original due date of your return through the date you pay the tax and penalties. Interest is simple interest figured using a daily rate. The rate is reviewed twice each year – on January 1 and July 1 – and adjusted according to the underpayment rate established in the Internal Revenue Code.

We will bill you for penalties and interest. For more information, refer to our Publication 103, Uniform Penalties and Interest. To receive a copy of this publication, call 1 800 356-6302, Illinois Tax Fax at 217 785-3400, or TDD – telecommunications device for the deaf at 1 800 544-5304.

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## Should I round?

To make it easier for you to figure your tax, you may round the dollar amounts on Form IL-1040 and accompanying schedules to whole dollars. To do this, you should round to the nearest dollar by dropping amounts of less than 50 cents and increasing amounts of 50 cents or more to the next higher dollar.

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## Should I file an amended return?

You should file Form IL-1040-X, Amended Individual Income Tax Return if

- you discover that an error was made on your Illinois return after it has been filed,
- your federal return has been adjusted by the Internal Revenue Service, or
- you filed a federal 1040X.

If you are amending your return before the automatic extended due date, send it to us promptly. Any correction made may cause a recalculation of penalties and interest.

If you are amending your return after the automatic extended due date, refer to Form IL-1040-X for further instructions.

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# Step-by-Step Instructions

## Name and Address

If your Illinois Income Tax booklet contains a preaddressed label, you will find it on the flap of the enclosed envelope. Remove your label and place it in the correct area on the form. If any of the information on the label is incorrect, cross through it, and write the correct information directly on the label. If you did not receive a preaddressed label, type or print the requested information in the spaces provided.

**Name** – Print the full name of each person filing the return. If you are married and filing a joint return, write both names as they appear on your federal return. If you are married and filing a separate return, print your full name (do not print your spouse's name).

**Address** – Print your complete, permanent mailing address. If you move after you file, send a letter to one of our offices informing us of your new address. Include your Social Security number (and your spouse's number, if filing jointly), as well as both your old and new addresses.


**Social Security number** – Be sure your Social Security number is listed on your return. You must list your spouse's Social Security number regardless of your filing status. If filing jointly, list your Social Security numbers in the order they appear on your federal return, and be sure to include both Social Security numbers on all checks and correspondence.

Your number and pertinent tax information may be provided to other state agencies for the purpose of verifying sources and amounts of income as authorized by the Illinois Income Tax Act.

### How do I file a decedent's return?

Whether or not you are using a preaddressed label and you are filing a joint return as a surviving spouse, cross through the decedent's name, and write "deceased" and the date of death above the decedent's name. After completing your return, sign your name in the area provided for your signature and write "filing as surviving spouse" in place of the decedent's signature. If you, as the surviving spouse, are due a refund, the refund will be issued directly to you.

Whether or not you are using a preaddressed label and you are filing the return for a single deceased taxpayer or a joint return for which both taxpayers are deceased, write "deceased" and the date of death directly above the decedent's name.

 **Note** Be sure to make changes to the address on the return for future correspondence.

The return must be signed and dated by a personal representative, such as an executor, administrator, or anyone who is in charge of the decedent's property. The representative's title and telephone number should also be provided. If a refund is due, attach Form IL-1310, Statement of Person Claiming Refund Due a Deceased Taxpayer.

## Exemption Table

### Line a

#### If you filed

#### Your number of exemptions is found

#### U.S. 1040 or U.S. 1040A

in Box 6d on your federal return. If on your federal return, you did not check Box 6a or Box 6b (if married filing joint), refer to Line b instructions below.

#### U.S. 1040EZ

by referring to Line 5 on your federal 1040EZ.

- If you checked the “**Yes**” box on Line 5 and you are single or married filing jointly (both can be claimed as dependents), write “**0**.” If you are married filing jointly and only one of you can be claimed as a dependent, write “**1**.” Before continuing, refer to Line b instructions below.
- If you checked the “**No**” box on Line 5 and you are single, write “**1**.” If you are married filing jointly, write “**2**.” Go to Line c instructions below.

#### U.S. TeleFile

by referring to Line B on your federal TeleFile Worksheet.

- If you checked one or both of the “**Yes**” boxes on Line B and you are single or married filing jointly (both can be claimed as dependents), write “**0**.” If you are married filing jointly and checked only one of the “**Yes**” boxes, write “**1**.” Before continuing, refer to Line b instructions below.
- If you checked the “**No**” box and you are single, write “**1**.” If you are married filing jointly and checked both “**No**” boxes, write “**2**.” Go to Line c instructions below.

### Line b

If you are single or married filing jointly and claimed as a dependent(s) on another person’s return, complete Lines 1 through 11 of your Form IL-1040 before you go any further. The amount on Line 11 is your Illinois base income. If Line 11 is greater than \$1,000, write “**0**.” If Line 11 is \$1,000 or less, write on Line b “**1**” if you are single or “**2**” if you are married filing jointly. Go to Line c instructions below.



