

## ■ New Income Tax Deduction

### **TO:** Taxpayers

The Illinois Income Tax Act has been amended to provide a new income tax deduction for individual income tax taxpayers. You may be eligible to deduct from your adjusted gross income the amount you paid for health insurance or long-term care insurance. This new deduction is effective beginning with tax years ending on or after December 31, 1995. See Public Act 89-418 for further details.

### **Am I eligible to take this deduction on my 1995 Form IL-1040, Illinois Individual Income Tax Return?**

If you

- are a self-employed individual, partner of a partnership, or a shareholder of a subchapter S corporation, **and**
- pay health insurance premiums or long-term care insurance premiums for yourself, your spouse, or your dependents, **and**
- are **not** eligible to participate in any health insurance plan offered by your employer (*i.e.*, you are self-employed and you are also an employee for someone else) or your spouse's employer,

you may be entitled to subtract a portion of the amount you

paid in premiums from your adjusted gross income.

### **How much may I deduct?**

You may deduct the amount you paid in premiums for health insurance and long-term care insurance that qualifies as a deduction under the Internal Revenue Code, Section 213, and has not been deducted on your federal income tax return. However, your deduction cannot exceed your taxable income attributable to your self-employment, partnership, or subchapter S corporation income.

### **How do I determine the amount I may deduct on Form IL-1040?**

To determine the amount you may deduct on your Form IL-1040, multiply the total amount of health insurance and long-term care insurance premiums you paid by the number that represents the fractional percentage of eligible medical expenses under the Internal Revenue Code, Section 213, that has not been deducted on your federal income tax return.

Federal law currently allows you to deduct up to 30 percent of the cost under the direct deduction (*i.e.*, self-employed health insurance deduction) and

may also entitle you to include additional amounts of the costs as excess itemized medical deductions.

For example: You paid \$3,000 in health care premiums during 1995. On your federal Form 1040, U.S. Individual Income Tax Return, Line 26, you are entitled to deduct \$900 ( $\$3,000 \times 30\% = \$900$ ) from your total income as a self-employed health insurance deduction. If you do **not** file a federal Schedule A, Itemized Deductions, with your federal return, you may take the remaining \$2,100 as a deduction on Form IL-1040, Line 9.

### **What if I itemize my deductions on federal Schedule A?**

If you itemize your deductions, the remaining \$2,100 not deducted on federal Form 1040, Line 26, will be included on Schedule A, Line 1, with any other medical expenses. Therefore, you must figure the fractional percentage of combined medical expenses that represents premiums paid. You must also figure the amount of eligible expenses that can be included in Schedule A, Line 1, but cannot be deducted (*i.e.*, Schedule A, Line 3).

The federal Schedule A only allows you to deduct the amount

in excess of 7.5 percent of your adjusted gross income (AGI).

**Note:** If Schedule A, Line 4, is zero, stop. You may deduct the remaining \$2,100 in premiums paid on your Form IL-1040, Line 9.

For example: On your federal Form 1040, Line 26, you deduct \$900 (\$3,000 X 30% = \$900) from your total income and have figured your adjusted gross income on Line 31 to be \$75,000. You report on Schedule A, Line 1, the combined total of both the remaining \$2,100 in premiums paid and \$7,900 for other medical expenses totaling

\$10,000 in expenses. Premiums paid are 21 percent of total medical expenses (\$2,100 ÷ \$10,000 = 21%).

**Note:** You must use the full decimal (*i.e.*, without rounding).

To determine the amount you may deduct on your Form IL-1040, you must first figure the amount you may deduct on your federal Schedule A, Line 4. To figure that amount, multiply your AGI by 7.5 percent (\$75,000 X .075 = \$5,625). Write the result on Schedule A, Line 3. Subtract Line 3 from Line 1. The result is the amount you may deduct on Schedule A,

Line 4, (\$10,000 - \$5,625 = \$4,375).

Next, multiply the amount **not** deducted by the percentage that represents the premium portion of total eligible medical expenses (21 percent). The amount you may deduct on your Form IL-1040, Line 9, is \$5,625 X .21 = \$1,181.

**Questions?**

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

*The illustration below is an abbreviated line-by-line example.*

25	One-half of self-employment tax . . . . .	25	4,590		
26	Self-employed health insurance deduction (see page 21)	26	900		
27	Keogh & self-employed SEP plans. If SEP, check <input type="checkbox"/>	27			
28	Penalty on early withdrawal of savings . . . . .	28			
29	Alimony paid. Recipient's SSN ▶ . . . . .	29			
30	Add lines 23a through 29. These are your <b>total adjustments</b> . . . . . ▶	30		5,490	
<b>Adjusted Gross Income</b>	31 Subtract line 30 from line 22. This is your <b>adjusted gross income</b> . If less than \$26,673 and a child lived with you (less than \$9,230 if a child didn't live with you), see "Earned Income Credit" on page 27 ▶	31		75,000	

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<p><b>SCHEDULES A&amp;B</b> (Form 1040)</p> <p>Department of the Treasury Internal Revenue Service (T)</p> <p>Name(s) shown on Form 1040</p>	<p><b>Schedule A—Itemized Deductions</b> (Schedule B is on back)</p> <p>▶ Attach to Form 1040. ▶ See instructions for Schedules A and B (Form 1040).</p>	<p>OMB No. 1545-0074</p> <p><b>1995</b></p> <p>Attachment Sequence No. 07</p>
<p><b>Medical and Dental Expenses</b></p> <p><b>Caution:</b> Do not include expenses reimbursed or paid by others.</p> <p>1 Medical and dental expenses (see page A-1) . . . . .</p> <p>2 Enter amount from Form 1040, line 32. <b>2</b> 75,000</p> <p>3 Multiply line 2 above by 7.5% (.075) . . . . .</p> <p>4 Subtract line 3 from line 1. If line 3 is more than line 1, enter -0-</p>		<p>Your social security number</p>
<p>5 State and local income taxes . . . . .</p>		<p>4,375</p>

**Note:** Due to the late passage of House Bill 1810, we were unable to incorporate the new deduction into the 1995 Illinois Income Tax booklets. See Public Act 89-418 for further reference.

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FOR INFORMATION...

CALL: 1 800 732-8866 or 217 782-3336

1 800 544-5304 TDD-telecommunications device for the deaf

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