Illinois Department of Revenue

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informational Bulletin

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Illinois Income Tax Increase Guidance - Detailed Instructions For Filing Your 2016 Illinois Income Tax Return and 2017 Estimated Payments

To: All tax practitioners, individuals, and businesses required to pay Illinois Income Tax

This bulletin provides information about

- recent Illinois Income Tax rate changes,
- how the income tax rate change affects the 2016 and 2017 tax returns,
- how the income tax rate change affects the calculation of income tax for fiscal-year, short-year, and 52/53 week filers,
- how the income tax rate change affects estimated tax payments, and
- whether the income tax rate change affects Illinois Replacement Tax or pass-through withholding payments you are required to make on behalf of your nonresident members.

Individual and Business Income Tax

What are the new income tax rates?

- For individuals, trusts, and estates, the Illinois Income Tax is increasing from 3.75 percent (.0375) to 4.95 percent (.0495).
- For corporations (excluding S corporations), the Illinois Income Tax is increasing from 5.25 percent (.0525) to 7 percent (.07).

When are the new income tax rates effective?

The new income tax rates are effective for income received on or after July 1, 2017.

Will the new income tax rates affect my 2016 Illinois Income Tax return?

- **Calendar-year filers -** If you file a calendar-year return with a tax year ending December 31, 2016, your 2016 tax return is not affected by the income tax rate change. Your 2017 tax return and instructions

For information or forms
Visit our website at:
tax.illinois.gov

Call us at:
1 800 732-8866 or
217 782-3336

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

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will account for these changes. However, if you are required to make estimated payments for income received on or after July 1, 2017, you will be required to make those payments at the higher rate. See "How are estimated payments and the late-payment penalty for underpayment of estimated tax affected?"

- **Fiscal-year, short-year, and 52/53 week filers -**
  - If you file a 2016 fiscal-year return with a tax year ending January 31, 2017, through June 30, 2017, your 2016 tax return is not affected by the income tax rate change. Your 2017 tax return and instructions will account for these changes. However, if you are required to make estimated payments for income received on or after July 1, 2017, you will be required to make those payments at the higher rate. See "How are estimated payments and the late-payment penalty for underpayment of estimated tax affected?"
  - If you file a 2016 fiscal-year return with a tax year ending on or after July 1, 2017, your 2016 tax return **is** affected by the income tax rate change. The 2016 Illinois Income Tax forms and supporting schedules will be updated soon to reflect the income tax rate change. In addition, if you are required to make estimated payments for income received on or after July 1, 2017, you will be required to make those payments at the higher rate. See "How are estimated payments and the late-payment penalty for underpayment of estimated tax affected?"

How do I calculate my income tax when two different income tax rates apply to my 2016 tax year?

If you are filing a 2016 Illinois Income Tax return as a fiscal-year, short-year, or 52/53 week filer, and your tax year ends on or after July 1, 2017, two tax rates apply to your tax year. The amount earned prior to July 1, 2017, is taxed at 3.75 percent (individuals, trusts, and estates) or 5.25 percent (corporations). The amount earned on or after July 1, 2017, is taxed at 4.95 percent (individuals, trusts, and estates) or 7 percent (corporations). The two tax amounts must be added together to figure the total tax liability.

You may select one of the following methods to figure your total tax due:

- **Method 1 - Apportionment method (blended rate)** - The apportionment method is figured by dividing your net income received based on the total number of days in one accounting period in equal ratio to the total number of days in the second accounting period.

  A convenient way to use this method is to calculate a blended income tax rate and apply it to your total income.

  - If you are filing a full-year return, use the Blended Income Tax Rate Schedule found at the end of this bulletin to determine your blended income tax rate.
  - If your tax year is less than 12 months (short-year) or you are a business filing on a 52/53 week basis, you cannot use the Blended Income Tax Rate Schedule. You must figure your blended income tax rate using the Apportioned Income Tax Rate Formula found at the end of this bulletin.