If you are a nonresident or part-year resident, your Illinois base income is on Schedule NR, Nonresident and Part-Year Resident Computation of Illinois Tax, Part I, Line 1.

## Exemptions

### Residents, part-year residents, and nonresidents:

- a** Write the number of exemptions you claimed on your federal return. Refer to the Exemption Table above to help you determine your number of exemptions.
- If you did not file a federal return, write the number of exemptions you would have claimed if you had filed a federal return.
- b** If you (or your spouse, if filing jointly) are claimed as a dependent on your parent’s or another person’s return, refer to the Exemption Table above to help you determine the number of exemptions to write on this line.

**Residents:** If the amount on Line 11, Illinois base income, is less than or equal to the number of exemptions you are entitled to multiplied by \$1,000, you do not have to file this return unless you have filed a federal return or you want a refund of any Illinois tax withheld.

**Nonresidents or part-year residents:** If your Illinois base income, Schedule NR, Part I, Line 1, is less than or equal to Schedule NR, Part I, Line 5, you do not have to file this return unless you have filed a federal return or you want a refund of any Illinois tax withheld.

- c** Check the boxes that apply to you even if you are claimed on your parent’s or another person’s return and wrote “0” on Line a or b. If you are filing a joint return, check the boxes that apply to your spouse. Write the total number of boxes that you checked on Line c.
- d** Add Lines a, b, and c, and write the total on Line d.

## Compensation Earned in Indiana and Wisconsin

### ? What if, while an Illinois resident during 1997, I earned compensation in Indiana or Wisconsin?

- e** If, while an Illinois resident, you (or your spouse, if filing jointly) worked in Indiana or Wisconsin during 1997 and earned compensation from these states, check the appropriate box. Write the amount of compensation you (or your spouse, if filing jointly) earned while working in these states. Your compensation includes salaries, wages, tips, or other employee earnings you received from employers in these states. Do not write any amount of income you received in these states from any other source.

## Filing Status

Check the same filing status that you checked on your federal return. If you did not file a federal return, check the filing status you would have checked if you had filed a federal return. If you are filing “married filing separately,” be sure to write your spouse’s Social Security number in the space provided. However, do not write your spouse’s name.



If you are filing a joint federal return and one spouse is an Illinois resident while the other is a part-year resident or a nonresident (e.g., military personnel), you may choose to file “married filing separately.” In this case, each spouse must determine income and exemptions as if he or she had filed separate federal returns. You **may not** subtract your spouse’s out-of-state income on your Form IL-1040.

If you choose to file a joint return, this election is irrevocable for the tax year. Both spouses will be treated as residents, and all income will be allocated to Illinois. You may be allowed a credit for income tax paid to another state on Schedule CR, Credit for Tax Paid to Other States.

## Farmers

Check the box in the barn if at least two-thirds of your total federal gross income came from farming. Total federal gross income includes your spouse's income if your filing status is "married filing jointly."

### ? What is federal gross income from farming?

"Federal gross income from farming" is the amount of income you received from your participation in the production of crops, fruits, fish, livestock (used for draft, breeding, or dairy purposes), or other agricultural products. This includes the income from the operation of a stock, dairy, poultry, fruit, or truck farm, plantation, ranch, nursery, range, or orchard – regardless of whether the operation is organized as a sole proprietorship, partnership, S corporation, or trust. "Federal gross income from farming" also includes a share of crops produced in exchange for the use of the land.

"Federal gross income from farming" does not include payments from the sale of farm land and farm equipment, nor does it include income received by a custom grain harvester who performs grain harvesting and hauling services on farms he or she does not own, rent, or lease. It also does not include the wages of a farm employee or cash rent.

## Income

### Line 1 - Adjusted gross income

Write the amount shown as adjusted gross income (not federal taxable income) from your U.S. 1040, Line 32; U.S. 1040A, Line 16; U.S. 1040EZ, Line 4; or your federal TeleFile Worksheet, Line H. If you are not required to file a federal income tax return, you can use the U.S. 1040 as a worksheet to determine your adjusted gross income.

### Line 2 - Federally tax-exempt interest income

Write the amount of federally tax-exempt interest and dividends paid or accrued to you. This amount is written on Line 8b of your U.S. 1040 or U.S. 1040A and is not included in your adjusted gross income (the amount you have written on Form IL-1040, Line 1). This includes interest and dividends paid or accrued to you on state, municipal, or any other obligations.

If you received a distributive share of income that included federally tax-exempt interest or dividends from a partnership, an S corporation, an estate, or a trust, see the instructions for Line 3.

