



# What's New for Illinois Income Tax

## Informational Bulletin

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or forms...

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To:  
All Income Tax Preparers

This bulletin summarizes the 2000 Illinois Income Tax changes to both the individual and business income tax forms and schedules.

What changes have been made to the 2000 Illinois Income Tax booklets?

Booklets containing *Form IL-1120, Corporation Income and Replacement Tax Return*; *Form IL-1065, Partnership Replacement Tax Return*; and *Form IL-1120-ST, Small Business Corporation Replacement Tax Return*, are not being mailed. Forms and instructions are available by request.

What changes have been made to the 2000 Illinois Income Tax forms?

The income tax forms include the following changes:

- Taxpayers who choose to file a paper *Form IL-1040, Individual Income Tax Return*, should remove their personalized label from the cover of the booklet they received in the mail and place it on their form.
- Taxpayers will find their Personal Identification Number (IL-PIN) preprinted in the blue area at the top of the personalized label on the cover of the Individual Income Tax Booklet.

Taxpayers must use their IL-PIN to file their 2000 return through I-File, PC retail software, and TeleFile.

- Taxpayers and their dependents will receive an increased standard exemption allowance when filing their *individual income tax return*. The standard exemption allowance for tax year 2000 is \$2,000.
- Illinois resident taxpayers may be eligible to receive a credit for education expenses when filing their *individual income tax return*. This credit cannot exceed \$500 per family nor can it exceed the total amount of tax.  
  
For more detailed information on this new credit, see Informational Bulletin FY-2000-19, Education Expense Credit for Individuals.
- Taxpayers may be eligible to receive an Illinois credit equal to 5 percent of their federal Earned Income Credit when filing their *individual income tax return*.
- Taxpayers who are entitled to a refund when filing their *individual income tax return* may choose to have it deposited directly into their checking or savings account, regardless of which filing method they choose.
- Taxpayers who owe additional tax when filing their *individual income tax return* may choose to have it debited from their checking or savings account by visiting our Web site. An IL-PIN is needed to use this payment option.

- Taxpayers filing *Form IL-1120-ST, Small Business Corporation Replacement Tax Return*, are allowed a subtraction for income distributable to their shareholders required to pay replacement tax. A new line has been added for this subtraction (effective for tax years ending on or after December 31, 1997).

This subtraction applies retroactively. Therefore, if an S corporation had shareholders required to pay replacement tax for years ending on or after December 31, 1997, they should file *Form IL-843, Amended Return or Notice of Change in Income*, to claim any overpayment that results from claiming this subtraction.

- Taxpayers filing *Form IL-1065, Partnership Replacement Tax Return*, may no longer make the election to flow through their investment credits to their partners who are required to pay replacement tax.

Investment credits, earned by partnerships filing *Form IL-1065* and allocable to their partners who are required to pay replacement tax, will flow through to those partners automatically. The amount allocable to other partners will remain with the partnership (effective for tax years ending on or after December 31, 2000).

Investment credits, earned by S corporations filing *Form IL-1120-ST, Small Business*

*Replacement Tax Return*, and allocable to their shareholders required to pay replacement tax, will flow through to those shareholders automatically. The amount allocable to other shareholders will remain with the S corporation (effective for tax years ending on or after December 31, 2000).

- Taxpayers who apportion their business income will use sales only when figuring their apportionment factor.

This change is effective for tax years ending on or after December 31, 2000, and affects

- *Form IL-1120, Corporation Income and Replacement Tax Return*,
- *Form IL-1065, Partnership Replacement Tax Return*,
- *Form IL-1120-ST, Small Business Corporation Replacement Tax Return*,
- *Form IL-1120-X, Amended Corporation Income and Replacement Tax Return*, and
- *Form IL-990-T, Exempt Organization Income and Replacement Tax Return*.

What changes have been made to the 2000 Illinois Income Tax schedules?

The income tax schedules include the following changes:

- Corporations filing *Schedule 1299-D, Income Tax Credits (Corporations and Fiduciaries)*, are allowed to claim the Em-

ployee Child Care Tax Credit. This is a new, two-part credit available to corporations who provide a child care facility located in Illinois for the children of its employees (effective for tax years ending on or after December 31, 2000).

- Taxpayers who apportion their business income will use sales only when figuring their apportionment factor.

