

■ Income Tax Rates Made Permanent

TO: Tax Practitioners, Taxpayers Who Make Estimated Payments, or Taxpayers Whose Tax Year Ends after June 30, 1993, and before December 31, 1993

In July 1993, state lawmakers extended the income tax rates enacted in 1989. The following tax rates are now permanent:

- the individual income tax rate of 3 percent that had been scheduled to revert to 2.75 percent on July 1, 1993; and
- the corporate income tax rate of 4.8 percent that had been scheduled to revert to 4.4 percent on July 1, 1993.

When Illinois tax forms were prepared in late 1992, they were premised on the then-current law that called for the rates to be reduced. Those forms carried average rate charts, and most forms carried a notice that the higher rates could be extended.

Taxpayers who make estimated payments must review their situations to be sure that they do not underpay. Taxpayers whose tax year ends in the last half of calendar year 1993 must make payments at the now-permanent tax rates, not the average rates printed on the 1992 annual tax returns.

Who is affected?

All individuals, corporations, nonresident partners, nonresident shareholders of S corporations, and trusts that earn income in Illinois will continue to be taxed at the rates that have been in effect since July 1, 1989.

Which forms have used average tax rates based upon the assumption that income tax rates would decrease?

Affected forms include

- Form IL-1040-ES, Estimated Income Tax Payments for Individuals,
- Form IL-1120, Corporation Income and Replacement Tax Return,
- Form IL-1120-ES, Estimated Income and Replacement Tax Payments for Corporations,

- Form IL-1023-C, Composite Income Tax Return for Partners and Shareholders,
- Form IL-1023-CES, Composite Estimated Income Tax Payment Transmittal for Partners and Shareholders,
- Form IL-1041, Fiduciary Income and Replacement Tax Return, and
- Form IL-990-T, Exempt Organization Income and Replacement Tax Return.

What must I do if I pay individual income tax?

If you earn a salary and have taxes withheld, you do not need to take any action. The withholding rates remain at 3 percent.

If you make estimated payments and have relied on the Form IL-1040-ES worksheet for the rate of 2.875 percent (the average of 3 percent and 2.75 percent), you must resume making estimated payments at the 3 percent (0.03) rate with the payment due January 15, 1994.

What must I do if I pay corporate income tax?

If you make estimated payments and have relied upon Form IL-1120-ES for average tax rates, you must immediately resume making estimated payments at the 7.3 percent rate (4.8 percent corporate income tax plus 2.5 percent replacement tax).

If your tax year ends after June 30 and before December 31, when you file Form IL-1120, you must figure the tax due using the 4.8 percent (0.048) rate. Disregard the rates on the average tax rate chart printed in Part V of Form IL-1120.

If your tax year ends on or before June 30 or on or after December 31, Form IL-1120 will show the proper tax rate.

What if I am a partnership or an S corporation that acts as an authorized agent for paying Illinois income taxes?

If estimated payments were made based on the average tax rate chart in the instructions to Form IL-1023-CES, you must immediately resume making payments at the full 3 percent (0.03) rate.

If you are an S corporation or partnership that files composite returns and whose tax year ends after June 30 and before December 31, you must figure income tax due on Form IL-1023-C using the 3 percent (0.03) rate. Disregard the average tax rate chart printed with the instructions for Form IL-1023-C.

If your tax year ends on or before June 30 or on or after December 31, Form IL-1023-C will show the proper tax rate.

What if I am the fiduciary of a trust or estate that has Illinois net income or is a resident of Illinois and is required to or does file a federal income tax return?

If your tax year ends after June 30 and before December 31, when you file Form IL-1041, you must figure the income tax due using the 3 percent (0.03) rate. Disregard the rates on the average tax rate chart printed in Part V of Form IL-1041.

If your tax year ends on or before June 30 or on or after December 31, Form IL-1041 will show the proper tax rate.

What if I am an organization exempt from federal income tax under Section 501(a) of the Internal Revenue Code and I earn or receive unrelated business taxable income?

If your tax year ends after June 30 and before December 31, when you file Form IL-990-T, you must figure the income tax due using the 3 percent (0.03) rate for trusts and the 4.8 percent (0.048) rate for corporations. Disregard the rates on the average tax rate chart printed in the instructions for Form IL-990-T.

If your tax year ends on or before June 30 or on or after December 31, Form IL-990-T will show the proper tax rate.

Will I be penalized for underpayment of estimated payments?

Taxpayers who have already made estimated payments at the rates printed in forms and instructions will not be penalized for underpayments.

Questions?

If you have any questions, please call or write us. Our telephone numbers and address are printed at the bottom of this bulletin.



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INFORMATION...**

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1 800 544-5304 TDD teletype device **for hearing impaired only**

WRITE: Illinois Department of Revenue, 101 W. Jefferson St., P.O. Box 19044, Springfield, IL 62794-9044