

■ What's New for Illinois Income Tax

TO: All Income Tax Preparers

The purpose of this bulletin is to inform you of changes to existing Illinois Income Tax forms and schedules and the creation of two new schedules.

First, extensive revisions have been made to the

- 1998 Form IL-1040, Individual Income Tax Return, and
- 1998 Form IL-1040, Schedule NR, Nonresident and Part-Year Resident Computation of Illinois Tax.

Second, specific changes have been made to forms and schedules due to

- an exemption allowance increase for individuals.
 - ▶ Form IL-1040, Individual Income Tax Return
 - ▶ Form IL-W-4, Employee's Illinois Withholding Allowance Certificate
 - ▶ Form IL-W-4-G, Gambling Withholding Exemption Certificate
 - ▶ IL-700-H, Illinois Household Employer's Tax Return
- a new donation to school districts for Illinois residents.
 - ▶ 1998 Form IL-1040, Individual Income Tax Return
- a new subtraction for income received from a Roth IRA conversion.
 - ▶ 1998 Form IL-1040, Individual Income Tax Return

- a change to the Environmental Remediation Tax Credit.
 - ▶ Schedule 1299-A, Tax Subtractions and Credits (Partnerships and S Corporations)
 - ▶ Schedule 1299-C, Income Tax Subtraction and Credits (Individuals)
 - ▶ Schedule 1299-D, Income Tax Credits (Corporations and Fiduciaries)
- a change in the three-factor apportionment formula for taxpayers who apportion their business income.
 - ▶ Form IL-1041, Schedule NR, Nonresident Computation of Fiduciary Income
 - ▶ Form IL-1065, Partnership Replacement Tax Return
 - ▶ Form IL-1120, Corporation Income and Replacement Tax Return
 - ▶ Form IL-1120-X, Amended Corporation Income and Replacement Tax Return
 - ▶ Form IL-1120-ST, Small Business Corporation Replacement Tax Return
 - ▶ Schedule UB, Combined Apportionment for Unitary Business Group
 - ▶ Form IL-990-T, Exempt Organization Income and Replacement Tax Return
 - ▶ 1998 Form IL-1040, Schedule NR, Nonresident and Part-Year Resident Computation of Illinois Tax

Third, new schedules have been created for entities to break down tax information for their partners, shareholders, and beneficiaries. These schedules include

- Schedule K-1-P, Partner's or Shareholder's Share of Income, Deductions, Credits, and Recapture, and
- Schedule K-1-T, Beneficiary's Share of Income and Deductions.

The following two schedules have been revised for entities to identify their members:

- ▶ Schedule B, Partners' or Shareholders' Identification
- ▶ Schedule D, Beneficiaries' Identification

The Schedules K-1-P and B replace Schedules B & C. The Schedules K-1-T and D replace Schedules D & E.

What extensive revisions have occurred for the 1998 forms and schedules?

The Form IL-1040 is now a two-page form. We redesigned this form to allow more room for tax information and added instructions on the form to help taxpayers complete it simply and accurately.

The Schedule NR is now a two-page schedule. The lines on the revised schedule follow the

federal 1040 lines and the Illinois 1040 lines. This change allows nonresidents and part-year residents to transfer tax information without confusion when determining their Illinois income and tax.

We divided the Schedule NR Step-By-Step Instructions into two separate sets of instructions, one set for the nonresident and one set for the part-year resident.

What is the new exemption allowance for individuals?

Effective January 1, 1998, the standard exemption allowance for individuals and their dependents increases incrementally during the next three years.

- **For tax year 1998**, the exemption allowance increases from \$1,000 to \$1,300.
- **For tax year 1999**, the exemption allowance increases from \$1,300 to \$1,650.
- **For tax year 2000**, the exemption allowance increases from \$1,650 to \$2,000.

The additional exemption allowance for taxpayers and their spouses who are 65 years of age or older or are legally blind did **not** change. The amount is still \$1,000.

This new exemption allowance changes the exemption calculation lines on the individual and withholding tax forms.