### Line 3 - Other additions

Identify each of the following items in the space provided, and write the total amount of income from the following sources:

- If you elected to report your child's interest and dividend income on U.S. Form 8814, Parents' Election To Report Child's Interest and Dividends, you are required to include any federally tax-exempt interest that you reported on this form.
- Include property tax that was refunded to you by your local government. Include this amount only if you claimed these taxes as a subtraction on Form IL-1040 for tax years ending prior to December 31, 1991.
- Include Illinois Income Tax deducted from business, farm, or rental schedules on your federal return. (Do not include any Illinois Income Tax deducted as an itemized deduction on your U.S. 1040, Schedule A, Itemized Deductions.)
- Include your distributive share of the additions received from a partnership, an S corporation, an estate, or a trust.



The partnership, S corporation, estate, or trust is required to notify you of your share of this type of income. An Illinois entity notifies you by sending a copy of its tax return or other notification specifically identifying the income.

- Include withdrawals made and interest earned from your Medical Care Savings Account that are not included in your adjusted gross income. Include only if your withdrawals were for purposes other than those allowed under the Medical Care Savings Account Act.

### Line 4 - Total income

Add Lines 1, 2, and 3, and write the total on Line 4.

## Subtractions

### Line 5 - Federally taxed retirement and Social Security income

Write the amount of any federally taxed portion (not the gross amount) you received from

- a qualified employee benefit plan (if you do not know whether your employee benefit plan is "qualified," as defined in Sections 402 through 408 or 457 [only state and local government deferred compensation plans] of the Internal Revenue Code, check with your employer);
- an Individual Retirement Account (IRA) or a self-employed retirement (H. R. 10/Keogh) plan;
- the redemption of U.S. retirement bonds;
- a government retirement or disability plan, including military plans;
- railroad retirement income;
- retirement payments to retired partners;
- a lump-sum distribution of appreciated employer securities; and
- the federally taxed portion of Social Security benefits (not Social Security withheld from wages).

You may include early distributions from qualified plans and IRAs.

Do not include any ordinary income from a qualified retirement plan for which you have elected to use the "Special 10-Year Averaging Method" or "Special 5-Year Averaging Method" on U.S. Form 4972, Tax on Lump-Sum Distributions.

### ? Which forms must I attach to my return to show that my benefit or retirement income is subtractable?

Attach a copy of your

- U.S. 1040 or 1040A, Page 1, for pension and annuity, redemption of U.S. retirement bonds, disability income, Social Security, railroad retirement, IRA distribution, and retirement payment to retired partners.
- U.S. 1040 or 1040A, Page 1, and Form W-2 showing the amount of deferred compensation paid under the Internal Revenue Code, Section 457.
- U.S. 1040, Page 1, and U.S. 1040, Schedule D, Capital Gains and Losses, (capital gains portion), if filed, for lump-sum distributions (cash or property such as employer securities, retirement income, endowment or life insurance contracts, etc.). Be sure to include both ordinary income and capital gains income included on U.S. 1040, Page 1.
- U.S. 1040, Schedule D, Capital Gains and Losses, and Form IL-4644, Gains from Sales of Employer's Securities Received from a Qualified Employee Benefit Plan, for a gain on the sale or exchange of employer securities.

## Line 6 - Military pay earned while a resident

Write the amount of military pay that you received while an Illinois resident for active duty in the U.S. Armed Forces or for annual training in the Illinois National Guard. Attach your military Form W-2.

**Note** If you were a part-year resident, you may not subtract the amount of military pay earned while you were a nonresident. If you are a nonresident, you may not take a subtraction on this line. You may exclude military income you received while you were not an Illinois resident on Schedule NR, Nonresident and Part-Year Resident Computation of Illinois Tax.

### ? Which types of military pay may I subtract?

You may subtract pay for

- full-time duty in the U.S. Armed Forces, including basic training;
- full-time duty for serving in the U.S. Armed Forces Reserves or a National Guard unit, including ROTC;
- service in the U.S. Armed Forces Reserves in a time of national emergency;
- federal service in a National Guard unit during civil disturbances or national emergency;
- time spent in annual summer camp training as a member of the U.S. Armed Forces Reserves or the Illinois National Guard, including ROTC; and
- full-time duty as a cadet at the U.S. Military, Air Force, and Coast Guard academies, or as a midshipman at the U.S. Naval Academy.

### ? Which types of military pay are not subtractable?

You may not subtract military income that you already excluded from your adjusted gross income, Line 1. For example, you may not subtract certain combat pay that is not included in your adjusted gross income. Also, you may **not** subtract pay for time spent at weekly or monthly training meetings of a U.S. Armed Forces Reserves or National Guard unit or pay for duty as an officer in the Public Health Service.

For more information, refer to our Publication 102, Illinois Filing Requirements for Military Personnel.

## Line 7 - Federally taxed Illinois Income Tax refund

Write only the amount of Illinois Income Tax refund included in your adjusted gross income, Line 1. This amount should have been included as income on your 1997 U.S. 1040, Line 10. You are allowed this subtraction only if it is for an amount you deducted in an earlier year on your U.S. 1040, Schedule A, Itemized Deductions.

