

Illinois Department of Revenue
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INFORMATIONAL BULLETIN FY86-50

TO: Tax Practitioners

SUBJECT: 84th General Assembly Illinois Income Tax Act Amendments

The purpose of this bulletin is to inform you, in summary fashion, of some of the recent and soon-to-be-effective changes in the Illinois income tax law. You may already have received detailed bulletins regarding some of these issues.

COMBINED RETURNS

Public Act 84-221 (Senate Bill 833) Combined Returns.

For taxable years ending on or after December 31, 1985, corporate members (other than Subchapter S corporations) of a unitary business group may elect to be treated as one taxpayer and file a single return (Illinois Income Tax Act Section 502(f)). The combined liability is to be determined on the basis of the "group's tax liability." As originally enacted in P.A. 83-1289, the combined liability of corporations making the election would have been "the sum of what would otherwise be their separate liabilities."

The Department, pursuant to its authority under IITA Section 1401(b), has proposed combined-return regulations and has revised Schedule UB to include instructions for combined-return filers. See Informational Bulletin FY86-42 and Schedule UB.

ESTIMATED TAXES

Public Act 84-127 (Senate Bill 893) Thresholds.

A declaration of estimated tax is no longer required to be filed by taxpayers who make estimated tax payments. The threshold amount above which taxpayers are required to make estimated payments has been increased from \$50.00 to \$250.00 (Illinois Income Tax Act Section 803).

INVESTMENT TAX CREDITS

Public Act 84-769 (Senate Bill 319) High Impact Business Investment Credit

Effective January 1, 1986, a business which has been designated by the Department of Commerce and Community Affairs as a High Impact Business may take an investment credit of .5% of the basis of qualified property that is placed in service in a federally designated Foreign Trade Zone (Illinois Income Tax Act Section 201(j)).

Public Act 84-166 (Senate Bill 665) Enterprise Zone Investment Credit

Effective August 16, 1985, Illinois Income Tax Act Section 201(h)(1) has been amended to allow a pass-through of the enterprise zone investment credit to partners of partnerships and shareholders of Subchapter S corporations (P.A. 84-940 also provides for this pass-through). For tax

years which end on or after December 31, 1985, any unused enterprise zone investment credit may be carried forward for five taxable years following the excess credit year.

Public Act 84-166 (Senate Bill 665) Jobs Tax Credit

Illinois Income Tax Act Section 201(i) is amended to provide a jobs tax credit against the income tax imposed under Section 201(a) and (b) to taxpayers conducting a trade or business in an enterprise zone. The credit

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is \$500.00 per eligible employee hired on or after January 1, 1986, to work in an enterprise zone. Any excess credit may be carried forward for five taxable years following the excess credit year. Eligible employees must be employed 180 consecutive days in order to be deemed hired. The Department of Commerce and Community Affairs is responsible for certifying eligible employees.

Public Act 84-165 (Senate Bill 513) Replacement Tax Credit

For tax years ending on or after December 31, 1985, Illinois Income Tax Act Section 201(g)(1) permits any unused replacement tax investment credit to be carried forward for five taxable years for taxpayers who make investments by July 1, 1986, which cause the creation of 2,000 full-time jobs in Illinois. The Department of Commerce and Community Affairs (DCCA) is responsible for certifying compliance with the statutory requirements.

ILLINOIS NET OPERATING LOSS

Public Act 84-1042 (House Bill 257)

Effective for taxable years ending on or after December 31, 1986, an Illinois net operating loss will be available for corporations, trusts, and estates. The NOL can be carried back and forward and is applied against Illinois net income. Affiliated corporations are now allowed to carry backward as well as forward. The income tax subtraction modification for personal property tax replacement income tax has been converted into a credit, thereby creating a common base for both taxes and simplifying tax forms and computations. Illinois Income Tax Act Section 203 has been amended to provide for corporations,, trusts, and estates an additional modification for any net operating loss deduction that was taken to arrive at federal taxable income, other than a net operating loss carried forward from a taxable year ending prior to December 31, 1986.

PENALTIES

Public Act 84-127 (Senate Bill 893)

Effective for tax years ending after January 1, 1986, the penalties for failure to pay the tax shown on a return and for failure to pay the tax required to be shown on a return have been deleted from Illinois Income Tax Act Section 1001. They have been replaced by a 6% per year penalty imposed on any amount of tax that is required to be shown on a return and that is not paid on or before the due date of the return, unless the failure to pay is shown to be due to reasonable cause (Illinois Income Tax Act Section 1005).

REFUNDS

Public Act 84-1079 (Senate Bill 690)

Effective January 1, 1986, the Department of Revenue is required pursuant to Illinois Income Tax Act Section 511 to provide the State Comptroller with refund authorization within 120 days of the receipt of a return, unless the Department is contesting a taxpayer's right to the refund, and only as long as sufficient funds exist from which to pay the refunds.

Public Act 85-825 (House Bill 805) Withholding of Income Tax Refunds

Effective October 1, 1985, the Department of Public Aid may direct the State Comptroller to withhold the income tax refunds of individuals owing past due child support payments.

SUBTRACTION MODIFICATIONS

Public Act 84-604 (House Bill 1378) Financial Institution Interest Expense

Effective September 19, 1985, a subtraction is allowed pursuant to Illinois Income Tax Act Section 203(b)(2)(i) for amounts disallowed as interest expenses by Section 291(a)(3) of the Internal Revenue Code.

