



# Illinois Department of Revenue

# Informational Bulletin

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## For information or forms...

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This bulletin is written to  
 inform you of recent changes;  
 it does not replace statutes,  
 rules and regulations, or  
 court decisions.

## What's New for Illinois Income Tax

To:  
**All Income Tax Preparers**

This bulletin summarizes the 2007 Illinois Income Tax changes for business and individual income tax forms and schedules. It also explains the new withholding income tax changes for 2008.

### What changes have been made to the 2007 Illinois Income Tax forms?

The income tax forms include the following changes:

- Forms IL-1041, Fiduciary Income and Replacement Tax Return, IL-990-T, Exempt Organization Income and Replacement Tax Return, and Form IL-1023-C, Composite Income and Replacement Tax Return, have been completely revised. The new forms provide a step-by-step structure that allows taxpayers ease in completing the forms. The new forms also include detailed line items for all addition and subtraction modifications that require Illinois schedules to be attached.
- For tax years ending on or after December 31, 2007, the revised Form IL-1041 no longer contains the IL-1041, Schedule NR, Nonresident Computation of Fiduciary Income. See "What changes have been made to the Illinois Income Tax schedules?" for more information.
- If you claim "other additions" or "other subtractions" on Form IL-1041, you must

complete the Schedule M, Other Additions and Subtractions (for businesses). See "What changes have been made to the 2007 Illinois Income Tax schedules?" for more information.

- For tax years ending on or after December 31, 2007, Forms IL-1041-X, Amended Fiduciary Income and Replacement Tax Return, IL-990-T-X, Amended Exempt Organization Income and Replacement Tax Return, and Form IL-1023-C-X, Amended Composite Income and Replacement Tax Return, have been developed for the 2007 Forms IL-1041, IL-990-T, and IL-1023-C. If you are filing an amended return for tax years ending before December 31, 2007, you must use Form IL-843, Amended Return or Notice of Change in Income, and the appropriate revision of Forms IL-1041, IL-990-T, or IL-1023-C.
- Publication 132, Education Expense Credit General Rules and Requirements for Parents and Guardians, was created for Form IL-1040 filers to clarify and provide detailed information for the education expense credit.
- For tax years ending on or after December 31, 2007, individuals filing Form IL-1040, Individual Income Tax Return, may subtract National Guard pay from any state on Form IL-1040, Line 6, if it is included in their federal adjusted gross income. See Form IL-1040 Instructions or Publication 102,



Illinois Filing Requirements for Military Personnel, for more information.

- For tax years ending on or after December 31, 2007, the Illinois Earned Income Credit is now refundable for all qualifying individuals filing Form IL-1040. See IL-1040 Instructions, Line 22, for more information.

### What changes have been made to the 2007 Illinois Income Tax schedules?

The income tax schedules include the following changes:

- Form IL-1041, Schedule NR, has been revised and is now a stand-alone schedule. Previously, Schedule NR was included with the Form IL-1041. If you are filing as a nonresident trust or estate on Form IL-1041, you must also complete the new Schedule NR. Schedule NR Instructions are also available separately.
- Schedule I, Income Received, has been developed and added to the revised Form IL-1041. Schedule I is used to provide information on sources from which the fiduciary receives income.
- Schedule M, Other Additions and Subtractions (for businesses), should be used with Forms IL-1120, IL-1120-ST, IL-1065, and IL-1041, if you claim addition modifications on
  - ◆ Form IL-1120, Line 8,
  - ◆ Form IL-1120-ST, Line 21,
  - ◆ Form IL-1065, Line 22, or
  - ◆ Form IL-1041, Line, 10;
 or if you claim subtraction modifications on
  - ◆ Form IL-1120, Line 23,
  - ◆ Form IL-1120-ST, Line 34,
  - ◆ Form IL-1065, Line 34, or
  - ◆ Form IL-1041, Line 24.
- For tax years beginning on or after January 1, 2007, the following credits are available:
  - ◆ Ex-Felons Jobs Credit
  - ◆ Veterans Jobs Credit

Taxpayers eligible for one or both of these credits may take any valid credit amount on

- ◆ Schedule 1299-A, Subtractions and Credits (for Forms IL-1120-ST and IL-1065 filers),
- ◆ Schedule 1299-C, Income Tax Subtractions and Credits (for Individuals), and
- ◆ Schedule 1299-D, Income Tax Credits (for Forms IL-1120, IL-1041, and IL-990-T).
- Effective January 1, 2007, the Environmental Remediation Credit (carryforward) has expired and has been removed from Schedule 1299-D.
- For tax years ending on or after December 31, 2007, the portion of the Employee Child Care Tax Credit for 30 percent of the "start-up costs" spent to provide a child care facility for the employees' children has been reinstated on Schedule 1299-D. See Schedule 1299-D for more information.
- Schedule M, Other Additions and Subtractions for Individuals, now includes
  - ◆ an addition line for recapture of deductions for contributions to in-state college savings plans when funds are transferred to an out-of-state plan.
 

