



Illinois Department of Revenue

Informational Bulletin

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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 2008 Illinois Income Tax changes for business and individual income tax forms and schedules.

What's new at the Department of Revenue for Illinois Income Taxes?

- Since 2007, the department has been in the process of implementing a new integrated tax system. Business and withholding tax returns and payments received during the 2008 calendar year were processed in the new tax system.
Beginning January 2009, all individual income tax returns and payments will also be processed through the new tax system.
- The department has worked diligently to increase public awareness about the new pass-through entity payment laws. New forms have been developed, informational bulletins mailed, a Tax Talk blog opened on our web site, and presentations given throughout Illinois. In the near future, we hope to reach out to even more out-of-state tax professionals and taxpayers.

For more information about pass-through entity payments and filing requirements, see FY-2009-02, Pass-through Entity Payments, and visit our Tax Talk web page at **tax.illinois.gov**.

- Beginning October 15, 2008, payroll providers, employers, and withholding agents, may use our new WebFile and Pay electronic system.

In addition, businesses wanting to make estimated tax payments, extension payments, or annual return payments, may also use the WebPay portion of the system.

The program is free and designed to be an easy, convenient, and fast way for you to file your quarterly or annual returns and pay any tax due. Visit our web site for more information.

What new Illinois Income Tax forms have been created for the 2008 tax year?

- Form IL-1000, Pass-through Entity Payment Income Tax Return, was created for partnerships, S corporations, and trusts (pass-through entities) that are required to make pass-through entity payments on behalf of nonresident partners, shareholders, and beneficiaries (owners).



- Form IL-1000-X, Amended Pass-through Entity Payment Income Tax Return, was created to allow pass-through entities to amend the amount of pass-through payments made on behalf of nonresident owners, if the amount of the original payment was underpaid.

NOTE: Pass-through entities may only increase a tax liability on Form IL-1000-X. No refund may be claimed by the pass-through entity.

- Form IL-1000-E, Certificate of Exemption for Pass-through Entity Payments, was created to allow nonresident taxpayers, other than individuals, to make the election to pay the tax on income distributed from pass-through entities, rather than to have the pass-through entity make an annual payment on the owner's behalf.

What changes have been made to the 2008 Illinois Income Tax forms?

The income tax forms include the following changes:

- All Illinois Income and Replacement Tax returns (with the exception of Forms IL-990-T, Illinois Exempt Organization Income and Replacement Tax Return, and IL-1023-C, Illinois Composite Income and Replacement Tax Return) now include a line for pass-through entity payments made on behalf of nonresident owners and reported to the owners on Schedule K-1-P or K-1-T.
- Some line items on Form IL-1040, Individual Income Tax Return, have been rearranged, while others have been moved to schedules. Please follow the instructions carefully when completing your return and see "What changes have been made to the Illinois Income Tax Schedules?" for more information.

- For tax years ending on or after December 31, 2008, the laws pertaining to the Illinois sales factor and special apportionment factors (financial, transportation, and insurance companies) have been changed. For more details, see the instructions for Forms

- ◆ IL-1120, Illinois Corporation Income and Replacement Tax Return,
- ◆ IL-1120-ST, Illinois Small Business Corporation Replacement Tax Return,
- ◆ IL-1041, Illinois Fiduciary Income and Replacement Tax Return, and
- ◆ IL-990-T.

You may also refer to 86 Ill. Adm. Code, Sections 100.3370 and 100.3405.

- For tax years ending on or after January 1, 2009, the Replacement Tax Investment Credit, figured on Form IL-477, expires. Assets placed in service on or after January 1, 2009, may not be claimed on Form IL-477 or your corresponding business income tax return.
- For tax years ending on or after December 31, 2008, composite return filing on Form IL-1023-C, is expanded to allow partnerships and S corporations to file a composite return to report and pay increases in tax for partners and shareholders that result from changes in income of the partnership or S corporation, if all of the partners and shareholders are included in the filing.

