



# What's New for Illinois Income Tax

## Informational Bulletin

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### To: All Income Tax Preparers

This bulletin summarizes the 2003 Illinois Income Tax changes for both the individual and business income tax forms and schedules.

### What changes have been made to the 2003 Illinois Income Tax forms?

The income tax forms include the following changes:

- Taxpayers who apportion their business income may make an election to treat all income, other than compensation, as business income.  
This change is effective for tax years beginning on or after January 1, 2003, and affects
  - *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.*

**Note** → Taxpayers filing *Form IL-1041, Fiduciary Income and Replacement Tax Return*, see "What changes have been made to the 2003 Illinois Income Tax schedules?"

- Taxpayers who are insurance companies and file *Form IL-1120* are no longer allowed to offset excess Life and Health Insurance Guarantee Association or Health Maintenance Organization Guarantee Association assessments against their income tax liabilities.

- The \$1,000 exemption allowance has been eliminated for corporate taxpayers filing *Form IL-1120* and *Form IL-1120-ST*.
- The credit for replacement tax paid, and any carryforward of credit for replacement tax paid has been eliminated for businesses who file *Form IL-1120, Form IL-1041, and Form IL-990-T, Exempt Organization Income and Replacement Tax Return*.
- Net loss deductions incurred in tax years ending on or after December 31, 2003, may no longer be used as a carryback to offset prior year income. The carryforward provision has also been changed and is now limited to 12 years. This change affects taxpayers filing *Form IL-1120, Form IL-1120-ST, Form IL-1041, and Form IL-1065*.
- New lines have been added to business income tax returns to capture information about certain subtractions and credits. The new reporting requirements affect the following forms.
  - *Form IL-1120*
  - *Form IL-1065*
  - *Form IL-1120-ST*
  - *Form IL-1041*
  - *Form IL-990-T*These subtractions and credits are calculated on the following schedules.
  - *Schedule 1299-A, Tax Subtractions and Credits (for partnerships and S corporations)*
  - *Schedule 1299-B, Enterprise Zone or Foreign Trade Zone (or sub-zone) Subtractions (for corporations and fiduciaries)*

- *Schedule 1299-C, Income Tax Subtractions and Credits (for individuals)*
- *Schedule 1299-D, Income Tax Credits (for corporations and fiduciaries)*

See "What changes have been made to the 2003 Illinois Income Tax schedules?".

- Certain taxpayers who file Form IL-1040, Individual Income Tax Return, and claim the Illinois Earned Income Credit may be allowed to take the entire amount of the credit and receive a refund, even if no tax is owed.
- Effective for tax years ending December 31, 2003, taxpayers who file Form IL-1040 are no longer allowed to claim the subtraction for self-employed health insurance premiums because 100 percent of the premiums may be deducted on the federal income tax forms.
- The check box for farmers who receive more than two-thirds of their total federal gross income from farming has been moved from the top of the front page to the back page of Form IL-1040.
- Two check boxes have been added to Form IL-1040. You must check the appropriate box if
  - you claim "other subtractions" on Line 9 and any of your subtractions are from Schedule 1299-C, or
  - you are claiming the Illinois Earned Income Credit and you were an Illinois resident at the end of 2003, with a "qualifying child," as defined by the Internal Revenue Service, who was born after December 31, 1985 and is not a foster child.

- The Form IL-4562, Special Depreciation, has not changed. However, if you are allowed a 50 percent bonus depreciation for federal purposes, you must add back that amount to your taxable income. The subtraction modification will be limited to 42.9 percent.

**What changes have been made to the 2003 Illinois Income Tax schedules?**

The income tax schedules include the following changes:

- *Publication 111, Illinois Schedule CR Comparison Chart for Individuals*, is now available to help taxpayers who file Schedule CR, Credit for Tax Paid to Other States, with Form IL-1040. To receive a copy of this publication, see "For information or forms" on Page 1.
- A new line for "other adjustments" has been added to Schedule NR (IL-1040 filers). This line is for those taxpayers who can claim the Archer Medical Savings Account deduction.
- The Research and Development Credit and the Training Expense Credit have been removed from Schedule 1299-A, Schedule 1299-C, and Schedule 1299-D. For tax years ending on or after December 31, 2003, you may no longer take the credit carryforward portion of these credits, even if you earned it before December 31, 2003. You must subtract any unused amounts of these credits from prior years when you figure the total amount of available credit carryforward.

- The Environmental Remediation Tax Credit has been returned to Schedule 1299-A, Schedule 1299-C, and Schedule 1299-D. However, only taxpayers who earned the credit before December 31, 2001, and have available credit carryforward amounts are allowed to use the credit.

- *Schedule NR, Nonresident Computation of Fiduciary Income, (Form IL-1041)* has been changed to allow taxpayers who apportion their business income to elect to treat all of their income, other than compensation, as business income. This change is effective for tax years beginning on or after January 1, 2003.
- Two new credits are available for tax years beginning on or after January 1, 2004.
  - The Film Production Services Tax Credit is available for businesses in the film industry. Businesses that have received a Tax Credit Certificate from the Illinois Department of Commerce and Economic Opportunity (DCEO), may take this credit on Schedule 1299-D and Schedule 1299-A.
  - The Transportation Employee Credit is available for businesses that
    - ◆ paid a commercial distribution fee under the Illinois Vehicle Code during the taxable year, or
    - ◆ are motor carriers engaged in interstate commerce and are subject to regulation by the federal Surface Transportation Board.

The credit amount is \$50 for each eligible employee. This credit may be taken on Schedules 1299-D and 1299-A. For more information, see Schedule 1299-D and Schedule 1299-A instructions.

**Note** → Individuals will not be able to take these credits, or any distribution of the credits until next year because of the effective date of the credits.

### **What do I need to note for tax year 2004?**

- The Replacement Tax Investment Credit allowed for businesses will expire on December 31, 2003. You will no longer be able to earn credit on property placed in service after that date. However, you may continue to carry forward any credit you earned before January 1, 2004. For more information, see the Illinois Income Tax Act, Section 201(e)(8).

### **What changes have been made to the electronic filing methods for individuals in 2003?**

- The electronic filing method, *e-File* has been expanded to include taxpayers filing Form IL-1040 on behalf of a deceased taxpayer.
- Taxpayers who are required to file Form IL-4562, Special Depreciation, are not eligible to file Form IL-1040 by I-File, e-File, or PC File this year. We anticipate that these filers will be able to file by electronic methods again next year.