**Note** If you filed U.S. 1040A, U.S. 1040EZ, or TeleFiled your federal return, you may not take this subtraction.

## Line 8 - U.S. government obligations

Write the total of

- the federally taxed interest you received from U.S. treasury bonds, notes, bills, and savings bonds. This does not include the bond premium amortization deducted federally. If this amount is greater than \$400, attach a copy of U.S. 1040, Schedule B, Interest and Dividend Income, or a copy of your U.S. 1040A, Schedule 1, Interest and Dividend Income for Form 1040A Filers. You must identify, on your U.S. Schedule B or Schedule 1, each specific type of obligation to which this interest relates.

**Savings bond interest written on your U.S. 1040, Schedule B, Part I, Line 3, or U.S. 1040A, Schedule 1, Part I,**

**Line 3, is not allowed as a subtraction. This amount is not included in your adjusted gross income (Form IL-1040, Line 1).**

- the federally taxed distribution you received from mutual funds investing exclusively in U.S. government obligations. If the mutual fund invests in both exempt and nonexempt federal obligations, the deduction allowed will be the distribution received from the mutual fund attributable to the U.S. government obligations, as determined by the mutual fund. If this percentage amount is not provided by the mutual fund, multiply the total distribution by a fraction. The numerator is the amount invested by the fund in state-exempt U.S. government obligations, and the denominator is the fund's total investment. Attach a copy of U.S. 1040, Schedule B, or U.S. 1040A, Schedule 1, and a **copy of the statement received from the mutual fund**, along with any worksheets showing the calculations as outlined above.

**Note** If you received a distributive share of a subtraction that included U.S. government obligations from a partnership, an S corporation, an estate, or a trust, use Line 9. Refer to the instructions for Line 9.

For further information concerning the U.S. government obligations that are exempt from or subject to Illinois Income Tax, refer to our Publication 101, Income Exempt from Tax.

## Line 9 - Other subtractions

Identify each of the following subtractions in the space provided. You may not list anything that is not identified below or in our Publication 101. Write the total of

- any of your child's income that you reported on your U.S. Form 8814, Parents' Election To Report Child's Interest and Dividends, that is allowed as a subtraction on Lines 8 and 9. You may claim this amount only if your child's income is included on your Form IL-1040, Lines 1 or 3. Identify this subtraction as "U.S. 8814."
- **your distributive share** of the subtractions from a partnership, an S corporation, an estate, or a trust. Attach a copy of the notification (which includes the FEIN) furnished to you that **specifically details** the amount of the subtraction being claimed as your distributive share.

If your distributive share is from a grantor trust, attach a detailed statement that identifies the grantor trust.

**Note** The partnership, S corporation, estate, or trust is required to notify you of your share of these subtractions, if any. You may write the amount of such a subtraction only if you are notified. An Illinois entity must notify you by sending you a copy of its tax return or other notification specifically identifying each item of income.

- the amount of your **August 1, 1969, valuation limitation** from Schedule F, Gains from Sales or Exchanges of Property Acquired Before August 1, 1969, Line 17. Be sure to attach Schedule F and copies of required federal forms.
- **enterprise zone dividends** that you received from a corporation that conducts substantially all of its business operations in an enterprise zone designated by the state of Illinois, and the amount of dividends received from a corporation that conducts business operations in a federally designated **foreign trade zone or subzone** located in Illinois and that is designated by the Illinois Department of Commerce and Community Affairs as a "High-Impact Business." Write the amount from Schedule 1299-C, Income Tax Subtraction and Credits, Section II, Part I, Line 4, and attach Schedule 1299-C to your return.
- **interest on obligations of state and local governments included in Line 2.** Be specific in identifying your obligations. Income from state and local governments is **not exempt** from Illinois Income Tax except where legislation has been specifi-

cally adopted to provide for an exemption. This amount is net of any bond premium amortization deducted federally. Following is a list of securities that are exempt. However, income from these obligations is **not exempt** if you own them indirectly through owning shares in a mutual fund.

- Illinois Housing Development Authority bonds and notes (except housing-related commercial facilities bonds and notes)
- Export Development Act bonds
- Illinois Development Finance Authority bonds, notes, and other evidence of obligation (only venture fund and infrastructure bonds)
- Quad Cities Regional Economic Development Authority bonds and notes, if the authority exempts them from taxation
- College Savings bonds
- Illinois Sports Facilities Authority bonds
- Higher Education Student Assistance Law bonds
- Illinois Development Finance Authority bonds issued pursuant to Sections 7.80 through 7.87 of the Illinois Development Finance Authority Act
- Rural Bond Bank Act bonds and notes
- Illinois Development Finance Authority bonds issued under the Asbestos Abatement Finance Act
- Quad Cities Interstate Metropolitan Authority bonds
- Southwestern Illinois Development Authority bonds

For more information, refer to our Publication 101, Income Exempt from Tax.

