Illinois Department of Revenue

FY 2015-09
January 2015

informational
Bulletin

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Illinois Income Tax Rate Decrease

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

This bulletin provides information for individuals, trusts, estates, and corporations about
- recent income tax rate changes,
- how estimated payments are affected by the income tax rate change,
- how fiscal-year filers, short-year filers, and 52/53 week filers will calculate their income tax rate, and
- changes to Illinois net loss deductions.

What are the new rates?

- For individuals, trusts, and estates, the Illinois Income Tax rate is decreasing from 5 percent (.05) to 3.75 percent (.0375).
- For corporations (excluding S corporations), the Illinois Income Tax rate is decreasing from 7 percent (.07) to 5.25 percent (.0525).

When are the new rates effective?

The new tax rates are effective for income received on or after January 1, 2015.

How are estimated payments and the underpayment of estimated tax penalty affected?

If you are required to make estimated payments for income received on or after January 1, 2015, you will make the payments at the lower tax rate. The worksheets for Forms IL-1040-ES and IL-1120-ES reflect the new rates.

The underpayment of estimated tax penalty will not be affected by this change.

How are fiscal-year filers affected?

If you are a fiscal-year filer, you must divide your total net income between the periods subject to different rates. The amount earned prior to January 1, 2015, is taxed at 5 percent (individuals, trusts, and estates) and 7 percent (corporations). The amount earned on or after January 1, 2015, is taxed at 3.75 percent (individuals, trusts, and estates), and 5.25 percent

For information or forms
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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

(corporations). The two tax amounts are added together for the total tax liability.

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

- **Apportionment method (blended rate)** - The apportionment method is figured by dividing your net income earned 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 rate and apply it to your total income. Use the chart in the Blended Income Tax Rate Schedule in this bulletin to find your blended 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 tax rate using the Apportioned Income Tax Rate Formula in this bulletin.

  Note We encourage you to use the blended rate, if possible. If you use the blended rate, you do not need to complete Schedule SA, Specific Accounting.

- **Specific accounting method** - The specific accounting method allows you to treat your net income or loss and modifications as though they were earned in two different taxable years (prior to January 1, 2015, and on or after January 1, 2015) and calculates the tax due at the appropriate rate for each period.

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

Special Note 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.

What changes were made to Illinois net loss deductions?

If you are a corporation (other than an S corporation), the $100,000 limitation on the use of your Illinois net loss deduction (NLD) has expired for tax years ending on or after December 31, 2014. Corporations may use their NLD without the $100,000 limitation for tax years ending on or after December 31, 2014. The 2014 Schedule NLD, Illinois Net Loss Deduction, and the 2014 Schedule UB/NLD, Unitary Illinois Net Loss Deduction, have been redesigned to account for this expiration.

Is there a change to the Illinois Replacement Tax rates?

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

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

S corporations and partnerships pay only replacement tax on their income and **are not** affected by the tax rate decrease.

Both trusts and estates pay income tax and **are** affected by the tax rate decrease.

Note If the income of a fiscal-year filer is distributed to a taxpayer who is responsible for paying income tax, that partner, shareholder, or beneficiary will pay income tax at the lower rate.

Schedule K-1-P(3)-FY and K-1-T(3)-FY, Pass-through Withholding Calculation for Nonresident Members (for Fiscal Filers), have been developed to assist fiscal filers in calculating the correct pass-through withholding tax for their nonresident members. For more information see Schedule K-1-P(1), Instructions for Partnerships and S Corporations Completing Schedule K-1-P and Schedule K-1-P(3) or Schedule K-1-P(3)-FY, and Schedule K-1-T(1), Instructions for Trusts and Estates Completing Schedule K-1-T and Schedule K-1-T(3) or Schedule K-1-T(3)-FY.

Are exempt organizations affected by the tax rate decrease?

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

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.

BLENDED INCOME TAX RATE SCHEDULE (For full-year returns only)

		Number of Days		Blended Rate for	
Start Date	**End Date**	**Before 01/01/2015**	**After 12/31/2014**	**Individuals, Trusts, Estates**	**Corporations**
02/01/2014	01/31/2015	334	31	4.8938% (.048938)	6.8514% (.068514)
03/01/2014	02/28/2015	306	59	4.7979% (.047979)	6.7171% (.067171)
04/01/2014	03/31/2015	275	90	4.6918% (.046918)	6.5685% (.065685)
05/01/2014	04/30/2015	245	120	4.5890% (.045890)	6.4247% (.064247)
06/01/2014	05/31/2015	214	151	4.4829% (.044829)	6.2760% (.062760)
07/01/2014	06/30/2015	184	181	4.3801% (.043801)	6.1322% (.061322)
08/01/2014	07/31/2015	153	212	4.2740% (.042740)	5.9836% (.059836)
09/01/2014	08/31/2015	122	243	4.1678% (.041678)	5.8349% (.058349)
10/01/2014	09/30/2015	92	273	4.0651% (.040651)	5.6911% (.056911)
11/01/2014	10/31/2015	61	304	3.9589% (.039589)	5.5425% (.055425)
12/01/2014	11/30/2015	31	334	3.8562% (.038562)	5.3986% (.053986)

APPORTIONED INCOME TAX RATE FORMULA

(For corporations with short-year returns and 52/53 week filers only)

1 Number of days in tax year before 01/01/2015 ÷ total number of days in the tax year x 7% (.07) = **1** ______________

2 Number of days in tax year after 12/31/2014 ÷ total number of days in the tax year x 5.25% (.0525) = **2** ______________

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

APPORTIONED INCOME TAX RATE FORMULA

(For individuals, trusts, and estates with short-year returns only)

1 Number of days in tax year before 01/01/2015 ÷ total number of days in the tax year x 5% (.05) = **1** ______________

2 Number of days in tax year after 12/31/2014 ÷ total number of days in the tax year x 3.75% (.0375) = **2** ______________

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