**Note:** Earnings from out-of-state plans that meet certain disclosure requirements no longer have to be added back.
  - ◆ a subtraction line for railroad unemployment income.

### What changes have been made for individuals filing their 2007 tax returns electronically?

- For tax years ending on or after December 31, 2007, the following individual taxpayers may electronically file their Form IL-1040:
  - ◆ Taxpayers who have Illinois Income Tax withheld from their unemployment compensation;

- ◆ Taxpayers who claim distributive shares of subtractions from a partnership or S corporation from Illinois Schedule K-1-P, Partner's or Shareholder's Share of Income, Deductions, Credits, and Recapture, or Illinois Schedule K-1-T, Beneficiary's Share of Income or Deductions, on Schedule M, Other Additions and Subtractions for Individuals;
- ◆ Taxpayers reporting other income additions from Illinois Schedule M, Line 9.
 

**Note:** Only one literal and one dollar amount may be used. No statements or multiple entries will be allowed.

### What changes were made to Illinois Income Tax withholding for 2008?

Effective January 1, 2008:

- Filing and payment due date schedules are now more closely aligned with federal dates. Each year, we will assign taxpayers to one of three schedules: semi-weekly, monthly, and annual.
- Form IL-941-A has been created for taxpayers assigned to the annual due date schedule.
- Form IL-W-3 is no longer required.
- We have notified all registered taxpayers which due date schedule we have assigned to them.
  - ◆ Semi-weekly and monthly taxpayers were sent a withholding coupon booklet.
  - ◆ Annual taxpayers were sent a notice with a personalized Form IL-941-A.
  - ◆ Newly registered taxpayers are assigned to the monthly due date schedule.

For more information, see FY-2008-5, Changes to Illinois Income Tax Withholding Law, and Publication 131, Withholding Income Tax Filing and Payment Requirements.

**What is the new law on withholding by pass-through entities?**

For tax years ending on or after December 31, 2008, new legislation contained in PA 95-0233 (SB1544) and PA 95-0707 (SB 783) requires subchapter S corporations, partnerships, and trusts to “withhold” Illinois Income Tax on behalf of nonresident shareholders, partners, and beneficiaries. Although this is referred to as “pass-through entity withholding,” deductions are not actually taken from payments the pass-through entities make to their owners. Instead, the pass-through entities are required to make one income tax payment (a “pass-through entity payment”) on behalf of the nonresident owner for each taxable year.

**What are the general requirements for pass-through payments?**

Partnerships, subchapter S corporations, and trusts must submit the pass-through entity payments no later than the original due date of the entity’s tax return (without regard to any extended due date). For example, a subchapter S corporation using a calendar taxable year must submit its 2008 payment by March 15, 2009.

Nonresident partners, shareholders, and beneficiaries must be notified by the partnership, subchapter S corporation, or trust of the amount of pass-through entity payments made on their behalf. If the pass-through entity payments are sufficient to satisfy the partner’s, shareholder’s, or beneficiary’s Illinois Income Tax liability, no return is required. Any taxpayer that files an Illinois tax return for any reason must include any income passed through from the entity and will be allowed a credit for the pass-through entity payment made on their behalf.

Pass-through entity payments are not required for nonresident shareholders, partners and beneficiaries if

- ◆ their income is reported on a composite return, Form IL-1023-C (this exemption applies to individuals only);
- ◆ they provide documentation to the pass-through entity stating that they take responsibility for their tax obligations (this exemption does not apply to individuals); or
- ◆ the pass-through entity is a partnership classified as an investment partnership, as defined in the Illinois Income Tax Act, Section 1501(a)(11.5).

**What is the amount of the required pass-through entity payment and how should I pay?**

For each taxable year, the pass-through entity payment equals each nonresident shareholder’s, partner’s, or beneficiary’s share of the entity’s business income apportioned to Illinois, times the income tax rate applicable to the partner, shareholder, or beneficiary. No withholding is required from distributions.

We will prescribe forms, instructions, deadlines, and record keeping requirements later this year.