- a **recovery** of items (including refunds of any state and local income taxes, other than Illinois) that you previously deducted on your U.S. 1040, Schedule A, Itemized Deductions, in a prior year. You must have included these items on your 1997 U.S. 1040, Page 1, and your 1997 Form IL-1040, Line 1. Attach to Form IL-1040 a copy of your 1997 U.S. 1040, any schedule or attachment to your 1997 U.S. 1040 showing the nature and source of such amounts, and a copy of your prior-year U.S. Schedule A in which you took such a deduction.
- **expenses for federally tax-exempt investments**, such as state or municipal bonds that you reported on Line 2. You may deduct expenses relating to those items that were disallowed as federal deductions because the income was exempt from federal tax under the Internal Revenue Code, Sections 171(a)(2), 265(1), or 265(2).
- **ridesharing money** and other benefits (other than salary) received by a driver in a ridesharing arrangement using a motor vehicle if these amounts are included in Line 1.
- an amount equal to the deduction used to compute the federal tax credit for restoration of amounts held under **claim of right**, under the Internal Revenue Code, Section 1341.
- contributions you made to a TIF **job training project**. Refer to Informational Bulletin FY 90-40.
- **payment of life, endowment, or annuity benefits** received before the time they would have been paid as an indemnity for a terminal illness. This amount must have been included in Line 1.
- **your employer's contributions** made on your behalf to an account established under the Medical Care Savings Account Act and the **interest earned** on this account. These amounts must have been included in Line 1.
- **premiums paid for health insurance and long-term care insurance** if you are self-employed, a partner in a partnership, or a shareholder in an S corporation, and the premiums are for yourself, your spouse, or your dependents. These premiums must qualify as a deduction under the Internal Revenue Code, Section 213. This deduction is limited to premiums not already deducted on your U.S. Form 1040 including U.S.

1040, Schedule A, and may not exceed your taxable income attributable to your self-employment, partnership, or S corporation income.

You may **not** claim this deduction if you are eligible for benefits from your employer's or your spouse's employer's health insurance plan. For more information, refer to Informational Bulletin FY 96-23.

- **any other income** included in Line 1 that is exempt from Illinois taxation by reason of the Constitution of Illinois or the Constitution, treaties, or statutes of the United States. This amount is net of any bond premium amortization deducted federally. Examples are listed in our Publication 101, Income Exempt from Tax.

### **? May I subtract my out-of-state income?**

No, you may not subtract your out-of-state income. However, if you are filing as a resident, you may take a credit against your Illinois tax for income tax you paid to another state. See the instructions for Line 19 and Schedule CR, Credit for Tax Paid to Other States.

If you are filing as a nonresident, you may exclude your out-of-state income when you compute your Illinois income on Schedule NR, Nonresident and Part-Year Resident Computation of Illinois Tax. If you are a part-year resident, you should file Schedule NR, and you also may be able to file Schedule CR if the same income is being taxed by the other state.

### **Line 10 - Total subtractions**

Add Lines 5 through 9, and write the total on Line 10.

### **Line 11 - Base income**

Subtract Line 10 from Line 4, and write the result on Line 11. If Line 10 is blank, write the amount from Line 4.

## **Residency and Net Income**

**Nonresidents and part-year residents:** Check the appropriate box to indicate whether you were a nonresident or a part-year resident. Write the amount from Schedule NR, Part I, Line 1, on the line provided, and skip to Line 14. Be sure to attach Schedule NR to your return.

### **Line 12 - Exemption calculation**

**Residents:** Write the total number of exemptions from Line d at the top of your return on the line provided to the left of Line 12. Multiply that number by \$1,000, and write the result on Line 12.

**Nonresidents and part-year residents:** Leave Lines 12 and 13 blank. Compute the exemption allowed by Illinois on Schedule NR, and attach the schedule to your Form IL-1040.

### **Line 13 - Net income**

**Residents:** Subtract Line 12 from Line 11, and write the result on Line 13. If Line 12 is greater than Line 11, write "0."

**Nonresidents and part-year residents:** Leave this line blank.

## **Tax and Contributions**

### **Line 14 - Tax**

**Residents:** Multiply Line 13 by 3 percent (.03).

Example – If Line 13 is \$24,380, calculate the tax as follows:

$$\text{\$24,380} \times .03 = \text{\$731}$$



**Nonresidents and part-year residents:** Write the amount from Schedule NR, Part I, Line 7. Attach Schedule NR to your Form IL-1040.

**Note** If you completed Illinois Schedule 4255, Recapture of Investment Tax Credits, you also must complete the Schedule 4255 Recapture Worksheet found on the back of Form IL-1040. Write the amount from Line 4 of this worksheet on Line 14. Attach Schedule 4255 to your Form IL-1040.