Withholding agents do not need to change the amount they withhold until January 1, 1999. In December 1998, they should

- have their employees complete the revised Form IL-W-4, Employee's Illinois Withholding Allowance Certificate (revised December 1998), and
- adjust the calculations they use to figure the correct amount of Illinois Income Tax to withhold.

For more information, see Booklet IL-700, Illinois Withholding Tax Guide, and Booklet IL-700-T, Illinois Withholding Tax Tables.

What is the new donation to school districts for Illinois residents?

Effective January 1, 1998, Illinois residents may donate to their school districts, through the School Funding Fund, on their individual income tax return.

Taxpayers may donate either the amount of their exemption allowance, their property tax credit, or both. They will figure the amount of their donation by completing the School Funding Fund Worksheet in the Form IL-1040 Instructions.

What is the Roth IRA subtraction?

Beginning January 1, 1998, the Internal Revenue Service requires any income resulting from converting a traditional IRA to a Roth IRA to be included in the adjusted gross income. Illinois taxpayers are allowed to subtract this income on Form IL-1040.

What changes have been made to the Environmental Remediation Tax Credit?

Effective January 1, 1998, taxpayers may claim a credit for eligible remediation costs that they deducted on their federal return. Previously, taxpayers were not allowed to claim a credit for any costs they deducted on their federal return.

However, if they claim this credit, they must add to their income on their Illinois tax return any amount they deducted on their federal return.

This credit should be taken on IL-1299-A (Partnerships and S Corporations), IL-1299-C (Individuals), and IL-1299-D (Corporations and Fiduciaries).

What changes have been made to the three-factor apportionment formula?

The three-factor apportionment formula (property, payroll, and sales) changes. The weighting given to the sales factor in-

creases during the next three years and ends with a single sales factor in the third year.

- **For tax years ending** on or after December 31, 1998, and before December 31, 1999, the formula is figured using the following:

- ▶ 16.67 percent of the property factor, plus
- ▶ 16.67 percent of the payroll factor, plus
- ▶ 66.66 percent of the sales factor.

- **For tax years ending** on or after December 31, 1999, and before December 31, 2000, the formula is figured using the following:

- ▶ 8.33 percent of the property factor, plus
- ▶ 8.33 percent of the payroll factor, plus
- ▶ 83.34 percent of the sales factor.

- **For tax years ending** on or after December 31, 2000, the formula is figured using a single sales factor.

What new schedules have been created this year?

We created the new

- **Schedule K-1-P** for a partnership or an S corporation to supply each partner or shareholder with his or her share of the amounts reported on the partnership's or S corporation's federal and Illinois tax returns.

The entity must give a completed Schedule K-1-P and a copy of the Partner's and Shareholder's Instructions (Schedule K-1-P(2)) to each partner or shareholder.

Schedule K-1-P is **not** required to be filed with the annual return. However, the partnership or S corporation should keep a copy of each schedule and each partner or shareholder should keep the original schedule in his or her tax records.

- **Schedule K-1-T** for a trust or an estate to supply each beneficiary with his or her share of the amounts reported on the trust's or estate's federal and Illinois tax returns.

The entity must give a completed Schedule K-1-T and a copy of the Beneficiary's Instructions (Schedule K-1-T(2)) to each beneficiary.

Schedule K-1-T is **not** required to be filed with the annual return. However, the trust or estate should keep a copy of each schedule and each beneficiary should keep the original schedule in his or her tax records.

We revised the **Schedule B** for a partnership or an S corporation to supply us with a listing of its partners or shareholders. Schedule B **must** be filed with Form IL-1065 or Form IL-1120-ST.

We revised the **Schedule D** for a trust or an estate to supply us with a listing of its beneficiaries. Schedule D **must** be filed with Form IL-1041.

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.

For information or forms...

Visit our Web site at www.revenue.state.il.us.

Call our Taxpayer Assistance lines at **1 800 732-8866** or **217 782-3336**.

Call Illinois Tax Fax, our fax-on-demand service, at **217 785-3400**.

Call our 24-hour Forms Order Line at **1 800 356-6302**.

Call our TDD (telecommunications device for the deaf) at **1 800 544-5304**.

Write us at Illinois Department of Revenue, P.O. Box 19044, Springfield, IL 62794-9044.