This change is effective for tax years ending on or after December 31, 2000, and affects

- *Form IL-1041, Schedule NR, Nonresident Computation of Fiduciary Income*,
- *Schedule UB, Combined Apportionment for Unitary Business Group*, and
- *Form IL-1040, Schedule NR, Nonresident and Part-Year Resident Computation of Illinois Tax*.

- Taxpayers who would like to figure their penalties on *Form IL-2210, Computation of Penalties for Individuals*, or *Form IL-2220, Computation of Penalties for Businesses*, should note that these forms and instructions have been expanded to incorporate changes made to the Uniform Penalties and Interest Act (effective for tax returns due on or after January 1, 2001).

For more detailed information on these changes, see Informational Bulletin FY-2001-14, Penalties and Interest Changes, and Pub 103, Uniform Penalties and Interest revised November 2000.

What new forms and schedules have been developed for tax year 2000?

New forms and schedules are listed below.

- *Form IL-8857, Request for Innocent Spouse Relief*, is a request for relief from part or all of any joint individual income tax liability under the innocent spouse provisions of the Illinois Income Tax Act.
- *Schedule ED, Credit for Qualified Education Expenses*, must be completed by taxpayers if they did not receive a Receipt for Qualified Education Expenses from the school where the student was enrolled.

For more detailed information on this new credit, see Informational Bulletin FY-2000-19, Education Expense Credit for Individuals.

What changes have been made to the 2000 electronic filing methods?

We have expanded each method to allow more taxpayers to file electronically in the year 2000. The electronic filing methods and their changes are identified below.

The **e-file method**, using a tax professional who participates in the

Illinois Electronic Filing Program, was expanded to include

- subtractions for
  - premiums paid for health insurance and long-term care insurance,
  - expenses for federally tax-exempt investments, and
  - interest on obligations of Illinois state and local governments.
- the new credit for qualifying education expense.
- the new credit for earned income.

The **PC Retail Software method**, using tax filing software, was expanded to include

- subtractions for
  - premiums paid for health insurance and long-term care insurance,
  - expenses for federally tax-exempt investments, and
  - interest on obligations of Illinois state and local governments.
- the new credit for qualifying education expense.
- the new credit for earned income.

The **I-File method**, Internet filing, was expanded to include the

- subtraction for Social Security and retirement income.

- subtraction for active-duty military pay.
- subtraction for U.S. Treasury bonds, bills, notes, savings bonds, and U.S. agency interest.
- subtractions for
  - premiums paid for health insurance and long-term care insurance,
  - expenses for federally tax-exempt investments, and
  - interest on obligations of Illinois state and local governments.
- additional exemption for taxpayers who are 65 years of age and older and who are legally blind.
- payments and credits for estimated payments, extension payments, and prior year credit.
- the new credit for qualifying education expense.
- the new credit for earned income.

The **TeleFile method**, using your touch-tone phone, was expanded to include the

- subtractions for Illinois Income Tax refund and Homeowners' Property Tax Relief rebate.
- credit for Illinois Property Tax.
- the new credit for earned income.

### What do I need to know about federal legislative changes?

Congress recently enacted legislation providing that the compensation of a pilot, master, officer, or crew member performing regularly-assigned duties on a vessel operating on navigable water of more than one state may be taxed only by his or her state of residence.

The same statute provides that no state can require income taxes to be withheld from crew members of a vessel in interstate trade, fishing, or fish processing.

The statute does allow crew members to enter voluntary withholding agreements with their employers.

A nonresident whose wages are exempt from Illinois income tax under this provision should not allocate those wages to Illinois on his or her Schedule NR for 2000 and future years.

Employers of such crew members should withhold Illinois Income Tax only from Illinois resident employees and only if the employee enters into a voluntary withholding agreement.

Employers are encouraged to remind Illinois resident employees that they are subject to Illinois Income Tax on these wages even if no tax is withheld.

The instructions to the Schedule NR and the Booklet IL-700 will be revised in the future to reflect this law.

### What do I need to note for tax year 2001?

- The threshold for making estimated payments for individual income tax filers increases from \$250 to \$500.
- Computation of interest on penalties has changed.\*
- The late-filing and late-payment penalties have changed.\*
- We will be assessing a new bad check penalty.\*

\* For complete details, see Pub 103, Uniform Penalties and Interest, revised November 2000.