  Note We encourage you to use the blended rate, if possible. It is the simpler of the two methods and does not require you to attach any additional schedules to your return. If you use the blended rate, **do not** complete Schedule SA, Specific Accounting.

- **Method 2 - Specific accounting method** - The specific accounting method allows you to treat your net income or loss and modifications as though they were received in two different taxable years (prior to July 1, 2017, and on or after July 1, 2017) and calculates the income tax due at the appropriate rate for each period. You must complete Schedule SA to use this method.

  Note Schedule SA, Specific Accounting, will be available on our website soon.

You must choose which method you wish to use to divide your income on or before the extended due date of your tax return. Once this decision is made, it is irrevocable.

How are estimated payments and the late-payment penalty for underpayment of estimated tax affected?

If you are required to make estimated payments for income received on or after July 1, 2017, you will be required to make those payments at the higher rate.

Note This requirement includes **any** filers with 2017 estimated payment due dates after July 1, 2017. You should adjust your 2017 estimated payments to account for the income tax rate increase.

Revised 2017 Form IL-1040-ES and IL-1120-ES worksheets, which reflect the increased rates, will be available on our website soon.

To reduce or eliminate your penalty for underpayment of estimated tax you must use the annualized income installment method on Form IL-2210, or Form IL-2220. The annualized income installment method will compute your income and liability for each period according to the income tax rate in effect as of the end of that period. If you do not use the annualized income installment method, we may calculate your late-payment penalty for underpayment of estimated tax based on four equal installments. See Form IL-2210 or Form IL-2220 specific instructions for more information.

How do I calculate my income tax when two different income tax rates apply to my 2017 tax year?

In January 2018 additional guidance and instructions will be published with the 2017 Illinois Income Tax returns.

Business Income Tax

Is there a change in the Illinois Replacement Tax rate?

No. The replacement tax rates of 2.5 percent (corporations) and 1.5 percent (trusts, S corporations, and partnerships) remain the same.

Are partnerships, S corporations, and fiduciaries affected by the income tax rate change?

- **Partnerships and S corporations** only pay replacement tax which remains unchanged. However, if you are filing a 2016 Illinois Income Tax return and your tax year ends on or after July 1, 2017, the income tax rate change will affect how you calculate the amount of pass-through withholding payments you are required to make on behalf of your nonresident members. See below.
- **Trusts and estates** pay income tax and **are** affected by the tax rate change. In addition, if you are filing a 2016 Illinois Income Tax return and your tax year ends on or after July 1, 2017, the income tax rate change will affect how you calculate the amount of pass-through withholding payments you are required to make on behalf of your nonresident members. See below.

If you file a 2016 fiscal-year return with a tax year ending **on or after July 1, 2017**, you must use Schedule K-1-P(3)-FY or Schedule K-1-T(3)-FY, as applicable, to calculate the required tax for all of your nonresident members. **Do not** use Schedule K-1-P(3) or Schedule K-1-T(3). Schedule K-1-P(3)-FY and Schedule K-1-T(3)-FY will be available on our website soon.

Are exempt organizations affected by the income tax rate change?

Yes. Exempt organizations are classified as either trusts or corporations. Therefore, the new income tax rates apply to organizations with unrelated business income.

If you choose to use the blended rate, use the Blended Income Tax Rate Schedule or Apportioned Income Tax Rate Formula that corresponds to how you are taxed. If you are taxed as a

- trust, use the information found under "Individual, Trust, and Estate Blended Rates."
- corporation, use the information found under "Corporation Blended Rates."

If you choose to use the specific accounting method, use Schedule SA (IL-990-T).

Additional Information

Where can I find more information?

We will continue to update our website at **tax.illinois.gov** with frequently asked questions, as well as new schedules and instructions.

You may also review P.A. 100-0022 for the full text of the income tax rate change and requirements.

For more information concerning changes to Illinois Withholding Income Tax related to P.A. 100-0022 see FY 2018-03, Withholding Tax Rate and Personal Exemption Amount Changes.