### Line 15 - Voluntary contributions

You may contribute to one or more of the following state funds. Contributions to the funds may be in any amount (\$1.00 or more) and will decrease your overpayment or increase your balance due. Write the amount you wish to contribute on Lines 15a through 15h. Your contributions to these funds cannot be changed on an amended return.

- a Wildlife Preservation Fund** – Your contribution can mean the difference between survival and extinction for hundreds of plant and animal species. Recovery efforts have saved the peregrine falcon and the majestic bald eagle. We need to do more, and your donation can help.
- b Child Abuse Prevention Fund** – More than 100,000 children will be reported this year as victims of abuse or neglect. Your contribution will support programs designed to help young families parent well and prevent abuse of their children.
- c Alzheimer’s Disease Research Fund** – More than 150,000 Illinois residents suffer from Alzheimer’s disease. Grants from this fund will help support important research to find a cure for this devastating disease.
- d Assistance to the Homeless Fund** – Homeless people rely on shelters and agencies to provide assistance. Your contribution will give additional funds to not-for-profit organizations that serve homeless persons so they may have a roof over their heads and food to eat.
- e Breast and Cervical Cancer Research Fund** – Breast and cervical cancers account for almost 40 percent of all cancers diagnosed annually in the state. Contributions to this fund will help to support research for prevention, early detection, and treatment of these cancers. Through early detection and treatment, breast and cervical cancer deaths can be reduced by one-third.
- f Mental Health Research Fund** – One in four families in the United States is expected to have a member with a mental illness, and about 110,000 people in Illinois currently have a severe mental illness. Since fewer research dollars are spent on mental illness than many other diseases or disabilities, your donation to this fund is very important.
- g Children’s Cancer Fund** – Grants from this fund will enable public or private entities in Illinois, including the Mitchell Ross Children’s Cancer Fund and the Cancer Wellness Center, to research the causes, prevention, and treatment of cancer in children. This fund also provides services and programs for these youngsters and their families.
- h American Diabetes Association Fund** – Diabetes strikes 1 in 17 Americans and is a leading cause of blindness, kidney disease, amputations, heart disease and strokes. The American Diabetes Association hopes you will donate to its efforts to fund vital research to prevent and cure diabetes.

Add Lines 15a through 15h, and write the total on Line 15.

### Line 16 - Total tax and contributions

Add Lines 14 and 15, and write the total on Line 16.

## Payments and Credits

### Line 17 - Illinois Income Tax withheld

Write the total Illinois Income Tax withheld in 1997 as shown on your W-2, Wage and Tax Statement, forms and attach the Illinois copy from each employer to your Form IL-1040. This amount is generally found on your W-2 forms in Box 18, state income tax.

### Line 18 - Estimated tax payments

Write the total of any payments you made with Form IL-1040-ES, Estimated Income Tax Payments for Individuals; Form IL-505-I, Automatic Extension Payment for Individuals Filing Form IL-1040; and any 1996 overpayment that was credited against your 1997 tax.

### Line 19 - Credit for income tax paid to other states

This credit is for Illinois residents and part-year residents only.

Complete Schedule CR, Credit for Tax Paid to Other States, and write the amount from Schedule CR, Line 8. Attach Schedule CR and any required out-of-state tax returns or other documents to your Form IL-1040. See the instructions for Schedule CR.

### Line 20 - Credit for Illinois Property Tax paid

Read the Illinois Property Tax Table on Page 10 to determine if you qualify for a credit for your property tax paid.

If you qualify for a property tax credit, you must complete the Homeowner’s Property Tax Credit Worksheet on the back of Form IL-1040 to determine your credit amount. This worksheet must be filed with your return. Be sure to keep proof of your property tax paid with your income tax records.

### Line 21 - Tax credits from Schedule 1299-C

Write the amount from Schedule 1299-C, Income Tax Subtraction and Credits for Individuals, Section II, Part VIII, Line 41, and attach the schedule to your Form IL-1040. Schedule 1299-C allows you to reduce your tax by taking the following credits:

- “TECH-PREP” Youth Vocational Programs Credit
- Dependent Care Assistance Program Tax Credit
- High Impact Business Investment Credit
- Jobs Tax Credit
- Enterprise Zone Investment Credit
- Training Expense Credit
- Research and Development Credit
- Environmental Remediation Tax Credit

The Environmental Remediation Tax Credit is new this year and is available for tax years ending on or after January 1, 1998. For additional information concerning this new credit and other credits mentioned above, request Schedule 1299-C and refer to this schedule’s instructions.

### Line 22 - Total payments and credits

Add Lines 17 through 21 and write the total on Line 22. The total of Lines 19, 20, and 21 cannot exceed the amount of tax on Line 14.

## Amount of Your Refund

### Line 23 - Overpayment

If Line 22 is greater than Line 16, subtract Line 16 from Line 22. This is the amount of your overpayment. We will not refund or credit any amount less than \$1.

