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2017 Illinois Income Tax Guidance - Using Blended Rate or Schedule SA with Your Schedule K-1-P or Schedule K-1-T

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

Due to the July 1, 2017, Illinois income tax rate increase, detailed in Informational Bulletin FY 2018-14, and questions received by the Department, this guidance is provided to assist taxpayers who receive a 2017 Schedule K-1-P, Partner's or Shareholder's Share of Income, Deductions, Credits, and Recapture or Schedule K-1-T, Beneficiary's Share of Income and Deductions.

Taxpayers receiving a Schedule K-1-P or Schedule K-1-T should evaluate the tax consequences of using either the specific accounting method on Schedule SA or the blended income tax rate method to determine which is more advantageous to their specific situation. Pass-through entity income is deemed earned on the last day of the entity's taxable year. Therefore, an entity with a tax year ending after 7/1/17 would report and pay pass-through withholding at the 4.95% or 7% rate. The taxpayer receiving a Schedule K-1-P or Schedule K-1-T may elect to use the blended income tax rate method or the specific accounting method on Schedule SA based on their unique situation. In either case, tax due will be offset by the pass-through withholding reported on Schedule K-1-P or Schedule K-1-T, possibly entitling the taxpayer to a refund. This may require some taxpayers to file an Illinois return when they would not normally be required to due to when the pass-through income is deemed earned.

EXAMPLES: (In these examples, Schedule K-1-P and Schedule K-1-T are interchangeable.)

John Doe, an individual filing a calendar year return, received a Schedule K-1-P from Company A, an S corporation. Company A's fiscal tax year ended on April 30, 2017. John Doe would likely use Schedule SA when completing his IL-1040 as the pass-through income and withholding reported from Company A was received on April 30, 2017, which is before the tax rate increase on July 1, 2017.

Susie Engels, an individual filing a calendar year return, received a Schedule K-1-T from the Engels Family Trust. The Trust's tax year ended on December 31, 2017. The pass-through income and withholding reported and paid on Schedule K-1-T was at 4.95%. If Susie Engels uses the blended income tax rate, she will pay tax at 4.3549% on her entire income, including, the pass-through income. If Susie Engels uses the specific accounting method on Schedule SA, she will pay 4.95% tax on the pass-through income. It is to Susie Engels' benefit to use the blended income tax rate when completing her Form IL-1040.

Dick Smith, an individual, received a Schedule K-1-P from Company D, a partnership. Dick Smith is a fiscal filer with his tax year ending on March 31, 2018. Company D's tax year ended on December 31, 2017. Dick Smith will need to look at the received date of all his income to determine whether to use the specific accounting method on Schedule SA or the blended income tax rate method. This may require him to complete a pro forma Schedule SA and a pro forma IL-1040 using the blended income tax rate to determine which method is most advantageous to his specific situation.

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