2016 Individual, Trust, and Estate Blended Rates

If you elect to use the blended income tax rate and you file a

- **full-year individual, trust, or estate return,** use the Blended Income Tax Rate Schedule below to determine your blended income tax rate. To use this schedule
  - find the row which corresponds to the date your tax year begins and ends,
  - multiply the blended rate printed in that row by the net income shown on your Illinois Income Tax return, and
  - enter the amount of income tax you calculated on the corresponding line of your Illinois Income Tax return.
- **short-year individual, trust, or estate return,** use the Apportioned Income Tax Rate Formula below to calculate your blended income tax rate. To use this formula
  - follow the instructions for each line to calculate your blended rate,
  - multiply the blended rate you entered on Line 3 by the net income shown on your Illinois Income Tax return, and
  - enter the amount of income tax you calculated on the corresponding line of your Illinois Income Tax return.

BLENDED INCOME TAX RATE SCHEDULE
For Full-Year Individual, Trust, and Estate Returns Only

Tax Year Begin Date	Tax Year End Date	Days Before 07/01/2017	Days After 06/30/2017	Blended Rate For Individuals, Trusts, and Estates
08/01/2016	07/31/2017	334	31	3.8519% (.038519)
09/01/2016	08/31/2017	303	62	3.9538% (.039538)
10/01/2016	09/30/2017	273	92	4.0525% (.040525)
11/01/2016	10/31/2017	242	123	4.1544% (.041544)
12/01/2016	11/30/2017	212	153	4.2530% (.042530)

APPORTIONED INCOME TAX RATE FORMULA
For Individuals, Trusts, and Estates with Short-Year Returns Only

1 Number of days in tax year before 07/01/2017 ÷ total number of days in the tax year x 3.75% (.0375) = **1** ____________

2 Number of days in tax year after 06/30/2017 ÷ total number of days in the tax year x 4.95% (.0495) = **2** ____________

3 Add Lines 1 and 2 and round to six decimal places. This is your blended income tax rate. **3** ____________

2016 Corporation Blended Rates

If you elect to use the blended income tax rate and you file a

- **full-year corporate return,** use the Blended Income Tax Rate Schedule below to determine your blended income tax rate. To use this schedule
    - find the row which corresponds to the date your tax year begins and ends,
    - multiply the blended rate printed in that row by the net income shown on your Illinois Income Tax return, and
    - enter the amount of income tax you calculated on the corresponding line of your Illinois Income Tax return.
- **short-year corporate return (or as a 52/53 week filer),** use the Apportioned Income Tax Rate Formula below to calculate your blended income tax rate. To use this formula
    - follow the instructions for each line to calculate your blended rate,
    - multiply the blended rate you entered on Line 3 by the net income shown on your Illinois Income Tax return, and
    - enter the amount of income tax you calculated on the corresponding line of your Illinois Income Tax return.

BLENDED INCOME TAX RATE SCHEDULE
For Full-Year Corporate Only

Tax Year Begin Date	Tax Year End Date	Days Before 07/01/2017	Days After 06/30/2017	Blended Rate For Corporations
08/01/2016	07/31/2017	334	31	5.3986% (.053986)
09/01/2016	08/31/2017	303	62	5.5473% (.055473)
10/01/2016	09/30/2017	273	92	5.6911% (.056911)
11/01/2016	10/31/2017	242	123	5.8397% (.058397)
12/01/2016	11/30/2017	212	153	5.9836% (.059836)

APPORTIONED INCOME TAX RATE FORMULA
For Corporations with Short-Year Returns or 52/53 Week Filers Only

1 Number of days in tax year before 07/01/2017 ÷ total number of days in the tax year x 5.25% (.0525) = **1** ____________

2 Number of days in tax year after 06/30/2017 ÷ total number of days in the tax year x 7% (.07) = **2** ____________

3 Add Lines 1 and 2 and round to six decimal places. This is your blended income tax rate. **3** ____________