## Line 24 - Amount of overpayment to be applied to your 1998 estimated tax

Write the amount of your 1997 overpayment that you wish to apply to your 1998 Illinois estimated tax. If for any reason this amount is reduced, you may owe a late-payment penalty for underpayment of estimated tax for the following year.

## Line 25 - Amount of refund

Subtract Line 24 from Line 23, and write the result on Line 25. This is the amount of your refund.

**Note** We will reduce any refund, contribution, or credit to your 1998 estimated tax by the amount of any outstanding income tax, penalties, and interest you may owe.

## Amount You Owe

## Line 26 - Amount of income tax and contributions

If Line 16 is greater than Line 22, subtract Line 22 from Line 16. This is the amount of tax and contributions you owe.

**Note** If you owe more than \$250 (Line 14 minus the total of Lines 17, 19, 20, and 21) when you file, you may be subject to a late-payment penalty for underpayment of estimated tax. Refer to General Information or Form IL-2210, Computation of Penalties for Individuals, for more details.

If you find you are subject to the late-payment penalty due to underpaying your estimated tax, you may want your employer to increase the amount of Illinois Income Tax withheld from your pay. If your income is not subject to withholding or you do not want to increase the amount withheld from your pay, you should make timely estimated tax payments with Form IL-1040-ES, Estimated Income Tax Payments for Individuals. For more information on making estimated tax payments, refer to the instructions for Form IL-1040-ES.

## Line 27 - Late-payment penalty for underpayment of estimated tax

If you have completed Form IL-2210 to determine your late-payment penalty for underpayment of estimated tax, write the amount you calculated on this line. If you prefer, we will calculate your penalty and bill you later.

If you annualized your income on Form IL-2210, Step 5, check the box to the left of Line 27 on your Form IL-1040, and attach this form to your Form IL-1040.

## Line 28 - Total amount due

Add Lines 26 and 27, and write the total on Line 28. This is the total amount you owe. Attach your payment for the full amount when you file. Make the check or money order payable to the "Illinois Department of Revenue" (not IRS), and write your Social Security number(s) in the lower left corner of your payment. Please do not send cash. If Line 28 is less than \$1.00, you do not have to pay. Payments made by taxpayers residing in foreign countries must be U.S. negotiable currency expressed in U.S. dollars and drawn on a U.S. bank.

Failure to file or pay the proper amount of tax when due will result in an additional charge of penalties and interest. If you owe any penalties or interest, we will send you a billing notice. However, if you prefer to calculate these amounts, see our Publication 103, Uniform Penalties and Interest, and include the penalty and interest amounts in Line 28. Please identify how much is penalty to the left of Line 28.

## Signature

Sign and date your return. If you are filing jointly, your spouse also must sign and date the return. If you are filing for a minor as a parent or guardian, you must sign and date the return.

If you fail to sign your return, it will not be considered filed and you may be subject to a nonfiler penalty. In addition, if you fail to sign your return and three years have passed since the extended due date of that return, any overpayment will be forfeited. If you paid someone to prepare your return, that individual also must provide a handwritten signature, date the return, and provide his or her telephone number and tax identification number. Staple all required copies of forms and schedules, powers of attorney, and letters of estate or office to the back of the return.

Write your daytime telephone number. If a problem arises in processing your return, it is very helpful for us to have a telephone number where you can be reached during office hours.

If a tax preparer completes your return and you do not wish to receive a tax booklet next year, check the box at the bottom of Form IL-1040.

## Illinois Property Tax Table

### Illinois Property Tax paid

You may calculate a credit for Illinois Property Tax paid if

- your principal residence during 1996 was in Illinois, **and**
- you owned your residence, **and**
- your tax bill included property used for your principal residence, yard, garage, or other structure used for personal purposes, **and**
- your property tax billed in 1997 has been paid.

### Mobile home property tax

You may calculate a credit for mobile home property tax if all the conditions above apply to you for 1996. However, you may **not** calculate a credit for mobile home privilege tax.

### Illinois property you purchased

You may calculate a credit for property you purchased during 1996, providing you calculate only that portion of your taxes that pertains to the time you owned and lived at the property during 1996. You may **not** take a credit on your 1997 return for property you purchased in 1997.

### Illinois property you sold

You may calculate a credit for property you sold in 1997 by combining all of the 1996 property tax paid in 1997, as well as a portion of the 1997 tax based on the time you owned and lived at the property during 1997. You may **not** take a credit on your 1997 return for property sold during 1996.

### Business, rental, or farm property

You may calculate a credit on only that portion of your tax bill that is **not** deductible as a business expense.



# Good news for those who employ household employees

Beginning January 1, 1998, if you are an employer of household employees, you will have the opportunity for an easier method for filing and paying the Illinois Income Tax that you withhold from your household employees' wages. If you choose the new, easier method, you have to file and pay this tax only once a year on one form. Otherwise, you may choose to file and pay throughout the year using Forms IL-501, IL-941, and IL-W-3. The following questions and answers will help you determine whether you may use the new, easier method.