If the partnership or S corporation filed a composite return initially, the tax increase should be reported on Form IL-1023-C-X, Illinois Amended Composite Income and Replacement Tax Return. If the partnership or S corporation did not file a composite return, the tax increase should be reported on an original Form

IL-1023-C. Refunds can only be claimed for taxes you paid for partners or shareholders on an original return.

This new provision does not change the existing provision of filing a composite return to report increased liabilities or claim refunds on a

Form IL-1023-C-X for partners and shareholders included on an original Form IL-1023-C.

What new schedules have been developed for 2008 Illinois Income Tax?

For tax years ending on or after December 31, 2008, the following schedules have been developed for individuals filing Form IL-1040, Individual Income Tax Return:

- Schedule ICR, Illinois Credits, allows you to figure the total amount of property tax, K-12 education expense, and earned income credits you may claim on Form IL-1040. This schedule must be attached to Form IL-1040 if any of these credits are claimed.
- Schedule G, Voluntary Charitable Donations, allows you to figure the amount of donations that you wish to make to one or more of the eligible funds. This schedule must be attached to Form IL-1040 when making a charitable donation.

What changes have been made to the 2008 Illinois Income Tax schedules?

- For tax years ending on or after December 31, 2008, Schedule M, Other Additions and Subtractions for Individuals, now includes subtraction lines for the following items previously located on Form IL-1040:
 - ◆ military pay earned that is included in your adjusted gross income, and
 - ◆ U.S. Treasury bonds, bills, notes, savings bonds, and U.S. agency interest from Form U.S. 1040, Schedule B, or U.S. 1040-A, Schedule 1.

- The Film Production Services Tax Credit has been extended to include all tax years ending on or after December 31, 2008. The credit is taken 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, and IL-990-T).
- The Forms IL-1065 and IL-1120-ST, Schedule B, and Form IL-1041, Schedule D, have been updated to include pass-through entity payment information for each partner or shareholder.
- For tax years ending on or after December 31, 2008, the law regarding related-party expenses has been changed. See the Schedule 80/20, Related-Party Expenses, for more information.

What changes have been made for individuals filing their 2008 Illinois tax returns electronically?

- Taxpayers that claim recapture of investment tax credits on Form IL-1040, Line 14, or pass-through entity payments on Line 24, will not be able to file Form IL-1040 electronically for 2008.

What changes were made to Illinois Income Tax withholding for 2009?

- Payroll providers who are required to file copies of Forms W-2, Wage and Tax Statement, electronically with the Social Security Administration, must also file copies electronically with the department, starting with Forms W-2 issued for 2008 employee wages. All other employers are not required to file copies of the Forms W-2 with the department, but must keep the copies as part of their files for at least three years.
- If taxpayers are assigned to the annual payment and return schedule, they may elect to file quarterly returns and make monthly payments. To do so, they must file Form IL-941, Illinois Quarterly Withholding Income Tax Return, for any quarter of the year and pay all amounts withheld from January 1, through the end of that quarter. Taxpayers must then begin making monthly payments and filing quarterly returns for the remainder of the year. Failure to continue following this schedule may subject taxpayers to penalties and interest. For more information about penalties and interest, see Publication 103, Penalties and Interest for Illinois Taxes.

- Taxpayers may pay more frequently than required using the department's WebFile and Pay, other electronic methods, or a payment coupon (Form IL-501).

Taxpayers must file their returns by the due dates noted on their schedules, as issued by the department. For more information about payment and filing requirements, see Publication 131, Withholding Income Tax Filing and Payment Requirements

Note: Do not use Form IL-941 or Form IL-941-A, Illinois Yearly Withholding Income Tax Return, to make more frequent payments.

What changes can I expect in 2009?

- On or after July 1, 2009, taxpayers who file Form U.S. 1120 electronically, will also be able to file Form IL-1120 and accompanying schedules as part of the federal-state electronic filing program. Currently, developers can obtain the XML layout information for Illinois forms and schedules from our web site. More information will be posted as it becomes available.