Therefore, the 20% interest expense deduction disallowed to financial institutions for debts incurred or continued in order to purchase or carry federally tax-exempt obligations acquired after 1982 will be deducted from taxable income for Illinois purposes.

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Public Act 84-769 (Senate Bill 319) High Impact Businesses Individuals, corporations, trusts, estates, and partnerships may take a subtraction for dividends paid by a High Impact Business that conducts business operations in a federally designated Foreign Trade Zone, provided that the dividends are not eligible for the subtraction for dividends received from a corporation conducting business operations in an enterprise zone.

Financial institutions which make loans secured by property qualifying for the High Impact Business investment credit may take a subtraction for the interest income received on those loans as long as the interest is not eligible for the subtraction for interest income received on loans secured by property qualifying for the enterprise zone investment credit (Illinois Income Tax Act Section 203(b)(2)(M-1)).

Public Act 84-997 (Senate Bill 209) Contributions to a Community Group

Illinois Income Tax Act Section 203 was amended to provide a subtraction for businesses making contributions (on or after January 1, 1986) of money or resources to community groups certified by the Department of Commerce and Community Affairs devoted to improving the quality of life in low and moderate income neighborhoods, and to assist local government programs for gang control.

Public Act 84-1090 (Senate Bill 1156) Contributions to Job Training Projects

Effective January 1, 1986, employers may subtract 25% of amounts that were paid or accrued for employees participating in educational or vocational training courses in semi-technical or technical fields or semi-skilled or skilled vocational fields. Individuals, corporations, estates, trusts, and partnerships may all take a subtraction for contributions to job training projects established under the Real Property Tax Increment Allocation Redevelopment Act. All references to the subtractions relating to the Prairie State 2000 Fund have been deleted from the Illinois Income Tax Act effective January 1, 1986.

WITHHOLDING

Public Act 84-341 (Senate Bill 404) Employer Withholding Returns Effective January 1, 1986, the threshold amounts for determining when withholding payments by employers are to be made to the Department of Revenue have been increased. Quarter-monthly (weekly) remittance is required if the aggregate amount withheld by the employer exceeds \$1,000.00 (rather than \$500.00). Monthly remittance is required for amounts between \$500.00 and \$1,000.00 and annual remittance is required if the aggregate amount withheld is less than \$500.00.

Public Act 84-127 (Senate Bill 893)

Payors required to deduct and withhold tax under Illinois Income Tax Act Sections 708, 709, and 710 are subject to the same reporting requirements regarding taxes withheld and the same monthly and quarter-monthly (weekly) payment requirements as an employer subject to the provisions of Section 701.

VOLUNTARY CONTRIBUTIONS

Public Act 84-261 (Senate Bill 1243), Public Act 84-324 (Senate Bill 62), and Public Act 84-651 (Senate Bill 1975) Check-Off Funds

With the creation of the Mental Health Education Fund (P.A. 84-261) and the Alzheimer's Disease Research Fund (P.A. 84-324), there are now six funds to which individual taxpayers may make voluntary contributions on their tax returns. Effective September 3, 1985, a fund will be dropped from the tax return if it fails to receive \$100,000.00 in contributions during the tax year. P.A. 84-651 changed the name of the Illinois Veterans Home to the Quincy Veterans Home.

MISCELLANEOUS

Public Act 84-127 (Senate Bill 893)

Effective January 1, 1986, the due date of an Illinois corporate return will be the federal due date if the federal date is later than the date provided in Illinois Income Tax Act Section 505(a)(1)-the 15th day of the third month following the close of the taxable year.

Illinois Income Tax Act Section 903 has been amended to provide that a notice of additional tax attributable to a math error must be issued by the Department of Revenue within three years of the date the return was filed.

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The period of time in which a notice of deficiency may be issued to a transferee has been extended from one to two years (Illinois Income Tax Act Section 905(m)(1)).

Illinois Income Tax Act Section 1405 has been amended to include bulk purchasers under Section 902(d) in the definition of "transferees."

Public Act 84-142 (Senate Bill 7) Confidentiality and Information Sharing

For Tax years ending on or after January 1, 1986, the Department of Revenue, pursuant to Illinois Income Tax Act Section 917(a), may release taxpayer information to the Illinois State Scholarship Commission for their use in an investigation audit of delinquent student loans or monetary awards.

Public Act 84-148 (Senate Bill 330) Amnesty Program Receipts Effective

August 12, 1985, one-twelfth of the money collected under the Amnesty Program pursuant to Illinois Income Tax Act Section 201(a) and (b) will be deposited in the Local Government Distributive Fund.

Public Act 84-221 (Senate Bill 833)

Effective September 1, 1985, persons who are prosecuted under Illinois Income Tax Act Section 1301 (Willful and Fraudulent Acts) or Section 1302 (Willful Failure to Pay Over) will be tried in the county of residence or commercial domicile.

Public Act 84-262 (Senate Bill 1338) Tax Paid Under Protest

Illinois Revised Statutes, Ch. 127, paragraph 172, section 2a, effective September 3, 1985, has been amended to provide that any personal property tax replacement income tax that is paid under protest will bear 6% per year interest from the date of deposit into the protest fund to the date of disbursement from the protest fund.

Public Act 84-127 (Senate Bill 893) Personal Service Income

Section 203(d)(H) of the Illinois Income Tax Act was amended to provide that personal service income deductible by a partnership is defined by Internal Revenue Code Section 1348(b)(1), as in effect on December 31, 1981. This was a technical amendment.

If you have any questions or need more information, you may call or write us at the phone numbers or address shown at the top of this bulletin.

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Director of Revenue

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