## Am I an employer of household employees?

If you check "Yes" to both questions below, you are an employer of household employees.

- |  | Yes                      | No                       |
|--|--------------------------|--------------------------|
| ● Do you employ at least one person who does household work in or around your home?<br>(e.g., babysitter, caretaker, cleaning person, driver, health aide, housekeeper, nanny, private nurse, yard worker) | <input type="checkbox"/> | <input type="checkbox"/> |
| ● Can you control not only the work that is done, but how it is done?<br>(e.g., you provide the necessary equipment and supplies)  | <input type="checkbox"/> | <input type="checkbox"/> |

## What is a household employee?

A household employee can be a full-time or part-time employee who is paid hourly, daily, weekly, by the job, etc. We define household employees the same as the Internal Revenue Service (IRS) defines "domestic service employees." Refer to the Internal Revenue Code, Section 3510. The following examples will help you define household employees:

**Example 1:** Sally Samson babysits your children and also does light housework four days a week in your home. Sally follows your specific instructions about household and child care duties. You provide the household equipment and supplies that Sally needs to do her job. Sally is your household employee.

**Example 2:** Tom Thomson cares for your landscaping. He also offers landscaping services to others in the neighborhood. Tom provides his own tools and supplies and hires and pays helpers. Neither Tom nor his helpers are your household employees.

**Note:** Generally, a household employee is not your occasional babysitter, your spouse, your child under the age of 21, your parent, or an employee under the age of 18.

## If I am an employer of household employees, should I withhold Illinois Income Tax from their wages?

You should withhold Illinois Income Tax only if you withhold federal income tax or your household employee asks you to withhold it and you agree. If you withhold Illinois Income Tax, you must have your employee complete Form IL-W-4, Employee's Withholding Allowance Certificate, and keep it in your records.

## If I withhold Illinois Income Tax from my household employees' wages, what do I need to do?

If you withhold Illinois Income Tax, you must file and pay the tax to us. If you choose the new, easier method, you may file and pay us by April 15. For example, any Illinois Income Tax that you withhold for your household employees during 1998 must be paid by April 15, 1999. Otherwise, based on the amount you withhold, you must file and pay using Forms IL-501, IL-941, and IL-W-3, following the instructions in your Booklet IL-700.

## How do I get the forms I need?

If you wish to withhold income tax from your household employees' wages and pay the tax withheld only once a year, you should complete Form NUC-1-H, Request for Household Employer's Information. You can find this form on Page 16. Please mail it to the address shown on the form. This form will allow us to properly identify you as filing and paying on an annual basis. Once we receive the NUC-1-H, we will send you a Booklet IL-700-H, which contains the necessary withholding information, forms, and tax tables.

**Illinois Department of Revenue**  
**NUC-1-H Request for Household Employer's Information**

Do not attach to Form IL-1040

**Read this information first**

Complete this request if you wish to withhold Illinois Income Tax from your household employees' compensation and pay the tax withheld only once a year on April 15. When we receive your completed form, we will send you a Booklet IL-700-H that contains the necessary withholding information, forms, and tax tables.

**Step 1: Provide the following information**

1 \_\_\_\_\_  
Household employer's first name and middle initial Household employer's last name

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Mailing address \_\_\_\_\_

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City State ZIP

2 \_\_\_\_\_  
Household employer's Social Security number Household employer's federal employer identification number (if available)

3 Do you currently file or pay Illinois Income Tax using Form IL-501, IL-941, or IL-W-3?  Yes  No

4 If you answered "Yes" to Question 3, do you employ any other non-household employees?  Yes  No

**Note:** If you receive your preprinted Illinois Withholding Income Tax Forms for Tax Year 1998 (Forms IL-501, IL-941, and IL-W-3), do not use these forms to pay the income tax withheld from your household employees if you choose to use this new method. However, you must continue to use these forms for any other types of employees you may employ.

**Step 2: Sign below**

Under penalties of perjury, I state that to the best of my knowledge, this form is true, correct, and complete.

\_\_\_\_\_  
Household employer's signature

( ) \_\_\_\_\_  
Daytime telephone number

\_\_\_\_\_  
Date

**Step 3: Complete your return label and send us your request**

Write your name and address (including ZIP code) in the space provided below. Please print clearly, this will be your return mailing label.

\_\_\_\_\_  
Name

\_\_\_\_\_  
Address

\_\_\_\_\_  
City State ZIP



Mail to:

**ILLINOIS DEPARTMENT OF REVENUE  
PO BOX 19010  
SPRINGFIELD IL 62794-9010**



Please do not use the envelope we provided for your 1997 Form IL-1040 to mail your NUC-1-H. We ask that you use a separate envelope. This will allow us to properly process your information.